

مركز البيدر للدراسات والتخطيط

Al-Baidar Center For Studies And Planning



## Policy Summary

# Evaluation of Public Sector Companies in Iraq and Their Impact on the General Budget

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## **Summary**

This study examines the evaluation of public sector companies, which number around 159, most of which are loss-making companies that receive grants from the public treasury through the general budget, except for the profitable companies, which represent the minority of the total public sector companies in Iraq.

These companies are characterized by weak services provided and insufficient production to meet local demand. This is due to several reasons, the most important of which are the lack of a clear vision for managing state-owned public companies and the low value of productive work in public sector institutions.

Public sector companies in Iraq impact the general budget in two ways:

- The first is the weak revenues collected from the public treasury's share of the profits of these companies.
- The second is the large cost imposed by the loss-making companies on the general budget through grants and subsidies paid to these companies from the public treasury.

The main issue lies in the weak performance of public sector companies and their achievement of low levels of production and revenue, resulting from conflicting visions between the owners of these companies and their management. The management of these companies seeks to maximize their gains at the expense of the public interest of the state, as long as the general budget continues to cover their losses.

This paper provides a policy summary of the reality of public companies in Iraq, indicating the number of profitable companies and those receiving grants from the state treasury, their relationship with the federal general budget, and then

proposes a set of solutions that can help reduce the burden of these companies on the general budget.

## **Context**

### **First: Description of the State's Role in Public Activity**

The concept of the state has varied, sometimes referring to the organizer, authority, or sovereign apparatus, depending on the historical period or the function it performs. Marx and Engels, in their book on historical materialism, defined the state as “a machine for maintaining one class at the expense of another,” noting that it did not always exist and is a product of historical development. Thus, the state can be understood as the affiliation of individuals to a national community, forming the manifestations of political, economic, and social life. The development of the state has always been linked to the size of its finances and the role it plays in social life, which requires meeting public needs and thus necessitates its intervention to regulate economic life.

Opinions have varied regarding the government's role in economic activity between supporters and opponents. John Maynard Keynes and John Kenneth Galbraith, as supporters, indicated that the economy, in the absence of perfect competition and the need to provide public goods, enhance social justice, and address externalities, requires continuous adjustments by an active government to function efficiently. Thus, as the economy grows, the size of government must necessarily grow to correct private sector shortcomings. This school emerged from the period of the Great Depression, when it became clear that markets had failed, and government intervention was seen as the safe means to restore economic stability.

On the other hand, economists opposed to state intervention in economic

activity, such as Friedrich von Hayek and Milton Friedman, argued that government intervention is the main reason for instability and inefficiency in the private sector due to the effect of crowding out. They and others pointed out that the government should be present to ensure the private sector works efficiently, but it should not replace market mechanisms.

### **Second: The Reality of Public Sector Companies in Iraq**

The roots of public companies in Iraq date back to before 2003. Successive governments after the political change inherited a large public sector as a result of the socialist approach adopted by the previous regime, with the government dominating most economic sectors in the country, represented by its monopoly and direct management of economic facilities and public companies. Most Iraqi ministries own a group of companies and self-financing directorates, whose managements were inherited through the Public Companies Law No. 22 of 1997.

The number of public companies reached 159, with the majority being loss-making companies that receive grants from the state treasury, except for the profitable companies, which are a minority. The number of profitable companies not dependent on the general budget is 64, most of which are in the oil sector (18 companies under the Ministry of Oil, with only one loss-making company: the General Company for Heavy Engineering Industries). The number of loss-making companies receiving grants from the state treasury is 95, representing 59.7% of the total public companies. The Ministry of Industry and Minerals has the highest number of loss-making companies (26 out of 29), followed by the Ministry of Electricity (14 out of 14), and then the Ministry of Construction, Housing, and Municipalities (7 out of 7), in addition to 35 self-financing directorates in the provinces (water, sewage, and municipal directorates), all of which are loss-making.

**Table 1: Number of Public Sector Companies in Iraq**

Ministry/Entity	Number of Companies	Profitable Companies	Loss-Making Companies
Industry and Minerals	29	3	26
Oil	19	18	1
Electricity	14	0	14
Finance	13	13	0
Transport	9	7	2
Construction and Housing	7	0	7
Trade	8	7	1
Agriculture	2	2	0
Communications	3	1	2
Water Resources	3	3	0
Health	2	2	0
Education	2	2	0
Culture	4	2	2
Youth and Sports	1	1	0
Military Industrialization	2	0	2
Provincial Water, Sewage, and Municipal Directorates	35	0	35
Shiite Endowment	1	0	1
Sunni Endowment	1	1	0
Central Bank of Iraq	Profitable		
Media and Communications Authority	Profitable		
Iraqi Media Network	Receives grant		
Baghdad Municipality	Receives grant		
<b>Total</b>	<b>159</b>	<b>64</b>	<b>95</b>

*Source: Prepared by the researcher based on unpublished data from the Ministry of Finance, Budget Department.*

### **Third: The Impact of Public Sector Companies on the General Budget**

Public sector companies that are self-financed constitute an additional burden on the federal general budget, particularly the loss-making companies that receive grants from the state treasury to cover the salaries of employees in those companies and departments. This impact is manifested in two aspects: the first is that these are loss-making companies that do not contribute any share of profits to the budget; the second is the increase in current expenditures in the general budget as a result of the rise in the grants and subsidies item, of which grants to loss-making self-financed companies represent the largest portion. This has led to a continuous increase in public expenditures without any corresponding economic benefit.

