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ECONOMIC ROADMAP

- DRAFT 5.0 -



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EDITORIAL

#262

Vengeance Economics

The year 2021 left a bitter aftertaste. And believe it or not, this horrible flavor of systemic failure keeps getting worse. The government's inaction increasingly exasperates people's frustrations, as they maneuver around daily threats, uncertainty, and desperation. This reality promises the worst behavior from both the establishment and the citizen; arrogant incompetence from the first and misinformed confusion from the latter.

The proposed budget's lack of alignment to a clear and detailed strategy that draws an elaborate plan to revive the economy and returns people's rights defies all expectations and economic principles. We are worried about the damage that might be caused by passing, before elections, another amateurish plan similar to that of 2020. A non-reformist budget full of haphazard spending and unjust revenues will only serve the political class. It will reinforce a failed extractive economic model that will deplete remaining resources and capital.

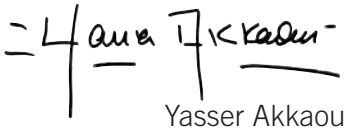
As we bleed, we recognize that we need to immediately adopt a plan that distributes the losses fairly before more funds are drained, yet, the fear is that what is being concocted behind closed doors is nothing but another treachery that will allow the government to escape punishment and responsibility for their mismanagement and corruption, and worse, throw most of the burden on the citizen. The asymmetry of information is alarming; the people deserve to be involved in formulating a plan that promotes an inclusive economic model which advances equitable opportunities for financial participants in economic growth, while benefitting every section of society.

On the other hand, we are still awaiting a promising, constructive, and ambitious counterargument from reformist groups or individuals. So far, we only come across reactive, vindictive, and aggressive statements in the form of letters and responses that do not add up to even an introductory discourse on a political reform doctrine that would mirror people's urgencies and support realistic expectations.

Unfortunately, the international community has also caught on to this lack of vision. None among local or international advocates is amused by our society's failure to even propose a solid alternative to the corrupt reality, which more and more is resembling sectarian fascism practiced by those few who loudly declare themselves to represent the best interests of the Lebanese but are constantly violating the people's rights and are willing to use lies and any means at their disposal to achieve their violent goals.

No democracy has ever been entirely immune against violence from the outside, or radical and brutal takeover attempts from within. Thus, while we are busy pegging our hopes to the much-anticipated elections and make our bets that the fragility of democracy does not fail our illusions, it is high time for reformists and opposition to put forward a comprehensive and viable vision that can invalidate the establishment's attempts to undermine our rights.

Yes, we want to take vengeance for the corrupt past but by building a viable, diverse, and just economy. We cannot invest our hopes into voting for another political fantasy, as we need more than just a good plan or agreement.



Yasser Akkaoui
Editor-in-chief

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LAST YEAR

FEBRUARY MARCH

Lockdown and labor protests

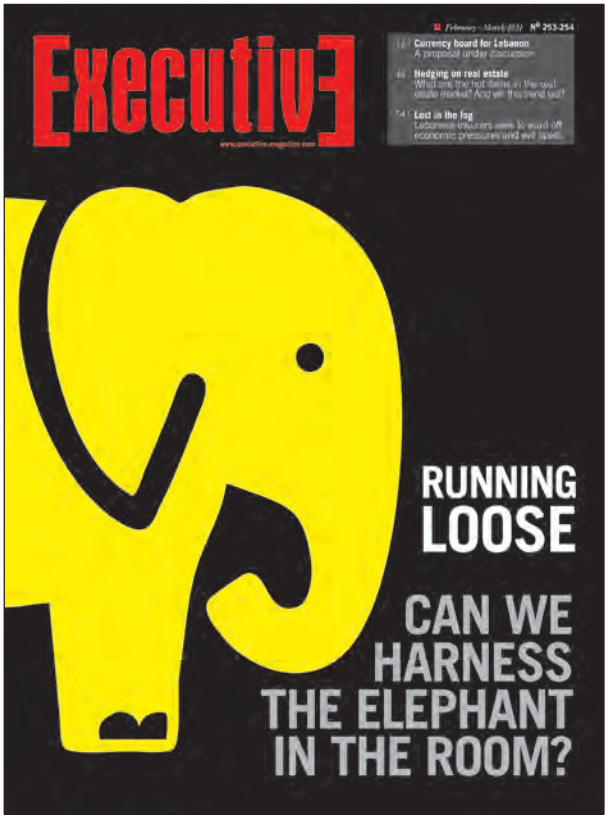
Following the government decision to extend a total COVID-19 lockdown and curfew to the first week of February, exasperated citizens left without the possibility of securing income from daily labor or sales activities took to the streets and blocked roads in protest across the country. At the start of the year a lockdown was implemented for the January 14-25 period, in response to a skyrocketing rise in COVID-19 cases during the holiday season. The extension of the lockdown was decided in a desperate attempt to flatten the curve of infection but was perceived as economically detrimental by laborers and business owners already struggling to remain afloat and deprived of any compensation or social safety net. The resigned Lebanese government did resolutely nothing.

COVID-19 vaccination starts

After a long wait, the first doses of the COVID-19 vaccine arrived in Lebanon and the Ministry of Public Health initiated a nationwide and widely promoted vaccination campaign prioritizing medical personnel and senior citizens. The good news was marred by reports of expected nepotism and abuse by public figures, ineligible for priority vaccination, rushing ahead of others to get jabbed. When called out, some of these politicians responded publicly as expected with dismissive remarks and, in some cases, insulting language. Further complications arose from the insufficiency of imported doses amid high demand and need, while different political figures worked through alternative channels to secure additional doses for their electoral base. This prompted the private sector once again to step in and secure vaccines at their own expense for their employees free of charge or at competitive prices.

Journalist murdered

Lokman Slim, a prominent journalist, activist and vocal critic of Hezbollah politics was found shot in his car in southern Lebanon on February 4. Slim had previously received explicit death threats from Hezbollah supporters and had issued a statement holding the group's leadership, along with the Lebanese army, responsible for his personal safety His murder adds another heinous crime to the list of assassinations of people able to testify on nefarious activities in recent months, amid nationwide certainty that it too will also go unsolved. The inability to single out any suspects, much less secure a conviction, or even launch prosecution, meant "the elephant remained in the room," and the guilty would continue to kill with impunity and pursue their unbridled efforts to advance their own agendas. Slim's assassination was only the most recent case of attacks against journalists and freedom of expression since the beginning of the October 17 protest movement. His funeral and requiem were attended by a slew of artists, activists, foreign ambassadors, and multi-confessional religious delegations.



The Lebanese pound in free fall

In March, the dollar exchange rate reached 10,000 Lebanese pounds on the parallel market for the first time. This figure, regarded by some as the symbolic point of no return for the national currency's depreciation sounded the alarm for both businesses and citizens who once again took to the streets and blocked roads in protest. This depreciation below 10,000 pounds had been anticipated by a number of economists and analysts but had managed to be delayed in the wake of the August 4 Beirut Port explosion, following an influx of US dollar notes to the country from international donors and expatriates. In the months that followed, this accelerated inflation has been steadily contributing to the depreciation of the Lebanese pound. The subsequent lifting of all lockdown measures and reopening of most businesses did nothing to slow down further depreciation or the dwindling of purchasing power.

APRIL
MAY

No more gasoline?

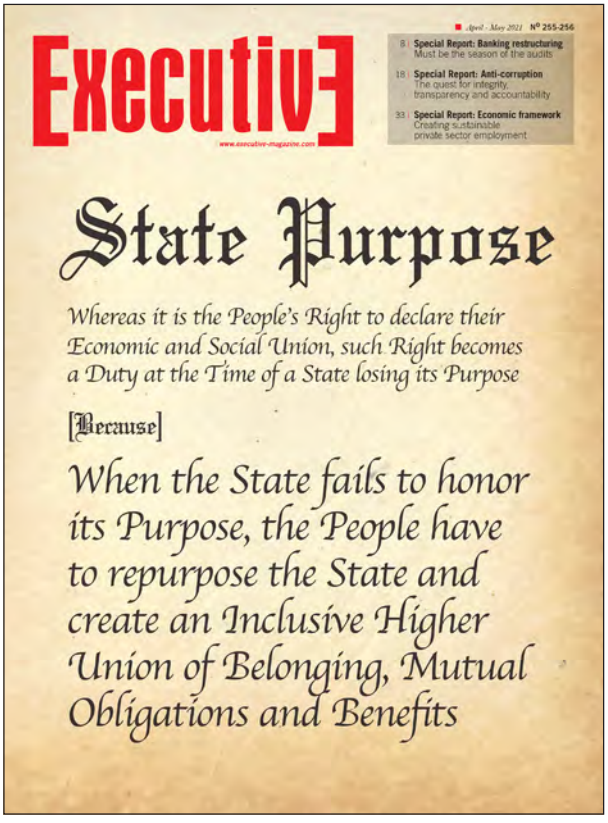
The spiralling depreciation of the Lebanese pound and shortage of hard US dollar currency began threatening fuel importers' ability to afford additional supplies at the subsidy rates effective then. Unscrupulous distributors and gas station owners radically reduced and rationed supply across, pretexting acute shortages even as reports increased of fuel hoarding, black market sales and smuggling of fuel to Syria (along with US dollar banknotes, flour, and a slew of subsidized goods). Panicking commuters queued for up to six or eight hours - sometimes parking their vehicles in line overnight - at gas stations to fill their tanks at steadily increasing rates, provided daily rations lasted. Main roads and highways saw heavy congestion from queues at gas stations, sometimes spread over three lines and extending kilometers. Scenes of vehicles, including ambulances, having run dry and been abandoned mid-road or towed by hand were repeated in different parts of the country, and so were scenes of violence at gas stations, a few of which with tragic endings. Once more, the resigned Lebanese government expended minimal efforts to address the situation.

No more electricty?

The fuel crisis spilled over to the electricity sector, increasing outages and blackouts, with private generator owners struggling to fill the gaps and beginning to raise subscription fees while reducing supply. The continuing depreciation of the Lebanese pound began to make it more difficult for many citizens to afford price hikes. Some socially-minded businesses started welcoming even non-paying customers, specifically students, freelancers and remotely-based employees, to allow them to recharge their laptops and mobile devices or simply escape the relentless summer heat. Again, the resigned Lebanese government remained predictably idle and hoped to stall until a new government would be formed under Prime Minister-designate Saad Hariri.

Judicial mishaps

Two Lebanese judges made headlines in this period. Like his predecessor Judge Fadi Sawwan, Judge Tarek Bitar who replaced him in leading the Beirut Port explosion investigation, started facing political pressure from officials and former ministers called on to testify or be investigated. Recurring monthly demonstrations by the families of the victims began to take on a clear character of support for Bitar in challenging systemic impunity and the judge managed to overcome many of the early legal hurdles thrown at him. On the other hand, the controversial Judge Ghada Aoun, Mount Lebanon's state prosecutor, engaged in a highly mediatized campaign to hold bankers accountable for transferring funds outside Lebanon. Judge Aoun's perceived bias and untimely agenda divided citizens and eventually led nowhere. Both cases put the issue of an independent judiciary in the spotlight.



Tourism hopes hang on returning expatriates

Despite the escalating fuel and electricity crises, the hospitality and tourism sector was betting on a good summer season to recoup some of their losses and stay in business. Import restrictions and the depreciation of the Lebanese pound exacerbated shortages of medical supplies (worsened from the hoarding of supplies by households and, in speculation, by some distributors and pharmacists) as well as other essential goods. Expatriates returning to the country after a year of lockdowns flocked to Rafic Hariri International Airport laden with suitcases of over-the-counter and prescription medication, hygiene products, baby formula, and "fresh dollars" to succor their families. Restaurants and nightlife venues filled up, buoyed by the multiplied purchasing power of these expatriates' US dollars.

LAST YEAR

JUNE
JULY
AUGUST

Hariri out, Mikati in

Nine months after his designation as new Prime Minister in the wake of the resignation of the previous Hassan Diab government, and following endless disagreements with President Michel Aoun on his cabinet's constitution, Saad Hariri finally conceded and withdrew his candidacy on July 15, and was replaced two weeks later by Najib Mikati as prime minister desingnate. By then, with talks of elections in 2022 already thriving, these developments had virtually no bearing on energy, fiscal, or social policies of any kind, barely causing a bump in the upward curve of the Lebanese pound's unrestrained depreciation, while fuel, electricity, and medication shortages held strong. Queues at the passport office of the General Directorate of General Security started swelling as demand for passports increased dramatically, fuelled by rumors of passport papers running out with hopes of escaping the increasingly untenable situation resting on hypothetical immigration. Hassan Diab's caretakeover government idly watched on.

Deadly gasoline

At least 30 people were killed in an explosion in Akkar on August 15 caused by a fuel tank explosion. The Lebanese army seized a fuel storage tank hidden by black marketers, who were in the process of handing out gasoline to deprived residents when the explosion took place. The fuel crisis continued to escalate over the summer with ongoing shortages and smuggling across the Syrian border. Speculative behavior continued, rampantly encompassing medication, foodstuffs and even US dollar hard currency. Some locally manufactured goods still benefiting from import subsidies for raw materials even found their way to regional and international export markets and were denounced on social media by the Lebanese diaspora within them.

August 4, one year later

One year after the deadly August 4 blast, justice for the victims of the disasters remained elusive, amid a flurry of attempts to remove Judge Tarek Bitar presiding over the investigation. On July 2, Bitar had announced legal procedures against a number of high-ranking politicians and security officials, among them General Security Chief Major-General Abbas Ibrahim. Following caretaker Minister of Interior Mohammed Fahmi's refusal to lift the immunity of Ibrahim, families of the victims of the explosion protested outside Fahmi's residence in Beirut and clashed with anti-riot police, even managing to break through the perimeter after Fahmi's evacuation. Protest movements continued through July until August 4, 2021 where demonstrators gathered en masse in Beirut to commemorate the tragedy. The day was marked by the unveiling of a monument to the victims on the site of the explosion, a massive 25 meter-tall sculpture made from debris of the explosion, that was nine months in the making funded by private companies, with support from state institutions. The monument sparked mixed reviews and the unveiling ceremony was boycotted by some of the families of the victims who held another ceremony simultaneously on the highway overlooking the port. Later in the day, security forces in Nejmeh Square, once again, clashed with demonstrators demanding truth, justice, and an impartial investigation.

Later in the month of August, the Lebanese and visitors suffered terse moments as central bank Governor Riad Salameh announced an upcoming complete withdrawal of fuel importations subsidies. However, fears peaked, and the summer holiday season resumed with tourists and expats experiencing their visits without feared increases in violent protests.



SEPTEMBER OCTOBER

The battle for justice spills over to the streets

The tug-of-war between supporters and opponents of Judge Tarek Bitar in the August 4 Beirut Port explosion investigation intensified over the months of September and October, culminating in roadblocks and a violent demonstration denouncing the politization of the investigation on October 14, that ended in armed clashes between the Tayyouneh and Ain El Remmaneh areas of Beirut near Adlieh. Residential neighborhoods in the district suffered business and property damages, while rooftop shooters apparently targeted demonstrators causing at least six deaths. The violence ignited political and confessional tensions, and somehow dampened motivation for a strong second commemoration of the October 17 protests. Since his appointment as lead investigator, Bitar was forced to suspend his probe repeatedly in the face of lawsuits filed by former ministers suspected of negligence over the August 4 explosion. Following the latest violent confrontations, Hezbollah representatives announced they would boycott meetings of Prime Minister Najib Mikati's newly formed cabinet until his government took a clear stand on demands to replace Bitar. Mikati, however, maintained his refusal to get implicated in the judiciary process. Meanwhile, human rights groups expressed their fears that Bitar would eventually be removed, further stalling the investigation, especially after some of the relatives of the victims of the explosion suddenly wavered in their support of Bitar, a turn-around they justified as efforts to avoid further conflicts and violence while others condemned as betrayal and acting under political pressure or threats. Despite these tensions, demonstrators still gathered peacefully in Nejmeh Square on October 17 to renew their demands for reforms, justice and accountability against the backdrop of an economic and social crisis worsening by the day.

Blackouts and breakdowns

Electricity: The electricity crisis reached its peak in October with the first total blackouts across all regions. Private generators instigated serious rationing due to high fuel prices following the full elimination of fuel subsidies and rising fuel prices. Inefficiencies and high costs of imported fuel across the energy sector took their toll on households and businesses alike, with increased closures anticipated. The situation fuelled (forgive the pun) a nationwide dialog about alternative solutions from renewable energy sources, specifically solar energy. Energy was the subject of a high-impact Special Report by Executive in partnership with Konrad-Adenauer-Stiftung (KAS-REMENA) that engaged technical, legal and financial experts.



Fuel: With subsidies removed, gasoline seemed to magically rematerialize in gas stations after a summer of shortage, albeit in a sketchy manner at first, but fewer citizens could still afford it without the lifeline of remittances by their expatriate relatives. This was reflected in the increased demand for bus transportation by parents for their children as schools started reopening.

Waste: The cost of fuel disrupted waste pickup and management operations, resulting in garbage piling up on sidewalks and burned or dumped erratically. On a positive note, diminishing purchasing power caused the overall volume of household waste to diminish, as reported by different recyclers.

Arts: Rising costs strained the arts sector that was already struggling with production difficulties linked to COVID-19 restrictions and a dwindling turnover at artistic events. During the October 14 violent clashes in Beirut, the entrance area of the Sunflower Theater in Tayyouneh, one of the city's cultural mainstays, was seriously damaged and eventually closed off, marking another blow to the sector.

LEADER

By Thomas Schellen

ECONOMIC ROADMAP 5.0

Let number 5 be alive

Integrating Lebanese productive industries in the ranks of economic reform

Published in its fifth draft iteration, this year's Economic Roadmap is coupled with an important addition of a fifth pillar, **enable**. It adds seven industry-specific agenda priorities to our menu of measures that we propose to aspiring change leaders and decision makers. These new agenda priorities and related proposals specifically target the enablement and self-enablement of leading productive industries in Lebanon, namely manufacturing, agro-industry, media and content creation, hospitality, knowledge enterprises, organic beauty, and renewable energy.

Other changes in Roadmap draft 5.0 can be found in revised introductions to the 19 agenda priorities and their detailed policy priorities and proposals. Sadly, only updates, in the rarest cases, mean that proposed measures under a policy priority have been achieved – updates of proposed measures mostly reflecting unfortunate changes in context of the economic crisis rendering actions unachievable or theoretical for the foreseeable future.

Last but not least, innovations of the Roadmap involve the addition of almost 90 content links within this online edition. These links connect you to Executive's stories of the past six years analyzing and elaborating agenda priorities listed under pillars one to four, as they retain their titles of build & reform, strategize, combat, and develop.

ROADMAP FLASHBACK AND THE ELECTIONS AHEAD

At the time when the magazine was systematizing its internal Executive Roadmap project discussions – with first informal inputs to the roadmap dating back to the idyllic 2000s – reformist Lebanese minds, including Executive as publication in advocacy of a better economy, were committing themselves to the run-up period to the 2018 parliamentary elections.

As Lebanon's change advocates were energized by the 2016 municipal elections, many of them looked to the long delayed parliamentary elections for fresh representation that would lead a tidal of wave of change. One that would challenge the status quo, witness the rise of women within the political spectrum, and see many more overdue to changes.

> Executive was more than ready to embrace the [...] potentials of industry to realize a better economy

In just one example for the desires tied to the 2018 elections, we titled our November 2017 issue "Reformist Mutation," with the message that the country was experiencing the gestation of a future governed by this new DNA. In parallel, we noted in that issue's leader and overview story that the anti-establishment political groupings and individuals must get their act together, while asking whether the new will be "fundamentally different and better, or just as vain as the old."

Alas, the 2018 elections did not result in even as much as 10 or 20 percent infusion of reformist DNA into the political aisle. The question hovering over the constructive impact of new reformist voices on the Lebanese Parliament remains levitating, and begs for another answer in this year's electoral showdown. But notwithstanding the unlikely occurrence that a reform-minded Parliament would be empowered this spring, the Executive Economic Roadmap has from its inception been and continues to be based on consultative principles and processes. Among our aspirations – then and now – is that elected servants of the people would consider Executive's Roadmap a useful tool for economic policy making and consult it as a platform for dialog with their well-informed constituents.

UNIVERSAL VOICES

As elections are, yet again, on the political horizon, it is necessary to not only acknowledge how desperate the economic reality has become, but also how political processes have shifted to the worse. From a partisan and self-serving sectarian model of horse trading driven by joint, albeit minimal, mutual interests to seek partisan benefits at the lowest cost to themselves and their fiefdoms, the political sphere seems to have "advanced" to a basket case setting of mutually assured destruction of public interests and clinical paralysis where absolutely nothing strategic and long-term gets done.

In this dark reality, one cannot but note that reform demands have been thrown at the Lebanese Republic in a growing barrage. Universal opposition to the government's economic behaviors – with its two defining components of inactivity and corruption – has been stated on the Lebanese street in the 2019 protests as well as the garbage protests before it. Lebanese economists have frequently voiced scathing criticism of monetary policies over the course of the past 25 years. A few voices from the Lebanese business realm, enlightened academics, and responsible media have even tried to provide constructive criticism.

Embarrassingly, even global institutions, supranational alliances, and

donor governments have, for over a year, showered the government of Lebanon with increasingly harsh rebukes and reform demands. At time of writing, the World Bank's labeling of Lebanon's economic crisis as "deliberate depression" evoked the image of a new superlative for recession. Being designated ground zero for an entire new category of sponsored disaster economics – is this the unique Lebanese contribution to the history of economics?

REALITY VS STATUS QUO

Lebanon has witnessed all that protest, all those admonitions, but to what avail? One small answer to this question can be derived, depressingly, from a glance over the 2021 Corruption Perception Index (CPI). Within the global criticism and local outcries of distrust of the status quo in Lebanon, the fight against corruption has been an important and vigorously pursued part. (For evidence, see pillar 3, Agenda Priority 13 of the Executive Economic Roadmap.)

But the 2021 CPI edition, released by Transparency International on January 25th, shows Lebanon having taken another small notch of deterioration in trust last year, from 25 to 24 points, further entrenching the country's perception as being among not the worst but the almost-as-bad cultures of corruption in the 180 countries listed. What matters here, from this magazine's perspective, is not so much the drop by one point – out of a theoretical maximum of 100 – or the rank on the CPI list but the fact that all efforts of combating corruption, including our own, have failed to instigate an improving picture of corruption resistance.

In the most recent iteration of a seemingly political process, the draft for the 2022 Budget law has shown how the latest cabinet's top ambition appears to combine increasing the output of hot air with deflection of reforms (see comment on page xx). The budget process signals an unhappy continuation to cabinet draft laws of the past few years that yielded nothing but ad-hoc inadequacies, focusing on escaping from structural changes in public finance and the public sector overall.

The political discourse of the young year fits in unfortunate perfection to what the World Bank's Saroj Kumar Jha called the "deliberate denial during deliberate depression" when presenting the Fall 2021 Lebanon Economic Monitor on January 25.

THIS MAGAZINE COULD NOT AGREE MORE.

But against all economic reason and evidence, Executive has internalized its informal motto to embrace the absurd. This magazine insists to prod on – bloodied but unbowed, as we titled our summer 2021 issue – in advocating for Lebanon's better potentials. The Executive Roadmap is one of our tools by which we seek to rally you behind the peaceful flag of win-win-win for the Lebanese economy, society, and public interests.

For this reason, after having had to witness the continued absence of macroeconomic and political will to reform among public sector stakeholders, Executive was more than ready to embrace the idea of zooming our analytical focus, conferencing, and communication skills onto potentials of industries to realize a better economy.

Last year, we thus eagerly partnered with the United States Agency for International Development (USAID) to discuss an economic framework for job creation and growth in five productive industries. The outcome of this project – with addition of two more industries – is what we present to you as pillar 5 in Roadmap Draft 5.0, with the humble and eager request to invest your minds into discussing and improving it together with us.

Because, in deliberately and determinedly denying deliberate depression, we can, together, build a new economic democracy for this country.

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Executive

LEADER

By Thomas Schellen

FINANCIAL ECONOMY

Economic democracy

The right to shape Lebanon's future

Seen in isolation, the situation of Lebanon at the onset of 2022 is that of a country which is still in the depths of a mindboggling crisis. The national crisis of everything is singularly encompassing and to be grasped by the human mind needs no historic denominator, geographic comparison, or even numerical quantification of GDP contraction, annual inflation rates, currency depreciation, or increases in inequality, unemployment, and poverty. A walk through Beirut and a journey into other urban centers and outlying villages is enough to nurture a sense of unspeakable economic shock, common suffering, and utter dismay at this national tragedy being born and raised in the presence of corrupt and self-absorbed leaders. A religious founder walking the hills of the region was once purported to ask his listeners "is there anyone among you who, if his son asks for bread, will give him a stone?" Observing Lebanon, one might ask why some will treat their people, like no sentient moral person would a stray cat.

But this small slice of attractive real estate on the edge of a calamitous region, cannot be seen in isolation. Neither in time nor in its contemporary geopolitical space. This says first that without international push, the individuals and political factions entrusted by the people or by fate with the care for country and society, will not budge. Left to their own devices, they will not cease being self-absorbed, paying lip-service to their duties while incessantly violating them, and acting either corrupt or not at all. That much has been demonstrated beyond question by the past two years' failed, aborted, or still-born governing bodies.

Still, there is no human situation without a way forward. The financial economy is a human idea and a practice of people (public and private). This is why our turn-of-the-year issue focuses on the financial economy of Lebanon, and the need to resolve misunderstandings and deliberately mal-programmed perceptions of the financial economy components, most importantly national dealings with the International Monetary Fund (IMF) and the options that always exist when two sides negotiate in good faith. There is no reason at all to think the IMF wants Lebanon to suffer.

IMPERFECT BY DEFAULT BUT…

At this point, a program for a virtuous financial economy will by default be imperfect. The mess is so deep that any attempted solution, for example whether to still go for a currency board or how to restructure our banking sector so we do not do our competitor nations the favor of destroying our strongest economic asset ourselves, will not be free of conceptual and implementation errors. We asked the best experts that we found to give their perspectives on the financial economy, the engineering of which will have to constitute several crucial wheels in our national economic machine that has to be made to work in the coming year, lest Lebanon lose more of its qualified people and those who stay slink along life as beggars.

Thinking and tinkering with the financial economy will not be enough to begin saving Lebanon this year, however, regardless of how much international input the country might get. Two more considerations need to be undertaken. One is the continued effort, against all previous conceptual flops, communication imperfection, and current lack of power, to debate our economic future from as many angles as there are strong and justified interests. Let it be stated clearly if reiteratively: Lebanon has great business and economic minds. An abundance of talents, more than it needs. Now more than ever, the talents must not be buried.

If we want to effectively benefit from outside help, we have to help ourselves and do our part to construct the better operating system and economic machine. That is why we are publishing our Roadmap 5.0 at this time, inviting your participation in the effort to push for economic democracy where the public and private and third sector wheels finally move productively in synch, empowered by free and fair elections and by your constructive ideas. We are not only publishing an update but we are adding a new pillar, focused on enabling private sector industries and economic agency (for more details on the new pillar and our Roadmap journey, see Leader on page 8).

USING THE WIDE ANGLE LENS

The third viewing angle of our crisis of everything necessitates a look at the global picture. Gauged against any conventional wisdom and experience for country development, the paradox of the Lebanese situation at the start of 2022 is that the country has in the past year done worse, far worse, than rational thinkers would have expected. At the same time, the country has, in its social fabric and will to perform with civil decency, not deteriorated nearly as badly as some evangelists of self-abandonment and despair had promised in pessimistic scenarios of a failed society. The people's generosity and welcoming inclusiveness has not been destroyed. There are still those who want to make this country shine as bright as it can.

However, if the optimists succeed, Lebanon might in a few years shine on a global stage considerably dimmer that it was in the first twenty years of the century. Two recent benchmark publications show the state of the world is causing growing fears at least for the next two or three years.

The 2022 Global Risks Report (GRR) by the World Economic Forum (WEF), published in January, starts out

with three headlines: burning societal and environmental concerns, collaborations on challenges rendered more difficult by rising inequalities under divergent economic trajectories, and the danger of a disorderly climate transition that will further exacerbate said inequalities. The GRR sees a horizon marked by increasing tensions.

About a quarter of the people polled for the 2022 GRR are worried, over 60 percent are concerned, and not even 4 percent are unrestrainedly "optimistic." Without claiming to be scientific, this magazine's memories of hearing Lebanese business leaders say that they are optimistic for this country, optimistic despite everything they have experienced, is a multiple of 4 percent. Note: Lebanon-based economic leaders included in a sample of some 12,000 individual leaders asked by the WEF to assess the top risks in their countries, most often cited state collapse, followed by man-made environmental damage ,and absence/collapse of social security. Global risks by comparison concentrated around climate and weather, flowed by societal risks, with economic and debt risks distant runners up.

Another report, more extensive and more authoritative than the GRR, published in January is the World Bank's study on the Global Economic Prospects (GEP). The press announcement for this report condenses its key message by saying darkly that the global economy is entering a "pronounced slowdown." Stating some fascinating numbers, the GEP informs, for example, that total global debt reached 263 percent of global GDP in 2020 and government debt in Emerging Markets / Developing Economies (EMDE countries) leapt up nine percentage points to 63 percent of GDP (one could only dream of Lebanon to be in the median range of EMDE public debt).

The headlines in the report's first pages describe the global economic horizon as clouded by unprecedented macroeconomic imbalances and growing inequality within and between countries. It further sees the horizon enmeshed in exceptional uncertainty, which is further compounding inequalities. "**Half or more** of economies in East Asia and Pacific, Latin America and the Caribbean, and the Middle East and North Africa, and two-fifths of economies in Sub-Saharan Africa, will still be below their 2019 per capita GDP levels by 2023," (emphasis added) it augurs broadly. To tackle those exacerbating inequities in the developing world, the GEP report proposes an agenda of "concerted effort to mobilize external resources and accelerate debt relief efforts," plus invigorated steps for "domestic growth and innovation."

MICRO LOOK LEBANON

Lebanon is the single MENA economy estimated in the GEP to have ended 2021 with a GDP contraction (minus 10.5 percent versus regional growth forecast to increase from around 3 percent in 2021 to 4.4 percent in 2022), and has a 99.999 percent outlook to have GDP far below 2019 numbers at the end of 2023. The World Bank did not see it fit to include Lebanon's (nor Libya's, Yemen's and Syria's) GDP estimates for 2022 and 2023 in regional numbers. The Lebanese who are told in the GER that their "new government formed in September 2021 is beginning the process of economic stabilization," indubitably will be enamored by World Bank leaders' promises for acceleration of debt relief efforts, and good advices on growth and innovation.

But even if there were projected numbers for Lebanon's economic fortunes in 2022 and 2023, it has to be remembered that all the world's models and experts have not proven any more trustworthy for predicting the mid-term or even the impending global performances, neither ahead of the 2007 Great Recession nor during the unfolding of the 2020 pandemic recession. Nonetheless, when considering the mood of impudently exuberant expectations at the start of 2007 in comparison to today's confessed skepticism, the pained anticipation of troubles in the next three years looks more credible than past irrational exuberances.

This brings home two messages. Lebanon's efforts for building the national economic machine in 2022 should be both holistic, i.e., encompassing all political and social and economic fronts, and self-reliant as much as anyhow possible. They will have to include foreign assistance and agreements but need to assume that the world community, and with it the ability to respond to the mounting needs of developing and countries and failed states, will be heavily burdened this year. Lebanon needs to use its own devices, expatriate and local, and all its purported friends, but most of all, it will have to be self-motivated to engineer a new economic democracy with the tools of state buildings and construct trustworthy contracts.

