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BUSINESS MODELS OF ATTRACTING FOREIGN INVESTMENT IN LEBANON

Lebanon remains a country of openness to foreign direct investment and the Lebanese economy still has sufficient solvency to attract investment. But from the other hand Lebanon is considered one of the top that refer to corruption in its economy, in addition the monopolism, a high rate of inflation, and high rate of unemployment. Many steps should be taken into consideration to change the situation as increasing productivity and efficiency, or public sector reform and decentralization: a modern and flexible government, fiscal policy: a new tax policy should be settled, and adopt a public-private partnership investment type. There is described the types of public-private partnership in the article according two basics: allocation of risks and responsibilities and commercial control over assets. PPP projects are characterized based on the following parameters: type of asset involved; functions the private party is responsible for (design, build or rehabilitate, finance, maintain, operate) and how the private party is paid. Thus, the author summarized three models of attracting foreign direct investment in Lebanon and suggested new model the essence of which is a creation of a new company (public party and investor) that provides all services and project each specialized in domain (building, operation, infrastructure and ect.).

Key words: business model, public-private partnership, privatization.

Introduction. Partnerships between government and the private sector have been around for millennia. Some scholars have described ancient Rome's "bread and circuses" as the world's first public-private partnership (PPP). For others it was Athens. In the 17th century, the Canal du Midi in Toulouse, France, was built and managed by a private sector entity in partnership with King Louis XIV. The first PPP toll bridge in America has been traced back to 1654 and has been jokingly referred to as 'Ye Old PPP.'

Interest in new models of procuring public assets exploded in the 1970s and 1980s in response to growing public debt, especially in a high-inflation economic environment. Government debt and other fiscal strains also drive many PPP deals today.

The literature identifies the 1990s as a starting point for the modern PPP era. Particularly in Britain, where John Major's Tory government enacted a Private Finance Initiative law that represented the first systematic attempt to facilitate more public-private partnerships. Continent wide, there were some 1400 PPP deals consummated in the European Union from 1990 to 2009 with a value estimated at 260 billion pounds [1].

Main part. A public-private partnership (PPP, 3P or P3) is a cooperative arrangement between two or more public and private sectors, typically of a long-term nature [2]. There is no one widely accepted definition of public-private partnerships. The World Bank Group defines a PPP as "a long-term contract between a private party and a government entity, for providing a public asset or service, in which the private party bears significant risk and management responsibility, and remuneration is linked to performance" [3].

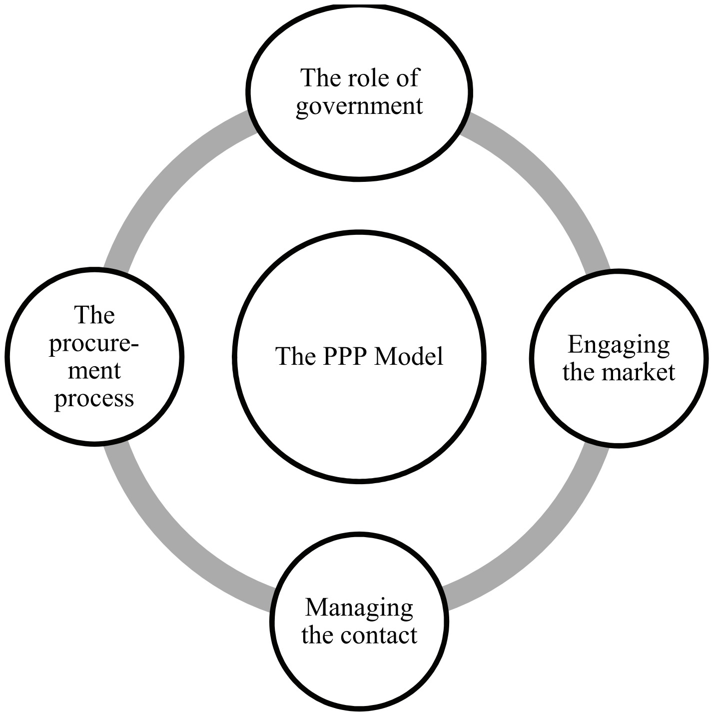
PPPs, as per international practice, have covered mainly the following projects: physical infrastructure: water (dams, distribution, water treatment, irrigation, waste water treatment), electricity (power generation and distribution, renewable energy), transportation (airports, ports, railways, roads), public transportation (metros, buses and sea ferries), solid waste treatment, telecom and ICT social infrastructure, healthcare, education, postal services, prisons, public housing.

There for, public-private partnerships designates a relationship between a government party and a private party, foreign or domestic, to run facilities and / or provide related services that allow for greater private sector participation in the delivery of public sector projects. The relationship is regulated by a contract that allocates responsibilities, rights, risks and rewards between the parties.

