Revival 2021

An Alternative Economic Revival Plan

Updated Dec 2020

INFOPRO

Prepared for

LEADERSCLUB by LEBANON OPPORTUNITIES

Extraordinary measures for an extraordinary situation

This is a comprehensive plan, aimed at advancing out-of-the-box, sometimes unorthodox, even provocative, measures that address our extraordinary circumstances. These measures would be deemed sub-optimal or even undesirable in normal times. This is an emergency proposal for the short-term (five years). Some of the measures it incorporates can be reversed or modified in a future phase.

This plan should be evaluated in its totality, in terms of its overall impact. It is not a menu of measures to pick and choose from. The major economic challenges can no longer be dealt with one by one, in a 'retail' manner. The approach needs to be 'wholesale', tackling the fundamentals of our system, and making many changes all-at-once. Many of the proposed measures are controversial, and will generate push-backs from reasonable people. The plan is intended to steer the debate away from the traditional socio-economic policy frameworks, devised at least a generation ago, which have put the economy in a corner. The objective is to reengineer our economy to address contemporary priorities. These priorities have emerged from the socio-economic, fiscal, and financial fiasco we find ourselves in, but also from global changes such as environmental sustainability, equality (for gender, social classes, religious backgrounds, and others), the digital component of our lives, and human and civil rights.

Economic revival is primarily dependent on positive changes in the following areas: Politics, economic growth, reigning in the twin deficit, expanding social protection, and finally and most importantly, regaining the trust of citizens, the business community, investors, and international organizations.

This plan is being proposed assuming a status quo in the balance of political powers, but with a government that will be held accountable, by the people, the press, and hopefully by the judiciary and State supervisory bodies. Accountability should be exercised in terms of good governance, including performance as well as ethics.

Restoring trust is at the core of reaching revival. The solutions are more than financial, monetary, economic and social. Technical solutions have their limits, unless confidence is restored. Confidence encompasses security, the government, the law and its applications, the banking system, and prospects of economic growth. Restoring trust also includes vastly strengthening social safety nets, especially amid the increasing poverty, unemployment, and dwindling prospects of a decent future.

Ramzi Elhafez

Methodology and acknowledgments

This study was initiated and implemented by InfoPro. It is an independent work that has received no funding or commissioning. Our team has relied on our own databases, as well as on surveys undertaken in the last ten days of November 2019, and consultations with representative groups and some of their members during the first half of December 2019.

This is the fourth edition of the Alternative Economic Revival Plan. A first edition was released during the first week of December 2019 and was also published as a special issue of Lebanon Opportunities. A second edition was published in January. It was distributed to more than 5,000 recipients including members of LeadersClub, relevant new government ministers, the Central Bank, leaders of private sector organizations, management of medium-sized and large companies, policymakers, economic journalists, international organizations, foreign diplomats, and other interested parties. The third edition was published in April 2020. This edition has taken into accounts major developments since the last publication, and has added to its previous analysis and recommendations. Some elements in previous editions have been modified or discarded as mandated by new facts and events.

More than 200 large companies and prominent economists, in addition to dozens of others, have endorsed the plan. This has motivated us to remain determined to update it in order to keep up with new developments.

Five surveys were conducted
- Questionnaire with members of LeadersClub by Lebanon Opportunities, on challenges and remedies on the general economy , and survey of the draft Government Economic Plan
- Interviews with representatives of the private sector, and other stakeholders, on most business sectors
- Survey of 300 companies on the impact of the crisis on employment and sales

Consultations
- General meeting attended by more than 150 company leader
- Seven sectoral consultations on the following topics
    - Hospitality and Tourism in collaboration with the Association of Tourism Syndicates
    - Industry in collaboration with the Association of Lebanese Industrialists
    - Agriculture
    - Real Estate in collaboration with the Real Estate Developers Association (REDAL)
    - Information Technology and Telecom in collaboration with the Professional Computer Association (PCA)
    - Insurance in collaboration with the Association of Insurance Companies (ACAL)
    - Auto Market and Transport in collaboration with the Association of Importers of Automobile and the Lebanese Forwarders Syndicates
    - In-Depth discussions with Mounir Rached on debt restructuring, capital control, monetary policies, and the electricity sectors
- Consultations with experts prior to the publishing of this edition

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Disclaimer

InfoPro is solely responsible for all statistics, proposals, information, and opinions expressed in this study. They do not necessarily reflect those of the individuals, companies, and associations that were surveyed. InfoPro has distilled all the information, recommendations, and opinions received, and incorporated it within its own economic paradigm, proposed in this study.

Endorsers

More than 200 club members, companies, business leaders, and economists have endorsed the Alternative Economic Revival Plan since its publication in January.

Partial list

Adir Assurance, Altus, Areeba, Assiyana, BCC Logistics, BlueTech, Capstone, CIS, Copytech, Crown Plaza, Data Consult, EIP, Front Page, Gazzaoui, Gezairi, Issa Holding, Legacy Central, Macsons, Monla Group, Socotec, The NET, ZRE...

A&S Chronora, Alamco, Antoine Saliba World of Jewelry, Assuraco, Atabuild, Bassoul&Hneine, Beirut Express, Burgan Insurance, Business Unlimiyed, Capital Insurance, Debbane, Domaine Public Architects, EasySoft, Ecosys, Ets. A Rahme, Fabriano, Fahed Group, Fineon, Folda, Galaxy, George Frem Foundation, Hateco, Hiram Finance, Homecare, HSTCO, Jleilati Audit, Kettaneh Group, Klever, LAU-MCRH, Lotus Shipping, Mayfil-Perkins, MSE, Naharnet, Operators, Palladium, Pastel Paints, Pickapp, Porsche Center, Pro Plus Creative, Purple Advertising, Rafic Bawab & Co., Rafic El Khoury, Riad Salamoun & Associates, Rise Properties, Saba & Co., Sipco, Skaff Group, Sloop Insurance, Trace, Unifert, Unileb, UNI-Lebanon, Wadih Kassatly, Zawarib...

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Acronyms

ABL	Association of Banks in Lebanon
ALI	Association of Lebanese Industrialists
BDL	Central Bank (Banque du Liban)
BMLWE	Beirut and Mount Lebanon Water Establishment
CAS	Central Administration of Statistics
CDR	Council for Development and Reconstruction
CERD	Center for Educational Research and Development
CERT	Computer Emergency Response Team
CNRS	National Council for Scientific Research
DGCA	Directorate General of Civil Aviation
DGHE	Directorate General of Higher Education
DGVTE	Directorate General of Vocational and Technical Education
ECB	European Central Bank
EIB	European Investment Bank
FCCIA	Federation of Chambers of Commerce, Industry and Agriculture
FSRU	Floating Storage Regasification Unit
GAFTA	Greater Arab Free Trade Agreement
GCLU	General Confederation of Labor Unions
GDS	Global Distribution Systems
GDUP	General Directorate of Urban Planning
HCP	Higher Council for Privatization and PPP
HRC	Higher Relief Council
IATA	International Air Transport Association
ICC	Insurance Control Commission
ICT	Information and communications technology
IDAL	Investment Development Authority
IFC	International Finance Corporation
IFRS	International Financial Reporting Standards
ILO	International Labour Organisation
IMF	International Monetary Fund
ISWML	Integrated Solid Waste Management Law
IT	Information Technology
ITSL	Information and Technology Society in Lebanon
LARI	Lebanese Agricultural Research Institute
LECBP	Low Emission Capacity Building Programme
LIBNOR	Lebanese Standards Institution
LITS	Lebanese Information Technology Syndicate
LPA	Lebanese Petroleum Administration
LU	Lebanese University
MEFOSA	MENA Food Safety Associates
MEHE	Ministry of Education and Higher Education
MoA	Ministry and Agriculture
MoC	Ministry of Culture
MoE	Ministry of Environment
MoET	Ministry of Economy and Trade
MoEW	Ministry of Energy and Water
MoF	Ministry of Finance
MoFAE	Ministry of Foreign Affairs and Emigrants
MoI	Ministry of Industry
MoIM	Ministry of Interior and Municipalities
MoJ	Ministry of Justice
MoL	Ministry of Labor
MoPH	Ministry of Public Health
MoSA	Ministry of Social Affairs
MoT	Ministry of Telecommunications
MPWT	Ministry of Public Works and Transport
NEO	National Employment Office
NGO	Non-Governmental Organization
NSSF	National Social Security Fund
OMSAR	Office of the Minister of State for Administrative Reform
PCA	Professional Computer Association of Lebanon
PCH	Public Corporation for Housing (Iskan)
PCM	Presidency of the Council of Ministers
PoB	Port of Beirut
PoT	Port of Tripoli
PPP	Public private partnership
R&D	Research and Development
SIC	Special Investigation Commission
SORCNP	Syndicate of Owners of Restaurants, Cafes, Night-clubs and Pastries
TBD	To be determined
TPA	Third-party administrator
TRA	Telecommunications Regulatory Authority
TSEZ	Tripoli Special Economic Zone
TVET	Vocational Education and Training
TVMA	Traffic and Vehicles Management Authority
UNDP	United Nations Development Program
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNICEF	United Nations Children's Fund
UNIDO	United Nations Industrial Development Organization`
WBC	World Bank Group
WHO	World Health Organization

Executive summary

This comprehensive Revival Plan advocates that no solution to the current economic situation is feasible without political reform that ensures independent, professional, and transparent governance. The impact of the regional conflict in the Middle East, and the activities of Hezbollah have resulted in lowering the probability of massive international aid. No amount of technical wizardry can overcome the crisis, or even manage it, without trustworthy political leadership. The current political caste has lost the confidence of a large portion of the people, the business community, potential investors, and international finance and development institutions.

An approach of continuity rather than liquidation
The economic, financial, and fiscal challenges are high, and they have created panic expressed in the markets, by the Central Bank, commercial banks, and policymakers. A flurry of proposals have been made, most of which have adopted a 'liquidation' approach, and assumed that all liabilities are due immediately, while not taking into account of existing large-scale State assets. That approach is not realistic while this plan assumes continuity. It advocates an alternative to the 'common wisdom' currently being promoted.

Living beyond our means
The country has been characterized by some as 'living beyond its means'. This characterization has led to counterproductive policies. To live within means, the 'means' needs to be increased rather than 'living' to be reduced. This means realizing more revenue opportunities instead of reducing expenditure (except when it is wasteful), in addition to having a more efficient and effective public sector, focused on non-production activities. Production activities should rather be undertaken by the private sector.

Facing realities
Before devising the comprehensive plan, the government would be well advised to state to the public and to economic stakeholders the following realities:

- There is no way to reset the system to its previous state.
- There is no magic solution that will lead to zeroing past accounts
- The exchange rate cannot be fized. As long as the balance of payments is negative, it is not possible to stabilize the exchange rate at LL1,500, or at any other rate
- We cannot subsidize the import of basic goods for all citizens – and other countries
- Large fiscal deficits can no longer be sustained
- Full repayment of public debt is not feasible or desirable
- Local dollars are here to stay, and will take a decade to be absorbed or unlocked, or until full confidence is restored

Starting with reviving the real economy
There has been a plethora of analyses and recommendations presented by former and incumbent officials, as well as by a variety of people in the media. They have all focused on the fiscal, monetary, and financial crises. But they have mostly overlooked how to revive the economy, which should be the starting point and the prerequisite for solving the three-pronged crisis. Revival should include strong measures to kick start the 'real economy' and a plan tailored-made for each business sector. This is where it should start, not end like an afterthought.

There will be no foreign aid soon
While deploring past policies as recipes for disaster, they are proposing solutions from the same toolbox. Most proposals are calling for more debt – up to $30 billion – in foreign currency (from the IMF and others), doubling the current stock. This would increase seven folds the debt held by foreign entities. But it is a moot point for political reasons (neither the West nor some of domestic influential local political groups will facilitate IMF aid). Moreover, if political constraints are lifted, it will take time to negotiate a program

with the IMF that is satisfactory to both sides. Typically, many milestones will be set up in an IMF program, and money will be disbursed incrementally each time a milestone has been reached. Finally, accomplishing the milestones will take time, especially if it includes disposal of assets and other forms of involving the private sector, restructuring the public administration and its payroll in addition to implementing the related necessary reforms, and making a credible inventory and valuation of State assets.

No haircut
Several flavors of haircutting deposits in banks have been proposed. Besides being unconstitutional, a haircut is counterproductive because it is recessionary. It is also unjust because it singles out one type of wealth while sparing other personal high valued assets. It is also regressive because it is effectively a tax on everyone (except those exempted) at the same rate. Most importantly it is unnecessary as is demonstrated by this plan.

Dealing with sacred cows
There are too many sacred cows that together make any kind of reform plan impossible. The biggest, namely the peg of the lira to the dollar, is now teetering on the brink of its demise. But others are deeply entrenched. They include dealing with gold reserves, electricity, privatization, Customs, all types of subsidies, basic reforms, and many more. Discarding some of these sacred cows is necessary to break the vicious cycle.

The epicenter of the collapse
The triple crisis is the result of the steady erosion of domestic and international confidence in the local public sector in all its aspects, politically and economically. The debilitating effect on the economy reached its culmination with the political and economic impact of the Syrian crisis. This has tipped the balance of an already mismanaged economy which was sustained, up to the year 2011, by significant financial inflows, resulting in successive positive balance of payments. Before that year, the economy was registering high economic growth rates. Budget deficits and debt were rising at a slower pace before the Syrian crisis. After 2011, the equation reversed – and the balance of payments became negative year after year.

A realistic alternative approach
The multitude of 'rescue' plans presented, here and there in the media, are not realistic. This Economic Revival Plan demonstrates the possibility and the feasibility of a recovery without resorting to massive additional borrowing, or a haircut on private sector deposits or loans, all while preserving the banking system and creating a generous social safety net for the needy. Public debt can be restructured and reduced, the budget deficit be turned into a surplus, the exchange rate liberated, and the balance of payments turned positive.

A turnaround plan
The Economic Revival Plan is a comprehensive and consistent approach, covering all facets of the crisis. Under this plan, the economy will be able to grow, jobs be created, and social safety net strengthened. It will create large opportunities for investment from local and international parties. This plan will cut the public deficit by $6 billion – which with some additional cost cutting of non-essential public expenditures and combating contraband will allow the State to have a balanced budget in the short run. It could even achieve a budget surplus once partnering with the private sector takes place. The plan will result in immediate improvement in confidence which in turn will be a catalyst for investment, both local and foreign, and lower interest rates. It will also result in job creation, better credit ratings, raise the standard of living, and provide the kind of economy that the citizens of Lebanon deserve.

The plan

Negotiate and declare a new socio-economic pact

The tripartite socio-economic sectors (public sector, employers, and labor) should convene to negotiate a socio-economic plan where every party will gain benefits and offer compromises. The objectives are to allow labor to reach sustainable decent wages and increased employment levels, businesses to survive and grow, and the government to reach a sustainable fiscal balance while providing acceptable levels of service and entitlements. All this will lead in a first stage to halting the economic and social freefall, and setting the stage for future economic growth. The inclusion of the three economic partners will ensure a national buy-in of the pact, which is critical when presented to local and international communities. Our own proposal for the pact is to commit to the following:

- Float the currency
- Declare public and minimum wage policies with immediate first adjustment
- Adopt a transitory tax system
- Resolve labor disputes emanating from the crisis
- Subsidize people – not products, and launch a cash transfer mechanism (card)

Float the currency

Maintaining a stable exchange rate is not possible when the Balance of Payments is consistently negative. This is very painful in the short term, as it will lead to hyperinflation. The inflationary pressure will be mitigated by subsidies to the needy and by wage adjustments. The market should be allowed to legally price in the two national currencies (lira and lollar) as well as in the actual US dollar (a.k.a cash or fresh dollar). Wage adjustment will on the one hand help mitigate inflation, but on the other, pressure the exchange rate. If the private sector is allowed to price and pay in lollar or fresh dollar (and it will, notwithstanding any legal impediments), the pressure on the lira from wages will not be maximized. In practice, the removal of subsidies will ease pressure on the lira as consumption of fuel and non-essential products will decline and will lessen the demand for fresh dollars. Labor market and other considerations will force the private sector to pay salaries in fresh dollars – at least partially in order to retain key employees. It will source these dollars by requiring clients to pay partially or fully in fresh dollars. The economy will quickly become almost fully dollarized, which in turn would ease demand for the lira.

Adjust public wages and the minimum wage

Should wages remain at their current levels, it would accelerate recession as consumption will continue to decline and social unrest will threaten national security. Public wages need to be adjusted gradually as the fiscal situation and the rest of the program permits. We are reminded that the Wage Bill approved in 2018 was a precursor of the current crisis. The difference at this stage is that such an adjustment will be within the overall context, part of a plan that would lead to a fiscal balance. The currency devaluation should be accounted for when paying end-of-service indemnities by applying an exchange rate that preserves the value of these indemnities. This should also apply to National Social Security Fund payments. There is a legitimate concern that raising public wages will pressure further the exchange rate.

Fiscal policy

Reduce expenditures by deferring payments on debt service until a primary surplus is reached (a three to five year horizon), and stop producing electricity which should be bought from other countries and private companies, and lift the subsidy on fuel purchases. Expenditures should increase on public payroll (in lira, given the sharp decline of the currency), and on social welfare benefits provided to the poor. A massive program leading to the transfer of a large portion of public sector employees to the private sector (through privatization, management contracts, BOT, and other schemes) should be started immediately in all sectors. Some sectors can be addressed quickly. Others will take many years.

Tax and other revenues will initially fall due to the recession and the shortage of hard currency to finance imports, declining corporate profits and wages, lower interest rates, and rising unemployment. Direct taxation should be waived on most companies and individuals, except for high earners. Indirect taxation should be increased on imported products, except on those already exempted.

As a direct result of floating the currency, VAT and Customs, as well as a variety of direct and indirect taxes and fees, will be levied at their real rate. The inflation will actually profit the Treasury and increase tax revenues by several folds.

Public debt
Restructure public debt by writing off all debt owed to the Central Bank (equivalent to $37.5 billion in lira and dollar combined), and rolling over all other debt after renegotiating its interest rates which must be commensurate with rates paid on CDs. With the market rate of the lira deeply devalued, and assuming a deep discount on outstanding Eurobonds, this would effectively bring gross public debt down to around $13 billion (lira and dollar combined).

Central Bank
The accounts of the Central Bank (BDL) need to be clarified, and details sought should be provided. What has been considered as losses are being accounted for as provisions against future earnings – which is acceptable. The debt owed to BDL by the government should also be written-off in this manner. It is one way to create money without triggering higher inflation or currency devaluation. The peg should be lifted completely. This will have many positive and negative impacts on all balance sheets, including that of BDL. Gold ($18 billion) cannot remain an inert unproductive asset. It should be incorporated into the restructuring of debt and public finance. The Central Bank will gradually release deposits by banks, according to a timetable expected to take many years. These measures will also need a legal framework. The Central Bank balance sheet needs to be restated and losses immobilized and depreciated over a long period of time.

Bank restructuring
Proposals to arbitrarily write-off the capital of banks and force mergers are counterproductive. The restructuring should be phased and given a three to five year period in order to reach healthy balance sheets. Each bank will have two systems. One relating to pre-November 17 (deposits and loans), the other would be dedicated to new ('fresh') deposits and loans. Old funds will be restricted and will be released gradually. 'Fresh' money will be unrestricted and will allow a slow and gradual resumption of banking activities. These measures will also need a legal framework. Banks should be encouraged to voluntarily reconstitute their equity in consultation with their stakeholders (depositors, borrowers, lenders, and shareholders). A capital control law should be adopted to provide clear rules – and therefore easing – for entry and exit of funds to and from the country.

Sovereign Wealth Holding Fund
A holding company will be incorporated and will have the State as its sole shareholder but will operate as a private sector financial firm. It will hold all State assets that have a commercial function including gold, real estate, utility entities, shares in companies such as MEA, Casino, Intra, and other existing or future (such as oil and gas) assets. It will have a board of directors from the private sector. Its mission will be to corporatize all entities that need to be, and establish a future plan for each, including privatization, management contract, and other forms, to optimize revenues. Part of the proceeds will be transferred to the State Treasury for debt repayment, limited budgetary support, the Poverty Alleviation Fund, as well as for savings for future generations.

Poverty Alleviation Fund

A fund dedicated to bring support and subsidy to the poor will be built with the current National Poverty Targeting Program as its cornerstone. It will be funded by the State, international donors, and by proceeds from the Sovereign Wealth Holding Fund. It will provide vouchers to be used for services freed from subsidy (fuel, electricity, etc.) as well as for basic purchases such as food, education, health, and other necessities.

Balance of Payments

Major changes are expected to occur in the Balance of Payments, both in its Current Account and Capital Account components. These changes will result from the current crisis as well as from restarting the economy according to the Economic Revival Plan. This plan includes recommendations to kick-start the private sector and undertake infrastructure projects earmarked at the CEDRE conference. Export will increase, imports will decrease, foreign funds will rise to support infrastructure projects, and remittances will start again when the banking sector resumes its function – at least in regards to 'fresh' money, and incoming tourism will flourish as the devaluation of the currency will render the country affordable, and outgoing tourism will shrink tremendously.

Reforms

The list of necessary reforms is very long. The government has committed to a series of reforms starting from the Paris conferences (I, II, and III) and has updated its list during the CEDRE conference. These are necessary – but not sufficient – measures. They should be implemented as soon as possible, and complemented with some more bold measures, like the ones proposed in this plan such as eliminating a large number of ministries, adopting e-government to its maximum extent, simplifying administrative procedures, having an independent and effective judiciary, implementing administrative decentralization, and redesigning a tax system for the period post this five-year plan.

Kick Start the Real Economy

Growing the economy and restoring lost jobs will need inputs from all quarters.

a) Infrastructure projects are needed to be initiated. Projects worth $6 billion of Public Private Partnership projects were approved at the CEDRE conference. This would attract new financing, create opportunities for many local sectors, and is needed by the country.

b) Involving the private sector in the management of all commercial aspects of State activities will have an immense positive impact on the revival of many companies and even growth in their business, and in the businesses of their suppliers

c) An economic vision – as articulated by the McKinsey report – needs to be translated into actionable projects. Implementation can start immediately on many elements of the report

d) Each business sector has a list of short term needs and long term measures that need to be enacted upon more than 250 measures are proposed in the plan. Common to all sectors is the following:
   - Access to finance at low interest rates
   - Reschedule and raise the level of existing loans
   - Moratorium on paying past dues in taxes and NSSF
   - Amicable legal settlements with furloughed employees
   - Mechanisms needs to allow imports both for raw materials needed by industrialists, as well as by traders to supply businesses and consumers. This includes spare parts and business consumables, as well as household necessities not available from local manufacturers
   - Measures to improve components of the 'Ease of Doing Business' index

Content

I.
For Starters

From there to here…and since October 17

'How did we get here?'
We would have left that topic alone, given that historical analysis was given enough attention by others, and that we should rather focus on solutions, since there was a general consensus on causes and the identification of problems.

However, the political discourse and agendas have spilled over the economic and fiscal analysis that is being advanced by well-intentioned researchers and media authors, some of whom had their judgment clouded, even contaminated, by overwhelming propaganda campaigns instigated by political forces who intend to grab the economic levers, and revise facts and history. The revisionists have succeeded in rewriting the narrative, twisting many facts and omitting others. The solutions proposed today by government officials and economic observers do not relate to the real situation.

We therefore find ourselves – alone or maybe amongst a non-vocal minority, compelled to restate basic facts.

Politics at the core

The core ailment of our economy lies in politics, not in economic policies. All indications show that the current political structure and balance of power are not going to improve. There will be no disengagement from the Middle East conflicts and no weaning of the governing parties from suckling the resources of the State. Wide-scale structural reforms will not be undertaken.

As a result, no massive foreign financial support is to be expected during the time horizon of this plan. The most that can be hoped for is limited aid to alleviate the burdens of the increasing number of people living in extreme poverty. This is being stated on political grounds (no one in the West and in the Gulf is willing to lend a helping hand to Hezbollah or to a status quo from which it will benefit). The little appetite of Westerners and Gulf Arabs to provide assistance also results from the lack of good governance in the local public sector, wide-spread political corruption, lack of accountability, and deficient performance.

Lack of trust

The government has lost the trust of all stakeholders. No one is currently expressing confidence in the current system, including the three presidents, members of government, members of Parliament, all political parties including proponents and opponents to the government, the Central Bank, economists, international organizations, large donor countries, the business community, and of course, citizens in general.

The failure of the current government to start any initiative and the failure of the political class to engage in any reform have led to a further deterioration of the economy, and depreciation of the local currency.

What really happened?

A. On 'failed' policies of the past 30 years

The most repeated refrain by revisionists is to blame the current predicament on "failed policies of the past 30 years," the budget deficits, the foolishness of banks to deposit their money at the Central Bank, and the financial engineering operations that were undertaken by the Central Bank. There are also wide accusations of (tens or hundreds of) billions of dollars having been squandered or pocketed by those in power.

There is a different angle – which will come as a surprise for those that have been overexposed to revisionist narratives. Though full of major shortcomings, 'failed policies of the past 30 years' have led to many positive results. Moreover, the budget deficits led to the economic crash and public bankruptcy, due to political destruction of reform.

The epicenter of the crises resides in the persisting and growing negative effects of the Syrian War starting from 2011. Not the refugees, but the political ramifications of this war and the ensuing negative economic impact it had on Lebanon.

Finally, the proposed borrowing in foreign currencies from foreign lenders (from the IMF or others) is nothing more than a continuation of the past policies.

a) Success of the 'failed policies of the past 30 years'
These policies have generated over the past 30 years many positive economic results, as well as several major failures. The following digest (far from an exhaustive list) includes some of the wins and failures. It demonstrates that past policies has had some significant positive impact on improving standards of living for the majority of citizens and business sectors. The significant shortfalls, or failures, were not the result of a 'bad policy' – but were rather a result of the lack of policy, or more significantly, from a political obstruction of policies, due to turf bickering and fighting over spoils. There were no genuine disagreements over economic policies.

Most Significant Wins
- Economic growth was constant, as there was never one full year of recession – this is almost unique globally
- Inflation was very low and contained
- The balance of payments was mostly positive until 2011 (more on that below)
- Unemployment was contained and decreasing (8-11 percent)
- Wages were increasing, especially in the private sector
- Access to finance for individuals was widespread, allowing for the middle class to increase its standard of living by buying homes, cars, and household goods, as well as to spend on travel and other expenditures

- Access to finance by businesses resulted in tens of thousands of loans to SMEs at subsidized interest rates and to dozens of large enterprises in industry, agriculture, and hospitality sectors
- Tens of thousands of new companies were established (25,000 new companies were registered from 2008 to 2018 in Beirut and Mount Lebanon)
- A flourishing banking sector that has exported its knowhow abroad, and provided numerous savings and lending programs, and payment cards
- The infrastructure was modernized – albeit with deficiencies. Even round-the-clock electricity was restored at a certain point. Highways, telecom, ports and the airport, have been developed
- Tourism flourished reaching at one point two million visitors per year and hundreds of hotels, restaurants, and other hospitality venues have been started and expanded
- International trade (both imports and exports) has increased, a testimonial to economic vibrancy
- Noticeable improvements in the Human Development Index have been recorded until 2011. The Index has been regressing since then

Most Flagrant Failures
- Burgeoning public debt and widening budget deficits, coupled with an unpredictable tax environment
- Negative Balance of Payments starting from 2011 (more on that below)
- Rising and expanding corruption
- The poor, and especially extreme poor segment of the population, did not get the attention it deserved, and did not get its fair share of economic benefits
- Failure in electricity after initial wins
- Failure in modernizing the National Social Security Fund and in expanding social protection
- Low scores in the 'Ease of Doing Business' index
- Low scores in transparency indices

b) Budget deficits: the Good and the Bad

A frequent theme, in many narratives circulated by revisionists and 'mediaconomists', is that the recurring budget deficits are a major cause of the current crisis. This indicates confusion between cause and effect. The budget deficits were not causes, but results from bad behavior and weak performance, not from economic policy. This is the outcome of bad politics! Some of the contributors to budget deficits are:

- The inability to collect and levy taxes in a fair manner. Tax collection from both individuals and corporations, throughout the past 30 years, did not exceed an average two percent of income and corporate profits. The actual taxation rates in the laws are several times higher.
- The failure to reform the electricity sector and collect electricity and other utility bills also contributed greatly to the deficits
- Dodging of Customs duty and widespread contraband had also a major negative impact on state revenues
- The non-transparent procurement process of too many projects have led to suspicion of illicit gains from government contracts
- Slow economic growth since 2011 which has exacerbated the missed opportunity to increase revenues

The recent increase in public wages had a large incidence on widening the deficit. However, these increases were promised many years earlier, and are only fair to public servants who have not benefited from pay raise for many years.

The budget deficits are mostly due to a lack of compliance with laws which has deprived the State of much needed revenues, as well as corrupt behavior in procurement and contracts. Expenditures could have been optimized, especially in terms of headcount, and productivity of public employees.

The ensuing escalating debt also led to a growing debt service which contributed to the deficits.

However, the budget deficits have engendered many financial and monetary advantages which included foreign currency inflows from abroad (from debt incurred due to the deficits), ensuring a sustainable public payroll (hundreds of thousands of monthly salaries), and financing the operating expenses of the State. Government spending had a multiplier economic effect which has contributed to GDP growth. Obviously, this is far from being sound policy in the long term, but it is economically wrong to jump to the conclusion that budget deficits are causes of the crises. The accumulation of deficits over many years was the result of negligent and abusive political behavior.

c) Demonizing banks and the Central Bank

The Central Bank and banks have been, and continue to be, demonized. A major campaign is being conducted to scapegoat the financial system for all the crises. It doesn't take a lot of effort to convince people who have lost access to their deposits and savings to join the chorus. Pushback against the campaign is very unpopular because people, in their own right, want to get their hands on their money first, listen to explanations later.

It is therefore with extreme caution that the following argument is being presented:

Banks

They are commercial enterprises whose objective is to generate profits by following fiduciary and best practice standards. They have also a responsibility to obey the laws, be risk averse, and be responsive to their communities. Banks around the world, and throughout history, have often been targets of popular discontent, due to ill-practices, greed, or misunderstanding. Also around the world and throughout history, some banks and banking systems have failed. The largest major failure in recent history is the 2008 financial crisis in the United States and in many other countries. This had led many depositors to repatriate their savings to the Lebanese banking system, which they viewed as a safe haven.

Banks have been luring deposits from inside and outside the country since the end of the Civil War. They used these deposits to lend to the private sector, first timidly, then up to 110 percent of GDP. The bulk of the balance of the money was deposited at the Central Bank. Normally this is the safest place. Banks were also restricted from placing money abroad, but only to service their operations. They were pressured by the Central Bank to attract deposits from abroad – especially since the Balance of Payments turned negative. This has led to a steady increase in interest rates offered on deposits, which automatically translates into higher lending rates. This has created a negative momentum.

Total customer deposits in commercial banks (Oct 2020): $140 billion (at official exchange rate LL1,507.5)

- 80 percent of customer deposits in commercial banks (Oct 2020) are in foreign currencies
- Currency and deposits of commercial banks with BDL (Oct 2020): $112 billion (at official exchange rate LL1,507.5)
- Total customer deposits in banking system (commercial banks+ medium and long term banks+ financial institutions) (Oct 2020): $141 billion (at official exchange rate LL1,507.5)

The average term of these deposits at the Central Bank is five to six years. Some of these deposits are committed to ten to 15 years, while others mature in one to three years.

The Central Bank
(see section on the Central Bank for further discussion)

The Central Bank (BDL) has been mandated by all governments since 1993 to maintain the peg of the lira to the dollar, and to undertake on behalf of the government many borrowing operations. Its role also includes issuing Treasury bills, buying Eurobonds, and outright overdraft facilities. The Central Bank has placed its money in the Sovereign risk – theoretically the least risky locally.

The Central Bank was not truly independent from either the government, or the private interests of those in power. It has gone to a great length to please and appease. This has had a high cost on several fronts.

There is an argument that knowing that the government is corrupt and mismanaged, the Central Bank should not have lent it money (but BDL didn't have that level of independence). There is also an argument purporting that banks should not have deposited their money in a Central Bank that lends to a bad borrower (the government). Banks were lured by high rates, pressured by BDL, and…and…by depositors demanding high rates. Depositors also knew the same tale. Few people were deluded by the soundness of government finances, while many others were on the receiving end of high interest rates and public sector largess in low electricity rates, lax control and collection of taxes and Customs, public sector wages, and many other transgressions. Depositors, excluding the low-income tranche, were aware as investors of the inherent risks.

That situation was tenable as long as the Balance of Payments was positive and allowed for the broken system to continue operating. Enters the Syrian War…

On the much debated financial engineering transactions, high cost, and beneficiary parties: It should have been accompanied by a much higher level of disclosure and transparency to avoid suspicions that, with time, have lingered and grown stronger. It is not too late to revisit these operations. At the time, the need for these transactions were not fully explained, neither was the scenario expected should those operations not have taken place. The alternatives to these transactions were the following:
- Do nothing – and therefore expect an immediate crash similar to nowadays. At the time there was still some wishful thinking of foreign aid and some internal fiscal adjustments
- Increase rates on all deposits, which would have mitigated the capital flight which had already started but would have also elevated lending rates on public as well as private sector debt, and therefore sizeable debt service costs on both

No foreign aid came through, as CEDRE reforms and projects never got implemented, neither any alternative measures. The expected crash materialized.

d) The Epicenter of the financial crash – Impact of the Syrian War

(see Appendix D for details on the Economic Impact of the Syrian War on Lebanon)

InfoPro published in 2018 'Economic Impact of the Syrian Crisis on Lebanon', a book detailing the effects of the Syrian War in all their business and economic aspects. The Gross Economic Losses were estimated at $19.5 billion, mitigated by economic aid of $6 billion which thanks to its economic multiplier effect generated a yield of $9.7 billion. Thus the Net Economic Losses reached around $10 billion. Without getting into all the detailed impact on all economic aspects, we discuss here its direct impact.

Balance of Payments

(see section on BoP for a detailed discussion)

Before the Syrian War, more dollars were entering the financial system than exiting it, i.e. resulting in a surplus in the Balance of Payments (BoP). It was a simple remedy to all our financial woes and fiscal misbehavior. The surplus financed public sector borrowings and a growing level of imports. In brief, the BoP registered a cumulative $17.5 billion in losses in the nine years from 2011 to 2019 against a cumulative surplus of $23 billion during the previous nine years (2002-2010).

This is the most important factor leading to today's crash. Without available dollars:

- The Central Bank could not finance imports or provide depositors with their money
- The dollar started becoming more expensive as traders were buying it from money exchangers rather than from banks who could no longer get access to their own deposits at the Central Bank
- This led to a run on banks which subsequently led to the collapse of the system. No financial system in the world can sustain a rush on all its banks at the same time.

The major reason for the reversal in the Balance of Payments was not 'faulty economic policies'. It was political. The involvement of Hezbollah in the regional conflict coupled with the various sanctions on Syria and Iran have led to the following:

- Boycott by Gulf countries that covered travel, investment, and aid to the State as well as to their private beneficiaries (political parties, NGOs, media, etc.)
- Scrutiny by Western countries on banking transactions leading to the closure of Jammal Trust bank, which in turn triggered sizeable withdrawals from the banking sector and capital flight outside Lebanon
- Aid received by Hezbollah from Iran also greatly diminished. Likewise the threat of sanctions tightened the noose on the money flowing to Hezbollah from abroad (especially from Africa). The money that Hezbollah spent on its recipients made its way, sooner or later, into the normal economic cycle. The decline of money inflows to Hezbollah also contributed to a decrease in overall monetary inflows
- Lebanon, especially in the past two years, and its precious dollars, were used to finance part of the Syrian economy, including large fuel purchases.

Economic Growth

Before the Syrian crisis, GDP growth was constantly positive, even in difficult years. Since the beginning of the Syrian Crisis, the growth rate started to dwindle sharply and rapidly.

In the nine years (2011-2019), the average GDP growth was 0.4 percent. When excluding the disastrous year 2019, the rate becomes 1.3 percent. It is tantamount to zero growth. In comparison with the previous nine years (2002-2010), the average growth was six percent, an optimal number to avoid an overheated economy. In the four years preceding the Syrian crisis, it had averaged 9.2 percent.

The government policies prior to the Syrian crisis were the same as after it. This indicates that while faulty, these policies were not the main instigator of the crash.

The main elements in GDP contraction were a decline in exports and in tourist arrivals especially of high-spending tourist (aka Gulf tourists) which has negatively impacted the hospitality sector and sales of luxury products. Security breaches, especially with random bombings in the Southern Suburbs of Beirut, and the war with ISIS elements on the Eastern border, had a further impact on all forms of tourism, internal as well as from Lebanese expatriates and visitors from other countries. It also had an impact on non-essential consumer spending. Real estate was the most affected sector.

The decrease in internal spending was also caused by the stoppage (or sharp decrease) in billions of dollars' worth of aid to various local political parties received from both sides of the regional conflict.

As a result, the Debt-to-GDP ratio, which was on a downward slope before the Syrian crisis, started to grow again, because debt started growing at a much faster rate than GDP.

Accelerating debt

The accumulation of debt, was growing driven by successive and increasing budget deficits. The growth rate of Net Public Debt (which was rising by an average of five percent before the Syrian War, i.e. lower than GDP growth), increased by 40 percent after the war to reach seven percent, while the average GDP growth was way below that rate.

Conclusion

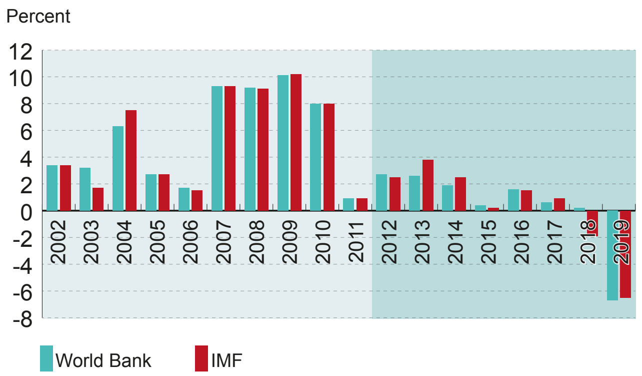
No matter how many financial models are constructed, and schemes devised, there is no economic or financial solution for the crises. Since the problem emanates from politics, the solution must be looked for in politics.

If we assume, for the sake of argument, that the government will default indefinitely on all debt and will haircut all deposits. Then what? What will trigger an inflow of money into the country, and what will enable local companies to start working and stop their downward trajectory? How will the government face its obligations in salaries, and how will the country be able to import necessities?

