

Iraq: Land of opportunities

Iraq is a strategically located nation with an educated and enterprising population and vast natural wealth. It is poised to remerge as a global economic player and a regional political powerhouse. As political stability deepens and turmoil abates, Iraq's business climate has improved dramatically. Foreign investment is surging. Strategic and financial investors from around the world are seeking ways to invest in Iraq with reliable, experienced, well-connected partners

The Iraq reconstruction opportunity is singular in scale and scope. Iraq possesses what could prove to be the largest oil reserves in the world and it is the only important oil and gas producer in the world with the potential and the intention to increase production by a factor of four or more times over the coming decade.

Current risk status

The risk of continued conflict and instability in Iraq is evident in the scores on the Failed States Index (FSI). Developed by the US think tank Fund for Peace, this index ranks countries according to their vulnerability to violent internal conflict and societal deterioration on the basis of 12 social, economic, and political-military indicators.

For the period 2006 to 2008, Iraq received a very high score ranking as the fifth most unstable country in the world after Somalia, Sudan, Zimbabwe, and Chad. Recently, there have been some improvements and Iraq has been rated ninth in the list of unstable countries for 2011 and 2012, which has sent positive signals for opportunities in Iraq. Dr. Sami Al-Araji, Chairman of the National Investment Commission, says that Iraq has "minimum of US\$600 to US\$700 billion of investment requirements and this figure could push towards US\$1 trillion by 2022." Dunia Frontier Consultants, estimates that the amount of FDI including contracts and services flowing into Iraq totalled over US\$55 billion in 2011, up from US\$42.6 billion in 2010 and US\$28.7 in 2009. These investments have mainly been in real estate, transportation, electricity, industry, and energy sectors.

The growth in Iraqi and foreign investment has also been reflected in the development of the Iraqi stock market, which was opened in 2007. The index had a record increase of 52% in 2011.

Iraq's The Five Year (2010 – 2014) National Development Plan aims to boost the country's economic performance through enhancing political stability and security, building and improving infrastructure, promoting investment in non-oil sectors, and supporting the development of the financial sectors. The Plan involves almost US\$200 billion in investment, creating 3.5 million new jobs, and reducing unemployment by the end of 2014. In achieving these goals, the private sector can play an important role contributing to Iraq's future growth throughout the economy and larger society.

Current industry status

Oil & Energy: With the cost of oil and gas production in Iraq being among the lowest in the world, and having one of the largest oil reserves in the world, the opportunity in this sector is huge.

The Iraqi Government gave its priority to the Oil & Gas resources. In 2008, Iraq invited International Oil Companies (IOC) to pre-qualify for auction Process. Since 2008, The Iraqi Ministry of Oil has managed 4 Licensing Rounds, 15 Oil fields and 3 Gas field were awarded to IOCs. A fifth round was launched as well for Al Nasiryiah field which includes Oil extracting and building a refinery. Iraq aims to increase its daily Oil production from 2.7 to 12 mbpd.

Healthcare: Despite great measure to improve a health sector that provides universal free care, it has yet to recover from decades of conflict and neglect. It doesn't help that only 4.9 per cent of the 2012 federal budget is spent on health care which equates to around \$250 per person – about a quarter of the global average per WHO statistics. According to WHO the current doctor-to-patient ratio is very low and stands at 0.7 per 1,000 (less than a quarter of neighbouring countries). To improve this situation the country needs tens of thousands of new doctors and more than 100,000 new hospital beds.

More money could be made available from the rising oil revenues to drive the improvements, however it needs to be channelled more effectively alongside the introduction of basic skills in management, planning and administration. Private sector investment is pivotal. A number of new contracts have been signed recently with international companies and a new five-year country co-operation strategy agreement with the WHO focused on partnering the international institution to improve patient outcomes, manage the adequate financing of the healthcare system and guarantee universal access.

Transportation: Much of the Iraqi transportation infrastructure was built in the 1970s and 1980s, and needs extensive rehabilitation and replacement. Improving infrastructure will be a key element for opening Iraq to other markets throughout the Middle East and Europe. The Iraqi Government has commenced with plans to develop new railways and port infrastructure, and upgrade existing roads and aviation infrastructure. This has led to increased investment opportunities allowing the transfer of knowledge and expertise in areas including technical infrastructure, operations and management, security, and concessions of various modes of air, land and sea transportation.

