



International  
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# An Employment Strategy

for the Islamic Republic of Iran

A Report prepared for the Government of the Islamic Republic of Iran in collaboration with the Ministry of Labour and Social Affairs under UNDP SPPD funding

Subregional Office for South Asia  
New Delhi

# Preface

The Government of the Islamic Republic of Iran is giving high priority to the challenge of generating employment for the rapidly rising labour force in the country. This report has been prepared to provide inputs to the Government in developing a response to this national challenge. The ILO and UNDP share the view that Iran could make better use of its most important resource: its versatile and rapidly growing well-educated young population, especially its women. The report has been prepared based on the ILO's guiding principle of *Decent Work*. However, the report considers *Decent Work* – focussing on productive remunerative jobs being performed under conditions of freedom, equality and rights – also as a critical element for Iran to withstand the challenges presented by increasing globalization and liberalization and to benefit from the opportunities it offers.

In line with the ILO's *Global Employment Agenda*, the proposed employment strategy for Iran rests on the twin pillars of promoting economic growth and maximizing employment and social policies. A well-functioning labour market and a high demand for labour are essential in ensuring that positive economic changes continue; and that benefits of such changes in terms of increases in productive, remunerative employment are realized. There may be occasions when adjustments in the labour market would mean reallocation of labour with the need for social protection. In this respect, the wide coverage of Iran's system of social protection makes it an excellent foundation for social policy in a time of transition.

A number of recommendations are provided in this report with a view of undertaking initial short-term steps (within a period of two years) allowing concrete follow-up to start while a fully functional Employment Strategy Framework is being finalized. The ILO is fully cognizant of the fact that a National Employment Strategy has to be part of the country's own strategy, to which this report is meant to contribute. The report points out that some of the recommended short-term work, i.e. in the areas of skills development, small enterprises and labour relations, are already being undertaken by the Government with support from the UNDP and ILO.

This report was prepared as a collaborative effort of the UNDP in Iran, which provided the funding, the Ministry of Labour and Social Affairs and the ILO. A number of leading experts, academics and ILO specialists were associated in the preparation of the thematic background papers that provided inputs to this report. The draft employment strategy report together with thematic

background papers were discussed at a national workshop in Tehran held on 30 June and 1 July 2003, which was attended by the representatives of various government ministries, employers and workers' organizations, academics and researchers representing various organizations and institutions and NGOs. The report has benefited from the wide ranging discussions during the national workshop.

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An ILO team comprising of headquarters and New Delhi-based officials supervised the preparation of the thematic background papers. ILO officials involved in the preparation of the thematic papers were Rashid Amjad, Gopal Joshi, John Woodall, Vladimir Gasskov, Alagandram Sivananthiran, Jyoti Tuladhar, Naoko Otobe, Natalia Popova, Farhad Mehran, Roland Dubois, Coen Kompier and Jajoon Coue. The national academics and experts, who prepared the thematic background papers as listed in Annex A, were Dr. Ahmad R. Jalali-Naini, Prof Abdol Hossein Naficy, Dr. Ali Asghar Khallaghi, Dr. Kambiez Talebi, Mr. Babak Pirouz, and Dr. Kazem Sadr.

As input to the thematic background reports as well as this employment strategy report, discussions (both before and during the national workshop in June-July 2003 in Tehran) were held with the Management and Planning Organization, Ministry of Labour and Social Affairs, Social Security Organization, Ministry of Education, Ministry of Industry and Mines, Central Bank, Bureau of Plan and Budget Organization, Iran Confederation of Employers' Association, Workers' House, Islamic Labour Council, Association of Iranian Journalists, various other trade and occupation related labour unions, UNDP, UNIDO, and NGOs.

Mr. P. Alaedini coordinated the preparation of the thematic background papers in Iran and Mr. K.S. Ravichandran from ILO New Delhi provided programming support.

This report was coordinated by Rashid Amjad and Gopal Joshi of the ILO with consultancy inputs from Dr. A.R. Kemal and Mr. Peter Richards,

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## Chapter 1

# Introduction

## 1.1 Background and objective

The Government of the Islamic Republic of Iran has placed high priority on tackling the challenge of generating employment for the rapidly rising labour force in the country. Iran's population has doubled between 1975 and 2000 with rising number of youthful population (15-25 years) joining the labour force. At 62 percent male and 12 percent female labour force participation rates, Iran faces enormous task of creating productive, remunerative employment for the new entrants to the labour market.<sup>1</sup> The economy has shown a steady growth averaging 3.6 percent through the nineties, while the employment growth has been at the rate of 1.8 percent.<sup>2</sup> Although the number of jobs available to women has increased as much as 26 percent through the nineties, educated unemployment among women still remains far too high. The need for creating jobs for educated young women and men leaving educational institutions, particularly in the urban areas, has added socio-economic urgency to the task of the Government.

The country is faced with both a challenge as well as an opportunity to economically engage its youthful population to bring about further prosperity and growth. A number of measures to improve the employment and labour market situation especially for the young women and men have been initiated to ease their entry into the labour market. The Government has undertaken with good results various initiatives to rapidly create jobs in the private sector; such as, providing incentives to enterprises to recruit new workers. Iran is also joining as one of the eight countries in the *Youth Employment Network* set up jointly by the UN, the World Bank and the ILO. The country is expected to benefit from the country experiences and good practices in promoting employment among young women and men.

Both the Third and planned Fourth Five Year Plans of the Islamic Republic of Iran have placed major emphasis on employment generation and have outlined a number of policy measures to reduce the growing employment pressures. The Fourth National Development Plan emphasizes employment generation for poverty alleviation primarily through improved social dialogue and greater participation of the private sector in developmental activities. Policy measures for further relaxation of export controls and greater participation of the FDI

<sup>1</sup> Statistical Center of Iran: *Iran Statistical Yearbook, 1380* (March 2001- March 2002), Management and Planning Organization, Islamic Republic of Iran, Tehran, Autumn 2002.

<sup>2</sup> Management and Planning Organization (MPO): *Economic and performance evaluation report: Second year of the third development plan*, Tehran, 2002.

(foreign direct investment) are envisaged. These policy measures emphasize in enhancing youth employment prospects beyond the available opportunities in the public sector.

The Government clearly recognizes that the problem can only be solved on a sustainable basis by bringing about appropriate structural changes in the economy, which would increase the rate of creation of productive and remunerative employment. Good labour market policies and labour market functioning are essential in bringing about the required structural changes and in creating conditions for sustained economic growth and job creation in the economy. As outlined in its *Decent Work* report<sup>1</sup>, the ILO (International Labour Organization) considers providing productive, remunerative work under conditions of freedom, equality and workers' rights as key to such sustainable growth in employment. ILO's Convention on employment policy (1972), ratified by Iran, encourages its member states to declare and pursue an active policy designed to promote full, productive and freely chosen employment.

The purpose of this report is to provide the Government of the Islamic Republic of Iran elements in developing an employment policy framework to respond to the challenge of creating employment opportunities for the rapidly rising workforce. Such a policy framework is expected to be a part of the overall employment strategy of the Government. The report was prepared by the ILO with UNDP (United Nations Development Programme) financial support in collaboration with the Ministry of Labour and Social Affairs (MOLSA) and the ILO's social partners, workers' and employers' organizations. Leading national experts and academics prepared thematic background papers (listed in Annex A) contributing to the preparation of this report.

The ILO shares the widespread view that Iran could make better use of its labour, its most versatile and fastest growing resource. Because so many young people, and others, are unemployed and because so many people of working age, especially women, are not fully and productively employed, Iran's rate of output growth is way below potential. Pockets of poverty persist largely because few family members beyond the household head are productively employed. Labour market distortions and segmentation between rural and urban economy highlight the severity of poverty, particularly in terms of educated unemployment in urban areas and uneducated unemployment in the rural areas. Summarily expressed, much of Iran's economic policy framework and correspondingly of its economic structure need to adjust in order to become conducive to economic dynamism and thus absorbing a growing and ever better-educated labour force in decent employment.

Hence, the report takes the view that an employment strategy for Iran needs

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<sup>1</sup> ILO: *Decent work*, Report of the Director-General, International Labour Conference, 89th Session, Geneva, 2001.

to examine the following major issues for arriving at optimal approach for resolving them:

- a. adjustments in macro economic policy to remove labour market, trade and fiscal policy distortions;
- b. skills development policy for enhancing employability among young women and men workers;
- c. conducive environment for the growth of small and medium enterprises for generating employment, with particular attention to women entrepreneurs and workers;
- d. improved coverage of social protection so as to allow higher levels of economic participation of the women and men workers; and
- e. effective social dialogue and tripartism leading towards greater participation in economic decisions.

A number of key policy recommendations are being put forward in this report after examination of the issues in the areas of policies relating to the labour market, macro economy, skills training, micro and small enterprise development, gender equity, social security and social dialogue. Further policy inputs based on practical field action programmes in each of the above areas are expected for fine-tuning of the employment strategy at a later stage. The ILO is already carrying out such initiatives in collaboration with the key actors in the areas of skills development, micro and small enterprise development and gender equity. The next two sections of this chapter will further examine the economic and employment status of Iran before examining macroeconomic issues in the next chapter.

## 1.2 The economy

Although largely dependent on oil revenue, Iran has been making efforts to diversify its economy and create a wider base for exports and employment growth. Iran is seeking to shift to a market based economy, and in time this will yield benefits by expanding employment opportunities. Iran is setting out to join the WTO (World Trade Organization), which will require a revision and reduction of import restrictions and tariff protection. Iran, as any other country in the world, is faced with both opportunities and threats brought about by increasing globalization and liberalization. The opportunities are in diversification and expansion of the economy with increasing exchange of goods and services. Threats remain in terms of not having a competitive edge in such exchanges, particularly with inefficient use of abundant resources and underutilization of its human resources.

Lately, there has been liberalization of trade and foreign exchange rules.

Overall, economic outlook of Iran has further brightened with growth in investments and gross domestic product (Table 1.1). The country has moved to a unified exchange rate. Non-oil exports have strengthened as a result of the reforms of the foreign-exchange regime and relaxation of the crippling restrictions on imports. Previously, administered rates gave cheaper foreign exchange to privileged sectors and enterprises. The effectively over-valued exchange rate had little impact on the output of the main export product, oil, since its dollar price is set internationally. However, other exports and thus the employment they could generate were discouraged. This trend is now being reversed as evidenced from liberalized foreign trade.

**Table 1.1: Gross domestic product**

(% real change; fiscal years starting Mar 21<sup>st</sup>)

	Annual average	
	2002	1998-2002
Private consumption	5.2	5.5
Government consumption	6.4	1.6
Gross fixed investment	11.8	7.3
Exports of goods & services	2.3	9.4
Imports of goods & services	16.0	6.8
<b>GDP</b>	<b>7.6</b>	<b>4.9</b>

Source: Bank Markazi, as quoted in *Country Profile 2004 – Iran*, [www.eiu.com](http://www.eiu.com), The Economist Intelligence Unit Limited, London.

As seen in Table 1.1, private consumption has remained sluggish in comparison to rising public sector consumption. Throughout the nineties and up to 2002, gross capital formation levels have been high at the rate of 26 percent; however, half of the investments have been going into real state construction thus restricting investments on tradable goods<sup>1</sup>. Historically, investment growth in productive assets has remained weaker. In addition, the availability of long-term credit to the private sector has been severely limited.

So far, Iran's economy has been dominated by the capital intensive public sector (53 percent of investments) with the private sector playing a peripheral role in the economy. Experiences around the world have demonstrated that rapid expansion of employment requires not only a conducive and effective government role but also a rapidly expanding private sector. The private sector has been limited largely in the areas of petty trading and services including traditional craft oriented activities. Lately, both agriculture and services sectors have registered appreciable growth. Nonetheless, the services sector holds the promise of generating far greater amounts of employment than is being currently generated.

<sup>1</sup> [www.eiu.com](http://www.eiu.com): *Country Profile 2004 –Iran*, The Economic Intelligence Unit Limited, 2004.

Iran's unique labour market characteristics and employment situation in urban and rural areas require particular attention in resolving the employment issues. The employment and unemployment between women and men workers have unique features in Iran, particularly when combined with the educational and skills background of these workers. Labour market challenges and issues relating to employment therefore warrant some discussion before dealing with the wider economic issues affecting employment.

### 1.3 Employment and unemployment

Employment and labour force participation rates in Iran are extremely low by international standards, particularly in the case of women, thus exhibiting its underutilization of human resources. Iran is reported to have employment rates (ratio of employment to working age 10+)¹ as 54 per cent for men and 10 per cent for women (Table 1.2). Labour force participation rate (ratio of employment plus unemployment to working age 10+) is also low, 62 per cent for men and 12 per cent for women. Applying the same numbers of employed and unemployed labour force participants to the population aged 15-64 raises both male and female labour force participation rates albeit to some 82 per cent for males and only 12 per cent for females.

**Table 1.2: Employment and labour force participation rate (LFPR)**  
(Share of population aged 10+, 2000-2001, in per cent)

	<u>LFPR</u>		<u>Employment Rate</u>	
	Male	Female	Male	Female
Urban	60.6	9.99	52.4	7.6
Rural	64.2	14.7	55.1	13.2
<b>Total</b>	<b>62.1</b>	<b>12.0</b>	<b>53.5</b>	<b>10.0</b>

*Note:* Iran's Statistical Yearbook take the population of working age as anyone aged 10 and above.  
*Source:* *Iran Statistical Yearbook, 1380*, (March 2001- March 2002), Statistical Center of Iran, Management and Planning Organization, Islamic Republic of Iran, Autumn 2002.

Like many countries Iran's statistical view of the labour force is based on a periodic census and the annual results of labour force surveys (quarterly). The differences in results from the two sources are quite marked and unemployment appears lower from the census. More surprisingly, the structure of employment differs considerably between the two sources. Thus the sector, "public administration and defence" accounts for over 11 per cent in the census in 1996 but amounts to some 7-8 per cent in the labour force survey. Care must be taken

¹ Note: ILO views employment below the age of 15 as child labour, therefore further extrapolation has been carried out to determine the labour force participation rate at the age group of 15-64.

therefore in comparing results. Using results from the labour force surveys, unemployment has steadily risen, particularly among women, in urban areas during 1997-98 to 2001-2 as shown in Table 1.3. However over the period, rural unemployment rates have fluctuated but hardly changed, either for males or females.

It is probably correct to say that the demand for labour has not kept in line with supply. In more recent years, the rate of job creation has risen but so has the labour force participation, given the increased desire especially among the educated females to enter the labour market. Table 1.4 presents the change in number of jobs and percent increase. The most notable increase is in the number of jobs available to women, which has increased by as much as 26 percent during the period of 1997-98 to 2000-01. Another notable change is the accelerated job

**Table 1.3: Unemployment in Iran (in per cent)**

	<u>Total</u>		<u>Urban</u>		<u>Rural</u>	
	Male	Female	Male	Female	Male	Female
1997-98	12.8	14.9	11.9	18.2	14.1	11.6
1998-99	12.2	13.7	12.2	19.2	12.3	9.3
1999-00	13.5	13.6	13.1	20.4	14.2	7.8
2000-01	13.8	16.5	13.6	23.5	14.2	10.0
2001-02	13.3	18.3	13.2	25.3	13.5	11.6

<sup>1</sup> Unweighted average of four quarters.

Source: *Iran Statistical Yearbook, 1380* (March 2001-March 2002), Statistical Center of Iran, Management and Planning Organization, Islamic Republic of Iran, Autumn 2002.

creation by the private sector (11.5%) as against decline of jobs in the public sector by nearly 10 percent.

Between 1997 and 2000 the share of all, public and private, wage employment in total employment rose slightly and the share of self employed and of unpaid family workers fell slightly. The share recorded as "employers" rose to some 5 per cent and among wage employees the public sector share shifted from a clear majority to a clear minority. The employed became on an average much more educated within a short period (since the educational levels of new entrants rose rapidly), but there remains a considerable segment, nearly 23 per cent, which either never attended school or never completed primary education. The education status of the employed is thus far very bipolar, which corresponds to the relatively high degree of income inequality in the country<sup>1</sup>.

The 1996 Census is more detailed than the labour force survey on the sectoral and gender breakdown of employment. It shows, for example, that in urban

<sup>1</sup> Gini coefficients for the concentration of income have values of over 0.4.

areas some 27 per cent of employment was in public administration, defence, education and health and about 19 per cent in manufacturing. A further 3 per cent was in finance and real estate. A fairly similar share was in the service sector, i.e. trade, hotels and transport. This is low by international standards and suggests that employment in service sector could expand further. On the other hand, women, in general, were over represented in the education and health sectors

**Table 1.4: Increase in employment, 1997-98 to 2000-01 (estimates)**

	Change in number of jobs	Percent increase	Share of Total percent
<i>By gender</i>			
Men	+ 360,000	2.8	42.3
Women	+ 491,000	26.0	57.7
Total	+ 851,000	5.8	100.0
<i>By education</i>			
With university degree	+ 258,000	17.7	4.5
Less than university degree	+ 593,000	30.3	69.7
<i>By sector</i>			
Private sector (of which wage employees)	+ 1243,000	11.5	146.0
Public Sector	-392,000	-9.6	-46.0

*Source: Iran Statistical Yearbook 1380 (March 2001- March 2002), Statistical Center of Iran, Management and Planning Organization, Islamic Republic of Iran, Autumn 2002.*

while they were under represented in manufacturing and other service sectors.

In rural areas nearly half of all employment was in agriculture and 15 per cent was in manufacturing. High value-added services accounted for a little over 11 per cent and low value added services for some 10 per cent. The pattern of women's employment in rural areas is skewed to a very extreme extent. Fully 50 per cent of women were in manufacturing (including handicrafts), and 35 per cent in agriculture. Virtually none were in retail trade and other low value added services. About 5 per cent, however, were in education, where, unlike in the towns, men predominated. Even in agriculture nearly 10 men were reportedly active for each woman. The scope for increasing female employment is thus, on the face of it, immense.

Given the absence of high value-added jobs in rural areas it is scarcely surprising that hardly any of the rural unemployed has finished tertiary education and that only 15-16 per cent has finished high school. The vast majority of the rural unemployed are illiterate or are with only primary education, some 66 per

cent for women and 54 per cent for men (1996 Census as shown in Table 1.5). Rural unemployment is thus not an educated unemployment problem.

Not surprisingly the urban picture is very different. While in rural areas unemployed women have lower education levels than men, the opposite applies in towns. Around 20 per cent of female unemployed in urban areas are illiterate or have at most primary education, compared to nearly 40 per cent of men. Some 64 per cent of urban female unemployed are high school graduates or above, compared to 32 per cent of men. Thus, the urban female unemployed have a very different educational profile compared to either the urban male unemployed or the rural female unemployed. However for women in both urban and rural areas, the education-unemployment profile corresponds to their employment profile.

Composite data on the unemployment rates of different education groups vary according to the statistical source (Table 1.6). There are also differences in educational groupings. Both the 1996 Census and data from the 2000 LFS (Labour Force Survey) show unemployment rates rising up to pre-university level and then falling, significantly in 1996 Census but less so in 2000 LFS. The 2000 LFS data show unemployment rates for higher education higher than those for the illiterate and primary education categories. In the 1996 Census, however, reverse was true.

**Table 1.5: Unemployed by education, Census 1996 (in per cent)**

	<u>Male</u>		<u>Female</u>	
	Urban	Rural	Urban	Rural
Illiterate	16.9	21.9	6.0	18.3
Primary + literary courses	22.1	32.3	13.5	47.6
Lower secondary	26.6	27.4	15.8	16.7
Upper secondary, pre-university	27.5	15.7	51.5	15.6
Tertiary	4.7	1.2	12.5	1.2
Other	2.2	1.5	0.7	0.6

Source: Iran Statistical Yearbook,1380 (March 2001- March 2002), Statistical Center of Iran, Management and Planning Organization, Islamic Republic of Iran, Autumn 2002.

Not too much should be read into differences between the data from Census 1996 and Labour Force Survey 2000. However, it should be noted that as in many countries the highest rates of unemployment are borne by those who have nearly reached university level, i.e. they often aspire to jobs for which they do not have the required qualifications. This group is also often most in need of further skills development. But equally significant is the relatively high level of unemployment among the least educated in Iran, reflecting poverty among the rural masses with less education.

