


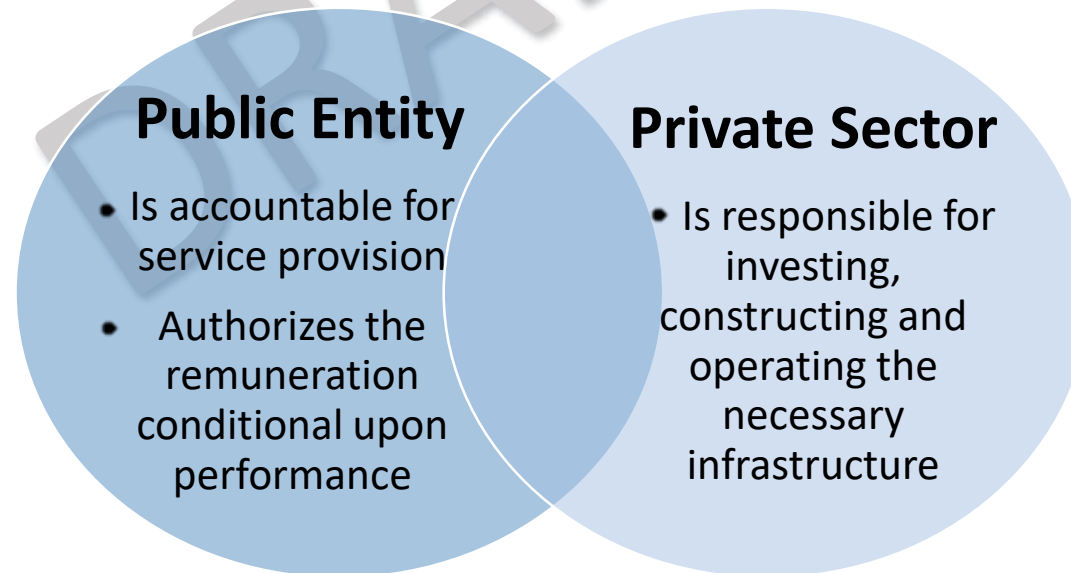




Public Private Partnership: Definition

 Long term agreements between governments and private companies when providing a public asset or service

 Shared Risk:



Public Private Partnership: Main Types



Public Private Partnership: Benefits



- ⊕ Innovation
- ⊕ Revenue Generation
- ⊕ Job Creation
- ⊕ Budgeting Certainty
- ⊕ Attract FDI
- ⊕ Economic Growth
- ⊕ High ultimate recovery rates
- ⊕ Avoidance of large initial capital contributions
- ⊕ Low historical default rates
- ⊕ Improve efficiency and expertise in the country
- ⊕ Attract Private Capital
- ⊕ 15% to 30% lifecycle cost savings
- ⊕ Competitive risk-adjusted returns

Source: World Bank Group

Lebanon PPP Law



- Passed on August 16, 2017
- Aimed at infrastructure projects that fall under risk/return sharing schemes and not at regulating the management contracts that are currently favored in Lebanon
- Details the tendering mechanism for PPP projects, that includes the general institutional framework for each project
 - ➔ enhanced transparency of the tendering process and Private Partner selection
- Specifies the key elements of the PPP Project Agreement, which will be part of the tender document
 - ➔ boosted success rate of executing PPP projects