On Figure we can see the model of PPP.

We start to describe the model with *the role of government*. The development of efficient infrastructure markets continues to be impeded by political uncertainty and cyclical patterns of investment. The most successful PPP programs are in countries where the government has prevailed over these challenges by providing demonstrable commitment to the PPP model. Consistent and transparent legislative and institutional frameworks lower the risk of adverse changes that can reduce market confidence and deter investor participation.

In many countries, PPP-specific laws are not strictly required to make PPPs legal, but have been introduced to encourage them as a model for delivering public infrastructure. Although there is no "one size fits all" approach.



The process of doing PPP

The role of the dedicated PPP unit is evolving. It now includes greater sector specialization and a more formal role in the procurement decision. Governments have overcome the challenges and implemented mechanisms for investing in PPPs, improving their ability to offer the community value for money. Such incentives for PPP projects facilitate the development of more sustainable PPP programs and more efficient procurement processes. Government provides and helps in foundation for many organizations in order to address market failures affecting green infrastructure projects and to stimulate private investment. Recently, the Lebanese government adopted the PPP law (17/08 2017) in matching the economic growth and supporting the idea of investment by local organizations.

Engaging the market. Many governments have developed initiatives that enable projects to access the big pond of available funds held by institutional investors, which can compete with banks by providing longer tenor debt and can mitigate refinancing risk. Around the world, perceived barriers for institutional investors are being overcome through innovative financial structures and different forms of credit enhancement – not to mention the appetite for high-yield assets. Governments have also sought to drive more effective financing solutions into PPPs by structuring the procurement process itself, with innovations ranging from deferring the financing competition to locking in the rates of return provided by bidders for the term.

Managing the contract. Periodic review of PPP contracts can help evaluate whether projects are meeting their objectives and adapting to changing conditions and whether the project company is efficiently delivering the required services. Government faces inherent challenges in efficiently managing change, planning for change during the project development phase is essential. Identifying the areas that are most likely to require flexibility often calls for innovative forms of scenario and trend analysis.

The procurement process. Governments' use of incentives for PPP selection during the project development process has resulted in active, stable and successful PPP programs characterized by strong pipelines and constructive engagement with private sector contractors and financial markets.

Standardization reduces both the effort required to develop each project's documentation from scratch and the length and intensity of contract negotiations, leading to shorter and cheaper procurement phases.

Governments are increasingly recognizing their role in helping the private sector control bid costs.

In general, there are no universally accepted definitions for the different terms and types of PPPs in which they are often used to refer to the same structure depending on the jurisdiction. When reviewing and drafting PPP enabling legislation and agreements, counsel should not focus on the title of these agreements or how they are described but rather on the specific obligations and risks assumed by the private party.

In many of the structures discussed below, the public agency is responsible for financing the project's construction. The scope of the public agency's liability in these structures is generally different.

In public-private partnerships, the public and private sectors join forces to design, finance, build, manage or maintain infrastructure projects. Such partnerships can take many forms, depending upon the exact allocation of risks and responsibilities. There are PPPs that Involve commercial control over assets.

Partnerships depending upon the exact allocation of risks and responsibilities include:

Service contracts: The private sector provides a bundle of specific services to a public utility, but the public sector retains overall operational responsibility. Service contracts can in practice take many forms, but two of the most common ones are:

– management support. The private operator supplies the public authority with human and technical resources for a fee. It provides technical know-how on all operational and financial aspects of project management remaining within the jurisdiction of the public authority;

– operation and management (O&M). The private operator is in charge of daily maintenance of the facilities. The private operator is paid for its services by the public authority according to specific and qualified performance criteria. Unlike management support, the private operator may in some cases take on the responsibility for operating the facilities.

Delegated management contracts: In his type of contracts the public sector retains overall ownership of the assets, but delegates the responsibility for their operation to a private operator for a definite (often long) period of time. Two of most commonly seen models are:

– afterimage or lease agreement. The private operator manages the services for a period (often five to fifteen years) and is responsible for maintaining and renewing the facilities according the terms of the contract. In this capacity, it takes charge of all personnel and existing assets but is not responsible for financing new facilities. The public authority remains responsible for all new investment and compliance to existing norms. The private operator invoices the end-users directly;

– concession. The public authorities fully entrust the private operator with management of the services and all necessary investment for a period of 20 years or more. The private operator invoices the end-users directly, the public authorities retaining strict control over service terms as well as all key decisions related to applicable rates and targets.