Telecommunication: Mobile phone usage has increased drastically in Iraq, with the number of mobile phone users reaching 27 million in 2012. Iraq's national mobile operators such as Korek, Asiaccell and Zain have been growing in recent years and are in the process of being listed on the Iraqi Stock Exchange. In the coming years, the mobile phone industry and wider telecommunications sector will be a key area of investment as technology, software, hardware and infrastructure improves throughout the country. Market analyst Informa Telecoms & Media predicts that Iraq will become the largest 3G market in the Middle East by the end of 2015.

For the 3G, the Communication and Media Commission (CMC - a Ministry of Telecommunication division) has proposed 2 options, either selling the 3G licenses to the present Iraqi Mobile Providers or to launch a Bidding Round. No decision has been made so far. For 4G, the CMC is intending to launch a Broadband Licensing Process by the beginning of 2014.

Construction & Infrastructure: The construction and engineering sectors are key to the reconstruction of houses, facilities, and infrastructure in Iraq. According to the National Development Plan, the government allocated US\$31 billion to improving housing buildings, and further funds to improving infrastructure. Iraq's National Investment Commission is also heavily seeking private investments in various infrastructure and housing projects, creating many opportunities for foreign investment. Government procurement practices are maturing, but investment prioritization, tendering and decision making still remains challenging. Contracting need to consider risk sharing, the creation of local content and how work is packaged up to make it worth while for the international companies to invest.

Socioeconomic status

The growth of the economy, stabilisation of society, rebuilding social infrastructure and reform of administrative bodies will all help to improve the situation for the Iraqi people.

The World Bank and the International Monetary Fund (IMF) predict GDP will grow by 12% in 2012 and 10% in 2013 onward, driven primarily by rising oil production and higher oil prices over the forecast period. Economic growth will be buttressed by robust

