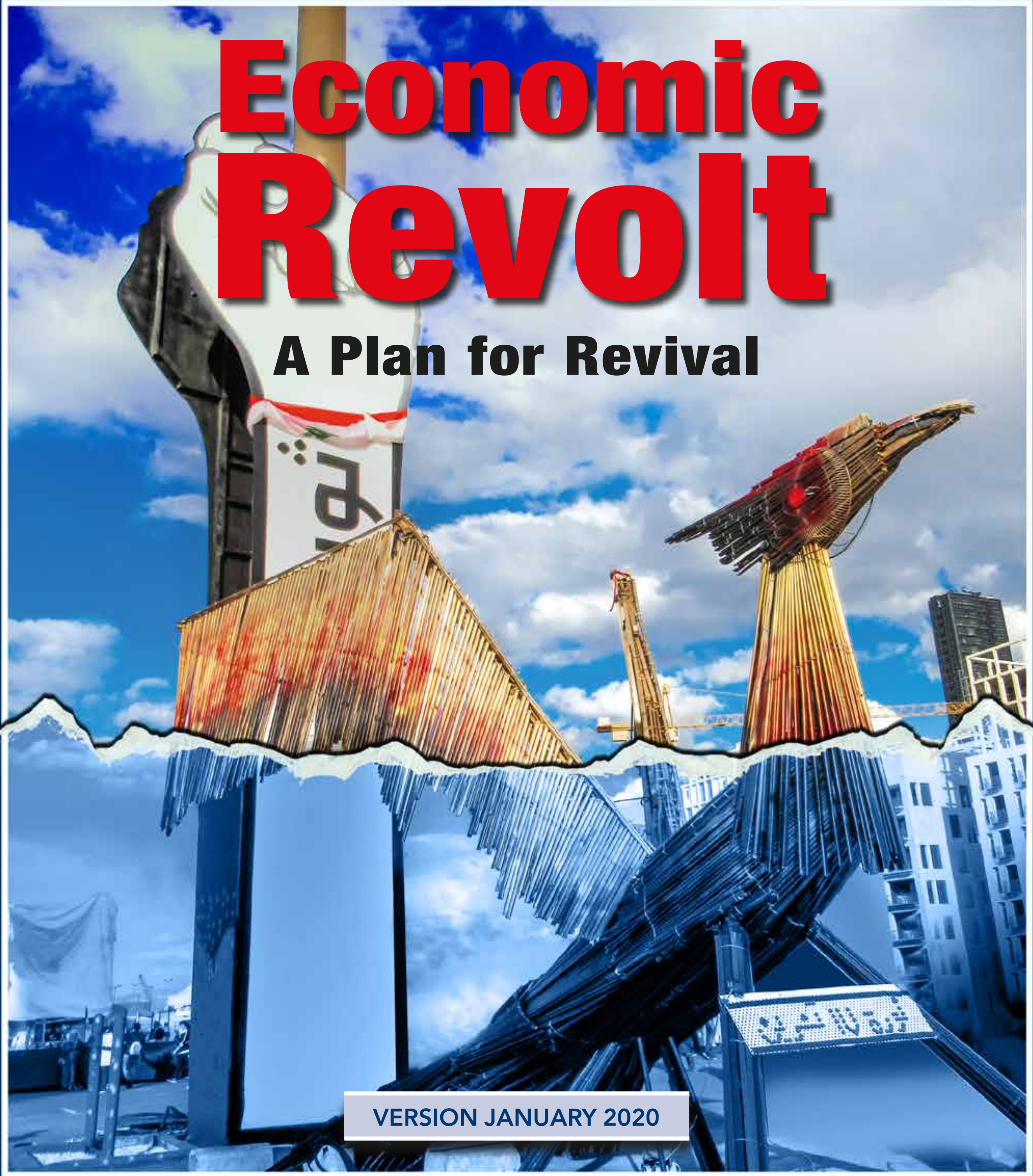
Prepared for

LEADERSCLUB
by LEBANON OPPORTUNITIES

Economic Revolt

A Plan for Revival



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INFOPRO RESEARCH

Extraordinary measures for an extraordinary situation

The priority for citizens and businesses is the creation of a workable post-crisis revival plan. This is a prerequisite to their placing any confidence in the government – any government. The importance of the identity of the Prime Minister and members of the Cabinet are relevant only on their ability to devise, approve, and implement such a plan.

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 (three 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.

Three surveys were conducted

- Questionnaire with members of LeadersClub by Lebanon Opportunities, on challenges and remedies on the general economy
- 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 conducted after the release of the first draft

- 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

InfoPro team members who have participated in the study

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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.

Executive summary

Revival without destruction

- Lift capital controls
- No haircut
- Restore exchange rate
- Balance the budget (it is possible!)
- Restructure debt
- 250 measures to grow the economy
- Support fund for the poor
- Privatize everything

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.

The economic, financial, and fiscal challenges are high, but the panic expressed in the markets, by the Central Bank, commercial banks, and policy makers is greatly overblown. The multitude of 'rescue' plans presented, here and there in the media, are not realistic.

This Revival Plan demonstrates the possibility and the feasibility of a recovery without resorting to official or unofficial capital controls, massive additional borrowing, or a haircut on private sector deposits or loans, all while preserving the banking system. Public debt can be restructured and diminished, the budget deficit be turned into a surplus, the exchange rate stabilized at its original level, and the balance of payments turned positive.

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 reaching a balanced budget in the short run and a budget surplus once privatization takes place.

The plan will result in immediate improvement in confidence which in turn will be a catalyst for investment, both local and foreign, lower interest rates, result in job creation, better credit ratings, and the economy that the citizens of Lebanon deserve.

The Revival Plan is a comprehensive approach, covering all facets of the crisis. Reform should be undertaken with an all-at-once approach. It must achieve the following:

1. **Reduce the fiscal deficit to near zero and produce a sizeable primary surplus by doing the following**
   - Temporarily restructure the tax system, replacing direct taxation (except on banks and large companies) by increasing VAT on imported non-essential items. This will improve collection and combat tax evasion
   - Immediately stop production of electricity pending rehabilitation and expansion, or privatization. Electricity can be purchased from Turkey (via cable) or other suppliers, and through local private generators. Increase electricity tariffs and subsidize the poor. Hemorrhage by subsidizing EDL will be stopped
   - Restructure debt to reduce the cost of debt service as described in the following section on this issue
   - Combating the contraband and smuggling at legitimate ports of entry as well as on the porous borders with Syria

2. **Align exchange rates between street and official levels. This can be achieved by**
   - Immediately lift all controls on withdrawals and transfers abroad. Contrary to mainstream belief, this would not lead to a collapse of the banking system
   - Free flow of freshly injected foreign currencies
   - Restore confidence by adopting transparent policies, announcing them, and adhering to them
   - Attract deposits from friendly governments and international finance organizations to the Central Bank. This will become possible after a successful implementation of basic reforms

3. **Debt restructuring**
   - Reduce cost of debt service by eliminating lira-denominated debt held by the Central Bank and roll over public debt held by residents at lower rates
   - A large portion of debt held by the State is borrowed from itself (the Central Bank). Debt (even that in foreign currency) is concentrated in the hands of local lenders. Debt in foreign currency ($33 billion) constitutes only 38 percent of the gross debt, 41 percent of net debt, and 60 percent of GDP. Renegotiating debt terms of lira-denominated foreign currency debt is manageable with resident lenders. Only $11 billion of the debt (out of almost $90 billion) is held outside the banking system (non-residents and resident non-banks) and less than $3 billion of those are due in the short term.

4. **Measures to grow the economy**
   - Implement measures demanded by each business sector (around 250 measures are presented in the report) to ease doing business
   - Lower interest rates on loans
   - Reschedule loans to the private sector
   - Provide tax and financial incentives for job creation and exports
   - Set up programs to combat contraband

5. **Create a super fund to support the poor**
   - Based on an existing program targeting the poor, subsidies for education, healthcare, and access to basic utilities will be granted. The fund will be financed by the State from savings made in the electricity sector, instituting a special tax, and soliciting grants and low-interest loans from Arab and international funds
   - The private sector (insurance companies) should be recruited to manage the 'Universal Health Card' as well as social security

6. **Privatization and other involvement schemes by the private sector**
   - Undertake a massive and immediate privatization program which will result in reduction of billions of dollars in expenditures and will generate some upfront revenues (upwards of $20 billion) and a lot of annual recurring revenues to the State (a few billion dollars). The upfront receipts can be realized through the sale of assets, down payments, and securitizing future revenues. Obviously this can be achieved only through transparent and competitive processes, with international operators, and by allowing the public to acquire a majority share in these entities
   - Wide-scale shift of public employees to the private sector through privatization, BOT, management contracts, purchase agreements and similar schemes. This will reduce payroll, secure additional revenues in taxes and profit sharing from the entities that have moved into the private sector, as these entities will grow their sales and profits

7. **Restore the Balance of Payments to a surplus**
   - Improve political relations with the Arab World will lead to growth in tourism, and investments
   - Incentivize export of goods and services
   - Lifting bank controls will improve remittances
   - CEDRE will attract funds for infrastructure projects
   - Attract aid for combating poverty and seek to increase aid to support Syrian refugees
   - Privatization of State entities will attract investments and foreign spending

8. **Speed up the implementation of the CEDRE conference resolutions**
   - This includes the reform plan as well as the Capital Investment Program

9. **McKinsey study**
   - Turn the recommendations of the McKinsey study into actionable measures

10. **Build on the decisions taken at the last meeting of the previous Council of Ministers**

11. **Establish an international committee to monitor and oversee implementation**

12. **Undertake a campaign to restore confidence**

Content

I. For starters

A Plan for Revival

Introduction

What was deemed a worst-case scenario has become reality. Each pillar of the economic temple is toppling. It is too late for a rescue plan. What is needed is a 'Revival Plan'.

All the past budgets and proposed plans focused on fiscal and monetary policies, and aimed at achieving the lowest deficit while maintaining stability in the exchange rate. Such an approach is understandable when there is a cyclical economic crisis with a 2-3 year horizon. It becomes very damaging – as was demonstrated by subsequent events– when this approach becomes a permanent fiscal and monetary policypolicy, and a way of life. We effectively operate in an environment of never-ending crises. Economic growth – or the lack thereof – has always been a random consequence rather than a policy objective.

In this plan, we study the most contentious issues surrounding the economic management of our country. There are obviously other issues that also need revising.

Over the years, and recently as well, one can easily find proposals from here and there that in practice suggest lowering taxes, increasing public spending, and eliminating public debt – all at the same time. Such schemes are not realistic.

During the preparation of this proposal, we have sunk our buckets into the well of information that we have compiled over the years. We have quizzed dozens of companies, policy makers, and trade and labor organizations. We have distilled their answers with the objective of proposing a comprehensive but consistent plan in opposition to the many existing 'full-menu' laundry lists of demands by political parties and other concerned groups.

How did we get here?

Every pundit has analyzed and suggested the reasons why we are where we are now. It would be pointless to add to this myriad of repetitive often contradictory points of view, especially when looking for a transitory, short term, plan. Lessons learned are useful when writing history, or when trying to reach a national consensus on what our permanent economic model should be like.

Most analysts have laid the blame for the current situation on past fiscal policies, a lack of economic vision, corruption, and ineffective public administration. The local and regional political dimensions have generally been overlooked, or have merely been mentioned in passing. This is due to the lack of political insight shown by some 'economists', fear of physical retaliation by stating the obvious by others, and, in the case of some talking heads, focusing solely on the lack of ethics in public governance at the expense of all other factors, especially the power struggle going on in the Middle East.

Whatever the reasons, the economy has crashed. Any attempt at a rescue would be tantamount to piecing shattered glass back together. We need a new sheet of glass. It is too late for a rescue mission. We need a revival plan. We are a country at war. The Hezbollah component (see the section on politics) makes our crisis unique, which limits what can be drawn from lessons learned in other countries that have faced similar economic crises, such as Cyprus and Greece. While it is still beneficial to study these cases, each featured a central authority with popular legitimacy. In the case of Lebanon, political power is fragmented, and the need to reach consensus between its sparring community leaders – who are often at odds with the real needs of each of their own constituencies – makes it very difficult to make painful or game-changing decisions.

As a result of a lack of decision-making at the level of the central government, the Central Bank has been left to accommodate the fiscal and ensuing financial crisis. There has never been a time, since the end of the civil war, where the Central Bank was solely focused on monetary policy, in its strictest definition. The Central Bank has been entrusted with oversight of a casino and an airline, implementing financial packages leading to access to housing, creating incentives for investment in priority economic sectors, and it even acts as a catalyst for digital entrepreneurship.

At the onset of the financial crash, the Governor of the Central Bank, alone since the mandate of his board has expired without the government naming a new one, had to decide on how to deal with capital flight, which had a direct impact on matters such as what products to import. He – perhaps unwillingly – has become the country's economic czar.

What happens now?

Alternative scenarios

Two scenarios are discussed, and their expected impact predicted. The following suggestions are best guesses rather than results from econometric models. The forecasted figures, while having sound assumptive reasoning, are not based on quantitative models. The objective of this theoretical exercise is to demonstrate trends and ballpark changes, rather than be used as a predictive model.

Scenario 1

Lift all barriers to cash withdrawals and money transfers abroad

Restrictions are lifted on the access to bank deposits, and transfers outside the country. Depositors will be allowed to withdraw all their funds if not locked, or at maturity. Banks will undertake all foreign currency exchanges as requested by their depositors. Allow all transfers abroad.

Immediate impact (3 months)

There are two conflicting theories. The classic – espoused by banks, and a more nuanced opposite assessment.

The classic, or conventional wisdom

There will be a rush by depositors to withdraw all their funds from banks and transfer abroad as much as possible. The banking system will not be able to face the rush. An enormous demand for US dollars will be created. Banks and the Central Bank will lose a sizable part of their deposits and liquidity, possibly all unrestricted funds (i.e. not committed or locked-in for a period of time). Citizens and businesses will keep their cash hoards, and will increase them by these withdrawals.

Banks have an estimated $7 billion in deposits at correspondent banks outside the country. It would all be depleted and probably not enough will remain to fulfill all requests, which leads to a technical bankruptcy. There is a serious risk that banks will not be able to sustain the run on banks – especially that banknotes in dollar will not be available in the demanded amounts. A new 'forced' equilibrium will be reached. The lira will regain its original exchange rate to the dollar as long as banks are able to fulfill demand on the banknotes. It will flounder as soon as banks become unable to allow withdrawals.

Banks are weary of losing deposits. They prefer a controlled environment (Scenario 2 below) as they feel they would lock-in deposits until panic subsides, and a miracle solution is devised by the Central Bank and the government.

An alternative, opposite assessment, which is espoused by this report

Out of the $168 billion in deposit, $120 billion is in dollar.

- The size of M2 (all liras in the system) is equivalent to $42 billion. The equivalent of $16 billion in lira is held by State and semi-public institutions and cannot be withdrawn or converted to dollars. This leaves $26 billion in lira that is convertible to dollar. Deposits in banks have a one year average lock-in period. Which means that the available amount of money that could be withdrawn (and converted to dollar) per month is estimated to be $1 billion dollar per month, assuming all money undergoes this process. It would be safe to assume that only half this amount will undergo such operation which brings the amount to $500 million per month.
- Dollar deposits: $120 billion in deposits with an average lock-in period of one year, including around $1.1 billion are held by small accounts (<$3,000 per account) constituting 60 percent of all accounts and 0.68 percent of the total value. This would lead to a maximum attrition of $5 billion per month. A 50 percent conversion would lead to a demand for $2.5 billion per month.

Should the Central Bank make it possible to have lira to dollar conversions, the exchange rate would immediately revert to the official price.

$6 billion dollars per month is the maximum theoretical amount of flight risk, and $3 billion is estimated to actually want to do so. It is extremely difficult for funds to be transferred abroad given very difficult restrictions imposed by most countries to received funds from other countries, with additional conditions placed on those originating from Lebanon. Most of depositors who are able to transfer their funds abroad have already done so. The actual transfers would be even below the $3 billion estimated by this scenario. According to this assessment, the crash of the banking system is unlikely, and the Central Bank has enough reserves to sustain the immediate aftermath.

Depositors, no longer fearing controls, unable to transfer sizeable funds abroad, and wary of storing their savings in unsecure locations, and deprived of any interest on their deposits, will slowly restore their deposits in banks. Additionally, they will be spending part of the money at commercial establishments as well as with the government (in form of taxes, VAT, electric and phone bills) who in turn will deposit a large portion of the money in banks.

