

## Private sector to play power role: expert

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BEIRUT: The private sector is expected to play a prominent role in the implementation of a bold electricity plan that would put the country on the right track, a senior energy expert said. "Lebanon currently has an opportunity to put its economy on a path of growth and financial stability by reforming its electricity sector and implementing the plan approved by the Cabinet in April 2019," said Carol Ayat, head of the energy department at Bank Audi.

According to the bank's estimate, the cost of the medium-term reform plan, which will provide 24/7 electricity and rebalance Electricite du Liban's financials, "amounts to \$4 billion - \$3.5 billion in generation projects funded by the private sector and only \$500 million of projects funded by the public sector."

Ayat indicated that the private sector was capable of securing long-term loans for those projects "including but not limited to international financial institutions, development banks and export credit agencies, for around 75 percent of the investments. Therefore, the equity investment need for these projects is only \$875 million."

She explained that these institutions were capable of providing long-term financing with "up to 16-year tenures to make sure the project companies have enough time to repay the loans from the projects' cash flows."

So far, international financing institutions have shown a strong appetite for financing Lebanon's infrastructure projects, including power and especially renewable energy, as demonstrated during last year's CEDRE conference - as long as the conditions imposed regarding the budget deficit and reforms are met.

Ayat said Bank Audi had established a "dedicated energy finance department" that was focused on structuring and financing bankable transactions to attract and mobilize funding from international financiers and investors for public-private partnerships in renewable and thermal power. She said the bank was in a very advanced phase of arranging the financing for Lebanon's first Independent Power Producers with a suite of international financing institutions.

The government has in fact executed the first Power Purchase Agreement for wind farms in Akkar.

The three wind farms with a combined capacity of 225 megawatts are a "\$450 million estimated investment, with a \$350 million nonrecourse project financing package. The investment will have spillover effects on the wider economy. The projects will also create more than 300 jobs during the construction phase."

Throughout, the private sector has shown a strong interest in investing in green energy, which makes sense economically due to technological innovations during the last few years that result in direct savings to the investor.

The bank, being the largest provider of green loans with around 25 percent of the market share, has worked with partner financing institutions to provide ample liquidity to fund green private projects, some reaching up to \$200 million.

Ayat expected this share "to grow in line with the renewable energy projects launched by the Energy and Water Ministry and the disbursement of loans under Bank Audi's private-sector envelopes."

Lebanon has been struggling over the past three decades with an embattled electricity sector that has contributed to nearly half of its national debt.

EDL's direct transfers since 1992 have reached \$40 billion on a cumulative basis, accounting for 45 percent of the country's public debt - that's including accrued interest at 6.8 percent. "EDL transfers closed at \$1.8 billion in 2018 accounting for 32 percent of the government deficit," Ayat said.

Lebanon has recently embarked on a daring mission to revamp its ailing power sector with a power plan based on three pillars: decreasing technical and nontechnical losses and improving collection; increasing generation capacity and procuring natural gas; and increasing tariffs to 14.4 cents per kilowatt-hour on average, in line with the increase in electricity supply.

According to rating agency Standard & Poor's report dated Aug. 23, the agency could upgrade Lebanon's sovereign rating should the government take credible steps to reform its electricity sector.

“Executing the reform plan is critical not only because it will provide Lebanese citizens with their basic right to 24/7 electricity supply but also due to the heavy burden of the electricity sector deficiencies on government finances,” Ayat said.

However, the cost of implementing such reforms demands substantial amounts of capital to fund new projects and technologies.

This poses a big question mark over where companies, as well as government entities, would find such funds.

The electricity reform plan is highly dependent on private-sector financing. “All the new generation and gas supply is to be procured via a public-private partnership scheme,” Ayat said.

As for the promising oil and gas sector, Lebanon will attempt to join the hydrocarbon-producers’ club with offshore exploration drilling set to commence in December.

“A potential discovery of oil and gas reserves will change the course of the Lebanese economy by establishing a wealth in our sea bed in a globally traded commodity. This will impact investors’ outlook for Lebanon’s growth, hence our credit risk profile,” Ayat said.

Bank Audi “does not foresee any risks other than those customary to the oil and gas sector, and is keen on supporting the sector and exploring financing opportunities,” Ayat said.