Strengthening the Oil and Gas Sector in Iraq

An ILPI review of the Oil for Development programme in Iraq

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Executive summary

The bilateral cooperation between Norway and Iraq in the petroleum sector was initiated in 2004. This report is a review of phase II of the Oil for Development programme in Iraq, initiated in 2013 and still ongoing. The purpose of the review is threefold:

- document and assess achievements made so far in phase II;
- identify areas in the Iraqi sector in need and suitable for continued support by OfD for the remaining part of phase II and a potential new phase of the cooperation;
- present a thorough risk assessment which includes external and internal risk factors, and identifies efficient mitigating measures for programme phase II.

About the programme

The programme goal is to contribute to Iraq’s oil and gas resources being developed for wealth creation in a sustainable manner (economically, socially and environmentally) to meet the needs of present and future generations in Iraq. The purpose is to increase capacity, efficiency, transparency and institutional arrangements to facilitate well coordinated and results oriented resource management, environmental management, revenue management and HSE.

The programme rationale builds on institutional cooperation and sharing of the Norwegian experience. Norad and the Iraqi Ministry of Oil (MoO) entered an open-ended programme agreement in 2011, while an institutional agreement 2013 confers planning, administration and implementation of the programme mainly involving MoO and the Ministry of Petroleum and Energy (MPE), but with powers of implementation delegated to the Norwegian Petroleum Directorate (NPD) and other agencies. The programme has 8 thematic components: Policy, Data management, Petroleum resource management, Training, Environmental management, HSE, Fiscal control, Technical cooperation.

Compared to other OfD programmes, the programme in Iraq is characterised by very strong Iraqi ownership and control, partly due to the Iraqi counterpart sharing substantial parts of the financial burden. In combination with almost no involvement of Norwegian partners in activities within Iraq due to the security situation, this has resulted in the Iraqi counterparts to an unusual extent being in charge of direction of the programme and how to make use of the outputs. The downside is a corresponding lack of influence by the Norwegian side, and difficulties in squaring the programme with the holistic nature commonly associated with the OfD programme.

The country context

The petroleum sector accounts for most of government revenues in Iraq, and is absolutely vital to the functioning of the Iraqi State. A properly managed petroleum sector is key to the future of Iraq. While the oil sector is vast and with much experience, it is facing a cascade of challenges, preventing an effective and sustainable management of the sector. Caught between ancient structures and a modern reality, Iraq has seen an entire generation of professionals in the petroleum sector wither. A bureaucratic legacy from the Baath era, endemic corruption and technological inferiority, coupled with falling price of oil and substantial costs of the war against ISIL has almost bankrupted the Iraqi government.

With the combination of economic decline due to reduced oil prices, political turmoil and challenges from ISIL, Iraq is undergoing a dire crisis, which has dramatically worsened since the onset of the programme.

Assessment of phase II

Programme phase II has until now had an emphasis on resource management, environmental dimensions and to some extent policy. Due to the changing context, the content of the programme has changed in
nature, into being more of *ad hoc* support to current needs, rather than contributions to long-term improvements. The review finds this appropriate, reflecting a programme design allowing a high level of flexibility, largely fit to adapt to a volatile and unpredictable setting in Iraq, securing continued relevance in spite of a rapidly challenging context – even if it makes the programme fit even less with the overall policy objectives for OfD.

The deteriorating situation in Iraq has caused delays in implementation and affecting the efficiency, effectiveness, outputs, outcomes and potential impact, which is easily justifiable by factors totally unrelated to the programme, and most of them not foreseen not even in worst case scenarios a few years ago. The assessment is therefore based on the actual outputs delivered and not the original plans.

Given the volatile context, it can indeed be seen as an accomplishment that the programme has at all been able to implement activities in the precarious situation, indicating dedication by both sides. There have essentially been two types of outputs from the programme so far: provision of technical equipment to the Iraqis, and support to capacity development through thematic workshops and relevant courses organized outside of Iraq. Up to this point the main onus of activities has been on more technical components, while policy has been a sensitive topic. The outputs have responded well to Iraqi needs and are likely to have led to improvements in the Iraqi oil sector. However, they do not necessarily provide long-term effects on institutional capacity as initially envisaged and the report discusses some factors involved.

**Risks and scenarios**

The further development in Baghdad is characterised by an extreme level of uncertainty. The precariousness of the situation arises from three different factors: in-fighting in Baghdad (mainly intra-Shia), the relationship with an increasingly assertive Kurdish region, and the fight against ISIL and a brewing insurgency, making the range of possible scenarios very broad. Four very different scenarios for Iraq, all highly envisionable in Iraq, are presented in the report:

A. **Restoration of the post-2003 order** and a (certain level of) technocratic government in Iraq, in which case the OfD programme may optimize its outputs and outcome, in particular by involving more in policy processes.

B. **Collapse of the post-2003 political order**, in which case the OfD programme may still continue to support key pillars of the programme, and may constantly review the potentials for a policy approach.

C. **A more pronounced partition**, most likely between Kurdistan and Baghdad, in which case the OfD programme may continue with Baghdad and – depending on the circumstances - may initiate a separate cooperation with Kurdistan.

D. **Descent into civil war**. Increased challenges from ISIL, sectarianism and regional rivalries using Iraq as proxy may cause a descent into full civil war or a more pronounced regional proxy conflict, in which case the programme should be put on hold or exited altogether.

In addition, the programme design and the country context expose the OfD programme to a broad range of internal risks, most of which can be mitigated to some extent with slight adjustment to the structure and orientation of the programme. In case the programme continues and circumstances permit, a set of recommendations are therefore made that would likely optimize potentials of the OfD programme, while mitigating some of the most pressing risks. The recommendations are presented in chapter 6.
1. Introduction

This report presents a review of a bilateral cooperation in the petroleum sector between Norway and Iraq. The cooperation was initiated in 2004 and has been organised in two phases; this review is limited to current programme phase II. This phase is based on a programme agreement concluded between NORAD and the Iraqi Ministry of Oil (MoO) in 2011. Subsequently, MoO and the Norwegian Ministry of Petroleum and Energy (MPE) entered into a three-year institutional Cooperation Contract in 2013, which stipulates a review of phase II before its end.

The purpose of the review is threefold:

- documentation and assessment of achievements made so far in programme phase II;
- identification of areas in the Iraqi sector in need and suitable for continued support by OfD under the remaining part of programme phase II and a potential new phase;
- a thorough risk assessment including external and internal risk factors, and identification of efficient mitigating measures for programme phase II.

The review is based on a combination of desk study and interviews. It has relied on the 2007 Bridge Report as, for some purposes, a baseline, adjusted to the many changes that have taken place over the past eight years. The assessment of outputs and outcome builds on a results matrix developed by the Norwegian counterparts in 2010 and adjusted to the current programme in coordination with the Iraqi counterparts in 2013. Semi-structured interviews have been conducted with a range of Norwegian and Iraqi stakeholders, in addition to other relevant sources (see Annex).

A major limitation to the review is the lack of field visits to Iraq, confining the team to second hand examinations and interviews with a limited number of Iraqi stakeholders. Another, and related limitation is that the bureaucratic culture and decision-making structure of the Iraqi ministries do not invite expansive information sharing with external actors without qualitative checks from above. As a mitigating measure, a validation workshop was organised in Dubai with three members of the Iraqi Steering Committee to discuss the findings and main conclusions of the review.

The ILPI team has consisted of Cecilie Hellestveit and Ali al-Saffar, with quality assurance from Joachim Nahem and subsequently Øyvind Eggen.

The report starts by outlining the OfD programme in Iraq (chapter 2). It then lays out the main elements of the Iraqi petroleum sector relevant to the programme (chapter 3) as a background for an assessment of the achievements of programme phase II (chapter 4), followed by a scenario-oriented risk analysis (chapter 5), before concluding the report with a set of recommendations (chapter 6).
2. The OFD Programme in Iraq

The bilateral petroleum sector cooperation between Norway and Iraq was initiated in 2005 with a five-year programme going to 2009 (programme phase I). In 2011, a new programme agreement was signed between the Oil for Development secretariat in Norad and the Iraqi Ministry of Oil (MoO). The agreement open ended, and will run until the parties conjointly agree that objectives and obligations under the agreement have been met.\(^4\) After some time without programme activities, cooperation resumed in 2013 with a three-year Institutional Cooperation Contract between the Norwegian Ministry of Petroleum and Energy (MPE) and the Iraqi Ministry of Oil (programme phase II).\(^5\) The contract has a budget cap of NOK 20 million to be financed by the grant provided in the Programme agreement article III. The financial obligations of the Iraqis outlined in the Programme agreement is linked to expenditure for travel and accommodation of the Iraqi participants, estimated to USD 2 million.\(^6\) This review has not assessed costs nor financial management on the Iraqi side.

The core focus is on resource management, environmental management and policy, but the programme design appears flexible both in scope and direction. An initial draft results matrix had been produced by Norwegian partners already in 2010. The matrix consists of a broad range of topics that are clearly relevant to needs in Iraqi, but not integrated in a systematic approach to the Iraqi oil sector. The delay in upstart of phase II of the programme entailed that plans had to be revisited and the matrix was discussed with the Iraqis at the first annual meeting in 2013.

Phase II was initially slated to run for three years until the end of 2016. In December 2015 roughly 60% of the Norwegian budget (12,8 mil NOK) still remained.

2.1. Structure of the OfD Programme and main actors involved

The main partner on the Iraqi side is the Ministry of Oil (MoO), responsible for planning, administration and implementation of the programme. At the Norwegian side, NORAD has the overall responsibility while the main Norwegian counterpart for the Iraqis is the Norwegian Petroleum Directorate (NPD), delegated powers from MPE to coordinate the implementation of activities. Other Norwegian partners are the Norwegian Environment Agency (NEA) and the Petroleum Safety Authority Norway (PSAN), PETRAD and consultants.

The two main parties meet on a yearly basis thought an Annual Meeting, with the NPD in an advisory role. The meetings serve to finalize annual progress reports, budgets and work plans. Four annual meetings have taken place so far.\(^7\) The MoO calls and chairs the meetings, and is responsible for drafting agreed minutes. A progress report is to be submitted semi-annually,\(^8\) while a work plan and budget is to be submitted annually. The annual financial statements are to be audited separately.

The joint management of the programme is secured in the Joint Programme Steering Committee meetings organised regularly in relation with AM and activities (JSC). Participation on the Norwegian side consists of the implementing partners, with the NPD entrusted with the task of coordination. The 6 Iraqi members of the Programme Steering Committee hold positions in the main departments in the MoO.\(^9\) Other ministries or institutions in the Iraqi sector are not represented at the JSC.

On account of the Iraqi interest in working on a petroleum policy as part of the OFD programme, a task force was established by the MoO in 2016 for dealing with the policy work, consisting of 6 General Directors from different divisions in the MoO, mostly from the same divisions as the JSC.\(^10\)
2.2. Programme goals and results framework

The overall programme is outlined as follows.

**Programme goal:**

Contribute to Iraq’s oil and gas resources being developed for wealth creation in a sustainable manner (economically, socially and environmentally) to meet the needs of present and future generations in Iraq.

**Programme purpose:**

Increase capacity, efficiency, transparency and institutional arrangements to facilitate well coordinated and results oriented resource management, environmental management, revenue management and HSE.

**Indicators:**

- Economic growth
- Higher employment
- Legislation in place
- Well functioning institutions
- No incidents/accidents /pollution

The results matrix prepared in 2010 and updated in 2013 serves as benchmark for the programme outputs. Planning and reporting of activities are done according to the following topics:

1. Policy
2. Data management
3. Petroleum resource management
4. Training
5. Environmental management
6. HSE
7. Fiscal control
8. Technical cooperation

2.3. Particular characteristics of the programme

The programme in Iraq started out as a bilateral cooperation with a focus on industry, aiming at industrial cooperation, and major commercial stakeholders on the Norwegian side (Statoil and Hydro) were integral to the programme structure at the outset. As the programme eventually oriented towards management of the bidding process, the commercial actors phased out of the cooperation to avoid (impressions of) vested interests.

Institutional cooperation and sharing of Norwegian experiences are among the basic rational behind the programme, designed with emphasis on capacity development (mainly training) or hardware/technical solutions offered by Norwegian partners. The Norwegian partners pay third parties directly, a model that significantly reduces the risks of embezzlement.

Compared to typical development programmes, OfD Iraq seems characterised by unusually strong Iraqi ownership and control, a dimension of the programme that largely persists since its origin. The Iraqi counterpart shares the financial burden by covering the travel expenses of the Iraqis, involving significant economic contributions (USD 951,000 in 2014, USD 46,500 in 2015). This increases the Iraqi ownership, and probably also the Iraqi (desire to) control what the programme offers to them. In addition, an effect of the dire and unpredictable security situation is that programme activities involving non-Iraqis are almost exclusively located outside Iraq. This has further increased Iraqi footprints, reflected in the Iraqi control over selection of topics and direction of the programme, the
selection of Iraqi participants in training, and the follow-up in Iraq. As a result, the Iraqi counterpart has to an unusual extent been in charge of direction and how to make use of the programme.

Which parts of programme plans that are actually implemented, currently depend strongly on a variety of financial, political and security constraints, as discussed in chapter 4. In most cases, the implementation of activities may more often be affected in the form of delays than cancellations.

The Iraq programme is implemented in the context of the overall OfD programme as a whole having been subject to policy and priority changes recent years. This includes increased more focus on results based management and a more holistic OfD country programme approach, aiming to cover a broader range of the Norwegian experience with partner countries. The design, structure and constraints of the current OfD programme in Iraq, however, do not invite mainstreaming in the same way as what can be assumed for other OfD programmes. Some components of the overall OfD programme therefore seem to be given much less attention than what is expected and usual in other OfD programmes.

2.4. Key findings

- There is an appropriate flexibility built into the design of the programme. The structure of the programme is open ended and the management allows a high level of flexibility, largely fit to adapt to a volatile and unpredictable setting.
- Strong ownership from the Iraqi side is mirrored by correspondingly weaker Norwegian influence. In combination with a much less holistic approach than the current policy and priorities for the OfD suggest, the Iraq programme comes across as something akin to a subsidised educational programme addressed to the Iraqi Ministry of Oil, allowing an unusual degree of partner control and flexibility in implementation. This was in part a consequence of the original design, but exacerbated as an incidental effect of developments in Iraq.
- The structure does not provide OfD with the ordinary tools relied on in similar programmes, much due to all activities being localized outside of Iraq.
- The high level of stakeholder control has the effect that the programme does not necessarily square easily with the framework of OfD programming more broadly.
- The programme is constructed in a way that minimizes the dangers of embezzlement of Norwegian funds and corrupt practices.
3. Country context

Although Iraq is ranked as an upper middle income country due to its vast petroleum sector,\textsuperscript{14} it suffers from a very high level of uneven distribution of wealth in addition to military conflict. At the end of 2014, 22.5% of Iraqis lived under the poverty line, a number in steep rise, with 2.8 million falling under the line only in 2014.\textsuperscript{15} In 2016, an estimated 10 million Iraqis are dependent on humanitarian assistance, around 1/3 of the population.\textsuperscript{16}

Iraq remains highly dependent on its petroleum and a sustainable management thereof. The oil sector is vital to the functioning of the State, accounting for almost half of GDP and over 90% of government revenues. With up to 70% of the entire workforce employed in one shape or another by a government entity, the continued functioning of the oil sector plays a vital role in maintaining a core component of the social contract in Iraq. To illustrate, between 2010 and 2014 the government has allocated $2.5 dollars on salaries for every $1 it invested in infrastructure.\textsuperscript{17}

The recent falling prices of oil coupled with the costs of the war against ISIL have almost bankrupted the Iraqi government and the Kurdistan Regional Government, provoking massive unrest across the country. Without the oil revenues, the entire system could collapse. Conversely, a properly managed petroleum sector is key to the future of Iraq.

