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Executive

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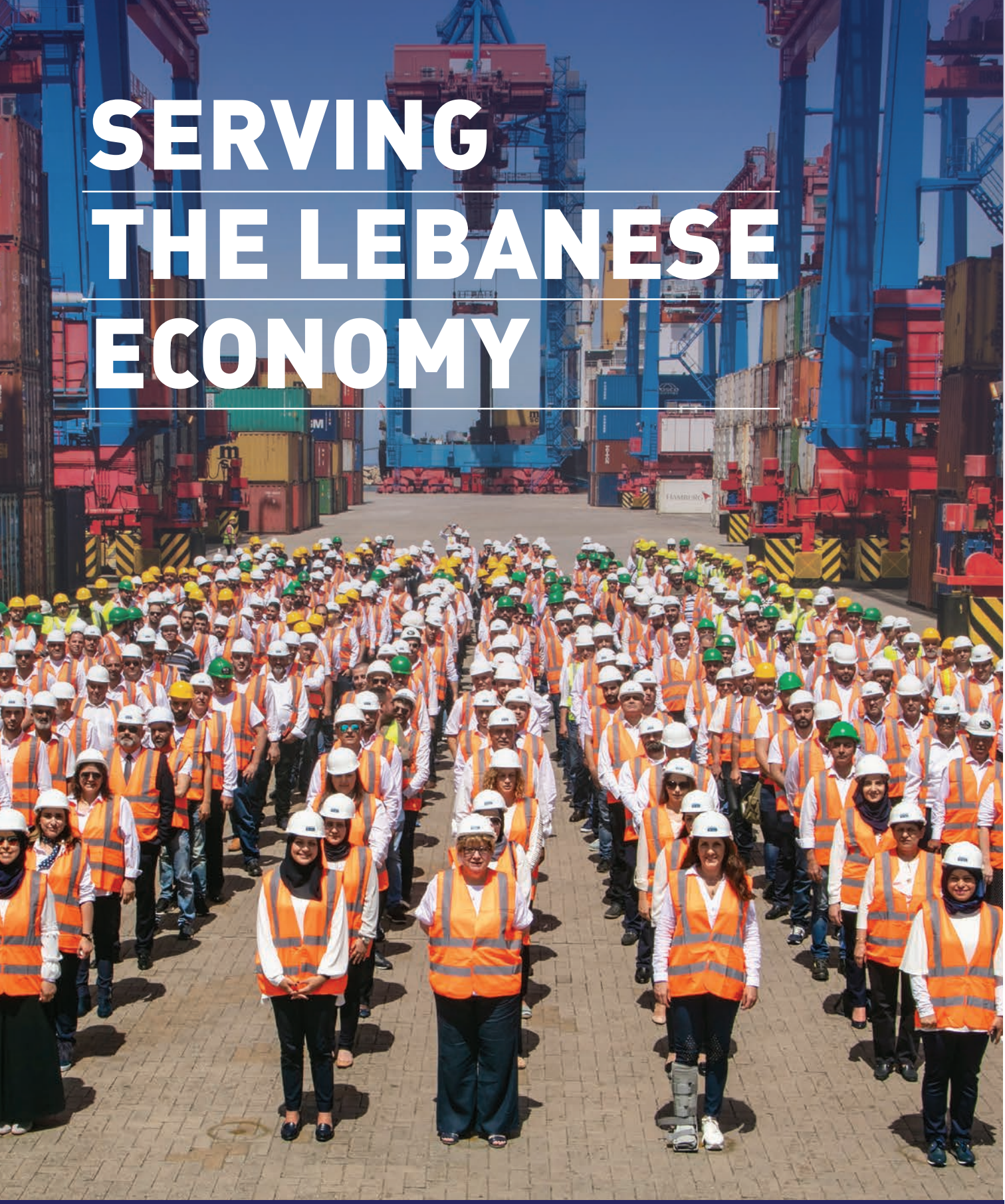
RUNNING LOOSE

CAN WE HARNESS THE ELEPHANT IN THE ROOM?



SERVING THE LEBANESE ECONOMY

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EDITORIAL

#253-254

Do we dare?

Elephants are the epitome of power. These times of mystifying power tugs-of-war remind us that Lebanon's economy has a fundamental right to security and stability. If you personally like the company of an elephant is thus secondary, as long as their power is wielded democratically.

The scary downside of this equation is that when out of control, an elephant in any room will be ruinously destructive. Without a harness, ours has been running loose for much too long. What is tricky is that we cannot mislabel, ostracize or kick it out, since years of indoctrination have engrained it in the identity of Lebanese individuals, families, and communities.

We understand that this elephant is part of our national mix of communities, we know its roots and doctrine, and we are well aware of the bloody path it has taken for forty years, rampaging both for and despite of Lebanon's interests. But in all our awareness of this destructiveness and despite the track record that includes years of undermining the rule of law, flaunting the national sovereignty, amassing weapons and, lately, mastering cyber weapons and wielding them in cyberwars in support of Syrian and Iranian interests, we also recognize that harnessing the elephant will require a whisperer.

At this moment where we face a very real collapse of a nation, however, we cannot stand idly by the hijacking of Lebanese social causes or the continued destruction of our politics and future. Yes, the elephant is today more dangerously out of control than ever and has failed, along with the whole Lebanese establishment, to deliver on any promise to the people while doggedly warding off alternatives.

This ugly truth is unbearable, but it is time to face it. Look at our barren land, standstill mills, wasted youth and frightened eyes.

Elephants may arrogantly look down on roommates. But any would-be or real elephant in our room has to understand that Lebanon can no longer afford and will no more accept stampeding over its affairs and interests for the benefit of power-mad and bloodthirsty patrons.

Yasser Akkaoui
Editor-in-chief

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THE PLAIN PICTURE

CAPTURING REALITY

Take a look back at some of the main news that shaped the last period through the lens of Executive photojournalist Greg Demarque.

February 26

Lebanese citizens protest in Riad El Solh square against economic conditions and demand access to their bank deposits.

January 17

Lebanon initiates a total lockdown and curfew from January 14 to 25 as COVID-19 cases skyrocket after the end-of-year holidays.

January 17

The decision to extend the nationwide COVID-19 lockdown to February 8 triggers protests in Tripoli and clashes with the army.

February 11

Lebanese citizens and foreign ambassadors gather to mourn slain journalist Lokman Slim and denounce terror.

February 14

The Ministry of Public Health initiates the COVID-19 vaccination campaign with medical personnel first in line to get the vaccine.

February 18

Families of the Beirut Port explosion victims protest against delays in the investigation and the recusal of the appointed judge.

February 27

Citizens gather at the Maronite Patriarchate in Bkerki to support calls for a UN-sponsored international conference to resolve Lebanon's crises.

March 2

Protesters across Lebanon block roads as the dollar exchange rate reaches LBP 10,000 on the black market.

March 8

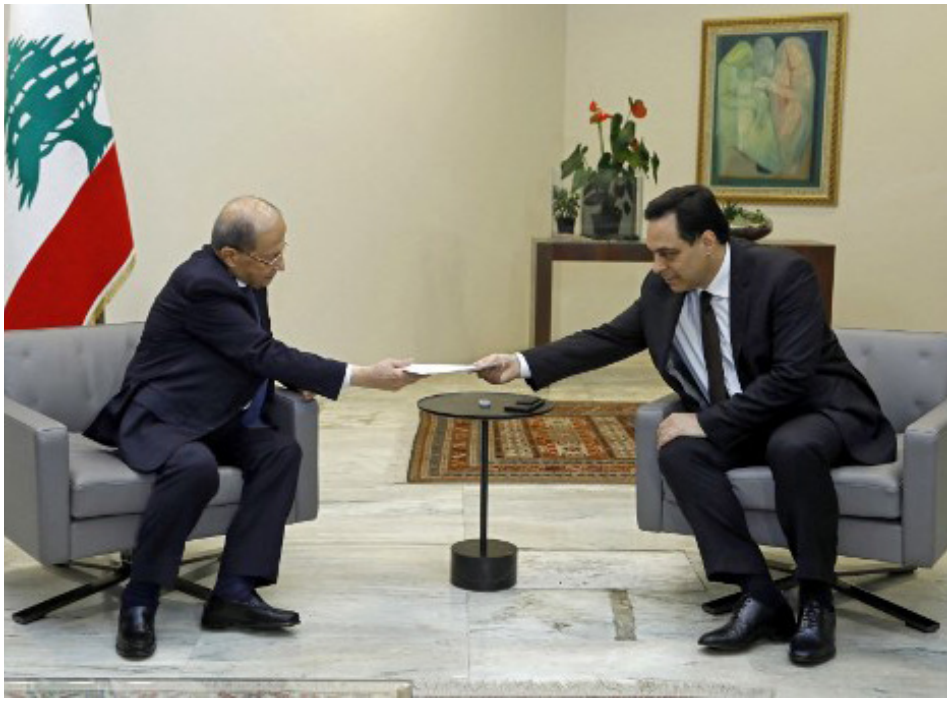
On International Women's Day, citizens lead marches and demonstrations to address women's rights issues.

LEADERS

POLICY

Inflection anniversaries

Elephants rampage in the Lebanese soci-political jungle



One has to assume that there are many reasons why somewhat articulate people tend to intellectualize social and economic moments of despair or change. Distancing ourselves in various ways from the direct emotions of shocks and despair, some talk of inflection points, some of tipping or turning points, and some perhaps of nadirs. All these terms differ in nuanced meanings – nadirs for example technically are points directly below the observer whereas an inflection point might denote a curve's transition from convex to concave – but all these terms carry common connotations of danger, need for change and, in the case of climate tipping points, even irreversibility.

Looking back at the first three months of 2020 after a year of continual struggles and crises, it is justified to speak of three and more inflection points which back then changed the Lebanese trajectory: the discovery of the coronavirus SARS-CoV2 in January and classification of the Covid-19 disease as a pandemic in March comprising the first, the assumption of government by a politically one-sided and overall ill-fated Council of Ministers in January and its February 2020 ministerial statement that was as pretentious as it was portentous constituting the second, and the country's hasty and disorderly first-ever default on an external financial obligation, namely the Eurobonds default of March 9 2020, representing the third extreme and consequential shock.

Overlapping – but not logically underlying – these expectable but nonetheless traumatizing shocks are the longstanding deficiency of the Lebanese political system and social contract and the presence of that powerful disruptive "elephant in the Lebanese room," Hezbollah. As factor of enormous weight that Lebanese politically correct assemblies would rarely discuss in all its magnitude and impacts, this pachyderm entity is brimming on one hand with military capacity and cultural identity which cannot be denied. But it also is a force that throughout its history has been capable of negative disruptions of the national integrity of Lebanon, and which has exerted such impacts never more so than in the past 12 months of the Lebanese system's exploding dysfunctionality.

Shocks and disruptions are scary in their short-term and long-term impacts. Undigested shocks often result in depression and even harm bodily well-being, whether of an individual or, as the recent experience of the Lebanese people suggests, of small collective and larger societal levels.

Over the past 18 months, the people and opinion makers of Lebanon have talked about little but shocks and their escalating sufferings. If done right, that is with honesty and resolve, discussion of traumatic processes is therapeutic. It should be the first step on a long road of regaining mental health and restoring a pre-trauma state.

If done the wrong way, however, with no other concern than one's own complaints and with no regard for the bigger picture or the suffering of others, the drawn-out circular discussion of bad experiences and traumatic moments apparently can take forms where own failures are ignored and blame is deliberately deflected from the self to the convenient villain, the usual suspects, the ominous or concrete other. This one-dimensional blame-pushing, one fears, can be counterproductive to the point of losing sight of rescue opportunities and getting stuck in dead-end thinking and vicious loops.

THE RAGE AND SILENCE OF THE LAND

Lebanon has been trapped for months now in economic down-sliding and dead-end thinking. Solutions are theorized but not implemented,

certainly not on the plane of political reforms or steps that are germane to democratic systems. Non-solutions are in oversupply and spreading in the fashion of ever-mutating viruses of destructive political verbiage. The absurdity of the present situation is of Alpine or even Himalayan proportions. A well-educated population with an abundance of university-trained talents and historically unprecedented access to – supposedly enlightening and empowering – knowledge resources, has become information-wise encased in fake news, occupationally trapped in unemployment, economy-wise faced with destruction of currency, and is in daily life increasingly threatened by persistent hyperinflation. On the level of basic necessities, the Lebanese people are beleaguered by losses of electricity, gasoline, water, money, food security, and, crucially, emotional self-esteem and mental security.

As result, popular rage is constantly mounting against over political self-interest and lack of humanity presented by a few in the political class – and by all agents of the status quo of self-interested political-militaristic cults. The images of despair and protests are becoming our only diet and understandably so – but nonetheless these images are tormenting us. At the same time, the country has spent too many days and weeks in lockdowns, turning a territory once overflowing with outgoing and very socially interactive people into a place that evokes the depressed silence of a mass burial site.

Besides witnessing more or less organized and so far impotent outcries against perceived political evils, the country for 12 months has thus been governed through lockdowns which as their only undisputable outcomes produced forced quiet and economic inactivity. The social climate reeks of depressed minds, only erupting in occasional shouting matches over nothing or interrupted by those who vent their mental pressures by racing their cars down narrow urban streets with no respect for either the feeble legal order or the other humans on the street. Lebanon at the gates of spring and on the ides or March 2021 has become at the same time the land of historic rage and a land of eerie silences.

Evaluating the inflection points in the first quarter of 2020 from a year's worth of hindsight, the undeniable lesson in Executive's view is that hasty decisions at the one, financial, moment have been as detrimental as indecision at many other, monetary policy-setting, moments and that absence of true interactive leadership in an acute crisis is the worst absence of all. The ill-prepared decision of the financial default is milk that has been spilled and still waits to be mopped up with the implementation of smart reforms and negotiations, whereas solutions in terms of monetary policy come with zero guarantees but nonetheless have to be tried and proven right or wrong (see story on currency boards page 14).

> "Solutions are theorized but not implemented, certainly not on the plane of political reforms"

Political activism in tackling the Covid-19 crisis has been a preoccupation of our political cadres, second only to the trumpeting of fluff analyses and vain declarations. But as in developed economies of Europe and North America, the battle against the coronavirus has been impeded by viral knowledge deficiencies, contrasting biases, and irrational human behaviors. To conquer the medical challenge of the pandemic, it may be time and vaccines that we have to trust in. In overcoming the virus's societal challenge, however, the construction of sustainable social insurances and safety for Lebanese society, and societies everywhere, may require solutions that are more integrative of private, public, corporate, and expatriate good will than anything that existed in previous social practices (see ESSN story page 32).

As Lebanon has been faced with new, and even more dangerous political and economic inflection points in the first three months of 2021 than in the first quarter of 2020, there is another lesson to be drawn, a lesson of conventional foresight that does not rely on political prophecies of any sort. If Lebanon is to sustain itself, it cannot allow itself any further procrastination, indecision, political favoritism, or partisan bias. The polity has to insist on immediate but well considered economic and monetary decisions. Even the most longsuffering people will not wait for another quarter for the state to take remedial action to halt the lira destruction and the economic meltdown and social suffering across the entire country.

Such action cannot be piecemeal or try to fix some symptoms of the existential crisis with legalistic shenanigans or political talk. With regard to the elephant in the room, the past 12 months were wasted on political games and silly dances with the pachyderm by those who could neither tame nor ride it in the past 15 years.

This must not continue. We have to tackle solutions, own up on our responsibility, confront our demons of self-interests, our ghosts of old identities, and deal with our elephants in the room. Elephants that we cannot slaughter, because such is neither morally nor practically possible, and which it would be a dangerous illusion to think we can tame and turn into pets, can perhaps still be harnessed and put to work in the national interest. To find out how to control the elephant and implement a method of harnessing it will be key to surviving the next 12 months.

In collaboration with
KONRAD ADENAUER STIFTUNG

By Nabil Makari

Currency board for Lebanon

A proposal under discussion

The Lebanese are currently subjected to depreciation, with the ever-rising prices of goods and services, self-imposed limits on withdrawals by banks at a rate of 3,900 Lebanese pounds to the dollar, and a local currency estimated at 9,600 Lebanese pounds to the dollar on the first day of March, with further deterioration in the following days. Rampant inflation was estimated at 84.8 percent for the full year 2020 according to the Central Statistics Department, with end-of-year inflation from December 2019 to December 2020 estimated at 14.8 percent. Additionally, any release of controls for withdrawals in Lebanese pounds would result in added inflation due to an expansion of the monetary mass and a rush to buy USD currency at black market rates. The depreciation of the currency reflects, in part, a loss of confidence in the national currency, and a flight to safer cash currencies on the black market. In light of this situation, some financial experts have recommended the establishment of a currency board (CB) in Lebanon to help tackle inflation.

Broadly, a CB is an authority in charge of managing the money supply and the exchange rate of a country's currency, in lieu of the central bank. Its tasks are set by law, and no curency printing can occur without being 100 percent backed by a foreign currency, in most cases the USD as the worldwide preferred medium of exchange. Unlike typical central banks, it is not a last-resort lender and is not legally allowed to print currency and lend to the government under any circumstance.

Under a CB management, the exchange rate and the monetary level are determined independently by the board, who is ruled by law and, due to its direct task, is less likely to be under political pressure. CBs often have a 100 percent reserve requirement, therefore a specific unit of foreign currency must back every unit of currency printed. For someone to obtain a fixed amount of Lebanese pounds, they must ask their bank to convert dollars at the CB. Thanks to a stable foreign-currency-backed fixed exchange rate, CBs allow fighting inflation more effectively.

Overall, more than 70 countries have adopted currency boards, most notably Hong Kong, Estonia, Bulgaria, and Denmark. In the case of Estonia, the institution of a CB in 1992 helped end hyperinflation, with

monthly inflation falling from 80 percent in early 1992 to only 3.3 percent in December of the same year.

DETERMINING A FIXED EXCHANGE RATE

The question is: How would this be implemented? In an exclusive interview with Executive Magazine, professor Steve Hanke, the main proponent of the CB for Lebanon, recommended freezing all printing of Lebanese currency for a month, in order to lower the supply of Lebanese pounds, which would drive down the price of the USD in the black market, a recommendation echoed by Patrick Mardini, head of the Lebanese Institute for Market Studies. In this situation, market forces would determine the rate.

This new fixed rate, unlike a currency peg, would not rely on the trust and credibility of a central bank in managing the money supply, as it would be 100 percent backed by reserves. "Developing countries don't have the proper institutional framework to protect the central bank from government interference," says Mardini. According to him, in a CB system, the currency in circulation grows in the presence of capital inflows, and if a person wishes to send their money abroad they would have to give their Lebanese pounds to the CB, which would take them out of circulation, in exchange for providing an amount of USD in reserves. Such a CB would only require a law to be implemented to modify the Lebanese Code of Money and Credit, noting that such model-laws do exist, including one that has been drafted by Hanke.

This is in contrast to the opinion of Jean Riachi, chairman and chief executive officer at FFA Private Bank. In his opinion, the problem with the peg is its inability to adjust to external conditions, deeming the fixed rate of the CB as similar to that of the dollar peg at 1,500 Lebanese pounds. "It's just another peg, which has cost the Lebanese economy a lot," he says. Indeed, fluctuations of currencies permit adjustments to changing economic conditions: for example, deficits in trade balances result in devaluations in order to limit imports and favor exports of goods and services. Riachi believes that "we were pegged when we needed more flexibility to export and produce," as the Lebanese pound's peg to the dollar was deemed to be overvalued and therefore made Lebanon expensive, causing it to lose any competitive edge.

IMPACT ON INFLATION

The implementation of CBs has been deemed by many economists a success in fighting inflation. Imposing a 100 percent foreign reserves guarantee for local currencies succeeded in ending hyperinflation entirely in some countries: in 1997, Bulgaria's CB ended hyperinflation in just one month.

Nevertheless, this requires effective governance and trust in institutions. "You need very strong governance to sustain it; you need fiscal discipline," says Riachi. On the other hand, the opinion of economists supporting such an implementation is that the framework, which is backed by law, is enough to support trust in such a system, as the CB would not be allowed to print any amount of local currency if it doesn't have the equivalent amount in USD in its reserves.The CB would be free from political interference and, for example, would not be allowed to lend the government to finance its budget deficits (this would be done either through taxes or through issuing debt on the financial markets).

In principle, implementing a CB would result in added foreign investments and therefore reserves: currently, the Central Bank of Lebanon (BDL) holds around $17.5 billion in reserves, while it has around 55 trillion Lebanese pounds in bank deposits and another 30 trillion in currency in circulation. At this level, the foreign currency reserves would serve as an anchor in order to cover such amounts in Lebanese pounds. Any additional surplus from abroad in USD would allow for an expansion of the monetary base without any inflation, as it would be backed by USD reserves. It is worth noting that implementing a CB in Bulgaria quadrupled foreign reserves in a matter of 12 months between 1997 and 1998 thanks to an influx of foreign investments (wishing to take advantage of arbitrage possibilities, which will be addressed below).

As a consequence, inflation levels would drop dramatically. It should be noted though, that in the case of Bulgaria, Estonia, and others in the former Soviet bloc, the CB was adopted in the aftermath of Soviet management. In Lebanon, this would occur after a long tradition of laissez-faire economics aggravated by corruption and ineffective governance: while for the former Soviet countries, the adoption of a CB was perceived internationally as a sign of willingness to engage in reforms, in the case of Lebanon it could appear as one last attempt to stall the necessary reforms by solving one issue only, which is inflation; it is therefore less certain that this would result in additional trust in Lebanon's economic governance.

> "Developing countries don't have the proper institutional framework to protect the central bank from government interference"

IMPACT ON PUBLIC FINANCES

CBs are forbidden by law to lend to governments and/or to cover their deficits by printing money. Nevertheless, outflows of dollars would

result in a lesser amount of Lebanese pounds and therefore might impact the public sector: the government would have to revise its budget, which would result in a contraction of the economy. According to Riachi, the timing is wrong, "I don't think we can have a balanced budget on the short to medium term." Indeed, the current state of the economic crisis in Lebanon, with GDP projected to contract heavily, makes it difficult for the Lebanese government to balance its budget. On the other hand, should an inflow of foreign capital occur, the money supply in Lebanon would expand and therefore allow for the government to meet its expenditures as government revenue from taxes will increase due to inflows allowing for more bank lending and would therefore stimulate the economy. The question remain nevertheless: why would this currency stability result in massive inflows of foreign capital?

IMPACT ON FOREIGN INVESTMENTS: ARBITRAGE SOLUTION

The idea of arbitrage entails that a fixed rate in Lebanon would result in lower interest rates, in principle, as the currency would be interchangeable at the CB with dollars. Nevertheless, the Lebanese pound interest rate would still be higher than its USD counterpart as interest rates incorporate political risk, sovereign debt risk, and others, which are higher than those of the United States. Therefore, with low USD interest rates in international markets, holders of dollars would want to deposit money in pounds to benefit from higher interest rates. Unlike in recent years, the Lebanese pound would be fully backed by the dollar.

According to Mardini, USD interest rates would be lower than in past years but higher than overseas ones, therefore investors would be interested in taking advantage of this by depositing their dollars in Lebanon and exchanging them for Lebanese pounds.

Because of this, banks would be able to lend money in Lebanese pounds and this would jumpstart the private sector thanks to lower rates and more liquidity in the Lebanese economy. Still, political factors in Lebanon, including geopolitical risk and lack of reforms, and limited trust in political institutions, could dissuade some from investing their money. According to Riachi, "reality bites when it comes to confidence," as confidence remains the main motor to attract long-term investments, and the main issue with the peg remains its lack of flexibility in adjusting to shocks, "being solid is an illusion, you need flexibility," he says. In the case of Lebanon, a floating currency would adjust to economic shocks, whereas a peg would not).

Indeed, although the fixed rate thanks to a CB would be lower than the current official 1,500 Lebanese pounds to the dollar rate, and could therefore stimulate exports, it would still remain fixed and therefore would not change according to laws of supply and demand. In addition, lack of trust in the Lebanese economic sector, especially after a year of inaction on the part of the political class, could result in outflows, which would impact the interest rates and result in higher rates, therefore there could be little impact when it comes to resuming lending. Indeed, were the CB able to attract capital at a lower rate than typical Lebanese rates, the private sector would benefit from a boost thanks to lower lending rates. Whereas if interest rates were to remain the same, additional inflows would have little impact on re-boosting the Lebanese private sector.

> The current economic crisis in Lebanon makes it difficult for the Lebanese government to balance its budget

IMPACT ON THE PRIVATE SECTOR

Should a CB be successfully implemented, lower rates than the typical rates of 8 to 9 percent on USD

lending would be lowered, and this would in principle serve as a boost to the private sector. Business executives in Lebanon have long complained that high interest rates have had a negative impact on economic lending as it has discouraged investments due to the inability of businesses to make returns that would be high enough for them to service their debt. Lower interest would then permit more private sector lending.

In addition, this would result in banks getting back to diversifying their lending portfolio more in favor of private enterprise and allow for returns. The trade deficit would therefore be reduced, since a fixed rate would be lower than the current peg and therefore favor exports. On the other hand, should this result in outflows from Lebanese willing to exchange their Lebanese pounds to dollars, a consequence would be more pressure on the governmental budget due to difficulties in levying taxes: less activity would result in less profit and therefore less tax revenue for the state.

A LIMITED SOLUTION?

Overall, the implementation of a CB would, in theory, help end the threat of hyperinflation in Lebanon, and attract foreign capital that would allow banks to lend to the productive economy. This would be accompanied by larger investments, and with a rate lower than 1,500 Lebanese pounds to the dollar, promote Lebanese exports.

International investors would, again in theory, also be interested in acquisitions due to a productive and now cheaper (due to the devaluation) workforce. But this solution would seem in principle limited to the extent that it would solve hyperinflation alone, and reforms would still need to be implemented to help restructure the sovereign debt and the banking sector, and also help improve transparency and limit corruption. After years of eroding the confidence of the populace in their government and political class, Lebanon, indeed, does not suffer only from enormous inflation, but also from public deficits, an ever-growing public sector resulting in more currency printing and inflation, budget deficits, perception of extreme corruption, and a dearth of trust in the state.

With regards to the banking sector losses, an inflow of foreign capital would allow banks, in the long run, to lend again in Lebanese pounds and therefore to stimulate the economy and make profits again. This would in theory help reduce the losses of the banking sector, though Mardini believes that it is only a stepping-stone that would provide stability, not excluding other necessary reforms. "Bankers can become bankers again," says Mardini, "that's how the CB solved the banking crisis in Bulgaria." In the case of Bulgaria, banks were deemed insolvent but were able to repay their losses once they recovered their ability to make money.

Though controversial, the issue of instituting a CB in Lebanon is gaining ground. For example, Paula Yacoubian, a now resigned member of Parliament, had submitted, in June of 2020, a draft-law in parliament that would allow for the establishment of a CB.

Still, it is not deemed to be a miracle solution that would rid Lebanon of its economic difficulties. Even if it were successfully implemented and hyperinflation thus avoided, and with investment inflows pouring in, Lebanon's government will still have to institute the necessary reforms that have been a key demand of civil society groups, non-governmental organizations, and international financial institutions. Lebanon still suffers from a lack of trust in institutions, lack of transparency in governance, and massive corruption.

A CB could be implemented in Lebanon, but overall, there is doubt as to its attractiveness due to the lack of effective and transparent governance in Lebanese institutions, which may deter foreign investments even if the CB's institutional framework could in principle be effective and transparent. Another risk is the implementation of a CB in name only as was the case in Argentina from 1991 to 2002: though called a CB, it had the authority to use its reserves in a discretionary manner and to lend the state, which resulted in an economic crisis and the suspension of the convertibility of pesos to USD.