Key elements of the PPP Project Agreement

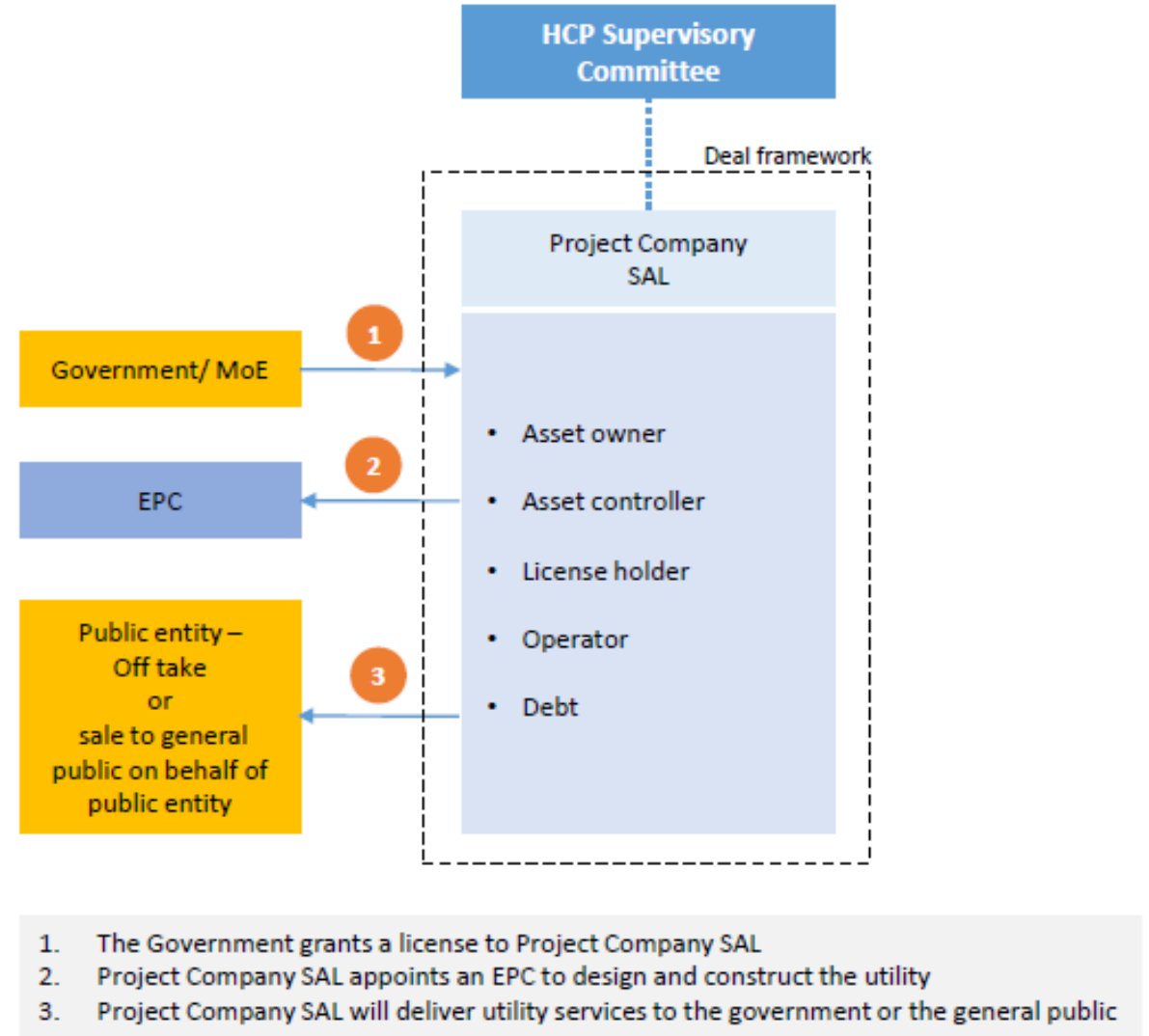
- Rights and obligations of each party
- Basis for financing the PPP Project
- Duration of the partnership (should be <35 years)
- Revenues to be received by the project company from the public entity or by the public entity from the project company depending on the nature and type of the project and the corresponding means of payment
- Key performance indicators
- Reports to be submitted by the project company
- Allocation of project risks and mitigation measures
- Rules governing the potential amendment to the basic terms of the contract
- Guarantees, undertakings, and commitments for the fulfillment of the PPP Project
- Public assets put at the disposal of the project company
- Dispute settlement mechanism, including mediation as well as domestic and international arbitration.....

.....Governance issues are elsewhere

- PPP assets are “utilities” they are not “normal” assets
- PPP assets cannot be left exposed to corporate bickering and infighting
- PPP assets cannot be left exposed to mismanagement
- PPP assets cannot be left exposed to tax claim and other senior creditors

