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MESOPOTAMIA STATE COMPANY FOR SEED PRODUCTION

A Rapid Economic Assessment

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Mesopotamia State Company for Seed Production
(MSCSP)
A Rapid Economic Assessment

Background

The Mesopotamia State Company for Seed Production (MSCSP) was established in 1992 under the umbrella of the Nuclear Energy Authority. In 1993, the ownership of the company was transferred to the Ministry of Industry. Once again, in 1995 the company was transferred to the Ministry of Agriculture. In 1998, the company was asked to take the responsibilities of maize production and trade in the whole country.

According to the original mandate, the main objective of the MSCSP was to receive seeds from farmers and contracted farmers and conduct all processing operations needed to produce high quality seeds. This process is conducted according to seeds' varieties and grades. The produced certified seeds are then distributed to farmers to serve the policy of the Ministry of Agriculture in promoting high quality agricultural production. In a later stage, another objective was added to MSCSP that was to receive maize ears from producers and conduct all necessary processing operations to produce high quality maize grain for use in poultry feeds.

This rapid economic assessment for MSCSP was conducted based on a request from his Excellency the Minister of Agriculture. The Iraqi agricultural sector is currently in a critical transitional period. Shifting from pure centrally managed agricultural sector to market-oriented is not easy. This situation is relatively similar to the situation that have occurred in many of the Central and Eastern European countries during the last ten years, where the public sector used to run almost all activities related to production, marketing, and trade of agricultural products. In these countries, agricultural producers and privatized enterprises are now faced with strong competition from other business enterprises within the framework of national and international economy. The majority of the state-owned companies in these countries are currently going through an extensive privatization process.

In Iraq, several state owned companies are deeply involved in the agricultural sector. The main functions of these companies are to implement the government policies related to increasing agricultural production, supporting farmers and livestock producers, providing inputs at prices lower than international markets and buying outputs from producers at prices higher than international markets. MSCSP is one of these companies which is responsible for providing high quality seeds to wheat, barley and cotton producers and providing poultry producers with maize grains.

The main objective of this report is to provide the decision makers at the Ministry of Agriculture with a preliminary economic analysis for the performance of MSCSP ongoing activities. The specific, the main focus of this report is to examine the existing activities performed by the company in the area of buying maize ears from producers and selling maize grains to poultry producers. Another objective of this report is to shed the light on the consequences of privatization on the potential impacted groups.

According to the mandate of the company, the Director General (who is also the Company's board director) is responsible for implementing the functions of the company.

The organizational structure of the MSCSP

- Administrative division;
- Financial division;
- Internal monitoring division;
- Planning and follow up division;
- Commercial division
- Engineering division;
- Maize division; and
- Seed production division.

The maize division has branches in the governorates of Baghdad, Tikreet, Kerbala, Hilla, Muessayeb, Al-Medateah, Tameem, Hoyagah, Kut, Aziyzyah, Dialy, Haydari and Naynawa.

The seed production division has several branches in Naynao, Al-Tameem, Jerf Al-Najaf, Al-Ahrar, and Al-Qadeseyah.



The company provides selected farmers with high quality seeds of wheat, barley and cotton for the purpose of seed multiplication after which the received seeds are cleaned, threshed, dusted, packed and resold to farmers according to a central plan prepared annually by the Ministry of Agriculture. With regard to cotton crop, the company receives the harvest and gin it, after which the seeds are cleaned and graded while the lent is sold to the public textile company. The company sorts and screens the highest grades at the Ninewa plant while the other grades of the improved seeds are sorted in the other ten plants around the country.

Currently, the major activities of the company are focused on two areas:

- Production of high yielding seed varieties.
- Maize processing (threshing, cleaning, sorting, etc.)

The maize processing plants owned by the company receives farmer's seed production if it meets the pre-determined specifications. The maize ears are dried and threshed. The maize grain are stored and sacked for selling to poultry producers. Eleven plants owned by the company are involved in maize processing in the governorates of Diyala, Tameem, Wassit, Babil, Baghdad, Salah al-Din, Ninewa and Kerbala (table 1). The company also owns a sum of 28 processing lines, 39 silos with a storage capacity of 13,650 metric tons. The table also shows that the total storage area in all locations is 416 thousand square meters. The largest storage area is found at Al-Medateah location followed by Hilla.