3.1. Overview of the oil sector

Iraq holds 144 billion barrels of proven crude oil reserves, representing 9% of global reserve, the fifth largest in the world. The majority of known oil and natural gas resources are concentrated in the Southern provinces (60% of proven reserves) and Kurdish region in the north (17% of proven reserves). Only roughly 2,000 oil wells have been drilled, compared with about 1 million wells in Texas alone, indicating that new discoveries are highly probable. The actual production of crude oil has increased from 2.4 million bbl/d in 2010 to 3.4 million bbl/d in 2014, to around 4 million bbl/d, reaching as high as 4.3 million bbl/d by September of 2015. Total crude oil exports in April 2016 amounted to 3.87 mb/d, with 3.36 coming from South and 0.51 from Kurdistan.\textsuperscript{18} The geographic distribution of oil resources has helped minimize the impact of loss of territory to ISIL, mainly present in the North Eastern provinces.

Although on the increase, oil production is not according to predictions. Projections made in 2012 indicated 5 million bbl/d by 2016.\textsuperscript{19} In 2009 the Iraqi government set a target plateau production of over 12 million bbl/d by 2017. To achieve this, it would have had to accelerate production at a rate unprecedented in history. Despite not achieving its ambitions, Iraq is making gains and as the figure indicates this is expected to continue. IEA prospects that Iraq will provide around one-third of global oil production increase towards 2040.

\textit{Projected Iraq oil production, 2016-2020}
As of 2016, Iraq's generation capacity of 13,000 MW is significantly less than the 21,000 MW of electricity it needs to meet peak demand, leading to lack of cooling during the hot summer months and problems for growth in the commercial and industry sectors. This issue is compounded by the fact that 2,285 MW of capacity has been put offline as a result of the security situation.

Iraq also has significant reserves of natural gas, 3.4 tcf (IEA). Iraq flares around 12 bcm of gas per year (making it the world's fourth largest gas flaring country), although this has lately been reduced. The government has identified the problem as being important both because the gas could have been made it available for much needed power generation and potential further monetization, and because of the environmental impact.

The strong dependence of Iraq’s economy on the oil sector is problematic for two reasons: oil prices are prone to extreme fluctuations that need to be managed with sound counter-cyclical economic policies; and all since its nationalisation in 1972 the actual production has undergone extreme fluctuations, massively disrupting output at periodic intervals of around once per decade.

3.1.1. Political and government reforms

Iraqi authorities have experienced profound challenges since phase II of the OfD programme became operational in 2013. Most importantly, the ascendance of ISIL imposed substantial pressure for political and structural reforms on Baghdad. Simultaneously, the fall in oil prices is bringing Iraq to the brink of financial collapse. The government has also been forced to announce a wide-ranging series of political and economic reforms in response to public unhappiness with the state of Iraq’s public services and economic performance.

A new cabinet was formed in September 2014 under the leadership of Prime Minister Haider Al-Abadi, and he embarked on programme of reform. In September 2015, the highest religious authority in Iraq, Ayatollah al-Sistani, supported the reform programme – a highly unusual move from an Ayatollah bent on staying out of petty politics. In May 2016, he still supports the reforms.

In February 2016 PM Abadi announced that he would replace his cabinet with one full of non-partisan technocrats. This caught the country’s political class by surprise, as he had not consulted with any of them about his decision. In a large-scale cabinet re-shuffle, the number of ministries was further consolidated from 2223 to 16, including 14 new technocratic ministers. On March 31, Abadi
presented his new cabinet, but things quickly imploded. The Oil and Finance Ministers dropped out, and all of the political parties with the exception of the Sadrists came out against it. That forced Abadi to come up with another collection of individuals, but the chaos only increased with parliamentarians carrying out protests, fights, some calling for an entirely new government. The Sadrists then entered the Greensone and in late April occupied the Parliament building.\textsuperscript{24} As of May 2016 the prospects for the establishment of a new technocratic government remain uncertain.

The core issue involved in this growing controversy is Abadi’s attempt to remove certain ministers from the lists. The current structure of power in Baghdad is closely linked to control over Ministries. If Abadi nominates ministers (and ministries) freely, this would threaten the other parties’ control with government and would also give Abadi more independence from the elites, as he would have the cabinet’s loyalty. Abadi therefore faces significant opposition from entrenched political forces.\textsuperscript{25} They are unlikely to subject to these measures willingly, despite heavy pressure from the Sadrists, support by Ayatollah al-Sistani and considerable international pressure. The drama currently playing out in Baghdad highlights the challenges and sensitivities in forging an executive power in Iraq with potentials to be effective.

3.1.2. Economic turmoil

The fall in oil prices since June 2014 has taken a heavy toll on the Iraqi economy, causing a dip to recession, compared to a growth of 13.9% in 2012. The dramatic impact even on non-oil sectors illustrates the economy’s dependence on oil revenues: By February 2016, Iraq’s monthly revenue of $2.4 billion was down 70% from its June 2014 heights, despite a one-third increase in exports.

\textit{Iraqi oil revenue in the period 2003-2015}
The decline in government revenue has forced the government to introduce a series of austerity measures, including trimming the government workforce and reducing salaries to the higher scales of the civil service. As a result of deferred investments, the International Energy Agency now expects that Iraq’s oil production will remain flat until the end of the decade. Falling oil prices and a period of fiscal consolidation have exacerbated tensions and claims regarding the high levels of corruption, nepotism and government mismanagement in Iraq.²⁶

The heft of the fiscal consolidation has been concentrated on capital spending, which typically forms between one-quarter and one-third of the Iraqi budget. This is the component of spending that is least “sticky”, and whose effects are typically only felt after several years, unlike reductions in salaries, which have an almost instantaneous impact. The long-term risks, however, include under-investment in critical capital projects ranging from energy infrastructure to roads, schools and hospitals, including in the areas that have been newly liberated from ISIL, and which will need significant reconstruction.

The Kurdistan Region, which started to export its oil through the Iraq-Turkey Pipeline, bypassing Central Government control through the State Oil Marketing Organization (SOMO) in 2015, has been even harder hit by the low oil prices. In April 2016, KRG revenue had fallen to $376 million, way below what is needed to meet the public sector payroll for the month.²⁷ The regional government has responded in three ways: delaying payment to government employees; signing pre-payment agreements with oil traders; and borrowing extensively from Turkey. Estimates of KRG debt range from $18 billion to $24 billion, corresponding to 3.5 - 5 years of total oil export revenue.²⁸ The financial constraints also effects the regional government’s ability to make consistent payments to the oil companies operating in the region. The most prominent operators, including Gulf Keystone, DNO and Genel, have seen production from their fields decline, with Gulf Keystone issuing a warning in March 2016 that it may not be able to make payments on its bonds.

The prospects of oil prices staying depressed for long time is a scenario with potentially grave ramifications for Iraq.²⁹ If prices were to remain in the region of $35-$45/b in the period until 2020 (assuming zero growth in current expenditure and oil exports), Iraq would have to accumulate a fiscal deficit of between $75 billion and $140 billion effectively just to ensure that salaries and pensions are being paid. Any capital expenditure beyond this would amplify the deficit further. In spite of discussions with IMF on a sovereign loan guarantee on $15 billion, conditioned on economic reforms,³⁰ The Iraqi economy is in a very dire state.

Iraq’s fiscal revenues in a “lower for longer” scenario:

Another key source of funding, donor aid, is also volatile. From 2009 to 2012, the United States
allocated approximately $350 million in aid for Iraq, but from 2013 to 2015 bilateral support dropped to an average of $50 million annually.\textsuperscript{31} Support for democracy and governance funding fell from $236 to 37 million in the same period. US support to funding for the administration has since increased in order to bolster Abadi’s reform efforts. The budget for 2016 includes $510 million in bilateral assistance to Iraq\textsuperscript{32} and the budget for 2017 suggests further increase to “critical, self-directed actions undertaken by the GOI in promoting responsive governance [...] increase the chances for long-term sustainability in reforms”.\textsuperscript{33} A major focus of US funding is to support local government bodies in areas recaptured from ISIL control to restore governance and service delivery. Other donors are also engaged in Iraq, with lesser amount. Few other donors are involved in the oil sector, except for Chinese oil companies, whose engagement can be seen as a form of aid to the extent that they may be indirectly subsidised by the Chinese government.

### 3.1.3. Revenue distribution and volatility

The Iraq process for annual state budget (ASB) preparation involves federal, regional and provincial levels of government and is a highly politicized endeavour. The ASB is prepared by the Ministry of Finance in collaboration with the Ministry of Planning. It is endorsed by the Cabinet and has to be approved by the Parliament, agreed by the President of the Republic, published on the Official Gazette and then enacted as law.

Over the years about 70% of the budget has been used to pay for food imports, energy subsidies, an inflated bureaucracy and dilapidated military. Agriculture and other revenue sources have been neglected; manufacturing, construction and electricity industries are in tatters, and many state-owned industries have been shut down.

Iraq’s 2015 budget was calculated based on an assumption that 85% of revenues are coming from oil exports and 3.3 million barrels per day are sold at $56 per barrel. With the crash in oil prices, Iraq is obviously falling short. The government was pursuing a number of emergency measures to finance its 2015 budget, but even after making spending cuts and increasing efforts to raise non-oil revenues, a deficit of about $21 billion is expected. The sudden surge in military and security spending brought about by the advent of ISIL has further aggravated the problem.

It is within this context that key government stakeholders have expressed the need and desire to improve the governance of public sector. This fiscal crisis is an opportunity to bring up the issue of revenue volatility and the need for adequate stabilization mechanism such as fiscal rules, Natural Resource funds and other instruments to protect citizens from abrupt fiscal adjustments hindering much needed development and growth.

Tensions between central and regional levels on administrative and fiscal matters are common and the 2014 annual budgetary law did not pass largely due to disputes with this regard. Provincial Law 21 of 2008 (Article 7) empowers the Provincial Councils to enact local legislation, ordinances, and directives needed to organize administrative and fiscal affairs, provided it does not violate the Constitution and federal laws, but there is lack of capacity and understanding of legal and institutional frameworks for the fiscal decentralization in what has historically been a highly centralized state. Provincial councils disclose important capacity gaps, and local government representatives do not fully understand their responsibilities, rights, or remits. The most serious capacity gaps are in managing resource revenues, especially those allocated for investment purposes and the surplus at boom times. According to a former Minister of Planning official, local governments in certain provinces (not identified) were only able to spend 59.1% of the funding given to subnational authorities under an annual Regions Development Programme in 2013. There is, hence, a clear need to help provincial councils improve their revenue management and link spending to a medium-term development plan.
3.1.4. Kurdish aspirations
After a decade of de facto autonomy during the 1990s, enforced by the US and the UK but riddled by Kurdish infighting, the Kurdish region in Iraq managed to unify and optimize their positions following the US invasion in 2003. This gave the Kurds important influence over the Constitutional process, managing to secure a high level of autonomy from Baghdad. Simultaneously, the Kurds were a unified entity that in practice acquired something akin to a political veto in Baghdad, despite their limited size. The blocking of the oil law in 2007 is often blamed on the Kurdish unwillingness to integrate their petroleum management Baghdad and align their policy.

Kurdish Regional Government (KRG) is built on an oil dependent economy just like the rest of Iraq, and used to promote itself as the ‘other Iraq’: It was safe, it had a business friendly environment, and few qualms about foreign private investment. For years that appeared to pay off, but disputes with the central government, and the collapse in petroleum prices has put it in jeopardy. Subsequent to turmoil with Baghdad in 2012 concerning management of petroleum resources in the KRG, the KRG turned to Turkey and agreed on the building of a pipeline from KRG to Turkey. Greater economic independence through petroleum exports was envisaged as a consequence. Prime Minister Nouri al-Maliki responded by cutting off budget payments to the KRG. Premier Haidar Abadi worked out a temporary reprieve, which broke down when neither side met their obligations. The KRG has therefore grown increasingly dependent on the pipeline to Turkey, although this is constantly being bombed by Kurdish insurgents and broken into by oil smugglers.

The production in the region peaked at 601,811 barrels a day in January, before going down to 350,000 bar/day in February, and 327,371 in March. The major cause of the drop was that the Turkish pipeline was bombed and then shut down by Ankara for a security operation against the Kurdistan Workers’ Party (PKK) in the area where the line runs through. When the pipeline came back in function the Kurds ran into another issue, this time with the central government as the Ministry of Oil ordered the North Oil Company (NOC) to stop providing oil for Kurdistan. The NOC runs several oil fields in Kirkuk, which had been supplying the Turkish pipeline since the summer of 2015. Oil Minister Adel Abdul Mahdi said Baghdad was withholding oil to pressure the KRG into budget talks after an agreement broke down last year. This was a major hit to Kurdistan. At the same time, KRG is also failing to meet its marks in pre-set deals with oil traders, with several of its major producers running into financial difficulties. Added up, these problems are driving the regional government deeper into debt.

While the future political aspirations of KRG are not affected by the on-going turmoil, due to a combination of economic, political and geopolitical constellations KRG is most likely to defer questions about Kurdish independence from Baghdad in the short term. Economically, the KRG would be much better off by fuelling its oil through Baghdad, which can achieve higher prices. Geopolitically, the timing is probably not right to press for independence (although this may change rapidly), and renewed political infighting in the KRG does not bode well for a transition where unity will be of the essence. However, the political aspirations are likely to continue to influence the Kurdish approaches to long-term solutions for management of the sector in and from Baghdad. And with the KRG progressing unilaterally with independent exports, oil governance in Iraq is more stratified than it has perhaps ever been in the past.

3.1.5. The war against ISIL
An increasing number of Iraqi cities in Anbar and Nineveh had seen the tentacles of ISIL spread in 2013 and 2014. Various tactical alliances with local forces (tribes, smugglers, political organizations) increased the power of ISIL manifold and enabled its seizure of parts of four Iraqi provinces in the northwest in June 2014. ISIL took control over the two main rivers of the Nineveh plateau, and seized control of several oil fields.
The military forces of the central government present in the Anbar and Nineveh withdrew, were overwhelmed or fled. The Peshmerga forces of the KRG (an Iraqi army unit made up of Kurds and controlled by the KRG) likewise rearranged. In the turmoil that arose after the withdrawal of the Iraqi military, KRG expanded into some of these areas and consolidated its control. In this process, it is estimated that the KRG has expanded its control of Iraqi territory from pre-June 2014 with about 40%. The reconquest of territory from ISIL is being distributed between KRG and Baghdad in ways that are not (at least according to Baghdad) intended to last. From the perspective of Baghdad, Peshmergas/KRG are currently “occupying” petroleum resources of the Federal Government.