> Lebanon has great business and economic minds. An abundance of talents, more than it needs

The global message is not to ignore that the past seven fat decades of global growth will have to be replaced by a paradigm of prudent resource preservation that entails much more than climate risk mitigation, appeasement of societal upheavals, and improvement of virtual spheres or cyber defenses. If the coming global shift will be disruptive for as long a period as the need for climate risk and population risk and information society risk has been ignored or improperly treated, we are in for decades of disruption, shock and denials, stagnation, fitful restoration, and recreation of our economic democracies amid ongoing uncertainty. The lessons of the crisis of everything in the Lebanese laboratory deserve to be preserved and solutions that might be tested successfully in Lebanon in the coming few years might become this country's most productive and valuable exports. This moment in time is one to prepare for most interesting challenges, whether in Lebanon or in the world.

Migrating with Investment THE TIME IS NOW

Q&A with Jose Charo, managing partner of Passport Legacy



The investment migration industry, which is a form of legal migration used by over 80 sovereign states globally, consists of various citizenship and residence by investment programs that allow individuals to gain citizenship or residence rights in return for investments in their host countries.

Passport Legacy is a Swiss advisory boutique firm with over 22 years of combined experience in the residence and citizenship by investment programs.

Jose Charo is a managing partner of Passport Legacy based in Beirut, Lebanon-, where we have one of our global offices. He graduated from the Lebanese American University with a degree in Banking, Corporate Finance and Securities Law. Charo shares his thoughts on the industry in a short Q&A below.

It's interesting how big the investment migration industry is. Over the past few years, we have seen a rising number of investors from countries such as Nigeria, Lebanon, Egypt, and Pakistan. Could you tell our readers more about the industry especially the Caribbean investment programs?

Let me tell you a brief history about investment migration. It started in 1984 and the first country to offer citizenship by investment was a small island country in the Caribbean called St. Kitts and Nevis. It was followed by Dominica in 1993. Antigua and Barbuda followed more than a decade later in 2013 and this is the reason why the Caribbean is famous for these citizenship by investment programs, aside from their sandy beaches and azure waters. By investing in the country and being granted their passports, the investors or holders are entitled the freedom of traveling visa-free to more than 140 countries including the United Kingdom, the Schengen space, Hong Kong, Russia, and Singapore.

In addition to the freedom of travelling, investors also benefit from additional opportunities such as emigrating to another country as a security due to unforeseen circumstances, optimizing taxes, opening accounts with international banks, and giving their children a prestigious British education.

Thank you for sharing with our readers the benefits of getting a second passport. What are the most popular citizenship by investment programs in your industry?

I can speak on behalf of Passport Legacy. We have observed that St. Kitts and Nevis is the most popular program because of its efficient process, great reputation, and visa-free travel to over 161 countries. The second most popular is Grenada because it is the only country to offer visa-free travel to China and, for business investors, this benefit is quite important. Grenada also avails its citizens the opportunity to invest in an E-2 visa to the United States.

There are several citizenship by investment companies in the region. Can you tell our readers why Passport Legacy is the best company to deliver and execute citizenship by investment programs?

At Passport Legacy, we aim to help our international clients acquire their dual citizenship with the highest level of professionalism and strict confidentiality. With over 22 years of combined experience, our knowledgeable client advisors are available 24/7 worldwide.

We are also one of the few advisory firms worldwide authorized by the governments offering a citizenship by investment program in the Caribbean.

With our global offices in Lagos, Beirut, Lahore and Dubai as our Head Office, our team of professional experts and consultants is growing day by day and is committed to providing on-the-ground support and a smooth and efficient application process.

Where can interested parties find Passport Legacy?

Our Beirut office is based in Hamra. We are in Sharing 321, Serhal Building, Makdessi Street. You can contact us for a private and confidential consultation on +961 71 407 407.

Our head office is based in Dubai. We are in Jumeirah Lake Towers, Suite 3106 and 3107 in JBC 2 Building, Cluster V. You can contact and send Benjamin, our director for Client Services, a WhatsApp message at +971 50 139 5377.

With COVID-19 closing borders and adding more restrictions, what do you think are the challenges your company will be facing?

With COViD-19, I have seen an impact and change in the industry. In the space of almost two years, we have seen how investors have changed their narrative. Either they acknowledge the change and fully embrace their business and life, or they want to perpetually work from home and be with their families. Today's citizenship by investment has become a vital insurance policy for stable governance and healthcare. There is also so much more information now available, and the market is getting very well educated in most parts of the world. Their research is no longer about the choice of program but about finding a well-experienced and knowledgeable firm that is accountable and legally liable.

At Passport Legacy, our capable team ensures we help you choose the right citizenship by investment program that will last for future generations.



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SPECIAL REPORT

FINANCIAL ECONOMY

> What special drawing rights can do and what they cannot deliver
> Reforms and the fate of deposits
> What was wrong with the 2020 Lazard plan?
> A fiscal space to breathe
> No way out?
> The road that was never taken
> Wating for Godot
> An Economist's Review of the 2022 Budget

By Mounir Rached

WHAT SPECIAL DRAWING RIGHTS CAN DO AND WHAT THEY CANNOT DELIVER



Lebanon's Prime Minister Najib Mikati (R) meeting with Ernesto Ramirez-Rigo (L), the International Monetary Fund's (IMF) head of mission for Pakistan, Middle East, and Central Asia, and his accompanying delegation at the government palace on December 7, 2021.

Explaining the rules of the IMF

On August 2, 2021, the International Monetary Fund (IMF) approved the distribution of a new package of Special Drawing Rights (SDRs) amounting to SDR 458 billion to all its member countries. Each country willing to participate has been allocated approximately its relative share in the quota system. The local media published the good news, and how the amount allocated to Lebanon, (estimated at SDR 605 million, which are equivalent to approximately USD 860 million), would be spent. Initial media reports neglected to mention previous cumulative distributions in favor of Lebanon, which amounted to SDR 196 million, to bring the total to SDR 801 million (USD 1.137 billion).

Describing the SDRs as "a shot in the arm for the world" in a time of many crises, IMF managing director Kristalina Georgieva presented the 2021 allocation with a message that countries could reduce their reliance on more costly debt. It must be noted, however, that SDR is a form of debt like any other debt when used but at the SDR rate rather than market rate. "Countries can use the space provided by the SDR allocation to support their economies and step up their fight against the crisis," she said. Additionally, the IMF has been deliberating on possibilities of channeling more of these precious resources from its stronger members to countries in need with the tools of its Poverty Reduction and Growth Trust and a new Resilience and Sustainability Trust.

The worldwide SDR allocation includes Lebanon at a time of renewed urgency to realize an

agreement with the IMF. However, there is no connection between SDR allocations and IMF negotiations. The SDR department is a separate and independent department and has nothing to do with negotiations with the IMF through its General Resources Department. It has a complex structure that may or may not be conveyed clearly in IMF statements. Whereas any SDR inflow to our country can be good news, it is premature to speculate how the aforementioned sums of the Lebanese allocation or any eventually mobilized flows through above trusts will be spent. At this point, it rather is necessary to explain the modus operandi of the IMF and the role of Lebanon as an IMF member, to clarify the picture and the impact of this distribution.

The IMF was established in 1944 by 44 countries. Lebanon joined in 1947. It currently includes 190 member countries. The main objective of its establishment was to create an institution that fosters international economic cooperation, develops international trade and growth, and maintains the stability of the global financial system. According to the IMF's bylaws, "The key functions of the IMF are the surveillance of the international monetary system and the monitoring of members' economic and financial policies, the provision of Fund resources to member countries in need, and the delivery of technical assistance and financial services." To achieve this, the fund has been monitoring from its early days the economic and financial developments and the balance of payments of member countries. It provides the necessary advice to member countries facing economic troubles and shortage of hard currency reserves. It also provides foreign currency reserve financing to central banks that face protracted balance of payments deficits and a severe and critical decline in their reserves that could hamper the respective country's trade in goods and services.

THE TWO MAIN DEPARTMENTS OF THE IMF

The IMF consists of two main departments: the General Resources Department and the Special Drawing Rights Department. The fund is managed by a Board of Governors comprising two representatives from each member state. The Executive Board, consisting of 24 elected executive directors, oversees the management of day-to-day operations. Moreover, all the IMF's financial capacities are calculated on the SDR (the IMF's unit of account). One SDR is composed of a basket of five major currencies. At the time of writing this article, the value of one SDR equates the sum of USD 0.58, €0.387, £0.0859, ¥11.9 and 1.017 Chinese renminbi. The currency shares reflect the quota of each of these countries and the European Union.

The currency amounts of the SDR are allocated once every five years, or earlier if needed, while ensuring that the basket mirrors the relative importance of the five currencies in the world's financial system. Cross-exchange rates determine the actual weights of the currencies. The value on the other hand is a daily determination according to the market exchange rates.

The Special Drawing Rights Department is responsible for distributing SDRs as needed, free of charge, to stimulate international trade, and it is entitled to cancel these rights. The department is independent of the General Resources Department. It was established in 1969 with the aim of providing additional voluntary reserves to member states. Each country receives a share of each distribution as a percentage of its quota in the fund. The total distributions of SDRs carried out in several stages amounted to SDR 662 billion, including the last distribution of SDR 458 billion. The distribution is recorded in each country's account at the IMF as both credit and debit entries. So on a net basis, the distribution does not provide additional reserves.

■ The worldwide SDR allocation includes Lebanon at a time of renewed urgency to realize an agreement with the IMF

Each Friday, the IMF dictates the SDR interest rate. It is based on the weighted average of a 3-month debt interest rate in the five countries' money markets. Each member must pay interest on the quantities of SDRs it uses, and abide by Article 19 of the IMF Agreement, which clarifies the terms and conditions of swapping the SDRs with reserve currencies. The most important clause in Article 19 is the third clause, which requires the country to show the need to use the SDRs to finance the balance of payments, and not for the subsidization of goods, which falls within the scope of the Ministry of Finance.

Holding SDRs is considered as a potential reserve and not as an actual foreign currency reserve, as the SDRs are not used in external financing until they are exchanged for reserve currencies in accordance with the country's ability to comply with

all the terms of the Voluntary Exchange Arrangement, set up by the IMF as a platform to facilitate exchange of SDRs with other currencies. Whereas all members are entitled to participate in the Special Drawing Rights Department, they are not obligated to respond to any transaction related to the use of SDRs.

Most SDR transactions in the Special Drawing Rights Department are currently conducted under the supervision of the IMF's platform of Voluntary Exchange Arrangement.

Since the Lebanese central bank Banque du Liban (BDL) had not previously resorted to using the Special Drawing Rights Department, it seems prudent if the central bank were to investigate the details of its modus operandi to determine its ability to replace SDRs with currency reserves. We must be aware that resorting to this department depletes the country's holdings of special drawing rights and requires its service according to the prevailing interest rate on SDRs. Using SDRs comes at a cost, and in no way should they be perceived as a grant.

URGENT NEGOTIATIONS WITH THE GENERAL RESOURCES DEPARTMENT

The IMF obtains its resources in the General Resources Department, which was established at its inception to help countries facing shortages in their reserves, from subscriptions of member countries to the IMF capital, which is based on a quota system that reflects the size of each member country such as the size of its GDP, foreign trade, and reserves. The quota is managed by the General Resources Department. Lebanon's share in the General Resources Department is only SDR 633.5 million (0.1 percent) out of the total quota of SDR 477 billion.

25 percent of the quotas of each member are paid in hard reserve currency (reserve quota) while the remaining 75 percent are paid in a country's local currency. Therefore, Lebanon's share of unconditional ready-to-use reserves in the IMF is only SDR 158 million (USD 224 million), but if it expresses the need to finance its balance of payments, it may have access to more IMF lending. The country can use other IMF facilities as needed and during a specified period within a maximum withdrawal limit ranging between 50 percent and 145 percent of the quota annually, taking into account the country's ability to serve its debt obligation resulting from such borrowing and ability to adhere to a reform program. As a maximum, a country could access about 400 percent of the quota if it undertakes a serious reform, while continually meeting the performance indicators of the reform programs agreed upon with the IMF. The repayment of these facilities would usually start within a few years. The crucial issue is to determine the need for these funds and the capacity of the country to service such debt which will become due within a short period of time.



Lebanon's Finance Minister Ghazi Wazni (R) meeting with IMF Alternative Executive Director Sami Geadah, 2020.

Resorting to the General Resources Department in excess of the reserve quota requires an agreement between the IMF and the Lebanese state. It has been firmly established that the reaching of such an agreement is contingent on stringent reforms, the most important of which, in the case of Lebanon, is seeking to achieve sustainable fiscal and balance of payments balance. Borrowing from abroad without reform may once again lead to a potential default on its foreign currency debt service, which has been the main cause of the current crisis.

> Borrowing from abroad without reform may once again lead [Lebanon] to a potential default on its foreign currency debt service

Mounir Rached, PhD, is the president of the Lebanese Economic Association (LEA) and a former IMF Senior Economist (1983-2007). Executive editors contributed to the updating of this comment piece originally published in Arabic on August 26, 2021 in Al Joumhouria.

PERSEVERANCE
The Key to **OLX**'s Success





OLX started in Lebanon in 2015 and witnessed tremendous adoption from the Lebanese population at a very quick pace. "During the early days when we first launched, OLX Lebanon was always mentioned within our group as the Star Country because the Lebanese population showed a real hunger for innovation and an adaptability to new methods of transacting more than any other country in the region", shares Maria Nehme, OLX Lebanon's recently appointed Country Manager when discussing with us the company's vision for Lebanon. Because of this, the Group decided to open the office in Lebanon in 2017, in Beirut Digital District.

Since then, OLX has gone through so much, as have most of companies in the country like the flourishing of the real estate market, the growth of the cars' market, the 2019 revolution, the COVID pandemic, the 4th of August explosion and Lebanon's most acute economic crisis in its history. With these ups and downs, OLX Lebanon has not stopped fighting, not even for a day. "During the pandemic days, we really pushed to keep operating normally. As a team, we used to meet on a daily basis through videoconferencing in the morning for the "Daily Morning Coffee". This helped us in keeping everyone's spirits up and the momentum going. Some days, because of the revolution or the lockdown, our commercial team could not circulate to meet their clients; that did not stop them. They started working on long term projects to strengthen the company's core and develop new services", Maria tells us.

During the pandemic and crisis, we learned that the company witnessed a very paradoxical effect: on one hand, there was a full lockdown and a lot of businesses were freezing their activities. On the other hand, the traffic on the OLX website and app almost doubled across categories, especially on the Goods categories including Mobiles, Electronics, Furniture and Fashion.

Maria continues: With consumers locked in their home for several months, we noticed a need to facilitate remote transactions. From these pain points came the idea of our new baby: OLX Store, OLX's end-to-end E-commerce platform allowing you to order any item from the comfort of your home.

The group noticed a lot of shifting and reinventing across industries and they couldn't be watching the train. This is where they took control of the train across their verticals and drew the road for OLX in Lebanon. In Real Estate, they introduced Virtual Reality where they were the first platform offering users the ability to visit houses through 3D tours and from the comfort of their homes.

In Autos, they were betting on "convenience" by revolutionizing the car selling experience. Maria elaborates: "Our users now have a choice to make: they can either list their car on OLX Autos and negotiate directly with buyers or they can benefit from our free Car Selling Experts service; this service allows them to schedule an inspection for their car at home and receive an offer within 48 hours. The service also includes facilitating the entire process through the property transfer."

In the Goods category, OLX is building an ecosystem that will create value across the economy. "First, we believe it should all start with nurturing the private sector and the businesses. At OLX, we want to be next to all businesses including start-ups, SMEs, medium and large-scale enterprises. We help businesses in creating their brands, advertising them, advocating for them and multiplying their sales. Our business services include advertising packages, sales consultancy, value-added services and so much more. At the end of the day, all we care about is creating value", Maria explained.

In parallel to businesses, Maria further expanded on how they want to facilitate transactions for individuals through a Circular Economy: In our vision of the future, individuals will be purchasing new items from OLX Store, once purchased and received, as a buyer and as a consumer, they will use the item and extract the most value out of it. However, when the time comes, and when they don't need this item anymore, instead of disposing of it, they can recycle it. This is where our OLX Classifieds app would come into play: at this stage, OLX will be next to the user turning them into sellers to make sure someone else in the ecosystem can benefit from the same item that is now obsolete for one but, precious for another; "New is in the eye of the beholder".

And with this the entire ecosystem is geared toward value creation, not to mention how meaningful this is for our environment.

We asked Maria, "What is OLX's Vision for Lebanon?"

"Despite all of what is happening in Lebanon," Maria says, "we have a deep and honest belief in the country's potential and capabilities. Our team of 70 highly educated and driven individuals is a sample of these capabilities and a real pride for us. This is why we are still investing resources in the country; we see ourselves continuing to grow across all of the industries with 3 obsessions in mind: Multiplying transactions across industries and regions, improving customers' daily lives through technology and convenience and constantly finding new opportunities and new markets."

By Mounir Rached

REFORMS AND THE FATE OF DEPOSITS



A self-bailout as a solution

A key driver of the Lebanese economic crisis has been the losses incurred by the public sector. These losses have impaired the banking sector and, through it, the deposits of many citizens. Banks had committed the bulk of client deposits to the central bank, Banque du Liban (BDL), which in turn had used them to finance the expenses of the government and public institutions. In relying on Lebanese citizens' deposits to cover public deficits, Lebanese authorities have abused trust and failed to ensure the effective and transparent management of the economy. Prior to the meltdown, the government had tried to placate citizens with the help of subsidies. Since 2019, citizens have borne the brunt of the crisis, reflected in rising unemployment rates, increased poverty, inflation, and degradation of deposits. With the beginning of the crisis, the politically divisive debates raged over the right strategy to address the progressing degradation of deposits. Both the subsidy policies and attempts to stop the degradation by measures forced upon the banking sector have failed in fulfilling the hopes of citizens and wishes of the government. After two years of financial disarray, priority should be given to compensating for US dollar deposits that banks have placed in BDL, as these make up more than 60 percent of total deposits, and are not backed up by any guarantees.

For citizens, freeing their deposits is the top concern. The current government statement of policy in September 2021 responded to this issue by emphasizing that the reform plan for the banking sector will be "prioritizing the safeguarding of depositor rights and funds." The public sector is responsible for depleting the citizens' funds, and must shoulder the consequences. The private sector has endured enough. A haircut on deposits or a distribution of losses between the private and public sectors might be the simplest, but also, the worst solution. It could be challenged constitutionally and judicially. Moreover, a haircut has already been applied on depositor withdrawals. It has cost citizens an estimated $5 billion in losses. In total, measures taken by the government and BDL since the beginning of the crisis have accelerated, rather than resolved, the economic and financial freefall. The government has not even shown interest in addressing the matter. Therefore, how can the state really commit to restoring citizens' savings and rebuilding trust?

FIRST: REFORMS

The first step to restoring trust is adopting monetary, financial, and structural reforms; namely the immediate unpegging and standardization of the exchange rate for all transactions, given the serious damage that multiple exchange rates can have on the economy.

It has been argued that unpegging the exchange rate from the previous low rate of 1,500 Lebanese pounds on the dollar would further increase inflation. By that reasoning, if one believes that the added liquidity would be detrimental to the economy, one must first recognize that the damage from multiple exchange rates and the freezing of deposits has been, and will be, far more disastrous than the damage of adding liquidity. Unpegging the ex-

change rate and operating deposit withdrawals at the unpegged rate may alone provide an important solution to the deposit access dilemma.

Under this solution, depositors would be content with cashing their US dollar deposits in Lebanese pounds at the market rate. As such, they would cease making cash transactions that have flooded the economy with liquidity and accelerated the collapse of the Lebanese pound. Unpegging the exchange rate is inevitable. It is better to adopt it immediately rather than pay the far higher cost of delaying it.

SECOND: A SELF-BAILOUT BY BDL

As a second step, or simultaneously, the matter of deposits in US dollars in BDL must be addressed. These deposits, without backing of guarantees, amount to around $65 billion, out of a total of $106 billion of deposits as at end June 2021. The remaining 39 percent of deposits are invested in the private sector and bonds, and backed by guarantees.

The $106 billion deposits were deployed by banks as follows:

- Deposits in BDL amounting to around $65 billion (an estimate, since BDL does not disclose this figure).
- Investments in Eurobonds payable by the Lebanese State ($8 billion).
- Lebanese pound and US dollar denominated loans to the resident and non-resident private sector in US dollars ($23 billion).
- Other bank assets in foreign currencies, including holdings of equity (shares) in branches abroad ($10 billion). These shares are considered foreign assets.

To compensate depositors for their deposits that have been invested by banks in BDL, the public sector's real and monetary assets must be used. Drained deposits at BDL are supposedly unavailable, marked as losses (in the electricity sector and other dossiers), and are not guaranteed. The public sector as a whole carries the blame of squandering these funds. This devastating practice has been facilitated by the indifference or inability of oversight bodies, namely, the legislative and executive authorities, to ensure effective monitoring of banking sector performance, despite decades-long warnings by experts and international financial institutions about risks of exceeding the solvency.

The simplest and most effective method by which the public sector can take responsibility for restitution of squandered funds is, first ,to restore depositors' funds by using the remaining BDL cash assets in foreign currencies, similarly to when the private sector defaults on obligations. It is still possible to restore $14 billion in cash to banks from the remaining mandatory reserves.

Moreover, the government may reconsider liquidating part of the gold reserves and depositing the amount in banks to compensate depositors for the funds. Believing that gold is a bond of trust is indeed wrong. It gives false trust in economic performance. It is widely known that gold is considered worldwide as part of monetary reserves and is used as such.

> The first step to restoring trust is [...] the immediate unpegging and standardization of the exchange rate for all transactions

Once the exchange rate is unpegged and BDL ceases to supply foreign currency to the market, management becomes more effective, and will focus, by default on the management of liquidity in the national currency.

Secondly, state-owned real assets should be used through privatization to compensate depositors for the remaining $51 billion. The total value of state institutions subject to privatization as a first stage (telecommunication – OGERO – aviation – Middle East Airlines, electricity, port operation contracts, real estate companies, airport and marine blocs – gas, oil, etc.) is estimated at no less than $50 billion, based on projected profit under private administration.

FILLING THE $51 BILLION GAP

Establish individual joint stock companies for each basic public sector institution, place them under private management as soon as possible, and issue shares denominated in US dollars, similarly to other companies listed on the Beirut Stock Exchange (such as Solidere, and others). This requires seeking out local and international expertise to form a commission in charge of achieving this goal and issuing new securities. These shares would be gradually offered through the Beirut Stock Exchange and made available to those interested, including resident and non-resident depositors. A sizeable portion of these shares would be bought by depositors through their bank accounts. As a result, deposits would be replaced with real assets, thereby reducing bank balance sheets by the corresponding amount. A reminder, the 2003 government reform plan for the electricity sector was based on the privatization of the power company, Electricité du Liban (EDL).

Furthermore, shares in the privatized companies purchased through new accounts and international transfers would provide revenue in US dollars, which then would feed into the remaining bank deposits in US dollars. For depositors who do not wish to buy the new shares in the privatized companies, their deposits will remain in banks and these depositors will now have cash assets in foreign currency, proportionately to the level of subscription to these new shares by resident and non-resident investors.

In other words, the state would not be squandering public resources, but rather transferring ownership of public assets to citizens, while maintaining fair distribution by limiting individual ownership. Therefore, remaining non-liquid deposits will be exchanged for real shares from privatized state assets such as Middle East Airlines.

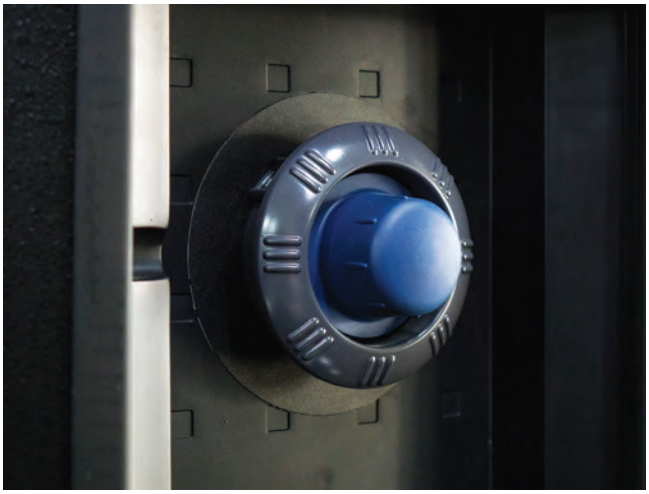
The resolution of state-owned assets would result in restoring the real monetary value of deposits that were dissipated in BDL. Deposits would either be in foreign currency, or consist of a mix of shares and deposits with long maturity dates of foreign currency and real assets. Part of the population who do not own bank deposits, would benefit from reforms, better management of the economy, and restoration of economic growth and job opportunities.

Those who oppose privatization, such as foreign consulting firms, aim at having Lebanon continue depending on foreign financing and depleting deposits, despite great risks.

Privatization and compensation for deposits are the optimal solution. Anti-privatization rationale argues that the public sector belongs to everyone, not only to depositors. This logic can be challenged by the very fact that the public sector's administration has made everyone go bankrupt, the rich, the poor, people who own deposits, and those who do not. The alternative to privatization is to let the state continue with poor management of public sector institutions, or rob citizens' deposits.

Moreover, privatization would enhance economic performance and improve the standard of living of Lebanese people of all classes. Thinking that selling state-owned institutions in the current situation would be selling them cheap is a flawed analysis because real assets are valued based on projected potential performance.

Accounts in banks and in BDL would be adjusted to reflect these transactions: bank deposits and the corresponding assets in BDL will decrease



proportionately to the value of shares purchased in the new companies using frozen deposits. The BDL budget, meaning the BDL balance sheet, will be reduced by the parallel $14 billion, representing the reserves returned to depositors, as well as by the extent of compensation for the remaining bank deposits in US dollars through privatization. To avoid bank runs on cash withdrawals from the remaining deposits, banks would restructure the deposits in a multi-term plan; over sequential short to medium-term maturity.

> The resolution of state-owned assets would result in restoring the real monetary value of deposits that were dissipated in BDL

There have been previous calls for the establishment of a sovereign fund for state institutions with the aim of using its profit to compensate for deposits. This is a futile proposition considering that the fund would still be managed by the incapable state, and compensation will take generations.

Finally, with regard to deposits in Lebanese pounds, these are guaranteed by secured loans and state bonds, and must be subject to a clear restructuring. Solving the dilemma of deposits and the availability of liquidity (in addition to other reforms) is necessary to restore trust and foster economic growth. Solving the overall deposit crisis will be the cornerstone of reforms and rebuilding trust.

Mounir Rached, PhD, is the president of the Lebanese Economic Association (LEA) and a former IMF Senior Economist (1983-2007). Executive editors contributed to the updating of this comment piece originally published in Arabic on August 28, 2021 in Al Joumhouria.

NEW INTERIOR



RESTAURANT BAR	**CENTRALE**
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RESERVATIONS: 03 915 925 / 01 57 58 58

Vintage wine cellar

By Mounir Rached

WHAT WAS WRONG WITH THE 2020 LAZARD PLAN?

A point-by-point analysis and critique

INTRODUCTION BY EXECUTIVE EDITORS

When the Council of Ministers approved an economic reform program at the end of April, 2020, then-Prime Minister Hassan Diab hailed the plan with the epithet that "the state has in its possession, for the first time in history, a complete and integrated financial plan."[1]

However, Diab's optimistic assurance that this document, based on a study prepared for the Lebanese government by US-headquartered financial advisory firm Lazard, would "put an end to floundering financial policies that brought the country to the current state of collapse" was disputed long before the cabinet's resignation in the aftermath of the August 4, 2020 Beirut Port explosion.

Diverse voices, from the banking industry to economists, academics, and economic media, offered critical responses, amendments, and counter proposals to the government rescue plan from the moment of its release. In one, from today's ironic vantage point, for example, a document by various authors at the American University of Beirut (AUB) asked whether the government's financial recovery plan was a "Rescue or Jeopardizing Plan."[2] The introduction to the document noted that the plan does not call for celebration, but rather "generates valid concerns about its directions and goals." This introduction was penned by Nasser Yassin, then director of the American University of Beirut's Issam Fares Institute, and today minister of environment in Prime Minister Najib Mikati's cabinet.

Other criticisms and counterproposals to the plan were listed on a webpage of the library of finance at the Institut des Finances Bassil Fuleihan.[3] Issues of Executive Magazine that contain comment and analysis pieces on the numerous rescue proposals under discussion at the time include the February, March/April, and June/July issues of 2020.[4] Given that a new rescue plan for the much worsened Lebanese economy is a matter of high importance, and that there have been references to Lazard in remarks by Prime Minister Mikati, Executive aspires to inform the debate by publishing, for the first time in an English-language magazine, the detailed critique of the Lazard plan by Mounir Rashed.

In his introduction to his critique of the Lazard plan, Rashed noted "several gaps" in the so-called reform agenda adopted by the former Lebanese Government. "Reviewing the government's plan makes it evident that the plan sets the stage for further restrictions on the Lebanese economy while dismantling its vital private institutions, including banks, which may cause a rift between the country's social classes," Rashed wrote in an assessment that is as concerning today as it was then. He further elaborated in his analysis that the plan represents, among several erroneous assumptions on the economic structure of Lebanon, a blatant violation of the Lebanese constitution, submission to foreign interests, and is apt to further corrode citizens' trust in the state.

The following article has been adapted from a confidential report written in May 2020. Most references in the text below are to the 2020 plan and the cabinet of Hassan Diab. The author has updated the text in November 2021 after Prime Minister Mikati started negotiations with the International Monetary Fund (IMF) and the Cabinet presented a revised financial recovery plan in end-November.



In general, the Lazard plan's framework displays a clear confusion between instruments and objectives, failing to differentiate between these two fundamentally different paths. Likewise, several of the proposed remedies are not expected to yield any short-term results in addressing the current crisis, such as fostering good governance and repatriating looted funds. Their proposals do not offer current solutions for the current bottlenecks, as they do not differentiate between immediate and long-term measures as demonstrated in the program's main list of pillars.

The purpose of these pillars is also not evident. It appears that the first objective consists of securing a financial recovery plan from the international community, thus perpetuating the crisis and the suffering of the Lebanese people, rather than adopting immediately effective measures with quick wins that would alleviate the burden befalling Lebanese citizens. The plan solicits the assistance of foreign institutions, which are oblivious to the Lebanese economic and social context. It also clearly does not take into account the recommendations of direct stakeholders, including the Lebanese central bank, Banque du Liban (BDL), banks, depositors, and the business community. Apparently, the plan assumes these interests have no role to play in the reform process.

The plan fails to indicate that resorting to foreign institutions for funding will come at a hefty price, as it entails several conditions that will undermine governance and the state's ability to fulfill its obligations towards Lebanese citizens. This will also perpetuate, and increase foreign debt servicing, and will weaken the resilience of reserve management and exchange rate.

It is important to note that the IMF's funding will be part of the overall debt plan, and that its debt service will be due in only a few years. In contrast, given that the interest of Lebanese citizens is directly aligned with that of the state, the plan could have resorted to generating domestic savings for funding, without resorting to a deposit "haircut." Above all, deposits should be safeguarded. The prevailing circumstances in Lebanon do not call for foreign funding. The current account of the Balance of Payments witnessed a significant drop in 2020 and was absorbed by BDL. As such, the Balance of Payments can still secure sufficient self-financing without having to resort to BDL's reserves

On the other hand, according to US investment bank Lazard Ltd., the "godfather" of the original financial recovery plan, foreign funding is estimated at a staggering amount of $27 billion for the period of 2020-2024, meaning that in the next five years foreign debt will go from about $8 billion to $35 billion in the least, and to $45 billion if we add the expected CEDRE loans, the majority of which will be classified either as bilateral debt, or debt to international institutions.