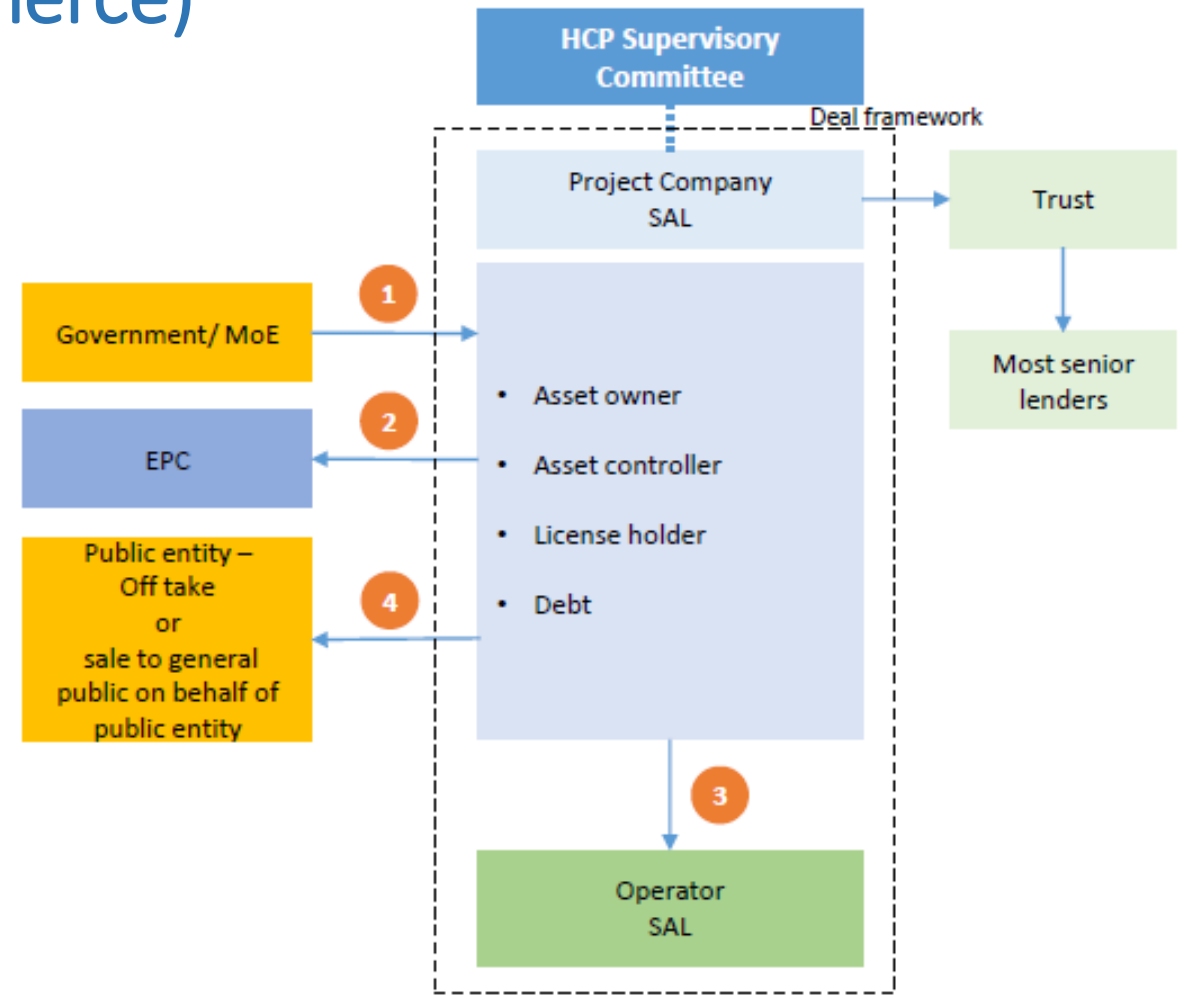
Corporate Structure (Code of Commerce)

Segregation between asset owner and operator	No segregation (debt will be on the asset owner/ operator balance sheet)	✗
Taxation	Normal taxation. Limited tax exemption (Law 167/2017 and 360/2001)	✗
Corporate governance and oversight	Weak corporate governance with HCP oversight	✗
Debt financing	Limited to (i) bilateral lending and (ii) Lebanese banks	✗
Refinancing	Impossible	✗
Financing tenure	Short to medium term only	✗
Ability to attract investments from the general public including the diaspora (FDI)	Limited	✗
Operating risks threaten the assets	Yes	✗
Default and asset seizure risk from creditors	Yes	✗
Ability to replace the operator in case of breach of contract	No	✗
Management	Discretionary as per Code of Commerce	✗
Control and conflicts	Controlling majorities (51% etc...) by equity holders i.e. most risk takers	✗
Overall structure in line with global best practice for financing utilities	No	✗
Perfection of legal interest	No for revenues (Article 10.5 of Law)	✗
Capital markets/ equal investment opportunity	No	✗
Protection against consolidation and claw back	No	✗
Ring fencing	No	✗



Segregated Structure (Code of Commerce)