Table 1 Production and storage facilities owned and operated by MSCSP

Governorate	Plant location	No. of Lines	No. Silos	Silos Capacity Storage (tons)	Storage Area (m ²)
Babel	Hilla	4	3	1050	78,000
	Al-Musayab	4	7	2450	39,000
	Al-Haydaree	1	1	350	30,000
	Al-Medateah	4	7	2450	115,000
Waset	Al-Kut	2	5	1750	15,000
	Al-Ezyaseeh	1	2	700	4,000
Karbalaa	Kerbala	1	1	350	18,000
Diyala	Diyala	2	2	700	11,000
Baghdad	Abu-Ghareeb	2	4	1400	5,000
Al-Tameem	Tazah	3	3	1050	11,000
	Al-Hwayjeh	1	2	700	2,800
Salah El-Din	Takrit	2	1	350	20,000
Naynawah	Haleeleh	1	1	350	21,000
TOTAL		28	39	13,650	416,000

MSCSP financial records for the year 2002/2003 indicate that there are 333 permanent employees distributed over 12 locations all over Iraq. The company's management claim that another 400 temporary laborers are hired every year during the peak period of processing activities. Table 2 shows that the largest number of employees are found at the headquarters of the company in Baghdad.

Table 2. Distribution of MSCSP permanent employees by governorate

Plant Location	No. of Permanent Employees
Baghdad (Headquarter)	97
Hilla (Babil)	32
Abu-Ghraib (Anbar)	16
Al-Medateah (Babil)	24
Al-Musayab (Babil)	27
Diyala	24
Kerbala	13
Tikrit (Salah Al-Din)	6
Al-Hawiga (Tameem)	17
Taazah (Tameem)	21
Wassit	24
Ezzayzeh(Wassit)	13
Al-Haydaree (Babil)	19
TOTAL	333

The Financials

The MSCSP was founded in 1992, as a 100% Iraqi State-owned company with a working capital of ID 330 million (equivalent to US\$6.22 million at an exchange rate of 53.05 ID= 1US\$ in 1993). The working capital was totally financed from the public treasury. The working capital was spent on buying new capital assets in terms of machinery, silos, offices and necessary equipments. Table 3 shows the balance sheet of MSCSP as of December 2002. The table shows that the total value of assets is 68,971 million Iraqi Dinar of which 11,584 are non-current assets in terms of net property, plants and equipments as well as long-term receivables and long-term investments. About 83% of the total assets are current assets in terms of inventories (seeds in the silos and other storage facilities) and other accounts receivables. It is worth noting that the value of properties is in terms of book value. This means that the value of property in today's value is much higher than the book value. In other words, adjustment should be made to reflect the real value of the company's fixed assets in today's prices if the government decides to privatize MSCSP.

Table 3 also shows the company's equities and liabilities as of December 31, 2003. The Balance sheet indicates that the short-term financing sources represents more than 80% of the total liabilities of the company in terms of short-term debts, accounts payable and received loans. The received loans represents about 77% of the total short-term financing to cover the payments of received maize ears from farmers.

Table 3 Consolidated Balance sheet-Mesopotamia

Assets	As of December 31, (ID)		As of December 31, (US\$)	
	2002	2001	2002	2001
Total non-current assets	11,583,457,453	6,635,221,668	6,435,254	3,686,234
Total current assets	57,388,507,835	31,497,348,303	31,882,504	17,498,527
Total Assets	68,971,965,288	38,132,569,971	38,317,758	21,184,761
Equity and Liabilities				
Long-term financing sources	11,196,872,115	3,311,985,598	6,220,485	1,839,992
Short-term financing sources	57,775,093,173	34,820,584,373	32,097,274	19,344,769
Total Liabilities	68,971,965,288	38,132,569,971	38,317,758	21,184,761

Table 4 portrays the major sources of company's revenues in 2002. It is clear from the table that revenues associated with sales of grains, especially maize, are the major source of revenue which represents more than 99% of the company's revenues. Other sources are considered minor compared to revenues from grain sales.