Short term impact (3-12 months)

The lifting of barriers will not immediately ease panic or persuade depositors to gradually return their hoarded cash to the banking sector unless the banks are able to meet the initial demand. The budget deficit will be difficult to contain and the trade deficit will grow to deal with pent-up demand. Consumer spending will be curtailed to necessities, which will make it easier on the trade deficit as there will be lower demand on pricey non-essential imported goods. The situation will then gradually ease back to normal – albeit it will take a long time to revert to pre-crisis levels

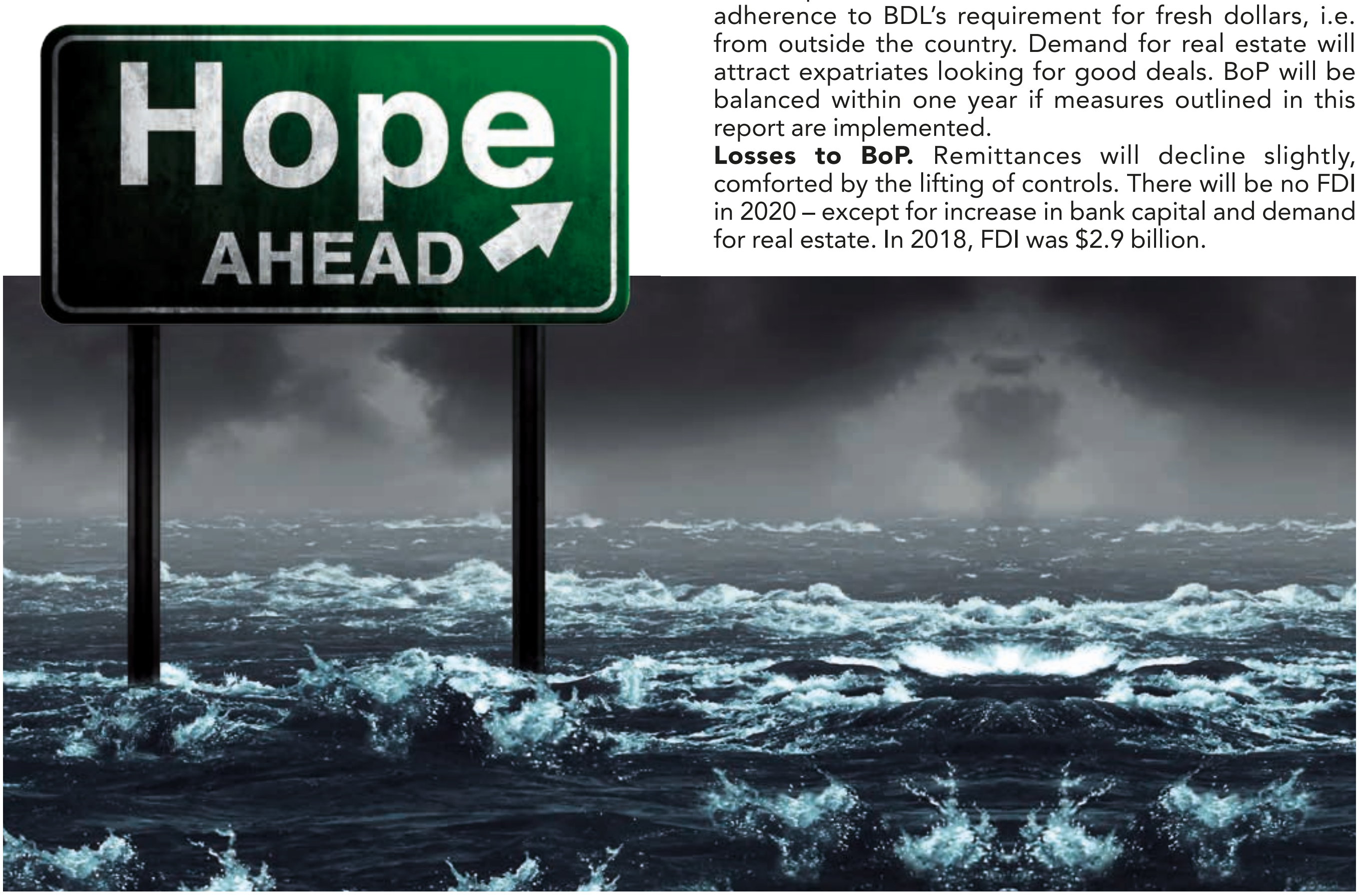
Question 1: What will happen to the lira?
According to the classic thinking, it will crash reaching very low levels as most of the dollars would have left the system, and the country. According to the alternative thinking, it will gradually revert to its official rate as most dollars will not leave the country and will make their way back to the system, as will lira hoards. This will happen directly with confidence being slowly restored and interest rates paid by banks on deposits, or indirectly as consumers will need to spend and therefore the commercial establishments will need to use the banking system. A 100 percent cash economy is not feasible or possible

Question 2: Will the banking system capitulate?
The banks' capital is $20 billion, in addition to $4 billion in capital increases mandated by the Central Bank, half of which has already been undertaken. This brings the total to $24 billion. The banks have loaned the private sector the equivalent of $54 billion, 70 percent of which is in dollar. It will take more than half the loans to immediately default to wipe out the banks' capital. This is unrealistic. Bank liquidity ratios as mandated by BDL and Basel III will still be met. Banks have also large overheads that need to be reduced. A small number of banks may need to liquidate or merge with larger banks. But the system will be left largely intact. As the situation stabilizes, and the economy starts working – at a slower pace, loans in default will be rescheduled.

Question 3: What will happen to interest rates?
Interest rates on deposits have already been reduced and will not be increased as long as the possibility of attracting more deposits from abroad remain unrealistic. All 'transferable' dollars would have left the banking system by this stage, and demand to convert from lira would have subsided. Remaining dollars will not be affected by lower interest rates. Rates on lending start at three to ten percent higher than those on deposit. There will be scarcity of bankable loans, and of growth in deposits.

Question 4: What will happen to GDP?
Under all scenarios, the economy will contract, at least during the year 2020. More than 300,000 people would have lost their jobs. GDP will regress by at least two percent in 2020 under the positive political/security case (a heavy drop mitigated by pent-up demand) and ten percent under a negative political/security case. The economy will start to grow in the positive scenario, triggered by cost competitiveness.

Question 5: What will happen to the Balance of Payments (BoP)?
Gains to BoP. Demand for imports and non-essential items will decrease by 25 percent in a positive political case (a $5 billion decrease in imports) and 40 percent ($8 billion) under a negative political case. Increases in bank capital will result in a $4 billion increase if it is in adherence to BDL's requirement for fresh dollars, i.e. from outside the country. Demand for real estate will attract expatriates looking for good deals. BoP will be balanced within one year if measures outlined in this report are implemented.
Losses to BoP. Remittances will decline slightly, comforted by the lifting of controls. There will be no FDI in 2020 – except for increase in bank capital and demand for real estate. In 2018, FDI was $2.9 billion.



Scenario 2

Maintain current crisis management scheme

This scenario is equivalent to what the Central Bank and banks have done to date. Facing panic, erect barriers to money withdrawals from banks and transfers outside the country. Following a period of stabilization, these restrictions will be gradually eased. The process will take several months to a few years – depending on the level of success in getting external financial support. In the meantime, panic will slowly fade, but will not vanish.

Immediate impact (3 months)

The rush on banks and massive conversions to the dollar will be averted. The exchange rate for lira to dollar conversions will continue to decline, which will create further incentive for depositors to withdraw their money and convert it at exchange counters. Bank deposits, in both currencies, are safeguarded. Non-performing loan levels in banks will skyrocket, initially reaching 50 percent.

Short term impact (3-12 months)

The political situation will dictate how matters develop as in the 'Do Nothing' scenario. The same two scenarios, positive and negative political situations, are contemplated.

Question 1: What will happen to the lira?

The two-tier exchange rate will become de-facto, indirectly influenced by the Central Bank and banks, since they control the dollar spigot. The lira will continue to decline, reaching or exceeding LL3,000 to the dollar.

Question 2: Will the banking system capitulate?

Banks will refrain from lending, and will see dramatic increases in non-performing loans, which they will need to manage on a case-by-case basis. This will pressure their profitability and liquidity ratios.

Question 3: What will happen to interest rates?

Interest rates will be arbitrarily set by the Central Bank as it holds most deposits captive, and there will be no alternatives for depositors. At press time, these rates were five percent on dollar deposits and 8.5 percent on lira deposits. The Beirut Reference Rate (on lending) was 8.5 percent for dollar debt and 11.5 percent for those in lira.

Question 4: What will happen to GDP?

Under all scenarios, the economy will contract severely, at least during the first few months. More than 300,000 people would have lost their jobs. GDP will regress by at least five percent in 2020 under the positive political/security case (a heavy drop mitigated by pent-up demand) and up to 15 percent under the negative political/security case, depending on its severity.

Question 5: What will happen to the Balance of Payments (BoP)?

Gains to the BoP. Demand for imports and non-essential items will decrease by 40 percent under the positive political/security case (an $8 billion decrease in imports) and 50 percent ($10 billion) under the negative political/security case. This is due to capital controls. Increases to bank capital will result in a up to $4 billion hike if funds are from abroad, although some banks may refrain from implementing the capital increase. It is unclear what will happen to those banks.

Losses to the BoP. Remittances will decline by around $4 billion in the positive political/security case and $6 billion in the negative political/security case. There will be no FDI in 2020 in both cases, eliminating around $2.9 billion (the figure achieved in 2018).

SUMMARY

	Lift controls and do nothing	Managed crisis
Immediate (first 3 months)	Liquidity crisis, lira keeps falling	Liquidity conserved, lira keeps falling
	Short term (3-12 months)	
Lira	Massive conversion to USD Exchange rate LL1,500	Parallel exchange rate LL3,000+
Banks	Survival with liquidity squeeze	Large non-performing loans. Liquidity squeeze
Interest rates	Decrease	BDL sets rate arbitrarily
GDP	Negative 2% in 2010, growth in 2021	Negative 5%-15%

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.

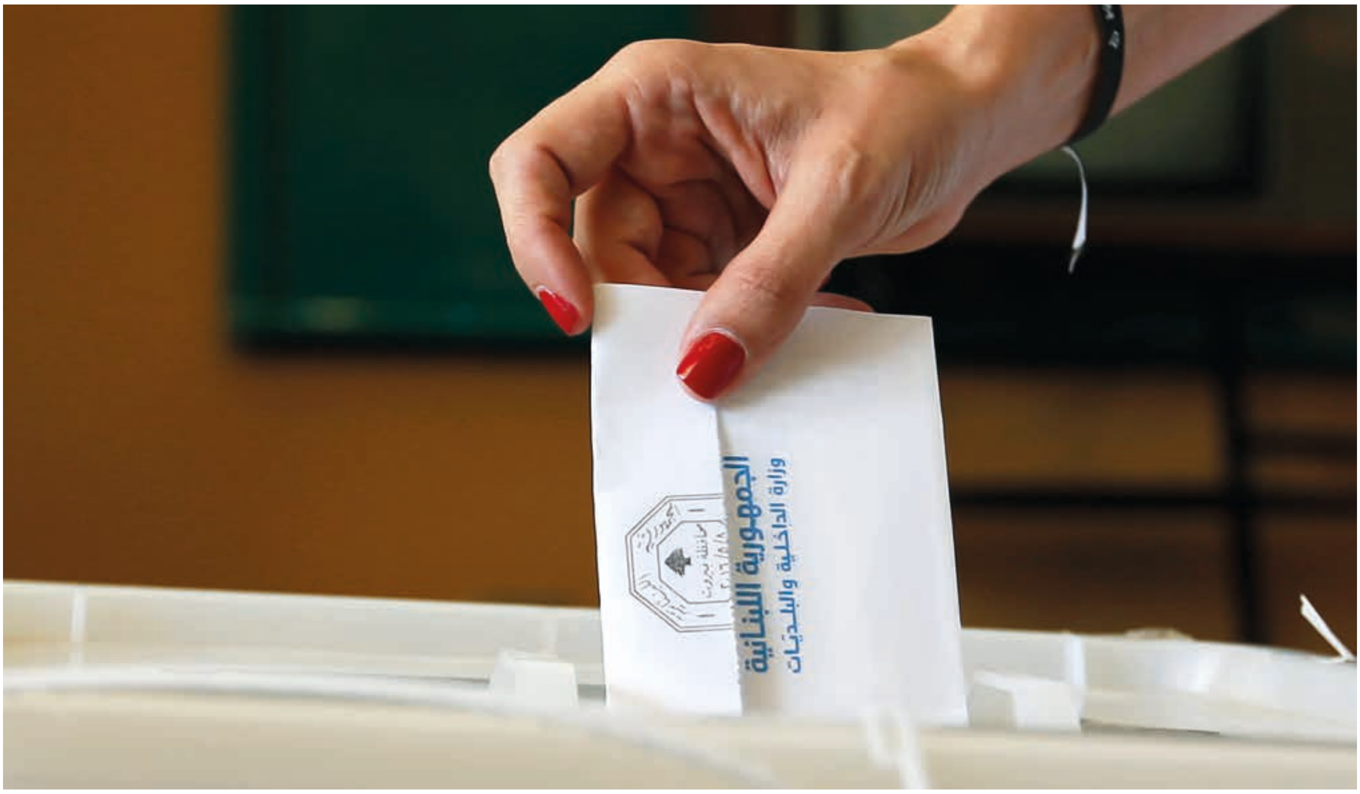
Hezbollah has become the main pillar of the political regime. As a result, Lebanon has received less and less support from Arab Gulf countries and the West, be it in form of political support or grants, loans, investments, tourism, or work visas. All political parties, including Hezbollah, agree that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



Snapshot of challenges

Emergency status

The government declared an economic emergency on September 2 2019, but went ahead with business as usual. Following the onset of demonstrations, the Cabinet announced a set of emergency measures as laid out in the Appendix section.

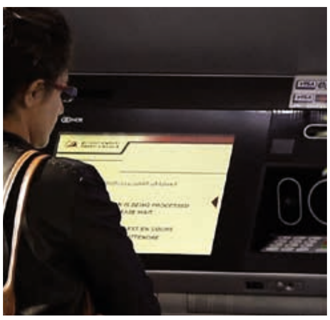
The indicators for the economic crisis are not yet available. A quick national survey at the end of November has shown the following:

- 10 percent of companies have ceased operations permanently or temporarily
- 22 percent of operational companies have laid off on average 60 percent of their employees
- 5 percent of companies had already cut salaries by Oct 17, by an average of 37 percent
- 17 percent of companies cut salaries after Oct 17, by an average of 40 percent
- 160,000 workers are estimated to have been rendered unemployed. This does not include those who received no salary, or those that have been paid a partial salary
- 21 percent of companies reduced working hours and mandated vacations after Oct 17
- 60 percent: the average decrease in sales across all sectors since Oct 17. Trade and service companies have been the worst hit.
- Up to 50 percent drop in the lira to dollar exchange rates (LL1,500 to LL2,300)
- Supermarket prices (in lira) have increased by ten to 40 percent – on necessities
- De-facto capital controls have been imposed, curtailing imports to businesses and industries, and forbidding transfers to university students abroad and other obligations
- Cash withdrawals from banks in USD are practically impossible. Cash withdrawals in lira are extremely limited, and are diminishing by the day
- The banking sector is under extreme pressure from depositors, is starting to face lawsuits domestically and abroad, and has seen non-performing loans in its portfolio mushroom. The net flight of deposits from banks, prior to October 17, is estimated at $5 billion since January 2019.

A long list of questions to answer

The economic revival plan should answer the following issues:

- How to deal with capital flight from the country
- How to let citizens access their funds at banks
- How to restore confidence in the government, the banking system, and the economy
- How to manage the fiscal deficit and reach sound tax and spend objectives
- How to manage public debt
- How to lower interest rates
- How to achieve sustained economic growth
- How to reschedule private sector debt
- How to deal with the hundreds of demands from business sectors
- How to support the poor
- How to reinforce social safety nets for society at large



Growing the economy

Economic growth is an aggregate of the good health of a large number of business sectors. Except for the McKinsey study, which covered some vital sectors, all proposals from the government, think tanks, and the private sector have restricted themselves to reiterating the need to "depart from the welfare state" and "support the productive sectors," without specifying exactly how. Some sectors have outlined their demands to the government but have largely ignored what each sector can initiate on its own.

