



Project Finance and Guarantees

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Resource Mobilization and Cofinancing Vice Presidency
Project Finance and Guarantees Department

World Bank Guarantee Electrifies Lebanon's Power Sector

Transaction Overview

On June 16, 1997 the Republic of Lebanon launched its longest dated issue in the international bond markets - a US\$100 million, 10-year Euro/144A offering to finance its Power Sector Restructuring and Transmission Expansion project. The bond issue is supported by the World Bank's partial credit guarantee. The guarantee covers 100% of principal repayment, on a non-accelerable basis, with the interest payment risk being undertaken by private investors. The extended 10 year maturity is at least twice that of the Republic's recent borrowings from international markets which have ranged from 3-5 years. The 10-year maturity was obtained at extremely favorable pricing of 100 basis points (1%) over the yield of US treasuries of comparable maturity. Also, this pricing compares favorably with that of previous Republic of Lebanon issues of much shorter maturities.

The issue, underwritten by Merrill Lynch International, tapped the Euro-bond and US 144A markets and represents the Republic's debut into the US 144A market. This market was selected primarily to access the longer maturities available in the market as well as to introduce the Lebanese Republic to a new investor base consisting largely of institutional investors.

The Lebanon Power Sector Restructuring and Transmission project represents the first guarantee operation in Lebanon and the eighth guarantee

transaction completed by the World Bank since 1994. The operation, which will help finance a power sector restructuring and transmission project, consists of a World Bank loan component of \$65 million and a guarantee component of \$100 million. The partial credit guarantee is structured as a bond issue with Government of Lebanon (GOL) as the issuer which will in turn onlend to the project company, Electricite du Liban (EDL), the state utility.

World Bank Guaranteed Bond Issue

The World Bank partial credit guarantee is a tool which can help governments and government entities access long term-financing on international credit (loan) and in the capital (bond) markets. Generally, World Bank partial credit guarantees cover all events of nonpayment for a designated part of a financing. These guarantees encourage extension of maturity by covering a part of a financing, usually the later maturities. In the case of Lebanon, the guarantee covers the bullet principal payment at maturity. Another example of how the partial credit guarantee can extend maturities is a contingent take-out facility, where the guarantee ensures continuity of financing. The need for such roll-over guarantees arises if short-term financing (for the construction period, for example) is available but the prospects of rolling over such financing are uncertain.

Issue Summary

Issue Amount:	\$100m
Guarantor:	Principal guaranteed by the World Bank
Maturity:	10 years (July 2007)
Amortization:	Bullet
Coupon:	7.50% (annual)
Yield:	US Treasury + 100bp
Issuer:	Government of Lebanon
Financial Closure:	July 2, 1997
Market:	Euro/144A

"This deal has been a success because it appealed to a niche market of investors who liked the idea of a World Bank - guaranteed deal combined with an element of exposure to Lebanon, thus giving them an attractive yield with only a small degree of risk." Bookrunner's comments - IFR

Power Sector Restructuring and Transmission Project

The project will help the Republic to complete the reconstruction of its severely war-damaged electricity supply system. It will offer the Lebanese a permanent solution to electricity shortages by restructuring the sector and expanding the transmission network. Over two decades of fighting had virtually destroyed Lebanon's electricity system, leading to blackouts and chronic power shortages.

Under the project, a new national transmission system, consisting of 339 km of 220-kV transmission lines, 49 kilometers of underground 220-kV cables and 14 new 220-kV substations, is to be constructed. Substation sites include the southern city of Siada and Baalbeck in the Bekaa Valley. The new transmission system is vital to bringing the new generation supplies (four power stations, totaling 1020 Megawatts, are under construction) to consumers.

Institutional reforms are also planned along with physical construction to undertake the financial and institutional rehabilitation of the sector's state owned Electricite du Liban and increase private sector participation.