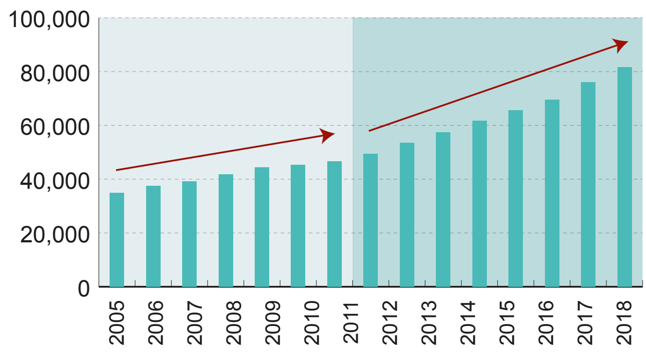
Laying the blame on 'faulty past policies', even where justified, is looking for a solution in the wrong place.

Before and after 2011

GDP Growth

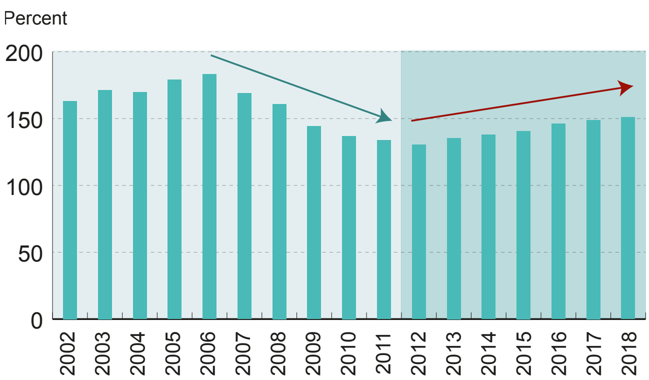


Net Public Debt (Million USD)



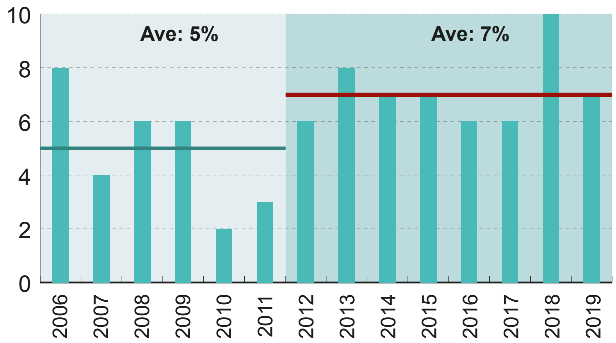
Source: Ministry of Finance

Gross Debt/GDP



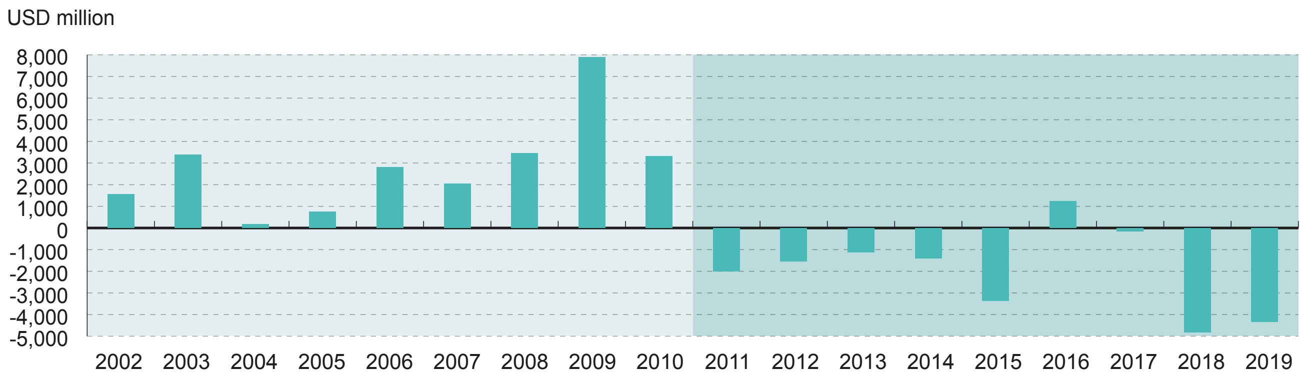
Source: IMF

Growth in Net Public Debt



Source: Ministry of Finance

Balance of Payments



Source: Central Bank

Politics

Our problems are all rooted in politics and the structure of the regime. All the country's economic challenges are the result of the broken political system.

We are a country at war. This is an issue that has been overshadowed in politics and in the setting of economic and fiscal policies. A large part of our political system is in support of a non-State, armed component that rests in the very fabric of our country. This component, Hezbollah, enjoys popular support from a large portion of the population, and has received cover, acquiescence, or temporary political acquiescence, from most political parties. Hezbollah's positioning has placed it, and often our country, at odds with countries that view themselves as our friends.

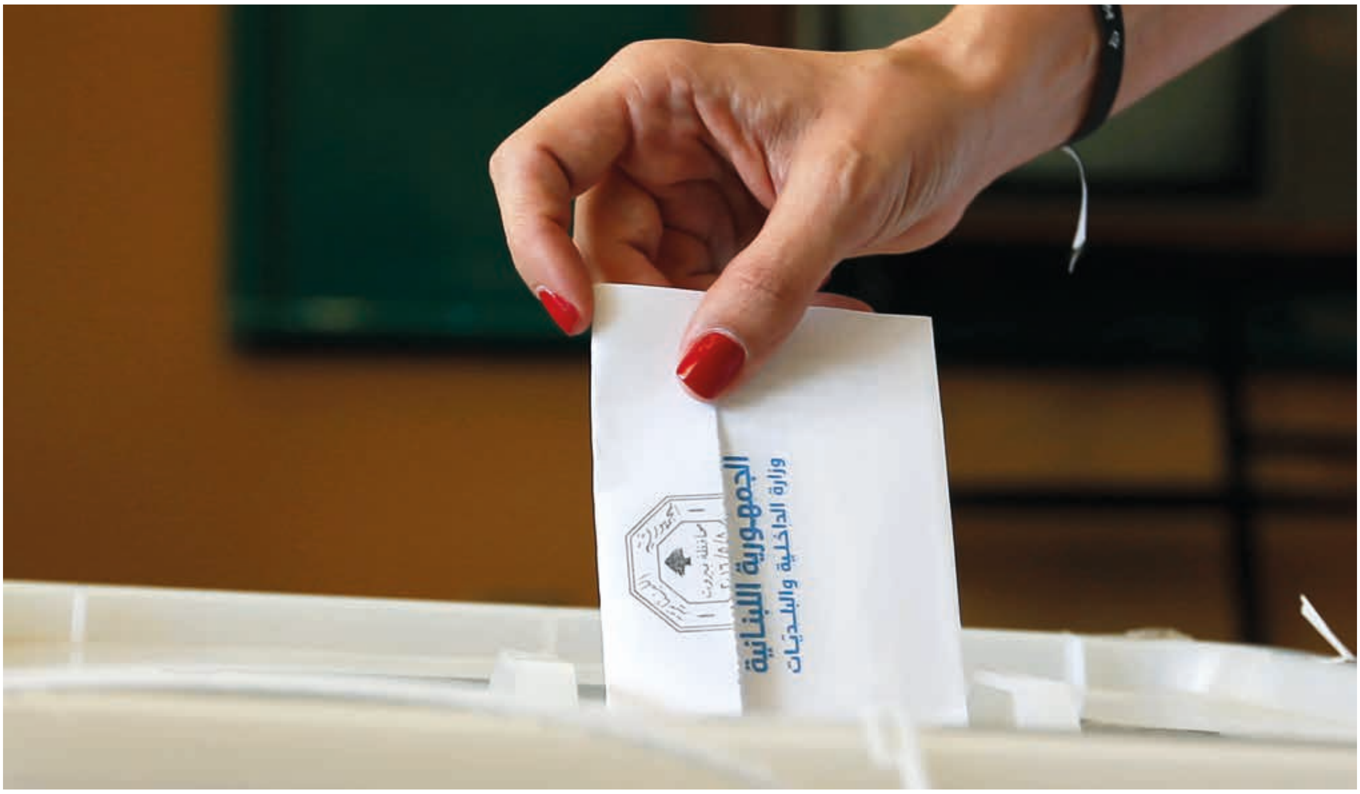
Hezbollah has become the main pillar of the political regime. As a result, Lebanon has received less and less support from Arab Gulf countries and the West, be it in form of political support or grants, loans, investments, tourism, or work visas. All political parties, including Hezbollah, agree that the country is being targeted due to the existence and behavior of the yellow party.

Local politics are also at play. Each political party sees this period as an existential threat. Many followers of all political parties have lost faith in their leadership. But not all parties have suffered the same level of attrition.

The one that has lost the least so far is Hezbollah, not discounting the demonstrations that have occurred in its zones of influence, or the number of demonstrators that have emanated from these zones to participate in protests in the Beirut Central District and elsewhere. None of the parties is willing to further endanger their own standing. The political parties' survival agendas are superseding national interests. This is a major reason why forming a government has proved so difficult.

Foreign interests may, or may not, have been involved in the current protests. There have been conflicting reports. It is clear that countries and interests opposed to Hezbollah are seeing what is happening as an opportunity to further their agendas. They are betting that a worsening in the public's standard of living and access to basics will exacerbate the challenges faced by Hezbollah, especially within its own community. At the very least, the foreign actors will not intervene to provide remedy as they see that any help to Lebanon will result in directly helping Hezbollah.

As a result of politics, the national social and economic interests have been abandoned by political leaders and parties, and Arab and foreign friends who used to lend a helping hand. The economy is battling for survival, and is being backstabbed by political agendas.



Based on article by Nicolas Sbeih and research by InfoPro

ROAD TO PERDITION

Year	Security	Economy	GDP	Debt	FX Reserves ($ billion)	Balance of Payments ($ billion)	S&P Rating (2020: Select Default)
2019	Oct 17 Revolt	Capital controls. Lira starts falling; Sanction on Jammal Trust Bank	-5.6%	$92 billion	29.6	-4.3	CCC+, B-
2018		CEDRE Reforms halted			32	-4.9	
2017	Battle with ISIS	Salary scale increase			36	-0.2	
2016	BLOM Bank bombed		1.6%	$75 billion	34	1.2	B-
2015	2 assasinations - 5 bombings	US sanction on Hezb - KSA stops aid	0.4%		31	-3.4	B-
2014	14 bombings				32	-1.4	B-
2013	4 bombings - 2 assassinations; Ahmad Assir conflict			$53 billion	32	-1.1	B-
2012	Wissam El Hassan assassination; Michel Semaha arrested				30	-1.5	B
2011	Start of Syrian war	Bank derisking from Hezb and Syrian regime	0.9%		31	-2.0	B
2010		Sanction on Lebanese Canadian Bank			29	3.3	
2009			10%		26	7.9	B
2008	Hezb attacks Beirut on May 7, Doha Agreements; 3 bombings - 2 assassinations				17	3.5	B-, CCC+
2007	Nahr Bared battle; 4 bombings - 3 assassinations	Paris III Reforms halted	9%		10	2.0	
2006	4th Israeli-Hezb war; Pierre Gemayel assassination			$42 billion	10	2.8	B-
2005	Hariri + 7 assassinations - March 8/14; Withdrawal of Syrians - 8 bombings				10	0.7	
2004	Marwan Hamadeh attempt	Madina Bank scandal			9.5	0.2	
2003					10	3.4	B-
2002	Elie Hobeika assassination	Paris II Reforms halted			5	1.6	B-
2001					4.4	-1.2	B, B+
2000	Israeli withdrawal				5.7	-0.3	B+
1999	3rd Israeli-Hezb war		0%		7.5	0.3	
1998					6.5	-0.5	BB-
1997		Peg stabilized	1.1%	$17 billion	6	0.4	BB-
1996	2nd Israeli-Hezb war		11%		6	0.8	
1995					5	0.3	
1994		Launch of reconstruction			4	1.1	
1993	1st Israeli-Hezb war			$3 billion	2.5	1.1	

Global Financial Crisis (2007–2009)

Jabal Mohsen and Bab Tebbaneh battles (2011–2015)

Occupation Downtown (2006–2008)

Presidents: Michel Aoun; No President; Michel Sleiman; Emile Lahoud; Elias Hrawi

Speaker: Nabih Berri

Prime Ministers: Saad Hariri; Tamam Salam; Najib Mikati; Saad Hariri; Fouad Saniora; Najib Mikati; Omar Karami; Rafic Hariri; Salim Hoss; Rafic Hariri

II.
Basic Pillars

A matter of trust

Corruption, waste of public funds and administrative inefficiency

Corruption and political nepotism – which were always part of the system – have reportedly grown to unprecedented levels in the past few years. At least this is true in terms of public perception. Many political parties, from all sides, used to receive funding from foreign sources. In 2009, the funding started to dwindle, and has come to a halt in recent years. Political parties and leaders increasingly rely on State resources to satisfy their constituents, and probably grow their personal wealth as well. There have been plenty of accusations and suspicions floating in the media and on social media, an example could be the various investigative TV reports and shows. But almost no serious investigation on the scope, mechanisms, participants, and main beneficiaries of corrupt activities, has ever been conducted by an impartial judicial authority.

We are left without the benefit of a comprehensive or clear understanding of the specifics of corruption, or a serious accounting for its fiscal and financial impact. But it is obvious that the largest cesspools directly affecting public finance exist in the following areas:

1. Contraband – depriving the State of billions of dollars in Customs payments and VAT
2. Opaque import of fuel and other oil products – resulting in billions of dollars in higher cost
3. Large losses of revenue (due to technical impediments and collection shortfalls) from the electricity sector, leading to billions of dollars in deficits
4. Favoritism, bias, opacity, in large (and probably small) public tenders or purchases, such as electricity generating floating ships, wind power, mobile telecom contracts, infrastructure projects and more
5. Protective measures to favored industries (cement, cables, others) and crops (tobacco, wheat, others)

Obviously there are hundreds of other pockets of corruption that collectively may have an even larger impact than any of the points above, either on the Treasury, the economy, the most deprived segments of the population, and on social cohesion.

There have been unanimous calls to bring corrupt officials to judgment, and recover stolen funds. This is a noble cause. It will require investigations, trials (assuming that clean and competent judges and courts are available), and recovery efforts, once judgments have been issued, and the funds have been located. These are big challenges that will take years to achieve. A large portion of the funds acquired by illegal means may have already been spent. Political parties have large budgets such as payroll, rent, electoral campaign expenditures, including payoffs on election days, etc. It would not be preposterous to claim that part of the funds has already been recovered by a portion of the public. It is therefore a priority – even before starting the legal process of investigations and recovery, to work on stopping the ongoing corruption and corrupt practices, starting with the aforementioned areas.

Ineffective public sector

Political nepotism has led to another catastrophe. A large number of the appointees lack professional and technical qualifications and are ethically questionable. Even those that score well on both counts end up having to compromise in order to remain loyal to their benefactor and to survive in a system that rejects clean apples. This means that a proper functioning State is not attainable. Mistakes happen every day in the application of laws, in implementing projects, in servicing citizens, and in every government function. The effect of this on the economy, as well as on the Treasury, is equal to, and probably surpasses by a long shot, the losses from corrupt practices.

The organisms that constitute the State need to be restructured. It is pointless to expect improvement in performance in the short and medium term. It is therefore best to offload as much as possible to the private sector (see the privatization section) – for practical rather than ideological reasons. It would be easier then to deal with upgrading the skills of a smaller number of public sector employees as their numbers would be greatly reduced.

Restoration of stolen and squandered funds

This is the most cited demand by citizens. All political parties have gone on the record demanding it. These funds are mostly money taken away before ever reaching the Treasury. This is a partial list:

6. Kickbacks and favoritism on procurement and service contracts
7. Kickbacks to obtain licenses (construction, zoning, etc.)
8. Income tax dodging and underreporting by individuals and companies
9. Underreporting real estate contracts and values for tax purposes
10. Circumvention of paying utility bills
11. Custom duty underreporting or dodging and activities of contraband
12. Supply of substandard products and services (such as fuel and public works)
13. Polluting the environment
14. Abuse of quarries
15. Protection of dubious activities (for example from growers and traffickers of illicit drugs to rings of valet parking and some pseudo-security companies)
16. Payments to phantom NGOs and education services

There are thousands of suspected culprits involved including current and former public officials, public administration employees at all levels, businesspeople and company owners and managers, and ordinary citizens.

The task of going after the above transgressions necessitates a lot of resources in time, expenditure, human resources, and judicial. It should be carried out by a politically independent and technically savvy body, which does not exist today. Restoring funds and combating corruption cannot be performed by cherry-picking adversaries and sparring friends. That would be the mother of all corruptions.

There is an entire ecosystem that fosters corruption, often leaving honest citizens no choice but to engage in petty or serious infractions to get their matters with the State processed, to remain competitive with their cheating competitors, or just to sustain their businesses. Almost everybody is 'in' on it.

Looking forward

Prerequisites for a feasible plan

Most economic plans proposed by official quarters, and by others, had in common the following pillars: A sizeable foreign aid, haircut, default, fiscal adjustment, and widespread reforms on all fronts – all to be implemented immediately and simultaneously. They also focused on monetary, fiscal, and financial elements without any tangible proposals on reviving the private sector. They have taken a worst-case approach tantamount to going through liquidation. But the State, Central Bank, and the banking system are ongoing concerns, and in light of that, the financial gap analysis, calculation of losses, and consequently the proposed remedies should be made accordingly.

The prerequisites for an implementable economic revival plan, rather than a theoretically optimal but practically impossible one, are:

a) No matter how much it is badly needed, **it is not realistic to expect foreign aid in** the form of grants or loans in the short and medium terms. Political impediments, both in terms of regional conflicts and the lack of demonstrable reform internally, are obstacles that are not likely to be immediately overcome. Should the IMF be persuaded to get involved, its program will set very strict financial and reform benchmarks to be achieved before disbursing sizeable sums. It will take time, and a lot of political contention, to achieve these benchmarks. An IMF program will bring some confidence to the market, but only slowly and gradually. Time and again, past commitments to reform have been broken, and international donors will need to be persuaded by deeds. Therefore, foreign aid should not be included in any financial model, especially when dealing with pressing matters.

b) No amount of financial planning will get the economy growing again. **Priority should be given first to a plan and initiatives to jump-start the economy, especially the private sector.** So far, only the financial, fiscal, and monetary aspects of our crises are being addressed. Only after securing a revived private sector or at least a beginning of a plan for that purpose, will remedies to public sector and bank concerns become effective.

c) Most observers, including current government officials, their consultants, and others, have reached the conclusion that the current debt level is too large for the economy to bear. It is therefore paramount that the economic revival plan **does not add to the debt** burden. Soliciting new debt in the $15 billion to $30 billion range is using the same bad medicine that led to national bankruptcy. The toolbox of debt has expired.

d) No sound financial analysis and modeling can be made solely based on restructuring expenditures and debt. **Public assets** (see Appendix A on the Sovereign Balance Sheet) must be an important – **the most important – element of any plan** of that magnitude. It would be negligent to set aside State assets. Any serious restructuring effort should look at the best use of those assets.

e) **There are too many (political) sacred cows:** Gold, privatization, subsidizing and generating electricity, reduction of the headcount in the public sector, securing the borders to combat contraband, enforcing collection of taxes and utility bills, accounting for State-owned real estate, and many more issues. It is unreasonable to expect foreign donors and bank depositors to bail out the State, when important State assets are left idle, and with so many untouchable additional sources of revenue, and potential savings in expenditures. (See Appendix G for Top 20 sacred cows)

f) Ironically, the only real sacred cow is the one that is being targeted for slaughtering. **A haircut on deposits,** in any amount, belonging to anyone, under any name or scheme should not be considered. Not only it is a violation of constitutional rights, it is bad for the (real) economy, and also **not necessary**. No amount of haircut should be considered in the economic revival plan (See Appendix E for a discussion in that topic).

g) In many of the analysis presented, including the draft paper prepared by the government for discussion, dooming conclusions were reached by consolidating the liabilities and 'losses' of the Central Bank with those of commercial banks, and in some of the published papers, with those of the State. The resultant is an immense gap that is impossible to bridge by internal means. **The plan should deal separately** with each of these entities, and dissect their components, and look for solutions for **each of these debt components**. The aggregation of these solutions should then be consolidated into a master plan.

h) It took many years for the public debt to reach its current levels, so did the shortcomings in the balance sheet of the Central Bank. **The proposed remedies should be programmed over many years**. Attempts to fix everything at once will be counterproductive, will require unavailable resources, and will cause disruptions with an unpredictable impact.

i) More than 80 percent of the principal of the foreign debt will not mature in the short term. Six out of the 24 outstanding Eurobond issues will mature during the years 2020-2022. The financial, fiscal, and monetary models should take this into account, and not be constructed with the assumption that the entire amounts have become due. **The present gap** in the value of Eurobonds and other types of debts **should not be immediately recognized as losses**. Loss recordation should be deferred – if it eventually occurs – at the term of the debt.

j) The same approach should be adopted when restructuring the Central Bank and commercial banks. **Appropriate time** periods should be factored in **to allow for the reconstitution of assets and equity**. A fire-sale approach to immediately write-off bank equity and items of the Central Bank's balance sheet is counterproductive as well.

k) Reform is necessary for balancing the books and for restoring confidence which has reached an all-time low. There are thousands of opportunities for reform. Some are difficult to achieve and will take time. But **many** other **reform opportunities are within reach** at no additional cost, and they engender little political pushback, and could be implemented immediately. Shouldn't that be the place to start? Or at least to demonstrate goodwill?

l) **No blanket approach should be undertaken** when restructuring the banking sector, dealing with public sector debt, or maintaining subsidies. Each bank has a separate situation and solutions should be tailored made to it. Each component of the public debt should be dealt separately. Subsidies from which the non-poor also benefits from (fuel, wheat, medicine), should be restructured in order to be exclusively targeted to the most deserving.

III. Current Faulty Landscape

Current faulty landscape

There was near consensus amongst government officials and various political forces, as well as economic stakeholders (business associations, donor organizations, the Central Bank (BDL), etc.), that the entry point for an economic recovery should be built on restructuring the financial sector, around the following pillars:

Financial sector

1. Determine 'Losses' in the financial sector (which includes in the stakeholders' definition BDL and the banking sector) starting with new financial and forensic audits that must be undertaken to delineate the exposure and losses suffered by the Central Bank
2. This is to be followed by some sort of restructuring that includes:
   a) Haircut on high deposit balances (the level of which has not been determined yet), or alternatively a bail-in of these deposits as equity in banks.
   b) Recapitalization of banks (20 percent)
   c) Mergers between banks to be forced by the Central Bank on a case-by-case basis
   d) Determine and recover money obtained by public officials and their cronies through unlawful means or in contravention of best procurement practices a.k.a. 'stolen money'
   e) Recover what is deemed as 'evaded funds', i.e. funds that have been transferred abroad after October 17, 2020, and according to the latest BDL circular, since June 2017
   f) There is also a suggestion of back charging what is deemed to be 'excessive interest' earned by large depositors as a result of the successive 'financial engineering' operations undertaken by the Central Bank through the banking system
   g) A law on Capital Controls to be approved by Parliament though its exact provisions have not yet been determined. The French proposal includes a four-year limit and that the law should be compliant with the IMF's requirements.

Uncooperative banks, and those not able to raise their capital, will be closed down. A provision to issue five new banking licenses has been proposed.

Fiscal sector

1. Default on Eurobonds and renegotiating terms with their holders
2. Haircut on public debt (up to 50 percent)
3. Reduction of primary deficit (up to zero) by
   a) Raising some taxes (VAT)
   b) Imposing and collecting taxes on seaside and riverside violations
   c) Better revenue collection measures at Customs (see combating smuggling below)
   d) Better income and corporate tax revenue collection measures
   e) Undetermined measures to reduce expenditures such as payroll
   f) Eliminating subsidies to the electricity company (see reforms section)

Exchange rate

Various proposals regarding the exchange rate have been advanced, from immediately floating the currency, to a more moderate easing from the current three-tier system (LL1,500, BDL platform (LL3,900), and black market (which has been fluctuating LL6,000-LL9,500).

New funding

1. Resorting to the IMF to negotiate a restructuring program as a prerequisite to accessing other donor funds, especially those earmarked at the CEDRE conference
2. The program approved by the former government foresaw additional borrowing of $10 billion from the IMF, $11 billion through CEDRE, and $8 billion from the market in the next five years

Reforms

A wide array of reforms have been promised by previous governments, in the successive Paris conferences (I, II, III, CEDRE), as well in the successive 'Government Statements' which are the basis for a Cabinet's confidence vote in Parliament. On the front burner of the stakeholders are the following issues:

- Electricity sector revamp which includes building new gas-powered plants and expanding the share of dependency on clean energy. Various plans have been advanced that include power generation, distribution, tariff setting, fuel procurement, and collection
- Insulating some sectors (electricity, telecommunication, and others) from government interference by empowering regulatory authorities and appointing their members
- Approving a new public procurement law
- Combating corruption starting with the appointment of members of the National Anti-Corruption Commission and giving it capabilities to carry out the tasks entrusted to it and actually launching its work. Kick starting the process of acceding to the treaty on fighting corruption worldwide issued by the Organization for Economic Co-operation and Development
- Combating smuggling and immediate application of Customs reforms such as establishing control gates and strengthening supervision at the ports, the airport and other border checkpoints, in addition to reducing transaction complexities and timelines
- Reform the judiciary starting with executing judicial appointments (judges of Supreme Judicial Council), financial appointments (members of the Capital Markets Authority), and sectoral appointments (the regulatory bodies of the electricity, telecommunications and civil aviation sectors). These appointments are to be carried out in keeping with transparent criteria based on competence

What's wrong with it?

We have outlined in a separate paper published after the announcement of the government's Financial Recovery Plan (April 30 2020) a detailed critique of its various provisions (Appendix J). The critique highlights the counterproductive measures of the plan, as well as legal and constitutional contraventions, faulty assumptions, and areas of difficulty in implementation.

Notwithstanding all the arguments included in our critical paper, the major deficiencies in the current 'conventional wisdom' whether advanced by the former government or by the current near consensus of stakeholders consist of the fact that the various piecemeal approach suggestions fail to achieve the following:

- **No measures to restore confidence in the economy,** without which no restart in the 'real economy' can be expected, new investment made, or further flight of financial and human capital kept in check.
- **No measures to restore confidence in the financial sector**, without which the economy, in all its aspects, including its current near-dormant state, can function
- **No actionable plan has been presented to kick start the 'real' economy,** i.e. business sectors such as tourism, manufacturing, services (especially those that have gained a competitive edge from the currency devaluation) as well as other sectors such as trade, creative sector, information technologies, agriculture, artisanal work, cultural sector, and other high-added-value GDP contributing sectors. <u>This missing aspect should take priority over all other endeavors</u>, because its impact is immediate and it requires attainable and modest resources while engendering the least political resistance. It will also preserve what remains of jobs in the private sector and could quickly reabsorb some of what was lost since the beginning of the economic crisis
- The various ad-hoc proposals do not address social equity concerns and do not offer social safety nets. **Little attention has been directed to the poorest segments of the population** (poverty level has already exceeded the 50 percent mark). This entails massive additional spending, rationalization of priorities and processes, insulation from political interference, and other challenges
- The plan of the former government and its current variants – while surely focused on real issues to be addressed – **will not result in additional funding to the economy**, be it additional fiscal revenues, inflows of money from foreign sources, or funding to the private sector. It is mostly focused on measures that will look good on paper, such as better looking balance sheets and recalibration of accounts at the Central Bank or commercial banks
- The current plan and its variants also **fail to demonstrate how depositors will recuperate their money from banks** since no real fresh money will enter the banking system, and should some of it enter the system, it will remain frozen as capital, and surely depositors will not be allowed to withdraw it
- The various ad-hoc proposals **do not demonstrate how a positive balance of payments will be reached**
- These proposals **do not demonstrate how additional funding will be repaid** (from the IMF, CEDRE, or other sources), or even serviced. To achieve that, substantial primary public budget surpluses must be realized.

IV. Alternative Approach

Alternative approach

We have proposed an alternative to the current prevailing approach – or rather mentality (Download the Executive Summary and this full report: www.infopro.com.lb/revival) which has been endorsed by more than 200 leaders in the private sector, economists, and other stakeholders. This fourth edition (December 2020) of the Alternative Economic Revival Plan has been updated following a myriad of economic and political developments, as well as post Covid-19 and Port Explosion initial ramifications.

The '**Alternative Economic Revival Plan**' sets its foundations on the following premises:

1. Using a consultative – and as consensual as possible – approach with all stakeholders. This is necessary to create a 'buy-in' from major stakeholders which is the first step towards restoring confidence, and preempting resistance from various quarters
2. The following Key Performance Indicators (KPIs) have been defined. Most other indicators and endeavors are derived from or contribute to these KPIs:
   a) Strong GDP growth
   b) Alleviate poverty
   c) Reach a fiscal balance and a positive primary surplus
   d) Reach a positive balance of payments
   e) Free people's access to their money in banks
   f) Reduce unemployment
   g) Tame inflation

Success in achieving KPIs mean that serious progress has been made in the following areas:

- **Increased fiscal revenues**, which means economic growth and higher corporate profits and personal incomes, better control at Customs, and more rational spending
- **Resumption of international trade** on a normal pace with growing exports and unrestricted imports, which means that full banking services have been restored
- **Reduction of poverty levels** thanks to an increase in employment and taming inflation, as well as a better socio-economic policy and government programs
- A restoration of economic activity will immediately result in better **confidence in the financial system** which would allow a 'soft-landing' and tempered write-off of BDL losses. A resumption of remittances and a budgetary surplus will allow a gradual freeing of people's money in banks
- Reaching these KPIs means that responsible **fiscal and financial planning** has been exercised, which is a prerequisite for foreign funding, a program with the IMF which would be followed by others.

Facing realities

As a result the Economic Revival Plan should yield the following deliverables:

There is no way to reset the system to its previous state. We can no longer operate an economic system that is riddled with military and security tensions and with political parties siphoning off public revenues. We can no longer generate deficits in the balance of payments and maintain an exchange rate at LL1,500, or any stable rate. We cannot subsidize basic goods for all citizens – and other countries. We cannot run the public budget at such large deficits.

There is no magic solution that will lead to zeroing past accounts (Cental bank losses, commercial bank losses and public debt) and that allows depositors to withdraw the totality of their money from banks, all at once. Public debt cannot be totally eliminated. Forcing the exchange rate to correct itself back to LL1,500/USD is a fantasy, and the State can no longer afford to subsidize all necessities for the entire population.
T
he following hard facts need to be clearly stated to the public:

a) **Full repayment of public debt.** Most countries – rich and poor – carry debt. The only debt that can (and should) be erased is the one between public entities – mainly treasury bills and Eurobonds held by the Central Bank
b) **Local dollars.** The Central Bank's past operations have practically resulted in the equivalent of printing local dollars (commonly known as lollars. They are currently trading at a deep discount to the fresh (real) dollar. A large portion of this virtual monetary mass will need to be absorbed by the market by attrition through a combination of the following mechanisms:
   › Exchanged against real assets (real estate, and other value-retaining goods such as artwork, antiques, Persian rugs)
   › Regular consumption
   › Exchanged against lira or fresh dollars at a steep discount
   › Stop local clearance of dollar payments – leading to a reduction and eventually elimination of the monetary mass in local dollars in favor of fresh (real) dollars

   The balance, as it gets smaller, will need to be retained for a very long time (10+ years) or until the financial system has been stabilized and trust restored allowing for a gradual slimming of the discount rate between local and fresh dollars
c) **Allowing for a full withdrawal of all deposits from banks. This issue will remain** hanging **until** such time when trust in the banking sector is restored and depositors are ready to keep a large portion of their money in banks
d) **A stable currency exchange rate is no longer possible.** The Central Bank has no longer the financial capability to intervene in the market – except in rare and sudden acute speculative cases. It cannot face exchange fluctuations caused by declines (or strengthening) of the country risk. We will have to live with these fluctuations – at least until past losses have been absorbed and enough foreign currency reserves have been built
e) **Sacred cows.** There is no longer room for taboos (we call them here 'Sacred Cows'). A large number of issues that were until now off-the-table need to be the subject of serious economic, social, and technical discussions. These include gold, all form of subsidies, privatization, contraband (both directions), tax evasion, administrative decentralization, social security, electricity production, State assets, environmental issues, and reforming the judiciary (see Appendix G for a list).

A new socio-economic pact

More than 55 percent of the population is below the poverty level, public confidence in government has collapsed, depositor trust in banks has vanished, and public finance is in dire conditions. A new socio-economic pact must be devised whereby all segments of society have a stake in the economic revival plan. The pact must benefit all stakeholders, starting with the weakest. Against all odds, this needs to result in elevating wages to near the pre-crisis levels in real terms. The socio economic pact should include the following:

- A national economic vision
- The State's fiscal obligations
- An updated monetary policy
- A set of social safety net programs
- A policy on wages and entitlements
- A plan for national debt management

Consensus, or wide support to the socio-economic plan, should be gathered, starting by involving all stakeholders in its formulation.

Each measure – when taken alone – is easy to shoot down and have its disadvantages highlighted. Therefore these measures should be evaluated as to their combined impact, rather than the ramifications of each as a stand-alone factor– as disadvantages of one measure are mitigated by one or more advantages of the other proposed measures.

Some details of our proposal

a) **Transitory tax schedule**

Going from the current antiquated tax system to what can be deemed 'equitable and progressive' system in one go cannot practically be agreed upon and implemented very quickly. But there is an urgent need to devise a system that works immediately. It is therefore proposed that a non-optimal but practical tax system be adopted immediately, while working on a different, optimal system, to be adopted after rounding the curve. It is proposed to:

- Exempt taxpayers from personal and corporate income taxes except for high earners, financial and insurance companies, and large corporations (and groups of corporations) with sales above a certain level. The actual current tax contribution of those proposed to be exempted is minimal, as they 'successfully' evade taxes, or their income or profits are nil or too low to yield substantial tax revenues

- Create a multi-tiered VAT level as follows:
  - Keep (and expand) items currently exempt (zero level)
  - Increase VAT on locally produced non-essentials to 20 percent
  - Increase VAT on imported non-essentials to 30 percent

  Contrary to some perceptions, the above is not regressive, and a simulation may well show that it is a progressive tax. The raising of VAT may be construed as a trade barrier and therefore in contravention of some bilateral or multilateral trade agreements. Since it is a crisis situation, most agreements allow temporary emergency measures such as these
- Streamline the 287 types of taxes and fees currently in force

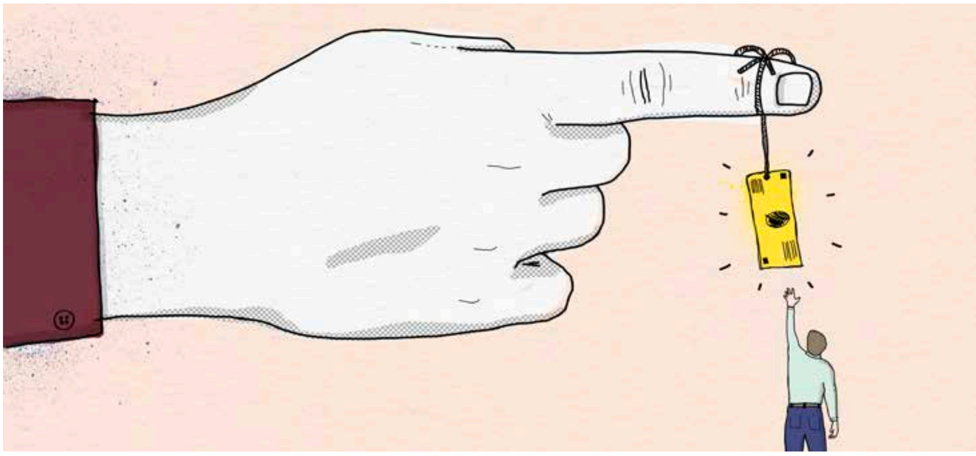
b) **Declare public and minimum wage adjustment policy – with immediate first step**

It is clear that should wages remain at their current levels, this would accelerate recession as consumption will continue to decline and social unrest will threaten national security. Public wages need to be adjusted gradually as the fiscal situation and the rest of the program permits.

This is a difficult issue that needs strong support from all concerned. Labor would want much larger adjustments immediately, IMF would raise eyebrows and may object, and the business community may remind everybody that the Wage Bill approved in 2018 was a precursor of the current crisis. The difference at this stage is that such an adjustment will be within the overall context, part of a plan that would lead to a fiscal balance.

The currency devaluation should be accounted for when paying end-of-service indemnities by applying an exchange rate that preserves the value of these indemnities. This should also apply to National Social Security Fund payments.

There is a legitimate concern that raising public wages will pressure further the exchange rate. In practice, the removal of subsidies, and eliminating the exchange platform (at LL3,900/dollar), will ease pressure on the lira as consumption of fuel and non-essential products will decline and will lessen the demand for fresh dollars. Labor market and other considerations will force the private sector to pay salaries in fresh dollars – at least partially in order to retain key employees. It will source these dollars by requiring clients to pay partially or fully in fresh dollars. The economy will quickly become almost fully dollarized, which in turn would ease demand for the lira.



c) **Resolve labor disputes**
The crisis, which has effectively started since the beginning of 2019, has forced most companies to layoff a large segment of their workforce, reduce the pay of the remainder, or default on payment of salaries. Current labor regulations and dispute settlement mechanisms make it impossible to quickly reach equitable compromises. The chronically slow-moving Labor Arbitration Council has become even more inundated than before the crisis. It (too) often finds companies guilty and requires them to make compensations that they cannot afford. The result is that employees will have to wait many years before they receive any compensation – if they ever do. Employers feel threatened. They must provision for unresolved disputes, which is a disincentive to resume hiring or even retaining their workforce. Labor and employers must agree to rapid dispute settlement mechanisms and new rules for compensation that take into consideration the systemic economic crisis.

d) **Subsidize people – not products, and launch a cash transfer card**
The State has no more resources to subsidize basic goods, energy, electricity, currency exchange, education, health – all at once, to all citizens. Our estimates show that from $5 billion in direct subsidies (not including health, education, and social services), only 20 percent reach the poor. The government, with aid provided by the World Bank and other donors, can increase the poor's subsidy to $2 billion, and eliminate the rest. This can be done by subsidizing people rather than products by expanding and refining the National Poor Targeting Program and mandating an international party (World Bank for example) to supervise its implementation and administration. A cash transfer card – as being discussed and proposed by several parties – should be launched.

e) **Float the currency**
Maintaining a stable exchange rate is not possible when the Balance of Payments is consistently negative. The Central Bank can no longer interfere effectively in the market without losing what is left of its foreign currency reserves (whose net amount is largely in deficit). Until such time when net foreign currency reserves become positive, the currency should be set free. The role of the Central Bank would be restricted to interfering in times of acute and temporary additional crisis – God forbid. Otherwise, it should let the market determine the rate of exchange.

This proposal is very painful in the short term, as it will lead to hyperinflation. The inflationary pressure will be mitigated by subsidies to the needy and by wage adjustments. The market should be allowed to legally price in the two national currencies (lira and lollar) as well as in the actual US dollar (a.k.a cash or fresh dollar). Wage adjustment will on the one hand help mitigate inflation, but on the other, pressure the exchange rate. If the private sector is allowed to price and pay in lollar or fresh dollar (and it will, notwithstanding any legal impediments), the pressure on the lira from wages will not be maximized.