**Table 1.6: Unemployment rates by level of education (in percent)**

<u>Census 1996</u>		<u>L.F.S. 2000*</u>	
<u>Education</u>	<u>Percent</u>	<u>Education</u>	<u>Percent</u>
Illiterate and semi-literate	7.4	Illiterate and primary	11.0
Below high school	9.8	Lower secondary	19.0
High school	12.6	Upper secondary	23.4
Above high school	3.6	Above high school	20.5

\* Labour Force Survey, 2000.

Sources: Census 1996 and Labour Force Survey 2000.

One factor to be taken into account is that the Labour Force Survey shows that some 65 per cent of unemployed men, in both urban and rural areas were not first time job seekers. In other words, they had been previously employed. However, only 9 per cent of urban unemployed women, and 12 per cent of rural unemployed women, reported previous work experience. It is unfortunately unclear whether the large share of unemployed men with earlier work experience indicates a shake out of formal sector employment or the existence of a large number of casual workers who are only intermittently employed.

## 1.4 Conclusion

The Government of the Islamic Republic of Iran has placed a great deal of emphasis on generating employment in its development planning so as to provide jobs to growing ranks of young women and men joining the workforce. Although the country has achieved a steady economic growth rate, generating employment for rising workforce has become a major challenge. The ILO in collaboration with the Ministry of Labour and Social Affairs is providing key elements to the Government through this report for developing an employment strategy. In the context of Iran seeking to join WTO, the urgency of improving competitiveness and productivity of the economy along with employment creation capabilities cannot be emphasized more. In the process of providing inputs, macroeconomic conditions along with labour market issues are being examined.

Though the non-oil exports of the country have strengthened as a result of the reforms in the foreign trade and foreign exchange regime and though gross capital formation levels have been high, they have not been adequate enough to absorb the rising workforce. Therefore, labour absorbing investments instead of capital intensive investments are in greater need. However, the labour markets in urban and rural areas differ widely to prescribe uniform approach for both areas.

In summary, this section has set out a number of salient features of Iran's labour market. There is a dichotomy between rural and urban unemployment,

which requires adequate recognition. While urban unemployment is largely a phenomenon of growing number of educated unemployed, a large number of rural unemployed are illiterate. Educated unemployment among women in the urban areas far outstrips their counterpart among men. It has drawn attention to the low levels of employment rates, especially for women, and to the extreme sectoral concentration of women's' employment.

In the light of the discussion of the challenges being faced in the labour market, the next chapter will examine the macroeconomic issues pertaining productivity, earnings and the trade, fiscal and monetary policies. Since the public sector has had an overwhelming presence in the economy and labour market of Iran, a discussion on the role of public enterprises is going to be an essential part of restructuring and reforming the economy so as to provide an impetus to sustained job creation through economic growth.

## Chapter 2

# The Macroeconomic Framework

## 2.1 GDP, productivity and earnings

Over the period 1997-2001 (and over the longer period 1980-2001) GDP growth in Iran has averaged some 3.6 per cent, double the rate of employment growth (Table 2.1). Labour productivity also rose at around 1.8 per cent annually. Calculations by the MPO (Management and Planning Office) suggest a very fast rate of increase of the capital stock, at some 7-8 per cent annually. Capital per worker thus rose fast, at over 5 per cent annually. This might have implied a need for a considerably more skilled and more educated labour force, which indeed is forthcoming, and the redundancy of least educated workers. The same calculations, however, would appear to imply a serious fall in total factor productivity. In an economy such as Iran's, a fall in total factor productivity resulting from misplaced investment decisions might not be unexpected. But the size of the fall, 0.5 per cent annually over four years, is considered unusual by international standards.

**Table 2.1: Productivity growth 1997 - 2001 (in per cent)**

	1998	1999	2000	2001	Average 1997/2001
GDP growth	3.9	1.5	5.7	4.8	3.6
Employment growth	0.5	2.0	2.7	3.0	1.8
Labour productivity growth	3.4	-0.5	2.9	1.7	1.8
Capital stock growth	7.5	7.7	7.8	8.0	7.8
Capital productivity	-3.2	-5.8	-1.9	-3.0	-3.9
Capital per worker	7.0	5.5	5.0	4.9	5.9
TFP growth <sup>1</sup>	0.4	-2.9	0.9	-0.3	-0.5

*Source: Economic and performance evaluation report: Second year of the third development plan, 2002, Management and Planning Organization (MPO), Islamic Republic of Iran.*

During the 1990s the contribution of the mining sector (largely oil) to GDP varied considerably and was some 19 per cent in 2000 (Table 2.2). In non-oil component of the GDP, the share of the other tradable sectors, agriculture and manufacturing both fell over the decade, as did that of wholesale and retail trade. Increases came in construction and real estate. To some extent, these shifts reflect

<sup>1</sup>Total factor productivity growth has been calculated by giving a weight of 0.6 to labour and 0.4 to capital.

an inevitably over-valued currency that discouraged tradable production. In the late 1990s some of this changed. The share of manufacturing stabilized that of trade rose and that of construction and real estate fell off slowly. The share of agriculture, however, has continued to decline.

Comparing the shares of output in non-oil GDP and the shares of employment in the total shows that relative productivity in 1997 compared to the average was as high as 1.35 in the trade sector, was 0.61 in agriculture, 1.03 in manufacturing, 0.53 in construction and 1.11 in the rest of the non-oil economy (real estate, finance, public administration, health, etc.). Such high productivity in the trade sector is very unusual and again implies scope for employment expansion. A relatively low level of agricultural productivity in the economy is a standard finding.

Later in the 1990s, relative productivity fell in agriculture (to 0.56), manufacturing (0.96), construction (0.53) and trade (1.22) where in each case employment rose faster than output. In contrast, in the residual "other" sector employment actually fell in the face of a very substantial rise in output. Relative productivity rose from 1.3 to 1.5. The data on which these comments are based on may well be unreliable. However, the rise in relative productivity in the "other" sector may suggest that much of the increase in investment at the end of the decade went not so much into manufacturing and agriculture as into real estate. The rise in output in this sector may also reflect a pick-up in the oil economy from 1998 onwards, benefiting mainly the high value added urban sector. This, however, if the Labour Force Survey results are accurate, provided very little new employment causing workers to remain in sectors such as agriculture.

**Table 2.2: Structure of non-oil GDP (in per cent)**

	1991	1996	2000
Agriculture	16.5	15.4	14.4
Manufacturing	20.5	18.1	18.8
Retail Trade and restaurants	21.6	16.6	17.1
Construction	4.9	8.2	7.0
Public Administration	6.7	6.4	6.1
Other	29.8	35.8	36.6
(Share of mineral sector including oil in total GDP)	(21.2)	(14.5)	(18.7)

*Source: Iran Statistical Yearbook, 1380 (March 2001- March 2002), Statistical Center of Iran, Management and Planning Organization, Islamic Republic of Iran, Autumn 2002.*

Nonetheless, the increase in employment in agriculture, manufacturing and retail trade from 1997-2000 in relative and, therefore, absolute terms, is certainly to be welcomed. However, as employment rose, productivity fell, both relative to the average and indeed in absolute terms. One explanation could be that this was caused by increasing profitability in those sectors, i.e. a shift in their purchasing power vis-à-vis the big residual "other" sector so that even if the volume of output per worker fell, real consumption could have risen. But this cannot be found. The price deflator for all these sectors over 1997-2000 rose by a fairly standard 70 per cent (Table 2.3). Certainly in the previous two years, 1995-97, the price deflator of the residual sector rose far faster than those in agriculture and manufacturing resulting in a loss of profitability in the mid 1990s and recovering to some extent in the late 1990s. A gradual effective devaluation, i.e. a fall in the share of foreign transactions taking place at the official rate, may have played a role in shifting sectoral profitability to the extent that the price deflator in agriculture rises each year after 1996, while that for the residual sector falls. Possibly, a shift in the internal terms of trade in favour of agriculture and manufacturing has finally become evident. But strengthening of the oil sector can undermine the benefits of this by raising the demand for non-tradables.

Table 2.3 also shows price deflator for the oil sector in terms of Iranian Rials (Rls.). It has risen over fourfold during 1998 to 2000. In the same two years the dollar price of petroleum rose by about one half of that amount, some 215 per cent. This shows that a partial devaluation was directed at the oil sector but not at other tradables.

Just as relative productivity in manufacturing appears equal to the national average and some 70 per cent higher than in agriculture, wages in manufacturing also appear about "average". Personal consumption per worker as an indicator of the purchasing power of wages or of self-employed earnings averaged Rls. 864,500 in 1996. By 2000, adjusting for inflation this became Rls. 1,644,000; and allowing for productivity growth of 2 per cent annually it was Rls. 1,785,000. In that year male workers' earnings (wages plus allowances) in manufacturing (in establishments with 10 workers or more) were Rls. 1,667,000 and female workers, Rls. 1,130,000. Female earnings were thus some two-thirds that of males.

From 1997 to 2000, real earnings of both male and female manufacturing workers rose by some 9 per cent. This was despite an apparent fall in productivity for the manufacturing sector overall but at a time of investment expansion in public sector manufacturing plants. These data refer to workers in establishments employing over 10 persons. The comparison of Iran with other countries would reflect probably first the different level of reliance on manufactured exports and thus competitive pressure and secondly the relative use of labour with different education and skill levels.

**Table 2.3: Sectoral performance 1995-2000**

	1995	1996	1997	1998	1999	2000
Oil output volume	100	98.3	93.3	93.7	79.3	98.0
Price deflator	100	137.8	142.6	101.2	247.5	438.8
Agriculture volume	100	107.6	105.4	128.5	114.3	112.5
Price deflator	100	119.7	134.3	155.4	188.7	223.5
Manufacturing volume	100	116.1	126.1	123.1	133.5	136.6
Price deflator	100	119.0	139.6	133.4	198.7	238.8
Trade and restaurants volume	100	109.4	112.4	122.9	116.8	126.6
Price deflator	100	127.4	147.5	172.5	223.0	254.2
All other sectors volume	100	105.6	101.9	100.7	108.7	118.1
Price deflator	100	139.4	174.0	214.2	248.5	296.5

*Source: Iran Statistical Yearbook, 1380 (March 2001- March 2002), Statistical Center of Iran, Management and Planning Organization, Islamic Republic of Iran, Autumn 2002.*

In 1999, when male manufacturing workers were earning Rls. 1,370,000, workers on cattle farms received Rls. 735,000, i.e. earnings in manufacturing were nearly 90 per cent higher. In 2001, workers in horticulture (flowers) received only Rls. 660,000. Assuming that many of these are women and allowing for inflation in 2000-2001, female earnings in manufacturing were again 90 per cent higher than in agriculture. This does suggest some labour market distortions and segmentation largely between urban and rural areas. It corroborates what has already been noted, that there are few jobs in rural areas for the more educated. Such people therefore seek urban work. However, the principal labour market distortion is the low female employment rate.

In 2000, the minimum wage was set at Rls. 458,000, plus about 30 per cent in allowances, making some Rls. 600,000, i.e. similar to the figure for horticultural workers. The minimum wage is fixed centrally. In the context of a low employment rate its level seems quite low. If employment rates doubled and if output overall hardly rose it would be high. This does suggest a dilemma involved in raising employment rates, and employment can only be expected to rise in the context of rising total output and consumption.

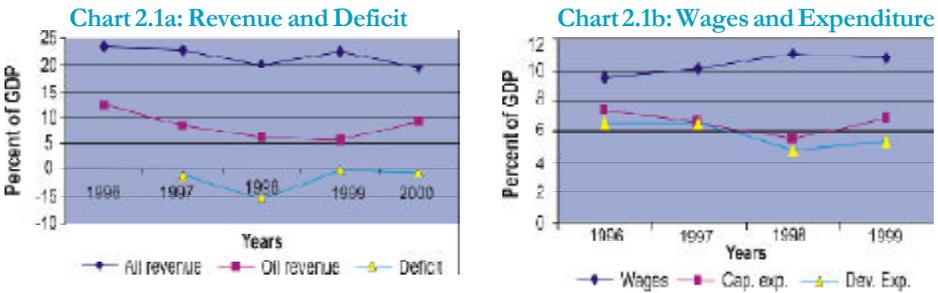
## 2.2 Fiscal policy and competitiveness

In an economy such as Iran, it is a fair presumption that any significant shift from state owned to private enterprises and from import substitution to export orientation will improve competitiveness and provides impetus to increase in employment as private sector expands. Export orientation has the obvious advantage over import substitution in terms of tapping into a virtually unlimited

global market. The employment benefits of export orientation will furthermore be greatest when relatively small sized and labour intensive enterprises are involved. This, however, cannot occur without a change in banking and credit policies which are currently used to support large, public sector and usually capital intensive enterprises.

An essential element in export orientation is achieving a stable, and certainly not appreciating, real exchange rate. This is easiest when inflation is fairly low and steady, which in turn usually requires keeping the government's budget deficit in check. It is a feature of the non-transparency of Iran's economic policies that inflation averaged around 20 per cent annually in the 1990s while the fiscal deficit was low and government domestic borrowing correspondingly low (Chart 2.1 with corresponding Table 2.1A in Annex B). Indeed, the banking sector's claims on the government have hardly exceeded 10 per cent of GDP. Monetary growth, however, has been in line with inflation.

**Chart 2.1: Iran's public finances (in per cent GDP)**



Source: *Iran Statistical Yearbook, 1380* (March 2001- March 2002), Statistical Center of Iran, Management and Planning Organization, Islamic Republic of Iran, Autumn 2002 and IMF International Financial Statistics, Washington D.C., various issues.

One explanation for this apparent conundrum could be unpublished transfers to state owned enterprises not reflected in the deficit. Another is linked to partial devaluation. This raised the money supply but had no effects on either exports or imports in the past because of the controlled economy and, especially, import licensing. More recently administered exchange rates have been used to raise the government's domestic currency earnings from oil exports. In any event, public finances have been far from transparent.

Table 2.1A in Annex B shows how Iran's budget deficit has been kept low in every recent year except 1998. In that year, both oil revenue and non-oil revenue fell while, for example, expenditure on wages and salaries rose. Capital expenditure, or development expenditure, was fairly low that year. But it is not clear how a

deficit amounting to over 5 per cent of GDP was financed. In 1999, in fact an orthodox programme of higher taxation and reduced expenditure brought the budget into balance, with little contribution from oil revenue, which continued to fall. By 2000, the oil economy had again increased although a relatively small share of oil revenue was reaching the government compared to earlier years. Other sources of revenue fell considerably. Nonetheless, the budget deficit was very low.

Whether the budget deficit could have been larger in both 2000 and 2001, giving an increased boost in demand to the economy, is unclear. Iran's recent experience as a controlled economy with an overvalued exchange rate provides little guidance on how the supply side would react to an increase in demand. The large deficit in 1998 did apparently not help growth. In any event, nominal demand, in terms of money supply, has been rising quickly. In the future with a more liberalized economy, it may well be possible to use fiscal means to keep demand at the highest level consistent with medium term output growth. Much, however, depends on the development of Iran's capital market and on transparency in the financing of budget deficits.

In principle, policy making has now become far more open with a unified exchange rate set at the level of the reported, so-called "market rate". In the late 1990s, the market rate was somewhat above the "weighted rate", the average rate at which transactions took place. In about four years, the weighted rate went from about 1.5 to 2.5 times the very low official rate. How state owned enterprises have coped with importing machinery etc. at an exchange rate far higher than the privileged rate they were given earlier is unclear. Some of the high levels of investment in 2001 may have been because enterprises knew the rate would soon change (in early 2002).

### 2.3 Trade policy

It is difficult for an oil exporting country on the scale of Iran to diversify its export base. Currently, manufactured exports are around 10 per cent of all merchandise exports. With administered exchange rates, it was possible to effectively subsidize non-traditional exports by allowing the foreign exchange they earned to be sold at the market rate. How the profitability of existing manufactured exports has survived exchange rate unification is unknown.

Trade policy in the past also made use of non-tariff barriers; and in line with WTO accession, the current plan calls for their replacement by simple tariffs. Such a step would increase clarity in policy making and be a move towards a more competitive economy. In the same way, an announced programme to lower tariffs, giving protected industries time to adjust, would help identify

those industries which reflect the country's comparative advantage. It might appear that the distortions arising from tariffs could be counterbalanced by giving inducements to exports. In fact, it is more efficient and better for employment creation to remove all sets of biases.

Today, few of the earlier restrictions on exports remain. However, there are still mandatory standards and quality restrictions; the standards are outdated and costly for exporters and impede export growth. Various measures are in place to boost exports including duty drawbacks, duty free access to important inputs, creation of export free zones, and subsidised credit. These are useful measures but not sufficient to offset a policy bias towards production for the home market. Often, and despite various schemes to provide duty free inputs, bureaucratic procedures prevent exporters from making full use of such advantages. Similarly, credit offered to exporters in Iran at 18 per cent is still expensive compared to rates for the loans extended to government enterprises.

A successful export promotion policy would certainly generate additional employment and ease import liberalization. The positive effects of increased competition on domestic markets from foreign goods would then boost firm performance and induce higher productivity, efficiency and real incomes. Thus, the government should consider liberalization across the board as a medium term goal. It must also be remembered that traditional exports like textiles (mainly rugs and carpets) and agricultural commodities are labour-intensive. The problem, however, is to increase exports of such goods side-by-side with exports of advanced industrial products, like petrochemicals along with oil. Success in the exports of primary products may render the exports of advanced industrial products uncompetitive. But better access to credit for small export firms and the provision of technical assistance for skills development and product upgrading are essential steps in boosting competitiveness.

The danger is that a high level of oil exports causes the exchange rate to appreciate and resources to move into the non-tradable sectors, including government. Investment in manufactures becomes less profitable than investment in construction. In Iran, this concern has in the past legitimised the provision of subsidies for state owned industrial enterprises. To avoid this real exchange rate appreciation, or "Dutch disease," the Central Bank has to sterilize foreign exchange inflows. It does this by selling government securities on the open market to absorb liquidity, at the cost of higher interest rates. But for this to work a capital market needs to be built up. More simply, a part of oil revenues can be invested abroad, an extension of the current government policy of repaying foreign debt.

Holding a given exchange rate, removing non-tariff barriers, reducing import duties and restrictions on exports, and providing duty free inputs perhaps will

help in reducing and eventually removing anti-export biases. At the same time, the labour market needs to be effective in flexibly allocating and re-allocating labour from old to new jobs.

## 2.4 Monetary and credit policy

Granting resources to government industrial units at the cost of the private sector, especially small and medium enterprises (SMEs), results in a lower growth rate of output and less employment. The damage is compounded when a fall in oil revenues is not matched by cuts in transfers, and public entities have a priority claim on funds from the banking sector. In brief, an important objective of any fiscal and monetary reform package is to level the playing field. This is very likely to restrict growth of the public sector, as resources are freed for greater private sector investment.

In any event, Iran's monetary policy framework needs to be restructured in order to achieve long run stability and growth. Most of the banking sector is publicly owned although some private and non-bank financial institutions have recently started operating. Out of the ten existing banks, the government owns eight. Competition is limited, management is bureaucratic, and the implementation of prudential regulation is poor. The main problems are excessive staffing, loan defaults, poor loan selection, low rates paid to depositors and a high spread between deposit and lending rates. There is a need to extend private ownership far further in the banking sector and in this respect experiences in other countries in privatising financial enterprises can be instructive.

The policy of directing credit through the Council on Money and Credit must give way to its competitive allocation, and banks will have to develop the capability to appraise projects properly in order to reduce the risk of default. In this way credit will be provided to the sectors which are not only more profitable but will also in the long run generate higher levels of employment.

Real rates of return on bank deposits have very often been negative. In the early 1990s, higher rates offered on certificates of deposit with different maturities provided a wider portfolio for financial savings. Although at the time this somewhat reduced financial repression, inflation soon turned the real rate negative. The Third Plan called for more flexibility in bank lending, more resources for the private sector and a reduction in the extent of directed credit.