> The current system of multiple [exchange] rates engenders substantial untargeted subsidies and weakens the balance of payments

EXCHANGE RATE

The plan suggests a gradual end to the Lebanese pound peg to the US dollar at the official rate of 1,507 Lebanese pounds per $1. It stipulates that such a decision falls within BDL's competence, even though the decision has always been in the hand of the cabinet and Central Monetary Council.

Since 1997, successive cabinets pegged the

Lebanese pound to the dollar, with BDL's Central Monetary Agency's approval. Therefore, it is recommended to inform citizens of the entity responsible for setting the exchange rate policy. The decision to unpeg the exchange rate and its subsequent depreciation were the outcome of the government's unsound fiscal policy. The accumulation of financial deficits, particularly in the electricity sector, have weakened the state's Balance of Payments and depleted a substantial chunk of BDL and the commercial banks' foreign currency reserves. The total debt in US dollar indicates that net foreign reserves were exhausted years ago. Additionally, the adoption of the previous cabinet's budget by the new government has also contributed to weakening the Lebanese pound further.

The government and Lazard's agenda suppose that the exchange rate is set at 3,500 Lebanese pounds per $1 in 2020. Yet, we are well aware that the rate exceeded 4,000 Lebanese pounds per $1 when the plan was formulated. This implies continuing to have multiple exchange rates practice, even though the government is aware of the repercussions this will entail. The current system of multiple rates engenders substantial untargeted subsidies and weakens the Balance of Payments.

Furthermore, the 2020 plan set the target exchange rate at 4,297 Lebanese pounds per $1 by 2024, but the free market's exchange rate escalated to over 27,000 Lebanese pounds per $1 at the time of writing this article.

CAPITAL CONTROL

The government's policy on capital control is yet to be announced. With the unpegging of the exchange rate, it is recommended that banks remove all discretionary controls on capital transactions for current account financing and transferring capital. Additionally, any restrictions imposed by banks in this regard must be governed through clear laws. Even the IMF announced that reform should precede imposing capital control measures. As evidenced over the past 18 months, banks' foreign exchange has been depleted.

MONETARY POLICIES

It is recommended that the government set objectives for its monetary policy in consultation with BDL. The plan called on BDL to gradually eliminate monetary funding to purchase treasury bonds. This proposal supposes that the government's fiscal policy will generate surpluses throughout the plan's duration, allowing BDL to retrieve treasury bonds, while the overall fiscal deficit will likely remain at an average of 4 percent of GDP throughout the plan's duration.

BALANCE OF PAYMENTS

In this context, the plan indicates that it would be unrealistic to think that the deposit flow will change direction in the near future, or that international markets will open their doors to Lebanon once again without a clear blueprint; the plan assumes that it will succeed in redirecting the money flow back into the country. However, assuming that the plan will generate a flow of foreign aid to Lebanon once it is adopted, constitutes an oversimplification of reality.

Donors usually provide gradual support based on the progress of reforms and the fulfillment of performance criteria. However, the latter will not necessarily be to the government's expectation, as they are not a mere set of measures. Instead, the state must prepare a roadmap for implementation, which is likely to encounter several hurdles, including the restructuring of debt and banks.

Furthermore, the state's calculations of foreign aid are highly far-fetched. The plan estimated the



government's needed support to be equivalent to $28 billion over five years. Following the drop in the foreign exchange rate and bank restrictions on foreign transactions payment, it cannot be expected that the cumulative deficit will settle at this level. It is also likely that the debt service account will be slashed by half for the same reasons. The current account is expected to shrink by $10 billion per annum, starting 2020. As such it will be difficult for Lebanon to secure the aforementioned amount in foreign aid, given its low quota at the IMF, amounting to only $850 million (SDR633 million). Donor countries may not rely on the Lebanese state's estimations and its plan of providing foreign funding. Foreign funding estimations also take into consideration the country's total reserves which currently amounts to around $14 billion (excluding gold), and its ability to service its foreign debt and its amortization.

Moreover, the CEDRE-related funding mentioned in the plan does not aim to restructure the debt and banking system, but rather to implement a development program. The plan further assumes that Lebanon cannot undertake a self-reform scheme, an unrealistic assumption, especially that the road towards reform is quite clear. The question then is why the Lebanese government is waiting for the IMF's approval. Lebanon undoubtedly harbors substantial potential that has not been utilized. Instead, the government resorted to foreign entities to chart the course towards reform, without realizing the cost of such interference, primarily in delaying reform until an agreement with donors has been reached.

FISCAL POLICIES

The Ministry of Finance devised most fiscal reform proposals in the plan, the most realistic of which are those that limit spending. However, it is recommended at this juncture that taxes be deferred until the economy recovers, while spending increases can be deferred and, consequently, could be decreased as a percent of GDP, with the exception of capital expenditures. Increasing, locally funded capital expenditures boosts economic growth. Likewise, resorting to funding through CEDRE requires local counterpart funding of at least 25 percent, which in turn calls for increasing locally funded capital spending, while the plan suggests otherwise.

The plan aims to bring Lebanon's financial deficit down to 1 percent by 2024. However, it is recommended that the country's public finance achieve a balance within a shorter period of time. A persisting financial deficit for another multi-year period (either the five years from 2020 to 24 in the original plan or the three years from 2022 to 24) will weaken the state's current account balance and continue to put pressure on the exchange rate. It is unlikely that the plan will succeed in bridging the aforementioned deficit, while at the same time propose public wage increases, whereas the revenue outcome is uncertain.

DEBT RESTRUCTURING

The debt restructuring policy was not built on sound foundations, but rather consisted of defaulting on the payment of foreign currency (Eurobonds) in March 2020, and local currency debt, without consulting with local and international creditors. As a result, Lebanon's credit rating fell to junk, and private banks' finances were exhausted, making it increasingly difficult for the private sector to secure foreign funding.

The unilateral decision proposed by Lazard to deduct local debt has deepened the gap between the assets and liabilities of banks along with BDL. It undermined BDL's ability to continue implementing its monetary policy of alleviating the pressure on the exchange rate. As such, the government's decision to default on its debt payments has contributed to the collapse of the currency, although at that time the BDL didn't support such a measure.

> The plan misleads citizens into believing that deficits are substantial and cannot be resolved without external support

The Lebanese state was able to service debt until then. Defaulting on payment and classifying government bonds as distressed assets was an unsound measure and led to further economic collapse.

The state's compliance with the Lazard proposals, which suggested defaulting on payment, was devoid of logic and did not serve the public interest. The state had better service the due debt and then consult with financial institutions on debt restructuring, noting that international financial institutions' share of the debt in US dollars did not exceed $5 billion until the end of February 2020, according to Bloomberg figures.

RESTRUCTURING THE FINANCIAL SECTOR

The scale of financial losses estimated by Lazard consisted of fictitious and overstated losses, which have primarily resulted from the state's unnecessary decision to default on debt payment. The reform program also called for deducting most of the principal of the local debt, to restore it to a sustainable level. Therefore, based on the default in

payments, the government assumed that banks were bankrupt, rather than admit their own bankruptcy.

This uncalled-for decision led to an acceleration of the economy's regression, and deterioration in local and international trust. In fact, the aftermath has started to burden the predominantly poor, while claiming to protect them.

RESTRUCTURING THE CENTRAL BANK (BDL)

BDL's losses were inaccurately estimated and overstated. Pumping liquidity through seigniorage was BDL's response to the government's flawed fiscal policies, which exacerbated debt, increased interest rates, and contributed to the economic recession.

The government's decision to peg the Lebanese pound to the dollar has also played a role in this regard, leading to the subsidization of imports, causing acceleration of deficits in the Current Account. The plan, meanwhile, admits that seigniorage cannot be considered a loss. "Transfer of losses through seigniorage is a common practice widely practiced by central banks around the world during crises." (See: The Lebanese Government's Financial Recovery Plan, p. 40).

Why does the plan, then, assume that Lebanon's situation is different? Why are seigniorage costs considered as a loss of $40 billion? The plan suggests these losses are the outcome of the Lebanese pound/US dollar peg policy, approved by successive cabinets to safeguard the currency exchange rate.

The government also assumed that the central bank was subjected to additional losses, resulting from Treasury bond holdings amounting to $20.8 billion, raising the total losses to $61.8 billion. The plan stipulates that compensating for these losses must come from bank deposits. In other words, both resident and non-resident Lebanese citizens have to absorb these losses along with bank deposits at BDL. And while the government's justification does not align with BDL's view, the latter reserves the right to ask the government to settle all dues, including deposits and bonds, which would be the right measure to take instead to having depositors and BDL carry the entire cost. The central bank can adopt this measure as it is an institution with an independent policy, while the funding provided to the Lebanese state exceeds the ceilings set forth by the Code of Money and Credit. As such, depositors (particularly non-resident ones) are willing to resort to legal measures, disabling the state both internally and externally, in case the government fails to carry its responsibility towards depleted banks' deposits at BDL.



RESTRUCTURING THE BANKS

Both the Lebanese Government's Financial Recovery Plan and the earlier Lazard plan assume that banks have incurred losses amounting to $20.6 billion, for owning Lebanese State bonds, Eurobonds, and Lebanese pound bonds, as well as non-performing private sector loans. As such, the banking system's overall losses amounted to $84 billion, according to Lazard calculations. The plan further assumes that the Lebanese economy will not recover unless banks are restructured, making all losses incumbent on bank depositors. Is liquidating banks the ultimate objective? The plan adds, "Authorities are convinced that law-abiding citizens should not bear the brunt of these measures." But where will the Lebanese state possibly acquire the bail-in sums needed for its law-abiding depositors?

Issuing licenses for new banks, as the plan suggests, is by no means easy at a time of economic recession. How would these banks secure deposits, especially foreign currency deposits? Therefore, it is recommended to coordinate and consult with the central bank, as it is directly responsible for issuing licenses and assessing the need for new banks.

CONCLUSION

The alleged losses of the banking and financial sector mentioned in the Lazard plan were fictitious. As mentioned earlier, seigniorage cannot be considered a loss, as it is the result of measures taken to secure monetary stability. Likewise, one cannot assume that some of the state's bonds now have no value (40 percent of state-issued bonds) and are considered total losses. Does this mean that the remaining bonds are of value?

The banks' actual losses only amount to 47 trillion Lebanese pounds ($13.3 billion) and primar-

ily consist of private-sector loans. However, the net value of losses must be calculated, as most loans are approved against collaterals that compensate for such losses. The government predicts that it will be able to retrieve $10 billion of looted funds over the next five years (See: The Lebanese Government's Financial Recovery Plan, p.32). If this is the case, why rush to secure foreign loans? After all, this is the sum needed to bridge the gap with foreign funding.

The plan also seeks to cover losses by deducting most of them from client deposits in banks, by resorting to a bail-out measures, and replacing deposits with bonds and assets in the Deposit Recovery Fund, the fate of which is uncertain. In principle, these measures fall short of a haircut and will cause an endless confrontation with depositors that could end tragically in total economic collapse. It is inevitable that many depositors will resort to local and international justice to resolve the issue.

On the other hand, establishing a Public Asset Management Company to compensate for deposit losses will not succeed in addressing the issue, as it will take decades to do so, while the state lacks the resources needed to manage it.

As such, the plan will likely yield the following outcomes:

- A continued drop of the Lebanese pound against the US dollar;
- Undermining trust in the banking system;

Reducing consumption, production, and investment due to shrinking individual wealth;

- Discouraging foreign investment;
- Curbing foreign remittances;
- Increasing financial deficit; and
- Exacerbating poverty

The banking system will be unable to retrieve billions of dollars' worth of locally saved cash in foreign currency stashed outside banks.

Therefore, the agenda, which is extensively based on fictitious assumptions, will yield severe repercussions. It harbors unfair practices towards both wealthy and poor citizens, and seeks to destroy the Lebanese economy, oftentimes to the ignorance of those responsible for it. The plan was built on wrong foundations, including the alleged state bankruptcy, inflated foreign aid, and the assumption that Lebanon cannot overcome the crisis alone without dependence on the IMF.

According to Lazard, the IMF initially had a similar position, estimating that losses were tragic and called for an $80.7 billion bail-in and a 79 percent deduction from deposits.

From a financial standpoint, the plan misleads citizens into believing that deficits are substantial and cannot be resolved without external support.

The government can actually overcome obstacles and address the high demand on the US dollar through taking the following steps:

1. Fully unpegging the exchange rate and making all current transactions at the current market rate. In this context, BDL can be in charge of announcing the official rate on daily basis;
2. Liberalizing Current Account transactions;
3. Reducing the fiscal deficit to 1 percent of GDP by consolidating the state's debt in local currency at BDL and lifting subsidies on the electricity and other sectors. These two measures will secure over 6 trillion Lebanese pounds to the Lebanese Treasury;
4. Decreasing compulsory US dollar reserves on deposits;
5. Providing liquidity through the gold reserves, which falls under the competence of BDL pursuant to the Code of Money and Credit;
6. Liberalizing interest rates on all deposits immediately and allowing the restructuring of debt and deposits, under these exceptional circumstances;
7. Gradually transforming money supply into the local currency through trust-building measures.

As such, Lebanon's president, prime minister, and speaker must announce that the state is keen on preserving citizens' deposits in the deposited currency, and that compromising the deposits of residents and non-residents is a breach of the Lebanese constitution and a threat to civil security. The very mention of the term "haircut" has terrified Lebanese citizens whether locally or abroad, noting that an important share of deposits belongs to the Lebanese diaspora.

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By Rayane Dandache

A FISCAL SPACE TO BREATHE



Hits and misses of the Lebanese government's financial recovery plan

In its efforts to address the grim situation that the economy and financial system are in, the Government of Lebanon published in April 2020 a financial recovery plan[1] aimed at restoring confidence and putting the country back on a long term sustainable path. Most importantly, the program pointed at forcefully addressing "fiscal and financial imbalances" – the main pillars of the scheme that has fueled Lebanon's downfall. These imbalances were addressed within one of the nine central headlines targeted at fiscal adjustment and focused on improving tax compliance, streamlining expenditures, and reforming the public sector.

Unfortunately, the government failed to embark on immediate reforms to create fiscal space and support existing social safety nets despite the impact of the compounded crises falling hardest on the poor and vulnerable. As such, this article addresses the need and means to create this space and prioritize a set of actions from within the proposed reform pillars stipulated in the government's plan.

As a result of the multiple crises, particularly during the last two years, Lebanon's GDP dropped to around $20 billion, and the UN-ESCWA report on multidimensional poverty in Lebanon (2019-2021)[2] stated that poverty almost doubled from 42 percent in 2019 to 82 percent in 2021, with nearly four million people facing deprivation in education, healthcare, public utilities, housing, assets, employment and income.

These alarming figures, coupled with rising inflation rates and the ongoing depreciation of the local currency, have exacerbated already existing vulnerabilities and exerted further pressure on the Lebanese people who are facing dire shortages in food, medicine, and fuel.

THE MEDIUM-TERM FISCAL STRATEGY AT A GLANCE

To reduce the country's fiscal deficit that had exceeded 10 percent of GDP at the end of 2020, the recovery plan stressed on the need to re-evaluate the state's fiscal policy and define a clear set of targets or "golden rules" on which future budgets need to be based.

Several corrective measures were proposed – at the level of expenditures and revenues – geared toward creating a primary surplus by mainly cutting off wasteful spending and enhancing tax revenues. These proposals include, but are not limited to, increasing budgetary revenues by curbing tax fraud and evasion, improving the compliance rate, and revamping the entire tax system.

At the level of expenditures, proposals tackle the need to build spending priorities on the basis of clear criteria that meet the economic, social, and financial needs of the country such as controlling the public sector wage bill, addressing the hefty pension scheme, limiting transfers to Electricité du Liban, and reducing transfers to and financing of state-owned enterprises, agencies, and funds.

Despite the importance and inevitability of all these reform pillars to achieve the government's fiscal objectives, it is essential to recognize the fact that the majority require a relatively long process and, in many cases, the adoption of a set of reform laws. As such, most of them cannot yield a much needed immediate impact.

FISCAL SPACE CAN EXIST

Sad to say, the social component in the program does not address the severity of the situation in the country. Despite surging poverty rates, the plan merely focused on support provided by international organizations (i.e., the World Bank) without realizing the importance of prioritizing many of the proposed corrective measures to create fiscal space.

Fiscal space is normally defined as the government's ability to confidently use the available room in its budget without risking any unfavorable impact on its financial position or the economy's stability.

The reality is that Lebanon has no fiscal space. The country's financial position and economic stability are already jeopardized; however, this does not deny the importance of looking at readily-available options to be implemented.

Delving deeper into these alternatives, the main titles of re-prioritizing expenditures and increasing tax revenues top the list. In terms of spending, the government should immediately opt to implement the plan aimed at addressing the ineffectiveness of many of the 73 public entities by "merging entities when feasible, reigning salaries and benefits, and rationalizing operational costs, while closing other obsolete entities and eliminating redundancies when deemed relevant." Accordingly to a recent report by Institut des Finances Basil Fuleihan[3], despite there being many revenue-generating State Owned Enterprises (SOEs), others constitute a liability to the State. Lebanon's classified off-budget spending is equivalent to more than 16 percent of total budget with large SOEs operating outside of it, and managing substantial amounts of public funds that are not submitted to the legislature's approval, or reported into consolidated data.

> Quick-wins lie in increasing taxes on luxury goods and improving tax collection by first closing illegal crossings and fighting smuggling

At the level of revenues, quick-wins lie in increasing taxes on luxury goods and improving tax collection by first closing illegal crossings and fighting smuggling, and enforcing fines on projects illegally built on public domain maritime and other sites. The occupancy of these large properties, whether licensed or not, fails to bring in the revenues corresponding to the value of the occupied areas mainly due to failure in collection. According to figures from previous draft budget laws since 2017, the average expected revenues amount to roughly $100 million.

These decisions do not only address inefficiencies and complement the government's efforts in building fiscal resilience, but also support the already existing and weak social safety net program in adapting to the major economic downturn that the country is witnessing.

REALLOCATE SPENDING FOR A BETTER SOCIAL SAFETY NET SYSTEM

According to International Labor Organization (ILO) 2019 figures, Lebanon spends around 13.8 percent of its GDP, and 30 percent of its public expenditures on social protection. Unfortunately, social coverage remains among the lowest and most inequitable.[4]

That being said, and given the recent removal



The reality is that Lebanon has no fiscal space. The country's financial position and economy's stability are already jeopardized

of subsidies that have long crowded out social spending, the reallocation and reprioritization of existing government spending has become unavoidable. This re-arrangement in fact feeds into expanding the budget allocated for the existing social safety net program (i.e., the National Poverty Targeting Program) in efforts of building a comprehensive system that is catered to the poor and the vulnerable Lebanese.

While the World Bank funded Emergency Social Safety Net (ESSN) and the foreseen Broad Coverage Cash Transfer (BCCT) programs can address the situation, they remain temporary solutions to all of Lebanon's woes – a truth that further justifies the necessity of creating fiscal space that is able to provide a longer term solution in anticipation of the government reaching an agreement with the International Monetary Fund.

However, it is worth noting that the support provided by the World Bank in terms of financing and the development of social safety net registries and databases would prove crucial to capture current and future vulnerabilities and would allow Lebanon's current social safety net program to scale up and expand its coverage successfully in the future.

THE NEED TO ACT NOW

While many of the deeply rooted structural problems require medium- to long-term actions, the government must act immediately when addressing social issues and related policy responses by at least trying to implement one of the reform pillars they initially suggested in the recovery plan.

People are in the heart of the storm, and unless the latter's impact is mitigated, the situation will remain a ticking social bomb.

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By Salim Taha

NO WAY OUT?



The debt that consumed Lebanon

The Lebanese national debt, seen in relation to the country's GDP, has been one of the highest in the world for many years. When the cost of servicing that debt became extreme and international investors lost faith in the country's ability to manage its finances, it was inevitable for the whole financial system to crash. Generations of savings by Lebanese residents and non-residents evaporated through high exposure of banks and the BDL to the sovereign risk. Getting out of the debt trap requires drastic measures.

Sovereign debt defaults have been part of the modern world's economy for centuries; some defaults are even traced back to the fourth century in Greece. Countries choose certain economic, fiscal and monetary policies that put them at risk, and when adverse events occur over a relatively short period of time, the system endures a distress that mostly ends in a financial and economic crisis. The risky policies usually involve overspending by a government, leading it to borrow more. The consequence of this is higher interest rates to compensate for the increased risk, which, if not reversed with economic growth in time, leads to a spiral of risk that threatens the government's finances and the national currency.

LIKE A HELL-BROTH BOIL AND BUBBLE

Lebanon treasury finances were always in deficit and mostly in Lebanese pounds. A large and constant inflow of dollars from remittances, personal capital flows, and – in some years – tourism, helped contain the risk of expansion in Lebanese pound debt.

However, Lebanon's dollar borrowing to fund the deliberately failed electricity company, Electricité du LIban (EDL) and the interest on dollar debt, meant that every new dollar borrowed locally translated into a Lebanese depositor's dollar wasted. By the end of 2019, the interest expense of the Lebanese government had reached 65 percent of its total revenues.

Lebanon's last Eurobond market issuance was in 2017, which has been interpreted as a signal that no one wanted to hold Lebanese Eurobonds because it was clear to investors worldwide that the Lebanese debt had crossed its point of sustainability. By the time the crisis reached its peak, out of the $120 billion in depositors' money, $20 billion had been borrowed by the government and $80 billion was classified as reserves by BDL but commited under financial engineering. The government policy of pegging the Lebanese pound to the dollar artificially overvalued the currency and depleted deposits.

The Lebanese national debt reached 174 percent of GDP towards the end of 2019 and two years later, at time of this writing, stands at 210 percent at market rates. The envisioned restructuring of the debt would now involve a haircut of 60 percent to make it sustainable, which would have been equivalent to a haircut of around 50 percent on depositors in 2020. This was considered the best case scenario by some in 2020 when the government issued its ill-fated recovery plan. However, the plan was never adopted, and the BDL monetary policy intervention continued, opting to inflate the system by printing trillions of Lebanese pounds, thereby rendering people's deposits partially worthless.

Any restructuring that would be imposed would still need to haircut depositors, but these depositors would be much poorer now, given the spiral of inflation and devaluation of the Lebanese pound.

Any restructuring that would be imposed would still need to haircut depositors, but these depositors would be much poorer now, given the spiral of inflation and depreciation of the Lebanese pound

LIFTING THE CURSE?

For the debt to be sustainable in the coming decade, its cost has to be contained. For the Treasury to afford the interest on the newly restructured debt, it needs to be able to collect taxes again from a functioning economy. For the central bank to be able to pay back its debt to the banks and hence to depositors, it needs to replenish the dollar reserves. Therefore, the solution to the debt is an economic, fiscal, and monetary one.

Unless there is a holistic approach to the Lebanese crisis, the country would risk being subject to multiple defaults over the next two to three decades, with increased poverty and no cumulative wealth, rendering the country one of the poorest in the world.

The restructuring of the dollar debt requires an international bailout. The restructuring of the Lebanese pound debt is important to keep the cost of debt low. It is nonsense that the large portion of the debt which is denominated in Lebanese lira is not a threat anymore because its value, it terms of dollars, has shrunken and is continuing to shrink. But lira-denominated debt is payable in lira, from lira revenues. Indeed, the only fiscal revenues that could be used to pay this debt, as all fiscal revenues of the finance ministry in Beirut, are lira revenues; hence the 3 trillion Lebanese pounds in payable interest on this debt still hold.

In such a severe recession as currently experienced by the Lebanese economy, one cannot expect to collect more money from existing taxes or hike tax rates; the focus should be on increasing the productivity of the Lebanese economy and supporting export-oriented sectors. One time-honored idea for boosting productivity is to invest in needed infrastructures, and once the international community was standing by to inject those billions of dollars in infrastructure projects that would boost the economy and support the fiscal and monetary policies. But alas, we missed that opportunity and we now seem to be on our own – and we all know what that means.

Salim Taha is an economist specialized in public finance

By Salim Taha

THE ROAD THAT WAS NEVER TAKEN

Lebanon's fiscal reform

The definition of reform in the dictionary is "making changes to something in order to improve it." It seems the fiscal situation in Lebanon has reached a point where no amount of changes can improve it. The challenge has become insurmountable and the country's finances might fall into a permanent failure trap that might persist for many years.

Let's look into the major categories of revenues and expenditures historically in Lebanon.

State treasury revenues are generated, in order, by income taxes, value-added tax (VAT), state owned enterprises (SOEs), customs and excises, and real estate registration.

DOWN & DOWN

All treasury revenues in Lebanon were collected at levels far below their optimal level due to endemic corruption; corporates and individuals rarely declared the right level of their income or real estate transactions. Customs and excises generated approximately half of the expected revenues, the VAT revenue gap escalated. Profitable SOEs such as Middle East Airlines (MEA), Beirut's port and airport, Casino du Liban, the Régie, Electricite du Liban (EDL), and telecom operators were overstaffed and mismanaged. Heavenly loss making Electricite du Liban of course was worse reputed to say the least.

The Lebanese economy is estimated to have shrunk by around 40 percent in the past two years and is going through one of the most complex and dire crises in history. For the same reasons that treasury revenues were under collected, reasons which are being newly exacerbated by the shrinking of the economy, the erosion of purchasing power and increase in poverty, the finances of the Lebanese government in the coming years will be a fraction of what they used to be. In dollars, at the now-deceased official exchange rate, revenues were around $10 billion during the beginning of the collapse which really started in 2016 and was artificially postponed by the "financial engineering" undertaken by the Lebanese central bank, Banque du Liban (BDL), at a very high cost. In the first five months of 2021, according the latest published figures by the Ministry of Finance, the treasury collected 6,658 billion lira, the equivalent of $246 million at the closing black market rate of 2021 (27,000 Lebanese pounds (LBP)/$1). Extrapolated to a full year, this means the revenues would reach around $590 million, or 6 percent of what they used to be in dollars.



IN A SORRY STATE

On the expenditures side, the highest categories are occupied by personnel costs at the top, with debt interest payments coming in at a very close second, followed by subsidies to Electricité Du Liban (EDL), then capital expenditures (capex), then municipalities. An overly bloated government with some 300,000 employees on the payroll between active duty and retired staff (no one really knows the exact figure), where clientelism has always been the name of the game, is not expected to fire anyone anytime soon. End-of-service and pension payments were already unsustainable before the crisis, and printing more Lebanese pound notes to keep them up will only make things worse. Transfers to EDL shrunk by half between 2018 and 2020- due to lack of funds, not to mention the absence of reforms. This has translated as reduced deficit but more blackouts, higher costs on households to substitute increasing blackouts with generators, increased pollution, and less economic productivity. Capex was zero in 2019 and 2020, which means even the small amount of spending on maintaining the minimum infrastructure – post obscene profits margins that had been granted to politically affiliated contractors – is not available, which will only make the country more unlivable, and require much more investment in the future to rebuild it.

As for the interest on debt, following the default decision on Lebanon's external debt (Eurobonds), billions of dollars in depositors' funds, in principal and interest, must be factored in with a proper debt restructuring agreement with investors. The restructuring will not be feasible without an International Monetary Fund (IMF) program, which will not materialize without fiscal reforms. But given the clear unwillingness of the political godfathers of the system to reform anything, the country and its government are expected to remain in a zombie state. This means the treasury, with its miniscule revenues and expenditures in real value, will artificially be kept alive with additional printing of Lebanese pound notes, creating a spiral effect of devaluation/inflation/poverty/negative growth, which can go on for a long time.

SUCCESSION PLANNING?

You are probably wondering by now what the solution might be. Well, the official answer to that is: reform public service, restructure debt, restructure the banks, restructure the state-owned enterprises, take money from the IMF and rebuild the economy hoping to get back to pre-2019 GDP levels in 15 years. Here you go, la vie est belle.

The treasury [...] will artificially be kept alive with additional printing of Lebanese pound notes, creating a spiral effect of devaluation/inflation/poverty/negative growth

Is that a realistic scenario? When companies fail, the first thing that bankruptcy administrators do is change the management. A whole country failed and is witnessing the largest exodus of human capital since its civil war 40 years ago, but the managers are still the same. Until the managers are changed, one way or another, we should expect Lebanon to become a small, poor and failed economy, surviving indefinitely on a few billion dollars in net remittances.

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Executive

By Ali Hamieh

WAITING FOR GODOT



The ongoing failure of even trying to save the Lebanese pound

More than 120 countries in the world have some form of a pegged exchanged rate system, in either soft or hard pegs mainly to the US dollar or the euro. Small economies benefit from pegging their currencies to reduce macroeconomic volatility and improve predictability for investors and visitors of the country.

LEANING TOWER OF LIRA

The Lebanese pound before the civil war benefited from a period of floating exchange rate system driven by strong influx of dollars from tourism and banking. During the civil war, political money took over remittances and tourism and capital flows, and these murky funds of conflict finance were the only source of foreign currency. In 1987, the Lebanese pound witnessed its biggest crash ever with a devaluation in excess of 400 percent in less than two years, crossing 800 Lebanese Pounds to the dollar. When the Lebanese pound was pegged to the dollar at the end of 1992 and settled at 1,507.5 Lebanese pounds/$1 in 1997, Lebanon had a lot to benefit from exchange rate stability and predictability.

Pegged exchange rate systems require adjustments over time when macroeconomic features

of a country witness a change. Countries with free capital flows and fixed exchange rate lose monetary policy autonomy, a concept known as the impossible triemma. For Lebanon, this means that to maintain stability in Lebanese pounds and free movement of capital, the Lebanese central bank, Banque du Liban (BDL), has to follow interest rate movements in the base currency (USD in this case) plus a certain risk premium, otherwise capital would exit the country.

At the onset of the Syrian civil war, the Lebanese pound was already suffering from an overvaluation due to dollar inflows to the economy from Lebanese expatriates, which were not channeled to the productive sectors in the economy but rather to bank accounts offering high interest rates. This rendered price levels in the services industry very high, a concept knows as an increase in the value of non-tradable goods and services in a Dutch disease scenario. Simply compare the cost of a hotel room in Lebanon in US dollars in 2010 vs. 2021. A gradual adjustment of the soft peg's 1,507.5 rate was long overdue.

REPERCUSSIONS OF FINANCIAL ENGINEERING

In the past decade, remittances, personal capital flows and tourism income declined gradually due to regional instabilities and a host of adverse factors, leading to an erosion in the balance of payment surpluses of the previous decade. Resorting to unconventional monetary policies led to a search of interest rates offered to large ticket-depositors. The Lebanese government failed to induce reforms that were requisite to receiving CEDRE funds. For instance, if interest on deposits in Lebanese pounds had to be raised above 10 percent to attract inflows, depositors collecting that interest should not have been allowed to exchange it for dollars and then transfer this profit abroad because they would effectivly have been taking someone else's dollar deposits. The government failed to deliver promised reforms expected by Riad Salameh, some of which include infrastructure investments, consequently losing a chance at receiving CEDRE money.

Following the crisis, further depletion of BDL reserves was caused by subsidies of essential and some non-essential imports and further capital flight by those powerful enough to manage it. Now the economy has multiple exchange rates operating at the same time, three official rates for the Lebanese pound to the dollar (1,507.5; 8,000; 12,000) and one market rate. The real market rate, standing at around 27,000 Lebanese pounds/$1 at the time of writing this article, will always be ahead of any official rate as long as there are no proper macroeconomic measures being taken. BDL claims to have only around $14 billion of depositors' money left in its reserves. Where will the Lebanese Pound go from here?

MILLION-POUND CHICKEN DINNER

The devaluation of the Lebanese Pound technically has no limit; with the vicious cycle of inflation and devaluation, the Venezuelan Bolivar reached such a devaluation in 2018 that it would have been cheaper to use the currency as toilet paper rather than buy toilet paper with it. Will the Lebanese pound get there? Maybe not to that extent, because a few billion dollars of remittances are still coming in every year from expatriates who support their families. However, Lebanon is highly dependent on imports, especially for its energy needs, which means that reserves will continue to be exhausted for the operation of the economy. The first step to halt degradation is confidence. When a government was formed in September 2021, the Lebanese pound appreciated to 14,000 Lebanese Pounds/$1. It has halved since then because literally no action was taken yet to save the country from one of the worse crises in history.

