Public-Private Partnership in Lebanon

BLOMINVEST BANK

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Contact Information

Research Assistant: Lana Saadeh

lana.saadeh@blominvestbank.com

Head of Research: Marwan Mikhael

marwan.mikhael@blominvestbank.com

Research Department

Tel: +961 1 991 784

Lebanon's infrastructure was extremely damaged by the 1975-1990 civil war. The quality of public utilities decayed further after the war in 2006 and the Syrian war in 2011. Since then, Lebanon has lacked sustainable electricity, education, health, transport and other basic networks due to the chronic inability of successive governments to manage and plan them. As a result, the growth of the economy has been severely constrained.

The public company Electricite du Liban (EdL) weighs heavily on the government's expenditures. Subsidies to EdL stood at an average of $1.85B per year in the last 5 years. In addition, EdL is unable to supply houses and businesses with 24 hours of electricity, pushing them to use private generators.

Road infrastructure is outdated and need rehabilitation, in addition to the need of investment in new roads. Traffic jam is increasing every year with wasted time on the roads costing the economy hundreds of millions of dollars per year, with the country lacking a well-functioning and organized public transport.

Even though water is abundant in Lebanon, it is polluted and wasted, due to leaking distribution infrastructure. Lebanon is currently facing a critical standing in terms of water shortage, driven by a changing climate with rising temperatures and unprecedented scarcity in rainfall. A planned network of 27 water retention dams has been delayed for decades.

As for waste, it has piled up on the roads for around 10 months, with no sustainable waste treatment being implemented. This has led to a growing environmental disaster that threatens the health of its citizens and endangers the country's beautiful valleys and beaches.

Due to the limited budget resources, Lebanon has made no significant investments in infrastructure. Lebanon's high public debt, standing at 129.26% of Gross Domestic Product, hinders the government's ability to renovate the infrastructure. Moreover, the government is incapable of increasing its revenues, which are $3.95B lower than its expenditures.

Investment in infrastructure plays a key role in the economy's potential and ensuring sustainable growth, in addition to improving the living standards of the population.

One way to develop new infrastructure without crippling the country's fiscal policy would be through Public-Private Partnership (PPP). According to the European Investment Bank, PPP is the private-sector construction and operation of infrastructure which would otherwise have been provided by the public sector. PPP is an agreement between the public sector and private sector companies, in which the private sector participates in governmental projects providing the skills, technical assistance, funds, and risk absorption or any other element needed for the completion of the project. The private sector assumes substantial financial, technical, and operational risks in the project and plays a great role in the maintenance of public facilities or service delivery. PPP is based on the strengths of both the public agency and the private partner, which are directed toward the achievement of goals that optimize public needs, funds and services.

Different Legal PPP Frameworks

Type	Ownership & Operation of Assets	Operation & Maintenance	Investment	Ultimate Ownership	Duration (years)
Management Contract	Public	Private	Public	Public	3-5
Leasing	Public Private partnership	Private	Public	Public	8-15
Build, Own & Transfer	Public Private partnership	Private	Private	Semi-private	20-30
Build, Own, Operate & Transfer	Public Private partnership	Private	Private	Semi-private	20-30
Concession	Public Private partnership	Private	Private	Public	20-30
Build, Lease & Own	Public Private partnership	Private	Private	Private	25+
Build, Own & Operate	Public Private partnership	Private	Private	Private	25+
Partial Privatization	Private	Private	Private	Private	25+
Full Privatization	Private	Private	Private	Private	Indefinite

Source: Higher Council for Privatization

PPP offers many benefits, be it for the public at large, consumers, the local economy and the government.

Public-Private Partnership serves the economy as a whole by decreasing unemployment rate and brain drain. PPP would create new jobs as companies enlarge their operations and seek to gain market share in a competitive environment. Moreover, through PPP, the government can attract foreign capital, which is an important ingredient for job creation and economic development. This new business environment would help young Lebanese, who are in the country, to stay as they will find jobs domestically, and it will even encourage Lebanese living abroad to come back and contribute to the country's production.

Due to the monopoly-free environment, PPP will ensure consistent quality services and products. Companies will need to innovate and invest in modern equipment so as to differentiate their service offering from that of their competitors, leading to all round better services and products that are consistent and continuous.

This will increase productivity levels and encourage innovation since it is well documented that private companies are generally more productive and efficient as they tend to have the financial and human resources, as well as the organizational flexibility, needed to operate at an optimum level. Public organizations, meanwhile, tend to score low on productivity as they often operate in monopolistic environments, lacking the financial incentives to innovate and be more productive.

The competitive market would lead to lower prices in the long run. The entry of different operators to the market will increase competition and lead to a reduction in prices for the consumers. However, sometimes the market will remain monopolistic or oligopolistic, especially in a small market like Lebanon. Hence the government has to intervene to prevent manipulation of prices by the private sector.

PPP will help reduce the bureaucracy and red tape that has historically plagued public entities to the detriment of consumers. Private companies are required to operate with minimal bureaucracy to survive and thrive in an ever-competitive market.