The current average spread between deposit and lending rates in the range of 5 to 6.5 per cent is quite high compared to the 2 to 3 per cent spread normal in efficient financial intermediation. The newly created non-bank credit institutions and the private banks charge on an average 4-5 percentage points more in interest on their loans than the government-owned banks. But, while

interest rates for firms able to borrow from public banks are that much lower, there are hidden costs involved in such borrowing including a fairly long waiting time, high transaction costs and informal charges. Furthermore, the cost of capital is substantially higher for small firms with little collateral who have to borrow a part of or all their credit needs in the curb market where rates vary between 25 and 75 per cent. Easing the access of small firms to credit and reducing loan transaction costs should be high on the government's agenda.

Directed credit as a policy to promote targeted industries and sectors has long been in existence in Iran and is now generally believed to have held back growth. Bank loans, including budget-directed facilities, are currently concentrated on large, mainly public and semi-public enterprises. A more balanced ratio of small to large business loans is expected in the future. Effectively, government control of the banking system has redirected a significant proportion of private savings to finance the public sector. On top of this, limited competition and bureaucratic structures have negatively affected the performance of the banking system itself. All this, together with the administrative allocation of funds, has reduced the quality of financial intermediation and the scale and profitability of investment. Financial intermediation will not be helped by redirecting lending towards specific borrowers, e.g. export producers; and the banks should be left to extend credit to those sectors which can use it best. The central bank should no longer issue instructions on directing credit but should improve banking regulation and the quality of its own surveillance. Supervision and the implementation of better accounting and risk-control standards are part of the central bank's role. Greater loan specialization, better monitoring, and more transparency can improve information collection and reduce credit risks leading to more efficient investment, faster growth and more employment.

## 2.5 The role of the public sector

The large contribution of the public sector to employment, amounting to nearly one half of all wage employment, has been well known. Although the share of public sector wage employment was apparently falling in the late 1990s, other measures of the weight of the public sector show a different picture. Taking a measure of overall resource use, i.e. total investment plus consumption, the share of government consumption in fact rose considerably in the early 1990s, falling off in 1997-2000 (Table 2.4). Public sector investment, however, rose during the decade to reach 12 per cent of total resource use. The public sector thus ended the decade using some 27 per cent of the resources, compared to less than 22 per cent at the beginning of the decade. Private consumption held up in the first years of the decade, falling below its 1991 level (as a share of domestic resource use) by 2000. Private investment fell further, from 14 per cent of resources to under 11 per cent. The big change was the surge in public investment at the end

of the decade, which occurred both in machinery purchases and in construction. The public sector accounted for 36 per cent of all investment in 1991 and 53 per cent in 2000. It accounted for 23 per cent of investment in machinery in 1991 and 42 per cent in 2000. Nonetheless, private investment in machinery was stronger in 2000 than in 1997, although only 30 per cent up on 1991.

**Table 2.4: Use of resources<sup>1</sup>**

*(in percent, at constant 1997 prices)*

	1991	1997	2000
All private sector	78.6	73.2	73.3
All public sector	21.4	26.8	26.7
Investment total	21.8	19.5	22.8
Consumption total	78.2	80.5	77.2
Private consumption	64.6	64.7	62.5
Public consumption	13.6	15.8	14.7
Private investment	14.0	8.5	10.8
(of which: machinery)	(7.6)	(4.4)	(5.9)
(of which: construction)	(6.4)	(4.1)	(4.9)
Public investment	7.8	11.0	12.0
(of which: machinery)	(2.3)	(4.5)	(4.3)
(of which: construction)	(5.5)	(6.5)	(7.7)

*Source: Statistical Yearbook, 1380 (March 2001- March 2002), Statistical Center of Iran, Management and Planning Organization, Islamic Republic of Iran, Autumn 2002.*

In 2000, some 860 public sector manufacturing enterprises were identified as operating with 10 workers and above. While amounting to only less than 8 per cent of all manufacturing enterprises, they accounted for nearly 30 per cent of the 100 workers and above category. These larger enterprises, although spread in all subsectors of manufacturing, were found to be principally concentrated in food products and beverages, textiles, chemicals and non-metallic minerals. Public sector enterprises do not apparently predominate in any branch of manufacturing, nor are they more common in the production of equipment or intermediate goods rather than consumer goods.

Financial data also suggest private sector resurgence around 2000. In 1996 out of outstanding credit by the banking system, only 40 per cent represented claims on the private sector, with the rest split between central government and "official entities". The private sector share had risen to over 60 per cent by 2000 and probably 65 per cent in 2002. In that year, official entities accounted for 23 per cent of credit extended, down from 29 per cent in 1996. The real change was the considerable fall in credit extended to the central government.

<sup>1</sup>Excluding change in stocks and net exports

The shift to a market economy requires more decisive action. Privatisation of public enterprises still faces many obstacles and needs to be speeded up. Conditions for attracting private foreign direct investment, a very helpful contribution in moving to a market economy, need to be created. Public policy needs to be made more transparent so as to increase investors' confidence. Credit, which still goes overwhelmingly to the public sector, needs to be channelled to encourage the growth of private enterprises. The exchange rate as in any oil dependent economy has a tendency to appreciate so that establishing competitive labour-based export sectors are for that, and for other reasons, not easy. Labour market institutions and labour market functioning can be considerably improved so as to establish a market based and competitive economy.

## 2.6 Conclusion

This chapter has examined how employment benefits can be achieved from liberalization, export orientation and enhanced competition with appropriate changes in banking and credit policies in favour of the private sector enterprises. However, the government's deficit has to remain in check and public finances need to remain transparent accounting for the resource transfer to the public sector.

Liberalization across the board in foreign trade could enhance competitiveness and productivity of domestic firms and could enhance both traditional and industrial exports thus boosting employment within the country. However, the policy measures need to be ensured for checking flow of resources into non-tradable sectors at times of high oil revenue and resultant exchange rates.

Directed credit as a policy of promoting targeted industries and sectors has held back the growth of small and medium enterprises (SMEs), particularly when the access to credit is constrained for the latter. While improving access to credit for SMEs, banking regulation needs to be improved with the central bank playing a greater role in supervision and monitoring.

Above all, establishing a dynamic economy with a well functioning labour market would be critical for Iran in tackling its challenge for creating employment opportunities. Output growth and a diversification of the economy away from oil should provide impetus to economic dynamism. But economic dynamism, while responding to such technocratic changes as exchange rate unification, or easier provisions on collateral in lending to small enterprises, also requires a degree of decentralization of decision taking. Strengthened labour market institutions can play an important part in bringing out a more participatory and sustainable decision making process. Social dialogue, tripartism and freely chosen associations of workers and employers are essential ingredients in fostering such environment of participatory decision making process in the labour market.

Through a comparison of sectoral employment and output, it is suggested that employment in retail trade, for example, has room for expansion. The section has drawn attention to the major role of the public sector in employment, although this may be falling. Job creation in the private sector, however constrained in terms of the resource available, has started growing faster. Nonetheless, the amount of resources being invested in the public sector without commensurate return either in terms of growth or employment is indicative of negative growth in total factor productivity.

The section also noted that currency devaluation might have affected the sectoral composition of employment and the need for skills. It has also been noted that an increase in employment rates, especially for women, has to go hand in hand with far higher output growth in order to avoid a slower growth of labour productivity and real wages. To achieve higher output growth and labour absorption requires a shift in the overall macroeconomic framework as discussed in the following section.

To conclude, the macroeconomic framework for realizing the full growth and employment potential of the economy needs to follow three main policy directions. First, monetary policy must bring about a switch from financial repression to efficient financial intermediation with above all better balanced loan selection. Second, it is important to remove all barriers to the export orientation of the economy in the form of a bias towards import substituting industry and of an overvalued exchange rate, and to reduce tariffs to reasonable levels and to abolish non-tariff barriers. Third, in order to build market confidence and encourage properly informed decision taking the government must make public finances transparent and build up reliable domestic sources of revenue.

However, no amount of economic liberalization is sufficient to generate employment if the workforce is not equipped with marketable skills, and individual efforts to initiate economic activities do not take place. There has been a rapid rise in the education level of the workforce in the urban areas although without requisite marketable skills. On the other hand, the rural areas have experienced neither a rise in educated workforce nor in appreciable enhancement in skills. The next chapter will examine the state of skills training in Iran.

## Chapter 3

# Skills Training

### 3.1 Need for a trained workforce

Skills development is critical for employability and overall labour market flexibility to allow workers in making transitions as the economy enters into a new, competitive environment. Iran is faced with a large number of graduates and dropouts from educational institutions without requisite skills for employment<sup>1</sup>. There is also a degree of skills mismatch in terms of what is being provided through various training institutions and what is required in the labour market. There are at least four streams of skills training provision in Iran thus compounding discussions on how the skills requirements are being met in the country. The demand for skills, on the other hand, emanate from the need of the young workers to acquire the skills as well as the requirements of the employers.

Between 1992 and 2000, average dropout rate for school goers (up to grade 11) has been 6.25 percent translating in over 100,000 dropouts leaving schools every year without completing education or possessing requisite skills for employment. In 2001, over 1.8 million probable jobseekers were estimated to require skills training from vocational education training (VET) services. Potential total demand for skills up to the levels of AA/AS (technical certificate) has been expected to rise as much as to 2.5 million by 2011 (Table 3.1).

**Table 3.1 : Potential demand for skills development at different educational levels, 1996-2011 (in '000)**

	1996	2001	2006	2011
Non-formal skills training at VET	208	271	192.7	164.7
VET at secondary level	327.1	709.5	1,150.5	1,163.5
Applicants to AA/AS Courses	613.6	840.6	1,043.7	1,197.0
<b>Total</b>	<b>1,148.7</b>	<b>1,821.1</b>	<b>2,386.9</b>	<b>2,525.2</b>

*Sources :* 1. S. Naficy, "The Effects of Distribution of Educational Attainment of Labor Force on Economic Growth in Iran, " A M.S. Thesis, Institute for Research & Training in Management & Planning, Tehran, 2002.

2. IRPHE, "Final Report of Professional Manpower Need Assessment Project," IRPHE (Institute for Research and Planning in Higher Education) Publication Office, Tehran, 2002.

<sup>1</sup>Abdol-Hossein Naficy and Ali Asghar Khallaghi, "Technical and vocational education and training in Iran", background thematic paper, 2003.

In 1996, the employed population with education levels lower than high school diploma constituted 53.14 percent of the workforce. The highest numbers of workers without high school diploma were found in crafts and trades (28.5 percent) and agriculture (17.3 percent), thus requiring perhaps some form of skills training. As shown in Table 3.2 below, the rate of labour force participation has been found to decline along with the level of education, thus signifying perhaps greater need for providing skills to workers with less education. Overall rate of participation among the literate population is just over half. Employability of job seekers demands that they have skills that match the labour market requirements.

**Table 3.2: Rate of participation according to educational attainment, 1996, (in '000s)**

Level of education	Literate population not in school (1)	Employed population	Rate of participation (in %)
Less than high school diploma	21,580	11,069	51.3
<b>High School Diploma</b>			
Academic Stream	3,304	399	1,574
VET Stream	349	48.4	87.5
<b>Higher Education</b>			
AA/AS Degree	590	911	545
BA/BS and higher	858	92.4	94.2
<b>Overall</b>	<b>21,580</b>	<b>11,069</b>	<b>51.3*</b>

\*Percentage of column three overall over column two overall.

Notes: 1. The number of literate population adjusted according to IRPHE (Institute for Research and Planning in Higher Education) definitions.

2. Because of differences in definition used for classification literate population, the number of literate employed population quoted from IRPHE resources is slightly different from unpublished data pertaining to 1996 National Census.

Sources: Literate population not in school obtained from: Statistical Center of Iran, 2000, "National People and Housing Census, 1996, Nationwide Report," Publication of SCI, Tehran, Table 12; and literate employed population from: National Census Data specifically extracted for IRPHE, 2000, Tehran as quoted in Abdol-Hossein Naficy, "Skill Development Report of Islamic Republic of Iran," background thematic paper prepared for ILO's Employment Strategy, March 2003.

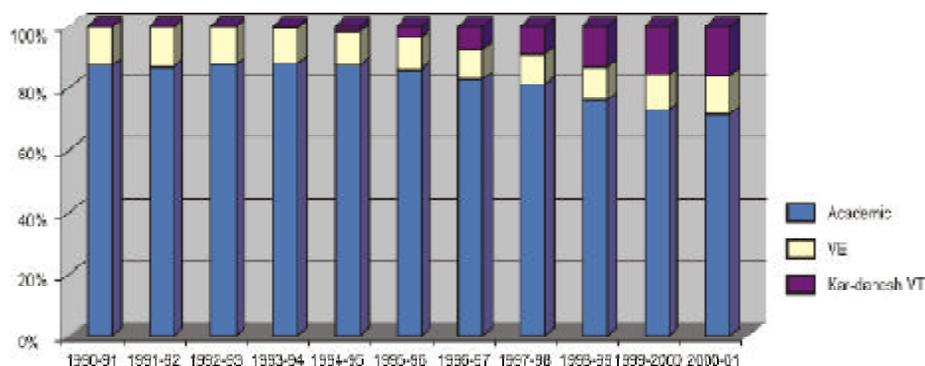
### 3.2 Provision of skills training

Iran's training system is comprehensive and active. It is anchored both in the secondary school system and in technical training centres. It has proved attractive among women, who are represented in training courses to a far higher degree than in employment, and has expanded very quickly. They have found to

have succeeded better than their male counterparts in training programmes. Training has been opened to the private sector which covers about 40 per cent of the total trainees outside the education system. Around two-thirds of private sector trainees are women, compared to 40 per cent in the public sector<sup>1</sup>. Total number of trainees in 2000 was nearly 1.8 million persons, or the equivalent of some 12 per cent of the employed population. Rapid expansion has naturally put great strain on training sector institutions' finances, flexibility and staff. Not surprisingly, some observers conclude that quantity should to some extent give way to quality since rapid expansion has undermined the capacity of the system to address training needs.

Another aspect of Iran's training system is the importance given to vocational education and vocational training at the secondary school level. Under the structure of secondary education, skills training are being provided through the vocational education branch of secondary education (Fanni va Herfei) and the vocational training branch (Kardanesh). Chart 3.1 (corresponding Table 3.1A in the Annex B) provides the trend of enrolment in secondary education, vocational education and vocational training since 1990. Vocational training has expanded to account for some 16 per cent of the secondary enrolment. In principle, such students can proceed to the national skill certificate at first grade level. However, only 26,000 such certificates were awarded in 2000. Vocational education has long existed as an alternative to the academic stream and leads to a two-year AA/AS degree (technical certificate). Its intake is about 12 per cent of the secondary enrolment. Graduates of both streams can pursue AA/AS degrees in technical and vocational colleges. Nonetheless, the academic stream continues to predominate in secondary and indeed in tertiary education. However, while

**Chart 3.1: The proportion of students enrolled in academic courses in comparison with VET during 1990-2001**



Source: Ministry of Education, the Bureau of vocational education and training, (2001)

numbers in the academic stream in secondary education have fallen slightly in recent years, they have continued to rise in higher education. In 2001, women outnumbered men studying for BAs in all categories, i.e. medicine, humanities, agriculture, arts, except "technical and engineering."

Vocational training (Kardanesh) is provided in various different areas under 10 different vocational training programmes (Table 3.3 with corresponding detailed Table 3.2A in Annex B). Over 450,000 students were enrolled in the year 2000-01 with biggest concentration of over 25 percent in electronics and computer related courses. There was a large percentage of enrolment (21%) in other programmes, which might or might not be cost effective if they were scattered and were being carried out in small quantities. Carpentry and masonry, though not major programmes, are also listed in the table. About a fourth of the total enrolled students graduated. Female students constituted 40 percent of the enrolment and almost half of the graduates were female students thus indicating that they performed better than male students.

**Table 3.3: Enrollment in vocational training (Kardanesh), 2000-2001**  
(programmes with more than 1,000 students)

Vocational Training	Percent	Vocational Training	Percent
Electricity & electronics	12.91	Auto repairing	4.12
Computer related skills	12.43	Arts & handicrafts	3.64
Finance & adm.	11.03	Metal works	3.47
Health & education	11.00	Agriculture	1.39
Clothing	8.94	Masonry	0.98
Drawing	8.55	Carpentry	0.64
		Other programs	20.90
<b>Total Enrollment</b>			<b>450,029</b> <b>(100%)</b>

*Note:* Only students of the 2nd & 3rd grades.

*Sources:* Ministry of Education and Iran Statistical Year Book 2000-2001, Statistical Center of Iran, Management and Planning Organization, Islamic Republic of Iran, 2001

Technical and Vocational Training Organization (TVTO), established in 1980, has 30 provincial departments with the mandate of providing skills training and apprenticeship in all sectors of the economy. TVTO as an organization affiliated with the Ministry of Labour and Social Affairs has a wide mandate for operating training centres, supervising and regulating private training centres, developing curriculum and standards, and testing skills.

In 2001 the TVTO, as a public sector provider of non-degree level training

courses, had the capacity to provide some 600,000 trainees with courses lasting on average 1200 hours. These average figures include a very large number of trainees following short courses for which no certificate would be awarded. It is unclear how many trainees were already employed, let alone how many subsequently found jobs. Some evaluations have found that only around 60 per cent of graduates of training schemes were employed and only half of those in their fields of study. No such data are available by gender and indeed it would not be surprising if even one half of female graduates were found to be "openly" unemployed. There are also non-profit VET schools and factory-based schools, which have had about 14,000 and 6,500 enrolment respectively.

### 3.3 Funding of vocational training and skills development

Until recently the principal means of financing the technical training organization was through a payroll tax on industries and workshops employing over 10 workers. Whether any rebate was given to firms conducting their own training is unclear. With the expansion of training activities by 2001, this earmarked source of revenue accounted for only some 30 per cent of the total; and the Ministry of Finance was increasingly paying out of general revenue. From 2003, the payroll (apprenticeship) tax has been abolished following the aggregation of all indirect taxes. This will leave the TVTO more dependent on general financing (to the extent of around 93 per cent). This change is expected to have the effects of: (i) encouraging the training organizations to deal more directly with industry and thus become more sensitive to industry's needs; and (ii) to give greater control over the expansion of training to the government in general and the Manpower and Planning Organization in particular. In turn, this may well lead to pressure for training to become more market driven. It is hoped it will also lead to more attention to a review of costs, benefits and trainee job performance.

In 2000, there were in fact some 950,000 trainees attending training in public institutions at different periods of time. Of these some 60 per cent were not sponsored or selected by any agency. These people were presumably not in full time work and considered that a short training course would help their income earning potential. Over 100,000 were sponsored by a public sector organization usually as part of a diploma course. Some 94,000 were apparently nominated by "industries" and so were probably employed. There must be some overlap between this number and the number of in-plant apprenticeships, which in 2000 cost in an average Iranian Rials (Rls.) 130,000 per trainee. The public sector's contribution to apprenticeship training is a fairly low amount, some Rls. 75,000 in 2001 per trainee compared to Rls. 355,000 per person in a fixed training centre. Apprenticeship, while cheap, i.e. using the parent company's time and equipment, provides no theoretical knowledge.

Some 161,000 trainees in 2000 were sponsored by unemployment insurance funds. Beyond this bare fact, little information seems to be available. Yet, this is an element of an active labour market programme of considerable importance, which deserves proper monitoring and evaluation, possibly by TVTOs. It is important to know what value added was given to these worker's skills (or what new certificates they received) by attending these training courses.

There appears to be general satisfaction that the introduction of a vocational training, as opposed to vocational education stream, has been successful. However, the coordination of activities between the TVTO and the Ministry of Education is very crucial for success. The Ministry of Education needs to approach curriculum development in a flexible manner to make more use of industrial facilities for training and to introduce collaboration with workers' and employers' organizations in planning and implementation.

There appears to be little attempt at assessing employers' needs for skilled workers and for collecting and disseminating labour market information for the benefit of training providers and job seekers. Possibly, private sector training institutions are better placed to respond to market needs. Effective regulatory mechanism should be in place to ensure the quality of private sector training.