Table 4 Revenues of the company in 2002

Revenue Source	Iraqi Dinar	US\$
Industrial crops revenues (wheat, barley, Maize & cotton)	39,700,790,173	22,055,995
Commercial revenues (reselling seeds)	42,028,025	23,349
Services revenues	111,057,746	61,699
Rents and interest	125,588,427	69,771
Conversional revenues	19,250,510	10,695
Compensation and penalties	19,998,714,878	11,110,397
TOTAL	59,997,429,759	33,331,905



Reform and Privatization of State-Owned Companies (SOC)

The 1990's witnessed the largest wave of privatization in the modern history. This wave took place mainly in Central and Eastern European countries. The privatization process started in Poland in 1990 with 4,100 state-owned companies. The process in Poland resulted in the privatization of about 1,212 companies through transformation to joint-stock companies with 100 percent of their shares owned by the Polish State Treasury. The majority of these companies were sold to private investors and the National Investment Fund Program. Many of the bankrupt companies were liquidated.

Experience of other countries showed that for a privatization program to succeed, it has to involve serious sector policy changes to stimulate greater competition through more open entry and exit, better regulation and supervision of companies operating without effective competition, in addition to privatization of the state-owned enterprises as soon as possible.

The role of the private sector in economic development is crucial. Functions of the private sector can take a wide range of forms. However, it is important to carefully assess the potential alternatives for any organizational arrangements before selecting the most suitable type of private sector participation.

The potential alternatives for the involvement of the private sector may be evaluated based on the following criteria

1. Cost-effectiveness of expected services;
2. Opportunity to introduce competition into the service market:
3. Ease of administration and post privatization regulation: and
4. Capacity to service customers.

Previous studies on privatization indicate that SOCs are usually over-staffed with unnecessary personnel, pay higher wages than private sector, and give a gracious amount of fringe benefits. In some of developing countries, these companies were created by politicians as a vehicle to gain political support and remunerate their followers. It was estimated by many recent studies that SOCs were overstaffed by about 40-50% in Sri Lanka and 20-25% in Ghana and Uganda.

In Iraq, there are more than 200 SOCs including the cement companies, fertilizer operations, a phosphate mining operation, sulphur mining and extraction businesses, pharmaceutical companies, an airline and automobile tire makers. To get the Iraqi economy back on track, it is believed that there is a serious need to private-sector development and creating a capitalist economy. It is argued that only privatization will bring sustained economic growth, prosperity, political stability, and democracy to Iraq. It is also believed that privatization will undoubtedly enhance economic efficiency, profitability and will improve the quality of public services in the country.

Iraq's economy today is a devastated economy by all means. The economy has suffered from substantial decrease in capital investment in all sectors. The lack of investments hit all fields of infrastructure including industry, agriculture and public service. After the invasion of Kuwait, the Iraqi real GDP fell by 75% between 1991 and 1999. The Per-capita income and calorie intake have decreased to levels as low as those of Rwanda, Haiti, and Somalia. According to Alhajji (2003), these indicators strongly suggest that privatization of any sector will not lead to unemployment. On the contrary, the author argues that privatization of specific sectors will increase employment through absorption of many of the army personnel who will not find work in the new Iraqi army.

Alhajji (2003) recommended that ***“the Iraqi government should start privatizing projects that have the highest potential for job creation, rather than projects that will generate the highest revenues. Job creation contributes to political stability and enhances Iraq's ability to move toward a democratic society. Privatization of projects based on their job creation would enable Iraq to absorb former military personnel and the increasing number of young people and women entering labor force. At some point, privatization of some projects will lead to layoffs. In those cases, the government can offer attractive packages for early retirement, compensate laid-off workers by providing severance pay and other income support, and help workers on a targeted basis to reintegrate into the labor market. Reintegration should not be a problem in the next decade.”***



Preliminary Economic Analysis for MSCSP

The newly established Iraqi government is currently in the process of making a serious decision regarding the state-owned companies that were established during the last two decades to serve the agricultural sector. Mesopotamia seed company is one of these firms that was established in 1993 with a working capital of 330 million Dinar (about 6.2 million US\$ at an exchange rate of 53.5 in 1993). At this juncture, the government may have a wide range of options available to deal with this issue. Therefore, it is desirable to analyze the alternative methods and approaches to private sector involvement in a comprehensive and planned manner. When evaluating the consequences of privatization projects it is useful to apply a multi-criteria framework for assessing the financial, economic, social and political impacts of the privatization of specific enterprises.

Before making the decision of privatization, the decision maker will need to identify the major impacted groups by the privatization of the SOC and how are the impacted? This usually involves analyzing the distribution of costs and benefits to the major stakeholders. For this purpose, a multi-criteria analysis is conducted to assess the distribution of costs and benefits of each alternative on the different affected groups. The potential affected five groups are:

- Maize and other crops producers;
- Poultry producers;
- Poultry consumers and Taxpayers;
- MSCSP employees; and
- Private sector

Table 5 through 9 summarize the expected costs and benefits due to privatizing MSCPS accrued by each of the five potential affected groups.

