An Alternative
Economic Revival Plan

April 2020 Update

INFOPRO RESEARCH

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.

A first draft was released during the first week of December 2019 and was also published as a special issue of Lebanon Opportunities. A second draft 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.

More than 100 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.

Four 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 100 club members, companies, business leaders, and economists have endorsed the Economic Revival Plan after its publication in January.

Partial list

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

A&S Chronora, Alamco, Assuraco, Atabuild, Bassoul&Hneine, Beirut Express, Burgan Insurance,Copytech, Debbane, Domaine Public Architects, EasySoft, Ecosys, Ets. A Rahme, Fabriano, Fahed Group, Galaxy, George Frem Foundation, Hateco, HSTCO, Jleilati Audit, Kettaneh Group, Klever, LAU-MCRH, Lotus Shipping, MSE, Naharnet, Operators, Palladium, Pastel Paints, Pickapp, Porsche Center, Pro Plus Creative, Rafic Bawab & Co., Rafic El Khoury, Rise Properties, Saba & Co., Sipco, Skaff Group, Sloop Insurance, Unifert, Wadih Kassatly, Zawarib...

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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.

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 our 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, 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.

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. 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, and the kind of economy that the citizens of Lebanon deserve.

The plan

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.

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 at more than double the official rate, and assuming a 50 percent haircut on outstanding Eurobonds, this would effectively bring gross public debt down to around $30 billion (lira and dollar combined). If no haircut on Eurobonds is undertaken, total public debt will amount to $45 billion.

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 ($16 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.

Bank restructuring

Proposals to 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 the first two years and will be released gradually starting the third year until the fifth year. '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).

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

A Plan for Revival

From There to Here...and since October 17

'How did we get here?' is the title of a chapter in the first two versions of the Economic Revival Plan. It was also used by most subsequent financial plans proposed by other authors.

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 to 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 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:

i) 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 (Feb 2020): $150.3 billion (at official exchange rate LL1,507.5)

- 78 percent of customer deposits in commercial banks (Feb 2020) are in foreign currencies
- Currency and deposits of commercial banks with BDL (Feb 2020): $118.1 billion (at official exchange rate LL1,507.5)
- Total customer deposits in banking system (commercial banks+ medium and long term banks+ financial institutions) (Feb 2020): $152 billion (at official exchange rate LL1,507.5)

Out of $152 billion in bank deposits (Feb 2020), combined in foreign currencies and lira (at official rates), $115 billion (April 15 2020) are deposited at the Central Bank, 78 percent of which are in foreign currencies (mostly in dollar). Out of the money at the Central Bank, the average term of these deposits is five to six years. Some of these deposits are committed to ten to 15 years, while others mature in one to three years.

ii) 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.

i) 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.

ii) 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.

iii) Accelerating debt

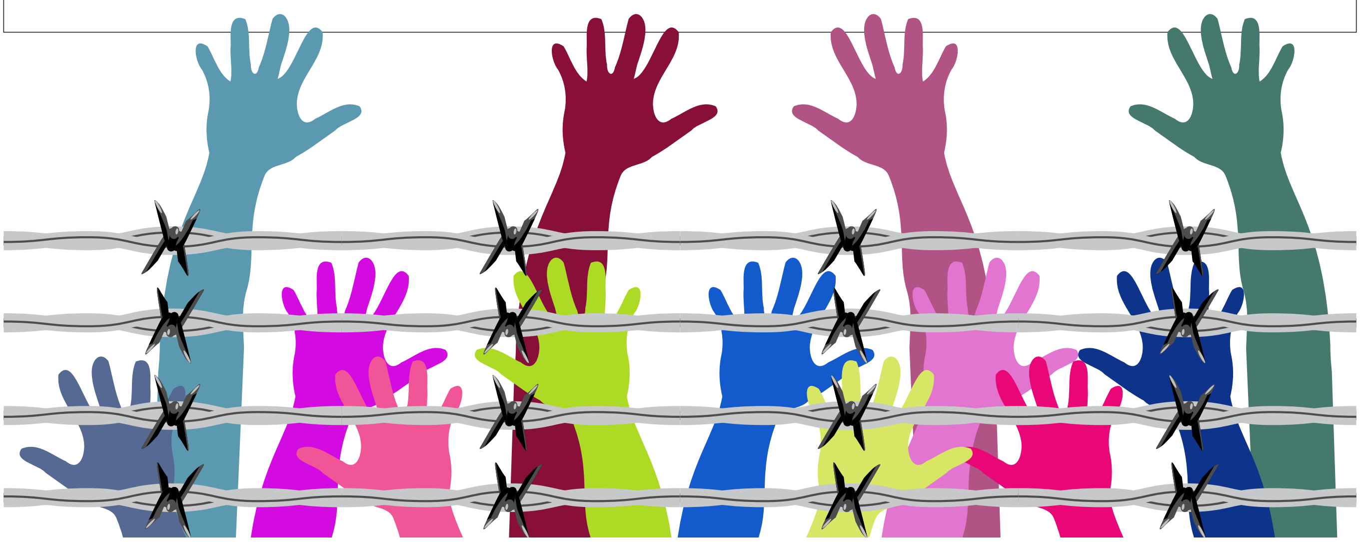
The accumulation of debt, was growing driven by successive and increasing budget deficits. The growth rate of Net Public Debt (which was rising by an average of five percent before the Syrian War, i.e. lower than GDP growth), increased by 40 percent after the war to reach seven percent, while the average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

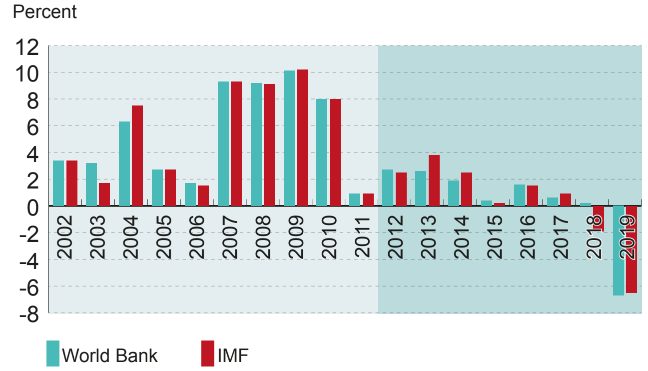
If we assume, for the sake of argument, that the government will default indefinitely on all debt and will haircut all deposits. Then what? What will trigger an inflow of money into the country, and what will enable local companies to start working and stop their downward trajectory? How will the government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

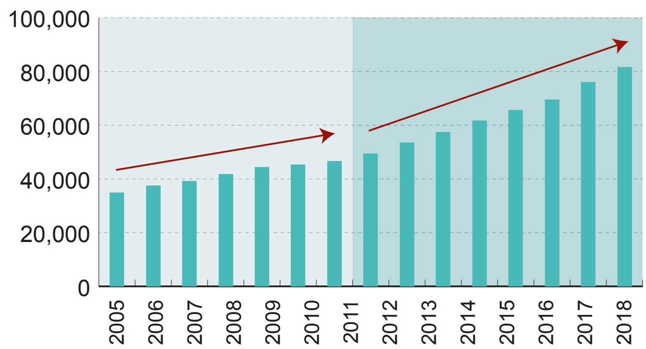


Before and After 2011

GDP Growth

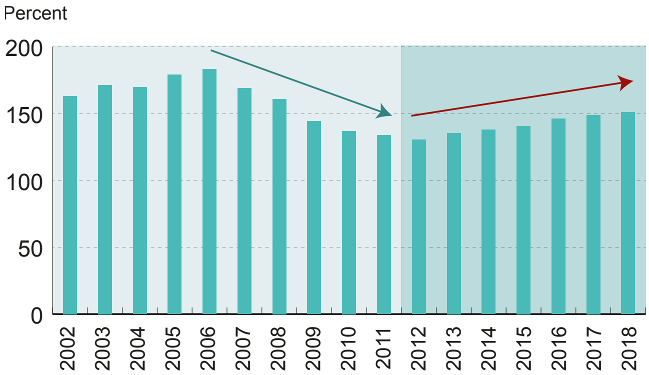


Net Public Debt (Million USD)



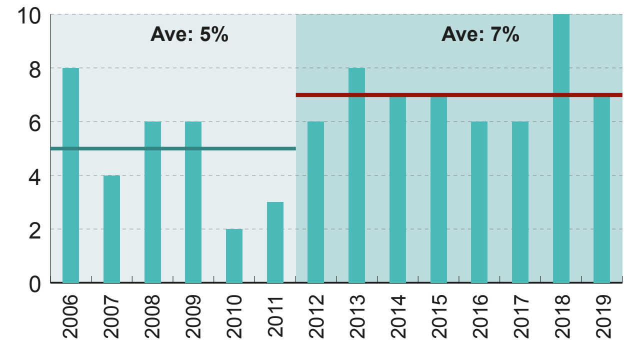
Source: Ministry of Finance

Gross Debt/GDP



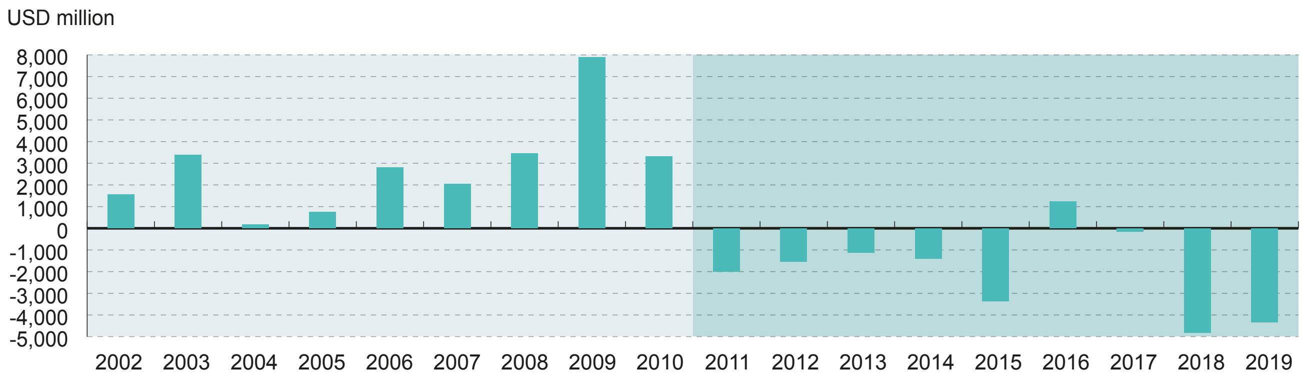
Source: IMF

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.

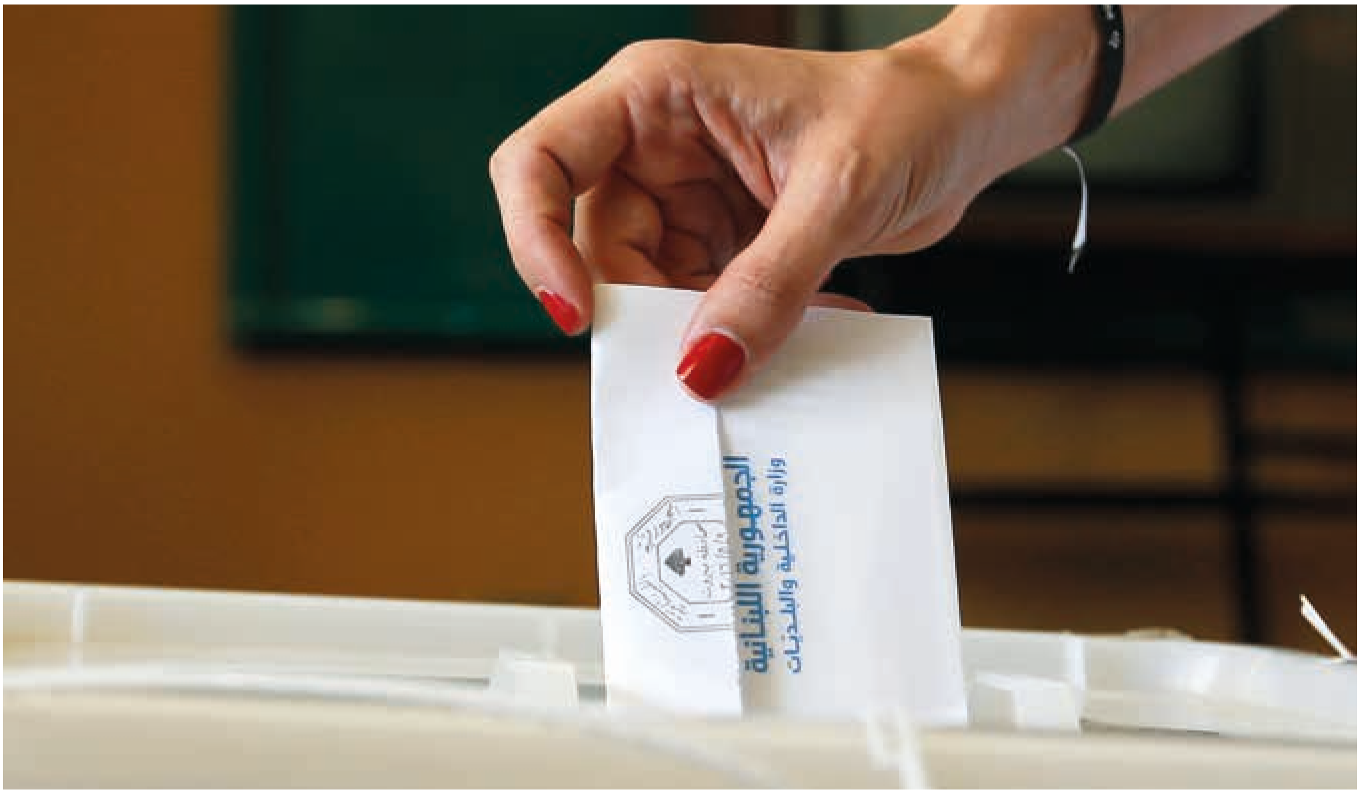
Hezbollah has become the main pillar of the political regime. As a result, Lebanon has received less and less support from Arab Gulf countries and the West, be it in form of political support or grants, loans, investments, tourism, or work visas. All political parties, including Hezbollah, agree that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



II. Basic pillars

A Plan for Revival

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:

- Contraband – depriving the State of billions of dollars in Customs payments and VAT
- Opaque import of fuel and other oil products – resulting in billions of dollars in higher cost
- Large losses of revenue (due to technical impediments and collection shortfalls) from the electricity sector, leading to billions of dollars in deficits
- 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
- 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:

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

Fiscal Policy

A plunge in fiscal revenues has occurred with the events starting in October 17 and the deepening of the crisis. The coronavirus pandemic has exacerbated the difficulties in collecting taxes and other State revenues. The delay in announcing a government plan, and taking action, has further eroded confidence and deepened the crisis.

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 exchanged at different rates. For example import of goods bought at market exchange rates will be subject at the port of entry to Customs and VAT rates calculated at the official exchange price. This will effectively reduce VAT and Customs receipts.

In the plan we published in January 2020, we outlined a proposal that can lead to a budget surplus. This has become implausible given the developments since the beginning of 2020.