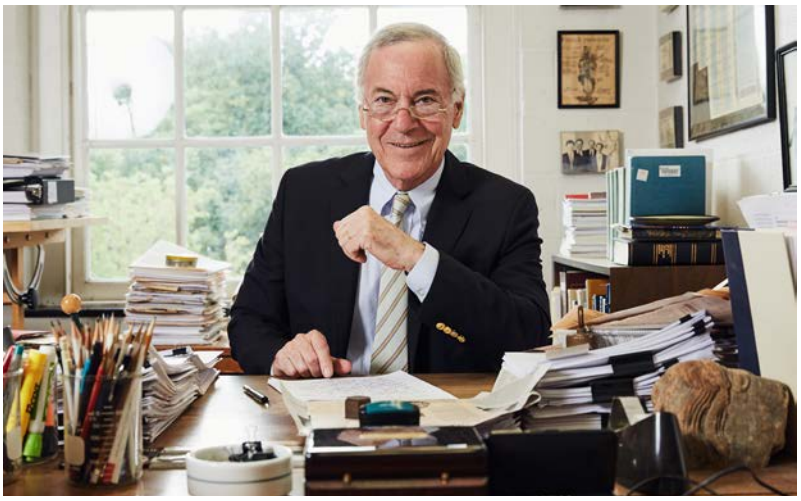
> Reforms still need to be implemented to help restructure the sovereign debt and the banking sector, improve transparency, and limit corruption

Overall, Lebanon appears short on viable alternatives, given that already much time has been wasted where the exchange rate problem and inflation pressures have been allowed to fester. A floating peg, whereby BDL or the Treasury reassesses the value of the peg periodically and then changes the peg rate accordingly, has also been on the table, although it remains difficult to assess whether this will require a hike in interest rates in order to stabilize it. Digitization of the dollars held in banks has been discussed but has been deemed a limited option, as it would not be a freely transferable currency. Reforms would take time and there is a sense of urgency with regards to tackling Lebanon's woes, which call for solutions that would be implemented quickly. The final lacking element is simple: trust, and whether or not a CB would help restore trust from a monetary perspective is still subject to debate.

Q&A

By Nabil Makari

Currency boards or central banks?



A crash course on currency boards and the peg system with Professor Steve Hanke

With Lebanon going through hyperinflation, some economists have deemed the establishment of a currency board (CB) necessary to help curb inflation. To better assess the possible establishment of a CB, and its probable effect on the Lebanese monetary situation, Executive Magazine talked to Steve Hanke, professor of Applied Economics at Johns Hopkins University and one of the world's leading experts on hyperinflation and exchange-rate systems, particularly CBs and dollarized systems. Professor Hanke is the architect of CB systems installed in Estonia, Lithuania, Bulgaria, and Bosnia and Herzegovina between 1992 and 1998; he currently sits on the Board of Directors of the United States National Board for Education Sciences.

E Could you please explain the mechanism of a CB, as opposed to a central bank?

A currency board issues notes, and coins convertible on demand into a foreign anchor currency at a fixed rate of exchange. As reserves, it holds low-risk, interest-bearing bonds denominated in the anchor currency and typically some gold. The reserve levels are set by law and are equal to 100 percent, or slightly more, of its monetary liabilities (notes, coins, and, if permitted, deposits). A currency board generates profits (seigniorage) [Editor's note: seigniorage is the profit a government makes by issuing currency, for example the difference between the face value of coins and their production costs] from the difference between the interest it earns on its reserve assets and the expense of maintaining its liabilities. By design, a currency board has no discretionary monetary powers and cannot engage in the fiduciary issue of money. It has an exchange-rate policy (the exchange rate is fixed) but no monetary policy. A currency board's operations are passive and automatic: its sole function is to exchange the domestic currency it issues for an anchor currency at a fixed rate.

Consequently, the quantity of domestic currency in circulation is determined by market forces; namely, the demand for domestic currency. A currency board cannot issue credit. It cannot act as a lender of last resort or extend credit to the banking system. Nor can it make loans to the fiscal authorities and state-owned enterprises. Consequently, such a regime imposes discipline on the economy through a hard budget constraint.

In opposition to this, central banks can engage in active monetary policy. As a result, when compared to countries that employ central banking, currency-board countries have lower fiscal deficits, lower debt-to-GDP ratios, lower inflation rates, and more rapid growth.

E In the case of Lebanon, inflation is "imported" due to a large trade deficit. Is this situation any different from that in Bulgaria in 1997 when you helped establish a currency board? How is a CB, in your opinion, effective in situations of hyperinflation in developing countries?

I do not agree with the premise of your question. As Milton Friedman correctly told us back in 1963, inflation is always and everywhere a monetary phenomenon created by monetary policy and an overly aggressive expansion of the money supply by the central bank. That is what has happened in Lebanon. Indeed, that's why Lebanon entered the world's 62nd episode of hyperinflation in history in July 2020. As for Bulgaria, it was engulfed in an episode of hyperinflation in 1997. Bulgaria's hyperinflation was much more severe than Lebanon's. The inflation rate in February 1997 was a staggering 242 percent. Currency boards have been totally effective in smashing hyperinflations. There have been over 70 currency boards in history, and none have failed.

What would be the foreign currency monetization base for Lebanon?

The logical anchor for the Lebanese pound issued by a currency board would be the US dollar, particularly since Lebanon is already highly dollarized.

How would the mechanism be put in place? How would the new rate of the Lebanese pound be established?

To set the currency board's fixed exchange rate, I suggest following the procedure that was used in Bulgaria to establish its currency board in 1997. After the announcement of the installation of a currency board for Lebanon, the Lebanese Central Bank would refrain from issuing any monetary liabilities (the monetary base would be frozen). The Lebanese pound would then be allowed to float for 30 days. After that 30-day period, a careful examination of the results of the floating exchange rate, including benchmark calculations of "a fair value" determination, would be undertaken, and the fixed rate would then be set. That's exactly what was done in Bulgaria.

Lebanon has been running high deficits due to a heavy debt burden and a growing public sector. What effect would it have on the Lebanese Government budgets? Could the Lebanese government have to lower its expenditures?

Fixed-exchange rate regimes, like a currency board, impose a hard budget constraint. This reins in fiscal authorities, even in countries with weak institutions. Bulgaria illustrates this point. All economic indicators improved rapidly and dramatically after the currency board's hard budget constraint was imposed. And, stability has been maintained by various types of governments in Bulgaria for over 20 years. Indeed, if we focus only on the fiscal balance, we observe a great deal of fiscal discipline and relatively small deficits. As a result, Bulgaria has the second-lowest debt-to-GDP ratio in the European Union: 18.6 percent. Estonia [has the lowest] debt-to-GDP ratio: 8.4 percent.

Are there any new statements or research on the consequences of CBs by the World Bank, IMF, and others?

All international organizations that assess the performance of currency boards come to the same obvious conclusion: currency boards smash inflation, establish stability, and turn banking systems from being insolvent to solvent, among other things. Allow me to present a few assessments by the IMF and OECD that have followed the installation of currency boards in Estonia, Lithuania, Bulgaria, and Bosnia and Herzegovina.

Estonia (1992): An IMF press release of March 1, 2000, remarked, "The policy of strict adherence to the currency board arrangement has served Estonia well and the currency board arrangement remains the cornerstone of the authorities' policy framework."

Lithuania (1994): The IMF Executive Board assessment issued on May 4, 2006, shortly after Lithuania repaid its last outstanding obligation to the IMF, observed that "directors welcomed the continued rapid growth with low inflation, and observed that Lithuania's performance over the past five years ranks among the best within the European Union (EU). Directors attributed this impressive outcome to strong macroeconomic policies, firmly supported by the currency board arrangement that has served the economy well, the implementation of wide-ranging structural reforms, and integration with the EU."

Bulgaria (1997): In the final review of the last Standby Arrangement Bulgaria has had, in March 2007, the IMF's First Deputy Managing Director said, "Bulgaria is reaping the benefits of sustained sound macroeconomic policies and structural reform efforts with solid real per capita income growth, falling unemployment, and broadly moderate inflation... The authorities have maintained a firm fiscal stance that remains the central policy pillar supporting the currency board arrangement. This is reflected in the record budget surplus in 2006, which resulted from strong spending restraint and dedicated revenue collection efforts."

The 1999 Organization for Economic Cooperation and Development (OECD) Economic Survey of Bulgaria stated, "By mid-1996, the Bulgarian banking system was devastated, with highly negative net worth and extremely low liquidity, and the government no longer had any resources to keep it afloat." The OECD also observed, "By the beginning of 1998, [six months after the installation of its currency board], the situation in the commercial banking sector had essentially stabilized, with operating banks, on aggregate, appearing solvent and well-capitalized."

Bosnia and Herzegovina (1997): A 2020 IMF staff report on Bosnia and Herzegovina noted that, "the banking system appears well-capitalized and liquid on average," and that the "currency board arrangement continues to serve the economy well."

Is it an authority that would be within the central bank or separate from it? Would it entail abolishing the current central bank system or just reforming it?

A currency board could be contained within the central bank as long as its accounts and operations were totally ring fenced from the rest of the central bank's activities. That is the case in Estonia, Lithuania, Bulgaria, and Bosnia and Herzegovina. Or, it could be a totally separate operation, such as the case in Hong Kong.

> "Fixed-exchange rate regimes, like a currency board, impose a hard budget constraint"

There is ongoing criticism of Lebanon with regards to the US dollar peg. Could you expand on the difference between a "peg" and a fixed rate?

A strictly fixed rate is a regime in

which the monetary authority is aiming at only one target at a time. Fixed rates operate without exchange controls and are free-market mechanisms for balance-of-payments adjustments. With a fixed rate, there are two possibilities: either a currency board sets the exchange rate but has no monetary policy—the money supply is on autopilot—or a country is dollarized and uses a foreign currency as its own. Consequently, under a fixed-rate regime, a country's monetary base is determined by the balance of payments, moving in a one-to-one correspondence with changes in its foreign reserves. With this free-market exchange rate mechanism, there cannot be conflicts between monetary and exchange rate policies, and balance-of-payments crises cannot rear their ugly heads. Fixed-rate regimes are inherently equilibrium systems in which market forces act to automatically rebalance financial flows and avert balance-of-payments crises.

Although pegged and fixed exchange rates appear to be similar, they represent totally different types of exchange rate regimes. Pegged-rate systems are those in which a monetary authority is aiming at more than one target at a time. They often employ exchange controls and are not free-market mechanisms for international balance-of-payments adjustments. Pegged exchange rates are inherently disequilibrium systems, lacking an automatic mechanism to produce balance-of-payments adjustments. Pegged rates require a central bank to manage both the exchange rate and monetary policies. With a pegged rate, the monetary base contains both domestic and foreign components. It is important to note that pegged rates, in fact, include a wide variety of exchange-rate arrangements, including pegged but adjustable, crawling pegs, managed floating, etc.

Unlike fixed rates, pegged rates invariably result in conflicts between monetary and exchange rate policies. For example, when capital inflows become "excessive" under a pegged system, a central bank often attempts to sterilize the ensuing increase in the foreign component of the monetary base by selling bonds, reducing the domestic component of the base. And, when outflows become "excessive," a central bank attempts to offset the decrease in the foreign component of the base by buying bonds, increasing the domestic component of the monetary base. Balance-of-payments crises erupt as a central bank begins to offset more and more of the reduction in the foreign component of the monetary base with domestically created base money. When this occurs, it is only a matter of time before currency speculators spot the contradictions between exchange rate and monetary policies and force a devaluation, the imposition of exchange controls, or both.

> "Pegged exchange rates [lack] an automatic mechanism to produce balance-of-payments adjustments"

How do CBs hold reserves? Current reserves requirements at the Lebanese Central Bank are a certain percentage of deposits (e.g. 15 percent of commercial banks deposits in dollars), how would they be affected?

If the Lebanese pound was issued by a currency board at a fixed exchange rate with the US dollar, the only way one could obtain Lebanese pounds is by exchanging an equivalent amount of US dollars for Lebanese pounds. The asset side of the currency board's balance sheet (read: US dollar reserves) would go up by an amount exactly equal to the value of the liabilities (read: Lebanese pounds) that have been issued.

The reserve requirements for commercial banks are completely separate from the currency board's operations. Those requirements would be handled by the central bank. They have nothing to do with the currency board's operations but are related to commercial bank regulations.

In light of the crisis of confidence in Lebanon's economic governance, wouldn't the mechanism result in excessive pressure should the Lebanese economy be subject to outflows of foreign currencies?

The answer is absolutely "no." The history of currency boards is uniform and clear: once established, a huge confidence shock ensues and foreign exchange pours into the currency board country. There are no exceptions. For example, in Bulgaria, just prior to the installation of the currency board, the foreign exchange level was USD 864 million. By the end of 1998, the year after the currency board was installed, Bulgaria's foreign reserves surged to USD 3.1 billion.

How does the mechanism relate to the Central Bank Digital Currency the Lebanese Central Bank is considering establishing with regards to US dollars held in Lebanon and subject to capital controls ("lollars")? Would this currency be viable with a CB in place?

The currency board system would transform the Lebanese pound into a clone of the U.S. dollar and establish stability. And while stability might not be everything, everything is nothing without stability. As a result, confidence would return, and the economy's death spiral would come to an abrupt halt. This would improve the current tenuous state of the "lollar."

Lebanon is a highly dollarized economy, with most deposits in US dollars pre-crisis. Would the CB allow for them to be exchanged at the board?

Again, by attracting capital inflows and restarting the economy, a currency board would improve the state of the lollar. That is, lollars would become more valuable and liquid after the currency board was installed than they were prior to its installation.

AROPE INSURANCE

Balance Sheet 2019 as at 31/12/2019

We Keep Our Word.®

Assets	31/12/2019 Current Year	LBP	31/12/2018 Previous Year
Intangible Assets	515,118,057		655,383,552
Investments	**498,412,122,521**		**458,203,886,991**
Land and real estate			
Investment in subsidiaries and associates	36,541,544,706		36,541,544,706
Loans			
Fixed income investments	15,396,177,000		15,396,177,000
Variable income investments	14,712,733		14,120,436
Mutual funds	4,244,911,417		4,170,680,107
Funds held under reinsurance treaties			
Cash and Cash equivalents	292,837,728,259		27,158,438,574
Blocked bank deposits and deposits with maturity of more than 3 months	**146,911,630,156**		**370,781,376,508**
Bank deposits with maturity of more than 3 months	145,613,495,398		369,644,041,751
Bank deposits blocked in favor of MOET (Guarantees)	892,300,000		865,000,000
Bank deposits blocked in favor of other parties	405,834,758		272,334,757
Accrued investment income	2,465,418,250		4,141,549,660
Unit-linked contracts investments	**30,838,366,722**		**40,380,892,966**
Real estate investments			
Fixed income investments			
Variable income investments			
Mutual funds			
Cash and similar investments	30,838,366,722		40,380,892,966
Reinsurance share in technical reserves (Life)	**1,956,925,991**		**9,355,260,085**
Reinsurance Share in Premiums reserves	106,000		
Reinsurance Share in Claims reserves	1,256,970,850		2,008,381,730
Reinsurance Share in Mathematical reserves	699,849,141		7,346,878,355
Reinsurance share in technical reserves (Non Life)	**25,548,247,055**		**20,982,548,282**
Reinsurance Share in premiums reserves	12,361,623,358		11,569,686,332
Reinsurance Share in claims reserves	12,489,772,976		8,963,779,766
Reinsurance Share in Premium deficiency reserve	696,850,721		449,082,184
Receivables under insurance contracts	**25,376,350,475**		**22,848,379,179**
Premium receivables (direct business)	12,138,557,000		9,390,478,000
Balances receivable from intermediaries (indirect business)	13,237,793,475		13,457,901,179
Due from insurance companies			
Receivables under reinsurance contracts	**527,523,548**		**7,192,752,924**
Amounts recoverable from reinsurers			
Commissions and expense allowances due from reinsurers			
Other amounts receivable under reinsurance contracts	527,523,548		7,192,752,924
Other assets	**22,965,896,498**		**23,572,909,098**
Non-investment properties	20,590,488,335		21,009,789,669
Operating fixed assets	2,375,408,163		2,563,119,429
Other assets			
Other receivables	**16,584,447,142**		**11,213,234,854**
Due from Personnel	216,252,177		196,608,178
Income tax recoverable (state,social security, public collectivities)			
Amounts due from related parties	138,546,124		217,851,991
Other amounts receivables	16,229,648,841		10,798,774,685
Shareholders' Account			
Adjustment items	**13,830,944,451**		**17,757,479,822**
Deferred acquisition costs	13,805,944,451		17,732,479,822
Earned but unbilled premiums			
Prepaid expenses			
Other Adjustment items	25,000,000		25,000,000
Total Assets	**636,555,942,460**		**612,162,727,753**

Liabilities & Shareholders' Equity	31/12/2019 Current Year	LBP	31/12/2018 Previous Year
Shareholders' equity	**243,617,737,370**		**225,925,325,301**
Paid up Capital	**43,200,000,000**		**43,200,000,000**
Authorized Capital	43,200,000,000		43,200,000,000
Less: Unpaid Capital			
Legal Reserves	14,400,000,000		14,400,000,000
General Reserves	153,349,325,301		138,348,290,253
Balance carried forward			
Profit and loss (Current year result)	32,668,412,069		29,977,035,048
Other reserves			
Fixed income investments			
Variable income investments			
Mutual funds			
Fixed assets revaluation reserves			
Other reserves			
Low priority debts			
Subordinated debt			
Shareholder's Account			
Technical reserves (Life)	**190,303,865,331**		**177,789,238,909**
Mathematical reserves	185,466,423,060		172,852,280,028
Unearned premium reserves	133,256,925		
Outstanding claims reserves	4,324,462,738		4,491,663,962
IBNR (Incurred But Not Reported) reserves	242,707,500		301,500,000
Loss adjustment expenses reserves	137,015,108		143,794,919
Policyholders' dividend reserves			
Other technical reserves			
Unit-linked technical reserves	**30,838,366,711**		**40,380,892,966**
Outstanding claims reserves (unit-linked)			
Mathematical reserves (unit-linked)	30,838,366,711		40,380,892,966
Additional technical reserves (unit-linked)			
Technical reserves (Non Life)	**116,316,266,854**		**129,196,253,810**
Unearned premium reserves	75,004,538,657		93,033,772,050
Outstanding claims reserves	31,445,275,410		27,696,112,465
IBNR (Incurred But Not Reported) reserves	3,394,178,960		2,926,955,088
Loss adjustment expenses reserves	1,153,551,505		1,006,047,944
Policyholders' dividend reserves			
Premium deficiency reserves	1,706,459,894		1,621,502,386
Incurred but not enough reserved (IBNER)	3,612,262,428		2,911,863,877
Other technical reserves			
Provisions for risks and charges	**24,642,234,407**		**13,235,650,907**
Debt for funds held under reinsurance treaties			
Liabilities under insurance business	**2,289,504,274**		**2,340,270,906**
Liabilities under Direct business			
Liabilities under Indirect Business	2,289,504,274		2,340,270,906
Liabilities due to Insurance Companies			
Liabilities under reinsurance contracts	**8,646,084,606**		**4,764,554,387**
Unearned Reinsurance Commission	**1,387,018,270**		**1,399,293,603**
Debts			
Borrowed money			
Bank debts			
Other debts			
Other liabilities	**17,507,422,787**		**15,863,121,462**
Due to Personnel			
Taxes due (state, social security, public collectivities)	6,817,563,956		7,478,264,811
Amounts due to related parties	2,901,955,378		2,848,703,862
Other creditors	7,787,903,453		5,536,152,789
Adjustment items	**1,007,441,850**		**1,268,125,502**
Unearned revenues			
Accrued expenses	467,750,651		458,264,634
Other Adjustment items	539,691,199		809,860,868
Total Liabilities & Shareholders' Equity	**636,555,942,460**		**612,162,727,753**

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أوب للتأمين ش.م.ل | السجل التجاري ٣٢٢٥٧ | الرقم المالي ٤٩٦ | شركة مسجلة بسجل هيئات الضمان تحت الرقم ١٠٣ تاريخ ١٩٧٤/٧/٣٠ وخاضعة لأحكام قانون تنظيم هيئات الضمان.

Analysis

By Nabil Makari

Eurobonds default

A one-year anniversary

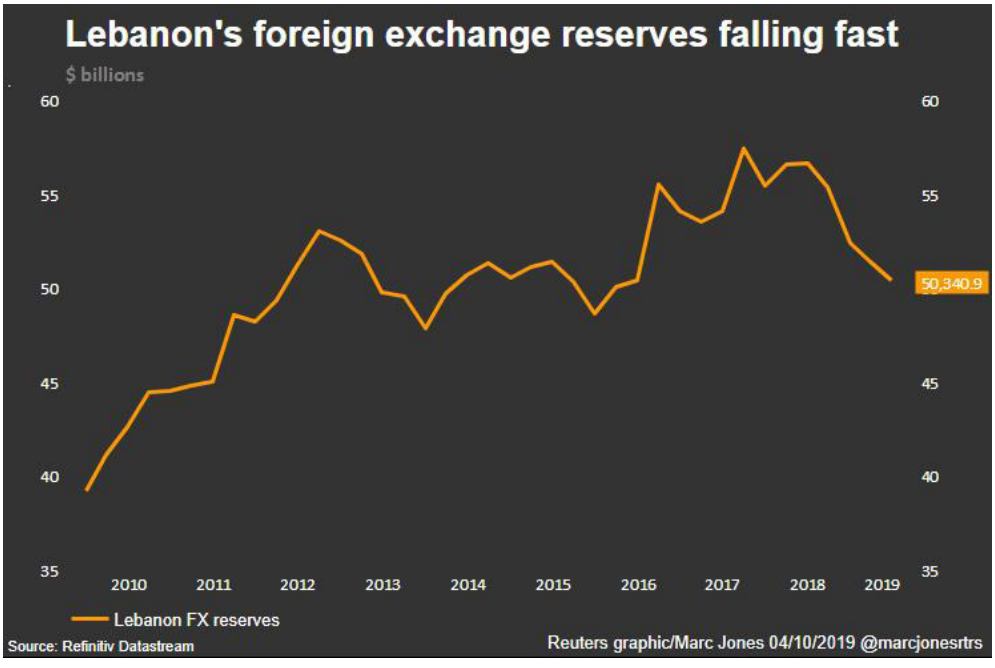
It has been one year since the Lebanese government defaulted on a $1.2 billion Eurobonds issuance that was due on March 9, 2020. One year on, negotiations with Eurobond holders have still not begun, and no good faith discussions with the International Monetary Fund (IMF) have been engaged in order to help negotiate a financial aid package and also on engaging stakeholders.

The default on the payment, the first in Lebanon's history, resulted in a default on all Eurobonds issuance, due to specific clauses in the Eurobonds issuances: should a default on a Eurobonds issuance occur without agreeing on restructuring terms with 75 percent of the holders of this issuance, this would trigger a default on all outstanding Eurobonds, which totals $33.5 Billion, of which $11 billion are held locally by Lebanese banks.

THE ORIGINS OF THE DEFAULT

Lebanon, for years, had been on a path of debt accumulation, reaching a debt level of 143 percent of GDP in 2017. This situation was the result of years of excessive government spending, corruption, and public sector growth compared to GDP. As a result, debt servicing was taking up a higher place in the budget every year, second only to public wages, retirements, and pensions. In addition, a revised salary scale was implemented in 2017, resulting in higher wages and pensions for public sector employees, and therefore more government spending, originally estimated at $800 million, only to be later revised at $2.3 billion. Budgetary transfers to Electricite du Liban (EDL) alone accounted for more than $15 billion since 2010.

Due to these high budget deficits, successive Lebanese governments have had to resort to debt, either in Lebanese pounds (by issuing T-Bills), or by issuing dollar-denominated bonds (Eurobonds) on international markets. In addition, growth having been slower than the rise of debt, the Lebanese debt burden became every year harder to bear. In 2018, debt levels reached $85 billion (denominated in dollars and Lebanese pounds), equivalent then to 153 percent of GDP. In 2018, interest payments amounted to 39.53 percent of Lebanese government revenues.



Banks have had to take provisions of 45 percent on the Eurobonds, [and] raise their capital by 20 percent in dollars

In past years, the Lebanese Ministry of Finance (MOF) became the main source of foreign currency papers to the BDL. Between 2009 and 2019, the MOF issued $17.5 billion in Eurobonds swapped for T-Bills (Lebanese pound denominated debt) which the BDL then resold to the banking sector. Of these $17.5 billion Eurobonds, $5.5 billion remained on the BDL's balance sheet, and $11 billion were then sold to the local banks. These swaps also resulted in a very high concentration of government dollar denominated debt on the balance sheets of Lebanese banks, up to 55 percent of their equity at the time of the default.

These swaps between the MOF and the BDL also resulted in a higher concentration of foreign currency debt in the Lebanese banking sector, with the default hitting the sector even harder when it occurred. As a result, Lebanese banks' balance sheets have been hit and, as per BDL circular 567, banks have had to take provisions of 45 per cent on the Eurobonds, in addition to being mandated to raise their capital by 20 percent in dollars by end February 2021.

COULD THE DEFAULT HAVE BEEN PREVENTED?

The government could have avoided a default by agreeing on restructuring terms in advance of the non-payment and effective date. This would have required the consent of 75 percent of the holders of each Eurobond series, voting on a series-by-series basis. Such a negotiation could have resulted in rescheduling the debt, renegotiating the interest rates, and even a coupon reduction.

In practice, such negotiations occur several months before the due repayment date of the issuance, according to Nassib Ghobril, chief economist at Bank Byblos: "In the past 40 years, 97 percent of countries whose governments defaulted took this decision in conjunction with negotiations with the IMF or after reaching an agreement with it." In principle, such a default could have been organized in a timely manner, constructively with all stakeholders involved. "Most countries that decide to default on their foreign obligations start communicating with their bondholders several months before D -day," says Ghobril. Indeed, with enough reserves at the BDL at the time, Lebanon could have paid the issuances due in 2020, amounting to $2.5 billion for 2020, noting that the next maturity was due in April of 2021. The Lebanese Government, having honored its obligations for 2020, could have then prepared a restructuring plan in coordination with the IMF for 2021, and engaged stakeholders with regards to the terms of the default, which would have been organized and in line with international practice, thus preventing Lebanon from being cut out of international trade and finance markets.

> 97 percent of countries whose governments defaulted took this decision in conjunction with negotiations with the IMF

Nevertheless, after the default, the Hassan Diab government had put in place, in conjunction with the financial advisory firm Lazard, a government reform plan which had been presented, and would have, in principle, allowed for negotiations with the IMF to be kick-started in order to engage stakeholders and allow for a restructuring of the foreign-currency debt. This plan was never put in place and it remains to be asked why such a default was disorderly and what the real consequences of this lack of diligence are.

In addition, one element of the Eurobonds in question was the fact that, in order to engage in a restructuring, holders of up to 75 percent of the coupon holders should agree on the restructuring terms. This highly complicated the possibility of an organized default in March 2020 when Ashmore, a London-based asset manager, bought more than 25 percent of the Eurobonds due to be repaid on March 9, in addition to holding more than 25 percent of Eurobonds that were due to mature in April and June of 2020. In principle, Ashmore could have prevented a restructuring of these bonds, which resulted in a backlash on the civil and political side in Lebanon due to the financial difficulties the country was facing.

CONSEQUENCES ON BANKS AND THE FINANCIAL SECTOR

The first consequence was to affect banks' liquidity. Even though the liquidity crisis in Lebanon did not start at the time of the default, but earlier in September 2019, as the Lebanese were rushing to their banks to withdraw money from their deposits, the default nevertheless worsened this liquidity problem as banks could not obtain paid interests on their Eurobonds investments. In addition, foreign liquid assets of banks had already declined from 8.4 percent of Lebanese bank assets at the start of 2017 to 5.6 percent by the third quarter of 2019. The BDL, also a holder of Eurobonds worth $5.3 billion at book value, was equally hit by the default. This, in turn, affected banks' liquidity as interest rates paid to banks on certificates of deposits, due to a lack of liquidity at BDL, were then paid half in dollars and half in Lebanese pounds.

Overall, the Lebanese financial sector was sidelined from international financial markets, according to Ghobril. With the Lebanese government having defaulted on its obligations towards Eurobond holders, Lebanon has been rated in default, and

as Lebanese banks cannot be rated higher than their sovereign, this has resulted in a rating of RD (Restricted Default) by Fitch and to SD (Selective Default) by S&P Global Ratings. This has resulted in foreign correspondent banks not accepting letters of credit emitted by Lebanese banks for export purposes unless these letters are back-to-back (100 percent backed by liquidity), and as a result banks were cut off from international trade markets, affecting imports to Lebanon.

The other casualty has been confidence, according to Ghobril: "it led to the evaporation of any confidence that existed at the time." Indeed, with the Lebanese government having defaulted, the logical procedure would have been to engage the IMF, prepare a restructuring plan, but also impose capital control laws to better organize monetary transfers. Instead, both the executive and legislative branches have done next to nothing on this level, and therefore international markets are weary of Lebanon at this stage.

THE ROAD AHEAD

The Lebanese government's latest budget proposal was presented by Minister of Finance Ghazi Wazni, on January 26. According to the budget proposal, interest expenses on the state's foreign currency debt fell from $2.4 billion in 2020 to $80 million, reflecting for the moment the fact that the government does not factor in a reimbursement of Eurobond interests and principal. In addition, the major expenditures, according to the budget, are related to wages, salaries, and pensions of public servants.. This is easily explained by the fact that their purchasing power has been heavily reduced by the depreciation of the Lebanese pound, although for years these expenditures had been labelled as cronyism amidst criticisms of countless "absent" public servants. At this stage, the Lebanese government is not advancing any serious reform plan in the budget proposal.