Construction support. In the most wide-ranging form of PPP contracts the private operator is involved in the design and construction phases of new infrastructure and carries at least some of the risks associated therewith. Some of the main forms of construction support have been:

– BDO (Build Design Operate). The public authorities entrust the private operator for a fixed period of time with design, construction and operation of new facilities which remain the property of the public authorities. The private operator assumes the risks linked to design and management of the facility. It is paid a fee by the public authorities and commits to an overall cost for the facility's construction and operation;

– BOT (Build Operate Transfer). The private operator designs, finances and builds infrastructure. While formal ownership of the assets is assigned to the government, the private sector operates the project long enough to service any debt incurred and to earn a suitable return;

– BOO (Build Own Operate): In contrast to the BOT case, the private investor retains ownership and control of the project;

– BTO (Build, Transfer, Operate): The BTO structure is very similar to the BOT structure except that:

a) O&M of the project is transferred to the public agency after construction;

b) following the transfer of the project to the public agency, the private sector party and the public agency enter into agreement where the private sector party operates the project for a specified period;

– BOOT (Build, Own, Operate, Transfer). This structure is similar to the BOT structure except that the private sector party owns the asset during the term of the PPP agreement. This structure may be used when ownership of the project by a private sector party does not raise any national security, political or cultural concerns. Similar to the BOT structure, the private sector party may provide some or all of the financing for the construction project.

Different types of PPPs are in one form or another element of private investment as well as commercial control over assets. The host authorities are always willing to accept private investment and are often foreign direct investment, especially in the infrastructure facilities sector. That said, the main modes of entry for private participation in infrastructure have been:

– joint ventures. The public and private sectors jointly finance, own and operate a project to provide infrastructure. Risks and responsibilities are shared according to the division of ownership between the investors and depending on any contractual agreements between or among partners;

– greenfield projects: These involve new projects usually built and operated by the private sector which takes on the commercial risk. Political and exchange rate risk can sometimes be shared with the public sector. Such projects can take many forms, but the most common are BOT and BOO. Others include Build-Own-Operate-Transfer (BOOT), Design-Build-Finance-Operate (DBFO) and Build-Lease-Transfer (BLT);

– divestiture or asset sale: State assets are privatised either through public offerings of shares or through the direct sale of the assets themselves. The State retains responsibilities as regulator and sometimes customer and might subsidise certain activities which are socially desirable but unprofitable for a private company to undertake (such as the provision of services to the poorest segments of society or to remote regions). Forms of private participation where the State entirely dissociates itself from a utility cannot be properly described as PPPs.

PPP projects are characterized based on the following parameters (Table 1):

– type of asset involved;

– what functions the private party is responsible for (design, build or rehabilitate, finance, maintain, operate);

– how the private party is paid [4].

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. What that means is written in Table 1 in which it shows the boxes that manage and operate by public and those by private and both together. With privatization, the ownership, management, financing, operation, indeed all aspects of the facility, are handed over to the private sector in perpetuity. The concession model lies precisely in between those two extremes. With a PPP, ownership eventually returns to the public sector. In sum, the three parameters fundamentally differ in the level of risk-sharing that exists between the public and the private entity.

In most cases PPPs are 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.

The public sector is the part of the economic system that is run by government agencies. Privatization may involve either sale of government-held assets or removal of restrictions preventing private individuals and businesses from participating in a given industry.

Privatization is an ongoing trend in many parts of the developed and developing world. Proponents of privatization maintain that the competition in the private sector fosters more efficient practices, which eventually yield better service and products, lower prices and less corruption.

PPPs do not lead to the Privatization.

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According literature review and Lebanese activities in PPP field we can summarize information and describe models of attracting investment in Lebanese economy (Table 2).

In model 1 described the past conditions for investment in Lebanon before 17 of August 2017 when PPP law was accepted. Model 1 is much expensive for investor because of the rate of a corruption. The level of it is traditionally a quarter of a value of project in Lebanon.

A model 2 are real conditions for investment, we can see that acception the PPP law is not enough in fighting with a corruption and it influence on the total level of investment by increasing costs.

Table 1

Characteristics of alternative forms of PPP

Type of PPP	Operation and Maintenance	Capital Investment	Commercial risk	Ownership	Duration of contract
Direct Administration	Public	Public	Public	Public	No contract
Outsourcing	Public/Private	Public	Public	Public	1 to 2 years
Management of a Contract	Private	Public	Public	Public	3 to 5 years
Leasing	Private	Public/Private	Public/Private	Public	8 to 15 years
Concession	Private	Private	Private	Public	20 years +
BOT	Private	Private	Private	Private/Public	20 years +
Full Privatization	Private	Private	Private	Private	Unlimited

Remark. Source: Gruber (2003) and OECD Secretariat.