This proposal explores most sectors, and takes the various demands to distill a coherent set of measures to be taken, expanding on what has been suggested by the McKinsey study. The general issues and core sectors, and infrastructure sections of this Revival Plan provide a detailed list of proposed measures for each sector. Economic growth should be the first consideration of any revival plan – taking precedence over fiscal and monetary policies, and even social fairness. This can be modified once the economy reaches an acceptable and stable cruising altitude. Given the crumbling of all the economic sectors and pillars, the only way out is to create and grow business output.

Economic growth cannot happen in a vacuum. It must be enabled by a positive political environment, or at least, not be hampered by a belligerent one. Other enablers are access to finance, lower interest rates, and lowering the barriers to doing business. The public sector should also become an enabler, but when it cannot, it should not erect barriers to growth.

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.

Reaching a fiscal balance

Government spending ($17.8 billion in 2018) is divided into the following segments: Payroll ($6.5 billion or 36 percent of total expenditures), Debt Service ($5.6 billion or 31 percent), Electricity subsidies ($1.78 billion or ten percent), Construction ($700 million or four percent) and everything else ($3.2 billion or 18 percent).

The objective should be to incur a zero total deficit (not just primary deficit) in the coming years. This will be achieved by undertaking the following measures:

Increasing revenues by
- Ensuring fair collection and combating tax evasion
- Raising indirect taxes
- Securitizing privatization proceeds

Decreasing expenditures by
- Reducing the public payroll by involving the private sector (privatization and other schemes – see the relevant section)
- Stopping the subsidies to the electricity and other sectors
- Reducing interest rates on rescheduled internal debt in lira and in foreign currencies
- With the exception of eliminating glaring aberrations, all other expense reduction efforts are fruitless, even counter-productive

Taxation

Based on 2018 figures
- Revenues from VAT were $2.55 billion
- Collected Corporate Income Tax was $900 million including $350 million from banks. This represents around 1.5 percent of GDP. This is a red flag signaling massive tax evasion
- Personal Income Tax amounted to $577 million, which amounts to an effective average personal income tax of 2.3 percent on gross salaries if the estimated total wage bill is $25 billion. Obviously, there is a serious underreporting issue here
- Tax on earned interest amounted to $1.2 billion. It is believed that this figure is a true reflection of what is due.
- Customs ($500 million) and excise taxes on fuel, cars, and tobacco total $1.34 billion. This represents 2.5 percent of all non-smuggled imports. Obviously there is a lot of underreporting at Customs
- Tax on capital gains and dividends amounted to $276 million
- Together, direct taxation, including corporate, personal, interest earned, and dividends, constitute close to five percent of GDP.

It is obvious that the difference between the direct tax collected and what should be expected is in the billions of dollars. Some serious economists, including Bank Audi, have estimated this shortfall at $5 billion per year including corporate and personal income tax, VAT, Customs duties, property tax, and electricity revenues. Tax evasion is standardized and is practiced by most companies and individuals except the following:

- Public sector employees – whose income tax is deducted automatically
- Banks – who are subject to close scrutiny from auditors
- Earned interest
- A small number of law-abiding citizens and corporations

A large number of companies underreport their earnings and salaries. For many years, it has been alleged that companies are extorted by government inspectors for the purpose of 'adjusting' what is due in taxes – even companies that are fully compliant are reportedly forced to pay in order to have their files approved. It is not reasonable to expect success in combating these practices in the foreseeable future, as the practice is ingrained in the system. The only solution is to bypass the system completely and abolish this type of taxation and resort to a self-regulating system. The only system that works reasonably (but not without flaws) is VAT.

Proposal for a transitional tax scheme

During the emergency period, personal and corporate income taxes should be abolished – except for those applied to banks and financial companies, insurance companies, holding companies and their subsidiaries, conglomerates, foreign-owned companies, and companies whose annual turnover exceeds a certain benchmark (determined on a sector-by-sector basis). Manufacturers and service providers should also be totally exempt from income tax.

Raise VAT as follows

- Keep at zero on current exemptions (possibly expand this a little)
- Keep at 11 percent on goods locally manufactured or services rendered by local companies
- Raise VAT on imported basic necessities to 20 percent
- Raise VAT on other imported products and services to 30 percent.

There are many economists who consider indirect taxation to be regressive (i.e. it does not tax the rich at a higher rate than the poor). The regression aspect is already mitigated by exempting all basic necessities, and by raising the VAT rate on luxury products and services. This discussion is valid in theory, but the current choices are between a system which is not working at all (and is therefore very regressive and biased against low-income earners) and one that is still flawed but that generates more revenues and is less biased against low-income earners, and therefore exhibits a much lesser degree of regression.

Unfortunately, within an entirely corrupt system, a fair and progressive taxation system is just not realistic in the short term. Once the State is reorganized, diminished in size, and corruption has been contained, the tax system can be overhauled again. In every tax system, there must be a balance struck between maximizing revenues and social justice. In our current predicament, the balance should be (slightly) tilted towards maximizing revenues.

ESTIMATED REVENUES FROM THIS SCHEME

Revised tax scheme (USD million)	Current	New
Corporate income tax	900	500
VAT (*)	2,300	3,600
Tax on earned interest (**)	1,200	1,000
Customs (by combating smuggling)	500	1,000
Personal income tax + from professionals	577	350
Total	5,477	6,300

* Estimated considering reduced spending

** Decrease due to decrease in interest rates and size of total deposits

Under this proposed scheme, lower income individuals will pay zero income tax, and zero VAT on 60 percent of their purchases. Assuming they have no savings, a 15 percent average VAT on the 40 percent of their spending that is subject to VAT would be equivalent to six percent total taxation on gross income.

Impose a flat fee on non-salaried and self-employed professional services (medical, legal, etc.) and a flat corporate tax on consultancy, legal, and medical companies, partnerships, etc.
Tax evasion should be treated as a crime.

Scheme to turn the deficit into a surplus

Based on projected deficit in 2019

- Cutting all electricity subsidies: $2 billion in reduced expenditures
- Debt service benefits from canceling debt to BDL: $1.8 billion in reduced expenditures
- Lowering interest on other debt: $650 million in reduced debt service expenditures
- New tax structure: $1 billion in additional revenues

Total budget incidence: $5.5 billion

This will lead to a balanced budget during the first year. Proceeds from privatization, both upfront and from taxes and royalties levied on privatized entities will yield additional revenues that will largely exceed income they are currently generating.

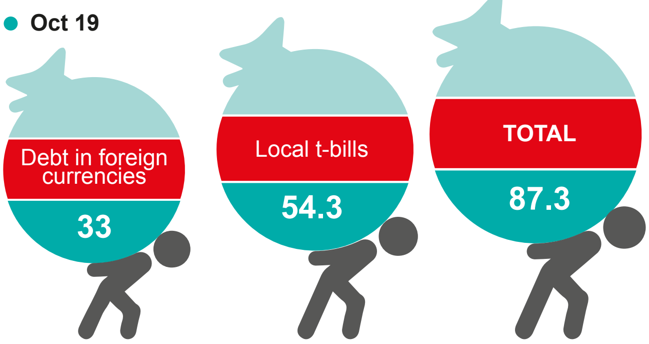
Public debt management

Public debt is considered as being one of the pillars of the current crisis, a resultant of the failings of the State, and the largest component of public expenditure, and therefore deficit. The gross public debt is around $90 billion. Since the State's accounts are maintained based on cash accounting (i.e. what has been actually collected and paid), and not on an accrual basis (what it is owed, and what it owes), the debt figure is not an accurate reflection of its liabilities or net position. There are billions of dollars in taxes due, underreported, or evaded. There are also billions of dollars incurred but not paid, and therefore are not reflected in the total debt figure. It includes around $1 billion owed to hospitals and up to $2.5 billion owed to the National Social Security Fund.

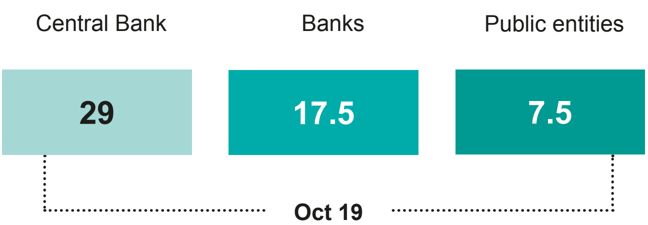
Public debt needs to be restructured to become compatible with the ability of the State to service it. Stating the real size of public debt is a prerequisite to the design of any restructuring plan.

The debt that the State owes to the Central Bank should be cancelled. Public debt owed to residents and local banks should be rescheduled, and interest rates paid on public debt reduced.

Gross public debt (USD billion)



LL debt holders (USD billion)



Source: Ministry of Finance

The equivalent of a balance sheet for the public sector has never been put together. A look at generalized figures shows that the national balance sheet is positive and therefore the country assets far outweigh its liabilities. This is even more so when looking at the equivalent of the liquid ratio, i.e. short term assets versus short term liabilities

Lebanon partial Balance Sheet of 'Foreign Currency'-based elements

Assets

Foreign reserves: $31 billion (equivalent to all debt in FX)
Gold: $14 billion

Liquid Assets: $45 billion (50 percent of total debt)

Estimated value of some privatizable State institutions: $28 billion
(See privatization section for estimation detail)

Total Assets: $73 billion

Liabilities

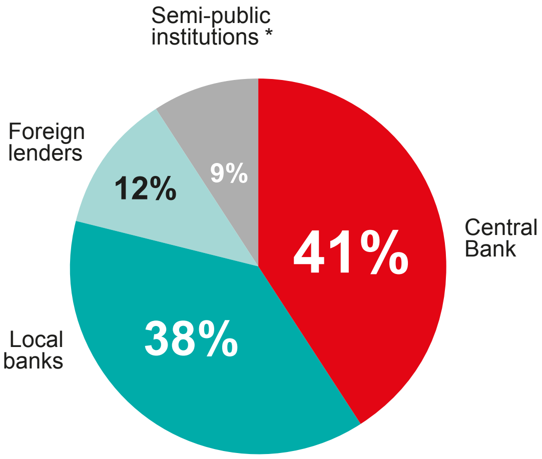
Debt in foreign currency: $33 billion

> **Net FX situation:** $40 billion in addition to billions of dollars worth of real estate state holdings

The overwhelming portion of public debt is internal (owed to residents) – in lira and in dollar. It is assumed that all internal debt is subject to rescheduling at lower interest rates, with a potential of debt service savings of around $650 billion per year.

Debt owed to non-bank lenders, residents and non-residents is around $11 billion, of which $3 billion due in the short term. It is not the monster than everyone feared!

Debt holders



Interest on public debt (2019)

	LL billion equivalent to USD million	
Lira debt	5,300	3,500
Debt in FX	3,000	2,000
Total interest	8,300	5,500

Restructure

Debt restructuring – if it is undertaken – will need to be devised by a team of experts from international organizations that have experience in such exercises. The purpose of this section is to demonstrate the viability of such an exercise and test its limits.

The current debt structure should be reorganized. It is currently split between debt in local currency and debt in foreign currencies, mostly US Dollars. The lenders in USD are mostly resident and non-resident nationals investing in Eurobonds directly or through institutions. There is also debt owed directly by the government to foreign parties.

The Foreign Currency Debt/GDP ratio is 60 percent.

The net public debt amounts to $78 billion, which represents the gross public debt minus deposits owned by the State in various accounts.

Cancel out debt owed by the State to the State

As proposed by Mounir Rached

The total debt was LL134,000 billion ($90 billion) at the end of November 2019, 63 percent of which is in local currency (LL84,000 billion). Therefore foreign currency debt is equivalent to $33.7 billion. BDL holds 53 percent of lira debt (LL44,000 billion), NSSF has LL11,000 billion and the remaining LL27,000 billion is held by commercial banks. There is no possession of debt denominated in lira held abroad. The cost of servicing the debt in lira is about LL5,300 billion (64 percent of the total debt service), and BDL receives about LL2.7 billion ($1.8 billion) in interest.

Proposal

The debt to BDL is public sector debt, despite the independence of its monetary policy. The government, in agreement with BDL, is rolling over the debt, and borrowing further, in order to service its debt. The debt to BDL should be considered uncollectable and therefore be written off. BDL should remove it from its assets as well as its liabilities. As a result, BDL's assets and liabilities will decrease by LL44,000 billion. Public debt will decrease to LL90,000 billion ($60 billion) after the write-off or 110 to GDP assuming GDP remains stable. The measure will reduce State expenditures by LL2,700 billion in debt service. BDL will lose that amount in revenues. The result is an improvement in the State budget at the expense of BDL's. In order to mitigate the loss, BDL can reduce the interest it pays on Certificates of Deposits by an equivalent amount.

Reducing interest rates on deposit certificates will reduce the interest rate in financial markets, as the banks' ability to pay higher interest will be reduced. This is how the restructuring of public debt will take place at the expense of the public sector and the profits of banks. This will spare private deposits per se. The changes will only affect the returns on those deposits. Interest will subsequently fall on US dollar denominated debt. On the other hand, BDL's debt in dollars is from deposits with private banks. It cannot be defaulted upon as it is not considered an unencumbered public debt.

The government will improve its solvency by permanently reducing its deficit by at least LL2,700 billion ($1.8 billion), by continuously reducing the cost of debt servicing. The public debt will fall to LL87,000 billion ($60 billion), and its ratio to GDP will fall to approximately 108 percent from 163 percent. The State will then be able to shoulder the burden of servicing debt in lira and dollars for both BDL and the banks, as the interest on debt and deposits in both the local currency and dollars will also be reduced following this financial reform.

Other schemes

The financial system holds $168 billion in deposits ($120 billion in foreign currencies and the balance in lira), out of which it has loaned the government $33 billion and the private sector $55 billion. This theoretically leaves it with $80 billion free, but in practice the banks have invested most of it in medium and long term commitments at the Central Bank. It is therefore foreseeable, as part of an overall revival plan, that undertaking a financial restructuring of deposits and loans using the assets and loans of the banks and the Central Bank will be required.

Here are two extreme measures that are very controversial and that most likely could not be executed due to legal concerns as well as their severe long-term impact. They are presented here to demonstrate the limits of what can be done. In reality, a much more complex structure can be constructed, with the help of experts that have experience in similar extreme situations.

Theoretical case 1

The Central Bank converts all (or a portion) of the dollars deposited in banks at LL1,507. This will increase FX reserves, remove the threat of capital flights and place the exchange rate fully in the hands of the Central Bank which will be able to have much larger leeway in expanding financing for the import of necessities.

Theoretical case 2

The Central Bank exchanges a portion of all the dollars deposited in banks that belong to High Net Worth Individual (estimated at $80 billion of a total of $120 billion) against long-term (seven to 15 years, at four percent) Eurobonds, with a three year grace period, and pays down all (or a portion) of the foreign currency public debt with the funds raised. It will also forgive (all or a portion) of business loans by SMEs and hotels, and will reschedule all loans by real estate developers at five percent.

The above illustrates that funds are available to finance a new debt structure, a rescheduling of the debt, or a hybrid scheme.

Using gold

Gold has been rendered untouchable by a law passed at the beginning of the civil war. This has prevented it from being squandered. BDL's holdings are estimated at around $14 billion at today's prices. But its current legal status has rendered such an asset devoid of dividends or other financial benefits. It has provided a cushion of trust, which has diminished when compared with the enormous national debt (18 percent of net public debt). Cash and gold together represent 27 percent of the gross public debt.

In a revival plan, the gold should be put to work in favor of the State. There have been several proposals by bankers and others, such as renting the gold to a AAA rated country, or using it as a collateral of last resort. Gold should be used to improve lending rates and the sovereign credit rating – but only under an internationally supervised restructuring plan.

Reschedule other current debt

Reschedule short and medium term debt with grace periods will lower interest on public debt by 1.5 points which will yield another $650 million in savings.

Monetary issues

Lirarization, the dollar peg, and the balance of payments

Lira is gaining market share

One of the very few benefits from the economic crash and the liquidity squeeze is that the local currency has regained market share. Since the end of the civil war, the local currency was mostly symbolic and used only in public sector transactions. Private sector transactions, even those denominated in lira, were pegged to the US Dollar. The economy thought and planned in dollars. Following the crash, the Central Bank and the local banks have forced the economy to restrict its dealings to the lira. It has been a painful conversion, which, at the time of this writing, has not been yet fully absorbed by the market. In the period that will follow the peak of the crash, the dollar will regain some of its lost ground. The Central Bank is likely to maintain pressure to expand the role of the lira. This will contribute to lowering demand for the green currency.