It must be accepted that the provision of vocational training is always likely to be expensive while participants are rarely able to contribute towards the cost. Thus, the internal efficiency of training systems and the selection of trainees who will benefit from their courses are important. Vocational training should not become a form of welfare provision legitimised by the off chance that a job will be found. For the same reasons, it is important that employers should contribute to training provision. There may be scope for tax incentives to encourage the private sector both to sponsor training for their existing workers and to recruit from training institutions. But this requires a degree of confidence in the training system which first has to be earned.

Experience elsewhere in the world, however, shows that while industry has every desire and incentive to collaborate with training institutions, the latter must in turn be sufficiently independent of central control to be able to offer new courses run by efficient trainers. Over-centralization of control and the provision of training courses based predominantly on existing training staff only will soon lead industry to lose interest. Certainly, it appears that Iran's TVTO should delegate greater responsibilities for course planning etc. to the provincial level.

### 3.4 Conclusion

As general education has not been the guarantor of employment, there is an increasing tendency among young women and men to seek vocational training.

The growing popularity of vocational training is testimony to the demand for skills. On the other hand, sustained economic growth would be possible only with the availability of skilled workforce. The challenge is also to increase labour force participation of the workers with lower levels of education through provision of marketable skills, particularly in the rural areas.

The vocational education and training system has developed a considerable capacity to deliver training. Such rapid expansion has placed a great deal of strain on the system of delivering quality training as against quantity. The major challenge is however to make best use of this capacity to flexibly address the needs for growth in employment and income. To counteract the consequences of a rapid growth of enrolment and the relative low quality of training, a major role in planning and managing training need to be provided to the training institutions themselves. The growing view is that they should be exposed to market forces and be allowed and encouraged to offer training services to the market.

The costs of vocational training remain an issue particularly due to abolition of payroll tax and competition between state subsidized public sector training institutions and private training centres. Although TVTO is assigned to supervise and monitor the private training centres as well, whether that measure alone will be sufficient to ensure quality training is certainly a question. Decentralisation of training while effective, policy making at the centre seems to be the only way in view of the need to keep abreast with the changing demand for skills in the market. Since costs are scarcely recovered from the trainees in most circumstances, participation of the employers, in various forms, both for generating resources as well as meeting the market demands seem to be the only viable option. On the other hand, active involvement of workers' organizations in policy making and in the design and delivery of skill training would be required to minimize mismatch between labour market supply and demand.

As in other areas of education, women have superseded men in vocational training as well. But again, how far their skills are marketable is questionable since acquisition of skills has not naturally led to employment. The large number of trainees in electronic and computer sciences indicates that young women and men are eager to join the modern areas of economy. That however requires the economic dynamism and change, which are dependent on the greater role of the private sector in the economy. Supply of skilled workers alone would not be sufficient for generation of employment. Most importantly, demand for labour has to come from the growing private sector. Small and medium enterprises (SMEs) rather than a few large, capital intensive industries are generators of most jobs in any economy. Vibrant SMEs are required for rapid growth of the economic activity. The next chapter will discuss the conditions required for growth of SMEs and their generation of employment.



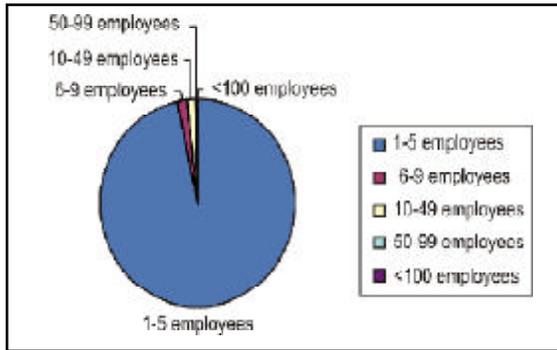
## Chapter 4

# Small Enterprise Development

## 4.1 Current status of SMEs

Small and medium enterprises (SMEs)<sup>1</sup> in Iran could be a major source of employment generation and diversification of economy as in many other developed and developing countries around the world. Indeed, great majority of private sector businesses in Iran belong to the categories of micro, small and medium enterprises (interchangeably referred as SMEs or MSEs collectively). Excluding the trade and service sectors, there are around 345,000 officially registered small industries, of which overwhelming majority are micro enterprises with less than 10 workers (Chart 4.1). If trade and services are also included, they would mostly be micro enterprises. Actually, the correct label for Iranian SMEs would be micro and small enterprises (MSEs) since very few medium sized enterprises (50-99 workers) exist. This is part of the reason why the private sector has remained peripheral to the total economy. Yet, SMEs generate large number of jobs in Iran. Small industries alone provide around 1.3 million jobs<sup>2</sup>.

**Chart 4. 1: Share of enterprises by number of employees**



Sources : Statistical Yearbook of Iran 1375 (1996/1997), Statistical Center of Iran, Management and Planning Organization, Islamic Republic of Iran, 1998.

\*Manufacturing firms with 1-5 employees are mostly guilds such as tailors, bakers, repair shops, etc

Most trade and service related enterprises, as well as micro level workshops, are registered under various guilds with the Ministry of Commerce (MOC). There are around 4-500,000 of these enterprises in these guilds. The average number of employees in the enterprises under the guild system is about 1.97 workers.

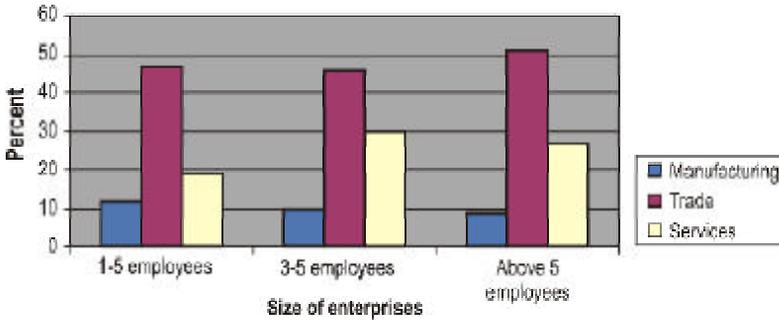
<sup>1</sup>SME here also refers to micro enterprises with less than 10 workers.

<sup>2</sup>Kambeiz Talebi and Babak Pirouz: "MSE Policy and regulatory environment," background thematic paper, 2003.

Trading firms predominate in all categories of these enterprises (Chart 4.2). Services still remain the smallest signifying a great deal of employment generation potential.

While MSEs (micro and small enterprises) have continued to provide goods and services at affordable prices to consumers in the country, liberalization and globalization have certainly put pressures on their competitiveness, particularly when faced with better quality products under larger distribution network. However, MSEs would continue to have a niche in the economy and could very well complement larger enterprises either as a part of the supply chain or provider of inputs to the latter. In either circumstance, what is important that large sections of the workforce is dependent on the MSEs, and substantive amounts of further employment generation would have to take place in these enterprises.

**Chart 4.2 : Percent of formal enterprises in guilds**



Sources : Statistical Yearbook of Iran 1375 (1996/1997), Statistical Center of Iran, Management and Planning Organization, Islamic Republic of Iran, Tehran, 1997.

## 4.2 Policies and incentives

The ILO has emphasized the importance of conducive policy environment in its Recommendation 189 for creation of jobs in small and medium enterprises (SMEs). Recognizing the importance of small enterprises in generating employment, Iran's national development plans continue to place a great deal of importance on their growth. The Third Economic Plan (1999-2004) has aimed at supporting promotion of self-employment and entrepreneurial activities, particularly among women entrepreneurs. The Third Plan also has proposed to establish Provincial Council for attracting private and cooperative investments. The Fourth National Development Plan (2005-2009) also emphasizes the need for encouraging productive employment in small and medium enterprises and enhancing the role of the cooperatives.

A number of government ministries are involved in promoting SMEs,

sometimes causing confusion as regards the policy initiative and schemes of the government. There are at least four ministries involved in issuing licenses and permits. As a part of employment promotion programme, Ministry of Industries and Mines, primarily involved with promoting small industries, has had a scheme of providing a loan of Rls. 55 million for hiring every new worker without collateral. The scheme launched in 2002 claims to have generated 26,000 additional jobs in 10 months. The Supreme Employment Council had extended the scheme for creating additional 100,000 jobs per year.

The approximate cost of creating a job in micro and small manufacturing firms is about IR 150 million as compared to firms in guilds for whom it is about one third of that (Rls. 50 million). The difference is considered to be due to compliance costs; such as, taxes, registration fees, standards fees, cost of establishment, import duties and municipal charges.

MPO (Management and Planning Office) also has set up a fund offering up to Rls. 30 million to educated youth who intend to start their own enterprises. But it is contended that the amount is not sufficient to even start a micro enterprise. There have been other attempts by several organizations and universities (for instance, Jihad-e-Daneshgahi) to spread entrepreneurial culture among the youth by providing information and education through short business courses and websites.

The Ministry of Labour and Social Welfare started in 2002-2001 a scheme of providing a loan of Rls. 30 million to entrepreneurs at a subsidized interest rate of 6 percent for recruiting each additional worker. It was reported that within 10 months, 286,000 new workers were hired by MSEs. The Central Bank has recently reviewed this scheme called, "The Emergency Employment Scheme" and has reported favourably on it. Of the 8000 enterprises visited, 92 per cent were in operation. Of the workers given jobs through the scheme, all of whom had to be on the registry of the ministry's employment exchanges, most were satisfied with the scheme's operation. Nearly 19,000 of the 300,000 workers recruited had been previously employed to the extent of being registered with the social security system. The Central Bank review shows that the scheme has had a fair measure of success. It should be comprehensively evaluated though to assess whether the jobs created are sustainable in the long term. Some jobs would no doubt have been created even without the loan offered. It should be noted that employers are obliged to keep the new jobs filled for a five year period and to replace any newly hired worker who leaves. However, monitoring such movements at the national level would require mammoth bureaucratic set up.

Similarly, the Ministry of Cooperatives and Ministry of Agriculture have launched similar programmes to encourage MSEs to recruit workers. There are also several other incentives systems in the areas of taxes and customs and in the

forms of special discounts and credit. The question remains as to how these schemes have increased hiring; and for new hiring, to what extent these jobs were economically sustainable. Welfare and a piecemeal approach to job creation rarely leads to employment based on business growth. A conducive policy and regulatory environment is essential for self-sustained growth of small enterprises and creation of quality jobs.

### 4.3 Issues concerning SMEs

Creating large numbers of quality jobs through rapid growth of small enterprises require not only removal of hurdles and transaction costs but also a policy and regulatory environment, which is not biased against micro and small enterprises and is not biased against women entrepreneurs. Women entrepreneurs face particularly difficult social and procedural barriers in starting and operating enterprises. Their family responsibilities, combined with the need for social acceptance of nature and extent of work involved, place limitations in their ability to succeed in operating small enterprises.

Lack of a clear definition of micro and small enterprises is another common problem and is also applicable in the case of Iran. Definitions for industrial enterprises without consideration of trade and service sectors tend to create an uneven policy towards MSEs. The dichotomy in defining manufacturing and non-manufacturing enterprises in Iran results in a compartmentalized approach to defining the micro enterprises.

Another issue is marginalization of the micro enterprises in view of their separate treatment from industrial enterprises. Better coordination among the ministries of industries, commerce and agriculture would be required for ensuring that policies are not creating compartmentalized enterprises since modern day business increasingly combines products with services and cross sectoral in nature.

There are myriad of legislations governing registration, certification and operation of MSEs. As stated earlier, there is a cost differential of two-third for compliance with all regulations. Registration, start-up licences and industrial certificates are issued by four different government organizations. Although simplification of these processes has been attempted, visible impact on the startup and growth of MSEs has yet to be seen. Often, good intentions of the policy do not necessarily translate in ease of interaction and support as well as lower transaction costs. In interviews conducted with 55 entrepreneurs from unregistered MSEs as an input to this report, it was revealed that there was no interest in registration since no direct benefits were perceived.

In the industrial sector, and especially among smaller enterprises, the foremost problem lies in satisfying all government regulations. Even though environmental

and product quality standards seem reasonable, it may take four to five years to satisfy their conditions. There are also monopolies and sole buyers (monopsonies) in the public sector which increase the cost of doing business in the private sector. Small scale private sector enterprises have to compete with the products of public sector which in one way or another have been subsidized. Fair competition in domestic product markets would require significant liberalization measures.

So far as small industrial enterprises are concerned, registration is a simple process. However, such firms, if near major cities, must be located on an industrial estate. After a period of six months they need to apply for an "exploitation licence", given the firm is respecting pollution regulations. However, many small firms, even after registration have been found to be still not in operation. Of the firms that obtained licences in 1997 some 44 per cent were still inactive at the end of 2000. Of those obtaining licences in 1998 and 1999, 63 per cent and 82 per cent respectively were inactive in late 2000.

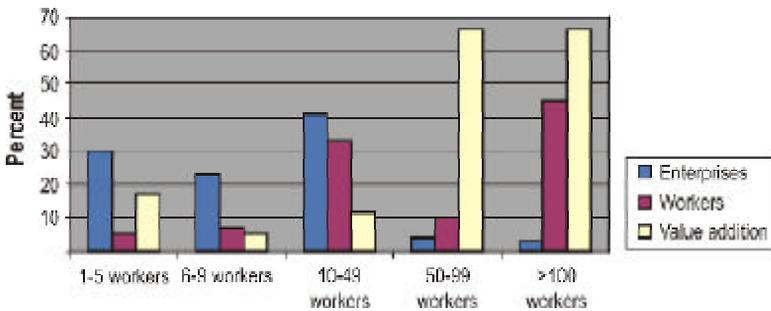
The primary reason for this delay in getting new businesses going appears to be difficulty in obtaining finance. As noted, the banking system in Iran leaves much to be desired in terms of flexibility and transparency. Loans are usually directed primarily to larger, publicly owned enterprises and collateral requirements for loans to smaller enterprises are substantial. Furthermore, rates of interest are high, reflecting high administrative costs in the banking system. Non-bank loans can be obtained but only at rates of at least 25 per cent. There is a specialized bank for industry, the Bank of Industries and Mines, but currently about one half of its lending goes to the firms it directly controls. These shortcomings in the banking system, which pose particular obstacles to small firms without own resources, are being officially recognized. However, it would appear, for example, that a law requiring the relaxation of collateral requirements has not been implemented.

The vast majority of small scale enterprises suffer from problems of outdated technology, poor quality and unstandardized products. Generally, though such enterprises are labour intensive, their labour productivity levels are low. However, small enterprises often use capital very efficiently so that overall they may make better use of resources than larger enterprises, especially those whose capital has been subsidized. Chart 4.2 provides information on the percentage of enterprises by numbers of workers and value addition of these enterprises. The chart shows that there is a tremendous scope for growth of employment among industrial MSEs.

Therefore, small enterprises continue to face many problems despite the recognition given to them by the Government as a source of job creation. Steps already taken in mitigating such problems include a reduced number of taxes and fees, exemption from some requirements of the labour law, and a number of

incentive packages. These notwithstanding, the enterprises sector still face: (i) market barriers such as the existence of purchasing monopolies and government subsidies given to state owned companies, resulting in unfair competition; (ii) financial barriers, including the absence of specific credit facilities for MSEs with uniform loan criteria for all firms, and collateral requirements which further restrict credit availability; (iii) public policy shortcomings, including the lack of an official definition of micro, small and medium sized enterprises. For instance, the Ministry of Labour and Social Affairs (MOLSA) defines small firms as those with less than 10 workers while the Ministry of Industries and Mines defines small industry units as those with less than 50 workers. A multitude of agencies is involved in issues relating to the MSEs with little coordination and with different policies being applied to industrial and to guild MSEs, resulting in different incentives for job creation; and (iv) legal barriers such as the absence of special courts for dispute settlements, obsolete trade laws, the unclear legal position of shareholders and managers, a multitude of overlapping laws and the absence of specific financial laws or regulations for the MSEs. All these discourage the commitment of investment funds.

**Chart 4.3: Industrial enterprises with workers and value addition**



Source: Information Dept., Ministry of Industries and Mines.

#### 4.4 Institutional framework

In Iran, as elsewhere, small industries range from establishments with 50 or so employees, which may be well integrated with larger enterprises and contribute to exports, to one or two person service sector businesses. Officially, all enterprises have to be registered with one or another ministry. At one end enterprise promotion is the responsibility of the Iran Small Industries Organization (ISIO) reconstituted in 2001 and at the other, small establishments are officially organized in "guilds" and registered with the Ministry of Commerce. Then, there are several ministries and agencies responsible for promoting employment through SMEs.

The Iran Small Industries Organization has overall responsibility for

formulating measures to promote small industries and to present proposals to change and review financial, trade, training and other laws that impinge on the small industry sector. It has been operating a nationwide programme in support of total quality management, directed at 10,000 small sized manufacturing enterprises and implemented by private engineering and consulting companies. Much of the activity consisted of training courses for which the ISIO pays 90 per cent of the cost. In this context, it would seem advisable for the ISIO to liaise more closely with the Technical and Vocational Training Organization to ensure that the latter provides training suitable to the needs of small enterprises.

Often, policy makers and legislators are unfamiliar with the dynamics of micro or small enterprises. Policy makers have often wrongly assumed that small enterprises are simply smaller versions of large enterprises and have not taken into account unique features and vulnerabilities while framing the policy. It is important that a policy framework for MSE promotion is created based on an accurate understanding of MSE dynamics and the broader participation and policy-making discussions by the representatives of MSEs. The institutional framework would need to reflect such dynamics and representation. At present, the focus has been primarily on small industries. How to encompass trade and services is an issue to be dealt with under such framework.

#### 4.5 Conclusion

In consideration of the limited potential for employment generation in the capital intensive public sector and large enterprises, Iran has recognized in its third and fourth national development plans the importance of employment generation through SMEs. Several quick schemes have been launched through various ministries and have been found to have achieved some successes. But it is also recognized that an environment for self-sustained growth of dynamic small and medium enterprises needs to be created through conducive policy and regulatory environment.

Appropriate institutional and legal and policy frameworks are required for the growth of SMEs, wherein coordination and collaboration among various government ministries would be facilitated. It is also important that the representatives of MSEs participate in the policy discussions and their inputs are taken into consideration to improve the regulatory framework. Regulatory improvement requires strengthening of the local implementing organs of the government at the provincial and local levels as well.

One proposal of the Ministry of Industry and Mines is to establish a council for small enterprise development and promotion on which all relevant ministries would be represented, which would coordinate the various government policies

and programmes directed towards small enterprise development. Further, a small enterprise development agency might be established as a link between the private sector (enterprises and relevant business support organizations) on the one hand and the Government on the other.

At present, the SMEs face a myriad of regulations and agencies involved in registration, operation and growth of their businesses. Starting a new business remains a cumbersome activity. Very lengthy procedures and arbitrary measures not only discourage many SMEs from registering but also from accessing various inputs and resources. Although micro and small enterprises make up majority of firms in Iran, they currently receive a very small share of the resources and therefore remain largely peripheral to the total economy. Women, particularly, face economic and social challenges in operating enterprises. Women's participation in the labour market and particularly in job creation through small enterprises needs to be promoted to achieve full potential of Iranian economy. The next chapter will discuss the gender dimension of employment generation in Iran.

## Chapter 5

# Promoting Gender Equality in the Labour Market

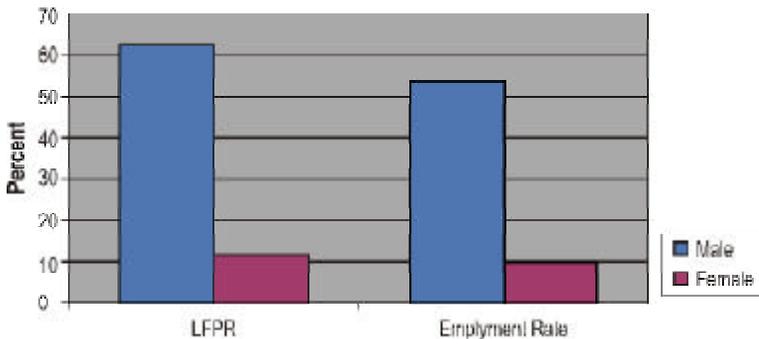
### 5.1 The present picture

This report has previously pointed out the very limited role which women play in the labour market in Iran. This is sure to change and this section, based largely on ILO experience, suggests how such change can be promoted. As will be seen, a comprehensive and holistic approach is needed. Iran has ratified ILO Convention No. 111 on Discrimination (Employment and Occupation), 1958 and the ILO Committee of Experts on the Application of Standards and Recommendations has over the last few years noted the positive trend in women's participation in education and training, although the rate of employment has remained low.