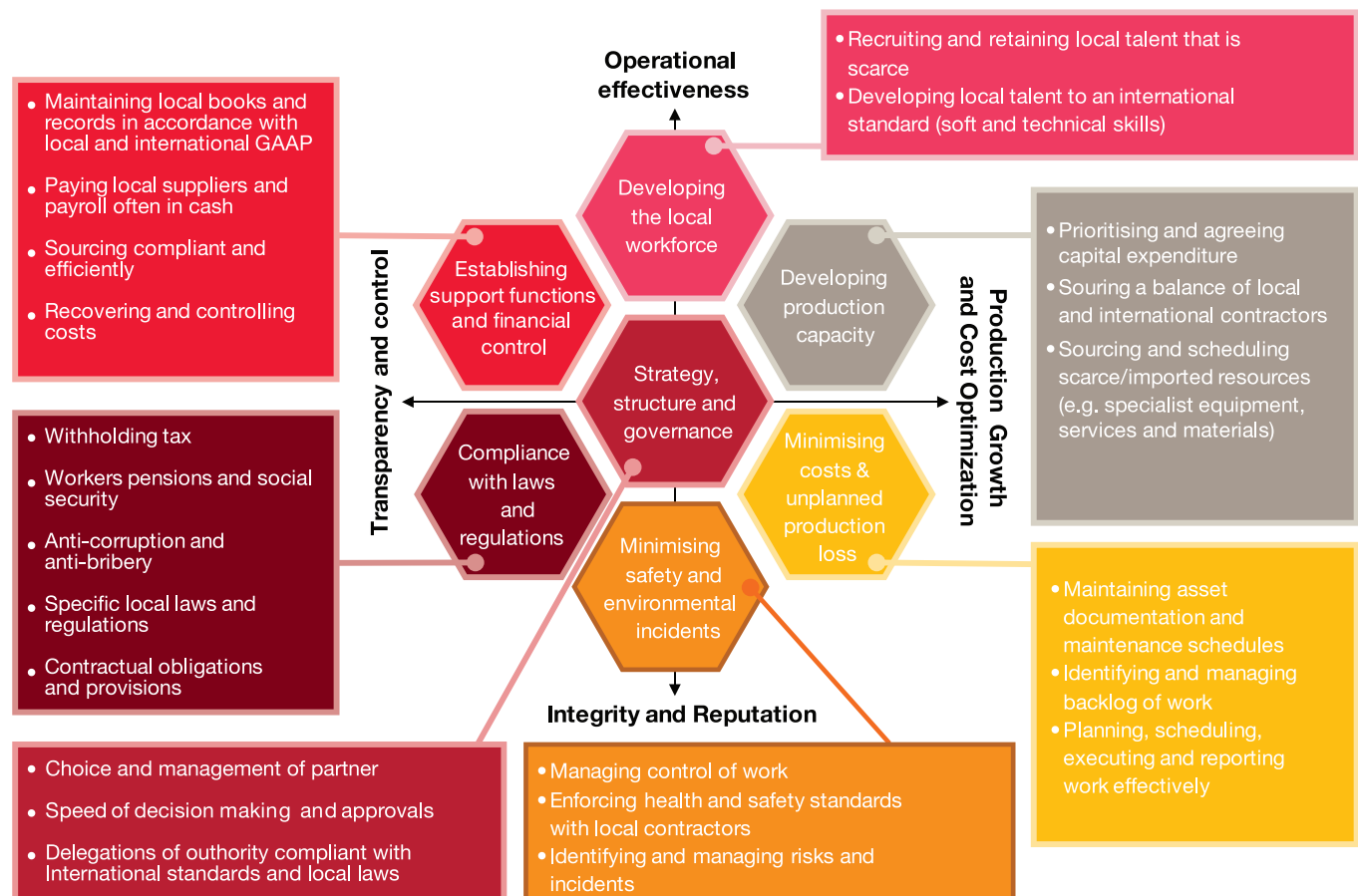
increases in government expenditures. Iraq's 2012 capital budget is up nearly 35% over the previous year, and with mounting pressure to provide basic services the government is expected to expend a larger proportion than this allocation. According to Iraq's 2010-2014 National Development Plan, Iraq must mobilize \$186 billion in investment, create 3.5 million new jobs, and cut unemployment by half from 15 percent. Priority sectors include oil, electricity, agriculture, transportation, telecom, education, health care, construction, and the industrial sector. Non-oil sector growth will be dependent on the reconstruction and development of decrepit infrastructure throughout the country. Improving electricity generation capacity, which currently stands at around 60% of estimated demand, is critical to non-oil sector growth.

How are we helping?

At PwC, we are committed to being a part of shaping the prosperous future of Iraq and its people. In recent years we've been fortunate to take part in various initiatives and projects benefiting Iraq and its people. We have been part of the restructuring and reform processes for various government bodies and banks throughout Iraq. We have also been heavily involved in supporting the new joint ventures who are challenged with growing sectors such as Oil & Gas, Financial Services and Government. We strongly believe, the transfer of skills and knowledge is essential to sustaining Iraq's growth, as the Iraqi workforce is the most valuable asset for its future. And, through PwC's Middle East Public Sector Institute (MEPSI), we have been contributing towards building national capacity through training employees in a range of vocational courses including leadership, soft skills and technical skills such as HR, finance and accounting, change management, strategic planning, and government specific knowledge.

We have been very active in Iraq since 2006 and have 2 offices in Erbil and Baghdad. We are now in the process of setting up a permanent office in Basra. We operate across the country utilizing our local, regional and international resources with around seventy people working currently across Iraq.

Key challenges to consider in Iraq



www.pwc.com/middle-east

This publication has been prepared for general guidance on matters of interest only, and does not constitute professional advice. You should not act upon the information contained in this publication without obtaining specific professional advice. No representation or warranty (express or implied) is given as to the accuracy or completeness of the information contained in this publication, and, to the extent permitted by law, PricewaterhouseCoopers does not accept or assume any liability, responsibility or duty of care for any consequences of you or anyone else acting, or refraining to act, in reliance on the information contained in this publication or for any decision based on it.

©2012 PwC. All rights reserved