The peg to the dollar

The peg to the dollar has been the spine of all monetary policies since reconstruction began in 1993. It has been branded as the guarantor of the standard of living, and the protector of purchasing power. Since its adoption, the policy has been scrutinized by international organizations, experts, the press, and the public-at-large. In every crisis there where sell-offs of the lira, in spite assurances issued by the Central Bank. BDL has long intervened to supply sellers with the demanded dollars, and bought them back at a profit after the crisis subsided. BDL has realized substantial profits from these operations over the past 25 years. To shore up its reserves and defend the exchange rate, the Central Bank has often used interest rates to attract more dollars. In the mid-1990s, rates went up to 29 percent. The rates subsequently went down gradually, especially after the world financial crisis of 2008, which attracted around $15 billion to Lebanese banks, alongside the drop of interest rates in the US and Europe to near zero.

The budget deficit kept growing, and the balance of payments became negative, since 2011, the situation became out of control, wiping out all the gains accumulated in the previous years. The end of the financial easing in the West led to global interest rates rising, with a direct impact on local rates. The Central Bank was forced to attract more dollars and, starting in 2016, it resorted to high-yield financial engineering schemes, with the hope that the government would respond by undertaking reforms. It did not, and the monetary hemorrhage continued until 2019 when BDL could no longer supply the market with the required amounts of dollars, and a parallel exchange rate started to emerge. When demonstrations started, banks closed, and the lira collapsed.

The question is being asked again. Should the peg be maintained, and more importantly, can it be? The answer is yes on both counts. It should be maintained, but with a much larger trading band (10 percent), allowing more flexibility for BDL at peak times. Since our economy will remain import-dependent, no matter how much effort is made to boost local production, an unstable currency will lead to higher costs, can be an impediment to economic growth. The peg can be maintained should a clear revival plan be implemented in a transparent manner, under international supervision, and given backing from international sources in the form of deposits at the Central Bank.

Some aspects of the balance of payments

The demand for (additional) dollars includes the following elements:

- Imports: $20 billion
- Servicing of debt in foreign currencies: $2.4 billion per year
- Diversion of dollars to meet foreign currency needs in Syria and beyond (estimated at $2 billion in 2019)
- Expenditure by Lebanese tourists outside the country (estimated at $4 billion)
- Savings outside the banking system, which has mushroomed this year (estimated at $3 billion)
- Remittances of domestic and other types of workers to their home countries (estimated at $2 billion per year)
- Tuition, boarding, and personal expenses for university students in foreign colleges
- Transfers from banks to their foreign subsidiaries and correspondents (currently the total sum is estimated at $9 billion
- Transfers from depositors in local banks outside the country, which has mushroomed this year
- The repatriation of profits by foreign companies (mobile telecom, foreign banks, and others)
- The cost of diplomatic representation in foreign countries and participation by public sector representatives in hundreds of meetings, conferences, and events overseas.

The supply of (additional) dollars includes the following elements:

- Remittances from Lebanese expatriates in foreign lands ($8 billion in 2018)
- Exports ($3 billion in 2018) – not including the export of services
- Aid to Syrian refugees ($1 billion in 2018)
- Debt receipts in foreign currencies
- Growth in USD denominated bank deposits (primarily proceeds from financial engineering) estimated at $4.8 billion in 2018
- Expenditures by visiting tourists, diplomatic delegations, and business travelers.

The balance of these two categories, together with other components not mentioned here, constitutes the Balance of Payments (BoP). (See the Appendix for all BoP components.)

In order to reduce the net BoP deficit, the following measures need to be implemented:

Short term

- Increase support for exports by further subsidizing industrial and agricultural transport, eliminate all taxation (during the emergency period) on these two sectors, and institute a negative tax (the State pays exporters) on all exported products. Subsidize interest rates on financing imports of industrial and agricultural machinery, raw materials, and products used in manufacturing and machinery (more details in Part III and IV under the respective sectors)
- Increase support for touristic subsectors such as hospitality and travel, eliminate all taxation (during the emergency period) on these sectors. Subsidize interest rates of financing hospitality project development (more details in Part II under the respective sector)
- Solicit more aid for Syrian and Palestinian refugees, as most of it is spent locally. Repatriation of Syrians will not happen without a political resolution in Syria. It is therefore best to focus our diplomatic efforts on generating aid rather than sending them back (see section on refugees).
- Taxation (17 percent) on money transfers by domestic workers
- Subsidize interest rates on auto loans for these EVs. This will reduce the fuel bill and have a positive environmental impact
- Combat all schemes leading to the exporting of dollars to Syria and beyond
- Implement measures and reassure depositors that all new deposits in the banking system will be free to exit the country at will

Long term

- A new lira should be launched. Each LL1,000 should be converted to one (new) lira. This will facilitate transactions in the national currency and help encourage faster adoption. The only impediment is the associated cost, as well as the adaptation of accounting systems and other mechanisms.

Banking

The crown jewel of the Lebanese economy has lost its shine. The banking sector has been branded as solid and unshakable.

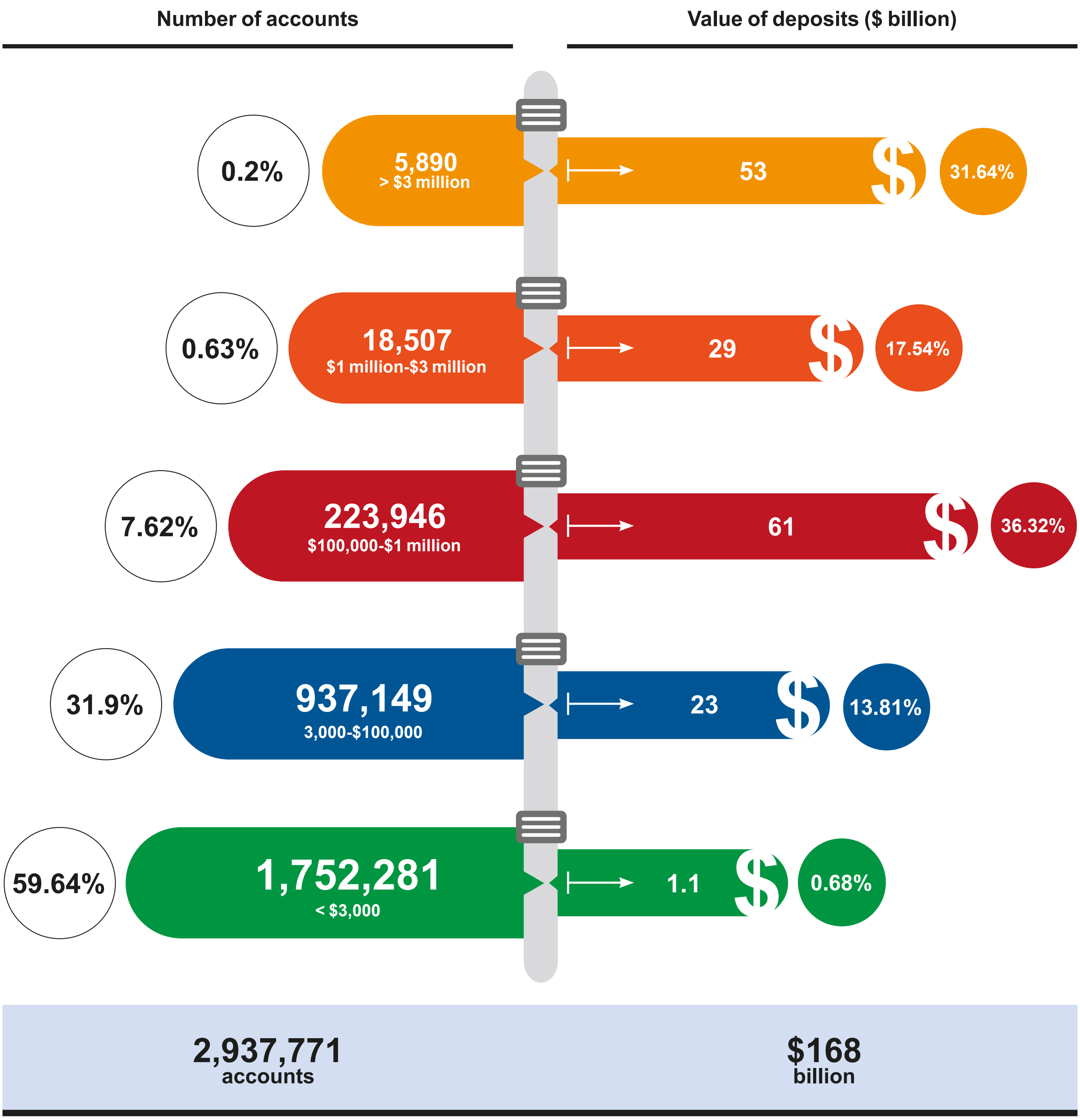
Banks are not under a systemic danger. They are well capitalized and have so far been profitable. Their shareholders are committed and deep pocketed. Banks can afford to operate under low or no profitability – even losing money – for a short number of years – provided it is within a well defined and announced economic and banking restructuring plan. Some banks may face challenges that will need support or even to be merged with other institutions, but there has been so far no bank that has displayed such a risk. Contrary to what has been discussed in some quarters, banks are in no need of a massive bailout. The banking sector is too big for the small economy of Lebanon, and should it lose a portion of its deposits, in a well orchestrated manner, it may become even more profitable.

The banking sector is facing the following challenges:

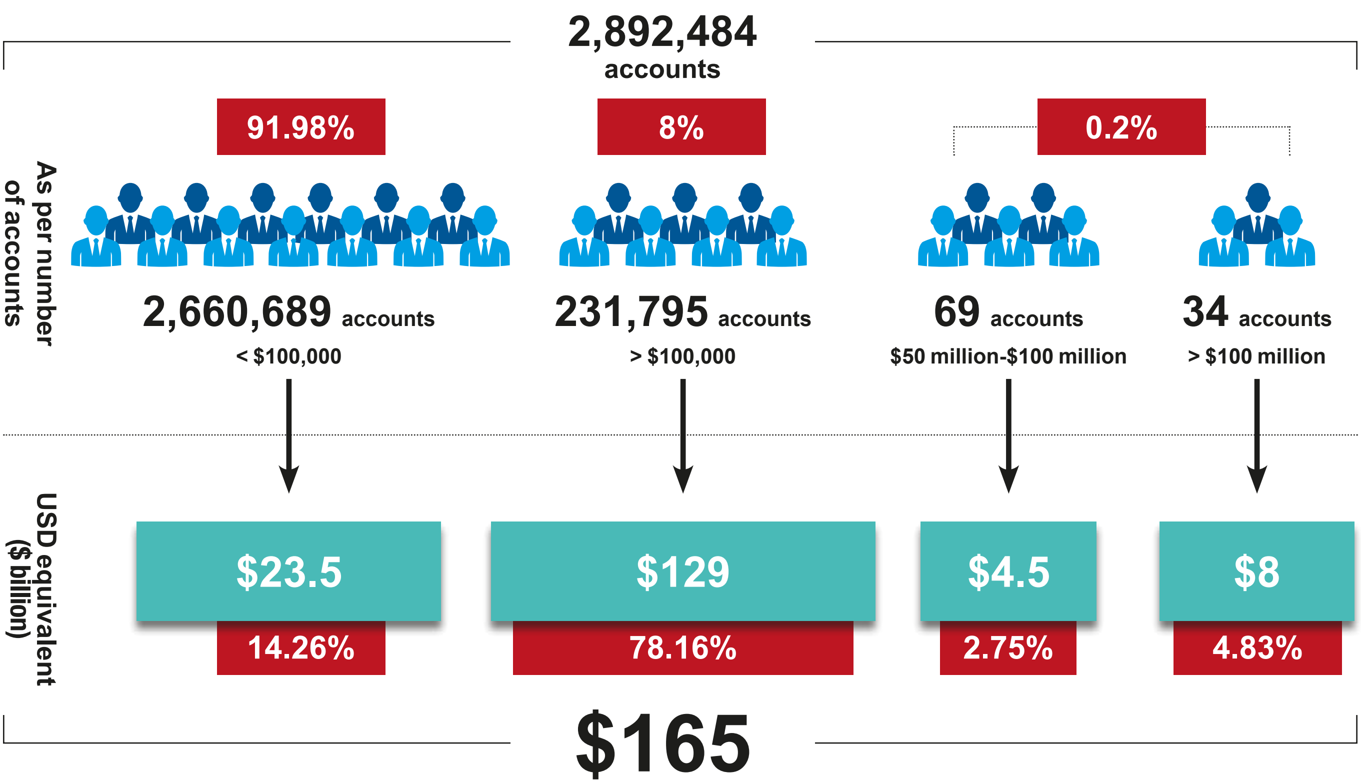
- Many depositors are demanding their money, and the banks are unable to oblige, as these deposits have been committed to long-term engagements at the Central Bank. There is a large mismatch of expiry terms between deposits at the Central Bank on the one hand, and deposits made by depositors and loans they have made to the private and public sectors on the other. This has led to a severe loss of confidence among banks' clients. Many banks have been overwhelmed, and were not able to respond positively, and sometimes properly, to their clients. It will take a lot of effort, systemically, and by each bank, to regain some of that lost confidence. It will take time
- Many borrowers will no longer be able to meet their debt obligations. Some will go bankrupt, others will need to reschedule. Banks will no longer be able to extend new loans except to clients who can provide very solid collateral such as cash or easily liquidized assets. Real estate is no longer considered solid collateral at this juncture, because the real estate market is also facing a crisis, one that predates recent events. This will translate into a deep cut in bank profits, and will even lead to losses for the next few years
- Banks will need to recapitalize, as mandated by the Central Bank, and as will be required by declining financial ratios. Banks will be hard pressed to find willing investors, except maybe from their high net worth depositors who have been prevented from moving their money out of the country
- Banks will need to restructure and shrink their retail networks as the number of clients will dwindle, and the propagation of electronic banking will render many branches redundant. This will result in an overcapacity of labor. Banks will need to provide generous severance packages to many of their employees, which will further pressure their bottom lines
- Interest rates will need to be lowered, which is counter-intuitive to a heightened risk environment. This can only be achieved if the sovereign risk is lowered by reducing or eliminating the public deficit, making sure there is no additional borrowing, and increasing state revenues through better tax collection, attracting inexpensive foreign funding, and rapidly privatizing all it can. Under lower interest rates, banks will have less room to maneuver, and their bottom line will be squeezed further.

Number and distribution of deposit accounts

Number and value of deposit accounts (June 2019)



Deposits at banks?



Foreign assets of banks as in October 2019 ($ billion)

Assets in foreign currencies (Except for deposits with the Central Bank and Eurobonds)	
Cash	0.8
Deposits with central banks outside Lebanon	0.9
Loans to customers in foreign currencies (residents and non-residents)	37.8
Loans or deposits in foreign currencies with the financial sector (residents and non-residents)	8.6
Private sector securities (residents)	1.6
Private sector securities (non-residents)	0.8
Fixed assets	3.7
Other assets abroad	4
Other assets	1.2
Liabilities in foreign currencies	
Customers' deposits in foreign currencies (residents and non-residents)	122.5
Liabilities or deposits in foreign currencies in the financial sector (residents and non-residents)	10.7
Bond issues (non-residents)	0.2
The foreign assets gap that the banks have to recover from the Central Bank and the Ministry of Finance	**73.9**

Delegating to the private sector and privatization

Privatization and other forms of production and management delegation of public sector responsibilities to the private sector is controversial wherever it has been proposed or implemented, even in advanced economies such as France and the UK. Each country is a case study in itself, and only some of the lessons learned from other experiences are generally applicable to the current situation.

The private sector can take part in different schemes including
- Outright sale of a state-owned company or grant rights to own or operate
- Private public partnerships such as joint stock ownership, management contracts, etc,
- Build-Operate-Transfer (BOT) and derivative structures and schemes
- Purchase agreements, such as Power Purchase Agreements.

In the case of Lebanon, the objective of privatization should not be to raise or maximize funds from a sale. It should aim to:
- Ensure sustainability (financial, technological, quality of service, environmental)
- Generate substantial yearly tax and profit-sharing revenues to the State
- Alleviate the State from a payroll burden, to retrain the employees of privatized entities, and increase their income, and when this is impossible, ensure a retirement or severance package that is equal or greater to the benefits gained had the entity not undergone privatization
- Allow citizens direct ownership of a dividend-paying investment, provide an investment vehicle to pension and other investment funds, and contribute to the development of a stock market ecosystem.

