

**REINFORCING INFRASTRUCTURE
DEVELOPMENT IN IRAQ**

**Third Meeting of the Working Group
on Infrastructure Finance in Iraq**

FINAL DECLARATION AND ACTION PLAN

MENA-OECD INVESTMENT PROGRAMME

Paris, 4-5 November 2010



FINAL DECLARATION

Pursuant to the mandate approved at the 21 November 2009 conference on infrastructure finance held in Baghdad, and the action plans approved at the first and second meetings of the Government of Iraq (GoI) Working Group on Infrastructure Finance (Amman, 17-18 February 2010 and Paris, 29-30 April 2010), a third meeting of the Working Group was held in Paris on 4-5 November 2010.

The overall mission of the Working Group, which was established by the GoI at the request of the Baghdad Conference and with the support of the MENA-OECD Investment Programme, is to assist the GoI in accessing extra-budgetary sources of finance for essential projects that would be delayed or shelved if they depended solely on government revenue. Its specific objectives are as follows:

- (1) Identify the regulatory and policy settings most likely to facilitate private sector involvement in infrastructure finance, drawing on OECD tools and principles and other sources;
- (2) Strengthen coordination efforts at the central level to enhance government capacity for defining and implementing priority infrastructure projects, including reinforced laws and regulations for procurement of services, management and leasing contracts as well as in the medium-term more advanced forms of public-private partnerships, and the institutional capacities to support them;
- (3) Support confidence building measures targeting potential private sector investors, including implementing the 2006 investment law as amended, facilitating access to land, and adherence to international trade and investment agreements and arbitration facilities (WTO, ICSID, New York Convention, FTAs, BITs);
- (4) Make recommendations on priority infrastructure needs in Iraq and appropriate financing mechanisms;
- (5) Identify issues and obstacles associated with the most applicable financing mechanisms and make recommendations to address these issues;
- (6) Identify high priority infrastructure projects based on an OECD methodology and assist GoI officials in preparing proposals and recommending implementation to the Government of Iraq.

The third meeting of the Working Group included high-level representatives from the Office of the Deputy Prime Minister for Infrastructure and six Iraqi ministries, as well as representatives from the MENA-OECD Investment Programme, MIGA, OPIC, UNIDO, the Islamic Development Bank, national lending and guarantee agencies, and other experts. Members of the Working Group noted that:

1. Since the creation of the Working Group, a list of infrastructure projects provided by the participating ministries had been subject to a preliminary ranking on the basis of a methodology developed by the Working Group. This methodology incorporated criteria such as national development strategy, priority infrastructure sectors, basic service provision, social and environmental impact, trade facilitation, and transfer of technology;
2. Six of the projects highlighted by the preliminary ranking had been selected for in-depth case study, one being considered more suitable for a development bank loan (the sewage treatment plants project of the Ministry of Municipalities), two more suitable for international bank loans (the gas-powered electricity stations project of the Ministry of Electricity, and the oil pipelines and infrastructure project of the Ministry of Oil), and three more suitable for public-private partnerships (the market complexes for product distribution project of the Ministry of Agriculture, the Grand Fao Port project of the Ministry of Transportation [with OPIC involvement], and the Baghdad-Turkey highway project of the Ministry of Construction and Housing) ;
3. Six expert groups – one for each of the six priority projects – had been created, and members were donating time to an email, audio/video conference and meeting-based dialogue intended to assist GoI officials in preparing credible PPP proposals or development bank loan applications.

Members of the Working Group called for:

1. The creation of an infrastructure fund available to support public sector implementation capacity and private experts that would supplement continued *pro bono* work on preparing loan and/or private sector led financing proposals for the selected priority projects, with support from the OECD Secretariat, the other international expert members of the Working Group, and the GoI;
2. In the short term, further strengthening of efforts by GoI ministries to provide detailed information for those of the six priority infrastructure projects suitable for PPP arrangements, such as service and management contracts or more advanced forms of PPPs, and the preparation of short and well-structured presentations for potential foreign investors, with the goal of implementing at least one early success story. Three projects are at a relatively advanced stage – those of the Oil, Electricity, and Transportation Ministries – and there is preliminary agreement of assistance by international organizations subject to the GoI sending an official letter explaining the mechanisms of assistance;
3. In a medium to long term perspective, a continuation of work intended to support GoI and private sector capacities in Iraq to prepare more complex forms of PPPs.
4. Recognition of the importance of further moves towards legislative PPP frameworks, be they horizontal or sectoral, and towards adherence to additional international trade and investment agreements and arbitration facilities, in order to build investor confidence;
5. Continued emphasis on an integrated process ensuring that ministries share their experiences amongst themselves and mutually strengthen their capacity and coordination;
6. Following ongoing work by experts and the GoI between now and March 2011, the organization of the fourth meeting of the Working Group in March 2011, with the objective of (a) reviewing and consolidating the progress achieved by the *pro bono* experts and remunerated consultants, including on the projects that received commitments in principle of support from international institutions and (b) further exploring the regulatory framework requirements for success in the more complex forms of infrastructure PPPs.