> Banque du Liban (BDL) has to follow interest rate movements in the base currency (the US dollar in this case) plus a certain risk premium, otherwise capital would exit the country

Prime Minister Najib Mikati and a host of analysts are still debating about the losses of the financial system two years after the crash while depositors' purchasing power is evaporating by the minute. Let us hope they conclude their argument before the cost of a chicken reaches 1,000,000 Lebanese pounds. It is to be hoped that before then, they would have restructured the central bank, the financial system, and the public sector, then designed the right macroeconomic policies that provide confidence so the very long recovery can begin. Should we wait for that, or would waiting for Godot be less painful?

Ali Hamieh is an economist specialized in public finance

By Mounir Rashed

AN ECONOMIST'S REVIEW OF THE 2022 BUDGET



No vision, no reforms, no money

The Budget draft law for 2022 that has been submitted to the Council of Ministers, projects 55.2 trillion Lebanese pounds in expenditures with revenues of 39.1 trillion. The need for a 2022 Budget is required to sanction spending and its approval by the cabinet has been a precondition for negotiations with the International Monetary Fund.

However, the Budget of 2022 reveals most disturbingly, the absence of any profound and comprehensive reforms. It is merely a continuation of past policies with an inflation adjusted factor. The Budget does not state objectives for growth, an inflation target and the balance of payments, nor how it can contribute to resolving the crisis.

FIRST DISTURBING SIGN: MULTIPLE FIXED EXCHANGE RATES

The continued provision of applying multiple fixed exchange rates under the 2022 Budget is by itself a setback for reform. A regime of multiple currency exchange rates (MCR) is not only unjust but an infringement of the constitution. It exhibits the intention to gradually deplete banks of a substantive amount of deposits to reduce their losses at the centrak bank, Banque du Liban (BDL). Either the intentions of the government and BDL are being concealed or it is not understood that fixed rates constitute a large loss for depositors and for the economy. Actually, it was this multiple rate policy that has in recent years completely eroded the lit-

tle remaining trust and confidence in the management of the system.

The frequently stated excuse that unifying and liberalizing the exchange rate is inflationary is a false argument. To the contrary, the current multiple rate policy has the ingredients for a continued decline in the parallel (free) exchange rate and persistence of inflation. The free unified market rate leads to equilibrating the financial markets – and allows depositors to regain the value of their dollar deposits and absorb their LBP deposit losses.

Given that many banks are being influenced/controlled by the political elite that is involved in Budget law decisions, it's not surprising that the Budget draft law prescribes a multiple rate system. However, the fixed and multiple exchange rate policy that is being sponsored is very likely to preclude reaching an agreement with the IMF that has been all along preaching freeing the exchange rate – a staunch policy of the IMF.

While the persistence of a multiple rate system proposition is void of reform intentions, the central bank's unsustainable currency intervention to prop up banks seems designed to provide a false signal that reform is coming. The fact that BDL has been able to convert most of its SDR holdings into a reserve currency (probably a gesture from a friendly economy) does not change the fact that this intervention in the exchange market has been facilitated temporarily.

THE SECOND WORRYING SIGNAL

Apart from the draft's stipulation for continued multiple exchange rate practices, the Budget in its current draft also does not show intent for serious reform; it is rather a collection of fragmented measures of tax rates, excises and spending.

Total spending in the Budget surpasses LBP 55 trillion, including the credit extended to Electricite du Liban. Support to EDL cannot be classified as a loan (and thus excluded from budget spending) because the utility is unable to pay back its existing loans that have exceeded $ 20 billion. Fiscal support of EDL is a subsidy, was classified as such and included in spending for many years. Even the case of a loan was to be made, the budgeted expenditure should be classified as an increase in acquiring non-financial assets, and the counterpart classified as an increase in financial assets in financing (a loan) of the Budget; thus increasing the deficit and increasing the financing needs by an additional LBP 5.2 trillion.

Another notable Budget item relates to wages and salaries, where an expenditure increase of a full month salary is stipulated in addition to increased transportation support. Counter to a standard recipe for administrative and fiscal reforms, the Budget fails to reveal any structural reform in the civil service. The apparent preference is to retain a large civil service body which is much larger than that of any peer country. In summary of the 2022 Budget, its current components are dominated by wages and salaries (12.3 percent), civil servants' benefits (16.6 percent), EDL subsidies (10 percent), and domestic and foreign debt service cost (13.8 percent combined).

The fixed and multiple exchange rate policy is very likely to preclude reaching an agreement with the IMF that has been all along preaching of freeing the exchange rate - a staunch policy of the IMF.

Also, notably, in the context of analyzing the Budget, the allocation of LBP 9.2 trillion to civil servants includes LBP 7.0 trillion of social spending allocated to government employees without providing a clearly defined purpose. For both domestic and international debt service interest payment, it's not specified whether these amounts are based on a debt rescheduling agreements or not. The capital Budget on the other hand remains low at 4% of total spending and is not growth oriented.

MAIN EXPENDITURES UNDER 2022 BUDGET DRAFT *(in trillion LBP)*

Wages and salaries	6.8
Retirees' compensation	3.6
Social allocations for civil servants	9.2
Domestic debt service	6.4
Foreign debt service	1.2
EDL subsidies	5.2
Other spending	11.4
Reserves	9.2
Capital spending	2.2
Total	**55.2**

THE REVENUES

Revenues, however, add up only to LBP 39 trillion. This side of the fiscal plan reflects primarily tax increases on interest earned to 10 percent (from 7 percent in the previous budgets), and hikes in the tax rate on wage incomes where the new maximum rate is 25 percent on upper income brackets (from 21 percent), and wage bracket increases for all tax rate ranges. In addition, revenues are assumed to improve on basis of increased customs rates in combination with the new exchange rate applied on customs receipts. Depending on what exchange rate is used, the imposition of a new customs regime could lead to customs increases – with the real size of the increase depending on how the market reacts to these changes.

A full exemption from tax on interest is introduced on new dollar deposits for 5 years from the time of approval of this Budget law. Other tax relief measures include rescheduling of due taxes and excises for a three-year period, resettling of VAT and income tax arrears on large tax payers, and transferring losses one year forward.

The beneficial effects of the proposed tax relief measures and hiking of customs levies are highly uncertain. The tax exemption on fresh dollar deposits is unlikely to attract financial inflows as the risk factors remain dominant in repelling inflows. The proposal to set a broad 3 percent customs rate on most imports may incur a conflict with trade partners who can demand adherence to existing trade protocols. The same issue may arise with applying a 10 percent customs rate on imports for which domestic substitutes exist. The Budget revenue draft thus represents an inward-looking approach to trade.

MAIN REVENUES UNDER 2022 BUDGET DRAFT *(in trillion LBP)*

Income taxes	5.9
Property taxes	2.9
Taxes on goods & services	19.7
Tax on international trade	3.4
Non-tax revenues	5.5
Other tax revenues	1.6
Total	**39.1**

The main observation of revenue items in the 2022 Budget is that indirect taxes (which are regressive) dominate the picture. VAT is the largest source of revenue. Adding in fees and charges on trade, indirect taxes on goods and services are the largest source of government receipts at 50.3 percent of all fiscal income.

The Budget is attempting to generate revenues in foreign currencies by stipulating that wage taxes should be based on the currency that salaries and other receipts are paid in. The same principle could be applied to other sources of income but with a high danger that such a policy will raise public opposition and at the same time see as justification for using foreign currencies as a local legal tender.

> The Budget of 2022 reveals most disturbingly the absence of any profound and comprehensive reforms.

The Ministry of Finance (MoF) is, surprisingly, being given a discretionary power to set the exchange rate for the purpose of collecting customs and VAT on imports, and other taxes. This implies a continued absence of transparency, as no basis for such decisions has been provided in the draft law. In addition, the policy in the current budget gives the MoF the discretionary power of determining certain tax exemptions and discounts on un-specified income taxes and fees.

The 2022 Budget draft law, reviewed here before its finalization by the Council of Ministers, is subject to debate and approval by the Lebanese Parliament. Many details will be discussed and adjusted. However, there are many fundamental questions that are not addressed in the draft and remain to be answered. The people of Lebanon have the right to receive answers on two fundamental issues on which the current draft is silent, namely the question of how the budgeted deficit of nearly LBP 15.4 trillion could be financed and the equally important question further to what extent the budget is in compliance with IMF demands.

These are vital questions that could make the start of Lebanon's long journey of rebuilding the economy more tenuous. In addition to the strategy for economic recovery and the faith of public deposits, is there consistency between the recovery plan and the budget? Furthermore, the question on every economist's mind relates to the sources

BUDGET 2022: MISSING THE POINT

In consequence of my analysis of the 2022 Budget draft law, I have identified a very long list of key issues and several important questions that need to be addressed:

ISSUES:

- The crisis was caused by the absence of fiscal discipline. The Budget reveals a continuation of same past policies with a large deficit of 31% of spending.
- The Budget needs foreign financing as well, at least for the subsidy to EDL. In the absence of any potential access to international markets, the government option is to finance its need of foreign exchange from the domestic market with serious repercussions on the parallel rate and the disparity between the fixed and the free rate.
- Neither Eurobond interest cost and principal arrears nor the issue of default with holders is addressed. All arrears should be reflected in the Budget so that debt accumulation resulting from default be properly reflected.
- The Budget is attempting to generate revenues in foreign currencies by stipulating that taxes should be based on the currency that salaries are paid in. This could be a constitutional infringement.
- The fiscal stance does not address when access to deposits (dollar and LBP) could be liberated.
- The NSSF is facing a major challenge in being unable to pay back retirees' indemnity as it holds most of its reserves in T Bills, in addition to the loss of the real values of these amounts. There is no action plan in this regard except the proposal to pay government accumulated arrears to NSSF over a 10- year period. This stance is certainly not in favor of retirees, knowing that the value of their end-of-service entitlements gets significantly diluted.
- BDL losses due to government overspending (out-right foreign currency over-drafts) and BDL holding of government debt, in Eurobonds, in T-Bills and direct credit, are not addressed.
- Subsidies to EDL remain large, about 10 percent of the Budget.
- The Budget does not address any measures to improve the performance of the public sector, and electricity in particular.
- Any fiscal and quasi fiscal financing has to be revealed in the Budget (excluding IMF financing as it is considered credit to the BDL), which is not the case.
- Taxes are mostly indirect and regressive, and don't provide for equity improvement. VAT alone is about 30 percent of revenues. Indirect taxes as a whole constitute over 50 percent of total revenue.
- Tax measures on imports could be controversial as they may violate trade arrangements. The Budget proposes an arbitrary customs rate of a 10 percent and a 3 percent flat rate on all imports, excluding fuel imports
- The exchange rate is defined in an arbitrary way by the MoF, which could be unsettling for the financial markets and traders.
- Discretionary powers are to be granted to the MoF for setting the exchange rate for trade transactions, in particular, and discounts on tax arrears. These measures raise the issue of compliance with the constitution.
- Immediate action is needed to liberalize the exchange rate. The government didn't provide any clarification on its position yet.
- Domiciliation of salaries can't be applied while the BDL continues to stipulate limits on withdrawals. It assumes that acceptance of the Lebanese pound as a legal tender is violated.
- Rescheduling of public debt is not addressed.
- The social safety net plan is absent from the Budget.
- The urgent need for better governance and the problem of rampant corruption are not addressed.

of financing the Budget, and yet ignores the losses of people's savings through the banking system and its holding of T- bills and Eurobonds. Thus we need to know: does the domestic market (banks and non-banks) have the will to provide financing to the government? By my understanding this is very doubtful. We also ask: is there any intention to compensate, at least partially, depositors for the losses linked to bank-held T- bills and Eurobonds? The Budget cannot remain silent on this.

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FREE ZONES IN LEBANON... MORE THAN A NEED... A NECESSITY

An analytical study of the free zones and their role in achieving urban development

By Firas El Husseini





Most countries in the world seek to attract investments as a dynamic driver of their economies. The establishment of free zones is one of the factors that countries, especially developing countries, resort to in order to attract and encourage foreign and national investments, due to the facilities and privileges offered by these areas such as tax and customs incentives and relatively cheap labor that enables investing companies to increase competitiveness and thus achieving a higher ROI (return on investment). The increase in the number of free zones in various countries of the world is one of the phenomena that caught the attention of researchers and specialized economic scholars to look for the motives and effects of these areas and the possibility of economic progress for the country that established them.

In the case of Lebanon, with the deteriorating economic situation that the country has never witnessed before in its history, the need is crucial for elements enabling the economy to restructure itself from within, instead of banking on the international community and entities to come up with a plan of action for the Lebanese to implement; with an appropriate vision and the decision taken, the country can regain its previous status as the Switzerland of the East.

"Direct job positions were estimated at 26,000 jobs in Jbeil"

A FLASHBACK ON FREE ZONES

Since the time when the concept of free zones emerged, it was intended to attract part of the volume of international trade. Historically, the idea of free zones dates back to about two thousand years ago, since the era of the Roman Empire. It was the first region in the Aegean Sea, where the free Delos were known islands that applied the idea of re-shipment, storage and re-export of goods crossing the borders of the empire.

The countries located in the Mediterranean basin depended on commercial activity using the system of free zones in the Middle Ages, and with the emergence of colonies, European countries established small areas for them in cities with ports to facilitate the movement of trade between Europe and its colonies. Examples of the free zones that were established in that period are the Gibraltar region 1704, Singapore 1819 and Hong Kong 1842. These regions practiced re-export activities, providing shipping and establishing special warehouses for that. With the second half of the 19th century and the beginning of the 20th century, the idea of free ports began to grow rapidly in Europe, and after the Second World War, when international trade began to grow again at a rapid pace in important strategic locations on the international trade lines, and the predominant use of free zones at this time was in the form of storage and re-export centers.

One of the successful examples of free zones during this period is the Colon region in Panama and in the late fifties and early sixties a new form of commercial free zones began to emerge that does not depend on commercial activity only, but depends on export industries, that is, it is part of the attraction planning for the international investment flows to industrial investment in the host country.

The Shannon free zone in 1959 began to change the prevailing pattern of commercial free zones in the world from commercial activity to industrial activity, as it focused on establishing industrial projects that could absorb large numbers of workers and focused on the country's exports to the outside world. During the sixties and the beginning of the seventies, several countries began to endorse the idea of establishing industrial export zones in order to create an advanced export sector in those areas. Examples of the free zones that the Philippines and Bataan established in this period are: Bataan Malaysia, as well as Bayan Lepas and Japan Masan. Some countries have established free zones to serve both goals at the same time, to be free commercial and industrial zones, like the Egyptian free zones. Free zones have developed over time and the nature of their work has evolved. Export free zones for "exports" represent at the present time the prevailing pattern of free zones. According to the Kiel institute for the world economy, there are more

than 5,000 Special Economic Zones worldwide, and the trend is rising, while the OECD (The Organisation for Economic Co-operation and Development) states that the so-called Free Zones are responsible for exports worth at least 3,500 billion a year, equivalent to around 20 percent of global trade in goods.

THE CONCEPT OF FREE ZONES BY DEFINITION

Considering the various legislations regulating the work in free zones around the world, we find that they did not set a specific definition of a free zone, but rather set a specification for its boundaries or for the customs' procedures and regulations under which the system works within such areas, and some have designated the fields of activity that can be practiced within its boundaries. As the definitions varied according to the different "political, social and economic" goals in each country, those zones have developed along with the development of the nature of activities therein. They are a form of national and foreign investment; and from the customs' viewpoint, they are considered an extension of the outside, but they are subject to national sovereignty from the political point of view.

Some define the free zone in a simplified definition as "the part of the state's territory in which commercial, industrial and current operations are allowed in between countries free from customs, import and export restrictions and cash, hence the name free zone", and it is "the closed space under guard where goods are stored, whether they are that space in a sea or airport, inland or on the coast, where goods of foreign origin are received with the intention of re-export, display, or the introduction of some additional operations therein.

THE CONCEPT OF FREE ZONES BY OBJECTIVES

By establishing free zones in their territories, the host countries aim to achieve one or more of the following objectives:

1- Establishing industrial productive projects whose main objective is export.

2- Increasing the country's foreign exchange earnings.

3- Establishing productive projects that meet the needs of local consumption instead of imports for both consumer and producer of goods.

4- Attracting foreign capital, which brings with it modern technologies in production and management.

5- Contribute to the revitalization of the internal and external trade movement.

6- Reducing the problem of population pressure in some large cities.

7- Reconstruction and development of some regions or increasing the urban growth of some relatively backward regions in order to find a kind of social and economic balance between them.

8- Finding and creating new employment opportunities, raising the level of technical and administrative skills, including modern technical knowledge and advanced technology developed by the free zone projects, and reducing the problem of unemployment.

9 - Attracting backward integration projects and creating forward linkages with the two sectors of the local economy, industrial and commercial.

10- Increasing the national income and redistributing it, increasing the net capital formation and bridging the gap between saving and investment.

BYBLOS AND THE BEQAA VALLEY: TWO LOCATIONS... TWO HUBBS

Establishing two free zones, one in Byblos (Jbeil) and another in the Beqaa Valley is one of the key measures if one can foresee the opportunities in these two locations. Mostly, the expected positive effects if such a project takes place can be summarized in the following points:

1- Employment: direct job opportunities can be created through companies and institutions investing within the region and indirectly, due to the backend links with the national economy. Direct job positions were estimated at 26,000 jobs in Jbeil (20% of 130K inhabitants).

2- Increasing the inflow of foreign currencies, the source of which is the wages paid to workers.

3- The rent value of buildings, land, electricity, gas and communications.

4- Importing raw materials, equipment and all projects' needs from the local markets, pre-determined at a certain rate (most of the countries adopt the 20% rate).

5- Integrating the production of national institutions with the production of local institutions.

6- The development and sustainability of services.

7- Contributing to the improvement and development of training in vocational training centers and scientific centers.

8- Developing the areas surrounding the free zones and improving the yield of local energies.

"Free Zones are responsible for exports worth at least 3,500 billion a year, equivalent to around 20 percent of global trade in goods"

11- Finding a productive industry that is a model for the local industry that is trying to join the foreign market.

12- Creating new knowledge that is fused with the skill of national institutions, i.e. management methods, financial techniques and marketing, all of this in order to improve the economic entity...

In general, governments aim to establish free zones for economic development, and achieving these goals depends on the ability of the regions to bring some institutions onboard, on the quality of the polarized institutions and the nature of the activities they practice, and this in turn depends on the guarantees, facilities and incentives offered by those zones.

FACTORS CONTROLLING THE SUCCESS OF FREE ZONES

The success of the free zones in attracting and encouraging foreign investments and achieving the desired goals and positive results on the economies of developing countries is associated to several basic factors, the most important of which are:

1- Carrying out preliminary studies before establishing free zones, including:

- ***a.*** Detecting potential opportunities to establish free zones in several districts;
- ***b.*** Inspecting economic resources.
- ***c.*** Studying global markets to find out the most important investment opportunities that can be promoted.

2- Choosing the locations of the free zones and planning them well in terms of:

- ***a.*** Communication services.
- ***b.*** Roads and mode of transportation.
- ***c.*** Securing infrastructure.
- ***d.*** The environmental and topographical suitability of the site with the type of activities intended.
- ***e.*** Determining the appropriate size of the free zone, taking into account future expansions.

3- Political and economic stability and appropriate investment climate:

The most prominent obstacles to attracting investments in any country are the existence of disputes, internal disturbances, labor strikes, continuous change of governments, wars, and permanent change of economic policies related to investment activity, as all of this leads to negative effects on the general economic activity and the failure to attract foreign investments and capital escape.

4- Availability of labor at low cost.

5- Linking the objectives of the licensed projects to the general objectives of the government.

6- The administrative efficiency of the management of free zones: creating the conditions for the establishment of projects, simplifying the procedures, providing the necessary services, and facilitating the trade of projects with various authorities.

7- Benefits and incentives granted:

- ***a.*** Material incentives
- ***b.*** Material incentives, including customs incentives
- ***c.*** Tax exemption incentives
- ***d.*** Other incentives, such as the none-restrictions on dealing in foreign exchange or money transfers and profits.

To conclude, despite the darkness seen in the current situation in Lebanon, a lot can be done to alleviate this dark cloud from above the country, with a little vision and a lot of willingness. It is true that this project is seen to be implemented in the Byblos and Beqaa regions due to the adequacy of these locations, and it can contribute to achieving the goals of social and economic development provided that these areas should be included in the priorities of the economic recovery program, and a lot of opportunities can be found on the other sides of the country; another opportunity with another vision.

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By Thomas Schellen

Rebuilding trust with expatriates and depositors



Q&A with Riad Obegi, chairman and general manager of BEMO

According to stakeholders in the renewable energy (RE) field, Lebanon's banking sector is largely and conspicuously still absent in meeting the current needs of RE finance. At the time when we were writing our energy special report, bank BEMO drummed for a new initiative that, in the widest sense, looked relevant under the fight against deforestation. We got curious and sat down with Riad Obegi, chairman and general manager of BEMO, to talk about the cedar tree initiative, corporate social responsibility (CSR), forestation, and RE finance.

What is the purpose of the "back to our cedar roots" initiative that BEMO first announced in October?

Many Lebanese today agree on an idea, with which I personally do not agree, that Lebanon is broke, that there is no money, and that we therefore need to ask for money from outside. This is not correct. Our first idea behind this initiative was based on the conviction that, before asking somebody to do something for you, [you should] do something for her them. To whom should I be giving something first? I think these are the people who are closest to Lebanon. The people of Lebanese origin are those who are closest to Lebanon.

[Our wealth] is not the oil or gas that is under the Mediterranean. It is the fact that there are Lebanese people everywhere, which creates a natural network. But for this network to be efficient, you need to have exchanges. We are going to offer them something, so that we are not beggars. We are trying to establish a connection and this is idea number one.

Idea number two [is based on the fact] that there is a law in Lebanon that is very old. The law that men can pass on their nationality but not women. Personally, I feel that this is very unfair. Thus, we added a little twist [to our initiative] and said we will do a lottery but we will do it for people who do not have a Lebanese father.

Everybody agrees that the wealth of a company or a nation is in its people. The capital of this nation is the people. [With the law on patrilineal nationality] you are eliminating 50 percent of your capital in every generation. This is absurd. Why would you want to eliminate 50 percent of your capital in every generation? If you consider this your capital, you want, on the contrary, to see that it increases. Here, by a stupid law that is outdated, we are eliminating half [of this human capital].

So the first idea is to offer something for nothing in return to people of Lebanese origin, because they are closest to us. We need a relationship that is closer. And we are sending a message, while not being very loud about it, that we should not eliminate half of our [closest people] every generation.

How does this initiative work in practice?

It is a lottery. We have to offer something that is symbolic and what is offered is a cedar tree planted in Lebanon. If you win, you have a cedar planted for you somewhere with its location. And hopefully, if you are perhaps in Brazil, you will come to Lebanon one day and will visit your little cedar. We created a very simple website where you could enlist for the lottery that we [held on] November 22, on Independence Day.

Is the financing of this initiative entirely by the bank, or is it from other private sources?

It is financed by the bank.

At first glimpse, this sounds like planting trees, which is a PR activity that has been done before by many companies, I

believe, including your bank. Is this part of a wider strategy, and what activities are you pursuing under the bank's CSR framework?

Yes, we did that already before. We did several activities during the last two years that were inspired by CSR. Actually, we did a lot of them. Here, I want to mention something that is a little different, which is Art Blessé, injured art. After the explosion of Beirut Port, we did this initiative because it has three elements to it. One is the artistic element. We think that art which has been damaged (Obegi points to several paintings that are leaning against the wall in the bank's executive conference room), can find a new life. There is an artistic aspect that we can think of as a new art form, injured art, because there is injured art everywhere.

There also is the humanist aspect. If it is possible to [bring new life to] a damaged piece of art, then a physchologically or physically damaged person can also transform themselves and become better. [Under this] humanist aspect of healing, you are telling people: "Look, if the painting can be healed in this way, you can heal yourself as well. You have to depend on someone else, or work with someone else, and you transform yourself. Become better." This is the second aspect.

The third aspect is a financial aspect. We bought paintings just after the blast. Because they were damaged, we bought them at perhaps 60 percent of their value. After we did the restorations, we tried to buy [more paintings], and prices went up. People told themselves that an injured piece might become more expensive than it initially was. Therefore, prices go up.

We also intend to do a salon for humanitarian [dialog]. We think that the dialog among communities is easier in Lebanon [and] is also easier to launch from Lebanon. So we are thinking of doing those three things.

Is art then the main focus of the bank's various CSR activities, and does BEMO currently have other, perhaps commercial, activities that relate to renewable energy and climate issues?

Our communication is based mostly on art. But we also wanted to talk about renewable energy. Here we also think that solar energy is certainly an important part for the future of Lebanon, and we want to finance and subsidize this financing. One problem that we have, as all banks, is the lack of "fresh" [money]. Most of our deposits, all banks, are with the central bank, and the central bank has according to the figures 15 billion dollars outside that are not used for the economy.

> "[With the law on patrilineal nationality] you are eliminating in every generation 50 percent of your capital"

For solar energy, if you want to buy [photovoltaic] panels, you have to buy them with fresh [dollars]. If you want to buy inverters, batteries; everything is in fresh. We have allocated an amount for [financing] this. Unfortunately, [this is] short term because for the time being we cannot provide long-term [facilities]. But only in the short term.

What is the maximum tenor of the facilities?

Six months. We are giving this financing [facility] to importers. Importers have to pay their supplier, they bring the goods, install, and get the money. In this period of time they are able to bring more if you give finance. This accelerates the process.

We are talking about importers of solar photovoltaic panels?

Solar panels, batteries, and inverters.

Can you tell us when you started offering this financing and disclose the size of the overall envelope of this lending facility?

We are beginning now, just [a few] weeks ago, and the immediate envelope that we are putting is $3 million dollars. It is not a huge amount, but we think it will increase little by little. The next stage will be to finance the [acquisition of solar PV systems by] users but this has to be longer term. If you are a user, you may have some money at home or remittances from outside, but you don't want to pay everything immediately.

Could lending for solar system installations by end users include mechanisms that would assure quality of the financed hardware so that systems on household level are not only bought based on low price? Industry sources tell Executive that price has recently been the main factor in solar PV purchase decisions by households but that we need higher quality systems to avoid recurrent issues such as batteries having too short a lifespan?

In our first step, we are only financing importers that deliver good quality. If they are selling bad products to clients, it will be felt quickly enough for us to halt in financing them. From this angle, I don't think that we have a big problem.

Later on, [in financing of solar PV systems] for the users our role is not to check whether the user is making the right decision or not. Our role is to check if they are able to pay and if the supplier is a good one. On the day that Banque du Liban decides that to [qualify for] this financing, the [solar loans] need to meet xyz [requirements], we will of course abide by whatever the central bank is going to tell us. But presently we are doing it in the way capitalist companies do. People need to decide for themselves.

Have you already decided on a starting

point of a program that will offer solar financing for end users?

We have plans to start at the beginning of next year. I don't know if we will be able to [meet this target].

Is it then correct to think that no financial envelope has yet been determined for financing solar on household level?

Not yet. It will fully depend on how much we can get from our clients.

In our recent energy special report, Executive has a comment that proposes crowdfunding from depositors as a way in which depositors could convert their Libano-dollar bank deposits into shares of new companies in the electricity sector and renewable energy production. Do you see such a mechanism as an option for solar finance that banks could use?

We are talking [in our own program] about fresh dollars, not about local dollars. We have to find people who have money outside Lebanon and tell them: "What do you think? Would you like to put part of this money for financing solar energy systems?" This is what we intend to do. But we have to give them reassurances. When the situation was getting bad in 2015, 16, 17, [these people] were taking money out of Lebanon or not bringing money into Lebanon, which, I think, was the biggest part. Now we have to ask them: "What do you say [if] we take your money and put it into financing of solar PV]? It is very good for Lebanon." But they will say, "Very good for Lebanon is okay but I have to think about myself as well". So we have to give them a few reassurances that, in the end, we will pay them if the bottom line does not pay. They have to trust us. In the end, we are a bank.

What would be a good tool to attract such investments? Could it be a bond or a Special Purpose Vehicle, a SPV, where you attract investments from outside or might one perhaps dedicate such SPV to impact investing into small solar?

I think that a bond would not fly. Who would buy a bond on a Lebanese bank today? Nobody. An SPV would fly, and we have different forms of SPVs. If you tell people that the bank would be the administering unit, which would guarantee the payment and structure all this, but that [they] are putting [their] money into a SPV and not in a bank, it might work.

Advocates of renewable energy have talked about the International Monetary Fund's Special Drawing Rights (SDRs) and demanded that the central bank would use SDRs to guarantee finance to lenders who would invest in solar. Would that be feasible in your eyes?

The central bank has means that commercial banks don't have. I don't know exactly what the central bank wants to do, so I would not be able to comment on this. They now have $1 billion and something in SDRs. What they are going to do with this, I have no idea.

> "The clients told us: 'We trust you [...], but we do neither trust the government in Lebanon nor the central bank.'"

A follow-up question from the climate angle, specifically on the subject of trees. In your press release announcing the "back to our cedar roots" initiative, you mentioned how nice it would be to have a lot of trees around the entire Mediterranean, and that all of Lebanon and perhaps a large part of the Middle East would be covered by cedars if one were to plant one new tree for each person of Lebanese origin. But would it not take a very long time to plant trees on all the mountains in Lebanon?

I don't think so. Planting 10,000 trees is something you can do relatively easily.

So you are not just planning for the 100 trees that are in the lottery this year?

No, we will do more next year. But it is [finding] space that is difficult. How many cedars can you plant in Lebanon? You need to plant [these trees] in the mountains.

Do you have a target number of how many trees you want to plant next year in this initiative?

I thought it should be 10,452 because of the symbolic number but I doubt it will be possible. I don't know if there is enough land for that.

And what do you tell people who say, "Before you plant cedars, give us back our deposits"?

I cannot give your deposits to you today. So should I do nothing in the meantime?

You have emphasized the importance of trust as the essence of banking in an earlier interview with Executive and in announcing the lottery for the cedar trees, the bank also noted that 2021 is "a year of faith." Do you see the rebuilding of trust between the Lebanese people and their banking sector as making progress?

I have personal experience that if I tell a client, "Would you put 500,000 dollars in 'fresh' with me?", he will tell me "I am not crazy, sorry." We still have a branch in Cyprus and at this branch we had $120 million in deposits, all in "fresh." We decided to reduce the size of the branch and told our clients that we can transfer the funds to our bank in Lebanon. The clients told us: "We trust you and the proof is that we have our money with you, but we neither trust the government in Lebanon nor the central bank. Why would we transfer to Lebanon?" So we had to give them some assurances. The problem is the government and central bank. I think trust will come quickly if [people] come to trust the government and if they come to trust the central bank. Which is not the case today.

