PSD - corporatization

9

COALITION PROVISIONAL AUTHORITY

BAGHDAD

ACTION MEMO

December 17, 2003

FOR: THE ADMINISTRATOR

FROM: [redacted] - Director, Private Sector Development

SUBJECT: SOE transition plan costs

You have asked for more information about the cost of the employee transition plan we are recommending be adopted for SOE corporatizations and MIC closures. Below are estimated cost savings resulting from the transition plan as well as an estimate of the cost of enhancing the retirement benefit for certain employees to make the plan less likely to meet with unacceptably high Ministry and employee resistance. Also, attached is a copy of the SOE transition plan including some modest revisions following a more detailed review of the effect of the plan at higher job grade levels.

The transition plan is estimated to have the following impact on SOE employees:

	Employees			
	2004	2005	2006	2007
Forced retirement/disability	65,200	0	0	0
Terminations (mostly from MIC closures in 2004)	38,400	7,500	7,500	0
Total	103,600	7,500	7,500	0

These employees, if not retired or separated, will have a payroll cost of over $125 million a year over the three years from 2004 – 2006. If the transition plan is implemented, the annual cost of these employees will be reduced by $88 million beginning in 2005. $33 million, or approximately a third, of these savings will result from the MIC closures. Combined savings over the three years from 2005 – 2007 are approximately $300 million. (Details of the data in these tables are contained in the attachments.)

	Savings ($m) vs. retaining employees on payroll			
	2004	2005	2006	2007
Forced retirement/disability	$0	$52	$52	$52
Terminations (includes training costs)	(7)	36	43	47
Total	($7)	$88	$95	$99

Despite the savings shown above, the retirement benefits proposed in the SOE transition plan will be more expensive than the standard retirement plan currently in place. We feel the increased benefits are necessary to obtain acceptance of the plan and avoid adverse employee

00852

reactions. As a result, the annual cost savings from the employee transition plan are $20 million less than they would be without the enhanced retirement and severance benefits. This annual cost differential diminishes from $20 million toward zero over a period of 15 – 20 years.

Job retraining and job placement services

Short-term vocational re-training and job placement programs are being developed by the Ministry of Labor and Social Affairs (MOLSA). The current focus of MOLSA is setting up job placement centers, which will also be the site for some of the short-term vocational training programs. There are currently plans for 27 such centers, with the first 10 in major cities to be completed by January 1, 2004 and the other 17 to be completed by June 2004. They expect to be able to handle 100,000 employment seekers throughout the course of 2004. Revival of the MOLSA training centers may take some time. In the meantime, we may want to have the Ministry of Higher Education (MHE has 43 centers and nearly 100,000 students in vocational programs around Iraq) administer the re-training programs for displaced workers.

The Ministry of Labor estimates the cost of short-term vocational training to be $200 per person per course (courses averaging 8 weeks) and the cost of job placement services to be $100 per person. Under our plan, all employees terminated or forced into retirement that are under age 55 are eligible for these programs. For the purpose of our analysis, we have assumed that 50% of those eligible use the services. The cost of the program is estimated to $11 million in 2004 and $1 million in each of 2005 and 2006.

RECOMMENDATION: The SOE Employee Transition Plan attached to this memorandum be approved and implemented in accordance with its terms.

Approve:__________ Disapprove:___________ Approve with modification:____________

COORDINATION: OMB

ATTACHMENTS: SOE Employee Transition Plan
Appendix – Additional and supporting data

SOE EMPLOYEE TRANSITION PLAN

The following shall apply to all SOE employees:

1. Effective January 1, 2004, all SOE employees with 25 years or more of service, or who are 55 years old or older, shall retire. Upon retirement they shall continue to receive for one year their annual salary. On the first anniversary of their retirement they shall qualify for the SOE retirement benefit that applies to them, except that the annual retirement benefit shall be the higher of the normal benefit or 40% of their final salary, but not more than 75,000 ID per month.