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
- Corporate income tax will decrease due to widespread losses in profits in most sectors, as well as drops in bank profits which used to constitute a large portion of that category
- 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 diminished in size
- Revenues from real estate transactions will drop, as the wave of panic purchase since October 2019 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, and massive business closures and reduction in activity will also result to a a drop in 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. New sources of revenues should be explored, and a comprehensive revision of the taxation system should be devised (recommendations are outlined in the proposal section 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 ($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 on all financial and insurance firms, and large companies and groups of companies.
- Modify VAT as follows:
  - Keep the existing exemption from VAT on all locally produced items (zero percent)
  - Reduce VAT to 10 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
1. Exit the electricity business at once, this will generate savings of $1.5-$2 billion per year (see section on Other Privatization section)
2. Write-off debt to the Central Bank which will save $35.7 billion in principal, and $2.5 billion in interest per year (see section on Debt Restructuring)

3. Set a moratorium (for three to five years) on debt service and negotiate debt restructuring
4. 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 offload tasks to municipalities as much as it is feasible to do so (see section on Other Privatization section)
5. Remove subsidies on fuel purchases
6. Remove subsidies on private schooling for high earners in the public sector

Expenditures to be increased
1. 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
2. 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.

Fiscal simulation – Post restructuring

A forecast of government revenues and expenditures at this stage would be highly speculative, given that future government policy on fiscal matters is impossible to predict. The following simulation just is a plausible scenario, among many possible ones. One major variable is the exchange rate at which its various components are calculated at.

Assumptions

1. All proposed measures above have been adopted and implemented
2. All public sectors entities whose operations have been proposed to be privatized have been corporatized
3. Proposed elimination of subsidies has been achieved
4. GDP would have stopped declining in the 'Year 3' of the plan

(USD)	Year 1	Year 2	Year 3	Year 4	Year 5
Revenues	**5,600**	**7,000**	**10,000**	**11,500**	**14,000**
Tax revenues	5,600	7,000	9,000	10,000	12,000
Tax and profit sharing from privatized entities	-	-	1,000	1,500	2,000
Expenditures	**7,000**	**8,000**	**8,800**	**10,000**	**11,000**
General expenditures	7,000	8,000	8,500	9,000	9,500
Debt service	-	-	300	1,000	1,500
Primary surplus	(1,400)	(1,000)	1,500	2,500	4,500
Budget surplus	(1,400)	(1,000)	1,200	1,500	3,000

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 H – Schedule of Collected Taxes)

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%

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 bias 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) are paid by financial and insurance companies. With an estimate of 50,000 active business entreprises (excluding microentreprises), the average (non-financial and non-insuance) 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 estimate that 33 percent of total imports consist of contrabanded 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 electricty sector, the accumulation of debt would have been caused by just these two elements.

Public Debt

There is a consensus that the gross public debt is too heavy for our economy and for the public sector to handle. This is true when one looks at its totality. However, when dissecting it in details, the burden becomes easier to address.

Components of the gross public debt

The gross public debt is currently estimated at $100 billion, including $91 billion on the books (at official exchange rate), and the balance is an estimation of arrears due to hospitals, contractors, NSSF, and other suppliers.

The $89 billion in public debt (as at the end of December 2019) included $31 billion in foreign currencies, and $58 billion in local currency.

Out of the $31 billion in foreign currencies, $2 billion are in bilateral loans and $29 billion are in Eurobonds, with an average maturity of 4.6 years. Foreign entities are owed $4.6 billion in Eurobonds. Out of these dues to foreign entities, $3 billion is estimated to be due in 2020-2022.

Nearly $58 billion of public debt is in local currency (LL) at the official exchange rate, which effectively becomes less than half that amount at market rate. Half of that debt is owed to the Central Bank.

Proposal to restructure

Debt to the Central Bank should be written-off (LL45 trillion equivalent to $30 billion at LL1,500/USD rate) and $5.7 billion in Eurobonds. Total $35.7 billion

Debt in LL to be rolled over for five years at one percent interest rate

Debt in USD to local financial institutions to be rolled over for five years at half a percent interest rate

Debt owed to non-financial institutions: Negotiated at a discount (say 50 percent or better) with a moratorium of principal repayment of five years

As a result of the restructuring, the gross public debt will become close to $30 billion

PRE-RESTRUCTURING POSITION	USD
LL Debt Central Bank official rate	30
LL Debt to banks and public	30
Eurobonds to Central Bank	5.7
Eurobonds to Local holders	21.5
Eurobonds to Foreign holders	4.6
Gross public debt	**91.8**

LL Debt to GDP ($55Billion)	109%
FX Debt to GDP ($55 billion)	54%
Debt to GDP ($55 billion)	163%

LL Debt to GDP ($35Billion)	171%
FX Debt to GDP ($35 billion)	85%
Total Debt to GDP ($55 billion)	250%

POST RESTRUCTURING	MARKET RATE
LL Debt Central Bank	0
LL Debt to banks and public	15
Eurobonds to Central Bank	0
Eurobonds to Local holders *	10.75
Eurobonds to Foreign holders *	2.3
Gross public debt	**28.05**

*** Assuming a 50% discount**

LL Debt to GDP ($35 billion)	43%
FX Debt to GDP ($35 billion)	37%
Total Debt to GDP ($35 billion)	**80%**

The Central Bank

The accounts of the Central Bank (BDL) have been subject of much discussion and controversy. At the center of the give-and-take and contentious innuendos and discussions are elements of the balance sheet of BDL. The Foreign Currency Reserves top the list, but many other elements of the balance sheet remain a mystery to some who have tried to decipher it.

Central Bank Interim Balance Sheet
4/15/2020

ASSETS	LL thousand	USD thousand (LL1,500)
Gold *	23,811,676,413	15,874,451
Foreign Assets **	52,272,575,575	34,848,384
Securities Portfolio	57,902,560,110	38,601,707
Loans to Local Financial Sector	22,252,747,214	14,835,165
Assets From Exchange Operations of Financial Instruments	18,080,639,845	12,053,760
Other Assets ***	47,990,958,906	31,993,973
Fixed Assets	394,322,671	262,882
Total Assets	222,705,480,734	148,470,320
LIABILITIES		
Currency in Circulation Outside BDL	15,163,765,968	10,109,177
Financial Sector Deposits	169,639,058,510	113,092,706
Public Sector Deposits	7,430,356,365	4,953,571
Valuation Adjustment	15,709,408,245	10,472,939
Other Liabilities	9,155,544,009	6,103,696
Capital Accounts	5,607,347,637	3,738,232
Total Liabilities	222,705,480,734	148,470,320

* At market price
** Foreign Assets, after excluding $5.03 billion in Eurobonds = LL44,993 billion or $29.65 billion
*** Includes open market operations and seigniorage

مصرف لبنان
BANQUE DU LIBAN

A quick reading of the Balance Sheet that has been published by BDL, and based on some other information, reveals the following facts:

a) More than $50 billion in reserves which include:
- $29.6 billion in foreign currencies
  - of which $7.5 billion were loaned to banks on a two-week revolving basis
  - of which $18 billion are the mandatory deposits of banks
- $15.9 billion in estimated value of gold holding
- $5.07 billion in holdings of Eurobonds at face value

b) BDL holds the equivalent of $30 billion in lira denominated T-bills (at the official exchange rate) in its securities portfolio

c) By all accounts, the balance sheet hides many liabilities, which include $15 billion in loans to the State Treasury

d) Banks are not being able to access their deposits at BDL because the liquidity available at BDL is much smaller than the total deposits, and also because a portion of these deposits have been committed for the long term. The Central Bank has offered the banks to lend them some liquidity at 20 percent interest rate. BDL loans to commercial banks amount to $14.8 billion.

Necessary Measures

a) Improve transparency of accounts
The opaque situation of the accounts of BDL has contributed to the loss in confidence. Detailed accounts that include P&L as well as details of the elements constituting the balance sheet should be made public.

b) Write-off public debt held by BDL
BDL should write-off all debt owed by the State Treasury (as prescribed in the sections on Fiscal Policy and Debt Restructuring).

The written-off debt will be first booked under 'Seignorage' which will lead to an even larger negative net equity position. Over the time (throughout the course of this five-year plan), the equity will be reconstituted by:
- Seignorage proceeds (see Appendix F for alternative accounting to the write-off)
- Gradual contributions by the government to that account made from its budget surpluses
- Some of the privatization proceeds during and after the five-year period
- Money creation when the exchange market situation stabilizes. Note that the total amount of local currency in circulation and in bank deposits (M2) is equivalent to $42 billion (at the LL1,500 rate) down from $55 billion at the end of 2016. It becomes equivalent to $21 billion at a LL3,000 rate, or 75 percent of the current value of gold holdings. This would present in the future an opportunity, once confidence has been regained.

c) Liberate (float) the exchange rate
The policy of the government since 1993 was to maintain the peg at around LL1,500 to the US dollar (USD). The merits of that policy which has been debated extensively on and off since then, with proponents highlighting its stabilizing impact on the economy, wages, and living conditions, and its detractors pointing to its cost. Regardless of the pros and cons, the maintenance of that

level of exchange is no longer tenable. Worse, is the dual (or triple) level of exchange which has one official rate transacted at BDL and banks, and another rate in market and commercial transactions. The large gap between the two rates has had a large negative impact on the economy and business health.

All countries with dual exchange rates have greatly suffered as such conditions had resulted in black markets, shortages of goods, and an economic landscape unfriendly to business and investment. Those that had afterwards transitioned to a floating rate experienced immediate benefits (Egypt as a recent example).

The exchange rate should be allowed to float freely. The Central Bank can still intervene to mitigate sharp fluctuations. The floating rate will contribute to the restoration of confidence in the economy.

The floating rate will have at first a disruptive impact on the balance sheet of the Central Bank (which no longer matters since it is already badly broken), and on other financial institutions. The value of the assets and liabilities that are in foreign currencies will double. Those that are in lira will lose half their value.

As a consequence of floating the exchange rate, imports of protected categories will be impacted. The role of the Central Bank does not include social protection and subsidies. Should the government decides to maintain a subsidy program, it must manage it directly. While it is understandable that subsidies must be maintained on pharmaceutical products, they should be lifted on wheat and fuel. These are very unpopular measures, which our current political system cannot withstand, but they are proposed here because they are sound economically and socially. Fuel consumption would become naturally rationed, and the consumption of wheat is increasingly proving to be unhealthy. Still the government could buy these staples directly and sell them at a loss. It will be able to afford doing so with some of the savings it will achieve from exiting the business of producing electricity (see section on Electricity)

d) Using Gold

Asides from hording gold at a random level, there has never been a policy regarding it. It is not clear why it is owned, what it should be used for, and what its optimal level must be. It is an inert asset whose function is mostly psychological, to provide trust in the local currency. Now that that trust has been shattered, it would be beneficial to revisit the role of gold.

A law passed during the civil war restricted the usage of the gold: it cannot be sold, loaned, or used as collateral.

Gold has benefited from a steady increase of its value in world markets over the years. In 1993, its value was around $4 billion. Since then, no additional gold purchases were made, but its current value is almost $16 billion.

The gold should be transferred to the proposed Sovereign Wealth Holding Fund (SWHF), a government-owned entity (see section on that topic), as a capital contribution, which will booked as one of the equity elements of that fund. This will contribute to provide the fund confidence-building elements that it will need to launch its operations. Consequently, that gold will not be sold or mortgaged.

e) **Release deposits** of banks that are not subject to lock commitments

f) **Reduce reserve requirements** from 15 percent to five percent – gradually or in one go as per an overall plan to liberate deposits of banks at the Central Bank.

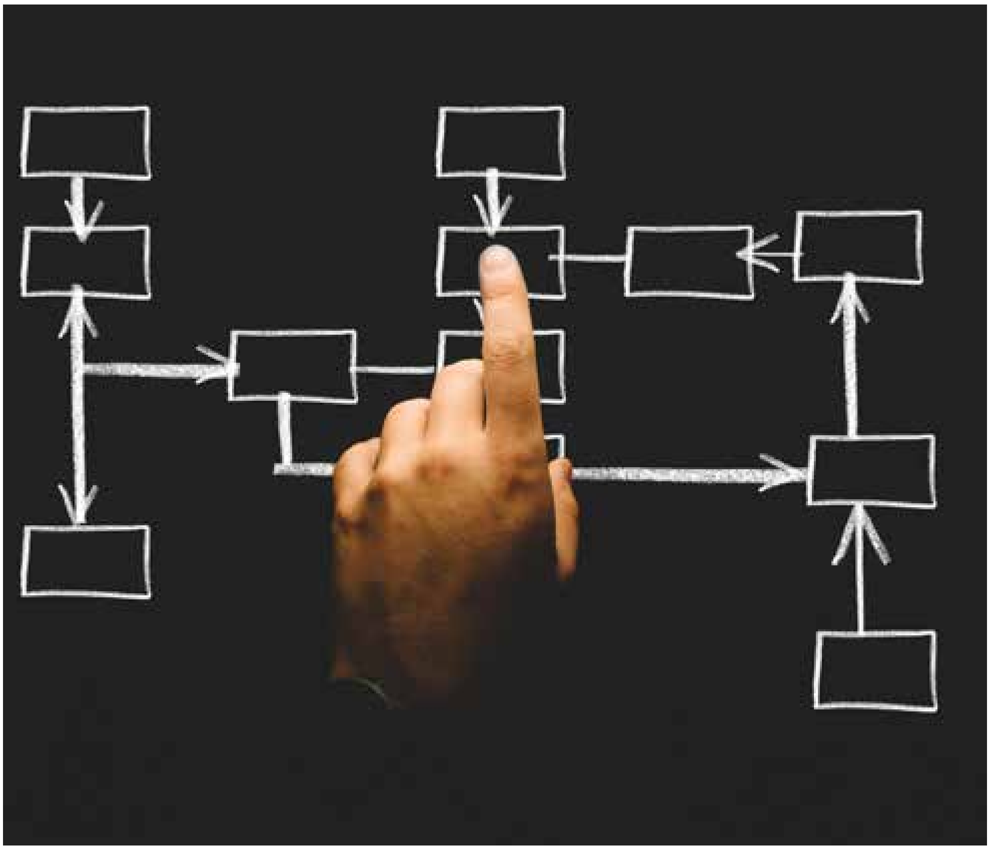
Bank Restructuring

Many vague proposals been made to write-off the current capital of banks (include the recent increases). The proposals also include voluntary or even forceful mergers among banks, and transforming part of deposits into equity.

The basis of these proposals is that the deposits of banks at the Central Bank and their holdings of Eurobond have become worthless leading to a large negative equity. Some of these proposals are reasonable when performed as an accounting exercise – but can lead to disasters to the economy, the banking system, and appetite for investment and for personal and business consumption.

It is not clear what good would come from merging two or more banks, each with the same set of problems: inaccessible deposits at the Central Bank, Sovereign debt in default, and non-performing loans by the private sector. In any case, such mergers should be voluntary, as the prospective merging banks see it. It cannot be decided by the monetary authority or the government.

A healthy banking system is a prerequisite for a healthy economy. A cash society cannot take part of a globalized economy, or even become the basis of a local one.



Proposed new bank accounts structure

Each bank will have on its books two entities and two categories of accounts. Let's call them 'Old' and 'Fresh'. The banks will have two parallel balance sheets ('Old' and 'Fresh' which will also be presented on a consolidated basis.