V.
Roadmap

Roadmap

In order to reach the aforementioned KPIs, a roadmap is being proposed

Kick starting the real economy

More than 250 measures in all sectors are being proposed (Section VII). These measures have been filtered from demands of organizations representative of the private sector. They are categorized as short and long term proposals. Immediate implementation of the short term category, and starting to plan for the long term items would create a positive shock as they will demonstrate earnestness on the part of the government. This will start providing immediate relief to companies, will act as a catalyst for employment and growth, and will result in a reversal to the shrinking trend of public revenues.

Growing the economy and restoring lost jobs will require inputs from all quarters:

1. Infrastructure projects need to be initiated. Public Private Partnership projects worth $6 billion were approved at the CEDRE conference. This would attract new financing, create opportunities for many local sectors, and is needed by the country at many other levels

2. Involving the private sector in the management of all commercial aspects of State activities will have an immense positive impact on the revival of many companies and even growth in their operations, and in the businesses of their suppliers

3. An economic vision – as articulated by the McKinsey report – needs to be translated into actionable projects. Implementation of many elements of the report can start immediately

4. There is a list of short and long term measures proposed for each business sector. A total of more than 250 measures proposed in the plan need to be enacted. The following is common to all sectors:
    - Access to finance at low interest rates
    - Rescheduling and raising the level of existing loans to companies and individuals
    - Temporary payment moratorium on companies' past dues in taxes and NSSF contributions
    - Amicable legal settlements with furloughed employees
    - Mechanisms to allow imports of raw materials needed by industrialists, as well as by traders to supply businesses and consumers. These include spare parts and business consumables, as well as household necessities not manufactured locally
    - Measures to improve components of the 'Ease of Doing Business' index

Free the exchange rate

Maintaining a controlled exchange rate (stabilized at around LL1,500 to the US dollar) was a feasible policy as long as the Balance of Payments (BoP) on average was positive. Contrary to popular belief, this policy did not cost the State, it was rather generating some profits for the Central Bank. Since the end of the Civil War until 2010, the BoP was positive in most years which allowed BDL to interfere in the exchange market to maintain the rates. Starting in 2011, the direct and indirect political and economic consequences of the war in Syria caused the BoP to turn negative, year after year. As a result, foreign currency reserves at the Central Bank were eroded and are currently limited to bank funds held as mandatory reserves. BDL no longer has the resources to maintain an exchange rate at any level. It has to let it float completely and let the market decide the equilibrium exchange rate. This does not preclude the Central Bank at some point from interfering – if and when it has the resources, which will lead to a 'managed peg'. It is unlikely that it would be capable of acquiring such capability in the short term.

Advantages

- Goods and services will be priced fairly and predictably, as the reference currency will be the dollar, given the import component in the economy. The local component will add price competitiveness
- The market price of the lira will probably improve compared to its current levels and will likely fluctuate at the LL4,500-LL6,000 range to the dollar
- Goods and services produced in Lebanon will become competitive and this will be a stimulus for more exports. The sectors that will especially benefit and will attract 'fresh' funds are tourism, manufacturing, information technologies, and agriculture
- The State will be able to tax imports and consumption as well as profits at their real rate, leading to substantial increases in revenues to the Treasury
- Imports will resume without recourse to reserve money as importers would source the required dollars from the market
- Banking activity will be able to resume as the cloud over 'fresh' funds and repayment of loans will be lifted. A settlement will have to be reached for pre-October 17 loans. (see next section on Two Banks in One)
- Companies will be able to resume proper accounting and reporting procedures. The multiple and unverifiable exchange rates today are creating havoc and raising too many questions with no clear answers when it comes to maintaining accounts
- The need to subsidize purchases of fuel and other goods will ease
- The banks and BDL will be relieved from the necessity of maintaining high levels of mandatory foreign reserves
- Experience from other countries (Egypt, Haiti, Nigeria, Thailand) have shown good results when de-pegging their currencies
- Once inflation is tamed, so will be interest rates

Disadvantages

- A free exchange rate will lead to inflation in the short term or at least a major imbalance in the exchange rate market, hurting an already suffering large segment of the population. However, most of the inflationary impact has already materialized and the market is struggling with absorbing and adapting to the new price levels. This should be mitigated by strengthening social safety nets and providing direct subsidies to the poor (see Section on subsidies)
- It will make it harder for companies to budget and set business plans as the currency fluctuation will be difficult to forecast. Other countries (such as Turkey) have experienced difficulties in the short term when their currencies were fluctuating
- It will cause a severe official devaluation of the lira, but this has already happened semi-officially by the FX platform set up by the Central Bank (currently at LL3,900) and by the black market. This in turn will cause depositors and pensioners massive losses – again, it has already happened
- It will create a problem on valuating the 'old money' or 'lollars' which are likely to remain locked for years to come until the full Revival Plan has been implemented and trust in the financial system restored
- It encourages the market to price goods and services in 'fresh dollars' which should become legally allowed. The market is already heading that way
- It encourages currency speculation, especially in a small country with a small money supply. We have already seen examples of that after the fall of the lira in the 1980s and in the past few months in the black market
- Political and security events and shocks may lead to a rapid and uncontrollable drop in the lira's exchange value causing economic havoc. This can be mitigated if using the dollar is freed

Banking: Two in one

The zombie banking sector needs to be reawakened. This cannot be done by maintaining the Status Quo, or by implementing the various proposed restructuring proposals of the financial sector.

The banking sector is suffering from a total collapse of trust that has caused a bank run by depositors. The banks found themselves unable to meet demands for deposit withdrawals in cash. Most of the deposits were placed by the banks at BDL (currently $76 billion or 68 percent of the foreign currency customer deposits of the banks), and they account for (most of) the balance in loans to the government (the Eurobonds held by the banks represent nine percent of their foreign currency customer deposits) in addition to the loans to the private sector (20 percent of the banks' foreign currency customer deposits). The banking sector saw its total deposits fall from $157 billion in Dec. 2019 to $139 billion in Oct. 2020, as depositors rushed to withdraw what they could, and to repay outstanding loans. This has led to a drop in the banks' debt portfolio.

Customers' deposits in commercial banks in foreign currencies stood at $112 billion at the end of October 2020. They totaled $120 billion at the end of December 2019. Deposits in lira amounted to the equivalent of $27 billion (at LL1,507 rate) in October 2020 versus $38 billion in December 2019.

As a result, BDL has mandated banks to increase their capital by 20 percent (estimated at $3.8 billion), to be undertaken in using 'fresh' foreign currency, local dollar funds (lollar), or by issuing perpetual bonds to their depositors or by other means. Banks have been reluctant – or unable – to raise the necessary funds so far to meet BDL's requirements. Why throw good money after bad, especially in the absence of foresight or clarity as to what the government or the Central Bank plan to do in terms of restructuring the financial sector, or reviving the economy. Banks are not able to devise a business plan and financial projections that are palatable to their shareholders.

Too much time has passed since the banking collapse, and the 'wait-and-see' attitude should not linger. Waiting for an IMF program (which will take time in the best-case-scenario) is detrimental to the survival of the banks and especially the economy. Banks should make a fresh start .

In brief, and to put it simply, banks have halted most of their activities because their deposits at BDL have been frozen. But on the positive side, they still have most of their infrastructure intact, including their foreign network of correspondents (albeit under the most stringent conditions).

Proposal

Create two systems in each bank, one based on 'fresh funds' and the other on 'old funds'. The two-system scheme would be regulated by BDL within a legal framework. A new law in Parliament would be passed if BDL circulars are not enough to govern it.

This does not preclude all the necessary capital increase measures, closing down non-viable banks, and other endeavors to be taken in a measured and gradual manner.

Capital increases in 'fresh funds' would be earmarked to finance the 'New Money' activities, and will not be used to repay 'Old Money' deposits.

There are several alternatives for organizing 'old money' and 'new money'.
Some examples:
- Segregation of accounts within one bank
- Creating new legal banking entities (within each banking group) operating solely in 'new money', and consolidating them with 'old money' entities

'**New Money**' consists of new capital raised, deposits in 'fresh funds', and profits generated from operations undertaken using these funds. BDL will determine how to allocate overhead charges between new and old money.

'**New Money**' will become the basis of fresh activities, such as new loans, letters of credit, and other banking activities. They need to be protected by a solid legal framework, international technical oversight (such as IMF, IFC, EIB, ECB, Banque de France or a combination of), and solid business plans. The start will be slow and trust hard to come by, but the short-term transactional nature of business will gain momentum, especially due to pressing needs from the private sector.

The Central Bank should allow banks to offer higher interest rates on new deposits while new borrowers will have to pay higher rates on fresh loans. The net margin and fees – based on the existing banking infrastructure – will generate immediate profitability which will contribute to the banks' capital and eventually to the release of depositor's 'old money' together with the other measures described below.

When lending in foreign currency 'new money', banks should become legally protected from having borrowers attempt to repay loans in lira.

'New money' cannot be used to lend to the State or the Central Bank.

'**Old money**' consists of client deposits as well as loans made to the public sector, private sector, and currently irrecoverable deposits at the Central Bank. It will be dealt with as follows:

The private sector will gradually be paying its bank debt (albeit with a higher default rate than in previous years). As of Oct 2020, there was $37.4 billion in outstanding loans to the private sector, of which $22.7 billion in dollar and $14.7 billion in lira (down from $54 billion in Sept 2019 and 49.5 in Dec 2019).

Assuming a default rate of 14 percent as estimated by the Banking Control Commission, the $37.4 billion will become $32 billion, erasing 25 percent of old bank capital which will become after its 20 percent increase $19 billion, and maybe $20 billion after adding 2019 and 2020 profits.

Banks, while financially sound on paper, in reality suffer from a huge gap in cash liquidity that will take a long time to bridge. The gap was created by:

- A sustained panic run on deposits by almost all their clients
- Sovereign default on Eurobonds – leading to a multitude of problems including:
    - › Drop in the value and liquidity of Eurobonds held by banks
    - › Drop in Sovereign rating automatically leading to a drop in bank rating
    - › Requirements by foreign correspondent banks of over 100 percent coverage of documentary credit
    - › Recording losses from value readjustment
- Inability to withdraw foreign currency in cash from the Central Bank
- Increase in non-performing private sector loans, leading to paper and actual losses

There is no short-term measure to deal with the gap. Writing off bank equity, declaring their bankruptcy, or outright liquidation will not yield substantial cash liquidity for depositors. As a result of the multiple and sudden crises, banks have halted many of their operations, to the point of being dubbed 'zombie' banks. Based on their existing know-how and infrastructure, banks should devise a mechanism (such as the above proposed 'new' versus 'old' money scheme) to resume activity and generate profits. As the economic situation stabilizes, and the economy grows again, banks will be able to attract capital in 'fresh' funds to finance their 'new money' activity, and recapitalize the equity lost in Eurobond values. The State – as part of its Eurobond settlement – may swap the banks' Eurobond holdings with new long term securities allowing a partial reconstitution of bank assets.

In the long term, a revival of the economy, balancing the public budget, and a return to a positive balance of payments will allow banks (starting with the smallest accounts) to gradually unload part (or all) of deposits held with them. The regained trust will lead to a decrease in panic-driven withdrawals. This will take time, and especially in the absence of short-term solutions, is lesser a priority than other pressing issues.

Capital controls

A lot of commotion has been raised around the necessity of legislating controls on the exit of foreign currencies to foreign markets.

Ideally there should be no capital control on money entering and exiting the country beyond national commitments on preventing money laundering and financing terrorism. Unfortunately, it is a less-than-ideal situation and capital controls, already de facto, need to be formalized for obvious reasons.

While providing temporary relief until a solution is found, capital controls engender their own set of side-effects and necessitate many compromises. The disadvantages include:
- Amplification of public panic
- Complicating foreign trade
- Killing Foreign Direct Investment
- Signaling that the country is under a severe crisis, and thus dissuading even local investment

A mechanism allowing an increasingly larger volume of currency to exit the country should be devised, based on achieved indicators such as incoming remittances, exports, FDI, aid, inbound tourism, and similar activities that lead to a positive balance of payments.

The temporary measures concerning Capital Controls must be enacted as a law, to provide a legal framework for imposing these controls, determining their level and eventually lifting them.

Given that the Capital Control law is already more than one year behind schedule, a lot of benefits have been forgone, while all of the damages have already been inflicted.

The government will issue a draft law to be sent to Parliament to regulate capital controls. The law will be in effect for a limited time period (one year for example) to be shortened or renewed by the Council of Ministers as needed.

The law will include separate rules for each category of funds (pre- and post-Oct 17 2019, lira, dollar) for the following transactions:
- Fresh funds to be freed from any encumbrance and will be allowed to be transferred locally and abroad. When transferred locally, they will retain their status as fresh funds
- Rules for entry and exit of 'old' funds from the financial system and transfer abroad
- Local usage and withdrawal of cash for each currency
- Creation of a central mechanism to avoid duplication across accounts in different banks
- Creation of an appeal mechanism for those wrongly denied withdrawals and transfers
- Listing of exceptions and caps for transfers of 'old' funds abroad (medical, education, Internet subscriptions, personal and corporate debt service, etc.) for non-fresh funds
- Issuance of 'fresh fund'-based credit cards
- Rules for exchanging lira to foreign currencies

Total revamp of subsidy system – Poverty Alleviation Fund

The current subsidy system is wasting around $4 billion and is benefiting mostly those who are not in need (see Appendix K for computational details). All subsidies need to be lifted and replaced by an electronic subsidy card.

Many policies that have been undertaken to protect the poor have led to subsidizing those that are not poor and providing little protection to those originally targeted by these programs. In particular:

- Very low electricity rates (starting at ¢2.8/kwh when production cost is around ¢20/kwh)
- Fuel subsidy and low fuel taxes
- Subsidies for wheat and medicine
- Low rates for water consumption

Additionally, the State provides the following subsidies:

- Subsidized health care in public and private hospitals and medication as well as subsidized education in public and private schools and the Lebanese University
- Tax exemption of basic necessities (zero VAT on food and rent, etc.)
- Very low income tax on low earners (starting at two percent)

An alternative approach is to price all goods and services at market rates and provide direct cash and income tax exemptions to those living in poverty, in parallel to schemes to improve employability and incomes of poor citizens.

In order to achieve that, every citizen and business must have a tax number. Those not registered with the tax authorities will not be able to benefit from any subsidy. All registered citizens will be included in a national database (built upon the National Poverty Targeting Program of the Ministry of Social Affairs, after updating it and cleansing it from undeserving recipients). All personal and corporate assets and incomes will need to be tagged with that number.

The database will, as a result, be generating automatically a score which will determine the level of cash and other incentives received by each family and individual. A recourse mechanism will also be available. The database and disbursement system will be subject to State and third-party audit.

The fund will receive cash from the State and donors (World Bank, Arab funds, etc.) as well as from the Sovereign Wealth Holding Fund. It will make disbursements (in the form of rechargeable cards) to be used for paying various necessary services (with cap limits for each service, caps depending on poverty scores).

As an illustration, a holder of a card could obtain every month $50 for electricity, $50 for transportation, $75 in VAT refunds, etc. Public employees and citizens with qualifying scores will be able to enjoy free school and university tuition at publicly owned institutions (which will be managed and operated by private sector entities).

Restate and restructure public debt

Public Debt needs to be restated in actual value, i.e. at current market value. This may not be official – but it is the real value. The following measures are to be undertaken:

- The government will propose to redeem Eurobonds and interest at 20 cents at their maturities. It can also propose/negotiate a swap of longer maturity issues for shorter terms at that rate. These bonds are currently (Dec 2020) trading at ¢13.75-14.75 except for one issue at ¢16. This will bring down the debt in foreign currencies from $35.4 billion to $8.7 billion
- The Central Bank should forgive the government all its debt which amounts to LL53 trillion ($35 billion at LL1,500) and $5 billion in Eurobonds. This will bring down the debt in lira from its current level of LL90 trillion ($59.4 billion at LL1,500) to LL35.84 trillion ($4.48 billion at LL8,000)

As a result of the restatement and debt forgiveness, the Gross Public Debt would go down from $94 billion as currently estimated to around $13.8 billion. If we accept the IMF's estimate of GDP to be $18.7 billion, the Debt/GDP ratio will become 77 percent. The ratio becomes even lower (43 percent) at the World Bank's GDP estimate of $32 billion.

PUBLIC DEBT (USD BILLION)
Based on Sept 2020 figures

	LL1,500 [1]	LL8,000 [2]	LL6,500 [3]	Post Cut Eurobond [4]	Post BDL Cut [5]
Debt in LL	59.4	11.1	13.7	13.7	6.1
Debt in Foreign Currencies	35.4	35.4	35.4	8.7	7.7
Gross Public Debt	**94.8**	**46.5**	**49.1**	**22.4**	**13.8**
Debt/GDP ($18 billion)					**77%**
Debt/GDP ($32 billion)					**43%**
Public Sector Deposits	9.7	1.8	2.2	2.2	2.2
Net Public Debt	85.1	44.7	46.9	20.2	11.6

(1) LL1,500: figures expressed in USD at LL1,500/USD exchange rate
(2) LL8,000: figures expressed in USD at LL8,000/USD exchange rate
(3) LL6,500: figures expressed in USD at LL6,500/USD exchange rate
(4) In case Eurobonds are renegotiated at ¢20 each
(5) After forgiving BDL debt to the government (@ LL6,500/USD rate)

Restate and restructure BDL Balance Sheet

The Central Bank (BDL) has a large gap (around $30 billion) between its Assets and Liabilities when stated in foreign currencies. There has been a major discussion around the classification and size of the various components of this gap. Regardless of its size, all stakeholders agree that the gap is larger than what BDL can handle.

The proposed elimination of government debt on BDL's books would make this gap even larger. This can be counter-balanced by a seignorage operation involving 'creating money', effectively a bookkeeping entry. This measure will have no direct impact on inflation or exchange value, since the money created has already found its way to the market, therefore the normal negative effect of money creation has already happened.

The current gap cannot be closed except gradually, as confidence in the financial sector is rebuilt. The Central Bank is a State-owned institution. The State therefore is responsible for the recapitalization for providing assets to the Central Bank to balance its assets and liabilities. There is no other way. The source of these assets will come from the Lebanon Holding (Sovereign Fund), at first in the form of shares in the fund to be later converted into liquid assets.

In the meantime, the Central Bank will remain operational and will regulate the two-tier banking system (Old Money and New Money).

Given the dire situation of the entire banking system, BDL should lower its requirements on banks to gradually free around $5 billion from its foreign currency reserves which will be made available to depositors and can be considered as fresh funds or 'New Money'. Small depositors will benefit from these funds.

When (if) the exchange rate is freed completely – BDL will have no use to maintain reserve requirements, and will be able to free more money, up to near depletion. The injection of billions of dollars into the economy will result in a portion (difficult to estimate) exiting the country. The remaining funds will lead to a major economic boost as these funds will be used in consumption and small business investment.

Central Bank Balance Sheet

(Simulation of restated numbers. Pending actual calculations)

ASSETS	LL (million)	USD (billion)	Restated (LL billion)
Gold	24,656,403	16.4	106,844,413
Foreign Assets	37,733,909	25.0	86,666,667
Securities Portfolio	60,369,746	40.0	0
Loans to Public Sector	0	0.0	0
Loans- Financial Sector	21,818,264	14.5	94,545,811
Assets From Exchange Operations	18,080,639	12.0	78,349,436
Seignorage - debt forgiveness	0	0.0	82,036,412
Other seignorage	0	0.0	149,339,326
Other Assets	72,383,053	48.0	72,383,053
Fixed Assets	392,875	0.3	1,702,458
Total Assets	235,434,889	156	671,867,575
LIABILITIES			
Currency in Circulation	27,887,598	18.5	27,887,598
Financial Sector Deposits	163,127,741	108.2	543,759,137
Public Sector Deposits	7,174,479	4.8	7,174,479
Valuation Adjustment	16,740,387	11.1	72,541,677
Other Liabilities	14,897,338	9.9	14,897,338
Capital Accounts	5,607,347	3.7	5,607,347
Total Liabilities	235,434,890	156	671,867,576

مصرف لبنان
BANQUE DU LIBAN

Adjusting wages

There is a de facto devaluation of the lira, and the free float of the exchange rate is being practiced and its impact is mushrooming. Subsidies will be removed on a number of goods and services, especially fuel. Electricity rates will need to be increased. Direct subsidies will be provided to people under poverty level – but this will not be enough. Additionally, people employed by the public sector are not likely to be included in a cash transfer scheme such as the subsidy support card currently under consideration.

It is essential to adjust wages in the public sector, as well as the minimum wage in the private sector. Keeping wages at current levels will increase the share of population under the poverty level (already at 55 percent), and will decrease efficiency and motivation. Public servants at current salary levels will resign or skip work to moonlight in the private sector whenever they can. Keeping wages at current levels is not sustainable – even in the short term.

Wage adjustment should not be billed as an increase. It is rather a partial reversal of a very large decrease in wages due to the currency devaluation.

A matter of national security

In 2020, public sector wages (including pension, benefits, and related expenses) are expected to reach LL6,100 billion (~$4 billion at LL1,500) of which the share of Security Forces (Army, Internal Security, etc.) accounts for 68 percent of the total. The Army's share alone represents 43 percent of the total amount spent on wages. While the Security Forces' share of the total wage bill is enormous (Education comes second at LL1,000 billion or 17 percent of the total wage bill), it presents an additional incentive for an adjustment, especially for the file-and-rank (non-officers) since a drastically underpaid security personnel will endure low-morale which in turn threatens their primary mission of keeping the peace and defending the nation and citizens from internal and external threats.

Progressive increase

The rate of adjustment of public wages should push all wages above the former minimum wage when denominated in US dollar. The higher the salary, the lower the adjustment rate. The adjustment should be phased over the entire adjustment period, and tied to success in meeting other fiscal objectives.

Controversial measure

The wage increase bill approved in 2017 was passed amidst a lot of controversy, especially that it was not paralleled by additional revenues. Its size was not properly forecasted, probably on purpose to ensure its passage. Many analysts and political figures have placed the blame – erroneously in our opinion (but that is another discussion) – on the wage increase bill for the floundering of State finances. The entire economic and fiscal equation has currently become so very different, that drawing a comparison between the two scenarios is not relevant. In the early 1990s, a sharp increase in the wage bill was also faulted for leading to a devaluation of the lira. However, there have been several wage hikes between the first and last post-war wage increases, which have not resulted in a similar collapse.

Obviously, it is ill-advised to adjust public wages alone, without the enactment of the other measures proposed in this plan. Still such an adjustment will raise the following objections:

- It goes contrary to the objective of reducing public expenditures
- It will necessitate, in the short term, additional borrowing, until revenues catch up
- It will prove a difficult point to negotiate with the IMF and other donors

The following arguments are in favor of public wage adjustment:

- Social mitigation against a sharp currency devaluation
- Strengthening the sense of belonging to the State
- It is part of the social safety net and will reduce the size of direct subsidy (or cash transfer) needed, as it would prevent many families from falling below the poverty line, and lift many above it
- It would incentivize higher productivity – especially if the size of government headcount is shrunk, as many employees lost (through attrition) will not be replaced. Their work will need to be performed by those remaining. Public employees should be required to work 40 hours per week, as in most middle income and high income countries
- The issue of National Security (as stated above)
- It would have a large economic multiplier as most of earned income will be turned into local consumption
- It is a popular measure, which is politically necessary especially in times when many unpopular measures need to be taken (such as floating the currency, taxing imports at their real value, and raising utility prices).

WAGE DISTRIBUTION – FY2020

Military Personnel		**68%**
Army	43%	
Internal Security Forces	19%	
General Security Forces	5%	
State Security Forces	2%	
Education		**17%**
Civilian Personnel		**10%**
Cooperative		**5%**
Customs Salaries		**1%**
Total		**100%**

Source: Ministry of Finance

It is clear that should wages remain at their current levels, this would accelerate recession as consumption will continue to decline and social unrest will threaten national security. Public wages need to be adjusted gradually as the fiscal situation and the rest of the program permits.

This is a difficult issue that needs strong support from all concerned. Labor would want much larger adjustments immediately, IMF would raise eyebrows and may object, and the business community may remind everybody that the Wage Bill approved in 2018 was a precursor of the current crisis. The difference at this stage is that such an adjustment will be within the overall context, part of a plan that would lead to a fiscal balance.

The currency devaluation should be accounted for when paying end-of-service indemnities by applying an exchange rate that preserves the value of these indemnities. This should also apply to National Social Security Fund payments.

There is a legitimate concern that raising public wages will pressure further the exchange rate. In practice, the removal of subsidies, and eliminating the exchange platform (at LL3,900/dollar), will ease pressure on the lira as consumption of fuel and non-essential products will decline and will lessen the demand for fresh dollars. Labor market and other considerations will force the private sector to pay salaries in fresh dollars – at least partially in order to retain key employees. It will source these dollars by requiring clients to pay partially or fully in fresh dollars. The economy will quickly become almost fully dollarized, which in turn would ease demand for the lira.

Fiscal policy and balancing the public budget

The public budget will look very different when stated in real value, i.e. by factoring in the real exchange rate of the lira. Sources of revenues will be different, and additional expenditures will be needed.

The following premises need to be adhered to:
1. A quick and resolute evolvement to reach a primary surplus and subsequently a **balanced budget**
2. Gradual **increase in public wages** done according to a time plan and tied to budgetary results. This will pressure the government and public servants to ensure better revenue collection and rein in spending
3. **Reducing the size of government** by restructuring the public sector and implementing reforms
   a) **Eliminating** several ministries, public agencies and funds (see section C on Reforms)
   b) Offloading losing State enterprises to the private sector (see section on **Privatization**)
   c) Training public servants and applying modern **Human Development** management methods
4. **Increasing revenues** by implementing the following:
   a) Better tax collection
   b) Applying VAT rates based on real values, especially on imported products
   c) New tax sources such as those to be levied on privatized institutions
   d) Applying market rates on utilities and telecommunication services

A plunge in fiscal revenues has occurred with the events starting in October 17 and the deepening of the crisis. Then the default on Eurobonds was tantamount to a State bankruptcy. The coronavirus pandemic and intermittent lockdowns have exacerbated the difficulties in collecting taxes and other State revenues. The pushback against the government plan, announced in April, has further eroded confidence and deepened the crisis. The faltering of negotiations with the IMF has pushed matters to hopelessness. Finally, the Port Explosion in August has crushed any morale left, in addition to tremendous losses in lives and property. Finally, the government resigned and it seems difficult to form a new one .

At this stage, any forecast of State revenues for the next two to three years would be highly speculative. A major drop in revenues is inevitable. There will also be extraordinary pressures to increase spending – especially for social relief. The difficulty to forecast the future is also compounded by the adoption of a dual-exchange rate system where goods, services, and taxes are expressed in different rates. For example imports of goods bought at market exchange rates are subject at the port of entry to Customs and VAT rates calculated at the official exchange price. This effectively reduces VAT and Customs receipts. Reaching a balanced budget in the short term is implausible.

Revenues

These are some of the revenue items that will witness significant decline:

- Personal income taxes will be diminished by large losses of jobs and cuts in salaries in the private sector. As wages start increasing either by the State, or by the private sector in response to market conditions, these revenues will start growing again. There is tremendous tax evasion at that level that needs to be addressed
- Corporate income tax will decrease due to widespread losses and declining profits in most sectors, as well as drops in bank profits which used to constitute a large portion of that tax category. Until GDP starts growing again, and tax evasion duly combated, these revenues will continue to see a sharp decline
- VAT revenues will also plummet as imports have – and will continue to be – curtailed and as most household spending will be concentrated on food and medicine items a large portion of which is exempt from VAT. The dual exchange rate (as indicated above) will also lead to a decrease in revenues
- Customs revenues will also decrease for the same reasons as VAT
- Revenues from interest income will be squashed since interest rates on deposits have decreased to one to two percent from more than the quadruple of this rate, and as total deposits in banks have significantly diminished
- Revenues from real estate transactions will drop after increasing as a result of panic purchases since October 2019. This trend is expected to end, with most indebted sellers having successfully covered their positions through sales. Sales in the secondary market will also be affected as prospective buyers have lost purchasing power and banks are no longer providing housing loans
- Telecom revenues will drop as the decline in personal incomes will lead to lower usage. Massive business closures and reduction in activity will also weaken demand for telecommunication services. The traditional sources of revenues – even when enhanced with improved compliance, collection, and increases in rates – will fall short of offsetting expenditure, even when contracted to its maximum limit. Telecom rates need to be adjusted to mitigate the decline in the value of the local currency

New sources of revenues should be explored, and a comprehensive revision of the taxation system must be devised similarly to the proposed recommendations outlined here below.

Tax reform

No credible tax compliance, collection, and audit reform is likely in the short term, for many reasons. Besides the obvious political impediments, these reasons include the moratorium on new hires (therefore lack of inspectors), lack of recourse and poor due process, and the absence of effective whistle-blowing and judiciary systems to combat corruption and financial harassment by tax inspectors.

The following taxation scheme is proposed. It will be considered by many as sub-optimal (all tax schemes in the world are subject to criticism). It is proposed as a transition phase (three to five years), until the economy starts growing again. The proposal will not lead to a sizeable increase in revenues but it will provide incentives for local investment and production. It will also relieve the largest portion of the private sector from tax pressures without leading to deep losses in State tax revenues.

- Eliminate all income tax on individuals earning below a threshold (for example: $24,000 for single-earner families, $50,000 for multiple-earner family units)
- Eliminate all income tax on small and medium-sized companies. Thresholds will vary according to sectors (For example agro-food manufacturers with sales under $10 million would be exempt)
- Income tax will be imposed (and increased) on all financial and insurance firms, and large companies and groups of companies
- Modify VAT as follows:
  - Keep existing exemption from VAT on all locally produced items (zero percent)
  - Reduce VAT to ten percent on all other locally produced items (40 percent local content)
  - Increase VAT to 20 percent on all imported household necessities that have no local equivalents (for example four-cylinder cars, low-end mobile phones, fuel, low-end white goods, etc.)
  - Increase VAT to 30 percent on all other imports
- Collect a flat fee on all professional servicing requiring a license to practice, according to the profession and other variables ensuring fair distribution

Expenditures

There is an urgent need to reduce expenditure. Debt service (34 percent) and subsidy to the electricity sector (ten percent) constitute together 44 percent of total spending. The government has already stopped servicing debt on Eurobonds. It is time for it to exit the electricity sector which it should have done decades ago. Electricity should be purchased from providers (other countries and private companies – see section on Electricity).

Expenditures to be reduced

- Exit the electricity business at once, this will generate savings of $1.5-$2 billion per year (see section on Other Privatization section)
- Write-off debt to the Central Bank which will save $35.7 billion in principal, and $2.5 billion in interests per year (see section on Debt Restructuring)
- Set a moratorium (for three to five years) on debt service and negotiate debt restructuring
- Offload a large portion of the public sector workforce and transfer it to the private sector by privatizing the operations of the largest number possible of State activities (education, health, telecom, electricity, water and wastewater, waste management, ports, social security). In addition to that, decentralize government services, and delegate tasks to municipalities as much as it is feasible to do so (see section on Other Privatization section)
- Remove subsidies on fuel purchases
- Remove subsidies on private schooling for high earners in the public sector

Expenditures to be increased

- Public sector payroll will need to be increased, especially for low income earners in view of the devalued currency. This will improve purchasing power and mitigate poverty levels. It will also serve as an economic stimulus and a parity with private sector salaries which are bound to adjust
- Social spending needs to be increased as well, with economic relief to be provided to an expanding segment of the population falling below the poverty line. The increase in spending should include cash transfers to those in extreme poverty, as well as subsidies for electricity and other basic utilities that will need to be otherwise priced at market rates (see section on subsidies)

Are we overtaxed?

Are we over or under taxed? The popular sentiment is that the country is overtaxed. This misunderstanding emanates from the discrepancies between tax rates required by law, and what is actually being collected. There is also a perception that utility bills, and other fees paid for services, are taxes. The purpose of this discussion is to analyze actual State tax revenues. A summary of the past ten years (2010- 2019) demonstrates that the effective taxation in Lebanon is well below what it is supposed to be. (See Appendix I – Schedule of Collected Taxes).

The ratios are startling:

- Tax collected on wages and salaries represent around one percent of GDP and 2.2 percent of estimated total national salaries. In OECD countries it is 8.3 percent of GDP. This indicates a huge underreporting of salaries which affects both the Treasury and the NSSF – which partially elucidates why both are in deficit. It also creates inequity as public sector employees, bank employees, and employees of other compliant companies are being taxed appropriately. With the number of the employed estimated at 1.33 million Lebanese (not accounting for foreign workers), the average tax per employed person becomes $26.5 per month. The underreporting of wages also affects effective pensions earned. Assuming a fair tax collection per GDP to be half that of OECD countries, the estimated underreporting is $450 million per year or $4.5 billion in the period covered
- Tax collected on business profits represents 1.6 percent of GDP, or half what is levied in OECD countries. Half the income tax (excluding financial engineering proceeds) is paid by financial and insurance companies. With an estimate of 50,000 active business enterprises (excluding microenterprises), the average (non-financial and non-insurance) company pays around $660 per month in income tax. If we follow the OECD benchmark, the estimated loss is $500 million per year or $5 billion for the period covered
- It is clear that collection from Customs and VAT at the border is greatly underreported, mostly due to non-declaration (contraband). Using a conservative measure which estimates that 33 percent of total imports consist of contraband goods, the loss in Customs and VAT income on imports would be equivalent to another $500 million per year or $5 billion for the period covered

The overall amount of revenues lost to the Treasury would total $14.5 billion for the ten-year period, or 40 percent of the net public debt incurred during that period. Adding to that the $2 billion per year on average in losses in the electricity sector, the accumulation of debt would have been caused by just these two elements

COLLECTED TAXES IN USD MILLION – CUMULATIVE 2010-2019

	GDP	TTL tax	VAT	Customs	Salary tax	Tax on Profits	Tax on Interest	Capital Gains tax	Property tax	Property Registration	Other
Total	487,500	72,774	22,745	5,003	4,247	8,010	6,930	1,966	1,427	5,392	17,055
%/GDP		14.9%	4.7%	1.0%	0.9%	1.6%	1.4%	0.4%	0.3%	1.1%	3.5%

Salary Tax	Salary Tax	Profit tax	Salary + Profit	Effective rate @ Import		
% salaries	% GDP	%GDP	% GDP	Customs	VAT	Cust+VAT
2.2%	0.9%	1.6%	2.5%	2.5%	7.0%	9.5%

Lebanon Holding – a.k.a Sovereign Wealth Holding Fund

Disambiguation

The term Sovereign Wealth Fund (SWF) is normally used for State-owned funds that manage cash surpluses for future use, usually in wealthy countries. These funds, very often consist of receipts from oil sales and similar resources. They invest in local and foreign assets such as equity participation in companies, financial instruments, and real estate. The SWHF structure we are proposing here has a different purpose. Comparing it to traditional SWFs is irrelevant.

Definition

A Sovereign Wealth Holding Fund (SWHF), wholly owned by the State, will be established. It will own all State assets and all misappropriated funds that have been recovered. These assets include:

- Corporatized State entities (OGERO,LibanTelecom, Electricité du Liban (EDL), Régie)
- Shares of State-owned and Central Bank-owned companies (Intra, Casino, MEA and their sister companies)
- Built and un-built government-owned real estate assets. These include land parcels and buildings. They do not include real estate necessary for a functioning government such as the Presidential Palace, the Serail, Parliament, CDR, ministries, army and internal security buildings, educational and health facilities, etc.).
- Real estate holdings of the Central Bank (excluding its own buildings) which were acquired through bank liquidations will also be transferred to SWHF
- Part of the proceeds of eventual revenues of oil and gas discoveries will be channeled to the SWHF
- Gold holdings currently held by the Central Bank – against future recapitalization and banking services
- Shares in companies after being partially privatized (partial sale of equity)
- Option to take an equity position in commercial banks having difficulty raising capital, to be sold later when the health of the banking sector has been restored (see Appendix B for an estimate of some of the entities that can be privatized).

The actual value of these entities is currently unknown as there have been no comprehensive valuation efforts. They have been estimated by some at above $100 billion.

This would place the fund amongst the top 15 SWFs in the world. With the exception of possibly taking a stake in commercial banks, the SWHF will not be allowed to invest in private sector companies other than those previously owned by the government.

The SWHF will act as a holding company and its mission would be to ensure proper corporatization of state entities and their good functioning, in addition to eventual involvement of the private sector in their management or sale.

The SWHF will be run as a private sector holding company (SAL Holding) and will use private sector accounting methods, financing, and management structure and operation. It will be governed by an independent board of directors (which may include representatives of international organizations such as the IMF, IFC, EIB, etc.) who will follow international best practices of governance. The CEO of the SWHF, member of the board, will not be its chair. A non-voting representative of the government will be part of the board. Each entity will be managed as a separate company, with its own board, accounts, management, and staff. The SWHF will deposit its money in accounts at the Central Bank.

Objective and tasks the SWHF will be focused on:

- Get its companies corporatized (legal and governance setup)
- Ready some of those companies for sale or partial sale (set up business plans, improve performance, carry out valuation, devise appropriate privatization schemes, obtain government approval when needed, get tender documents ready, contact potential strategic operators)
- Ready some of these companies to be placed under a private sector management contract (terms of reference, evaluation schemes, usage of proceeds, etc.)
- Launch tenders for privatization and management contracts
- Manage and supervise post-win performance of privatized and privately-managed companies
- Real estate property management: Valuation of properties, recommend to sell, keep, develop, or return properties to the State. Manage public sell-off tenders. Proceeds should start flowing to the Treasury from the first year. Privatization and real estate sale proceeds should be able to start from the second year and finish by the end of the fifth year. Once it disposes of all its companies, the SWHF will be focused on managing public surplus funds like any regular SWF. Its charter will be amended at that time and its mission restated. It will be ready to start dealing with proceeds from oil and gas

Proceeds: The SWHF will ensure that all its entities maximize their revenues. A portion of these revenues will be invested, and the other portion will be used for State benefits. These will include:

- Improved revenues to the Treasury from income producing entities
- Recapitalizing the Central Bank
- Payment of public debt principal
- Contribution to the Poverty Alleviation Fund
- Lending to the Treasury in times of national crisis and catastrophes
- Providing additional capital to the National Institute for the Guarantee of Deposits (which will allow a higher threshold to insure deposits in banks)

Benefits

There are many benefits to aggregate State assets into one holding. These include:

- Proper management outside political influence
- Improved revenues, quality of service, and proper transfer of some of the entities to the private sector
- Optimized financial structures and management
- Using best practices in governance and transparency, which would be difficult to implement in the short and medium term by the government
- Using modern management which will secure well-paid, meaningful careers to management and staff
- Enlarging the government tax base as both the SWHF and its entities will pay taxes like a private sector company
- Providing actual or moral collateral for the government
- Contributing to restoring confidence in the country and its economy. The SWHF will ensure that both current and future generation needs and rights are serviced in an equitable manner

Words of caution

This proposal is a long-term endeavor that will need several years to be fully implemented and for revenue and dividend disbursements to the State to be fully realized. But the benefits will start from the day of announcement and will present a mechanism to involve outside international third-party actors in the management of State entities, a necessary step for the adoption of modern transparency and good governance practices. The proposal will face many challenges. Some are political in nature as there are political forces whose fundamental principles are contrary to reducing the role of the State and enlarging the private sector. Other challenges will stem from those whose political and financial influence and vested interests will be threatened by the establishment of such an entity. There are also financial, technical, and implementation challenges that normally arise when entities undergo such fundamental transformations.