2. Effective January 1, 2004, all SOE employees who have a long term disability, but who have not transitioned to long term disability status, shall transition to long term disability status. For one year following their transition to long term disability status they shall continue to receive their annual salary. On the first anniversary of their transition to disability status they shall begin receiving the SOE long term disability benefit that applies to them, except that the annual long term disability benefit shall be the higher of the normal benefit or 40% of their final salary, but not more than 75,000 ID per month.

3. Effective January 1, 2004, any SOE employee who is terminated from employment at an SOE shall receive the following severance benefit:

    a. Employees who do not qualify for retirement or long term disability, but who have 15 years or more of service or who are 40 years old or older, shall continue to receive their salary for one year following their severance date. On the first anniversary of their severance date they shall qualify for retirement as if they had met the full term of 25 years of service or 55 years of age, except that the annual retirement benefit shall be the higher of the normal benefit or 40% of their final salary, but not more than 75,000 ID per month. Employees in this category who are under 55 years of age shall qualify for job retraining and job placement services.

    b. Employees who have 5 or more years of service, but less than 15 years of service, shall continue to receive their salary for one year following their severance date. On the first anniversary of their severance date they shall qualify to receive an annual retirement benefit equal to the higher of 3,000 ID per month or 4% of their final annual salary, but not more than 7,500 ID per month for each year of service over 5 years. Employees in this category who are under 55 years of age shall qualify for job retraining and job placement services.

    c. Employees who have less than 5 years of service and under 40 years of age shall receive a cash bonus equal to 20% of their salary for each full year of employment. Employees in this category shall qualify for job retraining and job placement services.

Appendix – Additional and supporting data

Table 1: Costs associated with forced retirements/disability

Associated annual costs ($m)	*2004*	*2005*	*2006*	*2007*
Salary continuance portion of severance	$80	$0	$0	$0
Retirement pay	0.0	28	28	28
Status quo costs	80	80	80	80
Marginal cost (savings)	$0	($52)	($52)	($52)

Table 2: Costs associated with redundancies

2004 redundancies **38,400**

Associated annual costs ($m)	*2004*	*2005*	*2006*	*2007*
Salary continuance portion of severance	$38	$0	$0	$0
Retirement pay	0	11	11	11
Lump sum payments to displaced	4	0	0	0
Status quo costs	47	47	47	47

2005 redundancies **7,500**

Associated annual costs ($m)	*2004*	*2005*	*2006*	*2007*
Salary continuance portion of severance	$0	$7	$0	$0
Retirement pay	0	0	2	2
Lump sum payments to displaced	0	1	0	0
Status quo costs	0	9	9	9

2006 redundancies **7,500**

Associated annual costs ($m)	*2004*	*2005*	*2006*	*2007*
Salary continuance portion of severance	$0	$0	$7	$0
Retirement pay	0	0	0	2
Lump sum payments to displaced	0	0	1	0
Status quo costs	0	0	9	9

2007 redundancies **0**

Associated annual costs ($m)	*2004*	*2005*	*2006*	*2007*
Salary continuance portion of severance	$0	$0	$0	$0
Retirement pay	0	0	0	2
Lump sum payments to displaced	0	0	0	1
Status quo costs	0	0	0	0

2004 – 2007 redundancies **53,400**

Associated annual costs ($m)	*2004*	*2005*	*2006*	*2007*
Salary continuance portion of severance	$38	$7	$7	$0
Retirement pay	0	11	13	17
Lump sum payments to displaced	4	1	1	1
Status quo costs	47	56	65	65
Marginal cost (savings)	**($4)**	**($37)**	**($44)**	**($47)**

Table 3: Costs associated with training

Associated annual costs ($m)	*2004*	*2005*	*2006*	*2007*
People qualifying for job retraining/placement	73,000	7,500	7,500	0
People using training/placement services	36,500	3,750	3,750	0
Cost per person	$300	$300	$300	$300
Total cost ($m)	**$11**	**$1**	**$1**	**$0**

Table 4: Costs by ministry and year of displacement

2004 - 2006 Post transition costs ($m)								
	Retire./ disability	2004 Redund.	2004 Attrition	2005 Redund.	2005 Attrition	2006 Redund.	2006 Attrition	Total
MIM, Trade, Etc.	$82	$10	$0	$8	$0	$6	$0	$106
Elec., Oil, Fin.	44	5	0	4	0	3	0	56
MIC	9	61	0	0	0	0	0	70
Total	**$136**	**$75**	**$0**	**$12**	**$0**	**$9**	**$0**	**$232**

