

The USAID Economic Governance II Project

Briefing Note for the Minister of Electricity

1 Background

The U.S. Agency for International Development (USAID) Mission in Iraq

In assisting Iraqis with the reconstruction of their country, USAID is working with Iraq's interim government, coordinating with the United Nations, the World Bank, and International Monetary Fund (IMF) to implement a broad range of programs in education, health care, food security, infrastructure reconstruction, airport and seaport management, community development, local governance, and economic growth. The USAID Mission in Iraq carries out these comprehensive programs with the cooperation of coalition country partners, nongovernmental organizations (NGOs), and private sector implementation partners.

BearingPoint, Inc.: A Key USAID Implementation Partner

BearingPoint's presence was established in Iraq in August 2003 as part of the USAID Economic Recovery, Reform & Sustained Growth program (2003-2004); the present Economic Governance II initiative is a continuation of certain components of that work.

Vision: The program is designed to develop and implement international best practice solutions aimed at improving economic governance and creating an environment to implement a legal, fiscal, regulatory & institutional framework within which policy can be formulated to foster an investment-friendly, market-based economy.

Through this endeavor USAID has launched an extensive 3-5 year effort to provide technical assistance to all Iraqi line ministries and government spending agencies (32 government bodies) focusing on the following areas: Budget, Tax, and Customs Reform; Monetary and Macroeconomic Reform; Banking Modernization, Commercial Law Reform; Iraqi Electricity and Telecommunication Utilities; and Social and Pension Services.

By helping such government authorities as the Iraqi Central Bank, the Ministry of Finance, and the private banking sector, the aim is to stabilize the economy by equipping the government to administer a budget efficiently and transparently, develop a legal framework that encourages the private sector, and provide widespread access to commercial banks. It also stresses the need for fiscal and monetary policies and legal and regulatory reforms by rewriting customs administration and tax policies, assuring property rights and the repatriation of profits, creating clear tariff structures, and encouraging free trade.

2 Our Approach

To deliver this comprehensive, inter-related assistance, BearingPoint is working with the Government of Iraq and USAID to develop and affect institutional reforms through four primary activities:

- Institution Building: Policy and Infrastructure

- Training and Public Education
- Information Technology: Applications and Infrastructure
- Business Processes: Systems and Organization

This includes extensive face-to face consultation and collaboration with Iraqi counterparts throughout the government.

3 Past and Ongoing Support to the Ministry of Electricity

BearingPoint has been providing support to the Ministry of Electricity through its team of experienced international advisers since 2003. This was initially through the USAID Economic Governance I program. Economic Governance II began in September 2004 and the focus since then has been on capacity building activities.

3.1 Support under Economic Governance I

Electricity Master Plan: We prepared a technical development plan for the electricity sector which covers demand, fuel supply systems, generation, transmission systems and distribution systems. The Plan was accepted by the Ministry as a guideline for future investment in the electricity sector.

Financial: Our financial advisers established a new Chart of Accounts, established a new budget planning process and assisted in the preparation of the FY 2004 budget.

Training: Reflecting our emphasis on capacity building, we provided training in tariffs, finance, budgets and accounting (178 financial professionals); and ethics, fraud prevention and internal controls (211 staff).

Billing and Metering: We developed metering and billing system strategies.

Tariffs: We completed a cost of service study prepared recommendations on tariffs.

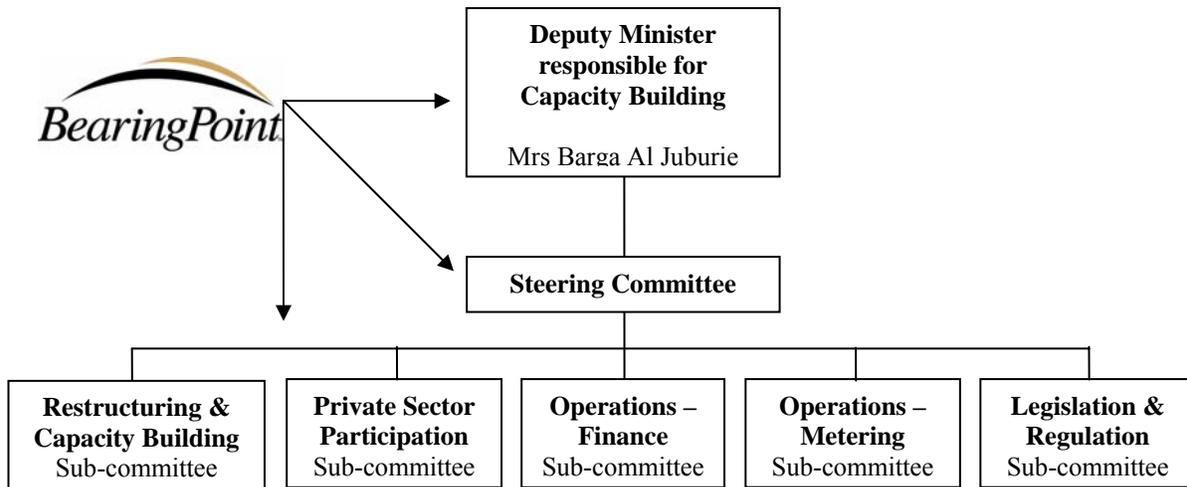
Network Planning: Provided and installed Transmission Planning software.

