

PPP

The Case for Lebanon

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Part 1: Imbalances and CEDRE

Part 2: Attractiveness of PPP Projects in Lebanon

Part 3: Channeling Money into PPP Infrastructure Projects

Lebanon's 5 Imbalances

Stagflation (stagnation and inflation)

- Low or no growth rate (1% in 2017, 1.2% in 2018)
- High inflation (5% in 2017, 7% in 2018)

Structural dead loads

- Large public sector c.26% of GDP
- Balance of payment deficit was \$3.12bn by October 2018
- Consumption and imports driven economy

Debt and deficit

- Public debt at \$80bn (150% of GDP)
- Fiscal deficit expectations for year-end 2018 \$5.5bn+ (circa 11% of GDP)

Outdated infrastructure

- Infrastructure supply demand financing gap is \$1.5bn per annum in Lebanon

Refugees

- Syrian and Palestinian refugees approach 2m
- Costing \$22.4bn between 2011 and 2015 + surge in unemployment to 20% (30% in youth unemployment)

The Government's Answer: CEDRE

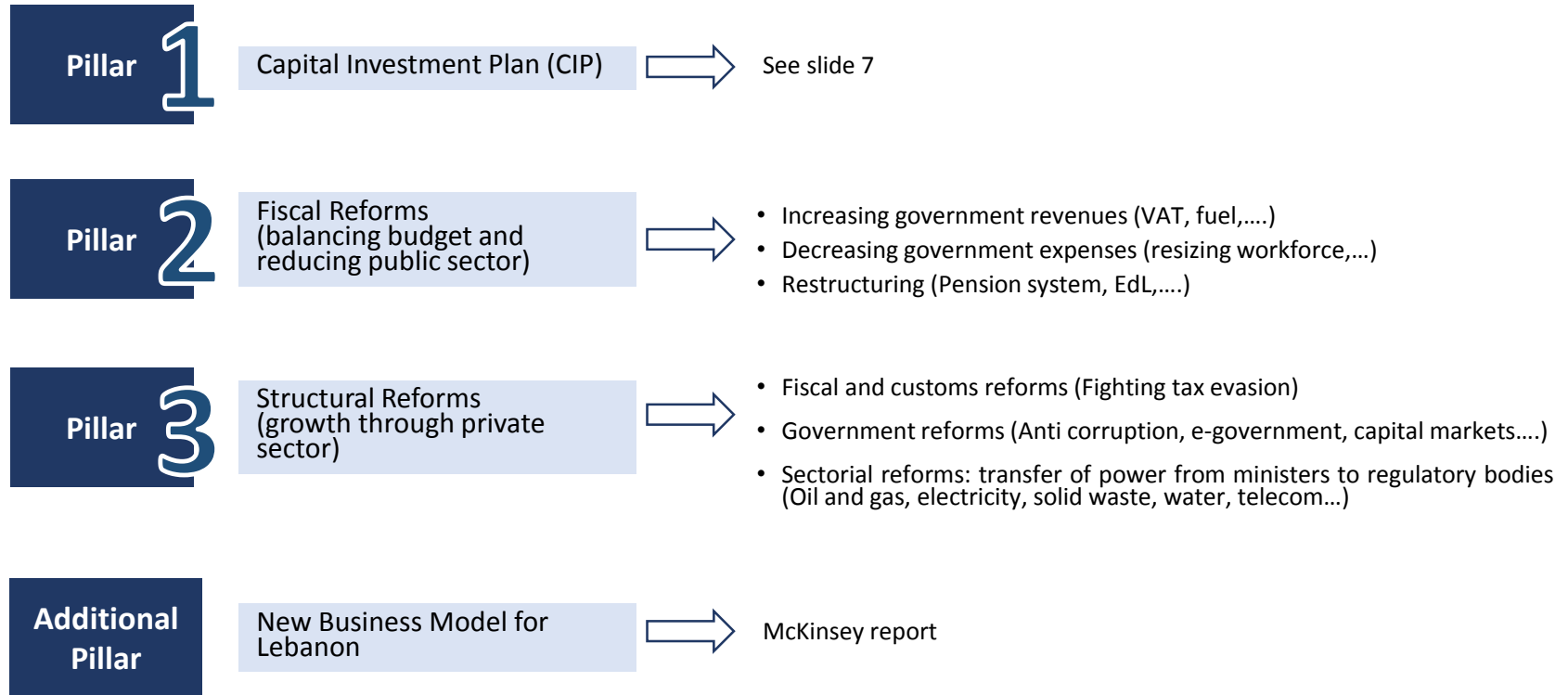
International Support

- 37 countries and 14 international and/or regional organizations
- \$10.8bn in soft loans and \$800m in grants of pledges
- Mainly geared toward infrastructure revamping in a PPP model

Benefits of Investing in Infrastructure

- Attracts FDIs
- Creates employment
- Stimulates growth
- Impacts GDP output and enhances productivity
- Partially solves the budget deficit problem

CEDRE: 3+1 Pillars



How to Make People Accept the Painful Reforms?