Privatization

Privatization in the context of this Revival 2021 plan may pursue any of the following schemes, each adapted to its particular situation:

- Sale of State assets to the private sector and the public, with a prime operating entity (international in some cases) getting 30 percent for example, and the rest sold to the public with a cap on any single shareholder (one percent for example). Suitable candidates include electricity, telecom, MEA, and Casino du Liban
- The asset remains a State property but the entity is managed by the private sector. Good candidates include water and wastewater utilities
- Service contracts to manage and develop a public service under State rules. Suitable candidates include public schools and hospitals
- Licensing rights. Good candidates include oil and gas exploration and exploitation
- Fund management. Suitable candidates consist of different divisions of the National Social Security Fund

The development of Lebanon Holding should not halt the start of some of these privatizations, which can be joined to the fund once established. Electricity is a prime example of a sector that cannot wait.

Electricity

The electricity sector is one of the heaviest burdens weighing on citizens, the Treasury, and hard currency reserves. It is suffering massive losses for a wide variety of reasons including pricing at half the cost of generation, technical losses, unpaid bills, corruption, theft of materials and equipment, illegal connections to the electricity lines (theft), inefficiencies, delays in billing, and more. The official electricity sector consumes $1.7 billion in fuel and gas imports, representing eight percent of total imports. Electricité du Liban (EDL) produces electricity at an average cost of ¢20/Kwh and sells it at ¢2.3-¢13/kwh, averaging around ¢9/Kwh.

The financial losses incurred from electricity stem from three areas:
1. Fuel: Above market purchase prices and theft from storage tanks
2. Technical: Inefficient generation and transmission losses
3. Collection: Many people (illegally) consume electricity at no charge

Until such time as EDL is privatized, or is able to operate without a deficit, production should be completely shut down. The State can no longer afford a mass subsidy of electricity to all, including rich and poor, residences and commercial entities, and the public sector. For an interim period, all users will have to rely on private generators. Low-income families will be given vouchers to cover the difference between what they currently pay EDL and the additional cost incurred by procuring electricity from private generators. It is estimated that this will cost no more than $100 million per year.

Power Purchase Agreements (PPA) can be concluded with other countries that have surplus capacity such as Turkey, Egypt, the UAE, and others. PPAs can also be signed with private international companies (such as Siemens, General Electric, and Chinese and Russian companies). In the case of Turkey, an undersea cable can be installed in a few short months. It will take one year from Egypt. The cost of delivery from Turkey to high-transmission facilities, including the cost of the cable, is estimated at ¢7-8 cents/Kwh. Another ¢5 should be added for distribution to homes (including technical losses), bringing the total to approximately ¢12. The consumer can be billed at ¢15 which will eliminate losses and ready the sector for privatization.

Social Security

This is a sector where reform is almost impossible due to antiquated laws and regulations, overbearing structures and processes, poor digitization, huge political interference, corruption at all levels, including all stakeholders (employers and employees), a lack of skills, and other ailments. It would take decades to fix the National Social Security Fund (NSSF). The following scheme is proposed:

- Task insurance companies to sell health policies currently undertaken by the NSSF, and act as the retail component. They will process claims, disburse checks, and sign policies. The insurance companies will sell a basic package as mandated by law, but will also offer add-on services.
- The NSSF will become a reinsurer. It will also create a unit to service those rejected by the isurance companies or those that cannot afford the premiums. The Fund will be managed by a private sector structure, The NSSF will also take over the burden currently placed on the Ministry of Public Health (currently the government spends more than $500 million on hospitalization and medical expenses).
- There will be a regulatory commission that will regulate, supervise, and enforce the works of the insurers, and the reinsurer, and set the guidelines for the Fund's management.

This scheme will result in the following
- Lower premiums to the insured
- Competition on prices, services, and add-on services
- Creation of an actuarial database
- Better returns on fund management
- Better and wider inclusion
- More appetite among the medical community to deal with the NSSF

The NSSF pension fund is currently limited to invest in government debt. Obviously, this needs to be diversified. The fund needs to be privatized and managed by seasoned financiers. A board of directors from the private and public sectors will oversee the fund management. The board will include members representing the Central Bank (Capital Markets Authority), Ministry of Labor, Stock Exchange, and other stakeholders. The Fund will be allowed to invest in term bank accounts, government debt, privatized companies, and other national endeavors, such as major infrastructure projects.

Immediate measures needed
- Until such a plan is accepted and implemented, the following immediate measures are needed:
- Extend the clearance certificate of the NSSF to one year
- Allow companies that are not able to pay their contributions to the NSSF to delay payment without penalty and charged a reduced interest rates

- NSSF must not use the funds allocated for end-of-service indemnity to pay for medical care and maternity care. Shortages in those funds should be covered by the State which owes NSSF considerable sums
  - › The existing end-of-service indemnity system at the NSSF must be replaced by an annuity pension scheme as is the case in many advanced countries. The new scheme will be based on three pillars:
  - › The first pillar is compulsory and targets both low and high income people. The contributions are made by the government and the employees themselves. The annuity will equal 60-70 percent of the minimum wage
  - › The second pillar is also compulsory and the contributions are mainly provided by employers
- The third pillar is optional. The insured people who look forward to a larger annuity and who have the financial capacity can make additional contributions
- NSSF contributions at the level of the three pillars must be exempt from taxation.
- The NSSF, the Civil Servants Cooperative (CSC), the mutual funds of the military, security forces and other public sector employees must be consolidated into a single entity. The new fund will provide medical insurance coverage to all Lebanese citizens. Each citizen will be given a healthcare card to benefit from the services of the new fund
- The healthcare card and replacing the end-of-service indemnity by an annuity pension are still awaiting the approval of Parliament. Parliament must speed up the process of ratification of these two draft laws without subjecting them to any radical modifications

Infrastructure

The Capital Investment Program (CIP) presented during the CEDRE conference includes close to $6 billion in infrastructure projects (See Appendix C for a list of projects) that can be undertaken in partnership with the private sector.

Education

The State owns hundreds of schools and the Lebanese University. It employs more than 40,000 people, mostly teachers and school administrators. Most of them are poorly paid, and do not benefit from the latest training and career development programs. The quality of education in the public sector is well below most private sector establishments. Many people in the public sector send their children to private schools. The State has failed in managing the education sector.

The private sector should be invited to participate as follows

a) Facilities Management: Private sector companies will be contracted, on a competitive basis, for the upkeep and maintenance of the buildings (schools). This will decrease the cost and improve quality. They will also be responsible for the procurement and maintenance of school equipment (computers, teaching aid, etc.) The deals can be concluded as management contracts for existing facilities, and under a Build-Operate-Transfer scheme (BOT) for new ones.

b) Teaching: School management companies will be contracted to undertake teaching, according to a modernized curriculum approved by the Ministry of Education. Many countries follow that scheme. Quality of teaching and examination results will be set, and school management companies will be held accountable through their compensation, for the quality of their work. These management companies will hire public sector employees, retrain them, and compensate them based on private-sector standards and quality.

The benefits of involving the private sector are

a) Transfer more than 40,000 people out of the public sector payroll

b) The incomes of the retrained teachers will increase as their performance in quantity and quality will improve. They will benefit from a modernized system, and a career path that is geared towards development. There will be competition to attract good teachers, which will make their skills more marketable, which in turn will have a direct impact in their incomes and benefits

c) The dismal state of schools (buildings and equipment) will be upgraded, and will ensure a standard of safety and hygiene, which is currently lacking on a wide scale

d) The quality of education, which has been consistently declining, will be restored.

Health

The State holds authority over a large network of public health institutions and facilities. Most of these facilities are of low quality and are costing too much.

The private sector, in the form of specialized hospital management companies, should be contracted to manage the facilities as well as for providing health care. The deals can be in the form of management contracts for existing facilities, and under a Build-Operate-Transfer scheme (BOT) for new ones.

The benefits of involving the private sector are

a) Transfer of public health employees out of the public sector payroll
b) The incomes of those employees will increase as their performance in quantity and quality will improve. They will benefit from a modernized system, and a career path that is geared towards development. There will be competition to attract good healthcare professionals, which will make their skills more marketable, which in turn will have a direct impact on their incomes and benefits
c) The dismal state of these health facilities (buildings and equipment) will be upgraded, and this will also ensure a standard of safety and hygiene, which is currently lacking on a broad scale
d) The quality of the healthcare system, which has been consistently deteriorating, will be restored.

Public Transportation

The country lacks public transportation. There are too few bus routes, and the sector is fragmented and dominated by individuals. There is no functioning railroad system. A National Transportation Plan has already been prepared by the government. The private sector should be contracted to equip and manage inter-city and intra-city routes. These contracts should be struck on a fee plus performance basis.

Airport and Ports

All ports and airport(s) are currently underutilized. They should be placed under the management of private sector companies. The benefits are multiple. They include more revenues to the State, expanded services, faster and better quality services, and job creation.

Discussion on gold holdings

One of the 'Sacred Cows' or taboos is to start a discussion on the role of gold assets held by the Central Bank in planning the recovery of the financial and fiscal situation.

The moratorium on the discussion comes from the perceived danger that the discussion will inevitably lead to a sale of a portion, or all, of the gold. As in the case of privatization, there are two main legitimate concerns:
1. It is feared that the gold will be sold and proceeds will be squandered like the rest of foreign reserves and fiscal spending
2. There is also a belief that the gold, inherited from a previous generation, should be preserved for future generations, who in turn should preserve it for subsequent generations

The end result is that gold is being treated as if it does not exist – which practically means it has no use. If so, why have it?

Background information

Gold (together with the US Dollar) used to be a basis upon which currency exchange rates were determined (1945 Bretton Woods agreement). The United States has abandoned the system and floated its currency. Many countries followed suit.

The Code Money and Credit – which governs BDL – had specified the following:
- Issued currency and demand deposits must be backed by at least 30 percent in gold and foreign currencies. The coverage of the currency alone must be at least 50 percent in gold and foreign currencies
- The Central Bank is allowed to buy and sell gold. Parliament enacted a law in 1986 that forbade any transaction involving current holdings of gold at the Central Bank

For all practical purposes, there is nothing special about gold, above the fact that it is a foreign currency, just as the USD, the Euro, the Yen, or any other free floating currency. This is how it is considered in accounting balance sheets of central banks (or any other entity). However, gold is considered the emblem of moral comfort and confidence in a currency. This is no longer the case in most countries besides Lebanon where gold holds a special significance and symbolism. The argument of holding gold was very tenable when maintaining trust in the local currency was at stake. However, with trust having crumbled, gold no longer plays the role it used to.

To prove the point above, gold has appreciated in value from around $9.85 billion in June 2016 (right before the start of the financial engineering operations) to around $18 billion at the time of this writing, or a gain of more than $8 billion. During that same period, there have been large conversions from the lira to the dollar by depositors. Dollar deposits started exiting the local banking system first towards banks abroad and lately were hoarded at homes. Obviously, gold did not do much to uphold the trust of depositors. The effect of gold is no longer what it used to be.

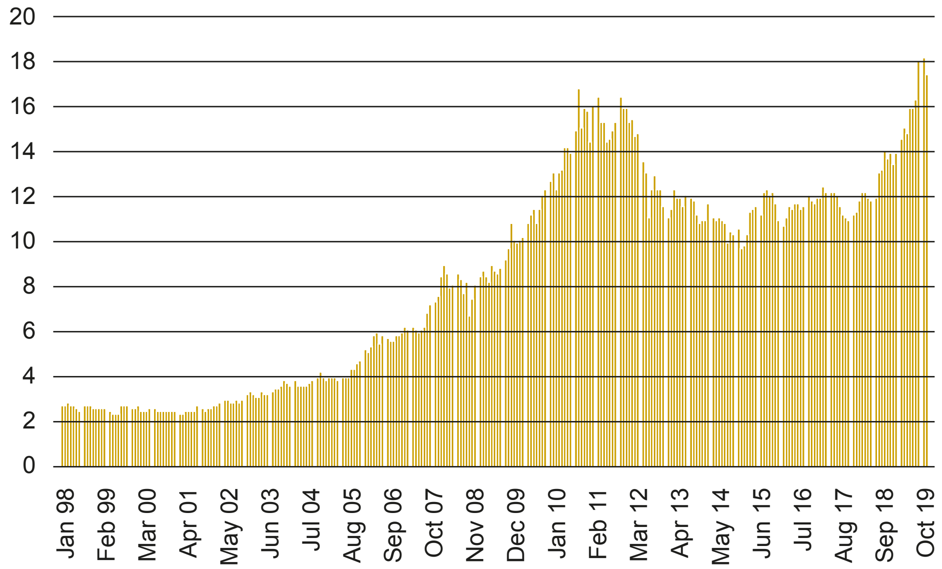
At the outset of the crisis (June 2019), BDL held $13 billion in gold and $30 billion in foreign currencies (Total: $43 billion), against a monetary mass (M2) in lira of LL59,600 billion or close to $40 billion (at LL1,500). The lira was more than 100 percent covered by gold and FX – not accounting for BDL's accumulated liabilities that were book kept at 'Other Assets'. This ratio was not indicative of a looming crisis, which makes it a wonder why the currency was starting to collapse.

What to do?

As part of an overall plan, gold assets should become part of the total picture. At the very least, their value will be restated as per the real market exchange rate, which will reinforce BDL's balance sheet. Additionally a portion (up to $2 billion worth, or 25 percent of gains made in the past five years) of the gold can be used as a short-term security for one or more of the following:

- During a transition period – until the balance of payments becomes positive – to secure financing for foreign trade (import) transactions
- Obtain financing to recapitalize banks against shareholding in the banks – to be redeemed after a transition period (three to five years)
- Secure financing to undertake major income-producing infrastructure projects (such as building power generation plants after ensuring a positive cash flow from such projects – although we favor forgoing building plants and purchasing electricity from the private sector or foreign countries (see Section on Electricity)
- Contribute to the capital of the proposed Lebanon Holding (Section on Sovereign Wealth Holding Fund)

MARKET VALUE OF GOLD ASSETS (USD)



Excerpts of articles concerning Gold in the Code of Money and Credit

The Central Bank (BDL) must maintain in its assets gold and foreign currencies that ensure the safety of coverage of the Lebanese currency equal to 30 percent at least of the value of the cash it issued and the value of its demand deposits, provided that the percentage of gold and the currencies mentioned is not less than 50 percent of the value of the issued cash.

BDL uses the means that it deems necessary to secure the stability of the money market, and for this it can especially work in the market in agreement with the Minister of Finance, buying or selling gold or foreign currencies.

BDL may:

- Buy, sell, import, and export gold and other precious metals, and perform all other operations on these materials
- Accept deposits of gold coins or gold bullion and issue in favor of the depositors who request them gold deposit certificates in the form of bearer bonds or an order

BDL can issue gold deposit certificates for the benefit of all persons and buy or sell gold without the intermediation of other banks.

BDL's assets of gold and foreign currencies are recorded in its accounting system at their equivalent value at the legal rate of the Lebanese lira

A special account is opened in the name of the Treasury, in which:

- The differences between the equivalent of BDL's assets of gold and foreign currencies at the legal rate and the actual price for buying or selling these assets
- Profits or losses resulting, in BDL's assets of gold and foreign currencies, from adjusting the legal rate of the Lebanese pound or the rate of a foreign currency

Trade finance

Shortage of fresh dollars and the institution (so far de-facto not de-jure) of capital controls have complicated the financing of international trade, especially imports. In order to curb imports and preserve foreign currency reserves, the Central Bank has done all it can to limit imports. It has succeeded in reducing imports from around $20 billion in 2018 and 2019 to a forecasted $10 billion in 2020.

The reduction of imports may have had a mitigating effect on the mushrooming deficit in the balance of payments, as the trade deficit has shrunk from $17 billion in 2018 to a forecasted $7 billion in 2020. However, the reduction of imports has had a negative impact on public revenues, in the form of reduced VAT, Customs, and corporate profits. It has also contributed to the acute shrinkage of GDP.

Imports should be allowed to meet market demand, devoid of currency subsidy.

Floating the currency and lifting the across-the-board subsidy will provide a long term cure to the contribution of the trade deficit to the deficit in the balance of payments. Importers will have to resort to the market – not the Central Bank – to acquire fresh dollars. This will pressure the exchange rate, but it is expected that the consumer market will become dollarized in the foreseeable future.

At an intermediary phase – catalyzing the process is needed. A fund to allow financing imports is proposed – financed probably through the IMF or the EU, obviously as part of an IMF program.

The fund, initially funded at $2 billion for example, managed by the Central Bank, will function as follows:

- Allowing letters of credit to be opened for importers. Basically, it will advance the necessary money
- On a revolving basis, traders and industrialists will be able to access the financing facility through banks. Traders will have to repay the advance (plus interest) in four months. Industrialists will have six months. Fuel products will have 30 days
- The Central bank will advance the funds to commercial banks that will in their turn process their clients' letters of credit

The fund, in addition to traders and manufacturers' own 'fresh' funds, will allow imports to reach $12 billion the first year – should such demand exist. The success of the mechanism may allow an extension of the fund to $3 billion the following year.

As 'New Money' banks become active and succeed in retaining deposits, the fund will be able to return monies advanced by the IMF or others and replace them by funds placed in mandatory reserves.

Balance of Payments

The deficit in the Balance of Payments (BoP) originates from the deficit in the Current Account, its largest component.

The Current Account balance is the monetary difference between imports and exports of goods and services, net remittances, and profits from investments. Practically, the high level of imports is the main culprit.

Prior to the Syrian Crisis the BoP was almost consistently positive. It turned negative starting in 2011. In the nine-year period (2011-2019), every year registered a negative balance, with the exception of 2016 when the financial engineering orchestrated by the Central Bank yielded a positive balance. The cumulative deficit since 2011 is $17.5 billion and would rise to $18.7 billion when we exclude the $1.2 billion surplus realized in 2016. In comparison with the preceding nine years (2002-2010), the cumulative BoP registered a positive $23.4 billion.

The past two years alone accounted for around half the cumulative BOP deficit.
The rise in the deficit is attributed to the following:

- Increase in imports – especially fuel that has been exported to Syria
- Decrease in exports
- Capital flight abroad due to decline in confidence
- Decrease in real estate purchase from expatriates
- Increase in debt service to foreign lenders

Forecasting future BoP at this juncture would be highly speculative (just like forecasting revenues from taxes). In order to restore the balance to a positive position, the following changes have to occur:

Recurrent proceeds

- **Decrease in imports** due to a low level of consumption, lifting the fuel subsidy also leading to lower consumption, and initially difficult access to hard currency
- **Increase in exports** due to lower production cost
- **Restored inflow of remittances** once the banking system allows unencumbered access
- **Resumption of FDI inflows** targeting real estate purchases by expatriates and other investments
- **Resumption of incoming tourism** as the country will become a more affordable destination
- **Decrease in outgoing tourism spending** due to lower incomes and fear from Coronavirus infection

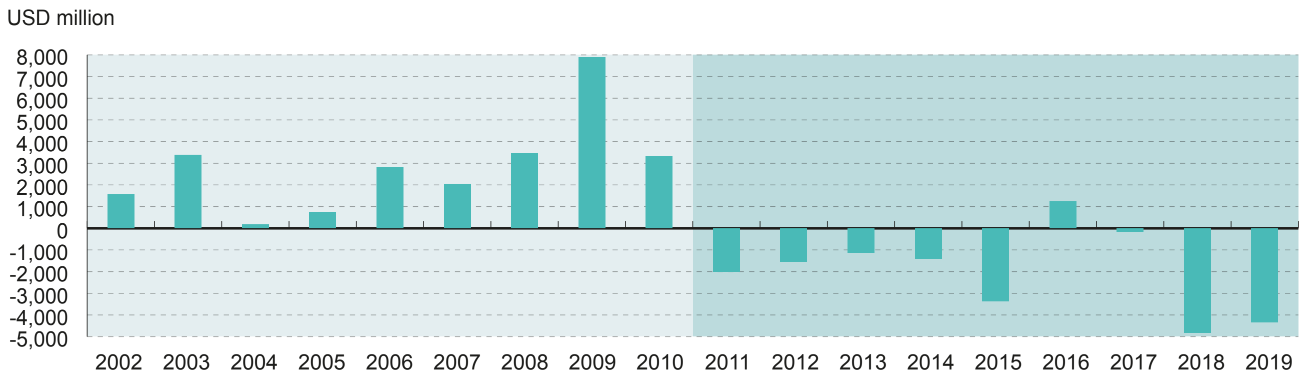
One-time proceeds

- Proceeds from privatization
- Proceeds from CEDRE loans
- Proceeds from bank recapitalization

Privatization will lead to large upfront cash inflow. It will also lead to a gradual outflow as a portion of the profits of foreign owners (such as strategic operators) will likely be repatriated.

Proceeds from CEDRE loans will also have the same effect.

Balance of Payments

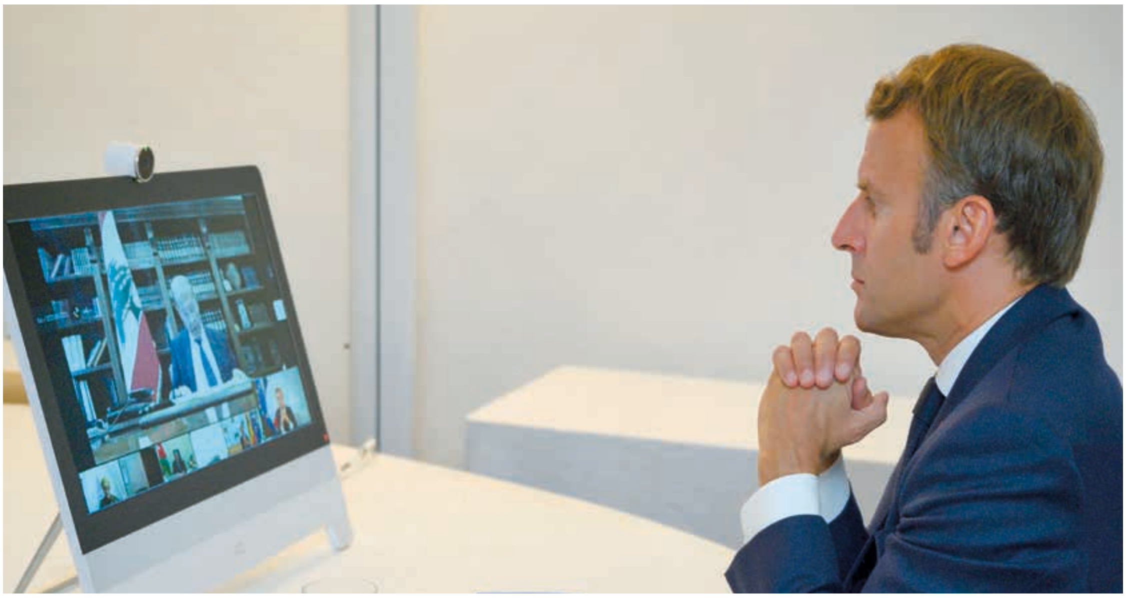


Source: Central Bank

VI. Potential Partners

Potential partners

Three potential partners have come forward and offered to intervene in support of Lebanon. The initiatives proposed by these potential partners should be integrated in the Economic Revival Plan. Some of them have already been incorporated in the following section on 'Economic Stimulus, Ease of Doing Business, and Public Reform'.



Paris Conference

An emergency donor video-conference has raised pledges worth nearly €253 million ($300 million) for immediate humanitarian relief. The international response will be coordinated by the United Nations. The conference promised that assistance would be timely, sufficient, and consistent with the needs of the Lebanese people. It will be directly delivered to the Lebanese population, with utmost efficiency and transparency.

The conference, attended by 36 countries and international organizations, was hosted by France. It was chaired by President Emmanuel Macron and attended by US President Donald Trump. These commitments will not be conditional on political or institutional reform. There were also pledges made for longer-term support that will depend on changes brought in by the authorities.

Countries participating in the conference demanded transparency over how the aid is used, wary of writing blank checks to a government viewed as corrupt. The offer of assistance included support for an impartial, credible and independent inquiry into the blast. Up to Sunday's conference there had been an array of offers of immediate humanitarian support such as rescue teams and medical supplies. The conference's participant countries said Lebanon's partners were ready to support the country's longer-term economic recovery if leaders commit fully to the changes expected by the Lebanese.

IMF

The government will be ready to address the IMF once it has designed and approved a comprehensive Economic Revival Plan – covering not just the financial and fiscal sectors, but also including measures to revive the private sector (real economy) and to substantially strengthen social safety nets and garner considerable support from stakeholders. It is assumed that the government would have included the IMF and other potential donors in its consultations while devising its plan.

The government will seek two facilities from the IMF, reaching a maximum of $3.5 billion:
- A facility to bridge the budgetary gap – until fiscal balance is achieved (2-3 years). It is estimated that this support would amount to around $500 million per year)
- A $2 billion revolving facility to conduct international trade transactions (imports) at a scale larger than the post-crisis level, but below the pre-crisis scale
- The plan will be explicit on how these facilities will be repaid.

It has been a common belief that the IMF has a standard template it applies to all cases. This is not true. The IMF's primary concerns are the following:
- The likelihood of success of the turnaround plan (whether it is executed as promised) and reaching its objective metrics
- It wants to be convinced that the government will not default on its IMF facilities
- It is keen that the plan conforms to acceptable economic, social, and governance best practices as defined by the IMF

Therefore, a plan that conforms to the aforementioned criteria is likely to be acceptable to the IMF – at least as a basis for negotiation. The IMF will impose strict supervisory mechanisms, and will disburse installments tied to achieving milestones outlined in the plan. It is possible to start negotiation immediately once the plan is submitted. However it will take six months to a year before a final agreement is signed between both parties and a first installment is paid.

3RF

As a follow-up to the Paris Conference, The United Nations (UN), European Union (EU), and World Bank Group (WBG) have launched a $2.6 billion, 18-month reform, recovery, and reconstruction response plan to address urgent needs of the population affected by the Port Explosion.

Based on in-depth consultations with government, civil society, and donors, the 'Lebanon Reform, Recovery and Reconstruction Framework (3RF)' aims to provide a common reference point and action plan on what needs to be done across various sectors over 18 months. The 3RF also sets out arrangements for the coordination, implementation and financing of recovery and, subject to reform progress, reconstruction priorities.

The 3RF includes two parallel tracks: A reform and reconstruction track, and a socio-economic recovery one. The costs for the reform and reconstruction track are estimated at $2 billion.

The socio-economic recovery track addresses the urgent needs, estimated at $584 million, of the most vulnerable populations and small businesses affected by the explosion. Around $426 million of this amount are needed for the first year. Financing will build on existing sources that have been mobilized so far, including humanitarian assistance, adjusted and scaled-up assistance by bilateral donors, Diaspora financing, and new forms of crowd funding.

The recovery and reconstruction track will be financed in two phases. In the short term, international grant financing will be required to kick-start recovery and support urgent needs while advancing on essential reforms in parallel. Once progress has been made on key reforms and macroeconomic stabilization, concessional loans and private finance can support reconstruction and help set Lebanon back on a path toward stability, growth, and sustainable development.

Lebanon Financing Facility (LFF) will be established to receive grant financing, support the recovery track, and prepare for reconstruction. It will provide a pooled financing mechanism as one of the instruments to channel support to selected priorities under the 3RF. LFF will focus on immediate recovery needs of poor and vulnerable households, support business recovery programs, promote inclusive ways of working with civil society, and prepare the ground for reform and reconstruction. LFF will adopt flexible, non-governmental implementation modalities, combined with strong fiduciary monitoring and independent oversight over the use of LFF funds.

Reforms should include:

- Preparing the 2021 budget on time as part of a sustainable fiscal framework, with clear visibility into 2022
- Comprehensive tax reform, taking into account economic incentives as well as fiscal objectives
- Reducing transfers to the national utility, Electricité du Liban
- Addressing State Owned-Enterprises revenue/dividend transfer frameworks and cash management hurdles
- Public pension system reform
- Subsidy reform
- Review of the civil service by an independent international institution.

VII.
Economic Stimulus, Ease of Doing Business, and Public Reform

- Issues Faced Across Sectors
- Core Sectors
- Reforms

Issues faced across sectors

Some of these issues predate the financial crisis, Covid-19, and the Port Explosion, and may have contributed to the crashes. The old problems have been exasperated by these additional misfortunes. Most of economic sectors are reeling under the deep economic depression worsened by the Covid-19 pandemic, capital controls, the collapse of the lira, and the losses caused by the huge explosion in the Port of Beirut. The explosion is expected to cause up to half a percentage decline in real GDP growth in 2020 and 2021 respectively. Import constraints could further subtract up to half a percentage from growth in 2020 and 1.5 percent in 2021. Profit margins of businesses are shrinking. They are having problems paying fixed expenses such as salaries and rent. Despite the support provided by the Central Bank (BDL) for imports of basic commodities many importers, including a large number of manufacturers and farmers, still have to buy their dollars on the parallel market at exorbitant exchange rates. There is a need for the stabilization of the exchange rate as the existence of three rates (two official rates: LL1,515 and LL3,900, and the parallel market rate around LL7,500-LL8,500 at press time) is creating uncertainty and chaos in the business environment. A floating exchange rate could be a solution in the near future. It will be balanced by BDL's interventions when a certain benchmark is exceeded. Businesses in various sectors need rescheduling of their debt, tax exemptions, access to foreign currency to pay for imports, and subsidies to face hyperinflation. It is unlikely that the government will be able to fully support the business sector as itself needs support and is seeking international assistance.

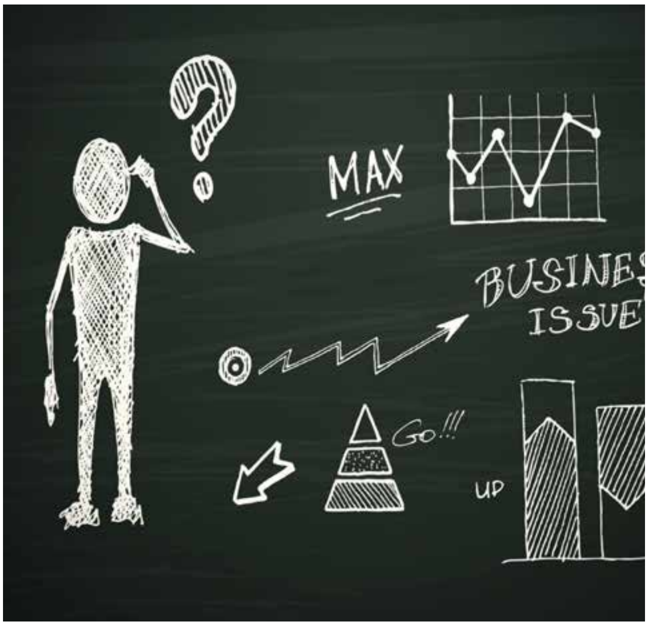
Measures requested by stakeholders across the sectors

SHORT TERM measures

- Provide businesses affected by the explosion with grants and concessional loans to cover immediate reconstruction needs and technical assistance including legal aid, and business development support services (Implementing bodies: ABL, BDL, FCCIA, MoF, NGOs)
- Provide liquidity to microfinance institutions to channel funds to affected microenterprises (Implementing bodies: BDL, MoF, International NGOs)
- Regulate capital control to specify legalities of capital entry and exit, levels, conditions, and timeline. Existing unofficial de-facto capital controls are vague and they are often applied in an arbitrary manner (Implementing bodies: Parliament)
- Allow businesses to access their foreign currency funds in banks and to transfer money abroad to pay for imports whether through letters of credit or transfers. Given that the financial system is unable to meet all requests, a staged approach with structured 'old money' / 'fresh money' schemes need to be devised (Implementing bodies: Government, BDL, banks)
- Revoke BDL's decision requiring the repayment of corporate loans in the currency agreed upon in the loan contract (Implementing bodies: BDL)
- Enact regulation to allow salary cut without penalizing employers. The existing procedure conducted through the Ministry of Labor is inefficient and time-consuming (Implementing bodies: MoL, Parliament, labor unions, business associations)
- Exempt businesses temporarily from fees and taxes because they are already suffering losses and cannot carry additional burdens until such time that an overall government economic plan is approved and implementation has gone beyond its initial phases (Implementing bodies: Council of Ministers, MoF, Parliament)
- Settle legal issues with furloughed employees amicably (Implementing bodies: MoL, Parliament, labor unions, business associations)
- Combat smuggling, especially of commodities that are being subsidized at the expense of BDL's foreign reserves, as well as other products that constitute unfair competition to legal imports and local industries (Implementing bodies: Customs, security forces)
- Reschedule the loans of defaulting businesses over a longer period of time at low interest rates or even at zero-interest (Implementing bodies: BDL, banks)
- Reschedule due taxes owed to the Ministry of Finance as well as contributions to the National Social Security Fund (NSSF) (Implementing bodies: MoF, NSSF)
- Prepare and start implementing a master plan for the reconstruction of the part of Beirut that was damaged by the Port Explosion (Implementing bodies: General Directorate of Urban Planning, Council of Ministers, Parliament)
- Set up a road map to revive the productive sectors in partnership with the business community (Implementing bodies: Council of Ministers, ministries, business associations, Parliament)

MEDIUM AND LONG TERM measures

- Ease out of the three exchange rates (two official rates: LL1,515 and LL3,900, and the black market rate around LL7,500), to reach a managed currency float, in order to allow businesses to plan and price their products and services. Once the country has one exchange rate, allow it to float and thus reflect market dynamics. Sudden and sharp fluctuations could be mitigated through BDL's interventions (Implementing bodies: BDL, Council of Ministers, Parliament)
- Provide low interest rates and soft loans to businesses to enable them to resume their operation near full capacity (Implementing bodies: BDL, banks)
- Use the relevant recommendations of the McKinsey report to create actionable measures (Implementing bodies: Council of Ministers, Parliament, BDL, various ministries)
- Speed up the implementation of required reforms in order to unlock the funds pledged for infrastructure projects at the CEDRE conference. Launching the infrastructure projects will provide jobs and bring 'fresh money' (Implementing bodies: Council of Ministers, BDL, Parliament, various ministries)
- Enact the draft competition law, including reforms to exclusive agencies and draft and approve the related executive regulations (Implementing body: Parliament)
- Establish a well-functioning competition commission (Implementing body: MoET)
- Enact the long overdue secured transactions draft law and draft and approve its executive regulations (Implementing body: Parliament)
- Following approval of the secured transactions law, establish and implement an effective electronic movable assets registry. Begin raising awareness and developing the capacity of public and private stakeholders (Implementing bodies: Parliament, Council of Ministers)
- Enact the long overdue insolvency and insolvency practitioners' law then draft and approve the executive regulations for both laws (Implementing body: Parliament)
- Support key value chains at firm and industry levels including undertaking value chain assessments, which will identify the technical interventions required to strengthen affected sectors (WBG, UNIDO)
- Develop training curricula for insolvency practitioners and for judges, start building the capacity of judges on the new insolvency regime, and raise awareness with main stakeholders (Implementing bodies: MoJ, LU)
- Improve the country's rating in the 'Ease of Doing Business' to create a business-friendly environment and attract badly-needed new investments



- Establish and implement a solid governance and management structure for business environment reform. This structure should include an inter-ministerial reform committee, and corresponding technical working groups, with strong private sector participation (Implementing body: Chambers of Commerce, MoET, PCM)
- Speed up e-government projects to reduce corruption, administrative cost, and improve speed and accuracy especially that the Covid-19 pandemic could act as a trigger to kick start the process (Implementing bodies: Council of Ministers, OMSAR, various ministries)
- Adopt basic regulatory enablers for Digital Financial Services (DFS), including e-signature implementation (Implementing bodies: BDL, Parliament)
- Give priority to local contractors and businesses when public sector projects are awarded. Awarding such projects to foreign companies leads to an increase in overseas transfers of foreign currencies (Implementing bodies: MPWT, other ministries and public sector entities)
- Develop a long-term fiscal policy to ensure a stable prospect of public finance (Implementing bodies: Council of Ministers, Parliament, MoF)
- Create private-public partnerships in the telecommunications, power generation, transportation, and other sectors to improve the productivity and the efficiency of these vital sectors which are often mismanaged by the State (Implementing bodies: Council of Ministers, Parliament)

Labor

DIAGNOSIS

The economic crisis, the collapse of the lira, the Covid-19 pandemic, and the Port Explosion, are taking their toll on the labor force. Some distressed companies are resorting to salary cuts or layoffs. The unemployment rate has reached 30 percent amid rampant hyperinflation. This is leading to severe weakening of purchasing power of the workforce and the proliferation of poverty. The headcount poverty rate is expected to have doubled to 55 percent in May 2020 compared with the previous year. Nearly half of the population could be at risk of failing to access basic food needs by the end of the current year. The pandemic lockdown has forced a number of companies to adopt working from home arrangements. Many foreign workers are seeking to leave the country as their employers can no longer afford to pay them in foreign currency. A number of them have already left. The lack of opportunities in the local market has driven local labor, mostly skilled, to seek jobs abroad. The chronic brain drain is expected to grow. The labor market continues to be characterized by a sizable informal sector, a qualification mismatch between job requirements and education levels, and a lower participation of women in the workforce. Around 35 percent of the employed population work in the informal sector, nearly 58 percent of these people don't benefit from social security coverage by their employers, according to a study for 2018-2019 by the Central Administration of Statistics (CAS). There is a qualification mismatch between the education level of young people and the requirements of their jobs with 32 percent considered overeducated for their jobs and 21 percent considered undereducated. The rate of participation of working-age women in the labor force (29 percent) continues to be lower than the average for both sexes (50 percent).

APPLIED measures

- In a bid to abolish the sponsorship system (Kafala), the Ministry of Labor has approved a new employment contract giving foreign domestic workers the right to resign from their jobs and to keep hold of their own passport

URGENT measures requested

- Take into consideration the currency devaluation when paying end-of-service indemnities and apply an exchange rate that preserves the value of these indemnities (Implementing bodies: Ministry of Labor (MoL), National Social Security Fund (NSSF), Central Bank)

30% — **Unemployment rate**

130,000 — **Lost jobs in 2020**

550,000 — **Lost jobs since the beginning of 2019** due to the economic crisis, protests, and Covid-19 pandemic

Total labor force 1.8 million. Based on three surveys carried out by InfoPro in November 2019, January 2020, and June 2020 on the impact of the crises on jobs and business performance. It does not measure the additional impact of the Port Explosion.