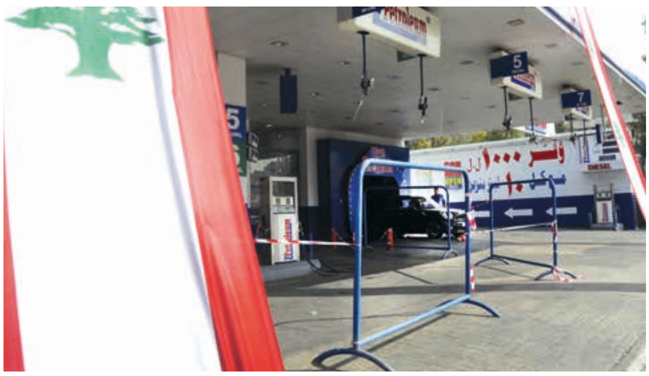
The role of the State should be to regulate, supervise, and ensure the public interest. The role of the private sector should be to invest, manage, abide by regulation, grow the privatized entity, and pay taxes, profit shares, royalties, or other forms of revenues to the Treasury.

Time is of the essence, it is therefore vital to privatize as soon as possible, and not attempt to tie the timing of a transfer from the public sector to an optimization of revenues derived from the transfer (should a sale occur, for example). Any shortcomings from sale revenues will be more than compensated for from the financial, non-financial, and indirect benefits from such a sale over time.

In case of a sale, a scheme can be devised to ensure that the public becomes the largest shareholder. For example, initially the operator will hold 50 percent ownership, and the balance will be held by a (say seven-year) ownership fund (OF). The OF will be constituted by transferring some of the NSSF pension funds currently invested in T-bills, into the OF, and other investors, with each investor not allowed to own more than five to ten percent. After seven years, or even before if certain benchmarks are met, the fund will be divested into an Initial Public Offering (IPO) and listed on the Beirut Stock Exchange (BSE). At that time the operator will also divest part, or all, of its shares and may retain 30 percent ownership. There are many other possible schemes. Each scheme must be tailored -made to the particular entity, so mobile telecom will be under a different scheme than electricity.

The board of directors will be elected by the non-State shareholders. The State will have a non-voting seat on the board, but may refer any matter to the regulatory body, which can stop any board decision if it violates regulations.

It is a prerequisite that privatization be implemented with transparency, equal opportunity, and without interference from politicians or special interest groups. The operator must be a well-established entity with a long history of similar, successful projects. The deal must be made without covert or overt intermediaries. An international supervisory body should be made available to attest to the transparency and fairness of the process, and the process(es) will be managed by a group of experts headed by an international organization such as the International Finance Corporation (IFC- World Bank Group)



Sectors to be privatized

- EDL [current head count 1,638, payroll: $130 million]
- Fixed and mobile telecom [current headcount:5,000, payroll $200 million]
- Water
- Wastewater
- Solid waste or Garbage (municipal issue + private sector)
- MEA
- Public schools (BOT, Management contracts) [current headcount: approximately 40,000 teachers at a cost of around $550 million in wages per year]
- Public hospitals (BOT, Management contracts)
- Management of ports and airports

Privatization, undertaken one way or another, can lead to the transfer of at least 60,000 people from the public sector's payroll to the private sector. These people will enjoy better pay, benefits, career opportunities, and training and will be free from political nepotism. It will ensure billions of dollars of revenues to the Treasury and will improve the access to, and quality of, services. The privatized entities, once successful, will need to grow and will therefore employ more people. They will become a catalyst for job creation directly as well as indirectly by spurring new jobs at their suppliers and subcontractors.

In some cases, future revenues from the privatized entities can be securitized (i.e. borrowed against future income), in order to secure immediate funds that can be used to alleviate the debt burden by prepaying short-term outstanding debt, or to shore up foreign currency reserves at the Central Bank.

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**

ESTIMATED MARKET VALUE OF STATE ENTITIES TO BE PRIVATIZED

Sector	USD billion
Telecom	20
Water	0.25
Airport	1.25
Ports	2
Electrcity	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

Electricity

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 emanate 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 can be made with Turkey, which has surplus capacity. An undersea cable can be installed in about four months. 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.

National Social Security Fund

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

Combating poverty

In 2011 the government launched the National Poverty Targeting Programme (NPTP), a poverty-targeted social assistance program targeting the extreme poor with the objective to "provide social assistance to the poorest and most vulnerable Lebanese households based on transparent criteria that assess each household's eligibility to receive assistance, given the available public resources." The NPTP is managed by the Ministry of Social Affairs (MoSA) and the Presidency of the Council of Ministers (PCM). The NPTP has established itself as Lebanon's main social safety net program, playing a central role for donors, UN agencies, and other ministries in reaching poor and vulnerable host populations affected by the Syrian conflict.

Around 28 percent of Lebanese were poor prior to the Syrian crisis, and were living below the poverty line. Extremely poor Lebanese households constitute around ten percent of the country's population as per NPTP estimates. In addition, incidences of poverty have risen by six percent over the past five years, resulting in an additional number of households not being able to afford the minimum living standards every month. Extremely poor households live mainly in the North (45 percent), Bekaa (21 percent), and Mount Lebanon (19 percent). The unemployment rate among the heads of vulnerable households assessed by the NPTP is 51 percent. The return of Lebanese households previously living in Syria before the crisis has further increased the extent of poverty in the country. To date, almost 106,000 Lebanese households are identified as living below the poverty line ($3.84/day). Nearly one-third of these (35,000 households) live in absolute poverty (below $2.4/day). Eligible households receive health and education subsidies and food assistance through e-vouchers. According to the 2017-2020 Lebanon Crisis Response Plan (LCRP), the total vulnerable population in Lebanon today is approximately 1.5 million Lebanese in addition to Syrian and Palestinian refugees.

A metric formula is used to rank households by their standard of life, based on an easy-to-observe set of measurable characteristics reported by households and observed by social inspectors. Accordingly, the households are ranked from the poorest to the least poor based on a total household score. Once the ranking is established, the database is used to target different types of social assistance required by the neediest and most venerable households. In 2012, the Council of Ministers allocated $28 million for the financing of this social assistance. In 2014, and in response to rising poverty levels in communities hosting refugees and in order to help mitigate tensions between the refugee and Lebanese communities, the government, with support from the World Bank, scaled up the NPTP and re-launched it as the Emergency NPTP (ENPTP) to cover an increased number of poor households, and improve the bundle of benefits through the introduction of food assistance via an electronic card (e-card) targeting the poorest households.

As of the beginning of 2019, the NPTP/ ENPTP has successfully implemented the below measures:

- An automated live database on Poor and Vulnerable Populations
- Around 110,000 households, or approximately 450,000 individuals, are benefiting from:
  - Comprehensive health coverage for beneficiaries in public and private hospitals through the waiver of ten-15 percent copayments for hospitalization
  - Coverage for the prescription of medication for chronic diseases at the Ministry of Public Health's (MoPH) centers
  - Registration fee waivers and free books for students in primary and secondary public schools
  - Discounts on electricity bills submitted to the EDL
  - A food basket for unemployed elderly people with small households
- E-card food vouchers for the 10,000 poorest NPTP households
- A pilot 'graduation program' (NPTP-G) targeting 600 households from among the 10,000 poorest NPTP households. The pilot program sought to promote increased and sustainable levels of income among some of the poorest NPTP households, in order to improve their overall relative standard of living levels. The NPTP-G package of services includes:
  - An NPTP e-card food voucher for consumption support and improved food security levels
  - An asset transfer to help jump-start one or more economic activities
  - Technical skills training related to the chosen asset as well as training on identifying, developing, and running a business
  - Coaching and life-skills training to boost the beneficiaries' self-confidence and social capital
  - Financial literacy training and linkages to microfinance services for improved income and savings management

In terms of long term measures, the NPTP/ ENPTP program aims to provide the below:

- An additional 5,000 NPTP households (or around 27,000 vulnerable individuals) will profit from the e-card food voucher and better access to food.
- A humanitarian asset transfer to eligible recipients in the form of $27 in cash/cash equivalent per household member per month
- Extension of the employment graduation plan to target additional NPTP households. The extension is expected to create 52,000 permanent jobs and up to 12,000 short-term employment opportunities, especially among vulnerable groups.

Fund for the Poor

The Fund will be a program within the NPTP. Its goal is to help sustain people who are currently at poverty or extreme poverty levels. In addition to its obvious mission, it will allow repackaging all service subsidies under one roof. These free services are currently in the hands of the public sector (such as social security and electricity) but which we are proposing to transfer to the private sector, to be sold at market rates. The fund will have programs that will subsidize poor families who cannot afford the increased rates. It will mitigate adverse conditions faced by the poor due to the recalibration of the pricing of various public services to market. Currently all Lebanese and local businesses are benefiting from policies designed to minimize the cost to the poor. For example, electricity is subsidized, fuel is subject to little taxation, etc., and these policies, while designed to target only the poorest, are being utilized by all.

The Fund will be established as a State authority, managed by a board of directors comprised of stakeholders (the Ministries of Labor, Social Affairs, aand Finance), as well as external, independent members such as international donors. The Fund should be structured in a manner that ensures fairness, and avoids the inefficiencies and corruption found in many other State agencies.

Input ($2 billion per year)

- Aggregate and consolidate all current programs targeting the poor in various ministries
- Create a special tax on large corporate profits (five percent – approximately $50 million)
- Additional grants from international donors ($500 million per year in kind and cash)
- Share of aid to refugee programs (25 percent, or $250 million in kind and cash)
- Budgetary contribution ($700 million)

Output

- Subsidy for electricity ($100 million per annum)
- Subsidy for education and health after privatization
- Unemployment indemnity (food stamps, housing vouchers, transportation and fuel subsidy allowance).

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.

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 (next few weeks)

- **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
- **Stabilize the exchange rate.** The exchange rate at the Central Bank is stable. Easing access to foreign currency funds through banks will stabilize the exchange rate at the exchange counters.

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 (1-3 year horizon)

- 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

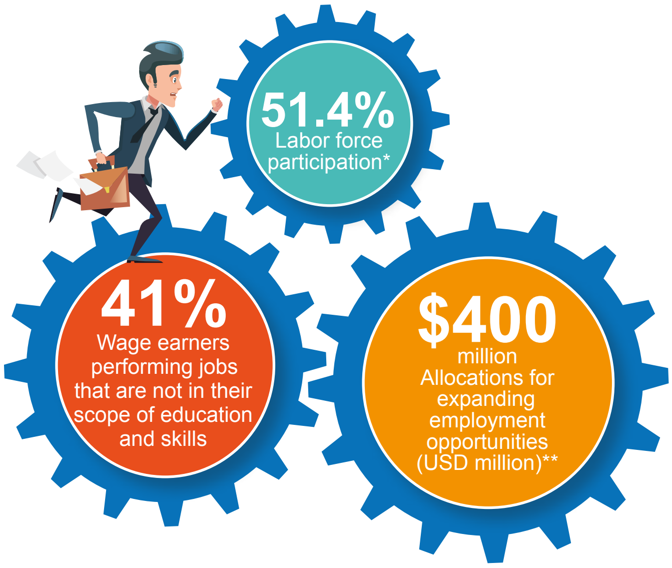
- Clarify the application of the labor law in times of economic emergency
- Ease pressure on companies unable to pay dues to the National Social Security Fund
- Extend the validity of the NSSF clearances for at least six months
- Implement decree No 8691, issued by the Ministry of Labor (MoL), which 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

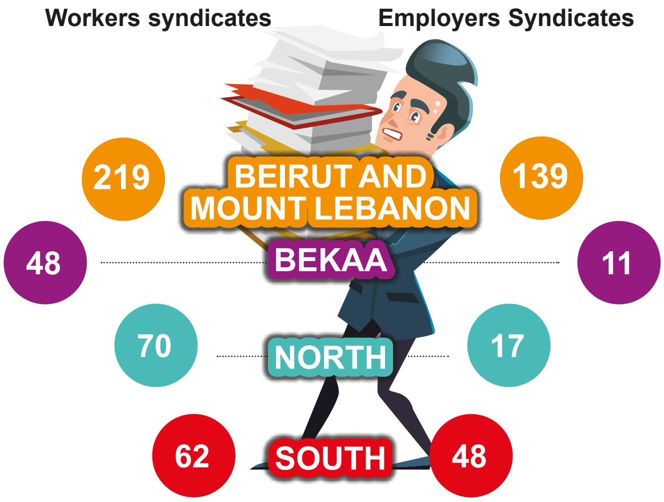
Labor in 2018



(*) 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

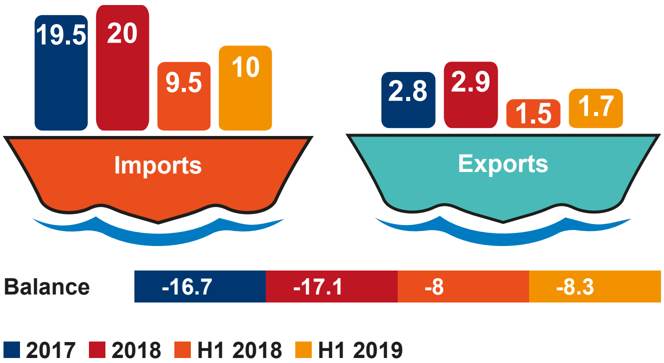
- Ease and lower fees of import and export procedures at the administrative and Customs levels, at points of entry
- Negotiate an understanding with Syria to lower the transit fees on land exports to Syria and Jordan
- Combat contraband as it constitutes an unfair competition and a loss of earnings to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

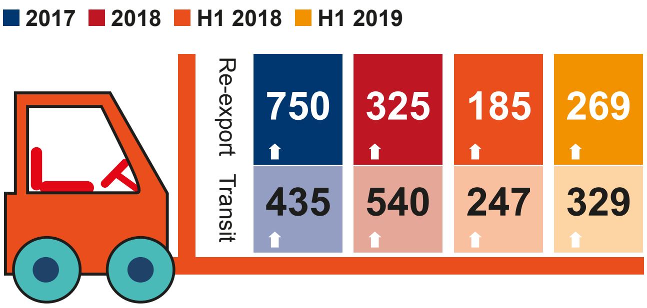
- Review and update trade agreements with our major partners, especially the EuroMed agreement and Greater Arab Free Trade Agreement (GAFTA). Work with European partners to accept Lebanese products, such as dairy and medicine that already meet their quality standards
- Stabilize taxes and fees on imports 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

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

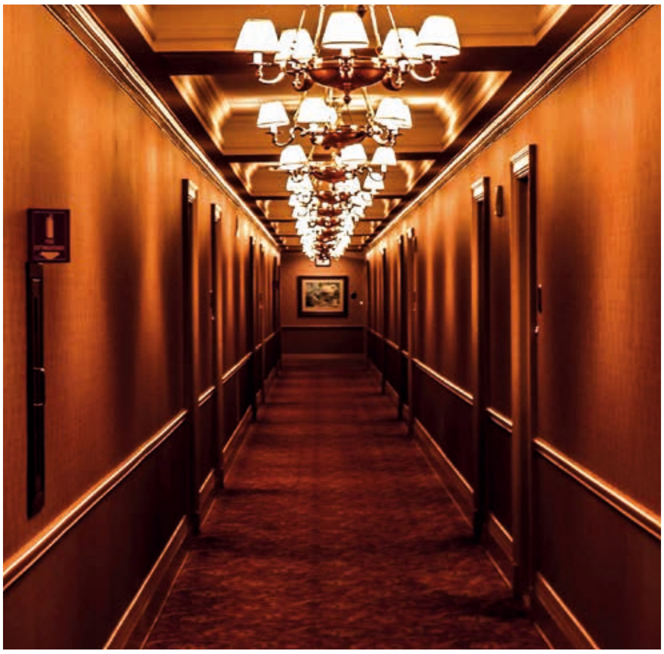
- Extend the terms of the loans given to hotels from seven to 15 years
- Digitize paperwork at the Ministry of Tourism to ensure fast and transparent processing of formalities.

