

Ex-ante Evaluation

1. Name of the Project

Country: The Republic of Iraq

Project: Crude Oil Export Facility Reconstruction Project

(Loan Agreement: January 25, 2008; Loan Amount: 50,054 million yen; Borrower: The Government of the Republic of Iraq)

2. Necessity and Relevance of JBIC's Assistance

In the aftermath of many years of economic sanctions and conflicts, which have left deep scars in its economy and society, Iraq has begun to move toward reconstruction with assistance from the international community after the war.

The oil sector is Iraq's largest key industry, accounting for about 70% of its GDP and about 80% of its annual revenue. Additionally, the petroleum sector is about the only source of foreign exchange. Consequently, in its national development strategy of 2005–2007 adopted in June 2005, the Government of Iraq identifies development of the oil sector as its top priority for strengthening the basis of economic growth. The Ministry of Oil plans to gradually raise Iraq's crude oil production capacity from the present 2 million barrels per day to 6 million over the next 10 years. To reach that goal, the ministry estimates that it will need to invest an additional 20 billion dollars or more in related facilities, including those required for producing and exporting crude oil. However, given the lack of public safety and other concerns, it is unclear whether adequate investment funds can be raised by the private sector alone.

Most oil related facilities in Iraq were built in the 1970s, but as a result of repeated wars that have ravaged the country, there have not been any significant new investments and operation and management have been all but neglected. Consequently, the reliability and capacity of these facilities have been drastically reduced. The decline in reliability of the crude oil export facility off the Fao coastline in the southern province of Basra, which accounts for about 80% of Iraq's crude oil exports, is especially serious due to aging. When, in addition to the situation off the Fao coastline, the plan for increasing the country's crude oil production capacity going forward is considered, it becomes clear just how inadequate the current installation capacity of 2.10 million barrels per day is. Thus, keeping the oil related facilities in Iraq operational and expanding their capacity have become one of the most pressing issues facing Iraq.

In the International Conference on Reconstruction in Iraq held in Madrid in October 2003, besides grand aid amounting to \$1.5 billion for urgent reconstruction of Iraq, the Government of Japan pledged a total of \$3.5 billion in yen loans to support medium-term reconstruction after 2005. Additionally, in JBIC's Medium-Term Strategy for Overseas Economic Cooperation Operations (April 2005), one of the sectors is the assistance it provides for efforts being made to solve global problems and build peace. Consequently, the support for Iraq, where social instability continues even after major conflicts have ceased, is consistent with JBIC's assistance policy.

JBIC's support for the project is therefore highly necessary and relevant.

3. Project Objectives

This project aims to stabilize and strengthen Iraq's crude oil export capacity, the lifeline of the Iraqi economy. This will be achieved by constructing a pipeline connecting an inland crude oil storage and shipping facility to an offshore shipping terminal in the crude oil export facility off the Fao coastline in the southern province of Basrah, whose reliability and capacity have been reduced due to aging. In this way, the project will contribute to Iraq's economic and social reconstruction.

4. Project Description

(1) Target Area

Fao, Basrah Province, and its offing

(2) Project Outline

- (a) Construction of a new pipeline and an offshore shipping facility (SPM: single point mooring)
- (b) Consulting services

(3) Total Project Cost / Loan Amount

60,261 million yen (Yen Loan Amount: 50,054 million yen)

(4) Schedule

January 2008–June 2012 (54 months). The definition of project completion is “when the facilities are delivered.”

(5) Implementation Structure

- (a) Borrower: The Government of the Republic of Iraq
- (b) Executing Agency: Ministry of Oil (MOO)
- (c) Operation and Maintenance System: South Oil Company (SOC)

(6) Environmental and Social Consideration

(a) Environmental Effects / Land Acquisition and Resident Relocation

(i) Category: A

(ii) Reason for Categorization

This project falls into a pipeline sector project under the “Japan Bank for International Cooperation Guidelines for Confirmation of Environmental and Social Considerations” (established in April 2002). Thus this project is classified as Category A.

(iii) Environmental Permit

The Environmental Impact Assessment (EIA) report related to the project was approved by the Ministry of the Environment of Iraq in August 2006.

(iv) Anti-Pollution Measures

The executing agency will take appropriate steps to deal with any impact, including dredging, gas emission and drainage, the pipeline construction work may have on the surrounding environment.

(v) Natural Environment

The project site is not located in or around any sensitive areas such as natural preserves. Thus any adverse impact on the natural environment is assumed to be minimal.

(vi) Social Environment

This project will be implemented within an area owned by the executing agency, and so it will involve neither land acquisition nor resident relocation.

(vii) Other / Monitoring

Before the construction work starts, the project's consultant will carry out an environmental baseline survey to determine the current state of the environment in the project site and the surrounding area. Water quality, noise, surrounding ecosystem, etc. will be monitored by the Ministry of Oil during the project, and by South Oil Company after project completion.

(b) Promotion of Poverty Reduction

None

(c) Promotion of Social Development (e.g. Gender Perspective, Measures for Infectious Diseases, Including AIDS, Participatory Development, Consideration for the Handicapped, etc.)

None

(7) Other Important Issues

None

5. Outcome Targets

(1) Evaluation Indicators (Operation and Effect Indicator)

Indicator	Baseline (2006)	Target (2014, 2 years after completion)
Crude oil transmission volume (barrels/day)	1.6 million	3.0 million

(2) Internal Rate of Return (Financial and Economic Internal Rate of Return)

Since there are no benefits in terms of project unit such as revenue on pipeline tolls, the financial internal rate of return (FIRR) cannot be calculated. Additionally, since there are no valid data regarding the ripple effect of this project on the national economy and the like, the economic internal rate of return (EIRR) cannot be calculated.

6. External Risk Factors

Deterioration of law and order, etc.

7. Lessons Learned from Findings of Similar Projects Undertaken in the Past

The lesson learned from the ex-post evaluations of similar past projects is that establishing an appropriate operation and maintenance system is indispensable for ensuring smooth operation and maintenance of facilities after they are launched. South Oil Company, the operation and maintenance agency of this project, has operated and maintained this facility throughout the period of economic sanctions and before and after the conflicts, but close attention will continue to be paid to the establishment of an operation and maintenance system by including training for its staff, etc.

8. Plans for Future Evaluation

(1) Indicators for Future Evaluation

Crude oil transmission volume (barrels/day)

(2) Timing of Next Evaluation

2 years after project completion