For Ghobril, the choice is clear: "We have no other choice than to go through the IMF." Indeed, the only plausible way to regain access to financial markets and trade networks would be to start negotiations with the IMF, after stakeholders agree on estimations of losses with the BDL, and proposing a reform plan that would unlock foreign financial help. The reform plan, in addition, would help unlock money promised at the international conference in support of Lebanon development and reforms, CEDRE ("Conférence économique pour le développement, par les réformes et avec les entreprises"), which was held in paris on April 6, 2018. These reforms would have to include a reform of the EDL authority, procurement laws, and others. Such a reform plan would not only help unlock funds from international donors, but would also result in improved governance, which could help attract foreign direct investments to Lebanon.

Negotiations with the IMF are difficult, but the IMF has been willing to accommodate countries in need with regards to reforms and deficits. The example of Egypt is revelatory in this regard: Egypt approached the IMF in 2014 and obtained the requested funds, after having presented an economic plan that had been adapted to the needs of Egypt and its citizens, which included cutting on subsidies and implementing reforms. As a result, Moody's reviewed Egypt's credit outlook from negative to stable in a matter of one year. The government's plan was negotiated with the IMF at the time, and implemented by the latter.

Since the publication of a report in 2018, the IMF has changed its modus operandi and has stopped insisting on reform plans that would massively reduce public deficits and often result in economic contractions, as had been the case in the 1990s. Joseph Stiglitz, winner of the Nobel Prize in economics, had argued against the IMF's "one-size-fits-all approach" in his 2002 book "Globalization and its discontents," arguing that its insistence on deficit reductions in developing countries produced counter-cyclical results. In the past years, the IMF has reviewed this approach and has become more accommodating with regards to debt reduction and the need to allow for pro-growth policies.

> It is only a matter of time before subsidies are lifted, [resulting] in more inflation and a greater depreciation of the Lebanese pound

In the end, at the current rate, foreign reserves are being reduced at the BDL due to the government's policy of subsidizing essential goods, such as food and fuel, which would not last for long, according to recent comments by BDL's governor Riad Salameh. It is only a matter of time before subsidies are lifted, which would result in more inflation and a greater depreciation of the Lebanese pound to the dollar. The only sensible solution would therefore be for a new government to engage with the IMF and Eurobonds holders, with a unified set of numbers regarding the losses, in order to obtain the financial help of foreign financial institutions such as the IMF, unlock CEDRE money, and engage in the necessary reforms that would allow for Lebanon to regain access to capital markets and international trade networks. As a result, Lebanon could be back on track towards sustainable growth, should effective reforms be implemented and governance improved.

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By Nabil Makari

Please hold for Institutional reforms

Where is the French initiative now?

Six months after Beirut's deadly port explosion, the French initiative seems a lost opportunity in need of resurrection. Post-blast, French President Emmanuel Macron was welcomed in the streets of Beirut on August 6, 2020, while overseeing damages, which was followed by a second visit less than a month later, on August 31, 2020. During his visit, he promised to initiate talks with donors and to come back to Lebanon to bring forward an initiative that would help alleviate Lebanon's woes and unlock the Conference for Economic Development and Reform through Enterprises (CEDRE) money that had been once considered as a main pillar of Lebanon's future economic revival. The CEDRE conference was held on April 6, 2018, in Paris, and had pledged $11 billion of infrastructure projects (The pledges include $10.2 billion in loans and $860 million in grants), on the condition of political and financial fiscal reforms: these never materialized. As of February 18, 2021, Macron has delayed sending an envoy to Lebanon, in a sign of frustration with the current political deadlock in Lebanon.

The draft of the initiative was presented on Macron's second visit to Lebanon on September 1, 2020 to Lebanese governing parties. In broad strokes, it called for: the need to establish an independent government of technocrats to tackle Lebanon's economic needs; a forensic audit of the Lebanese Central Bank (BDL); a restructuring of Électricité du Liban (EDL)'s chronic deficits; reform of procurement laws; the need to implement laws guaranteeing an independent judiciary; in addition to a demand for legislative elections to be held within a year. This was followed by the nomination of ambassador Mustafa Adib to form a government on August 31, 2020. On September 26, the Prime Minister-designate resigned in the face of deadlocks in forming the government.

Macron, in a press conference held on September 27, 2020, lambasted the Lebanese political class and accused them of "collective betrayal." Adib's resignation as Prime Minister-designate, was followed by blockages preventing the formation of a new Government led by the new Prime Minister-designate Saad Hariri who was designated to form a government on October 22nd 2020, and failed local mediations to resolve the political deadlock. For these reasons, it seems that any hope put in the former mandatory power's proposal for Lebanon is now long gone. Nevertheless, as the government formation process is still ongoing, and with many hoping that said government of technocrats could still be formed, the question remains: could the French initiative be revived? And if so, would it help alleviate Lebanon's woes?

AN INCOMPLETE INITIATIVE?

The most important question in regards to the French initiative is whether it addresses Lebanon's priority needs. Lebanon suffers from a cross-default on its foreign-currency labeled sovereign debt, losses in the banking sector estimated at $4 bil-

lion according to a recent report from the World Bank, a depreciation of the Lebanese pound, and with ever rampant corruption. The French initiative, on the surface, does seem to address some of the main issues, such as EDL's deficit, the losses at the BDL, and corruption, among others. Nevertheless, it is deemed insufficient according to many economic experts. According to Ziad Hayek, former secretary general of Lebanon's High Council for Privatization and Public-Private Partnerships, the French initiative "touched on some of the most obvious things, some of which are not applicable anymore," referencing the fact that the proposed reforms are outdated as they rely on assumptions from the CEDRE investment plan. According to him, the French initiative is too general and overlooks two main factors, the first of which is the lack of a coherent governmental economic strategy, and the second is that the plan seems to lack "a proper understanding of the play between economic, monetary and fiscal policies."

Overall, the French initiative seems to overlook key aspects regarding the lack of effective governance in Lebanon. Lebanon ranks 143rd in the Ease of Doing Business Index, it's competitiveness iIndex is 56,29 (ranked 88 worldwide), and it's Fragile State Index is 84,9/120. This opinion is seconded by that of Mounir Rached, president of the Association of Lebanese Economists. "There is too much focus on general issues, but not enough on what needs to be done," he says. According to him, Lebanon needs an economic roadmap, and precise measures to reform governance and boost the economy (issues that were addressed by Executive Magazine in its Economic Roadmaps 1.0, 2.0, 3.0 and 4.0).

Indeed, if anything, the French initiative does seem to lack details, as it focuses on some of the "main" issues affecting Lebanon from a deficit standpoint, and the audit of the BDL (to determine the exact losses of the institution), but has little to say about how to promote economic growth or on monetary policy.

The French initiative is also not clear concerning an overall economic strategy to get Lebanon's economy back on track, instead of relying on the need to obtain funding from the International Monetary Fund (IMF) through negotiations. Though negotiations with the IMF, which are part of the measures mentioned in the French Initiative, have stalled, little has been done to revive such talks on the part of the executive branch in Lebanon.

With regards to EDL reform as proposed by the French Initiative, according to Hayek, the plan relies on many assumptions from the CEDRE investment plan, which needs to be reviewed in light of the current economic situation. He cites for example the need, mentioned in the French initiative, to build new power plants, "Serious thought should be given to distributed generation instead of building large power plants, because it would be difficult to attract proper large investor interest at this stage." This is because large power plants require large foreign investments, whereas distributed generation is decentralized and adopts more flexible technologies that are located close to the load they serve, with more limited production capacities.

STATUS QUO

French President Macron, having postponed his visit to Lebanon originally planned for December 22, 2020 after contracting Covid-19, meant to send an envoy to Beirut (with no concrete date proposed yet). With new Prime Minister-designate Hariri's consultations to form a government showing little to no progress since September, little has been done on the Lebanese political side to help advance the initiative. Indeed, bitter disputes regarding the formation of a technocratic government, with political parties arguing over cabinet portfolios, has frozen efforts to form a government, one of the main points of the French initiative to help restart the negotiations with the IMF and engage the necessary reforms. "We need a government," says Rached, "and for now there is little sign of progress".

THE FRENCH INITIATIVE WITHOUT THE FRENCH?

The reforms proposed in the French initiative, though deemed incomplete, appear nevertheless to be necessary. The question remains then: would it be possible to engage in these reforms without French backing?

Such reforms are mostly local and do not require direct foreign assistance, since they could be the result of local governmental initiatives. Rached and Hayek both believe that the Lebanese are capable of implementing large parts of the French initiative, without the French, and see no reason to delay. Indeed, many of the recommendations mentioned in the initiative, such as ending EDL's deficits, an audit of the BDL and others require only a political decision.

> Without decision-making, Lebanon is not able to propose an effective economic roadmap and implement reforms

The decision seems to be, first and foremost, political, and the lack of decision-making in Lebanon is a result of ineffective governance. Since the cabinet of Prime Minister Hassan Diab resigned in the aftermath of the August 4 Beirut explosion, Lebanon has been without an effective government for the past seven months, though the Diab cabinet is still acting

as caretaker government, and efforts to permit the formation of a Hariri-led government, by the time of this writing, did not appear to reach any conclusion. Without decision-making, Lebanon is not able to propose an effective economic roadmap and implement reforms, as takeover governments only tackle everyday business. The formation of a government would allow launching tenders to build power plants, reforming procurement laws and engaging in a BDL audit, all of which are part of the French initiative but also of any reform package that would be approved by the IMF. Another example of immediate measures to be taken is the need to liberalize the rate of the Lebanese pound, which has not even been mentioned by the French initiative but is appearing more and more as an economic necessity to avoid a depletion of BDL reserves (due to said reserves being used for subsidies) and to allow Lebanon to minimize its trade balance deficit.

The French initiative recommendations could very well be applied by a Lebanese government, but under current political governance, appears increasingly difficult. Meanwhile, with political deadlocks, it seems reforms will have to wait. According to Hayek, the "French" initiative could be pursued without the French, but this could not be done anytime soon due to what he sees as a lack of parliamentary initiative, "If we get 20 new members of Parliament from the civil society next elections, maybe we can change the dialogue towards implementing effective reforms."

DESPERATELY SEEKING GOVERNANCE

The French initiative seems to have hit a dead end.The main hurdles in implementing needed reforms are primarily political. For example, a full audit of the BDL would require a law to be passed in parliament due to banking secrecy requirements (though it has lately been subject to debate regarding public entities' accounts according to Caretaker Justice Minister Marie-Claude Najm). In addition, procurement reforms would need a law in parliament, as they do not follow international standards, according to Rached.

The economic solutions to Lebanon's crisis do not seem to require as much foreign intervention as they do national willingness

Still, the priority issue, according to Hayek, is the banking sector deposits labeled in USD. Whether this money has been spent is still the subject of ongoing debate, though most experts in banking deem it so. For Hayek, the only way to deal with this issue is to stimulate capital markets through the creation of a trust that would hold the assets of the state to eventually privatize those assets and list their shares on the Beirut Stock Exchange when market conditions improve. All of this would require laws to be passed in parliament.

The French initiative calls for elections to be held within one year from the initial proposal in August, which would require that most reforms be quickly implemented by current parties in power.

Macron has delayed sending an envoy to Lebanon as of late March. It remains to be seen if the local political deadlocks will be removed to help form a government and initiate reforms, to fully benefit from the hand extended to Lebanon by its old mandatory power.

Overall, the economic solutions to Lebanon's crisis do not seem to require as much foreign intervention as they do national willingness. The latter, sadly, is still subject to what observers deem to be political bickering, corruption and ineffective governance, which for the moment do not seem close to end.

In collaboration with KONRAD ADENAUER STIFTUNG

By Thomas Schellen

Year one AC (After Covid)

A contrarian analysis and comment

After a year of living face to face with SARS-CoV-2, it is high time to recognize the relationship existentially and give credit where credit is due. The coronavirus is confronting our species with questions and challenges that we never have consciously dealt with. For starters, humankind has not really inquired in the past if a virus had equal existential standing to us or might be superior to us in any way. We furthermore neglected to discuss if such an organism must be respected as a being with inherent inhuman qualities, dignity, rights and feelings.

This quagmire about a virus's dignity arises in tandem with the bigger existential questions about viral intelligence, cognition, and existential validity when comparing the individual coronavirus to the average human or the collective coronavirus population on planet earth – notably, of the coronavirus population we know neither the exact number nor the approximate strength – to that of humanity as a whole.

This means we have to address the question if this virus might actually be superior to the human species not only by its short-term success but also in evolutionary validity and intelligence. Are we, who for the longest time have viewed ourselves as the smartest species, prepared to acknowledge that this humble virus has outwitted us?

This evaluation of the smartest species by the way is not about who can cause more havoc on planet earth or do more to impact its ability to sustain life. Notwithstanding that humankind may be the most invasive species on the planet, the jury is still a long way from determining if we are, in terms of irreversible impacts, the most destructive types ever to walk, crawl, flutter, slither, bounce around or somehow move on earth. But if we are not existentially more successful than the virus, it is time to relinquish the claim of being the only civilization-building and smartphone constructing species, and step back from the illusion that we ever were number one because of our perceived genetic greatness.

For someone or something coming out of obscurity – it may never be solved whether this virus has its direct ancestral ties to those purported Asian bats or to carnivorous geneticists sitting in secret labs – SARS-CoV-2 has not only survived the ignominy of being named by human scientists according to the strange aesthetics that characterize intellectual human convention in this age but also thrived.

There are some hard numbers that speak to the virus's success – the obvious one being that SARS-CoV-2 in 2020 has infected a documented headcount of 100 million humans (of which 70 million infections have been completed under a total 97 percent plus recovery rate). In return, we are totally in the dark as to how many viruses we have infected. Further thinking in terms of satire – and shockingly for those humans who consider themselves the best of the best, meaning all local politicians, journalists, intellectuals, and other crowd pleasers – it has taken less than one year for the little critter to take over the global conversation.

In this sense, the pandemic has delivered the final evidence of our existential insufficiency. Even the staunchest defender of reason as the winning attribute of the human being has to acknowledge it: we do not uniquely stand out as the top species in terms of collective intelligence or cognitive capacity. In the category of species intelligence, the galactic race for the 2021 Nobel prize (I use the an-

thropocentric term for lack of a better synonym of the cosmic maker's reward for the most irritating creations) is already run, and the virus has won.

THE EFFECTIVENESS OF VIRAL NUDGING

Moreover, we humans have to admit that the coronavirus has changed our lives in myriad ways, including in the war we waged against it. The virus, on the other hand, has apparently been thriving and mutating to its heart's delight but at the same time has not killed so many of us that it is in danger of running out of victims. The message: not killing its host bodies to any larger percentages (as most of us wrongly expected) has become the first demonstration of how smart this virus really is.

Furthermore, from the two competing organisms' social survival perspective, the 2020 count of global infections (never mind how accurate the tallying has been) obliges us also to recognize that the virus has changed human behavior incomparably more than the other way around. (It is even dubitable if human behavior played a causal role in the virus's mutation process).

Virus-induced human behavior changes by contrast are unmistakable. On the level of everyday occupations and distractions, people have stopped indulging in almost everything previously considered part of a fun life: they are no longer traveling, socializing, going to sports games and movies, or shooting off fireworks as much as they did before 2020. Indeed, the very definition of what constitutes the key factor in the capitalist human existence – that we all live to work and deserve to feel miserable if we don't have a job – has been put in question.

On a higher plane of social and emotional involvement, the viral nudge to human behavior change is even more existential. This is despite the fact that excess mortality related to the coronavirus has been assessed as noticeable only in an age group (septuagenarians and older) that accounted, less than half a century ago, for a much smaller part of humanity than today and despite the relative statistical insignificance of the total Covid-19 mortality in comparison to the global population from the perspective of humankind's survival (the global population at end of 2020 was higher than a year earlier, and in the opinion of the United Nations (UN) there is no sign that the long trend of increase in the global population will flatten or reverse until very late in the 21st century). These statistical facts notwithstanding, the experience with the rise in Covid-19 fatalities has shed harsh light on the finality of death, and by illuminating death, also on the preciousness of life at any age as well as on eventual infirmity that precludes productive economic activity.

Without taking away from the prospectively beneficial change impulses to contemporary human behavior that could arise from a lasting post-pandemic appreciation of human dignity, social appreciation of the aged, and awareness of life's important aspects in the population strata that are psychologically co-shaped by the experience of the pandemic, it has on the other hand to be acknowledged that countless peoples' lives have been thrown over the last nine or ten months into an illogical economic and social rhythm of lockdown and infection, whereby increased infections translate into politically determined economic lockdowns. Medical outcomes of lockdowns, which are being regularly declared as successes by the politico-medical cabals, are with the same regular irregularity followed by the counter tides of existential depression and economic misery that the same lockdown-enforcing politicians and medical experts fail to address adequately in social or economic terms.

At the end of January, the International Monetary Fund's (IMF) press briefing on the world economic outlook update at the beginning of 2021, for example, gave an estimate that projected global growth for 2021 at 5.5 percent, partly attributing this slightly improved prediction to fiscal measures in rich countries. However, at the same time the IMF predicted that in 150 of the world's economies, per capita incomes in 2021 will be realized "that are below their 2019 levels" – with implications for the life experiences and opportunities of the affected millions that are very far from being adequately assessed.

> Global risk perceptions have been fundamentally altered in the course of the past 12 months and are still being reshaped

Noting that "there is a great deal of uncertainty" about the fund's world economic forecasts, IMF chief economist Gita Gopinath as late as January 2021 could only confirm "that the crisis in 2020 still remains the worst peacetime global contraction since the Great Depression" along with a projected cumulative loss in global output of USD 22 trillion over the 2020 to 2025 period.

Other IMF observations at the end of January added for good measure that the level of average public debt worldwide, fueled by USD 14 trillion in global fiscal support by end of 2020, approached 98 percent of GDP by end of last year, a 14 percentage point expansion over what had been predicted for the same point in time before the pandemic entered the picture. Again, the impact of the new and old debt mountains on the social reality of the next several generations appears to be shrouded in foggy but predictably life-altering uncertainties.

What all this means in terms of economic outlooks on macro and micro levels – is simply that the people of the world can be no surer than their

Recent think-tank studies [...] indicate that despite great variations in pandemic responses, there is no uniform distance between countries

academic luminaries and economic augurs about how their lives will have to change individually or collectively from the lasting economic disruptions in the post-pandemic world on company, social group, sub-national, national, regional corporate, or wider levels.

One thing that is clear from the human economy perspective is that global risk perceptions have been fundamentally altered in the course of the past 12 months and are still being reshaped. Thus, the outlook of the 2021 risk report by the World Economic Forum (WEF) reflects the changed perceptions of economic leaders and policy decision makers by describing the report's thrust as the convergence of societal fractures, from rising unemployment and youth disillusionment to pandemic risks and geopolitical fragmentation, with climate and environmental risk factors as existential threats to humanity.

In short, the WEF latest risk report's implication of the 2020 geo-economic experiences with a contagion of pandemics and recessions is that, while long-term external and environmental risks are overlapping with short-term societal fractures, societal cohesion is more important than ever for future risk trajectories.

This increasingly clear big picture is not satisfactorily integrated with the short-term perspectives that the governments of G7 countries or multilateral agencies are able to present at this juncture of pandemic-related economic uncertainty in early 2021. Unfortunately, the evidence that harsh lockdown measures are more beneficial for reducing mortality rates, or more precisely either excess mortality among populations at large or excess mortality in economically active population groups, is so far absent. As example, a story by the editor of the Mises Wire (Mises Institute), focusing on the efficacy of lockdowns with focus on the Western hemisphere, noted last month that "the overall trend of infection and death appears to be remarkably similar across many jurisdictions regardless of what non-pharmaceutical interventions (NPIs) [such as lockdowns] are implemented by policy makers."

Recent think tank studies, such as one published in by the Sydney-based Covey Institute which ranked countries in terms of their effective ability to limit impacts of the coronavirus or Covid-19, are suggesting that the responses of the past year have had greater or lesser effectiveness in terms of reducing mortality and case numbers, but also indicate that despite great variations in pandemic responses, there is no uniform distance between countries. Different factors such as political organization or economic development level do in no way translate into foolproof methods of success in dealing with the coronavirus.

Additionally, current narratives such as the study by Covey do not actually reveal either the causal connection or even the correlation between harsh measures and long-term positive health outcomes. This uncertainty is blatant even without pointing out that those new surveys and behavioral studies are still failing in assessing quality-of-life repercussions or predicting medium-and long-term negative outcomes of lockdowns and economic weakening in most countries as far as mental health, longevity, poverty alleviation, social justice, and creation of job opportunities are concerned.

Rhetoric, from the global to the local level since March of last year, has been talking haplessly about the need for an economically functional society to be built on human health but, repetitions and slogans notwithstanding, this politically tainted global rhetoric is insufficient to politically or scientifically explain either the lockdown logic or the real medical and socioeconomic implications of varying lockdown implementations. The IMF, the UN and World Health Organization, and hosts of institutions and governments have been vacillating between pro-lockdown speeches on the importance of human health and warnings about the economic repercussions of those lockdowns and disruptions of global trade. All they have proven is the existence of uncertainty and entrenched glaring contradictions with regard to health and economy.

However, what seems truly unfortunate is how this rhetoric mutates while on its path down from top-tier multilateral institutions and developed countries and becomes tainted with increasing populism, ideological trash, and expressions of autocratic state behaviors. In the context of Lebanon's patriarchal attitude of administrative powers, the ignoring of measured arguments and honest expert discussions along with long-standing deficiency in honestly conducting democratic public debates has recently reached extremely painful and disrespectful peaks of poor governmental communication.

Summing up the state of global

pandemic affairs by the first month of 2021, medical science does not supply enough hard data and rationales for either hard or soft approaches in fighting the pandemic holistically and behaviorally; nor do either economic studies or medical research provide a full image of the human costs and benefits of lockdowns in their medical and social contexts versus their macro-social and economic risks and repercussions. All that remains to be repeated is that economies around the world have entered cycles of pandemic stop-and-go, with incalculable impacts of those cycles on human lives, physical well-being, happiness, and mental health.

But in turn, we don't even know up to this day if all our lockdowns and quarantines have caused a single specimen of SARS-CoV-2 to stop interacting with singing, speaking, and breathing humans. From what we can deduct by having been the global laboratory specimen in experimental political and medical coronavirus responses by a handful of self-appointed virus czars and their economic serfs, all that has been achieved through one year of epic competition between the virus and mankind is that, from the virus's perspective, there seems to be a practically inexhaustible supply of future hosts (approximately 80 times more humans could have been infected than are documented to have been exposed to it in the first year of market presence). But what is even more impressive: the viral reality of being talked about universally, of being a bug that controls human behavior politically, economically, and socially without having even a political platform, or a PR consultant.

LEARNING MORE FROM THE VIRUS

We can learn from the virus a great number of lessons. First among them is perhaps that human wisdom is no less elusive and fears are today no less irrational and no more existentially resilient today than they were four or five centuries ago. Our fears rule us much more than we cozily embedded intellectuals have noticed in the past 60 to 70 years that had been characterized by receding hunger and increased life expectancy.

The second lesson is medical: For humans, the competition with the virus will in the long and medium term be medically rewarding, with the urgent adversity of the virus boosting medical innovation far beyond what would have been possible even a year ago. Winning the Nobel prize of medicine (at some point) will be a shoo-in for the immunologists that create vaccines against the coronavirus. In the longer run, the new research into vaccines will be beneficial because it will faster open the vaccination doors against many types of cancers and infectious diseases.

The third and highly challenging lesson of dealing with the pandemic is economic. From the perspective of having attempted to build an economic science since well over a century of studies, observations, models, and theories, we have to concede that in economic life, there is still more between heaven and earth than our b-school wisdom lets us realize…

Our constructs and models – dubbed mistakenly as economic science – are only as good as the variables they incorporate. With much of the story of economic responses to the coronavirus appearing destined for the textbooks highlighting human foolishness, a long period of better research and understanding should pass before anyone should be deservedly awarded a pandemic-impact-related Nobel Memorial Prize in Economic Sciences. But over this time, fundamental rethinks of economic safety and well-being – rethinks perhaps best historically comparable to the way in which the shock of the Great Depression reshaped its host country of the United States and how improvement of the developed world's economic reality had been attempted through the Bretton Woods system – are going to be inevitable.

A large fourth set of virus lessons relates to human systems or societal organization and to valid principles of leadership or the lack thereof. The point zero of these SARS-CoV-2 aided realizations is that the ability to dominate the global conversation in this age of social media communications is no indicator of brains or value. Point one, if a political figure wants to guide their polity through an unprecedented crisis, whether war, famine, monetary dissolution, or other destruction of certainty, this political figure needs to have a strong basic trust in people. Point two, sudden crises will not be soluble by the old recipes and previous certainties or propaganda spiels. Point three, the systemic ability to deal with a crisis cannot be predicted on the basis of ideology and governance theorems. Point four, any crisis to be met in a democratic context requires tireless extra effort at achieving solutions by truly democratic and respectful opinion and decision making processes, however uncomfortable the democratic disagreements that they may involve. No democracy, however old and well instituted, will be sustainable if it fails to embrace the common good from diverse perspectives. Point five, any politician or leader in a crisis such as this pandemic – irrespective of coming from democratic, oligarchic, autocratic, or dynastic background – needs more than a ruling position. They should better be equipped with past achievements that build a bond of common determination between the polity and the leader.

The systemic ability to deal with a crisis cannot be predicted on the basis of ideology and governance theorems

In collaboration with KONRAD ADENAUER STIFTUNG

By Thomas Schellen

Re-globalization of macro-social responsibility

Addressing the urgency of social and economic imbalances

Due to a combination of emergency needs and years of efforts, Lebanon has at the beginning of the year signed off with the World Bank on a $246 million loan for implementation of an Emergency Crisis and COVID-19 Response Social Safety Net project, or Emergency Social Safety Net (ESSN) for short, voted upon in Parliament on March 12. Following more than a decade in which the country had seen numerous proposals for reform of its antiquated national social security system and subsidy regime, the establishment of the ESSN – which had been pushed forward inch by inch by the earlier creation of a limited National Poverty Targeting Program (NPTP) – conceptually could be a big step towards establishing a more-welfare-inclined Lebanese state. In terms of social and fiscal policies, it could be the turning point on a journey from a free-market practice to a social-market capitalist paradigm.

The background against which the emergency social program is being implemented is of course the tsunami of social challenges, namely growing poverty, losses of work and productivity, and exorbitant and still escalating inequality which have in recent months been and are still being painted in shocking colors all over Lebanese society. Giant faces of hopeless workers, both white and blue collar, have been increasingly illustrating the plight of the nation, alongside frustrated smiles of highly educated but unemployed university graduates and the growing army of destitute street dwellers who beg at virtually every stoplight and street corner.

While subsidies and rent controls have been long-standing – and much debated – components of the Lebanese political system in combination with the National Social Security Fund (NSSF) system for partial medical insurance and end-of-service indemnities of the formally employed, only a very modest social safety net

has been developed, in collaboration with the World Bank and United Nations, as late as the 2010s through the small NPTP (launched in 2011). To give an example for the laboriousness of the effort, a social action plan for the development of a SSN was released at the level of the Lebanese government as far back as January 2007 but only in January of this year, a World Bank loan agreement to fund one year of social assistance programs for needy Lebanese was signed after a long period of preparation and negotiations, as usual for such agreements.

Approved by the World Bank Group's Board of Executive Directors and signed on January 12, the ESSN will deliver cash transfers to an estimated 147,000 households comprising nearly 790,000 individuals, which arithmetically translates into a household size typically ranging between 5 and 6 persons. For any eligible household, the aid will be accessible via a monthly stipend that is loaded onto an electronic card that can be used to withdraw cash or shop at qualifying stores. According to a World Bank press release, the monthly support will amount to 800,000 Lebanese pounds for a sample family of six, calculated as base of 200,000 Lebanese pounds per household and 100,000 Lebanese pounds per individual. Additionally, the ESSN will provide schooling assistance to 87,000 poor children. That is, if the tentative plan is implemented by the domestic forces.

The coverage of basic needs through the ESSN will by recent estimates mean a partial coverage of impoverished Lebanese households, given that the total number of individuals below the poverty line under impact of the combined Lebanese crises of 2020 has been projected by the World Bank at 1.7 million persons, meaning that 45 percent of the nominal Lebanese population are embattled by poverty. About half of them, or 22 percent of the population, are calculated by the same estimates as falling under the food poverty line.