1) The 'Old' Accounts

The 'Old' will include all assets and liabilities held so far (or by October 17, or November 17, or some other reasonable cut-off date). Under the 'Old' system, the following measures will be taken:

a) All small accounts will be freed (<$100,000)

b) All other deposit accounts will be partially restricted for a period of five years. The restrictions are on cash withdrawals and transfers abroad. They can be transferred to other local banks with the same restrictions

c) The restrictions on the funds will be lifted gradually (table used as an example. Actual sustainability simulation needs to be performed). A minimum of withdrawals ($25,000 per year for example) will be allowed. For example, a similar schedule could be used:

EoY	Freed (%)	Cumul (%)
1	0	0
2	0	0
3	25	25
4	35	60
5	40	100

d) Current bank deposits at the Central Bank will be part of the 'Old Accounts' system and will be frozen. They will be unfrozen gradually according to the same scheme for bank depositors, unless the funds have been committed for longer periods, in which case they will be unfrozen at maturity.

e) No loss provisions will be taken by banks against Eurobond holdings. The losses will be booked at the time of maturity of the bonds. At the time of recording losses, the bank will need to restore its equity to levels set by the Central Bank. This is contrary to international accounting standards, and will be a temporary measure for the five-year transition period.

f) Outstanding loans by banks to the private sector will be restructured according to the needs and diminished capabilities of borrowers, with grace periods, lower interest rates, and terms differed. Early payment incentives will be offered.

g) At the end of the five-year period, deposits would have been freed, bank loans to the private sector become current, and bank deposits at the Central Bank become accessible, as the Central Bank would have reconstituted its balance sheet. The 'Old System' will be phased out after that period.

2) 'Fresh Accounts'

New accounts will be dedicated to all funds brought-in in cash, through transfers from abroad, or transferred from other 'Fresh Accounts' at local banks.

The mandatory reserves for these accounts will be limited to five percent.

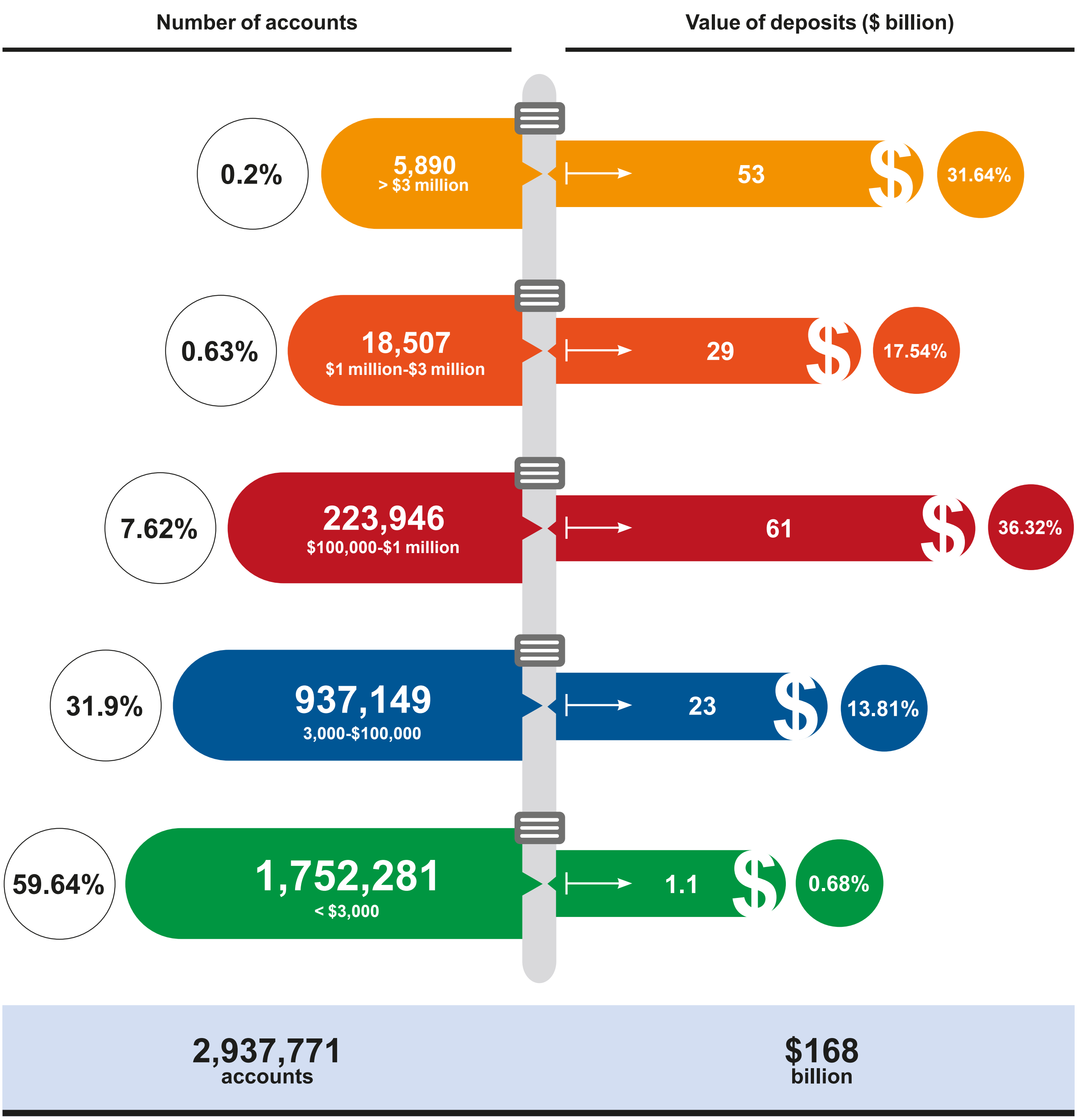
The funds will be free from any encumbrance – just like the pre-crisis situation, with ease of deposit, transfers inside and outside the country, cash withdrawals, opening of documentary credits, and all other forms of banking services.

On the basis of these deposits, banks will be able to start lending again to the private sector. No lending based on these funds will be allowed to be made to the public sector, whether by the banks or by the Central Bank.

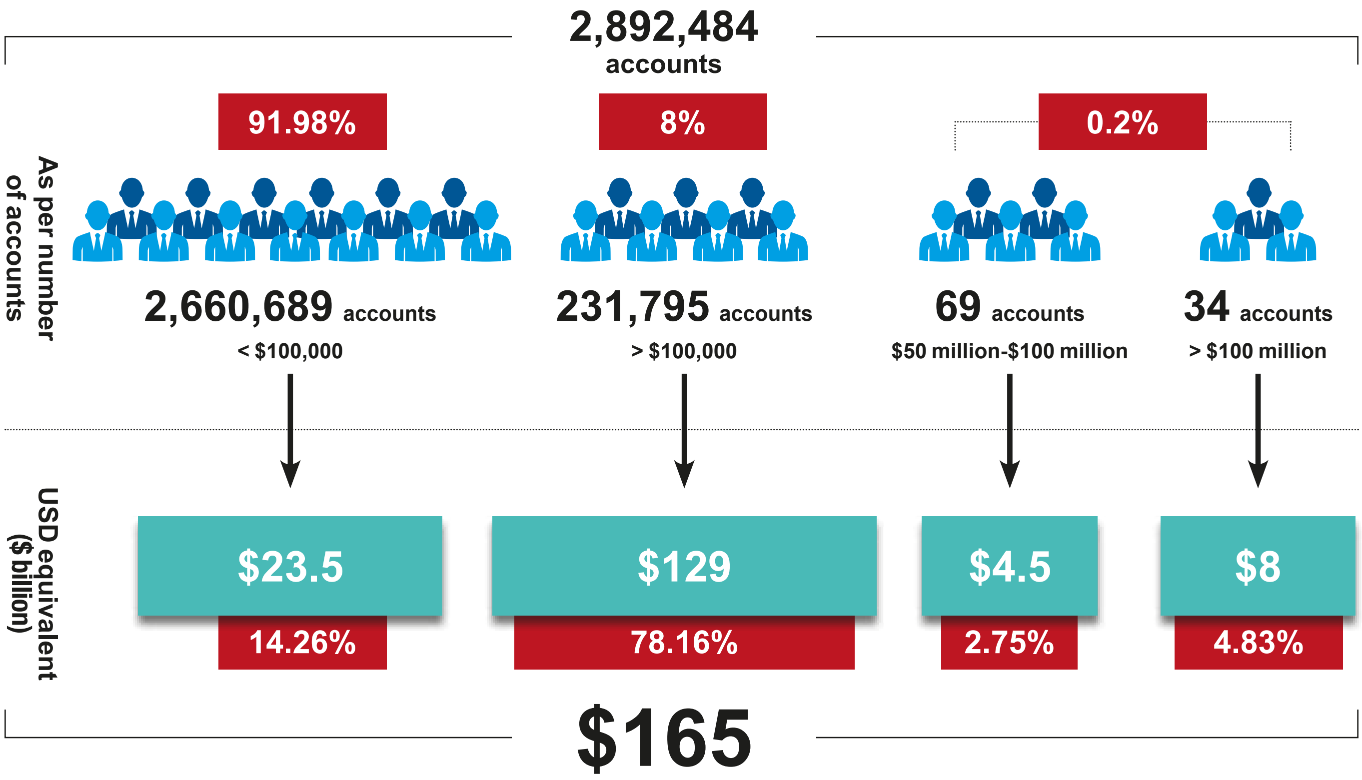
As confidence in the new system starts building, and gets tested, money hoarded at homes (estimated at around $5 billion) will slowly trickle back to banks. Remittances (which used to be $8 billion per year) will also flow to these accounts.

Number and distribution of deposit accounts

■ Number and value of deposit accounts (June 2019)



Deposits at banks?



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 its 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.

Management

The SWHF will act as a holding company and its mission would be to ensure proper corporatization of state entities, good functioning, and 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 (establish business plan, 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 properties to sell, keep, develop, or return to the State. Manage public sell-off tenders

Proceeds to the State 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
- Contribute to the Poverty Alleviation Fund
- Lend to the Treasury in times of national crisis and catastrophes
- Provide increased 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 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.

Other Privatization Efforts

Electricty

The electricity sector is one of the largest burdens on citizens, the Treasury, and hard currency. It generates tremendous 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 generators. It is estimated that this will cost no more than $100 million per year.

Power Purchase Agreements (PPA) can be made with other countries which 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).

For 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.

Poverty Alleviation Fund

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 education and health in private institutions
- Subsidies for wheat and medicine
- Low rates for water consumption
- Exemption of tax on basic necessities (zero VAT on food and rent, etc.)

An alternative approach is to price all goods and services at market rate and provide direct cash and income tax exemption 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 and cleaning 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 payingvarious necessary services (with cap limits for each service, caps depending on the 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).

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

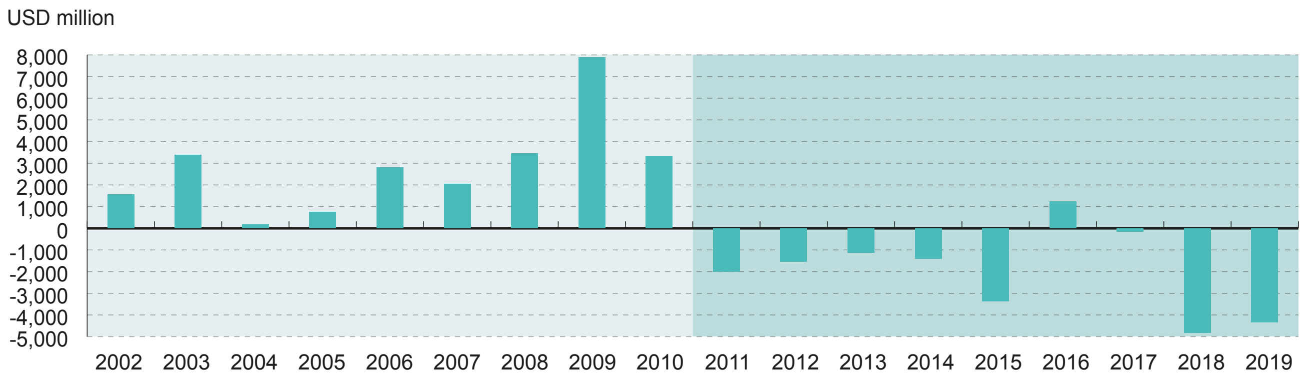
One-time proceeds

- 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

III. General issues

A Plan for Revival

Issues Faced Across Sectors

The business community and active citizens face a number of needs that have to be met by a functioning economy. Some of these issues predate the financial crisis, and may have contributed to the crash. Others are a direct result of the recent meltdown.

Immediate measures

- **A clear revival plan.** Citizens and businesses want to see a workable plan. It is the first step towards restoring confidence
- **Capital control.** The current de-facto capital controls are vague and unofficial. There is a need to openly announce what the controls are, how they work, and to provide a timeline
- **Import facilities.** Importers need to execute their trades through opening letters of credit. A transparent and manageable process should be instituted
- **Access to hard currencies.** Citizens with payment obligations in foreign countries need to access their dollar (or other foreign exchange) accounts, and be able to transfer funds abroad. A transparent and manageable process should be instituted. Travelers need similar facilities
- **Float the exchange rate.** The exchange rate should be allowed to follow market dynamics. This will help restore confidence in the banking system. The Central Bank will be able to intervene in the market according to its capabilities to mitigate sudden and sharp fluctuations.

Medium term measures (next few months)

- Reschedule processes for business and personal loans
- Reschedule dues to NSSF
- Reschedule taxes owed to the Ministry of Finance (Income, VAT, etc.)
- Decrease interest rates
- Create a process for companies to reduce salaries without being penalized. The current process through the Ministry of Labor is inefficient and takes too long
- Combat smuggling
- Present a new communication strategy for the government
- The State must give priority in awarding projects to local experts and businesses
- Start streamline procedures to elevate the national ranking of the World Bank's 'Ease of Doing Business'.

Long term measures

- Create programs to increase financing facilities to businesses and resume retail lending
- Start the implementation of projects earmarked under CEDRE
- Translate the McKinsey recommendations into actionable measures
- Formulate a long-term fiscal policy that aims at stability in the next few years
- Accelerate e-government projects.

Labor

STATE OF THE SECTOR

The labor force is the most affected by the current economic crisis, mired in massive layoffs, unpaid wages, and salary cuts. The drop in purchasing power has been exacerbated by the drop in the lira exchange rate. One third of people work in the informal sector. There is a mismatch in supply and demand of skills. A high influx of foreign workers, low contribution of women to the labor force, and a large number of skilled laborers looking for work opportunities abroad are some of the challenges for the labor market.

