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Report on the second field trip by short-term specialists for the
Third-Country Training Program in Jordan for the Institutional System and
Regulation for Iraq (Use of private energies and tariff issues)

This document reports on the second field trip from 12 to 26 March 2006.

1. Holding of the third workshop

The third workshop (WS) was held for the five-day period of 19 - 23 March 2006 with the participation of eight personnel from Iraq, two personnel from Jordan's National Electric Power Company (NEPCO), and five personnel from the Japan International Cooperation Agency (JICA). Table 1 shows the schedule.

In advance of the third WS, the Iraqi side was urged to reconsider the membership of its delegation because of the difficulties resulting from the extensive change of members for the second WS. There was improvement in this aspect, because the Iraqi participants included three ranking officials in the Ministry of Electricity (MOE), two of whom (Messrs. Adel K. Alkaysi and Hassen Kadhm Azil) had led the Iraqi delegations of the first and second WS, respectively (the Iraqi participants are listed in the attachment).

The ultimate target of the WS was to compile a vision based on the tentative plan prepared in the second WS, and to define the themes of technical assistance (TA) for the coming fiscal year. An agreement was reached with the Iraqi side to implement two TA programs next fiscal year.

Table 1: Workshop schedule

Date	Day	Time	Subject	Presenter
3/18	Sat.	PM	Arrival of the Iraqi participants in Amman	
3/19	Sun	9:00	1) Opening remarks and introduction of participants	NEPCO
		9:30	2) Approach to promotion of the WS	JICA
		10:00	3) Progress of the Steering Committee (SC)	Iraqi side

		11:00	4) Review of the Discussion of the Second Workshop)	Ishiguro
		13:30	5) Counterproposal for the vision of institutional reform	Iraqi side
3/20	Mon.	9:00	1) Formulation of JICA ISR Project for 2006	Niwa
		11:00	2) Vision for Institutional Development of Iraq's Power Sector)	Ishiguro
1/21	Tue.	9:00	1) Ideas of TA Theme for FY06	Ishiguro
		11:00	2) Examination to narrow down the candidate TA themes for FY06	All participants
		13:30	3) Examination to narrow down the candidate TA themes for FY06 (continuation)	
1/22	Wed.	9:00	1) Consultation on the substance of TA themes for FY06	All participants
1/23	Thru.	9:00	1) Consultation on the FY06 implementation setup and conditions	All participants
		14:00	2) Exchange of memoranda	

1.1 Progress of the Steering Committee (SC)

The SC activities remain at a standstill. After the change of government, the SC appears to have been in effect completely detached from the MOE.

The SC was established in a TA program executed by the United States Agency for International Development (USAID), and there is a very big perception gap between the MOE and the SC. The USAID TA is essentially premised on the promotion of far-reaching structural reform, while the MOE leadership is attaching top priority to rebuilding of the power supply setup. For this reason, the MOE believes that the approaches to the use of private energies and tariff issues under study by the SC ought to be taken up only after it has become possible to provide a full supply of power.

In addition, the SC is losing the underpinning of its subsistence due to the current lack of smooth coordination between the MOE and the USAID. The SC may possibly be on the verge of virtual collapse.

1.2 Review of discussion in the second WS

The discussion in the third WS began with a review of the second WS, with an emphasis on reaffirmation of the importance of preparing a target vision for institutional reform and the process (milestones) to its attainment in the minds of the participants. As a result, the participants basically accepted the approach of preparing a vision and identifying the problem points involved.

Although there are certainly some differences of perception among the participants on individual points, there was a consensus on the orientation of reform in the overall framework, and any major difficulties on larger issues were resolved. For example, the MOE side feels strong resistance to the term “structural reform,” but perceptions were aligned when it was explained that the term merely meant an institutional modification for adaptation to the social and economic circumstances, in the interest of improvement.

1.3 Iraqi counterproposal for the vision for institutional reform in the power sector

Iraqi side presented a counterproposal for the vision for institutional reform, which was the theme of the previous WS. The counterproposal was not compiled in written form.

The oral presentation focused on technical issues of urgent importance, and did not go beyond the need for the rebuilding of facilities and the education of engineers required for that job. There was a distinct impression that the presentation was more or less a listing of immediate needs (see Table 2).

The counterproposal therefore differed fundamentally from the logical approach set forth in the second WS, i.e., identification of problems in the course of reform looking to the future, and determination of the themes of TA to be furnished by the JICA by establishing priorities in resolving them. For this reason, we rearranged their opinions and put them into a form matching the flow of vision preparation, proposed the preparation of a TA draft including other institutional problems, and then temporarily discontinued the discussion.

Table 2: Fields of support requested by the Iraqi side (counterproposal for the reform vision)

<p><u>Generation:</u></p> <ul style="list-style-type: none"> • Computerized Maintenance & management system • Welding technology • Inspection system • Safety regulation in power station • Boilers & pumps maintenance training
<p><u>Distribution:</u></p> <ul style="list-style-type: none"> • Metering • Tariff scheme • Reduction of technical loss

<ul style="list-style-type: none"> • Collection of tariff • Improvement of Power factor • Computerized maintenance system • Establishment of maintenance laboratories
<p><u>Transmission:</u></p> <ul style="list-style-type: none"> • Linesman training • Lifeline maintenance
<p><u>Cross-cutting issue:</u></p> <ul style="list-style-type: none"> • Finance & administration (International accounting system Standards) <ul style="list-style-type: none"> ➤ Under the EG-II project, a total of 60 persons is to receive a training of financial planning in Egypt. <ul style="list-style-type: none"> ✧ Loan & cash flow analysis • Research and development

1.4 Examination of future TA themes

We prepared a tentative proposal for exploration of the TA themes within the flow of power sector reform, taking account of the fields for support in the vision proposed by the Iraqi side (see Table 3). In the selection of TA themes, we loosely circumscribed the fields of support in order to preserve the framework of institutional reform at all costs, and added items that would be linked to assistance for this reform.