Source: InfoPro Research

SHORT TERM
measures requested

- Clarify the application of the labor law in times of economic crisis such as when a layoff is considered an arbitrary dismissal (Implementing body: MoL)
- Implement MoL's decree that exempts employers hiring first-time job entrants from NSSF dues
- Review the national minimum wage to adjust it for hyperinflation which has wiped out the purchasing power of workers (Implementing bodies: Council of Ministers, MoL, Private Sector leadership, labor unions)
- Appoint new members of the board of NSSF which is currently vacant (Implementing bodies: MoL, Council of Ministers)
- Government to pay dues in arrears to NSSF (Implementing body: Ministry of Finance)
- Expand the reach of the National Employment Office (NEO) (Implementing bodies: NEO in collaboration with universities, vocational and technical colleges, municipalities, and NGOs that help jobseekers find work)
- Create emergency subsidies for wage earners to protect jobs and to encourage employers to retain workers (Implementing bodies: MoL, MoF)
- Introduce an emergency income support program to vulnerable uninsured employees as more than half of total employment is informal (Implementing bodies: Council of Ministers, MoF, MoL)

LONG TERM
measures requested

- Develop a National Employment Policy for recovery to address employment and labor market challenges. It must include policy actions to address the repercussions of the multiple crises and longstanding structural employment challenges (Implementing body: MoL)
- Modernize the labor law (Implementing body: Parliament)
- Ratify 'Freedom of Association and Protection of the Right to Organize Convention (1948) No 87', issued by the International Labour Organization. Public employees still do not have the right to establish or join labor unions or go on strike (Implementing body: Parliament)
- Empower NEO with the necessary human and technical resources to enable it to conduct research about the labor market and create a better fit between labor supply and job offers (Implementing bodies: MoL, NEO)
- Finalize reforms of public sector pensions to reduce inequities across social insurance schemes and enhance long-term sustainability (Implementing bodies: Council of Ministers, MoL, NSSF)
- Approve the 'Retirement and Social Protection' law (Implementing body: Parliament)
- Amend the NSSF law to include new segments of society who do not enjoy social security coverage such as small employers and freelancers (Implementing body: Parliament)
- Develop a plan to ensure financial sustainability of the NSSF (Implementing bodies: Council of Ministers, MoL, NSSF)
- Expand the adequacy and comprehensiveness of social insurance benefits of the NSSF: end-of-service reform and introduction of unemployment insurance (Implementing bodies: Council of Ministers, MoL, NSSF)
- Reform NSSF governance (Implementing bodies: FCCIA, GCLU, MoL, NSSF)
- Update vocational and technical education curricula in order to better meet the needs of the job market (Implementing bodies: MEHE, DGVTE)
- Increase the personnel and number of judges at labor arbitration councils to speed up conflict resolution (Implementing body: MoL)
- Set up an unemployment insurance system to provide temporary support to workers registered in the National Social Security Fund (NSSF) (Implementing bodies: Parliament, Council of Ministers, MoL, NSSF)
- Prioritize social issues and the labor market when entering into foreign assistance agreements. Study the potential impact of these agreements on the labor force (Implementing bodies: Parliament, Council of Ministers, MoL)

International trade

DIAGNOSIS

Imports plummeted by 49 percent year-on-year to $5.2 billion in the first half of 2020 driven by weak demand, currency depreciation, and capital controls. The sharp decrease in imports was mirrored by a narrowing in the deficit in the balance of trade, and consequently in that of the Balance of Payments (54 percent to $2.5 billion). Despite the fall in the value of the lira, which should decrease the price of locally-made products, exports dropped by seven percent to $1.6 billion over the same period. Capital controls were preventing many industrialists from importing raw materials who were thus missing the new export opportunity. The trade deficit shrank by 57 percent year-on-year to $3.6 billion in the first half of 2020 as imports are much more sizable than exports and because their decline was much larger. The Port Explosion has disrupted the already weakening international trade. The main trading activity (around 80 percent of the overall cargo movement) is carried out through the container terminal which was somehow spared as it is located nearly one kilometer away from the blast epicenter. The Port of Tripoli took over part of shipments mainly groupage consignments. The country still has potential to compete on global markets. It enjoys a competitive advantage in some products such as foodstuff. It has also become price competitive in products with high value added due to the collapse of the lira. Lebanon could also benefit from its proximity to large markets such as the European Union, Turkey, and Egypt.

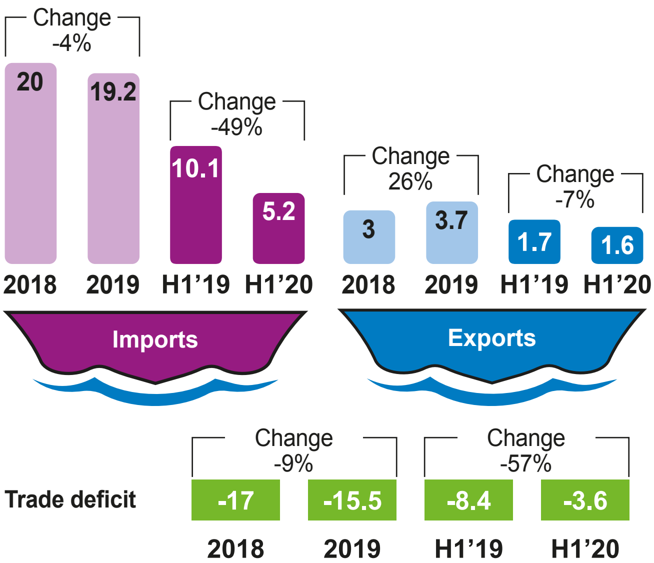
APPLIED measures

- Jordan has re-opened the Jaber border crossing with Syria for trade. The crossing, which was closed in August 2020 due to the Covid-19 pandemic, is used by Lebanese refrigerated trucks carrying agricultural products mainly in transit to Iraq and GCC countries like Saudi Arabia and Kuwait.

URGENT measures requested

- Resolve the imposition by Syria of transit fees (Implementing bodies: MoET, MoA, MoFAE)

Trade (USD billion)



Source: Customs

SHORT TERM measures requested

- Apply reciprocity in trade, especially the abolition of non-tariff barriers. Many Arab countries support their industrial sector by subsidizing energy and industrial land. Syria imposes non-Customs fees of ten to 15 percent on imported goods. Some European countries impose barriers on certain Lebanese products, such as dairy and medicine although they meet international standards (Implementing bodies: MoET, MoFAE)
- Turn the devaluation of the lira into an opportunity for boosting exports by providing more support to exporters and easing export procedures (Implementing bodies: MoET, Customs, MoFAE)
- Improve the quality of exports by enforcing compliance of exporting businesses with international standards. Provide financial and technical support to exporters needing to improve their quality standards (Implementing body: MoET)

LONG TERM measures requested

- Review and update agreements with major trading partners, especially the EuroMed agreement and the Greater Arab Free Trade Agreement – GAFTA (Implementing bodies: MoET, Council of Ministers, Parliament)
- Establish an export authority modeled on the Italian Trade Agency (ITA) which has trade commissions across the world. The export authority will include an export promotion program that goes beyond what the Investment Development Authority (IDAL) is currently providing (Implementing bodies: Parliament, Council of Ministers)
- Move IDAL's Export Plus program to the export authority once it is established (Implementing body: Council of Ministers)
- Empower economic attachés at Lebanese embassies and increase diplomatic efforts to boost exports (Implementing body: MoFAE)

Syrian refugees

A common myth – believed by most stakeholders in politics and business – is that the Syrian refugees have had a major negative impact on Lebanon's finances and economy. This is false.

The Syrian crisis has had a negative impact, such as decline in tourism from Arab Gulf countries and the ensuing sales of luxury products and services, the closure of export routes to Iraq and Arab Gulf countries, depressed demand for medium and high-end real residential estate, and increased scrutiny on financial institutions and transactions.

On the other hand, hosting the refugees has resulted in a net financial gain. The number of refugees has always been grossly exaggerated by international organizations, the Lebanese government, political parties and business leaders, each to advance its particular agenda. The real numbers are at most half of what has been advanced. That is still a huge number for a small country like Lebanon. However, rhetoric and political posturing, or xenophobia and economic shortsightedness, should not steer our national policy.

The total direct cost of Syrian refugees during 2011-2017 was $6.4 billion. This includes the direct cost and depreciation in infrastructure, utilities, healthcare, and education.

The aid received totaled $6.1 billion during the same period. The aid received took the form of cash as well in-kind. Besides being equivalent to the cost, it has a multiplier effect of 1.6 – which means that for each dollar received, $1.6 dollars in economic added value is generated. Syrian refugees have contributed to GDP growth and have attracted hard currency.

In the misguided narrative, Syrian refugees are portrayed as creating competition for workers and employees, as well as to some trades. While there are many instances where this is true, the overall picture is the opposite. The business generated by Syrian refugees has been fulfilled mostly by existing businesses. Only a small portion has been filled by newly established, Syrian-owned trade. The availability of Syrian workers and employees, at wages below market rate, has been a boost to many businesses in hospitality, manufacturing, and agriculture.

A large proportion of these workers are not replacements for Lebanese workers – as the local labor force does not provide enough low-skilled laborers, or workers with specific skills (construction, carpentry, plumbing, etc.). The availability of these workers has strengthened the competitiveness of many businesses which helps in when their goods are exported, and provides the domestic market with lower priced goods and services. The availability of Syrian workers has created (or saved) many (supervisory or support) jobs in the companies they are employed by, or at their suppliers. These jobs are traditionally held by Lebanese, and largely remain so. The additional Syrian labor force is largely an underutilized resource. It can be transformed into a win-win situation. The international community is eager for us to integrate Syrian refugees into our labor force, and our official response has been a very abrupt pushback. The alternative is to devise a comprehensive plan that will result in preserving and increasing jobs for the Lebanese (and their salary levels) by expanding existing businesses through a refugee-employment scheme.

On the political end, efforts to repatriate Syrian refugees should be stopped, because such a plan is contingent on the conditions in Syria and on its various political and military stakeholders. As a host country, there is very little we can do to influence that. On the other hand, our diplomacy should focus on increasing the amount of aid received from international donors. Government policy should consist on hosting more refugees in specially designated areas – in return for generous aid. A target of $1.5 billion per year should be set, which, if applied in productive sectors, would have a multiplier effect of 1.6, i.e. it can add at least $2.5 billion to our GDP (4.5 percent).

Short-term needs

- Weather proof the nonresidential or temporary structures in which 34 percent of Syrian refugees reside
- Initiate additional second shifts in schools (40 percent of Syrian refugee children are still out of school)
- Provide Syrian refugee children at risk of dropping out with in-school, after-school, and weekend remedial classes as well as counseling
- Continue providing Syrian refugee children with the assistance needed to cover their transportation needs to / from school and stationery / school equipment. The assistance provided should be more pervasive in nature
- Provide Syrian refugee households with solar water heating, replace existing high/low pressure sodium street lighting bulbs with energy saving bulbs, distribute energy-saving light bulbs which would reduce power consumption, and install solar powered water pumps
- Ensure the safety of drinking water at informal tented settlements by continuing to monitor the quality of water at source, at collection points, and in households

Long-term needs

- Facilitate the access of Syrian refugees to residency permits by extending the waiver of their legal residency renewal and overstay to individuals who do not fall within the waiver categories, currently this only includes displaced Syrians registered with UNHCR before January 2015 and who had not renewed their residency previously based on tourism, sponsorship, property ownership or tenancy in 2015 or 2016
- Facilitate the Syrian refugee's access to birth registration and other civil documentation requirements by lowering costs and raising awareness
- Continue to receive assistance from donors, UN agencies, and Civil Society Organizations
- Increase employment opportunities for Syrian refugees by extending the number of sectors that Syrians can gain employment in without impacting Lebanese nationals / or specifying the types of occupations that they can hold, taking into account that they usually occupy unskilled or semi-skilled occupations, promote vocational education, and build their capacities by providing them with internship opportunities in the private sector (this can be done in a way whereby for every Syrian there needs to be a Lebanese offered the same opportunity)
- Provide Syrian refugees with health coverage for chronic diseases, catastrophic illnesses, renal failure, and cancer, which are currently not covered by UNHCR by creating a specialized fund.

Branding

The reputation of the country as a whole, as well as some of its specific components, are important for the economy. Perception plays an important role in attracting domestic and foreign investments, boosting tourism, increasing exports, and building national confidence. The following initiatives are proposed, some of which are already in existence but need to be expanded upon, and others need to be launched.

- **Made In Lebanon**
  An initiative by the Association of Industrialists with public support, the campaign highlights the quality of Lebanese products. It aims at informing the domestic consumer of the availability and quality of locally produced goods, and should be expanded to include the promotion of Lebanese goods abroad, by participating in international fairs, organizing client-supplier matching, and highlighting success stories
- **Visit Lebanon + MICE**
  Promotion of Lebanon as a tourist and business meeting destination should be expanded, especially in new markets that have the potential to attract visitors whose profile matches what the country has to offer, including luxury tourism, archeology, ecotourism, hiking, gastronomy, medical tourism, small to medium-size conferences and exhibitions, and other areas. Target countries include Eastern Europe, Central Asia, Russia, China, South East Asia, North Africa, and Europe
- **Banking system**
  In the wake of the damage done to the banking system's image, as soon as matters return to normal, the banking system needs to undertake a campaign to gradually regain some of its lost luster
- **Invest in Lebanon**
  In spite the terrible setbacks to its economy, Lebanon still retains most of its competitive advantages, including its geographic position, the availability of human resources and logistics, a free market and banking system, and opportunities to serve the needs of its local and neighboring populations. Investment in Lebanon needs to be pitched after the implementation of the revival plan. Incentives (see below) for investment will need to be highlighted
- **Government performance**
  As the government becomes streamlined and reformed, a campaign to regain citizen trust must be launched. It should be based on real achievements and successes rather than on intended actions.

Investment incentives

There are already a number of incentive programs offered to investors by the public sector, the Central Bank, and private sector initiatives. These programs need be streamlined, eliminating anything that did not realize noticeable achievements, and those that led to successes should be expanded. New initiatives will also need to be launched.

- **Investment Development Authority of Lebanon (IDAL)**
  This public authority governed by an independent board of directors already provides a number of tax incentives, foreign labor facilities, a one-stop-shop for licensing, and promotional activities. IDAL's role should be expanded to empower its one-stop-shop, expand the sectors it covers, and it should be given a mandate to negotiate with large foreign companies to establish a footprint in the country

Entrepreneurship programs

The Central Bank established Circular 331 to foster startups. There are a number of incubators and programs such as Berytech, South Bic, BIAT, Smart Esa, UK Tech Hub, Altcity, Flat6Labs, IM Capital, Speed, and others that are run by universities, chambers of commerce, NGOs, and other entities. Together they have successfully created an ecosystem for entrepreneurship and have financed dozens of startups. These programs need to be reinvigorated and provided with additional resources, especially in scale-up, access to foreign markets, knowhow, and general business advice

Up-scaling medium companies

The private sector is composed mostly of small companies with a limited number of medium-sized companies. Even the largest companies are considered small by international standards. There is a pressing need to allow medium-sized companies to grow to a large scale. In ranking companies by employees, the 100th largest company has 500 employees and the 1,000th has 70 employees. The lack of large companies in Lebanon has deprived its economy from a necessary pillar to complement the other pillars such as startups, small companies, and the public sector. Large companies lead to a much higher positive economic impact than small companies in the following areas:

- Job creation
- Training and skill development
- Expanding the tax base
- Export of products and services
- Foreign Direct Investments (FDI)
- Technology transfer
- Career development
- Development of financial markets and instruments
- CSR
- Corporate governance
- Collaboration with higher education institutions

Most companies (in Lebanon and around the world) reach a plateau in terms of size and find difficulty in moving to a higher stage. In Lebanon the barriers include:

- The small market
- Family company structure
- Constraining regulations
- A lack of leadership skills
- Poor financial structure and balance sheets
- Lack of access to equity finance, which is scarce
- Unprepared for and hostile to third party investment
- However, there are a number of elements that are favorable to up-scaling medium-size companies: Dozens of companies in manufacturing, trade, professional services, IT services, transportation, hospitality, and other sectors are at a maturity level that allow them to grow exponentially given the right direction
- 21 percent of companies surveyed (from a sample of 350 leading companies in Lebanon) are interested in finding new investors
- Favorable tax environment
- Favorable workforce availability

Proposal

We propose a company up-scaling program that would lead to the development of medium-scale companies into large ones. The program will assist companies in overcoming the various elements hampering their development. This includes helping them revise their vision and mission and translating it into a comprehensive business plan, identifying their areas of strength and weakness, and facilitating their access to the resources needed for development. We envisage a program similar in nature to an incubator for larger companies.

Monitoring and support from the international community

No revival plan will be able to gain the confidence of the public or the international community if its implementation is left without international oversight. It is in the public interest to have a support and monitoring unit that assists in defining key performance indicators, sets deadlines, helps in removing obstacles, participates in drafting financing proposals, identifies donors and uses a network of contacts, and validates results and achievements.

The CEDRE conference has already established a steering and monitoring committee to follow-up on the implementation of reforms and projects. The committee includes a minister-level French official. A committee, formed along the same lines, should be established, with offices in Lebanon, staffed by international officers, and funded by a grant from the donors.

The committee will not infringe on the nation's sovereignty as it will not take part in governmental decision making. It will, however, flag violations and non-transparent contracting and implementation, and issue progress reports.

There are precedents for this, most notoriously in Greece – which generated a lot of friction between the committee and the government. The priorities of the committee prevailed, and now Greece is out of the woods.

Hospitality and tourism

DIAGNOSIS

The tourism sector has strong potential for immediate rebound and growth but suffers from a number of weaknesses that include a lack of a brand image for the country and weak collaboration among stakeholders in the sector in addition to the fact that the hospitality sector mainly targets the luxury segment of tourists. The last decade has witnessed a decrease in the number of GCC tourists due to the ban on travel to Lebanon by most GCC countries for security and political reasons. This has affected the contribution of the tourism sector to GDP. Some of the tourist businesses, including hotels, have closed down, while others had to lay off a large number of their workforce. Many travel agencies are struggling to settle their debts to foreign airlines. The number of inbound passengers has plummeted and occupancy rate at hotels are near zero. The direct damages of the hospitality sector from the Port Explosion are estimated at $170 million to $205 million while the sector's economic losses range from $190 million to $235 million. The estimated funding required by the sector is $170 million to $210 million. Landmark hotels like Phoenicia, Four Seasons, Hilton, Monroe, and Le Gray are damaged and closed.

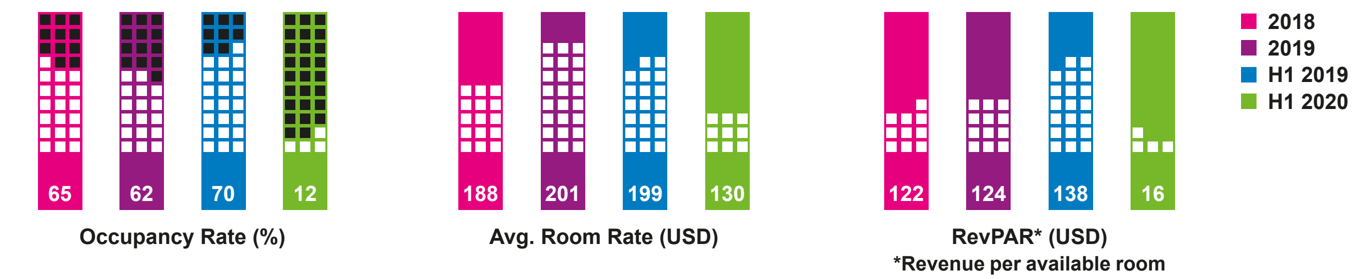
APPLIED
measures

- The Ministry of Tourism (MoT) has allowed restaurants and tourist institutions to amend their pricing lists in order to maintain their profit margins

URGENT
measures requested

- Approve the tourism plan which was submitted to the Council of Ministers by the Ministry of Tourism. It offers tourism businesses tax and fee exemptions and calls for loan rescheduling (Implementing body: Council of Ministers)

Beirut hotel occupancy



Source: Ernst & Young

SHORT TERM
measures requested

- Digitize paperwork at the MoT to ensure fast and transparent processing of formalities (Implementing bodies: MoT, OMSAR)
- Streamline the investment license procedure for restaurants at the MoT (Implementing body: MoT)
- Standardize the process of health inspection for restaurants, and enforce it on all outlets (Implementing bodies: MoPH, MoT)
- Remove additional fees imposed on car rental businesses including the LL100,000 fee per rental (Implementing body: MoF)
- Extend the maximum permissible age of a car at car rental agencies from three to five years (Implementing body: MoT)
- Enforce the licensing of informal car rental agencies and travel agencies (Implementing body: MoT)
- Require travel agencies to prepay charter flights (Implementing body: DGCA)
- Expand the number of nationalities exempt from tourist visas (Implementing body: MoFAE)
- Support and assess tourism value chains to identify the technical interventions required to strengthen the sector and to reposition the area as an attractive destination for visitors and tourists (Implementing body: Ministry of Tourism)

LONG TERM
measures requested

- Establish and fund a Board of Tourism. The board's membership will come from the private sector with some from the public sector. The board would eventually replace the Ministry of Tourism
- Improve information dissemination about tourist attractions through the mass media, the Internet, social media, and physical outlets (Implementing body: MoT)
- Expedite the airport expansion project (Implementing body: MPWT)
- Control the prices and quality of services at the airport, in order to improve the arrival and departure experience (Implementing bodies: Ministry of Economy and Trade, MPWT)
- Enforce the regulations that organize the taxi activity at the airport (Implementing body: MPWT)
- Implement an official hotel classification system (Implementing body: MoT)
- Create new vocational programs that provide work-based learning for hospitality students (Implementing body: DGVTE)
- Intensify training on food safety and quality control for restaurateurs. (Implementing bodies: Chambers of Commerce, SORCNP)
- Organize events that promote the Lebanese gastronomy all over the world (Implementing bodies: MoT, MoFAE)
- Amend the new Traffic Law to fine drivers who violate the law instead of fining the car rental agency (Implementing body: Parliament)
- Update the law 4216/1972 which regulate travel agencies by adding new types of tourist activities: rural tourism, ecotourism, wine and gastronomy tourism, conference tourism, religious tourism, and medical tourism. Promote the country as a destination for these touristic specialties (Implementing body: Parliament)
- Require travel agencies to become accredited by the International Air Transport Association (IATA) (Implementing body: DGCA)
- Appoint a committee with the participation of the Ministry of Tourism and the Ministry Public Works and Transport to oversee the relationship between travel agencies, airlines, and Global Distribution Systems (GDSs).

Manufacturing

DIAGNOSIS

The industrial sector, which is employing a workforce of 195,000, suffers from low competitiveness due to an unfavorable business environment and the lack of government support exemplified in the absence of an adequate industrial development policy. Additional challenges arose with outbreak of the war in Syria in 2011 making export by land more costly and arduous. Most industrialists have resolved the problem by resorting to sea shipping. The collapse of the lira has reduced the production cost of industries with high local value added but many manufacturers cannot benefit from this opportunity because capital controls and the restrictions on transfers abroad have made importing raw materials a difficult task. Before the decline in value of the national currency, the sector was suffering from a high cost of factors of production. To ease the capital controls, BDL gave manufacturers access to $100 million per year in funding for imports. This amount covers only two weeks-worth of raw material imports. The Port’s explosion has caused direct damages worth $16 million to 211 factories in Beirut and Bourj Hammoud. These factories, which employ a workforce of nearly 5,000 people, include two factories completely damaged and 209 partially damaged.

APPLIED measures

- BDL has freed $100 million of the manufacturers’ own foreign currency funds deposited at the banking sector to finance imports of raw materials. An industrialist can benefit from facilities of up to $500,000 or its equivalent in other foreign currencies
- ‘Cedar Oxygen Fund’, a Europe-based platform with a mix of fintech and credit facilities has been established. The fund will raise $750 million and will set up sustainable and scalable lending program of $3 billion per year to help small and medium sized industrialists finance raw material imports
- Banks have agreed to reschedule loans owed by industrialists and maturing starting from March 2020 over six months when needed. The rescheduling was set at two years to five years depending on each customer’s ability to repay
- The banks have agreed to refrain from all legal action against industrialists in default until the end of 2020

URGENT measures requested

- Extend administrative deadlines for factories to rectify their environmental violations. This will allow industrialists to secure the required funding (Implementing body: Ministry of the Environment)

SHORT TERM
measures requested

- Promote the ‘Buy Lebanese’ campaign through a joint effort between the Ministry of Industry and the Association of Industrialists
- Improve the State’s preferential procurement requirements for locally manufactured products (Implementing body: Council of Ministers)
- Conduct a study of the output and added value of the industrial sector. The study will identify export markets with growth potential. For instance, China and Japan could be explored as promising markets for olive oil. (Implementing bodies: IDAL, MoET, MoI)

LONG TERM
measures requested

- Create incentives to high-potential industries such as food processing that depend on local agricultural output and industries requiring skilled labor such as pharmaceuticals, in addition to industries that depend on high-end creative design and fashion and marketing skills such as jewelry, perfumes, and cosmetics, as well as soaps, and sanitation products. The incentives could include providing a 50 percent reduction for three years on the NSSF fees for university graduates under the age of 25 who are employed for the first time in the industrial sector (or these subsectors in particular) starting from 2021. Another incentive is to offer tax breaks on profit for a specific number of years for new investments in these subsectors (Implementing bodies: Council of Ministers, MoF, MoI, MoL)
- Establish an export credit guarantee corporation
- Build additional industrial zones and accelerate the development of industrial zones in Tripoli, Baalbek, Terbol, and El Qaa. El Qaa could focus on the construction material industry due to its proximity to the Syrian market in order to benefit from reconstruction projects in Syria and also in Iraq (Implementing body: MoI)
- Set up a dry port at an international highway crossing near Chtaura. The CMA CGM dry port project in Taanayel is a good example (Implementing body: MPWT)
- Revive programs that help industrialists obtain quality certifications and access international markets (Implementing body: MoET)
- Upgrade the criteria applied by the Lebanese Standards Institution (LIBNOR) for accepting imported products (Implementing bodies: MoET)
- Support food-processing cooperatives and small food producers to upgrade their standards and thus be able to sell their products to restaurants and hotels (Implementing bodies: MoET)

INDUSTRIAL EXPORTS (USD MILLION)

Industrial exports	2018	2019	H1 2019	H1 2020
Animal products	7	6	3	2
Vegetable products	52	51	25	26
Fats and edible fats and oils	56	60	32	23
Prepared foodstuffs and tobacco	398	390	210	192
Mineral products	11	25	22	5
Chemical products	471	475	227	167
Plastics and rubber	187	159	87	50
Raw hides and skins, leather, furskins	11	13	7	6
Wood products	8	13	6	4
Paper and paperboard	140	144	65	42
Textiles	52	49	24	20
Footwear, headgear, prepared feather	9	10	5	5
Stone, plaster, cement, glass and glassware products	24	19	9	9
Base metals	394	310	175	142
Machinery and electrical equipment	449	492	258	200
Transport equipment	24	28	14	20
Optical, measuring, medical, and musical instruments, clocks and watches	17	15	6	6
Other	86	89	40	38
Total	**4,412**	**4,367**	**1,215**	**956**

Excluding jewelry and works of pearls, precious or semi-precious stones, precious metals

Agriculture

DIAGNOSIS

The agricultural sector contributes three percent to GDP. It suffers from structural constraints such as small landholdings, domination of wholesale distributors, and an ineffective cooperative system. The sector is also characterized by low productivity, partial modernization, scarce research services, poor safety and quality control of food products, and overuse of fertilizers and pesticides. The agricultural sector also lacks adequate government support and access to financing. Diesel distributors are rationing deliveries to farmers. The scarcity of diesel is forcing farmers to buy it at above the official price. This is affecting irrigation capacity and consequently the quantity and quality of crops. Export of agricultural products in refrigerated containers by land is costly (fees imposed in Syria) and facing many hurdles at the border crossings (Jordan). Despite the fact that the lira began its decline trajectory in the second half of 2019, agricultural exports dropped by four percent to $198 million last year.

APPLIED measures

- The Ministry of Agriculture has started to publish the weekly wholesale price list for vegetables, fruits, and meat. The aim is to protect consumers from monopolistic practices
- The Ministry of Economy and Trade has included animal feeds and agricultural supplies such as fertilizers and pesticides in the subsidized basket of consumer goods and agricultural and industrial raw materials. BDL is providing dollar funding to importers of these products at the rate of LL3,900
- The Ministry of Agriculture and Ministry of Economy and Trade have set ceiling prices for three months for poultry products and meat
- The Syrian government has removed fees on Lebanese trucks entering Syria as a final destination
- MENA Food Safety Associates (MEFOSA) has launched an investment fund with a targeted capital of $20 million. The fund will invest in agribusiness such as dairy production and canned food as well as in auxiliary sectors such as cold storage warehouses, farms, and food-packing houses
- Berytech has launched its ACT Smart Innovation Hub to provide incubation and acceleration programs for startups in the agri-food and other sectors. Under the 36-month program each startup could gradually receive grants of up to $40,000 from the Dutch government as initial financing to help it kick-start its operations

URGENT measures requested

- Exempt artesian wells from water fees (Implementing bodies: MoF, MoA)

Agricultural trade (USD million)

	2018	2019	H1 2019	H1 2020
Exports	206	198	87	118
Imports	2,005	1,773	993	733

Source: Customs

SHORT TERM
measures requested

- Support a transition from low-return traditional crops towards higher-value crops such as kale, little gem lettuce, blueberry, raspberry, shiso herb, passion fruit, seedless grapes, and jujube. This could be achieved by providing incentives, information, consultancy, training, and seeds and saplings of the new varieties to farmers (Implementing bodies: MoA, MoF, LARI)
- Amend the implementation mechanisms of the Forest Code of 1949 pertaining to the use of grazing land and managing the movement of cattle in forests. The aim is to improve the management of grazing land, preserve biological diversity, and reduce forest fires (Implementing bodies: Council of Ministers, Parliament, MoA)
- Promote smart farming and provide required training to ensure consistency in the quality and quantity of production (Implementing bodies: MoA)
- Promote the development of cold storage, packaging and other post-harvest facilities by providing incentives and support to encourage investment in the expansion of existing facilities or the creation of new ones. The incentives and support could include tax breaks, soft loans, technical support, and improving the infrastructure. (Implementing bodies: MoI, MoF)
- Negotiate with countries of transit trade by land (mainly Syria) to lower transit fees to facilitate exports to Jordanian, Iraqi, and Gulf markets (Implementing bodies: MoET, MoFAE, MPWT)
- Apply stricter technical conditions and standards for agricultural imports (Implementing bodies: MoA, MoET)
- Monitor the quality of seeds, pesticides, and veterinary drugs, and combat the smuggling of these products to increase the quality of crops which have to comply with strict international standards when exported (MoA, Customs)
- Establish a 'Disaster Fund' to compensate farmers who suffer losses from natural disasters. (Implementing bodies: MoA, farmers associations)
- Provide social security coverage to small farmers (Implementing bodies: MoA, MoL, NSSF)
- Promote modern technologies to boost yield and quality of agricultural produce by providing soft loans or equity financing for the acquisition of new technologies and supporting research facilities (Implementing bodies: MoA, LARI, universities)

LONG TERM
measures requested

- Set a strategy for the agriculture sector which will classify agricultural land into zones according to climate and type of soil. Base the strategy on studies that identify optimal crops for each zone (Implementing bodies: MoA)
- Build new roads in remote agricultural areas (Implementing bodies: MPWT)
- Encourage farmers to register at the chambers of commerce, industry and agriculture to enable them to profit from the benefits that membership offers (Implementing body: FCCIA)
- Set packaging standards, including labeling and product identification, and enforce compliance (Implementing bodies: MoA, MoET)
- Intensify reforestation efforts to increase precipitation quantities, slow down surface flow of rainwater, and improve infiltration of water into the soil (Implementing bodies: MoA)
- Enforce the rental law of agricultural land and set its implementing decrees (Implementing bodies: Parliament)
- Secure technical support and knowhow from countries with developed agricultural sector and similar agricultural conditions such as climate and soil (Implementing bodies: MoA, LARI, universities, business development centers)
- Upgrade the curricula of agricultural studies (Implementing bodies: DGVTE, MoA)
- Use the findings of value chain analysis studies undertaken by UNDP, USAID, and UNIDO in order to improve efficiency, boost revenues, cut costs, and provide more job opportunities in the agriculture sector. This could be achieved by educating and training farmers (Implementing bodies: MoA, LARI)

Information technology

DIAGNOSIS

Information and communications technology (ICT), which contributed $1.1 billion (two percent) to GDP in 2019, is one of the promising sectors with a high-growth potential. Providers of education technology (EdTech) and e-commerce services, especially grocery, are witnessing a growth in sales driven by rising demand for online education and online shopping. Some ICT businesses providing IT outsourcing services to international clients are also witnessing growing sales. Despite the strategic importance of the ICT sector, the government has not yet created a business environment and legal framework that are sufficiently conducive to boosting the sector. Most of the related laws are outdated and unable to keep pace with rapid developments. Notwithstanding some improvements, local Internet connection remains one of the slowest and most expensive in peer countries. Around 70 percent of IT companies located in areas affected by the Port's explosion have suffered damages of varying degrees. The blast has severely damaged the Beirut Digital District which houses many IT startups.

APPLIED measures

- The Central Bank (BDL) has issued a circular that allows real-time online transfers between customers in two different banks. Payment cards and bank accounts could be used to perform the transfer operations. Each customer can send up to LL500,000 ($330 according to the official exchange rate) per day in lira transfers and LL5 million ($3,300) per month. Transfers in foreign currencies are not allowed to exceed $300 per day and $3,000 per month
- Information and Technology Society in Lebanon, Lebanese Information Technology Syndicate (LITS), and Professional Computer Association of Lebanon (PCA) have set up a relief program to help IT companies affected by the Port's blast
- ESA Business School has launched a computer coding school 'ESA Coding Lab' to fill the gap in coding skills. It mainly targets young people holding Bachelor of Computer Science degrees or similar degrees. The courses are given with tuition deferred to when graduates start working

URGENT measures requested

- Set the implementing decrees for the electronic transaction law (Implementing body: Council of Ministers, MoJ, Parliament)

SHORT TERM
measures requested

- Create a national Computer Emergency Response Team (CERT) of computer security experts to face big cyberattacks and to act as an alarm system for early detection of attacks (Implementing bodies: OMSAR, Internet service providers, ministries, Special Investigation Commission)
- Modernize the laws to allow online payment gateways to operate outside the banking sector. Facilitating up-to-date electronic money transfers will reduce the cost of transfers and boost the e-commerce industry and economic activity at large (Implementing bodies: BDL, Parliament, fintech companies)
- Develop standard cyber insurance products and carry out the related actuarial studies. These products help businesses protect themselves against the risks of cyberattacks (Implementing body: Insurance companies)

LONG TERM
measures requested

- There is a need for more coordination at the legislative level between Parliament and the IT private sector, concerning laws which affect the sector. The Information and Technology Parliamentary Committee usually consults with IT companies regarding new legislation pertaining to the sector (Implementing body: Information and Technology Parliamentary Committee)
- Activate the e-government project by pushing the public sector to digitize its operations and accept digital payments (Implementing body: OMSAR)
- Focus on Tripoli Special Economic Zone (TSEZ) as a strategic location for IT projects because it offers attractive incentives. The submarine communications cable I-ME-WE (India-Middle East- Western Europe) is linked to Tripoli which enables IT projects housed in TSEZ to benefit from easier and faster access to international servers and the global network (Implementing bodies: Council of Ministers, MoET, Information and Technology Parliamentary Committee, business development centers, incubators, accelerators)
- Bolster teaching of computer coding in public schools at the elementary and intermediary levels (Implementing bodies: MEHE, CERD)
- Intensify joint applied research projects between large IT companies and universities (Implementing bodies: MEHE, universities, business development centers, incubators, accelerators)
- Earmark public funds for more research and development (R&D) in the IT sector. This could be achieved by allocating funds for that purpose to the Lebanese University and research centers. Private universities could also allocate resources for R&D in the field of IT (Implementing bodies: MEHE, MoF, Council of Ministers, Parliament, universities)

Telecom

DIAGNOSIS

The development of the telecom sector is at a standstill. The fiber optic project, which effectively started in October 2018 and was supposed to be completed in four years, will take more time as importing the required material has become more challenging due to the collapse of the lira and bank restrictions on transfers abroad. The project aims to connect nearly 1.2 million residential units to the grid. The restrictions on overseas transfers are also limiting the ability of telecom operators to import spare parts. The Port's explosion has affected the telecom network in the surrounding area. The premises of Touch, one of the two mobile operators, were severely damaged due to its proximity to the blast.