In addition to the one year provision of cash aid, the ESSN project will "support the development of a comprehensive social safety net delivery system" the World Bank's lead for human development in Lebanon, Jordan, and Syria, Haneen Sayed, was quoted in the ESSN press release as saying. If it works as designed, the system will be abuse-resistant, enabled for the identification of needy households through something called the Proxy Means Testing methodology, a compound poverty score that is favored by the World Bank Group for means testing eligibility of households in poverty targeting programs. (For Sayed's article on SSN, please see Executive's recent special report on poverty).

QUESTIONS AMIDST THE NEED FOR A FISCAL BEGINNING

Nonetheless, the prospect of having a disbursement program for the

SOCIAL SAFETY NETS

Survival of the best society in humane capitalism terms is the survival of a diversified collective where the capitalist paradigms of private property, division of labor, a regulated playing field, and personal self-interest are integrated with the just-society paradigms of equal opportunity, mutual obligations, economic fairness, and inclusion of all into the network of greater good. In practical reality, this balance, however imperfect, has been implemented and gradually improved through numerous welfare concepts of the past 150 years, one of which has become known as social safety nets.

Social safety net (SSN) programs are described by the World Bank as programs that protect families from the impact of various shocks, including economic shocks and natural disasters. Such programs typically are implemented as cash payments, in-kind transfers, social pension, public work, and school-feeding programs. Whereas they usually assist the most disadvantaged without necessitating prior contributions, they are not, however, universally defined or delineated sharply from social redistribution and development programs at large.

When distinguished from contribution-based social insurance and social security systems that commonly redistribute national income from high income to middle income groups via transfer and entitlement systems, SSNs provide for the poor or particularly vulnerable population groups. A practical differentiation of SSNs versus some other tax-based redistribution systems is perhaps that modern welfare states generally entail social security systems that are concentrated on education and employment security as well as temporary unemployment protection, health, and retirement transfers, disproportionately benefiting the broad middle classes but liable to fail when it comes to serving the poor and addressing the poverty trap.

Safety nets may not meet the key social redistribution requirement of reducing income inequality and could even come with larger regressive effects of increasing inequality at higher levels of the social pyramid; they aim, however, to address holes in social security which reduces inequality between the higher income strata but may not offer adequate safety in an event of destitution.

new Lebanese poor – but administered by the well-known service ministries of the Lebanese state, with the equally notorious history of partisan political alignment of such ministries – certainly does raise serious eyebrows among local experts. "Social assistance in Lebanon has been much politicized," says Ibrahim Muhanna, a Beirut-based actuary and pensions expert who has had many experiences in working on pension reform proposals for replacing the dated NSSF indemnity system.

In his view, so-called service ministries such as health, social services, labor, and others, have been targeted for control by political factions which used these ministries to dish out clientelistic benefits and curry favors with their partisan electorates. Additionally, he says that the actual dimensions of poverty among the Lebanese population, while very real, are difficult to assess and the mantra-like repetition of estimates that were made in the midst of last year's economic and pandemic stresses, is not convincing.

These factors of historic corruption of politically managed social services with clientelism and of opacity of many people's economic situation – illustrated by the Lebanese society's tendency for ostentatious demonstrations of wealth in posh vehicles, super-lavish home interiors, and showy real estate – lead Muhanna to be very skeptical and wonder if the entire poverty mitigation and cash disbursement program has the marks of a "scam" or, as externally financed undertaking, is more of a social painkiller and temporary band aid that moreover entails the danger of further entrenching attitudes of external dependency.

"It is a big issue to have a society living on handouts. You cannot really respect a society that lives on

handouts," Muhanna argues, adding that this sort of external reliance has already become habitual in the past two to three decades. "Although I hate to say this: in Lebanon it is in the blood of people to be like beggars. In the past 20 years we have been taught that the only way we can live is by begging and asking for help," he opines, "There are many ways [the state] can alleviate pressure on [poorer people] and create jobs for them."

Social standards for a viable polity, which in the Lebanese republic for the longest period have been organized, albeit imperfectly, under a free market paradigm with religiously rooted social balances, are severely challenged by the existential crisis of the Lebanese economy – but also by changes in societal priorities, such as increasingly less sectarian ways of living both in principle and in practice. Besides the need to reduce and ideally remove politically induced distortions of social services and subsidies from the country's social coexistence formula, the forward-thinking question in this situation is if an ESSN arrangement can be made viable beyond the period of funding via a World Bank loan. This is because doing so requires constructing elements of a social security transfer system that includes both revenues and creation of social mobility to the benefit of people living in traps of poverty or welfare dependence.

> The actual dimensions of poverty among the Lebanese population, while very real, are difficult to assess

Although the real cost of developing such a system is – by historic experience of how those entitlement and transfer dynamics proved expansive beyond expectations when these systems were instituted in developed economies during the last century – practically incalculable in the longer run and loaded with upside cost risks, conventional wisdom says that construction of social assistance and redistribution in any form hinges on activation of the tax base in combination with fiscal and structural reforms.

For expert Muhanna there is no doubt that the best way to create a viable scheme would be to start by reforming the tax system, specifically redesigning components such as income tax, inheritance tax, and property tax. "This kind of reform will hit the wealthy, and the wealthy are many, although not many in numbers but large

in their wealth," he tells Executive.

A calculation for the possibility to achieve the solution of the Lebanese revenue problem, published by UN-ESCWA researchers by Vladimir Hlasny and Khalid Abu-Ismail https://www.executive-magazine.com/special-report/lebanese-poverty-rates-swell-across-income-groups in Executive's poverty report, found under a similar rationale that closing the extreme poverty gap in Lebanon could be accomplished with a one-time tax on wealth amounting to "around 1 percent of the total assets held by the richest 10 percent" in the highly unequal, and inefficiently taxed, country.

Although widely acknowledged, the survival necessity of fiscal and structural reform with a more proactive tax regime has been slower than sluggish in being addressed. For Muhanna, the lynchpin for embarking on this path with any prospect of success is international involvement and specifically the International Monetary Fund. "They should put their foot down and say 'this is the tax regime that you need to apply', take it or leave it," he adds.

THE INFORMAL TIES BEHIND RESILIENCE

However, the issue of Lebanon's social resilience and its people's ability to navigate the crisis of 2020 entails many more aspects than can be subsumed under a state-led paradigm of fair taxation and improved provision of social services or support for the economic precariat. This has been amply demonstrated in 2020, as it was a year that juxtaposed a total breakdown of the political process and creaking political governance mechanism with the astounding reality that society and economy kept moving – badly limping at some periods, but moving along – despite constant expectations of societal disintegration and despite recurrent speculations by some that either domestic or foreign political forces were actively pursuing the failure of Lebanese democracy because of nefarious interests.

One significant component of the Lebanese polity in this regard has been the reality of remittances. While the domestic and global shocks caused a drop in remittances in the first quarter of 2020, the second quarter – prior to the Beirut port explosion – had already seen a lessening of this contraction, and by end of December, the full-year contraction of remittance inflows gave a vexing picture that after an estimated 20 percent drop in the first half of the year, the inflows recouped, despite the confessed vast loss of trust in the Lebanese banking system, and were projected by the World Bank at $6.9 billion for FY 2020, representing a year-on-year contraction of 6.6 percent. Moreover, these estimated remittances now account for approximately 36 percent of Lebanon's GDP for the past year, which is an extremely high share both in global and in historic comparison for Lebanon.

According to data from money transfer company OMT, the local partner of the Western Union agency, about $100 million in hard cash have been flowing into the country on a monthly basis and retrieved either in greenbacks or in Lebanese pounds at the daily exchange rate of the parallel market. This influx alone, as OMT chairman Toufic said in recent interviews, meant that some 150,000 families in the country had a diaspora-based social support net at their disposal that was significantly more capacious and flexible than the World Bank loan-financed ESSN.

At an average of $300 per transfer, this kin-based system must of course be assumed to be partisan in favoring families that had the ability to send their offspring to one of the country's private universities or at least provide them with some tertiary education and it seems unlikely that the people receiving OMT transfers would be among the extreme poor segments of Lebanese communities. Nonetheless, the contribution of the diaspora through remittances can be considered an essential part of the country's social fabric, and while studies of remittance flows and uses in years before the sharp recent drop in GDP indicated then-problematic conversions of remitted funds into consumption, up to the level of a remittance trap, the crisis context might elevate remittances to a life-line for the so-supported families, and thus a non-governmental social safety net.

It seems furthermore appropriate to reconsider the post-pandemic

era role of the original instruments of economic safety that have been existing considerably before the fully institutional arrival of the state to the social table (the various poor law editions in the United Kingdom from the parish-level 17th support to paupers and the famous Speenhamland system to the centralized 19th century systems in the same country represented some of the early incarnations of what has been touted as state-organized social safety). Simply put, small and family based businesses for centuries have been weaving social safety nets in collaboration with religious institutions and secular communities, and these economic structures involved elements of solidarity that went beyond kinship-based altruism.

Contemporary parlance has family businesses categorized as anything from micro to small and medium enterprises that comprise the bulk of economies. In the globally distorted economics of the pandemic, concerns have been voiced in many developed countries that family businesses and small enterprises will be plunged into waves of bankruptcy during this and next year, because even if viable, they will not have the long breath of big corporations that can moreover rely on politically determined support measures which their small peers often have difficulty accessing.

Lebanon is no exception to the fact that most of the world's economic actors are SMEs and certainly no exception to the difficulties that family businesses have in obtaining state support. As experts on the matter tell Executive, the pandemic and economic crisis in this country has highlighted once again the upside of its family businesses, meaning their social role and economic importance, as well as the downside – the existential struggles of family businesses in a country that provides next to no fiscal support to its enterprises of any size during crises, a deficiency that is highlighted by the contrast to highly developed and even many second-tier economies. OECD member countries and emerging economies have initiated trillions of dollars' worth of fiscal support and monetary measures to alleviate the humongous economic impact related to the Covid-19 disruptions – with such financial interventions during 2020 amounting globally to $14 trillion in fiscal and $9 trillion in monetary actions as per the International Monetary Fund (IMF).

> The resilience of [family] businesses, if properly harnessed, would be vital in course of an economic recovery once the wave of the crisis has crested

WHAT OF LEBANON'S FAMILY BUSINESS SECTOR?

In this context it can in no way surprise that the situation of the family business sector today is alarming and family businesses are in a survival fight in which they have to deal with extreme uncertainty, Josiane Fahed-Sreih, dean of management studies and the director of the institute of family and entrepreneurial business at Lebanese-American University, confirms to Executive. The pressing problems of Lebanese family businesses, according to her, extend today besides the much belabored monetary transfer and exchange rate problems to upward cost pressure from international markets, challenges of achieving revenues from weak domestic consumer markets, struggles to retain working capital, and even tax liabilities for profits that exist merely on paper.

"If companies sell products [for which they have adjusted their Lebanese pound prices upward] even without profit, on their books the profitability will show at 250 percent, on which they have to pay taxes. This shown profit is not real, because all companies can do is maintain stock. The government needs to find a formula for this," Fahed-Sreih says, adding: "Today family businesses in Lebanon are trying to survive but they are very weak. In order to survive, [they need to] hedge and strategize for the unknown that they are experiencing or that is still to come."

According to her, not relieving these cumulative pressures on family businesses is most unfortunate and counter to Lebanon's best economic interest, because the resilience of these businesses, if properly harnessed,

would be vital in course of an economic recovery once the wave of the crisis has crested. "Family businesses are able to regenerate, to innovate, and also to stand out at the times of crisis. It is a known advantage of family businesses that they are able to stand at the period of crisis," she explains.

In addition to their being part of the country's economic backbone, Fahed-Sreih credits family businesses for being embedded in their communities and fulfilling their social responsibility without much ado or special acclaim. She says that for example boards of many supermarkets and large retail organizations have in recent months been flooded with requests from local charities, independent civil society organizations, and individuals to assist them with putting together food aid packages at no or minimal profit, and have quietly complied. "I have seen a lot of help coming to society from individuals and family businesses. In Lebanon, the entrepreneurial spirit of people goes into social entrepreneurship and I see that a lot of people are helping without anything in return," says the academic who also sits on boards of trade and retail companies.

In Fahed-Sreih's view, it would thus be prudent for the government to facilitate ways in which family businesses can extract part of their tax dues and channel these funds into aid projects that help society directly. While acknowledging the risk of abuse of such funding instruments for public needs by some family enterprises, she says, "I am sure that family businesses will be helping in their majority, and this will become a social safety net for society. If you want to encourage this, the government in my opinion needs to waive taxes on those family businesses who will be helping [in their communities]."

As a consequence of the paradoxical experiences of crisis-ridden Lebanon, these examples of remittances and family businesses with their embeddedness in their communities can be seen as providing hints that the entire task of designing and implementing new and better social contracts in post-2020 Lebanon must be assessed and tackled from a far vaster range of perspectives than mere taxation, notwithstanding the centrality that conventional concepts of state-led society apportion to public capture of the polity via fiscal mechanisms for the funding of social assistance as well as achieving equitable redistribution. The reality of Lebanon, with its aspects of remittances and companies that are embedded in their society, in this sense reflects a many-colored need for initiation of new social contracts and structural reforms from a higher perspective of this polity's best interests and power of self-determination than either the self-interests of vested political stakeholders in the country or the international order of power with its embedded self-interests.

> A resilient social safety net and fiscal transfer system is as direly needed as a new social contract that has been overdue for years if not decades

A STRESSED AND IMBALANCED GLOBAL PICTURE

Moreover, the global dimension of the problems of the existing social contracts and the need for their constant but tender development cannot be ignored. This global dimension notably includes the worldwide growing debt mountain, the need for climate change rollback, and the need to manage labor markets from a maximum sustainable work and occupation perspective. The past decade, with an added and perhaps pivotal push coming from the pandemic experience, has certainly witnessed the rise of new impulses in several G7 economies to address the increasingly pressing societal problems.

To grasp the importance and appeal of such impulses, one does not have to recall the wide arc of civil society concern from the Occupy Wall Street anti-inequality movement to the climate protest movement Fridays for Future but can consider staid central bankers and their policy adjustments. Just at the start of 2021, for example European central bankers – having acknowledged so-called green swan risks of climate havoc back in early 2020 – are in the process of reviewing their policy frameworks in favor of "greener" guidelines and practices. In the United States, Federal Reserve chair Jerome Powell delivered a speech on February 10 in which he lamented that America is presently a long way from a strong labor market that delivers "substantial economic and social benefits." According to him, the pandemic has sharply reversed a rise in the prime-age labor force participation rate (all between 25 and 54 who are in the workforce or actively seeking jobs), which had been improving since 2015. Powell intoned that the country's post-WWII message, of declaring full employment as broad objective, is an important economic and social mandate for the post-pandemic period, emphasizing how the Federal Reserve has over the past year adjusted its longer-run goals and monetary policy to say that maximum employment is indeed a "broad and inclusive goal."

Moreover, there have been and are gathering signals from around the developing world that the precarious imbalances of labor and capital, of markets and government, of private wealth and public goods, of finance and real economy, of male and female leadership, are nearing a point where a more constructive

equilibrium is in order. The narrative building up towards a modified and increasingly global social restructuring has been thickening from the street protests of the Arab Spring and subsequent outcries for greater social equality to the protectionist political populism and entire social classes' fears of being left behind in the 2010s to the pandemic-responding initiatives for nationally debt-financed or externally financed social safety nets.

It fits with this perception that in economically plagued Argentina parliamentarians have recently passed a one-time wealth tax for the richest in society – which has conceptual similarities to the aforementioned proposal for a levy on the richest fortunes in Lebanon – and that there is an ever-growing number of countries to which the issuance of SSN-themed loans by the World Bank has ballooned far beyond the $1.5 billion it had committed between 2000 and 2010. Lebanon, if the political squabbles in the country don't block the agreed $246 million ESSN loan, is just the latest country to be provided with such a loan.

BEYOND IDEOLOGY: A NEW SOCIAL CONTRACT

Most recently in the global picture of social assistance, the World Bank actually has had a strong hand in the release of the first-ever State of Economic Inclusion report. The report, by a multi-stakeholder initiative that calls itself Partnership for Economic Inclusion and is hosted by the World Bank, released its inaugural SEI at the beginning of the year, saying that it is necessary to increase knowledge on how to help the world's poor and that multi-dimensional programs are needed to move to greater economic inclusion – the next big word in the issue and the latest upgrade to concepts such as social assistance and social safety nets.

According to the IMF, countries with limited fiscal space – a euphemism for the inability to formalize an economy and collect taxes efficiently for which Lebanon is a textbook case – should in the coming period prioritize spending on health and transfers to the poor. "Only when infections are durably declining and economic activity is normalizing, should countries begin to gradually roll back these lifelines – while still cushioning the impact on the most vulnerable," IMF deputy managing director Antoinette Sayeh told an academic forum in the UK at the beginning of February.

Such advice implies that an internationally debt-financed social safety net or poverty mitigation fund – irrespective of the generosity and affordability of repayment terms and interest rates – will not suffice for economically hit countries but rather that creation of a new social system and contract will be vital. This need for technical expertise and a new moral compass applies unreservedly to Lebanon, where a resilient social safety net and fiscal transfer system is as direly needed as a new social contract that by broad consensus of academic economists, business media, and civil society has been overdue for years if not decades.

Knowing that in the past, at least since the Black Death, societal shocks have been triggers of epochal social innovations that, while initiated with some delays, have resulted in long-lasting changes such as social security legislations in developed countries. In this sense, the 2020s may be the period to advance from the – by their initial deadline of 2030, now unachievable – ideologically inclined and politically shaped globalized social targets of the SDGs to a mutli-dimensional, more socially inclusive, and economically productive re-globalization of social realities. It seems as if there was never a more paradigmatic time than now for a combination of technical expertise in designing social safety nets, constructing social transfer systems and initiating productive public-private partnerships in taxation and citizenship of public servants and corporates with a simultaneous construction, strengthening, and calibration of a profound moral compass – a moral compass that shows true north for a digitized and climate-challenged world which is as different from the world of the superpowers and cold war as it is from the European days of the scholastics and religious reformers.

NEW INTERIOR

RESTAURANT BAR	CENTRALE
Mar Maroun st. Saifi	

RESERVATIONS: 03 915 925 / 01 57 58 58

Vintage wine cellar

Comment

By Paul Salem

In the crossfire of regional elections

How Iranian, Israeli, Turkish, and US elections could impact Middle Eastern geopolitics

The US elections of November 2020 will cast a long shadow in the Middle East. But elections in Israel in March, Iran in June, and Turkey in a couple of years from now will also have significant geopolitical impacts in the region in 2021.

The Biden administration will be overwhelmed by domestic concerns related to the pandemic, the socio-economic crisis, and political extremism. Foreign affairs will focus on global issues such as climate change, rebuilding traditional alliances in Europe and Asia, and confronting the rise of China. Biden wants to restore the nuclear deal with Iran that he and President Obama negotiated in 2015; his administration says they also want to discuss Iran's missile systems and its regional interventions. But once they get their restored—and maybe slightly reinforced—nuclear deal, other matters are much lower down in the priority list. Washington is moving to restore relations with the Palestinians, and will try to revive Israeli-Palestinian talks, but with very little hope of actual progress.

In terms of geopolitics, while Trump sided heavily with Israel and the Gulf countries and used many of America's levers of power—sanctions, cyber and covert attacks, assassinations of top figures like Qasem Soleimani and Mohsen Fakhrizadeh—Biden's team will have a more distanced approach. While they will maintain a number of sanctions against Iran—indeed many are hard to remove without Congress's approval—their attitude is likely to resemble Obama's attitude toward the end of his term, namely that the powers of the region are going to have to figure out how to "share the region." And that could be a formula for more proxy war and regional power grabs.

UPCOMING KNESSET ELECTIONS IN ISRAEL

Israel is holding its fourth Knesset election in a span of just two years. But the March 23 elections are unlikely to dramatically change the political landscape in Israel, or alter Israel's geopolitical alignment. Israel has "succeeded" in weakening and undermining the Palestinians, and is well on its way to trying to maintain an apartheid state for the next decades of the 21st century. Regionally, it achieved a major breakthrough during Trump's term represented in the historic normalization agreements with the UAE, Bahrain, Morocco, and Sudan. The new Israeli-Gulf axis (of which Saudi Arabia quietly approves) will represent a new economic and technological juggernaut in the world, and also creates a strong Israeli-Gulf-American alliance close up against the southern flank of Iran. Whether this will deter Iran from more adventures or trigger a new round of escalation in the region will be revealed in the coming months.

A key dynamic in these questions are the Iranian presidential elections scheduled for June 2021. Although these are not free and fair elections [Editor's note: According to international democratic standards], and although the president does not command Iran's military or foreign policy, the process does indicate the direction in which the Supreme Leader and increasingly the Revolutionary Guards want to take Iran. The new president is very likely to be a hardliner, and not anyone of Rouhani's profile, but there is vigorous debate even among the hardliners whether it is wiser to negotiate with the US and slightly moderate Iranian foreign policy in order to save the economy, and thus save the future of the regime, or whether to double down on defiance

and escalation. The Biden administration is really only interested in reviving the Obama-era nuclear deal, with some revisions; Iran wants to restore the deal also. How Iran will behave after that will be largely decided in Tehran, but will have consequences from Beirut to Sanaa and beyond.

CONSEQUENCES OF UPCOMING ELECTIONS IN TURKEY

The Turkish elections, although scheduled for 2023, are already having a transformative effect on the region. President Recep Tayyip Erdogan has been fighting for his political life for some years now, as he and his family have been mired in corruption scandals, the Turkish economy has lost its dynamism of years ago, and his election results have grown increasingly precarious. In 2019, he lost key municipal elections in Turkey's main cities of Istanbul and Ankara. As a former mayor of Istanbul, he knows what such a loss means. In order to shore up his domestic support, he has found that pursuing an aggressive geopolitical foreign policy gains him the important support of Turkey's hardline nationalists. This aggressive foreign policy includes a sustained war against the Kurds, military interventions in Syria and Libya, standing up to the US and NATO by purchasing Russian S-400 systems, and deploying Turkish naval forces to stake out Turkey's interests in the eastern Mediterranean. Erdogan has seen how Iran has built a major sphere of influence through militias and proxy presence. As US power ebbs and regional powers scramble for their spheres of influence, Erdogan has gotten into the game.

The Middle East is settling into three competing axes. An Israel-Gulf-Egypt axis which enjoys support from a disengaging US. An Iranian axis that boasts strong influence in Iraq, Syria, Lebanon and Yemen, and enjoys Russian encouragement. And a Turkish axis with influence in the Levant, the Gulf and North Africa, and a leading role in sponsoring Sunni political Islamic movements.

Whereas the Middle East, especially in the wake of the pandemic and other looming crises, should be moving toward dissolving axes, de-escalating conflict and building regional cooperation, it seems to be moving in the opposite direction. And as great power competition increases between a declining US, a rising China, and a struggling Russia, the Middle East risks being an arena of their competition as well.

> Reviving the Obama-era nuclear deal [with Iran] with some revisions [...] will have consequences from Beirut to Sanaa and beyond

Paul Salem is president of The Middle East Institute and founder of the Lebanese Center for Policy Studies

Comment

By Khalil Toubia

Lebanon in a new regional order

The uncertain fate of Beirut and its wounded port

The Middle East and the Mediterranean are going through great changes that are redefining the region. The countries of the Southern shore of the Mediterranean (Algeria, Tunisia, Libya) are experiencing major transformation with the fall of the old military regimes and the attempts to establish new governance. The countries of the Eastern Mediterranean, Syria, and Lebanon are undergoing a change characterized by instability. In Iraq, administrative divisions on the basis of community sensitivities weaken the country's security. The countries around the Red Sea, for their part, are experiencing a strong imbalance, whether it is Yemen, Sudan, Eritrea, or Djibouti.

Throughout the region, the US presidential elections were seen as a deadline. President Trump's mandate was marked by a series of blows that began with a strengthening of the American alliance with Saudi Arabia (May 2017), then by the recognition of Jerusalem as the capital of Israel (December 2017), and then the withdrawal of the United States from the nuclear deal with Iran (May 2018), the meeting with the leader of North Korea (June 2019) and the new trade agreement with China (January 2020). The latest peace agreement concluded between the United Arab Emirates and Israel (August 2020) marks a turning point in the regional conflict.

We are at the heart of a major turntable in the history of the region. One hundred years after the Treaty of Sèvres (August 10, 1920), which sought to give the Arab populations the possibility of independence from the Ottoman Empire, the region seems to be heading towards a new regional order. All of these developments lead us today to reflect on the political choices to be adopted, as four projects are emerging in the region. Each of these political projects involves the imposition of its own economic and social model.

The first of these projects involves the emergence of a new Arab World aligned with the international community. The second consists of the Russian Minority Alliance Project, which uses the Orthodox Church as leverage, and which claims to be able to provide protection to Christians in the East. The Wiliayat al Fakih of the Tehran - Baghdad - Damascus - Beirut axis makes up the third project. And the fourth and final project concerns Sunni political Islam, supported by Turkey and Qatar.

Cut off from its port since the August 4 explosion, Beirut is losing a vital organ around which the city had organized and developed. In addition, the geopolitical developments that occur with this explosion are causing the capital to lose its strategic importance and its primordial function as a hub between the West and the East.

BEIRUT: A CITY BORN AROUND ITS PORT

The Port of Beirut has been a lever for Beirut and the Lebanese economy. Currently, it represents a transshipment hub for major global carriers, including CMA-CGM. The importance of the Port of Beirut and the services developed in its city are the result of an accumulation of skills acquired over decades.

Around 1830, Mohamad Ali, the new ruler in Egypt, arrived at the gates of Constantinopolis. His son, Ibrahim Pasha, occupied Beirut and decided to move the administrative capital from Saida to Beirut. He developed the port of Beirut and built warehouses, established customs, erected the quarantine hospital building, as well as a souk. Attracted to Beirut, the foreign consuls left Saida to settle in the new metropolitan area.

Later, due to growing French influence in the region, and some time before the start of work on the Suez Canal in 1859, Count Edmond de Perthuis obtained the concession of the right to build and operate a road from Beirut to Damascus (1856). The boom in the city of Beirut pushed the various religious congregations to open schools in the capital and to establish a state-of-the-art education system, the two main educational centers being the Syrian Protestant College, now known as the American University of Beirut (AUB) in 1866, followed by Université Saint Joseph (USJ) in 1875. Infrastructure works were then financed and carried out by companies with European capitals, mainly French. Foreign investments in Beirut led to the creation of the Wilaya (state or province) of Beirut in 1888. Beirut thus gained in independence and prosperity. The Régie des Tabacs was granted in concession in 1883, the Compagnie du Port des Quais et des Entrepôts de Beyrouth was created in 1888 then built the ferry terminal, terminus of the Beirut and Damascus railway lines in 1897. This line would have a dual commercial and touristic function since it was used to transport pilgrims to Mecca. Beirut continued to develop with the Company of Tramways and Lighting (1894). With the inauguration of the modern Port of Beirut in 1895, life was organized in the city around this hub. The Ottoman Bank, the Orosdi-Back Department Store, the Khan Antoun Bey Square, the Police Center, and several hotels were established there. Customs warehouses were opened in the port area, as well as a main post office which housed French, English, Russian, Austrian, German, and Italian posts, ensuring direct correspondence with these countries and greatly facilitating trade. This postal service would soon far exceed that of the Ottoman Post, suffering from incompetence. The city of Beirut and its port acquired a quality know-how, which gave them a certain advantage, defying all competition.

The success of the Port of Beirut was an example for other cities with access to the sea and wishing to develop. This would be the case for the Moutassarifate regime (1861 - 1915) which aspired to projects of the same scope in Jounieh. Also, to counter this momentum, the Port of Beirut Company was granted the exclusive right to build and operate other seaports all along the coast.

Following the country's independence gained in 1943 and the consequences of the events of 1958 in Lebanon, a new governance and a new compromise between the two currents of the time (pro Pact of Baghdad against Pro-Nasserism) was established. During his mandate, President Fouad Chehab (1958 - 1964) developed a Lebanese land-use planning with Father Lebret, the Institut de Recherche et de Formation en vue du Développement (IRFED) plan, according to the country's capacities, its resources and regional constraints. And given that the city of Beirut, administratively speaking, was becoming crowded, he developed with Michel Ecochard, a master plan for Beirut and its suburbs. In 1960, the management of the Port of Beirut was granted for 30 years to a Lebanese company, the privately-owned Company of Management and Exploitation of the Port of Beirut.