PPP will allow the private sector to play a larger role in the privatized sectors as entrepreneurs establish supply, distribution and other ancillary businesses around the privatized entities.

PPP would reduce the government's burden of subsidizing unprofitable public entities. P3 will put an end to the financial drains of state-owned enterprises that have put a strain on the public treasury. As an example, the state has had to subsidize EDL for up to a billion dollars a year; an amount that could have been spent on education, health care, security or other sectors in need of financing.

Given the lack of public funds and the ongoing political stability, which hinders development of any substantial project by the state, many sectors could benefit from PPP. Beirut airport can be renewed and expanded and an additional airport could be opened. Water infrastructure can be upgraded and expanded to provide continuous supply across the country. In the transportation sector, main highways could be upgraded, a proper public transport system could be developed, and railways could be revived. PPP can also be adopted to expand the existing infrastructures of health and education sectors and to improve their operations and productivity.

EDL is one of the best examples in which PPP would apply. Partnering with the private sector to put the EDL on a profitable track through enhancing its operations will be a major achievement on the infrastructural level, and has proved successful in regions such as Zahle. The double billing borne by people and businesses' from EDL and the private generators will be terminated, and they will enjoy 24 hours of electricity. On the fiscal side, adjusting tariffs based on the current oil prices, enlarging the tax base, and reaching a higher production, will generate higher revenues and save over $1.5 billion in current expenditures. Moreover, the treasury will be transferring the cost of this investment to the private sector, thereby sparing its own accounts.

Worth noting that the first concession in the history of Middle East was the Beirut-Damascus road, in 1858. This was followed by the water concession of Nahr el Kalb and the construction if the 1st basin of Port of Beirut.

After the civil war, in an attempt to rebuild the infrastructure and modernize the National Postal Services, the government appointed a private operator, Canada Post & SNC Lavalin, to "Build, Operate and Transfer" the National Postal Services, what is currently known as LibanPost.

However, adopting PPP also has its shortcomings.

While private sector can make it easier to get financing, investment will only be available when the operating cash flows of the project are expected to provide a return on investment. This means that if returns are negative, the cost has to be borne either by the customers or the government through subsidies, to encourage investments.

Some projects may be politically or socially challenging to introduce and implement. For instance, there might be an existing public sector workforce that fears being transferred to the private sector.

Private firms will be cautious about accepting major risks beyond their control. If they bear risks then their price for the service will reflect this. Private firms will also want to know that the rules of the game are to be respected by government such as providing fair regulation and increasing tariffs. To accept significant risks, the private sector would want to have substantial level of control over operations.

Private sector will do what it is paid to do and no more than that. Therefore incentives and performance requirements need to be clearly set out in the contract. The focus should be on performance requirements that are output-based and relatively easy to monitor.

Government responsibility would not halt. Citizens will continue to hold government accountable for quality of utility services. Government will also need to retain sufficient expertise to be able to understand the PPP arrangements, to carry out its own obligations under the PPP agreement and to monitor performance of the private sector and enforce its obligations.

A clear legal and regulatory framework is crucial for achieving a sustainable solution. Given the long-term nature of these projects and the complexity associated with them, it is difficult to identify all possible contingencies during project development. It is possible that some of the projects may fail or may be terminated prior to the planned term of the project, for a number of reasons including changes in government policy, failure by the private operator or the government to perform their obligations or due to external circumstances such as force majeure. While some of these issues will be able to be addressed in the PPP agreement, it is likely that some of them will need to be managed during the course of the project.

Preparatory work to adopt a PPP law has been completed in Lebanon. The Higher Council for Privatization, established by Law 228 in 2000, is the authority in charge of planning and implementing privatization programs. Since 2006 the HCP has started lobbying for the passage of a public private partnership (PPP) law, but to no avail. On the 14th of February 2014, the HCP issued the guidelines of the PPP draft law.

The draft law is made up of six chapters: The first is an introduction about PPP; the second is about how to study and prepare for a joint project; the third is the phase of studying a joint project; the fourth is about how to choose a private partner; and the fifth is about guarantees of PPP projects. The final chapter discusses the means to supervise and follow up on the project.

Such a law is essential for the development of Lebanon's crumbling infrastructure, job creation and the stimulation of Lebanon's economy.

Lebanese banks can also play a role in PPPs. They can act as an advisory in the pre selection process, a direct financer through traditional loans, and as the equity/debt issue manager if the financing happened through the capital markets.

Finally, Lebanon needs a modern PPP law that provides the transparency and competence needed for the success and sustainability of PPP projects. This would encourage investors to take on more PPP projects that would improve Lebanon's infrastructure, which in turn would lead to higher economic growth.

For your Queries:

BLOMINVEST BANK s.a.l.

Research Department

Bab Idriss, Weygand Str.

POBOX 11-1540 Riad El Soloh

Beirut 1107 2080 Lebanon

Lana Saadeh, Research Assistant

Tel: +961 1 991 784

lana.saadeh@blominvestbank.com

Marwan Mikhael, Head of Research

marwan.mikhael@blominvestbank.com

+961 1 991 782