Lebanon's First Partial Credit Guarantee

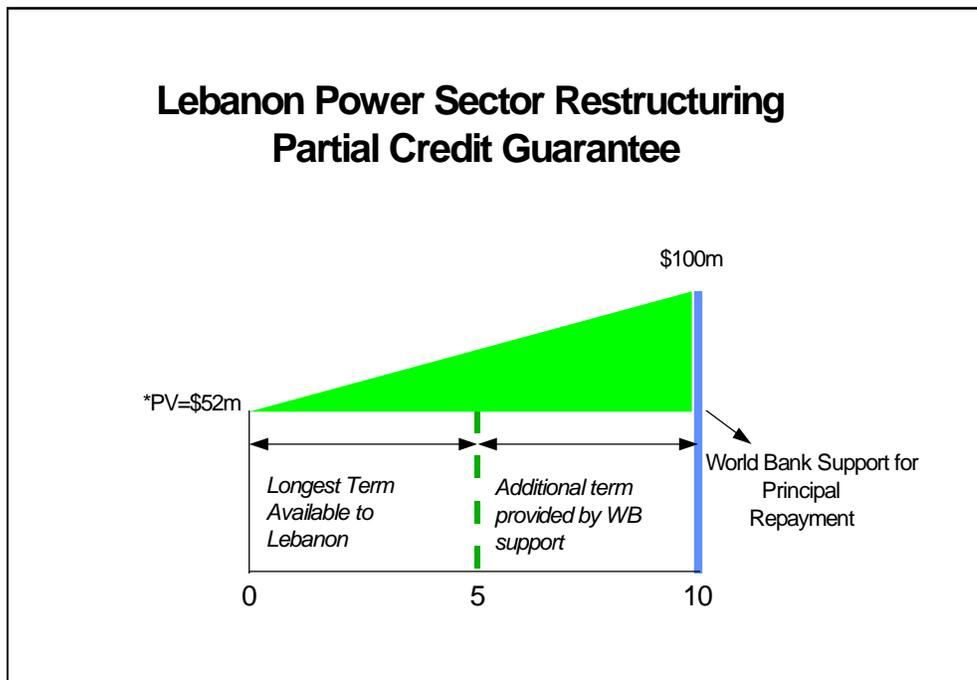
The partial credit guarantee for the US\$100 million bond issue helped mobilize the necessary financing to fund the financing gap for the Lebanon Power Sector Restructuring project. The guarantee was successful in catalyzing private financing for the power sector from the capital markets. EDL is in the process of recovering from 17 years of damage caused by the civil war. It would have been difficult for EDL to access the commercial capital markets under its own name. Therefore, while EDL is undergoing restructuring and sector reforms are in progress, GOL has borrowed on behalf of EDL in order to maximize the terms

of the borrowing sought under the partial credit guarantee.

The guarantee operation has provided EDL with long-term funds and facilitated mobilization of the foreign exchange required for the completion of the project. Through the leveraging effect of the partial credit guarantee, the market was encouraged to assume Lebanese sovereign risk for a longer credit period by assuming the interest payment risk. The operation also served to broaden the investor base to include international institutional investors, thereby helping to diversify the country's borrowing sources, an important consideration given the country's large investment requirements. About 50% of the issue was subscribed by US institutional investors under rule 144A.

Thus, the extended maturity, the diversified investor base, and the tightened spread, all achieved with the help of the World Bank guarantee, should help to act as a catalyst for future investments in Lebanon.

For more information on the guarantee for the Lebanon Power Sector Restructuring and Transmission Project, please contact Abha Joshi-Ghani, PFG (202) 473-2728.



* The guarantee represents credit from the World Bank of about 52 percent in present value terms of the total funds mobilized through the bond issue. These benefits are important to Lebanon, given the country's large infrastructure investment requirements.

Lebanon Power Sector Restructuring Project Financing Plan (US\$ Million)

Source of Funds	Amount	Percentage of Total
EdL/GOL	60	12
European Investment Bank	20	4
Islamic Development Bank	26	5
ECAs/Suppliers' Credits	227	46
IBRD Loan	65	13
Bank-guaranteed Bond	<u>100</u>	<u>20</u>
Total	498	100%