

# **Iraq Energy Forum 2017**

## **Challenges in Financing Energy and Oil & Gas Projects in Iraq**

**By**

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# Resources Required to Implement Energy Projects

## **The 5M Rule in Modern Project Management :**

Successful Implementation of Energy, and Oil & Gas Projects Requires the Efficient and Effective Employment of (5) Five Kinds of Essential Resources:

**1- Money**

**2- Manpower**

**3- Materials**

**4- Machinery**

**5- MANAGEMENT**

Management is considered most important of all resources.

# Types of Oil & Gas Projects

In Iraq The Ministry of Oil is Responsible for the total implementation of **Upstream ,Downstream and Mid-stream** Oil and Gas projects

Two modes of Project execution were traditionally employed that were largely dependent on allocations specified in the “**Annual National Budget**” based on estimates pre-determined by the Ministry:

- 1. Using the Ministry's own resources through “Direct Execution “**
- 2. Awarding to Local and International Suppliers and Contractors.**

# What Caused the Need for Foreign Financing ?

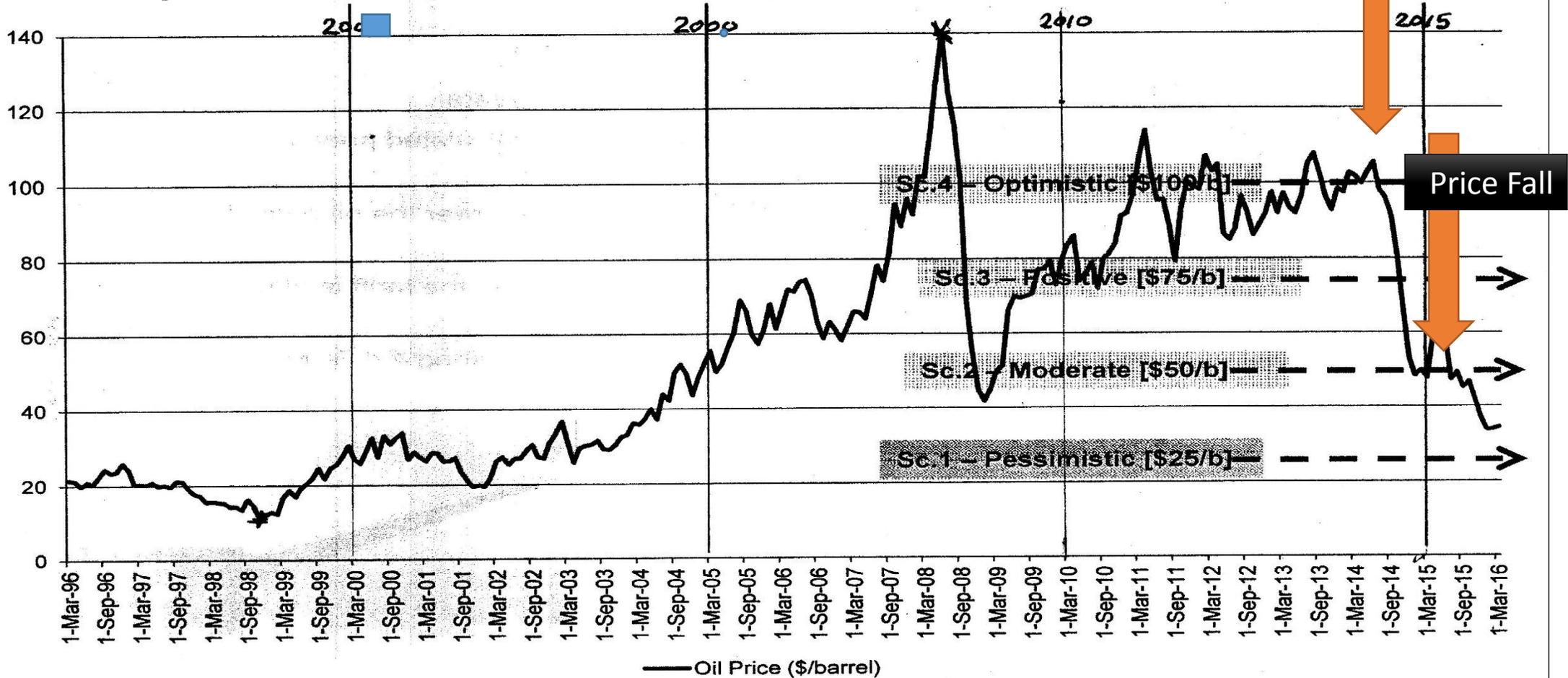
**Two major disturbing and overlapping events raised the need for Foreign Financing .** (shown in the next slide)

**First** : The drastic fall in oil prices on the international market causing a major drop in revenues feeding the “**Iraqi Annual National Budget**“, which unfortunately heavily depends at a rate of (89%) on oil revenues, resulting in a deficit of **(21) Trillion ID** in the 2017 budget.