Ecological catastrophes are also brewing in the areas of Iraq under war. Hundreds of thousands of barrels of oil have leaked and the destruction of infrastructure is affecting both the petroleum and other infrastructure. There is no way for the government to attend this crisis before ISIL has been driven away. Challenges of reconstruction are likely to be affected due to the vast destruction, exacerbated by an increased reliance on the tactic of scorched earth by ISIL when withdrawing.

In sum, ISIL is exposing the Iraqi petroleum sector to huge short and medium term challenges. First, the amount of disruption and destruction of the petroleum infrastructure in ISIL controlled areas and in zones of conflict will require a massive reinvestment once the areas are reconquered and secured. With the current financial strains on Baghdad, this will be a steep road. Second, ongoing ecological disasters are not being properly dealt with due to lack of access and means. Third, the initial conquest and the subsequent reconquest of oil fields from ISIL have altered the balance of effective control over petroleum resources between KRG and Baghdad. The KRG forces are now present and in control of oil fields in far south of the “green line” formally separating KRG from the rest of Iraq. This is likely to be a constant source of tension between KRG and Baghdad in the near future.

3.2. Regulatory framework

Three levels of regulations govern the oil sector in Iraq: constitutional articles, laws and contracts. At the top level, the 2005 Constitution enforces the principles of ‘collective ownership’ (Article 111). Iraq’s federal legal framework for extraction, export and revenue management is currently provided by the Constitution. At the level of laws, the Iraqi sector is currently managed according to a number of laws that predate the Constitution, some of which were passed under the Baath regime several decades ago. A new legal framework to govern Iraq’s hydrocarbons sector has been on the agenda since 2007, when the government submitted a proposal for a law to parliament. The proposed Federal Oil and Gas Law (FOGL) is a legal framework that will govern the petroleum sector and the federal petroleum policy with regard to upstream and midstream development. Any new hydrocarbons law will likely only be passed as a package of other laws setting out guidelines for revenue sharing and a new blueprint for the stakeholder institutions; the Federal Oil and Gas Law alongside a Law for the Iraq National Oil Company and a Law of Financial Resources.

The proposed FOGL has, however, been in deadlock since the proposal as different, competing visions on the structure of the sector have resulted in an impasse. The differences in opinion that have delayed the passage of the law relate in essence to three principal issues:

- **Executive and legislative decision-making.** There is disagreement over the respective powers of the executive and the legislature in Iraq’s oil and gas governance. The proposed FOGT is envisioned to have broad powers to manage the hydrocarbons sector and to set the strategies for its development, and there is disagreement over its composition. Several versions of the draft mention the creation of a Federal Oil and Gas Council (FOGC) in charge of coordination between the federal level and the regions, as well as the relaunch of a national oil company (merged with the MoO in 1987). The Government is pushing for the FOGC being led by the prime minister, while the Parliamentary oil and energy committee has
pushed an alternative vision where an independent member heads the Council. The composition has wide-ranging implications on the institutions to which it will be directly linked, including the future Iraqi National Oil Corporation and, subsequently, the Ministry of Oil, both of which will be formed and reformed by legislation. Finding a resolution to the impasse on the FOGC is therefore key to passing these two further laws.

- **Central, regional and provincial powers.** The central government in Baghdad favours a law that gives it the sole authority over key strategic decisions for the sector, including the authority to sign exploration and production deals with IOCs. In the draft law submitted to Parliament in 2011, it stipulates that the regional government must coordinate with the MoO to award exploration and production rights to international companies. The KRG on the other hand, has already signed more than 40 deals to develop its oil and gas reserves, and supports an alternative version of the oil and gas law that grants the region the right to award further exploration and production rights in the future.

- **The mechanisms for revenue sharing between the federal government and Iraq’s provinces.** Successive agreements have allocated 17% of Iraq’s total state revenues to the KRG. Since 2008 though, it has complained of repeated delays in the distribution of its allocated share by the central government, and since the collapse of the latest short-term agreement in early-2015, this share has gone unpaid. There is also disagreement between the central and regional governments over which authority should pay for certain expenditures, notably, salaries to the Peshmerga. A codified mechanism for revenue sharing is favoured by the KRG as it would ensure smoother, more predictable transfers.

In the area of environmental protection, a new Ministry of Environment was established in 2008, decreed by the Environment Ministry Law no. 37 of 2008. The Environmental Protection and Improvement Law (no. 27 of 2009) has since then established the country’s environment regulation. This is the most complete, overarching piece of legislation on the environment in Iraq.

At the third level, a number of subordinate regulations have been drafted, but the regulatory framework still needs improvements.

In sum, the regulatory framework is largely uncalibrated to govern the sector and has been plagued by deadlocks and attempted but stalled reforms for almost a decade. While on-going reforms may address some of these problems, it is highly unrealistic that the FOGL will pass any time soon. The current legislative framework is therefore likely to remain for the foreseeable future.

### 3.3. Policies guiding the petroleum sector

Iraq does not have a specific petroleum policy. A broad process on energy policy was initiated in 2012 and finished with the publication of the *Integrated National Energy Strategy* (INES) in mid-2013. The INES was conducted by Booz Allen with the participation of the Prime Minister’s Advisory Commission (PMAC), headed by the former oil minister, Thamer Al-Ghadhban and funded by a $6.9 million grant from the World Bank. The strategy represents the most comprehensive recent strategy document outlining options for broad-based energy sector development (including upstream, midstream and downstream, gas utilization, power sector) as well as the implications various options would have on broader socio-economic policy.

With regard to environmental protection, the National Environment Strategy and Action Plan (2013-2017) is overseen by the Ministry of Environment and formed with the support of the UNDP, UNEP and the WHO. The plan targets 9 thematic areas: Air quality - Water quality - Land degradation and desertification - Marine and costal environment – Biodiversity – Waste management – Oil pollution – Management of radioactive contamination – Management of hazardous chemicals. It also aims to
3.4. Main actors in the sector

Among the actors in the Iraqi oil sector, the Ministry of Oil reigns supreme, and the monopolization by the MoO is a striking feature of the sector compared to other sectors where several ministries may be involved. The restructuring of the Iraqi state initiated by the US invasion in 2003 left the MoO largely intact. It hence retains a structure reminiscent of the Baath era, with four national oil companies incorporated, and with no independent regulator.

3.4.1. The Iraqi Ministries and the NOC

Extractive industries in the country are divided between two sector ministries: the Ministry of Oil (MoO) and the Ministry of Industry and Minerals (MIM). Economically speaking, most of the extractive industry falls within the domain and jurisdiction of the MoO. MoO oversees oil and natural gas development and production in all but the Kurdish territory through its operating entities, the North Oil Company (NOC) and the Midland Oil Company (MDOC) in the north and central regions, and the South Oil Company (SOC) and the Missan Oil Company (MOC) in southern regions. The Ministry of Oil is not subject to auditing.

In the Iraqi Kurdistan Region, the KRG with its Ministry of Natural Resources oversees oil and gas development and production. Policymaking is concentrated in this Ministry, headed by Ashti Hawrami since 2006. Under his tutelage, the Kurdistan Region has pursued the strategy of increasingly decoupling the oil sector from that of Baghdad.

The MoO also handles the main issues regarding HSE and environmental spills. The Environmental Protection and Improvement Law has since 2009, however, established a number of key stakeholders outside of the MoO: The Ministry of Environment; the Parliamentary Health and Environment Committee; the Environment Protection and Improvement Councils in the Governorates; the Environment Protection and Improvement Authority (Kurdistan); and the Council for Protecting and Improving the Environment. The Council for Protecting and Improving the Environment is a cross-ministerial council composed of director generals from a number of different ministries. The Council is presided over by the Minister of Environment.

3.4.2. International Oil Companies

International Oil Companies (IOCs) operate under technical service contracts (TSCs) in Iraq, which are signed with the Ministry of Oil in Baghdad, and under production-sharing agreements (PSAs) in the Iraqi Kurdistan Region signed with the KRG. Oil and gas contracts with IOCs in KRG are negotiated through a mini council of advisors led by the Minister of Natural Resources. The Parliament is not given oversight with the justification that certain contracts need to be kept secret to prevent Baghdad from sabotaging them.

On June 30 and December 11, 2009, the Ministry of Oil, then headed by Minister Hussain Al-Shahristani, held the first auctions, allowing IOCs to sign technical service agreements with a number of Iraq’s most prominent and productive fields. Three auction rounds in 2009 and 2010 saw 19 companies awarded rights to operate. Oil fields contracted include the Majnoon Field, West Qurna Field, Rumaila Field and Halfaya Field. IOCs, including Statoil, Royal Dutch Shell, BP, Exxon Mobil, ENI
and other acquiesced to the contracts awarding them a fee per barrel, a mechanism that does not allow them to share rewards of higher oil prices, when the international market dictates. BP and China National Petroleum Corporation won a deal to develop Rumaila, the largest Iraqi oil field.

In the period since 2010, Statoil, among others, has divested from its project to develop the West Qurna-2 field in Basra, citing a lack of ease over transparency. To fill the gap vacated by western IOCs, Iraq has increasingly turned to Chinese investment, through the Chinese National Offshore Oil Corporation and Chinese National Petroleum Corporation. Chinese companies are presently the most active in Iraq’s oil, with stakes in five fields in the country (Rumaila, Ahdab, Missan, Halfayah and Taq Taq). This points to a long-term strategy for China to secure its energy needs in Iraq. It is forecasted that by 2035, Iraq will be exporting over 1.6 mb/d, a quarter of its total exports, to China.46

Although the challenges of corruption are endemic in Iraq and the petroleum sector is heavily affected, processes such as the bidding and selection process in 2009 were perceived to be relatively transparent, with clear rules.47 Model contracts were published on the Ministry of Oil website previously, but have since been removed. There is no mandatory contract disclosure. Contracts entered into by Baghdad are not published. An access to information law is still at draft stage pending approval. The licensing process in KRG is by contrast very opaque, but the resulting contracts have been published online.

3.4.3. Other stakeholders
The Iraqi Parliament has a set of reform-minded MPs from all different political parties.48 The Parliamentary Oil and Energy Committee is a cross-party group that included 10 parliamentarians.49 The Committee does not have constitutional rights to pass legislation themselves, but can form suggestions. The Parliament’s role has been limited due to legislation being put on hold and lack of capacity and technical knowledge, impeding hearings for questioning of ministers, making the executive branch the real power-broker in regard to the petroleum law and other measures relevant to the sector.

In 2003 a Supreme legal council was established separating the judiciary from the executive. This institutional independence of the judiciary is confirmed in the 2005 Constitutions article 19 and 47. The Iraqi judiciary is perceived to be the state institutions least affected by the deep political and sectarian conflicts in Iraq, but is nevertheless affected by the climate.50 This is particularly visible in cases that include corruption, organized crime or organized violence, where cases are either closed on account of procedure, or reduced sentences are given.51 The ‘wrong’ decision may reportedly be fatal for a judge. The Federal Supreme Court has also increasingly shielded away from drawing boundaries between central authorities and the province authorities. During the later years of Maliki’s reign, this was explained with reference to pressure from the executive.52 Similarly, anti-terror legislation has been operationalized also for the purpose of chasing political rivals.

A number of other stakeholders also shape the context around the oil sector. Among them are Madarik for MPs, and the Erbil-based Institute for Development, which specializes in data collection. Iraq Foundation, Mercy Hands and the USIP-created Sanad operate with relevance for the sector. Certain NGOs have good ties to the government (e.g. IIER and Iraq Energy Institute).

Iraq is a signatory of the World Bank-led Global Gas Flaring Reduction Partnership (GGFR), which aims to reach a target of zero routine flaring by 2030. In this regard, Iraq has made some notable recent gains. The OfD program likewise has reduction of gas flaring on the agenda, a focus that goes in tandem with the GGFR.
3.5. Transparency and accountability

Iraq has a deplorable record on corruption. The country ranks as 161 (of 168 countries) at Transparency International Corruption Perception Index for 2015, with a score of 16 out of 100. On the Control of Corruption Index, Iraq’s percentile rank is 5%, which corresponds to “state capture” by elite and private interests. According to TI’s Global Corruption Barometer (2013), political parties are perceived as the most corrupt institutions in Iraq. The Open Budget Index score of Iraq is 0.53

Iraq became an EITI country in 2010 and was named a Compliant Country by the EITI Board in 2012. A second Validation is scheduled for July 2016, this time under the more comprehensive EITI Standard. A multi-stakeholder group including over 80 civil society organisations has been actively promoting transparency and accountability in the sector. Iraq EITI has produced a number of detailed analyses, which have served as vehicles to promote stronger sector governance in Iraq. One challenge with EITI reporting is the missing reporting from the Kurdish part of Iraq.54

The Natural Resource Governance Institute (NRGI) has been engaged in Iraq since 2010 and has spearheaded mobilization and coordination of Iraqi civil society organizations around EITI from 2012, thus deepening civil society and media’s engagement with EITI issues since 2012. Attempts have also been made to increase the know-how and technical capacity of provincial council representatives and reform-minded parliamentarians, assisting them in understanding the governance of Iraq’s natural resource sector, the various versions of hydrocarbon law drafts, and improving their understanding of revenue-sharing regime and capacity to manage resource revenues.

Local media in Iraq tends to be superficial and sensational given the mostly sectarian orientation of outlets. Moreover, the relationship between different government and non-government stakeholders is fraught with tensions and mistrust.

3.6. Key Findings

- Iraq remains highly dependent on its petroleum, but several factors prevent the country from appropriately managing the oil sector in an effective and sustainable way. A properly managed petroleum sector is key to the future of Iraq.
- The management of natural resource revenue in Iraq suffers from unresolved tension between central and regional/provincial governments, from an old management structure reminiscent of the Baath period, with no independent regulator, a low level of inter-ministerial communication and a seeming inability to manage its sector strategically, as well as poor legislative and institutional frameworks. Low levels of accountability and transparency add to the challenges.
- The falling price of oil coupled with the costs of the war against ISIL has almost bankrupted the Iraqi government (and the Kurdistan Regional Government), provoking massive unrest across the country. Without the oil revenues, the entire system could collapse.
- The decline in government revenue has forced the government to introduce a series of austerity measures, including by trimming the government workforce and reducing salaries to the higher scales of the civil service, and has exposed the need for Iraq to improve its public sector. This includes the need for a new Iraqi approach to management of petroleum resources, increasingly becoming increasingly visible to all.
- The current low oil prices combined with the premiership of Abadi, a reform-minded politician under substantial internal and international pressure for reform is perhaps a rare opportunity to advocate more forcefully for sounder revenue management at the national and provincial level, and to reach constructive compromises linked to the “life supporting petroleum sector” in Iraq.
4. Assessment of phase II

While the first phase of the programme aimed at facilitating the introduction of foreign oil companies into the Iraqi sector, assisting Iraqis in selecting the right model, and enhancing their technical capacities to supervise the industry, the second phase increased emphasis on resource management, environment and policy. This chapter presents ILPI’s assessment of phase II, organised according to OECD DAC evaluation criteria. The assessment is limited by the fact that the implementation of the programme has been delayed and many activities are reduced or stalled. In most cases, this is easily justifiable due to disruptive and negative developments entirely unrelated to the program.