The support provided to these loss-making companies, in reality, displaces the economic role of the private sector. This is due to the state's monopoly over economic activity and the lack of any assistance or facilities provided to the private sector, which has resulted in increased production costs in the private sector. Additionally, many profitable self-financed companies have been reluctant to pay the public treasury its share of their profits. The contribution of public sector company profits to total public revenues has not exceeded 2% at best, while the amount these companies receive from public expenditures is double this percentage.

According to Table 2, the share of the budget from public sector profits increased from 682 billion dinars in 2016 to 1.041 trillion dinars in 2023, with a growth rate of 52.6%. However, this still represents only a small fraction of total public revenues. Grants and subsidies on the expenditure side rose from 6.514 trillion dinars in 2016 to 20.369 trillion dinars in 2023, with a growth rate of 212.6%. This significant increase in the grants and subsidies item is due to the rise in the number of employees in loss-making self-financed companies, as a

result of regularizing employees with contract and daily wage statuses in those companies, particularly in the Ministry of Electricity and the Ministry of Industry and Minerals.

The table below shows that the ratio of revenues from the treasury's share of public sector profits to subsidies and grants remains low, reaching 15.2% in 2020 and declining to 8.4% in 2023. This reveals the high opportunity cost of supporting these companies and their impact on the general budget, as spending on these companies exceeds the revenues generated from them. This necessitates a reconsideration of these companies to alleviate the burden on the federal general budget.

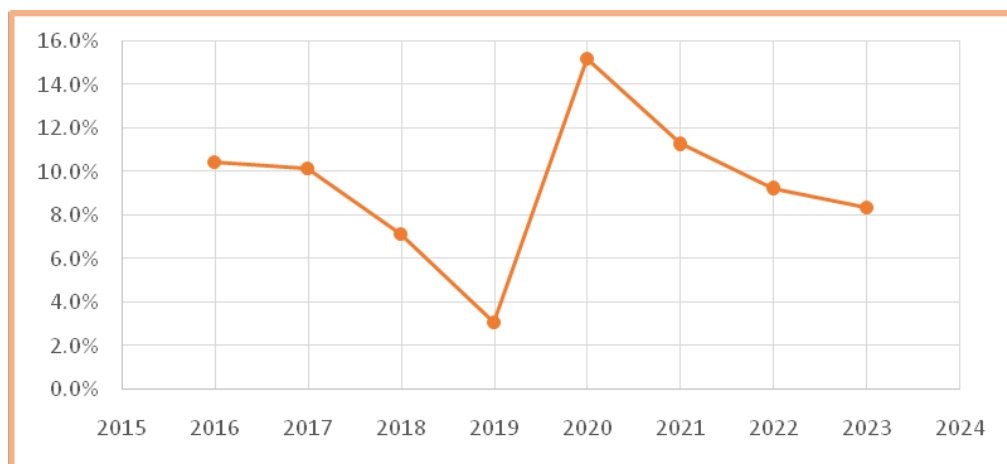
**Table 2: Budget Share of Public Sector Profits and Grants/Subsidies (2016–2023)**

*(in trillion dinars)*

Year	Budget Share of Public Sector Profits	Grants and Subsidies	(%) 1/2
2016	0.682	6.514	10.5
2017	0.700	6.875	10.2
2018	0.804	11.230	7.2
2019	0.447	14.403	3.1
2020	1.717	11.294	15.2
2021	1.513	13.391	11.3
2022	1.041	11.245	9.3
2023	1.703	20.369	8.4

*Source: Prepared by the researcher based on the Ministry of Finance, Accounting Department, actual budget accounts for the years 2016–2023.*

**Figure 1: Ratio of the Budget's Share of Public Sector Profits to Grants and Subsidies**



*Source: Prepared by the researcher based on the data from Table 2*

## **Conclusion**

Public sector companies in Iraq still do not fulfill the purpose for which they were established, as they do not have a clear role in achieving the country's development plans, in addition to the clear financial burdens they have left on the federal general budget. The majority of these companies and directorates are loss-making and depend on the general budget to pay their employees' salaries. Many of these loss-making companies can be converted into profitable ones through the automation of fee collection, such as the companies of the Ministry of Electricity and the water, sewage, and municipal directorates in the provinces. In their current state and with their high opportunity cost, these companies have led to increased state dominance over economic activity, and thus, the negative effects are not limited to the budget but extend to the overall economic activity. The existence of these government-supported companies also contradicts Iraq's orientation



towards a market economy as affirmed by the 2005 Constitution. Therefore, it is necessary to review the Public Companies Law No. 22 of 1997 to amend it to raise the efficiency of public companies to make them one of the developmental tools in line with the orientations of the Iraqi economy.

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**Note:**

The opinions expressed in this research do not necessarily reflect the views of the Center, but only those of the author.

## **About center**

Al-Baydar Center for Studies and Planning is a non-governmental and non-profit organization established in 2015 and registered with the NGO directorate in the general secretariat of the council of ministers in Baghdad.

The center seeks to contribute to developing the state and its institutions, by proposing ideas and practical solutions to the main problems and challenges facing the state, including improving public sector management, policies, and strategic planning, using reliable data and best practices. The center engages the relevant authorities in the state with regular meetings to support this objective and utilizes the support of international organizations dedicated to assisting Iraq's development. The center also seeks to support economic reforms, and sustainable development and provide technical assistance to the public and private sectors. The center also seeks to support the development of the private sector to provide job opportunities for citizens through training and upskilling, in a way that reduces dependence on government institutions and contributes to supporting and diversifying the country's economy.

The center aims to utilize the vast amount of potential in Iraq's human resources by organizing programs to prepare and develop promising young people, including leaders capable of proposing, adopting and implementing visions and future plans that advance society and preserve its value-system based on the commitment to a high moral standard and rejection of all types of corruption.

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