



### SUPPORTING PRIVATE SECTOR DEVELOPMENT IN IRAQ

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**Introduction:** While Iraq is a middle-income country it faces challenges which are more commonly found in low income countries. These include dependence on one primary commodity (crude oil); significant infrastructure reconstruction and rehabilitation needs; and poorly performing regulatory policies, institutions and processes. Iraq's recent success in stabilizing its macro economy and budget was an important step towards reversing this situation. However, much more needs to be done. For example, oil revenues generate over 95% of budget revenues but the oil sector employs only one per cent of the labor force.

Developing a strong and healthy private sector is necessary for Iraq to develop a diversified and resilient market economy with rising living standards. Furthermore progress is needed in diversifying its economy and creating healthy competition in markets to generate employment and sustainable livelihood's for the majority of its growing population. Iraq's transition to a more diversified market economy continues to take place in a fragile political, security and institutional context.

**The World Bank and Business Environment and PSD Reforms:** The Bank's regulatory governance programs focus on supporting a wide range of government-wide policies as well as sector-specific reforms to improve the business environment and support the private sector. This support focuses on key elements of regulatory and private sector governance, including private sector and regulatory

policy, reforms to strengthen and streamline regulatory institutions, and the administration of regulations using modern regulatory tools, systems and processes. World Bank private sector development work in Iraq is supported by donors including the Swedish International Development Cooperation Agency (SIDA), the US Department of State and the UK's Department for International Development (DFID). Some of these activities include the following:

- **Doing Business.** In conjunction with the Doing Business group of the World Bank<sup>2</sup>, a verification exercise was undertaken in 2010 which was published in Doing Business 2011. Support for reforms to improve Iraq business enabling environment and Doing Business ranking is also being provided, in close coordination with USAID-Tijara and other partners.
- **Investment Climate Survey and Sub-National Regulatory Capacity Review:** In October 2011, the World Bank will complete the first ever Investment Climate Assessment (ICA)<sup>3</sup> survey for Iraq which will have surveyed around 800 businesses in Iraq, focusing on a wide range of issues impacting on business, including regulatory policies, institutions and processes. In addition, the Bank is currently conducting a sub-national Regulatory Capacity Review focusing on regulatory governance in the Kurdish region of Iraq and also the Basra Governorate. These studies will be important in generating better quality information about sub-national administration in Iraq and sub-national opportunities and impediments to private sector businesses. The Bank will provide extensive support for follow-up policy, institutional and governance reforms.

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<sup>2</sup> [www.doingbusiness.org](http://www.doingbusiness.org)

<sup>3</sup> For more see: <https://www.wbginvestmentclimate.org/>

- **State Owned Enterprise (SOE) Reform:** Working with UN agencies the Bank helped draft the Government of Iraq “Road Map” for SOE Reform, covering 180 SOEs which employ over 630,000 workers. The Bank is actively supporting the Prime Ministers Task Force for Economic Reforms which leads SOE reform in Iraq. The Bank is also working very closely with the Ministry of Industry and Mineral (MIM) in reforming 72 SOEs and also the Ministry of Housing and Construction in reforming a further 8 SOEs. Similar support is being provided to other ministries and SOEs and focuses on strengthening the capacity of ministries to oversee and lead SOE reforms.

Specific support includes annual, budget and business planning, labor restructuring and performance management and is provided through experts being based within ministries, training workshops and conferences. In addition, the Bank is supporting the establishment and operation of an SOE “Asset Valuation Unit” within the Ministry of Finance to improve oversight of SOE assets. This Unit will prepare, for the first time, a comprehensive inventory of government assets and use across government modern approaches to value government owned assets.

- **Supporting Public Private Partnerships (PPPs) in Iraq:** The Government has requested support in applying PPPs in Iraq. Within this context, the Bank is supporting PPP legislation prepared by UNIDO. Furthermore, the Bank is supporting the establishment and operation of a PPP Unit within the Ministry of Finance and the rollout of three PPP pilots. The Bank is also helping the Ministry of Electricity review and improve internal governance processes for managing and launching PPPs.
- **Support for Micro and SME Finance:** The Iraqi authorities have reached out to the Bank to support them in areas related to micro, small, and medium scale enterprises. The World Bank is also working in collaboration with USAID and the International Finance Corporation (IFC) – the private sector arm of the World Bank Group – providing improved micro-finance support to micro, small and medium sized enterprises. This

important support is provided in close consultation with other development partners.

- **Banking and Financial Sector Reforms:** The Bank is also supervising a \$10 million Banking Sector Reform project which has a focus on the restructuring of the governance and operations of two of the largest state owned banks and building up the Central Bank of Iraq’s capacities in banking and financial sector supervision, to help it better oversee and regulate the sector<sup>4</sup>. Re-establishing a reasonably efficiently operating financial sector in Iraq is key to the further development of a vibrant private sector.
- **Financial Sector Review:** In conjunction with the Central Bank of Iraq and the Ministry of Finance, the World Bank has recently completed a Financial Sector Review. The review lays out many priority issues which require addressing in the banking sector, the non-banking sector and the Central Bank. This report was launched at the Annual Meetings of the World Bank in September 2011. An important feature of this review was agreement on an Action Plan to modernize and dramatically increase the efficiency and effectiveness of the financial sector in Iraq – in support of further private sector development.
- **Public-Private Dialogue:** The World Bank is supporting the establishment and operation of a new business group in Iraq, the “Private Sector Development Center (PSDC)”. This PSDC better coordinates the work of existing business groups and Chambers in Iraq and provides professional outreach to stakeholders on private sector development issues, challenges and solutions.
- **Regulatory Reform Unit:** The World Bank is assisting the establishment and operation of a Regulatory Reform Unit within the Council of Minister’s Secretariat (COMSEC), to provide oversight and improved quality control over new or amended business regulations. This Unit will also support government activities which focus on improving regulatory policies and processes.

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<sup>4</sup> For more go to [worldbank.org/iraq](http://worldbank.org/iraq)

- **National Conferences and Knowledge Dissemination:** The World Bank is working closely with the Iraq Parliament and the International Labor Organization (ILO) to host a series of National Conferences focusing on key governance issues affecting private sector development. These forums involve a wide range of Parliamentary, business, union and community stakeholders in debating key issues and identifying together agreed solutions and ways forward. These conferences have generated interest throughout Iraq and beyond. For the first time since 2003 they have provided a forum for a very wide range of stakeholders to meet and discuss PSD and related issues. In addition, and as a result of these conferences, a new tripartite forum has been established, to include Parliament, businesses, and unions to coordinate and lead the dialogue in Iraq on major PSD issues.
- **Other Private Sector Focused Projects and Programs:** The World Bank is also supporting in Iraq a range of other governance reforms to support private sector development and related infrastructure. This includes telecommunications with a focus on regulatory and institutional reforms; special economic zones (including preparation of draft legislation for Industrial Zones in Iraq); and sector reforms focused on land, education, agriculture, water and electricity.

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