SHORT TERM measures

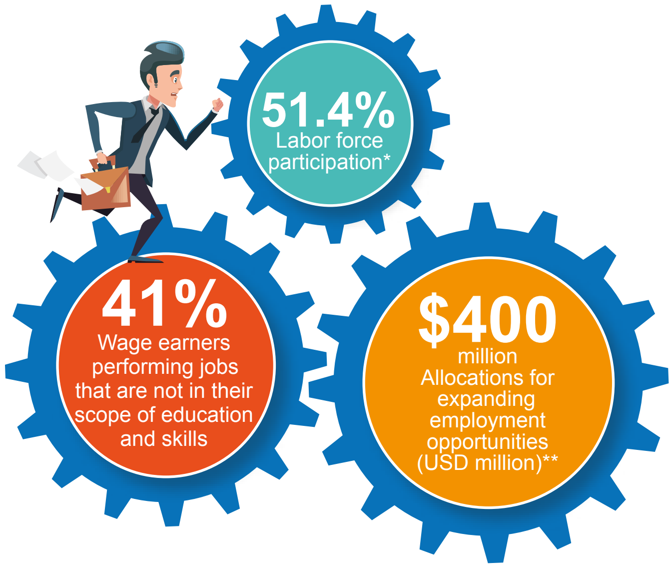
- Clarify the application of the labor law in times of economic emergency
- Ease pressure on companies unable to pay dues to the National Social Security Fund
- Extend the validity of the NSSF clearances for at least six months
- Implement decree No 8691, issued by the Ministry of Labor (MoL), which subsidizes NSSF fees employees entering the job market (first job)
- Appoint members of the board of NSSF, currently vacant
- Government to transfer its due to NSSF
- Ministry of Labor to better control foreign labor and prevent unfair competition, especially for jobs requiring mid-level technical expertise.
- Establish a database of the potential workforce in all sectors. The aim is to link laborers with marketable skills to the labor market. The National Employment Office in collaboration with the municipalities may build this database

LONG TERM measures

- Draft a new labor law as the present one is outdated
- Establish an unemployment insurance fund, to be financed by the work permit fees
- Ratify 'Freedom of Association and Protection of the Right to Organize Convention (1948) No 87', issued by International Labor Organization. Public employees still do not have the right to make unions or go on strike
- Empower the National Employment Office (NEO) with the human and technical capacity building to provide intermediation in labor conflicts, and conduct research on employment needs and trends
- Digitize processes at the NSSF
- Approve Retirement and Social Protection Law
- Amend NSSF law to include new segments of the society such as small employers, freelancers, and others not currently covered
- Update Vocational and Technical Education Curricula in order to meet the needs of the job market
- Increase the number of chambers at the labor arbitration councils to speed up conflict resolution.
- Adopt a vocational education and training system which is strongly geared to market demand for jobs, buit around the Swiss or German models.

INDICATORS

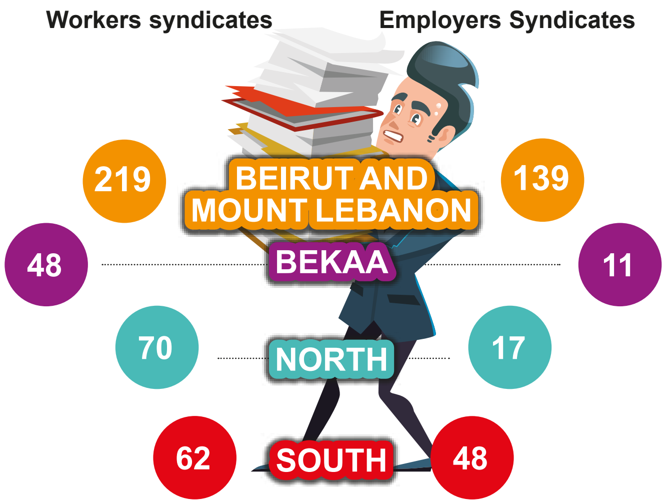
Labor in 2018



(*) Percentage of total population ages 15–64 working or seeking to work
(**) Funded by the World Bank

Source: World Bank (2018)

Number of syndicates per area



Source: Lebanese Trade Union Training Center (LTUTC)

International Trade

STATE OF THE SECTOR

The de facto capital control measures has put the entire trade sector into limbo. These measures have been dubbed "momentary" by the Association of Banks. But there are indications that the lifting of constraints on transferring funds abroad will take several months in the best case. Most traders are unable to import – unless they have sufficient funds in foreign banks. The trade deficit continues to widen, reaching nearly $17 billion last year. Imports have increased and exports have dropped. The free trade agreements with the Arab countries and the European Union did not succeed to increase exports. The elevated land transit fees through Syria are an obstacle to export via land. Taxes imposed on imports are increasing and pushing the consumer prices upwards. Contraband is on the rise.

SHORT TERM measures

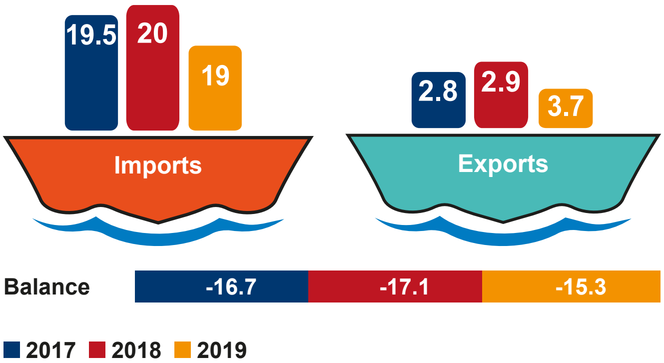
- Ease and lower fees of import and export procedures at the administrative and Customs levels, at points of entry
- Negotiate an understanding with Syria to lower the transit fees on land exports to Syria and Jordan
- Combat contraband as it constitutes an unfair competition and a loss of earnings to the Treasury.
- Apply reciprocity in trade, especially in 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

LONG TERM measures

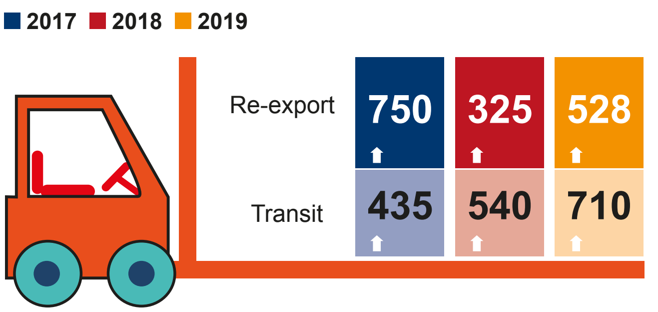
- Review and update trade agreements with our major partners, especially the EuroMed agreement and Greater Arab Free Trade Agreement (GAFTA). Work with European partners to accept Lebanese products, such as dairy and medicine that already meet their quality standards
- Stabilize taxes and fees on imports for five years
- Establish an Export Authority modeled on the Italian ICE, which will include an export promotion program that goes beyond what IDAL is currently providing, and move IDAL's Export Plus program to a newly-established export authority
- Empower economic attachés at embassies and diplomatic efforts to boost exports

INDICATORS

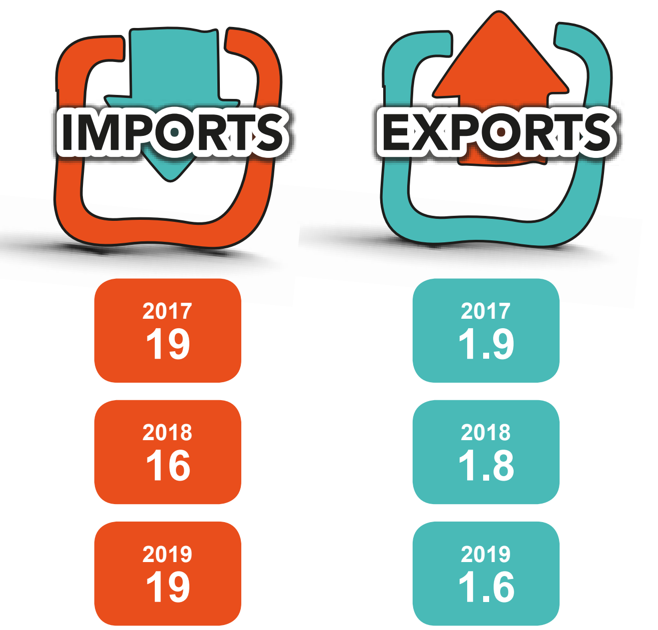
Balance of trade (USD billion)



Re-export and transit of goods (USD million)



Imports and exports net weight (million tons)



Source: Customs

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.

IV. Core sectors

A Plan for Revival

Hospitality

STATE OF THE SECTOR

The sector is a major source of hard currency, but also normally the first to become affected by political and security issues. Each of the various subsectors faces its own challenges. Hotels had seen their revenues drop since the beginning of the Syrian crisis. For example, revenues of the eight biggest hotels decreased 40 percent in 2018 compared to 2010. Travel agencies suffer from illegal entities and the absence of control from the authorities, which has recently resulted in a fraudulent collapse of a non-regulated agency. Car rental agencies also suffer from a grey market. Restaurants have to deal with red tape and administrative hurdles.

MEASURES BENEFITING THE SECTOR OVERALL

- Establish and fund a Board of Tourism. The board's membership should from the private sector with some form of public sector contribution. The board would eventually replace the Ministry of Tourism.
- Improve information dissemination on touristic attractions (web, social media, and physical outlets)
- Expedite the expansion of the airport, control the prices and quality of services at the airport, in order to improve the arrival and departure experience
- Enforce the regulations that organize the taxi activity at the airport.

CAR RENTAL AGENCIES

SHORT TERM measures

- Extend the maximum permissible age of a cars at car rental agencies from three to five years
- Combat non-licensed agencies.

LONG TERM measures

- Make 'all risk insurance' non-obligatory for car rental agencies as applied in many other countries
- Amend the new Traffic Law to fine drivers who violates the law instead of fining the car rental agency.

HOTELS

SHORT TERM measures

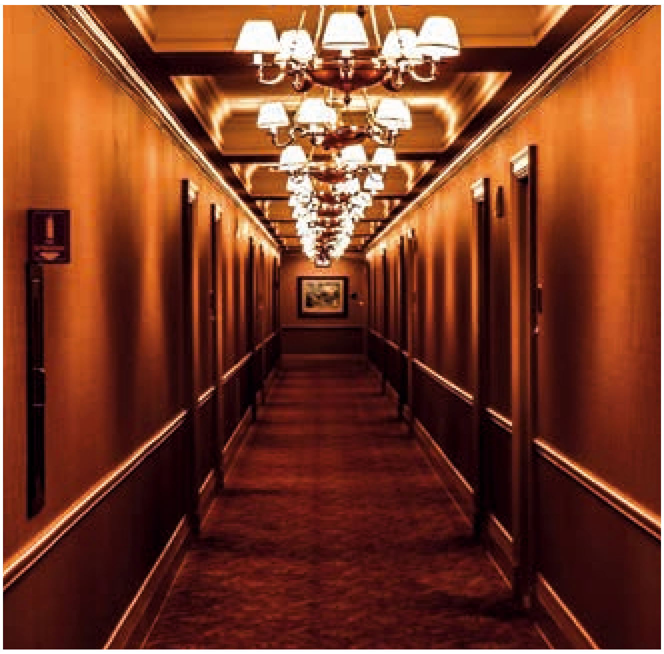
- Extend the terms of the loans given to hotels from seven to 15 years
- Digitize paperwork at the Ministry of Tourism to ensure fast and transparent processing of formalities.

LONG TERM measures

- Implement an official hotel classification system for hotels
- General Directorate of Vocational and Technical Education should create new vocational programs that provide work based learning for hospitality students.

Number of hotels* 2018

* Members in the Syndicate of Hotel Owners only
Source: Syndicate of Hotel Owners



TRAVEL AGENCIES

SHORT TERM measures

- Require travel agencies to prepay charter flights
- Forbid the operation of illegal travel agencies or apply fines until they abide by the law
- Expand the number of nationalities exempt from tourist visas.

LONG TERM measures

- Update the law 4216/1972 which organizes travel agencies' activity by adding new types of touristic 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
- Substantially increase the bank guarantee required from travel agencies (currently LL5 million)
- Require all travel agencies to get the approval of the International Air Transport Association (IATA)
- Appoint a committee with the participation of the Ministry of Tourism and the Ministry of Transport and Public Works to manage the relationship between travel agencies, airlines, and Global Distribution Systems (GDSs).

RESTAURANTS

SHORT TERM measures

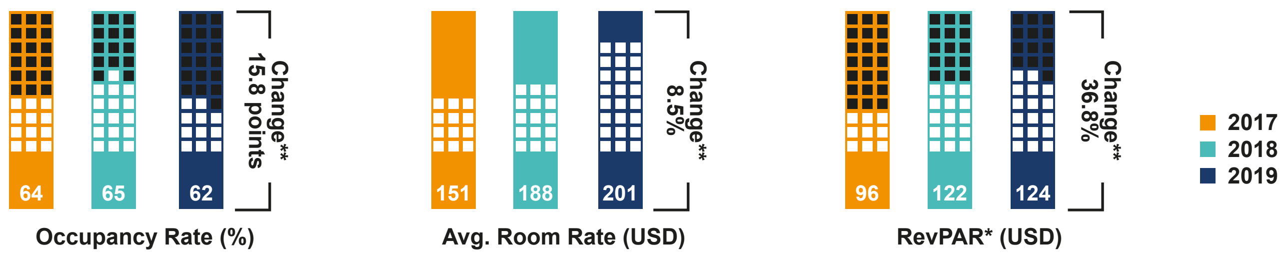
- Streamline the 'investment license procedure' at the Ministry of Tourism
- Standardize the process of health inspection for restaurants, and enforce it on all outlets.

LONG TERM measures

- Intensify ongoing trainings on food safety and quality control for restaurateurs
- Organize events that promote the Lebanese gastronomy all over the world.

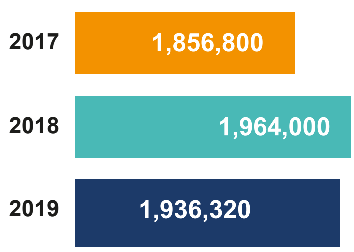
INDICATORS

Beirut hotel occupancy



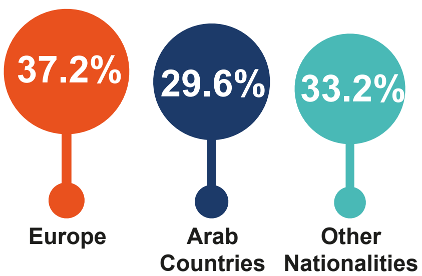
Source: Ernst & Young | *Revenue per available room |

Number of tourists



Source: Ministry of Tourism

Tourists by origin 2019

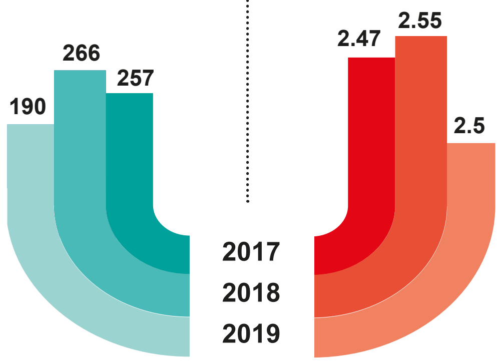


Number of new hotel licenses granted

Manufacturing

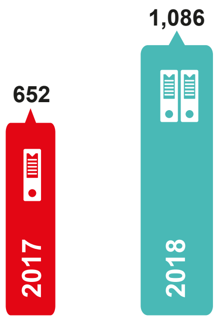
INDICATORS

Import of industrial machinery (USD million) | **Industrial exports (USD billion)**



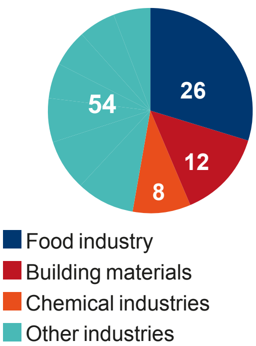
Source: Ministry of Industry

Industrial permits issued



Source: Ministry of Industry

New industrial firms by sector in 2017



EXECUTIVE SUMMARY

The industrial sector represents ten percent of the country's GDP and ten percent of its employed workforce. The output of the industrial sector amounts to around $9 billion, nearly $2.7 billion of which is exported. After a continuous decline over past years, industrial exports have witnessed some growth starting from 2018, as more exporters are profiting from the reopening of the trade routes through Syria, though transit fees are still very high. The sector is expanding, and more factories are regularizing their status. But developing the industrial sector requires expanding local demand and boosting exports. The government has raised Customs fees on 17 imported products, and added a three percent tax on all imported products, with some exceptions that include raw materials used in industry.