Since the end of the company's operating rights, the state has been responsible for the management of the port. In 1992, the Damascus-Tehran axis strongly opposed the very strong vision of Prime Minister Rafic Hariri, characterized by the reconstruction of Beirut around the Port, the Airport and the City Center. Any action to open up and develop Lebanon would be strongly reprimanded throughout the post-Taif period by both the Syrian regime and that of Iran. As a result, the role of the Port of Beirut could not be recovered without regaining sovereignty.

From a city limited to less than 1 square kilometers in 1840, to the administrative city of Beirut now covering an area of 20 km², the Lebanese capital today tends to expand to cover a larger area, mainly along the Lebanese coast. The economic value of this 240 km-long coastline makes it possible to organize and plan the element of "power" that Lebanon could play. There was a time when Lebanon succeeded in being a pivotal space, thanks to its double opening, on the one hand to the Arab countries, and on the other hand to the countries of the Mediterranean, through the development of other coastal cities from Tripoli to Jounieh and Saida, which linked Iraq but also the Gulf countries with the Mediterranean, thanks in particular to the road to Damascus, the railway line, but also to oil pipelines such as Tapline or IPC. As an example, the Lebanese coast can be compared to the coast of the region of Liguria (Genoa) in Italy (214 km). Liguria is the third smallest region in Italy, 5.421 km², but is also the third most populated region with 300 inhabitants/km². Montenegro, 13.812 km², is administratively subdivided into three regions, the coastal region, 293 km long, the central region, and the northern region. The development of the 240-km Lebanese coast represents a single economic unit that could be a considerable competitive advantage for the country.

> Will the free forces and private institutions be capable of [...] rebuilding the country according to the new order?

A HUB BETWEEN EAST AND WEST

Geopolitical realities will have an impact on the development of the Port of Beirut and the city. In fact, four realities should be noted: The Suez Canal project which cuts the route to India from the British, the Franco-British competition under the 1920 mandate, the boycott by the Arab States of the State of Israel since 1948, and the substitution of the Lebanese state by militias since the signing of the Cairo agreements in 1969.

Napoleon Bonaparte, who wanted to cut the British route to India, led the Egyptian campaign (1798 - 1801). The opening of the Suez Canal in 1869, and the influence that France gained over the eastern Mediterranean, dealt a heavy blow to the British navy, which saw its maritime route modified. With the French mandate in Lebanon and Syria that began in 1920, and despite new governance having been put in place and new geopolitical issues being underway, competition with the British persisted. The Haifa-Baghdad axis was controlled by the British. The capacity of the Port of Haifa was twice that of the Port of Beirut. The construction of a railway line between the Port of Haifa and Amman was also planned. The Iraq Petroleum Company (IPC) pipeline from the Mosul oil fields was supposed to end in the Port of Haifa. The latter was included at one time in the Tapline plan, a pipeline going from eastern Saudi Arabia to the Mediterranean, which was later redirected to the Lebanese port of Zahrani (near Saida) following the decision of King Abdul Aziz Al Saoud and the Arab boycott of the State of Israel. This competition would push the French mandatory force to enlarge the Port of Beirut by adding a second dock basin and developing other infrastructures in parallel.

In 1948, with the creation of the State of Israel, the Arab countries boycotted this new state. They concentrated their trade with the Mediterranean through Lebanon and therefore, through the Port of Beirut. The Port of Beirut reasserted its position as the leading port in the Eastern Mediterranean. Moreover, as Syria, Egypt, and Iraq faced regime changes, followed by nationalization plans and capital drains, Lebanon which was then the only country in the Middle East to have a liberal political and economic regime, succeeded in attracting capital from all over the Middle East, thanks in particular to the establishment of a favorable business environment, reinforced by the banking secrecy law proposed by Raymond Eddé in 1956.

Following the defeat of the Arab armies against Israel in 1967, Lebanon, which had remained outside the conflict, found itself in the spotlight with a Palestinian militia which began to organize from south-Lebanon. Since the signing of the Cairo Agreement in 1969, Lebanon has moved from the domination of one axis to another, under the governance of the dominant militias.

A BENCHED MVP

Currently, Lebanon is going through its most serious economic and financial crisis, in a climate of regional tension and in the total absence of a state. The Hezbollah militia controls all economic and political life as well as the airport and the Port of Beirut. As a result, Iran has become a full-fledged geopolitical player in the Mediterranean. Lebanon, once the lung of economic, political, financial, and cultural freedom of the Middle East, is being held hostage. It is therefore the very essence of the country's "raison d'être" that is being questioned, its role, its usefulness for the region and consequently, its constitution and its Arab and international friendships and support.

Today, Lebanon is facing a major turning point in the history of the region. In view of the succession of events that are taking place, what choices must Lebanon make in light of new alliances between the United Arab Emirates and Israel? Will the free forces and private institutions be capable of banking on the competitive advantages offered by the country and rebuilding the country according to the new order that is emerging in the region? How should the Russian, Iranian, and Turkish projects be evaluated? Are they carriers of growth and development, capable of bringing peace and providing prosperity to our country? The free forces, the main vector of economic advancement in Lebanon, must reposition themselves in the face of the various options that are emerging. These should anticipate their future and define their objectives, role, and usefulness for the region according to their skills. One thing is clear: the power of the private sector in Lebanon, the prosperity of Beirut and that of its port cannot be realized outside three invariable pillars: the maintenance of the Lebanese constitution, the Arab natural identity, and the respect for international law and UN resolutions.

Khalil Toubia is a political consultant based in Beirut

By Thomas Schellen

Financial family lifelines from OMT

A money transfer enterprise's new role

Beirut-based financial company OMT is a family-owned and managed enterprise that has morphed from being simply a ubiquitous sight – the yellow and black logos of OMT agencies are scattered around Beirut, urban centers, and Lebanese villages in all of the country's provinces – in an overbanked country to an existential supply channel of stable currency. An unknown but decidedly growing number of Lebanese families today depend on their relations in the Lebanese diaspora for inflows of handfuls of dollars every month to withstand the country's insane inflation, capital controls, and the physical impacts of the 2020 Beirut Port explosion. In this regard, OMT, which started in the late 1990s as the agent of international money transfer corporation Western Union and today offers over 100 domestic and cross-border services to Lebanese residents, says it has facilitated about $3.5 billion and 10 million transactions (both numbers being in terms of OMT enterprise totals) by volume last year, while providing 150,000 families with cash through inbound money transfers during each of the past seven months.

To find out more about the OMT company's operation, business model, and plans, Executive sat down with Executive Board Member Naji Abou Zeid.

How did the money transfer volume in 2020 differ from one period to the next, especially when comparing the period before the August 4th Beirut Port explosion with the months following the catastrophe?

Before the blast, the Central Bank of Lebanon [BDL] had issued, in April [of 2020], a circular obliging all money transfer players to pay out transactions in [Lebanese pounds] at the rate set by the BDL Exchange Electronic platform At that time, this rate was 3,600 Lebanese pounds [for $1], less than the rate of 3,900 Lebanese pounds [that was subsequently decided by BDL]. The black market rate at that time was around 4,200 Lebanese pounds, so basically quite close to the payout rate that we would be adopting. We started paying in Lebanese pounds from April until the blast happened in August. But as you know, the black market rate had reached [close to] 10,000 Lebanese pounds in July, and the whole market was collapsing. Comparing with the same period in the previous year, we had about an 80 percent drop in our inbound transactions between April and August. It was a disaster.

The blast was a game changer for the entire [money transfer] industry, besides being an unfortunate turning point for the whole country. This is because the BDL issued another circular after the blast, allowing and obliging all players to pay out [inbound transactions] in US dollars. [The first week after the decision] was a hell of a week. We paid during that week what we usually pay in a month. From August until the end of December 2020, we had a 50 percent increase in transactions when compared to the same period last year. On a monthly basis, more than 150,000 families are receiving money through OMT.

In your view, how much of the change in the stream of inbound transfers witnessed by OMT was related to this economic crisis and the problem in banking relations, rather than to the Beirut Blast?

It has been definitely related to the economic changes, because until now we are still witnessing an increase in volume of inbound transactions. The spike was after the blast. But for the following months, we have been back to the numbers seen before the revolution [in the latter part of 2019].

Would inbound transfers today be at the same level or higher than during the economic shock of late 2019?

We don't know yet. 2021 will be the indicator; 2019 was bad, and

more than half of 2020 was very bad; the last four, five months of 2020 were good and we are still in good shape; we now will see how this [year goes].

It is known from studies on financial responses and donations after many types of natural catastrophes that financial support and humanitarian aid transfers usually peak shortly after a catastrophe but that this tends to wane soon after. Are you seeing this kind of pattern in money transfers to Lebanon?

The inbound service that we offer internationally, is mainly person to person. It cannot be used by an international organization to engage directly for sending humanitarian aid to recipients. Most of our transactions are family support, where family members living abroad are sending some dollars to their families to sustain their living. Employing OMT for [institutional] humanitarian aid plays a very big role, but it is not related to Western Union and so we categorize it under "cash out" services. We have applied for eight or nine [requests for proposals] from international donor organizations during the last six months, and OMT was able to win seven of them. Thus we have a cash out service that is totally independent from Western Union [transfer services], whereby the humanitarian donor can transfer to a list of beneficiaries through our locations.

Are you in humanitarian aid partnering with the National Poverty Targeting Program or emergency social safety net (ESSN) program that has recently been winding its way through the administration and Lebanese Parliament?

Currently we are dealing with international donors and UN-based [humanitarian aid]. We applied to all of these organizations such as UNICEF, UNHCR, UNRWA, and so forth.

That means that people who are receiving support from these organizations, can cash out through OMT?

Exactly.

Civil society activists in Lebanon have voiced concerns that it would not be easy for the poor to use electronic transfer services, because many poor are unbanked and the experience of these families is more based on cash. Do you see this as a problem?

We have two solutions for the cash-out services. In the first, the beneficiary receives an SMS with the payment number and related OTP (OTP= One Time Password), goes to any OMT location and provides this number along with the OTP and legal ID, and takes the support in cash. The other option, and it is basically the donor who selects the option, would be to upload the aid to a payment card. We have the OMT card, which is of course powered by a system and banking system, and the beneficiary can use this card to buy food [or necessities]. Sometimes [donor organizations] may specify specific goods or locations where this card can be used.

How have you adjusted operations to challenging circumstances such as the aftermath of the Beirut blast?

In the first week we had a shortage of US dollars for about four or five days. Since the crisis, we are shipping our dollars from abroad. As you know, we have an international service with Western Union. There are inbound transactions and outbound transactions. Since the crisis started, the outbound business is down more than 50 percent; the number of foreigners in Lebanon decreased and the dollars available in Lebanon decreased. All people are saving them at home for later. Thus the outbound dropped drastically. The inbound is much higher than the outbound. We pay on behalf of Western Union all transactions and they reimburse us on the second day. Before the crisis, the process was made through banks. Now, we do this manually: we receive the cash in our bank accounts outside of Lebanon, and there is a money shipper who gets the cash. Then we distribute to the network. The whole process takes three to four days.

> "Most of our transactions are family support, where family members living abroad are sending some dollars to their families"

Is the cost of transporting cash and delivering it to Lebanon on a daily or weekly basis leading you to increase fees? You are charging a two percent cash fee to the customer, right? Is this roughly equal to the added cost of operations under current conditions?

This fee is mainly for the cost of the whole [distribution and money disbursement] operation. It is pretty much equal to the total cost. Sometimes you lose and sometimes you win but these are very small margins. We have a direct cost of minimum 1.85 percent but this can change. Whenever you have a lockdown, the cost of shipping doubles because of airport closures. We had six months of ups and downs.

To give you some numbers about how the situation of inbound transfers looks, before the crisis, 15 to 17 percent of the inbound flow of money was with money transfer companies. Lebanon used to get roughly $7 billion per year in remittances and our industry formed 17 percent of that in 2019. Now, in 2021 this is expected to increase. [This could be] because the business is growing; we will see in the coming months, but it is mainly because the banking sector is shrinking. I think we will this year see about 25 percent of total remittances but let's hope that the numbers will be growing and not stagnating at the current level.

In presenting an introduction to OMT, you said that you have 71 percent of the market. Is that the total market or the inbound market of the industry?

It is for the total market of money transfers, for inbound it is much higher; I guess we are about 80 percent of total inbound in Lebanon.

Viewing this under a scenario of the total Lebanese economy today, the value of inbound transfers as share of overall GDP is today very high.

It used to be around 20 percent a few years ago. We predict that this number is going to grow for the coming three, four, five years. It all depends on what plan we will see implemented. So far, nothing has been done. People will rely on transfers.

How is the situation in terms of your overall profit mix and overall transaction numbers? You mentioned in the presentation that the average transaction since the blast was around $600.

Yes, it actually dropped. In previous years, it used to be around $650 and this average principal of inbound dropped by 7 percent in 2020 compared to 2019. This shows that the purchasing power of the Lebanese emigrant has also been affected by the pandemic, the global crisis, and everything. Also, they don't need to send the same amounts anymore. They can exchange more Lebanese pounds for a lower amount of USD. It is also good to mention that over 60 percent of the transfers for the whole year of 2020 are on average equal or less than $300 dollars, although the overall average is $600.

Does this mean that in the 40 percent of transfers that exceed $300, you have a significant share of amounts that are higher?

Yes, not very high but they dwell perhaps between $2,000 and $5,000. I personally expect this segment of the business to grow in the inbound, because banks are not there. Unfortunately, we cannot handle large amounts. The maximum is $7,500 per transaction, and there are compliance rules and regulations.

Could there also be a correlation between the number of inbound transactions and the average value? If a Lebanese living in the US heard that the family back home needs monthly support to survive, but that the transfer of $300 might provide the family with 2.8 or 3 million Lebanese pounds, might he or she remit money more often but in lower amounts per transaction?

It could be. We could do such an analysis in my opinion in June because then we will have almost a full year of knowledge. Right now, the picture is not yet clear, especially since January and February are usually slow months after Christmas and the holidays. The three months from March onward will be significant.

Moving further in thinking about the ease and diminishing cost of transactions, the Fintech disruptions of the past seven years have had vast impacts on the international money transfer industry. How do you at OMT approach this issue?

I will tell you a few words about our OMT digital platform, which is what we have been [working on] for the last two years and hopefully will launch in phase 1 in April. We have been developing this digital platform and we also had systems that were not compatible with [other] platforms. We had to change many things that were existing before even thinking about starting our mobile presence or digital presence. Now, the whole exercise is almost done and OMT will hopefully launch the first application of this kind in the Middle East.

> "We have a responsibility to [become] one of the pillars of the daily economy of the Lebanese citizen"

You have many agents. How is the revenue proposition for an agent, how much money can they make?

Nowadays everything unfortunately has changed. Inbound is the only service that is still flourishing and revenue is generated mainly by inbound transfers from Western Union, because [they are] in fresh dollars. Even the commission that [agents] earn, they earn them in fresh dollars. All other services, from outbound [transfers] to services in Lebanese pound such as paying bills and even transferring money inside of Lebanon, have been losing a lot of revenue in the past two years, because of the devaluation. Our fees [for these services] are in Lebanese pounds, so we lost about 80 to 85 percent of their revenue for OMT and for our agents. So far we did not change the fees, because putting added pressure on [customers] right now is a sensitive issue.

You have five revenue streams in OMT, inbound international, outbound, intra-Lebanon services, governmental services, and cash-out for donor organizations abroad. What are the shares that each service contributes to your revenue today?

We have four strategic business units: Money Transfer (WU and Intra for local transfers), Governmental Services, Payment Services (Telecom, Payments to Banks and other companies in the private sector), and Cash Out (Cash disbursement to individual beneficiaries). Inbound Western Union is number one, intra, the money transfer inside Lebanon is number two, then payment services for the private sector and then the public sector.

Are you then planning to at some point increase your fees for intra-Lebanon transactions, either to businesses or for governmental services?

We are actually studying this but nothing has been decided yet [Some fees are too low to cover cost] and this has been the situation for one-and-a-half years, but we are still hesitant about adjusting the fees, because [our services affect] all people.

From yet another angle, this brings the question of your social commitment and responsibility to the table. As you say, you deal with everyone. Is it correct that you undertook several steps in this regard after the blast?

We were able to cover 1,000 houses with an instant financial support of one million [liras] per household. We were on the ground with [the NGO] Caritas and got all the data from them, because we don't have the database.

Wasn't there also an action with Western Union, of waving the fees for inbound transfers for a whole week? Between direct CSR and aid to the 1,000 families and the waiving of the fees, how much was the total financial support of Western Union and OMT for Lebanon after the blast?

We did a lot for this because with Western Union it was a worldwide thing. It was a joint effort between OMT and Western Union for sending money from everywhere in the world.

What was the total value of the corporate contribution to Lebanon after the port explosion?

We actually have not made this calculation. What I can say is that during that one week, just six or seven days, we paid out around $25 million worth of inbound transactions. This was free of fees. Usually we do this in a month.

In going forward, how do you see the role of OMT in terms of responsibility as a financial services provider that many people rely on in a time when banks are not at the forefront of social commitments and corporate citizenship?

It is a tricky role. We have a responsibility to keep things moving and becoming one of the pillars of the daily economy of the Lebanese citizen. This is a big responsibility, because we have to be there and up to the level, provide the right resources.

Talking about compliance, do you have any pressure from the US treasury?

No pressure whatsoever, but I am sure they ask questions to the [BDL]. We deal with the [BDL] because we are regulated by [it]. We receive requests from the Banking Control Commission (BCC) and from the Special Investigation Committee (SIC). We are in very good relations with both of these.

With your ceiling of $7,500 per transaction, one might think that you are not high on the anti-money laundering radar.

Actually we are, because some customers tend to split transactions and play some games. But for this we have a special compliance system that screens transactions to spot such suspicious cases.

How many red flags do you have each month?

The [number of] red flags could be very high but the number of referred red flags is much lower. Transactions that we investigate are clean and nothing to worry about 95 percent of the time. Our suspicious transaction reports (STR) have about 100 cases per year.

As far as your company's future, I assume that you are not intending to list OMT in Lebanon or anywhere else in the foreseeable future. Is that correct?

We are still a family business here. Maybe in the future, who knows?

For governance of OMT, I understand that you have four board members. Do you have major non-family investors?

No. The company is 50 percent owned by my brother and me, representing the Abou Zeid family, and the other 50 percent are owned by my uncle, Toufic Mouawad, and his daughter. The four of us are on the board. My uncle is the chairman of the board.

Combining the families that are relying on OMT as employers and the families that are in the agencies, how many people are depending on the business for their livelihood?

As OMT we create direct and indirect jobs, for about 4,000 families. This is the whole ecosystem, including agents, their employees and their families.

Are you thinking of expansion, in terms of your profile or in terms of geography?

We are so far in Lebanon and it is better to be the master of your market before even thinking about moving to other markets.

Does that mean that you are thinking about it?

For the time being, no, but maybe in the future. Why not? I believe that [once we] have the digital platform, we can reach every Lebanese around the world. Today we serve four or five million Lebanese here. With the digital platform we are perhaps going to serve 10 million outside. It is a big market.

By Nabil Makari

Hedging on real estate

What are the hot items in the real estate market? And will this trend last?

Real estate, long perceived in Lebanon as a long-term investment which would allow reaping profits in an economy of services, was in addition seen as an attractive investment due to a high number of expats and tourists willing to buy local housing for vacation purposes. However, since the beginning of the financial crisis in Lebanon, the sector has increasingly emerged as a hedging tool for depositors willing to limit a haircut on their bank deposits.

Over the past years, real estate investment hunger had weakened gradually and significantly from a peak in 2012, and this weakness, which was correlated with the high interest environment for deposits, has been reversed since the beginning of the financial crisis in Lebanon in 2019. With capital controls and local currency depreciation, the impending fear of a haircut of deposits has resulted in movements from deposits to real estate, causing a price hike in the sector. Nevertheless, it is necessary to ponder whether this is a long-term trend or merely a result of the political situation of Lebanon, filled with doubt and uncertainty.

OVERALL PRICE HIKE

According to Bank Audi's Real Estate research report dated July 2020, the value of real estate sales went up by 52.5 percent year-on-year in May 2020, to reach $3.7 billion, following double digit contraction in the past two years. Indeed, real estate prices had dropped in 2018 and were selling at a discount in comparison to 2015. Asking prices of residential real estate in Beirut grew by 20 to 30 percent in June 2020 relative to the previous year. This mostly shows a trend on the part of buyers willing to hedge their deposits and to invest in relatively "safe" assets.

On the other hand, this does not appear to be a generalized trend adopted by the Lebanese population as a whole but rather by specific classes. Soon after the October revolution, buyers started looking for safe havens for their deposits, and this demand was met with a supply by property developers. Indeed, according to Mireille Korab, head of Real Estate Business Development at FFA Real Estate, from October 2019 to January 2020, the spike in purchases had been driven mostly by wealthy individuals hoping to buy bargain products to avoid a haircut, while property developers were willing to sell quickly to close their debts. Since then, this spike has

been driven by many more depositors, according to Korab, trying to avoid the same probable fate to their deposits.

By June 2020, most developers had repaid their loans, and prices therefore had gone back to the same level as 2015, according to Korab.

WHO IS BUYING AND SELLING?

Early on, sellers consisted of property developers who were eager to pay back their bank loans, the real estate properties being sold until June 2020 involved apartments that were usually only a few years old or still under construction, mostly around Beirut. However, this was followed in the second part of the year by sales around the country where people bought real estate, whether apartments or land, hoping to hedge potential losses from a haircut.

This has resulted in land prices going up, noting well that the price of such real estate using local Lebanese dollars (lollars), with an ever rising discount of lollars to cash dollars. As a result of developers having repaid their loans, the market is more and more difficult for banker's checks, as sellers are currently focusing on selling their obtained banker's checks at a discount on the black market to obtain fresh dollars, according to Korab. "For the wealthier of the sellers, they are not selling unless it's fresh cash to limit their exposure to the real assets they would use," says Korab.

At this stage, with no financial restructuring and no International Monetary Fund (IMF) package in sight, due to negotiations with the IMF having reached a standoff, the price of real estate might very well keep going up, with the lollar to dollar discount also going up. This would therefore result in higher prices for rent and buying housing as such prices would go up, with rent prices usually following the price of the underlying asset, and most property sellers insisting on being paid either fully or in part in cash dollars.

■ Buying land in real cash dollars could prove attractive [...] as these transactions do not have an investment component [...] and do not require any import of raw materials.

This movement on the real estate level is limited mostly to residential properties and land, as commercial real estate has taken a hit. With the impact of COVID-19, real estate for restaurants, shopping malls, and other high-yield commercial real estate has not proven an attractive investment or hedge, especially with regards to short-term leases. With no short-term use for many of these real estate assets, there is little demand for them in the current situation, though long-term leases could prove attractive as they would be considered a long-term investment should the COVID-19 situation be eventually resolved or at least attenuated.

In light of the reimbursement of loans by developers, who are the remaining potential sellers in this situation?

According to Bank Audi's report, supply has decelerated lately, whereas demand has soared. Indeed, sellers are not very keen to sell real estate unless they require fast cash, for example in case they need to send money abroad, after exchanging the bank check received for the transaction and for cash dollars at a discounted rate. In addition, development projects have frozen, due to reduced availability of construction loans, and the fact that most of the materials can only be obtained in exchange for cash dollars. According to the latest statistics released by the Order of Engineers of Beirut and Tripoli, the total surface area of new construction permits decreased by 32.6 percent in 2019, and by a further 61 percent on a yearly basis as at July 2020.

In addition, according to Byblos Bank's Real Estate Demand Index for the third quarter of 2020, 0.6 percent

of Lebanese residents had plans to either buy or build a residential property in the coming two quarters, down from 1.1 percent in the second quarter of 2020 and compared to 4.7 percent in the third quarter of 2019.

BANKING ON FRESH DOLLARS

Could the real estate market also prove an attractive investment for holders of dollars in overseas accounts? In the current political situation, with no clear economic policy in sight, there is little security offered to long-term investments.

On the other hand, the depreciation of the Lebanese pound has made local prices cheaper for holders of foreign currencies, especially holders of USD. With Lebanon having many of its citizens living abroad, it is conceivable that these expats would be enticed in investing in Lebanon to obtain real estate at attractive prices and engage in development projects. This is not the case, according to Korab, "Developers at present wouldn't sell for other than cash, because cash would help diminish the cost of construction."

Indeed, with the depreciation of the Lebanese pound, costs of construction have gone up due to the depreciation of the local currency and the fact that much of the raw materials being purchased are sourced from abroad. Developers, not being able to transfer money abroad, have to rely on cash transactions, and with the spike in real estate prices in lollars, in addition to the current political situation in Lebanon, there is little appetite for development of real estate projects. According to Byblos Bank's Real Estate Demand Index for the second quarter of 2020, the demand for residential real estate had dropped sharply during the second quarter of 2020, which suggests that "the stock of residential units remains significantly higher than the actual demand, and that the purchasing trend is originating mainly from a relatively limited number of buyers." In addition, according to this report, potential local real estate buyers are reluctant to acquire and build a residential unit, as "they have been forced to address more urgent and basic needs."

Nevertheless, buying land in real cash dollars could prove attractive for holders of cash dollars as these transactions do not have an investment component such as that of development projects, and do not require any import of raw materials.

THE ROAD AHEAD

The road ahead will depend mostly on Lebanon's political and economic situation. Should negotiations with the IMF lead to a rescue package (conditional upon the introduction of reforms), more effective governance and the financial situation on the path to recovery, Lebanon could prove an attractive place for real estate investments.

Services are the dominant sector of the Lebanese economy, and the depreciation of the currency could help attract more foreign investments as well as attract more tourists. At this stage, foreign investments would result in a lower rate of Lebanese pound to USD, and development projects could be kick-started, which would help rein in the need for cash in real estate transactions. In this case, a more stable exchange result would make dealing in the real estate market easier. On the other hand, should the current situation become a long-term one and lag on, the discount of the fresh dollar to the lollar would keep growing and real estate prices in lollars would keep going up to keep up with the need for cash due to higher discounts. "The price is readjusted in terms of fresh cash," says Korab. Indeed, in November of 2019, nominal real estate prices were close to those of 2011 while earlier in October the price had been 50 percent of the 2011 value. Last May, real estate prices had spiked to a level similar to that of prices between 2015 and 2017, which were higher than those of 2018. Overall, the shape of real estate in Lebanon depends on reforms and economic solutions: should reforms be put in place, the real estate market would become more stable and result in investments in development projects. If not, the discount of lollars to US dollars would keep widening and prices would go up and readjust to fresh cash.

In conclusion, the rise in real estate prices in lollars is a direct consequence of economic uncertainty, and an inefficient meeting of supply and demand. Should an economic roadmap be adopted, and successfully implemented, prices would be readjusted and the movement of deposits to real estate would drop, while investments in real estate could start anew.

By Nabil Makari

Solidere rides the real estate wave

Q&A with Ziad Abou Jamra

With Solidere having registered positive stock performance since the beginning of the economic crisis in Lebanon, and with Lebanese rushing to buy real estate in order to hedge against the depreciation of the Lebanese currency, Executive sat with Ziad Abou Jamra, secretary of the Board of Directors at Solidere and deputy general manager, to talk about Solidere's performance and the current state of real estate in Lebanon.

With regards to the August 4th explosion, what is your assessment of the damages caused to Solidere properties? Have any of these been covered by insurance? How much of it is being repaired by Solidere?

The explosion that occurred on August 4, 2020, caused severe damages to our facilities. The insurance policies that we have cover all possible causes but they nevertheless need to pinpoint a cause before initiating reimbursement in our favor. We are not waiting for that to occur but have started the process out of pocket. Rebuilding will occur in phases. The momentum of the rebuilding effort will be directly correlated to the overall situation of Lebanon but will nevertheless occur in stable steps. We are mindful of the interest of both the shareholders as well as the merchants and residents of Downtown Beirut. As for the assessment of the damages, these have already been discussed in our board meetings but discussions are ongoing and the results will not be made public for the time being.

The share price of Solidere has gone up 93 percent between January 2017 and January 2021 (currently at USD 10 per A common share). What are for you the main drivers of this demand?

The following improved company fundamentals are the main drivers of demand for our stock:

Cash reserves in banks witnessed a substantial increase during the year 2020, enhancing the liquidity of the company and its ability to face its urgent and future challenges. Effectively speaking, and in case the dire economic situation persists for the long term, Solidere's current liquidity can carry the company for the next four years if not more. This liquidity will be more than sufficient to cover salaries, taxes, maintenance expenses, and other potential unforeseen costs.

The company settled all outstanding bank loans and overdraft facilities during 2020, thereby bringing its interest expense down to zero. Moreover, the remaining non-interest bearing liabilities have dropped significantly.