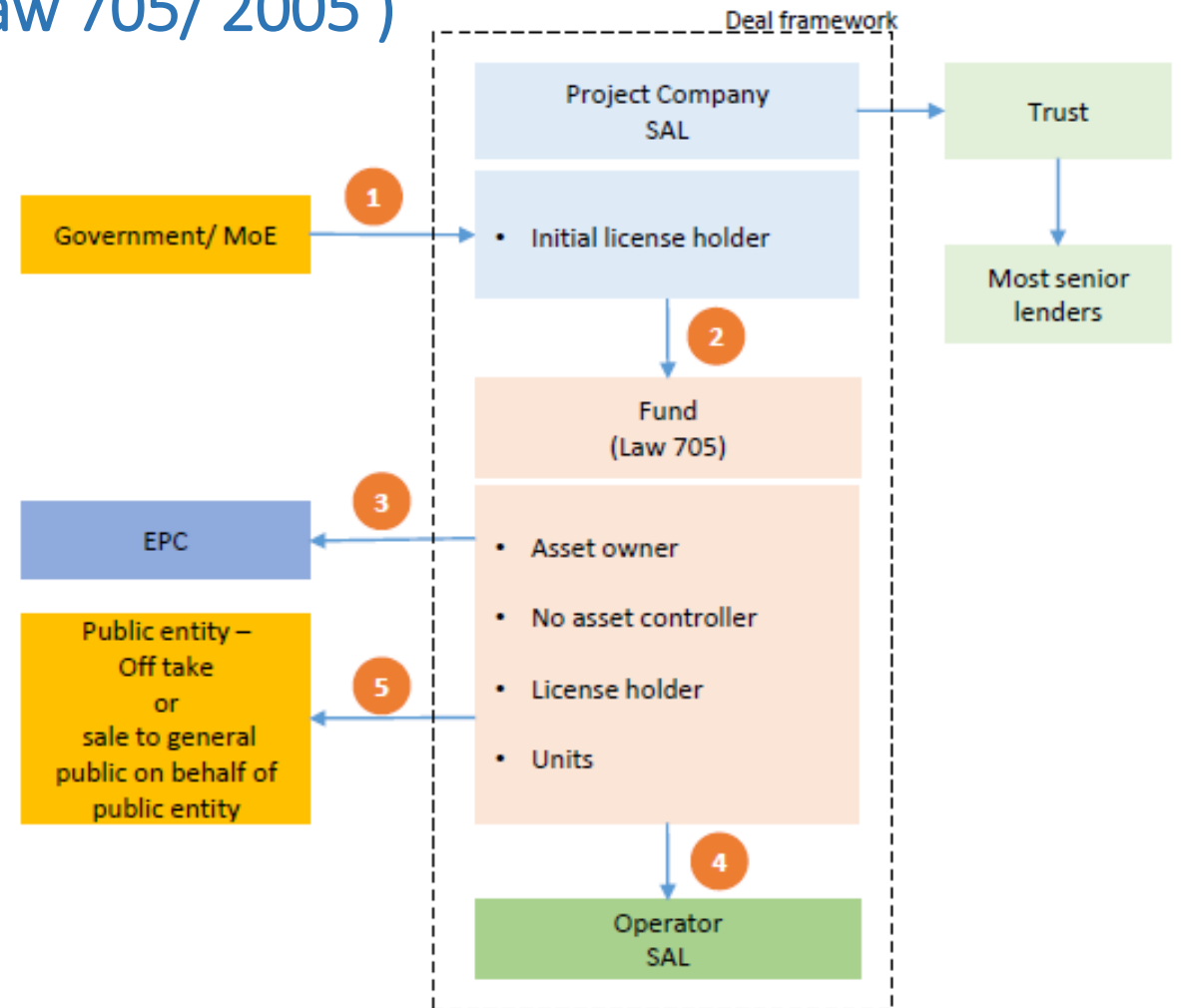
Segregation between asset owner and operator	Yes	✓
Taxation	Normal taxation. Limited tax exemption (Law 167/2017 and 360/2001)	✗
Corporate governance and oversight	Weak corporate government with HCP oversight	✗
Debt financing	Limited to (i) bilateral lending and (ii) Lebanese banks	✗
Refinancing	Impossible	✗
Financing tenure	Short to medium term only	✗
Ability to attract investments from the general public including the diaspora (FDI)	Limited	✗
Operating risks threaten the assets	No	✓
Default and asset seizure risk from creditors	No	✓
Ability to replace the operator in case of breach of contract	Yes	✓
Management	Partial autopilot. Orphan subsidiary model	✓
Control and conflicts	No. Shares held in trust	✓
Overall structure in line with global best practice for financing utilities	No	✗
Perfection of legal interest	No for revenues (Article 10.5 of Law). Yes for assets	✗ ✓
Capital markets/ equal investment opportunity	No	✗
Protection against consolidation and claw back	Yes. Shares held in trust	✓
Ring fencing	Partial. Limited indebtedness	✗ ✓