**Second** : The on going war on Daesh or (what is called ISIS) which started **June 2014** draining an appreciable amount of the total financial resources of the country as well as the ailing “**National Budget**” for providing the military needs of this war.

# Historical Fluctuation of Oil Prices

## Graph-1: Oil Prices – 20 years history



Highest: 147.27    Lowest: 10.35    Average: 55.10

# Why Iraq Needs Financing ???

## What is Financing:

Financing Is providing the Financial Resources needed to bridge the gap between what is available in the National Budget and what is actually required.

## Present Requirement for Financing:

- To Complete Lagging Under Construction Old Projects.
- To Start Initial Phases of New Projects.
- To Start Strategic Projects Already planned.

# Types Of Current Financing Offers

**Four Major Types Can be Identified as Received:**

- Finance against supply of Crude Oil .
- Finance on Deferred Payment bases.
- Finance on Joint Venture bases
- Finance on Investment ( BOO, BOT, BOOT ) bases.

# Challenges Facing Financing Oil & Gas Projects

## Major Challenges are:

- 1. Inadequate Legislations:** Project financing is relatively a new venture for the Iraqi Administration and there are no complete integrated rules, to regulate the **complex** contractual relationships of the parties in a “Project Finance Agreement”. Partial legislations have been issued such as (PPP) guidelines ,others are still to come.
- 2. Inadequate Expertise :** Being new to the Ministry, there are not enough “**Experts in Foreign Finance**” within its organization. Steps are already underway to sign an agreement with a **Leading International Finance Consultant**

# Challenges

**3. Inadequate Crude Oil:** Offers providing finance against payment in Crude Oil are facing difficulties ,since part of the oil is already committed to be **lifted by (IOCs)** in return for Petroleum Costs in the Service Contracts (15 to 20)% of the “ **Annual Budget.**”

Lower oil prices raise the amount of (barrels) to be lifted.

**4. Absence of Sovereign Guarantees:** Most offers on Deferred Payment insisted on a pre condition to receive a Sovereign Guarantee for the amount being provided. So far, The Ministry of Finance does not agree to such a pre-condition.

# Challenges

## 5. **Long Chain of Bureaucratic Decision Making :**

Offers from Investors on (BOO, BOT, & BOOT) go through a long chain of decision making process involving several entities making the process lengthy, cumbersome and discouraging to Investors

## 6. **Security and Social Environment:**

This is mostly related to land acquisition for **“Investment Projects”** where Investors find themselves confronted by the local community demanding property rights and employment opportunities.

# Challenges

## 7. Absence or Low Credit Rating :

Low credit rating can have a vital effect on a country's ability to borrow money. Of the three “**Rating Agencies**” only (**Fitch**) rates Iraq at a low **B Minus (B-)** while (**Moody**) and (**Standard & Poors**) gives a rate of “**Undefined**”

## 8. High Cost of Mediators:

Most of the Finance offerers are not original accredited “**Finance Institutions**”. Dealing with Mediators is not only **unsafe** but can raise the total cost of finance and make it higher to the Ministry.

# Conclusions

1. In view of the prevailing **low oil prices at present** and the unexpected high rise again in the near future together with the unilateral dependence of the Iraqi economy on oil revenues. **Iraq will definitely need Foreign Finance** for the execution of the country's Energy and Oil & Gas Projects.
2. **However**, such Finance faces a number of **Challenges** which have to be addressed and resolved as recommended hereinafter in order for the process of Financing to move quickly, smoothly, with confidence and integrity.

# Recommendations

1. The Iraqi Government through its Ministries including the Ministry of Oil should expedite formulating and approving required legislations on Finance issues with the aim of raising the **“Credit Rating”** of Iraq by the **“International Rating Agencies”**.
- 2 . Train more people to become **“Experts in Foreign Finance” Matters or seek the help of “ Specialized Consultants”**.
- 3 . Increase oil production and generate more revenue to feed the National Budget and **Narrow the Gap** and become less dependent on Foreign Finance.

## Recommendations

- 4 . Resolve the “**Sovereign Guarantee**” issue required by Finance Providers as a sign of mutual confidence
- 5 . Take necessary steps to simplify procedures and shorten the long chain of “**Bureaucratic Decision Making Path**”.
- 6 . Improve Social and Security Environment by promoting a “**Foreign Investment Friendly and Finance Culture**”.
- 7 . Develop alternative revenue generating means in other sectors such as “**Industry and Agriculture**” and free the Iraqi Economy from its “**Sole Dependence on Oil Sales**”.

Thank You for Your Kind  
Attention