Moreover, the programme documentation – although reports have generally been available, albeit not very elaborate – is subject to certain limitations, which can be traced back to monitoring and evaluation systems. The results matrix is rich in detail, but dominantly concerned about outputs and not outcome level results according to mainstream terminology in results based management of development cooperation. Correspondingly, most of the reporting provided also relates to output level. This may be useful in management but not necessarily for a review aiming to look at results at higher level (several of the indicators listed under ‘outputs’ can, however, be seen as lower level outcomes). Reporting is not directly organised according to the original results matrix, which would anyway have provided limited value since only limited parts of all the planned activities have been carried out due to legitimate reasons. There is no baseline for this phase of the programme except for the Bridge report, which has some information that can be used as baseline. This said, the general managerial requirements including reporting have by and large been carried out to a satisfactory degree of those activities that have been carried out, considering the initial design of the M&E system and the challenges in implementation.

It should be noted, however, that in the extremely volatile situation in Iraq recent years it is doubtful whether a clear baseline and outcome level indicators would have helped much anyway in assessing the programme’s effectiveness. Outcome level results are (by definition) outside the influence of the programme alone, and there are so many external forces at play to determine outcomes in Iraq that not any correlation, or lack of correlation, between programme inputs and reported indicators would not necessarily inform much about the results of the programme.

4.1. Activities and outputs in phase II (2013-2016)

In 2013 the management structure of the programme was consolidated with a planning workshop and a joint decision making process on direction, activities and output of phase II. The thematic orientation in 2014 was on data management, training and HSE (component 2, 4 and 6 of the results matrix). There was also an initial workshop on policy issues. This was a shared decision although the initiative seemingly came from the Norwegian side. For the year 2015, the Iraqi partners expressed desire for increased emphasis on auditing and on conflict resolution, and the issue of policy was brought up again, not yet strongly reflected in the activities. Emphasis over the past year has been increasingly oriented towards environmental issues in the form of software and guidelines to strengthen the EIA capacity in the Iraqi sector, and assistance in gas flaring. This emphasis has continued in 2016, together with a plan to significantly scale up the policy component of the programme.

Activities were mostly carried out in the form of workshops or trainings, where the Iraqis identified their needs, Norway offered a list of topics, and Iraqis selected the topics and the personnel to be trained on the Iraqi side, while Norway procured the consultants and personnel to conduct the
training. Most of the workshops have been brief, lasting a few days, and organised outside of Iraq – either in neighbouring countries (Turkey, Dubai) or in Norway.

A table annex provides a list of all the reported activities carried out and reported outcomes project reports – although while most of them are by nature to be seen as outputs and not outcomes.

4.2. Relevance

The Iraqi petroleum sector is one of the oldest in the world and does not lack experience. However, a combination of old infrastructure (some pipelines dating from the 1930s), governing-structures inherited from the Baath era with extreme levels of hierarchy and centralized decision-making, the survival of the Iraqi ministry of oil during the 2003 dismantlement of the Iraqi governing structures by the occupying power, and given the highly non-functional state in the post-2003 order, has led the Iraqi petroleum and gas sector into a situation of decay and regression in capacity, technology and management compared to its heydays. Extreme levels of institutional corrosion due to clientelist mechanisms (including sectarianism), corruption and increasing levels of civil strife have exacerbated the need to increase the capacity of the Iraqis to manage their sector well. Hence, despite being on of the most ancient and prominent petroleum nations in the world, the Iraqi sector is in dire need of improvement on the levels of resource management, institutions, governance, technology, environment and education in ways comparable to nascent petroleum nations. Generally speaking, therefore, the programme clearly responds to current Iraqi needs. The needs are all encompassing and have increased during the programme period.

The new programme agreement was signed in 2011, in the context of a recent history (2010 and 2011) representing promising years for the oil sector in the relative scope of the contemporary Iraqi history. It continued the cooperation in resource management, which is critical to respond to the financial situation in Iraq. It extended the cooperation to include HSE in part at the behest of the Iraqi partners, who are confronted with multiple levels of environmental problems and increased expectations from the outside in mainstreaming requirements in the sector. This reorientation in activities in phase II as compared to phase I therefore fit well with the challenges facing the sector at the time, in light of how its development was foreseen at the initiation of phase II. An Iraqi desire to increase the financial component of the programme was not responded to. The overall framework, thematic focus and initial ambitions of the project were prudent, both in financial and political terms, and responded to the needs of the sector.

By the time the institutional agreement was reached, in 2013, however, the complex nature of the challenges in the Iraqi sector was becoming more pronounced. The focus on immediate needs, ad hoc capacity building and technical assistance on selected topics of petroleum sector management therefore seems sensible, even if those outputs alone were not sufficient to achieve the long-term objectives of the programme.

There are essentially two types of outputs from the programme thus far: Provision of technical equipment (purchase of software), and capacity building through workshops, with emphasis on the latter. There is no doubt about the need to improve technological standards in Iraq, and the programme has accommodated for capacity building that maximizes the utility for the Iraqi sector of newly purchased equipment (such as metering), or provided a combination of technological upgrade and capacity building (environmental software). Some workshops have coincided well with on-going changes in the Iraqi management. The HSE workshops, for example, took place during a process of mainstreaming HSE divisions across the MoO, and reportedly influenced the way in which this work was implemented, increasing the effectiveness and relevance of the new HSE structures in the Iraqi sector. Similarly, the on-going work on EIA Guidelines takes place at a time when Iraqi is increasing its
focus on EIA – partly as a result of increased Iraqi commitments to international obligations and standards, and partly as a result of international pressure. The two policy workshops that have been organised (one on overall policy and one legal workshop) have functioned partly as a way to connect the ongoing phase with the work of the first phase (involving the negotiation unit formed after phase I), and partly as a first preparatory step to a broader policy work with the Iraqi counterpart.

This review therefore concludes that phase II of the programme, as it was planned when it was initiated (in 2011) scores well on relevance, as do the actual outputs provided under the actual implementation, although not in line with the initial plans. This does not in any way mean that it covers all the relevant needs or that other needs should not have been consulted (financial management is an obvious candidate), but that the outputs supported by OfD have served to help alleviate urgent and important needs in the oil sector of Iraq today.

It is worth noting that as a starting point, the structure and context of the programme does not predict well for relevance. The set up reflects the monopolization by the MoO of petroleum management in Iraq. The current Iraqi members of the JSC are recruited from a specific, relatively low level in the MoO, and with a somewhat narrow technical orientation. The knowledge and level of understanding of the broader scope of the program seem to be somewhat limited, and the institutional arrangement does not help to mitigate this problem. Moreover, the design of the programme has not been well integrated or had any clear links with the overall strategies on the energy sector. This is an obvious risk factor when it comes to relevance of the programme; by not being closely involved in overall strategies there is a risk of not addressing key needs addressed in other processes, missing synergies with other processes, or overlapping with other interventions.

In addition, the limited knowledge by the Norwegian partners about the character, structure and challenges of the Iraqi sector (due to their limited access both to information and physical presence) is assumedly a major impediment to securing quality and relevance, and thereby maximizing effects of the current programme.

When this assessment nonetheless concludes on relatively high relevance, it is partly because of two other features of the programme. First, the programme has been highly driven by demands from the Iraqi side. The financial contribution by the Iraqis, out of country activities and the fragmented nature of the programme have made it unusually dependent on Iraqi definitions of what their needs are. This may to a large extent explain the focus on tangible, technological assistance. Although perhaps not in line with all of OfD’s policy objectives and priorities, it can be argued that it reflects urgent needs in the current Iraqi context. Second, the programme is characterised by a high level of flexibility within an extremely unpredictable and flux setting. Overall, the programme is characterised by a considerable ad hoc nature. This is arguably the most appropriate way of implementing a programme in the current setting in Iraq, with regard to relevance. It has enabled the choice of activities that so far have responded well to current Iraqi needs, organised in a manner timed and intended to increase the capacity and quality of other efforts in Iraq to improve the management of the oil sector in the topics selected under phase II.

To some degree, the above features of the programme go against what is otherwise regarded good aid management, where one starts with a relatively detailed programme outline and results framework, and success is measured as the degree of alignment with results of the pre-set indicators. Moreover, the relatively stronger role of Iraqi counterparts in defining needs may logically come at the cost of adherence to the donor’s policy objectives. It can be seen as largely a remote capacity building project whereby the Iraqi partners identify their needs and the Norwegian counterpart offers trainings based on those expressed needs, which creates difficulties in making it fit with the ‘OfD formula’.
One topic repeatedly stated by both partners is policy. While certain introductory policy discussions have been held, this subject was for some time laid to rest due to political sensitivities on the Iraqi side. There has nevertheless been a repeatedly expressed desire by the Iraqi counterpart to activate the policy component of the programme.

It seems beyond doubt that a policy component would have been relevant. A sustainable and efficient management of the resources in Iraq can only happen if Iraq moves forward on reshaping the management of the oil sector in ways that require policy changes. Given the numerous challenges of the Iraqi sector, and their less than optimal management structure, there is clearly a great need for policy work and strategic planning in the Iraqi sector. The political will is not lacking (at least in part), but, as indicated elsewhere in this report, various layers of commission have prevented progress. As long as the new law is not passed and other policy changes halted, key underlying issues that are not dealt with are slowly bringing the Iraqi sector to the brink. This does not necessarily mean that Norway and OfD should take on a role of more policy engagement – that would only be meaningful if there is reason to believe that Norway is positioned to give good contributions to relevant processes – but it certainly means that this should be considered.

Desire, need and willingness are seemingly present. Requests for assistance in policy have been expressed at the ministerial level, by the deputy minister, and within the OfD programme. However, there are some indications that the implications for the sector and the level of complexity in the discussions are not necessarily entirely understood by all stakeholders. Further, the Iraqi hierarchical decision-making structure, coupled with an authoritarian heritage and a challenging security situation all add constraints to the ability of lower levels of the establishment for expressing views on sensitive issues (or ability to act upon them). A key element in moving forward with policy is therefore to secure backing at the highest level of government. The current appetite for reform and the intentional move towards a technocratic government makes it a good moment to attempt to engage directly with the government and test its responsiveness.

While policy is formally a separate component of the programme, some of the rather technical activities have also raised and touched issues relevant to policy. In the first period, the programme took care not to step into the sensitive questions of KRG. This demonstrates that even if policy is organised as separate activities, it is becoming increasingly difficult to separate purely technical issues from policy issues. Whether or how to include or exclude certain parts of Iraq or certain institutions inevitably carries implications at the level of policy. Similarly, the symbolic effects seen from a Norwegian perspective are often the same – if Norway works only with the Federal Government or whether Norway also has activities where the KRG region is included have political repercussions that the technical orientation of activities cannot escape.

One area where Norwegian support (although outside the programme) would have been relevant – and therefore an area representing lost opportunities – is other training opportunities. While the Iraqi sector is vast, and has many experienced and highly capable individuals, it is commonplace that decades of war, authoritarianism, occupation and sectarianism have affected generations of Iraqis and led to an abysmal decline in education and capacity relevant to a sound management of the petroleum sector. The Iraqi sector management suffers from significant gaps in the competence and qualification of its human resources. The positive effects of capacity building of targeted talented individuals in strategic positions in Iraq are potentially very large. On this background, it seems unfortunate that so far only one Iraqis has participated in Petrad’s yearly eight-week course in recent years. Reportedly, several Iraqis have applied for various courses, but MoO candidates have apparently not been prioritized. Ambitions to include 1-3 Iraqis in the yearly Petrad 8 week course have been expressed repeatedly, but this have not materialized yet. Had this been done, it could have mitigated some of the limitations inherent in a remotely controlled programme, and would signal a commitment by Norway to engage in more fundamental challenges in the Iraqi sector.
4.3. Effectiveness

The assessment of effectiveness must be seen in light of the fact that many planned activities have not been carried out and hence not produced the intended outputs. There are in most cases very good reasons for this, that are outside of the programme’s control. There are multiple obstacles to a timely and straightforward implementation of the Iraqi programme on account of elements linked to the political, military and financial crisis of the country. This combination was essentially responsible for the substantial delay programme activities. In December 2015, roughly 60% of the budget remained (12,8 mil NOK).

In addition to the general political and military turmoil in Iraq, the financial constraints of the programme also affected implementation more broadly in 2015. In general the progress of the planned programme activities in 2015 were negatively influenced by the low oil price and the difficult budget situation in the MoO, restricting travels for Iraqi officials. The current Federal Budget Law article 37(4) precludes the spending of funds for the type of activity involved in the OfD programme. Numerous planned activities were cancelled or delayed for implementation in 2016. The financial prospects for 2016 look even bleaker. This was a calculated risk in the results matrix.

Interestingly, in the results matrix, the risks at output level were mostly formulated with reference to budgets and capacity, which are obviously relevant, while ‘political stability’ was listed as a risk to the achievement of overall programme goals – in hindsight, this should also be listed as a risk even for delivering outputs. In any case, there can be no doubt that the external factors that have hampered progress of the OfD Iraq according to plans, were subject to calculated risks for anyone knowing the Iraqi context.

The assessment of actual achievement of objectives is limited by a number of factors (see under outcomes and impact below). This chapter will discuss a number of factors believed to influence on effectiveness of the programme, emphasising characteristics of the design, impediments of implementation and constrains of the Iraqi context affecting the effectiveness of activities that are actually carried out in producing the intended outputs and outcomes.

One such characteristic is that programme activities due to the security situation are carried out outside Iraq. In addition to greatly reducing efficiency and effectiveness for a number of very practical reasons, it reduces the possibility for mutual sharing of information in preparation of plans and activities, and for the outside experts to be exposed to the context. Another factor hampering sharing of knowledge may also be explained by the Iraqi management culture.

This has possibly substantial implications for the effectiveness of the programme, as given that the programme is largely based on training of Iraqis by Norwegians. Effects of such workshops significantly increase if the trainers have a certain level of information about the overall structure, management, needs and challenges of the sector when preparing and conducting the trainings. “I have never known so little about a country”, a widely used Norwegian stakeholder explained, an impression the ILPI team also got from several other stakeholders. This is a clear obstacle to the effectiveness of the programme, particularly when dealing with the broader questions of resource management and policy. If the policy component is broadened, the question of information sharing will need to be addressed.

Nonetheless, although this review has not systematically assessed the quality of the actual inputs, feedback from the Norwegian implementing agencies, in particular the Ministry of Petroleum and Energy (MPE) and The Norwegian Petroleum Directorate (NPD) indicate that technical assistance has been demand driven, well received, and implemented into technical administration of petroleum resources on the ground. Interviews with the Iraqi counterparts and a review of reports seem to
support this impression. The trainings also received overall positive feedback. For instance, the learning outcome of the policy workshop was satisfactory and the participants’ feedback was positive, emphasising the dialogue based presentations, the group work and the presentations. Similarly, the on-going capacity building in economic modelling was reportedly very relevant for MoO for their work on assessing different investment decisions. The modelling tools are flexible and can handle most of the relevant types of projects in the sector.

Given the design and structure of the programme, a crucial component in order to produce intended effect lies in the selection of participants for the workshops, and follows up of activities in Iraq. Selection of participants for the workshops has been entirely in the hands of the Iraqi counterpart. While Iraqis selected for training have represented the full communal make up of Iraq (Sunni, Shia, Kurds, Christians) and the female representation has been very high (compared to what is common in the petroleum sector), there are several concerns relating to selection of participants and follow up. The procedure is based on the JSC selecting the relevant institutions and number of participants from each, while the institutions themselves nominates candidates. In general, the Iraqi public sector is perceived as an area where clientelism is rife. Visa challenges and language proficiency further limits the pool of candidates. While there are indications that some participants may not have the appropriate background or positions, most Iraqis reportedly came from backgrounds where the subject would be relevant. The general level and engagement by participants were particularly high in some of the technical workshops, and on the policy and negotiation workshops. While this may have several explanations, it is also a reflection of the Iraqi structure, where the authoritarian heritage of Iraq causes the many talented Iraqis to seek technical careers. In the event that the policy component is scaled up, the procedures for selection of participants must be discussed.