SHORT TERM measures

- Implement recent government decision to levy additional import fees targeting 18 imported products
- Promote the 'Buy Lebanese' campaign through a joint effort between the Ministry of Industry and the Association of Industrialists
- Improve the State preferential procurement requirements for locally manufactured products
- Improve the application of the Lebanese Standards Institution (LIBNOR) standards in accepting imported products
- Support food-processing cooperatives and small producers to produce with high standards so they supply restaurants and hotels. Ministry of Industry and Ministry and Agriculture to set a supportive program in cooperation with the micro finance institutions that support mall projects.

LONG TERM measures

- McKinsey has identified food-processing industries that depend on local agricultural output as priority. Other sectors that need special attention include industries that rely heavily on creative design and marketing abilities like jewelry and cosmetics, as well as industries requiring skilled labor especially in healthcare-related fields
- Establish an export credit guarantee corporation
- Expand subsidized loans to include working capital
- The development of industrial zones in Tripoli, Baalbek, Terbol, and El Qaa must be accelerated. El Qaa must 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
- Additional industrial zones must be built in Mount Lebanon and the South, including industry-specific specialized zones
- Setting up a dry port at an international highway crossing near Chtaura. The CMA CGM dry port project in Taanayel is a good example
- Revive programs that help industrialists obtain quality certification.
- Expand protection and subsidies, for a limited time, of selected promising manufacturing subsectors selected for development
- 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.

Agriculture

INDICATORS

Agricultural trade (USD million)

	2017	2018	2019
Exports	197	206	198.5
Imports	1,900	2,000	1,773
Exports/ imports %	11	10	11
Trade balance	-1,700	-1,800	-1,575

Agriculture's economic contribution 2017

Agriculture's contribution to GDP in USD billion	Contribution to GDP
$1.6	3%

Source: CAS, FAO

Exports of fruits by top five types in 2019*

Apples	Grapes	Bananas	Oranges	Peach
39	31	26	19	7

Total **122**

Source: Customs | * *1,000 tons*

Agricultural imports by top five countries in 2019

	Brazil	Ukraine	USA	Spain	Egypt
Value (USD million)	256	126	100	95	74
% of total imports	14	7	6	5	4

Agricultural exports by top five countries in 2019

	Saudi Arabia	Qatar	Syria	UAE	Kuwait
Value (USD million)	34	26	19	34	19
% of total exports	17	13	10	10	10

Exports of vegetables by top five types in 2019*

Potatoes	Lettuce	Onions and garlic	Tomatoes
64.7	9.6	2.9	0.6

Source: Customs | * *1,000 tons*

STATE OF THE SECTOR

The Agricultural sector represents a small share of the productive economic activity. The yield of products by volume and value is lower than international benchmarks. Marketing of crops is still challenging for farmers. There are 1,238 registered cooperatives (co-ops), however only one in three are active. Applied farming techniques are still outdated but several non-profit organizations are working to help the farmers to enhance the quality of their crops and increase the productivity.

SHORT TERM measures

- Lower transit fees to facilitate the reach to Jordanian, Iraqi, and Gulf markets
- Apply stricter technical conditions and standards for agricultural imports
- Monitor the quality of seeds, pesticides and medicines, and combat the smuggling of agricultural medicines to increase the quality of the crops which face strict standards when exported
- Establish a 'Disaster Fund' at the Ministry of Agriculture
- Reinstate the agricultural (trade) timetable with neighboring countries in exception to the General Arab Free Trade Agreement, to enable the export of vegetables during certain periods of the year, and import an equal amount in other periods. Apply reciprocity with all countries regarding import/export of crops
- Include social security coverage to farmers
- Highlight success stories in agriculture.

LONG TERM measures

- Survey available agricultural land and propose a master plan for the types of products that should be planted depending on the soil and the potential market
- Build new agricultural roads to help in planting in remote areas, in transporting crops, and in fighting fires or floods
- Set a strategy of the agriculture sector which will classify agricultural land into zones according to climate and type of soil. Base the strategy on studies that identify the optimal agricultural products for each zone and season in accordance to the window market of each product
- Register farmers at the Chambers of Commerce, Industry and Agriculture to organize the sector
- Set packaging standards and require registered farmers to identify products and abide with these standards
- Establish service centers at the Chambers of Commerce for pesticides and seeds. They will also establish and manage agriculture value chains for each product, match supply and demand through a farmer-consumer connection, demonstrate return on investment, provide technical training, and connect industries with farmers
- Intensify reforestation efforts
- Draft a law organizing wholesale markets
- Implement the agricultural lands leasing law and set its implementing decrees
- Acquire technical support from other countries such as the Netherland
- Update curricula offered by the Directorate of Vocational and Technical Education

Information Technology

STATE OF THE SECTOR

Lebanon has the potential to build a competitive advantage in the information technology (IT) sector and it could become a regional hub in this field. A number of measures must be taken by the government and other stakeholders in order to achieve this goal. The Internet must become faster and cheaper. The laws must be modernized and the legislative process must be accelerated to cope with this fast-changing technology and to create a favorable business environment. Additional incentives must be introduced with a focus on promising subsectors.

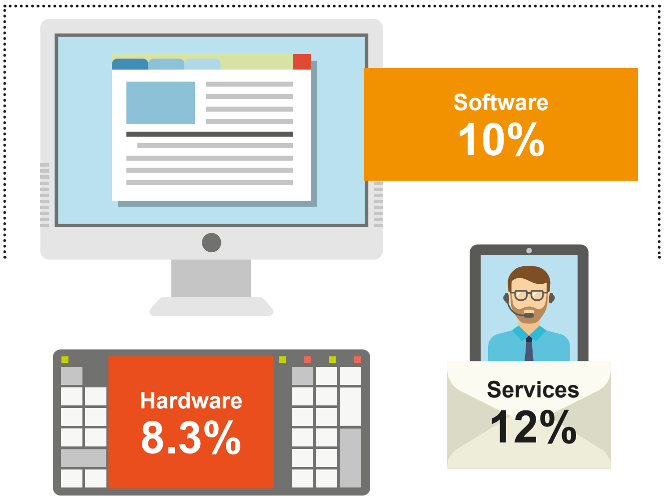
SHORT TERM measures

- IT companies must export much more than they used to in the past. It is an imminent need as it provides hard currency financing
- Opening new markets is the biggest challenge that IT companies must overcome as quickly as possible
- BDL Circular 331 must be activated and eased to provide financing to the app development sub-sector, which has won many awards at the global level. One way to do it is to help developers have more exposure in global markets.

INDICATORS

ICT market

Overall ICT market
9.7%

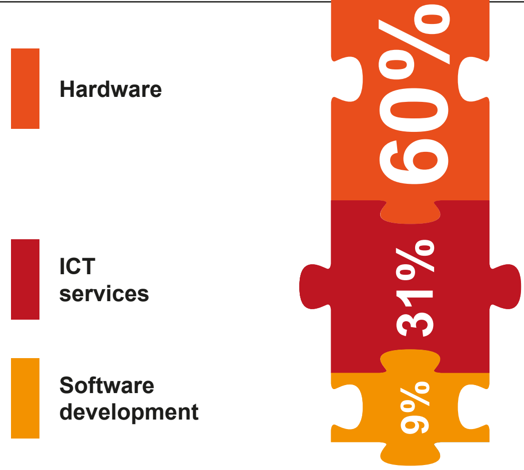


Source: InfoPro Research ** Compound annual growth rate*

LONG TERM measures

- There should be 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
- Empowering e-government by pushing the public sector to digitize all its operation and accept digital payments
- The government must focus on Tripoli Special Economic Zone (TSEZ) as a strategic space for IT projects because it offers attractive incentives and because the submarine communications cable I-ME-WE (India-Middle East-Western Europe) is linked to Tripoli
- The promising projects that must be given priority include creative digital content, imaging, hardware and electronic assembly, high-end electronic industrial printing, and software license distribution
- The IT industry, as a key sector in economic development, must be prioritized and must be given additional incentives through an Export Development Agency
- Revive the Kafalat Plus loan guarantee program and increase its limits
- Invigorate teaching of coding in public schools at the elementary and intermediary levels
- Intensify joint applied research projects between large big IT companies and universities. 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, expand the scope of financing provided through circular 331 (or any subsequent circular) to include R&D projects, and introduce incentives to the private sector to invest in R&D.

ICT market by subsector (2018)



Source: InfoPro Research

Telecom

STATE OF THE SECTOR

The telecom sector suffers from a slow and inefficient state bureaucracy that is preventing it from thriving. Political bickering is delaying the implementation and modernization of vital laws. The sector is missing valuable opportunities to prosper and contribute to economic growth due to the lack of business acumen among public sector decision-makers. The fiber optic project, which started effectively in October 2018 will take about four years to complete. The project aims to connect nearly 1.2 million residential units to the grid. The number of the users of the fiber optic network reached 125,000 at the end of 2018. Nearly 17 percent of the fiber optic project has been completed so far and 27 to 30 percent of the project is scheduled to be completed within a few months. Subscriptions to the fixed telephone service continue to decrease with more mobile phone penetration.

SHORT TERM measures

- Revive the Telecom Regulatory Authority
- Various public sector entities must coordinate their operations. Ogero's present work on the network is sometimes delayed due to some municipalities' mismanagement of work on internal roads
- The deployment of the fiber optic network must be accelerated.
- While the government is preparing a cyber-security strategy it must develop immediately a rudimentary security infrastructure.

LONG TERM measures

- There is a need for high-speed Internet at affordable prices, as prices are currently very expensive relative to most countries. Telecom rates should not be inflated to boost budget revenues
- The creation of the National Data Center must be accelerated to create a national cloud computing service
- The Telecommunications Law (Law 431/2002), still not applied, must be activated. Creation of Liban Telecom which will be an integrated telecom operator providing both fixed and mobile telephone services, and preventing collusion between the other two mobile operators. Ogero will morph into Liban Telecom by selling a stake to a strategic partner
- The mobile networks must be completely sold 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.

INDICATORS

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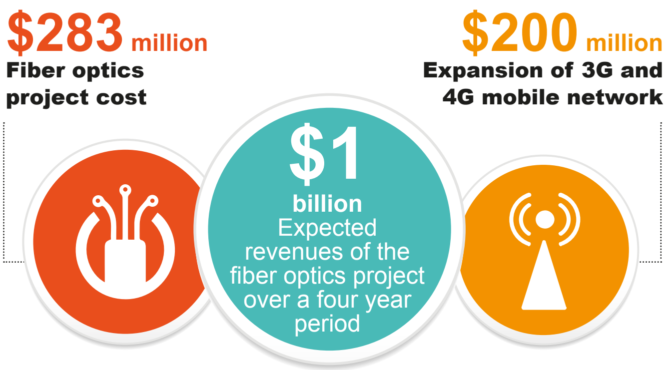
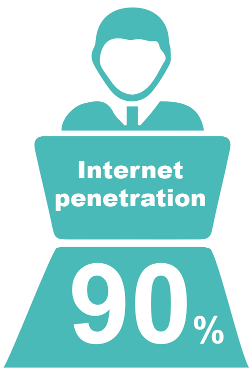
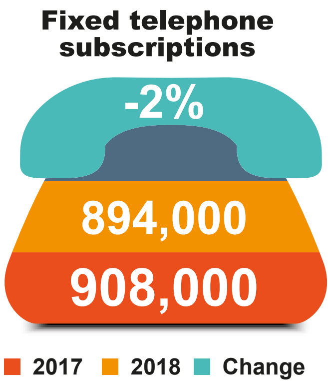
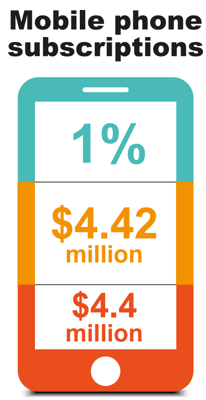


Source: Ministry of Telecommunications



Source: Internet World Stats





Source: World Bank

Real Estate

STATE OF THE SECTOR

The key indicators of the real estate sector show a decline in the real estate and construction activity. The constraining of subsidized housing loans has contributed to the sector's negative performance. The stock of buildings with apartments available for sale in a large area surveyed by InfoPro Research reached 2,430 buildings by June 2019 (Beirut, Baabda, Metn, Aley, Kesrouan, and Northern and Eastern Suburbs). Developers are now focused on finishing their existing projects. Household demand is driven only by the population growth as demand from expatriates and Arab Gulf citizens have dwindled. Unit sizes are shrinking. Asking prices are stable since 2017, according to the Real Estate Index published by InfoPro Research.

According to a survey undertaken by Infopro in February 2020, around 1,250 newly constructed apartments have been sold in the period between the beginning of October 2019 and till the end of January 2020. Buyers were motivated by moving some of their deposits out of the banks. Developers with bank loans were motivated to pay down their debt. Sales were closed at a discount as high as 30 percent at the beginning of the crisis. Towards the end of January, they were selling at a 20 percent premium, as the number of developer in dire finances have dwindled, and unburdened sellers had no incentive to turn their fixed assets into cash. The boom lasted only a few short months.

SHORT TERM measures

- Lease-to-Own law and set its implementing decrees
- Unify or standardize the real estate valuation methodologies and parties used to undertake valuation for registration and tax purposes
- Provide a three years installment payment plan of registration fees of sold apartments
- Legalize the registration of the off-plan sales agreements through the notary public to protect rights of both buyers and investors
- Incorporate all the land spaces into the (currently incomplete) cadastre. The responsible entity is the real estate unit at the Ministry of Finance
- Automate paperwork and documentation and establish a tracking system at the level of the Urban Planning Administration in Ministry of Transport and Public Works (MoTPW). This will limit time and corruption and enhance transparency at all the levels of the process.

LONG TERM measures

- Update urban planning across the country. This is the responsibility of the General Directory of Urban Planning
- Studying the urban planning in a continuous manner as well as in the surveillance of the application of these plans. This will make the urban planning more dynamic where the scope of the real estate investments expand in relation to demographic growth
- Streamline taxes imposed on the real estate properties. There are 17 taxes imposed on the real estate properties
- Empower the Directorate General of Urban Planning with larger decision ability
- Enact a law that allows the establishment of real estate investment trusts
- Relax constraints on foreign ownership of real estate.