2004 - 2006 Current cost ($m)								
	Retire./ disability	2004 Redund.	2004 Attrition	2005 Redund.	2005 Attrition	2006 Redund.	2006 Attrition	Total
MIM, Trade, Etc.	$145	$18	$0	$12	$0	$6	$0	$182
Elec., Oil, Fin.	78	9	0	6	0	3	0	97
MIC	16	113	0	0	0	0	0	130
Total	**$239**	**$141**	**$0**	**$18**	**$0**	**$9**	**$0**	**$408**

2004 - 2006 Cost of not transitioning employees ($m)								
	Retire./ disability	2004 Redund.	2004 Attrition	2005 Redund.	2005 Attrition	2006 Redund.	2006 Attrition	Total
MIM, Trade, Etc.	$63	$9	$0	$5	$0	$0	$0	$76
Elec., Oil, Fin.	34	4	0	2	0	0	0	40
MIC	7	53	0	0	0	0	0	60
Total	**$103**	**$66**	**$0**	**$7**	**$0**	**$0**	**$0**	**$175**

Table 5: Employee elimination by ministry and cause

	End 2003 Employees	Retire./ disability	2004 Redund.	2004 Attrition	2005 Redund.	2005 Attrition	2006 Redund.	2006 Attrition	Total	End 2006 Employees	% Reduction
MIM, Trade, Etc.	216,300	39,500	5,000	5,000	5,000	5,000	5,000	5,000	69,500	146,800	32%
Elec., Oil, Fin.	116,600	21,300	2,500	2,500	2,500	2,500	2,500	2,500	36,300	80,300	31%
MIC	55,900	4,400	30,900	600	0	600	0	600	37,100	18,800	66%
Total	**388,800**	**65,200**	**38,400**	**8,100**	**7,500**	**8,100**	**7,500**	**8,100**	**142,900**	**245,900**	**37%**

COALITION PROVISIONAL AUTHORITY

BAGHDAD

b) PSD - privatization

ACTION MEMO

December 18, 2003

FOR: THE ADMINISTRATOR

FROM: [redacted] – Director, Private Sector Development

SUBJECT: SOE transition plan costs

You have asked for more information about the cost of the employee transition plan we are recommending be adopted for SOE corporatizations and MIC closures. Below are estimated cost savings resulting from the transition plan as well as an estimate of the cost of enhancing the retirement benefit for certain employees to make the plan less likely to meet with unacceptably high Ministry and employee resistance. Also, attached is a copy of the SOE transition plan including some modest revisions following a more detailed review of the effect of the plan at higher job grade levels.

The transition plan is estimated to have the following impact on SOE employees:

	Employees			
	2004	2005	2006	2007
Forced retirement/disability	65,200	0	0	0
Terminations (mostly from MIC closures in 2004)	38,400	7,500	7,500	0
Total	103,600	7,500	7,500	0

These employees, if not retired or separated, will have a payroll cost of over $125 million a year over the three years from 2004 – 2006. If the transition plan is implemented, the annual cost of these employees will be reduced by $88 million beginning in 2005. $33 million, or approximately a third, of these savings will result from the MIC closures. Combined savings over the three years from 2005 – 2007 are approximately $300 million. (Details of the data in these tables are contained in the attachments.)

	Savings ($m) vs. retaining employees on payroll			
	2004	2005	2006	2007
Forced retirement/disability	$0	$52	$52	$52
Terminations (includes training costs)	(7)	36	43	47
Total	($7)	$88	$95	$99

Despite the savings shown above, the retirement benefits proposed in the SOE transition plan will be more expensive than the standard retirement plan currently in place. We feel the increased benefits are necessary to obtain acceptance of the plan and avoid adverse employee reactions. As a result, the annual cost savings from the employee transition plan are $20 million less than they would be without the enhanced retirement and severance benefits. This annual cost differential diminishes from $20 million toward zero over a period of 15 – 20 years.