Table 5 Expected costs and benefits of privatization accrued by maize and other crops producers

Objectives of each group	Costs	Benefits
<ul style="list-style-type: none"> • Reliable service at min cost • Suitable payment system • Minimum cost of production 	<ul style="list-style-type: none"> • Prices of maize will become higher than what they get now (in the short run) • More farmers may windup business • Risk of maize price reduction 	<ul style="list-style-type: none"> • Better deals with the new privatized company • Better varieties or new crops to grow • Services more cost-effective

Table 6 Expected costs and benefits of privatization accrued by poultry producers

Objectives of each group	Costs	Benefits
<ul style="list-style-type: none"> • Reliable service at min cost • Suitable payment system • Minimum cost of production • Low cost of maize 	<ul style="list-style-type: none"> • Prices of maize will become higher than what they get now-in the short run • More farmers may windup business • Prices of poultry products may fall down due to freeing market 	<ul style="list-style-type: none"> • More options through dealing with different suppliers • Better deals with the new suppliers • Better quality of grain • Services more cost-effective



Table 7 Expected costs and benefits of privatization accrued by poultry products consumers (taxpayers) (indirectly affected)

Objectives of each group	Costs	Benefits
<ul style="list-style-type: none"> • Quality services • Reliable service at min cost • Minimum cost to consumers • Min tax to subsidize others 	<ul style="list-style-type: none"> • Cost of poultry products may go up after Privatization 	<ul style="list-style-type: none"> • Reduced need for subsidy • Services more cost-effective

Table 8 Expected costs and benefits of privatization accrued by MSCPS employees

Objectives of each group	Costs	Benefits
<ul style="list-style-type: none"> • Maintain employment, salary and other benefits at present level or higher • Job satisfaction • Promotion prospects 	<ul style="list-style-type: none"> • Reduced employment benefits • Reduced workforce • Potential loss of employment 	<ul style="list-style-type: none"> • May retain employment under a Management Buy-out

Table 9 Expected costs and benefits of privatization accrued by private sector

Objectives of each group	Costs	Benefits
<ul style="list-style-type: none"> • Maximize profit • Maximize growth rate 		<ul style="list-style-type: none"> • Gain new business opportunities to make profit

Since 1998, MSCSP has been involved in maize processing operations; buying maize ears from producers at a subsidized price and then selling the maize grains after processing to poultry producers at a subsidized price. Since 1998, the company receives a direct subsidy from the Ministry of Agriculture (MOA) to cover the cost of this policy. According to the MOA, the aim of this policy is to provide poultry producers with a cheap source of grain to maintain poultry prices at affordable levels for consumers.

The estimated CIF-Baghdad price of maize is US\$137/ton (based on the FOB US Gulf price of No. 3 Yellow Corn (US\$105 in April 2003) +30% for freight, handling and insurance). This price is equivalent to about ID 245,700/ton. This means that, at the estimated CIF-Baghdad price, the company is not subsidizing maize producers since the procurement price and the estimated CIF price are very close. However, the major subsidy is directed to poultry producers through selling the maize grain at a price lower than the CIF price by US\$ 37/ton. In other words, poultry producers will be receiving a direct price subsidy equivalent to US\$ 37 per metrics ton.