INDICATORS

Average asking price per square meter

	2017	2018	H1 2019
Beirut	$3,460	$3,460	$3,385
Aley	$1,270	$1,252	$1,233
Baabda	$1,955	$1,919	$1,921
Kesrouan	$1,745	$1,732	$1,692
Metn	$1,873	$1,860	$1,833
Northern Suburbs	$1,914	$1,902	$1,879
Southern Suburbs	$1,824	$1,809	$1,732

Source: Real Estate Index / Price Index – InfoPro Research

Construction permits

	2017	2018	2019
Area of permits (million m²)	11.7	9	6
# of permits	15,800	13,700	10,991

Cement deliveries in million tons

2017 –> 5.2 | 2018 –> 4.7 | 2019 –> 3

Real estate transactions number and value

	2017	2018	2019
# of transactions	72,500	60,700	50,352
Value (USD million)	8,900	8,100	6,800

Source: Cadaster – Orders of Engineers in Beirut and North

Residential properties

	2017	2018	H1 2019
Buildings with apartment for sale	2,357	2,444	2,421
Sold out buildings	271	214	107
New buildings launched	487	269	193

The numbers cover Beirut, Baabda, Metn, Aley, Kesrouan, Northern and Eastern Suburbs

Source: InfoPro Research

Automarket

STATE OF THE SECTOR

New car sales continued to decrease in 2019. This is mainly due to the tough lending conditions and the high interest rates on car loans. The market is now at a near-halt stage due to the difficulty of importing new cars. Dealers can only market existing stock and focus on maintenance services. Cars dealers also suffer from unfair competition in the grey spare parts market.

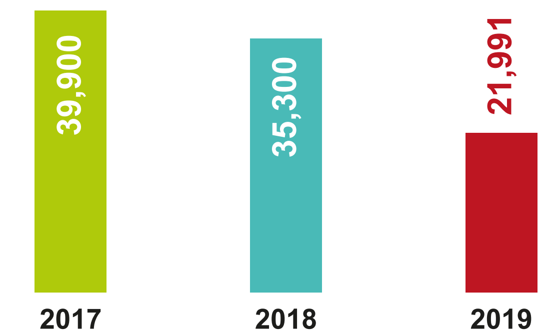
SHORT TERM measures

- Provide the new cars importers a license to transfer money against certified invoices
- Lower bank interest rate on car loans to enable more customers to buy new cars
- Lower the car registration, 'Mécanique' on non-luxury automobiles, and Customs fees temporarily, to boost replacing old cars
- Establish free zones for used cars. This boosts the car trans-shipment sector, as an add-up revenue source for traders
- Introduce a car leasing program
- Traffic and Vehicle Management Authority to change the methodology of calculating the registration fees for vehicles, it should calculate the fees according to horsepower rather than as a percentage of vehicle's price.

LONG TERM measures

- Stricter technical control for used cars at the port of entry to avoid importing unsafe cars
- Create incentives to replace their old polluting cars. UNDP launched the Low Emission Capacity- Building Program
- Strengthen efforts by the Consumer Protection department, to combat the sale of counterfeit spare parts
- Update pricing for used cars in both Customs and the Traffic and Vehicle Management Authority.

Number of new vehicle registrations *



(*) Passenger and commercial cars
Source: AIA new vehicle registrations

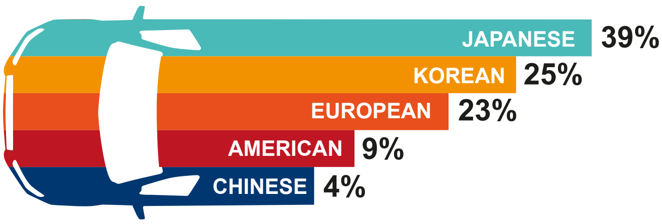
INDICATORS

New passenger car sales by the top 20 brands 2019

KIA	3,205
TOYOTA	2,479
NISSAN	2,349
HYUNDAI	2,272
RENAULT	1,397
CHEVROLET	1,193
SUZUKI	1,183
HONDA	907
MITSUBISHI	620
Mercedes-Benz	612
CHANGAN	594
mazda	479
Audi	367
LAND ROVER	364
BMW	353
GMC	315
Cadillac	216
PEUGEOT	213
PORSCHE	212
JAGUAR	208

Source: AIA – New vehicles registered in Lebanon during 2019

New car sales 2019



Source: AIA – New vehicles registered in Lebanon

Sales of imported used cars

Used cars imported		Used cars sold
47,500	2017	42,000
44,000	2018	38,000
20,000	H1 2018	18,000
14,000	H1 2019	12,000

Source: Used Car Importers Syndicate

Insurance

STATE OF THE SECTOR

The insurance market, particularly non-life insurance, is relatively well developed compared to the Middle East region. The sector, however, remains fragmented with more than 50 insurance firms competing for a share of the market. This situation creates an opportunity for mergers and acquisitions, but the sector is currently facing challenges in attracting large scale investments. Despite the present market conditions, the first half of 2019 witnessed Saradar Capital Holding's acquisition of 51 percent of Assurex, while LIA Insurance and Assurex have started a merger process. At the regulatory level, the Ministry of Economy and Trade has instructed the Insurance Control Commission (ICC) to adopt the insurance core principles (ICPs) of the International Association of Insurance Supervisors. The ICC must apply the ICPs when carrying out its supervisory job and when it is preparing new regulations and decisions.

SHORT TERM measures

- The need is to solve the current problem of money transfers to international reinsurers. This requires the banking system to provide foreign currency liquidity at the official rate to allow local insurance to reinsure their risks. It is crucial to solve the problem as soon as possible because the renewal of reinsurance contracts takes place at the end of the year
- Relax some of the rules of the Insurance Control Commission (ICC), to accommodate current exceptional circumstances
- Delay tax reforms slated for the insurance sector until the market stabilizes.

INDICATORS

The insurance sector continued to grow during the first half of 2019 albeit at a slow pace. Overall gross written premiums inched up one percent to $874 million compared with the first half of 2018. Total gross claims settled over the same period rose 13 percent to $502 million.

Gross written premiums

USD billion

2018	1.68
2019	1.61
Change	-4%

Gross paid claims

USD million

2018	949
2019	1,049
Change	11%

Gross written premiums 2019

USD million

	Life	Motor	Health	Property and casualty
USD million	336	201	417	95
Year-on-year change	▲ 16%	▼ -4%	▲ 15%	▲ 5%

Gross claims settled 2019

USD million

	Life	Motor	Health	Property and casualty
USD million	471	334	540	266
Year-on-year change	▼ -9%	▼ -12%	▲ 6%	▼ -1%

Source: Insurance Control Commission (ICC)

LONG TERM measures

- The insurance law has become obsolete and needs to be modernized or a new law must be issued. One of the major amendments that must be carried out is to separate the rules applied to life insurance from those applied to non-life insurance. This is because these two branches of insurance have different characteristics and requirements such as reserve requirements. The existing law does not distinguish enough between these two branches
- Raise the minimum capital requirement from LL2.25 billion ($1.5 million-$10 million). This will improve the liquidity of the companies and encourage mergers between them
- Another proposal is to require a variable capital that differs from one company to the other depending on their turnover instead of imposing the same minimum capital requirement on all insurance firms regardless of their size
- The minimum required solvency ratio, which is currently at ten percent, must be increased in order to raise the performance standards of the insurance sector. A similar process of raising the Basel requirements exists in the banking sector. Raising the solvency ratio will boost confidence in the local insurance sector especially for international reinsurance firms since all local insurance companies reinsure their policies with global firms
- Initiatives undertaken by the ICC and pertaining to solvency, governance, and market practices must be fast-tracked in order to offer better protection to policyholders and empower insurance firms to easily settle obligations and claims
- The law that regulates the activities of insurance brokers must be updated. This will help make this sector become more professional
- Prevention by the ICC of price dumping
- Compulsory vehicle insurance must be extended to material damage. It should not only cover bodily injury caused to third parties
- The creation of a centralized risk database managed by the ICC must be accelerated. This database will provide advanced analytics that can be used in different ways such as improving road safety measures
- Compulsory insurance must be implemented 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. This puts Lebanon in line with international standards
- Replacing existing end-of-service indemnity scheme by a modern retirement plan through the participation of the private sector. This will contribute to the growth of the insurance sector
- Offering tax incentives on saving plans and pension schemes will encourage saving through life insurance products
- The ICC must 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.
- Exempt life and health insurance policies paid by employers from personal income tax and social security dues
- Extend compulsory vehicle insurance currently, currently covering only third-party bodily injury, to include material damage
- The ICC must become an independent body. It is currently under the tutelage of the Ministry of Economy and Trade
- A chairperson of the ICC must be appointed
- Encourage mergers among insurance firms through more incentives because the sector is currently too fragmented
- Use a risk-based approach to determine the required capitalization of insurance companies.

IMPLEMENTING AGENCIES

- Draft laws pertaining to the insurance sector are proposed by the ICC which submits them to the Minister of Economy and Trade. The minister presents the draft law to the council of ministers which approves it and refers it to Parliament. Decrees are directly issued by the minister in charge or the council of ministers
- Tax reforms are proposed by the Ministry of Finance and submitted to the council of ministers which approves them and refers them to Parliament.

Transport

INDICATORS

Beirut Airport

	2017	2018	2019
Aircraft movement	71,200	73,500	72,177
Passengers (million)	8.2	8.8	8.6
Freight (metric tons)	97,000	98,000	87,220

Source: Beirut Rafic Hariri International Airport

Port of Tripoli

	Vessels	Merchandise (million tons)	Cars	Containers	Total revenues (USD million)
2019	608	2	3,091	54,649	15
2018	665	1.8	4,428	19,500	16.4
2017	775	1.9	4,750	6,400	16.5

2017 2018 2019

Source: Port of Tripoli

STATE OF THE SECTOR

The transportation sector performance is mixed. The sea transport infrastructure is satisfactory with the Port of Beirut and growing capacities of the Port of Tripoli. Transportation by air has gaps of direct routes to major cities. The Beirut airport also requires expansion. Land transport lacks in many basics. This affects the overall logistics performance and adds costs for the business community and general public. Another issue is the lengthy and costly administrative red tape that businesses are bearing in their transport needs. For instance, the process of Customs clearance of goods is consuming more time and cost. Traders claim that they often need to grease their way at different stages of the process.

SHORT TERM measures

- Draft a law that sets the Standard Terms and Conditions (STC) of the freight forwarders, shipping lines, and customs brokers' scope of activity
- Automate further Customs clearance procedures to decrease time and corruption
- One-stop-shop for Customs Administration to inspect containers in one go with representatives of all related ministries and authorities.

LONG TERM measures

- Law that transforms the Syndicate of Freight Forwarders to an Order to avoid unlicensed players
- Expand yard and storage area at the Port of Beirut to grow the transshipment activity for the region
- Ministry of Public Works and Transport to implement already approved plans for public transport
- Expedite the Beirut Airport expansion plans
- Regularize the large number of non-registered transport vehicles (half of the 60,000 taxis, 75 percent of around 18,000 mini buses, and two thirds of 4,000 buses)
- Transfer the management responsibility of rent-a-car agencies to the Ministry of transport from the Ministry of Tourism
- Establish a body to administer the overall transport sector. It will be responsible for applying the already approved plans for public transport

Port of Beirut

	Vessels	Merchandise (million tons)	Cars	Passengers	Local containers	Transshipment (TEU)*	Total revenues (USD million)
2019	1,746	6.5	61,780	8,189	734,081	495,000	199
2018	2,242	7.9	60,200	6,622	874,609	431,146	231.5
2017	2,261	8.6	78,000	6,167	897,787	407,251	240

2017 2018 2019

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

Education

STATE OF THE SECTOR

Access to quality education that prepares students for the labor market continues to be a challenge. The number of out-of-school children is decreasing annually. There is a continued reliance on private schooling to accommodate the growing demand for learning. The gap between public and private education institutions is widening. Student-to-teacher ratio is lower in public schools than private schools. Despite the relatively high number of public school teachers, there are not enough teachers in some regions. The success rate at Brevet and Baccalaureate levels is not an indicator of the real quality of education. Curricula at elementary, intermediate and secondary education levels need be updated. Despite rapid expansion in the provision of technical and vocational education and training (TVET), the current system does not meet the needs of the labor market. Availability of public higher education is still limited with only one public university that cannot fulfill the growing need for education, and cannot cover all the geographic areas. Many of the private higher learning institutions are not accredited and are of sub-standard quality.

SHORT TERM measures

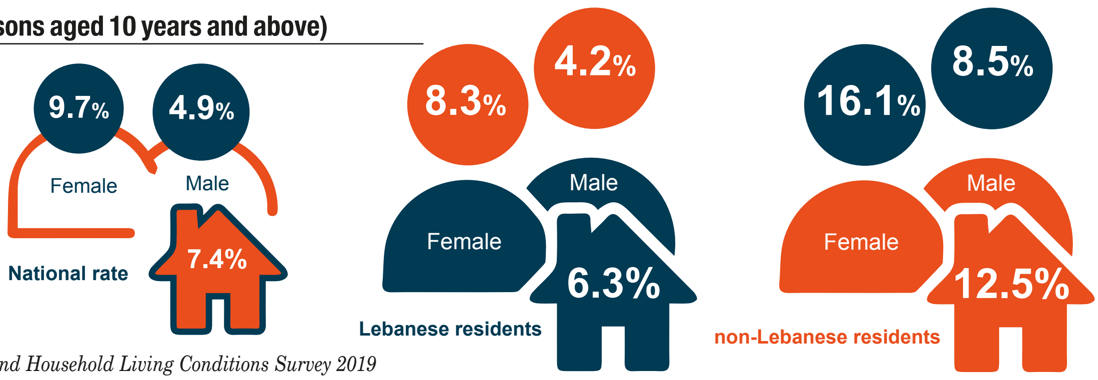
- Amend academic conditions for appointing teachers. According to the current conditions, a teacher's university degree does not need to include education as a specialty. This could imply that even though teachers may have a good handle on a subject, they might still not have the tools necessary to convey such knowledge to student
- Amend terms for promoting teachers, according to their competencies instead of years of experience
- The Ministry of Education and Higher Education (MEHE) must establish an obligatory training program for teachers of both public and private schools with cyclic evaluation
- MEHE should set an accreditation system for the faculties of education
- The Directorate General for Higher Education should apply stricter terms when licensing for new higher education institutions.

LONG TERM measures

- Rehabilitate public school buildings to meet safety regulations, provide necessary resources, and improve accessibility to students with physical disabilities. Schools receiving refugee children are among the most needy
- Narrow the achievement gap between private and public schools through updating curricula and equipment. The most recent curricula was designed in 2000
- MEHE should give rural and remote areas access to education
- Reform the Lebanese University and provide it with the latest tools
- Directorate General of Technical and Vocational Education should emphasize life skills and entrepreneurship education to improve the school-to-work transition of TVET graduates. There is a need to provide vocational and technical schools with updated job-related equipment and materials to allow trainees to acquire practical skills in safe conditions that resemble the workplace
- 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.