Job retraining and job placement services

Short-term vocational re-training and job placement programs are being developed by the Ministry of Labor and Social Affairs (MOLSA). The current focus of MOLSA is setting up job placement centers, which will also be the site for some of the short-term vocational training programs. There are currently plans for 27 such centers, with the first 10 in major cities to be completed by January 1, 2004 and the other 17 to be completed by June 2004. They expect to be able to handle 100,000 employment seekers throughout the course of 2004. Revival of the MOLSA training centers may take some time. In the meantime, we may want to have the Ministry of Higher Education (MHE has 43 centers and nearly 100,000 students in vocational programs around Iraq) administer the re-training programs for displaced workers.

The Ministry of Labor estimates the cost of short-term vocational training to be $200 per person per course (courses averaging 8 weeks) and the cost of job placement services to be $100 per person. Under our plan, all employees terminated or forced into retirement that are under age 55 are eligible for these programs. For the purpose of our analysis, we have assumed that 50% of those eligible use the services. The cost of the program is estimated to $11 million in 2004 and $1 million in each of 2005 and 2006.

RECOMMENDATION: The SOE Employee Transition Plan attached to this memorandum be approved and implemented in accordance with its terms.

Approve:_________ Disapprove:___________ Approve with modification:___________

COORDINATION: OMB

ATTACHMENTS: SOE Employee Transition Plan
Appendix – Additional and supporting data

SOE EMPLOYEE TRANSITION PLAN

The following shall apply to all SOE employees:

1. Effective January 1, 2004, all SOE employees with 25 years or more of service, or who are 55 years old or older, shall retire. Upon retirement they shall continue to receive for one year their annual salary. On the first anniversary of their retirement they shall qualify for the SOE retirement benefit that applies to them, except that the annual retirement benefit shall be the higher of the normal benefit or 40% of their final salary, but not more than 75,000 ID per month.

2. Effective January 1, 2004, all SOE employees who have a long term disability, but who have not transitioned to long term disability status, shall transition to long term disability status. For one year following their transition to long term disability status they shall continue to receive their annual salary. On the first anniversary of their transition to disability status they shall begin receiving the SOE long term disability benefit that applies to them, except that the annual long term disability benefit shall be the higher of the normal benefit or 40% of their final salary, but not more than 75,000 ID per month.

3. Effective January 1, 2004, any SOE employee who is terminated from employment at an SOE shall receive the following severance benefit:

    a. Employees who do not qualify for retirement or long term disability, but who have 15 years or more of service or who are 40 years old or older, shall continue to receive their salary for one year following their severance date. On the first anniversary of their severance date they shall qualify for retirement as if they had met the full term of 25 years of service or 55 years of age, except that the annual retirement benefit shall be the higher of the normal benefit or 40% of their final salary, but not more than 75,000 ID per month. Employees in this category who are under 55 years of age shall qualify for job retraining and job placement services.

    b. Employees who have 5 or more years of service, but less than 15 years of service, shall continue to receive their salary for one year following their severance date. On the first anniversary of their severance date they shall qualify to receive an annual retirement benefit equal to the higher of 3,000 ID per month or 4% of their final annual salary, but not more than 7,500 ID per month for each year of service over 5 years. Employees in this category who are under 55 years of age shall qualify for job retraining and job placement services.

    c. Employees who have less than 5 years of service and under 40 years of age shall receive a cash bonus equal to 20% of their salary for each full year of employment. Employees in this category shall qualify for job retraining and job placement services.