This tentative plan served as the basis for continued examination of content with the Iraqi side. Eventually, an agreement was reached on the execution of the following two programs in fiscal 2006.

- Program B-1: Increase of revenue and reduction of outlay
- Program C-2: Enhancement of organizational capacity

Program B-1 is aimed at expansion of service revenue through correction of tariff problems and reduction of power loss. Program C-2 consists of a continuing review of the vision for structural reform to build up the organizational capacity, initiatives for strengthening the ruling and administrative capabilities of the MOE, and instruction in quality control measure

Table 3: Circumscription of fields for JICA TA in FY06

Category A: To Revamp Destroyed Facilities	Category B: To improve the financial position	Category C: To Prepare for the Next Steps
Program A-1: Planning for reconstruction -Diagnosis of existing facilities (JICA, UNDP) -Short-term demand forecast (or allocation of power supply) (USAID) -Short-term power development (USAID) -Installation of new generators (GOJ, UNDP, US, DFID) -Reinforcement of network (ibid) -Fund procurement (ibid) -- Grant -- Concessional loans (IBRD, JBIC etc.) -Necessary training (Outside this TCTP, JICA will continue the ongoing training programs in Japan and Egypt)	Program B-1: Increase of revenue and reduction of outlay -Appropriate tariff scheme -- Real cost of power supply -- Depreciation, O&M, and fuel -- Necessary cost for future investment -- New investment cost -- Construction cost -- Fundraising cost -Loss reduction -- Reduction of technical loss -- Optimization of networks -- Reduction of non-technical loss (Lessons and learns of neighboring countries are important.) -- Metering system or alternatives (e.g., prepaid card system) -- Billing and collection	Program C-1: Detailed road map for the institutional development -Establishment of the national power corporation (Mid-term target) -- Roles, functions, and responsibility -- Prospect for the balance of revenue and cost, and necessity of subsidies -- Status of staff and employees -Introduction of IPPs (Mid- and long-term target) -- Risk analysis and risk allocation -- Power purchase agreement -- Fuel supply agreement
Program A-2: Modernization of facilities -Optimization of network -- Transmission and substations -Improvement of maintenance system -- Computerization -Improvement of safety conditions -- Safety code		Program C-2: Enhancement of organizational capacity -Road map for the institutional development -- Revision of the vision: Structure of the industry -- Single- or multiple-buyer system??? -- Corporatization, equitization, or privatization??? -- Use of private energies (e.g., contract-out and BOT schemes) -Corporate governance -- Finance and accounting -- Rules of organizational management -- Evaluation of staff performance -- Motivation -- Quality assurance

2. Implementation setup for fiscal 2006

The prospective Japanese commitment requires one specialist in the field of reduction of loss in the transmission and distribution network, and another in that of further study of the vision and examination related to tariffs and investment. The latter specialist would also be responsible for overall coordination and supervision, and for documentation.

The NEPCO is in charge of training in the specific programs (or sub-programs). Thus far, it has achieved significant results in areas such as reduction of loss, establishment of independent power producers, and construction of a financial management system. This is anticipated to make a vital contribution to the TA.

3. Future issues

In the negotiations for selection of TA themes for fiscal 2006, there surfaced some friction between the JICA and Iraqi sides in regard to the NEPCO's involvement. The Iraqi side is keenly aware that their country is one of the major powers in the Middle East, and has a latent sense of superiority to Jordan, which they consider Iraq's "little brother."

In this connection, the MOE leadership clearly manifested a mindset that

would not accept the idea of learning from Jordan, as a matter of pride. The Iraqi personnel were instead inclined to learn directly from Japan and the developed countries of North America and Europe; it would be hard for them to accept instruction from NEPCO specialists.

Considering the practical issues, however, the NEPCO's experience holds many pointers for future problem-solving in Iraq. Both countries share a Middle Eastern cultural background, and Iraq will probably proceed down the path already traveled by Jordan. In light of these factors, the NEPCO should be able to make a big contribution.

The deep Iraqi pride underscores the need for special attention in TA promotion. Certain measures could be taken in seminars held in the TA program. For example, even if the instructor is a NEPCO specialist, resentment could be curtailed by having a Japanese specialist on hand to exercise the leadership, preside over the overall proceedings, and summarize conclusions.

It should be added that this problem derives from the outlook of the three ranking officials who led the Iraqi delegation, and that the first two of them will probably be reassigned under the new administration. It may also be observed that the instruction will actually be received by on-site personnel, not such ranking officials. This suggests that problems could be avoided as long as sufficient care is taken in the conduct of the seminars.

Attachments

- List of the membership of the Iraqi delegation
- Presentation Material 1: Review of the Discussion of the Second Workshop
- Presentation Material 2: Vision for Institutional Development of Iraq's Power Sector
- Presentation Material 3: JICA Technical Assistance for the Next Phase
- Draft Outline of the Vision for Institutional Development in the Power Sector of Iraq

List of Iraqi participants