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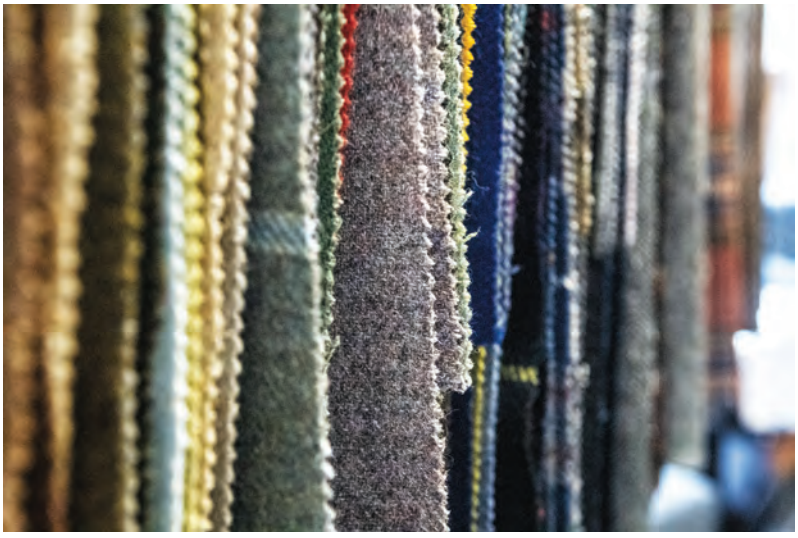
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By Thomas Schellen

Saving private SMEs



Venture capital mindset mixed into mezzanine funding cocktail

Tools designed to channel new money into Lebanon's economy in the start of January 2022 shine in the same way as they did last year: They emit rare vibes of hope against reason. But they do so in an uncanny semblance to the sensations which life-support machines in an intensive care unit evoke in all the unfortunate people who depend on them.

This is to say that tools which keep us alive and breathing, whether financially or physically, carry the unquestioned connotation of desperate measures. As long as the ventilator works, ICU patients will not be inclined to debate about their aesthetics, design, color scheme, or even the manufacturer's name. (Actually, if an overly image-conscious hospital administrator were to insist that only a life support machine by a leading brand manufacturer be used in a coronavirus emergency, any number of patients might expire over the debate).

Infusion of finance is as vital to the Lebanese manufacturer as oxygen is for the COVID-19 patient. That does not mean that all great funding ideas will work out. Some of the financing treatments that opened up for manufacturing companies last year have led to questioning their compliance methodologies, and one must consider that some investment fund concepts indeed may not succeed, given the tremendous uncertainty about anything that still permeates the fabric of the Lebanese economy. But any ethical and operational investment fund that will secure a bunch of industrial jobs and contribute to Lebanon's GDP is today more than welcome. If the fund is well constructed and operated by a reputed financial player with experience in the Lebanese market – even if not the exact same market segment – all the better.

The question is whether this unquestioned authority of an economic-life-saving tool will be proven in the case of the latest new fund, a special investment vehicle with a projected funding power of about $15 million and a five-year duration. It has been designed by IM Capital and IM Ventures, the pair of fund operators in the entrepreneurship ecosystem that has for the past years been co-financing startup ventures and acting as matching capital partner of numerous venture capital players under the regime of the Circular 331 system by the Lebanese central bank Banque du Liban (BDL) for the development of the knowledge economy. IM Capital and IM Ventures respectively are implementing partners with the United States Agency for International Development's (USAID) MENA and Lebanon investment initiatives.

KEEPING IT SIMPLE

The new fund goes by the abbreviated name SME Fund, the term associated with small and medium enterprises. The fund indeed targets SMEs in three broadly defined sectors of agri-food, chemicals, and paper and textile products, Nicolas Rouhana, general manager of IM Capital and IM Ventures, says in recent confirmation of plans that he first shared with Executive several months ago. According to him, agri-food sector enterprises are expected to represent about half of the fund's portfolio while the other two manufacturing sectors of chemicals and paper/textiles together will make up the other 50 percent.

Surprisingly however, the SME in the fund's name stands not for small and medium enterprises but for the unwieldy construct of "Scale up Manufacturing and Exports." Semantic

purists could rightfully raise a fuss about such an incongruous phrasing. Yet notwithstanding that the long form of its descriptive term doesn't match the most common reading of the abbreviation, the new fund has been designed to help export-oriented SMEs reach new markets.

Grammarian and wording concerns aside, the new fund has over the past few months cleared important hurdles in terms of concept, registration, structuring and targeting. According to Rouhana, up to 15 enterprises will be financed with investments of, on average, one million mostly "fresh" dollars each. "We are now [undertaking] due diligence with up to seven companies while also talking to others and putting them into the pipeline, and we are creating the vehicle for investing into these SMEs," Rouhana tells Executive.

The new vehicle is the second emergency rescue fund that IM has created since liquidity tremors and policy miscalculations sent heavy shockwaves through the financial markets and banking system in late 2019. IM's SOS Fund (nope, the abbreviation is close but does not spell out as "Save Our Souls") was developed last year in collaboration with venture capital firms and similar financing houses. The "Save Our Startups" Fund has injected a total of $12 million into 11 mature startup companies that found themselves in the financial desert after the funding channels of BDL's Circular 331 financial irrigation systems suddenly ran dry.

SMEs to be funded by the new vehicle need to be growth-stage companies, meaning that they are ready to tackle new markets and already have to achieve at least 30 percent of their revenue from exports. Companies with annual revenue below $500,000 also don't need to apply, says the fund's basic fact sheet of selection criteria. However, pointing to the fact that definitions of an SME show quite some variances in terms of company size and headcount, Rouhana emphasizes that structuring of the portfolio will prioritize diversification and that the fund's focus in assessing companies for investment is on revenues and growth potentials rather than on technical definitions of SME status. "We are looking to build a diversified portfolio in terms of the sectors and in each sector in terms of company size and risk level," he says. Investment tickets are not going to exceed $2 million per company, he adds.

NEED FOR SPEED

Both the SOS and the SME Fund are focusing on Lebanese companies that have strong economic potentials but would be stunted in their growth or even doomed without access to new finance. Both funds thus have been designed under a paradigm of speedy fundraising from investors and allowing their beneficiaries to run as fast as possible in the difficult Lebanese economic terrain.

> The "Save Our Startups" Fund has injected a total of $12 million into 11 mature startup companies

But these parallels of approach are juxtaposed with major differences in the constitution of the contestants that they support in the economic survivor race. In financing companies in the broader economic habitat of SMEs, IM Capital has ventured from its previous ecosystem of entrepreneurship into the jungles of privately-owned enterprises.

One pronounced difference between tech startups and companies outside of the entrepreneurship ecosystem is that the former are from their ideation phase onward groomed towards attracting venture capital and outside investors. The SMEs now on IM's investment radar usually are not. "Creating a product for SMEs differs in key ways from the funding of startups. [SMEs] are family businesses, not open to capital, [and] they may be cooperatives or one-man ownership from legal aspect," Rouhana explains.

With such structures and mindsets, most SMEs are not primed for easy valuation or capital injections. Moreover, with IM being pressed for time to come up with fast solutions for this heterogeneous group, the fund was constructed on a type of "mezzanine debt" foundation. According to Rouhana, this framework uses a "one-size-fits-all approach" of debt finance, and investors will rely for returns on what he called "revenue capital" over the fund's five-year investment period.

Such a royalty-based solution generally offers investors strong returns. As applied by the SME Fund, it also allows portfolio companies to retain control of their operations and does not make an injection of money by the SME Fund dependent on the sort of collaterals that are demanded by banks in a debt finance agreement. To receive funding, companies benefiting from the SME Fund will not have to produce collateral upfront but will enter convertible agreements that act as collateral and provide investors with the assurance that their money will not disappear without trace.

The terms of these agreements are such that equity provided by the SME Fund will convert into shares if the loan is not repaid, noting that the standard grace period for start of repayments is two years, and that the injected capital, and agreed royalty payments have to be returned to the investors by the end of the five-year participation period. Payments due by invested companies entail fixed and performance-dependent interest. The former component is 8 percent



and the latter is 8 percent royalty on delta, or the growth of revenue.

The conversion of the investment to equity is triggered only as final recourse in case of the invested company's failure to repay. Otherwise, the SME Fund operators will not take equity in the invested companies. "What we take is like a convertible agreement. So if [invested SMEs] don't pay out on the loan, we will eventually convert [the investment] into shares," Rouhana emphasizes.

On the operational side, contractual provisions are such that IM assumes a role of strong observer on board level/senior management level. To this end, IM is partnering with external audit firms and will have access to the books of portfolio companies. It will not intervene on governance but will offer hands-on technical support and organize management trainings at invested companies.

IM Ventures will be both the manager and shareholder in the SME Fund, meaning it will earn a one-time management fee upfront and will secondly be compensated from the equity returns. Rouhana says that IM Ventures, in addition to being entitled to the upfront management fee, will be on equal footing to any other SME Fund investor in terms of returns.

MOBILIZING PLAYERS AND RESOURCES

In marketing the fund and finding suitable enterprises to target, IM spoke with economic organizations such as chambers of commerce and industry, manufacturing associations, the Investment Development Authority of Lebanon (IDAL), and banks. The approach to potential investors has been developed to whet appetites by presenting profiles of the three targeted sectors and subsectors, such as food and beverages in agri-food; cosmetics, beauty and pharmaceutical producers under the chemicals tag; and fashion under paper and textiles.

Ongoing fundraising efforts are to be completed in the first quarter of 2022 and would include the presentation of the SME Fund's concepts, mechanisms, and potential returns to institutional and individual investors.

"We will fundraise for a maximum of three months. We will put our own money in, seeding the fund with $6 million, and try to fundraise [upwards of] $6 million to be able to deploy the fund," Rouhana says. His fundraising expectations include participation by international development finance institutions and regional investors as well as individual local investors from the network that IM Capital has already developed. "The investors that we are approaching are knowledgeable investors. This is one extra option for them to diversify where they put their money. But the safest bet will be targeting individuals, locally or in the diaspora," he adds.

The SME Fund is open to include components of some old "lollars" (bank deposits in US dollar currency available at a set exchange rate lower than current market rates) from local investors and convert these at the market rate where such investments make sense under the financial needs of the funded companies, but will give high preference to fresh dollars in fundraising and disbursements. Investment returns will have to be in "fresh" dollars and, thus, earnings which the invested companies achieve in fresh dollars from exports, ideally while relying on short local supply chains for inputs, will be key for the viability of the scheme.

The export growth and job creation journey of the up to 15 companies will run from mid-2022. Considering the country risk of Lebanon, the SME Fund could attract investors who are eager to diversify and seek between 15 and 25 percent internal rate of return, Rouhana opines. If the fund performs as planned, he and all prospective investors will see a handsome return on the money that they invested. In the worst case scenario, flow back of investments will not materialize and the outcome of the SME Fund after five years would be ownership of numerous companies that need to be managed or sold.

> "The mission for us is not to take equity but to create jobs, keep people in the country, let [companies] export more, and so on."

This is not a desired outcome and such risk, especially given the current times in Lebanon, might not be accepted by a bank. But high risk is a normal consideration for IM as a venture capital firm, Lebanon needs daring and innovative investment funds (and lots of them), and IM is on a mission, Rouhana concludes, saying, "We are venture capital by nature. We took the model of revenue capital or mezzanine debt and turned into a Lebanese type of business. We don't want to go to the point of converting the loan to equity. The mission for us is not to take equity but to create jobs, keep people in the country, let [companies] export more, and so on."

EXECUTIVE
ECONOMIC ROADMAP

- DRAFT 5.0 -

FOREWORD

TAKE IT BREAK IT

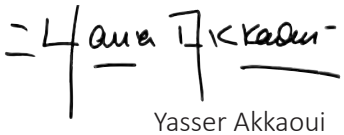
When we decided to launch the "Execute Change" movement and develop the Economic Roadmap in 2018, Lebanon was already on a downward slide under what hindsight revealed to be a disastrous blend of self-interested governmental policies and actions. The absurdity of each policy adopted by the political class fell out of tune of any reason. They knew perfectly well what was at stake. Although the much-needed funds from the CEDRE conference were promised against pledges for structural reforms, our political champions of personal gains still found a way to sabotage any attempt of reforms. It was the illusion that they might change and adopt best practices – the condition for accessing vital funds – that blinded people sufficiently to make them once again empower the political establishment in 2018.

Call our past trust in the political class Stockholm Syndrome, fatalism, or simple misjudgment, but why would anyone think that the puff around negotiating an agreement with the IMF at the start of 2022 would be any different? Aren't the last two years of inaction – during the worst crisis to ever hit Lebanon – enough to convince people that those of the old establishment are inept and incapable of executing anything? How can a system that failed to find a solution for one single crisis in 2014 – the garbage crisis – be able to solve the countless crisis we have today?

The only way out is to, once and for all, rid Lebanon of this incompetent political class and support those who can. In this fifth edition of our Economic Roadmap, we are honored to present the fruits cultivated over nearly a five year journey by 182 experts who contributed, consulted, and allowed us to deliver over 360 policy priorities that can save Lebanon.

We hand this participative collaborate effort and our trust to our readers, dedicating the Executive Economic Roadmap 5.0 to all those courageous women and men that decided to step up against this rotten establishment.

Take it. Use it. Improve it – you are the reality of power for building the next Lebanese economy.



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The 2022 roadmap recommendations are built on four previous iterations of the roadmap. These recommendations owe a substantial intellectual debt to our collaborations with the United Nations Development Programme (UNDP), the United States Agency for International Development (USAID), and Konrad-Adenauer-Stiftung (KAS).

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Efforts should be taken to build and re-build capacities across all sectors to increase productivity.

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STATE INSTITUTIONS
Lebanese public administration must be made more efficient and modern.

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JUDICIAL REFORM
Strengthen independence of the judiciary and improve existing judicial institutions.

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REGULATORY FRAMEWORKS
Regulatory frameworks must be developed to ensure a level playing field in the private sector.

Strategize

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EDUCATION
Public education must be reformed to ensure graduates are competitive in the local and international markets.

26
HEALTH
Efforts must be made to invest in health infrastructure, medical staff, and the local production of drugs.

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ENERGY
Overcome inefficiencies in the energy sector to provide power to the Lebanese people and attract foreign investors.

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WATER
Updates must be made to current infrastructure and water management practices.

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TRANSPORT
Develop the transportation sector to link ports and cities and improve connections to neighboring countries.

Combat

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GENDER INEQUALITY
Action must be taken to eliminate violence against women and amend outdated, harmful laws.

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POVERTY
The government must devise a sustainable policy to combat swelling poverty across all socio-econonic groups.

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CORRUPTION
Corruption has permeated all aspects of Lebanese society. Measures must be implemented urgently to stop this.

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POLLUTION
The government must act to alleviate the effects of pollution and implement reforms to reduce further pollution.

Develop

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COMPETITIVENESS
Increase competitiveness of Lebanese producers in global markets.

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ENTREPRENEURSHIP SUPPORT
To salvage the economy, and make Lebanon a knowledge-economy hub, entrepreneurship must be incentivized and supported.

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LABOR
Quantify and qualify the labor pool to better meet labor market needs.

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OUTREACH TO THE DIASPORA
Incentivize Lebanese expats to invest in the knowledge economy and combat brain drain.

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HERITAGE PRESERVATION
Reform legal structure regarding protection of cultural property, especially to protect heritage sites affected by the 2020 Beirut Port explosion.

Enable

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MANUFACTURING
Support production and activate export potential of the Lebanese manufacturing industry.

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AGRO-INDUSTRY
Develop food safety and security to improve Lebanese living conditions and decrease import dependency.

73

MEDIA
Improve the role of content producers and overcome economic restraints to fulfill Lebanon's role as media hub in the MENA region

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HOSPITALITY
Maintain and improve the role of Food & Beverage (F&B) in terms of export potentials and strengthen Lebanese employment in the hospitality sector.

77

KNOWLEDGE ENTERPRISES
Utilize Lebanese skillsets in information technology and tech entrepreneurship.

79

CHEMICALS
Empower organic beauty, pharmaceuticals, and cosmetics producing industries to attain export potential.

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RENEWABLE ENERGY
Implement sustainable solutions to meet Lebanon's survival need for electricity.

Within the introductory pages of the Economic Roadmap lies a a myriad of links leading to an archived bouquet of articles, analysis, and commentary pieces that delve deeper into the sectors covered.

Build & reform

Agenda Priority 1

BUILD FISCAL POLICY

In the course of 2021, the issues concerning Lebanon's fiscal performance and public debt outlook have continued to pose increasing challenges to social and economic survival. The paralysis of political processes exacerbated the fiscal problems. This new urgency only adds to the importance that has been enshrined previously in Article IV reviews for Lebanon by the International Monetary Fund (IMF) which has repeatedly alerted officials that the debt burden could be the prime risk source compromising financial stability. Renewing talks with the IMF on a clear basis, around a credible recovery plan for the economy, is today a matter of survival.

Many contend that under the conditions observed since the end of 2019, it will not suffice to stabilize the debt-to-GDP ratio and gradually decrease it with growth-oriented policies, as was done during the first decade of the millennium. The necessity to negotiate with stakeholders in full transparency needs to be addressed to stabilise the debt-to-GDP ratio in light of the further economic contraction suffered this past year. Overall, the Lebanese economic crisis will further reduce the country's capacity at servicing its national debt, and the default on sovereign debt, if not addressed, will result in Lebanon being a pariah in international markets. In the immediacy of the crisis, it has become paramount for the Lebanese state to reform and develop fiscal measures. Lebanon needs to establish a 2022 budget consistent with a macroeconomic and debt sustainability framework negotiated with current holders of sovereign debt.

Further inevitable is a re-examination of the banking sector, its ability to support the government, private companies, and households, and the ways in which to implement financially sustainable policies at Banque du Liban (BDL), Lebanon's central bank. To obtain IMF and CEDRE funds, genuine structural and institutional reforms are needed at all levels. Fiscal reform must introduce new instruments that are able to increase social justice and sustainability as well as incentivize private investments and greater economic activity. In addition, fiscal reform needs to be flanked by a proactive approach for aligning and developing the monetary policy and capital markets regime under the auspices of BDL, with the fiscal policies produced and implemented by the Ministry of Finance (MoF).

In addition, no effective fiscal policy can be implemented without addressing the need to restructure the banking sector, as the latter has long been the biggest provider of tax revenues for the state in the corporate sector. The financial crisis has paralysed the banking sector, which is in need of recapitalisation in compliance with the IMF's recommendations. A restructuring of the banking sector would further alleviate pressure on banks and depositors, and help restore confidence which, in turn, would alleviate pressure on the Lebanese pound. This should be accompanied by a long-awaited capital control law which would shield banks from possible legal repercussions and help stabilise the Lebanese pound.

The fiscal reform policy must be contextualized, with measures aiming to: increase the primary surplus and rationalize expenditures; introduce institutional reforms to improve credibility, transparency, and planning; and initiate structural reforms to increase competitiveness and economic growth.

POLICY PRIORITY 1.1
BUILD FISCAL POLICY

Main Challenges

- *Research tax base, enhance tax incidence, and strengthen progressive/ direct taxation*
- *Update tax instruments, improve tax compliance, and penalize tax evasion, including income tax and value-added tax*
- *Rationalize (long-term) debt instruments*
- *Fulfill reform pledges linked to the IMF negotiations process*

Proposed Measures

Measure 1.1.1
Improve deliberation and adoption of state budgets. Implement budgets with strict control, not to exceed spending targets. Commit to public consultations for future budgets, as prescribed in the MoF Citizen Budget 2018.

Measure 1.1.2
Expand comprehension of the size of the Lebanese tax base and incentivize participants in the informal economies to enroll in the formalized economy and pay taxes.

Measure 1.1.3
Improve tax collection and educate citizens on the benefits of taxation.

Measure 1.1.4
Disincentivize tax evasion and smooth the transition from tax evasion to compliance with help of grace periods and bridging measures.

Measure 1.1.5
Adopt digital tools to ease tax compliance and make taxation processes, including tax rates, more transparent, and inclusive of all economic sectors.

Measure 1.1.6
Launch work on a new, progressive tax policy and remove tax loopholes for offshore companies.

Measure 1.1.7
Review, expand, and ameliorate existing proposals on achievement of greater tax efficiency and justice (unified income tax draft law) and an automatic income tax declaration.

Measure 1.1.8
Achieve greater transparency of fiscal expenditures and use of tax revenues by making disclosures of fiscal allocations and tax usage mandatory for all ministries and state agencies.

Measure 1.1.9
Introduce new modelling techniques at the MoF that enable better forecasting and evaluation of the impacts of tax measures, in collaboration with the IMF to better forecast debt-to-GDP ratio.

Build & reform

Agenda Priority 1

Measure 1.1.10
Streamline the issuance of new debt instruments and provide citizens with clear information about new debt needs and measures.

Measure 1.1.11
Help smooth out the debt burden through stronger activation of the secondary market. Publicly list all new debt instruments on the Beirut Stock Exchange (BSE) and/or Electronic Trading Platform (ETP).

Measure 1.1.12
Complete good-faith negotiations with the IMF to unlock technical assistance and financial support, around a credible economic recovery plan, and carry out all structural reforms that relate to the improvement of the fiscal performance of Lebanon under existing commitments.

POLICY PRIORITY 1.2

FISCAL POLICY ALIGNMENT WITH MONETARY STABILITY PRESERVATION AND A SOUND EXCHANGE RATE REGIME

Main Challenges

- *Adopt a unified exchange rate regime*
- *Resolve the paralysis of capital markets*
- *Build safeguards against collusion between BDL, the MoF, and Parliament*

Proposed Measures

Measure 1.2.1
Unify and stabilize the exchange rate and incentivize initiatives that would increase foreign direct investment.

Measure 1.2.2
Mandate independent, rigorous, and transparent assessment of all macroeconomic indicators and disclose them to the public in a timely manner.

Measure 1.2.3
Reinforce the control environment of BDL in a manner that will allow it to have a preamptive and independent role in risk mitigation.

Measure 1.2.4
Adopt transparent and timely measures in the disclosure of decisions and rationales used by BDL for their monetary policy, interest rate decisions, and inflation targets.

Measure 1.2.5
Streamline the procedure for interactions between BDL and fiscal policy-makers to make the decision-making processes and outcomes more transparent.

Measure 1.2.5
Align fiscal policy with the stated objective of deepening capital markets in Lebanon through the incentivization of capital market operations.

Measure 1.2.6
Encourage public listing of family-owned conglomerates and large businesses on the BSE.

Measure 1.2.7
Incentivize the floatation of young companies and startups, as well as small and medium enterprises.

Measure 1.2.8
Revise the mandate and structure of the Capital Markets Authority in Lebanon.

Measure 1.2.9
Increase provision of technical support and fiscal incentives for the different classes of companies seeking to be listed.

Measure 1.2.10
Mandate for all companies benefiting from public funds to be listed on the BSE with a 51 percent float.

Measure 1.2.11
Legislate and incentivize companies to facilitate trading of corporate debt contracts to allow for foreign currency investments to encourage exports.

Measure 1.2.12
Prioritize discussions with the IMF and the banking sector to advance in the much-needed recapitalization of the latter through a strengthening of their balance sheets, equity injections, and optional mergers.

Measure 1.2.13
Remove incentives for smuggling and illegal migration of labor.

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Build & reform

Agenda Priority 2

BUILD CAPACITIES

Lebanon faces the challenges of a fast-moving globalized economy, but at the same time has a backlog of lost development in economic capacities, brought on by decades of internal and external conflicts and state inactivity; these losses have only been compounded by the crisis of 2020 and its continuation in 2021. While partial changes to the code of commerce were legislated in 2019, the legislative infrastructure for the public and private economy and the ease of doing business has still not been reformed. Processes and potential pitfalls of privatizations of state-owned or state-affiliated enterprises need to be examined. The data foundations for economic and social planning need to be determined, and productivity in the public and private sectors also needs improvement.

Seeking experts and professionals with the work ethic and know-how needed for public service is a priority, and capacity building is an urgent priority to improve the collection, analysis, and usage of data for public policy formation, fiscal modeling, and social programs. Also necessary is the development of public sector capacities to support productivity and improvements in all sectors, as well as the alignment of public and private entities through completion of public-private partnership (PPP) legislation. Public sector employees must be trained in governance, assistance, and supervision so that they can not only support PPP processes legislated in 2017, but also help achieve proper governance within public institutions. Lebanon continues to lack proper statistics upon which the formulation of economic policy must be based. So far, efforts to build a statistical database have been sparse, uncoordinated, and insufficient, hence the need for a master plan with the objective of building a long-term database.

The principal objective of privatizing state-owned enterprises is to promote growth and modernize the economy, not to generate revenues. Privatization, which can take several forms (e.g., build-operate-transfer, management contracts, full or partial sale, partnership with strategic international investors, etc.), remains the main bridge expected to transform and modernize the Lebanese economy. Privatization, however, should be considered on a case-by-case basis.

PPPs can offer a reliable alternative in many instances, and are especially important now as public infrastructure, like the BDL and electricity providers, fail to meet citizens' needs.

While restructuring state-owned enterprises and legislative development—including the introduction of a competition law and regulatory authority—remains a prerequisite to any successful privatization program, the government must fully commit to the privatization option and announce its intention to resume this program. Privatization should not be considered as an option to generate revenues to meet short-term fiscal needs, but must instead be viewed as a process that will yield dynamic economic benefits in the long run.

POLICY PRIORITY 2.1

DEVELOP CAPACITIES FOR DATA COLLECTION, ANALYSIS, AND USE

Main Challenges

- *Empower the Central Administration of Statistics (CAS)*
- *Devise and implement a census*
- *Develop a statistical master plan*
- *Coordinate between CAS projects and other stakeholders in the public administration and private sector*
- *Use data as basis of crisis management*

Proposed Measures

Measure 2.1.1
Review the CAS' capacities and invest in the development of underpowered areas at the organization. This includes recruiting and training qualified statisticians and staff, and investing in data collection capabilities and software needed for analysis.

Measure 2.1.2
Legislate and implement a census for Lebanon.

Measure 2.1.3
Develop a statistical master plan by CAS.

Measure 2.1.4
Engage private sector stakeholders to supply data for statistical analysis needed for policy-making, and provide businesses with access to assist private sector decision-making.

Measure 2.1.5
Use data to build nation-wide crisis-management plans for public sector economy, and implement a social safety net.

POLICY PRIORITY 2.2

ENHANCE CAPACITIES IN THE PUBLIC SECTOR

Main Challenges

- *Create an adequate human capital base in the public sector*

Proposed Measures

Measure 2.2.1
Assess the level of technical competencies and gaps in public sector ministries and agencies, as well as the number of unnecessary or overlapping bodies.

Measure 2.2.2
Devise a plan to train or hire public sector employees to fill identified gaps and determine the associated costs, in parallel to moving or reducing the number of workers in undefined and unnecessary roles.

Build & reform

Agenda Priority 2

POLICY PRIORITY 2.3
INCREASE PRODUCTIVITY

Main Challenges

- *Address absence of effective financial markets*
- *Uplift policy framework including privatization program*
- *Overhaul foreign direct investment (FDI)*

Proposed Measures

Measure 2.3.1
Promote and buid capacities for value creation in capital markets.

Measure 2.3.2
Incentivize international joint ventures and technology transfer alliances by improving intellectual property rights protection, offering fiscal incentives, and removing non-tax barriers to businesses.

Measure 2.3.3
Invest in the institutional capacities and human capital of regulators that are deemed productivity boosters in financial markets, public services, and the real economy.

Measure 2.3.4
Encourage the attraction of FDI by upgrading investment agencies, and increase incentives for inflows of FDI that contain technology transfer components.

POLICY PRIORITY 2.4
ENHANCE THE BUSINESS AND INVESTMENT CLIMATE

Main Challenges

- *Update legislation*
- *Facilitate trade*
- *Streamline interactions with the state and remove red tape*

Proposed Measures

Measure 2.4.1
Further modernize existing laws pertaining to competition, anti-dumping, intellectual property, antitrust, small and medium-sized enterprises, quality-enhancing, bankruptcy and insolvency, code of commerce, and the building code.

Measure 2.4.2
Create legislation that would allow for small debts recovery.

Measure 2.4.3
Evaluate existing assessments, such as the World Bank's Doing Business report and similar international benchmarks on practices and barriers in Lebanon—act to address issues raised.

Measure 2.4.4
Introduce e-government solutions and improve omni-channel access to governmental procedures, such as customs, to reduce red tape on import and export trade procedures.

Measure 2.4.5
Introduce a government-backed export program with a mandate of educating companies on how to export.

Measure 2.4.6
Create a trade and finance program and restructure all trade debts.

Measure 2.4.7
To bolster the private sector, make sure that capital control laws still allow businesses of all sizes to maintain and grow their operations, allowing for international transactions when necessary, to keep Lebanon's industries, services, and products relevant.

POLICY PRIORITY 2.5
MAKE PRIVATIZATION WORK

Main Challenges

- *Remove barriers to privatization of state-owned enterprises*
- *Complete and empower PPP framework*
- *Increase public sector understanding of privatization and PPP*
- *Improve oversight structures and mechanisms*

Proposed Measures

Measure 2.5.1
Complete and implement PPP legislation and empower independent oversight bodies that can contribute to the efficient delivery of services of PPPs, including the judiciary, regulatory bodies, and civil society.

Measure 2.5.2
Make state-owned enterprises market ready to operate as private sector entities.

Measure 2.5.3
Determine public good priorities to be met by privatized entities.

Measure 2.5.4
Activate capital markets in the context of privatization of state-owned enterprises.

Measure 2.5.5
Review privatization proposals on a case-by-case basis, and implement solutions to provide the services of privatized companies aligned with social and public interests.

Measure 2.5.6
Intensify existing nascent training of municipal, provincial, and national agencies to enable them to evaluate and manage PPP projects and procurements.

Measure 2.5.7
Use PPPs to deliver financial capacity, purchasing power, and liquidity.

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Build & reform

Agenda Priority 3

BUILD STATE INSTITUTIONS

The institutional backbone of the Lebanese state, long noted for conditions that impair crucial state institutions, has been exposed to further stresses in the collated crises of 2020. Institutional weaknesses persisted in 2021 and conributed to the worsening of inflation and exchange rates. The building of solid state institutions and autonomous public institutions is now a matter of survival for the Lebanese state and the national economy. Public administration in Lebanon more than ever before must adhere to meritocratic standards and meet paradigms of work ethics and efficiency. To achieve structural reforms and migrate to a healthy public administration, it is of utmost importance that elected authorities reduce the size of the public sector and implement lawful and transparent hiring. In the short term, this is an essential precondition for any assistance provided by multilateral financial institutions and foreign governments. Beyond immediately required institutional reforms in the public administrations, a civil service revamp on the national level should further reduce and as much as possible eliminate inefficient, budget-draining programs, departments, and agencies, continuing steps initiated in autumn of 2019. State institutions should be augmented by the creation of autonomous and accountable public institutions and the empowerment and activation of such autonomous institutions that have been dormant. On the sub-national level (regional and municipal administrations), the aim should be to decentralize decision-making, utilize new technologies, and increase productivity. Prerequisites for decentralization include: reformation of the legal and institutional setup of control institutions (e.g., public audit, civil service board, and central inspection); establishing a digital and transparent system for budget control and management; and restructuring districts according to economic parameters aimed at social cohesion. A merit-driven public administration would be the key to attracting foreign investment, creating jobs, and restoring confidence in the local economy.

POLICY PRIORITY 3.1
MODERNIZE THE CIVIL SERVICE

Main Challenges

- *Tackle decentralization*
- *Overhaul the civil service*
- *Eliminate corruption and dead-end careers*

Proposed Measures

Measure 3.1.1
Develop new legislation to consolidate previous draft laws for decentralization at the municipality level.

Measure 3.1.2
Improve legislation for determining responsibilities and decentralization structures for levels beyond the municipality.

Measure 3.1.3
Decentralize decision-making and institutions by empowering local governments (i.e., with resources, enforcement capabilities, and financial autonomy) and creating regional offices for service ministries.

Measure 3.1.4
Evaluate all holdings and assets of the state to identify and better allocate the use of these resources. Legislate and implement viable, well-governed, transparent, and fully accountable state asset management.

Measure 3.1.5
Examine options for rationalization of public service payrolls and benefits and implement a socially least-destructive solution.

Measure 3.1.6
Redesign and rationalize incentives including overtime allowances and non-monetary incentives for civil service employees.