ACTION PLAN

Expert Group on the Grand Fao Port :

- Case studies of successful PPPs and BoTs illustrating what can be done to attract the private sector should be provided to the Ministry of Transportation prior to the 4th meeting of the Working Group.
- Information about the requirements of guarantee agencies and other lenders should be provided to the Ministry of Transportation prior to at the 4th meeting of the Working Group.
- OPIC should provide a sample BOT investment proposal that it supported and on which the Iraqi Ministry of Transportation could base its own request.
- The GoI should prepare an information memorandum presenting key aspects of the project to foreign investors, based on the suggested structure already circulated, including notably: the detailed cost of the project, traffic forecasts, the legal and taxation context, and GoI implementation capacity.
- The Working Group should maintain its emphasis on transparency in public procurement and related integrity issues.

Expert Group on Sewage Treatment Plants:

- The ministry representative to the Working Group on Infrastructure Finance, in collaboration with other representatives of the ministry, will prepare the necessary documents listed below for one of the sewage treatment projects and report to the Minister for approval of the project as a loan application.
- The draft documents will be prepared by December 31.
- The ministry should provide:
 - A document outlining the overall Iraqi water and sewage sectoral strategy, as well as services currently provided (involving all relevant ministries);
 - The overall long-term plan of the municipality for the city in question;
 - An account of how the project fits into the overall Iraqi strategy and the municipal plan;
 - A detailed scope of work, including technical specifications, a description of procurement policy, and the identification of the executing agency and its responsibilities;
 - An operational plan, including information on pricing, cash flow, and economic forecasts;
 - An environmental impact assessment and management plan;
 - Draft contracts in the case of a PPP or the bid documents in the case of classic procurement.

Expert Group on Electricity Stations:

- The participants of the expert group decided that they will concentrate their efforts on the Khairat power station project, which is still at an embryonic stage and will require between 1 and 1.2 billion USD in financing.
- This project, being the first to bring together the Iraqi government, the private sector and international financial institutions, shall pave the way for further transactions. It shall demonstrate the viability of such investment projects in establishing a benchmark for a private finance initiative in the Iraq investment landscape.
- The participants agreed that a letter should be addressed by the Iraqi side (represented by the Minister of Electricity) to the World Bank Group through the MENA-OECD Investment Programme. This letter will contain a formal request from the GoI for priority funding and structural advice for the execution of this project. The

proposed structuring of the transaction will include instruments made available by the World Bank Group to render the investment proposal acceptable to the investment community.

Expert Group on the Baghdad-Turkey Highway:

- Produce a strategic study of the project and alternatives, the estimated cash flow, the willingness of the public to pay tolls, environmental and political issues, and the social impact.
- Ensure at least partial GoI financing for the study.
- Aim to secure ministerial approval for the funding of the study by December 31, 2010, for inclusion in the 2011 annual budget.
- Create a joint committee of relevant government agencies and domestic/foreign private sector entities tasked with setting up a PPP regulatory framework, if such a committee does not already exist.

Expert Group on Market Complexes for Agri-food Product Storage and Distribution:

- The GoI should complete the existing feasibility study on market complexes, assisted by an Iraqi approved entity and adapt it to a specific governorate based on the following elements:
 - A comprehensive analysis of the current situation of the agricultural food distribution chain in that specific governorate,
 - A comprehensive analysis of the actors and professionals currently involved in that governorate and a proposal for improvements of the system.
- The expert group noted that the World Bank is ready to seek support to finance a new feasibility study on the project, prepared by an international consulting firm, if the GoI requests its support.

Expert Group on Oil Pipelines and Related Infrastructure:

- The private sector representatives deliberated and concluded that these two projects are high priority and potentially attractive for funding and structuring.
- It is recommended that a letter be addressed by the Iraqi side (represented by the Minister of Oil) to international financial institutions through the MENA-OECD Investment Programme indicating the intention of the Iraqi government to open the opportunity for long term extra-budgetary private sector investment. The international financial institutions will be asked to provide guidance as to key points to be addressed by the feasibility study.