Figure 1: Maize Subsidy Levels by MSCSP

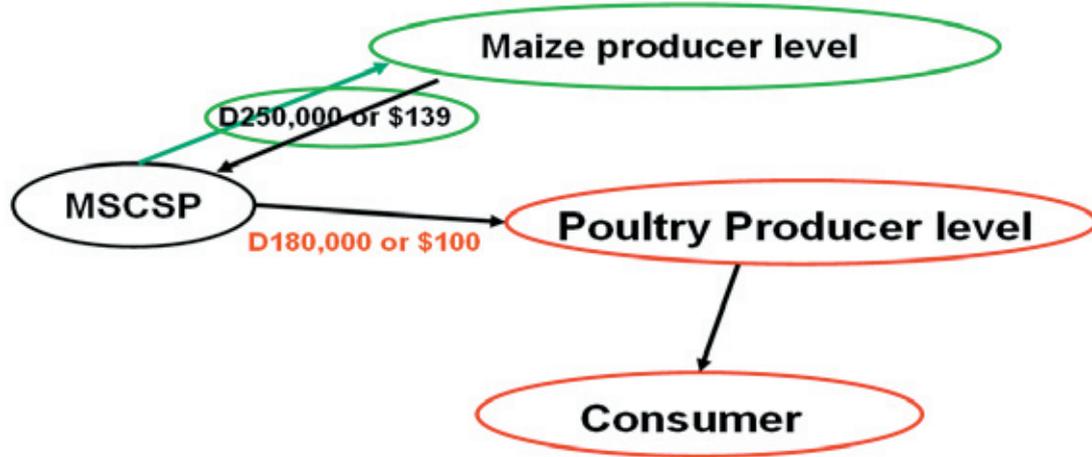


Figure 1 above shows the structure of the maize subsidy provided by MSCSP. According to the company's plan of this year, the maize ears will be purchased from farmers at a price of ID 130,000/ton or US\$72.2/ton (in terms of maize grains, after processing, this is equivalent to ID 250,000/ton or US\$139/ton). The company is planning to sell the maize grain to poultry producers at ID 180,000/ton or US\$100/ton as shown in figure 1.

At present, MSCSP is requesting funds from the MOA to cover the cost of the proposed subsidy for this season (2003/2004). According to the company's estimates, a sum of ID 4.00 billion or US\$ 2.22 million will be needed to cover the subsidy for the current financial year. Table 10 shows the detailed calculations of the needed subsidy for the maize processing operation only. The table shows that MSCSP is intending to purchase a sum of 100,000 tons of maize ears at a price of ID 130,000. The cost of converting one ton of maize ears to grain is about ID 8,044 or UD\$ 4.5 per ton. The table also shows that the breakeven price of maize which will cover the processing and administration costs of the company is ID 265,470 or US\$ 147.5 per ton.

Table 10 Estimation of needed subsidy for maize operation (2003/2004)

Item	ID	US\$
Expected amount of procurements from farmers (tons of maize ears)	100,000	
Percentage of impurities (10%)	10%	
Net procured amount of Maize ears (unprocessed maize)(tons)	90,000	
	ID	US\$
Expected producer's price according to MOA (2003) (per ton of maize ears)	130,000	72.2
Sub-Total cost of procurement (ID) (1)	11,700,000,000	6,500,000.0
Total expected costs incurred by MSCSP		
Salaries and fringe benefits (ID)	273,983,003	152,212.8
Operational costs (ID)	300,000,000	166,666.7
Other costs (ID)	150,000,000	83,333.3
Sub-Total expected costs incurred by MSCSP for maize processing (2)	723,983,003	402,212.8
Total costs of the whole operation (1+2)	12,423,983,003	6,902,213
Expected Revenues	ID	US\$
Expected volume of processed maize @52% (tons)	46,800	
Proposed subsidized selling price to poultry producers(ID/ton)	180,000	100.0
Expected Revenues @ the subsidized price (ID) from selling the maize grain	8,424,000,000	4,680,000.0
Needed subsidy to breakeven	3,999,983,003	2,222,213
Breakeven price to cover all costs	265,470	147.5

In the course of presenting the results of this analysis to his Excellency the Minister of Agriculture, the Director General of MSCSP stated that the company can raise the selling price to poultry producers to reduce the subsidy. The DG added, that the selling price can be raised up to ID 220,000 instead of the proposed price of ID 180,000. As requested by his Excellency, the consultant conducted several scenarios for raising the selling price of maize grains to poultry producers. The results are presented in table 11. The table shows that at a price of ID 220,000 the amount of needed subsidy to breakeven would be ID 2,128 million (US\$1.182 million). However, if the price of maize is raised to ID 240,000 then the amount of needed subsidy would be decreased to ID 1,192 million (US\$ 662 thousand).