INDICATORS

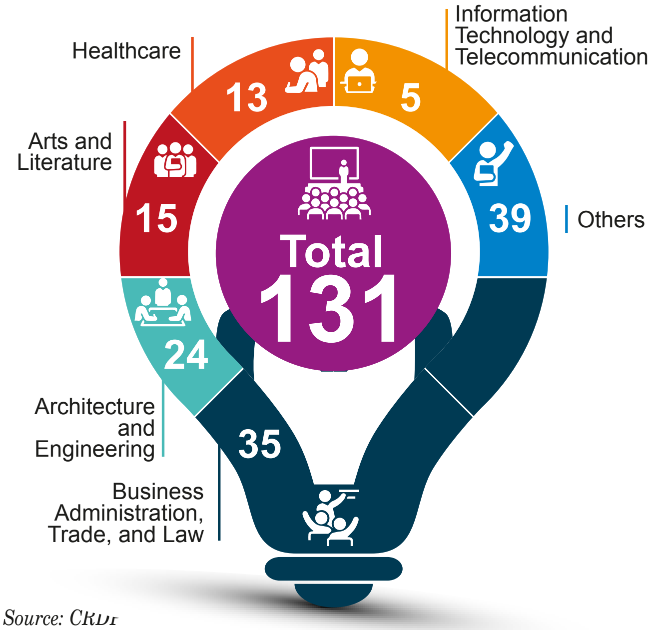
Illiteracy rate (Persons aged 10 years and above)



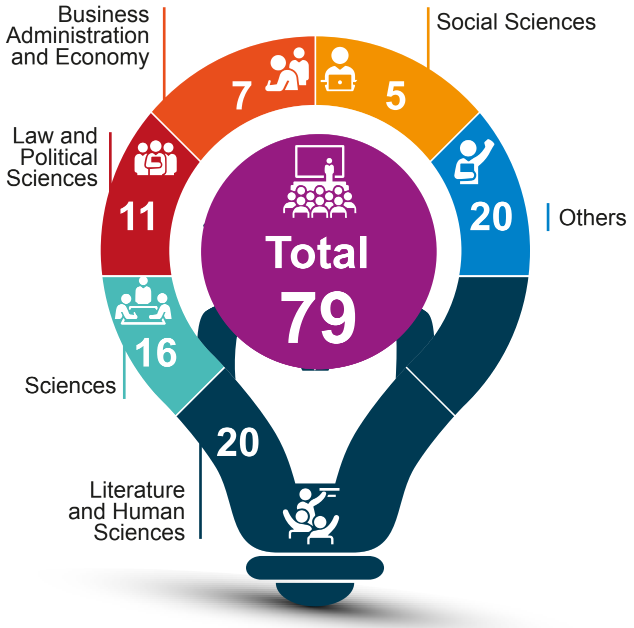
Source: CAS - Labor Force and Household Living Conditions Survey 2019

Top five specialties in 2017-2018

Private Universities (000's)

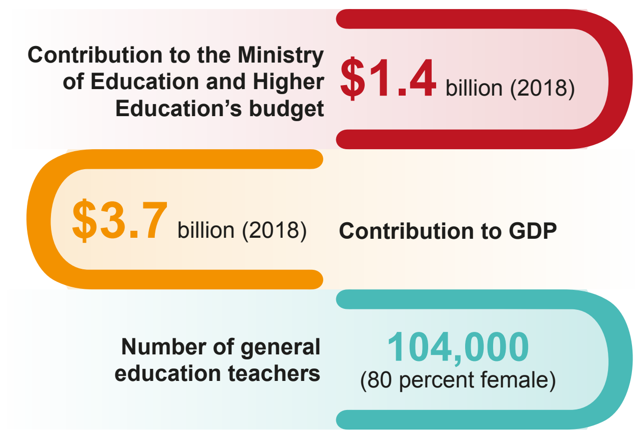


Lebanese University (000's)



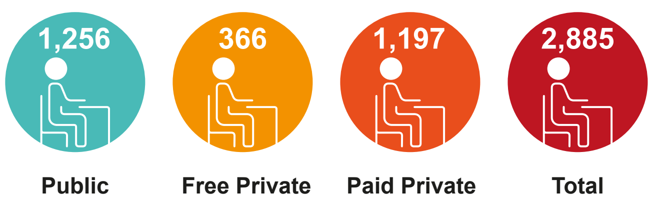
Source: CRDP

The education sector's contribution to GDP



Source: Ministry of Finance, National Accounts, CRDP

Number of schools by type (2017-2018)

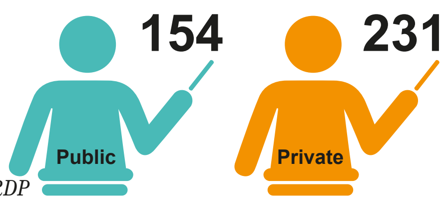


Source: CRDP

Distribution of students in 2017-2018

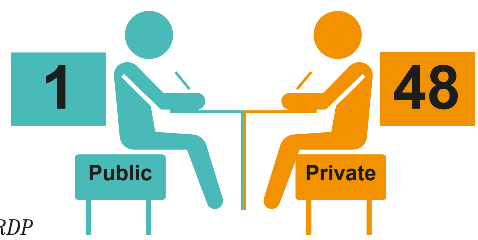
Note: The remaining 3% are in UNRWA schools
Source: CRDP

Number of vocational schools



Source: CRDP

Number of universities



Source: CRDP

Health

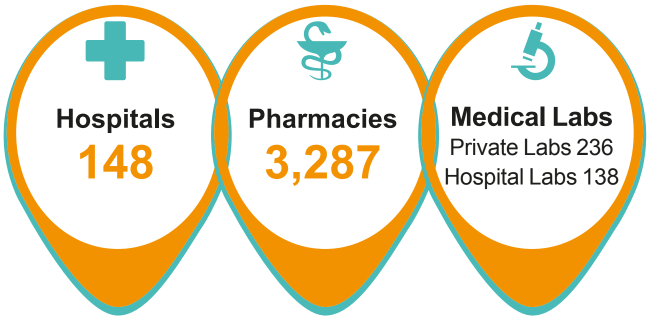
INDICATORS

Pharmaceutical imports and exports (USD million)

	Imports	Exports
2017	$1,288	$52
2018	$1,329	$57
2019	$1,242	$58

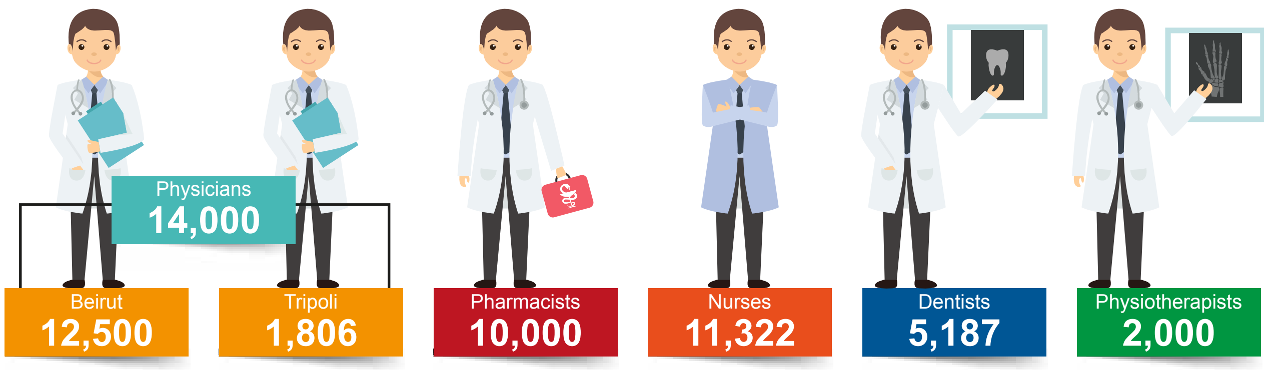
Source: Customs

Number of hospitals, pharmacies, and medical laboratories



Source: Syndicate of Private Hospitals, Order of Pharmacists, Syndicat des Biologistes du Liban, Ministry of Public Health

Number and type of health professionals



Source: Order of Physicians, Order of Pharmacists, Lebanese Dental Association, Order of Nurses, Order of Physiotherapists

STATE OF THE SECTOR

Healthcare delivery is deteriorating. Medical practitioners are warning that hospitals may soon not be able to provide patients with life-saving surgery and urgent medical care because of the financial crisis. The Ministry of Finance has not paid private hospitals an estimated $1.3 billion in dues since 2011, compromising their ability to buy vital medicines and medical supplies and to pay staff salaries. Many hospitals are laying-off the nurses. Government dues also include funds owed by the National Social Security Fund, which benefited 840,000 individuals in 2017, and military health funds. Dollar shortage is also preventing the import of medical equipment. There were 223 primary health care centers in 2018, up from 186 centers in 2013, according to the Ministry of Public Health (MoPH). The number of private hospitals and beds is on the rise. There are three hospital beds for every 1,000 citizens, which is within international norms. Health care providers and the sector's stakeholders including hospitals, pharmacists, physicians, nurses, physiotherapists and nutritionists, claim a general lack of coordination among them.

SHORT TERM measures

- The government must clarify the mechanism of paying debts to hospitals
- Insurance companies must clarify the mechanism of paying debts to hospitals
- MoPH should use the services of the Third Party Administrators (TPAs). TPAs manage claims of hospitalized patients at MoPH expense in private and public hospitals as the small Ministry's team is unable to audit all the hospitals' invoices
- Physicians need to receive their dues as separated invoices from that of the hospitals
- Approve the Order of Nurses recommendations for hospitals accreditation in terms of nursing human resources (number of patients per nurse)
- Deduct a percentage of the taxes paid by the importers of physical therapy equipment to finance the pension fund of the Order of Physiotherapists
- MoPH should set the financial ceilings for hospitals according to a scientific analysis based on the geographic location of the hospital, the demographic characteristics of possible patients who benefit from the hospital and the type of services it provides. This allows hospitals to get financial ceilings that match their real needs and prevent them from surpassing those ceilings
- MoPH should activate the Higher Council of Health
- Implement the plan of medical waste management. The plan was set by the Ministry of Environment and it includes the sorting, treatment, transportation, and reducing production of medical waste.

LONG TERM measures

- Digitize processes at the NSSF
- The Order of Physicians and the Syndicate of Private Hospitals should amend the methodology of hospital-physician contracting
- MoPH must conduct a study covering all medical services in order to set their fees and their amendment rules. The last study was conducted in 1998
- MoPH must set a system to manage the coordination among the emergency health providers (the Red Cross and Civil Defense and hospitals)
- MoPH must establish a barcode system to manage medicines consumption in hospitals to avoid the use of smuggled or expired products
- The Ministry of Education should set a national standard program for teaching nursing at universities and for training instructors at the nursing vocational schools
- Enact a law for continuing medical education
- Draft a law which classifies the working environment for the nursing workforce
- Amend the law regulating the profession of physical therapy to specify the scope of practice of physical therapy in accordance with the World Confederation of Physical Therapists standards
- Include Social Security coverage to physiotherapy.

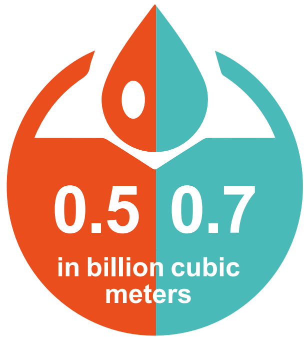
V. Infrastructure

A Plan for Revival

Water

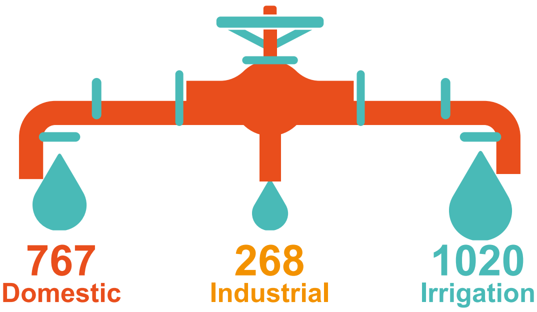
INDICATORS

Annual ground-water recharge
Annual ground-water extraction*



*As in 2012, the latest available
Source: UNDP

Water demand projections for 2020 (million cubic meters /year)



Estimation performed in 2009, the latest available
Source: World Bank

STATE OF THE SECTOR

The water sector needs to be managed in an efficient way and to abide by the principles of good governance. Huge water resources remain unexploited while the country suffers from water shortages. For instance, in the Greater Beirut-Mount Lebanon region, only 20 percent of households connected to the network have water available every day in the wet season (December-May), and fewer in the dry season. This area will need an additional 345 million cubic meters of water by 2035, that's 100 percent more than today. Besides bad management of water sources, large quantities of water are being lost through leakages due to the derelict distribution network. There is almost no water recycling or re-use. A new water code was ratified in 2018 that is supposed to address some of these issues. It includes legislation that gives a greater role to the private sector in water projects. Its application has not yet started.

SHORT TERM measures

- Promote drip irrigation and other modern watering methods which are more efficient than traditional flood irrigation, as agriculture is the number one water consumer
- Increase the installation of water meters in households and workplaces to encourage responsible water consumption. Such meters were installed only in certain areas
- Apply existent regulations or come up with new ones about exploiting underground water by privately dug wells. This activity is operated in a near chaos
- Enforce the payment of annual fees for all households and workplaces, which is currently not the case.

LONG TERM measures

- Apply governance principles to the general exploitation of underground water and prevent overconsumption especially in Bekaa where subterranean water levels are dropping
- Increase underground water through the artificial recharge process by injecting rainwater into subterranean wells. This will increase fresh underground water level in coastal areas
- Revamping the drinking water networks. In some old networks half of the water is lost due to leakages
- Sites that are suitable for the construction of dams should be thoroughly surveyed before construction to avoid mistakes in the choice of sites, on geological and economic levels
- Recuperate Lebanon's shares in international rivers: Orontes-(Assi) (from Syria and Turkey), Nahr El Kabir (from Syria), and Hasbani (from Occupied Palestine)
- Exploit submarine fresh water springs
- Recycle domestic wastewater, especially in the Bekaa, in order to avoid pollution and reduce the abuse of underground water
- Reforestation by the Ministry of Agriculture. It will increase precipitation quantities, slow down surface flow of rainwater, and improve infiltration of water into the soil
- Create a balance and set priorities for water consumption between the different water usages
- Various public Water Establishments must coordinate their efforts
- There is a lack of technical data about the water sector. Devices must be installed to measure different kinds of water parameters
- Legislation related to water is fragmented and badly understood. This issue should be addressed through a better understanding and distribution of information to the public sector employees by organizing workshops to educate these employees about water regulations.

Oil and Gas

INDICATORS

Imports of petroleum derivatives increased four percent to four million tons in the first half of 2019 compared with the same period of the previous year. The value of these imports varies according to changes in global oil prices. It totaled $4 billion in 2018.

Estimated offshore natural gas

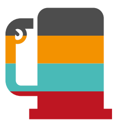
25 Trillion cubic feet (TCF)

Source: UK-based company Spectrum

Local demand for petroleum products

14 % Industrial

30 % Residential



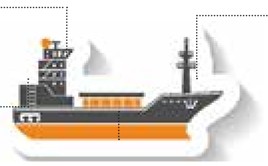
Other demand 26 %

Transportation 30 %

Import of petroleum derivatives (million tons)

2018
8.1

2017
8.4



2019
8

Source: Central Bank

Requirement for offshore oil and gas exploration and development

Non-operating companies
$500 million

Operating companies
$10 billion

Source: Ministry of Energy and Water

STATE OF THE SECTOR

The winning consortium of the first exploration bid – Total, ENI, and Novatek – will start offshore exploration for oil and gas in Block 4 by January 2020. Drilling in Block 9 will start later in 2020. If commercial quantities are found, production will start in a few years. The exploration period is five to six years. After the discovery of commercial quantities, the consortium will set up development and production plans. Oil companies will be competing to bid for licensing. For this reason licensing is done gradually. A second round of international bids has been launched in mid-2019. It is scheduled to close in January 2020. Licensing rights awards require the approval of the Council of Ministers. Meanwhile Lebanon depends entirely on imports to fulfill its needs of oil derivatives. Another ongoing project in this field is the construction of Floating Storage Regasification Units (FSRU) along the shore for the importation of natural gas for power generation plants which currently use heavy fuels. A tender has been launched and results should be announced soon.