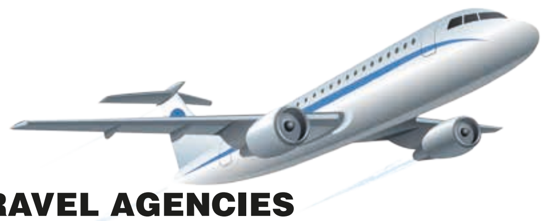
LONG TERM
measures

- 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

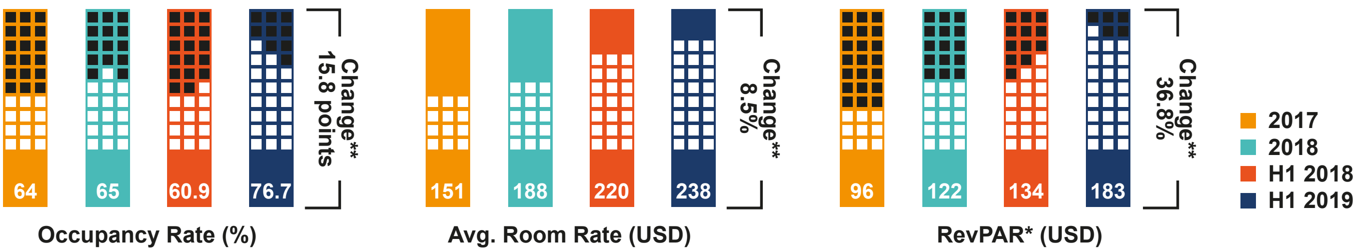
- Streamline the 'investment license procedure' at the Ministry of Tourism
- Standardize the process of health inspection for restaurants, and enforce it on all outlets.

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.

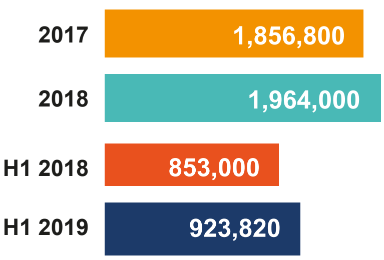
INDICATORS

Beirut hotel occupancy



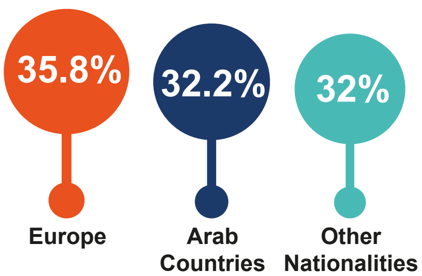
Source: Ernst & Young | *Revenue per available room | **H1 2019 compared to H1 2018

Number of tourists



Source: Ministry of Tourism

Tourists by origin H1 2019



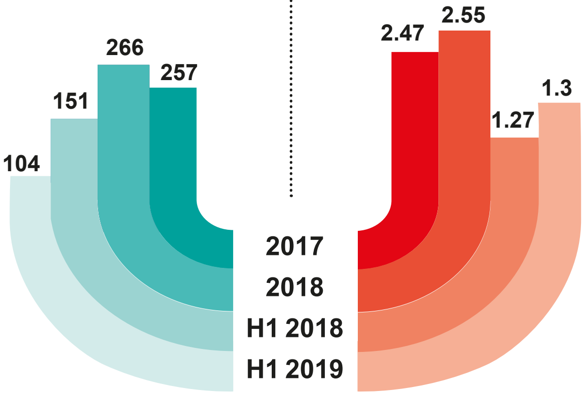
Number of new hotel licenses granted

Manufacturing

INDICATORS

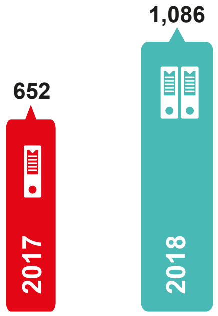
Import of industrial machinery (USD million)

Industrial exports (USD billion)



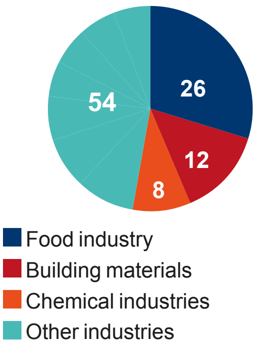
Source: Ministry of Industry

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	H1 2018	H1 2019
Exports	197	206	89	87
Imports	1,900	2,000	1,049	993
Exports/ imports %	11	10	8.4	8.7
Trade balance	-1,700	-1,800	-960	-906

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 2018*

Apples	Bananas	Oranges	Grapes	Green Plums
62	44	26	25	7

Total **164**

Source: Customs | ** 1,000 tons*

Agricultural imports by top five countries in 2018

	Brazil	Ukraine	Russia	Netherlands	USA
Value (USD million)	268	117	105	85	77
% of total imports	13	6	5	4	4

Agricultural exports by top five countries in 2018

	Syria	Saudi Arabia	Qatar	UAE	Kuwait
Value (USD million)	30	27	27	19	17
% of total exports	15	13	13	9	8

Exports of vegetables by top five types in 2018*

Potatoes	Lettuce	Onions and garlic	Tomatoes	Other
72	7	3	0.5	2.5

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

EXECUTIVE SUMMARY

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.

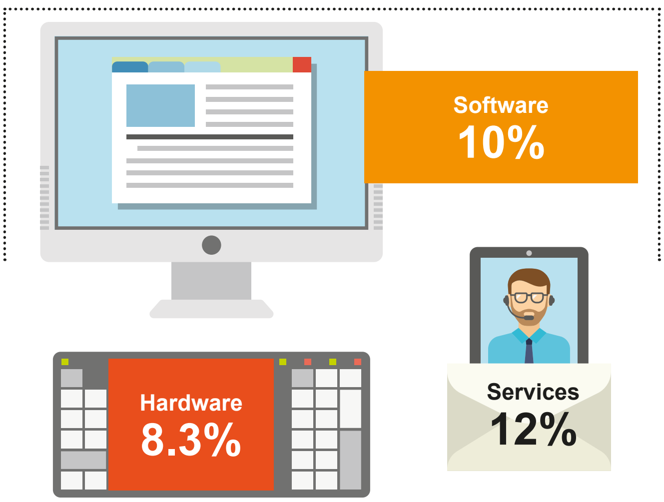
LONG TERM measures

- 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.

INDICATORS

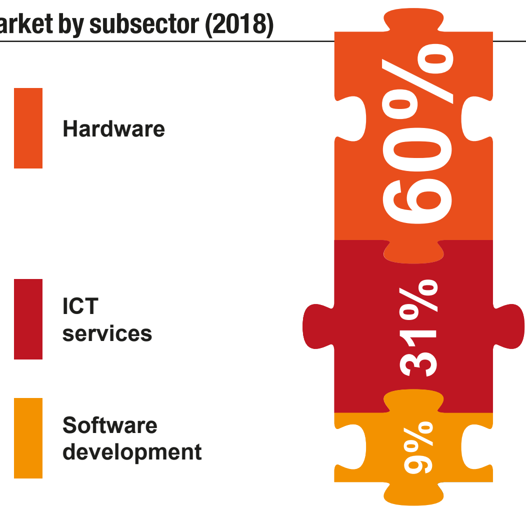
ICT market

Overall ICT market
9.7%



*Source: InfoPro Research * Compound annual growth rate*

ICT market by subsector (2018)



Source: InfoPro Research

Telecom

EXECUTIVE SUMMARY

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

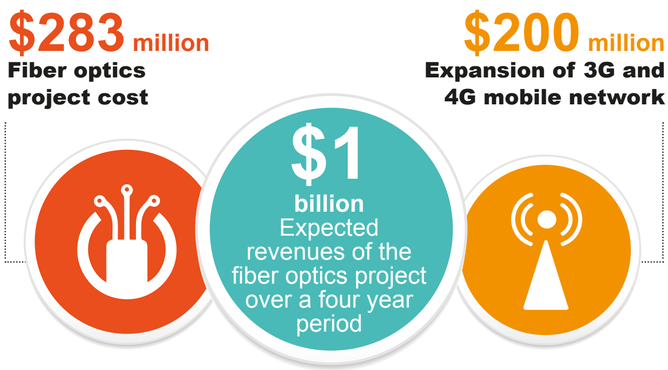
- Revive the Telecom Regulatory Authority
- Various public sector entities must coordinate their operations. Ogero's present work on the network is sometimes delayed due to some municipalities' mismanagement of work on internal roads
- The deployment of the fiber optic network must be accelerated.
-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

LONG TERM measures

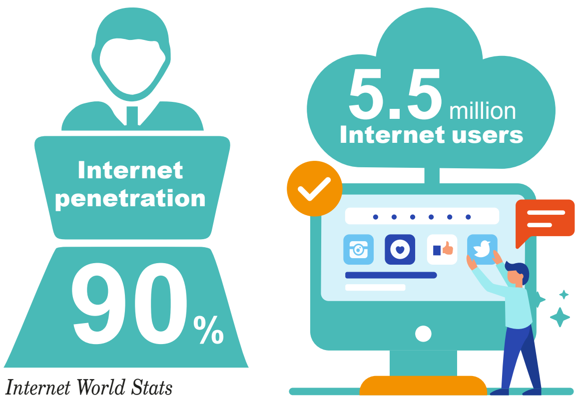
- There is a need for high-speed Internet at affordable prices, as prices are currently very expensive relative to most countries. Telecom rates should not be inflated to boost budget revenues
- The creation of the National Data Center must be accelerated to create a national cloud computing service
- 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

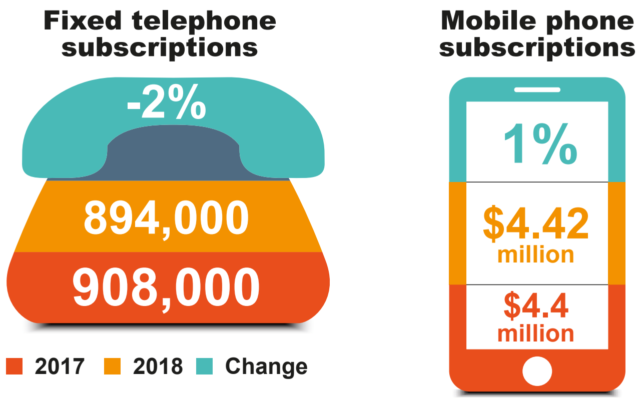
The fiber optic project, which started effectively in October 2018, takes about four years to be completed. The project aims to connect nearly 1.2 million residential units to the grid. The number of the users of the fiber optic network reached 125,000 at the end of 2018. Nearly 17 percent of the fiber optic project has been completed so far and 27 to 30 percent of the project is scheduled to be completed by the end of 2019. Subscriptions to the fixed telephone service continue to decrease with more mobile phone penetration.



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.

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	H1 2018	H1 2019
Area of permits (million m^2)	11.7	9	5	2.7
Number of permits	15,800	13,700	7,100	4,900

Cement deliveries in million tons

2017	2018	H1 2018	H1 2019
5.2	4.7	2.3	1.5

Real estate transactions number and value

	2017	2018	H1 2018	H1 2019
# of transactions	72,500	60,700	27,472	21,957
Value (USD million)	8,900	8,100	3,870	2,720

Source: Cadaster – Orders of Engineers in Beirut and North

Residential properties

	2017	2018	H1 2018	H1 2019
Buildings with apartment for sale	2,357	2,444	2,421	2,430
Sold out buildings	271	214	107	94
New buildings launched	487	269	193	80

The numbers cover Beirut, Baabda, Metn, Aley, Kesrouan, Northern and Eastern Suburbs
Source: InfoPro Researchw

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.

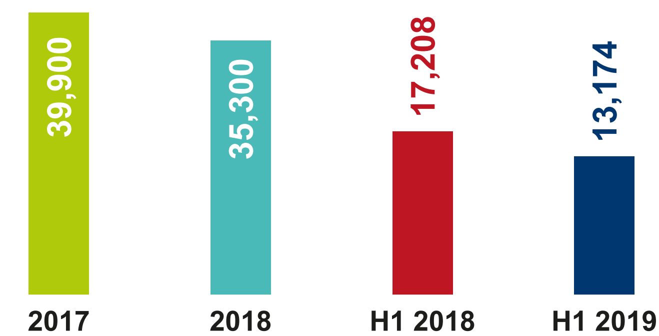
SHORT TERM
measures

- 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.

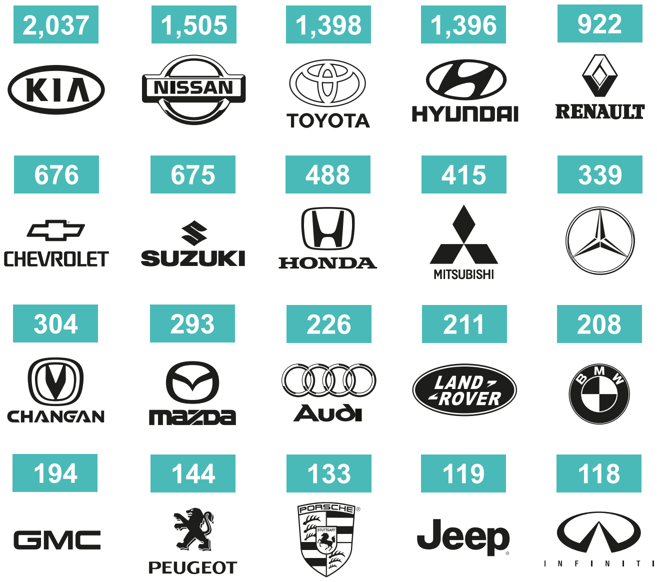
Number of new vehicle registrations *



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

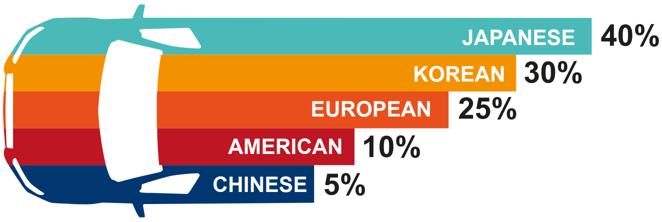
INDICATORS

New passenger car sales by the top 20 brands H1 2019



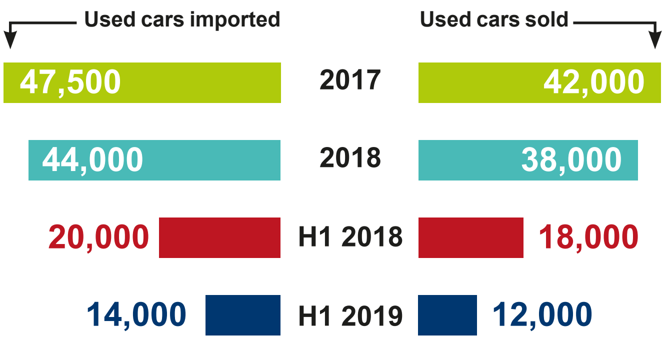
Source: AIA – New vehicles registered in Lebanon during H1 2019

New car sales H1 2019



Source: AIA – New vehicles registered in Lebanon

Sales of imported used cars



Source: Used Car Importers Syndicate

Insurance

EXECUTIVE SUMMARY

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

2017	1.63
2018	1.64
Change	0.2%

Gross paid claims

USD million

2017	966
2018	937
Change	-3%

Gross written premiums H1 2019

USD million

	Life	Motor	Health	Property and casualty
USD million	239	171	321	143
Year-on-year change	-2%	-10%	10%	2%

Gross claims settled H1 2019

USD million

	Life	Motor	Health	Property and casualty
USD million	145	105	200	52
Year-on-year change	16%	4%	14%	14%

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	H1 2018	H1 2019
Aircraft movement	71,200	73,500	33,315	33,546
Passengers (million)	8.2	8.8	3.8	3.9
Freight (metric tons)	97,000	98,000	48,000	44,400

Source: Beirut Rafic Hariri International Airport

Port of Tripoli

Vessels	Merchandise (million tons)	Cars	Containers	Total revenues (USD million)
311	1.1	1,691	19,000	8.3
310	0.8	2,100	9,250	7.7
665	1.8	4,428	19,500	16.4
775	1.9	4,750	6,400	16.5

2017 2018 H1 2018 H1 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)
1,037	3.5	25,213	1,370	386,987	233,945	102.1
1,139	3.9	33,613	454	431,662	207,666	118.7
2,242	7.9	60,200	6,622	874,609	431,146	231.5
2,261	8.6	78,000	6,167	897,787	407,251	240

2017 2018 H1 2018 H1 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

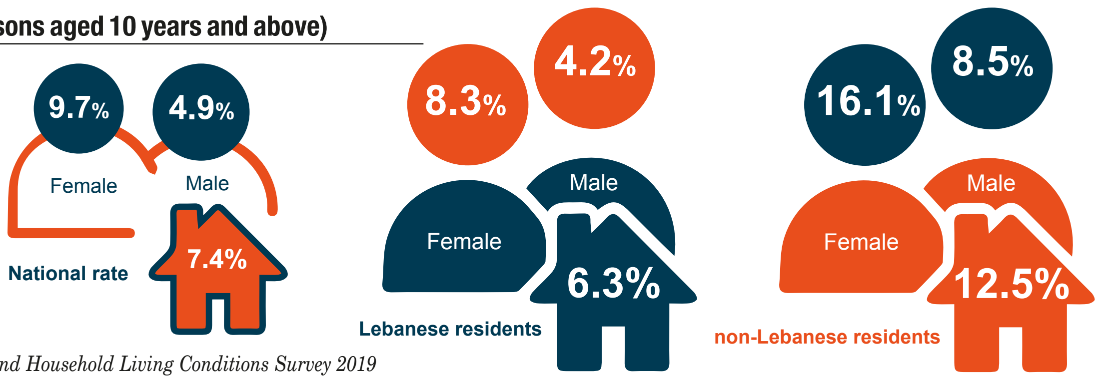
- Amend academic conditions for appointing teachers. According to the current conditions, a teacher's university degree does not need to include education as a specialty. This could imply that even though teachers may have a good handle on a subject, they might still not have the tools necessary to convey 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.