Table 11 Estimation of needed subsidy for maize operation at different selling prices to poultry producers

Expected Revenues (Scenario #1)	ID	US\$
Expected volume of processed maize @52% (tons)	46,800	
Proposed subsidized selling price to poultry producers(ID/ton)	200,000	111.1
Expected Revenues @ the subsidized price (ID) from selling the maize grain	9,360,000,000	5,200,000
Needed subsidy to breakeven	3,063,983,003	1,702,213
Expected Revenues (Scenario #2)	ID	US\$
Expected volume of processed maize @52% (tons)	46,800	
Proposed subsidized selling price to poultry producers(ID/ton)	220,000	122.2
Expected Revenues @ the subsidized price (ID) from selling the maize grain	10,296,000,000	5,720,000
Needed subsidy to breakeven	2,127,983,003	1,182,213
Expected Revenues (Scenario #3)	ID	US\$
Expected volume of processed maize @52% (tons)	46,800	
Proposed subsidized selling price to poultry producers(ID/ton)	240,000	133.3
Expected Revenues @ the subsidized price (ID) from selling the maize grain	11,232,000,000	6,240,000
Needed subsidy to breakeven	1,191,983,003	662,213

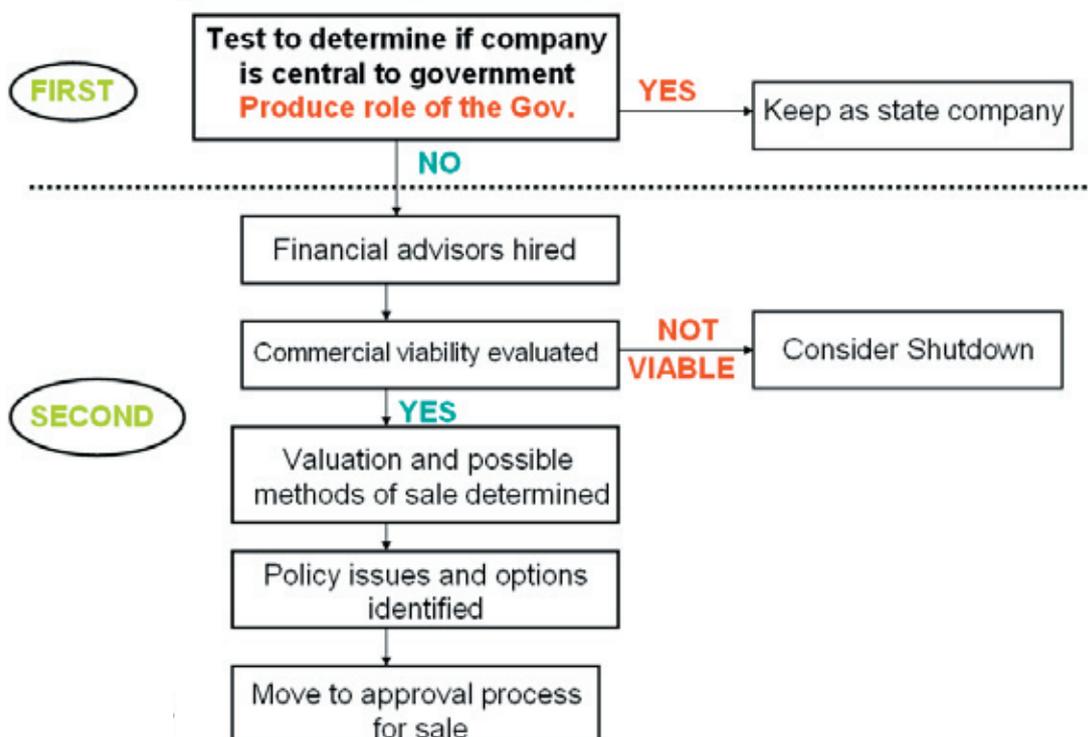
Major steps in privatization process

Previous experience in privatization of SOC suggests several step by step approach. However, this process is determined case-by-case. Many case-by-case experts separate these steps into two phases. The first phase is getting ready for privatization and the second is moving to sale. In this section of the report we deal only with the first phase which begins with the government identifying potential privatization candidates. This phase ends with the completion of a feasibility study and the government's decision on the privatization option and sale.

Figure 2 shows that the first step is the identification and selection of privatization candidates. The selection criteria depend on a country's privatization objectives and legal framework. These criteria should include a policy test to establish what should be privatized and what should remain in government hands. In the case of MSCSP the policy question that should be asked: is whether the activities of the company are core to government (i.e. is there a need for government to own or/and deliver the services and products of MSCSP?). If the answer is NO, then MSCSP becomes a candidate for privatization or shutdown. Experience of other countries shows that many governments are tightening their role in providing products and services through SOC.