APPLIED measures

- The Council of Ministers has decided to manage the two mobile networks temporarily until two new operators are selected in a tender. The management of Mobile Interim Co. 1 (known under the brand name Alfa) has already been transferred to the Ministry of Telecommunications and the members of its board of directors have resigned and a new board has been formed. The transfer of the management of Mobile Interim Co. 2 (brand name: Touch) will be carried out very soon

URGENT measures requested

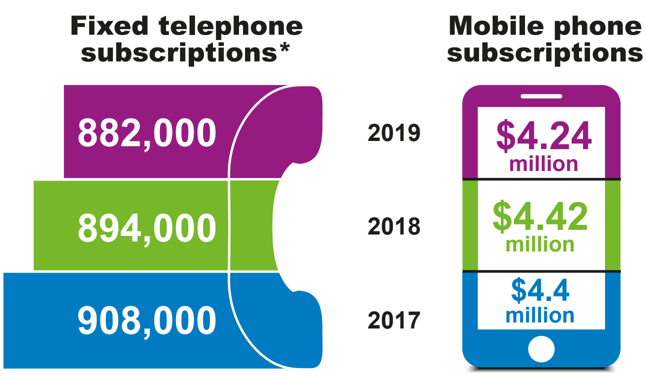
- Start the bidding process to name new operators of the two mobile networks. The Council of Ministers still has to approve the terms and conditions of the tender. The required audit of the accounts of Alfa and Touch must be accelerated (Implementing bodies: Council of Ministers, MoT)
- Pay the dues owed by the State to OGERO which exceed LL200 billion. OGERO is facing liquidity problems and risks becoming unable to pay suppliers of spare parts which have become scarce (Implementing body: MoF)
- Provide financing to mobile operators to pay for imports of spare parts. They continue to sell their services in lira at prices that were frozen by the government at their pre-crisis levels, straining their profitability (Implementing bodies: BDL, MoT)
- Ensure a continuous and reliable supply of diesel to telecom operators to avoid service interruption (Implementing bodies: MoEW, MoT)

SHORT TERM measures requested

- Activate the Telecommunications Regulatory Authority to enable it to perform its mandate of developing, liberalizing, and regulating the telecom sector. (Implementing body: MoT)
- Various public sector entities need to coordinate their activities. OGERO's work on the network is sometimes disrupted by projects carried out by some municipalities that start their work without prior coordination with OGERO (Implementing body: MoT)
- Accelerate the fiber optic project. Provide financing to contractors working on the project. This will enable them to pay for imports of the needed material to deploy the fiber optic network (Implementing bodies: BDL, MoT, OGERO)

LONG TERM measures requested

- Accelerate the creation of the National Data Center to develop a national cloud computing service (Implementing bodies: MoT, Private companies)
- Activate the Telecommunications Law (431/2002), which stipulates the creation of Liban Telecom. Convert OGERO into Liban Telecom by selling a stake in it to a strategic partner. Liban Telecom will be an integrated telecom operator providing both fixed and mobile telephone services, and will prevent duopolistic collusion between the two other mobile operators (Implementing bodies: MoT, Council of Ministers)
- Sell the mobile networks in auctions to large international telecom operators with solid experience. The liberalization of the sector could generate the same revenues for the State without exposing it to operating risks (Implementing body: Parliament)



Source: World Bank | *Rounded figures

Real estate

DIAGNOSIS

The real estate and construction sector is one the largest contributors to GDP (around 19 percent). The sector witnessed a boom in 2006-2010 and declined since. Over the years, the stock of vacant residential units mainly in the luxury segment grew significantly due to the dwindling demand from Arab and expatriates as well as uncertain economic and security environment after the start of the Syrian crisis. Demand for real estate properties started to rise again due to the controls imposed by the banks on money withdrawals and transfers and concerns about potential haircuts. Investors began to buy physical assets to preserve their wealth. Buyers are looking to free funds deposited in bank accounts through real estate purchases, while developers are seeing an opportunity to pay down their outstanding loans. The growth in the value of real estate sales is outpacing the growth in the numbers of transactions driven by the rise in property prices although at a slow pace. During the first half of 2020, the number of sales transactions increased by 24 percent while their value doubled compared with the same period of last year. When compared with the previous period (second half of 2019), sales transactions registered in the first half of 2020, remained basically the same in terms of number and rose 30 percent in terms of value. The developers' stock of properties available for sale is gradually being cleared opening the door for property owners to form part of the supply in the market. Settlement by check is no longer the dominant mode of payment. Cash payments in US dollars or through deposits abroad are more likely to be accepted by debt-free developers. The growth in sales has not yet triggered a revival in construction projects. Construction works are still limited to ongoing projects. The number of construction permits plunged 42 percent year-on-year in the first half of 2020. The Port's explosion has caused damages to the housing sector estimated by the World Bank at $1.9 billion to $2.3 billion adversely affecting nearly 351,000 residents. Much of the demand for housing derives from investment speculation, enabled by weak regulation and low property taxes. With little new supply, housing costs were already prohibitive for many households in the country, especially in Beirut, where population growth is highest. Interventions in housing by the government have mostly been limited to the demand side through subsidized mortgages, which have seen a sharp decline in the past decade. Government support to households is limited without a national housing policy or strong implementing agencies; there is weak enforcement of building regulations at the local level and a lack of affordable housing options.

APPLIED measures

- The government's 2020 budget has offered cuts on property recordation fees valid until September of the same year. The Ministry of Finance (MoF) allowed a reduction in registration fees from five to two percent for properties valued at below $250,000. This has encouraged the recordation of transactions concluded in previous years
- The Central Bank has reduced interest rates on subsidized housing loans as of March 2020. The interest rate was set at 4.75 percent for Banque de l'Habitat and at three percent for the Public Corporation for Housing, instead of 5.5 percent
- The Housing Bank has allocated LL60 billion ($40 million at the official LL1,500 exchange rate) from its own funds to provide low-interest loans to low- and middle-income people to help them restore, rebuild, or rehabilitate their homes that were damaged in the Port's explosion. The ceiling for each loan was set at LL150 million ($100,000). The loan pays a three percent interest rate. The maximum repayment period is 15 years
- The MoF has issued a ruling forbidding the sale of heritage and historical real estate properties unless the approval of the Ministry of Culture is granted

URGENT measures requested

- Speed up the reconstruction of areas damaged by the Port's blast, pay compensation to affected people, and provide temporary shelter to those who have lost their homes (Implementing bodies: Council of Ministers, Higher Relief Council)

Indicators

	2018	2019	H1 2019	H1 2020
Number of real estate transactions	60,700	50,400	22,000	27,200
Real Estate Sales (USD billion)	8.1	6.8	2.7	5.4
Building Permits (million square meters)	9.0	6.0	2.7	1.3
Cement Deliveries (million tons)	4.7	3.2	1.6	0.7

Source: Cadastre, Order of Engineers and Architects in Beirut, Order of Engineers and Architects in Tripoli, Central Bank

SHORT TERM
measures requested

- Provide incentives and subsidies for building rehabilitation (Implementing bodies: Council of Ministers, Municipality of Beirut, International NGOs, PCH, WBG, UNESCO, UN Habitat)
- Establish a city-wide, multi-stakeholder platform that includes civil society organizations, to develop a housing and urban recovery strategy (Implementing bodies: Council of Ministers, GDUP)
- Support and assess construction value chains to identify technical interventions required to strengthen the construction sector and meet reconstruction needs (Implementing bodies: Municipality of Beirut, Order of Engineers)
- Pass the rent-to-own draft law which was referred to a parliamentary committee in 2012 (Implementing body: Parliament)
- Establish public consultation mechanisms for reconstruction plans to ensure that citizens' needs are integrated into these plans. Include traditional channels, municipal website, and one-stop shop as well as social media (Implementing bodies: Council of Ministers, MoIM, Municipalities, OMSAR, Order of Engineers)
- Approve the pending new heritage law to protect the historic urban fabric. Ensure that the heritage law's measures are reflected in urban regulations and master plans (Implementing bodies: Parliament, GDUP)

LONG TERM
measures requested

- Develop a framework that consolidates the process for obtaining repair, rehabilitation, and reconstruction permits (Implementing bodies: Council of Ministers, MoIM, Municipalities, OMSAR, Order of Engineers)
- Establish a municipality one-stop-shop with sub-windows such as building permits, incentives (Implementing bodies: Council of Ministers, MoIM, Municipalities, OMSAR, Order of Engineers)
- Incorporate all land plots into the currently incomplete Cadastre (Implementing body: Real estate department at the Ministry of Finance)
- Modernize the urban planning system on a continual basis to cope with new urban developments and changing demographic conditions (Implementing body: GDUP)
- Expand the scope of GDUP's decision-making prerogatives in light of the country's great need for sound urban planning (Implementing bodies: GDUP, MPWT)
- Develop a national housing policy with affordable housing markets and urban regeneration as part of an integrated approach for neighborhood upgrading (Implementing bodies: Council of Ministers, GDUP, Parliament)
- Adopt policy interventions to lower housing costs and incentivize investment in affordable housing solutions as part of reconstruction (Implementing bodies: Council of Ministers, GDUP, Parliament)

- Establish a monitoring system for the housing supply chain (construction materials and price levels) and the rental market, including market indicators such as vacancies and individual evictions (targeting the poor) (Implementing body: TBD)
- Facilitate private sector involvement in heritage rehabilitation and adaptive reuse, and support the productive use of these assets for cultural and creative industries (Implementing bodies: Council of Ministers, MoC, UNESCO)
- Enact a law that allows the creation of modern real estate financing instruments such as real estate investment funds and mortgage certificates (Implementing body: Parliament)
- Provide incentives, such as residence permits, to Arab and foreign nationals who buy residential units in Lebanon above a certain price. This must be done within the constraints imposed by the foreign ownership law (Implementing body: Parliament)
- Streamline the real estate registration process such as the registration of land partitioning and of inventories of inheritance (Implementing bodies: MoF, OMSAR)
- Authorize a single side only to carry out real estate appraisal work for tax purposes. The appraisal methodologies must be homogenized and standardized (Implementing bodies: Directorate of Land Registry and Cadastre)
- Pass a legislation requiring the registration of off-plan sales agreements with the notary public to protect the rights of buyers and sellers (Implementing bodies: Council of Ministers, Parliament)
- Automate paperwork and documentation and establish a tracking system at the General Directorate of Urban Planning (GDUP). This will reduce the time of an operation, enhance transparency, and contain corruption (Implementing body: GDUP)

Automarket

DIAGNOSIS

Car sales were already declining due to the gradual economic slowdown that preceded the economic collapse which was accompanied by capital controls that made importing automobiles almost impossible. The number of new cars registered in the first half of 2020 plunged by 70 percent compared to the same period of 2019. Stocks of cars and car parts at showrooms have dropped to low levels because they are not being replenished by new imports. Many car dealers are defaulting on their payments to suppliers. Some of them have reduced the number of showrooms. Demand is almost limited to buyers who are looking to free their funds deposited in banks.

Number of new vehicle registrations

Source: Association of Importers of Automobiles (AIA)

APPLIED measures

- The government has exempted vehicles from the Mecanique (registration) fees for 2020. Those who have already paid the 2020 fees will be exempted from the 2021 fees

URGENT measures requested

- Car parts are consumer products and need to benefit from access to funds allowing imports. (Implementing body: MoET)

SHORT TERM measures requested

- Lower temporarily the car registration fees (Mecanique) and Customs fees on non-luxury automobiles, to encourage drivers to replace their used cars (Implementing body: MoF)
- Establish free zones for used cars. This will enable dealers to rent space at affordable prices. Free zones could boost the car transshipment sector thus providing an additional source of revenues for car dealers (Implementing body: MPWT)

LONG TERM measures requested

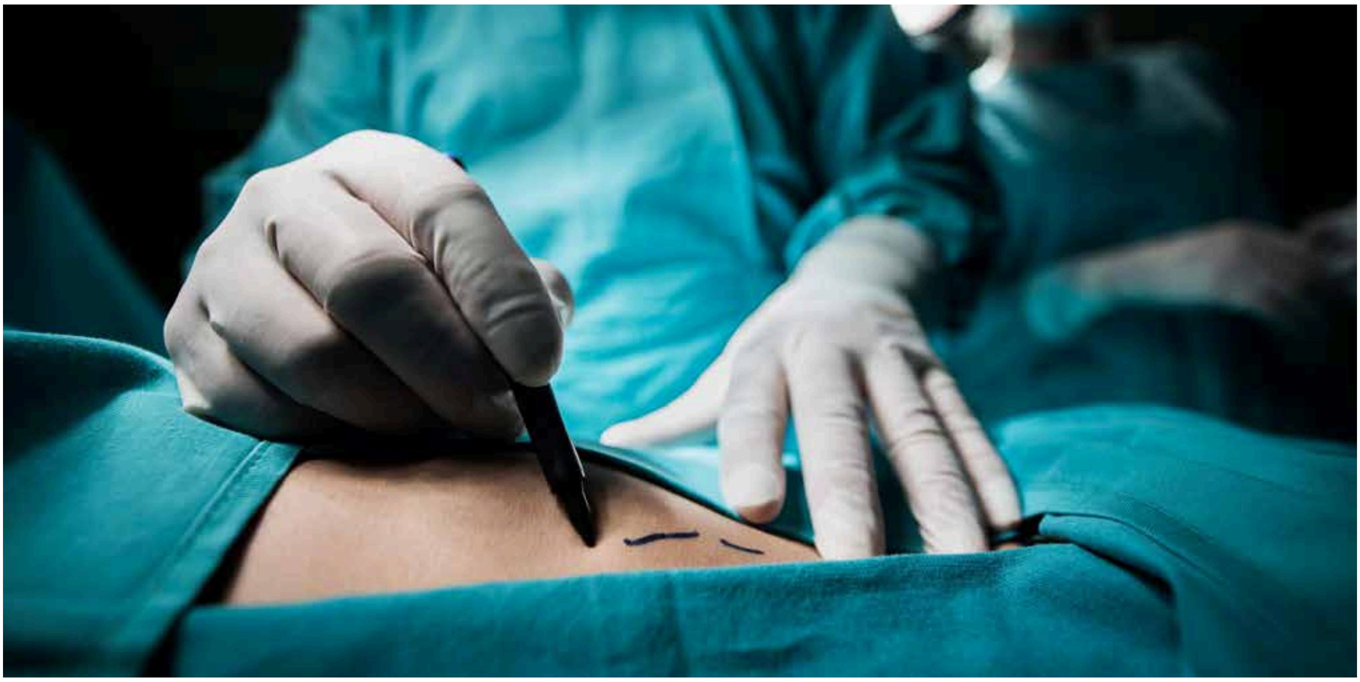
- Impose stricter technical control for used cars at the port of entry to avoid importing unsafe cars (Implementing bodies: Customs)
- Create incentives to encourage drivers to replace old polluting cars in line with UNDP's Low Emission Capacity- Building Program (Implementing body: MPWT)
- Allocate additional resources to the Consumer Protection Department at the Ministry of Economy and Trade to enable it to intensify its supervision and inspection activities to combat the sale of counterfeit spare parts (Implementing body: MoET)
- Update more frequently the price list of used cars in both Customs and the Traffic and Vehicle Management Authority (Implementing bodies: Customs, Traffic and Vehicle Management Authority)

Sales of imported used cars

	2018	2019	H1 2019	H1 2020
Imported	44,000	27,800	14,000	2,700
Sold	22,000	17,000	12,000	15,000

Source: Customs, Used Car Importers Syndicate

Insurance



DIAGNOSIS

Around 50 insurance companies, of various sizes, are competing for a $1.6 billion market of gross written premiums. The sector could witness consolidation as small firms might feel the need to pool resources to face the fallout of the various crises. Insurers are concerned about a potential haircut on their placements with banks. They are also facing challenges reinsuring their risks with international reinsurers due to capital controls and restrictions on overseas transfers. Insurance companies have not been able to transfer money to reinsurers since October 2019. Reinsurance fees become due at the end of each year. Reinsurers have so far put up with this inconvenience because they have a long-established relationship with local insurance companies but they may require cash payments if the problem is not solved before the end of 2020. In addition to that insurance companies have to pay the claims at the parallel market rate while their customers pay the premiums in lira at the official rate. The Covid-19 pandemic added the coverage burden for health insurance beneficiaries. The explosion at the Port of Beirut added to the challenges facing the sector. Insured losses from the blast are estimated at $1.5 billion. These include around 10,000 damaged properties and 2,500 damaged vehicles. Foreign reinsurers will bear more than 90 percent of the cost of compensation for insured losses. Insurance firms have already begun to coordinate with reinsurers regarding compensating the damages while awaiting the outcome of the investigation about the cause of the Port's explosion as indications show that it was most likely an accident. Accidents are usually well covered while the 'war and terrorism' category is seldom included under normal policies.

APPLIED measures

- Starting from May, 2020, the insurance companies started to cover Covid-19 infection in new policies and renewed policies
- The Insurance Control Commission (ICC) has called on all insurers to accelerate the assessment of insured damages resulting from the Port Explosion

URGENT measures requested

- Announce the findings of the initial report about the cause of the Port's explosion so insurance and reinsurance companies can start compensation (Implementing bodies: Investigation team, Council of Ministers)

SHORT TERM measures requested

- Delay tax reforms relating to the insurance sector until the market stabilizes (Implementing bodies: MoF, Council of Ministers)
- Adopt a single exchange rate for both premiums and claims (Implementing body: MoET)

LONG TERM measures requested

- Adopt an insurance sector restructuring and development strategy (Implementing bodies: MoET, ICC)
- Modernize the now obsolete insurance law. Apply different laws and regulations to life and non-life insurance (Implementing bodies: Parliament, MoET, ICC)
- Don't raise the minimum capital requirement of insurance companies at present because they don't have the resources to increase their capital. There was a discussion in the past among stakeholders in the sector about the need to raise the minimum capital requirement from LL2.25 billion ($1.5 million) to $10 million (Implementing bodies: MoET, ICC)
- Base the minimum capital requirement on sales volume (Implementing bodies: MoET, ICC)
- Raise the minimum required solvency ratio, which is currently low (ten percent). The actual solvency ratio of more than 75 percent of insurance companies is already above the required ten percent. Raising the solvency ratio will boost the confidence of international reinsurance firms in the local insurance sector since all local insurance companies reinsure their policies with global firms (Implementing bodies: ICC, MoET)
- Fast-track initiatives undertaken by the ICC and pertaining to solvency, governance, and market practices in order to offer better protection to policyholders and empower insurance firms to easily settle obligations and claims (Implementing bodies: MoET, ICC)
- Amend the existing insurance law to include clauses that regulate the insurance brokerage business or pass a specific law for insurance brokers. The existing law only covers brokerage activities in few instances (Implementing bodies: MoET, Parliament, ICC)
- Require insurance brokers to subscribe to a compulsory professional indemnity insurance policy (Implementing bodies: MoET, ICC)
- Segregate between the brokerage firm's own accounts and the accounts of its customers in order to protect the customers' interests (Implementing bodies: MoET, ICC)
- Enforce restricting insurance brokerage activities to licensed brokers (Implementing bodies: MoET, ICC)
- Extend compulsory vehicle insurance to include material damage. It should not only cover bodily injury caused to third parties (Implementing bodies: MoET, Council of Ministers)
- Accelerate the creation of a centralized risk database managed by the ICC. This database will provide advanced analytics that can be used in different ways such as improving road safety measures (Implementing bodies: ICC, MoET)
- Implement compulsory insurance in workplaces including hotels and restaurants. It should include property insurance against fire and burglary as well as third-party liability and workmen compensation insurance (Implementing bodies: Ministry of Tourism, MoET, ICC)
- Replace existing end-of-service indemnity scheme by a modern retirement plan with the participation of the private sector (Implementing bodies: MoL, Parliament)
- Offer tax incentives (remove the double taxation) on saving plans and pension schemes to encourage saving through life insurance products (Implementing bodies: MoF, MoL, Parliament)
- Alert insurance companies to prepare themselves for the International Financial Reporting Standard (IFRS 17) for insurance contracts which will be implemented starting from the beginning of 2022. Insurance firms have to adapt their operation processes, including software programs, for the IFRS 17 standards (Implementing body: ICC)
- Exempt life insurance policies paid by employers from personal income tax and social security contributions to encourage long-term saving plans (Implementing bodies: MoF, MoL, NSSF)

Gross Claims Settled

USD billion

2018	2019	Change
1.68	1.61	-4%

Gross written premiums

USD billion

2018	2019	Change
0.95	1.05	11%

Source: Insurance Control Commission (ICC)

Retail and wholesale trade

DIAGNOSIS

Supply and demand in the retail market are experiencing imbalances. There is disequilibrium in prices, surpluses, and shortages of many products. Revenues of trading businesses have dropped sharply. Their main focus has become to preserve their capital. Most importers of consumer goods, except for the consumer basket supported by BDL, get the dollars from the black market in order to pay their suppliers. They continue to suffer from time-consuming and costly import procedures. Productive imports, excluding pearls, precious stones, and oil products, dropped by 48 percent in the first half of 2020 compared to the same period of 2019. A number of retail businesses, including international brand retailers, have decided to exit the market temporarily. The Port's explosion has caused substantial damages to surrounding areas which host four large shopping malls, two of which are close to the Port site and have been heavily damaged.

APPLIED measures

- BDL started to provide importers of a designated basket of 300 items of consumer goods (mainly foodstuff), agricultural products, and industrial raw materials with foreign currency financing at an exchange rate of LL3,900 to the dollar
- The government has increased the price of subsidized bread

SHORT TERM measures requested

- Ease import and export procedures at Customs points of entry
- Lower fees of import and export procedures
- Combat smuggling which results in unfair competition with importers who pay their customs duties (Implementing bodies: Customs, security forces)

Productive imports*

USD billion

2018	2019	H1 2019	H1 2020
14.6	11.7	6.3	3.3

Source: Customs

* Excluding pearls, precious stones, oil products

Transport

DIAGNOSIS

The transport sector continues to suffer from its chronic ills from high traffic congestion to bad road quality. Cargo clearance takes a long time which increases the costs of importers and exporters. The accommodation capacity of the Rafic Hariri International Airport (six million passengers) is below annual traffic (over eight million). Sea, air, and land transport activity has significantly slowed down due to the decline in global trade caused by the coronavirus and the weakening of imports. A large part of the Port of Beirut, including the grain silos, was completely destroyed by the explosion. Preliminary estimate of damage caused by the blast to land and maritime transport and to food security infrastructure ranges from $280 million to $345 million. The port and the airport were already suffering a decline in revenues. The revenues of the Port of Beirut plunged 44 percent year-on-year in the first half of 2020. The Beirut airport expansion plan is put on hold.

APPLIED measures

- Kuwait has promised to rebuild the grain silos in the Port of Beirut
- The Ministry of Public Works and Transport has raised public transport fares. It increased the minimum fare for a ride by service taxis in Beirut from LL2,000 to LL3,000. The minimum fare for buses and vans was increased to LL1,500 from LL1,000
- The Council of Ministers has allocated LL174 billion ($115 million at the official rate of LL1,507.5) for the rehabilitation and maintenance of the international roads Beirut-Akkar, Beirut-Tyre, and Beirut-Bekaa

URGENT measures requested

- Secure financial assistance for the reconstruction of the Port of Beirut (Implementing bodies: Council of Ministers, Parliament)
- Set up temporary storage and warehousing solutions to ensure the continuity of supply chains and reduce food security risks (Implementing bodies: MPWT, MoET, PoB)

SHORT TERM measures requested

- Approve a customs strategy as a first step to streamlining, automating, and reducing costs of trading across borders (Implementing bodies: Customs, MoF)
- Carry out additional automation of the Customs to reduce corruption and shorten the time span of a clearance procedure (Implementing bodies: Customs, OMSAR)
- Adopt One-stop-shop procedure for container inspection in the presence of representatives of Customs and other authorities and involved parties to reduce the time and cost of clearing procedures. This also lowers the risks of corruption (Implementing bodies: Customs, OMSAR)
- Develop a national electronic single window for Customs formalities, to be implemented in the medium term (Implementing body: Customs authorities, MoF, OMSAR)
- Improve public transportation and encourage use of these services (Implementing body: MPWT)

LONG TERM
measures requested

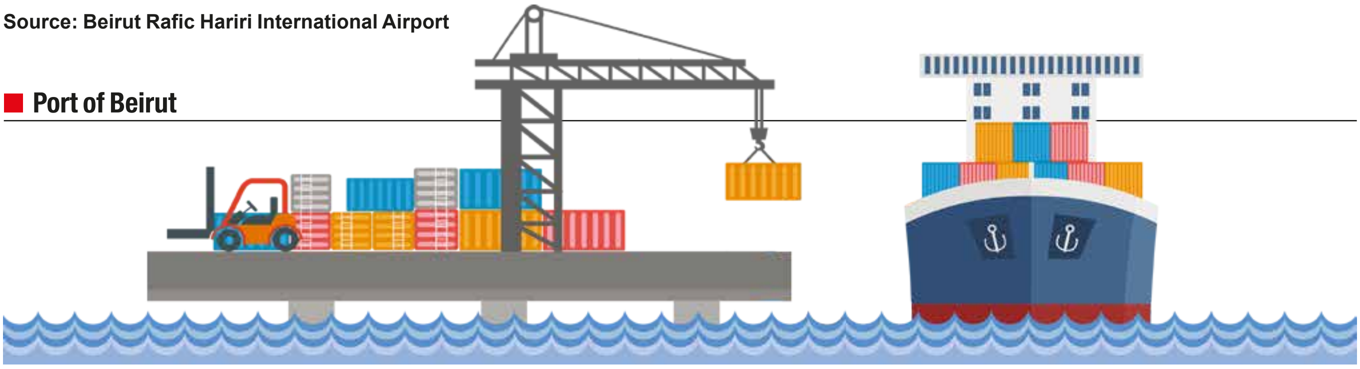
- Enact a law to organize the professions of freight forwarders, shipping lines, and customs brokers (Implementing bodies: Council of Ministers, Parliament)
- Expand the container yard and the storage area at the Port of Beirut to boost the transshipment activity for the region (Implementing body: MPWT)
- Identify potential public-private partnerships (PPPs) to leverage private investment and support the recovery and reconstruction program of the Port of Beirut (Implementing body: HCP)
- Redefine the principles for the container terminal concession in the Port of Beirut (Implementing body: MPWT)
- Regularize the Port of Beirut's existing contracts, and prepare reconstruction contracts in line with the new port sector law, procurement reform, and the law on PPPs (Implementing bodies: CDR, HCP, MPWT)
- Review the Port of Beirut master plan in light of guidelines and principles set in the national strategy to optimize the number, size, and location of facilities PPPs (Implementing bodies: MPWT, MoET, PoB)
- Address urban congestion around the Port of Beirut (Implementing body: MPWT)
- Enhance logistics efficiency and the handling of hazardous goods (Implementing bodies: MPWT, MoET, PoB)
- Establish a vision and reform principles for the port sector, to inform the reconstruction strategy (Implementing bodies: MPWT, MoET, PoB)
- Enact a new Port Sector Law, addressing the port authority's operations as well as customs and defining the respective roles of the government, the port authorities, and commercial operators, as well as their relationships in terms of duties, rights, and responsibilities (Implementing body: Parliament)
- Develop a national strategy for economic corridors and ports/maritime clusters, revisiting the siting and sizing of the port (Implementing bodies: MPWT, MoET, PoB)
- Establish a new port authority and nominate a board in a transparent manner based on professional qualifications, with responsibilities and accountabilities clearly spelled out (Implementing body: Council of Ministers)
- Encourage women's involvement in leadership and management positions, including the board of the port authority (Implementing bodies: Council of Ministers, PoB)
- Recognize and define the mandate and role of port communities in management of the sector and monitoring of its performance. In addition to the port authority, local port communities would have an official role under the new port sector law, to establish from the outset a clear pattern of trust among all port stakeholders (Implementing body: MPWT)
- Both in Beirut and Tripoli, organize these port communities by identifying local champions who have the trust of their peers and the clout to bring together all port stakeholders (Implementing bodies: TBD)
- Rebalance roles and investments in the Tripoli port and other logistics infrastructure such as dry ports and the rail network (Implementing bodies: MPWT, PoT)
- Use an economic corridor approach to better position Lebanon to play an important role as a regional hub for maritime transport network (Implementing bodies: MPWT, PoB, PoT)
- Expedite the Beirut Airport expansion plan (Implementing body: MPWT)
- Regularize the large number of non-registered public transport vehicles (half of 60,000 taxis, 75 percent of 18,000 minibuses, and two thirds of 4,000 buses) (Implementing body: MPWT / Traffic, Vehicles and Vehicles Management Authority)
- Transfer the task of supervising car rental companies to the Ministry of Public Works and Transport from the Ministry of Tourism (Implementing bodies: Parliament, MPWT)
- Set a separate entity to cater to the transport sector instead of keeping this function under the authority of the Ministry of Public Works and Transport (Implementing body: Parliament)
- Activate the airport expansion project to boost its accommodation capacity to meet growing demand (Implementing body: MPWT)

Beirut Rafic Hariri International Airport

	2018	2019	H1 2019	H1 2020
Aircraft movement	73,600	72,300	33,550	12,700
Passengers (million)	8.8	8.7	3.9	1.2
Freight (metric ton)	97.4	86.7	44.4	25.1

Source: Beirut Rafic Hariri International Airport

Port of Beirut



	2018	2019	H1 2019	H1 2020
Vessels	1,872	1,746	861	737
Merchandise (million ton)	8	6.5	3.5	2.2
Cars	68,250	49,500	26,400	7,200
Local containers (TEU*)	874,250	734,100	386,400	211,500
Transshipment	431,500	495,000	234,500	203,400
Total revenues (USD million)	232	199	102	57

Source: Port of Tripoli | *Twenty-foot equivalent unit

Port of Tripoli

	2018	2019	H1 2019	H1 2020
Vessels	665	608	311	229
Merchandise (million ton)	1.8	2	1.1	0.9
Cars	4,400	3,100	1,700	470
Loaded containers (Imports, Exports)	19,400	54,650	32,600	20,350
Total revenues (USD million)	16.4	15	8.3	4.9

Source: Port of Tripoli

Education

DIAGNOSIS

The education system still has strong potential, but it is facing challenges. The Covid-19 pandemic has forced educational institutions into online remote teaching. The new system is not working seamlessly as some students don't have access to the Internet. Many parents are not able to pay tuition. Some private educational institutions have closed down. Direct damages from the Port Explosion to the education sector are estimated at $15 million-$20 million. Losses resulting from the economic impact of the explosion, such as lower revenues and higher operational costs, are estimated at $70 million to $85 million. Nearly 63,000 students enrolled in schools and Technical and Vocational Education and Training (TVET) centers were affected as more than 120 schools in the blasted area were moderately to severely damaged in addition to 20 TVET centers. More than 170,000 students are expected to transition from private schools to public school at the national level, and around 30,000 students (40 percent of those in private schools in Beirut and Mount Lebanon) expected to exit private schools, according to Ministry of Education and Higher Education (MEHE) estimations. Uncertainty engulfs the next educational year as the pandemic seems to be proliferating out of control and as some schools were turned into shelters for people displaced by the Port's explosion. Learning quality in the education sector has declined over the last decade, and today more than half of students do not achieve basic proficiency in reading, math, and science. Almost 50 percent of the country's Syrian refugee children between 6 and 17 years are out of school. The education system has high inequities, with boys and girls from poor households being at high risk of dropping out or not attending at all. Many of these children are exposed to child labor, early marriage, and various forms of violence; and they have significantly lower learning outcomes than students from the wealthiest households.

APPLIED
measures

- The Ministry of Education and Higher Education (MEHE) has decreed the establishment of new branches of the Lebanese University in the governorates of Baalbek el Hermel, Akkar, and Kesrouan- Jbeil
- School fees are paid in lira according to a MEHE circular
- The government has allocated LL500 billion to support the education sector. The amount includes LL150 billion for public educational institution. The remaining LL350 billion is a contribution to the tuitions of Lebanese students in private schools for the year 2019 -2020
- France has pledged $17 million to assist over 50 French and francophone schools

URGENT
measures requested

- Payment of 2015-2020 overdue amounts to free private schools. the State's annual contribution is about LL151 billion (Implementing bodies: MEHE, MoF)
- Set a plan for the educational year 2020-2021 and provide students with tools to access remote learning (Implementing body: MEHE)

SHORT TERM
measures requested

- Ensure close consultation on education reform and the recovery and reconstruction agenda with key stakeholders, including relevant ministries, international partners, parliamentary committees, civil society organizations, the private sector, teachers' unions, and communities (Implementing bodies: Council of Ministries, MEHE, UNICEF)
- Amend academic conditions for appointing teachers. According to the current conditions, a teacher's university degree does not need to include education as a specialty. This means that even though teachers may have a good handle on a subject, they might still not have the necessary tools to convey such knowledge to students (Implementing bodies: MEHE, Civil Service Council)
- Amend terms for promoting teachers, to take into consideration skills in addition to the current system that bases promotion only on seniority (Implementing body: MEHE)
- Apply more stringent conditions when licensing new education institutions (Implementing bodies: MEHE, DGHE, DGVTE)
- Rehabilitate public school buildings to meet safety requirements and improve accessibility to students with physical disabilities. (Implementing body: MEHE)

LONG TERM
measures requested

- Prepare a five-year strategic education sector plan by engaging in broad public consultations (Implementing body: MEHE)
- Narrow the achievement gap between private and public schools by updating curricula and upgrading equipment. The most recent curricula were designed in 2000 (Implementing bodies: MEHE, CERD)
- Speed up the adoption of international standards and increase educational exchanges with other countries to update and enrich the curricula and improve the skills of teachers and students (Implementing body: MEHE)
- Integrate psychosocial wellbeing into formal and non-formal education programs (Implementing body: MEHE)
- Build new schools, university faculties, and TVETs in rural and remote areas to contribute to the development of these areas and prevent massive internal migration to crowded cities (Implementing body: MEHE)
- Modernize the Lebanese University and supply it with up-to-date equipment (Implementing bodies: MEHE, Lebanese University)
- Emphasize practical and entrepreneurship skills to improve school-to-work transition of TVET graduates. Provide up-to-date job-related equipment and materials to vocational and technical schools to allow trainees to acquire practical skills similar to workplace experience (Implementing body: DGVTE)
- Build strong public–private partnerships within a decentralized system to allow for increased on-the-job training, and for the donation of job-related equipment (including second-hand equipment) to training centers (Implementing bodies: MEHE, DGVTE, FCCIA, SORCNP)
- Develop links between university research and the business sector through business development centers (Implementing bodies: MEHE, universities, business development centers , incubators, accelerators)
- Launch marketing campaigns abroad to promote top local universities (Implementing body: Universities)
- Establish an obligatory training program for teachers of both public and private schools with cyclical evaluation (Implementing body: MEHE)
- Set an accreditation system for the faculties of education (Implementing body: MEHE)

Health

DIAGNOSIS

Healthcare is expensive for a large number of people as the country has a high percentage (37 percent) of out-of-pocket healthcare expenditure. Up to 40 of the population is uninsured. There is a large number of small hospitals with 65 percent of hospitals having less than 100 beds. There is also a shortage of specialized hospitals. The current crises and calamities are aggravating the problems of the sector. Medical practitioners are facing some difficulties providing healthcare amid shortages of medical supplies. The support provided by the Central Bank (BDL) to importers of medical supplies has been partially implemented. BDL has pledged to give them access to financing in dollars at the official exchange rate to pay for 85 percent of their import bill. There is a risk that hospitals would not be able to cope with the escalation of Covid-19 infections owing to the limited number of ventilators and intensive care units. A number of healthcare institutions are downsizing. The dues owed by the government, to private hospitals and the National Social Security Fund, continue to increase. The Port's explosion has damaged the health care infrastructure which serves around one million residents. It resulted in 17 damaged hospitals, four of which severely hit and require $66 million for repair work. Around 500 extra hospital beds are needed to make up for the lost capacity of damaged hospitals. The direct damages of the blast on the healthcare sector are estimated at $95 million-$115 million. The sector's economic losses are estimated at $200 million-$245 million.

APPLIED measures

- The Central Bank is granting access to foreign currency funding for 85 percent of the value of imports of medicine, medical supplies, and materials used in the production of pharmaceutical drugs
- The government has issued a Health Sector Response Plan and mobilized resources to equip public hospitals with critically-needed medical equipment. It has established quarantine centers across the country and launched a public awareness campaign
- The Ministry of Public Health (MoPH) has issued a decision requiring category 'A' private hospitals to equip themselves for Covid-19 treatment preparedness according to the standards set by the World Health Organization (WHO)
- The government has extended the general mobilization until December 31, 2020, in an effort to limit the further spread of the coronavirus disease and lower the pressure on the health care infrastructure
- The World Bank has approved the re-allocation of $40 million under the current $120 million Health Resilience Project to enable the MoPH to respond to the pandemic by equipping governmental hospitals and increasing their ability to test and treat suspected cases
- Some companies are manufacturing ventilators and protective masks to help face the Covid-19 pandemic

URGENT
measures requested

- Adopt a more aggressive Covid-19 response and stricter enforcement (Implementation bodies: Council of Ministers, MoI, MOPH)
- Support implementation of a subsidized package of primary health care services through a network of 21 Primary Health Care Centers (PHCCs) in the explosion-affected area in line with the Ministry of Public Health's Immediate Response Model (Implementing bodies: MoF, MoPH)
- Support implementation of the Ministry of Public Health's 'payer of last resort' scheme for hospital care for vulnerable groups in the affected communities (Implementing bodies: MoF, MoPH, MoSA)
- Approve a list of 7,000 items of medical supplies proposed by the Syndicate of Importers and Traders of Medical and Laboratory Equipment to benefit from import financing provided by BDL (Implementing bodies: BDL, MoET)
- Clarify the mechanism and the time schedule for paying government dues to hospitals (Implementing bodies: Council of Ministers, MoF, MoPH)
- Clarify the mechanism and the time schedule for paying dues owed by insurance companies to hospitals (Implementing body: Insurance companies)
- Use the services of Third Party Administrators (TPAs). TPAs will manage claims of hospitalized patients on behalf of MoPH in private and public hospitals since the ministry's team is small and unable to audit all the hospitals' invoices (Implementing body: MoPH)

SHORT TERM
measures requested

- Reconstruct heavily damaged health facilities (with priority to those in the public sector) in line with green energy solutions and ensure accessibility for people living with disability (Implementing bodies: MoE, MoPH, MPWT)
- Align the mechanism to identify the most vulnerable with those used by other sectors such as social protection. Expand it as needed to reach the vulnerable with subsidized essential health services (Implementing bodies: MoPH, MoSA
- Establish a multi-stakeholder health coordination platform with balanced representation of civil society and other relevant stakeholders to ensure the transparency, effectiveness, and efficiency of the health response (Implementing bodies: MoPH, WHO)
- Improve data collection and create a health card in order to be able to tap the population health data to maximum advantage (Implementing bodies: MoPH, OMSAR)
- Physicians need to receive their dues separately from hospitals (Implementing body: MoPH)
- Apply Order of Nurses recommendations regarding nurse-to-patient ratio in line with hospital accreditation standards (Implementing body: Hospitals)
- Develop mechanisms for retaining health personnel and for procuring essential medicines and medical supplies (Implementing bodies: BDL, MoPH)
- Revise method to determine ceilings for funds allocated to hospitals by MoPH for payment of hospitalization cost to citizens not covered by Social Security. Criteria to take into account in order to match the ceilings to the real needs of each hospital include geographic location, demographics, and provided services (Implementing body: MoPH)
- Activate the Supreme Health Council, which includes stakeholders in the healthcare sector (representatives of orders, syndicates, ministries, universities, and civil society), in order to play its role in setting general long term guidelines to reform and develop the health sector according to the strategy set by MoPH (Implementing body: MoPH)
- Implement the medical waste management plan set by the Ministry of Environment which involves the sorting, treatment, transportation, and reducing the production of medical waste (Implementing bodies: MoE, MoPH)
- Incentivize the sales of generic medicine and reform pricing of medicine to reduce spending on pharmaceuticals (Implementing body: MoPH, MoF, MoET)

LONG TERM
measures requested

- Develop a phased universal health coverage strategy to progressively expand beyond primary health care access for the most vulnerable in the blast-affected areas. Ensure coverage of additional services in the rest of the country (Implementing bodies: MoPH, MoSA)
- Reinforce the referral system, through stronger intra-ministerial cooperation and coordination (Implementing bodies: Council of Ministries, MoPH)
- Convene regular (such as biannual) multi-stakeholder health forums (Implementing body: MoPH)
- Digitize operations at NSSF to speed up procedures and reduce errors, cost, and corruption (Implementing bodies: OMSAR, MoL, NSSF)
- Set up common standards for contracts concluded between doctors and hospitals to homogenize the contracting procedure and protect physicians from unfair clauses that could be stipulated in some contracts (Implementing bodies: Order of Physicians, Syndicate of Hospital Owners)
- Conduct a study to update the amount of fees paid for medical services in order to cope with economic changes. The last study was conducted in 1998 (Implementing body: MoPH)
- Set up a coordinating board to oversee the coordination effort of providers of emergency medical care in case of national health emergencies resulting from disasters such as the Port's explosion, epidemics, and earthquakes (Red Cross, Civil Defense, and hospitals) (Implementing body: MoPH)
- Introduce a barcode system in hospitals to manage medicine consumption and avoid the use of smuggled or expired drugs (Implementing body: MoPH)
- Set a national standard program for teaching nursing at universities and for training instructors at the nursing vocational schools (Implementing body: MEHE)
- Enact a law requiring continuing medical education for doctors to be always updated of latest developments in the fields of therapies, drugs, and surgery (Implementing bodies: MoPH, Council of Ministers, Parliament)

Beds

	Public hospitals	Private hospitals	Total
Emergency	215	878	1,093
Intensive care	336	1,972	2, 308
All types	2,446	12, 749	15,195

Ventilators available hospitals

	Public hospitals	Private hospitals	Total
Child ventilators	42	237	279
Adult ventilators	123	783	906

Source: Ministry of Public Health

Water

DIAGNOSIS

Water shortages remain frequent due to an inadequate infrastructure and inefficient management of water resources which remain largely unexploited. Large quantities of water are lost through leakages from the dilapidated distribution network which needs maintenance. Water recycling or re-use is almost non-existent. People have to often rely on expensive bottled and tanker water. The capacity to store surface water is very low (six percent) compared to a regional average of 85 percent. The exploitation of groundwater does not take into consideration the need for ensuring sustainability. The aquifers located on the coast suffer from seawater intrusion. The blast in the Port of Beirut has caused damages to the water and sanitation facilities estimated at $40 million to $45 million. The main water transmission lines inside the Port are likely to have been destroyed. The funding needed for the recovery of the water supply and sanitation sector are estimated at $45 million to $60 million. The water supply facilities in Greater Beirut were affected to some extent by the explosion, but they are still functioning although partially in some affected areas. The buildings of the water administration were partially damaged. The World Bank has decided not to provide $244 million in undisbursed funds for the Bisri Dam project out of a committed $474 million. The halted project, whose cost totals $617 million, aimed to ensure a reliable water supply to nearly 1.6 million residents in Greater Beirut and Mount Lebanon.