Requirements of language capacity of the participants are clearly spelled out, and the trainings have mostly been held in English. There are certain indications that the level of English with participants has not been sufficient for an effective learning process.

On a general note, during out of country trainings, one can expect nominees to be appointed not only based on merit, but also their political affiliation or the access to senior policy makers. This is not a particular feature of Iraq, but the lesser involvement of the Norwegian partners in selection of candidates than in comparable programmes elsewhere makes it a particular concern here. Moreover, when pulled out of country, experience has shown delegates are often difficult to motivate and are distracted by a range of factors. These aspects suggest that the institutional impact might be less than optimal, and it makes the selection and targeting of the right individuals to optimize potential long-term effect particularly important. The institutional instability in Iraq and the precarious security situation exposes the sector to the risk of a renewed wave of brain drain by people leaving (or fleeing) the country, yet another factor to be added.

A number of practical challenges have risen under the programme affecting scheduled activities, leading to a considerable amount of delays and some cancellations. The issues of visas raised particular challenges for the Iraqis, as they needed to get visas in Amman, making appointments in advance and return to pick up their passports. 6 weeks would be required for the entire process. The Iraqi counterpart has covered the expenditure for these trips. With the deterioration in security, and the increased strain on the Iraqi budget, these personal trips to Amman became an increasing challenge for the Iraqis, and account for some of the delays or cancellations, for example were visa problems the cause of the cancellation of participation by MoO and ME in the IAIA conference in 2014.

Notwithstanding, more then 100 persons were provided with visa to Norway in 2014, reportedly due to commendable efforts by embassy staff. In 2015 this problem had a substantial impact on the programme. Several planned activities for trainings in 2015 were deferred until 2016, as the large
number of participants and the MoO travelling costs were unsustainable in 2015. Measures were taken to mitigate the challenges and expenses of visa procedures. In 2016 the Norwegian Embassy has addressed this issue by facilitating visa – application at the Swedish consulate in Bagdad to Iraqis with ordinary passports who hold an invitation under the programme. This obstacle seems to being solved for future trainings with the Norwegians. Visa challenges nevertheless continue to affect trainings in other countries, such as the US (for the environmental software).

Working with government structures in Iraq in general poses certain challenges in terms of establishing credibility and trust, for obvious historical reasons. In this respect the OfD programme is in a situation of comparative advantage, as it has persisted for years, including during a period of substantial “Iraq-fatigue” in the international community after 2011. It has also provided the Iraqis with capacities that are essential building bricks in order to improve management of petroleum resources in Iraq. This is likely to enhance effectiveness of OfD compared to possible other development programmes.

Overall, however, in spite of the characteristics of the programme discussed above the level of effectiveness in the past three years is clearly acceptable given the multiple challenges facing the sector. As expressed by an Iraqi participant working with EIA guidelines: ‘we are a country at war, we have enormous spills on our feet as we speak, and yet here we are, planning for a more sustainable environmental management in the future’. Given the multiple challenges of the programme, the limited number of outputs actually implemented compared to the original plan is clearly justifiable.

4.4. Efficiency

The precarious situation in Iraq in terms of security, financial constraints and logistical hurdles makes it difficult to assess efficiency of the programme based on a given norm or in comparison with other countries. The review can therefore not conclude on efficiency. Moreover, a more general ‘value for money’ is only meaningful with reference to results at higher level in the results hierarchy. As indicated below, those results are too early to conclude on and heavily depend on further developments in Iraq, and subject to large uncertainty. For these reasons it is not possible to provide an estimate of the programme’s ‘value for money’ at this point.

Training costs are naturally relatively high due to training being held outside Iraq, but the Iraqi partners have been covering their own travel and accommodation expenditure (costs and financial management at the Iraqi counterpart have not been part of this review). Some of the increased costs incurred on the Norwegian side over time are linked to activities having been held in the region in order to mitigate some of the costs of the Iraqi side. This has certain consequences for expenditure on the Norwegian side, but may have led to reduced total costs. Overall, the programme appears to have been organised and implemented in an efficient manner.

In terms of management efficiency, the programme has suffered serious delays in implementation for reasons linked to the precarious situation in Iraq described elsewhere. At the entrance of 2016, roughly 60% of the budget remained, and about 2/3 of the budget for 2016 is covered by unused funds from 2015.80

The substantial downscaling or halt in activities under the program in 2015 was due to increased financial strain for the Iraqi counterpart. The low programme activity in 2015 allows for a high activity in 2016, if the programme can sort out some of the present budget (liquidity) constraints on the Iraqi side. If the current model continues, it is practically certain that the programme will suffer serious disruption due to financial constraints on the part of the Iraqis for 2016 as well.
4.5. Outcomes and impact

The assessment of most outcomes and any consideration of overall impact of the programme phase II is influenced by several factors specific to the programme. First, most activities are ongoing and have not yet been completed, and there has been a relatively short span since activities were first set in motion. Even in a normal situation it is early to conclude on outcomes and impact. Second, the programme has suffered from a number of delays and postponements due essentially to political, financial and security constraints in Iraq. Third, the lack of clear baseline data and limitations in the monitoring system make any precise assessment of results very difficult at best. In addition, the study is severely limited by absence of opportunity to carry out a field visit to Iraq, which makes this review strongly dependent on programme reports – which, as stated above, is primarily concentrated on output level (see annex) – and statements by Norwegian and a small number of Iraqi participants in the programme.

In addition to these programme specific elements, the programme is implemented in an extremely volatile situation and an environment that is in practically all possible ways hostile to the achievement of the broader goals and objectives of the OfD programme.

The situation in 2011 looked brighter. The US withdrawal of forces from Iraq in late 2011 was neither planned nor intended, and had a cascade of effects. The extent of deteriorations in Iraq was not grasped outside Iraq before mid-2013. Before the activities of the programme got going, however, the Iraqi context was rapidly descending into a very precarious situation, which has only continued to deteriorate during the programme period. While the Iraqi setting is challenging and a substantial risk was acknowledged and accepted by initiating phase II in 2011, even most worst case scenarios circulating for the development in Iraq between 2010 and 2013 did not predict the extent of financial, political, geopolitical and military turmoil currently facing Iraq and affecting the petroleum sector at various levels. At the initiation of activities in 2014, the likelihood for the OfD being successful in contributing to long-term positive impact in line with the programme goal could hardly have been more demanding anywhere else. Impact of the programme must also be judged in light of this fact, including the rapid and largely unforeseeable deterioration over the past three years in mind.

While there is little indication of strictly systematic risk management according to mainstream aid management logic, we can assume that the risk was acknowledged, as nobody reading news about Iraq could have avoided to learn about the developments at least in later phases of the period under review. It can thus be seen as a calculated risk in an environment where the chances for success were limited but still worthwhile.

Nonetheless, some notes can be made on the likely outcomes and impact. The identified purposes of the programme are to “increase capacity, efficiency, transparency and institutional arrangements to facilitate well coordinated and results oriented resource management, environmental management, revenue management and HSE”. It is indeed likely that programme activities have had certain effects in this direction.

Thus far in phase II, some outputs have led to outcomes that are likely to have valuable impact.

- A metering component has been integrated and is functional due to the programme. The Iraqis therefore operate with their own code, allowing a much more reassuring measurement. This has been an important step towards reducing cheating and corrupt practice with volume measurements, which is a severe problem in Iraq. Oil smuggling occurs on various scales, from local pipeline drilling to large-scale organised fraud. Oil smuggling is estimated to have cost nearly US$ 7 billion between 2005 and 2008 alone (OECD 2008). These illicit activities have reportedly been used to finance major political and
Although the Iraqi programme was never slated to be a high profile programme, this is somewhat surprising and bears witness of the insulated character of the programme, even within MoO.

Iraqi informants to this review largely support the above assessments, and indicate a number of other potential outcomes. Increased use of GIS is intended to enhance the MoO capacity to perform planning and to present data for the public in general, and was deemed very useful. Likewise, there are high expectations to the work on EIA guidelines, very useful as recent demands under international frameworks have led the Iraqis to face entirely new requirements in the industry. It has been expressed that “significant competence” has been transferred through the programme in the area of environmental management.61

The data management visit to Norway was deemed by the Iraqis as highly relevant for the on-going work on establishing a national geodata bank for Iraq, and that their understanding of the challenges the country is facing in this area had increased substantially.

On area where the programme seems not optimal in order to provide long-term outcomes, is on long-term institutional effects on capacity. The major benefit of the trainings seems to be general increase of competence by individuals working in the sector. If this is part of a concerted plan of increasing the knowledge and knowhow of a selected group of personnel having or intended for crucial functions in the sector, this may be prudent. The selection process on the Iraqi side is, however, constrained also by other priorities and concerns. The result is a programme that provides useful capacity-building on an ad hoc basis, responding to the most immediate needs of the Iraqi MoO for increased capacity, essentially in areas where they need technological upgrading, or where increased requirements under international standards are pressuring the Iraqis to change. The programme is a useful tool for the Iraqis to achieve these objectives. However, it clearly falls short of the more holistic objectives of the OfD programme.

In conclusion, the most clear-cut and easiest identifiable outcomes seems to be where tangible results (software, guideline, code) come out of the activities, and training is geared specifically towards optimizing and using these instruments. This underlines a programme of strong technical orientation.

One interesting observation is what seems to be lack of knowledge by other stakeholders in Iraq. Although the Iraqi programme was never slated to be a high profile programme, this is somewhat surprising and bears witness of the insulated character of the programme, even within MoO.
4.6. Sustainability

The extremely volatile situation in Iraq and uncertainty linked to the future of core institutions limits any assessment of sustainability of the programme. Moreover, the combination of design and the challenges arising in the Iraqi context have resulted in programme activities which respond to identified Iraqi needs on an *ad hoc* basis, with less clear effects for the strengthening of the Iraqi institutions and hence management of the sector in the longer term in line with the purpose of the programme. While this is justifiable and perhaps the only possible way to support the Iraqi oil sector under the current circumstances, it is not promising with regard to sustainability.

However, the programme nevertheless contains certain features that may bode well for sustainability under some of the more positive scenarios identified later in this report. First, the increased competencies among the participating individuals will be beneficial if they continue to work in the oil sector and the sector is improving over time. Second, the relationship of trust established between the Iraqi and Norwegian counterparts, the planned work on policy and the expressed willingness and need by the Iraqi side to embark on such a process, provides the programme with a significant window of opportunity to making an important and enduring contribution to sustainable management of the petroleum sector in Iraq.

4.7. Key lessons / findings

- The relevance of the programme was high when it was designed, and the flexibility and ad hoc nature enabled high relevance of outputs also when the external conditions changed.
- The situation in Iraq has constantly deteriorated during the implementation of phase II, exposing the programme to a range of added challenges that could not realistically have been foreseen in 2011 (and partly 2013). This has led to delays in implementation and some cancellations since 2013, affecting the efficiency, effectiveness, outputs, outcomes and potential impact of the programme.
- Most delays and cancellations are linked to the broader deterioration of financial, political, and security conditions in Iraq, and can be well justified with reference to these constraints. It can indeed be seen as an accomplishment that the programme has in fact been able to implement a number activities at all despite the precarious situation. This points to a certain level of dedication by both sides.
- The actual outputs of the programme so far have nevertheless responded well to Iraqi needs, with potential to lead to improvements in the Iraqi oil sector in areas topics prioritised under phase II.
- The lack of exposure to the Iraqi context and corresponding lack of knowledge on the Norwegian side concerning the character, structure and challenges of the Iraqi sector is a possible impediment to maximizing effects of the current programme.
- The structure of the programme does not provide long-term institutional effects on capacity. It rather provides useful capacity-building on an ad hoc basis, responding to the most immediate needs of the Iraqi MoO for increased capacity, essentially in areas where they need technological upgrading, or where increased requirements under international standards are pressuring the Iraqis to change. The programme has been a useful tool for the Iraqis to achieve some of these objectives. However, it clearly falls short of the more holistic objectives of the OfD programme.
- Policy has been a sensitive issue so far in the programme. While the Norwegians have incorporated it in ways common to other programmes, the Iraqis have been somewhat undecided. While clearly expressing the need to embark on policy, and very grateful for the activities provided, there is a substantial level of reluctance on the Iraqi side. There is also no shared view at various levels of what policy work entails in practice.
5. Risk analysis

This chapter presents a set of external and internal risk factors likely to affect the performance of the OFD programme in Iraq. The analysis departs from the basic premise that Iraq is facing considerable challenges, and that the political reality of Iraq represents an unusually volatile context affecting programme conditions in various ways. While Iraq stands at a vital juncture in its modern history, it is difficult to predict which way the country will head in the next few years.

5.1. External risks

A number of external factors involve significant risk to programme success, and should be kept under constant evaluation. They include severe economic distress, wrought by declining oil prices since June 2014 can potentially deteriorate to the point of paralyzing the Iraqi state structures. This may constrain Iraqi participation in the programme, and eventually also affect Iraqi institutions in more profound ways. Moreover, corruption remains substantial and systemic in Iraq. Ensuring that Iraq’s massive oil and gas income is used for the benefit of all Iraqis has been identified among the biggest anti-corruption challenges of the coming years. Failure or success in these broader undertakings will have significant influence on the conditions of the sector. There is also considerable risk of endemic environmental damage as a consequence of the combination of armed conflict with ISIS, scorched-earth-techniques and lack of capacity to conduct appropriate clean up (for military, technological or financial reasons). This is likely to overwhelm the Iraqi environmental contingencies and management of the sector.

The most precarious risks are nevertheless linked to political and military developments in Iraq. The situation is evolving rapidly, and with three primary pressure points likely to play prominent roles for the foreseeable future:

- **Uncertainty in Baghdad – and the 2003 order at stake.** The protest movement in Baghdad, which calls for the reform of government, tackling of corruption and the naming of a technocratic (non-partisan) cabinet, has changed the political calculus in Baghdad and is disrupting the political post-2003 order more than perhaps any other event in the last decade. The storming of the “Green Zone” and sit-ins at the Parliament building have further increased pressures on the government to react, but it has so far failed to reach an accord that reconciles the demands of the protesters with powerful vested interests that seek to maintain the status-quo. The evolution of this relationship is one of the most important potential disruptors as it could change the political system dramatically, and lead to the implosion of the order established in Iraq after 2003.

- **Relations between the Federal Government and the Kurdistan Regional Government.** Previous conflicts have concerned the degree of autonomy the KRG could exercise under the current constitution. Three precedents have since been set: in 2007, when KRG passed its own Oil and Gas Law and began awarding production sharing contracts without consultation with the Federal Government; in 2015 when it started exporting oil independently of SOMO; and the wake of the war against ISIL has complicated the situation further, as territory is being re-conquered by both KRG and Baghdad. Intra-Kurdish competition for control has led to increasingly populist stances being taken by the Regional Government, including a number of instances where the regional president and prime minister have called for a referendum on independence. The KRG has also reacted strongly to attempts in Baghdad at implementing reforms, including those of Prime Minister Abadi to name a technocratic government, which was viewed by the KRG as being an attempt to minimise Kurdish
participation in the cabinet.

