

Signing of Japanese ODA Loan Agreements with Iraq: Building a base toward inclusive growth and supporting administrative and financial reform

On October 26, the Japan International Cooperation Agency (JICA) signed loan agreements with the Government of the Republic of Iraq in Baghdad to provide Japanese ODA loans of up to a total of 57.22 billion yen for two projects.

Having the fifth largest crude oil reserves in the world and the 12th largest natural gas reserves, Iraq is blessed with natural resources, and the country's economic structure depends heavily on the oil and gas sectors, which account for 93 percent of revenue and 98 percent of exports. Given this situation, the reduction in crude oil revenue accompanying the dropping price of oil in recent years, increased public expenditure for maintaining security in response to armed insurgents and other factors have resulted in a fiscal deficit from 2013 to 2016 while the sovereign debt ballooned from 32 to 64 percent between 2014 and 2016, making administrative and financial reform a priority.

Due to repeated wars and economic sanctions since the 1980s, the country's infrastructure facilities have seriously deteriorated. Despite being the base for all socioeconomic activities, electrical power is chronically short in supply, greatly hindering the restoration of social stability and economic reconstruction.

Given these conditions, the Government of Iraq has set the objectives of strengthening the power supply system, which is the country's social foundation, to meet the power demand in the "National Development Plan 2013–2017," and is advancing administrative and financial reform as laid out in "Strategic Priorities in Ministries: 2014–18 Action Plan."

A summary of the two Japanese ODA projects provided by the loan agreements is as follows:

- (1) Electricity Sector Reconstruction Project (Phase 3) (loan amount: 27.22 billion yen)
- (2) Fiscal Reform Development Policy Loan (II) (loan amount: 30 billion yen)

Details for the projects are provided below.

(1) Electricity Sector Reconstruction Project (Phase 3)

(a) Objective and Summary

The project will construct substations (132 kilovolts) in Baghdad Governorate and surrounding areas, a power supply hub in Iraq, and install mobile substations (132 and 33 kilovolts) in Anbar Governorate, which has been affected in recent years by combat with extremist organizations, with the objective of improving the stability of the power supply. The loan funds will be allocated to the construction of the substations, the supply of the mobile substations, and consulting services (including basic design work, bidding assistance and construction supervision).

(b) Background and Necessity

Due to the effects of three wars and many years of economic sanctions since the 1980s, destruction and deterioration of the power infrastructure is marked, and only around 62 percent of the domestic demand for power can be supplied. Areas, such as Anbar Governorate in western Iraq, that have been directly affected by combat with extremist organizations have in particular had severe damage to the power facilities, especially substations, and improving the power supply in conjunction with returning internally displaced persons is a priority.

The power supply in Iraq is dependent on power generation facilities in the central and southern parts of the country where security is relatively stable. The central part of Iraq, where Baghdad Governorate is located, plays the role of a hub that supplies power generated in the central and southern areas throughout the country on 400-kilovolt and other high-voltage transmission lines. The central area is also experiencing an increase in population due to an influx of internally displaced persons affected by combat with extremist organizations and has a rising need for power facility infrastructure.

The project is expected to quickly restore the power supply capacity to conflict-affected areas.

(c) Executing Agency

Ministry of Electricity

Address: MOE Building, Baghdad, Republic of Iraq

(d) Planned Implementation Schedule

1. Completion of project: August 2021 – when the facilities are put into service
2. Issuing of letters of invitation for consulting services (including basic design work): January 2018

3. Tender announcement of initial procurement package for international competitive bidding on project construction:

Procurement package title: 132kV Mobile Substation

Planned release date: February 2018

(2) Fiscal Reform Development Policy Loan (II)

(a) Objective and Summary

By streamlining the public expenditure of the Government of the Republic of Iraq, improving energy efficiency, and addressing reform issues in state-owned enterprises, the program will improve the country's fiscal condition, thereby promoting economic stabilization in Iraq. The first stage of this program (loan signed in March 2016 for 25 billion yen) was co-financed by the World Bank.

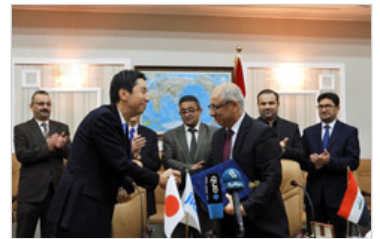
(b) Background and Necessity

There is an on-going fiscal deficit in Iraq due to issues that include a reduction in crude oil revenue accompanying the drop in the price of oil in recent years, increased expenses for maintaining security in response to armed insurgents, and rising expenditures to provide emergency aid to internally displaced persons, and the sovereign debt has ballooned, making administrative and financial reform for fiscal reconstruction a priority. If the fiscal deficit is to be reduced, management of the budget, expenditures and the sovereign debt must be strengthened, and steps must be taken to streamline and increase the efficiency of state-run enterprises and the natural resource and energy fields, which involve a large fiscal burden.

One of the major factors in the fiscal deficit is the amount of salaries and pensions paid to current and retired government and state-owned enterprise workers, which account for approximately half of the labor force in Iraq. Reforms are needed in the public worker employment and pension systems due to problems that have arisen, such as fraud in the payment of wages and pensions.

Due to increased borrowing to finance the ongoing fiscal deficit, Iraq faces the challenge of addressing public finance management and debt management.

The import of natural gas as a fuel for thermal power stations and power tariff subsidies are also a large strain on the country's finances. Because no progress is being made on the provision of equipment to capture associated gas that escapes during the crude oil production process, approximately 70 percent of that gas is lost to the atmosphere. If that



signing ceremony

incidental gas could be captured and used for the production of electricity, it is estimated that approximately six billion dollars worth of natural gas imports could be reduced from fiscal expenditures each year while producing approximately 6.5 gigawatts of additional power, making the effective use of associated gas a priority.

There are approximately 170 state-run enterprises in Iraq in which administrative transparency is an issue and which compete with the private sector. Reforms to such companies are therefore needed to advance economic efficiency.

(c) Executing Agency

Ministry of Finance

Address: Ministry of Finance Building, Baghdad, Republic of Iraq

(d) Planned Implementation Schedule

1. Completion of plan: January 2018, with completion of the loan disbursement

2. Issuing of letters of invitation for consulting services: No hiring of consultants is planned for this program.

3. Tender announcement of initial procurement package for international competitive bidding on construction: No work in conjunction with bidding is planned for this program.

Terms and Amounts of Loans

Project title	Amount (million yen)	Annual interest rate (%)		Repayment period (years)	Grace period (years)	Procurement
		Project	Consulting services			
Electricity Sector Reconstruction Project (Phase 3)	27,220	Yen LIBOR + 5 bp	0.01	15	5	General untied
Fiscal Reform Development Policy Loan (II)	30,000	Yen LIBOR + 5 bp	-	15	5	General untied
Total	57,220					