Measure 3.1.7
Enhance institutional oversight and accountability bodies with the aim of reducing corruption and improving public sector productivity (more policy targets and measures on combating corruption can be found in Agenda Priority 12).

Measure 3.1.8
Ensure the implementation of whistleblower protection legislation and adequate mechanisms for reporting infractions.

Measure 3.1.9
Align institutional development with a roadmap for e-government, and adjust organizational charts of public entities to comply with an e-government roadmap.

Measure 3.1.10
Restore the sole authority of the Civil Service Board as the oversight body for the examination and hiring of public sector employees.

Build & reform

Agenda Priority 3

Main Challenges

- *Remove redundancies in the ministerial space*
- *Rationalize the interaction of state fiscal and monetary agencies*
- *Develop a financial constitution and system of state institutions that includes resilient autonomous institutional components*
- *Align political and economic objectives in distribution of public administration units*

POLICY PRIORITY 3.2

REFORM MINISTRIES AND AGENCIES

Proposed Measures

Measure 3.2.1
Examine the allocation of ministries and ministerial portfolios under economic and governance perspectives, align reform measures with international preconditions for receiving financial aid, eliminate political power distribution as a reason for ministerial appointments, and condense the number of ministries to be more in line with international standards.

Measure 3.2.2
Implement and expand the consolidation of agencies with overlapping authorities and functions as proposed in the October 2019 governmental rescue plan (such as the Council for Development and Reconstruction, the Council of the South, the Displaced Fund, and the Higher Relief Committee) and expedite the consolidation process.

Measure 3.2.3
When warranted by economic needs, establish new institutional competencies. For example, independent agencies for export promotion or diaspora relations.

Measure 3.2.4
Ensure the independence of the Special Investigation Commission and appoint a chairman who is independent from, rather than head of, BDL.

Measure 3.2.5
Improve the disclosure processes of draft legislation and enable greater public participation in the drafting of legislation. Attendance records of all parliamentary sessions and the voting records of parliamentarians should be made easily accessible to the public.

Measure 3.2.6
Institute a credit bureau that has a governmental mandate of collecting information and ensuring adherence to contracts and agreements.

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JUDICIAL REFORM

The judicial arena was central in confrontations between citizens and state representatives in 2021, down to the level of cabinet boycotts and street fighting over the issue of the investigation of the 2020 Beirut port explosion. Lebanon's current judicial system has been in place since the country's independence, but this longevity belies the judiciary's manifold weaknesses. At the very least, we have realized that independence does not necessarily mean sovereignty, and the first step to sovereignty is a strong and independent judiciary. The main points of concern are over weak independence and inefficiency of the judiciary, especially in the time lag on judgments achieved in judicial proceedings. A key demand in this regard is the strengthening of judicial independence. According to the Arab Barometer (2019), 91 percent of Lebanese citizens report corruption on the institutional and administrative levels as a problem. Another aspect of concern is that confessional considerations have influenced the judicial selection process. Military conflicts in Lebanon in the second half of the 20th century affected the political system and the independence of the judiciary, eroding citizens' confidence in both. Critics of the judicial system in civil society cite interference in the courts, particularly internal interference by judges in the Higher Judicial Council (HJC), as "commonplace." These critics argue that every citizen needs to feel protected by the courts, regardless of their sect or standing in society. The current system does not provide this guarantee. In the wake of the failure of the nomination process of independent and competent judges, it has become imperative to guarantee judiciary independence.

Barriers against the possibility of holding public servants accountable for their actions, and possible infractions, have to be removed. Provision of immunity from legal repercussions for all public servants, including ministers, must be examined and, if necessary, amended to improve judicial accountability.

Incentives for judges to avoid engaging in corrupt activities must be developed. The executive branch has significant influence in the selection process of the HJC, which is a violation of the democratic principle of the separation of powers. Structural problems may also arise from the HJC's authority to transfer judges between posts without the judge's consent. Civil society activists note that judges are appointed as consultants for various administrations, again blurring the lines of the separation of powers. This, moreover, becomes a way to bribe judges, as salaries increase for each additional consultancy position.

In an independent judiciary, the principle of the immovability of judges is an integral factor. A judge's qualifications, impartiality, and experience should be the basis for promotion. Currently, judges operate with little oversight, as no evaluation mechanism is in place to monitor effectiveness and competency after appointment.

Build & reform

Agenda Priority 4

Main Challenges

- *Improve access to judicial records*
- *Institute merit-based evaluation mechanism for judges*
- *Improve judicial independence*
- *Build resilience to corruption*
- *Align standards for Lebanese judiciary with international standards*

POLICY PRIORITY 4.1

INCREASE THE ABILITY OF JUDICIARY TO FUNCTION INDEPENDENTLY

Proposed Measures

Measure 4.1.1
Examine all current legislation on judicial independence and transparency as a concrete measure toward building a strong judiciary.

Measure 4.1.2
Adopt periodic evaluation of judges and create a personnel file for each judge to track performance. Establish objective criteria as a basis for appointments and promotions, and ensure that promotions are based on merit and competence.

Measure 4.1.3
Integrate the principle of immovability of judges into current practices.

Measure 4.1.4
Improve recruitment of competent, quality judges by increasing impartialities in the entrance exam.

Measure 4.1.5
Review the judiciary system of the military court and ensure that civilians are tried under civil jurisdictions.

Measure 4.1.6
Strengthen judiciary mechanisms to ensure compliance with international conventions, such as the UN Convention on the Rights of the Child and UN Convention against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment.

POLICY PRIORITY 4.2
IMPROVEMENT OF JUDICIAL INSTITUTIONS

Main Challenges

- *Reform the Higher Judicial Council (HJC)*
- *Legislate and facilitate the investigation of officials*
- *Enhance integrity and transparency*

Proposed Measures

Measure 4.2.1
Restructure HJC to ensure representation and independence of different categories and grades of judges.

Measure 4.2.2
Remove conflict of interest issues by addressing the practice of judges working as consultants for governmental administrative entities.

Measure 4.2.3
Adopt laws to ensure the complete financial and administrative independence of the judiciary.

Measure 4.2.4
Limit immunities of heads of state, ministers, legislators, and other public officials through the empowerment of the appropriate institutions.

Measure 4.2.5
Embellish the framework for easing citizens' access to non-court arbitration procedures, for example, by creating the position of ombudsman to support citizens' pursuit of justice.

Measure 4.2.6
Digitize all court records and proceedings, and provide access to these records where warranted.

Measure 4.2.7
Create a mechanism by which NGOs, civil society organizations, and trade unions could resort to the constitutional council in the event they would wish to contest a judgement as being against constitutional principles.

Measure 4.2.8
Provide more funding and more personnel to the Supervisory Commission for Electoral Campaign for it to execute its missions and to issue recommendations.

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Build & reform

Agenda Priority 5

BUILD REGULATORY FRAMEWORKS

Legal and regulatory frameworks provide assurance to markets, offering a level and competitive playing field to businesses in an increasingly globalized and complex environment. A healthy legal and regulatory environment is one that continuously adapts local and national practices to international best practices. In Lebanon, designing balanced and transparent regulatory frameworks is of added importance and urgency for the national ability to achieve new levels of productivity and international competitiveness. Existing frameworks have in many cases not been kept up to standard, leaving regulators and the private sector to operate in uncertain business environments, less able to compete in the global economy. In order for the private sector to operate within a steady business environment that also enforces relevant laws and rules, Lebanon must appoint or re-mandate regulators that independently govern their relevant industries. Lebanon should develop alignments with global regulatory standards, adopting global best practices in frameworks for financial standards and state procurement processes. Financial intermediation, online privacy, cyber-security and digital currency frameworks need to be updated and made more accessible. Climate and environmental regulatory frameworks are of even greater importance than financial regulatory frameworks for facing the emergent third decade of the 21st century. Productive and services industries should lobby for regulatory frameworks that will allow corporations to embed cultures that are adaptive to change. Beyond these frameworks, buy-in and reinforcement of regulations are key to the success of their implementation.

POLICY PRIORITY 5.1
MODERNIZE REGULATORY FRAMEWORK

Main Challenges

- *Modernize the legislative framework against money laundering and hot money*
- *Assess and improve the enforceability of anti-corruption regulations*
- *Upgrade regulatory frameworks and incentives for small and medium enterprises*
- *Improve regulatory frameworks and incentives for startups, green projects and instruments*

Proposed Measures

Measure 5.1.1
Revise and strengthen public transparency and regulation of all financial actors. Review measurements of risk exposure of banks, modernize the legal framework of credit guarantees and debt recovery procedures, and improve the credit system.

Measure 5.1.2
Appoint, rejuvenate, and empower the Telecom Regulatory Authority, the Lebanese Petroleum Administration, the Insurance Control Commission, and the Electricity Regulatory Authority to further empower independent regulatory institutions.

Measure 5.1.3
Reinforce the role of the Capital Markets Authority and equip it with the necessary resources to go beyond market monitoring and assessing to market development.

Measure 5.1.4
Proceed in the privatization of the Beirut Stock Exchange and the Electronic Trading Platform.

Measure 5.1.5
Put in place incentives and regulatory frameworks to encourage the proliferation of, and financing and investment into, SMEs and startups, including incentives with emphasis on ESG investments.

Measure 5.1.6
Develop new legislation to consolidate previous draft laws for the insurance sector to promote proper competition and better protect policy-holders.

Measure 5.1.7
Standardize operating procedures and codify health regulations in the hospitality sector.

Measure 5.1.8
Fully implement Law 28 (2017) on access to information and coordinate a national plan for combating corruption. Implement the national corruption commission legislated in 2020. Design and empower regulatory frameworks that facilitate the definition and recapture of illicit gains by politically exposed persons and public servants on all levels.

Measure 5.1.9
Enhance competitiveness in the economy by passing legislation and measures to improve the doing business environment, as per Policy Priority 2.4: Enhance the Business and Investment Climate.

Measure 5.1.10
Review regulatory frameworks in the spheres of environmental protection and climate change mitigation. Implement and update the NDCs in the context of global

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Strategize

Agenda Priority 6

EDUCATION

Lebanon's education pillars continue to struggle after they were hit hard by 2020's cacophony of crises. The August 4 explosion, according to post-blast Ministry of Education and Higher Education (MoEHE) reports, destroyed and/or damaged at least 199 schools (90 public, 109 private), 5 technical and vocational compounds, including 20 buildings, as well as 32 higher education facilities. The financial collapse and liquidity issues have made it difficult for families to afford schooling locally, as more and more institutions only accept cash payment - while it has become nearly impossible to finance any education abroad, given the banks' ever-increasing limits on international transfers. Add to this the effects of COVID-19, which has pushed schooling norms online, creating a digital barrier for schooling (requirements of hardware and internet to be part of the classroom) at a time where 50 percent of the Lebanese are under the poverty line.

Even before 2020 hit, Lebanon faced the need to overhaul its education system in line with emerging understandings of emotional and social development processes and knowledge acquisition of children and youth. Given the fragmentations of the existing system, especially along the lines of private and public schooling, an improvement of overall education outcomes is needed across institutions, from kindergarten to high school, universities, and vocational schools. Under consideration of the shrinking ability of households to finance quality education from their own resources, and with regard to the importance of education that enables today's youth to sustain themselves in a digital economy, the importance of revising and reinventing education systems from angles of financing and pedagogics is heightened. Academic institutions across the country are generally under-funded and operate with little oversight. There is little consistency in education policy and Lebanon's students emerge into a labor market that is incapable of absorbing the high number of graduates, exacerbating brain drain.

Lebanon's educational system must provide access to all school-age students, a challenge that has become more acute in the face of growing inability of households to finance private education. Academic facilities across the country must be enhanced to accommodate and improve educational access for those with physical and intellectual disabilities.

MoEHE must build on best practices and existing programs to reform curricula, and build resilient and autonomous academic governing structures and educational institutions. Successful educational reform must focus on the core components of teaching, learning, and preparing children for the digital era. These reforms need to be made under the umbrella of the Center for Educational Research and Development (CERD). But first, the CERD must be rejuvenated to operate at capacity. The MoEHE's human resource strategy and structure also must be urgently addressed.

POLICY PRIORITY 6.1
CREATE A NATIONAL VISION FOR EDUCATION

Main Challenges

- *Ensure national curricula are in line with international standards*
- *Prioritize new knowledge and national libraries*
- *Utilize existing networks and emulate best practices*
- *Pursue integration of special needs students*

Proposed Measures

Measure 6.1.1
Redesign a curriculum for schools that puts skill building at the center, and that focuses on the 8 Cs (curiosity, collaboration, composure, compassion, creativity, communication, collaboration, and citizenship).

Measure 6.1.2
Study and emulate the best education practices worldwide, e.g. the Finnish model.

Measure 6.1.3
Review and revise the content of the Lebanese Baccalaureate exams.

Measure 6.1.4
Develop a monitoring and evaluation mechanism that can be used to build a statistical foundation to measure and evaluate the quality of education.

Measure 6.1.5
Using the existing statistical database, incorporate evidence-based policy to review and revise the structure of the public education system, and to strengthen governance and accountability.

Measure 6.1.6
Pursue new international agreements and expand existing agreements for university exchange programs, to create opportunities for Lebanese to pursue learning abroad.

Measure 6.1.7
Establish an auditing system at the Ministry of Education and Higher Education so that education standards are equal across public and private schools at all education levels.

Measure 6.1.8
Develop new continuing education initiatives for educators to learn latest practices and incorporate technology into the classroom, and accomodate for remote learning.

Measure 6.1.9
Ensure enrollment access from kindergarten to high school for all students, regardless of gender, orientation, religion, socioeconomic or residency status, and physical and/or intellectual disability.

Strategize

Agenda Priority 6

Measure 6.1.10
Develop new legislation to consolidate previous draft laws and require all public and private schools to accommodate students, faculty, and staff with disabilities. In addition, this legislation must eliminate discriminatory admission policies and costs, and ensure inclusive curricula, staff training, and reasonable accommodation.

Measure 6.1.11
Equip all public and private schools with necessary infrastructure—such as ramps, elevators, and accessible restrooms—for students with physical disabilities.

Measure 6.1.12
Develop alternative learning paths for students with special needs, and enhance faculty capacities for inclusive education.

Measure 6.1.13
Ensure students have the necessary hardware and internet for e-learning.

Measure 6.1.14
Allow for financing solutions for students who qualify for international studying.

POLICY PRIORITY 6.2
DEVELOP A SKILLED LABOR FORCE

Main Challenges

- *Diversify education*
- *Promote lifelong learning*

Proposed Measures

Measure 6.2.1
Develop and support technical schools and incorporate alternative training across all institutions. Develop night school programs at secondary, technical, and university education levels to provide workers with the opportunity to develop their skills.

Measure 6.2.2
Develop external programs at universities in collaboration with ministries, academic organizations, and other relevant parties to develop skillsets relevant to the private sector.

Measure 6.2.3
Offer incentives to employers so that businesses invest in their workforce and employees have access to continuing education programs.

Measure 6.2.4
Enhance the matching of labor market and education provision with the collaboration of an inter-ministerial task force, focusing on the acquisition of future-oriented skills for the digital economy.

POLICY PRIORITIES 6.3
STRENGTHEN PUBLIC EDUCATION

Main Challenges

- *Standardize education*
- *Strengthen institutional autonomy*

Proposed Measures

Measure 6.3.1
Establish a national accreditation board to review and, if necessary, revise licenses of academic institutions.

Measure 6.3.2
Amend governance and the legal framework of the Lebanese University to increase its independence with regard to the selection of all administrative posts, recruitment policy of professors, and research.

Measure 6.3.3
Empower the Lebanese University to seek non-governmental sources of funds (e.g., endowment).

Measure 6.3.4
Provide incentives for professors at the Lebanese University to seek research funding (e.g., reduce teaching load and incorporate into promotion policy).

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Strategize

Agenda Priority 7

HEALTH

Health was amongst the greatest issues that disrupted Lebanon in 2020 and 2021, apart from the man-made disaster of the August 4 Beirut port explosion and its burdens of destruction of physical lives and mental health as well as serious damages to important hospitals, the removal of subsidies for imported medical drugs and devices, caused tremendous distress to the wide majority. Prior to the COVID-19 pandemic, a checkup on the overall robustness of the nation's health infrastructure would show surprisingly strong vital signs, albeit with some lingering concerns, such as reports of malpractice and medical insurance fraud. A lack that was recognized was the need for universal health insurance and access to healthcare for everyone in Lebanon. In the context of Lebanon's impromptu multi-year stress test of the 2010s — the unplanned influx of Syrian refugees that began accelerating in 2013, placing strain on Lebanon's medical centers, hospitals, and primary health facilities— the health system had not buckled.

Since the onset of Lebanon's liquidity crisis in the second half of 2019, however, and even more so since the outbreak of the global coronavirus crisis, concerns have mounted with regard to availability of medical procedures, hospital beds, and concerning the funding of imported medicines and medical equipment. Going into 2022, the healthcare sector requires more and more international support for provision of health services to newly impoverished population groups.

Governance problems and corruption at the level of hospitals, clinics, pharmacies, and smuggling of subsidized brand medicines, have been highlighted by the crisis. Greater attention must be paid to public health issues, like the harmful effects of open waste burning.

On the public sector side, needed improvements extend beyond the securing of medical supply to healthcare reforms. This should begin with a restructuring of the Ministry of Public Health (MoPH), where manpower seems to be overstretched and has thus far not been reorganized due to political interference.

Working on the issues that the ministry has not addressed—such as closing coverage gaps and eliminating structures that are producing inequalities in these areas—must also be prioritized. The ministry must hone its ability to regulate and supervise, and it has made progress on that front. Greater effort must be made to reposition the MoPH as a regulatory body, pivoting away from its service-delivery role.

Both public and private health institutions need to create a better popular understanding of the connections between their work and mutual collaboration, and the benefits to overall public health. Stakeholders seem not to have coordinated their public relations in this regard, and private stakeholders are stuck in a sort of family business mentality when it comes to communication, or the lack thereof, with the media. Awareness-building within the general population must become a greater priority, necessitating clear communication strategies and greater transparency from the private sector, the MoPH, and public health institutions.

POLICY PRIORITY 7.1

MODERNIZE THE LEGISLATIVE AND INSTITUTIONAL FRAMEWORK

Main Challenges

- *Define the role and mandate of the Ministry of Public Health (MoPH)*
- *Improve hospital supervision*
- *Improve patient rights*

Proposed Measures

Measure 7.1.1
Organize a health forum where stakeholders can contribute to the national strategy and manage expectations and priorities. The forum can also serve as a platform to communicate policy direction and outcomes with the media and public.

Measure 7.1.2
Assess and revise licensing of health facilities and identify new criteria for medical centers to operate under. After institutions are accredited, implement follow-up audits to ensure standards are consistently met.

Measure 7.1.3
Establish an autonomous regulatory agency that collaborates with the MoPH to regulate the pharmaceutical sector, with its main objectives being to ensure high standards, fair competition, and equal access, and to incentivize import substitution of medicines with locally manufactured medication.

Measure 7.1.4
Prioritize substitution of imported medicines with locally produced generic drugs. Engage with the Order of Physicians to introduce sanction mechanisms regarding the handling of medical malpractice lawsuits or complaints.

Measure 7.1.5
Digitize personal medical records, starting with first contact at primary healthcare centers, to be used at secondary and tertiary medical facilities.

Measure 7.1.6
Put together a national committee that, in collaboration with the National Council for Scientific Research, the World Health Organization, and international organizations, will define a research agenda for health priorities and seek yearly grants.

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POLICY PRIORITY 7.2
IMPROVE SOCIAL INSURANCE SYSTEMS

Main Challenges

- *Enable public funds and social security network*
- *Empower insurance supervision*
- *Hold private insurance accountable*

Proposed Measures

Measure 7.2.1
Activate the role of the intra-agency technical committee that represents all healthcare related funds to map the current situation, identify overlaps and forms of abuse, and present a set of recommendations. Publish the report and hold parties accountable to implement the recommendations.

Measure 7.2.2
Finalize the automation of the National Social Security Fund and introduce web-enabled services, starting with tracking applications and direct wiring of refunds for eligible beneficiaries.

Measure 7.2.3
Empower the Insurance Control Commission and transform it into an independent regulatory agency.

Measure 7.2.4
Take steps toward the provision of universal healthcare through the expansion of health insurance coverage.

Measure 7.2.5
Resolve pending issues in covering healthcare costs from the Beirut port explosion.

POLICY PRIORITY 7.3
LAUNCH AN EDUCATIONAL AND CIVIL SERVICE CAMPAIGN

Main Challenges

- *Raise awareness on preventive health, especially in regards to the coronavirus*
- *Raise public awareness on health-related issues*

Proposed Measures

Measure 7.3.1
Ensure improved provision of healthcare services and in particular essential and coronavirus vaccines, to families and individuals who are threatened by poverty in light of the crisis in Lebanon

Measure 7.3.2
Offer free wellness packages at primary healthcare centers for individuals who fit the

criteria for extreme poverty. Subsidize an annual general checkup at select hospitals for citizens of low-income status, and all citizens above the age of 50.

Measure 7.3.3
Develop nursing programs and a faculty of nursing as part of Lebanese University, which would include internships at hospitals in rural or impoverished areas, or in mobile clinics.

Measure 7.3.4
Launch public awareness campaigns targeting seasonal, communicable, and non-communicable diseases and ways to prevent and combat them, and run campaigns explaining the right to healthcare and how to exercise it.

POLICY PRIORITY 7.4
IMPROVE PUBLIC HEALTH

Main Challenges

- *Boost recycling efforts*
- *Stop uncontrolled waste burning*
- *Improve food safety and restaurant inspections*

Proposed Measures

Measure 7.4.1
Launch awareness programs in all schools to teach children about recycling and conservation, and ensure that schools recycle.

Measure 7.4.2
Create a comprehensive public health strategy to tackle the health problems resulting from uncontrolled waste burning.

Measure 7.4.3
Implement Law 35 (2015) on food safety, including the Food Safety Lebanese Commission (FSLC). Train inspectors and ensure they have adequate capacity to carry out inspections.

Measure 7.4.3
Address economic and pandemic conditions by increased integration of public hospitals into national policy, better governance of public healthcare overall, audits of patient records, and greater focus on prevention.

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Strategize

Agenda Priority 8

ENERGY

Lebanon's power sector is essential to economic development, yet it has turned into a heavy burden due to inefficiencies. If properly run and operated, it could easily become a major target of foreign direct investment and a primary catalyst for economic growth. The economic crisis of 2021 saw its most visible expression in the removal of fuel subsidies and breakdowns of electricity supply. Over the past decades, the power sector—primarily because of the public utility, Electricité du Liban (EDL)—has consumed billions of dollars from the treasury, due to annual deficits of $1.5-$2 billion, depending on fuel prices, thus contributing more than 40 percent of the public debt. Overall, transfers to EDL have averaged 3.54 percent of GDP between 2011 and 2017. Meanwhile, service provision has worsened over the years as the electrical grid deteriorates and electricity demand grows. The situation motivated citizens to desperately seek solar energy solutions on the household level. Patching the power supply gap has been attempted with politized solutions, but sustainable solutions in the sectors of renewable energy and comparatively clean conventional energy are needed urgently. In light of the current economic crisis Lebanon is facing, international bodies such as the IMF and the World Bank have made it very clear that funds are conditional. Lebanon is moving forward on oil and gas exploration, and hopefully the country will find and extract enough natural gas resources to at least fuel domestic power generation, although this will take on average eight years, even if exports to foreign markets prove elusive. While the power sector requires that sustainable solutions be implemented sooner rather than later, switching to natural gas in anticipation of the discovery of local reserves will not only provide the necessary infrastructure and prepare the power sector for that phase, but is also cheaper than the heavy fuel oil and diesel oil currently being used, and more environmentally friendly, reducing the sector's greenhouse gas emissions. To uphold commitments to the 2015 Paris Agreement on climate change, and the Glasgow Climate Pact of 2021, Lebanon must invest heavily in renewable energy generation, taking advantage of the country's abundant renewable resources, thus diversifying the country's energy sources, decreasing its dependence on fossil fuels (with their price volatility), and improving the country's energy security.

POLICY PRIORITY 8

DEVELOP AND IMPLEMENT A SUSTAINABLE ENERGY POLICY

Main Challenges

- *Improve sector's governance, regulation, and procurement processes*
- *Sustainably increase power generation*
- *Cut down on technical and non-technical losses*
- *Reduce the cost of power generation*

Proposed Measures

Measure 8.1
Use financial resources available from the IMF and bilateral partners.

Measure 8.2
Improve governance in the sector through a consistent regulatory and procurement framework, limiting the monopoly of any entity and promoting healthy competition and transparency.

Measure 8.3
Reduce the fiscal deficit in the power sector through the reduction of technical and non-technical losses, as well as significantly reduce illegal connections, and implement more efficient bill collection.

- *Equitably increase the electricity tariff*
- *Restructure Electricité du Liban (EDL)*
- *Strategize for offshore and onshore exploration*
- *Develop regional partnerships and grid networks*
- *Increase competition in the gas and fuel import markets*
- *Boost the share of gas in the energy mix*
- *Remedy absence of comprehensive national energy strategy*
- *Develop integrated strategy that covers fossil and renewable energy resources*

Measure 8.4
Fully implement Law 462 (2002) aiming at developing and implementing solutions to modernize the sector and turn it profitable by, among other things, involving the private sector through a public-private partnership, and appoint an independent regulatory authority with full authority and an independent fiscal and managerial mandate, to regulate the sector and restructure EDL into an optimal governance structure.

Measure 8.5
Fully implement EDL's Master Plan for grid reinforcement.

Measure 8.6
Promote transparency and access to information at the level of the Ministry of Energy and Water (MoEW) and all administrative units relating to energy issues, and make studies, tenders, and contracts publicly available.

Measure 8.7
Conduct a full audit for EDL and all institutions operating within the sector and prepare financial statements for previous years.

Measure 8.8
Develop a comprehensive energy strategy, through a process of stakeholder engagement, that increases power generation and distribution efficiency at optimal cost to secure Lebanon's long-term energy needs and improve overall sector governance.

Measure 8.9
Develop a national oil and gas strategy that would forecast different scenarios and assess them based on: market prices, sizes of discoveries, types of hydrocarbons found, development solutions for fields, costs of exploration and production, market conditions, geopolitics, and domestic politics and market.

Measure 8.10
Fully integrate Lebanon into the six-nation power grid and regional gas pipelines, in addition to networks linking the Middle East with the European Union. This presents vast opportunities for Lebanon in terms of imports and, potentially, future exports if Lebanon discovers oil or gas, and employ electricity generated from renewable energy sources for better grid integration and balancing of the systems.

Measure 8.11
Implement plans to enhance transparency and improve competition in the upstream, midstream, and downstream gas and fuel import markets.

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Measure 8.12
Incentivize the development of an upstream market and develop services and logistics across the entire extractives value chain.

Measure 8.13
Increase the share of gas in the energy mix, starting with power production. In case of commercial gas discoveries, encourage consumption of local gas in the transport sector and in the development of a petrochemical industry.

Measure 8.14
Implement clean energy production incentive tools. This can be done by amending Law 462 (2002) to allow feed-in tariffs (FIT) to be introduced, or by introducing net metering that would allow consumers to inject power generated at their premises into the grid.

Measure 8.15
Implement the 2021 Distributed Rewable Energy (DRE) draft law.

Measure 8.16
Launch process to privatize generation plants.

Measure 8.17
End the monopoly of EDL on the power distribution sector, which would allow for greater competition in the electricity sector and allow for investors to set up their own electricity distribution network.

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WATER

Lebanon is blessed with substantial natural water resources, including surface water, groundwater, and spring water, but little has been accomplished in the way of conservation or sustainable exploitation of these resources. Mismanagement, outdated storage infrastructure, inefficiencies across the sector, and the influx of Syrian refugees, compounded by the 2020 crises, have increased water stress and water scarcity. Water supply emergencies of 2021 were correlated with fuel shortages at pumping stations and treatment plants. In general, the water crises of the year were outweighed by other crises, but issues remained unresolved. Currently, the Ministry of Energy and Water (MoEW) is largely understaffed and past attempts to reorganize managing bodies have fallen short. The confluence of these factors has left most of the country to rely on costly private distribution networks. Further, tap water is not safe to drink. The development of the water sector and related transportation infrastructure is crucial to the future diversification of the Lebanese economy.

While Law 221 (2000) reformed the governance of the water sector, creating four regional water authorities under the supervision of the MoEW, this restructuring has not been successful and mismanagement still runs rampant. Outdated storage facilities lead to leaks and lost water, and Lebanon's karst topography makes leakage from artificial reservoirs common.

Further, of the 12 planned dam projects as of 2015, only two are operational today: the Qaraoun dam and the Chabrouh dam. While there are laws that govern well digging, it is estimated that 80 percent of wells in Lebanon were dug illegally, diminishing the supply from public wells. In the agriculture sector, which accounts for 61 percent of the country's water usage, inefficient irrigation practices are another cause for concern. All these inefficiencies equate to a colossal waste of water, and efforts must be taken to upgrade storage facilities, and transport networks, and rethink current practices regarding pricing and distribution.

Beyond inefficiencies and mismanagement, a flat rate is charged for water usage that does not reflect actual consumption. There is consequently little incentive to conserve water, and there is a lack of public awareness about water conservation.

The last national water strategy, drafted in 2010, is outdated and must be altered to address the current challenges in the sector. The construction and maintenance of an efficient water distribution system would improve delivery to citizens. It is imperative to upgrade storage facilities and existing delivery systems and networks.

In addition, the Bisri Dam Project was cancelled by the World Bank, and reached its time limit for funds disbursal, due to the non-completion of tasks that are preconditions for the commencement of the project.

Due to the 2020 changes in prices and conditions, the need to reassess water facilities and the accessibility of clean water in Lebanon must be prioritized - especially as larger segments of the population fall prey to weak infrastructure and poverty.

Strategize

Agenda Priority 9

POLICY PRIORITY 9.1
UPDATE WATER STRATEGY AND SECTOR GOVERNANCE

Main Challenges

- *Create a coherent national plan with the participation of the Lebanese public*
- *Define organizational structure of governing entities*
- *Revise current water pricing regime*
- *Explore hydropower options*

Proposed Measures

Measure 9.1.1
Create a more coherent Water Master Plan, building on the National Water Sector Strategy (2010) and reassess water infrastructure projects for politically-induced projects, e.g. dams.

Measure 9.1.2
Follow up on the consolidation of the regional water authorities and define their organizational structure and mandate. Increase coordination between the Regional Water and Wastewater Establishment, the MoEW, and other relevant government agencies.

Measure 9.1.3
Modernize existing hydropower generation units and study potential for additional power generation, taking into account development plans and ecological needs.

Measure 9.1.4
Continue the implementation of water metering, reassess the current pricing scheme, and introduce a new water tariff regime that is connected to the actual usage of water by the consumer.

POLICY PRIORITY 9.2

MAXIMIZE EFFICIENCY ACROSS THE SECTOR TO REDUCE LOSSES

Main Challenges

- *Improve access to drinkable water through licensing, distribution, and health regulations*
- *Upgrade storage facilities and water transport infrastructure*
- *Enforce laws regarding well digging*
- *Increase water use efficiency in the industrial and agriculture sector*

Proposed Measures

Measure 9.2.1
Revise all licenses granted to mineral water firms and introduce quality control and regulatory criteria. Manage all drinking water companies under this regime.

Measure 9.2.2
Assess and strategize optimal efficiency of water transport infrastructure.

Measure 9.2.3
Review and assess the capacity of the existing water distribution systems in urban and rural centers to reduce waste and transport costs, and improve usage efficiency.

Measure 9.2.4
Assess and optimize efficiency of water use by industry.

Measure 9.2.5
Ensure continuous access to quality water by enforcing the prohibition of illegal well drilling, and incentivize efficient management of groundwater resources in urban and rural settings. Reduce extraction from private wells and ensure responsible usage of public wells.