• **The changing landscape in the fight against the Islamic State.** A number of major challenges present themselves in the territories that are newly liberated by the Iraqi Army, the Popular Mobilisation Units and the Peshmerga, including the necessity of establishing the trust required to convince the locals to return, providing the necessary infrastructure in areas that have been damaged in the war, and ensuring that the various armed groups do not transform the conquest into a wider conflict about control of areas between Iraq’s various ethnic and sectarian groups. Many of the battles are being fought on land that has been contested between Arabs, Kurds, Turkmen and others, leading to the distinct risk of further conflict erupting over control of liberated villages between the various armed groups, as was the case in Tuz-Khurmato in April 2016.

In addition to these three primary pressure points, on the geopolitical front Iraq continues to face considerable challenges. The Vienna Declaration of October 2015 represented a commitment by all major powers in the region to respect and maintain existing states in the region, including Iraq. The prime ministership of Haidar al-Abadi in this regard represents an opportunity towards an Iraqi restoration. Increased US investment in assistance to Iraq from 2015 targeting state building projects is another reflection of a renewed commitment by outside actors to strengthen institutions, governance and resilience in Bagdad.

Mirroring the high level of uncertainty and precariousness in Iraq, four different 24-month framework scenarios are presented here.

**5.1.1. Scenario A: Status quo (slow re-establishment of control)**
A number of elements could underpin a return of Iraqi governance to the status quo in place since 2003. Three issues would need to align for this to happen:

• wider acceptance of the general need to reform the government and its institutions;

• broader participation of non-political (technocratic) actors that transcend ethno-sectarian quotas; and

• a reestablishment of an agreement on oil and gas exports and revenue distribution with the KRG

There are centrifugal forces pushing all these elements. The emboldened protest movement in Baghdad is clearly enunciating a desire to eliminate ethno-sectarian quotas in government, while the current Prime Minister is a known advocate of technocratic government. Agreement with the Kurds could be facilitated through pure necessity, with the KRG suffering an acute fiscal crisis as a result of low oil prices, and with fewer options than the Federal Government in issuing debt and accessing international debt markets. Problems with paying the salaries of employees have increased internal pressures in KRG. An accommodation with Baghdad, modelled on the short-lived agreement of early 2015 that involved Kurdish exports through the central authority in return for budget transfers from Baghdad could be reinitiated. If this results in the formation of a technocratic government with wider public support and the backing of the main political parties, an improved governance structure is possible. However, if one or more of the elements described above are not attained (i.e. a government is formed without agreement with the Kurds, or that does not meet the demands of the protesters), then it could return to an ineffectual government and underpin an unstable system.

**Implications for the programme:** In case a technocratic government is in fact established, this clearly represents a major window of opportunity for the OfD programme in optimizing its outputs and outcome by going ahead with a policy process.
5.1.2. Scenario B: Post-2003 order collapse

The confluence of economic/fiscal pressures, the threat posed by the ISIL, and the popular desire for reforms, coupled with strong political disagreement between the main protagonists in government, means that Iraq is facing the distinct possibility that the order established following the 2003 war will be brought to an end. This “post-2003 order” is one based on power sharing between Iraq’s main political parties, which themselves mostly represent disparate ethnic and sectarian constituencies, meaning that government agencies were apportioned on such lines. If these parties fail to reach an accord on power sharing, it would represent the most significant disruption of Iraq’s political scene in the last decade. The implications depend on what emerges from the ruins of the existing order. Such a scenario could result in one of three broad outcomes:

1) **The continued operation of the State**, with stifled decision-making and government institutions focused largely on day-to-day management under a Prime Minister with little political weight and a cabinet mostly in flux, reflected in policymaking that has little consideration for long-term planning or strategy.

2) **Partial collapse of state institutions**, and the start of a potentially protracted period of further uncertainty and unrest in Baghdad, underpinned by low/mid-level political violence, with a semblance of order maintained almost exclusively through international efforts to prop up a system to avoid descent into wide scale chaos.

3) **A new system of governance**, built with less reliance on the ethno-sectarian quota system that has been a feature of governance since 2003. This may happen if the collapse of the post-2003 order is capitalised on by progressive political actors and civil society representatives, and supported by international assistance. The chances of such a scenario transpiring are limited by the strength of the resistance from entrenched groups whose interests are vested against it.

**Implications for the programme:** The OfD programme may continue to support key pillars of the programme, and may constantly review the potentials for a policy approach. If a new system of governance is launched, policy work should be launched with high ambitions. In case a continued operation of the State in a more flux situation, policy work will be very high risk, but may have an important impact in the (unlikely) event that it is successful. Similarly, if there is a partial collapse of state institutions policy work would be extremely high risk, but in the (very unlikely) event of a successful outcome, it could make a substantial difference.

5.1.3. Scenario C: More pronounced partition

The multi-ethnic and multi-religious nature of Iraq and on-going dynamics of partition may result in a split up of Iraq. This could come as a result of the collapse of the post-2003 order, as a result of lack of ability to reconquering ISIL areas, or thought processes of proclamations of independence. Four main fault lines exist:

1) **The Kurdish Iraq**: The three governorates of Suleimaniyah, Erbil and Dohuk that currently make up the Kurdistan Regional Government (KRG) with additional territory under KRG de facto control, notably in oil-rich Kirkuk, and parts of Diyala, Salah al-Din and Nineveh provinces;

2) **ISIL-controlled areas of Western and Northern governorates**: ISIL expansion seems to have reached its limit, but it has scored a disturbing permanence.

3) **Newly liberated Sunni-majority cities**: in Anbar, Diyala, Nineveh and Salah al-Din provinces.

4) **South East Iraq**: Baghdad and the South and the Central Euphrates governorates, encompassing the 10 governorates of Baghdad, Wasit, Babil, Karbala, Najaf, Nassriyah; Thi-Qar, Muthana, Missan and Basra. This area accounts for the majority of oil production and export in Iraq.
Though it is unlikely that any meaningful control of large areas by ISIL will be tolerated, in part because of sustained international efforts to see its demise, the possibility does exist that Iraq is partitioned in either 2 parts (Kurdistan and the rest), 3 parts (along ethno-sectarian lines), or that Baghdad increasingly looses control over the provinces.

The more likely of these situations is a unilateral declaration of independence by the KRG. In such an eventuality, all eyes will be on the contested areas outside the current “green line”, the UN-agreed border of the region as it currently stands but which does not correspond to frontlines on the ground. Should these areas be annexed, with the war against ISIL giving Kurdish forces ample opportunity to operate more freely, conflict may arise that will be difficult to contain. Many villages are populated by Arab and Turkmen Iraqis who will resent any annexation, and who may call upon regional allies to bolster their ranks. While this would risk a highly fragmented conflict in the buffer zones, it would also in dangerous ways expose Iraq as the new theatre for military proxy conflict akin to Yemen and Syria, only a more precarious situation would arise as Iraq is physically situated “in a squeeze” between Turkey, Iran and the Arab Gulf States. The flare-up in Tuz-Khurmato in April, where Kurdish Peshmerga and the Popular Mobilisation Front on behalf of the Turkmen population squared off against each other is one example. Insecurity apart, the actual nature of such a breakup would determine the impact on the future of any version of the OfD programme.

Implications for the programme: A partition that does not result in a full-scale collapse of the state and a civil war would leave ample room for the programme to continue in the rest of Iraq. In the event of an orderly process resulting in an independent Kurdistan recognised by the international community and with a functioning government, the programme could continue in Baghdad and potentially also expand to Kurdistan. Political and military volatility can lead to substantial disruption of programme activities. The programme can mitigate such risk by retaining high level of flexibility in programming and financing of the programme, with the ability to quickly scale up and down. Implementation of activities may still be affected, but more by delays than cancellations.

5.1.4. Scenario D: Widening civil strife and expanding regional warfare
The potentially devastating impact of a descent to full-scale civil war or regional proxy war requires consideration. This could be sparked by developments in Iraq, linked to the patterns of violence on the frontlines and a further spread of lawlessness and factional violence into Baghdad. Should ISIL make inroads into convincing the Sunni Arab population that its interests are best served through supporting the movement, this could lead to a much larger conflict, triggered perhaps in the same way as the 2006 civil war, by targeting and destruction of significant sites. In such a scenario, a proxy competition between Iran and Saudi Arabia may become an open confrontation through Iraqi protagonists, though conflict is likely to be centred in parts of the country that are heterogeneous (with the south probably spared from the worst of the violence). Another scenario is that the rivalry between Iran and Saudi Arabia escalates, engulfing several buffer countries between the two regional powers, of which Iraq is perhaps the most prominent.

Implication for the programme: This scenario would interrupt any ongoing programme, which should be put on hold. An exit at this time could be justified with regard to the dire security situation, the prospects for significant disruption at the Iraqi side due to looming risks of escalated unrest (from three different and independent sources). However, a withdrawal at this critical juncture for Iraq and in a situation where program has not been completed according to the 2011 program agreement would send very disruptive signals. The dire needs of the sector are also unlikely to be addressed in the same manner by others in case the OfD pulls out. Moreover, the programme provides an important element of creed for the future – a beacon of hope in the possibility that Iraq will make it through this turbulent phase, in a continued atmosphere of general “Iraqi fatigue” by the international community. The bilateral cooperation has been going on for 12 years. It has established
a certain basic relationship of mutual trust, and the programme has been able to adjust to prevailing circumstances in a satisfactory manner.

5.2. Internal risks

The programme is subject to a number of internal risks, here meaning that at least part of the risk factors in questions are, at least in principle, at programme level. Several risks are also indirectly related to, and may to some degree correlate with, the external risks presented above. Even though the risks are internal and can (and should) be mitigated, it is clear that most of these risk cannot be reduced to negligible levels and will continue to follow the programme almost regardless of how they are managed.

- **Already severe economic distress can deteriorate to the point of paralyzing the Iraqi counterpart.**
  
  *Mitigation measure:* The Norwegian counterpart should consider covering Iraqi expenditure for travel and accommodation outside Iraq.

- **The level of corrupt practices in Iraq exposes the programme to significant risks of financial corruption.**
  
  *Mitigation measure:* The programme is already designed in a way to appropriately reduce the risks of financial corruption to minimum when it comes to activities and financial flows under control of the programme, also in the event of a scale up or scale down of the programme.

- **The level of corrupt practices in Iraq exposes the programme to risks of non-financial corruption.** This may involve selection of participants for the programme, or other components giving a few individuals control over the distribution of programme related resources that are attractive to individuals, with corresponding possibilities to distribute such for own personal benefit or political purposes. Clientelism is endemic in the public sector.63
  
  *Mitigation measure:* Mitigation may consist of higher participation by the Norwegians in selecting participants based on function and responsibilities. A broader institutional representation at the Iraqi side may also counter such practices (or the perception of such practices).

- **Risks of duplication of programme activities** with programs by other donors is not very high at the moment, with the considerable “Iraq fatigue” still limiting the number of external programs, and the Chinese companies having a different philosophy. However, if political reforms progress, so will foreign capacity building projects in the petroleum sector. In that scenario, this risk should be taken into account and mitigation measures established.

- **A more pressing risk arises from the low level of coordination between different Iraqi stakeholders.** The legacy of Iraqi bureaucratic culture and current political atmosphere makes smooth communication between different institutions a steep path.
  
  *Mitigating measure:* expand and diversify representation in the programme committee.

- **Language issues** remain a risk for the programme, particularly in more technically oriented workshops, where the actual benefits may be greatly reduced as a result of some participants’ poor language skills.
  
  *Mitigating measure:* Consider to include interpreters in workshops, particularly those of a more technical nature.

- **Risk of policy processes being stalled or deliberately spoiled by people having much political influence.** While this is to some degree an external risk, it is also something to be part of internal risk management since the actual management of the programme’s engagement in policy issues can have a lot of influence on this risk by avoiding actions that may provoke resistance
  
  *Mitigating measure:* Make sure that the consultant working with the policy process is highly
skilled and with a profound understanding of the Iraqi political context, tensions and tools.

- **Risk of diversion by the partner for unsolicited purposes.** The unusual level of Iraqi ownership and monopolisation of the programme by one entity (MoO) makes the programme very dependent on this partner and key persons involved, and their continued commitment to utilising the programme for the agreed objectives.  
  *Mitigating measure:* The programme should be further develop with a view to becoming more of a joint undertaking where the close collaboration between Norwegian and Iraqi partners on all matters regarding the programme is increasingly institutionalized.

- **A reform process in government** (or other major event) may lead to turnover in the departments, affecting the MoO or key individuals. As one scenario, MoO may be subject to increasing tensions due to pressure of reform, causing MoO to stop functioning effectively.  
  *Mitigating measure:* Initiate discussions between the Iraqi and Norwegian counterparts about ways to secure or increase the institutional collaboration components of the programme. Extend involvement of the programme beyond the MoO (Ministry of Finance and Ministry of Health and Environment).

- **Gradually less relevance of programme due to lack of Norwegian understanding of the structures and complexities of the Iraqi political, institutional and managerial conditions.**  
  *Mitigating measure:* More extensive and systematic sharing of information about the Iraqi sector with the Norwegian counterpart would increase the relevance and effectiveness of the design of workshops.

- **Norway incidentally being perceived of positioning in internal Iraqi affairs though involvement in policy.**  
  *Mitigation measure:* Norway should make sure to follow the developments in Iraq, the orientation of the OfD programme and be constantly conscious about opportunities and dangers arising, and their implications for Norway.

### 5.3. Summary overview of risks

The table below provides an indicative summary overview of key factors, based on the above discussion and partly re-organised. Due to the very high uncertainty about further development in Iraq, the limitation of this study in getting access to information about internal dynamics in MoO and the oil sector in Iraq, and the limited possibility to systematically discuss these risks with Iraqi partners, the table must be read with great caution. This particularly relates to the probability: While all risks are real and significant, the likelihood of certain events and developments to happen is not possible to ascertain. The table is therefore intended to feed into further consideration of risks (for instance in a discussion between Iraqi and Norwegian counterparts), and not as a conclusive assessment of risks.
On a final note, the inability of Norwegian contractors, trainers and personnel to visit Iraq has been cited as a key obstacle to extracting the full value from the programme. In addition to the logistical issues associated with mass movement of Iraqi participants out of the country for training, the limited interaction on the ground could amplify the perception that policy and priorities are being set without a full and proper reading of Iraq’s particular circumstances. This risk works both ways. The Norwegian counterpart may perceive the programme to be “in the dark” and entirely at the Iraqi behest, while the Iraqi counterpart may feel pressured into programme components where the Iraqis do not understand the full implication of activities, while the Norwegians do not entirely capture the particular Iraqi sensitivities arising from a given activity. The nature of challenges in Iraq and the nature of the OfD-programme require an open, frank and pedagogical exchange of information between the two parties in the process of planning activities.
6. Conclusions and Recommendations

6.1. Conclusions

Phase II of the OfD programme in Iraq has experienced significant delays in the implementation and some cancellations, affecting the efficiency, effectiveness, outputs, outcomes and potential impact of the programme. However, the actual outputs delivered score reasonably well on relevance and likely outcomes. Some of the features of the programme, including some changes since phase II was initially designed, makes it appear more of an ad hoc support to alleviating urgent needs in the Iraqi oil sector than a contribution to long-term achievement of programme and OfD goals. This is arguably the most appropriate and probably the only possible in the current context.