Legislation and Regulations: We provided assistance in drafting a certain regulations.

3.2 Current Activities

With Economic Governance II we have retained the same broad areas of support but have focused more tightly on the Ministry's priority areas. In particular the emphasis has changed from analysis of the situation to design and implementation of reforms.

Our primary contact with the Ministry is through a Steering Committee structure, illustrated below.



Legislation and Regulations: We are drafting a new Electricity Law and are in the process of setting up a “shadow” regulator within the Ministry until the law is passed to establish an independent regulator. We surveyed other regulatory regimes in the Middle East to see what lessons can be learned for Iraq.

Tariffs: We have started updating the cost of service study with the most recent figures.

Financial Information Systems: We are developing a Corporate Finance Group concept to strengthen the Ministry’s financial management capabilities. We sponsored a study tour to Egypt to review management information systems, particularly for cash management, loan tracking and financial planning.

Training: Held a Capacity Building Workshop for the Steering Committee, covering areas such as restructuring, private sector participation, international tendering, metering, financial systems and regulation.

Metering: Guided by our Metering Adviser the Ministry completed a Meter Accuracy Sample Survey to determine the average accuracy of the meters in place. We are also working to implement a Meter Population Survey which will provide important information on the type and condition of meters in place. We have identified manufacturers of solid state and prepayment meters and are organising a study tour for Ministry officials to find out how these systems work in practice.

4 Short Term Priorities for the Ministry

The priorities for the EG II project over the next three months are:

Restructuring: Agree a new operating structure, separating generation, transmission, distribution and supply, and a market model for the electricity sector.

Private Sector Participation: Work with the Ministry's Privatization Unit and other advisers to start implementing the next Build-Own-Operate (BOO) tender, a Rehabilitate-Operate-Transfer (ROT) tender and the re-tender of the billing and collections pilot management contract.

Legislation and Regulations: Submit a draft Electricity Law for consideration by the Ministry. Design the organisation of the shadow regulator and second staff to it. Map out the framework of regulations that will be needed and start drafting them.

Tariffs: Complete the cost of service update and recommend target tariffs that aim to cover the Ministry's costs. Design a transition plan to achieve the target. Provide training to MoE staff on tariffs/cost of service.

Financial Information Systems: Agree the design of the Corporate Finance Group and begin setting it up. Prepare an Implementation Plan for establishing the new financial information system in the Ministry and operating companies. Organise training for Ministry finance staff in the new systems.

Metering: Finalise the details and implementation plan for the Meter Population Survey. Agree with the Ministry a shortlist of potential meter manufacturers for solid state and prepayment meters and complete the study tour.

Master Plan: Recommend changes to the Ministry's investment planning systems and processes to ensure implementation of the Electricity Master Plan.

Additional Training: Train Ministry staff on international procurement and tendering.

5 Longer Term Priorities for the Ministry

Over the following three to 12 months the priorities for the EG II project are:

Restructuring: Agree implementation plan for the sector restructuring and initiate implementation.

Private Sector Participation: Work with the Ministry's Privatization Unit and other advisers to complete the next Build-Own-Operate (BOO) tender, a Rehabilitate-Operate-Transfer (ROT) tender and the re-tender of the billing and collections pilot management contract. Identify and prepare additional projects for private participation. Start preparation of a privatization strategy for the Ministry.

Legislation and Regulations: Establish the shadow regulator within the Ministry. Finalise the new Electricity Law and submit it to the new National Assembly following the next election. Draft the necessary regulations to support the new law. Complete the design of an independent regulatory body, to be established once the law is passed. Provide training to the shadow regulator and other Ministry staff on aspects of regulation.

Tariffs: Draft a tariff regulation to support the new tariff regime. Train Ministry staff in the approach. Develop and agree a transparent subsidy policy for the electricity sector. Start implementing the new tariff plan.

Financial Information Systems: Establish the Corporate Finance Group. Implement the new financial information modules and train up to 150 Ministry finance staff in their use.

Metering and Billing: Complete the Meter Population Survey for Resafa and update the billing records and asset records with the information. Start rolling out the survey to the rest of Iraq. Agree a meter replacement strategy and investment plan. Complete pilot projects of one or two new types of meters. Begin the process of specifying and acquiring a new billing system.

6 Next Steps

The immediate actions and responsibilities are as follows:

- Allocate office space to the BearingPoint Team within the Ministry building (MoE).
- Agree to adopt the Corporate Finance Unit concept and the recommended financial information systems (MoE).
- Submit restructuring proposals to the Ministry (BearingPoint/Restructuring Subcommittee).
- Order the handheld data collection units for the meter population survey and develop the database application (BearingPoint).
- Submit draft Policy Statement to the Minister (Regulation Subcommittee).
- Submit first draft Electricity Law to the Ministry (BearingPoint).
- Work with PCO to appoint an international adviser for the next BOO project (BearingPoint).
- Provide more detailed information on any of the above tasks as requested (BearingPoint).