1. The Government grants a license to Project Company SAL
2. Project Company SAL appoints an EPC to design and construct the utility
3. Project Company SAL enters into an agreement with Operator SAL to operate the business on a daily basis and be responsible of the maintenance
4. Project Company SAL will deliver utility services to the government or the general public

Hybrid Structure (Code of Commerce and Law 705/ 2005)

Segregation between asset owner and operator	Full segregation (financing will be in a Yield Co)	✓
Taxation	Full tax exemption (income tax, stamp duty, registration, etc.)	✓
Corporate governance	Strong corporate governance with dual oversight from HCP and BDL/ CMA	✓
Debt financing	Open to local banks, local investors, international investors, diaspora, institutional funds, multilateral agencies,...	✓
Refinancing	Easy. Holders of marketable securities can sell their position at any time	✓
Financing tenure	Long term	✓
Ability to attract investments from the general public including the diaspora (FDI)	Yes/ High	✓
Operating risks threaten the assets	No	✓
Default and asset seizure risk from creditors	No	✓
Ability to replace the operator in case of breach of contract	Yes	✓
Management	Auto-pilot as per SPV bylaws and regulations	✓
Control and conflicts	Manager acts as instructed by most senior bondholders in line with utility-type assets	✓
Overall structure in line with global best practice for financing utilities	Yes	✓
Perfection of legal interest	Yes	✓
Capital markets/ equal investment opportunity	Yes	✓
Protection against consolidation and claw back	Yes	✓
Ring fencing	Perfected	✓



1. The Government grants a license to Project Company SAL
2. Project Company SAL could transfer the license or the right to use the license to the Fund under Law 705/ 2005
3. The Fund appoints an EPC to design and construct the utility
4. The Fund enters into an agreement with Operator SAL to operate the business on a daily basis and be responsible of the maintenance
5. The Fund will deliver utility services to the government or the general public

Governance Matters – SPV versus SAL

Item	Corporation (Code of Commerce)	SPV (Law 705/2005)
Segregation between Asset Owner and Operator	No segregation (debt will be on the operator balance sheet)	Full segregation (financing will be in a YieldCo)
Taxation	No Tax exemption	Full Tax exemption (Income Tax, stamp duty, Registration etc...)
Corporate governance	Week	Strong
Oversight	None	Capital Market Authority
Debt financing	limited to (i) bilateral lending and (ii) Lebanese banks	Unlimited. Open to local bank, local investors, institutional funds, multilateral agencies, etc....
Refinancing	Impossible	Holders of marketable securities can sell their position at any time
Financing term	Short to medium term	Long term
Ability to attract investments from the general public	No/Limited	Yes/high
Ability to attract investments from the diaspora (FDI)	No/Limited	Yes/high
Operating risks threaten the assets	Yes	No
Default and asset seizure risk from creditors	Yes	No
Ability to replace the operator in case of breach of contract	No	Yes
Bankruptcy remoteness	No	Yes
Management	Discretionary	Auto-pilot
Governance	Controlling majorities (51% etc...)	Auto-pilot, Senior bondholders upper hand
Overall structure in line with global best practice for financing utilities	No	Yes

The Deployment in Lebanon [list of identified projects]



Public Transportation

- Public Buses: **\$350m**
- Railway: **\$350m**



Energy

- 2 IPP: **\$3bn**
- 12 Solar farms: **\$180m**
- 3 Wind Farms: **\$400m**



Water and sewage

- Dams: **\$920m**



Roads

- A2 Highway: **\$538m**



Telecom

- Fiber optics



Oil and Gas

- 3 FSRU: **\$750m**



Waste Management

N/A

Lebanon

One FFA Gate - Marfaa 128, Foch Street, Beirut Central District

P.O. Box: 90-1283, Beirut, Lebanon

Tel : +961.1.985 195

Fax : +961.1.985 193

Dubai

Dubai International Financial Centre (DIFC), Gate Precinct, Bldg. 5, Level 4 Office 410

P.O. Box: 506567, Dubai, United Arab Emirates

Tel:+971 4 363 74 70

Fax:+971 4 363 74 71

E-mail : info@ffaprivatebank.com

www.ffaprivatebank.com

 FFA Private Bank s.a.l.

