

Public Private Partnerships - The way forward for Iraq?

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The government of Iraq has recently made a series of unsuccessful attempts to address the chronic power supply shortage in Iraq, most notably through the initial unsuccessful independent power project (IPP) tender in 2010. Although international firms shied away from the process because of the many associated risks, several bids were submitted for four gas-fired power plants and subsequent interconnection facilities for a total capacity of 2,750MW, only for the process to be cancelled.

The government gave only a limited explanation for cancelling the tender, although there were suggestions that the price and experience of the bidders were contributory factors. International developers had been wary of the tender, primarily because of Iraq's refusal to guarantee access to gas feedstock, saying that the fuel supply risk was to be borne solely by the project companies, but also due to lack of guarantees for the projects and associated security issues.

Irrespective of the reason, it is apparent that Iraq must take immediate steps to construct, and develop, the infrastructure required to alleviate the power shortages in the country. Lack of access to reliable electricity constitutes a major impediment to Iraq's development and will continue to do so unless viable projects for addressing the power shortages are implemented. To this end, the government of Iraq, through the Ministry of Electricity, has adopted an Electricity Master Plan which calls for a significant increase in generation capacity over the period 2010-2015.

Given the failure of the previous IPP tender, the government of Iraq needs to re-engage with the private sector to address the critical issues they face, some of which are set out below.

Fuel Supply

Given the uncertainties surrounding access to fuel supply and the fact that the fuel market is largely controlled by the government, the government should bear this risk by offering guarantees of fuel supplies. Alternative sources of fuel - namely coal and gas - could be considered. Nuclear fuel is unlikely to be an option due to the unstable political situation in Iraq.

Political challenges

given the current political and economic climate in Iraq, together with the very real security issues in the country, banks are extremely wary about entering this market. The government should send a message of confidence to investors and show unanimous support for an IPP programme.

Sources of funding and security

Iraq needs to encourage global investment and to do so, it should show flexibility in relation to financing terms and its willingness to offer guarantees (including sovereign guarantees) and other security. The extent to which any proffered security package is viable for lenders will need to be analysed on a case by case basis- bearing in mind the lack of a robust legislative and regulatory framework in Iraq, coupled with the lack of established precedents for granting security to lenders, especially in international financings. To address lender concerns, the possibility of using offshore accounts should be considered, together with other measures to address restrictions on transferability of funds and convertibility of capital.

Ideally, the government of Iraq should consider starting with one small, easily manageable IPP programme with a high likelihood of success, to cultivate market confidence in Iraq and thus enhance the possibility of future successful IPP programmes.

Global markets will be looking at the Kurdistan Regional Government's (KRG) recent decision to tender a series of IPPs, which, on the face of it, appear to have a higher chance of succeeding due to Kurdistan's smaller and less urgent need for power, a more secure operating environment and, most importantly, an assured supply of gas. Recently executed power projects have been supplied with natural gas feedstock free of charge. Now that Kurdistan has sufficient power generating capacity to meet current demands, the KRG has decided to advance its IPP programme from bilateral negotiations to a tender process.

Iraq needs to improve its power generation capacity and the associated infrastructure desperately. Although its first IPP attempt was not successful, it should start again, on a smaller scale, and take a realistic view of what it will be required to offer to investors and developers in order to attract international financing. The challenges are not to be taken lightly, ranging as they do from political instability, to cooperation between ministries, the implementation of proper legislation and regulation, guarantees for gas supply and the large sums of financing required. However, they are not insurmountable, and if confronted on a step by step basis, they will increase the chances that Iraq can overcome the chronic power supply shortages that hold back the development of its economy.

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