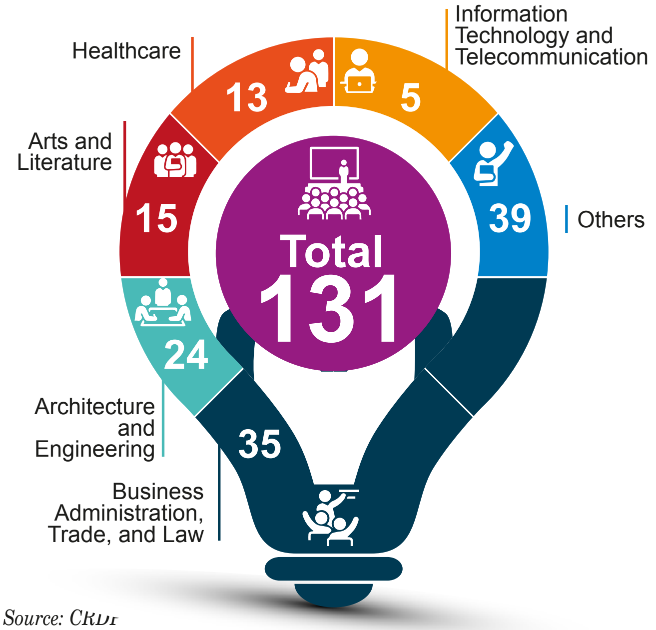
INDICATORS

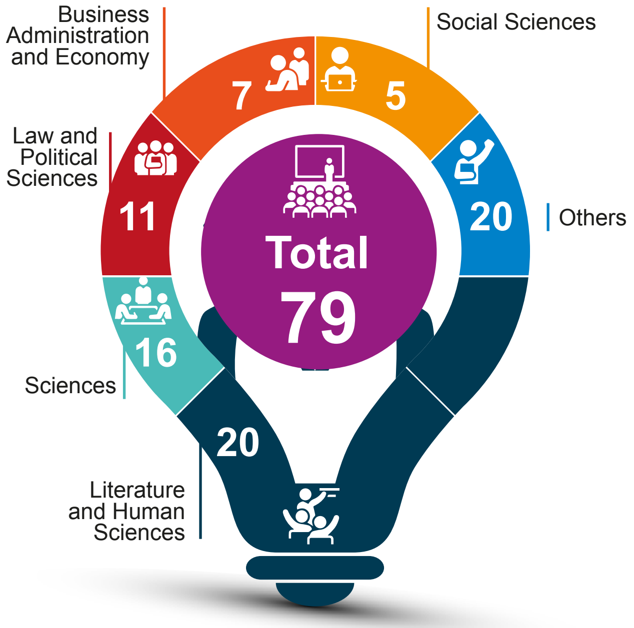
Illiteracy rate (Persons aged 10 years and above)



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

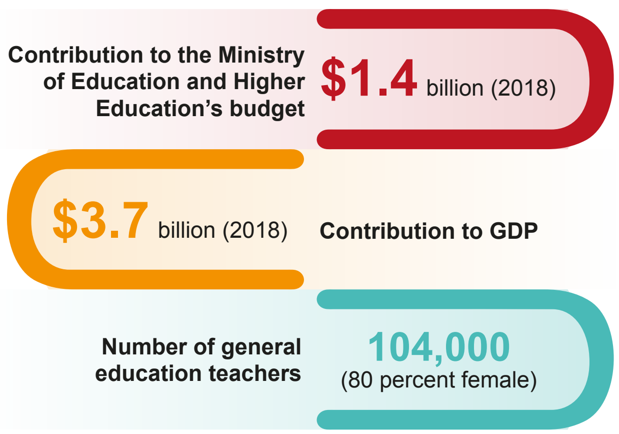
Top five specialties in 2017-2018





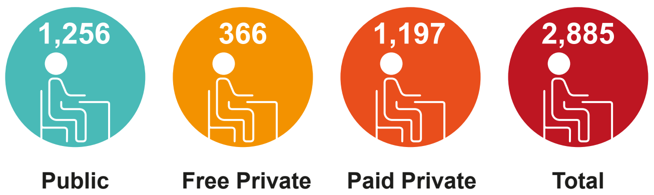
Source: CRDP

The education sector's contribution to GDP



Source: Ministry of Finance, National Accounts, CRDP

Number of schools by type (2017-2018)

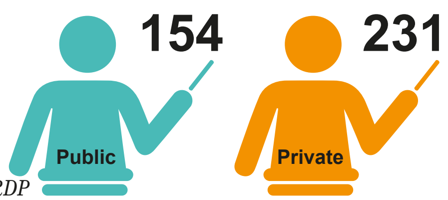


Source: CRDP

Distribution of students in 2017-2018

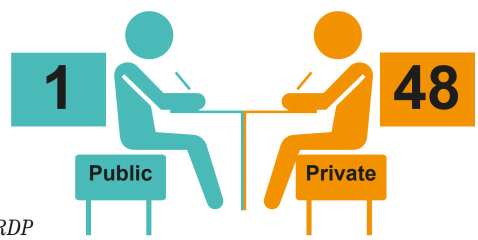
Note: The remaining 3% are in UNRWA schools
Source: CRDP

Number of vocational schools



Source: CRDP

Number of universities



Source: CRDP

Health

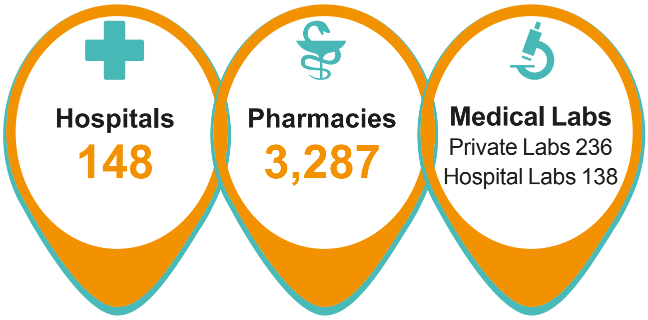
INDICATORS

Pharmaceutical imports and exports (USD million)

	Imports	Exports
2017	$1,288	$52
2018	$1,329	$57
H1 2018	$680	$25
H1 2019	$624	$31

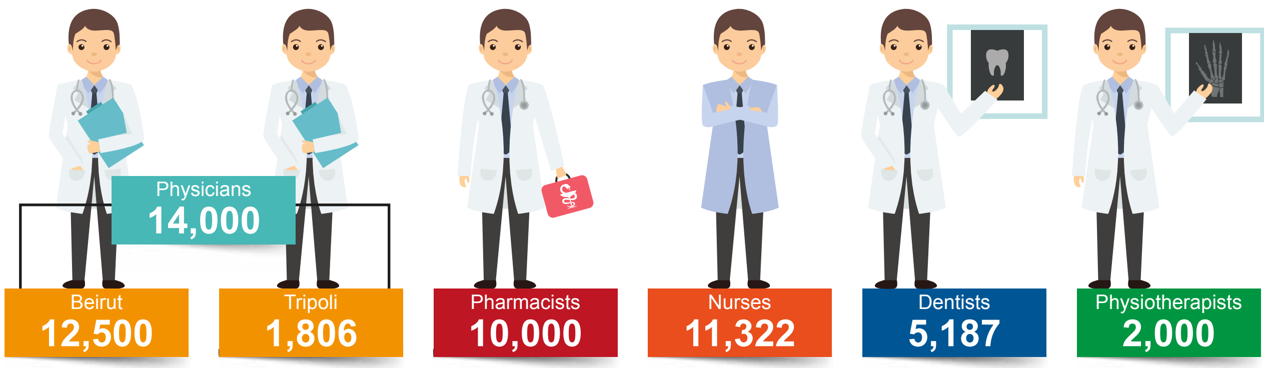
Source: Customs

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.

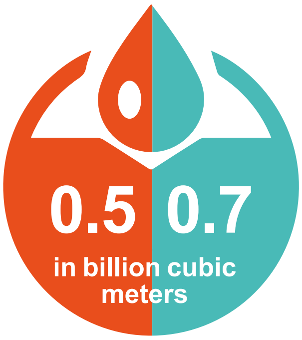
V. Infrastructure

A Plan for Revival

Water

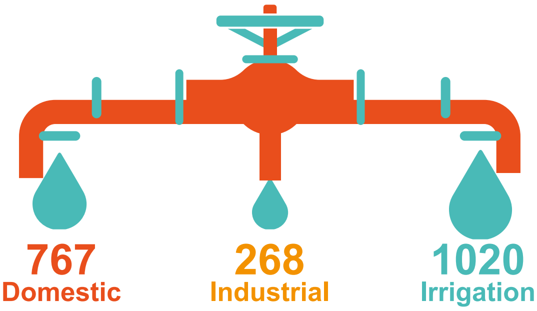
INDICATORS

- 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.

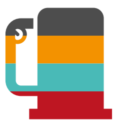
Estimated offshore natural gas

25 Trillion cubic feet (TCF)

Source: UK-based company Spectrum

Local demand for petroleum products

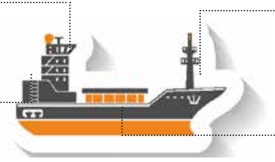
14 % Industrial
30 % Residential



Other demand 26 %
Transportation 30 %

Import of petroleum derivatives (million tons)

2017 8.4
2018 8.1



H1 2018 3.9
H1 2019 4

Source: Central Bank

Requirement for offshore oil and gas exploration and development

Operating companies $10 billion

Non-operating companies $500 million

Source: Ministry of Energy and Water

EXECUTIVE SUMMARY

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

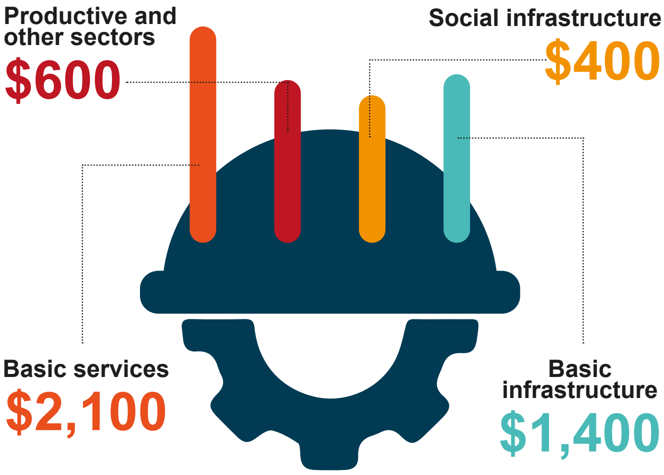
- Pay the due arrears, even by regular installments
- Approve the decree that reorganizes the contracting activity
- Draft a law that unifies the classification for contractors and engineers. Public works tenders should be undertaken by a single authority, such as the Council for Development and Reconstruction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

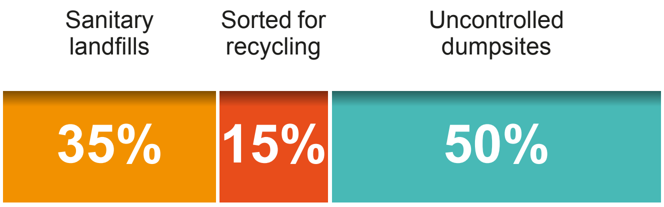


Source: Council of Development and Reconstruction (CDR) Annual Report 2018

Solid Waste

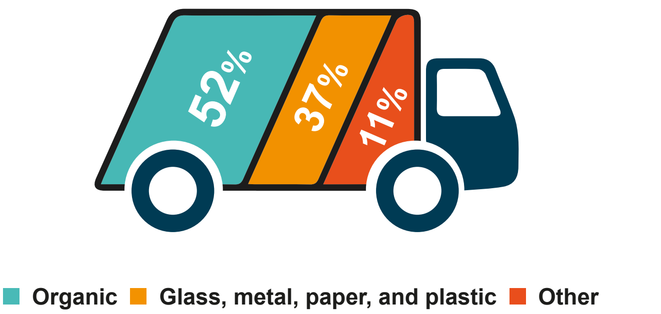
INDICATORS

Waste processing

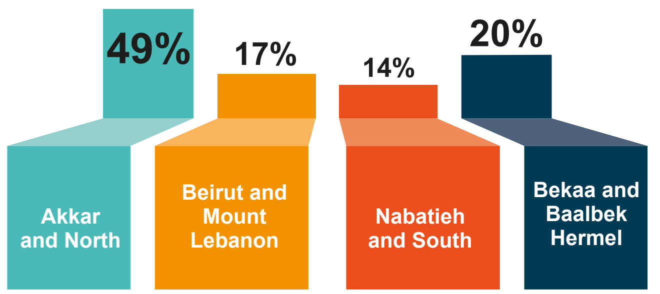


Production of solid waste

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. Suporting initiatives

A Plan for Revival

Supportive measures

The revival plan needs to be supported by wide ranging changes and initiatives. We propose here a sample of game-changing measures. The overall list will necessitate a fully-fledged survey of all public and private sector organizations engaged in servicing the public interest.

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
  - › **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

- **Register of public assets**
  - › The government should establish a register of all its assets and appraise their values. This includes cash, real estate, companies, shares, exploitation rights, and other matters of value. The register should be made public and a government commission should be established to propose how to optimize the management of these assets, which ones to maintain, which ones to expand, and how the public good can benefit from it.