Reforms requested by CEDRE:

Unpopular

and

Will face resistance

To pass such reforms, all stakeholders must share the pain



For political elite: Decentralization and empowerment of regulatory bodies



For economic elite: End of monopolies, incestuous relations and privileges



For the general public: Salary freeze, unemployment, taxes and tariffs increase



For the refugees: Back to their country

CEDRE: Sources and Uses

Sources of Funds	Million USD	%
World Bank	4,000	34.4%
European countries and organizations	3,970	34.2%
Arab countries and organizations	3,430	29.5%
Other countries and organizations	220	1.9%
Total	11,620	100%

Uses of Funds	Million USD	%
Transport	3,075	26.5%
Water and irrigation	2,424	20.9%
Electricity	2,310	19.9%
Solid Waste	1,504	12.9%
Wastewater	1,465	12.6%
Telecom	752	6.5%
Cultural heritage	90	0.8%
Total	11,620	100%



Reform + Transparency

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Attractiveness of PPP Projects in Lebanon

1

Infrastructure supply demand financing gap is **\$1.5bn** per annum in Lebanon
– Infrastructure in Lebanon is outdated and in need of modernization

2

Infrastructure required is core infrastructure
– Basic utilities, power, transportation, waste management, energy

3

Lebanon is an upper middle-income country with relatively high purchasing power
– GDP per capita c. \$13,000 excluding refugees
– The current bill paid by users exceeds foreseeable tariffs projected for the PPP projects