Generally, gender differentials in the levels of education and literacy in Iran are low. Thus, the overall level of women's literacy is 66 per cent, compared to men's 80 per cent. The combined first, second and third level gross school enrolment rate of females is 74 per cent, which is comparable to that of males (78 per cent). At the tertiary level, women account for 54 per cent of students in natural and applied sciences; in 2001, over 60 per cent of new university entrants were women.

But, despite this increasing level of education, women's labour force participation rate has remained low at around 12 per cent in 2001, unchanged

**Chart 5:1 Labour force participation and employment rates, 2000-01**



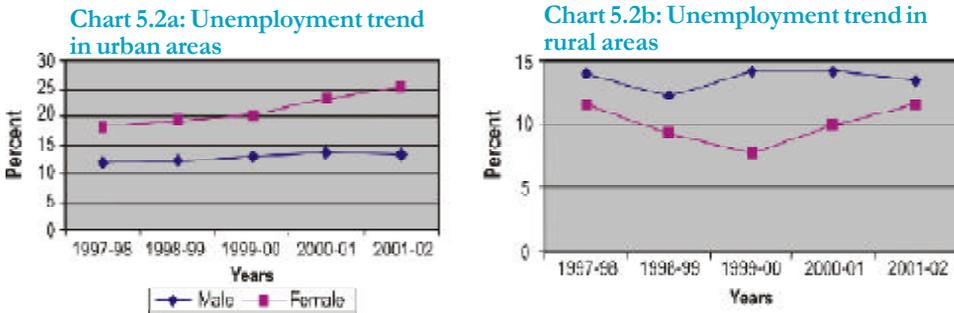
Sources : Iran Statistical Yearbook, 1380 (March 2001-March 2002), Statistical Center of Iran, Management and Planning Organization, Islamic Republic of Iran, Autumn 2002.

over the previous decade (Chart 5.1). In 1996, homemakers constituted nearly 60 percent of all women over 10 years of age. This imbalance reflects the traditional gender roles of women and men in Iranian society.

Traditional values consider women only as "secondary" workers within the household and in society at large. However, this perception, together with the value which society attaches to women's work, may be slowly changing. In addition, especially poor women, are in the labour market out of economic necessity. But with increasing levels of education, many young women wish to be gainfully employed, and yet most of them are currently shunned by the labour market.

Women's unemployment rate (18 per cent) is higher than men's (13 per cent). But actually, women experience even higher unemployment (25.3 percent) in urban areas than men do (13.2 percent) as shown in Chart 5.2. On average, over 70 per cent of the unemployed are under 30 years old. Young women experience an unemployment rate well in excess of their male counterparts, 22 per cent compared to 14 per cent. Approximately 52 per cent of young women and 42 per cent of young men were recorded as being without work for a year or longer. In rural areas, unemployment rate for women is slightly lower than for men, perhaps due to the low literacy rates there.

**Chart 5.2 Male and female unemployment trend in urban and rural areas, 1997-2002**



Source: *Iran Statistical Yearbook, 1380* (March 2001-March 2002), Statistical Center of Iran, Management and Planning Organization, Islamic Republic of Iran, Autumn 2002.

In 1997, women held 35 per cent of management positions in government ministries (except for the Ministries of Energy, Defence/Logistics and Oil). The Ministry of Education had the highest share at 40 per cent. However, it is likely that women's share in management positions in the private sector is much lower. For those women, who are employed in the formal sector, public sector has played an important role. In 1996 it provided 63 per cent of total urban jobs for women, or almost double the men's jobs (35 per cent). In rural areas, the

percentages of public sector employment are much lower at 9 and 17 per cent for women and men, respectively. Public sector jobs are more protected than those in the private sector, in terms of social benefits and maternity protection. However, employment of women in public sector has witnessed a decline also from 74 percent to 63 percent, perhaps due to the privatization process (Table 5.1).

**Table 5.1: Public sector employment of men and women to total employment - 1976-1996 (per cent)**

Year	Urban		Rural	
	Men	Women	Men	Women
Illiterate	16.9	21.9	6.0	18.3
1976	32.33	48.59	6.25	2.98
1986	40.95	69.98	17.97	8.48
1991	40.73	74.03	18.98	2.05
1996	34.9	63.23	16.86	9.32

*Source:* Structure of employment and unemployment in Iran's labour market, Institute for Research in Planning and Development, 1998

## 5.2 National priorities and institutions

The Third Five Year Economic Development Plan proposed legislation to provide further education and employment for women. In its article 156, it has addressed the issue of women's employment. Similarly, Article 158 has created the Centre for Women's Participation, aimed at creating opportunities for women in all spheres. The overall goal is to allow women to be able to actively participate in all sectors of society, and the important principle of government policies is to make women more self-sufficient. The Fourth National Development Plan (2005-2009) has aimed at providing freedom and security for women and ensuring equality at the workplace.

With regard to rural and tribal women, the Third Plan included the following priorities: improving their welfare and enhancing their position in the family and in society; increasing their self-sufficiency in an effort to raise their standard of living and alleviate poverty; increasing their education and knowledge and making them more aware of economic, social and cultural matters. The Fourth Plan also makes references to the protection of the ethnic minorities.

The Centre for Women's Participation, which is directly under the President, plays a pivotal role in research, advocacy and policy advice to the line ministries on women's issues including employment and income. Within the Ministry of Labour and Social Affairs, the Women's Employment Department undertakes various activities in support of job and income creation for women. The Workers'

House has a Centre for Women Workers which undertakes advocacy activities and provides support to women workers. Affiliated to the Iranian Confederation of Employers' Associations is the Association of Women Entrepreneurs, with some 150 members. The Communication Network of Women NGOs facilitates coordination among some 100 NGOs, some of which undertake projects to promote employment and income including promotion and facilitation of micro-credit, and cooperative and SME development, particularly for rural women. The Network is also very active in advocating legislative and policy changes promoting gender equality.

### 5.3 Key principles and tools for promoting gender equality

The ILO's report "Time for Equality at Work" (2003) notes that gender remains a ubiquitous source of labour market inequalities and of inadequately utilized human resources. Root causes of gender discrimination lie outside the labour market in deeply embedded social perceptions and norms that affect economic outcomes for women both at home and at work. Gender inequality among workers has a material and an ideological dimension, both of which need to be addressed to effect change. Gender equality refers to equal rights, responsibilities, opportunities, treatment and valuation of women and men in employment and in the relation between work and life. Gender equality, therefore, is about ensuring that all persons, women and men, are treated with dignity and allowed to develop their full potential.

Two crucial linkages need to be made when improving the gender balance in the world of work:

1. The linkage between the care economy and paid work: The care economy includes most of women's unpaid work as well as the public and private provision of social services. Women are hampered in finding paid jobs because of their family responsibilities. Those women who earn income often face a double or triple workload, combining paid and unpaid work in the family and the community. A better distribution of care work as well as strategies encompassing both care work and gainful employment are needed to achieve gender equality in paid work.
2. The linkage among employment, social protection and the informal economy: Most job growth in very many countries is in the informal sector and the proportion of women working in the informal sector is usually significantly higher than that of men. The vast majority of jobs in the informal sector are precarious, vulnerable and of low quality. By applying regulations concerning working hours, safety and health at work and minimum wages in a manner that reflects the workers' priorities, these jobs will be upgraded,

thus bringing benefits to women. In Iran, according to labour force statistics, very few women work in the formal sector. In that case upgrading informal sector jobs could well be a step towards promoting a higher employment rate for women.

Strategies for providing better jobs to women usually need to include: policy reform and legislative action, the provision of labour market information, social protection, awareness-raising, advocacy and capacity building on the promotion of gender equality among all stakeholders including the beneficiaries, group mobilization and the organization of women workers, giving them voice and representation; and special measures for those women workers who are particularly vulnerable to exploitation.

Gender equality needs to be addressed in all development programmes and at all stages of the programming cycle. Gender mainstreaming is the process of assessing the implications for women and men of any planned action, including legislation and the initiation of policies or programmes, in any area and at all levels. It thus considers the actual and potential roles of women in all spheres of social, economic, political, public and private life.

The ILO's approach to achieving gender equality includes:

- ✓ a supportive legislative framework, enforcement mechanisms and legal literacy;
- ✓ gender-sensitive active labour market policies;
- ✓ gender-balanced training policies with emphasis on the diversification of women's skills and enhancing women's access to productive resources such as credit, assets, improved technology and markets;
- ✓ up-to-date sex disaggregated data bases;
- ✓ social security and social protection of women;
- ✓ creating an enabling environment through the social mobilization of women, gender awareness raising and sensitisation; and
- ✓ promoting gender equality and women's participation, particularly at the leadership level, in social dialogue.

It is because women's work inside and outside the labour market is invisible to many people that gender-blind policies continue. To correct this gender blindness, realistic and timely information is needed about women workers, especially those in atypical forms of work, in the informal sector and in vulnerable positions. Gender sensitive labour market information is needed to design better-targeted policies and programmes for women's employment and social protection. Anti-discrimination laws need to be complemented by equal opportunity policies and programmes in public and private sector enterprises.

Gender-specific incentives are needed to promote the employment of women in public sector wage employment programmes, in private sector employment and in self-employment and entrepreneurship. In wage employment programmes, the following equality standards need to be applied:

- ✓ equal pay for work of equal value;
- ✓ equal access to jobs and to individual work operations;
- ✓ equal access to training, particularly for higher technical and supervisory functions which, when staffed with women workers, will facilitate the recruitment of unskilled women workers.

Government can promote the employment of women workers in the private sector by providing tax incentives to employers to recruit, invest in and retain women workers. Often, there is a high concentration of women business owners in the micro- and small enterprise categories, but in only low-value segments. Support to women in small enterprises should place emphasis on enhancing their skills in key areas such as management, production and finance. Support for women entrepreneurs must be set in the context of the entire supply chain. Women entrepreneurs need the support from networking with larger enterprises and other related small enterprises.

## 5.4 Conclusion

When gender inequalities persist throughout the labour market, they tend to contribute to the inadequate use of human resources. Iran is no exception to this. Social perception of women's work plays a great role in how equality at work can be achieved. Such perception of women's work may be gradually changing in Iran also as evident from greater levels of women's share in education. However, this has not yet translated in commensurate employment rates. Urban unemployment rates between men and women have further widened in past few years. In rural areas, however, the rates remain low and almost at the similar levels for women and men.

Women's labour force participation is often borne out of economic necessity. Therefore traditionally, women's involvement in the informal economy has been found to be high. Uplifting women's low-value added work at the lower ends of micro and small enterprises remains a challenge. On the other hand, women are generally attracted to public sector and professional employment in the urban areas without much inclination towards self-employment or entrepreneurship. Encouraging women to engage in entrepreneurial activities is required for reducing the high levels of unemployment among educated women.

To conclude, in order to achieve gender equality in the labour market, gender

considerations should be mainstreamed into all aspects of employment. The actual and potential roles of women must be considered in relation to employment issues, and the relative impact of all economic and labour market policies and measures on both women and men needs to be taken into account.

The next chapter examines the social protection issues as they affect working women and men. Women are particularly vulnerable to socio-economic risks. Without assurance of social protection in the event of sickness and death, it is not likely that economic risks would be taken by women and men required for employment creation. As the workforce has better job security, and protection from sickness and injuries, its commitment to productive work, inclination to acquire skills and to avail of new opportunities will increase. Hence, a key factor influencing job opportunities and enhancement in productivity in the labour market is availability of social protection.



## Chapter 6

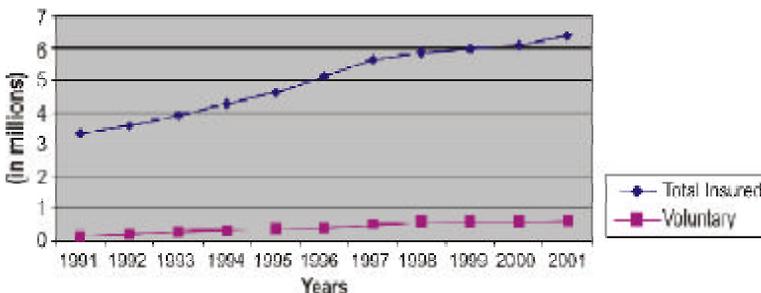
# Social Security

## 6.1 Coverage

Iran has provision for a very comprehensive social security system funded mainly by payroll levies with intention to provide not only income on retirement or on incurring disability, but also healthcare, together with some "unemployment" (redundancy) protection. The main scheme is administered by the Social Security Organization (SSO). However, similar provisions apply to a separate social insurance fund (the National Retirement Pension Fund, NRPF) for public sector workers. The latter has some 1.6 million insured members as compared with around 6.4 million in the SSO, altogether about 55 per cent of the employed population, and covering the great majority of urban workers, at least in the formal economy. The SSO estimates that its coverage of the total urban workforce has, over, the last 6 to 7 years, reached about 65 per cent, but the coverage of the workforce of the entire country has remained just short of 40 per cent.

The membership of SSO (Social Security Organization) has grown quite rapidly in the last 11 years (Chart 6.1 with corresponding Table 6.1A in Annex B). Lately, the numbers of those entering "voluntary" membership of SSO (mainly those who are self-employed) have also been steadily increasing. The number of beneficiaries of the SSO, in receipt of pensions of various kinds, amounted to some 770, 000 by the year 2001; in addition the NRPF paid some 475,000 pensions, a near-threefold increase since 1991.

**Chart 6.1: Number of insured with SSO, 1991-2001**



*Sources:* Social Security Organization, The Economic and Social Report, Economic and Social Planning Office, Tehran, 1377 (1998); The Economic and Social Report, Economic and Social Planning Office, Tehran, 1378 (1999); and The 10 year report of the investment department, Economic and Social Planning Office, Tehran, 1381 (2002).

The coverage of SSO for medical provision has now reached about 26.5 million persons, which includes both those insured in their own right and their dependants (an average of 3.2 dependants per employed person). Medical provision for the staff of the civil service is arranged through the Healthcare Services Insurance Organization, which was established in 1995. Together with SSO, these two schemes have offered medical coverage to about 50 per cent of the total population, but with a heavy bias towards the urban sector. In 1997, the Healthcare Services Insurance Organization extended its services to the rural areas, so that now in principle coverage, estimated at 31.3 million persons in total in 2001, is provided to nearly all the rural population, and also such specified groups as the nomadic peoples, although little information is available as to how effectively this has been achieved.

The "package" of schemes administered by the SSO also includes an unemployment insurance fund. This is financed entirely by employers through a contribution rate of 3 per cent of payroll. The income of the unemployment insurance fund represents around 0.1 per cent of total GDP. In principle, all SSO registered enterprises pay the 3 per cent unemployment fund contribution so that the total number of some 6.4 million workers can potentially benefit from its provisions. Payouts for each of the 93,000 unemployed beneficiaries in 2001 averaged some Rls. 800,000 per month, or about one half of the average wage in manufacturing. However, the numbers are volatile and in the year 2000 unemployment benefits were paid only to some 70,000 persons. It is understood (on the basis of incomplete information) that benefits are set at 55 per cent of the previous year's salary, and may be paid for a period of up to 4 years. The sustainability of the scheme under the present financial conditions is questionable (see further comments below). However, it is important that the fund exists and that its experience can be built on.

The National Retirement Pension Fund also provides some facilities for those leaving government service, although only limited information is available. In 2000, some 160,000 trainees were sponsored by unemployment insurance funds generally (other funds also exist for military personnel, for example).

Table 6.1 summarises the latest available details of the coverage of the various formal institutions of social security.

It should be noted, however, that a range of other autonomous funds and a variety of organizations exist for providing social protection, including insurance and pension funds. There are at least 15 autonomous funds for the staff of large corporations and similar entities, together with dedicated funds being operated by Ministry of Defence. The Department of Welfare provides a variety of forms of support to the needy. These are complemented by a number of important

organizations, such as the Imam Khomeini Aid Committee, the Oppressed and War Victims Foundation, the Islamic Revolution Martyrs Foundation, etc. It is estimated that there are over 500 charitable societies throughout the country. The range of services and support vary widely. The Imam Khomeini Aid Committee alone is reported to have provided healthcare services to 5 million people while 1.1 million students have benefited from its support. Minor benefits include marriage allowances, housing and medical treatment loans, and so on.

**Table 6.1: Coverage of social security institutions, 2001 (in million persons)**

	Pensions		Unemployment Benefit		Health insurance	
	Insured	Beneficiaries	Insured	Beneficiaries	Insured	Beneficiaries
SSO	6.38	0.77	6.4	0.09	26.5	n/a
National Retirement Pension Fund	1.60	0.48	approx (2)	(1)	-	-
Healthcare Services Insurance Organization	-	-	-	-	31.3	n/a

*Sources:* Various sources as quoted in Kazem Sadr, "Technical Report on Policies to Extend and Strengthen the Scope and Institutions of Social Protection in Iran", background thematic paper prepared for ILO's Employment Strategy, March 2003.

Notes : 1. This figure represents the total number of persons entitled to treatment, i.e insured persons (6.38 million) plus entitled dependants.

2. Certain facilities, including training, are known to be available to the members of the National Retirement Pension Fund on leaving service, but statistics are not available as to the rate of take-up.

3. "n/a" = not available; "-" = not applicable.

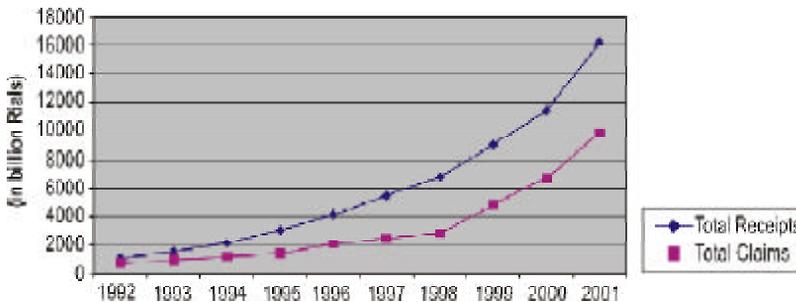
It is important to realize that the Social Security Organization has no mandate to focus exclusively on the low-income population. Although social security broadly has an important role in minimising poverty, the SSO cannot itself be expected to act as an effective anti-poverty instrument. The latter role is played, rather, through consumption subsidies (which are generally available to all) and by the Department of Welfare (grants to the disabled and elderly). Additionally, the Imam Khomeini Aid Committee disburses sums equivalent to about 0.2 per cent of GDP to the needy, while religious endowments add some 10 per cent to this. Private charity also plays an important anti-poverty role and may mobilize up to 1 per cent of GDP.

## 6.2 Funding issues and sustainability

In principle, the SSO offers coverage to all workers whether employed, self-employed or employers. Contributions are presently set at a "standard" rate of

27 per cent of payroll, to cover pension and medical benefits, of which 7 per cent is paid by the members and 20 per cent by their employers, with an additional 3 per cent contributed by the government, Unemployment benefits are financed by a further 3 per cent contribution, payable by the employers alone. The developing trend of claims is illustrated in Chart 6.2 (corresponding Table 6.2 in the Annex B). The figures as derived from various sources are not fully comparable (for example, those in Chart 6.2 as against Table 6.1 above), but it is clear that the "claim ratio" in the year 2001 had reached a level of between 60 and 70 per cent.

**Chart 6.2: SSO receipts and claims**



Sources: Social Security Organization, The Economic and Social Report, Economic and Social Planning Office, Tehran, 1377 (1998); The Economic and Social Report, Economic and Social Planning Office, Tehran, 1378 (1999); and The 10 year report of the investment department, Economic and Social Planning Office, Tehran, 1381 (2002).