Appendix – Additional and supporting data

Table 1: Costs associated with forced retirements/disability

Associated annual costs ($m)	*2004*	*2005*	*2006*	*2007*
Salary continuance portion of severance	$80	$0	$0	$0
Retirement pay	0.0	28	28	28
Status quo costs	80	80	80	80
Marginal cost (savings)	$0	($52)	($52)	($52)

Table 2: Costs associated with redundancies

2004 redundancies **38,400**

Associated annual costs ($m)	*2004*	*2005*	*2006*	*2007*
Salary continuance portion of severance	$38	$0	$0	$0
Retirement pay	0	11	11	11
Lump sum payments to displaced	4	0	0	0
Status quo costs	47	47	47	47

2005 redundancies **7,500**

Associated annual costs ($m)	*2004*	*2005*	*2006*	*2007*
Salary continuance portion of severance	$0	$7	$0	$0
Retirement pay	0	0	2	2
Lump sum payments to displaced	0	1	0	0
Status quo costs	0	9	9	9

2006 redundancies **7,500**

Associated annual costs ($m)	*2004*	*2005*	*2006*	*2007*
Salary continuance portion of severance	$0	$0	$7	$0
Retirement pay	0	0	0	2
Lump sum payments to displaced	0	0	1	0
Status quo costs	0	0	9	9

2007 redundancies **0**

Associated annual costs ($m)	*2004*	*2005*	*2006*	*2007*
Salary continuance portion of severance	$0	$0	$0	$0
Retirement pay	0	0	0	2
Lump sum payments to displaced	0	0	0	1
Status quo costs	0	0	0	0

2004 – 2007 redundancies **53,400**

Associated annual costs ($m)	*2004*	*2005*	*2006*	*2007*
Salary continuance portion of severance	$38	$7	$7	$0
Retirement pay	0	11	13	17
Lump sum payments to displaced	4	1	1	1
Status quo costs	47	56	65	65
Marginal cost (savings)	**($4)**	**($37)**	**($44)**	**($47)**

Table 3: Costs associated with training

Associated annual costs ($m)	*2004*	*2005*	*2006*	*2007*
People qualifying for job retraining/placement	73,000	7,500	7,500	0
People using training/placement services	36,500	3,750	3,750	0
Cost per person	$300	$300	$300	$300
Total cost ($m)	**$11**	**$1**	**$1**	**$0**

Table 4: Costs by ministry and year of displacement

2004 - 2006 Post transition costs ($m)								
	Retire./ disability	2004 Redund.	2004 Attrition	2005 Redund.	2005 Attrition	2006 Redund.	2006 Attrition	Total
MIM, Trade, Etc.	$82	$10	$0	$8	$0	$6	$0	$106
Elec., Oil, Fin.	44	5	0	4	0	3	0	56
MIC	9	61	0	0	0	0	0	70
Total	**$136**	**$75**	**$0**	**$12**	**$0**	**$9**	**$0**	**$232**

2004 - 2006 Current cost ($m)								
	Retire./ disability	2004 Redund.	2004 Attrition	2005 Redund.	2005 Attrition	2006 Redund.	2006 Attrition	Total
MIM, Trade, Etc.	$145	$18	$0	$12	$0	$6	$0	$182
Elec., Oil, Fin.	78	9	0	6	0	3	0	97
MIC	16	113	0	0	0	0	0	130
Total	**$239**	**$141**	**$0**	**$18**	**$0**	**$9**	**$0**	**$408**

2004 - 2006 Cost of not transitioning employees ($m)								
	Retire./ disability	2004 Redund.	2004 Attrition	2005 Redund.	2005 Attrition	2006 Redund.	2006 Attrition	Total
MIM, Trade, Etc.	$63	$9	$0	$5	$0	$0	$0	$76
Elec., Oil, Fin.	34	4	0	2	0	0	0	40
MIC	7	53	0	0	0	0	0	60
Total	**$103**	**$66**	**$0**	**$7**	**$0**	**$0**	**$0**	**$175**

Table 5: Employee elimination by ministry and cause

	End 2003 Employees	Retire./ disability	2004 Redund.	2004 Attrition	2005 Redund.	2005 Attrition	2006 Redund.	2006 Attrition	Total	End 2006 Employees	% Reduction
MIM, Trade, Etc.	216,300	39,500	5,000	5,000	5,000	5,000	5,000	5,000	69,500	146,800	32%
Elec., Oil, Fin.	116,600	21,300	2,500	2,500	2,500	2,500	2,500	2,500	36,300	80,300	31%
MIC	55,900	4,400	30,900	600	0	600	0	600	37,100	18,800	66%
Total	**388,800**	**65,200**	**38,400**	**8,100**	**7,500**	**8,100**	**7,500**	**8,100**	**142,900**	**245,900**	**37%**