There is an unparalleled level of uncertainty linked to the further development in Baghdad and the rest of Iraq. The situation is extremely volatile essentially due to three separate conflict lines.

- The post 2003-order in Bagdad may be at stake due to (Shia) infighting
- Strained relationship between Bagdad and KRG risks to escalate
- The fight against ISIL hides a brewing insurgency

How each line develops and how they will influence each other is at this stage ridden with such a level of uncertainty that it would be imprudent to engage in speculations about probability.

Notwithstanding, the risk analysis above has distilled four main scenarios for Iraq that are all possible within the next 24 months, each of which is likely to have a substantial impact on the petroleum sector in Iraq and the wider conditions for the OfD programme.

- Restoration of order and a (certain level of) technocratic government in Iraq, in which case the OfD programme may optimize its outputs and outcome by offering a policy process.
- Collapse of the post-2003 order, in which case the OfD programme may continue to support key pillars of the programme, and may constantly review the potentials for a policy approach.
- A more pronounced partition, most likely between KRG and Baghdad, in which case the OfD programme may continue with Bagdad and – depending on the circumstances - may initiate a separate cooperation with KRG. If the OfD programme continues with the Federal Government, it will be an important window of opportunity for a policy component.
- Increased challenges from ISIL, sectarianism and regional rivalries using Iraq as proxy, causing a descent into full civil war or a more pronounced regional proxy conflict, in which case the programme should be put on hold or exited altogether.

A major finding of this report is that the current design of the OfD programme is well adjusted to the volatility in Iraq. Nevertheless, if the programme continues, a set of measures are recommended in order to mitigate some of the external and internal risks for the programme identified in the preceding analysis, and further strengthen the programme’s relevance, effectiveness and sustainability with the objective to contribute to Iraq’s oil and gas resources being developed for wealth creation in a sustainable manner to meet the needs of the present and future generations of Iraq.
6.2. Recommendations

- **Take steps to increase the hands-on approach by the Norwegian side**
  - Increase the Norwegian participation in selection of participants and follow up of activities
  - Increase Norwegian involvement in considering the sensitive issues involved in the programme
  - Provide a broad institutional bilateral basis for decisions about redirecting or adjusting the programme in line with political and military developments
  - Facilitate sharing of information from Iraqi to Norwegian counterparts in order to maximize relevance and effect

- **Orient the programme towards the policy component**
  - Secure buy-in from the highest levels in Iraq and Norway to move into policy work, and ensure that people with appropriate positions and high expertise are involved
  - Provide a forum for policy advice and discussions
  - Enable the right level of representation in the policy work
  - Facilitate shared understanding of the nature and effects of policy work, enable participants to engage in policy work with confidence and appropriate understanding of roles
  - Secure coordination with other relevant processes or policy work
  - Secure the appropriate skills, levels of influence and authority for the entities and persons involved in a policy component
  - Prepare the necessary structures for the policy work on both sides, review and adjust current planned policy structures to make sure that the necessary capacity, buy-in, and depoliticised nature is secured

- **Maintain flexibility to adapt to the volatile situation**
  - Maximize the flexible nature of the programme, enabling it to be as relevant and efficient as possible in light of the evolving situation
  - Establish an interagency group to follow-up risk assessments and review the possible political implications of Norway’s engagement
  - Be ready for the possibility of a quick scale up in case conditions crystallize and decisions to do so are made
  - Secure an appropriate amount of flexibility in the funding mechanisms to enable a rapid and significant scale up the policy component in case the political constellations turn out favourably
  - While continuing a basic structure with Iraqi financial contribution to secure high level of Iraqi ownership and buy-in, temporarily adjust the financial structure for 2016 to one where Norway cover Iraqi travel and accommodation expenses outside Iraq, to mitigate the high risks of stallment of the programme due to financial restraints. Re-evaluate the financial structure on a yearly basis

- **Widen the programme to stakeholders beyond MoO**
  - Adjust the composition of the steering committee to include other relevant stakeholders
  - Secure mainstreaming of information sharing and participation of other stakeholders in the Iraqi management structure relevant to the programme
✓ Extend participation in the discussion and programme planning to stakeholders beyond the MoO
✓ Reduce risks of collapse of programme in case of stallment of affairs in MoO

➢ Move towards a more holistic approach
  ✓ Initiate discussions between the counterparts about how to increase institutional effects and institutional capacity development in the programme
  ✓ Re-engage with the negotiation entity in the MoO from programme phase I
  ✓ Signal the emphasis on long-term institutional effects of the programme
Annex 1: List of persons interviewed

Among Norwegian stakeholders
Øystein Kristiansen (Norwegian Directorate for Oil)
Kristin Eine (Norwegian Environment Agency)
Paul Berg (Norwegian Directorate for Oil)
Bengt Hope (Petrad)
Petter Ølberg (Norwegian Ministry of Foreign Affairs, former Ambassador to Amman)
Carsten Carlsen (Norwegian Embassy in Amman)
Farouk al Kasim (Petroteam)
Mette Gravdahl Agerup (Ministry of Petroleum and Energy)
Hans Petter Christophersen (Ministry of Foreign Affairs)

Among Iraqi stakeholder
Mansour Jaleel (Ministry of Oil)
Linda Dawood (Ministry of Oil)
Ali Al-Assam (Ministry of Oil)
Fares Robeil Korya (North Oil Company, Iraq)
Muhandis Stafar (Ministry of Health and Environment)
Luay al-Khatteeb, Founder of Iraq Energy
Mustafa al-Maliky (South Oil Company, Iraq)

Others
Christophe Michels (Iraq British Business Council)
Ben Lando (Iraq Oil Report)
Patricia Karam (NGRI)
Pablo Valaverde (EITI-Secretariat, focal point Iraq)
Sundus Omar Ali Albayraqdar (Iraqi Ambassador to Norway)

Unnamed
Member of Publish What You Pay, Lebanon
Member on the Task Force on Iraq, Atlantic Council Washington DC
Consultant working for IOC in Iraq
Member of CSO in Iraq
Iraqi journalists
Iraqi specialists in IEA
Member of the Iraqi government
Annex 2: Key state actors in the petroleum sector in Iraq, as of March 2016

1. Relevant ministerial units

Prime Minister

Ministry of Oil

Upstream
Oil companies (South/North/Missan/Midland)
Oil exploration and drilling companies
Forms “operating divisions” with IOCs to develop contracted fields

Downstream and Projects
Refinery companies (South/Midland/North)
Gas companies (South/North)
State Company for Oil Projects (SCOP)

Pipelines and Distribution
Companies for oil pipelines, oil products distribution, gas filling and oil tankers

State Oil Marketing Organization
Manages the exports of crude oil and the imports and exports of oil products

Central Directorates (Planning, PCLD etc)
Technical, Planning and Studies; Contracts and Licensing; Reservoirs and wells; Training and Committee to enhance female participation

Ministry of Electricity

Generation
Organised by region: North, Salah al-Din, Central, Nassiriyah, Middle-Euphrates, South

Transmission
Organised by region: North, Central, Upper-Euphrates, Middle-Euphrates, South

Distribution
Organised by region: Al-Russafa (Baghdad), Al-Karkh (Baghdad), Al-Sadr (Baghdad), North, Central, Middle-Euphrates, South

Headquarters
Responsible for Operation and Control, Planning and Studies, and Investment and Contracts

Central Directorates
Responsible for electricity projects, security and testing.

Ministry of Health and Environment

Environmental Protection and Improvement
Profile of selected state actors in the petroleum sector in Iraq

1. **Prime Minister's Advisory Commission**
   A body formed under the previous Prime Minister, Nouri al-Maliki, the Prime Minister's Advisory Commission is headed by a former Minister of Oil, Thamer al-Ghadhban. Mr Ghadhban is a respected technocrat and was nominated in 2012 to become the Secretary General of OPEC. The Commission was responsible for developing with international partners long-term strategies like the Integrated National Energy Strategy and worked with the International Energy Agency on developing the Iraq Energy Outlook in 2012. It currently still staffs respected professionals from the oil sector, but rumors abound that its responsibilities are being eroded.

2. **The Ministerial Energy Committee**
   A ministerial committee headed by the Prime Minister and including the Minister of Oil, Minister of Electricity, Minister of Planning, and the Minister of Industry. This committee has been meeting monthly to discuss the most pressing issues around electricity provision.

3. **The Parliamentary Oil and Energy Committee**
   With the task of providing parliamentary oversight to the government's decisions on the sector, the Parliamentary Oil and Energy Committee is a cross-party group that included the following parliamentarians: Areez Abdullah Ahmed; Ali Maarij Al-Bahdali, Adil Khamees Al-Fadhil, Ahmad Al-Jarba, Ibrahim BahralUloom (former Minister of Oil), Jamal Mhawis, Aziz Alwan, Fatima Zibari, Ali Al-Fayadh, Razak Al-Saadawi. The Committee does not have constitutional rights to pass legislation themselves, but can form suggestions.

4. **The Ministry of Finance/Auditing Board/Central Bank**
   The Ministry of Finance, currently headed by Hoshyar Zebari (the former Minister of Foreign Affairs) is tasked with initiating the Federal Iraqi budget. The Central Bank, headed by Governor Ali Al-Allaq (former official at the Planning Ministry, conducts currency auctions to maintain currency stability. It has in the past had a fictitious relationship with the government, with the previous governor adamant on keeping Central Bank independent from fiscal responsibilities.

5. **Office of the Inspector General**
   Each Ministry has an Inspector General, who is tasked with a broad portfolio to inspect the internal functions of the respective ministry. Adil Muhsin Abdullah has been Chief Inspector of the MoO.

6. **SOMO**
   The State Oil Marketing Organization, headed by Falah Alamri (also Iraq's Governor for OPEC), is responsible for the negotiation and conclusion of crude oil and oil products sales, as well as the imports of oil products to meet local demand. It does this for Federal Iraq (ex. KRG), and currently exports oil solely from Basra.
Annex 3 Activities and reported outputs

‘Outcomes’ in the tables below most often refer to output level according to mainstream aid management jargong

<table>
<thead>
<tr>
<th>1. Policy</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Activity</strong></td>
<td><strong>Time/place</strong></td>
</tr>
<tr>
<td>High level workshop on National petroleum policy</td>
<td>Istanbul, 22-24 October 2014</td>
</tr>
<tr>
<td>Workshop on negotiation and policy</td>
<td>Istanbul 2-4 March 2015</td>
</tr>
<tr>
<td>Workshop on local content</td>
<td>Istanbul, March 2014 Local Content,</td>
</tr>
</tbody>
</table>

**Planned activities**

| Assistance to draft a National Petroleum Policy | Requested by Iraqis (although some uncertainty about whether there is a shared understanding about what policy work will entail at the various levels on the Iraqi side) | Will exceed the programme expectations on this output. |

<table>
<thead>
<tr>
<th>2. General data management</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Activity</strong></td>
<td><strong>Time/place</strong></td>
</tr>
<tr>
<td>Work visit and workshops</td>
<td>Norway 5-9 May (2014)</td>
</tr>
<tr>
<td>Work visit to Norway</td>
<td>December 2015</td>
</tr>
</tbody>
</table>

**Planned activities**

| NPD assistance to MoO consultant for roadmap for national data center | Postponed by Iraq for financial reasons |

| A more extensive data policy visit to Norway in 2016 | |

<table>
<thead>
<tr>
<th>3. Petroleum resource management</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Activity</strong></td>
<td><strong>Time/place</strong></td>
</tr>
<tr>
<td>Training national management of Petroleum resources</td>
<td>May 2014 (Oslo)</td>
</tr>
<tr>
<td>Workshop on Geographical information Systems (GIS).</td>
<td>Norway, 16-20 June 2014.June 2014 (Oslo)</td>
</tr>
</tbody>
</table>
Demonstration and visit | Norway, October and December 2015 | General overview of how to use GIS, Demonstration | Completed
Purchase of software | | Completed, Awaiting training

**Planned activities**
- Workshop/training: US 2016, not yet provided with visas | Follow up work on implementing GIS.

### 4. Training

<table>
<thead>
<tr>
<th>Activity</th>
<th>Time/place</th>
<th>Participants</th>
<th>Theme</th>
<th>Outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic Modeling workshop</td>
<td>September Stavanger/Oslo 2014 (Oslo)</td>
<td>9 participants</td>
<td>Hands on experience in using economic modelling tools</td>
<td>Completed</td>
</tr>
<tr>
<td>Workshop follow-up economic modelling</td>
<td>13-16 June 2015, Istanbul</td>
<td>6 participants from MoO (the hightest scores from group I, with Econ Oil and Gas help)</td>
<td>Tools used are available for MoO to use after the workshop</td>
<td></td>
</tr>
<tr>
<td>Petrad 8 weeks course</td>
<td>2015</td>
<td>1 MoU representative</td>
<td>(not covered by the programme)</td>
<td></td>
</tr>
</tbody>
</table>

**Planned activities**
- Follow up workshop on economic modelling | 2016 | Real case data are then needed to bring the modelling experience further

### 5. Environmental management

<table>
<thead>
<tr>
<th>Activity</th>
<th>Time/place</th>
<th>Participants</th>
<th>Theme</th>
<th>Outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>EIA workshop</td>
<td>December 2014</td>
<td></td>
<td></td>
<td>Completed</td>
</tr>
<tr>
<td>Conference on EIA/SEA</td>
<td>18-24 April 2015, Italy</td>
<td>5 participants</td>
<td></td>
<td>Completed</td>
</tr>
<tr>
<td>EIA Guideline workshop</td>
<td>Dubai 2-5 May 2016, 6 participants (?)</td>
<td>Presentation of draft EIA</td>
<td></td>
<td>Completed</td>
</tr>
<tr>
<td>Environmental Monitoring software mapped and procured</td>
<td></td>
<td></td>
<td>MoO will send personnel to the US for training. Awaiting visa.</td>
<td></td>
</tr>
</tbody>
</table>

**Planned activities**
- Gas flaring, GGFR | Improving the MoO technical basis for planning of possible actions in this field.