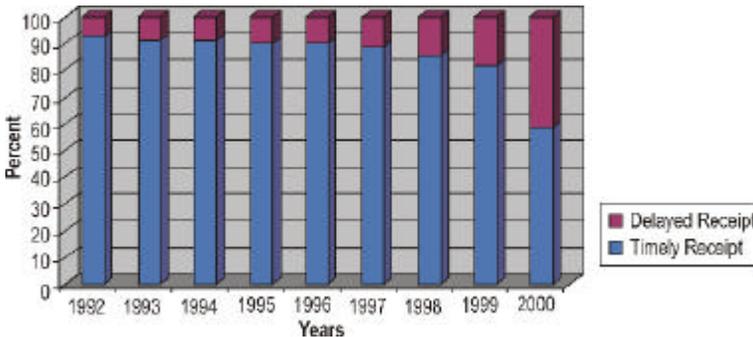
However, this does not fully reveal the true state of finance within SSO because the available statistics do not allow the separation of those contribution receipts which are timely from the large and increasing sums which are delayed in payment. Arrears in contributions to SSO from the government (its mandated 3 per cent contribution rate) and some public sector enterprises have been growing over a number of years and were stated at 41 per cent of the total receipts in 2000 (Chart 6.3). The "open" arrears have accumulated to Rls. 7,800 billion in 2001. The growth of delayed contributions was considerably higher than the growth of current receipts. These problems are exacerbated by a known tendency of management and employees to collude in the deliberate understatement of earnings, to minimise their joint contribution liabilities to SSO. For both of these reasons, the enforcement and compliance mechanisms within SSO greatly need to be strengthened.

To these difficulties for SSO in managing its fiscal balance have been added those arising from an earlier decision by the government that workplaces with under 5 persons employed should be exempted from liability to contribute to the scheme, and that many enterprises in the category of 5-10 persons employed should contribute at a reduced joint rate of 21 per cent of earnings. These decisions

were motivated by the need to protect the international competitive position of smaller enterprises in Iran, and it is true that the overt contribution rate at the standard level of 27 per cent of earnings (30 per cent including the unemployment levy) appears high by international standards. However, the total SSO income represents a little under 2 per cent of GDP, which can be compared with the national income accounts figure for "compensation of employees" of nearly 20 per cent, i.e. the "system" rate of contribution for the economy as a whole averages nearer 10 per cent than the overt contribution rate; this is relatively modest in terms of international comparisons.

It is difficult to assess the financial position of either the NRPF or the Healthcare Services Insurance Organization in the same way, as both organizations look directly to the government to bridge any funding gap. The latter organization had, however, an accumulated deficit of Rls. 179 billion by 1999. The organization's resources are derived from per capita fees received from institutions, organizations, and individuals; income generated through assets and property, income from fees charged for direct healthcare services, and donations. The organization's expenditures have exceeded the revenues during the 1990s, a trend which can obviously not continue without action of some kind. Despite the success in extending healthcare services and insurance to the general public, it appears that the organization has been less than successful in the financial management of its resources. The importance of the extent and coverage of healthcare services demands that the Government fulfils its commitments every year.

**Chart 6.3: Delayed receipts at SSO, 1992-2000**



*Sources:* Social Security Organization, The Economic and Social Report, Economic and Social Planning Office, Tehran, 1377 (1998); The Economic and Social Report, Economic and Social Planning Office, Tehran, 1378 (1999); and The 10 year report of the investment department, Economic and Social Planning Office, Tehran, 1381 (2002).

In the context of the funding of pension benefits, the issue of investment of funds is crucially important. A significant part of the SSO's portfolio comprises companies which it has acquired when the Government has partly settled its

debts by a transfer of shares in enterprises which are to be privatised. But the SSO has no capacity to manage such enterprises and cannot be certain that any income will be forthcoming.

The National Retirement Pension Fund is allowed to allocate no more than half of its income in a given period to investments - at least half must be utilized for benefit expenditures to the retirees, disabled and dependants. These expenditures have risen almost 500 percent in nominal terms since 1981, to Rls. 4,626.7 billion in 2001, while the revenue has fallen to a level of Rls. 4,400.2 billion. The growth rate of the number of pensioners and the Fund's expenditure considerably exceeds that of insured persons and revenues. Moreover, the actual contributions made by the Government to the Fund have fallen year after year. The net result is that the Fund's real investment portfolio has withered away. Approximately, 80 percent of the net assets shown in the books of the Fund are comprised of the Government's unpaid obligations over the last two decades.

More information is needed in order to assess the contribution which the unemployment insurance fund can make to ensure a well-functioning labour market in a period of intense structural change. Since the fund is self-financing it would presumably be unable to cope with a large surge in unemployment. As the fund is presently constituted (with benefits for an unemployed individual payable up to 2 years), payment of full benefits by the fund is sustainable only if the numbers claiming are less than about 3 percent of the insured workforce. In a crisis, it is conceivable therefore that replacement rates would have to fall from current levels. Restrictions on coverage have already been introduced to the extent that benefits are unavailable to seasonal and temporary workers once their contracted work period is over.

### 6.3 Administrative efficiency

The broad outline of the current financial status of the institutions is set out in the Table 6.2. The details are very difficult to interpret, owing to amongst other issues (see the Notes to the Table), the very high rates of defaulted or delayed contributions and the highly inflationary environment.

The intention of the Constitution of Iran, supplemented by relevant legislation, is to provide access to social protection for all, as far as possible on the basis of equity and fairness. The objective of adequately meeting the social needs of beneficiaries, which tends to argue for a high level of benefits, runs counter to that of ensuring the financial sustainability and indeed general acceptability of the system.

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<sup>1</sup>The Comprehensive Welfare and Social Security System, Summary Report, 1999, Social Security Research Center, Social Security Organization, Tehran.

**Table 6.2: Revenue and expenditure of social security institutions, 2001**  
(in billion rials)

	<u>Revenue</u>			<u>Expenditure</u>		
	Contribs	Other	Total	Benefits	Admin	Total
SSO	17,600	2,100	19,700	13,200	850	14,050
National Retirement Pension Fund	n/a	n/a	4,400	4,600	n/a	4,600+
Healthcare Services	1,300	n/a	1,300+	1,250	n/a	1,250+
Insurance Organiza'n	(2)		(2)	(2)	(2)	(2)

*Source:* Various sources as quoted in Kazem Sadr, "Technical Report on Policies to Extend and Strengthen the Scope and Institutions of Social Protection in Iran", background thematic paper prepared for ILO's Employment Strategy, March 2003.

Notes: 1. The figures shown in this Table are compiled from a variety of sources, which do not reflect consistent treatment of such aspects as accounting treatment (accruals vs actual payments), timely vs delayed payments etc. The figures should therefore be treated as being of only a very broad degree of comparability.

2. 1999 figures; later figures were not available at the time of compilation.

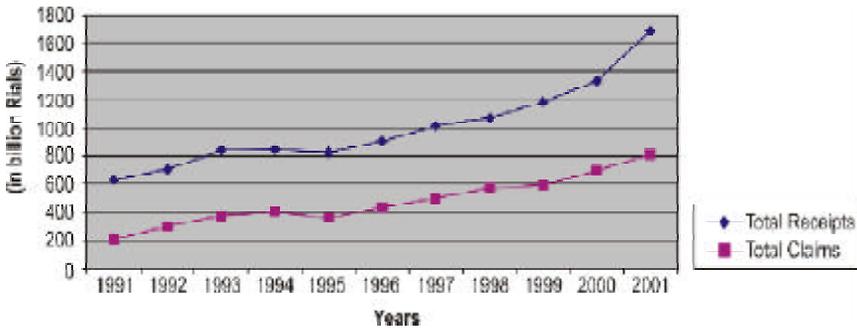
3. n/a = not available.

Pensions paid by the SSO in 2001 to some 400,000 retired beneficiaries (in addition to other benefits) amounted to some 0.4 per cent of GDP. They average around Rls.708,000 per month, quite a large amount in terms of average wages (over 40 per cent) and more than the minimum wage. Disability pensions averaged some Rls. 515,000 per month in the same year. However, only 70,000 persons were drawing such a pension.

A comparison of the growth of expenditures in terms of nominal and constant prices in each year (Chart 6.4 with corresponding Table 6.3 in Annex B) shows a very different trend to that which might be assumed from the nominal figures alone. Whereas the expenditure growth in terms of nominal prices has been around 12% p.a., the rate of growth based on constant prices is in fact much lower (illustrated in Chart 6.4). Clearly, one major factor which results in decreasing effectiveness of the SSO's services and the extent of social protection remains inflation.

The difficulty of establishing an appropriate balance is illustrated by, firstly the failure of the system (mainly the SSO) to extend its coverage to more of the working population, and secondly by a likely and possibly rapidly increasing financial deficit. It may therefore be necessary to amend the SSO to provide lower levels of mandatory benefits, but with comprehensive coverage, financed by lower levels of contributions which smaller enterprises can more readily afford. Additional benefits could then be provided through voluntary contributions (by scheme members and perhaps also their employers). The new private-enterprise insurance companies might participate in such a scheme.

Chart 6.4: Total insurance receipts and claims (in 1990 constant prices)



Sources: Social Security Organization, The Economic and Social Report, Economic and Social Planning Office, Tehran, 1377 (1998); The Economic and Social Report, Economic and Social Planning Office, Tehran, 1378 (1999); and The 10 year report of the investment department, Economic and Social Planning Office, Tehran, 1381 (2002).

While the "real" nature of social security contributions can be debated, they have a similar economic character to that of payroll taxation (and are sometimes seen by the contributors in that light). It is felt that, overall, too much reliance is being put on payroll taxation in Iran, as high rates can easily have negative employment effects. One possible change is motivated by the observation that health benefits could in principle well be financed by general taxation rather than payroll taxes. Medical care accounts for about 40 per cent of social security expenditure. The management of Healthcare Services Insurance Organization, with responsibility to provide extensive healthcare services to not only civil servants and select occupational groups but also to wide rural areas and self-employed people, needs close scrutiny as regards its role and its overall management.

Action on a broad scale is needed, in addition, to "educate" the public as to the nature of social security as a benefit rather than simply as an obligation and burden. In similar situations elsewhere, it has been observed that once one family member has a job with good social security coverage, other members are willing to accept precarious jobs without social protection. Increasingly, individuals find that they are unable to gain access to universal health care at a satisfactory level, and are drawn into schemes in which health provision is linked to compulsory social security membership (social insurance). In response, workers and employers try to minimise their social security obligations for reasons of perceived short-term advantage, but this is clearly dangerous in the face of the threat of future unemployment. Furthermore, labour costs are effectively raised for those, law abiding, enterprises where labour is probably already most expensive. Workers may also gravitate towards unprotected jobs when they feel that their contributions are unduly high in relation to benefits and that social security funds are

mismanaged. Workers' compliance with social security regulations cannot be taken for granted and the transparent operation of social security schemes is essential in building the workers' confidence in them.

## 6.4 Conclusion

Social security in Iran is faced with a variety of issues, broadly discussed in the preceding sections.

It is appropriate to address these issues at three levels: political (the policy environment for social security in the country), institutional (the administration and management of the relevant organizations) and individual (the role of members in relation to their benefits and obligations under the schemes).

- At the political level, a number of decisions have been taken regarding the reduction or exemption of contributions for small enterprises; while evidently well-motivated, such decisions have been made without apparent regard to the impact on the long-term financial sustainability of (in particular) the SSO. The need for coherent and integrated policy-making in this regard (as others) should be brought urgently to the attention of policy-makers. Moreover, the Parliament has on regular occasions passed legislation, which has had the effect of increasing the scope of coverage without making any provisions for meeting the increased costs. Advice in these regards to the policy-making branches of government will, however, be stronger and more reliable if backed up by more detailed analyses (social budget modelling) than have hitherto been available of the financial dynamics of the country's social security system.
- At the institutional level, a number of weaknesses are observed which contribute to the prospective financial imbalance of the SSO (and other institutions). One is the failure to collect in a timely manner the large arrears owed by government itself. Because of its own fiscal limitations, the government has arranged part settlement of its debts by a transfer of shares in enterprises which are to be privatised, but the SSO has no capacity to manage such enterprises and cannot be certain that any income will be forthcoming. A further, common problem is that, because the SSO has rather weak systems of compliance and enforcement regarding the payment of contributions, many employers (often in collusion with their employees) have habitually underreported wages paid and thus evade their contribution obligations. This problem is exacerbated because retirement pensions are based on incomes declared in the last two years of service and workers have little to lose if incomes are underreported up to that point. This is an anomaly that should be addressed without delay.

- At the level of individual members, it appears that there is a significant degree of dissatisfaction with the administration of the schemes, particularly of the SSO. This is reflected in the collusion, noted above, of members in contribution evasion. However, real issues of affordability do exist. Normally in a social security system a uniform percentage contribution is payable by all fund members, whatever the sizes of the enterprises which employ them, and this constitutes the essential insurance principle under which claims to benefits are established. However, in some circumstances, this must be balanced against considerations of affordability, especially for smaller enterprises. In the present circumstances in Iran this uniformity principle may need reconsideration and levying a lower rate for SMEs than the "standard" might in fact yield an increase in total contributions. More broadly, the importance of social security to working lives and the well being of workers and their families is fundamental to workers' satisfaction and harmonious industrial relations. One important approach to this issue is to seek effective means of social dialogue based on tripartism - involving the Government, workers and employers jointly - and this is, therefore, a necessary foundation for formulating an employment strategy for a nation. At the same time, the means may be found to make the schemes more directly attractive to members, through for example improved investment returns or options to purchase enhanced benefits; in both of these regards there may be a valuable role to be played by the newly-instituted (private) insurance companies.

The next chapter discusses about the issues concerning tripartism, labour relations and labour market regulation.

## Chapter 7

# Tripartism, Labour Relations and Labour Market Regulation

## 7.1 Globalization, industrial relations and labour policies

As stated earlier, Iran's economy and its workforce are faced with the competitive environment of globalization, which requires the country to undertake normative action, engage in institution-building and implement public policies for efficient labour relations. In the event of Iran joining WTO (World Trade Organization), global efficiency and competitiveness need to be met by facilitating economic and social reforms, which require a social compact among workers, employers and the Government. The social compact has to allow sustained efforts on the part of the workers and employers and the Government to unite and work on a common platform for survival and growth, essential for employment generation. Successful economies are those that can sustain continuous dialogue on important matters concerning welfare of the workers. Through such dialogue, divergent views can be voiced and compromises found. Therefore, institutions of social dialogue in Iran, such as, the National Labour Advisory Council (NLAC), Supreme Labour Council (SLC) and the National Conference on Labour (NCL) play important role in ensuring continuous exchange of views and concerns.

There are powerful links between successful labour market policies and economic growth and employment generation. The supply of efficient and competitive industrial labour is necessary for the success of Iran's strategy of encouraging labour absorbing economic growth. At present, the Government is the single largest employer in the formal sector employing about 30 percent of the workforce. Therefore, the role of the Government in the labour market is pervasive, which needs to be re-examined if industrial relations in the private sector are to be expanded and strengthened.

Excessive government intervention in labour relations saps the competitiveness of the country vis-à-vis world market. Labour legislations and wage policy may impose high costs on firms needing to restructure in order to adapt to the changing world market conditions. Over the years, Iran has witnessed wage policy and minimum wage regulations outstripping productivity gains contributing to negative growth in total factor productivity and a serious loss of international competitiveness.

Effective and regular social dialogue among workers, employers and the Government is necessary to maintain labour relations congenial to improving competitiveness. Such dialogue allows the participation and voice of the workers as well as employers in decision making process. In Iran, workers' and employers' organizations have evolved through the revolution and have their own characteristics and need further strengthening for them to effectively participate in the social dialogue.

## 7.2 Role of social partners

Labour unions or syndicates (*anjomanaha-ye senfi-ye kargaari*) are labour organisations formed before the revolution and are organised on a company basis in large companies and industry basis in small and medium enterprises. The Workers' House was formed in the 1960's as a gathering of independent unions (syndicates) and has witnessed many upheavals. Islamic Labour Councils (*shwra-ye eslami-ye kar*) and Workers' Representatives (*namayandagan-e azad*) are workers' organisations with Islamic characteristics and are formed in business establishments with 35 or more employees in the case of former and in small business establishments in the case of latter. Given the predominance of public sector employment in urban areas, there is a tradition of workers seeking to better their terms and conditions of employment through affiliation to political parties. Thus, the challenges facing the workers is the political affiliation of some workers' organizations and rivalry between the Workers' House and Islamic Labour Councils over the representation of workers in government bodies. The centralization of labour relations in the public sector enterprises has, to some extent, inhibited the unions from pursuing their objectives of improving workers' rights and benefits through collective bargaining. Under these circumstances, collective bargaining rights are somewhat restricted. However, procedures for trade union formation and for federating trade unions, with the scope and legitimacy needed for bargaining collectively, are being simplified.

On the employers' side the Iran Confederation of Employers' Associations was approved only in 1999. Previously only industry associations, of which there are currently 200, were permitted. In addition to the national bodies mentioned above, the Confederation is represented on the High Council for Health and Protection and the Council for the Supervision of Social Security. Clearly, the Confederation has only been able to participate in national discussions on employment and labour policy in a fairly recent period. It is naturally anxious to become fully accepted in such consultations as a tripartite partner. Table 7.1 presents the number of organizations in the workers' and employers' organizations in Iran as of 2003.

On the issue of employment generation, the confederation has submitted a

**Table 7.1: Number of workers' and employers' organizations in 2003**

No.	Organisations	Total Number
1	Islamic Labour Councils	1257
2	Representatives of Workers	860
3	Trade Unions	172
4	Employers' Associations	416

*Source:* Ministry of Labour and Social Affairs

plan to High Council of Employment. The plan suggests formulation of employment-related regulations and increased participation of the employers' organizations in tripartite discussions. It requests the Government to pay for the employers' share of employees' insurance premium in the establishments employing less than five workers. The confederation believes this will increase the average size of the 1.4 million enterprises from 1.2 to 1.5 workers thus adding 400,000 jobs. Whether additional cash alone can generate sustainable jobs need to be yet seen.

On the government side, the main actor in labour market issues is the Ministry of Labour and Social Affairs. The Ministry naturally has labour inspection and dispute settlement functions but it also has the task of facilitating both labour law reform and social protection. It is also responsible for generating and disseminating labour market information, assisting skill development and working with other agencies on employment creation.

### 7.3 Tripartite institutions

Workers and employers in Iran are represented on a number of national level bodies dealing with employment issues. These bodies include the High Council of Employment (participation: all Ministers plus two workers' and two employers' representatives), the Supreme Labour Council, responsible for drafting labour law (Chairman the Minister of Labour and Social Affairs plus two government officials and three workers' and three employers' representatives), the High Council on Social Security (four government representatives, two workers' and two employers' representatives and two independent experts), a National Labour Conference (convened in 1989 to discuss a range of training and other issues with 50 government, 25 workers' and 25 employers' representatives) and the National Labour Advisory Council (first met late 2002 with five government, 5 workers' and five employers' representatives). The National Labour Advisory Council is expected to become a regular tripartite forum.

The Government has an important role to play in fostering social dialogue.

It needs to create an affirming environment in which the contributions of the employers, workers and other groups are solicited and valued. A precondition for this is the respect for freedom of association and facilitation of collective bargaining.

Currently, provisions in the labour law regarding collective bargaining are deficient in that a properly concluded collective agreement can be revoked. Before an agreement's date of expiry either party can ask the Ministry of Labour and Social Affairs to agree changes to it. Such a regulation undermines confidence in collective bargaining and exposes the government to the temptation of agreeing to alter a bargain which it may have disliked. Better procedures are needed for the revision of collective agreements.

#### 7.4 Labour market flexibility

Iran's move towards economic liberalization places greater responsibility on tripartism. The social partners need to learn to respect each other's concerns and to give and take in negotiation. Familiarity and confidence gained by discussion within tripartite forums will help the social partners resolve future problems. Tripartite debate can contribute to the emergence of a well functioning labour market that allocates and re-allocates labour to where it is more useful, that links wages to productivity, that encourages firms to make optimum use of their labour force and remain competitive, that sends the right signals about skill needs and reaches an acceptable balance between employment generation and job security. The social partners know well that giving equal attention to raising the skills, productivity and wages of women and men is an intrinsic element in developing a better functioning labour market.