Measure 9.2.6
Mandate relocation of all water-intensive industrial processes into specifically designated industrial zones.

Measure 9.2.7
Assess and optimize efficiency of water use by farms and the agricultural sector. Reduce water wastage in the agriculture sector by increasing the usage of more efficient irrigation systems, such as drip irrigation.

Measure 9.2.8
Research, design, and launch a public awareness campaign that teaches conservation in schools.

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Strategize

Agenda Priority 10

TRANSPORT

Weaknesses and deficiencies relating to the safety, governance and security of external transport were put into sharp relief by the historic catastrophe of the Beirut Port explosion on August 4, 2020. This singular event altered priorities and perceptions of risks in the overall transportation sector of Lebanon and focused attention away from environmental and congestion concerns in domestic transport that had been focus areas of debate in the previous years. The port explosion and softening of traffic patterns in the wake of the economic crisis notwithstanding, the long-term governance, sustainability, and environmental compliance needs of the Lebanese transportation infrastructure remain as they were up to the crisis.

In the second half of the 20th century—while Lebanon was in the throngs of internal strife—the diversity, intensity, and overall importance of global trade increased tremendously. All mobility categories—land, sea, and air—benefited from technical innovations that ranged from the rise of container shipping and efficiency gains in commercial aviation to the introduction of electric, alternative mobility, and sharing solutions in landbound and urban transport. Having remained partially isolated from new transportation developments during the civil war (1975-1990), Lebanon has, in the three post-conflict decades, failed to catch up—achieving only partial inclusion in recent global transportation sector developments.

In the crisis year of 2021, transportation infrastructures and assets have been further degraded, while fuel and transport costs skyrocketed. Missed opportunities for reaping greater economic and social benefits relate to infrastructure and operations across all modes of transportation. This translates into lost economic benefits thanks to the sub-optimal utilization of the country's geographic location, which gives it an advantage in areas such as commercial shipping. Additionally, transportation infrastructure inefficiencies have obstructed the realization of tourism potentials in a variety of segments, from religious and ecological to leisure and cultural tourism, and have also limited Lebanon's potential as an aviation hub. Moreover, inefficiencies and infrastructure problems in domestic mobility, as well as over-reliance on individual and quasi-individual transport in and between urban centers, are contributing to social risks (for example, medical and environmental) and to high direct losses and opportunity costs in the economy (due to traffic congestions, above-average vehicular damage incidents, etc.).

The lack of a coherent strategy for cross-border and national transport in general, and the absence of plans for more specific domestic needs, such as preventive maintenance of inter-urban and urban mobility infrastructures throughout the country, has been identified as a drag on the Lebanese economy. Knowledge of the insufficient and fragmented allocation of funds to transportation infrastructure developments makes it even more important to strategize mobility and transportation as one pillar of a national economic plan.

POLICY PRIORITY 10.1

DEVELOP A TRANSPORT POLICY FOR NATIONAL AND CROSS-BORDER MOBILITY

Main Challenges

- *Reinvent public transport: intercity and intracity*
- *Improve maritime, air, and commercial transport*

Proposed Measures

Measure 10.1.1
Develop a comprehensive national policy for sustainable transportation that will regulate passenger and freight transport by road, sea, and air, and incentivize the development of public and shared transportation in both urban and rural areas. Policy will address critical issues facing the sector such as road traffic congestion and the environmental and health impacts of road transport, taxi and bus service licensing, trucking operations and safety issues, public parking, and implementation mechanisms for all provisions of traffic Law 243 (2012).

Measure 10.1.2
Prioritize intracity transportation development with a strong public transport component for Greater Beirut.

Measure 10.1.3
Enhance intercity public transport by expanding bus transport networks and rehabilitating the railway line between Beirut and Tripoli.

Measure 10.1.4
Develop frameworks organizing commercial transport and integrating all Lebanese ports and airports into advanced digitized traffic management systems and modern, durable traffic networks. Build more resilient port capacities, enforce supervision, and increase safety precautions in the freight sector.

Measure 10.1.5
Improve urban mobility through the designation of bus lanes and the demarcation of routes for those using alternative modes of transport. Prioritize activation and expansion of bike lanes that facilitate bike riding to work in urban centers, as well as on a municipal level and between Beirut and major cities.

Measure 10.1.6
Implement advanced traffic guidance schemes for highways outside of Greater Beirut that can satisfy requirements for the control of traffic flows and the mitigation of accident risks, and that can also generate revenue to finance road maintenance.

Measure 10.1.7
Rehabilitate the Tripoli-Abboudieh (Syrian border) freight rail line and construct an extension link to the port of Tripoli.

Strategize

Agenda Priority 10

POLICY PRIORITY 10.2

IMPROVE URBAN MOBILITY AND THE ENVIRONMENTAL COMPATIBILITY OF TRANSPORT

Main Challenges

- *Develop standards and ethics in enforcement of transportation behavior*
- *Enforce driving codes and public parking*
- *Incentivize environmentally compatible modes of transport*

Proposed Measures

Measure 10.2.1
Adjust road safety inspections. Empower the national police force and municipal police departments to strictly enforce Law 243 (2012) on traffic regulation by installing speed cameras at major intersections and on highways. Amend the law to penalize littering and automate the public safety monitoring and enforcement mechanism for the prosecution of traffic violations.

Measure 10.2.2
Develop the ethics of traffic control officers, whether municipal or national police, and incentivize ethical behavior by introducing performance metrics and a feedback mechanism for motorists.

Measure 10.2.3
Introduce build-operate-transfer (BOT) financing for underground public parking projects, to be covered at the ground level by greenery and gardens or other public spaces that meet environmental, urban planning, and urban living standards in cities. Standardize rates for long-term and residential parking.

Measure 10.2.4
Regulate the valet parking industry and impose heavy penalties on restaurants whose valets monopolize residential parking spots or drive unsafely.

Measure 10.2.5
Require all municipalities and authorities supervising highways to uphold road safety maintenance in every sense, including: the upkeep of security barriers, the development and maintenance of signage, and the upgrading of road surfaces.

Measure 10.2.6
Require municipalities to develop and accommodate safe pedestrian environments, by, for instance, clearing sidewalks and enforcing their use for pedestrian traffic by removing vehicles and other structures that impede pedestrian movement on sidewalks. Municipalities must impose and enforce pedestrian right-of-way in all urban areas with zebra crossings and places for pedestrians to cross major thoroughfares, in order to improve walkability and safety.

Measure 10.2.7
Protect mobility of pedestrians and secure zones with special rights for traffic participants with impaired mobility. Develop infrastructure for rentable e-bikes and protect pathways reserved for non-motorized users, such as bicycles or persons pushing baby strollers.

Measure 10.2.8
Provide private households with incentives for adopting less-polluting modes of transport, through measures ranging from tax rebates for buyers of electric vehicles and daily users of public transport, to increases in annual road taxes for old and polluting vehicles. Incentivize private vehicle owners to replace old, polluting vehicles with new vehicles that comply with advanced emission standards.

Measure 10.2.9
Replace all existing gasoline and diesel buses with newer model bus technologies running on clean fuels, such as natural gas and electricity, and provide the needed refueling and recharging infrastructure.

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Combat

Agenda Priority 11

GENDER INEQUALITY

Violations of women's rights are not just detrimental to society, human rights, and the dignity of women, but are also extremely damaging to a country's prospects for sustainable economic development. To date, Lebanon has made some inroads toward correcting the injustices inflicted on women, but many improvements to the standing of women in the economy appear to have been halted or rolled back under the impact of the nation's economic crisis and the COVID-19 pandemic in 2020. Lebanon has a reputation for openness, liberties, and freedom, but in reality the country lags behind others in the region, such as some North African Arab states that have introduced laws that have considerably improved the social and economic status of women. There are some positive indicators concerning Lebanese women's level of education and engagement in decision-making positions (namely in the judicial and public administrations), but these do not reflect their real status or participation in the labor force, their role within the family, or the general attitude of society—attitudes that are not only problematic for gender equality but also for gender or sexual orientation.

While substantial work is still needed in all areas of combating gender inequality, the situation at the end of 2021 causes new concerns over the exploitation and under appreciation of female workforces. The newly deteriorated economic situation calls for integration of rational efforts to achieve progress on gender equality into overall needs to maintain the country's social integrity and escape from all-engulfing economic misery. Campaigns for gender equality have visibly increased in number and intensity. Their next phase deserves to aim for full incorporation into, and alignment with the overall economic and cultural identity of the country.

Lebanon still lacks proper civil laws guaranteeing equal rights for women, and there are various legal constraints that discriminate against women at home and work. Societal attitudes and perceptions continue to subordinate women, suppressing their innovation, creativity, productivity, and—most importantly—their basic freedoms. Lebanon still has reservations about some major international conventions—such as the Convention on the Elimination of All Forms of Discrimination Against Women (CEDAW)—and has yet to reform domestic laws, change unfair customs (e.g., unequal employment opportunities and family status laws), and combat gender-based violence (GBV), including harassment in schools, universities, and the public and private spheres. There are insufficient laws protecting the rights of women, and insufficient institutional support when women are facing the judiciary.

Lebanese laws must be brought in line with international conventions, and stakeholders must work together through a grassroots campaign to cement equality in practice. Empowering women is not only a fundamental social and human right, but also a pillar of sustainable economic development—we need gender equality at all levels to develop the country further.

POLICY PRIORITY 11.1
REFORM LAWS TO FOSTER PROTECTION FOR WOMEN

Main Challenges

- *Enforce legislation designed to protect women*
- *Provide additional legal and social protections and cost-effective quality service for victims of gender-based violence (GBV)*
- *Adopt, without reservations, international conventions on women's rights*

Proposed Measures

Measure 11.1.1
Amend and reinforce the operationalization of Law 293 (2014) related to protection of women and all family members from family violence.

Measure 11.1.2
Further expand and integrate civil society projects to influence attitude and behavioral change on women's issues (e.g., wage gap, personal status, and sexual harassment in the workplace and public spaces).

Measure 11.1.3
Mandate by law a further increase in parental leave—maternity and paternity— that would allow flexible work schedules for parents and advocate for child-friendly spaces/nurseries in the workplace. Integrate home office work opportunities for mothers and fathers into the legal frameworks for labor, taxation, and social protection.

Measure 11.1.4
Introduce new legislation or amend the legislation to outlaw and increase sentences against sexual GBV (e.g., marital rape, incestuous rape, sexual harassment). Adopt a unified civil personal status law, guaranteeing gender equality that is compliant with the constitution and the international commitments of Lebanon.

Measure 11.1.5
Lebanon should adopt CEDAW in its entirety, without reservations. The Optional Protocol, which was included as an addendum to CEDAW, has still not been adopted by Lebanon. Additionally, UN Security Council Resolution (UNSCR) 1325 on women, peace and security must be integrated into state legal and regulatory policies to better protect women during and after armed conflicts.

Measure 11.1.6
Develop public projects, and incentivize private sector projects, to train and support women for merit-based advancement in the workplace and in political life.

Measure 11.1.7
Support existing women's emergency safe shelters across the country to provide standardized-quality, safe temporary accommodation in which women along with their children can seek life-saving refuge and receive specialized help in crisis situations.

Measure 11.1.8
Expedite the overdue reform of Decree 15 (1925) on Lebanese nationality to ensure that children and spouses of Lebanese women have the same right to citizenship as those of Lebanese men.

Combat

Agenda Priority 11

Main Challenges

- *Provide opportunities for women to increase technical and life skills*
- *Remove social barriers that prevent women from accessing leadership roles in their homes and the public and private sector*

POLICY PRIORITY 11.2

EMPOWER WOMEN AND ENCOURAGE PARTICIPATION

Proposed Measures

Measure 11.2.1
Put in place systems to provide women with a path to leadership positions in public and private institutions. For example, staffing police departments with trained policewomen and social workers to provide assistance and protection against any kind of harassment, discrimination, and GBV. Protect and encourage structural and societal changes to make this possible.

Measure 11.2.2
Introduce capacity building and code of conduct measures to train judges, lawyers, and journalists/media personnel on gender and GBV issues, international conventions, and cultural discrimination.

Measure 11.2.3
Offer specialized training/soft skills building to women to foster their competitive employability opportunities in the labor market.

POLICY PRIORITY 11.3

INCREASE THE NUMBER OF WOMEN IN LEADERSHIP ROLES

Proposed Measures

Measure 11.3.1
Establish a ministerial committee with additional stakeholders from the judiciary, private sector, and civil society to develop and monitor the progress of a national plan aimed at women's empowerment.

Measure 11.3.2
Ensure political appointments are merit-based, and that women are not excluded from being considered for these roles on the basis of gender.

Measure 11.3.3
Encourage the private sector to appoint women to senior posts by increasing awareness of women's equal leadership capabilities through public awareness campaigns.

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POVERTY

Multi-dimensional poverty has increased in 2021, doubling from 42 percent of the population in 2019. According to United Nations estimates, almost 4 million Lebanese were experiencing multi-dimensional poverty by the second half of 2021.

In 2020, the moderate poverty ($14/day) count in Lebanon is estimated to have doubled, and the extreme poverty ($8.5/day) count in Lebanon, to have tripled - a statistic based on the exchange rate of 1,500 LBP to the dollar, whereas the market rate of the Lebanese pound has been dancing between 6,000 LBP and 8,500 LBP between Q2 and Q4 of 2020 and plunged below 30,000 at the start of 2022.

2021 hit Lebanon hard in terms of poverty, as the crises of 2020 compounded to create hellish circumstances for all strata of society.

The August 4 Beirut Port explosion combined with capital control and the devaluing currency, made it nearly impossible for any Lebanese —formerly considered rich or poor—to pay the necessary costs to repair material damages of their dwelling.

There is also a different kind of damage to consider. The limits on international transfers have made it virtually impossible for Lebanese families to send their children abroad to pursue higher education, resulting in a different kind of poverty - an intellectual and cultural poverty. Most families are only allowed to wire $10,000 a year to support a studying offspring, barely enough to cover food and board in most cases, let alone tuition.

In the face of 2020's surprises, Lebanon is seeing a new kind of poverty as well, dissolving the middle class, and deflating the rich.

Before 2020, Lebanon's governments successively failed to devise a comprehensive social safety net plan due to fiscal, monetary, or political constraints, dumping the workload on NGOs and international donors, and intervening only to meet the bare minimum of needs, with limited resources allocated to line ministries.

Post-explosion reality brutally exposed the Lebanese government's lack of preparedness to take good care of its people. As predicted, NGOs and the international community filled the care gap—doing everything in their power to circumvent the Lebanese government, for lack of trust, in the process of collecting and distributing funds and services.

Poverty reduction efforts on the national level deserve the attention of political stakeholders, civil servants, and elected officials, but also needs support from religious institutions (as the traditional providers of poverty alleviation in Lebanese communities), wider civil society (including charitable and humanitarian NGOs), and private sector individuals and institutions (from schools and microfinance institutions, to manufacturers and banks). In 2020 the participation of the diaspora in alleviating poverty has become even more important than before, due to the diaspora's ability to contribute fresh dollars into the economy—a scarce and valuable commodity.

Evaluation, encouragement, and further development of public and private sector efforts toward the achievement of the eradication of poverty, regardless of sect, religion, gender, or sexual orientation, must be integral to the process of designing any plan for the Lebanese economy.

Combat

Agenda Priority 12

POLICY PRIORITY 12.1
TARGET AND SUPPORT THE EXTREME POOR AND THE DISADVANTAGED

Main Challenges

- *Address the lack of a poverty eradication strategy for Lebanon*
- *Modernize the legislative framework*
- *Protect vulnerable population groups against modern slavery*

Proposed Measures

Measure 12.1.1
Rapidly advance development of the National Social Protection Policy.

Measure 12.1.2
Immediately expand coverage and effectiveness of existing social safety nets such as the National Poverty Targeting Programme (NPTP) and Emergency Social Security Network (ESSN).

Measure 12.1.3
Establish a permanent ministerial committee, including participants from civil society and international development organizations, to consistently enhance a poverty reduction strategy.

Measure 12.1.4
Create/empower a poverty eradication task force that links together members of parliament and parliamentary committees whose purviews include working on populations that are vulnerable to poverty (e.g., women and children, displaced and refugees, disabled or aged persons, and all those in need of medical support).

Measure 12.1.5
Legislate, adopt, and finance, with the collaboration of the development partners, the Office of the Prime Minister, the Central Administration of Statistics, and the Ministry of Social Affairs, direct support schemes for the poor in all categories mentioned in Measure 12.1.4.

Measure 12.1.6
Combat illegal child labor and trafficking, and the abuse of children, and crack down on violators.

Measure 12.1.7
Implement the ratified law on disability.

Measure 12.1.8
Align legal and operational frameworks for poverty eradication with frameworks for labor (Agenda Priority 17) and health strategy (Agenda Priority 7).

Measure 12.1.9
Develop contingency and emergency response plans for economically induced shortages in food, shelter, medical services, etc.

Measure 12.1.10
Create a long-term, national strategy to incentivize the diaspora to contribute to the rebuilding of Lebanon and poverty alleviation, whether by contributing talent, knowledge and skills, or financial support.

POLICY PRIORITY 12.2

DEVELOP FISCAL AND PRIVATE SECTOR FINANCIAL MECHANISMS FOR THE SUPPORT OF THE POOR

Main Challenges

- *Ensure safety nets exist for those below the poverty line*
- *Create adequate social security schemes*
- *Upgrade safety nets for dealing with poverty in old age*
- *Implement targeted support schemes and microfinance*
- *Improve NGO financing legislation to ease ability to donate*

Proposed Measures

Measure 12.2.1
Develop mechanisms to alleviate poverty in old age by re-inventing social security and health or medical care provision schemes for those above 65.

Measure 12.2.2
Improve economic mobility by targeting and enabling financial inclusion and by providing incentives to the poor to enroll in nano and microfinance schemes.

Measure 12.2.3
Make corporate and personal donations tax deductible for those who donate to qualifying public utility organizations, charities, and NGOs.

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Combat

Agenda Priority 13

CORRUPTION

Corruption—defined in this case as the misuse of public posts for personal gain—is a popular and recurring talking point in Lebanon. It regularly finds its way into political speeches, media reports, street demonstrations, and the day-to-day small talk of the Lebanese at home and abroad. Corruption in Lebanon is perceived as pervasive, and one of the main demands of the October 17 revolution (thawra) was to stop these practices. Meanwhile, international research into corruption indicates that grand and petty corruption—meaning incidents involving large spending measures on a national and sub-national level as well as citizens' inability to obtain services without "greasing the wheels" when dealing with public servants—can significantly distort economic performances at the national as well as individual level. There is increasingly a need to better assess public finances and full transparency at state institution levels. Citizens and political leaders have long been emphasizing that something must be done in Lebanon to curb these forms of corruption. Despite many years of citizen complaints and lip service from politicians, very little was done until now to achieve concrete progress regard, even in the wake of the August 4, 2020 explosion, let alone engage in serious dialogue on wider issues of corruption such as nepotism and communal favoritisms. Instead, corruption has been discounted in public discourse as someone else's vice, in a country where it seems there is widespread corruption but no corrupt officials. When public figures were confronted with evidence implicating them, the standard response was political manipulation against the backdrop of prevalent public complacency ("Everybody else is doing it!"). This chronic lack of self-reflection and systemic inaction was enabled by a combination of factors, all of which are now challenged by the Lebanese polity. Instead of serious legal loopholes, persistent institutional failures, blatant political interference, and the systemic exploitation of confessional and regional identities, the seachange of the civil protests in Lebanon at the end of 2019 has done its utmost to destroy the state of impunity that fueled corruption and sent the wrong message to Lebanese society and the world at large. After baby steps in the right direction of reducing corruption in the two years before the thawra, new anti-corruption forces have come into existence and the pursuance of decisive measures in the fight against corruption has become possible. Sadly, until now, very little has been done, and the August 4 Beirut Port explosion has appeared as proof of this corrupt system: no serious charges had been pressed onto the culprits until end 2020 and judicial investigation run into several roadblocks in 2021. Investigations of financial misconduct and illicit enrichment were initiated in 2021, but have been captive to political and populist agendas. In addition, a full audit of the BDL and of public agencies must be completed in order to better assess the financial losses suffered by the Lebanese people. Steps that include the passage of laws (e.g., access to information) after more than a decade-long process and the announcement of the country's first national anti-corruption strategy after nearly eight years of incremental work behind the scenes need to be empowered so that they can induce tangible change. Barriers that still hinder the combat against corruption, such as poor law enforcement and the fact that the national strategy has not been formally adopted or provided with the necessary financial and human resources, are now in closer reach and can be challenged decisively.

POLICY PRIORITY 13.1
PROMOTE AND INCREASE TRANSPARENCY

Main Challenges

- *Increase ease of access to information*
- *Uphold international agreements against corruption*
- *Modernize legislation on the declaration of wealth*

Proposed Measures

Measure 13.1.1
Support and regularly monitor compliance with Law 28 (2017) on access to information, including the appointment and training of information officers in all administrations and the publication of all information required by the law.

Measure 13.1.2
Set up an independent permanent committee grouping governmental and non-governmental experts to track and publicly report on Lebanon's implementation of the UN Convention against Corruption and make recommendations for enhanced implementation.

Measure 13.1.3
Adopt and support the effective implementation of legislative amendments that modernize the country's system for the declaration of wealth by public officials to make it more efficient, and ensure that the declarations are submitted periodically, made more comprehensive, and are able to be audited for completeness and correctness.

Measure 13.1.4
Establish and train a working group in each administration to regularly assess corruption risks created by the lack of transparency in procedures and costs, and to propose ways to mitigate those risks, with an annual progress report aggregated by the Office of the Prime Minister for all administrations. Submit the report to the public.

POLICY PRIORITY 13.2
STRENGTHEN LEGAL AND JUDICIAL ANTI-CORRUPTION FRAMEWORKS

Main Challenges

- *Define crimes and sanctions for specific forms of corruption*
- *Revise banking secrecy rules*
- *Improve alignment of government procurement, tendering, and project awarding processes with anti-corruption priorities*
- *Increase punishments for any caught in corrupt behavior*

Proposed Measures

Measure 13.2.1
Amend Law No. 154 (2009) on anti-illicit enrichment to introduce a proper definition of crimes such as graft, grand theft by public officials, embezzlement, influence peddling, and other variants of political corruption, in line with the UN Convention against Corruption, and legislate adequate sanctions and judicial prosecution and enforcement mechanisms, while also eliminating barriers for triggering and conducting related investigations.

Measure 13.2.2
Amend the laws and regulations necessary to lift bank secrecy on Lebanese public officials, including the president, members of Parliament, ministers, judges, ranking public servants, and their relatives, including funds held abroad if applicable.

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Measure 13.2.3
Finalize and adopt the law on conflict of interest, including the establishment of a national committee that reviews existing and proposed legislation and sets limits and regulations of potential conflicts of interests.

Measure 13.2.4
Make all requests for proposals and tendering processes related to projects and contracts transparent to the public.

Measure 13.2.5
Speed up the implementation of Law 83 (2018) on whistleblower protection and adopt the needed regulations and complementary legislation to bring it into force, including the establishment of a national anti-corruption agency.

Measure 13.2.6
Amend laws and regulations that will help combat the petty corruption of civil servants and municipal officials, and improve protection and verification of whistleblowers who expose instances of petty corruption.

Measure 13.2.7
Introduce transparency and accountability measures in all public-private partnership (PPP) contracts and arrangements, including the establishment of independent project-based audit committees to ensure compliance with those measures.

Measure 13.2.8
Establish and maintain a portal, supported by a mobile application, to publicly report in a timely manner on the receipt and expenditure of all international funding.

Measure 13.2.9
Legislate links between serious corruption convictions and restrictions on convicted persons or judicial persons in their ability to hold positions of public office, participate in government procurement, or bid for governmental and PPP contracts and projects.

POLICY PRIORITY 13.3
IMPROVE INSTITUTIONAL AND SOCIETAL RESILIENCE AGAINST CORRUPTION

Main Challenges

- *Improve institutional control mechanisms in the fight against corruption*

Proposed Measures

Measure 13.3.1
Improve existing anti-money laundering (AML) policy at BDL, and introduce a random investigation mechanism of accounts and transactions.

- *Enhance integrity of public and private sectors*
- *Create anti-corruption interface tools between the public and private sectors*

Measure 13.3.2
Provide the Central Inspection Bureau and the Audit Bureau with IT systems to track complaints and files from beginning to end, and double the number of their inspectors and auditors respectively, while providing them with certifiable training and proper financial incentives.

Measure 13.3.3
Set up an independent national corporate governance program for private sector and state-owned enterprises. This program should be aligned with international best practices and incentivize those corporations that adopt and adhere thereto.

Measure 13.3.4
Require corporate staff and civil servants to take part in regular anti-corruption and governance awareness building and training, prepared in coordination with civil society and international organizations.

Measure 13.3.5
Launch a program that educates citizens on methods to identify corruption, whistleblower responsibilities and protections, and channels for raising corruption concerns. Develop new channels through which citizens can alert judicial and administrative authorities to suspected incidents of corruption, and empower forums and mechanisms where anti-corruption organizations in civil society can advise citizens and take corruption-fighting actions in their support.

Measure 13.3.6
In educational institutions, from schools to tertiary education providers, strengthen curricula and programs that range from awareness building on the negative social impacts of corruption in civil education curricula to dedicated programs to train students in compliance with anti-corruption and governance mechanisms.

Measure 13.3.7
Implement and empower programs and forums to incentivize citizens who demonstrably practice behavior indicating civil integrity—challenging or counteracting incidents of petty corruption and societal corruption in their community, for instance—and institute programs that further encourage and reward exemplary behaviors.

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Combat

Agenda Priority 14

POLLUTION

Pollution in Lebanon is pervasive. The air and water are contaminated and noise levels are high as a result of heavy traffic, reckless driving, and unregulated noise levels for bars and clubs. For a resident of Keserwan, acid rain has become part of everyday life, thanks to the Zouk power plant; for a resident of greater Chekka, the likelihood of developing asthma or allergies is increasing.

Car emissions, in particular from red diesel-powered vehicles, are a primary source of pollution, despite a law prohibiting this diesel's use. The law must be enforced and should be amended to remove the exemption for commercial vehicles or agriculture machinery. Lebanon also suffers from a waste management crisis. The country dumps its waste at facilities located along the seashore, polluting the water. This has health consequences for humans and marine life, and, among other effects, has had negative impacts on the country's fishing industry. Open air dumps destroy Lebanon's natural beauty, contaminate drinking water, and threaten the environment and wildlife, while the burning of garbage fills the air with contaminates that make life unbearable for residents living nearby. Even though Lebanon is not a country with highly polluting industrial activities or resource extraction as bases of the economy, the lack of environmental protections against illegal industrial practices, quarrying, construction, and real estate development activities has exacerbated the country's trouble with maintaining minimal environmental integrity and quality of life for its population. The costs can be seen in the proliferation of chronic medical conditions, such as cancers and respiratory diseases, and in negatively impacted economic activities, such as tourism.

Pollution was not one of the big worries of the Lebanese in 2021 and the contractions of the economy likely were reflected in some reductions of pollution. On the other hand, pollution from private power generation has been increasing and the overall environmental situation remains dire. Over the last 25 years, Lebanon's environment has suffered rapid degradation—from the seashore to the mountain top—as well as the destruction of many symbols of Lebanese heritage. It is ironic when one considers that, in many ways, Lebanese citizens and companies share the blame with the politicians and government entities that fail to punish those who violate environmental protection regulations. The number of traditional homes and buildings in major cities is dwindling. In fact, neighborhoods are being erased and replaced by vertical structures, and there are few public spaces in the capital. Lebanon's environment is, put plainly, in a catastrophic state, and partial or ad hoc measures to change this trajectory will not suffice. The government must declare the state of the environment a national emergency, and devise, adopt, and enforce relevant legislation. Public and private stakeholders need to stand united in the fight against pollution. Reduction in wasteful use of fossil fuels, moreover, is a behavior that is increasingly detrimental on social and economic levels as demonstrated by the strain on human health and fiscal resources that has contributed to the country's economic disaster of 2019/21.

POLICY PRIORITY 14.1
COMBAT AIR AND WATER POLLUTION

Main Challenges

- *Nudge, incentivize, and penalize citizens and households to encourage a shift from polluting to virtuous environmental behaviors in their daily lives*
- *Improve and enforce corporate and micro, small and medium-sized enterprises' environmental behaviors that comply with existing legislation and international standards*

Proposed Measures

Measure 14.1.1
Adopt and enforce legislation regulating acceptable fuels for use in vehicles, and introduce incentives for adoption of less polluting vehicles.

Measure 14.1.2
Incentivize the purchase of eco-friendly cars and penalize usage of highly polluting or energy-inefficient vehicles, through means ranging from technical requirements and inspections to taxation tools.

Measure 14.1.3
Support households in reducing consumption of fossil fuels and use low-energy devices and/or alternative power in heating, air conditioning, and personal mobility.

Measure 14.1.4
Take efforts to minimize household waste through cost-recovering waste collection fees and by introducing financial incentives and campaigns that encourage sorting at source and recycling. Encourage customers to use reusable eco-friendly bags in supermarkets. Impose a green tax (a small fee) on usage of plastic bags in supermarkets and other retail outlets, and place a tax on elaborate and wasteful packaging.

Measure 14.1.5
Adopt legal codes setting specific and adequate standards for limiting and regulating emissions and solid waste generation across all industries.

Measure 14.1.6
Outlaw quarries permanently, and revoke temporary licenses and special exemptions.

Measure 14.1.7
Apply and update real estate development rules and municipal building and zoning codes to better reflect environmental preservation and cultural heritage preservation. Enforce development regulations and real estate codes across Lebanon.

Measure 14.1.8
Require industrial producers to be located in licensed industrial zones that are equipped for the treatment of pollutants generated by the occupants.

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Measure 14.1.9
Legislate and supervise the mandatory treatment of industrial waste, including solid waste, effluents, and aerial emissions. Prescribe new methods of proper collection and treatment, and penalize industrial violators with harsh and escalating punishments, ranging from fines to company closures and the imprisonment of noncompliant business owners and managers.

Measure 14.1.10
Legislate and implement workable waste treatment schemes, end the dumping of waste in the sea, and enforce compliance with Lebanon's international obligations. Develop waste management solutions based on the reduce, reuse, and recycle principle, and develop sanitary landfills for non-recyclable waste.

POLICY PRIORITY 14.2
COMBAT NOISE POLLUTION

Main Challenges

- *Regulate admissible noise levels for noise emitters*
- *Enforce prohibition of fireworks outside of regulated usage*

Proposed Measures

Measure 14.2.1
Introduce legislation regulating noise emissions from nightlife, private households, garden parties, and other events that typically have a high noise level.

Measure 14.2.2
Legislate permissible noise emission levels and, if applicable, times for operation of construction machinery and water pumps in residential zones.

Measure 14.2.3
Enforce noise limits on motor vehicles and make the modification of vehicles with noise-increasing devices illegal if those devices generate noise above set decibel limits.

Measure 14.2.4
Enforce the prohibition of fireworks outside of preset periods and special exemptions for social events. Limit the sale of fireworks to adults and ban the risky use of fireworks by children. Penalize the unauthorized use of fireworks by households or event organizers and mandate municipal supervision and operation of fireworks in urban centers and in residential areas.

Measure 14.2.5
Set up municipal hotlines for complaints against all kinds of noise pollution.

Measure 14.2.6
Train and raise awareness of police officers on noise pollution regulations and issue fines to violators.

Measure 14.2.6
Enforce the prohibition of firearm usage for celebratory purposes.