COALITION PROVISIONAL AUTHORITY

BAGHDAD

ØPSD. Privatization

ACTION MEMO

December 6, 2003

FOR: The Executive Board

FROM: [redacted] Private Sector Development, Director
[redacted] Private Sector Development, Deputy Director

SUBJECT: Ownership transformation program for 2004

The CPA immediate goal: to assist Iraqi government administration in its efforts to revitalize SOEs through so called lease program. CPA proposes only to modify this original program to increase its long run effectiveness and transparency. CPA proposes also to deliver to Iraqi ministries a group of privatization and M&A experts to give the extensive in-house and hands-on advising in organizing and implementation of that program. In the longer run straight sales or other methods of ownership transformation of the SOEs might be proposed.

Most of the Iraqi SOEs lack marketing skills, reliable (or any) accounting data, experience in the market environment, working capital, modern technology. They also need investments. Many are heavily looted. A lot of them are non-operational or only partly operational. All are subsidized obtaining salaries funds, some are subsidized additionally. This situation is obviously unsustainable.

All-encompassing solution for these problems is the privatization program, combined with market oriented macroeconomic reform and also other microeconomic instruments.

However, few weeks ago Iraqi Governing Council refused to accept the privatization plan developed by CPA. The plan included ~~creation of the Ownership Transformation Agency~~ (OTA) which was to be entrusted with majority of SOEs and responsible for their subsequent privatization. Instead, the several ministries have announced and initiated the other plan to revitalize SOEs. Instead of OTA, decentralized (i.e. ministerial) approach has been adopted. Instead of privatization, lease option has been selected.

Now shifting all SOEs to MOF.

CPA strategic goal is to make good things happen. All positive initiatives should be fostered. If needed, any assistance should be given.

That's a sale for real!

Therefore CPA should accept lease approach although with two modifications. First, the lease contract should end up with the ownership transfer of the SOE to the lessee. Second, the lease contract should allow the lessee to make necessary employment adjustments in SOE (combined with government funded social safety net for redundant employees).

No more politically feasible than outright privatization

Private Sector Development has already worked out step-by-step manual how to make the lease transaction. At the moment, Private Sector Development is completing the template lease contract as well as the proposal of social safety net funding. These documents should be delivered to all interested parties (i.e. ministries supervising SOEs) together with the proposal, that CPA may help them delivering full time privatization and M&A experts. Initial talks with the Minister of Industry and Minerals testing suitability of this kind of assistance package received very warm reception.

Of course, their SOEs are worth taking over.

The program outlined above combines practicability with some strategic goals. First, it is useful right now for the Iraqi officials who manifested very positive initiative concerning SOEs, it also adds new quality (effectiveness and transparency) to this initiative. Second, if adopted on a wider scale, it can be a springboard for the next undertakings. Well established working every-day relations between highly professional experts hired by CPA and Iraqi ministries may result in better mutual understanding and trust. That can facilitate next privatization initiatives encompassing other methods, more suitable for some specific SOEs, methods which are now perceived as not acceptable.

RECOMMENDATION (1): to accept new, low key, decentralized approach towards ownership transformation adopted by Iraqi ministries with lease as the basic present tool to install effective management and attract investments. Original lease idea is to be modified as described above.

Transfer of SOE to MoF?

Approve:________ Disapprove:________ Approve with modification:______

RECOMMENDATION (2): to prepare social safety net solution, to recognize the funding size needed and funding sources. To implement this solution ASAP as the integral part of the CPA contribution to the lease program.

How much $ and 'is in budget?

Approve:________ Disapprove:_________ Approve with modification:______

mergers & acquisitions

RECOMMENDATION (3): to prepare the group of privatization and M&A experts working in Private Sector Development and attached to the particular Iraqi institutions. To assess the funding size needed to cover their costs. To recognize the funding sources.

Approve:________ Disapprove:_________ Approve with modification:______

ATTACHMENTS: NONE

COORDINATION: Economic Development Department/[redacted] Director