The spread of collective bargaining will be important, once it exists on a sufficiently wide scale, in linking wages and productivity. However, in turn this is unlikely to happen unless and until, through privatisation and other forms of restructuring, the public sector loses its predominance as a formal sector employer. In countries where the public sector predominates as a formal sector employer, wages are more likely to be linked to such features as education certificates which are only indirectly related to productivity. Public sector approaches to many work place problems may also be unsuitable for competitive companies.

By and large the Employers' Confederation finds much in Iran's labour laws which it feels reduces labour market flexibility and acts as a drag on productivity growth. It believes that many public sector enterprises are overstaffed and that in general priority has been given in the past to achieving job security for existing workers rather than to improving enterprise competitiveness, expansion and creation and thus increasing employment.

Minimum wage setting is another issue affecting the wage-productivity link. Certainly minimum wages have a role to play in a competitive economy. Currently the level of minimum wages in Iran in relation to average wages in larger scale manufacturing industry may not be too high. Table 7.2 provides the trend of minimum monthly wages since 1996 till 2001. In real terms, there has been little growth in the minimum wage accounting for inflation. The Ministry of Labour and Social Affairs (MOLSA) has apparently proposed that firms with fewer than nine workers can pay a wage based on mutual agreement. This suggests that the wage paid in such small scale enterprises may be below the minimum. If the minimum wage has been set at a level that has impeded recruitment, or if it is being usually ignored by small businesses, then conceivably it should not be raised in line with inflation as systematically as in the past. In any event consideration might well be given to decentralizing minimum wage fixing to the provincial level in order to make it sensitive to local price variations.

**Table 7.2. Minimum monthly wages** (in Rials)

	1996-97	1997-98	1998-99	1999-00	2000-01
Minimum nominal wage	207,210	254,460	297,000	361,830	458,010
Average consumer price index (1997-98 = 100)	85.3	100.0	118.1	141.8	159,7
Minimum real wage	242,919	254,460	251,482	255,169	286,794

*Sources:* Social Security Organisation and Central Bank Report 2001-2002.

A further important labour issue in enterprise restructuring is that of termination of employment. Again the MOLSA has apparently proposed that small firms should be able to discharge workers with one month's notice and to hire workers on temporary contracts. Apparently, an agreement has been reached that workers discharged from such firms would receive severance pay at the rate of at least 45 days per year of service. Whether this agreement will just encourage employment on temporary contracts is unclear. Larger scale businesses also pay severance pay at that rate if a discharge is considered to have been made on justifiable grounds as determined by a Board of Inquiry. This determination procedure, which is not uncommon, however, lacks transparency. It would be far better to set clear conditions for authorizing termination of employment on operational grounds. Such termination should, however, be linked to the receipt of severance pay, rights to unemployment benefit and rights to retraining.

These issues all come together in the parameters of a programme of privatisation. Despite official statements of intent, privatisation has apparently

not gone far in Iran. Any such programme, of course, has to be both transparent and equitable, so that the transfer of state assets does not make the rich richer, and to guarantee the efficient future management of transferred assets. Achieving these ends is not easy. Furthermore, privatisation is unlikely to occur without labour shedding, or without hiving off component parts of an enterprise to subcontractors. Some loss of job security as well as job termination and unemployment are almost inevitable. Appropriate social protection must certainly be arranged with consideration of the needs of both women and men workers and a registry of displaced workers kept so that assistance can be targeted. In addition workers' organizations within the privatised enterprise should be encouraged to ensure through negotiation that job quality is not lessened. Nonetheless, the best guarantee of an acceptable employment outcome from privatisation is a flourishing economy and a well functioning labour market.

## 7.5 Conclusion

Iran is poised to take increasing advantage of the globalized environment, wherein competitiveness and productivity would be critical for survival and growth of the country's economy. Only effective and fully functioning labour relations institutions with regular social dialogue allow the voices of workers and employers to be taken into account in economic decisions required for improvement in competitiveness and productivity. Effective labour policies with a facilitating role of the government in labour relations and strengthened tripartite institutions with freely operating workers' and employers' organizations are essential prerequisites. Labour market flexibility arrived through discussions and full consent of the workers and employers is expected to provide a considerable edge in carrying out necessary restructuring and changes in the economy still heavily dependent on public enterprises.

Finally, three labour market issues should be stressed. The first is that the primary focus of industrial relations in Iran should be on the development of mature consultation and bargaining at the enterprise level. Islamic Labour Councils need to be reformed in line with ILO principles to facilitate social dialogue while the government should help redefine the role it currently plays in such industrial relations.

Secondly, social protection in some form has to be assured to those working in small enterprises or independently who do not have it. If the minimum wage converges with wages in small enterprises then it should be enforced. However, it is premature to think of the government effectively picking up the social insurance tab for small enterprises and providing comprehensive unemployment and retirement benefits. Government should perhaps first ensure proper universal health care and then move on to accident and disability benefits. A related issue

is that many workplace risks can be reduced by low cost investment in safety and health. There is need to create greater awareness of the consequences of work-related accidents, injuries and diseases and to stimulate and support practical action to prevent them. Strengthening the Occupational Health and Safety regulations, including the labour inspection system, training workers and employers in good workplace health and safety practices and upgrading technical facilities will be important challenges.

Thirdly, although perhaps not a directly industrial relations issue, there needs to be sooner or later a move away from current levels of reliance on payroll financing. This essentially taxes labour and encourages some activities to become informal. Whether, if payroll taxes were replaced by consumption taxes (with neutral effects on income distribution), real wages would rise (i.e. if they were rigid) or fall (if they were flexible) is unclear. But compared to consumption taxes, payroll taxes penalize labour intensive production methods and products and thus reduce employment.

The next chapter will summarize the discussions in the preceding chapters and present the recommendations for the development of employment strategy based on the conclusions reached at the end of the chapters.



## Chapter 8

# Conclusions and Recommendations

## 8.1 Conclusions

In accordance with the high priority placed by the Government of the Islamic Republic of Iran on generating employment for rapidly growing ranks of young women and men joining the labour market, this report has been prepared on the basis of analysis within each of the key elements of an employment strategy framework. The issues within these elements have to do with labour market and macro economic challenges, the supply of skilled labour and generation of employment in small enterprises, gender equity, social protection and social dialogue. This chapter provides the conclusions drawn after examination of these issues and provides the recommendations for appropriate short-term measures and long-term strategy.

In the context of the employment and labour market challenges facing Iran, a number of key questions have been addressed relating to the centrality of employment in economic and social policy making. These are:

- i. Is the overall macroeconomic policy environment right for realizing the economy's full growth and employment potential?
- ii. Is the mix of social protection, employment promotion, training and labour market regulation appropriate for job creation?
- iii. Since SMEs (small and micro enterprises) will most certainly be the main engine of employment growth in the future, is SME policy and regulation helping to unlock their potential?
- iv. How can gender equity be achieved for full utilization of the human resource in Iran?
- v. Are labour market and tripartite institutions contributing fully to the goal of full employment?

Conclusions reached under each of the key elements of the employment strategy framework are recapitulated below before discussing the appropriate short-term measures and long-term strategies.

### *a. Macroeconomy and labour market challenges*

Iran is faced with a dichotomy between rural and urban employment while its level of labour force participation, particularly for women, remains quite low by international standards. Urban unemployment is largely a phenomenon of

the growing number of educated unemployed, and a large proportion of those unemployed in the rural areas is semi-literate or illiterate. There is a sectoral concentration of women in urban and rural areas indicating great potential for their employment expansion, particularly when it is considered that employment generation in the trade and service sectors has so far remained quite marginal.

The country needs to expand employment opportunities through labour intensive investments and increasing export orientation, particularly in the non-oil sectors. The key requirements are, on the one hand, a redirection of the past trend of capital intensive investments towards labour intensive ones, and on the other hand, diversification and expansion of exchange of goods and services under the context of the globalizing economic environment. This calls for reduction of resource demands of the public sector through transparent public financing, and a policy shift from import substitution to export orientation together with the reorientation of the banking sector towards support for private sector growth.

As the general rate of wages in Iran has remained high and resource input has tended to be inefficient, there has been perceptible fall in productivity, particularly in total factor productivity, thus eroding overall competitiveness of Iranian economy in the world market. Nonetheless, there is persistent differential in wages between women and men workers, indicating not only inequity but also less-than-productive employment on the part of relatively better educated women workers.

Iran's fiscal, trade and monetary policies have led to currency appreciation resulting in movement of resources to non-tradable sectors, including government. The controlled nature of Iran's economy has meant that many of the normal causal interrelationships have been absent; for example, high rates of monetary inflationary pressures (20 percent throughout the 1990s) have coexisted with low deficits during that period.

A successful export promotion policy would certainly generate additional employment and ease import liberalization. On the other hand, productivity, efficiency and real incomes would rise as the performance of domestic firm should improve in response to the increased competition spurred by import liberalization. The challenge however remains in increasing exports of other goods and services alongside oil products, which would require special attention in enhancing the competitiveness of small firms through provision of credit and technical assistance for skills development and product upgrading.

### *b. Skills development*

Iran's training system is comprehensive and active, anchored in both the secondary school system and in technical training centres. The vocational education

and training system has developed a considerable capacity for delivery. There is increasing attraction among young women and men to seek vocational training. There is also a sizable number of trainees in the modern IT (information technology) sector. Yet, the job seekers with lowest and highest levels of education seem to be those least equipped with the skills required by the labour market.

A major challenge remains in providing marketable skills to the growing numbers of educated unemployed in the urban areas and the largely illiterate workforce in the rural areas. A flexible response to the requirements adapted to the respective needs of urban and rural areas, educational levels and gender seems to be required from the training system in the country. While training policy needs to be articulated to provide a greater role for the TVTO to assist the training institutes in responding to skills requirements, the training institutes should also be allowed a major role in planning and managing the training need.

Vocational training is always likely to be expensive for the individual participants, if they are required to contribute to the costs. The costs of vocational training were formerly met to a significant degree from the proceeds of the payroll tax, now abolished. On the other hand, vocational training should not become a form of welfare provision providing only a remote chance of job opportunities. Therefore, the employers need to be closely involved in and contribute to the provision of appropriate vocational training. This would require training institutes to be sufficiently independent to compete on the basis of merit.

The role of the TVTO, as a facilitator in the enhancement of training, may require further definition. Although TVTO is assigned to supervise and monitor the training institutes, whether that measure alone will be sufficient to ensure quality training is certainly questionable. It may be worthwhile to review the means by which the TVTO's technical competence can be upgraded, rather than further tightening its bureaucratic oversight over the training institutes.

The demands for skills from small enterprises should be considered in making vocational training responsive to the changes in the economy. As skills training adapts to the growing need for working in micro and small enterprises, the competitiveness and productivity of these enterprises are likely to grow, increasing the scope for their greater participation in the economy and job creation.

### *c. Job creation in SMEs*

Private sector is largely dominated by micro enterprises in terms of numbers, particularly when trade and services are considered. There have been several supply oriented initiatives to create jobs in small and medium enterprises (SMEs) through cash incentives. However, the overall conducive policy and regulatory environment is more critical for sustained growth in the creation of jobs in small

enterprises. Women entrepreneurs face particularly difficult social and procedural barriers in starting and operating enterprises, which need to be considered in improving the policy and regulatory environment.

There has been singular focus on industrial firms without much attention to trade and service sectors, which have greater potentials for job creation. At present, a number of ministries are involved in the promotion of small enterprises; and at least four ministries are involved in registration, licensing and certification of the activities of small enterprises. So far the entrepreneurs have felt that no particular benefit is received by complying with the various regulatory requirements. As a result, the compliance cost differential has been two thirds of what it costs in establishing and operating a formal business. It is essential that a mechanism for coordination among various ministries is created and the regulatory provisions are simplified.

All small enterprises suffer from problems of outdated technology, poor quality and unstandardized products signifying the lack of business development services to these enterprises. Although these enterprises have greater efficiency in the use of capital for creation of jobs and thereby are more labour intensive, labour productivity also however remains low.

Small enterprises are squeezed out of the banking system due to larger share of the public sector in the institutional credit. Targeted lending to the public sector and specific firms has not made the situation any easier for small borrowers, who are often unable to offer the kind of collateral desired by the banks. Non-bank loans are exorbitantly costly at the rate of at least 25 percent thus undercutting the competitiveness and growth opportunities of small enterprises.

#### *d. Gender equity*

Generally, gender gaps in the levels of education and literacy in Iran are low. However, women's participation in the labour force remains quite low at around 12 percent (in 2001). Women experience much higher unemployment (25.3 percent) in urban areas. Traditional values considering women only as 'secondary' workers within the household and in society at large have not helped the situation to improve. Women's share in management position, particularly in the private sector, has remained much lower. As privatization of the public sector enterprises proceeds further, decline in women's employment has taken place.

Thus, gender inequity signifies labour market inequality and underutilized human resource. Women's labour force participation is often borne out of economic necessity and has therefore been numerous in informal economy. Upgradation of the women's low-value added work at the lower ends of micro

and small enterprises is necessary to increase overall productivity. This is particularly true in the rural areas where larger number of women are found to be engaged in manufacturing.

In the urban areas, women are generally attracted to the public sector and professional employment. There has been less of inclination to engage in entrepreneurial activities for various social and economic reasons. Service sector remains quite small in Iranian economy thus having potential for expansion of women's employment in such sector. As a matter of fact, there is growing interest among women in IT skills, which can lead to the expansion of the service sector.

#### *e. Social security*

Iran has provision for a very comprehensive social security system funded by payroll levies, with three major providers of benefits for retirement, disability and healthcare, complemented by hundreds of other welfare and charitable organizations. About 55 percent of the employed population have some degree of social insurance coverage, and healthcare services are provided nearly to entire rural population. However, the financial sustainability and efficiency of the management of the social security schemes are, for various reasons, uncertain. In recent years, the tendency of the Government to delay the payment of its contributions to the SSO has increased sharply; and it is likely that the claims will soon overtake receipts in the National Retirement Fund.

Political decisions to extend the social protection to large numbers of the rural population and to self-employed and professional people have placed a considerable strain on the social security system. Any political decision affecting the financial soundness of the social security institutions needs to be approached with caution, on the basis of careful financial analysis, and with due consideration for the prospects for practical implementation.

Another common problem is that of underreporting of the wages and underpayment of the contributions, which is encouraged by the design feature of schemes in which pensions are calculated on the basis of wages and salaries paid only in the last two years of service. A further problem is the failure to increase contributions in step with nominal GDP, due in particular to the (partial) exemption of increasing numbers of small enterprises. It may be necessary to undertake a fairly radical review of the basis for contributions, notionally at present on a uniform percentage of earnings, so as to ensure affordability for smaller enterprises.

#### *f. Tripartism and social dialogue*

There are strong links between successful labour market policies and economic

growth and employment generation. The supply of efficient and competitive industrial labour is necessary for the success of Iran's strategy of encouraging labour absorbing economic growth. At present partly due to the large share of the public sector, role of the Government in the labour market is pervasive. Excessive government intervention in labour relations saps the competitiveness of the country in the world market.

Effective and regular social dialogue among workers, employers and the Government is necessary to maintain labour relations congenial to improvement in competitiveness. A number of national level bodies dealing with employment issues exist. It is however expected that the National Labour Advisory Council will be a regular tripartite forum in which the issues of labour market are discussed. Tripartite debate can contribute to the emergence of a well functioning labour market that allocates and re-allocates labour where it is more useful.

While the tradition of labour unions is long and varied, employers' organization was recently created. Both unions and employers' organizations need to have opportunities to sort out the common issues under bipartite dispute settlement mechanisms. Currently, provisions in the labour law regarding collective bargaining are deficient in that a properly concluded collective agreement can be revoked by the Government.

Effective and fully functioning labour relations with regular social dialogue can allow the voices of workers and employers to be taken into account in economic decisions required for improvement in competitiveness and productivity. For such an environment, effective labour policies with facilitating role of the government in labour relations and strengthened tripartite institutes with freely operating workers and employers' organizations are essential.

## 8.2 Recommendations

Two main findings emerge from this report. First, Iran's current set of economic policies and correspondingly its economic structure are neither conducive to nor creating a dynamic and job creating economy. They need radical change in the direction of establishing a more conducive environment for enterprise creation and for private investment. Second, Iran's present labour policies relating to training, industrial relations, social security, labour market regulation and above all tripartism, should represent the foundation for stimulating job creation. All aspects of labour relations and tripartism need to be significantly improved in order to develop a consensus-based approach to satisfactory labour market performance.

Above all, only by establishing a dynamic economy with a well functioning labour market will Iran's employment problem be addressed. Output growth

and a diversification of the economy away from oil would be possible with these conditions. But economic dynamism, while responding to such technocratic changes as exchange rate unification, or easier provisions on collateral in lending to small enterprises, also requires a degree of decentralization of decision taking. Tripartism and freely chosen associations of workers and employers are basic foundations for such decentralization of decision-making.

The strategy proposed in this report is one in which freely chosen and productive employment is promoted simultaneously with fundamental rights at work, an adequate income from work, social dialogue in decision-making, and the security of social protection. The proposed strategy does not promote just any employment, but decent employment in which recognition of international labour standards and workers' fundamental rights go hand in hand with job creation. The strategy recognises that labour markets function differently from other markets. They are about people, their skills and competencies, their incomes, and safety and health, and about their aspirations and motivations. Not to acknowledge the distinctive way in which labour markets function is to invite adverse social and economic consequences. In addition, a labour market that is free from discrimination on all grounds is one where macroeconomic gains result from more productive job matches. Furthermore, giving people a free and independent voice at work will have substantial productivity advantages through facilitating consensus, minimizing social costs, and speeding adjustment to change.

The employment strategy for Iran weaves together the four key elements of Decent Work as conceptualized by the ILO, namely:

- ❑ the centrality of employment in economic policy
- ❑ the guarantee of basic rights at work
- ❑ a floor for social protection
- ❑ the promotion of social dialogue

In line with the ILO's Global Employment Agenda, the proposed employment strategy for Iran rests on the twin pillars of promoting change and managing the employment and social consequences of change. Economic change has to be embraced and while it may sometimes be slowed down, it cannot be long avoided. Iran is encouraging change by opening up its economy and stimulating private sector investment. The effects of change have, however, to be constantly reviewed. It is here that a well-functioning labour market and a high demand for labour are essential. Some workers will lose by change. To the extent possible they should be compensated, but the forms of compensation applied must themselves be compatible with job creation and should encourage job seeking. In this respect the wide coverage of Iran's system of social protection makes it an excellent foundation for social policy in a time of transition. The

ILO is confident that a mix of economic policies furthering private investment, enterprise creation and social policies leading to better labour market functioning will achieve the goals of better labour utilisation, higher productivity and equity. Greater gender equality is in this respect both an ingredient to achieving better labour market outcomes and a consequence of more sensitive and better informed policy making.

The report makes a number of proposals for action. These proposals have been divided into two parts. The first are actions whose impact should be evident in the short-term in improving the employment and labour market situation. The second are actions that are more structural in nature and can be implemented in a medium and long term framework.

### 8.2.1 Short-term measures

Short-term measures covering a period of up to two years need to be taken as a part of initiating steps towards an Employment Strategy Framework for Iran. Such short-term measures are to initiate the process of formulating and undertaking policy measures through immediate reviews and testing of the intended strategies in limited geographical areas or institutional setting. These measures should include, however not exclusively, the following:

#### a. Macroeconomic policies

1. Macroeconomic policies need to be reviewed to allow greater export orientation and lesser import restriction by reducing tariffs to reasonable levels and abolishing non-tariff barriers.
2. Banking sector must reduce the differential between borrowing and lending rates through increased freedom for balanced portfolio rather than directed credit. Supervisory and monitoring role of the central bank must be strengthened.

#### b. Labour market policies and labour relations

1. A labour market information system with data bank on key labour market indicators needs to be developed, which will provide gender disaggregated information. The system should be housed at MOLSA.
2. Labour law reform needs to be initiated with a view of strengthening the tripartite institutions and redefining the role of MOLSA in relation to workers and employers organization. National Labour Advisory Council should be further strengthened as a national tripartite institution.
3. Workers' and employers' organizations should be strengthened to allow them to fully participate in social dialogue. Above labour law reforms

should permit workers and employers' organizations to function and develop with the capabilities to analyze and protect the interests of the respective constituencies.

