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REFORM OF STATE OWNED ENTERPRISE AND PUBLIC-PRIVATE PARTNERSHIPS (PPPs) IN IRAQ

Stephen Rimmer and Mohammed Al-Ani¹

Introduction: While Iraq is a middle-income (IBRD) country it faces significant challenges which are commonly found in low income countries. Its economy also remains dependent on hydrocarbons and revenue from these resources generates over 95% of budget revenues. However, this sector employs only one per cent of the labor force. Iraq has significant infrastructure reconstruction and rehabilitation needs; and poorly performing regulatory policies, institutions and processes. Developing a strong and healthy private sector is necessary for Iraq to develop into a diversified and resilient market economy with rising living standards and sufficient jobs. In the meantime, Iraq's transition to a more diversified market economy continues to take place in a fragile political, security and institutional context.

The Iraq Private Sector Development (PSD) Program: The Iraq PSD program is supported by donors (see Quick Note 2011, 48 for further information) including the Swedish International Development Cooperation Agency (SIDA) and has several core elements involving supporting and coordinating Doing Business and related regulatory and governance reforms (including an Investment Climate Report and Sub-National Regulatory Capacity Reviews). The program is also supporting Public-Private Dialogue and provides a range of other PSD support.

¹ Stephen Rimmer and Mohammed Al-Ani, Finance and Private Sector Development, The Middle East and North Africa (MENA) Region, The World Bank. This Quick Note was cleared by Simon Bell, Sector Manager, Finance and Private Sector Development, MENA Region, The World Bank.

Reform of Iraq State Owned Enterprise (SOEs) and Public Private Partnerships (PPPs): Significant progress has been made in implementing SOE reforms in Iraq since 2010. The World Bank helped draft the Government of Iraq "Road Map" for SOE Reform, covering 180+ SOEs which employ over 630,000 workers. The Government of Iraq endorsed this "Road Map" to guide its broader SOE restructuring and reform plan in August 2010.



A Private Sector Bottling Plant in Iraq

Since 2011 the Bank and consultants (McKinsey and Co and Management Partners) have actively provided ongoing support to the Prime Minister's Task Force for Economic Reforms (TFER) which is tasked with coordinating SOE reform in Iraq. The TFER has high level political support and coordinates SOE reform through provision of advice to Ministries and SOEs, hosting high level meetings to discuss the reform program as well as monitoring and evaluation of ongoing and completed activities. In 2012 the Government of Iraq allocated US\$65m in the budget (with further but larger allocations

planned in the following years) to accelerate SOE reforms, focusing initially on the restructuring and reform of 30 priority SOEs to prepare them for PPPs and, where possible, listing on the stock exchange. The initial tranche of priority SOEs has begun procuring expert professional services support to formulate business plans, build internal management and operational capabilities, value assets, and identify options to manage the challenges posed by redundant employees. Significantly, this Government of Iraq SOE reform program is patterned after the initial work sponsored by the World Bank.

The Bank is also working very closely with several government agencies, including the Ministry of Industry and Minerals (MIM) and the Ministry of Construction and Housing (MoCH), in developing an approach to reform 80+ SOEs. This support focuses on strengthening the capacity of ministries to oversee and lead SOE reforms. In addition, the World Bank is supporting annual budget and business plans, labor restructuring, and performance management. This support is provided through experts based within ministries, and capacity building through training activities employing “best practices” from private and public sector organizations, and conferences.

Public Private Partnerships (PPPs) in Iraq: The Government has also requested support in implementing Public Private Partnerships (PPPs) in Iraq. The Bank has helped build a consensus among economic experts in the Government of Iraq that attracting international private sector investors and operators is critical to jumpstarting SOE reforms. Without such external support, the SOEs will lack the business and management expertise, as well as the access to capital which would allow them to restructure these firms into companies that could survive in the new Iraqi economy. The Bank is also actively supporting draft PPP legislation prepared by UNIDO.

Using current Iraqi legislation the World Bank is supporting three PPP ‘pilots’, including the State Company for Drug Industries (SDI), the State Company for Mechanical Industries, and the Al Mansour State Company, a construction SOE. The approach includes helping SOEs in developing practical business plans, focusing their business operations on core activities and markets, and also

undertaking structural reforms within these SOEs. These reforms help SOE’s attract potential long-term joint ventures (JV) with successful companies that have the appropriate capital, skills, and capabilities. The business plans address critical challenges, including management of SOE’s “excess labor” and where appropriate propose specific “off take” arrangements whereby the Government would help ensure a baseline level of demand for a JV to limit the risks for the outside private partner. Such an approach is practical and considered appropriate given Iraq’s weak legal and institutional frameworks for supporting PPPs.

This support has resulted in additional momentum for PPPs in Iraq. The State Company for Drug Industries is currently entering into a joint venture with the Munir Sukhtian pharmaceutical Group from Jordan (www.sukhtian-international.com). In addition, the recommended approach for Al Mansour includes focusing its business model on the construction of low income and affordable housing. This also involves the MoCH offering a 3-4 year “off-take” agreement, whereby the Ministry will offer a PPP joint venture a long term contract for provision on low income housing. The World Bank has supported the Ministry in obtaining the support of the Office of the Prime Minister for this proposal, which is currently before the Iraq Cabinet for final approval. If approved, such an approach would enable the MoCH to increase the attractiveness of Al Mansour to international partners while also focusing the company on alleviating the chronic shortage of affordable housing in Iraq. The Bank in collaboration with IFC is also working with the Ministry of Electricity review and improve internal governance processes for managing and launching IPP/PPPs.

World Bank Support to Establishing Iraq’s Asset Valuation Unit: In addition, the Bank is supporting the establishment and operation of a new SOE “Asset Valuation Unit” (AVU) within the Ministry of Finance. This AVU will support and coordinate SOE asset inventories, develop and disseminate standard templates, manage central repository of asset data, and coordinate communication and use of data and relations with external valuation experts.

The AVU will also have a role in the coordination of external professional valuation support for the broader SOE restructuring and reform program. In

2012, the AVU was established and is now fully functional with 12 staff, a customized database, data templates, and communication networks within the Government of Iraq and external experts. Significant technical and capacity building support has been provided to the new AVU team, including supporting it in obtaining a clear endorsement from the Cabinet and Office of the Prime Minister.

Conclusion: The success achieved by the World Bank PSD team in facilitating ongoing and wide-ranging SOE reforms in Iraq can be attributed to several factors. These include an extended engagement of over four years, the team's strong relationships with diverse stakeholders and the active support for Government officials on the ground at each and every stage of the reform process. In addition, the team has been able to identify new areas of engagement and has developed the capacity to effectively engage and pursue reform opportunities – such as establishing the new AVU – as they arise. If these conditions were not present on the ground in Iraq key elements of the project may have failed. This suggests more broadly that there may be merit in reducing the number of programs of support delivered by the World Bank group while at that same time increasing the duration of programs where possible to ensure appropriate follow-up support and sustainability.

Contact MNA K&L:

Laura Tuck, Director, Strategy and Operations.
MENA Region, The World Bank

Regional Quick Notes Team:

Omer Karasapan, and Roby Fields
Tel #: (202) 473 8177

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