A major cost cutting effort initiated in late 2018 successfully brought down the general and administrative expenses by almost 26 percent from around USD 30 million (income statement 2018) to around USD 22 million (income statement 2019).

Sales picked up dramatically in the years 2019 and 2020. This helped the company record a sizable profit in both years.

Devaluation of the national curren-

cy definitely gave a boost to sales, but a big chunk of the total sales were realized before the onset of the devaluation of the local currency and its aftermaths.

With regards to the current situation in Lebanon, should capital controls last, how would Solidere deal with this situation?

Capital controls have no effect on our operations, as they do not affect checks that are drawn locally or transfers that are conducted internally as such. Therefore the future of such controls, whether they become regulated or not, or whether stay in place or not, will have a minimal impact on Solidere.

How has Solidere readjusted to the current monetary paradigm in 2020? In what form and currencies have transactions been undertaken?

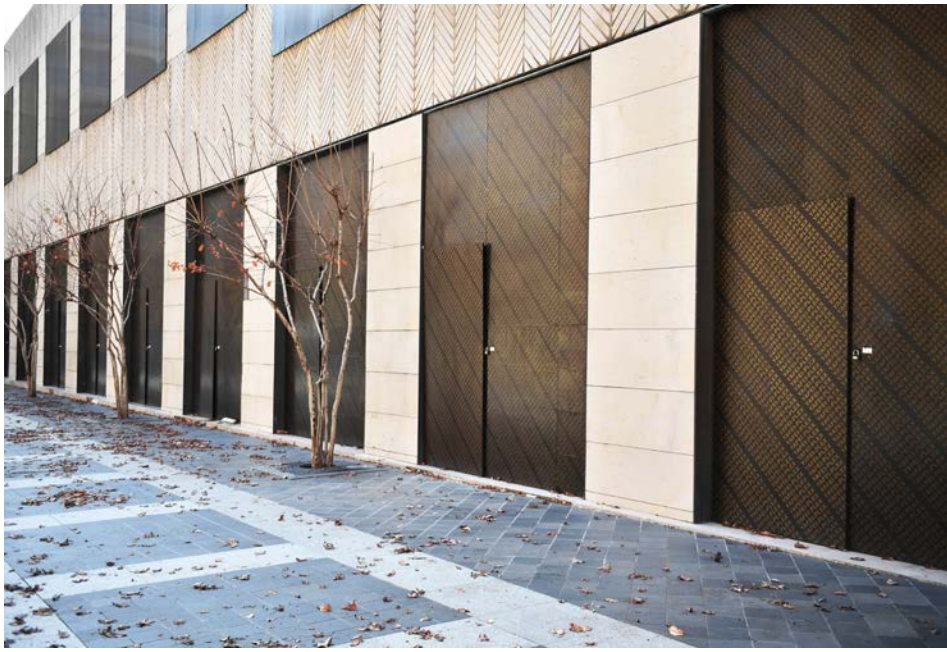
Our modus operandi has remained unchanged as we have sold plots before and after the crisis. All of these transactions occurred in local dollars. Now, as our situation has dramatically improved, we may opt to require a certain percentage of future transactions to be paid in fresh dollars but we have not yet reached a decision in this regard.

Overall, is it correct to say that Solidere's share price has been a result of transactions in Lollars? How do you describe the share price in comparison to January 2019?

I have covered a part of this question in answers provided above. Suffice it to say that while the local dollar has aided the share price it was by no means the only factor in the significant improvement witnessed over the recent period.

Solidere is a company involved in high-end real estate. Would factors such as the currency depreciation that we have been seeing result in Solidere or other developers being interested in investing in high-end real estate?

Uncertainty about the future has driven ultra-high net worth investors with significant deposits in Lebanese banks to migrate losses by buying prime real estate. As Solidere has the best of the crop in this regard, it has stood to benefit the most from this demand.



"All the recent purchases can be described as long-term in nature. These are not investors looking to flip their newly acquired assets for a quick profit"

With regards to properties being sold by Solidere, can you tell us more what kind of real estate has seen the greatest demand in the past year? Offices? Apartments? Other?

We estimate that more than 90 percent of the value of the transactions were land-related, with Solidere having the lion's share of total real estate transactions in the Beirut City Center.

What trends are you expecting for real estate? Will there be local or foreign buyers?

As long as the political situation remains dire, demand will predominantly remain local. Actually, demand may increase as the fear factor increases. Eventually, should a regional political settlement be reached, hopefully a long-lasting one, foreign buyers will return to Lebanon, consequently improving the inflow of fresh dollars and the value of real estate.

How much of the increase in overall real estate transactions do you attribute to transactions in the Beirut Central District? How do you explain the attractiveness of these areas despite the damages caused there due to the Beirut blast, protests and the economic downturn?

All the recent purchases can be described as long-term in nature. These are not investors looking to flip their newly acquired assets for a quick profit. Rather, these are investors whose primary aim is to park their funds in an asset class that will most probably provide the best alternative to protect the value of their money. They possibly aim to hold on to their real estate for at least five years until the situation witnesses a significant improvement, at which point they could possibly sell for fresh dollars. These investors are looking beyond the Beirut explosion, which, no matter how atrocious that was, remains a one-off event, the repercussions of which on the real estate market will dissipate over time. They are also looking beyond the protests. That is the main reason I believe that they are focusing on Beirut as it is the area most likely to recover first and fastest.

Overall, it is my impression that 2020 has been a good year for Solidere in terms of repairing your balance sheet and gaining traction for your stocks. Do you see this trend continuing in the near future? Taking into account Lebanon's situation.

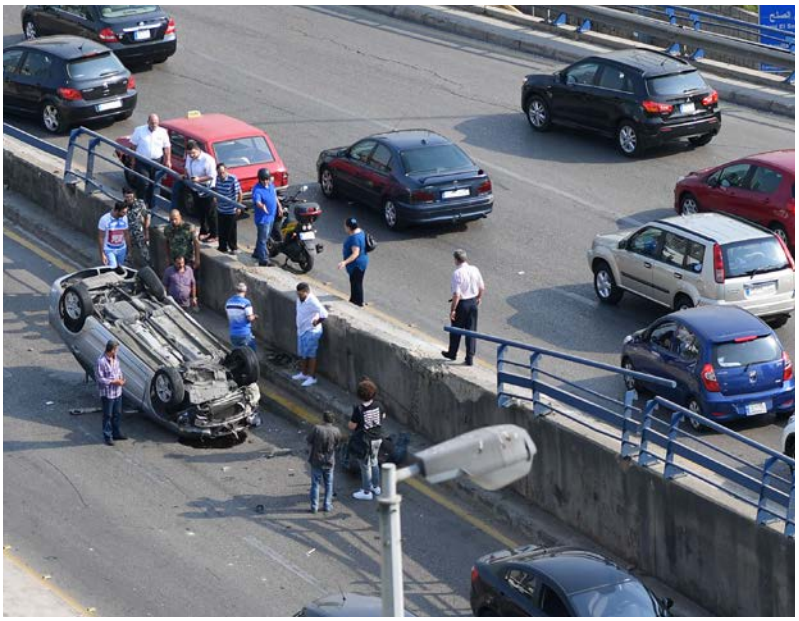
The positive trend should continue in the coming few years as our stock is still undervalued relative to its net asset value (NAV). In addition, should the situation at the macro and political level improve, Solidere would be one of the first companies that would directly benefit as life returns to normal to the downtown area. Ironically however, should the situation continue to deteriorate, this would translate into a rise in both the value of Solidere's stake in Solidere International (assets outside Lebanon) as well as a rise in the value of its real estate portfolio as a whole as local dollars would rapidly lose their worth.

As can be seen from above, Solidere has positioned itself through recent actions on its part to benefit no matter what future developments may lay in store for Lebanon.

"Should a regional political settlement be reached [...] foreign buyers will return to Lebanon, consequently improving the flow of fresh dollars and the value of real estate"

By Thomas Schellen

Lost in the fog



Lebanese insurers seek to ward off economic pressures and evil opinion spells

The best thing to say about the performance of insurance companies in the year to date is that they are slowly reappearing from what seemed an organizational stupor that during the past year enveloped the sector up to the level of the regulator, the Insurance Control Commission (ICC). In the first quarter of this year, a few insurance companies have become newly active in terms of communicating with their market, and the insurance association has begun strategizing on how to re-assert the sector's public perception, which had taken several beatings during the past year. After a period of providing information very haltingly, the ICC as the presently sole source of quotable data on Lebanese insurers, has released its quarterly report on sector results in Q4 of 2020 on March 15.

Such accumulation of vital signs can be observed from a financial sector that was impacted very badly by the liquidity crunch and economic implosion which Lebanon underwent in 2019/20 – certainly as badly as banking and financial intermediaries but with almost no attention given to insurance in the past year's various rescue plan drafts for the nation and restructuring debates about the banking sector.

CAUSES FOR CONCERN

But despite the sector's slowly returning vitality symptoms noted above, at least equally many signals in the first few months of this year have been screaming out to the contrary – arguing that insurers are still deep in the financial woods, life-threateningly entangled in the brambles of the economic crisis. The numbers in the ICC's quarterly report are neither clear nor comforting, several insurance providers and intermediaries are not returning phone calls or responding to interview requests, and those who have lately agreed to talk, offer more by way of hope and personal determination to improve the state of insurance in 2021 than they can point to in terms of positive economic indicators and effective support by political or monetary authorities.

In the ICC quarterly report for the fourth quarter of last year, gross premiums written in 2020 for the fourth quarter and for the year to date (ytd) are respectively stated as 570,421 million Lebanese pounds and 2,357,090 million Lebanese pounds. The most important business lines identified in the report in terms of premiums generation were medical, life, and motor, followed by property and casualty at some distance.

In terms of claims, paid benefits amounted to 1,613,509 million Lebanese pounds for the ytd and 438,534 million Lebanese pounds for the fourth quarter. To this the annual total, property and casualty claims contributed little over 9 percent.

In comparison to these results, gross premiums written in 2019 according to the previous fourth quarter report show the following: Gross premiums written in Q4, 2019 were 530,524 million Lebanese pounds, with life insurance contributing slightly under one third to this total, followed by health, motor, and property which each accounted for between approximately 17 and 30 percent of the insurance market.

In the preliminary end of year tally (the ICC annual report for 2019

has yet to be published), total gross premiums were stated as 2,428,967 million Lebanese pounds. In this total, the breakdown of market shares by insurance lines for the full year was similar to the fourth-quarter results, but differed in the fact that medical insurance came out on top for the full year as the largest business line by premiums.

In terms of gross claims, life payouts in 2019 accounted for close to 40 percent of the total 413,450 million Lebanese pounds that were settled. Collated over all four quarters, the total was 1,580,971 million Lebanese pounds in gross claims settled, with the medical settlements accounting for the highest share of 40 percent, followed by life with 32 percent. Like in 2020, property and casualty claims have contributed about 9 percent to the year's settled claims in 2019.

Nominal net investment income of nearly 300 million Lebanese pounds for the insurance sector by end of 2019 vanished entirely in 2020. The ICC report showed a loss of 89 million Lebanese pounds for the year in net investment income, notwithstanding the microscopically encouraging note that the net investment income in the fourth quarter was positive at 82 million Lebanese pounds.

In other observations, the ratio of paid claims to gross written premiums in 2020, while little changed for the industry at 68 percent (2019: 67 percent), revealed indications of claims exceeding premiums which were more pronounced on company level than in the previous year. Companies Allianz SNA, United, Adir, Bancassurance, AIG, and LCI showed paid-claims-to-gross-written-premiums ratios above 100 percent after four quarters. LCI, the sole credit insurance provider based in Lebanon, witnessed ratios of more than 200 percent for both the fourth quarter and the full year of 2020.

A DARKER PICTURE YET

After several years where gross premiums growth was in the single digits in nominal terms but often was seen by insurance sector insiders and analysts as insufficient to maintain sector profitability levels, the reported trend of increasing claims and decreasing premiums fails to impress and does not look hopeful, even in Lebanese pound figures. When adding a mental note of the Lebanese lira destruction in 2020 and 2021, the incomplete data picture darkens by several orders of magnitude.

Discussing the troubled 2020 and uncertain 2021, Fateh Bekdache, general manager of Arope Insurance, does not mince his words in saying that the last year was "damn difficult." Going through the list of problems and challenges that have been afoot in 2020 and still are pressing on the sector, he first mentions that insurers took large provisions towards the settlement of claims, which was the necessity resulting from the magnitude of the August 4th Beirut port explosion. Bekdache next names as problems the lollar/dollar and Lebanese lira currency conundrum and the issue of having to settle claims in the same currency and same category (cash or check) in which a policy premium had been paid; the painful cost inflation of imports that is reflected by the increase in costs related to medical covers; and challenges on how to pay reinsurers. "So far we don't have answers to most of those issues," he tells Executive.

Instead of sector participants getting help in solving the issues, blame games and accusations abounded when the insurance sector's role was brought to the table, says Jamil Harb, the secretary general of the Association des Compagnies d'Assurance au Liban (ACAL). Counterproductively, the industry has been under outright mental assault from many sides, he tells Executive: "We are being attacked by the public, by the market, and by the press. But we are doing our best to provide the service of insurance."

Bekdache likewise sighs that insurance companies are attacked all the time on all domestic fronts, with nobody in a public position and power to support the sector apparently taking insurers seriously – despite the proven need for insurance protection in days of escalating risks.

The historic catastrophe event of the past year was the Beirut Port explosion. It had obvious implications for life, medical, motor, catastrophe, and property covers held by commercial and private insurance clients. The problems of settlement delays and yet unsolved liability and negligence issues that are affecting settlement of catastrophe and property insurance claims more than seven months after August 4th have splattered the most visible stain on the sector's reputation and credibility (see story page XX on the complex issue). It left a dark mark on insurance in the local public perception but also was seen as a stain by reinsurance partners abroad whose trust in the ability of assessing risks in Lebanon was utterly shaken. "It is a gross negligence issue that really scared the reinsurers. We were faced with many questions during negotiations of reinsurance [contracts]," Bekdache explains.

> For insurers in particular, acute currency problems and cash flow challenges translate into much more than reputation risks

Other spots on the vests of insurance companies – reputations that market players had been building in arduous efforts over the last twenty years – are tied to the litany of liquidity problems that every Lebanese has become a knowledge expert on. For insurers in particular, acute currency problems and cash flow challenges translate into much more than repu-

tation risks, because their operations are dependent on fairly managing risks, pricing of premiums, and settling of claims in the dichotomous currency environment of the Lebanese lira, the crippled local dollar, and the increasingly dear "fresh" dollar, or any sound money.

As highlighted in a paper by the Lebanese Actuarial Association (LAA), insurance companies in 2020 resorted to hardly sustainable measures and steps. Saying they are very concerned with the "challenging risks that the Lebanese insurance industry is undergoing," the actuaries pointed to ongoing market practices that include imprecise remedies such as programs of issuing policies in multiple premiums in efforts to reduce currency and underwriting risks, or inflating sums insured in order to increase premiums. Having observed such artificial increases at margins from 30 to 300 percent in motor all risk (30 to 100 percent) and property (200 to 300 percent) in dollar, lollar, and Lebanese lira covers, and also having witnessed substantial increases in minimum premiums for motor all risk covers, the LAA notes potential problems in relation to those practices, namely deficiencies in defining insured sums, issues that could arise with regard to cessation to reinsurance, inadequate frequency of pricing reviews, and upward distortions of dues in distribution and taxation.

ADD GLOBAL AND REGULATORY DETRIMENTS

Stirred into the foul mix of sharply increased costs, obscure financial risks and destruction of purchasing power that insurers are faced with at home, have been hardening – which in insurance speak means increasingly expensive – international markets for insurance and reinsurance. Although international reinsurance profitability outlooks for 2021 and the coming years have during the recent reporting season been painted in rosy colors in expectations presented by reinsurance giants the likes of Swiss Re, SCOR, and Munich Re as well as research reports by specialized and universal ratings agencies such as S&P and AM Best, the field of insurance is seen as being forced into many changes and strategy revisions, including adjustments to health insurance, retirement, and numerous other life and non-life product lines.

To cite just one source that has been elaborating on insurance uncertainties that loom ahead, the Organization for Economic Collaboration and Development pointed out last June during the first wave of the COVID-19 pandemic and recession, "This global health and economic crisis is also set to have an impact on insurance companies. They are likely to face changes in the demand for insurance policies and claims experience as well as impacts on the value of the assets that they hold to meet their obligations to policyholders."

Facing more immediate problems than global insurance outlooks and long-term strategy concerns, local insurers have already seen clients who sacrificed their life contracts and canceled dollar-denominated policies that they could not find the dollars to pay the premiums for, have downgraded vital medical policies to lower class covers, or have been unable to renew motor insurance. Globally induced upward pricing pressure on insurance premiums is the last thing they need.

"I don't know how people will renew motor insurance in 2021 if they are faced with struggles to put food on their tables," comments Bekdache, while confirming that strong upward price pressure is in force across insurance lines. "There will be hardening conditions, and this will apply especially for catastrophe cover which [the port blast] falls under. It is a big problem but you have to face it," he says.

As the rotting cherry on top of this indigestible looking insurance cake, the ICC regulator appears to have been backsliding in its efficacy as far as keeping tabs on a troubled sector that is overcrowded with distressed providers, some of which have long been operationally shaky and under-capitalized, evoking analyst views that there are insurers in operation today that must be considered as technically bankrupt.

> Widely used insurance covers in motor and medical protection are still as vital as before the Lebanese crisis

Gradually building competencies and expanding its supervisory activities in the 2000s and 2010s, the ICC over the years succeeded to narrow and then close a problematic time lag of issuing its annual and quarterly reports.

WHAT ABOUT TRADE CREDIT INSURANCE?

One insurance business line that sits pretty in economic realms but commands little attention from consumers concerned with protecting themselves against risks of car accidents and medical emergencies, is trade credit insurance. This specialty niche, which has exactly one Lebanese provider in the Lebanese Credit Insurer (LCI), has seen demand growth in many countries because companies everywhere worry increasingly about risks that trade partners, especially smaller companies, might go bankrupt in the long economic aftermath of the global COVID-19 pandemic. To protect their deliverables and invoices, sophisticated corporate clients across diverse economies are thus stepping up their usage of trade credit insurance, explains Karim Nasrallah, the general manager of LCI.

He tells Executive that LCI benefits in some sense from the corporate demand for securing their assets in trade but admits that the market outlook of trade credit insurance in Lebanon, while perhaps not as downcast as that for mass insurance lines, is nonetheless challenging. "There is not much growing demand but there is a strong willingness [by large corporate clients] to stay insured," he tells Executive, explaining that the market on one hand has moved to shorter term or cash invoicing and overall shrunk due to increased reliance of traders on cash in the absence of credit and banking facilities. On the other hand, "volumes have gone up because of increasing prices [of traded goods]. Thus for us premium income is stable or slightly growing but this is mostly due to our stable portfolio [of corporate clients]," he adds.

In the economic crisis of 2020, "we have suffered, like most in the sector. [It was] not too dramatic but we had bad results," he concedes before explaining that the best outlook for his insurance specialty now is in exportation focuses and aspirations of Lebanese manufacturers and producers. "People see the necessity to grow exports and bring fresh currency into their businesses. Demand for export credit has been growing and this is the only thing that we have been able to grow our business in," he says.

Changing products and service structures allowed LCI to better satisfy market demand in the new economic situation of Lebanon and increase the insurer's ability to serve exporters with adequate protection of their invoices and not erode the value of an eventual claim when an invoice in hard currency might be insured by a premium paid in local dollars. LCI to this end has redesigned a formerly combined export and domestic credit reinsurance treaty into a more attractive treaty split into export and domestic coverage terms. This treaty, which has been in force from January, has motivated clients to activate pending policies, Nasrallah says: "We had to adapt to the market to keep business going."

Until the departure of the institution's head nearly one year ago, the ICC also appeared to advance incrementally in building a competent authority that in the late 2010s functioned as independent regulator and only nominally was positioned under the Ministry of Economy and Trade.

However, for almost a year now, it has not been clearly visible who was in charge at the institution. The ICC website does not show a profile of a new commissioner or acting commissioner, and insurance observers and company managers tell Executive that they don't know who is really running the ICC and making the decisions. People who know the institution moreover say that even before the economic shocks of 2019/20, personnel decisions have not been morale or capacity boosters. "The Insurance Control Commission should have grown in the last five years and hired people, retained talent and developed competencies. The opposite was done," comments the ICC's head in the 2000s and early 2010s, Walid Genadry.

THE CHALLENGE OF REINVENTING OPPORTUNITIES

Lebanese insurers, hard pressed for economic survival and habitually tending more to be followers than inventors when it comes to designing new and revolutionary services, can be assumed to have very limited abilities and room for reinventing themselves in the expected crosswinds of global insurance market changes, as the outlook for insurance business lines in Lebanon is more than elusive. Arope's Bekdache, while enthusing at the end of December to Executive that after the very difficult past year, "we are looking forward to a better 2021," continued by saying "the year ahead will be very delicate and we are very cautious in drawing up our strategy for 2021."

Noting that widely used insurance covers in motor and medical protection are still as vital as before the Lebanese crisis and adding that insurers have been obliged last April by a ministerial decision to provide, to a degree, coverage of COVID-19, ACAL's Harb acknowledges dejectedly that as of early 2021, "the industry has no sweeping news, and this is bad. There is regression in all lines of business."

Corroborating the validity of the example of their reinsurance treaty's redesign for improving the market situation of LCI, the LAA paper proposes that securing a very high level of trust with all of an insurer's stakeholders and that "adequate pricing, equitable claims handing, and solid risk management are key to ensure sustainability of the Lebanese insurance market." To move in this direction, the paper recommends that the insurance industry should pursue five solutions to improve its current survivalist practices. These proposed solutions involve, among other things, the creation of an inflation index, changes in product designs, and the application of transparent and controlled processes to avoid litigation.

All in all, it cannot surprise that the mood in the Lebanese insurance sector is glum, with some interspersed lights of hope.

By Nabil Makari

Deal or no deal

Insurance policies post-Beirut explosion

The Beirut port explosion on August 4, 2020 resulted in the loss of more than 200 lives, countless wounded, and also massive insured losses now estimated to range between $1 billion and $1.5 billion by the website ReinsuranceNe. ws. While some of the damages have been repaid, according to the specifics of insurance policies, others have not, awaiting for an official report pertaining to the causes of the Beirut port explosion.

The damages to insured properties, in principle, would be subject to reimbursement by private insurance companies, in accordance with the insurance policies signed between property owners and the said companies. Though from legal and contractual aspects, this would appear to be a straightforward matter, the reality is far from being so, in part due to the unclear reasons behind the blast and the economic situation in Lebanon which has resulted in policies having to be readjusted to take into account the difference between "real" dollars and dollars held in banks and subject to capital controls.

LOLLARS AND DOLLARS

The first issue that has been at the forefront of the reimbursement of policies has been that of the payment of the insurance policy in local dollars or "real" dollars. As the Lebanese dollar (dollars held in bank accounts before the beginning of the financial crisis and capital controls) has lost in value in comparison to real dollars (the current discount as of February 24, 2020, being 30 percent for real dollars to 100 "lollars") due to informal capital controls and a lack of liquidity, the underlying asset being insured could no longer be paid in local dollars, should the insured party be paid in full in the occurrence of damages. A good valued at $20,000 pre-crisis, should it need to be replaced, would require either the same amount in cash or a cheque with a higher value in lollars to be discounted for cash. This has resulted, over the past year, in insurance policies being readjusted for their fair value. In addition, the Lebanese Association of Actuaries in a report dated February 16, 2021, recommended "a review of the Pricing approach, including matching the premium with the allocation of costs by currency," and the introduction of an Inflation Index to properly reflect the value of assets and costs of claims.

According to Elie Hanna, former

president of the Lebanese Insurance Brokers Syndicate, if the insured have readjusted the insured sums in their insurance policies to account for the real value of the underlying asset, and if the policy covers the cause of the damage, then they are repaid, in full, by the insurance company. According to Hanna, this follows law and logic, "but since it is the first time that we had different exchange rates, judges may rule otherwise." This payment can occur in cheques taking into account the discount of dollars to lollars. In addition, according to Elie Torbey, president of the Association of Insurance Companies of Lebanon (ACAL) in a TV interview dated February 12, 2021, insurance companies have sent experts on the ground, in the aftermath of the blast, to evaluate the damages. According to him, 50 percent of reported damages have resulted in experts being set to investigate, and insurance evaluation will be conducted in real dollars in order to account for reconstruction fees.

In conclusion, the value of underlying assets has had to be readjusted to account for the presence in Lebanon of a non-transferable currency being sold on the black market at a discount for real dollars. Insurance companies have managed to readjust these policies for many of their clients. For clients who did not choose to renegotiate their policies and accept paying elevated premiums, payments are to be made in local dollars. The difficulty with regards to many non-adjustments is due to the higher cost of living: with a depreciation of more than 85 percent of the Lebanese pound to the dollar since the beginning of the crisis, many Lebanese simply cannot afford to readjust their insurance policies. In addition to the need to adjust for the massively depreciated lira, the cost environment of insurance has internationally been hardening, which translates into upward pressure on insurance premiums in most markets.

Vehicle damages and other property damages are covered under different policy terms. Most insured car damages have been paid back, according to Hanna. "Others have paid on a compromise basis," he says, when adjustments of the sums insured have not taken place, and when the policies do not cover all causes (especially war and terrorism) taking into account the difficulties in renegotiating policies in a time of scarcity. With property insurance, on the other hand, settlements have occurred in small amounts but not large ones, as insurance and reinsurance companies are still waiting for an official report.

REINSURANCE AND OFFICIAL REPORTS

A thorny issue that is blamed for holding up the settling of larger property insurance claims from the port explosion is that of dealing with international reinsurance companies. According to Torbey, in the same TV interview, most insurance companies are reinsured with regards to the Beirut damages, with international reinsurance companies, and with reinsurance companies covering over 95 percent of the insured damages. The main concern with regards to reinsurance companies is the need for an official report as to the causes of the Beirut port explosion, as the report would then clarify whether or not such cause is included in the reinsurance policy or not, and therefore would result in repayments by said reinsurance companies to the local insurance companies.

There are two basic types of reinsurance arrangements: facultative reinsurance and treaty reinsurance. Facultative reinsurance is designed to cover single risks or defined packages of risks, whereas treaty reinsurance covers a ceding company's entire book of business, for example a primary insurer's homeowners' insurance book. Facultative reinsurance is typically used for high-value or hazardous risks because the policies can be tailored to specific circumstances.

With regards to repayments, according to Hanna, it would all depend on the insurance policies, terms and conditions, and modes of payment: some reinsurance companies have negotiated with local insurance companies a certain amount of reimbursements, others are still waiting for an official report, while some have partly repaid according to premiums and on a compromise basis. In addition, self-imposed capital controls by banks since the end of 2019 have resulted in local insurance companies not being able to transfer money to their reinsurers. For those companies who already made those transfers to their reinsurers, the latter have proposed to deduct these amounts from their repayments due to their local clients instead of cancelling the reimbursement policies, taking into account their long-term relationships with the local counterparties.

An official report is still to be published, to allow for reimbursement from international reinsurers.

> The cost environment of insurance has internationally been hardening, [putting] upward pressure on insurance premiums

It is still undetermined whether the Beirut port explosion resulted from an act of war, terrorism, negligence on the part of port and/or governmental authorities, or a combination of these factors. Some insurance policies mention these specific acts as causes for reimbursement, whereas other policies exclude them. The responsible reinsurance companies would therefore ask for an official report that would follow a judicial investigation to determine the causes of the blast. To date, no official reason was given with regards to the causes

■ Only companies and owners having taken property loans have been fully insured, while most other homeowners are not insured

of the Beirut Port explosion, therefore, many reinsurance payments are still in limbo.

BUSINESS INTERRUPTION

Another side of the damages is that of business interruption, which is typical in case of large hotels or other businesses relying on a steady supply of clients. Distinct from property insurance, business interruption would include coverage over a certain amount of time not for the damage caused to the property per se but for the loss of clients resulting from the damage. In the case of a hotel, for example, such insurance would cover part of the losses stemming from the lack of clients who would have otherwise spent time at the hotel.

Again, in this case the devil is in the details: each insurance policy would have to be examined. Unlike property damages that require official reports, business interruption insurance is more straightforward and therefore most businesses that have signed up for such an insurance will manage to be repaid. The amounts will depend on whether they have readjusted their policy for the depreciation of the Lebanese dollar, and whether they can in some cases negotiate the amounts due to some reinsurance companies not having repaid full amounts due in case of a lack of transfer from their Lebanese clients.