4

\$9.2bn infrastructure PPP deals in the pipeline

PPP Deal Pipeline

Sector	Project	Country	Expected Project Size	Contract Award Date
Transport	Expansion of Beirut Rafik Hariri International Airport	Lebanon	\$ 500,000,000	2020
	Kleiaat Rene Mouawad Airport	Lebanon	\$ 100,000,000	2020
	Khaldeh - Nahr Ibrahim Expressway	Lebanon	\$ 2,860,000,000	2020
	Jounieh Touristic Port	Lebanon	\$ 62,000,000	2021
	Saida New Port	Lebanon	\$ 65,000,000	2021
Water	El Bared Dam	Lebanon	\$ 300,000,000	n/a
	Ain Dara - Azounieh Dam	Lebanon	\$ 115,000,000	n/a
	Maaser El Chouf Dam and Lake	Lebanon	\$ 87,000,000	n/a
Wastewater	Qortada-Sfaileh-Deir Khouna-Hlaliyeh	Lebanon	\$ 194,000,000	n/a
	Aley (Moew Master Plan Zone 8) Wastewater System	Lebanon	\$ 75,000,000	n/a
	Aley (Moew Master Plan Zone 7) Wastewater System	Lebanon	\$ 60,000,000	n/a
	Kfarhai Wastewater System	Lebanon	\$ 25,000,000	n/a
	Shabtine Wastewater System	Lebanon	\$ 15,000,000	n/a
Energy - Renewable	Hydro	Lebanon	\$ 300,000,000	n/a
	Solar Photovoltaic Energy Power Plants - Round 1 (12 projects)	Lebanon	\$ 180,000,000	2020
	Solar Photovoltaic Energy Power Plants - Round 2 (24 projects)	Lebanon	\$ 360,000,000	2020
	Photovoltaic Power Plants + Batteries (3 projects)	Lebanon	\$ 360,000,000	2020
	Wind Farm - Round 1 (3 Projects)	Lebanon	\$ 360,000,000	2020
	Wind Farm - Round 2 (3 Projects)	Lebanon	\$ 360,000,000	2020
Energy - Fossil Fuels	Zahrani and Selaata IPP Project (2 projects)	Lebanon	\$ 1,200,000,000	n/a
	FSRU - Zahrani	Lebanon	\$ 250,000,000	n/a
	FSRU - Selaata	Lebanon	\$ 250,000,000	n/a
	FSRU - Deir Aamar	Lebanon	\$ 250,000,000	n/a
Telecoms	National Data Center*	Lebanon	\$ 115,000,000	n/a
Solid Waste	Municipal Solid Waste to Energy System	Lebanon	\$ 450,000,000	n/a
	Hazardous Waste Interim Storage	Lebanon	\$ 50,000,000	n/a
Zone Development	Tripoli Special Economic Zone	Lebanon	\$ 270,000,000	n/a
Total			\$ 9,213,000,000	

*Expected project size based on the average of the range \$80 – 150m

Source: High Council for Privatization and PPP

Risks Exist but Can be Mitigated

	Corporate Finance	Project Finance	Structured Finance
Transfer and currency risk	Addressed	Addressed	Addressed
Credit risk	Addressed (Security package)	Addressed (Security package)	Addressed (Security package + Credit enhancements)
Operational risk	Not addressed	Partially addressed	Addressed (Back up operator)
Regulatory regime change risk	Not addressed	Partially addressed (Insurance)	Partially addressed (Insurance)
Political risk	Not addressed	Partially addressed (Insurance)	Partially addressed (Insurance)

Typical Capital Structure of PPP Projects

Pool of Investor	Ability	Risk Appetite	Capital Structure
Export Credit Agencies	Limited	Low	Senior 50% - 70%
Local Commercial Banks	Limited	Low	
Foreign Institutional Investors	Large	Low	
Specialized Funds	Large	Medium	Mezzanine 15% - 20%
Residents and Diaspora	Large	Medium	
Residents and Diaspora	Limited	High	Equity 10% - 25%
PE Infra Fund/Industry Player	Limited	High	

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Crucial Elements and Recommendations

1. Focus on Mezzanine

- ▶ Attractive in countries with low governance and transparency
- ▶ Complement for equity capital which is in limited supply
- ▶ Boosts return on equity capital (RoE)
- ▶ Completes the subordination buffer required by senior lenders
- ▶ Self amortizing instrument in the absence of exit market

2. Focus on Funds

- ▶ Professionally managed
- ▶ Increase investor confidence in the due diligence processes
- ▶ Solve the complexity and uncertainty of raising money deal-by-deal

Crucial Elements and Recommendations (cont'd)

3. Focus on Marketable Securities

- ▶ Are more attractive than bilateral lending
- ▶ Improve liquidity as infrastructure investments are long term
- ▶ Improve governance
- ▶ Develop capital markets
- ▶ Open equal investment opportunity

4. Widen the Local Pool of Liquidity

- ▶ Modify NSSF law to enable investing in senior PPP bonds
Article 64.2.2 of law 13955 of 26/9/1963 (NSSF) limits investment into government bonds
- ▶ Modify regulatory treatment of senior and mezzanine PPP bonds (same treatment as government bonds)
Amending BCCL circular 276 (risk weight of 50% for senior, 100% for mezzanine)

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