

**WORLD BANK GROUP**THE WORLD BANK  
IBRD - IDA**IFC**International  
Finance Corporation**MIGA**Multilateral Investment  
Guarantee Agency

PUBLIC-PRIVATE PARTNERSHIPS BRIEFS

# Lebanon: Butec Utility Services



## Overview

Recurring episodes of conflict and a challenging political-economy in Lebanon have contributed to serious power shortages in the country that reduce the quality of life for Lebanese citizens, and continue to be a burden to the public budget. The Government of Lebanon (GoL) has made power sector reform a top priority and encouraged private sector participation in the process.

International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA), assisted Butec Group Holding S.A.L. (Butec) and, its subsidiary, Butec Utility Services (BUS) with quasi-equity financing, and a risk guarantee, respectively.

This series showcases how the World Bank Group supports the development and implementation of public-private partnerships. This support comes in the form of public sector loans, private sector finance, sector and transaction advice, guarantees, and output-based aid.

## Background

The spillover effects of the Syrian conflict has cut real GDP growth in Lebanon by 2.9 percent, put 170,000 Lebanese at risk of slipping below the poverty line, and stymied access to essential public services. The World Bank, in a 2013 report, estimated that simply stabilizing public services back to pre-conflict levels would require an additional \$2.5 billion per annum. Lebanese public finance would not be able to provide the same or enhanced level of public service without private sector financing.

The Lebanese power sector has long been unable to meet demand but has come under greater strain due to a surge of refugees from across the border. Electricity consumers in Lebanon have long faced unreliable service with frequent and long power outages. Load-shedding in Beirut alone averages six hours a day and non-technical losses cost the state-owned company, Electricité du Liban (EDL), an estimated \$300 to \$400 million annually. The blackouts bring hardship to the population, strain businesses and are an ongoing problem for government. Diesel and gasoline generators help fill the supply gap, but also increase urban pollution and raise the costs of living and doing business.

To address these problems, the Lebanese government made power sector reform a top priority. In 2010, it endorsed an action plan to upgrade transmission and distribution networks, install metering infrastructure, and improve billing and collection. An important factor in its approach was transferring these services to the private sector.

## Project Description

One participant, Butec Utility Services (BUS), was awarded a four-year distribution service contract by EDL to design, upgrade, maintain, and operate the electricity distribution network in North Lebanon, serving 350,000 households, in partnership with several companies with significant experience in power distribution. These include ERDF, the wholly-owned distribution subsidiary of Électricité de France, El Sewedy Electrometer Group of Egypt, and AT Kearney. BUS was established by Butec Group Holding S.A.L., a mid-size engineering, procurement, and construction contractor based in Beirut, which is partially owned by IFC. Butec approached IFC for financing to help it execute the distribution service contract. BUS also approached MIGA to help improve the risk profile

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of its investment and make the project more viable for commercial lenders.

## World Bank Group Role

The World Bank Group has supported the development of Lebanon's power sector at several levels. First, the World Bank contributed to the government's overall reform efforts by providing grant funding for feasibility studies and technical assistance, paving the way for engagement by IFC and MIGA.

In 2008, IFC bought a 16.7 percent stake in Butec through a \$15 million investment in quasi-equity and provided advice to improve its corporate governance practices. As an investor in Butec, IFC required implementation of certain corporate governance practices as a way to increase the sustainability of the company. Based on IFC's recommendations, Butec added independent directors to the board, improved the internal audit process, implemented transparent financial reporting guidelines, and established new procedures for human resources management.

In 2013, IFC committed an \$8 million income-participating loan to provide financing for the BUS project under a distribution service contract in North Lebanon. MIGA's role was also critical given the history of conflict in the country and region.

In December 2013, MIGA issued guarantees of \$35.5 million to Butec and its partner, El Sewedy, to cover equity and future earnings related to the contract with EDL. MIGA's cover is against the risks of war and civil disturbance as well as breach of contract.

## Outcomes

- 350,000 households will enjoy higher quality power services.
- Supports the reform of Lebanon's power sector, thereby contributing to the country's economic development and growth.
- Encourages private sector participation in Lebanon's power sector.
- Decreases distribution network losses and improves the efficiency of the distribution network.