SHORT TERM measures

- 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. It is important to do this immediately because it gives a positive signal to stakeholders
- Reduce the number of planned Floating Storage Regasification Units (FSRUs) to three
- Issue implementation decrees emanating from the Transparency law.

LONG TERM measures

- Establish the National Anti-Corruption Commission
- Improve the subcontracting process
- Local companies should have equal opportunities to bid for subcontracts during the exploration and production process. Identity of the owners of such companies must be disclosed
- A plan for the usage of revenues generated from the oil and gas sector should be devised. Appropriate a portion of revenues to a Sovereign Wealth Fund, with the balance to be portioned between debt reduction and investment in infrastructure
- The planned 'Sovereign Wealth Fund' is supposed to be the tool to support the real economy. Two draft laws are being discussed in Parliament to regulate this fund. Experts, civil society activists, and the Economic and Social Council should join hands to tackle the issue of setting up the sovereign fund
- The Offshore Petroleum Resources Law requires the creation of a national oil company. The time for establishing the company is related to oil or gas discoveries and commercial opportunities. The National oil company will hold the share of the government in the sector. It should abide by good governance principles. Instead of establishing a state-owned oil company (now deemed an antiquated model), other alternatives should also be explored.

Public Works

STATE OF THE SECTOR

Public works are progressing at a slow pace due to the lack of financing of scheduled projects. Public contractors announced that they will stop participating in public tenders, unless they are funded by foreign sources, until the government pays due arrears. Contractors are hampered by a non-unified classification scheme.

SHORT TERM measures

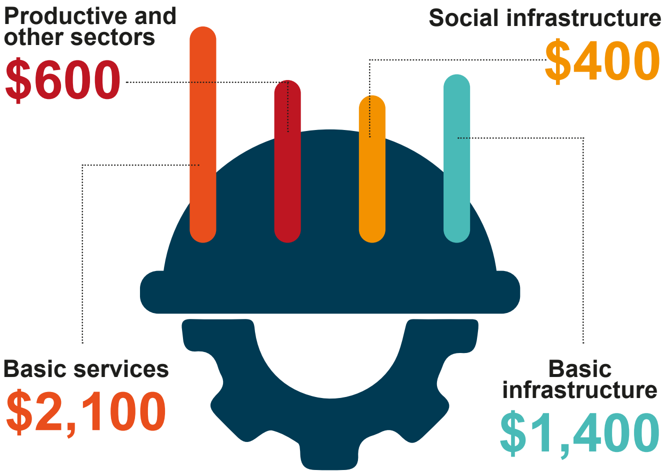
- Pay the due arrears, even by regular installments
- Approve the decree that reorganizes the contracting activity
- Draft a law that unifies the classification for contractors and engineers. Public works tenders should be undertaken by a single authority, such as the Council for Development and Reconstruction (CDR).

LONG TERM measures

- Assign special courts to arbitrate conflicts between contractors and government agencies
- Approve the 'General Terms and Conditions' law in Parliament.

INDICATORS

Value of allocated contracts in 2018 (USD million)

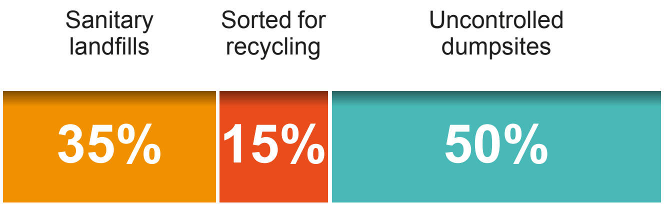


Source: Council of Development and Reconstruction (CDR) Annual Report 2018

Solid Waste

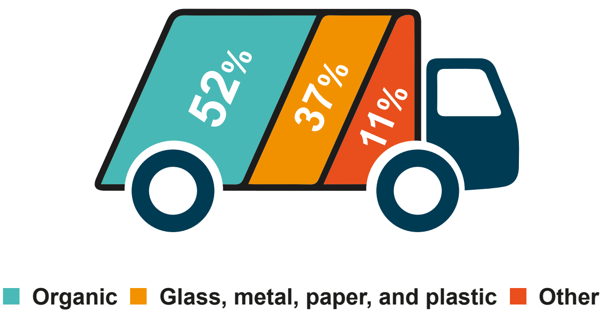
INDICATORS

Waste processing

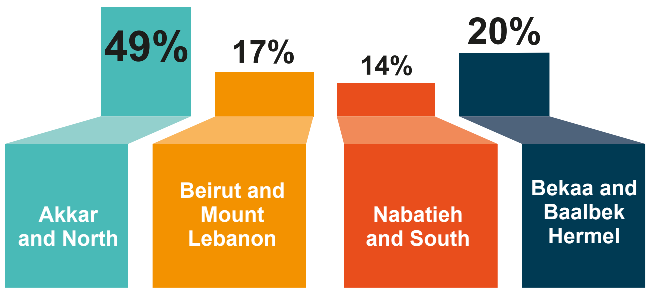


Production of solid waste

Nature of solid household waste



Distribution of uncontrolled dumpsite waste



Source: Ministry of Environment

STATE OF THE SECTOR

The sector still lacks the required minimum of regulation and sound management. The private sector is ready to take over as there are already specialized companies that are effective in this area of expertise. The solid waste sector comprises 61 companies, as of the end of 2018. There are 23 recycling factories registered with the Ministry of Industry. Three big composting facilities produce compost from organic waste in Tripoli, Minyeh and Beirut. Ten municipalities have taken the initiative to create small composting factories with a waste treatment capacity of three to five tons per day. In August 2019, the Council of Ministers approved the Ministry of Environment's 2019-2030 roadmap of the integrated solid waste management sector. The implementation of the roadmap, has been delayed due to the resignation of the government. International grants and soft loans are generally available for these kinds of projects. CEDRE plan also includes loans from donors for larger projects. But, as with other CEDRE programs, they are conditioned on reforms that the government must implement.

SHORT TERM measures

- The Integrated Solid Waste Management Law, passed in 2018, must be enforced by issuing the implementing decrees. But the delay in issuing these decrees will not lead to a complete standstill in the solid waste sector
- There is a need to start securing grants from international development banks for the solid waste sector, because the current landfills will soon be full
- Subsidized loans for the green energy and green manufacturing sectors, offered by the BDL, must continue.

LONG TERM measures

- Landfilling must be reduced to the maximum extent possible due to high land cost and limited space availability
- Recycling to prioritized over other solutions, as it is the most effective. Paper and carton recycling factories are already active. They need raw material through garbage sorting, preferably from homes. Advanced technology must be used. Support projects that use conversion technology for recycling plastics, such as turning PET bottles (for mineral water) into polyester fiber
- A sorting-composting facility is needed in each caza. Decentralization reduces transport costs and maintains solid waste quality otherwise suffering from long distance transport requiring compressing trucks
- Incineration of solid waste is still controversial. Some (including the Municipality of Beirut) considers it as a viable option as land is not available in the capital. This option is rejected by others based on cost, and distrust in applying good practice which can lead to environmental hazards
- The waste treatment projects must be implemented through public-private partnerships (PPPs) between municipalities and private sector companies through ten to 15 years contracts
- Taxes must be introduced to recover the cost of solid waste projects, otherwise this sector will be a loss-making industry. Municipalities should be allowed to levy special taxes to pay for these projects.

VI. Supporting initiatives

A Plan for Revival

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.

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.

VII. Appendices

A Plan for Revival

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

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 vicious cycle.

Top 20 sacred cows

1. Usage of Gold (sale, rent, collateral)	2. Involve the private sector in State assets the private sector (through privatization, management contracts, BOT, and other schemes)	3. Stop electricity production and tariff subsidies, and effective bill collection	4. Combat contraband and dodging Customs
5. Combat tax evasion	6. Combat all forms of corruption	7. Administrative modernization and reform	8. Fuel and other subsidies
9. Reforming the National Social Security Fund	10. Confessional nepotism in the administration	11. Subsidizing private schooling and hospitalization for public employees	12. High pension packages for high-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 including 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 October 17?

No 68%

Yes 22%

10% The business laid off all employees till the situation is back to normal

IF YES, please specify by how much 60%

Have you, as a result of the economic crisis, reduced the salaries of your employees since October 17?

Yes 34%

No 66%

Type of pay cuts since October 17

49%	3%	2%	61%	2%
Salary cuts	Decrease or ending of benefits	Cuts in bonuses and raises	Reduction of working hours and mandatory furloughs	Other

IF SALARY CUTS, please specify by how much 39.7%

Have you, as a result of the economic crisis, reduced the salaries of your employees from the beginning of 2019 till October 17?

Yes 5%

No 95%

Type of pay cuts from the beginning of 2019 till October 17

Salary cuts 95%

Reduction of working hours and mandatory furloughs 21%

IF SALARY CUTS, please specify by how much 37.2%

Any changes in the turnover of the company before and after October 17?

Increase 1%

Decrease 91%

Stable turnover 8%

IF DECREASE, please specify by how much 66.3%

IF INCREASE, please specify by how much 16.6%

Segmented by sector

Workforce reduction since October 17

Manufacturing

20%	65%	15%
Yes	No	The business laid off all employees

AVERAGE reduction 60%

Trade

31%	59%	10%
Yes	No	The business laid off all employees

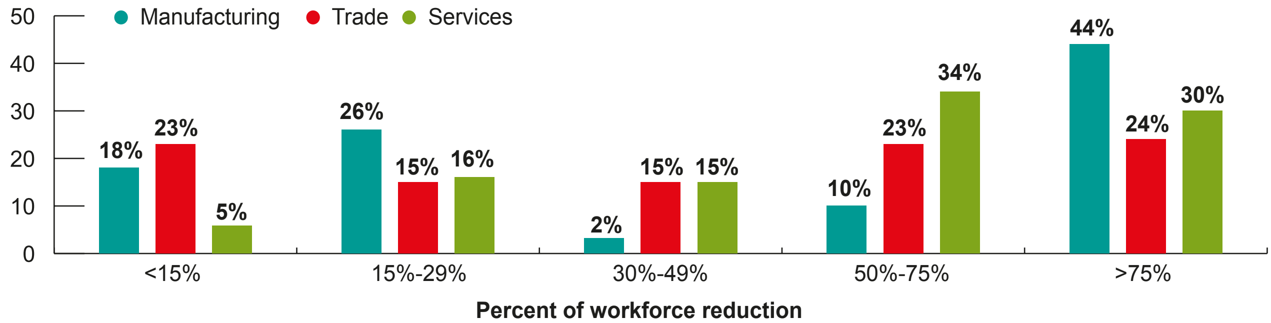
AVERAGE reduction 50%

Services

20%	77%	3%
Yes	No	The business laid off all employees

AVERAGE reduction 50%

Workforce reduction brackets*



** Out of the companies that reduced their workforce*

Salary reduction from the beginning of 2019 till October 17

Manufacturing

5%	95%
Yes	No

Trade

4%	96%
Yes	No

Services

5%	95%
Yes	No

Types of pay cuts*

	Salary cuts	Reduction of working hours and mandatory furloughs	AVERAGE reduction
Manufacturing	95%	5%	27.5%
Trade	74%	26%	40%
Services	100%	50%	50%

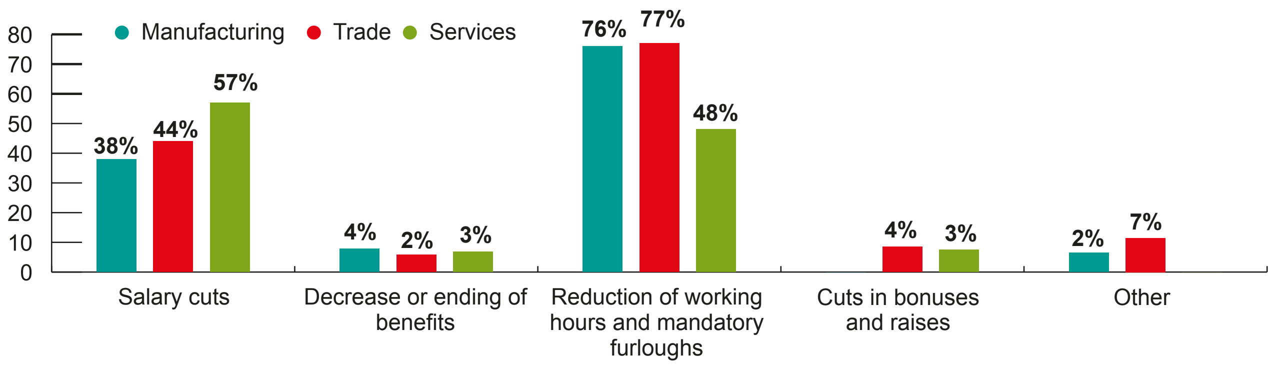
** Multiple answers question*

Segmented by sector

Salary reduction after October 17

	Yes	No
Manufacturing	25%	75%
Trade	29%	71%
Services	48%	52%

Types of pay cuts*



Manufacturing: AVERAGE reduction 42.5%

Trade: AVERAGE reduction 40%

Services: AVERAGE reduction 39%

Change in turnover after October 17

Manufacturing

Increase	Decrease	Stable
2%	87%	11%

16.6% increase — AVERAGE — 60% decrease

Trade

Decrease	Stable
95%	5%

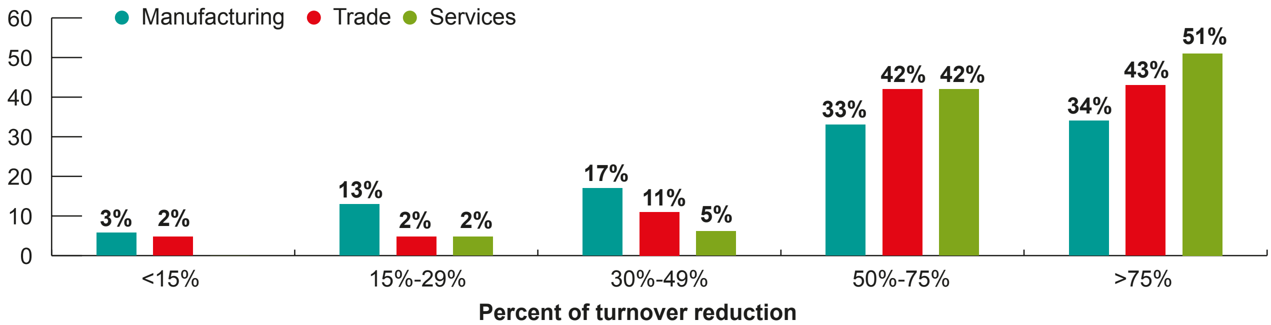
AVERAGE decrease 67%

Services

Decrease	Stable
93%	7%

AVERAGE decrease 73%

Turnover reduction brackets*



** Out of the companies that reduced their 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