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

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 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%

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

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

IF SALARY CUTS, please specify by how much 39.7%

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%

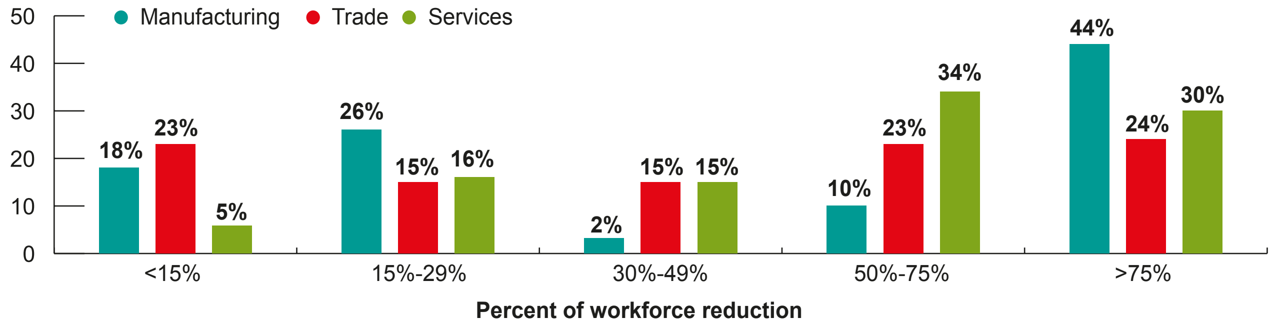
IF INCREASE, please specify by how much 16.6%

Segmented by sector

Workforce reduction since October 17

	Manufacturing	Trade	Services
Yes	20%	31%	20%
No	65%	59%	77%
The business laid off all employees	15%	10%	3%
AVERAGE reduction	60%	50%	50%

Workforce reduction brackets*



** Out of the companies that reduced their workforce*

Salary reduction from the beginning of 2019 till October 17

	Manufacturing	Trade	Services
Yes	5%	4%	5%
No	95%	96%	95%

Types of pay cuts*

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

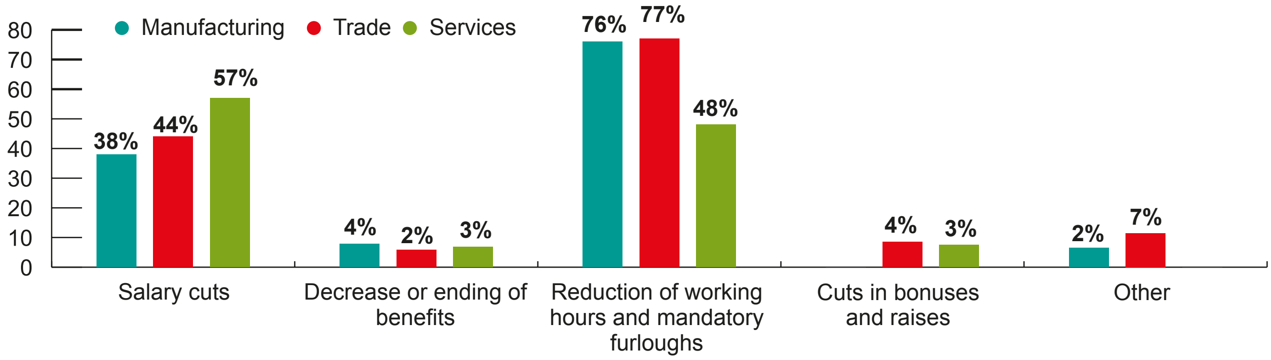
** Multiple answers question*

Segmented by sector

Salary reduction after October 17

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

Types of pay cuts*



AVERAGE reduction: 42.5% (Manufacturing)

AVERAGE reduction: 40% (Trade)

AVERAGE reduction: 39% (Services)

Change in turnover after October 17

Manufacturing

Increase	Decrease	Stable
2%	87%	11%

16.6% increase — AVERAGE — 60% decrease

Trade

Decrease	Stable
95%	5%

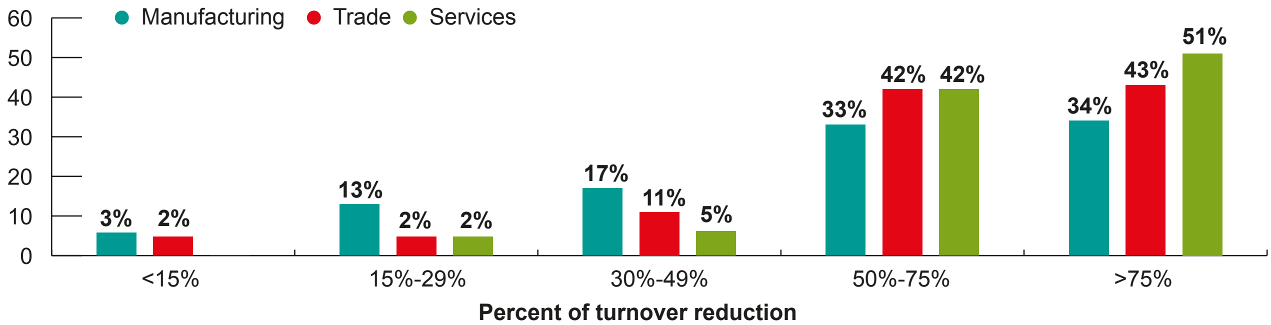
AVERAGE decrease 67%

Services

Decrease	Stable
93%	7%

AVERAGE decrease 73%

Turnover reduction brackets*



** Out of the companies that reduced their turnover*

Appendix

Revenue scheme of proposed increase in VAT

VAT Distribution (USD million - 2018)				
Sources	**Locally produced**	**Imported necessities**	**Imported non necessities**	**Total**
Taxable sales	9,347	8,919	5,011	**23,278**
VAT	1,028	981	551	**2,561**
Scenario keeping 11% across the board (USD million - Estimated 2020 considering reduced spending)				
Change in taxable sales (%)	-5%	-5%	-25%	
Taxable sales	8,880	8,473	3,759	**21,112**
VAT rate	11%	11%	11%	
VAT collected	977	932	413	**2,322**
Scenario (New VAT scheme - (USD million - Estimated 2020 considering spending changes)				
Change in taxable sales (%)	9%	-10%	-40%	
Taxable sales	10,188	8,028	3,007	**21,223**
New VAT rates	11%	20%	30%	
VAT collected	1,121	1,606	902	**3,628**
Increase in VAT revenues versus 11 percent on reduced spending from 2018			1,068	**42%**
Increase in VAT revenues versus 11 percent on reduced spending from 2020			1,306	**56%**

In all cases, total consumption is expected to decrease due to lower household income
Under the new scheme imports will decrease leading to an increases in sales of local production goods and services

Appendix

Government reform decisions announced on October 21

1. Freeze non urgent investment spending and transfer the surplus funds of the institutions to the Treasury:
Public institutions and public investment facilities that manage public funds, including two cellular companies, have been asked to transfer the surplus to the Treasury and were requested not to undertake any new investment expenditure except as previously obligated prior to the year 2020. In exceptional cases, justified necessary investment spending is subject to the approval of the Council of Ministers.

Public institutions, utilities and departments with attached budgets are requested to transfer their surplus monthly funds to the Treasury.

2. Close down and merge some ministries, institutions and public utilities:
Approve the abolition of the Ministry of Information and instruct the concerned authorities to prepare the necessary texts by 30/11/2019. The rights of employees will be preserved in accordance with the laws and regulations in force.

Request the concerned ministers and trusteeship authorities, in accordance with Article 83 of the 2019 Budget Law, to report on public institutions and all public utilities under their jurisdiction, which can be canceled or merged with other departments or institutions, in particular the Public Authority for Consumer Markets and the Public Authority for Alternative Agriculture, The Public Authority for Olive and Olive Oil, and the Public Authority for Financing Major Sports Tournaments, and others, and submit the report to the committee formed for this purpose by the Council of Ministers Resolution No. 3 dated 12/9/2019 and no later than 15/11/2019.

The Ministerial Committee shall submit its proposals successively to the Council of Ministers starting from 30/11/2019 for the final decision.

3. Begin involving the private sector and liberalize public institutions and facilities of a commercial nature:
Approve the start of the process of associate the private sector with the two cellular companies and instruct the Higher Council for Privatization and Partnership to appoint a financial, technical and legal consultant to initiate the preparation of the terms of reference and prepare the necessary contracts and submit the matter to the Council of Ministers to take the appropriate decision.

Undertake the necessary studies, and in accordance with the rules and regulations in force, involving the private sector in the following companies and institutions: Beirut Stock Exchange, Middle East Airlines, Middle East Airport Services, Deposit Guarantee Corporation, Sodetel, Casino du Liban, Intra, Beirut Port, The Tobacco and Tumbac Company, tobacco, and the oil installations. The proposals to be submitted in this regard by the concerned ministers, respectively, and no later than 30/12/2019.

4. Appoint the regulatory authorities
Appoint the regulatory authorities of Civil Aviation, Telecommunications, and the Board of Directors of the Beirut Stock Exchange and the Deputy Governors of the Central Bank at the latest 15/11/2019

5. Activate the management and proceeds of State-owned real estate:
Assign the Minister of Finance to carry out an inventory of all state-owned real estate, conduct an evaluation thereof and submit a proposal for utilization within three months.

6. Accelerate the implementation of the Capital Investment Program – CIP (CEDRE)
Instruct the ministerial committee formed under this resolution (in charge of studying the list of projects of the CIP) to study the list of projects submitted by the Council for Development and Reconstruction (CDR) on the first phase of the CIP (CEDRE) and expedite its decision in preparation for approval in the Council of Ministers by 7/11/2019.

Request the CDR to determine the required funds to cover the cost of local financing and the cost of appropriations for these projects to prepare and approve a program law for a period of five years, and no later than 30/11/2019.

Hire local and foreign specialized consultancy companies to expedite the preparation of terms of reference and launch tenders for the commissioning of infrastructure projects.

7. Accelerate the launch of $2.6 billion in investment projects before Parliament
Approve a draft law of LL470 billion over three years, covering the issuance of treasury bonds, to cover the cost of expropriations for the planned projects and referring it to Parliament.

8. Launch Elissar and Linord projects
Instruct the Prime Minister to take the necessary measures to re-launch the Elissar and Linord projects.

9. Strengthen social protection
Assign the Minister of State for Parliamentary Affairs to follow up the approval of the Retirement and Social Protection Law which is discussed in the parliamentary committees and to submit a monthly report on its development to the Council of Ministers.

Allocate LL20 billion to strengthen and expand the base of beneficiaries of the program to support the poorest families.

Approve the loan agreement with the Arab Fund for Economic and Social Development to contribute to the financing of the housing project - Phase II, amounting to KD50 million (about $165 million) and authorize the President of the CDR to sign it, in addition to the mandate to complete negotiations with the Fund to secure a new loan for the benefit of the Public Corporation for Housing under the same conditions stipulated in the afore mentioned draft convention.

10. Export support
Approve the inclusion of an item in the draft general budget for 2020 to support export according to the following:

Duly licensed factories and industrial establishments shall be given an amount of five percent of the value of their annual exports manufactured in Lebanon and having a certificate of origin in Lebanon in accordance with the rules that benefit from the provisions of this law.

› For additional annual exports exceeding the value of exported industries in the previous year.

› For industries that export for the first time.

The specifics of this Article shall be determined by a decree taken by the Council of Ministers upon the proposal of the Ministers of Finance and Industry.

11. Unify the purchase of medicines
Assign the Coordination Committee of the public insurers to prepare a proposal for a unified tender for the purchase of medicines for the departments, institutions, military and security organs, the Cooperative of State Employees and the Social Security Fund, and to submit its recommendations to the Council of Ministers within two months from this date, giving priority to locally manufactured medicines and generic drugs if it is cheaper.

12. Speed up the issuance of the following decrees:
Electronic Transactions and Personal Data Act, Judicial Mediation Act, Access to Information Act.

The Minister of Justice and the Minister of State for Investment and Technology, all in the sense of what it means, are tasked to prepare these decrees and submit them to the Council of Ministers by the end of this year.

13. Return of displaced Syrians
Task the Minister of State for Displaced Persons to submit a policy paper for the return of Displaced Syrians for approval within one month of the date of its submittal.

Take the measures and means available to urge the international community to return the displaced to their country safely and with dignity and contribute more to the cost of their burden to the State.

14. Approve the 2020 budget with a deficit of nearly zero percent by 25/10/2019. This will be achieved through actions, most notably:
Expenses:
› Set a maximum electricity deficit of LL1,500 billion
› The Central Bank's (BDL) contribution to reduce public debt service by 50 percent in coordination with BDL (LL4,500 billion), with the Prime Minister following up on the executive measures with the Minister of Finance and the Governor of BDL
› End-of-service compensation in excess of LL1 million, will be paid in installments over three years
› Reduce the remaining expenditures in order to reach the deficit in relation to the deficit
› Reduce by 50 percent of the allocations of current and former presidents, ministers and deputies.

Revenues:
› An one-time income tax on banks in 2020, which will secure LL600 billion
› No direct or indirect tax and no fees in 2020
› Pensions of employees and contractors shall not be subject to any tax or deduction

15. Reduction of smuggling through legal and illegal crossings and reducing tax evasion
- The completion of the study on the tax compliance bill in order to raise the level of collection and detection of evaders, and refer it to Parliament after its approval, no later than 25/10/2019
- Approval of the decree prepared by the Ministry of Finance for the installation of scanners at border crossings and in partnership with the private sector, taking into account some of the observations prepared by the Minister of State for Presidential Affairs
- Approval of a bill aimed at tightening penalties for smuggling (smugglers, their accomplices and those smuggled to) and a draft decree to refer it to parliament.

16. Providing electricity starting in the second half of 2020
Eliminating the entire deficit of the Electricité du Liban (EDL) in 2021 as stated in the electricity plan by completing the following steps to secure electric supply 24/7, namely:

- Speed up the conclusion of contracts for the construction of permanent and temporary plants and the purchase of energy in Zahrani, Salaata, Deir Ammar, Jab Jenin and Jiyeh by adopting the following measures:

› Approval of the terms of reference prepared by the Ministry of Energy in accordance with the amendments expressed by the ministerial committee formed to this end and approved by the Ministry of Energy and Water.
› Conduct the tender through the Tenders Department and agree to shorten the deadlines and grant submitters at the latest by 15/1/2020 to submit offers
› Evaluate the offers in accordance with the rules of the Tenders Department and the experts designated by the Ministry of Energy and Water at the latest by January 31 2020
› The Minister of Energy and Water shall submit to the Council of Ministers the result of the tender by February 3 2020 and the council will take a decision on it within a week
› Commission the Prime Minister, the Minister of Energy and Water, the Minister of Finance and their assigned experts and consultants, to conduct direct negotiations with companies that have been temporarily won the tenders, and to sign the contracts by February 28 2020

- Complete the study of the offers made in the tenders of gasification by the ministerial committee headed by the Prime Minister and submit its proposals to the Council of Ministers in parallel with tendering the purchase of energy in the form being offered
- The draft contract for the implementation of the Deir Ammar project (2) will be submitted to the Council of Ministers for approval and signature by 30/11/2019

Approve a bill that includes the proposed amendments to the Electricity Regulation Act (Law No. 462 of 2/9/2002) and a draft decree to refer it to Parliament, and the appointment of members of the electricity regulatory body within a maximum of two weeks from the date of the adoption of the law in Parliament.

17. Promote transparency and reduce corruption by establishing a number of procedures by 30 December 2019, most notably:

- Start discussing the embezzled public funds recovery bill submitted by the Ministry of Justice
- Adopti the national anti-corruption strategy and its executive plan and issue the implementing decrees of the Law – promoting transparency in the oil sector and the Law on the Protection of Corruption Detectors. Follow-up on the draft law on the establishment of a national anti-corruption body.
- Prepare a draft law subjecting public institutions and independent interests to the control of the Court of Accounts and Central Inspection in addition to subjecting their purchases to the Tenders Department.

18. Complete all the reforms discussed in the Committee for Financial and Structural Reforms and those contained in the CEDRE Conference paper, in particular the Consolidated Progressive Income Tax Bill, the Public Procurement Bill, the Customs Bill and the Competition Bill, and the completion of those reforms within time limits agreed in the relevant committees, all of which will be completed in succession by mid-2020.

19. Pass the draft amnesty law at the latest by the end of this year.

20. Instruct the ministers of public works, transport, interior, municipalities, justice and finance to take the necessary measures and measures against those who have failed to deal with their situation in accordance with the Law on The Handling of Maritime Property Violations (Law 79). Prepare a bill to raise the fees stipulated in the law.

21. The Ministry of Water is mandated to prepare a bill aimed at addressing violations of river property by the end of this year.

22. Instruct the Ministry of Public Works and Transport to take the necessary measures to start implementing the law on the settlement of the building violation.

23. The ministerial committee (in charge of developing an economic strategy) formed by Cabinet Resolution 53 of 28 February 2019 is tasked with preparing the necessary steps and measures to put the recommendations of the McKinsey study into effect.

24. Approve the renewal of the mandate of the members of the Petroleum Sector Management Authority: Wissam Al-Dhahabi, Nasser Hatit, Assem Bou Ibrahim, Wissam Shabat, Walid Nasr and Gabi Dabol.

25. The formation of a ministerial committee chaired by the Prime Minister and the membership of the Minister of Finance, the Minister of Public Works and Transport, the Minister of Energy and Water, the Minister of Youth and Sports, the Minister of Industry, the Minister of Economy and Trade, the Minister of Information, the Minister of Environment, the Minister of Culture and the Chairman of the Council for Development and Reconstruction, to study the list of projects of the Investment Expenditure Program (CIP).

Balance of payments

CURRENT ACCOUNT

Goods
- General Merchandise
  - Exports FOB
  - Imports FOB
- Goods for processing
- Repairs on goods
- Goods procured on ports by carriers
- Non-monetary gold

Services
- Transportation
- Travel
- Communication services
- Construction services
- Insurance services
- Financial services (other than insurance)
- Computer & information services
- Royalties & license fees
- Other business services
- Personal, cultural & recreational services
- Government services, n.i.e

Income
- Compensation of employees
- Investment income
  - Direct investment
  - Portfolio investment
  - Other investment

Current transfers
- General government
- Other sectors
  - Workers'remittances
  - Other transfers

CAPITAL AND FINANCIAL ACCOUNT

Capital account
- Capital transfers
- Acquisition/disposal
  of nonproduced nonfinancial assets

Financial account
- Direct investment
- Abroad
- In Lebanon

Portfolio investment
- Assets
  - Equity securities
  - Debt securities
- Liabilities
- Equity securities
  - Debt securities

Other investment
- Assets
  - Trade credits
  - Loans
  - Currency and deposits
  - Other assets
- Liabilities
  - Trade credits
  - Loans
  - Currency and deposits
  - Other liabilities

ReserveAssets

UNRECORDED TRANSACTIONS