Table 2

Business models of attracting investment in Lebanese economy

Elements	Input	Model 1 (Before PPP)	Model 2 (PPP model) Before CEDRE	Model 3 PPP under (CIP – capital investment plan according CEDRE – model)	Model 4 (Author's model)
Investors or participants	–	Foreign investors	Foreign investors	Foreign investors share with private parties	Foreign investors
		Private investors from Lebanon (Pr) took Project from Public entities (Pub)	Private investors from Lebanon provide the service under the management of public entities	Private investors are in share with public from Lebanon (Pr) (operation, profit, management, etc)	Private investors from Lebanon work with public from Lebanon (operation, profit, management, etc)
		Public investor from Lebanon (Pub) ear n money as loans	Public sector control and get part of profit	CIP controller – The World bank (WB) and Government	Under the control of the project in which they manage with each other
Role of investors	–	Pub provides services (toll roads, etc) All project go to public sector	Pub share services with Foreign Investor and private sector and collect profit and own the decision to change	Public is a facilitator Investor is a service provider (find an organization which finish the project since public is forbidden to get money). Under a control of World Bank	It is a creation of a new company (Public and Investor) that provides all services and project each specialized in domain (building, operation, infrastructure, etc)
Benefit	–	Income (taxes for private investor) 30% profit	Income (profit, services for capital, money collected by public)	Limiting corruption, great income, enhancing transparency, reduce Gov Debt	Achieving goals, Attracting Investment, Re-launching growth, long term profit collected, low percentage of corruption
Risks	–	Great authority for public, power over assets and employee, corruption increase, enlarge profit	Corruption appears in bad services (20%) Failure in project as a plan and Service	Sovereignty issues, control on assets, decrease in public service	Lost some ownership, lost control of public institution, increase in salaries, inflation
Example in figures	Real cost Investment (RCI) = $2000 Profitability (Prof) = = 30% Service Cost = $400 Total cost Investment (TCI) = 3000$	Corruption = (25%) New cost after corruption = = 2500$ Profit = 30% = 750$ New Service Cost 20% = = $500 TCI = 3750$	Corruption = (15%) New cost after corruption = 2300$ Profit = 30% = 690$ New Service Cost 20% = $460 TCI = 3450$	Corruption = (5%) New cost after corruption = = 2115$ Profit = 30% = 634.5$ New Service Cost 20% = $423 TCI = 3172.5$	Corruption = (0%) New cost after corruption = = 2000$ Profit = 30% = 600$ New Service Cost 20% = $400 TCI = 3000$

The model 3 describes the results of the Paris Conference 4 or “CEDRE” (economic conference for development, reform and enterprise). It was held on 6 April in Paris, was achieved about 11.06 billion dollars in the table stage of pledges from the international community to Lebanon.

Most of these loans are very soft loans with interest of 1.5% maximum with a grace period of seven to ten years and a maturity period that exceeds 25 years. These loans will only be used for infrastructure projects that Lebanon is in dire need of and without these soft loans Lebanon would be forced to take loans with 7% interest.

Model 3 is the government’s vision. The level of corruption will reduce but it is still exists.

The pledges are aimed mainly at financing infrastructure projects provided by the Government of Lebanon in its capital investment program (CIP).

In addition, the Government of Lebanon presented a “vision” aimed at reducing public investment and adopting the principle of public-private partnership in implementing projects, maintaining economic and financial stability, implementing reforms across all sectors, and developing a strategy to strengthen and diversify sectors productivity and exports. The structural challenges faced by Lebanon, namely the large fiscal deficit and the high level of public debt, have impeded capital spending to less than 1 per cent of gross domestic product annually, while economic growth remained weak during the few years in addition, the conflict significant repercussions on Lebanon, including the influx of large numbers of refugees who have reduced the efficiency of the country’s infrastructure and social services.

In model 4 we can see that the problem of a corruption will solve by change the CIP controller – The World Bank (WB) and Government to the control of the project in which private and public investors from Lebanon manage the projects with each other. Investors will involve into project’s control on equal with Government. This situation excludes a corruption. That is why the total cost of investment is the lower that in others models (from 1 to 3).

Conclusion. The research shows us that a public-private partnership exists when public sector agencies have the willing to join with private sector entities, “which can include for-profit and nonprofit organizations”, enter into a business relationship to attain a commonly shared goal that also achieves objectives of the individual partners.

Partnerships can take many forms, depending upon the exact allocation of risks and responsibilities, commercial control over assets.

PPP schemes can also play a further role in promoting economic diversification and foreign direct investment (especially models 3 and 4). The stability of revenue and long-term nature of PPP agreements with a sovereign Government, or Government body, is very appealing to the private sector. Well-structured PPP projects can attract interest and investment from firms around the world. They also create private sector jobs, root foreign firms into the domestic economy and provide them with a platform to seek further contracts and expansion. This can create a mutually beneficial platform where the public sector gets a service provided to it by an efficient and experienced international operator, which in turn gets a long-term and stable source of revenue that can act as a base for expansion.

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