According to the latest report of the Lebanese Insurance Control Commission, the amount of outstanding claims regarding the Beirut port explosion reaches 1.5 trillion Lebanese pounds, with estimated insurance losses at 1.6 trillion Lebanese pounds. Overall, the damages of the blast have resulted in partial payments of 74 billion Lebanese pounds, with some reinsurance companies still waiting for the official cause of the blast in order to assess whether or not the policies would cover the cause of the explosion. Nevertheless, should this occur, most of the damages will not result in payments, as Lebanon does not mandate insurance on housing, unlike other countries. According to Torbey, most houses are not insured, and only companies and owners having taken property loans have been fully insured, while most other homeowners are mostly not insured. Therefore, should repayments occur fully, the Beirut port blast will most likely result in most Beirut homeowners having to pay for the damages themselves.

In conclusion, insurance after the blast will be different. International reinsurance companies will become wary, deeming that Lebanese insurance companies should have been aware of the risks, and therefore reinsurance premiums will probably rise and, in turn, impact the price of insurance premiums in Lebanon. Insurance companies in Lebanon are regulated financial companies and therefore cannot exchange money on the black market and are forced to function within the banking sector for transfers; they are therefore heavily impacted with regards to paying reinsurance premiums abroad (they are not allowed to discount cheques in Lebanese dollars for real transferable dollars). Insurance, after the blast, might become a luxury when it is in fact and first of all a necessity.

By Rayane Dandache

Where is Lebanon's trade in the transition to a digital economy?

Global opportunities and challenges of digitalization

The world is witnessing a digital transformation with implications evident at all levels of the economy, particularly at the level of trade. New trends are surging, mainstream practices are disrupted, and competition is growing especially with digitalization proving to be linked with greater trade openness and higher profitability.

As per the 2019 World Trade Statistical Review, current trade statistics cannot quantify the level of international trade attributable to digital transactions. However, according to United Nations Conference on Trade and Development (UNCTAD) estimates, e-commerce sales hit $25.6 trillion globally in 2018, up 8 percent from 2017, constituting almost 30 percent of global gross domestic product (GDP) that year. It is most likely that this upward trend will continue with the pandemic putting e-commerce at the forefront of retail and accelerating the trend of digital adoption.

In fact, the surge in e-commerce and trade across online channels has pushed companies to move towards the creation of digital offerings that are able to respond to the growing demand where this was and will remain the only way businesses can thrive in this new economic environment and adapt to the trends that are shaping the business landscape.

The shift towards e-commerce was significantly apparent in many regions of the world as stated in a recent Organisation for Economic Co-operation and Development (OECD) brief. In the US, the share of e-commerce in total retail increased to 16.1 percent between the first and second quarters of 2020 compared to 9.6 percent recorded during the first quarter of 2018. Similarly for the United Kingdom, the share of e-commerce in retail rose from 17.3 percent during the first quarter of 2018 to 31.3 percent between the first and second quarters of 2020. The development is similar for China where the share of online retail in total accumulated retail sales between January and August 2020 reached 24.6 percent, up from 19.4 percent in August 2019 and 17.3 percent in August 2018. This shift also gained relevance in several emerging markets such as Kenya, Bolivia, and Columbia where platforms started adopting new and more competitive business models seizing the opportunities over the long term.

ADVANTAGES OF FASTER AND MORE RELIABLE DIGITAL TRADE

Countries that adapted to this digital era were able to realize the benefits associated with digital trade including, among others, the reduction of costs, the cutting of red tape, better integration in global value chains, and enhanced linkages with businesses and consumers globally. This digital revolution was also able to create higher productivity for firms, advance skills for workers, and generate greater consumer welfare and job creation.

However, it is worth mentioning that the gains from digitalization do not materialize automatically and the economic benefits are not directly realized in every country, especially with the rise of various regulatory challenges, complex trade transactions and several policy issues at the level of trade, investment, privacy and security.

Many countries have focused their efforts on strengthening their information and communication technology services to promote innovation and foster the emergence of new services and supply models such as cross border e-commerce, digital payments, cloud computing, etc. The COVID-19 pandemic has also sped up the adoption of digital technologies and services, where digital trade played an essential role in securing the trade flows, albeit virtually.

According to McKinsey's Global Survey of executives, companies have accelerated the digitization of their customer and supply-chain interactions and of their internal operations by three to four years, and the share of digital or digitally enabled products in their portfolios has accelerated by seven years.

WHERE IS LEBANON IN THIS DIGITAL ERA?

With Lebanon's main traditional growth sectors severely affected as a result of the compounded crises, the country's vision settles at structurally changing the economy towards upgrading and increasing the share of its productive sectors, mainly agriculture and industry. In fact, this upgrade requires matching up new technologies with production and delivery systems for a successful outcome of creating growth and value added jobs on one hand and decreasing costs on the other.

> Boosting production and e-commerce will additionally allow [Lebanon] to promote goods and services with high export potential

The advancement of this process will not only put Lebanon at the path of economic development but will also yield substantial social benefits by leveraging the country's pool of educated labor force and increasing people's living standards as a result of higher incomes.

Given the current circumstances, boosting production and e-commerce will additionally allow the country to benefit from the available window of opportunity, i.e., the devaluation of the Lebanese pound, to promote goods and services with high export potential.

Unfortunately, Lebanon's current economic model is no longer viable and is unfit for the digital era, obstructing the country's ability to adapt to economic innovation and rapid technological change. As such, digital transformation can help Lebanon improve its economic prospects especially with growth registering a negative 20 percent in 2020 as per World Bank estimates.

In terms of digital adoption, Lebanon captures only 4.7 percent of its digital potential, well below the 8.4 percent average for Middle Eastern countries, highlighting a large untapped growth. The Lebanese e-commerce market is growing moderately. It still lags behind many of its neighbors, despite the fact that Lebanon is ranked 64th worldwide, according to the UNCTAD B2C E-commerce Index 2020.

There are several challenges impeding Lebanon's ability to realize the benefits of digitalization. These challenges stem from inadequacies at various levels such as broadband connectivity, digital technologies, ICT skills, customs procedures, logistics, digital infrastructures, regulations, etc.

Delving deeper into the hurdles

standing in the way of a successful transition, Lebanon's ICT infrastructure positions itself as the primary barrier especially through chronic power shortages, high internet subscription fees despite low speeds, a low fixed broadband subscription rate and the lack of a fiber optic network infrastructure.

On the other hand, inadequacies at the level of ICT skills stem from the outdated education system and the prominent 'digital divide' resulting in the lack of knowledge and awareness on fundamental digital skills needed for the digital economy.

At the level of government, Lebanon ranked 127 out of 193 in the 2020 E-Government Development Index (down from 88 in 2018) highlighting the gap in e-payment systems and the absence of an adequate legislative and regulatory framework that is vital for the transformation.

TOOLS NEEDED TO GRASP THE OPPORTUNITIES

The main point lies in Lebanon's readiness to engage and adapt to these fast-paced transformations. Despite several advancements, the country has much work ahead in addressing the challenges hindering Lebanon's digital trade progress.

As per the latest economic plan published by the Ministry of Economy and Trade, "shifting from a rent based to a productive economic system requires a deep – and sometimes painful – transformation at all levels." The plan also gives a particular focus to several productive sectors with high potential for export including the industrial and agriculture sectors being sources of national comparative advantages and value creation. As such, Lebanon needs to create an enabling environment for trade, leverage digital technologies and tailor them to the digital era with particular attention given to upgrading these promising sectors and tapping the country's export potential.

> The only way Lebanon can develop its economy is by leveraging its comparative advantages

Policy priorities include first of all investing in adequate digital infrastructures at the level of logistics, online payments, e-commerce and digital regulations. These investments are imperative to improve digital trade performance. Second, expanding e-skills by revising the education and training systems, and providing workers and MSMEs with the needed opportunities to upgrade their skills and address changing labor market demands. Thirdly, designing accommodative trade rules, export promotion and trade facilitation strategies to enhance the integration of SMEs in global value chains, such as the development of online platforms, digital solutions and targeted trainings aimed at building online business skills. In fourth place, it is necessary to revise and upgrade the existing legal and regulatory framework to ensure the success of any potential agriculture or industrial policy. This entails developing laws and regulations aimed at supporting legally-recognized digital interactions and protecting the interests of all actors. Fifth and finally, all relevant stakeholders including ministries, the private sector, academia and civil society should be involved.

WHAT'S NEXT?

Global trade is ever-changing, and the only way Lebanon can develop its economy is by leveraging its comparative advantages and integrating into global value chains. Technological and innovative advancements have posed several challenges forcing Lebanon, like many other developing countries, to create an enabling environment that would foster innovation and allow for the imperative transition into a digital economy.

The Lebanese government has a crucial role to play in pro-actively seeking digital technologies and expanding the use of digital services in trade to the reap the benefits of engaging with global trade partners and businesses and avoid the risks associated with the poor adoption of these innovations that can be dire for all productive sectors, and citizens.

A holistic approach needs to be put in place and geared towards allowing digital trade to be the backbone of the country's economic transformation.

Will Lebanon eventually be a "digital" trading partner?

Rayan Dandache is an economic policy coordinator

By Nabil Makari

Cedar Oxygen: a ventilator for Lebanese industrialists?

Q&A with Alexandre Harkous

Established in early 2020 as a private initiative to address the pressing social and economic difficulties of the Lebanese industrial sector, Cedar Oxygen was later approached by the Central Bank of Lebanon (BDL) which invested $175 million of financing in order to address the need of local industries. In light of the financial crisis in Lebanon and the depreciation of the Lira, which is making it more difficult for the Lebanese to import foreign goods, including raw materials, Executive sat down with Alexandre Harkous, Chairman and Managing Partner of Cedar Oxygen.

E Could you please start by introducing yourself and telling us about your background?

I left Lebanon in 1985 and moved to France. I am an engineer, technology oriented, specialized in Finance. All my background is with banks, asset management and capital markets. Then I ventured into startups. I founded my first one, SIP, in 1996, and sold it in 1998 to a very big company in the UK, Mysis UK. For the following three years I was head of wealth and asset management at Deloitte, then my second startup was established in 2000, BI-SAM Technologies, which became a worldwide leader in wealth and asset management systems. Today, more than $15 trillion of assets under management use this system. This company was then sold in 2017 to FactSet [and relocated from the UK to Lebanon]. Why Lebanon? I am Lebanese […] I wanted to give back to Lebanon, and even wanted to come back and live in Lebanon. I had prepared everything in Beirut, then we started facing the problems we know. My objective was to help Lebanon and help the Lebanese youth in creating startups.

E Could you expand on the genesis of Cedar Oxygen? How was it created? Were institutions such as BDL, or expat organizations involved in the design?

[BDL] was talking to different fund managers and counterparties, including the Association of Lebanese Industrialists. The Governor [Riad Salameh] called me in January 2020 and we met. We discussed in length the problems that the industrialists were facing, their increasing need for liquidity as well as the foreign reserves situation and the subsidies issue. He asked me for my opinion. We import between 11 and 14 percent of GDP per year for the industrial sector. We import raw materials for $3 billion. We should have a way for industrialists to finance themselves which should be a closed circle .

The other idea was related to the FX, because industrialists selling to the domestic market will collect their money in Lebanese pounds, and therefore we should have a solution to inject money in the fund in USD. He mentioned that he was talking to different parties. So we started the process in the end of January and early February. After a long procurement process and 11 different meetings, due diligence and compliance processes, our proposed solution (Fund and Digital Fintech Platform) was approved by the Governor and voted by the Central Council members

I had called different partners, from Moscow, Paris, and Beirut, and we worked hard during six weeks and presented this program in March. It has two legs: a fund (a pool of money), and a platform for peer-to-peer FX.

E Were there any Lebanese expatriates involved in the process?

All the founding team members are expatriates. We hired a team of seven in Lebanon after we created the company. Today we have two structures, the back office in Paris and a front office team in Beirut.

E Did any organization such as Lebanese International Finance Executives (LIFE) take part in this process?

The founding team seeded the initiative, then the BDL was the first anchor investor in the fund. Cedar Oxygen is a private initiative, founded

by expatriates. I am a member of Life (Lebanese International Finance Executives), and chairman of the technology pillar of LIFE today. Two other members of Cedar Oxygen are members of LIFE. This is how I contacted my partners. It is not a LIFE initiative but an initiative by LIFE members.

In the current situation, Lebanese enterprises are finding difficulties in accessing capital, in paying for imported materials (raw materials and machinery), and the need to activate exports. How will the Cedar Oxygen fund address these issues?

The journey ahead of us is long. We have a pool of capital and a FX platform. Now if you are an industrialist, you need to buy your raw materials let's say from France or any other country, you can ask for a facility from Cedar Oxygen, you can import through the platform, which is digitalized, with a new way to treat the files. Given that we are in France, we will be talking to Coface and Euler Hermes to help structuring credit insurance for exports.

The process starts by collecting the data from applicants, studying the files, financial statements, and their financial situation. We have a credit team in the Beirut front office that collects and analyses the data, and creates a credit memo for an Investment Committee (IC). The IC is composed of five members; three of them are independent and two are not Lebanese. The idea was to avoid a conflict of interest. There is no decision made in Beirut with regard to how we allocate the funds. Any file we receive is treated in Beirut, a detailed memo is sent to the IC. Every week we have an IC, the vote has to be unanimous for the file to be approved. Then we deploy the money and pay directly to the sellers of raw materials. The materials are then sent to Beirut.

How would you describe Cedar Oxygen's business model? Would you qualify it as a private debt fund?

Yes, but for the moment it is not debt for capital expenditures or working capital. It is for buying raw materials. However we are talking to different Development Finance Institutions (DFIs), and we hope to help more by deploying money for capital expenditures and working capital, this will help the industrialists augment their production, especially the exporters. Our target is to improve the balance of payments.

Will this include export support or export activation programs? (For example, participation in trade fairs among others)

You are aware that we have signed a memorandum of understanding with the Association of Lebanese Industrialists (ALI). We are working now with different economic attaches, either Lebanese or non-Lebanese, in different Lebanese embassies, but also the French Chamber of Commerce and the ALI. We are preparing a virtual trade fair for Lebanon that will be held on April 29 to promote the Made in Lebanon label. It will be the first virtual trade fair where we will expose real Made in Lebanon brands in Europe, and it will be our first occasion to show that.

> "We should have a way for industrialists to finance themselves which should be a closed circle"

Is Cedar Oxygen banking on specific key sectors for exports (for example agribusiness and key industries with competitive edges)?

We are excluding jewelry, due to Know Your Customer (KYC) and Anti-Money Laundering (AML) problems. We were excluding oil because it is not raw materials. But we received a file today, a request for a company that is importing oil for industrial purposes and we will consider it. Other industries, agribusiness, of course, textiles, machinery, and other industries are all eligible.

You mentioned hoping to reach $400 million per fund. How are you segregating the funds?

When I met Fady Gemayel, the president of the ALI, we were looking at the needs of the Lebanese Industries, and we came to the conclusion that if we reached this number, and we could roll it out once or twice a year, this would be enough to cover the initial demand. This was in February 2020. Afterwards, the government announced their default on Eurobonds, then resigned, then unfortunately the explosion at the port and the Covid-19 lockdown occured, so we are trying to readapt our strategy to be pragmatic, especially as our stakeholders, the DFIs have two problems today: they have concerns about the political issues, and the country risk. We are trying to reach this amount as a target.

You mentioned before that you were hoping to reach a $2 billion a year financing. How are you segregating the funds?

We are allocating by sector. Our business strategy is to manage risks. We have to manage risks by sector, we will not concentrate our investment on a few sectors. We reallocate things differently, but we are still deploying. We cannot have more than 5 percent concentrated to a single borrower and no more than 30 percent concentration to a sector.

Industrialists have expressed interest. Are they mainly interested in the fund as potential borrowers or recipients? Or are there desires to be part of the financing?

There is interest in borrowing from the funds, but we have received

interest by some of them to invest in the fund. You can use money in the fund, but you cannot obtain any priority to borrow from the fund in that case, or receive any information on your competitors. It's a candid answer we need to give to those industrialists; it's part of the communication.

When we created the IC, we were concerned to receive these calls from Beirut. I have one vote, even if I want to transfer money from the account I cannot sign alone. The signature is done not just by the chairman but also by two external managers that are partners in the corporate service agent that we work with and who operate under Luxembourg jurisdiction. We are always under control by the IC for any money in and out.

E Has potential funding interest been expressed by other sources?

Industrialists are interested. DFIs were all interested, but with all that happened last year we have had ups and downs. Since the US elections we are seeing more interest from the American side. In Europe it's more wait and see, as they wanted us to form our government. Now they are accelerating, since it's a private initiative and for the private sector. I cannot tell you which country, but I had a meeting with the ambassador from a European country, and he mentioned the need to accelerate. We are accelerating with these DFIs without waiting for the government and waiting time.

E In light of the political instability inLebanon, do you believe Lebanese industries can thrive even if economic instability seems to have become the norm?

We are looking into the private sector, and our contracts are under Luxembourg and UK laws, if they are under Lebanese law it's for rare cases like mortgages and guarantees. All the investments are under the UK and Luxembourg laws.

Lebanon is unstable and has always been unstable. Unfortunately the good days of Lebanon are behind us for now, we should wait to get those good days again, and I am optimistic. But we can work without this, we should continue, otherwise we lose a lot of time.

We made studies about what happened in Italy, Germany, and France with regards to lockdowns for example, and we gave the Government the protocols applied there and told them not to lock down the industry, as it is a productive sector. We are trying to help. I don't think we should be concerned about the government and the reforms; otherwise we lose a lot of time.

It's an alternative system and an alternative fund; it's even an alternative economy. It's a private initiative. Investors have no leverage on us.

E True, but Lebanon's Ease of Doing Business rating is very low, industries are not hit by a lack of financing only, but also by issues related to infrastructure and regulatory issues (for example electricity outages and slow internet). Wouldn't this be an impediment to the growth of the industrial sector?

Of course, but look, let's be pragmatic, and let's consider a moment that Cedar Oxygen was not established and that we are here to build something and come up with solutions. The banking sector won't recover in the next 18 months, it will take years, and when we say years we say five years minimum. You don't have a lot of financial solutions. If you wait for the government, who knows?

In my opinion, if we want to rebuild the country we need private initiative, direct to the consumer, direct to the industrialists, to people, to become productive. Cedar Oxygen is one initiative, but we can duplicate this. Even at Cedar Oxygen, we finance trade, but also what else can we do? We are considering Capital Expenditures. If we make our initiative successful, we can duplicate this to other sectors such as technology or agriculture.

> "The banking sector won't recover in the next 18 months. It will take years [...] If you wait for the government, who knows?"

E You put a lot of emphasis on governance, principles; you have an investment committee with unanimous voting. Do you think you can help promote better governance standards?

That would be our aim. If you asked me this question two years ago I would have told you it's difficult, due to the fact that Lebanese companies are family businesses, with strong connections. It's a difficult mission to be honest. We are trying to talk to our industrialists but the road is long, they have to rebuild a lot of things. There are things we can't address now like pollution or sanctions.

Today I am seeing people more open to equity investments, because they want to save their companies and jobs. I think that implementing new standards is an opportunity, and not just an economic one. It can promote best practices and gender equality, for example.

On our end, we have best practices implemented and corporate governance, including Environmental, Social and Governance (ESG) principles that we review with different experts and asset managers.

I feel I have to take on this mission, and fortunately I have a great team behind me. It was a learning curve. I was naïve when I came to Beirut, I learned a lot from that one year.

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Salesforce, the global leader in CRM (NYSE: CRM), and Gavi, the Vaccine Alliance, announced that they will collaborate to help Gavi manage critical information in equitably distributing approximately two billion COVID-19 vaccines to 190 countries by the end of 2021.

Cedar Oxygen (Cedar O2), a Luxembourg domiciled economic recovery platform for Lebanon, signed a Memorandum of Understanding (MoU) with the **Association of Lebanese Industrialists (ALI)** to offer financing and financial services to Lebanese Industrialists.

Discovery Inc., the global leader in real life entertainment, today announced a strategic partnership with **STARZPLAY**, the MENA region's fastest-growing subscription video on demand service, to launch discovery+ – the definitive non-fiction, real life subscription streaming service – across the Middle East and North Africa.

Mentor Arabia Foundation announced a partnership with **Anghami**, through which it seeks to use Art and Music as means to empower Arab youth and encourage them to unleash their creativity and innovation, through launching the first round of the regional initiative titled "Youth Empowerment Songs Competition."

Sitecore, the global leader in digital experience and content management software, announced on January 7 the availability of its digital experience solutions via Sitecore Managed Cloud services from the **Microsoft Middle East Cloud** regions in the UAE.

Abu Dhabi Ports announced on January 7 a freeze on rent escalation during 2021 for all businesses in its Industrial Cities and Free Zone cluster, in a move aimed at providing further relief to its customers in **KIZAD and ZonesCorp** and boosting the Abu Dhabi economy in these challenging times.

Abu Dhabi Racing started the 2021 racing season on January 11 with a double program to kick off the year including the **2021 Formula 3 Asian Championship and Formula 4 UAE Championship.**

SAP SE (NYSE: SAP) launched the SAP SuccessFactors Time Tracking solution on January 12, a cloud-based solution that provides organizations with simple, innovative tools to record, approve, and monitor the time of their workforce.

DIFC Academy partnered with **Candriam Academy** to offer the world's first free-to-access accredited training platform for sustainable and responsible investing. The partnership aligns with the UAE Vision 2021 to build a competitive knowledge-based economy by developing local capabilities and investing in education.

Hyundai Motor Company has won two coveted accolades at the PR Arabia National Auto Awards with its 2020 Palisade and Sonata models being named the Kingdom of Saudi Arabia's best vehicles in their respective categories, on January 12.

Abu Dhabi Media, the UAE's leading public service broadcaster, and **STARZPLAY**, the region's fastest-growing subscription video on-demand service, announced a strategic partnership to live-stream UFC events across the Middle East and North Africa.

Abu Dhabi Ports, part of ADQ, one of the region's largest holding companies, signed an agreement with **Transporter Ltd** to manage its inland container depot (ICD) in Musaffah, provide handling facilities within the ICD, and deliver fully inclusive transportation solutions for containers between the ICD and Khalifa Port.

BLOM BANK SAL and Arab Banking Corporation (B.S.C.) signed a definitive agreement whereby BLOM BANK SAL will sell its entire 99.4 percent stake in its Egyptian subsidiary BLOM BANK Egypt SAE ("BLOM BANK Egypt") to Bank ABC, subject to obtaining the approvals of the Central Bank of Egypt and the central bank of Lebanon, among other regulatory approvals.

The **Emirates Group** rolled out a COVID-19 vaccination programme for its UAE-based workforce in coordination with the Dubai Health Authority and the Ministry of Health and Prevention.

Pfizer and BioNTech SE announced an agreement with the Ministry of Health (MOH) in Lebanon to supply their COVID-19 mRNA vaccine candidate (BNT162b2), in 2021.

The **American University of Beirut Medical Center (AUBMC)** announced the signing of a cooperation agreement with the **Fund for French Nationals Abroad (La Caisse des Français de l'Etranger CFE).** This agreement allows French nationals in Lebanon who are registered with the CFE to benefit from the health coverage provided by the Social Security Fund for Expatriates, in exchange for the healthcare services that AUBMC will provide.

Hyundai Motor Company announced the three winning creative photographs of its Sonata Fandom Challenge by residents in Saudi Arabia who received a brand new Sonata 2.5 GDi. The challenge required residents across the Kingdom to take a picture on their smartphone using the AR camera filter of either a Hyundai Sonata 2.5 GDi, a Sonata N Line or a Sonata Hybrid which could be zoomed in, rotated or moved.

Bank Audi sal (Bank Audi) and First Abu Dhabi Bank (FAB) signed a definitive agreement under which FAB acquired 100 percent of the share capital of Bank Audi sae, Bank Audi's subsidiary in Egypt.

The **Lebanese Foundation for Permanent Civil Peace** concluded the project "Enhancing the Parliamentary Openness, Transparency, and Effective Oversight," with a virtual conference meeting on January 21. This project was funded by **USAID's** Alliance Building for Progress, Development and Local Investment program – Capacity Building (BALADI CAP) project.

The Lebanon Solidarity Fund, jointly launched by **Culture Resource and the Arab Fund for Arts and Culture – AFAC** announced on January 22 the opening of the call for submissions in support of arts and culture institutions and spaces.

Abu Dhabi Ports has inked a 50-year land lease agreement with **Anchorage Investment** for the development of grain storage and processing plants at Khalifa Port, to be managed by National Feed, one of the largest Agro commodity processors in Abu Dhabi.

Hyundai Motor Group launched the "DAL-e," a highly advanced customer service robot that independently communicates with people using precise recognition capabilities and mobility functions.

Deloitte Middle East launched an IFRS global virtual series which drew registrations from over 50 countries. The virtual series ran for three days with more than 4,000 registrations from the USA, Middle East, Europe, India, Cyprus, and several other countries.

PM Lebanon was named as Top Employer in Lebanon for the sixth consecutive year on January 25, in recognition of the company's excellence in people practices and ability to meet the needs of a modern workforce. The certification is the result of an independent assessment by the Top Employers Institute, which has equally recognized PM Lebanon's parent company, **Philip Morris International (PMI)**, as Global Top Employer for the sixth year in a row.

Resource Group, a technology investment group, announced that its chairman and CEO, Hisham Itani, was named "Technology CEO of the Year Middle East 2020" by Global Banking & Finance Review at the 2020 Global Banking and Finance Awards. Resource Group was also named "Most Innovative Holding Group Middle East 2020" for its continuous technology innovations in the Middle East region.

Free Fire gamers in the Middle East and North Africa participated in an exclusive event from January 26 to February 1 to mark the introduction of the "Legend of Booyah," the first bundle inside the game to have Arabic tattoos wrapped around it.

Accenture (NYSE: ACN) and Salesforce (NYSE: CRM) expanded their alliance through a partnership to help companies embed sustainability into their business, meet growing customer and stakeholder expectations, and contribute to advancing the United Nations Sustainable Development Goals (SDGs).

Hyundai Motor Company announced on January 27, that SangYup Lee, Senior Vice President and Head of Hyundai Global Design Center, earned the coveted Grand Prize of Design at the 36th edition of **Festival Automobile International (FAI)**.

BARQ Systems, on January 27, announced that it became the first F5 Platinum Partner in Egypt.

Millennium Hotels & Resorts MEA named Hamid Sidine as its new Chief Operating Officer for the Middle East and Africa region on January 27. Sidine will leverage his experience in Saudi Arabia, Turkey, and Africa to develop the regional operations of the company.

Ajialouna, a Lebanese non-profit organization that aims at engaging in charitable, cultural, social, healthcare, and educational programs, launched the Yalla Give campaign to support the Lebanese healthcare system.

Theme parks and attractions at Yas Island Abu Dhabi was awarded the "Go Safe" certification by the **Department of Culture and Tourism** – Abu Dhabi, covering Ferrari World Abu Dhabi, Yas Waterworld, Warner Bros. World™ Abu Dhabi, CLYMB™ Abu Dhabi, Yas Marina Circuit, Yas Mall, as well as W Abu Dhabi – Yas Island and all Yas Plaza hotels.

Under the directives of Vice President and Prime Minister of the UAE and Ruler of Dubai HH Sheikh Mohammed bin Rashid Al Maktoum, Dubai launched the Vaccine Logistics Alliance to speed up distribution of COVID-19 vaccines around the world through the Emirate.

Emirates partnered with **GE Digital Aviation Software and TE FOOD to trial TrustOne**, a mobile app that allows passengers to undergo COVID-19 PCR tests at special discounted rates. The app helps passengers adhere to the latest regulations and protocols, making travel seamless and more convenient.

National Geographic Abu Dhabi (NGAD) and Almarai announced the winner of the 10th annual "Moments" photography competition across the Middle East and North Africa.

Mastercard launched its Global Cyber Forward programme in partnership with **Dubai International Financial Centre (DIFC).** This partnership aims to boost cyber readiness and resilience across the financial industry, enabling effective cyber security oversight through the Dubai Financial Services Authority (DFSA) Threat Intelligence Platform (TIP).

Oracle launched the Coder-Maker Initiative in collaboration with **Lebanon-based NGOs International Education Association (IEA) and the Mouna Bustros Foundation (FMB)** to deliver computer coding trainings for Lebanese youth. The initiative will provide schools in Lebanon with training, education programs, and other online resources to help students gain the skills they need for the future of work.