APPLIED measures

- The World Bank has canceled the $244 million in undisbursed funds for the Water Supply Augmentation Project (Bisri Dam Project)

URGENT measures requested

- Repair the water network in affected areas to restore water supply to pre-explosion levels (Implementing bodies: MPWT, BMLWE)
- Provide technical assistance to the water utility most impacted by the blast, BMLWE, especially on operations and maintenance costs of the main infrastructure (Implementing body: MoEW)

SHORT TERM
measures requested

- Complete the installation of water meters in all households and workplaces to encourage responsible water consumption (Implementing body: MoEW)
- Apply current regulations or enact new legislation to organize the chaotic exploitation of underground water by the private sector (Implementing body: MoEW)
- Ratify the revised Water Code, which was approved in 2018, and its related decrees (Implementing body: Parliament)
- Restructure the water tariff (Implementing body: Council of Ministers)
- Improve the collection of water subscription fees from households and workplaces in all regions (Implementing bodies: Various Water Establishments)

LONG TERM
measures requested

- Ratify the updated National Water Sector Strategy (Implementing bodies: MoEW, Parliament)
- Establish the Water Executive Committee to pilot transparent implementation of the updated Water Sector Strategy and strengthen the role of municipalities within its framework (Implementing bodies: MoEW, MoIM)
- Apply governance principles to the general exploitation of underground water and prevent overconsumption especially in Bekaa where subterranean water levels are dropping (Implementing body: MoEW)
- Upgrade the customer database at BMLWE and incentivize households to register their connections (Implementing bodies: BMLWE, MoEW, OMSAR)
- Rebuild customer-centric communication and dialogue between the BMLWE and civil society organizations (Implementing body: BMLWE)
- Increase underground water quantities through the artificial recharge process by injecting rainwater into subterranean wells. This will increase fresh underground water level in coastal areas (Implementing body: MoEW)
- Revamp the drinking water networks. In some old networks half of the water is lost due to leakages (Implementing bodies: MoEW, MPWT)
- Survey sites that are suitable for the construction of dams thoroughly before construction to avoid mistakes in the choice of sites, from geological and economic perspective (Implementing body: National Council for Scientific Research)
- Safeguard Lebanon's shares in international rivers: Orontes (Assi) (Syria and Turkey), Nahr El Kabir (Syria), and Hasbani (Occupied Palestine) (Implementing bodies: MoEW, MoFAE)

- Exploit submarine fresh water springs (Implementing body: MoEW)
- Recycle domestic wastewater, especially in the Bekaa, in order to avoid pollution and reduce the abusive exploitation of underground water. There are 22 main recycling plants and 65 small plants. Out of the total, 50 percent are not operating. The rest are badly managed (Implementing bodies: MoEW, MoE, MPWT)
- Intensify reforestation work. It will increase precipitation quantities, slow down surface flow of rainwater, and improve infiltration of water into the soil (Implementing body: MoA)
- Various public Water Establishments must coordinate their work to avoid duplication of efforts and benefit from the synergetic effect of cooperation (Implementing bodies: MoEW, water establishments in all regions)
- Install devices to measure different kinds of water parameters to make up for lack of technical data about the water sector (Implementing bodies: MoEW, MPWT, water establishments in all regions)
- Educate public sector employees about water regulations by organizing workshops since legislation related to water is fragmented and badly understood (Implementing body: MoEW)
- Promote drip irrigation and other modern watering methods which are more efficient than traditional flood irrigation, as agriculture is the number one water consumer (Implementing body: MoA)

Oil and gas

DIAGNOSIS

Lebanon is lagging behind neighboring countries in exploiting its potential natural gas and oil resources. Initial offshore drilling of the first exploration well in 'Block 4' carried out by French oil firm Total found traces of natural gas but didn't prove the existence of a gas reservoir. It has, however, confirmed the existence of the basic elements of a geological-oil system. Data gathered from 'Block 4' will be used to improve the analysis accompanying exploration work in 'Block 9'. Total, which leads a consortium that includes Italy's ENI and Russia's Novatek, is preparing to drill an exploration well in 'Block 9' slated to be completed by May 2021. The block is located in a disputed maritime territory. The United States is engaged in mediation efforts for the demarcation of the maritime borders in order to facilitate exploration work. Other challenges facing the country's hydrocarbon venture include local political instability and the decline in global oil prices which discourages international oil companies from spending on exploration projects. The country entirely depends on imports to meet its fuel needs. The exchange rate support provided by the Central Bank (BDL) to fuel importers and the price control imposed by the State has contributed to making local fuel prices, when valued at real market exchange rates, cheaper than most countries, including oil producers. BDL is, however, considering putting an end to its foreign exchange support for imports of basic commodities because it is depleting its foreign exchange reserves. The use of expensive and polluting fuel oil by Electricité du Liban to generate electricity is also draining the Central Bank's reserves and widening the budget deficit.

APPLIED measures

- Total has drilled the country's first offshore exploration well located in 'Block 4'. It found traces of natural gas but didn't verify the existence of a gas reservoir
- The General Security forces have started to supervise the delivery of diesel to fuel distribution companies and gas stations from Al Zahrani and Tripoli facilities. The aim is to combat smuggling, ensure fair distribution, and control prices

SHORT TERM measures requested

- Issue a decree pertaining to the 'Petroleum Register'. This register is similar to a real estate register. The rights, mortgages, and shares of owners in petroleum assets will be recorded. Disclosures of the beneficial owners will also be recorded. This provides full transparency on the right holders. This gives a positive signal to stakeholders in the oil and gas sector (Implementing body: MoEW)
- Reduce the number of planned Floating Storage Regasification Unit (FSRUs) from three to a single one because the country does not need three FSRUs especially that the project requires large investments (Implementing body: MoEW)
- Issue the implementation decrees of the Transparency Law in the Oil and Gas Sector which pertain to registration, mortgaging, and transfer of petroleum rights as well as contract disclosure (Implementing bodies: MoEW, Council of Ministers, Parliament)

LONG TERM measures requested

- Establish the National Anti-Corruption Commission. The commission will be tasked with executing anticorruption laws enacted by Parliament and overseeing the application of future anticorruption laws yet to be proposed and ratified. It will have the prerogatives to prosecute public officials involved in corruption, impose travel bans on indicted officials, and lift the secrecy on their bank accounts (Implementing body: Parliament)
- Improve the subcontracting process. The regulatory framework of subcontracting in the oil and gas sector needs to be amended to allow all potential suppliers to participate in the competitive bidding process without any restrictions as long as the contractors' requirements are met (Implementing bodies: MoEW, Parliament, LPA)
- Ensure that local companies have equal or preferential opportunities to bid for subcontracts during the exploration and production process. Apply the principles of transparency by requiring these companies to disclose important and relevant information such as the identity of their owners (Implementing bodies: MoEW, LPA)

Public works

DIAGNOSIS

Public works projects are put on hold. Few contractors could keep their promises and abide by deadlines. The government still owes outstanding dues to contractors and it is not clear when it will settle the debts. Some contractors have stopped work on their contracts, others have pushed forward to cancel contracts relating to pending projects.

APPLIED measures

- The government has approved the allocation of $115 million for the rehabilitation of international roads, Beirut-Akkar, Beirut-Tyre, and Beirut-Bekaa
- Parliament has approved a loan agreement with the Arab Fund for Economic and Social Development to develop a wastewater project in the northern and middle areas of the Litani Basin. The loan is valued at KD27 million ($88 million)

URGENT measures requested

- Put on hold public sector projects until contractors receive their dues from the State (Implementing body: MPWT)
- Pay the arrears due to public contractors, even by regular installments if necessary, while taking into consideration the decline of the local currency (Implementing bodies: CDR, MoF)
- Issue a decree to consider relevant events occurring after Oct. 17, 2019 as force majeure which will result in extending deadlines of public work projects and adjusting contracts with regard to increasing prices or compensation for losses (Implementing body: Council of Ministers)
- Terminate distressed contracts as soon as possible as requested by contractors and advisors to avoid the accumulation of losses (Implementing body: MPWT)
- Rank ongoing projects in terms of importance and feasibility, and take into account the force majeure that led to an imbalance in the contracts in order to decide whether to terminate the contracts or go ahead with the projects and provide compensation (Implementing body: MPWT)

SHORT TERM measures requested

- Put in place enhanced fiduciary arrangements and oversight mechanisms for assistance funds to improve the transparency and accountability of the immediate recovery program. Ensure the inclusion of civil society and NGOs in the consultation and monitoring process (Implementing bodies: Council of Ministers, Parliament, WBG)
- Approve the decree regulating the practice of the contractor profession (Implementing body: Council of Ministers)
- Pass a law for the classification and rating of contractors and engineers to be used as a single benchmark for the selection of prequalified bidders for public projects by all entities involved in the process such as ministries, the CDR, and the Syndicate of Contractors of Public Works and Buildings (Implementing body: Parliament)
- Adopt the new Public Procurement Law and implement regulations and secondary legislation, including the mandatory usage of revised standard bidding documents, establish and operationalize a procurement regulatory body and a complaint handling unit to implement the new Procurement Law, (Implementing body: Parliament)

LONG TERM
measures requested

- Refer arbitration cases involving conflicts between contractors and counterparties to special courts not regular courts (Implementing body: MoJ)
- Amend the legislation governing the 'General Terms and Conditions' of contracts. (Implementing body: Parliament)
- Upgrade the industrial and commercial area in Bourj Hammoud, with urban regeneration and upgrading of affected and vulnerable neighborhoods (Implementing bodies: GDUP, MPWT, Municipality of Bourj Hammoud)
- Formalize the legal and regulatory framework for public investment management (Implementing bodies: Parliament, Council of Ministers)
- Establish a Public Financial Management Steering Committee that includes the Ministry of Finance, BDL, line ministries, and key oversight entities to improve transparency, accountability, and civil society participation in the public finance consultation process (Implementing body: Council of Ministers)
- Fully staff the Central Inspection and Court of Accounts and review their legislative authority system in order to strengthen their independence and capacity (Implementing body: Council of Ministers)
- Ratify the revised draft law of the Court of Accounts to strengthen the country's oversight function and develop standards and manuals for performance and forensic audits (Implementing body: Parliament)
- Establish a collaborative platform for stakeholder engagement in greening the reconstruction agenda (Implementing bodies: Council of Ministers, GDUP, MOE)
- Develop a strategy and action plan for greening reconstruction and urban design for the city of Beirut (Implementing bodies: Council of Ministers, GDUP, MoE, Municipality of Beirut)
- Strengthen environmental monitoring and enforcement of environmental, health and safety measures in Beirut, including PoB (Implementing bodies: MoE, MoPH, MPWT, PoB)

Solid waste

DIAGNOSIS

The solid waste sector continues to suffer from long-term structural vulnerabilities including inadequate infrastructure, incompetent management, corruption, and political bickering. The solid waste policy is still mostly relying on unsustainable options such as landfilling and incineration. Every few years a new crisis emerges when one landfill becomes saturated and the garbage fills the streets. Moreover, Lebanon is spending much more than peer countries in the region on these unsustainable solutions which also have detrimental health and environmental effects. A new trash crisis is looming on the horizon. The Bourj Hammoud-Jdeideh Landfill, which is one of two major landfills servicing Beirut, has reached maximum capacity and the government has decided to expand it. The expansion will be a temporary solution as the landfill will be filled up again. The Port Explosion came to add to the country's garbage problem by adding the debris resulting from the explosion to the trash piles. The explosion has caused damages to the environment sector, mainly the waste management infrastructure, estimated at $20 million to $25 million, according to the World Bank. The blast has destroyed the solid waste recycling and sorting facility at Karantina and caused partial damage to the Coral solid waste composting facility at Bourj Hammoud. It has damaged the health care waste storage facilities of three hospitals. Some solid waste collection and transportation equipment were partially damaged.

URGENT
measures requested

- Ensure the removal, treatment, and safe disposal of rubble resulting from the explosion with special attention to be given to hazardous and medical waste (Implementing bodies: MPWT, waste collection and waste treatment companies)
- Rebuild the solid waste recycling and sorting facility at Karantina which was destroyed by the Port's explosion as well as the solid waste composting facility at Bourj Hammoud (Implementing bodies: MoE, MPWT)
- Find an alternative to Bourj Hammoud-Jdeideh Landfill to avoid a waste crisis similar to that of 2015 (Implementing bodies: Council of Ministers, MoE)

SHORT TERM
measures requested

- Reduce the quantities of solid waste sent to landfills instead of creating new landfills or expanding existing ones. Apply the government decree issued in September 2019 that requires sorting solid waste at source. The law delegates to municipalities the task of overseeing the sort-at-source process and of providing drop-off centers for sorted solid waste. Sorting at source must be carried out by households, businesses, public administrations, and other entities (Implementing bodies: Council of Ministers, MoE)
- Issue the implementing decrees of the Integrated Solid Waste Management Law passed in 2018 which aims to reduce, recycle, sort from the source, compost, and dispose of solid waste (Implementing bodies: Council of Ministers, MoE, environment parliamentary committee)
- Develop a solid waste management strategy and carry out environmental assessment to analyze its environmental impact as required by the Solid Waste Management Law (Implementing body: MoE)
- Treat the hazardous garbage dump by the Port of Tripoli which runs the risk of explosion from methane gases it harbors (Implementing bodies: MoE, MPWT)

LONG TERM
measures requested

- Prepare a national emergency response plan and empower the country to face large-scale disasters and mitigate their impact on the environment and public health (Implementing bodies: Council of Ministers, MoE, security forces, relief organizations)
- Implement management plans for waste streams (including hazardous material, electronic waste, and scrapped vehicles) and for restoring affected natural ecosystems such as marine and green cover (Implementing bodies: MoE, MPWT)
- Develop the legal framework for storage and handling of chemicals (Implementing bodies: Parliament, MoE, port authorities, MoI)
- Reduce landfilling to the maximum extent possible because it is detrimental to public health and the environment. It is also an unsustainable solution due to limited space availability and high land cost (Implementing body: MoE)
- Prioritize recycling over other options, as it is an effective and feasible solution. Use advanced technology in the recycling industry. Paper and carton recycling factories are already operating. Support projects that use conversion technology for recycling plastics, such as turning PET bottles (for mineral water) into polyester fiber (Implementing body: MoE)
- Create a sorting-composting facility in each caza (Implementing bodies: MoE, MPWT)
- Implement waste treatment projects through public-private partnerships (PPPs) between municipalities and private sector companies (Implementing bodies: Council of Ministers, HCP, municipalities)
- Adopt the national Integrated Solid Waste Management Strategy and develop a participatory solid waste management plan for Beirut (Implementing bodies: MoE, MPWT)

Reforms

The government has committed to a series of reforms starting from the Paris conferences (I, II, and III) and has updated its list during the CEDRE conference. These are necessary – but not sufficient – measures. They should be implemented as soon as possible, and complemented with some more bold measures, such as the ones proposed in this section.

Restructuring the public sector

The public sector needs to be streamlined, the overlap between policy creation eliminated, and as many jobs as possible to be transferred to the private sector.

- **Abolish the following ministries**
  - › **Information**
  - › TeleLiban and Radio Liban must be grouped under a new public entity: Lebanon Broadcast. Managed by a board of directors composed of independent members and a government representative, it will be focused on programs on public interest topics such as culture, sports, academia, municipal news and stories from across Lebanon, civil society initiatives. Political and business news will not be covered. It will be financed by the government, international donors and NGOs, and corporate sponsors. It will also include an academy for journalistic training in collaboration with the Lebanese University
  - › National Press Agency. This will disseminate public sector news and will become part of the Office of the Prime Minister
  - › **Tourism**
  - › To be replaced by a National Tourism Board, financed by the State and the private sector with some funding from international NGOs. Governed by an independent board of directors, with a government representative, the board will be under the umbrella of the Ministry of the Economy
  - › **Telecom**
  - › Given that the sector will be fully privatized, the remaining duties of the Ministry will be transferred to the Telecommunication Regulatory Agency
  - › **Energy and Water**
  - › After the sector is fully in the hands of the private sector, the remaining duties will be transferred to the relevant regulatory agencies
  - › **Displaced**
  - › Its mission has been mostly completed. All pending issues will be transferred to the Higher Relief Council
  - › **Youth and Sports**
  - › The activities of this Ministry will be transferred to the Ministry of Education
  - › **Public Works and Transport**
  - › Transform the ministry into a Ministry of Transport and Logistics and remove the public works component that should be transferred to other authorities.
  - › **Industry**
  - › The activities of this Ministry will be transferred to the Ministry of Economy and Trade, to be renamed Ministry of Economy
  - › **OMSAR**
  - › The activities of this Ministry will be relegated to the Office of the Prime Minister
  - › **Refugees**
  - › The activities of this Ministry will be relegated to the Higher Relief Council
- **E-government**
  - › Transactions and information services should be digitized, including the filing of applications, declarations, and payments. This process should be placed on a fast track
  - › The government has to issue the implementing decrees of the 'electronic transactions and personal data protection' law which was passed more than a year ago. Electronic transactions and e-signature are crucial for developing e-government
  - › The e-government project should be implemented gradually starting, for instance, with municipalities and the Ministry of Finance because it is the most computerized
- **Simplify transactions**
  - › Each ministry and public agency should review its various processes and find ways to reduce the number of steps and signatures needed, and establish a one-stop-counter for citizens, including online facilities
- **Administrative Decentralization**
  - › This topic has been proposed and debated ad infinitum since Independence, and probably before that time. All political parties are on record for supporting it. But the successive governments never took the initiative to devise a serious development plan. The advent of e-government will make this task easier, but the issue remains ill-defined. In some quarters, especially in rich municipalities, there is even a call for fiscal decentralization – which has witnessed a lot of pushback, mostly on political grounds. Work on Administrative Decentralization should start by elaborating a draft plan and presenting it to the public for discussion, with the support of organizations and firms with experience in other countries.

VIII. Appendices

Appendix A

A simulation of the Sovereign Balance Sheet

As a starting point, it is important to take stock of the national balance sheet, which has never been put together.

The financial liabilities of the State have been stated in their aggregate numbers, and in some of their detail. A portion of the liabilities remain obscure such as dues to hospitals, public works contractors, the National Social Security Fund, and other suppliers. There is also no assessment of the pension liability of public servants.

On the assets side, there has never been an official assessment stating the elements and value of public assets.

Partial list of State assets

- Vast holdings of unbuilt land
- Thousands of government buildings and facilities
- All the roads, highways, and rail tracks
- Production facilities in electricity, water and wastewater processing, and tobacco manufacturing
- Two mobile telephone companies
- Fixed telephony network and service company (OGERO)
- Electricity company
- Oil&Gas exploration rights
- Oil storage facilities
- Dams and artificial lakes
- Ports and airports
- Sizeable amount of gold
- Air and shipping rights
- Access rights to radio waves
- 220 kilometers of seashore land
- Unidentified amount of riverside land and easements
- Shares in an Airline
- Shares in a Casino
- Shares in financial institutions
- Hundreds of public and vocational schools
- A large university campus and many university buildings throughout the country
- Dozens of public health facilities including a large hospital complex
- Priceless historical and natural sites

There is also expectation of large future assets resulting from the exploration of the oil and gas sector.

In lieu of an official account, an estimated balance sheet has been simulated. It shows a strong position, with ample assets but with short term pressures.

ASSETS	$117 billion
Liquid Assets(*)	
Cash and equivalent	$5 billion
Gold	$16 billion
	$21 billion
Fixed Assets subject to liquidation	
Land value estimated	$50 billion
Built-up properties	N/A
Estimated value of	$20 billion
Estimated value of other entities	
other entities subject to corporatization	$6 billion
Oil&Gas estimates	$11 billion
	$87 billion
Fixed Assets not subject to liquidation	**$zero(**)**
Infrastructure	
Government buildings (***)	
Public land (mashaa)	
Air and other rights	
Military equipment	
LIABILITIES (****)	**$100 billion**
Due in the short term	
Debt in LL	zero
Debt in FX	$ 3 billion
Due in the medium and long term	
Debt in LL	$60 billion
Debt in FX	$27 billion
Provisions for NSSF and others	$10 billion

(*) Not including deposits and reserves at the Central Bank
(**) Zero since they are not marketable
(***) There is room for optimizing the usage of many buildings, allowing for the disposal of some of them
(****) Assuming that all debt to local entities is rolled over to long-term maturities. Deposits of banks at the Central Bank are not included, as this plan has laid out a plan for gradual restitution through mechanism explained in the plan

Appendix B

ESTIMATED MARKET VALUE OF STATE ENTITIES TO BE PRIVATIZED

Sector	**USD billion**
Telecom	20
Water	0.25
Airport	1.25
Ports	2
Electricity	2.5
MEA	0.625
Subtotal	26.63
Oil&Gas	11
Total	**37.63**

Source: Article by Riad Obegi (BEMO Bank) & al.

Assuming a 25% discount on privatization value	
Estimate	$28 billion

These estimations are not based on recent valuations. They are presented here to illustrate the scale of the value of those assets. Actual valuation depend on many factors including terms and conditions of sale and associated rights such as exclusivity, financing, etc.

Appendix C

PUBLIC PRIVATE PARTNERSHIP (PPP) PROJECTS CURRENTLY CONSIDERED

Project	Value ($ million)
Transport	
Expansion of Beirut Airport	500
Kleiaat Airport	100
Khaldeh-Nahr Ibrahim Expressway	2,860
Jounieh Touristic Port	62
Saida's new port	65
Dams	
El Bared Dam	300
Ain Dara-Azounieh Dam	115
Maaser El Chouf Dam and Lake	87
Wasterwater systems	
Qortada-Sfaileh-DeirKhouna-Hlaliyeh	194
Aley (Maasriti/Chourit)	75
Aley (Mejdlaya)	60
Kfarhai	25
Shabtine	15
Power	
Zahrani and Selaata Independent Power Producers	600
Municipal solid waste to energy project	450
Other projects	
National Data Centers	80-150
Hazardous waste interim storage	50
Tripoli Special Economic Zone	270
Total	**5,908-5,978**

Appendix D

Economic Impact of the Syrian War on Lebanon

Economic loss (USD million)

$635	$7,600	$4,700	$1,098
Banking	Real Estate	Tourism	Health
$2,250	$1,332	$219	$1,662
Education	Electricity	Solidwaste	Water and Sanitation

Gross Economic Losses $19,496

Aid Received	$6,075
Multiplier	1.6

Aid with Multiplier $9,720

Net Economic Losses $9,776

Appendix E

Anyone for a haircut?

Undertaking a haircut on bank depositors has been widely discussed. Many schemes have been suggested by the government, 'mediaconomists', articles and reports in the media, and a small number of otherwise serious people.

A haircut on deposits, under any name or scheme, in any amount, belonging to any type of depositor, should not be considered in an economic revival plan.

A haircut is not only a violation of constitutional rights, but counterproductive and harmful for the (real) economy as well. It does not achieve an equitable distribution of losses. Most importantly, it is not necessary, as demonstrated by the Economic Revival Plan prepared by Lebanon Opportunities.

Some proposed schemes include one or a combination of the following:

- Outright cuts in the amounts of bank accounts. All types of deposits, or those in foreign currency. The proposed thresholds varied from the equivalent of $100,000 to $1 million
- Converting deposits in USD into LL below market exchange rates
- Exchanging deposits with long-term debt certificates, certificates of deposit (CDs), Treasury bills, issued by the State at zero or low interest rate
- Retroactively recuperating all, or a portion of, interest income earned by depositors in the past few years, or income from interest exceeding a certain threshold rate
- Exchanging deposits for equity shares in banks (aka bail-in)
- Exchanging deposits against proceeds from privatization, or shares in a Sovereign Fund
- Wealth taxation (one-time or recurring) – focused on cash ownership

Not all deposits in banks are owned by individuals. Institutional depositors have been included in the various proposed haircut simulation models based on a percentage of total deposits. They should be omitted and the models should be revised accordingly.

Some of the Institutional depositors:

- Public sector entities
- The National Social Security Fund
- Medium and large companies whose bank deposits are earmarked for planned future investments, working capital financing, provisions for 'Accounts Payables' such as salaries and dues to suppliers, VAT, and other taxes, in addition to other provisions set aside to pay for end-of-service indemnities, upcoming purchases of inventory, future rent, bad debt, unsettled legal liabilities, and for other outlays necessary for the continuity of their businesses
- Insurance companies' provisions for future claims on their policies
- Real estate developers, law firms, and other types of companies that hold money in escrow or as deposits and advance payments for goods to be delivered or services to be rendered
- Large NGOs which typically allocate financial reserves for ongoing and future activities
- Cooperatives (agricultural, employees, consumers, etc.)
- Business borrowers who have obtained loans from non-bank entities such as shareholders and other investors, individual lenders, and foreign lenders for business purposes and planned investments
- Capital of companies

Some of the harmful effects of a haircut to the economy

- Trust in the banking system has already been shattered. Instead of regaining that trust within a few short years, a haircut will extend it for at least a decade or more. This in turn will push people to continue hoarding cash at home, or placing it in banks abroad for those that are able to do so
- Funds affected by the haircut will be taken out of the real economy, preventing their rightful owners from:
    - › Market consumption (in grocery stores, restaurants, clothing, electronics and appliances, education, health, furniture, real estate, automobiles, etc.)
    - › Passive investments (in stocks and equity, bonds, real estate projects, lending to family's and friends' businesses)
    - › Active investments (starting or expanding a business, real estate development, and other ventures)

Some of the harmful effects of a haircut to social matters

- It will substantially diminish the level of financial donations and support provided to NGOs who are playing a vital role in filling the void left by the State such as in health, education, poverty alleviation, orphanages, homes for the elderly, arts and culture, combating domestic violence and substance abuse, protecting the environment, support of religious activities, sponsoring sports events, and family solidarity associations
- It will be detrimental to end-of-career financial security, especially for pensioners deprived of monthly incomes and who are beyond employability

A haircut cannot achieve an equitable distribution of losses

Under any of its schemes, a haircut is a regressive tax. It is biased against wealth in cash deposited in local banks – but spares the following types of wealth:

- Cash transferred abroad
- Real estate properties
- Other types of high value ownership (jewelry, equity shares in companies, intellectual property rights, artwork, etc.)

It is difficult for a haircut to do justice when considering the length of time that these funds have been deposited, and the time spent accumulating these savings. Several billions of dollars were transferred from abroad in 2019 alone. Other amounts have been deposited in the banking system for a decade or more. Will a haircut differentiate between local and foreign, resident and non-resident, old and young depositors? Could it distinguish hard-earned or investment-grade funds from speculative or suspicious money?

Conclusion

Don't think about it!

Appendix F

Accounting balance for writing off BDL loan to Treasury

The BDL should write-off its debt to the Treasury, de-facto forgiving that loan. That loan was never going to be repaid, and it is from a Sovereign entity to its parent.

The Asset – loan to the Treasury – would be zeroed in one-go or gradually.

The counter entry can take the form of one of the following options.

Reclassify the debt under 'Other Assets', which would bring that line item to a negative position. This would be equivalent to consolidating public debt with Central Bank assets.

To avert losses to the P&L of the Central Bank and mitigate the lost income from debt servicing, CD rates should be reduced to compensate. This measure will lead a several positive results. It will compel banks to reduced deposit rates on their clients, which will have a broad impact on all interest rates in the financial markets including bonds. This will reflect that the Central Bank is utilizing indirect instruments to direct financial markets instead of using statutory directives to control interest rates as recommended by the IMF.

The suggested mitigation measure (reduction of CD rates) applies to all write-off recordation options listed below as well.

Other accounting recordation options

Negative Equity

Impute the debt write-off to equity. This would lead to a very large negative equity. Central Banks may still operate in the short and medium term with a large negative equity, provided that there is a government reform plan and economic growth plan that will allow the Central Bank to reconstitute its equity with time through seignorage and/or operations

Negative Liability

The amount will be transferred under Other Liability – creating a negative entry

Money Creation

The Central Bank can – on its books, as an accounting entry – create in parallel liquidity (M2) to offset the loss in asset, i.e. replace the asset. Since the newly created money has been already disbursed, it will not trigger additional inflation and/or devaluation.

Haircut on bank deposits

This option, proposed by some, is dangerous, and not recommended (see Appendix E on haircut). The amount will be deducted from bank deposits which may trigger a haircut on High Net Worth depositors at banks in the form of a bail-in or another scheme. This option should be preceded first by the write-off of Central Bank debt, followed by a haircut on Eurobonds.

Appendix G: Top 20 sacred cows

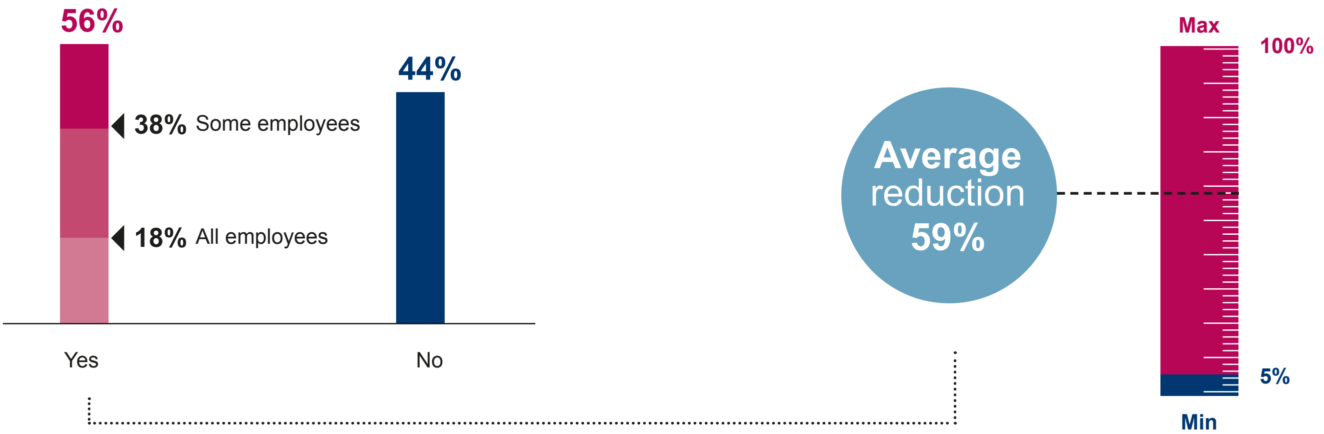
There are too many sacred cows that together make any kind of reform plan impossible. Discarding some, or even all, of these sacred cows is necessary to break the economic vicious cycle.

1. Usage of Gold (sale, rent, collateral)
2. Involve the private sector in State assets (privatization, management contracts, BOT, and other schemes)
3. Stop electricity production and tariff subsidies. Improve bill collection
4. Combat contraband and dodging Customs
5. Combat tax evasion
6. Combat all forms of corruption
7. Fuel and other subsidies
8. Administrative modernization and reform
9. Reforming the National Social Security Fund
10. Confessional nepotism in the administration
11. Stop subsidizing private schooling and hospitalization for public employees
12. High pension for top-level employees, including security forces
13. Transparency in contracts
14. Fiscal accounting on an accrual basis
15. Publishing detailed financial statements of the Central Bank
16. Inventory State assets
17. Recover seashore and riverside public land
18. Modernize the judicial system and render it independent
19. Enforce regulations protecting the environment (such as quarries)
20. Remove State and private sector monopolies

Appendix H: Survey on crisis effect on jobs and salaries

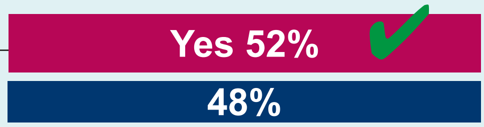
Across all sectors

Have you, as a result of the crisis, reduced your workforce since 2019?

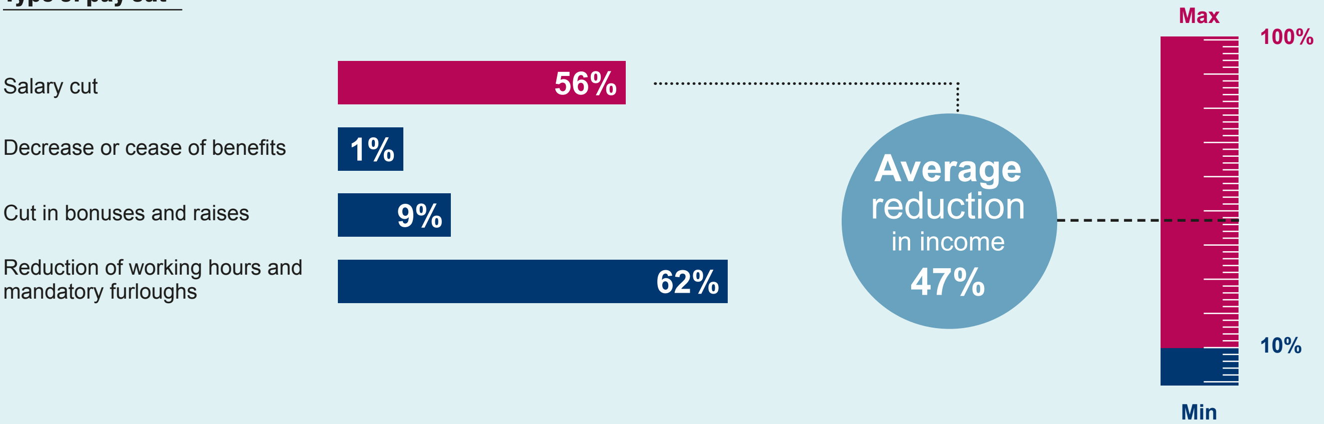


Was there any type of pay cut since 2019?

Number of companies



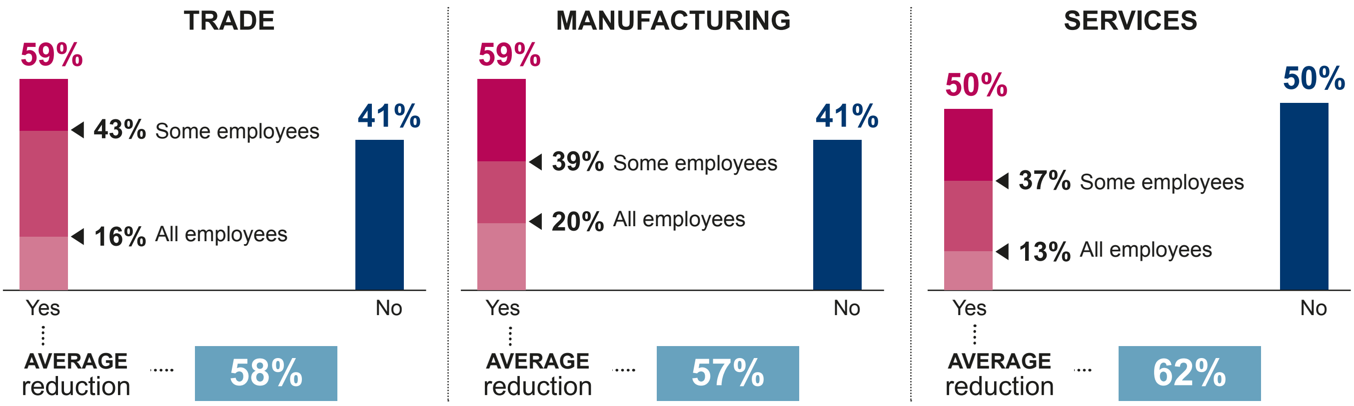
Type of pay cut



Any changes in sales since 2019?