### 6. HSE

<table>
<thead>
<tr>
<th>Activity</th>
<th>Time/place</th>
<th>Participants</th>
<th>Theme</th>
<th>Outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>HSE sector ability workshop</td>
<td>2014</td>
<td>No</td>
<td>Modern HSE regulations and the roles of regulatory authorities</td>
<td>Completed</td>
</tr>
</tbody>
</table>

**Planned activities**
The planned HS&E Management and Training workshop in 2015 was deferred further

### 7. Fiscal control

<table>
<thead>
<tr>
<th>Activity</th>
<th>Time/place</th>
<th>Participants</th>
<th>Theme</th>
<th>Outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>Workshop on fiscal metering</td>
<td>March 2014, Istanbul</td>
<td>26 participants</td>
<td>Fiscal metering, laboratory sampling</td>
<td>Completed</td>
</tr>
<tr>
<td>Workshop on Laboratory</td>
<td>May 2014, Istanbul</td>
<td>25 participants from the Lab</td>
<td>Laboratory Analysis</td>
<td>Completed</td>
</tr>
</tbody>
</table>

**Planned activities**
Two follow-up workshops in 2015 were cancelled due to budget constraints
### 8. Technical cooperation

<table>
<thead>
<tr>
<th>Activity</th>
<th>Participants</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minor technical issues can be taken up with the Norwegian Institutions for comment or support.</td>
<td>Such requests should in the initial phase be sent by e-mail to the two Co-Chairmen.</td>
</tr>
</tbody>
</table>

#### Planned activities

| Oil Museum | The activity is temporarily closed due to MoO lack of funds |
Annex 4: Terms of Reference

1 Background – the Oil for Development (OfD) programme in Iraq

Norway has cooperated with Iraq on the management of petroleum resources since 2005, and a five-year cooperation programme ended in 2009. A new programme agreement was signed in 2011, and the Norwegian Ministry of Petroleum and Energy and the Iraqi Ministry of Oil entered into an institutional cooperation contract in 2013 (hereafter the “Programme”). The current Programme Agreement is not time-bound. On the Norwegian side, Norad is managing the Programme. Main areas of support are resource management and environmental management. The total budget is NOK 20 million, and in addition Iraq is contributing to the Programme by covering their own travelling expenses. Due to the security situation, most activities have taken place outside Iraq.

The volatile political context in Iraq has influenced progress in achieving results. For example, efforts related to the development of a petroleum policy has been slow due to significant political sensitivities. On the positive side, feedback from the Norwegian implementing partners indicate that technical assistance has been demand driven, well received, and implemented into technical administration of petroleum resources on the ground.

2 Purpose and scope of work for the review

The purpose of the review is threefold:

1. to document and assess achievements made so far in the Programme, including key success factors and lessons learned, and provide concrete recommendations on how to improve results and sustainability within the remaining Programme period;
2. to identify areas of needs for further support relevant to the remaining programme period and a potential new phase of the cooperation; and
3. to conduct a thorough risk assessment (internal and external factors) of the Programme, identify efficient mitigating measures for the current programme and provide recommendations relevant to a potential new phase of the cooperation.

The review shall be based on OECD’s DAC Criteria for Evaluating Development Assistance. In order to indicate priority, a suggested number of pages in the report is provided per criteria.

1. **Relevance** (3-4 pages) – the extent to which the Programme is in line with priorities and target groups’ accurate needs, in particular focusing on its set-up and areas of support. The issues to be assessed include, but are not limited to, the following:
   a. Relevance to the needs of the involved Iraqi institutions and to Iraq as an established petroleum producer, including an assessment of whether the appropriate/relevant institutions are involved in the Programme;
   b. Responsiveness/flexibility of the Programme to the changing needs in Iraq.

2. **Effectiveness** (8-10 pages) – the extent to which the Programme is achieving its objectives. The issues to be assessed shall include, but are not limited to, the following:
   a. Achievements made so far, including an assessment of planned versus actual activities and reasons for deviations;
   b. To what extent the results framework and Programme set-up facilitates achievement of the objectives in the Programme;
   c. Factors affecting effectiveness in Programme implementation, including the choice of modality in planning and implementation of activities, and ownership of the Programme at the appropriate level in Iraqi institutions;
   d. Cooperation with other stakeholders (such as other related projects, donors and civil society) involved in the sector; and
3. **Efficiency** (8-10 pages) – an examination of the Programme outputs in relation to the inputs – both qualitative and quantitative. The issues to be assessed include, but are not limited to, the following:
   a. Programme management, including the relationship between Iraqi and Norwegian institutional partners, level of capacity and ownership/commitment in implementation of activities within both the Iraqi and Norwegian institutions;
   b. The use of resources in the Programme, including an assessment of cost-effectiveness and value for money;
   c. Administrative arrangements, including whether reporting on progress in implementation of activities as well as reporting on expenditures have been timely and of satisfactory quality;
   d. To what extent cross-cutting issues (gender, anti-corruption and climate) issues have been integrated into the planning, implementation and monitoring of Programme activities.

4. **Sustainability** (2-3 pages) – intended to measure whether the benefits of an activity are likely to continue after donor funding has been withdrawn. The issues to be assessed include, but are not limited to, the following:
   a. Measures taken or planned to be taken in order to create long-term processes, structures and capacity in the cooperating institutions in Iraq; and
   b. Additional measures needed in order to “do-no-harm” in the event that the cooperation is not renewed, including illustration of the consequences of a potential exit.

5. **Impact** (1-2 pages) – the positive and negative changes produced by the Programme directly or indirectly, intended or otherwise. The issues to be assessed include, but is not limited to, the following:
   a. (Likely) impact of Programme activities on Iraqi institutions and the petroleum sector.

The review may also address other issues the Consultant believes are of importance to the Programme. The risk assessment part can either constitute a separate chapter, or be integrated in the above analysis.

### 3 Implementation of the review

The assignment is to be conducted in the period January 2016 to March 2016. The deadline for submitting the final report is the 31st of March 2016. A start-up meeting with Norad is to be conducted when the contract is signed. The assignment will start with an inception phase, resulting in an inception report, to be submitted to Norad no later than two weeks after signing the contract.

It is important to keep a close dialogue with Norad during the assignment. Norad will provide comments and feedback throughout the process in order to maximise the relevance of the recommendations. The assignment shall be conducted through studies of available documentation and through interviews with representatives of relevant stakeholders in Norway and Iraq, with an emphasis on the latter. Travel to Stavanger to conduct meetings with key Norwegian implementing institutions is recommended. Due to the security situation, the feasibility of a field visit to Iraq must be carefully assessed in dialogue between the Consultant and the Embassy/MFA. However, meeting the Iraqi cooperating partners outside Iraq seems feasible. It is further expected that the Consultant make good use of a local consultant based in Iraq or neighbouring country. Conducting telephone interviews with key stakeholders in Iraq is one option. Norad will provide a list of relevant institutions and contact persons involved in the programme, however developing the full list will be the responsibility of the Consultant. Key stakeholders who should be consulted (by personal meetings or telephone interviews) include, but are not limited to, the following:

- In Iraq: Ministry of Oil, Ministry of Environment, the Norwegian Embassy in Amman, EITI,

The selected interviewees shall receive a written request outlining the purpose of the study and the main issues to be discussed in due time before the interview is conducted. It is acknowledged that the implementation of the assignment will depend on the availability of key Iraqi personnel to participate in interviews. Norad must immediately be informed of any delays.
4 Reporting

The Consultant will prepare and submit an inception report in English to Norad within two weeks of signing the contract. As a minimum, the inception report shall consist of the following:

- Outline/table of content/structure of the report;
- Description of methodology and research design;
- Preliminary list of references for the literature review;
- Preliminary list of interviewees and outline of the interview guides;
- Final implementation plan for the assignment including a detailed timeline; and
- Final detailed budget, separated into inception work, report writing and finalisation of assignment – per team member.

In addition, the Consultant shall present the inception report at an inception meeting to be conducted with Norad. A final report of maximum 35 pages (excluding Executive Summary and Annexes) is to be submitted in English to Norad. A draft report must be submitted to Norad and key Norwegian and Iraqi implementing partners for comments and feedback. The final report is due on the 31st of March 2016. The main report is not intended for public disclosure, the consultant shall prepare a condensed public version of the report.

The Consultant shall make a presentation of its main findings at Norad at a date to be determined. Norad will be the sole owner of the final report and its content, and will hold the right to share and publish it. The Consultant will not have the right to publish the report, nor any of its content, without the contracting authority’s permission in writing.

5 Budget

The estimated budget for the review is NOK 500 000. This include travel to Stavanger and travel to meet Iraqi cooperating partners outside Iraq if possible.

Option: If meeting the Iraqis outside Iraq is not possible and conducting telephone interviews is not considered sufficient, travel to Baghdad may be considered in close dialogue with the Norwegian MFA, Embassy in Amman and Norad. If travel to Iraq is jointly agreed upon, the budget for the review will be increased to take the necessary security precautions into account.
Notes

1 The first phase was subject to a mid-term review in 2007, see The Bridge Group, “Review of Institutional and Technical Assistance to
Agreement between the Norwegian Agency for Development Cooperation (Norad) and the Government of the Republic of Iraq in connection
development cooperation concerning Strengthening the Management of the Oil and Gas Sector in Iraq regarding Resource- Health- Safety –
and Environmental Management (Programme agreement) 2011, article X
3 Programme agreement 2011 article XIII (1)
4 Institutional Cooperation Contract between the Norwegian Ministry of Petroleum and Energy (MPE) and The Ministry of Oil of Iraq (MoO)
regarding Development cooperation concerning Strengthening the Management of the Oil and Gas Sectro in Iraq regarding Resource- Health-
Safety- and Environmental Management, (Institutional contract) 2013
5 Programme agreement 2011 article IV (2)
6 In Istanbul on 13 June 2013, 17 March 2014, and 25 November 2014. The final meeting thus far took place in Oslo, 18 December 2015
7 The content of the progress report is specified in the 2011 programme agreement article VII. It should include description of outputs, summary
of funds used, assessment of the efficiency of the Programme, explanation of deviations, assessment of problems and risks, assessment of need for
adjustments, brief assessment of achievements in relation to goal and purpose.
8 Representatives of the new JSC are from (1) Economic and finance directorate (MoO) (2) Legal directorate (3) IT Center (4) Studies, planning
and follow up directorate (5) Directorate on participation and (6) Technical directorate.
9 The Core team consist of the Director General of the Studies, planning and follow up directorate, the Director General of reservoir and field
development, the assistant Director General of OCE, one representative from the Economic and Financial directorate, one from the technical
directorate, and the head of policy division in the directorate of Studies, planning and follow up directorate.
10 Annex 1 to the Draft program document, and submitted to the minutes of teh annual meeting in 2013
11 See the Bridge Report
12 The costs from 2014 were reported in the financial report by the Iraqi counterpart for 2014. The expenditure for 2015 was referred to in the
annual report for that year
15 UN Office for the Coordination of Humanitarian Affairs, “Iraq: Humanitarian snapshot as of 10 April 2016), available at
http://reliefweb.int/sites/reliefweb.int/files/resources/20160410_ocha_iraq_humanitarian_snapshot.pdf
16 Information in this section has largely been taken from the International Energy Agency Special Report on Iraq from 2012 “Iraq Energy
Outlook”, available at http://www.worldenergyoutlook.org/media/weowebsite/2012/iraqenergyoutlook/fullreport.pdf Where relevant, the
information has been updated with numbers from the IEA in 2015 and 2016
17 Iraq Energy Outlook JEA
18 Iraq Energy Outlook JEA
19 Rashid, Ahmed “Iraq agrees $328 million GE deal to boost electricity grid” Reuters Jan 25. 2016, available at
http://www.reuters.com/article/us-iraq-energy-idUSKCN0V31B5
20 Ministry of Electricity, Situation report - Waaqi a al-manzuumat al-kahrubah 'iyah fi al-’Iraq. available at
21 “Iraq Energy Outlook JEA
22 This number itself was a reduction, decreed in August 2015, from 33 ministries”
23 “Sadrist” refer to the followers of the young Shia muslim cleric Muqtada al-Sadr, while the Green Zone refers to the high security area in
down-town Baghdad where some of the most important political institutions in Iraq are located.
24 Toby Dodge, “Iraq report: Chances of a Shia uprising against the Baghdad govt are increasing” Foreign Policy April 7 2016, Iraq Report:
26 “Iraq Energy Outlook JEA
krp-produces-monthly-export-report-for-april-2016
28 Assuming non-NOC Kurdistan Region production of 450 kb/d at a price of $30/barrel (i.e Brent -$10)
29 The International Energy Agency assumed that markets will be balanced by early-2017, and that prices should then start to recover
gov/documents/organization/252734.pdf
in the Middle East & North Africa.” p. 34, POMED /Project on Middel East Democracy, available at http://pomed.org/wp-
32 Mclnerney, Bockenfeld (2016)
gov/documents/organization/252734.pdf
34 This is a feeder pipe into the existing Iraq Turkey Pipeline which is owned by the Iraqi state. In the future, it could be a source of legal
contention unless it is completely.
35 See Monthly Export Reports by the Ministry of Natural Resources for January – march for 2016, available at
revenue-collapse-18253/
37 Ekurd, “Daily Oil exports from Iraqi Kurdistan to Turkey slip in March: KRG”, available at http://ekurd.net/kurdistan
krp-produces-monthly-export-report-for-april-2016
krk-kirkuk-crude-export-cut-18358/
40 Toby Dodge, “Iraq report: Chances of a Shia uprising against the Baghdad govt are increasing” Foreign Policy April 7 2016, Iraq Report:
Interview with environmental representative from NOC.

45 Article V: The draft Oil and Gas Law submitted to parliament in 2011 by the cabinet stipulates that the Committee shall be led by the prime minister, who will be given the right to appoint three experts as full members. The subsequent draft, submitted by the Parliamentary Oil and Energy Committee, does not appoint the Prime Minister as head of the FOGC, and states that the three experts must be independent.

46 Article XIV of both 2011 version of the Oil and Gas Law.

47 It includes provisions for:

- Article 14: Protection from water pollution
- Article 15-16: Protection from air pollution and noise
- Article 17: Protection of the soil
- Article 18: Protection of biodiversity
- Articles 19-20: Administration of hazardous materials and oils
- Article 21: Damage to the environment from exploration and extraction of oil and natural gas
- Article 25: Establishment of an environmental police unit, attached to the ministry of interior.
- Article 26: Establishment of an Environmental Protection Fund.

48 Details from the then Minister of Health and Environment, Adeela Humood’s speech published on the ministry’s youtube page: https://www.youtube.com/watch?v=0xDA9MjplAQ

49 Ministries of municipalities; planning and development; higher education; tourism; interior; foreign affairs; agriculture; trade; health; industry; labour; science and technology; culture; electricity; water; construction; oil; transport and defence. It also includes representation from the Municipality of Baghdad and the Iraqi Authority for the Control of Radiation Activity.

50 International Energy Agency.

51 Interview with representative from National Resource Governance Institute (NGRI).


58 Unable to provide data from the KRG to the EITI process, Iraqi EITI has requested and been granted adapted implementation by the EITI Board. This means that Iraq EITI provides publicly available data on the KRG that has not been reconciled under the EITI process.

59 The Framework agreement is entitled “Agreement between […] concerning Strengthening the Management of the Oil and Gas Sector in Iraq regarding Resource- Health- Safety- and Environmental Management”

60 Draft results matrix dated 09.06.10.

61 Bridge Report p. 15.

62 Final Iraq Budget 2016, No 27, article 37 section 4 reads: “Reduction of the overseas deployment expenses except for very necessary purposes, reducing the number of delegates by 50% (fifty per cent) with specifying the most minimal period of delegation possible, and not organizing any conference outside Iraq”.

63 According to the 2012 Bertelsmann Transformation Index report, clientelism – along with other forms of corruption - has led to the massive hiring of unqualified employees by the public sector based on sectarian, political, tribal and family ties, leading to further inefficiencies since 2003 (Bertelsmann Foundation, 2012), available at http://www.bti-project.org/en/home/

64 In the Budget 2015 is NOK 7 million, however, activities have not been implemented according to schedule. Expected remaining balance end 2015 is 6.7 million. Disbursements in 2014 were NOK 5.4 million.

65 Annual Meeting report 2015, reported in interviews in Dubai