The **United Nations** in Lebanon launched the **global Women's Peace and Humanitarian Fund (WPHF)** with a

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Call for Proposals to identify partners for supporting women's participation in the Beirut's Port Explosion response and recovery process, enhancing women's participation in the country's political recovery from the explosion, and addressing issues of women and men's exclusion from relief and recovery due to lack of formal documentation. **The Government of Germany,** with participation from the **Government of Canada and the European Union provided the funding,** with **UN Women** serving as the Fund secretariat, and aims to fund small and emerging women-led or women's rights organizations from across Lebanon and seeks to compliment the work of the **Lebanon Humanitarian Fund**.

Abu Dhabi Ports, announced the launch of a major coral relocation and conservation project, in the waters surrounding Khalifa Port. Conducted in partnership with the **Environment Agency** – Abu Dhabi (EAD), Khalifa Port's coral relocation forms part of a series of mitigation measures to lessen the environmental impact from dredging, while reclaiming waters that separate the offshore port's breakwater from the nearby Ras Ghanada coral reef.

LIXIL EMENA, in partnership with **GROHE**, launched, an industry-first digital platform for the global sanitary brand, featuring multimedia content that allows visiting business partners and consumers to create their individual brand experience based on their needs.

Genesis Middle East & Africa HQs announced the opening of the region's first dedicated Genesis showroom, operated by First Motors, the official distributor of Genesis in Bahrain.

PwC launched its Middle East Sports Survey to review the short and long-term consequences of a crisis unprecedented in the history of modern sport in the UAE, Saudi Arabia, Bahrain, and Qatar where the industry is expected to grow the fastest in the region compared to 50 countries across the world.

The **American University of Beirut Medical Center** announced the launching of its **Post COVID Care Clinic (PCCC)** at **Hamdi al Zaim Interstitial Lung Disease Outpatient Center**. In addition to providing multidisciplinary care for COVID-19 survivors, the center will also lead the clinical practice and research on post COVID care in Lebanon and the region.

SAP SE (NYSE: SAP) announced that **SAP Ariba** solutions has helped **Middle East agribusiness Al Dahra** save 10 percent to 15 percent in procurement, while helping the region avoid a potential food shortage during the COVID-19 pandemic.

Marriott International, Inc. (NASDAQ: MAR) announced a significant planned expansion of its all-inclusive portfolio through a long-term agreement with **Sunwing Travel Group's hotel division, Blue Diamond Resorts,** which has an extensive portfolio of resort properties throughout the Caribbean, Central America and Mexico.

CHEP, the supply chain solutions company, announced a two-year contract renewal plus increased business with **Nestlé Middle East & North Africa (MENA)** to replace traditional white exchange pallets with a CHEP managed pallet pooling solution throughout the region. The switch from white wood to CHEP pooled pallets is expected to streamline Nestlé's supply chain, while reducing cost and driving sustainability benefits mainly reducing deforestation and CO2 emissions.

Hyundai Motor Group revealed TIGER (Transforming Intelligent Ground Excursion Robot), the company's second Ultimate Mobility Vehicle (UMV) and the first designed to be uncrewed. The transforming intelligent ground excursion robot is designed to carry various types of payload while traveling over challenging terrain.

Marriott Bonvoy, the travel marketplace and highly awarded travel program from Marriott International, released, a redesigned, more intuitive version of its mobile app, in anticipation of increased desire and demand for travel later this year. The program also announced that the app will be available in Arabic starting August.

More than six months after the Port of Beirut explosions, efforts to mitigate the direct impact of the blast continue. To this end, **UN-Habitat and the International Islamic Charity Organization (IICO)** signed an agreement, on February 12, to rehabilitate 100 damaged residential units in Bourj Hammoud, directly benefiting 500 people.

Nissan began a field test of new mobility services as part of a partnership to promote future community building in Japan. The partnership agreement between three local governments and eight companies aims to develop new modes of transportation and promote the use of renewable energy in the Hamadori area of **Japan's Fukushima Prefecture**. The overall goal is to help develop a revitalized, resilient, and sustainable low-carbon community. Nissan's involvement in the project is part of the company's vision of enriching people's lives and its global efforts to achieve carbon neutrality by 2050.

Hyundai Motor Company released new images revealing the spacious and versatile interior of the much-anticipated IONIQ 5, which made its virtual world premiere on February 23.

Khurram Shroff, the Chairman of Dubai's IBC Group, pledged 100,000 Bitcoins (current value of $4.8 billion) to set up the Miami 2.0 Blockchain Strategy Foundation and many other related joint venture projects on

February 16. Mr. Shroff's backing of Miami 2.0 Blockchain Strategy could turbo-charge use of the cryptocurrency, which is estimated to transact $200 billion per day by the end of 2021.

Huawei announced the appointment of Jian Wang (Ethan) as the new CEO of its Huawei Jordan and Lebanon operations who will carry on leading the company's efforts of supporting both countries' digital economies to drive growth.

Abu Dhabi Exports Office (ADEX), the export-financing arm of Abu Dhabi Fund for Development (ADFD), signed an AED 22 million ($6 million) loan agreement with the **Egypt-based Emirati firm Jenaan Pipes & Irrigation Systems SAE** for importing raw material from the petrochemicals company Borouge to manufacture and supply irrigation systems to one of the world's largest refineries situated in Egypt.

Palo Alto Networks (NYSE: PANW) announced the release of its cloud-delivered security platform Prisma Access 2.0 for securely enabling work-from-anywhere. Prisma Access 2.0 introduces new enhancements, including self-healing infrastructure, ML-powered security to help prevent attacks in real time, cloud SWG capabilities for a secure web gateway regardless of user location, and a reimagined cloud management experience.

T**he Government of Finland** contributed an additional € 4.3 million to **UNICEF's No Lost Generation programme** for vulnerable children in Lebanon. The new contribution will improve the well-being of vulnerable girls, boys, and young people – namely by increasing learning opportunities through non-formal education and skills development, and reducing risks of violence and abuse while alleviating economic hardship by providing cash assistance. In doing so, the programe will contribute to the fight against child labor and child marriage.

On World Cancer Day (February 4), **the Cancer Prevention and Control Program at the Naef K. Basile Cancer Institute (NKBCI)** at the American University of Beirut Medical Center, in collaboration and provider-ship with **King Hussein Cancer Foundation and Center (KHCC),** held a virtual awareness meeting under the title of "Cancer Prevention and Control Redefined Amid COVID-19" in Lebanon and the region.

Emirates became among the first airlines in the world to operate a flight with fully vaccinated frontline teams servicing customers at every touchpoint of the travel journey.

Experience Hub, the destination partner of Abu Dhabi's leisure and entertainment hub Yas Island, was the winner of three categories at this year's **Gulf Customer Experience Awards**. Experience Hub's expert Customer Experience team won the following three awards: Overall Winner for the Gulf Customer Experience Awards; Best Contact Centre – Gold Award; and Employee Engagement & Happiness – Silver Award. This year's awards ceremony was held live in Dubai on February 22.

Australia's **Victoria** premium food suppliers revealed that the **UAE and Saudi Arabia** were the highest value food and fiber export markets in the MENA region during 2019-2020.

MENA lifestyle retail company **AZADEA Group** announced the acquisition of the operations and franchise rights of **Adidas and Reebok i**n Lebanon that will bring back the international sports brands to the Lebanese market and consumers. AZADEA Group will gradually reopen Adidas and Reebok stores across Lebanon, starting April 2021, in addition to e-commerce expansion plans.

Huawei Consumer Business Group (BG) announced its flagship HUAWEI Mate X2, the new-generation foldable smartphone with the new Falcon Wing Design and new mobile technology functionalities.

Global footwear brand Skechers is donating more than 52,000 pairs of BOBS shoes to children impacted by the Beirut port explosion, set to be distributed by the Lebanese non-profit organization **Ahla Fawda**, with help from **Soles4Souls and additional coordination from Cisco,** bringing total donations by Skechers to children worldwide to 16 million new pairs of shoes.

Banque BEMO is launching a Deposit Protection Program in collaboration with "BEMO Europe – Banque Privée" targeting Fresh Funds deposits held by individuals or companies, up to an amount of $50,000.

The UAE's **DIFC Academy** has partnered with **EdAid, the London-based FinTech platform** dedicated to increasing access to higher education, to launch the online Future Campus. The platform will offer online education opportunities to UAE nationals and residents from leading global academic institutions.

JGroup, a Lebanon-based holding company with a vast portfolio of subsidiaries and investments across the Middle East, Europe, Asia, and United States, announced the renewal of their media representation contract with **Iraqi satellite TV, Alsumaria and its subsidiaries Sumer FM and Alsumaria.tv.** The contract is renewed for five more years.

Hope Consortium, an Abu Dhabi-led public-private partnership delivering large quantities of COVID-19 vaccines globally, is utilizing its internally developed "mUnity" system to ensure full visibility, safety and security, and tamper-proof distribution of the COVID-19 vaccines, despite the complexities of their transportation.

Qatar Islamic Insurance Group (QIIG) entered into a digital transformation partnership with **global technology company SAP** to enhance customer services.

Bahrain Airport Services, which plays a strategic role in the operations of Bahrain International Airport, announced a partnership with global technology company SAP to digitally transform Bahrain's aviation market post-COVID-19.

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Events

CONFERENCES

	ORGANIZERS	CONTACT	WEBSITE
ONLINE EVENTS			
10-13 Mar	**IRAN DIGITAL ECONOMY & EMPLOYMENT FORUM** IICIC	nouri@iicic.com	www.iicic.com
LEBANON			
20-24 *May*	**LEADING FOR GROWTH IN DIFFICULT TIMES - A MASTERCLASS WITH MICHAEL KOULY** I Have Learned Academy	+962 3 614 493; info@ihavelearned.me	www.ihavelearned.me
25-28 May	**HORECA LEBANON 2021** Hospitality Services	+961 1 480 081; -	www.horecashow.com
6-7 Jul	**INTERNATIONAL CONFERENCE ON ECONOMICS AND SOCIAL SCIENCES** Theires	info@theires.org	www.theires.org
DUBAI-UAE			
16-18 Mar	**THE MEETING PLACE FOR ECOMMERCE, DIGITAL MARKETING AND CX TRAVEL LEADERS** Worldwide Business Research	+65 6722 9455	www.wbresearch.com
28-1 Apr	**COMPENSATION & BENEFITS FORUM** Informa Connect	+971 4 407 2456; sponsorship@informa.com	www.informaconnect.com
4-6 Apr	**GCC SMART GOVERNMENT AND SMART CITIES CONFERENCE** Datamatix Group	+971 4 332 6688; info@gccsmartgovernment.com	www.datamatixgroup.com
29-30 Sep	**SEAMLESS MIDDLE EAST 2021** TERRAPINN	+971 4440 2500; joseph.ridley@terrapinn.com	www.terrapinn.com
ABU DHABI-UAE			
2-3 Jul	**INTERNATIONAL CONFERENCE ON ECONOMICS FINANCE AND ACCOUNTING** AcademicsERA	+918 763 630 140; info@academicsera.com	www.academicsera.com
SAUDI ARABIA			
13-14 Mar	**INTERNATIONAL CONFERENCE ON MANAGEMENT AND INFORMATION TECHNOLOGY** Acadeics World	+91 7077656338; info@academicsworld.org	www.academicsworld.org
25-26 May	**SAUDI ARABIAN FAMILY ENTERPRISE FORUM** Campden Wealth	liamsmith@campdenwealth.com	www.campdenevents.com
28-29 May	**INTERNATIONAL CONFERENCE ON ECONOMICS AND BUSINESS MANAGEMENT** International Academic of Science Technology Engineering and Management	+918 280 862 844; info@iastem.org	www.iastem.org
1 Jun	**BONDS, LOANS & SUKUK SAUDI ARABIA** GFC Media Group	+44 020 7045 0920; Registrations@GFCMediaGroup.com	www.events.gfcmediagroup.com
28-29 Jun	**INTERNATIONAL CONFERENCE ON ECONOMICS FINANCE AND ACCOUNTING** AcademicsERA	+918 763 630 140; info@academicsera.com	www.academicsera.com
20-22 Sep	**IFN KSA MEET** REDmoney events	+603 2162 7802; infoevents@redmoneygroup.com	www.redmoneyevents.com
27 Sep	**GLOBAL TRADE REVIEW SAUDI ARABIA** Global Trade Review	evirtue@gtreview.com	www.gtreview.com
11-13 Oct	**THE 2ND SAUDI INTERNATIONAL MEDLAB CONFERENCE** 1st Arabia	+966 566 676 512; info@saudimedlabexpo.com	www.saudimedlabexpo.com
25-28 Oct	**FUTURE INVESTMENT INITIATIVE** Public Investment Fund	info@futureinvestmentinitiative.com	www.futureinvestmentinitiative.com
BAHRAIN			
14-16 Mar	**MENOG FORUM** Menog	+971 43649459; info@menog.org	www.menog.org
10-11 Jul	**INTERNATIONAL CONFERENCE ON MANAGEMENT, ECONOMICS & SOCIAL SCIENCE** Researchfora	+918 8 951 885 31; info@researchfora.com	www.researchfora.net
10-11 Jul	**INTERNATIONAL CONFERENCE ON SCIENCE, ENGINEERING & TECHNOLOGY** Researchfora	+919 8 951 885 31; info@researchfora.com	www.researchfora.net

	ORGANIZERS	CONTACT	WEBSITE
10-11 Jul	**INTERNATIONAL CONFERENCE ON ADVANCES IN BUSINESS MANAGEMENT AND INFORMATION SCIENCE** Researchfora	+920 8 951 885 31; info@researchfora.com	www.researchfora.net
14-16 Sep	**LEADERSHIP EXCELLENCE FOR WOMEN AWARDS & SYMPOSIUM** Middle East Energy Events	+971 4427 0739; info@e3-worldwide.com	www.lewa-symposium.org

KUWAIT

28 Jun	**IFN KUWAIT FORUM** REDmoney events	infoevents@redmoneygroup.com	www.redmoneyevents.com
28 Jun	**PRIVATE INVESTORS FORUM** REDmoney events	infoevents@redmoneygroup.com	redmoneyevents.com

QATAR

15-17 Mar	**MILIPOL QATAR - UK PAVILION** ADS Group Limited	+44 (0)20 7091 4500; joe.peace@adsgroup.org.uk	www.adsgroup.org.uk
4-7 Apr	**THIMUN QATAR CONFERENCE** THIMUN Qatar	+974 4454 1916; thimunqatar@qf.org.qa	www.qatar.thimun.org

JORDAN

21 Apr	**FINTECH SUMMIT MIDDLE EAST** Moments Innovation Events	+962 799 799 814; airshaid@momentsinnovation.com	www.fintechsummitme.com
20-24 Apr	**WORLD FINTECH FORUM** world fintech forum	+962 799 799 814; admin@wftforum.com	www.wftforum.com
30 Apr-2 Jun	**INTERNATIONAL AQABA CONFERENCE** Mediac Communication & Exhibitions LLC	+962 656 892 66; Info@AqabaConf.com	www.aqabaconf.com
22-23 Jun	**INTERNATIONAL E-ENGINEERING EDUCATION SERVICES CONFERENCE** Tafila Technical University	+962 322 503 26; conference@e-engineering.org	www.e-engineering.org
12-14 Oct	**JORDAN INTERNATIONAL CHEMICAL ENGINEERING CONFERENCE** Jordan Engineers Assocation	+962 6 5000 900; Jiche@jea.org.jo	www.jeaconf.org

EGYPT

17-20 Mar	**BUILDING FUTURE EGYPT** Arabian German For Exhibitions	+201 013 979 441; marketing@batimat-egypt.com	www.egypt-projects.com
9-11 Jun	**CITYSCAPE EGYPT** Informa Connect	+202 232 269 69; info@cityscapeegypt.com	www.cityscapeegypt.com
14-Jun	**IDC EGYPT CIO SUMMIT** IDC MEA	info@idc-cema.com	www.idc.com
14-15 Jun	**SKYSCRAPERS & HIGH R SE BUILDINGS CONFERENCE** Arabian German For Exhibitions	+202 227 035 84; info@skycraperegypt.com	www.skyscraperegypt.com
12-13 Jul	**INTERNATIONAL CONFERENCES ON ECONOMICS AND SOCIAL SCIENCES** THEIRES	+917 606 986 371; info@theires.org	www.theires.org
12-13 May	**INTERNATIONAL CONFERENCE ON ECONOMICS FINANCE AND ACCOUNTING** AcademicsERA	+91 8763630140; info@academicsera.com	www.academicsera.com

OMAN

12-13 Mar	**INTERNATIONAL CONFERENCE ON MANAGEMENT AND INFORMATION TECHNOLOGY** Academic World	info@academicsworld.org	www.academicsworld.org
3 Jun	**IFN OMAN FORUM** REDmoney events	infoevents@redmoneygroup.com	www.redmoneyevents.com
13-15 Sep	**THE OMAN PETROLEUM & ENERGY SHOW** OPES	+968 246 601 24; satyam.chopra@omanexpo.com	www.bondevents.com
9-11 Nov	**OMAN'S INTERNATIONAL CONFERENCE ON WATER ENGINEERING AND MANAGEMENT OF WATER RESOURCES** Institution of Civil Engineers	ice.midlands@ice.org.uk	https://oicwe2020.com/

BUSINESS ESSENTIALS

Events

EXHIBITIONS

	ORGANIZERS	CONTACT	WEBSITE
LEBANON			
17-21 May	**THE EXCLUSIVE INVESTMENT FORUM** World Elite Solutions	+961 76 523 688 raluca@worldelitesolutions.com	www.worldelitesolutions.com
19-22 May	**SMARTEX LEBANON** M.I.C.E. Lebanon	+961 1 384 791; info@micelebanon.com	www.smartexlebanon.com
DUBAI			
15-17 Mar	**DUBAI INTERNATIONAL HUMANITARIAN AID & DEVELOPMENT CONFERENCE & EXHIBITION (DIHAD)** INDEX Conferences & Exhibitions Organisation Est.	+971 4 520 8856; info@dihad.org	www.dihad.org
24-26 May middle-east.	**PAPER ARABIA** Messe Frankfurt Middle East GmbH	+971 4 389 450 0; paperworld@uae.messefrankfurt.com	www.paperworld- ae.messefrankfurt.com
7-9 Jun	**AUTOMECHANIKA** Messe Frankfurt Middle East GmbH	+971 4 389 4500	www.automachinkaDubai.com
31-2 Jun	**THE HOTEL SHOW DUBAI** DMG Events	+971 4 438 0355; info@dmgevents.com	www.dmgevents.com
31-2 Jun	**THE LEISURE SHOW** DMG Events	+971 4 438 035; info@dmgevents.com	www.dmgevents.com
11-13 Mar	**IMMIGRATION PROPERTY EXHIBITION** Beijing Mabotech Co., Ltd	+861 0 827 572 88; contact@bmctdubai.org	www.ipedubai.com
31-2 Jun	**INDEX** DMG Events	+971 4 438 035 5; info@indexexhibition.com	www.indexexhibition.com
12-13 Oct	**MIDDLE EAST RAIL 2021** TERRAPINN	+971 04 440 2501; jamie.hosie@terrapinn.com	www.terrapinn.com
29-30 Sep	**SEAMLESS MIDDLE EAST** Terrapinn Middle East	+971 4440 2500; enquiry.me@terrapinn.com	www.terrapinn.com
ABU DHABI			
11-13 Mar	**IMMIGRATION PROPERTY EXHIBITION** Beijing Mabotech Co., Ltd	+8610 82757288; donna@mabotech.com	www.ipedubai.com
BAHRAIN			
7-10 Apr	**GULF PROPERTY SHOW** Hilal Conferences & Exhibitions	+963 11 443 3444; hawra.neamah@tradearabia.net	gulfpropertyshow.net
23-25 Apr	**INTERNATIONAL EXHIBITION FOR INTERIORS, DESIGN AND FURNITURE** Hilal Conferences & Exhibitions	+963 11 443 3444; rohan.steven@tradearabia.net	gulfpropertyshow.net
2-4 Nov	**GULF CONSTRUCTION EXPO** Hilal Conferences & Exhibitions	+963 11 443 3444; info@hilalce.com	www.gulfconstructionexpo.com
2-4 Nov	**BAHRAIN'S BOUTIQUE PROPERTY SHOWCASE** Hilal Conferences & Exhibitions	+963 11 443 3444; hawra.neamah@tradearabia.net	http://gulfpropertyshow.net/
EGYPT			
17-20 Mar	**METAL & STEEL 2021** Arabian German for Exhibitions	+201 027 020 020; marketing@arabiangerman.com	www.metalsteelegy.com
17-20 Mar	**WINDOOREX MIDDLE EAST 2021** Arabian German for Exhibitions	+201 027 020 020; marketing@arabiangerman.com	www.windoorex.com
5-7 Apr	**MIDDLE EAST COATINGS SHOW** dmg :: events (Middle East Asia)	+971 4 438 0355; info@dmgevents.com	www.dmgevents.com
1-3 Sep	**DIGI SIGN AFRICA** Middle East Trade Fairs	info@digisignafrica.com	www.digisignafrica.com
25-Oct	**SMART VISION INVESTMENT EXPO** Smart Vision	+201 222 688 770; info@smartvisioneg.com	www.smartvisionexpo.com
28-30 Oct	**TECHNOPRINT** Printing Industries CO-OP Association (TAG)	+202 2282 5880; marketing@technoprintexpo.com	www.technoprintexpo.com

	ORGANIZERS	CONTACT	WEBSITE
KUWAIT			
10-13 Oct	**KUWAIT OIL AND GAS SHOW AND CONFERENCE** Informa Markets - Bahrain	+973 17 550033; ali.haji@informa.com	www.kogs-expo.com
20-21 Oct	**KUWAIT FINANCIAL TECHNOLOGY CONFERENCE & EXHIBITION** 12events	+96522461473; info@12.events	12.events
QATAR			
9-11 Nov	**HOSPITALITY QATAR** IFP Qatar	+974 4432 9900; ghassan.nawfal@ifpexpo.com	www.hqshow.com
OMAN			
22-24 Mar	**OMAN REAL ESTATE EXHIBITION** Oman Expo	+968 24 660 124; ashley.roberts@omanexpo.com	www.omandesignandbuildweek.com
22-24 Mar	**OMAN FACILITIES & ENVIRONMENT** NIH Office of Intramural Training & Education	+968 24 656 042; info@oite.com	www.ofe.om
28-30 Mar	**GHEDEX 2021** NIH Office of Intramural Training & Education	+968 24 656 060; info@oite.com	www.ghedex.om
31-1 Apr	**GHEDEX SOHAR** NIH Office of Intramural Training & Education	+969 24 656 060; info@oite.com	www.ghedex.om
1-4 Sep	**CHINA TRADE WEEK OMAN** MIE Events	+971 (0) 4 425 3337; john.george@mie.ae	www.mieevents.com
SYRIA			
3-7 Jun	**INTERNATIONAL MEDICAL EXHIBITION AND CONFERENCE** UIFC	+963 11 3312123; syrianmedicare1@gmail.com	www.syrianmedicare.com
14-18 Jun	**EXHIBITION OF INFORMATION AND COMMUNICATION TECHNOLOGIES** BuildEx	+963 11 6061; info@syria-tech.sy	www.syria-tech.sy
24-28 Jun	**INTERNATIONAL EXHIBITION FOR CONSTRUCTION** BuildEx	+963 11 4433 444; info@agexhibitions.com	www.arabiangroup.com
24-28 Jun	**HEATING, VENTILATION, AIR CONDITIONING AND WATER EXHIBITION** BuildEx	+963 11 6061; info@hvac.sy	www.hvac.sy
SAUDI ARABIA			
15-17 Mar	**INTERSEC** Messe Frankfurt Middle East GmbH	+971 4 389 4500	www.intersec-ksa.com
24-26 Mar	**ARAB AFRICAN INTERNATIONAL INVESTMENT FORUM** IECO Consultants	+966 505 233 746; info@iecoevent.com	www.aaiif.com
11-13 Oct	**INTERNATIONAL EXHIBITION FOR PEOPLE WITH SPECIAL REQUIREMENTS (DIAA 2020)** 1st Arabia Team	+966 920 020 025; info@1starabia.com	www.diaaexhibition.com
11-13 Oct	**SAUDI REHAB EQUIPMENT EXPO** 1st Arabia Team	+966 920 020 025; info@saudirehabexpo.com	www.saudirehabexpo.com
11-13 Oct	**SAUDI INTERNATIONAL MEDLAB EXPO** 1st Arabia Team	+966 920 020 025; info@saudimedlabexpo.com	www.saudimedlabexpo.com
15-18 Nov	**SAUDI BUILD** Riyadh Exhibitions Company Ltd	+966 920 024 020; info@recexpo.com	saudibuild-expo.com
15-18 Nov	**SAUDI ELENEX** Riyadh Exhibitions Company Ltd	+966 920 024 020; info@recexpo.com	saudielenex.com
29-1 Dec	**SAUDI HALAL EXPO** 1st Arabia Team	+966 920 020 025; info@saudihalalexpo.com	www.saudihalalexpo.com
2-4 Dec	**CHINA TRADE WEEK EVENT** MIE Group	+971 0 56 503 7356; melanie.bazin@mie.ae	www.ctwsaudi.com

LAST WORD

By André Sleiman and Sabine El Hayek

If the price is right...

How public procurement can restore trust in Lebanese institutions

Along with the reform of capital markets and the strengthening of judicial independence, the modernization of public procurement is on top of Lebanon's reform agenda and a major condition to unlock international assistance. Public procurement is a fundamental economic activity for public authorities at the central and local levels, as it encourages the provision of high quality services in a cost-effective way.

The massive uprisings of October 2019 and the unfolding financial meltdown may signal a wind of change: both the international community and the Lebanese people are demanding strict accountability and integrity requirements, but the challenge is considerable. Despite billions of dollars of aid and soft loans that were granted to Lebanon since the 1990s, the country's infrastructure and the quality of public services remain among the poorest in the region. To many, the inefficiency of public spending is but one outcome of Lebanon's institutionalized corruption, elite capture, and pork barrel politics. Moreover, not only have the oversight agencies been systematically weakened over the past years, but the many loopholes in Lebanon's legal and regulatory framework also offer little prospects for better days without an overhaul of the public procurement system. If properly regulated, public procurement can restore confidence in the Lebanese business environment and attract foreign investors. But there is much more to public procurement than a way towards economic recovery: it is also about restoring trust in public institutions.

ARE LAWS PAIRED WITH PUBLIC FUNDS MISMANAGEMENT?

Lebanon's current public procurement framework is a fragmented patchwork of various legal instruments consisting of the 1959 Tender Regulation Decree, the 1963 Public Accounting Law (PAL), and a flurry of other texts regulating exceptions and special procedures. Some municipalities follow the Accounting Principles in Municipalities and Unions of Municipalities Decree of 1982, others follow the PAL, and others still adopt their own systems.

Lebanon's outdated and heterogeneous legal framework, in addition to the multitude of stakeholders, make this activity highly vulnerable to corruption and clientelism. Public authorities have large discretion to resort to unjustified practices such as bid slicing. In other instances, municipal officials resort to vendor bills to reduce the length of bureaucratic procedures and delays for receiving approval from supervision authorities. Democracy Reporting International (DRI) assessed these issues at length to support current reform efforts.

According to a December 2020 report to the Ministry of Finance, policy and regulatory functions of the procurement system are "inexistent, and the complaints review mechanism is weak and inefficient." The quality of the system was rated "below average" (48/100) both globally and among several MENA countries. By all standards, Lebanon does not comply with international guidelines and agreements.

THE ROAD TO BETTER PUBLIC PROCUREMENT

There is much hope to pass a public procurement reform bill that was submitted to Parliament in February 2020. The draft legislation lays the groundwork for a comprehensive and modern public procurement system that is aligned with international standards. Since last June, it has been discussed in consultation with key stakeholders.

The Organisation for Economic Co-operation and Development (OECD), the World Bank, and DRI are providing technical advice and guidance to this process. So far, changes brought in have been promising, but successive lockdowns have delayed progress.

In line with the United Nations Commission on International Trade Law (UNCITRAL) standards and international good practices, the draft law highlights fairness and competition by strengthening competitive tendering, limiting single-source procurement, and treating all bidders equally. It also introduces a code of conduct, fosters transparency by leveraging technology to facilitate access to information in compliance with the 2017 Access to Information Law, promotes efficiency and effectiveness by ensuring value for money, and enhances accountability via control mechanisms including appropriate complaint and sanctions processes.

For the quantum leap to happen, the law should be consolidated by a package of implementation decrees, standard bidding documents, and a bold program for empowering oversight agencies. Only then can Lebanon correct its course towards public integrity and effective accountability.

Sabine El Hayek, DRI Lebanon legal research officer, and André Sleiman, DRI Lebanon country representative

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