4. MOLSA needs to be further strengthened in analyzing the labour market information, in facilitating social dialogue and in developing dispute settlement mechanisms and wage fixing machinery that would be relevant to the growing private sector.
5. MOLSA also needs to work out coordinating and collaborative arrangements, particularly for skills development, small enterprise development and social security, since several ministries and organizations are involved in promoting and coordinating various regulations, activities and schemes in these areas. Most important is also the coordination among Youth Council, MOLSA and other key agencies in strengthening the entry of young women and men into the labour market.

The ILO has been working closely with MOLSA to provide assistance in all of the above categories. A memorandum of understanding has been signed in July 2002 between the ILO and MOLSA to further provide assistance in the above areas.

### c. Skills development

1. TVTO's role in coordinating skills development and its linkages to VET needs to be reviewed. In this review, the quality of training delivery, standards testing, certification and participation by the employers also need to be taken into account.
2. The cost of vocational training needs to be examined to determine not only efficiency of delivery but also increased participation of the employers. Various methods (i.e., voucher system) of subsidizing training that would encourage innovation and foster competition need to be considered. Training activities other than formal (i.e., apprenticeships) need to be encouraged with tie in with formal testing and certification.
3. A system of assessing demand for skills development needs to be built into the labour market information system proposed earlier (b1), and the information so generated should provide inputs to the curriculum development and training of instructors and upgradation of the training centers.
4. A review of the methods to encourage private sector training centers to develop and compete against the public sector subsidized training institutions need to be carried out so that there is minimum wastage of

resources while maximum efficiency and innovation are achieved.

5. An examination of how greater role can be played by the training institutions in organizing and managing skills training needs to be carried out.

The ILO has proposed to review the TVTO's role in skills development by examining its management and organizational structures and function of the organization at the headquarters and selected provincial directorates. Review of operational efficiency is expected to be taken up at a later stage.

#### d. Job creation through SMEs

1. The Government may wish to continue various schemes being implemented at present. But eventually, they have to give way to systematic creation of the environment, entrepreneurial culture and support system for sustained growth of small enterprises in the country. For evolving such a holistic approach, few provinces could be selected to integrate all three elements and test the results before undertaking policy measures at the national level.
2. Labour law reforms proposed above (b2) should also include examination of the ways to improve compliance of the labour laws by micro and small enterprises since the growth of small enterprises is often constrained by their inability to comply.
3. Ways of simplifying the compliance requirements for registration, license and certificates need to be explored with a view of establishing a single agency for micro and small enterprises in place of four different ministries currently involved.
4. Access to credit for micro and small enterprises and collateral requirement for such access need to be reviewed to determine how credit can be made available through the normal banking system rather than special schemes.
5. Business development services (BDS) should be made available for the micro and small enterprises by promoting and strengthening the BDS providers.

The ILO is currently engaged in further examining the needs of the micro and small enterprises through a survey so as to provide policy inputs to the Government. It is also working to develop a proposal under the framework of UNDP's Area Based Development Programme (ABD) to pilot in one province a holistic approach of improving regulatory environment, enterprise culture and support services. UNIDO's proposal to develop business support services through business services centers seems to be promising in strengthening provision of BDS to small enterprises.

#### e. Gender equity

1. Review of legislations presenting barriers to gender equity needs to be undertaken.
2. Policies and programmes in view of the labour market information (b1) need to be developed for promoting and furthering gender equity and for increased access of women to employment opportunities, including entrepreneurship. Such policies and programmes need to be aimed at not only removing barriers and promoting equity at work but also in encouraging participation of women in diverse occupational areas.

In March 2004, the ILO has initiated a discussion on these issues by organizing a meeting in Tehran with the participation of the Government ministries, workers' and employers' organizations and the NGOs actively involved in these issues. The meeting provided recommendations in the areas of legislation and policy-making, labour market and poverty eradication and promoting women's entrepreneurship. Among others, its recommendations included enforcement of existing legislation promoting gender equity, providing social protection for women, facilitating access of women entrepreneurs to credit, and removing barriers to women entrepreneurship.

#### f. Social Security

1. Financial prudence and sustainability of the social security, retirement fund and healthcare services institutions need to be further examined in order to provide the basis for undertaking policy measures aimed at improving the management of these funds.
2. The coverage extended to larger segments of population (workers in rural areas, self-employed and certain occupational groups) needs to be studied further to determine the implications on the viability of the social security system, so as to be able to suggest long-term measures to continue such coverage effectively but by detaching such coverage from poverty alleviation and general welfare schemes.
3. The safety net required for the labour redundancy caused by privatization needs to be examined to determine various measures (compensation, retraining, and redeployment) required and the burden of such measures.
4. There is need to create greater awareness of the consequences of work related accidents, injuries and diseases and to stimulate and support practical action to prevent them. The Occupational Health and Safety regulations, including the labour inspection system, need to be strengthened along with training of workers and employers in good workplace health and safety practices and upgrading technical facilities.

### 8.2.2 Long-term strategy

The long-term strategy over a period of five years or so should focus on policy changes and institutional development as a part of the employment strategy framework. Previous short-term measures and various other initiatives to be taken by the Government should lead towards development of the long-term strategy.

#### a. Macroeconomic policies

The macroeconomic policies should encourage export orientation, realistic currency valuation and banking sector restructuring. The role of the central bank in supervision and monitoring of the banking sector needs to be strengthened while allowing regular business decisions to the banks. The thrust has to be in expanding the role of the private sector while containing resource transfer to the public sector. Competitiveness and productivity of the economy should be enhanced through gradual introduction of competitive environment under facilitative regulatory frameworks for each of the major subsectors.

#### b. Labour market policies and labour relations

Fully functioning Labour Market Information System, strengthened MOLSA with redefined role in facilitating tripartism and social dialogue, and fully functioning national tripartite organization (National Labour Advisory Council) with strengthened workers' and employers' participation have to be the ultimate goals of the long-term strategy. Labour law reform process would have to be completed with adequate attention to the gender equity.

#### c. Skills development

Inputs from the short-term reviews of TVTO need to be provided for policy measures for strengthening TVTO as a coordinating and facilitating body in skills development in the country in close collaboration with the Ministry of Labour and Social Affairs and Ministry of Education. The data on skills development should be available for periodic improvements and upgradation. Short-term examination of the issues of private sector participation and their contribution in skills development should lead towards a mechanism of financing skills development.

#### d. Job creation through SMEs

The results of short-term pilot testing on holistic strategy of improving regulatory environment, entrepreneurial culture and support mechanism in select provinces should be made available as inputs to the larger policy measures at the national level for the growth of small enterprises. An apex body for promoting

small enterprises in collaboration with various ministries including Ministry of Industry and Mines and Ministry of Commerce needs to be established to facilitate better coordination of compliance requirements as well as business development services. The review of access to credit needs to provide inputs in facilitating credit to micro and small enterprises. Attention also needs to be given in enhancing women entrepreneur's access to credit and business services.

e. Gender equity

Specific concerns of attaining gender equity in terms of socio-economic environment for women need to be further examined and necessary action need to be taken, for instance in examining the legislations allowing greater participation of women in diverse economic and political opportunities as well as allowing them to fully participate in management roles in public and private sectors. Policies and programmes promoting gender equity and women's entrepreneurship need to be developed and implemented in consultation with the workers and employers and stakeholders.

f. Social Security

The reviews of coverage and financial sustainability suggested above should provide inputs to the policy measures that would allow the SSO and other funds to improve their overall management and financial viability, while complying with the wishes of the legislators to extend the coverage as widely as possible. Any services incompatible with the goals of social security and its viability may be required to be provided through separate mechanisms.

## Concluding remarks

The ILO is fully cognizant of the fact that a National Employment Strategy Framework for Iran has to be formulated and adopted by the Government itself, taking into account a broad range of other issues and based on wider consultations besides the above recommendations alone. Further work to arrive at additional policy inputs would naturally be needed before their implementation. Some of this additional work is already being undertaken by the ILO in collaboration with the Government. Additional work may need to be undertaken in pace with the actual progress in formulation of these policies and programmes.



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**Note: All of the references are in Persian, The titles are literally translated.**

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## Annex A

### List of thematic background papers :

1. Ahmad R. Jalali-Naini, “Macro-economic policy framework for employment creation in Iran,” June 2003.
2. Abdol Hossein Naficy and Ali Asghar Khallaghi “Skills development in Iran,” June 2003.
3. Kambeiz Talebi and Babak Pirouz, “MSE policy and regulatory environment in Iran,” June 2003.
4. Naoko Otake and Jyoti Tuldhare, “Promoting women’s employment and equality in the Islamic Republic of Iran,” June 2003.
5. Kazem Sadr, “Policies to extend and strengthen the scope and institutions of social protection in Iran,” June 2003.
6. A. Sivananthiran (with inputs from P. Sadaati, M. Abedi, and P. Alaedini), “Industrial relations and labour policies – an agenda for social dialogue in Islamic Republic of Iran,” June 2003.

*Note* : The above background papers are available at ILO Subregional Office, New Delhi and ILO website [www.ilo.org/india](http://www.ilo.org/india)

## Annex B - Additional tables

Table 2.1A: Iran's public finances (*in per cent GDP*)

	1996	1997	1998	1999	2000	2001
All revenue <sup>1</sup>	23.4	22.8	20.0	22.5	19.4	na
Deficit <sup>2</sup>	Neg	-1.0	-5.3	-0.2	-0.6	-0.5
Oil revenue <sup>1</sup>	12.3	8.4	6.1	5.5	9.3	na
(Oil economy <sup>1</sup> )	14.6	12.3	7.4	12.0	19.3	na)
Non-oil revenue <sup>1</sup>	11.1	14.4	13.9	17.0	10.1	na
Of which:						
International trade taxes <sup>2</sup>	3.4	4.8	2.9	4.8	na	na
Excise tax <sup>2</sup>	1.1	1.6	1.6	3.2	na	na
Personal income tax <sup>2</sup>	1.1	1.1	1.1	1.1	na	na
Corporate income tax <sup>2</sup>	2.0	2.2	2.2	2.4	na	na
Expenditure on education <sup>2</sup>	3.9	4.4	4.3	3.6	na	na
Loan interest and repayment <sup>1</sup>	Neg	0.1	0.1	0.1	0.6	na
Wages and salaries <sup>2</sup>	9.6	10.1	11.1	10.8	na	na
Capital expenditure <sup>2</sup>	7.3	6.5	5.5	6.8	na	na
Development expenditure <sup>1</sup>	6.5	6.6	4.8	5.3	3.7	na

Source: Iran Statistical Yearbook, 1380 (March 2001-March 2002), Statistical Center of Iran, Management and Planning Organization, Islamic Republic of Iran, Autumn 2002. and IMF International Financial Statistics, Washington D.C., various issues.

<sup>1</sup> Source: Iran Statistical Yearbook, 1380 (March 2001-March 2002), Statistical Center of Iran, Management and Planning Organization, Islamic Republic of Iran, Autumn 2002.

<sup>2</sup> IMF

**Table 3.1A: Proportion of enrolled students in VET and academic education during 1990-2001**

Year	Academic		Vocational Education		Vocational Training		TOTAL	
	Number	%	Number	%	Number	%	Number	% of VET
1990-1991	1589405	87.4	230061	12.6	-----	----	1819466	12.6
1991-1992	1770410	87.2	260576	12.8	-----	----	2030986	12.8
1992-1993	1995549	87.7	279681	12.3	-----	----	2275230	12.3
1993-1994	2292177	88.2	295763	11.4	12615	0.5	2600555	11.9
1994-1995	2406813	87.5	294584	10.7	48135	1.8	2749532	12.5
1995-1996	2077268	86.3	247943	10.3	82317	3.4	2047528(*)	13.7
1996-1997	1989040	82.8	239418	10.0	172582	7.2	2401040(*)	17.2
1997-1998	2081627	81.3	251505	9.8	226141	8.8	2559237(*)	18.6
1998-1999	1911451	76.0	276820	11.0	326570	13.0	2514821(*)	24.0
1999-2000	1905737	72.9	307797	11.8	402007	15.0	2615541(*)	27.2
2000-2001	1836181	71.6	326247	12.7	401065	15.6	2563493(*)	28.3

Sources: Ministry of Education, the Bureau of vocational education and training, (2001)  
 (\*)- Only students of the 2<sup>nd</sup> & 3<sup>rd</sup> grades.

**Table 3.2A: Enrollment in Vocational Training (*Kardanesb*), 2000-2001**  
(programmes with more than 1,000 students)

Main Vocational Training programs		Student Enrollment		Continued from left column			
		Number	%	Main Vocational Training programs		Student Enrollment	
						Number	%
Electricity & electronics	Home Appliances	20179	4.48	Auto repairing	Auto-mechanics	10190	2.26
	Electrical Motors	6300	1.40		Car Electricity	8362	1.86
	Electricity (industrial)	15564	3.46		<b>Subtotal</b>	<b>18552</b>	<b>4.12</b>
	Electricity (buildings)	10118	2.25				
	Industrial Electronics	5927	1.32	Arts & Handicrafts	Carpet Design	4094	0.91
	<b>Subtotal</b>	<b>58088</b>	<b>12.91</b>		Carpet Weaving	1128	0.25
			Painting		6967	1.55	
Computer related skills	Computer Application	46453	10.32	Photography	4195	0.93	
	Drawing by Computer	5150	1.14	<b>Subtotal</b>	<b>16384</b>	<b>3.64</b>	
	Data Banks	1630	0.36	Metal works	Plumbing	1827	0.41
	Computer Programming	1381	0.31		Model Making	8924	1.98
	Computer-based Publishing	1347	0.30		Welding	3532	0.79
	<b>Subtotal</b>	<b>55961</b>	<b>12.43</b>		Metal Milling	1322	0.29
			<b>Subtotal</b>		<b>15605</b>	<b>3.47</b>	
Finance & Adm	Accounting & Book-keeping	38718	8.60	Agriculture	Tractor Maintenance	1818	0.40
	Office Works	10928	2.43		Farming	1289	0.29
	<b>Subtotal</b>	<b>49646</b>	<b>11.03</b>		Poultry (Industrial)	1620	0.36
					Husbandry (industrial)	1539	0.34
Health education	Home management & child care	47309	10.51	<b>Subtotal</b>	<b>6266</b>	<b>1.39</b>	
	Training Aid-Nurse	2192	0.49	Masonry	4411	0.98	
	<b>Subtotal</b>	<b>49501</b>	<b>11.00</b>	Carpentry	2885	0.64	
				<b>SUB-TOTAL</b>	<b>315772</b>	<b>79.10</b>	
				Other Programs	94041	20.90	
Clothing	Dress-making (ladies)	33123	7.36	<b>GRAND- TOTAL</b>	<b>450029</b>	<b>100.0</b>	
	Needle Works	7093	1.58				
	<b>Subtotal</b>	<b>40216</b>	<b>8.94</b>				
Drawing	Drawing (Building) 2nd	16873	3.75				
	Drawing (Building) 1st	16017	3.56				
	Drawing (Industrial)	5583	1.24				
	<b>Subtotal</b>	<b>38473</b>	<b>8.55</b>				

Continued on right column

Note: Only students of the 2nd & 3rd grades.

Source: Ministry of Education and Iran Statistical Yearbook, 1380 (March 2000-March 2001), Statistical Center of Iran, Management and Planning Organization, Islamic Republic of Iran, 2001.

**Table 6.1A: SSO: Total Number and Growth Rate of Insured Members by Type 1360-1380 (1961-2001)**

Iranian Year (corresponding Gregorian Year)	Total No Insured	Growth Rate %	Total No. of Involuntary Insured	Growth Rate %	Total No. of Vol & Self- employed Insured	Growth Rate %	Ratio of Voluntary to All Insured (%)
1360 (1981)	1753753	-	1743151	-	3589	-	0.2
1365 (1986)	1963608	2.3	1947023	2.2	6901	13.1	0.3
1370 (1991)	3339859	11.8	3187476	1.06	152383	41.6	4.6
1371 (1992)	3604558	7.9	3394620	6.5	209938	37.8	5.8
1372 (1993)	3921315	8.8	3636889	7.1	284426	35.5	7.2
1373 (1994)	4258463	8.6	3918785	7.8	339678	19.4	8
1374 (1995)	4598049	8	4224681	7.8	373368	9.9	8.1
1375 (1996)	5131276	11.6	4734117	12.1	397159	6.4	7.7
1376 (1997)	5658038	10.3	5166118	9.1	491920	24	8.7
1377 (1998)	5882172	4	5306865	2.7	575307	17	9.7
1378 (1999)	5977598	1.6	5387356	1.5	590242	3	10
1379 (2000)	6094588	1.9	5500356	2	594232	0.6	9.7
1380 (2001)	6374568*	4.6	5758130	4.7	616438	3.7	9.7

*Sources:* Social Security Organization, The Economic and Social Report, Economic and Social Planning Office, Tehran, 1377 (1998); The Economic and Social Report, Economic and Social Planning Office, Tehran, 1378 (1999); and The 10 year report of the investment department, Economic and Social Planning Office, Tehran, 1381 (2002).

Table 6.2A: SSO: Total Claims Versus Total Receipts (Million Rials &amp; %), 1981-2001

Iranian Year (corresponding year)	Total Claims	Growth Rate	Current Claims	Growth Rate	Received Insur Contr	Growth Rate	Tot Claims Over Total Receipts	Current Claims Over Total
1360 (1981)	-	-	-	-	180853	-	-	-
1365 (1986)	-	-	-	-	288350	59	-	-
1370 (1991)	-	-	-	-	761601	24	-	-
1371 (1992)	807833	-	-	-	1056684	38	76	-
1372 (1993)	992375	23	-	-	1552320	46	64	-
1373 (1994)	1173028	18	-	-	2110474	35	56	-
1374 (1995)	1399077	19	-	-	3070977	45	46	-
1375 (1996)	2062751	47	1083268	-	4155586	35	50	26
1376 (1997)	2457062	19	1411911	30	5454207	31	45	26
1377 (1998)	2870144	17	1670798	18	6792389	24	42	24.5
1378 (1999)	4832931	68	2996427	79	9018035	32.7	53.6	33
1379 (2000)	6715422	39	4114896	37	11443660	27	59	36
1380 (2001)	9841923	46.5	5770396	40	16160054	41	61	36

Sources: Social Security Organization, The Economic and Social Report, Economic and Social Planning Office, Tehran, 1377 (1998); The Economic and Social Report, Economic and Social Planning Office, Tehran, 1378 (1999); and The 10 year report of the investment department, Economic and Social Planning Office, Tehran, 1381 (2002).

**Table 6.3A: SSO: Total Insurance Cost and Receipts (1369/1990 Base Year)**

Iranian Year (Corresponding Gregorain Calendar)	Price Index	Total Receipts (Rials in millions)		Insurance Expenditure (Rials in millions)	
		Nominal Price	Constant Price	Nominal Price	Constant Price
1360 (1981)	23.78	180853	760525	44941	188986
1365 (1986)	47.47	288350	607436	78612	165603
1370 (1991)	120.7	761601	630986	522218	207771
1371 (1992)	150.1	1056684	703986	72391	299588
1372 (1993)	184.4	1552320	841822	1060227	378256
1373 (1994)	249.3	2110474	846559	1014510	403286
1374 (1995)	372.4	3070977	824645	1356893	362270
1375 (1996)	458.8	415586	905751	2017193	435158
1376 (1997)	538.2	5454207	1013416	2737512	503034
1377 (1998)	635.6	6792389	1068558	3656535	571963
1378 (1999)	763.4	9018000	1181294	4649750	593579
1379 (2000)	859.6	11443660	1331277	5957452	693049
1380 (2001)	957.6	16160054	1687558	7786000	813074

Sources: Social Security Organization, The Economic and Social Report, Economic and Social Planning Office, Tehran, 1377 (1998); The Economic and Social Report, Economic and Social Planning Office, Tehran, 1378 (1999); and The 10 year report of the investment department, Economic and Social Planning Office, Tehran, 1381 (2002).

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