Segmented by sector

Workforce reduction



TRADE

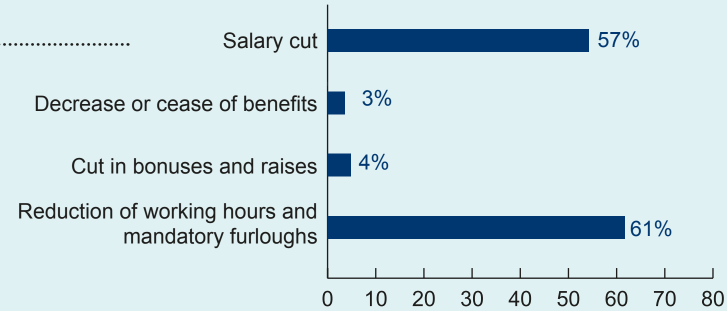
Companies reducing salaries

47%

Types of pay cut

AVERAGE reduction in pay

51%



MANUFACTURING

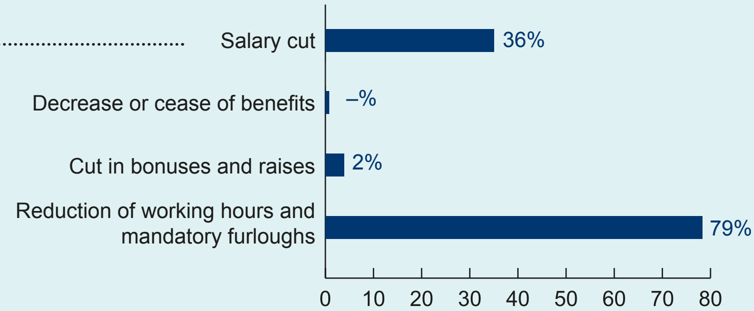
Companies reducing salaries

38%

Types of pay cut

AVERAGE reduction in pay

47%



SERVICES

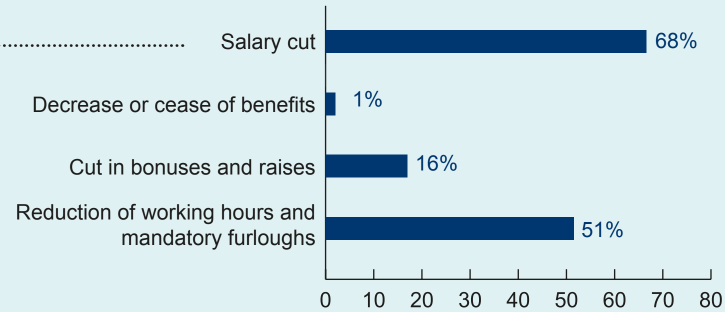
Companies reducing salaries

75%

Types of pay cut

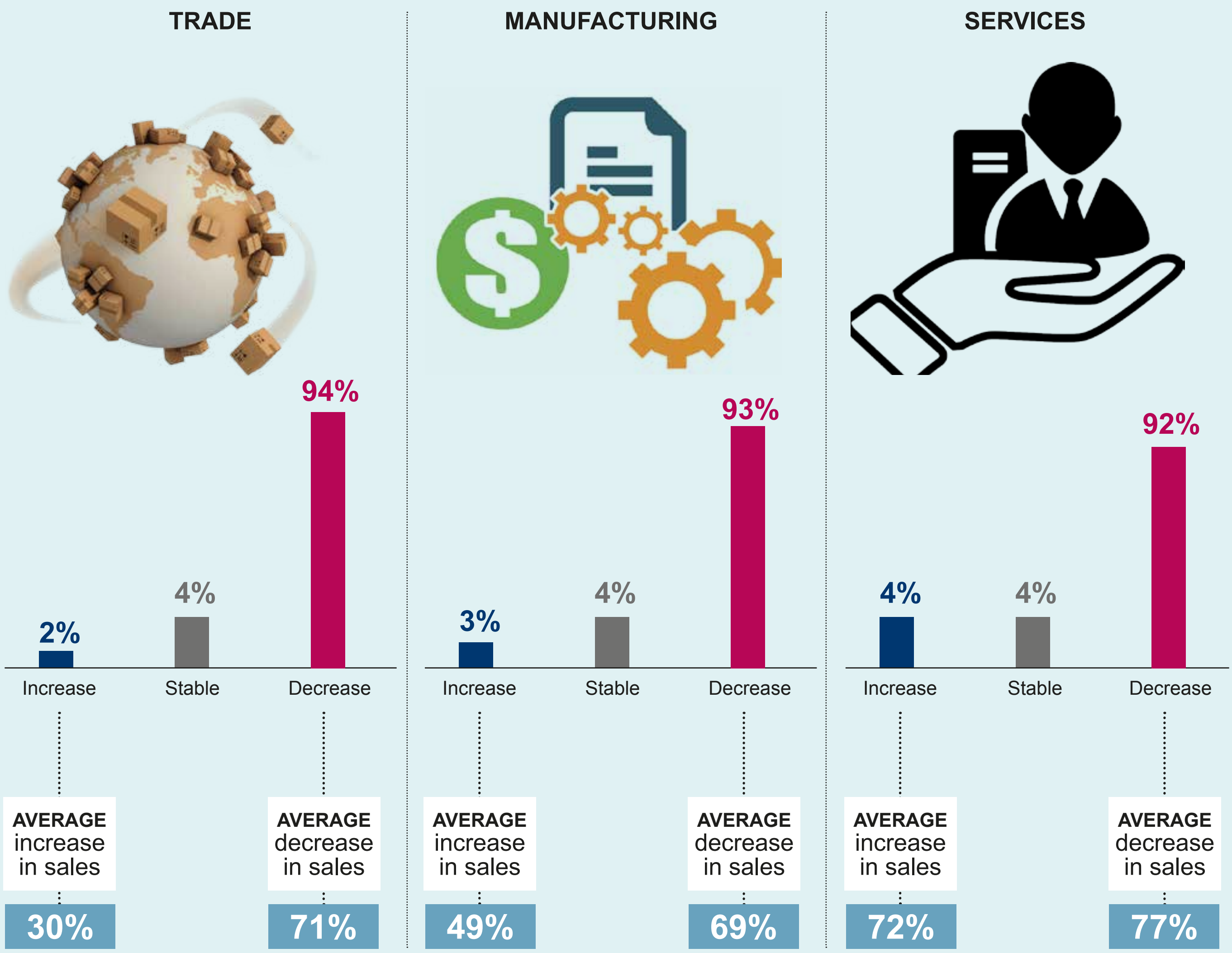
AVERAGE reduction in pay

46%



Segmented by sector

Change in sales turnover



Appendix I: Schedule of taxes collected in 2010-2019

COLLECTED TAXES IN USD MILLION

	GDP ($ billion)	GDP Growth	TTL tax	VAT	Customs	Salary tax	Tax on Profits	Tax on Interest	Capital Gains tax	Property tax	Property Registration	Other
2010	38.4	7.5%	6,651	2,650	540	252	539	419	142	97	569	1,444
2011	40.1	1.5%	6,590	2,200	518	303	688	435	162	93	563	1,629
2012	44.2	2.8%	6,791	2,184	531	349	671	431	197	114	580	1,735
2013	46.9	2.5%	6,744	2,197	545	391	649	440	154	119	565	1,683
2014	48.3	2.0%	6,925	2,201	511	429	746	474	174	145	577	1,668
2015	50	0.4%	6,887	2,106	475	445	735	511	189	159	515	1,751
2016	51.2	1.6%	7,065	2,156	471	468	762	546	192	170	535	1,765
2017	53.4	0.6%	8,254	2,317	495	451	1,401	603	237	189	643	1,919
2018	56.4	0.2%	8,511	2,561	497	580	901	1,201	278	188	496	1,810
2019	58.6	0.2%	8,357	2,172	421	580	918	1,871	241	153	350	1,651
Total												
	487.5	**0.19**	**72,774**	**22,745**	**5,003**	**4,247**	**8,010**	**6,930**	**1,966**	**1,427**	**5,392**	**17,055**
% / GDP												
			14.9%	**4.7%**	**1.0%**	**0.9%**	**1.6%**	**1.4%**	**0.4%**	**0.3%**	**1.1%**	**3.5%**

		Salary Tax	Salary Tax	Profit tax	Salary+Profit	Effective rate @ Import		
	Tax/GDP	% salaries	% GDP	%GDP	% GDP	Customs	VAT	Cust+VAT
2010	17.3%	1.87%	0.66%	1.40%	2.06%	3.0%	8.3%	11.3%
2011	16.4%	2.06%	0.76%	1.72%	2.47%	2.5%	7.5%	10.0%
2012	15.4%	2.02%	0.79%	1.52%	2.31%	2.5%	6.8%	9.3%
2013	14.4%	2.27%	0.83%	1.38%	2.22%	2.6%	6.6%	9.2%
2014	14.3%	2.39%	0.89%	1.54%	2.43%	2.4%	6.7%	9.1%
2015	13.8%	2.36%	0.89%	1.47%	2.36%	2.6%	6.8%	9.4%
2016	13.8%	2.39%	0.91%	1.49%	2.40%	2.5%	6.5%	9.0%
2017	15.5%	2.06%	0.84%	2.62%	3.47%	2.5%	6.9%	9.4%
2018	15.1%	2.24%	1.03%	1.60%	2.63%	2.5%	7.6%	10.1%
2019	14.3%	2.19%	0.99%	1.57%	2.56%	2.2%	6.5%	8.7%
		2.2%	**0.9%**	**1.6%**	**2.5%**	**2.5%**	**7.0%**	**9.5%**

	Imports	Estimated Salaries (*)
2010	17,964	13,509
2011	20,158	14,755
2012	21,280	17,261
2013	21,228	17,261
2014	21,438	17,939
2015	18,595	18,880
2016	19,119	19,560
2017	19,583	21,915
2018	19,979	25,917
2019	19,239	26,500

(*) 4x public sector wages

Appendix J: Critique of the April 2020 Government Plan

The government's Financial Recovery Plan was met by mostly negative reactions by private sector representatives, economists, and the street. Some of them rejected the official document in its entirety. Other parties saw positive elements especially in the plan's assessment of the magnitude of the financial 'black hole' as described by the Prime Minister.

Our review of the government plan shows that it has failed to come up with a correct diagnosis of the crisis and that it has made proposals that would deepen it further. We have proposed an alternative Economic Revival Plan in a separate document (infopro.com.lb/revival).

Without delving into the numbers (they are outlined in our alternative plan), here are the basic points that we take issue with.

1. **No confidence-building measures**

   The plan was devised behind closed doors without serious deliberations with, or involvement of stakeholders. The Central Bank (BDL), Association of Banks, and the Economic Associations have all complained of being sidelined. Other stakeholders representing labor, bank depositors, and civil society at large were either not consulted, or dealt with through hasty formalities. The plan was not paralleled by decisions to be implemented immediately and that aim to mitigate some of the urgent social or financial problems faced by citizens. To compound the problems generated by the lack of measures to restore confidence, the authorities started targeting, in a random and disruptive manner, various segments of the business sector, throwing people in jail and confiscating inventories, without due process, a behavior reminiscent of authoritarian regimes. This has resulted in a widespread attack on the plan by most stakeholders whether rightly or wrongly. What was needed was a plan that can muster support from the largest segment of the population and of the private sector, in order to kindle a light at the end of the tunnel as a start. The first good impression never materialized, and as the saying goes: "One never gets a second chance to make a first impression." The politico-financial system, even though, was faulty, corrupt, and inefficient, had been somehow successful in maintaining a certain balance. When confidence was lost, that balance was broken. Restoring confidence, starting with a buy-in by stakeholders of a recovery plan, is a prerequisite for restoring financial, fiscal, and economic balances.

2. **Paltry economic growth targets**

   The plan forecasts a negative or stagnant economic growth until 2023-2024 when the economy is expected to start registering a growth of three percent. These growth rates are measly – especially considering the cumulative negative (at best) economic growth of 25 percent over the 2019-2021 period forecasted by the plan. The projected growth for 2021 is just 1.6 percent which is practically zero. These growth levels (2023-2024) should be achievable without any effort, given the pent-up demand created in previous years (2019-2022). An economic recovery plan ought to target much higher growth levels (six to nine percent), when the right measures of restoring confidence, especially in the banking sector, are taken.

   With such low-ball forecasted results, these massive restructuring and debt programs are pointless.

3. The problem is not well diagnosed

a) **Absence of the political dynamic**
It is a denial of facts when the current economic, fiscal, and financial crisis is expressed solely on the basis of a balance sheet analysis and on what has been deemed 'losses' in the financial and fiscal sectors. Local and regional political factors, since 1993, and especially after the outbreak of the war in Syria, have had a considerable and direct impact on economic and financial developments, as well as on the way the State was run. Political dynamics have also led to a deterioration of the country's goodwill and friendly relations with donor countries in the West and the Gulf, and the international financial system including credit rating agencies. Side-stepping the political component, which is the most influential, is tantamount to behaving like an ostrich hiding its head in the sand. No amount of financial wizardry will be able to portray or bring solution to the predicament we find ourselves in, without a serious modification in political behavior.

b) **Daily nibble at the State**
Political parties, led by Hezbollah, and with the participation of many others, have been nibbling at the State's resources and decision making for years. This nibbling has led to the depletion of the State's financial resources. It resulted in inefficient and fraudulent spending and foregone revenues from Customs and tax collections, as well as in postponed reforms including modernization of laws, the infrastructure, and good governance. The economic and societal landscape has gradually morphed to become more comparable to countries in the Iranian orbit than other emerging economies.

c) **Mixing unmixable debt and financial elements**
The plan has lumped together financial elements that should not be aggregated while defining the scope of the problem or proposing recovery measures. One size does not fit all in this case. The government plan has combined debt denominated in dollars with lira debt (at what rate should it do that?). It has lumped together amounts defaulted on and short-term obligations with long-term obligations. Money owed internally to the financial sector has not been segregated from debt to outside the financial system which is partly owned by residents, and the other part held by foreigners. Even debt owed to foreigners has short and long term maturities. The plan should have looked at each of these components one by one, and proposed courses of action for each separately. The same analysis applies to bank deposits at the Central Bank, and depositors' funds at banks. By dividing into separate components what has been aggregated into one large sum, solutions for each would become easier to devise and implement.

d) **Inflating 'losses'**
Recognizing immediately the entirety of 'holes', as total losses, leads to inflating the numbers unnecessarily. There is also a double and triple counting when combining losses and when assessing seignorage operations at BDL. This aggregation has led to a claim of 'total loss' of LL241 trillion (@LL3,500/USD).

e) **No balance sheet has been presented**
The government has focused solely on liabilities, including its own. No accounting for State assets has been presented – for two obvious reasons. The first one is that the State has never inventoried its total assets and evaluated them. The second reason is that this would lead to suggestions for a possible selling of State assets, which is not just a political tinderbox, but not even open for discussion. No debtor in default can go to a lender without a balance sheet!

f) **Scapegoating Syrian refugees**
The claim that the displacement of Syrian nationals is to blame for costing Lebanon $25 billion is falsely attributed to 'international institutions'. In reality, it was the Syrian security crisis that has cost Lebanon $20 billion which was mitigated by around $10 billion in aid (including its economic multiplier) received in favor of refugees and host communities. Therefore the war in Syria was costly to Lebanon while the displacement yielded positive financial inflows.

4. Counterproductive solutions and non-realistic expectations

The government plan has presented a series of ideas and proposals that are not realistic, will lead to severe recession, and will delay the restoration of confidence.

a) **More and more debt**
The government, lamenting 30 years of past wrong policies, has resorted to an upfront massive debt package, up to $28 billion (under an optimistic scenario!), from the IMF, CEDRE conference pledges, and the market. This entails the following problems:
› It is a continuation of the policies of the past 30 years which consisted of more borrowing and kicking the can of reforms down the road.
› It has not presented a cash flow scenario of how the debt will be repaid.
› It seems it had forgotten that CEDRE money is earmarked for infrastructure projects, not Treasury operations. We will need to come up with several billions of dollars to pay our portion of the infrastructure investments (CEDRE money does not finance 100 percent of projects).
› The additional borrowing will double foreign currency debt and will increase by several multiples the debt held by foreign entities.
› The plan does not explain how the eventual new debt will be used. Will it be used by BDL to support the deficit in the balance of payments, or will it go to the Treasury to close budgetary gaps?

b) **Going to the IMF for the wrong reasons**
The government is going to the IMF for a quick $10 billion. Assuming that external and internal political impediments will be lifted from the road to concluding an agreement with the IMF (an overreaching assumption), what should be sought at first from the IMF is a validation of a reform program. The plan does not include any draft of that program. Instead it presents some random ideas, without a timeline, or the means and resources needed to implement them. For example, how will the government be able to improve tax collection when at the same time it has to apply a moratorium on new hiring? The current headcount of tax inspectors is much below what is needed to increase tax collection (assuming that companies will generate taxable profits in the foreseeable future). This applies to almost every reform suggested in the plan.

c) **Managing the peg**
The plan assumes a 'flexible' currency exchange rate, with the official peg being gradually lifted to reach LL4,300/USD in 3.5 years (2024). This approach encompasses many deficiencies. It assumes the availability of sufficient currency control mechanisms and of liquidity which are not there, and also does not factor in the fact that the market will immediately discount the gradual progressive un-pegging. No country in the world, large or small, has had long-term success in controlling the rate of foreign exchange when faced with a negative balance of payments. The market always wins.

d) **Unconvincing budgetary reform**
The budget forecasts for 2021-2024 are all expressed as percentages of theoretical GDPs, rather than in nominal values – which makes them difficult to assess. The focus is on increased taxation in a recessionary period, which is a disincentive for investment. The mechanism of enlarging the tax base, by improving collection, is not well-defined, especially that the current administration is not capable of achieving this goal. This is a long term endeavor that will not yield sizeable results in the short term, or during the plan's time horizon. Similarly, most of the measures for reducing expenditures, as outlined by the plan, will not bear fruit within this time frame.

e) **Ambiguous capital controls**
The plan foresees, in passing, a gradual lifting of capital controls starting from 2021, and predicts an initial outflow of funds, to be recovered after restoration of confidence. There is no indication as to the level and period of time when these controls will be lifted, and the extent of the impact that the outflows will have on the balance of payments. The balance of payment projections are not detailed enough to discern that particular element.

f) **Recovery of 'Stolen Funds'**
The State should go after 'Stolen Funds', prosecute the thieves, and recover any assets illicitly misappropriated that it is able to apprehend. But tagging an arbitrary sum of $10 billion as 'stolen funds' – just like that – in a 'Recovery Plan' is a sign of a lack of professional seriousness. The plan assumes $10 billion recovery of 'stolen funds' without any justification of the amount, or serious assessment of where has this money been stolen from, by whom, where is it located, what judicial measures will be taken, and how long it will take to recover it. Some misappropriated funds may be easier to find such as inflated contracts, commissions paid, funds diverted, etc. But the biggest amount consists of missed revenue opportunities such as those lost to contraband, under-declaration to Customs, tax evasion, cheating at the level of quantities of imported fuel and other resources. Most of these funds do not belong to politically exposed people (PEP), and are extremely difficult to trace. Comparisons with countries with a deposed dictator are not applicable, because in those countries only one person or a very small circle around the ruler were taking advantage. In Lebanon, one should assume thousands of people were taking advantage of the situation. The 'stolen funds' landscape is very fragmented and difficult to define.

g) **Recovery of 'Evaded Funds'**
The plan calls for recovery of 'unlawfully evaded funds'. There is no legal basis for doing that, whether in Lebanon or in any other country provided that the money has not been laundered. No capital control law was in force at the time, so the transfer of money outside the country was not unlawful. What was not lawful is detaining depositors' money and preventing it from being withdrawn and/or transferred abroad. Some banks may have acted unfairly and favored some depositors over others. This is probably a civil dispute between the banks and depositors to be resolved amicably or by the civil courts. If by some 'miracle' the 'evaded' money is returned to the country, is it going to be confiscated by the State?!! The plan suggests applying those recovered funds against bank losses but the 'evaded funds' are withdrawals, not losses. Finally, a sizable portion of these funds belongs to non-nationals, or was disbursed to meet pressing external obligations. How will they be recovered? Do foreign laws allow such a recovery?

h) **On 'Excessive Interest Rates'**
The plan refers to 'excessive interest rates' paid to depositors. Putting aside the financial engineering topic which will be discussed in the following point, it will be impossible to prove that interest rates paid on deposits are excessive. There is no reference or benchmark to support that argument. When compared to interest rates paid by the Sovereign on debt, or interest rates paid on deposits in similarly rated countries, the interest rates in Lebanon are below average. If the rates on deposits are nevertheless deemed excessive by some mechanism, then lending rates to the private sector (which are based on deposit rates) should also be recognized likewise as excessive. Will borrowers be compensated, and if so, by whom?

i) **Financial engineering was sanctioned by the State**
The financial engineering operations undertaken by the Central Bank have generated a lot of controversy, and were criticized by many. Opinions differ regarding these operations in which the State was a stakeholder whether by approving them having members at BDL's Central Council (board of directors), and by agreeing to a special taxation targeting these operations. Therefore, while one may be of the opinion that these operations were not optimal, or even a bad strategy, they were legal (unless fraud has occurred), and acquiesced by the State. There is no legal basis, or process, to undo these operations.

j) **Crushing the financial sector**
The government plan entails restructuring 'losses' of BDL and the banking system by taking a "contribution" from banks' deposits and holdings of certificates of deposits (CDs). The government is vague regarding the amount of that haircut which will necessarily lead to getting its hands on depositors' money in banks. It will also confiscate (bail-in) bank capital and require existing bank shareholders to re-inject capital equivalent to all dividends earned during the 2016-2020 period. Finally, the government will contemplate the issuance of five new banking licenses (ignoring that it is the Central Bank, not the government that has this authority). Should the government pursue this strategy, and assuming it finds the legal mechanism to do so – which is tantamount to nationalization of private assets – it will delay the restoration of confidence by at least a decade. No plan or series of measures (as expressed in the plan) will be able to mitigate the damage caused by seizing private assets. It will also deprive the economy from accessing these funds for investment or consumption purposes.

k) **Continuation of subsidies to the wealthy**
The plan foresees a continuation of ineffective subsidies of the import of fuel, medicine and wheat, all of which benefit the rich, and companies, much more than the poor, since they constitute the largest portion of their consumption. Subsidies to the poor must use mechanisms that are different from the current across-the-board approach.

5. Missing from the plan

a) **Sacred cows**

Many essential topics we call 'sacred cows' are excluded from the public and economic discourse. They are wrapped in dogmas and misconceptions that have accumulated since decades. They constitute together a barrier to progress, and are at the origin of our economic and political predicaments. It will not be possible to achieve recovery if society and the political landscape do not revise them with 21st century concepts.

Partial list of 'Sacred Cows'

Usage of gold • Partnering with the private sector • Combating tax evasion • Reforming the National Social Security Fund • Transparency in contracts • Recovering seashore and riverside public land • Combating contraband and dodging Customs • Subsidies • Pensions • State assets • State and private sector monopolies • Tariffs • Effective bill collection • Administrative modernization and reform • Publishing detailed financial statements of the Central Bank • Enforcing regulations protecting the environment including quarries • Combating all forms of corruption • Confessional nepotism in the administration • Fiscal accounting on an accrual basis • Modernizing an independent judicial system

b) **Optimizing State assets**

One of these sacred cows is the issue of involving the private sector in the management of State assets, including privatization and its derivatives such as a build–operate–transfer (BOT) system, management contracts, concessions, etc. Common wisdom amongst most is that State assets should not be sold today because their prices are distressed. The argument does not hold for the following reasons:

- The only criterion is to compare the future revenues (and residual values) of these assets (next ten years for example) should they remain in State hands with revenues realized under a private sector scheme.
- These assets should not have been in State hands in the first place. The State should not own real estate it does not need for its operations. It has no business operating utilities and companies.

Privatizing State assets or embarking on other schemes with the private sector will yield more revenues to the State from taxation. It will lead to employing more people with better jobs at higher salaries, and will increase sales, profits, productivity and service quality. It will also attract investments from within the country and from abroad. If done correctly, the majority of shares of privatized entities will be sold to the public, creating alternative savings avenues and an additional source of dividends, and will invigorate capital markets. The advantages far outweigh any potential increase in the future value of the asset. Anyway, considering how the public sector operates, the value of these assets is likely to decrease in time if they remain in the hands of the government.

Appendix K: Subsidies and the poor's share calculations

State Subsidies

Subsidies paid by the State reached around $2 billion in 2019. The lion's share of the subsidies ($1.5 billion or 75 percent of the total) was transferred to loss-making EDL. Subsidies for healthcare services reached $293 million. Interest rate subsidies on housing and other loans totaled $67 while agricultural subsidies to the Directorate General of Cereals and Beetroot million amounted to $8 million. The subsidies included in the 2020 budget plan also total around $2.1 billion (at the official exchange rate). Besides housing loans, the government subsidizes the interest rates of loans provided for agricultural, industrial, tourism and technological projects. It also allocates subsidies to support free private schools, NGOs, and civil society organizations.

Items	Actual 2019	Budget 2020
Medicaments	171	186
Hospitalization expenses	292	534
EDL	1,505	995
Interest subsidies	67	86
Contributions to non-public sectors*	145	303
Transfers to Directorate General of Cereals and Beetroot	8	6
Total	**2,188**	**2,110**

*** Free private schools and NGOs**

Central Bank's support to basic imports

The Central Bank (BDL) is providing access to foreign currency for imports of basic commodities at favorable exchange rates. Supporting these imports allows the economy to continue functioning and prevents a further deterioration of the purchasing power of consumers. These measures are, however, depleting BDL's foreign currency reserves which could be wiped out at a rapid pace if they are not offset by sufficient capital inflows.

Foreign exchange subsidy

BDL's support to importers of basic commodities aims to protect consumers' purchasing power by preventing the prices of these commodities from skyrocketing with the collapse of the lira. The subsidy consists of the difference between the value of the funding provided by BDL at the official rate and the value of this funding at the parallel market rates. . This means that the prices of subsidized commodities to final consumers are reduced by the amount of the subsidy. According to InfoPro estimates, the total subsidy would reach $2.6 billion in 2020 if the support for imports of industrial raw materials, medical supplies, and the goods of the consumer basket started since the beginning of the year. Wheat, medicine, and fuels are the only commodities whose import financing support program has been fully implemented so far.

Two exchange rates

The Central Bank provides access to foreign currency funding to importers of the items included in the expanded consumer basket at the exchange rate of LL3,900 to the dollar. All remaining commodities, with the exception of industrial raw materials, get their funds at the official exchange rate of LL1,515. The exchange rate does not apply for the funds allocated for industrial raw material imports because they are denominated in dollars or other foreign currencies. The support provided by BDL differs from one group of commodities to the other in terms of the percentage of the import bill covered. This percentage is set at 85 percent for wheat, medicine, and medical supplies, 90 percent for industrial raw materials and fuels, and 100 percent for the items included in the expanded basket of consumer goods, mostly food and other fast moving consumer goods in addition to products used in the agricultural and industrial sectors for the production of consumer goods. Importers of industrial raw materials, however, cannot access more than a combined funding of $100 million per year.

	Funds made accessible as percentage of import bill	Exchange rate
Wheat	85%	LL1,515
Pharmaceuticals	85%	LL1,515
Medical supplies	85%	LL1,515
Fuels	90%	LL1,515
Industrial raw materials	90%	In foreign currencies
Basket of consumer goods	100%	LL3,900

Source: Central Bank

Basic commodities

The foreign exchange subsidy for imports of wheat, medicine, and fuels is expected to reach an estimated $1.8 billion in 2020, according to InfoPro estimates. The Central Bank started its foreign exchange support to basic commodity imports with wheat, medicine, and fuels when it issued a circular at the end of September 2019 for this purpose. All kinds of fuels benefit from the foreign exchange subsidy such as gasoline, diesel, and fuel oil for Electricité du Liban, as well as liquefied petroleum gas (LPG) which is mainly used for cooking. These basic commodities accounted for 36 percent of total imports in the first half of 2020. Out of $1.9 billion worth of these commodities imported during this period, $1.7 billion benefited from BDL's financing at the official exchange rate. BDL said it will be able to provide subsidized funding for these commodities for three months only. It said it will be forced to stop funding when its foreign reserves reach a minimum threshold.

FIRST HALF OF 2020 (USD MILLION)

	Total Value of Imports	Access to Funding Provided by BDL
Wheat	80	68
Fuels	1,451	1,306
Medicine	333	283
Total	**1,864**	**1,657**

Source: Customs, InfoPro

Support for industrialists

The foreign exchange subsidy for imports of industrial raw materials for 2020 is estimated at $93 million, according to Infopro estimates. The Central Bank is allowing the industrial sector to access a total of $100 million of financing in dollars per year to pay for their raw material imports. This decision mainly targets manufacturers who can't transfer money abroad to pay for these imports because they sell their output on the local market. According to the Association of Industrialists, the funding to be made accessible by BDL covers only two weeks-worth of raw material imports. The industrial sector's annual financing requirements for such imports are $3 billion which is equivalent to the sector's exports. The sector is also benefiting from other support schemes such as interest rate ceilings on loans and rescheduling of existing loans. Industrialists will also benefit from the Cedar Oxygen Fund, a peer-to-peer financing and matchmaking platform that aims to give manufacturers access to financing schemes for raw material imports.

Medical supplies

The estimated foreign exchange subsidy for imports of medical supplies would reach $122 million in 2020 assuming the related circular was fully implemented starting from the beginning of the year. The financing support provided for imports of medical supplies is, however, moving at a slow pace. The Central Bank had promised to provide $240 million of financing for these imports per year in the first stage. It gave importers access to an estimated $70 million in foreign currencies from the beginning of the subsidy in December 2019 to August 2020. When the related circular is fully implemented the funding that must be made available by BDL should range between $340 million and $380 million because annual imports of medical supplies range from $400 million to $450 million and these imports are 85 percent covered. All kinds of medical supplies are imported from abroad while importers are selling them in lira at the official rate. The remaining 15 percent needed in dollar for imports is bought on the parallel market at the rates (LL7,000 to LL8,000 to the dollar at the time of this writing). Importers have prepared a list of around 7,000 items that was submitted to the Central Bank to indicate the covered items but BDL has not replied so far. In addition to that, the decision whether or not to grant the subsidized liquidity for imports takes more than two months. This is creating uncertainty for importers of medical supplies about how to price these products.

Expanded basket of consumer goods

In a bid to provide additional support to consumers amid rampant inflation, the Ministry of Economy and Trade (MoET) approved last May a basket of food products whose prices are supported by BDL. In July, the MoET expanded the basket to nearly 300 basic commodities covering 80 percent of consumption products. The foreign exchange subsidy provided for the expanded consumer basket is estimated at $560 million in 2020 assuming full implementation of the related circular starting from the beginning of the year. The funds to be made accessible by BDL under the 'expanded consumer basket' are estimated at $1.2 billion per year. The expanded basket includes additional food products as well as basic consumer products such as toothpaste, shaving blades, and pesticides. The basket also comprises agricultural products such as fertilizers, seeds, fodder, veterinary products, livestock, and poultry. Raw materials for locally manufactured basic products are also included.

Double-edged sword

The $10 billion funding allocated by the Central Bank for basic imports and for its interventions on the foreign exchange market is expected to wipe out its foreign currency reserves at a fast pace unless this bleeding is offset by foreign currency inflows. This requires an urgent foreign assistance to break this vicious circle. The major foreign currency inflows include remittances, foreign direct investment, and revenues from tourism and exports. BDL's foreign currency liquid and usable reserves stand at $14.5 billion. These reserves are equivalent to BDL's total foreign assets ($28.5 billion) less its holdings of Eurobonds ($5 billion) and its foreign currency loans to local banks ($9 billion). The scale of BDL's intervention on the foreign exchange market is estimated at $4 million to $5 million per day. Riad Salameh, Governor of the Central Bank said in early September that BDL has $19.5 billion in foreign currency liquidity out of which $17 billion are in mandatory reserves that cannot be used to finance international trade.

Side effects

Subsidizing commodity prices, notwithstanding its benefits to consumers, could have negative side effects such as smuggling. The support provided by BDL has resulted in lowering the prices of local goods compared to other countries mainly neighboring Syria. The price differential could be a fertile ground for contraband as smugglers could earn a much higher profit margin compared to local sales. The MoET and the Ministry of Energy and Water have taken measures to prevent the smuggling of fuels by tracking the distribution of this basic commodity. Distributors are required to submit to the ministry on a weekly basis the names of the buyers of fuels, their locations, and the quantities they have purchased.

Calculating the share of poor from subsidized products

The 'Poor' consume on average less than 25 percent of the total value of products and services subsidized by the State and the Central Bank.

The calculation was based on LL34,500 as a new daily ncome threshold for the 'Poor' category.

The weighted average exchange rate of the cost of subsidized products is LL2,800.

Based on an assumed 70 percent reduction in consumption levels (due to increased unemployment and salary reductions) in local currency equivalent of fresh dollar value for the 'Poor' category, and 30 percent for the 'Non-poor' category.

First Methodology

The calculations are based on a study by the Central Administration of Statistics (CAS) about household expenditures. The latest figures are from their revised study in 2012 (http://www.cas.gov.lb/index.php/demographic-and-social-en/householdexpenditure-en).

The table from CAS shows the average annual household expenditure across the annual income declared by product categories.

To calculate a new poverty threshold, a weighted average dollar rate should be used.

Weighted average dollar rate

Based on the CAS Consumer Price Index (CPI) weighting, subsidized items weights are as follows:

Categories	Weight	Dollar Rate	Weighted total
Food and Non-Alcoholic Beverages	20	3,661.5 (=3,900 x0.9+1,515x0.1)*	73,230
Housing, Water, Electricity, Gas and Other Fuels	28.4	3,011.25 (=1,515x0.75+7,500x0.25) **	85,520
Health	7.7	1,515	11,666
Telecommunication	4.5	1,814.25 (=1,515x0.95+7,500x0.05)	8,165
Education	6.6	1,515***	9,999
Total	**67.2**		**188,578**

Assumptions derived from sub-indices of

* Ten percent of the 'Food and Non-Alcoholic Beverages' basket contains wheat so ten percent is priced at a rate of LL1,515

** 40 percent of the consumption basket is considered for housing expenditures such as interest on housing loans rated at LL1,515 and fuels subsidized at LL1,515.

rent and maintenance rated at LL7,500, the other such as fuel, gas or interest on housing loans is subsidized at a rate of LL1,515

*** 95 percent are services at a rate of LL1,515 and the other are new hardware/phones priced at LL7,500

The weighted average dollar rate is: 188,578÷67.2 = LL2,806 or rounded down to LL2,800

Poverty level threshold
The CAS revised expenditure study data was aggregated and segmented across 'Poor' versus 'Non-Poor'.

The income threshold for the poverty rate level in 2012 was LL12,900 ($8.6) per day. To calculate the current poverty threshold, the weighted average dollar rate (LL2,800) was used to adjust the poverty rate, which results in LL34,500 per day ($4.6 when LL7,500 per dollar average black-market exchange rate is used).

Consumption levels
CAS categorizes income into bracket levels. The lowest bracket (a monthly household income of less than LL650,000) is considered 'Poor'.

SUBSIDIZED PRODUCT ANNUAL HOUSEHOLD EXPENDITURE (LL THOUSAND) - 2012

Subsidized items	Poor	Non-Poor
Bread and cereals	241	252
Housing, Water, Electricity, Gas, and Other Fuels	2,245	2,610
Health	777	713
Transportation	363	1,340
Telecommunication	185	416
Average total consumption	**3,812**	**5,332**

To estimate the new consumption levels, it is assumed that consumption was reduced by more than 50 percent (The ratio between the official dollar rate and the weighted average dollar rate of LL2,800: 1,500/2,800 = 53 percent).

The 'Poor' were the hardest hit. The consumption level of this category declined by 70 percent. The Non-Poor's consumption dropped by 30 percent.

SUBSIDIZED PRODUCT HOUSEHOLD ANNUAL EXPENDITURE (LL THOUSAND) 2020 BEFORE ADJUSTING POVERTY LEVEL

Subsidized items	Poor	Non-Poor	Total
Average consumption	**1,144** (3,812x30%)	**3,732** (5,332x70%)	**4,876** (9,143x53%)

Poverty level

To estimate the current poverty level, the InfoPro database was used (52,074 households):

- The midpoint (median) of the bracket was taken as the income e.g. if the bracket was [500$– 1,000$], the income is considered as $750
- The monthly income was divided by 30 to obtain the daily income
- The percentage of poor was calculated for the income threshold for the poverty rate level at LL12,900 per day. This amounts to 12,257 households (out of 52,074) or 24 percent of the pool of respondents (poverty rate in 2018)
- It is assumed that there wasn't any recent increase in salaries or income. The monthly income was divided by today's weighted average dollar rate (LL2,800) to obtain the daily income in fresh dollars.
- It is assumed that the new poverty rate threshold is LL34,500 and that 14 percent of the employed individuals and all the professionals and company owners (that we have in the database) are being paid the equivalent of fresh dollars, so they are not considered poor. It is also assumed that the current unemployment rate is 30 percent, and that another 30 percent of the employees had their salary reduced by 47 percent (based on recent, pre-Port explosion InfoPro field surveys).

Based on the above, the poverty rate is around 26,876 out of 52,074 households = 52 percent.

At this poverty level, the above table becomes as follows:

SUBSIDIZED PRODUCT HOUSEHOLD ANNUAL EXPENDITURE (LL THOUSAND) – 2020 AFTER ADJUSTING POVERTY LEVEL

Subsidized items	Poor	Non-Poor	Total
Weighted average total consumption (per household)	**595** (1,144x52%)	**1,791** (3,732x48%)	2,386
Percent	24.9%	75.1%	100%

Share of the 'Poor' in total consumption of subsidized products and services

Based on the above, the share of the 'Poor', on average, is 25 percent out of the total consumption of subsidized items.

If we assume that the total subsidies by the government and by BDL are around $5 billion, then $1.25 billion goes to the poor or 25 percent.

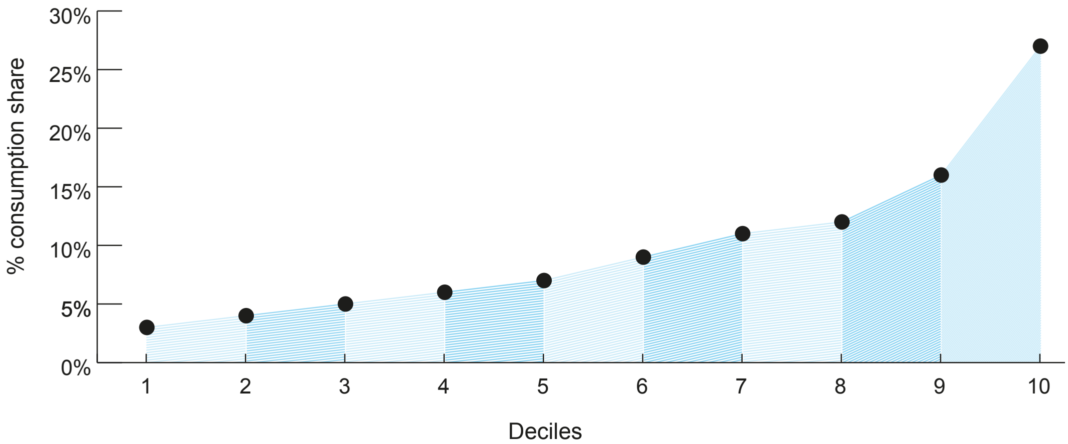
Alternative methodology
To verify the figures, we applied a different approach.

According to a 2013 UNDP report (based on data from 2008), 'Poverty, Growth and Income Distribution in Lebanon'

https://www.lb.undp.org/content/lebanon/en/home/library/poverty/poverty--growth-and-income-distribution-in-lebanon-.html

The consumption shares are as follows:

Consumption shares by decile



It means that the lower 20 percent of the population (the poor) consumes seven percent of the total consumption, while the highest 20 percent of the population (the rich) consume 43 percent. The middle-class consumes 50 percent.

Since it is estimated that now 50 percent of the population is poor, we can assume (by using this chart), that 50 percent of the population (which are poor now) represents 25 percent of the total consumption, and the other 50 percent (non-poor) consumes 75 percent of the total value.

If we consider that the total subsidies provided by the government and BDL are around $5 billion, then $1.25 billion goes to the "Poor' (25 percent) and $3.75 billion to the 'Non-Poor'. However, this chart includes all types of consumption, not just the subsidized items.