As shown in figure 2, if the answer is NO then as part of the second step, the financial advisors are hired to conduct the feasibility study to evaluate the commercial viability of selling out the SOC. If the company is not viable, then it is recommended to shut it down. However, if its commercially viable, then we move to the next step in conducting the valuation and determining the possible methods for sale. This step may also involves adjusting some of the public policies related to the company in question. For instance, if there is a monopoly that should be broken up or changing regulations related to the level of participation of foreign investments. Other policy issues may include environmental aspects, labor related regulations, and government selling restrictions. Once all of these issues are identified and sorted out, the financial advisers will place a value on the firm and provide the best privatization options. The advisers report should help the decision makers in whether and how to proceed in the privatization process.

Figure 2: The Major TWO Steps for Privatization of SOC



To place a monetary value on the candidate SOC for privatization, the financial advisors may follow one of the following three methods that are commonly used in valuation of business enterprises:

1. The Net Tangible Asset method (NTA) is a balance sheet-based method and does not take into account the potential future competitive strengths of the company. The assets are valued in order to make the valuation realistic. However, the major limitation of this method is seen in the fact that it provides little or no indication of potential earnings or future competitive strength.
2. The Price Earnings Multiple method (PE): The PE method is based on a weighted average of the historical and prospective earnings. A pro forma financial statements are created which state the anticipated revenues and allocate all expenses that are required to maintain the book of company.
3. The Discounted Cash Flow method (DCF). In this method the company's future cash flows are projected over ten or more years period and then discounted back to a net present value. In this method, the discount rate used in valuations of such company's corresponds to the annual rate of return that the investor would like to receive on the privatization investment, taking into account the cost of capital, the rate of inflation and the level of risk involved in the acquisition. The discounted cash flow method is also extremely subjective in practice.

3 Methods of Business Valuation

- Net Tangible Asset Method (NTA)
- Price Earnings Multiple Method (PE)
- Discounted Cash Flow Method (DCF)

Summary and concluding remarks

The Iraqi economy will be going through a serious shifting from socialist to free market capitalism with the assistance of the international community. Some of the major steps that should be taken to ease the shifting process include liberalization of markets, reduction in government subsidies and services, structural adjustment of public sector, transparency and market orientated production system.

The number of state-owned enterprises in Iraq, including MSCSP exceeds 200 companies distributed on all sectors of the economy. As part of the shift to a free-market economy, privatization is one of the important option to improve the performance and the efficiency of the economic system in Iraq. During the 1990's, many of the Eastern and Central European countries privatized thousands of state owned enterprises. Three main types of privatization have been followed in these countries: capital privatization, privatization through liquidation, and privatization through the National Investment Funds (NIF) Program. The approach applied to each enterprise depends upon the company's annual turnover, projected financial and production indicators, number of employees, and the interest by Polish and foreign investors.

Several measures of privatization were identified including the sale of public assets to private investors, public-private partnerships, incentives/guarantees for private sector, transfer of public service delivery to NGOs, contracting-out, management and/or employee buyouts, debt-equity swaps, and build-operate-transfer (BOT) arrangements.

Appropriate implementation of privatization process involve several sequential steps. It is crucial to establish an appropriate institutional framework to facilitate the privatization process. Among other steps, this will require removal of structural obstacles such as absence of well developed financial and capital markets.

Experience of other countries revealed that privatization will lead to an increase in the supply of goods and services that were in short supply due to the monopolies of SOCs in production and marketing. Privatization will also lead to increased industrial capacity utilization, profitability, and higher employment levels in the privatized enterprises. However, privatization will also hurt certain vulnerable groups such as low-income strata following the removal of government subsidies or eliminating price control.

The cornerstone of the privatization process is the valuation method used in placing the monetary value on SOC in question. The MSCSP owns lots of property scattered all over the country. The value of some of these assets and other capital resources such as land and buildings has increased tremendously over the last decade since the establishment of the company in 1992, while the value of other capital assets such as equipments decreased as a result of depreciation. To tackle this crucial issue, professional financial advisors should be hired to avoid undervaluation of MSCSP assets and to avoid spending more funds on preparing



and restructuring the company for privatization. The valuation process of government business enterprises is often complicated by the special conditions that are associated with the sale, especially where there is to be dramatic changes in the industry structure and competitive environment.

If MSCP is privatized, the prospect buyers may include: the company's employees, local investors, foreign investors, and combination of the three groups. However, specific conditions should be put in place for employee preference schemes to increase opportunity to acquire ownership on favorable terms in the form of shares and purchase of physical assets.

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1. His Excellency, Dr. Abed-Alelah Hamid Mohammad,
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