POLICY PRIORITY 14.3
STOP ENVIRONMENTAL DEGRADATION AND PROMOTE GREEN LEBANON

Main Challenges

- *Revitalize existing public spaces and create new ones*
- *Preserve green parks and forests*
- *Encourage municipalities to introduce recycling programs*

Proposed Measures

Measure 14.3.1
Preserve forested areas, outlaw any construction in areas ravaged by fires, and regulate wood collection and charcoal production.

Measure 14.3.2
Maintain firefighting equipment on municipal, provincial, and national levels, and improve career prospects for professional firefighting personnel.

Measure 14.3.3
Develop public parks, public spaces, and playgrounds, particularly in Beirut and residential suburban areas. Provide tax credit to municipalities that secure green areas.

Measure 14.3.4
Provide incentives (tax credit) to households and private sector entities that recycle, and to municipalities that introduce recycling plants or recycling programs.

Measure 14.3.5
Enforce laws protecting historic buildings and natural sites, and introduce more barriers against the demolition of historic buildings and natural sites.

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Develop

Agenda Priority 15

COMPETITIVENESS

Exportation is considered a lifeline to Lebanon's economic future. To access export markets, improvements of competitiveness are vital and must transcend temporary cost advantages of the productive sectors due to currency depreciation. Lebanon has been active in negotiating a large number of framework trade agreements with Arab states, as well as Eastern European countries. However, trade agreements have not gone beyond simple tariff reductions, which have been demonstrated by economic literature to offer little to no gain. In light of this, fiscal revenue measures and specifically customs barriers must be legislated with great care to not violate trade agreements. Moving to eliminate tariffs is not the main objective: Non-trade barriers remain the main obstacle facing the flow of merchandise, and these barriers have been erected by both Arab and EU trading blocs, which constitute over 60 percent of Lebanese export destinations. Moreover, the liberalization of agriculture and services, two sectors that are important to Lebanon and other developing countries, has been put on hold by developed countries, starting with the EU and more so by the imposition of trade wars in 2019.

At the multilateral level, Lebanon has held observer status at the World Trade Organization (WTO) since 1999 but effectively launched the accession process in May 2001, as part of the Doha round of trade negotiations. The WTO can be seen as a mechanism to protect small economies and to resolve international trade disputes, in addition to ensuring that small economies are not marginalized in a globalized world. Deeper integration offers dynamic long-term benefits and provides opportunities, notably to developing economies with the potential to grow, such as Lebanon. However, integration and harmonization under globalization require major reforms and efforts to upgrade and improve efficiencies that are inherently costly, especially to sheltered sectors or firms hidden behind protectionist measures.

The international trade liberalization process must thus be accompanied by internal measures to increase competitiveness. Because the Lebanese economy is overwhelmingly composed of micro, small, or medium-sized enterprises (MSMEs), any long-term plan to promote economic growth must target MSMEs and include mise à niveau programs to upgrade national competitiveness and enable local producers to penetrate foreign markets.

POLICY PRIORITY 15.1
MAINTAIN A FREE AND FAIR TRADE POLICY

Main Challenges

- *Reassess trade policy, domestic and international*
- *Negotiate new agreements*
- *Improve interaction with multilateral trade partners.*

Proposed Measures

Measure 15.1.1
Set up a new inter-ministerial and sectoral committee, under the leadership of the Ministry of Economy and Trade, to reassess and negotiate bilateral trade agreements and examine protective tariffs.

Measure 15.1.2
Adopt legislation relating to WTO accession. Negotiate new agreements with the GCC and emerging economies, such as Africa, China, and India, that go beyond merchandise trade to include services, investment promotion, and natural resources.

Measure 15.1.3
Establish a EU unit that is linked directly to the Office of the Prime Minister and includes representatives of all relevant ministries entrusted with multilateral trade relations. Mandate this EU unit to strengthen cooperation, stressing issues such as market access, transfer of know-how, and regional infrastructure networking (e.g., electrical, maritime, etc).

POLICY PRIORITY 15.2
UPGRADE THE COMPETITIVENESS OF THE NATIONAL ECONOMY

Main Challenges

- *Establish committee to improve competitiveness and enhance new comparative advantages of exports*
- *Reduce manufacturing costs*
- *Ease access to markets (e.g., port, airport, etc.)*
- *Create the national board for competitiveness*
- *Identify and develop new niche markets*
- *Conduct foreign market research and promote exports*

Proposed Measures

Measure 15.2.1
Set up a committee grouping public and private sector representatives to develop a two-year and five-year plan (mise-à-niveau programs) to improve competitiveness by identifying targets and performance indicators.

Measure 15.2.2
Support export productivity gains through appropriate measures and incentives on the level of manufacturing and agro-industry production.

Measure 15.2.3
Reduce the cost of manufacturing production e.g. cost of energy, or adopt other innovations that are not socially distortive.

Develop

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Measure 15.2.4
Set up an agency focused on export promotion and research in foreign markets, and in the immediate term train staff and diplomats across the globe to promote Lebanese businesses.

Measure 15.2.5
Build the capacities of specialized Lebanese institutions, namely the standards entity Lebanese Standards Institution and the Industrial Research Institute, to provide support services to all industries and incentivize development to export-oriented enterprises.

Measure 15.2.6
Further revise legislation of exclusive agencies and implement stronger antitrust legislation.

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ENTREPRENEURSHIP SUPPORT

Since independence, Lebanon has adopted liberal economic policies whereby market forces dictate the behavior of economic agents. In the past few years prior to the 2019 crisis, the growth of the public sector has been higher than that of the private one, and state intervention has risen, resulting in more corruption and inflation. Instead of adopting a regulatory framework that facilitated investment and encouraged growth, the state created obstacles for the private sector, imposing a heavy burden on the fiscal budget, and indirectly reducing economic efficiency and productivity.

The Lebanese enterprise environment has been strung between the state's underlying concept of entrepreneurship in a free-market economy and the corruption of the economy into fragmented silos with clientelistic structures under the control of competition-distorting oligopolies. Lebanon in 2020 was ranked as number 143 on its Ease of Doing Business ranking, showing difficulties in establishing businesses, tax payments, corruption, enforcing contracts and obtaining permits.

After years of sluggish growth, the economy picked up from 2004 and into 2010, with an average economic growth rate of 7 percent, only to suffer again from severe external shocks that curbed growth and accelerated the rate of young talent leaving the country—the brain drain. During the crisis years of 2020 and 2021, this brain drain reached worrying heights.

Efforts to reinvigorate the Lebanese entrepreneurship potential—often referred to in reports on the successes of Lebanese migrants and, more recently, in assessments of the involvement of Lebanese individuals in tech entrepreneurship in the emerging digital age—were kickstarted in the 2010s with Circular 331 issued by Banque du Liban (BDL), the central bank of Lebanon, which aimed to encourage and support the channeling of deposits from commercial banks into knowledge economy ventures by way of venture capital funds and intermediaries. In addition, in light of the current crisis, Circular 331 funds dried up, due to its overreliance on funds from the banking sector and the 2020 liquidity crisis. In this context, new impulses for funding, development, and exits in the ecosystem are urgently needed for 2022 and beyond.

For the Lebanese economy to leverage the growing entrepreneurship successes in this ecosystem into wider gains—in the form of job creation, financial growth, capital markets opportunities, and the transition into a digital economy that can compete internationally—sustained efforts need to be further increased to develop knowledge economy capacities, the tech entrepreneurship ecosystem, its financial and legal support systems, and the encouragement of the entrepreneurial spirit of all Lebanese.

In light of the rampant corruption in the public sector, and the outdated Lebanese legal and regulatory systems, it is time to free entrepreneurs to channel energy into the productive economy. Administrative reforms should be put in place to lessen the burden on entrepreneurs from regulatory and legal standpoints, allowing for more flexibility and better ease of doing business, to foster competition and growth.

Develop

Agenda Priority 16

Main Challenges

- *Further develop the knowledge economy ecosystem*
- *Improve access to financing for new tech and knowledge enterprises*
- *Provide support to nascent exporters that incorporate digital technologies*

POLICY PRIORITY 16.1

PROMOTE INNOVATION AND DIVERSIFICATION

Proposed Measures

Measure 16.1.1
Integrate the entrepreneurship vision for Lebanon into the national economic vision and enable capital-guaranteed funding for companies that meet predetermined criteria in line with this vision.

Measure 16.1.2
Develop complementary projects to accompany and eventually succeed BDL Circular 331 and complete the knowledge economy building blocks across the country: set up hackathons, pre- and post-accelerators, incubators, angel/seed and venture capital funds, and provide mentorship and coaching.

Measure 16.1.3
Support increased links among actors in the Lebanese entrepreneurial environment, particularly activate new international funding mechanisms for investment funds based in Beirut, and incubators, chambers of commerce, and growing enterprises nationwide, to enhance cluster development and promote investment in businesses inside and outside Beirut.

Measure 16.1.4
Develop schemes to better subsidize pilot projects of new entrepreneurs and further enhance coordination mechanism between universities, funding stakeholders, and state entities (e.g., Euro-Lebanese Centre For Industrial Modernization and the Industrial Research Institute) to support innovative ideas.

Measure 16.1.5
Support incubated and accelerated projects as well as new firms' move from ideation into phase two, enterprise building, by providing access to early-stage finance (seed funding, angel investors).

Measure 16.1.6
Provide incentives to first-mover firms with future-oriented technology that export innovative and competitive tradable goods.

POLICY PRIORITY 16.2

STRENGTHEN LEGAL AND INSTITUTIONAL FRAMEWORKS FOR ENTREPRENEURSHIP

Main Challenges

- *Invest in research and development*
- *Strengthen intellectual property protections*

Proposed Measures

Measure 16.2.1
Provide fiscal incentives to firms that allocate budgets for research and development (R&D).

Measure 16.2.2
Incentivize R&D budgets in universities and encourage the creation of technology transfer offices with grants to support spin-offs. Foster technology transfers between universities and the private sector.

Measure 16.2.3
Facilitate reforms in the judicial and legal systems (bankruptcy law, law on corporate liquidation, private equity and venture capital law, employee stock ownership plans, etc.), and continued education programs for lawyers on investor protections.

Measure 16.2.4
Enforce intellectual property protection through better laws and regulations.

POLICY PRIORITY 16.3

WIDEN ECONOMIC REACH OF MICRO, SMALL AND MEDIUM-SIZED ENTERPRISES

Main Challenges

- *Extend nascent support frameworks for Micro, Small, amd Medium Enterprises (MSMEs)*
- *Link startups and MSMEs to diaspora investors*
- *Provide incentives for investing in microfinance institutions*

Proposed Measures

Measure 16.3.1
Develop various schemes in support of MSMEs, such as revolving and guaranteed funds.

Measure 16.3.2
Create a one-stop-shop portal for MSMEs and startup entrepreneurs to access information and inquire about financial support and other incentives, which would help reduce the burden on companies with regards to administrative formalities, obtaining permits, registration property, and others.

Measure 16.3.3
Facilitate access to advisory services, such as strategic and financial planning for MSMEs. Legislate dedicated channels where MSMEs can bid for public procurement opportunities and public project tenders.

Develop

Agenda Priority 16

Measure 16.3.4
Integrate entrepreneurship and diaspora energy flows by further developing diaspora channels for international market access, and transfer of knowledge through mentorship or coaching. Prioritize linkage of resources between diaspora and local entrepreneurs on levels of investment and financing.

Measure 16.3.5
Relaunch capacity building with Lebanese customs authorities to increase transparency and efficiency of customs processes and reduce barriers that hinder growth of MSMEs.

Measure 16.3.6
Develop incentives for investors to participate in microfinance institutions.

Measure 16.3.7
Create a special legal form and structure for social enterprises. Introduce a means for the incorporation of not-for-profit and social enterprises.

Measure 16.3.8
Support programs and non-profit cooperatives aimed at consolidating small farmer communities and boosting their productivity.

Measure 16.3.9
Incentivize sector-specific funds in productive sectors and social impact enterprises.

Measure 16.3.10
Incentivize business associations and business chambers to strengthen governance and types of business services, including information sharing, to foster business development and growth in targeted sectors and sharing of market information.

Measure 16.3.11
Allow MSMEs to list on the Electronic Trading Platform (ETP) to attract foreign investors for both equity and debt, which would allow for better investment in working capital, which would help promote exports.

Measure 16.3.12
Establish a more flexible legal structure to help promote competitiveness, and abolish out-dated taxes such as stamp duties.

Measure 16.3.13
Partly privatise the Lebanese Commercial Register to allow for better registration of companies, their Board of Directors and Shareholders meetings.

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LABOR

Labor, described by economic historian Karl Polanyi in 1944 as a "fictitious commodity," is the lynchpin of any economy. As human capital is bound up in questions of justice, prosperity, dignity, inclusion, and national identity, the issue of labor intersects with many of the agenda and policy priorities in this Economic Roadmap. In Lebanon, the importance of labor as social and economic resource is especially high, given that the country has comparatively low stores of exploitable finite resources such as hydrocarbons and metals. The destruction of financial assets and constructed capital in course of the crisis years of 2020 and 2021 has further highlighted the importance of human capital as a resource for rebuilding the national economy. This observation remains valid despite the outmigration of Lebanese professionals and workers in the past two years, but shows the great need to protect human capital and stop further brain drain in 2022.

According to a recent international assessment of holistic wealth by the World Bank, human capital constitutes Lebanon's biggest wealth-generator. However, estimates of the size and composition of the Lebanese labor market remain uncertain due to the lack of watertight data. Likewise, labor policy, as well as projections of future Lebanese labor realities, needs, and opportunities—in the context of rapidly evolving global digitization, or the digital transformation of economies—leaves much to be desired. This makes it crucial to develop our human capital and preparedness for the labor uncertainties of coming decades.

To understand already predictable risks, shore up responsive capabilities to unpredictable elements, and enhance the supply of work, Lebanon needs to develop its knowledge base on labor issues in the 2020s to maximize creation of sustainable jobs and minimize losses to digital destruction of work. It may be best served in this by measuring the labor force participation rate, and the gap between actual participation and potential participation. The last official measurement of Lebanon's unemployment rate, in 2007, settled on 9.7 percent. Determinants of current and future labor markets and processes—such as labor unionization, collective bargaining, regulation of specific labor market admissions, evolution of social insurance in reflection of social and human conditions (such as increasing longevity)—are in need of new assessment. This assessment must be completed before it is possible to develop a new national labor policy. Such a policy, however, must be devised and function as the cornerstone of the sustainable future of Lebanese labor, as much of the existing regulatory framework governing Lebanon's labor-related social insurance system is radically outdated. Against the background of job losses and company closures in the weakening Lebanese economy, new urgency has emerged to improve the labor market organization as well as social safety nets and relevant institutions. The framework for the National Social Security Fund (NSSF) and other retirement benefits date to the 1960s and are inadequate for managing today's radically different and rapidly changing role of human capital.

Develop

Agenda Priority 17

POLICY PRIORITY 17.1
ESTABLISH IMMEDIATE MEASURES FOR LABOR INFLUX

Main Challenges

- *Take measures to quantify the labor pool*
- *Provide incentives for local job creation in the context of public-private partnerships and infrastructure projects with international financing and corporate involvement*
- *Design and extend incentives for job creation by Lebanese entrepreneurs returning from abroad*
- *Increase diversity and productivity of expatriate and diaspora entrepreneurship and job creation ventures, and ease integration of qualified foreign labor into Lebanese enterprises*

Proposed Measures

Measure 17.1.1
Restructure and strengthen the mandate of the National Employment Office to rapidly and efficiently collect information from Lebanese residents and Lebanese returning from abroad, as well as Syrian and Palestinian refugees, and create a file for each applicant. Institute state partnership with foreign donors and international financial institutions (IFIs) in design and rollout of financial aid and lending programs for the protection of payrolls and jobs at Micro, Small, and Medium Enterprises (MSMEs) in the formal economy.

Measure 17.1.2
Qualify and quantify the labor pool as well as its social development levels, and match it with available demand for labor.

Measure 17.1.3
Develop a participatory framework involving ministries for approved employment programs. Expand the diversity of the qualified labor pool and enhance the development of local business establishments by revising regulations for foreign labor participation in Lebanese enterprises, and provide preferential treatment to entrepreneurs and qualified returnees with Lebanese roots by approving foreign licenses, degrees, and other specialist qualifications.

POLICY PRIORITY 17.2
STRENGTHEN WORKERS' RIGHTS

Main Challenges

- *Define the role of labor unions*
- *Modernize labor laws*
- *Improve work-related social insurance reach and coverage*

Proposed Measures

Measure 17.2.1
Draft new bylaws for unions and implement legislation for a more constructive and independent role for unions.

Measure 17.2.2
Develop and fund training and development programs to provide new job skills to the unemployed. Support the creation of upskilling services and access of Lebanese talent to diaspora and international remote work markets by introduction of credible long-distance work certification.

Measure 17.2.3
Amend the Lebanese labor law to include all foreign workers, unifying the rules for local and foreign workers, thereby integrating current special rules applied to migrant workers into the labor law. Include access to registration and ability to receive compensation from the National Social Security Fund (NSSF).

Measure 17.2.4
Review and redesign financial inputs to, and benefits packages of, work-related social insurance systems. Support the establishment of remote work in both national and cross-border contexts.

Measure 17.2.5
Legislate provisions on the rights of workers to continual on-the-job training and incentivize employers to provide this.

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Develop

Agenda Priority 18

OUTREACH TO THE DIASPORA

Each year Lebanon has been producing more university graduates and workers than its economy can absorb. Together with cultural and political factors, accentuated in 2020 by the sharp economic collapse and the August 4, 2020 port explosion, the lack of opportunities at home has pushed Lebanese to migrate abroad for over a century. These outflows and migrations to countries in Europe, Western Asia, the Americas, Africa, and Oceania have translated into a huge diaspora—Lebanon has one of the world's highest ratios of expatriates to residents. In 2020 alone, over 500,000 Lebanese (have reportedly applied for a visa to move or study abroad).

Since the end of the Lebanese civil war in 1990, the attraction and integration of the diaspora's human capital financial energies was a—sometimes informal and sometimes more formal—political paradigm aimed at boosting economic development. Given the ongoing depreciation of the LBP, combined with the state's capital control and restriction of transferring money abroad, the diaspora's contribution to Lebanon - especially in fresh funds - is more important than at any point since the creation of the Lebanese nation.

One element the state must work to ameliorate is the current inability of the public and private sectors to provide adequate job and career opportunities to highly qualified graduates of tertiary academic institutions. The lack of opportunity, combined with the financial failure of the state and the banks, has led to unprecedented braindrain.

Brain drain has been a concern over the past 25 years and has become a much greater concern in 2021 than in many previous years, as the country is visibly unable to generate living incomes, let alone enough career options for highly qualified graduates in the foreseeable future. However, while the state may be unable to completely stop emigration, it ought to develop the means—through designing policies and engineering institutional capacities—to make inroads toward helping more Lebanese find jobs in their homeland. While such efforts would likely be futile as standalone political or fiscal initiatives, they could generate multiple benefits if done in conjunction with improvements in Lebanese competitiveness and strengthening heritage preservation and increasing national identity appreciation (see Agenda Priorities 15 and 19 in this Economic Roadmap).

Furthermore, one must not overlook the complexities that come with trying to engage a large diaspora that collectively holds considerable (indeed, potentially vast but so far unquantified) amounts of financial wealth, human capital, and entrepreneurial energies. Policymakers and influencers must, therefore, focus on developing means to reduce brain drain, as well as policies to improve the utilization of remittances and generally redirect capital inflows from fueling unproductive consumption and asset inflation toward providing development capital that creates high-skilled jobs.

POLICY PRIORITY 18.1
CAPITALIZE ON DIASPORA RESOURCES

Main Challenges

- *Develop a registration protocol and conduct a census for Lebanese residents and expatriates.*
- *Incentivize and attract diaspora tourism*
- *Optimize existing outreach channels and increase the strength of diaspora network*
- *Incentivize the use of remittances to fund sustainable investment projects*
- *Promote opportunities for diaspora investors to develop export-oriented ventures in Lebanon and make efforts to rebuild trust*

Proposed Measures

Measure 18.1.1
Clearly define "resident" and "expatriate" to create a census of expatriates.

Measure 18.1.2
Mandate the tourism and economy ministries to develop and implement a strategy to attract diaspora tourism and investment in Lebanon.

Measure 18.1.3
Involve Lebanese embassies, and especially the economic attaches appointed by the Ministry of Foreign Affairs and Emigrants at 20 major embassies, to more actively disperse information on investment opportunities in Lebanon for diaspora members.

Measure 18.1.4
Provide fiscal incentives to universities and centers that link expatriates with Lebanon (e.g., that hire Lebanese expatriates living abroad for short- or long-term contracts and/or offer courses specifically for members of the diaspora).

Measure 18.1.5
Incentivize the channeling of remittances to investment projects in Lebanon by providing tax incentives and exemptions for new and sustainable ventures, such as eco-resorts, and heritage and rural tourism projects, as well as all commercial establishments with high invested remittance amounts that are compliant with national needs.

Measure 18.1.6
Encourage diaspora investments into Lebanese startups.

Measure 18.1.7
Create a database—including a list of supported target markets and a list of legal requirements, such as fees and certifications—for all tradable services and goods that can be exported from Lebanon to regional and international markets.

Measure 18.1.8
Standardize Lebanese products and certification norms in order to improve export prospects for goods.

Develop

Agenda Priority 18

POLICY PRIORITY 18.2
INSTITUTIONALIZE RELATIONS WITH THE DIASPORA

Main Challenges

- *Empower diaspora access to e-government services in Lebanon*
- *Increase support for Lebanese clubs abroad*
- *Develop outreach campaigns*

Proposed Measures

Measure 18.2.1
Build e-government platforms to enable the diaspora to easily apply for official documents.

Measure 18.2.2
Develop and simplify procedures that diaspora investors can follow when embarking on an investment process in Lebanon. Empower embassies to provide free and competent legal guidance to potential diaspora investors.

Measure 18.2.3
Build trust among diaspora communities abroad by promoting Lebanon as a safe investment destination.

Measure 18.2.4
Enhance support for Lebanese cultural clubs abroad and promote alliances and partnerships with foreign universities and think tanks.

Measure 18.2.5
Incentivize syndicates and professional associations in Lebanon to reach out to diaspora communities when looking for partners, honorary members, or investors. Promote large investment projects such as job-creating real estate ventures and sustainable or heritage-enhancing real estate projects, through targeted discounts for diaspora members.

Measure 18.2.6
Expand collaboration between Lebanese and diaspora organizations in the economy and civil society, while ensuring that links are outside the realm of politics and free from political and sectarian interfernance.

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HERITAGE PRESERVATION

The August 4, 2020 port blast destroyed many of Lebanon's heritage gems, including Lebanon's iconic Sursock museum. In 2022 and for all years ahead, the Lebanese government's priority in terms of heritage preservation should be to protect destroyed properties from being bought up for commercial projects, and also to protect landmarks and make sure they are restored and renovated.
Cities in the Eastern Mediterranean region may disagree on which city can claim to be the world's oldest continually inhabited settlement, but it cannot be denied that urban settlements in this region have histories and identities that are more than deserving of protection and preservation for future study and enjoyment. Until today, however, the Lebanese state has not shown a universal understanding and political will to improve and enforce existing laws on the protection of antique treasures. Nor has the country shown any signs of developing and pursuing a national strategy to preserve our natural and built heritage, a matter of pressing urgency as post-explosion damage remains. In matters of heritage, Lebanon still relies on outdated legislation—Law 166 (1933) issued under the French Mandate. The country's architectural identity is being lost as chaotic real estate developments are pursued for profit motives but in total absence of any vision to preserve heritage clusters and integrate them into a master plan for future development. Our natural heritage, including our coast and historical landscapes, are being disfigured.

POLICY PRIORITY 19.1
LEGAL REFORM FOR HERITAGE PRESERVATION

Main Challenges

- *Update the legal code*
- *Create a central plan for preservation*
- *Protect heritage sites destroyed and/or damaged during the Beirut Port explosion*

Proposed Measures

Measure 19.1.1
Issue implementation decrees for Law 37 (2008) on the protection of cultural property.

Measure 19.1.2
Revise and pass the law on the preservation of heritage sites and buildings that was approved by the Council of Ministers in October 2017.

Measure 19.1.3
Pressure the Directorate General of Urban Planning to work on a comprehensive updated master plan that preserves what is left of our cultural natural and built heritage.

Measure 19.1.4
Pressure the Ministry of Culture and the Directorate General of Antiquities to have a clear stand on the protection of all heritage sites.

Measure 19.1.5
Protect heritage sites damaged or destroyed during the August 4 port explosion from predatory, commercial buyers.

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Enable

Agenda Priority 20

MANUFACTURING

Support for productive sectors and activation of export potentials are undisputed needs of Lebanon as the country passes one fatal milestone of economic contraction and social destitution after another. The role of industry in national development has been researched exhaustively. Due to artificial restraints against development of competitive domestic markets for domestic manufacture and due to indirect import subsidies whereby importation of consumer goods was favored over local production even where local manufacture was viable, as well as lack of size, non-realization of concerted private sector efforts and absence of effective public sector support, the Lebanese manufacturing industry has for years been held back from reaching import substitution and export potentials. Significant human capital, location, and trade network advantages of the manufacturing place Lebanon were diverted into commerce or generally underutilized. In course of the national crisis of everything in 2019-22, however, enablement of industries has become a survival need for jobs and livelihoods, a fact exacerbated by two years with no policy making or macroeconomic action by the state. In the quest of preserving jobs, elevating quality, advancing competiveness, and improving sustainable returns in Lebanese industry, many of the listed proposed measures under the preceding four pillars and 19 policy priorities of the Executive Economic Roadmap 4.0 are relevant for the enablement of private sector industry. The need to implement policy priorities in terms of legal, institutional, and structural reforms on the level of private sector industries has sadly been amplified by the failure to implement or even tackle the vast majority of measures that have been proposed to the public decision makers by the many and highly qualified contributors to the previous iterations of the Executive Economic Roadmap. You may therefore recognize one or several proposed measures copied over from one or several previously existing policy priorities under the new manufacturing policy priority, in addition to the proposed measures that our editorial team has drawn up on basis of the Economic Framework roundtables in March 2021 and our magazine's special reports of the past two years. Additions and feedback submissions to the proposed measures in pillar 5 for the enablement of industries are highly encouraged and requested.

POLICY PRIORITY 20.1
ENABLE MANUFACTURING COMPANIES

Main Challenges

- *Tackle the issue of Special Economic Zones for the manufaturing industry*
- *Resolve the problems of cross sectorial coordination and missing standards*
- *Ease access to capital and improve access to export markets*
- *Propagate investment opportunities in manufacturing*

Proposed Measures

Measure 20.1.1
Encourage industrial manufacturers to adhere to cross sectorial collaboration.

Measure 20.1.2
Create a supra-industrial steering and evaluation mechanism to aid domestic supply chain development and innovative pairings of industries for mutual benefits.

Measure 20.1.3
Enhance customer care, comply with coherent ESG standards and principles, and invest in community building.

Measure 20.1.4
Operate outside the local jurisdiction to sustain the levels of operation.

Measure 20.1.5
Pursue partnerships with international companies and focus especially on multinational companies in high value-added industries.

Measure 20.1.6
Achieve synergies and productivity gains by clustering for improved capacity utilization.

Measure 20.1.7
Increase diversification on levels of management and board of directors to improve distribution of power and responsibility.

Measure 20.1.8
Adopt a long view of seeking to compete internationally by capitalizing on quality, uniqueness, and sophistication.

Measure 20.1.9
Invest in R&D.

Measure 20.1.10
Develop synergies between manufacturing and agricultural industries, and focus on collaboration between manufacturing branches such as packaging and industrial manufacturing.

Enable

Agenda Priority 20

Measure 20.1.11
Comply with the basic economic equation of achieving growth by ways of investment, and advocate for a government that can secure an enabling environment of a strong legal and regulatory framework in addition to an agreement with the IMF.

Measure 20.1.12
Adopt lean manufacturing principles for improving competitiveness and productivity.

Measure 20.1.13
Advocate for the establishment of special economic zones (SEZs) for manufacturing industry.

Measure 20.1.14
Open hubs for small and medium size businesses in SEZs and allow them to develop

Measure 20.1.15
Create common export bureaus for adjacent industries.

Measure 20.1.16
Seek export technical assistance from potential export markets.

Measure 20.1.17
Create a demand model for manufacturing jobs in Lebanon.

Measure 20.1.18
Engage with public sector partners and economic advocacy partners in efforts to improve hard and soft infrastructures for transportation, export facilitation, shift to renewable sources of energy, waste management and other macro-level priorities highlighted in Executive Roadmap pillars two, three, and four.

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AGRO-INDUSTRY

Import substitution and exportation potentials in the agro-food sector are perhaps even more pronounced than in other sectors of Lebanese industry, given the large share of agro-food companies in overall manufacturing. However, a superior concern for the food processing and agro-industrial realm has emerged during the 2019-22 economic crisis in the need of developing food safety and food security far beyond the levels that were deemed sufficient under a paradigm of extreme import dependency. Some subsectors of agro-industrial production have been courted by development initiatives since the 1990s and partnership agreements with the European Union have been signed but the sector is faced with challenges that have been unmet in the past. In the quest of preserving jobs, elevating quality, advancing competiveness, and improving sustainable returns in Lebanese industry, many of the listed proposed measures under the preceding four pillars and 19 policy priorities of the Executive Economic Roadmap 4.0 are relevant for the enablement of private sector industry. The need to implement policy priorities in terms of legal, institutional, and structural reforms on the level of private sector industries has sadly been amplified by a failure to implement or even tackle the vast majority of measures proposed to public decision makers by the many and highly qualified contributors to the previous iterations of the Executive Economic Roadmap. You may therefore recognize one or several proposed measures copied over from one or several previously existing policy priorities under the new agro-industry policy priority, in addition to the proposed measures that our editorial team has drawn up on basis of the Economic Framework roundtables in March 2021 and our magazine's special reports of the past two years. Additions and feedback submissions to the proposed measures in pillar 5 for the enablement of industries are highly encouraged and requested.

POLICY PRIORITY 21.1

ENABLE FOOD PROCESSING & AGR0-INDUSTRIAL PRODUCTION ENTREPRISES

Main Challenges

- *Develop food safety and responsible food consumption culture*
- *Resolve the problems of cross sectoral coordination and standards*
- *Overcome niche barriers in export markets and develop new markets*

Proposed Measures

Measure 21.1.1
Upgrade and diversify product lines and branding adapted to export markets.

Measure 21.1.2
Adhere to ESG standards and principles, and encourage family-run enterprises to institutionalize.

Measure 21.1.3
Consider alternative financing solutions.

Measure 21.1.4

Enable

Agenda Priority 21

Reestablish previously destroyed agro-industrial infrastructures or those fallen into disrepair in the past two decades and build back factories.

Measure 21.1.5
Advocate for a greater focus of cooperatives and agro-industry associations to promote collaborations.

Measure 21.1.6
Push for the implementation of the overdue Lebanese food safety law and the activation of the official accreditation council (Colibac).

Measure 21.1.7
Support legislative initiatives that ease doing business and enable access to finance, such as improved mergers or acquisition laws.

Measure 21.1.8
Improve consumer trust in the food industry through better relations with academia.

Measure 21.1.9
Create strong awareness of consumer rights and contribute to the development of responsible consumer culture.

Measure 21.1.10
Upgrade the food safety system in Lebanon and comply with national and international food safety standards.

Measure 21.1.11
Invest in research and development (R&D).

Measure 21.1.12
Advance the development of geographical and quality certifications

Measure 21.1.13
Penetrate national markets in export destinations and seek to transcend ethnic product niches in export markets

Measure 21.1.14
Engage with public sector partners and economic advocacy partners in efforts to improve hard and soft infrastructures for transportation, and export facilitation, commit to using renewable sources of energy, and implement sustainable waste management and other macro-level priorities highlighted in Executive Roadmap pillars two, three, and four

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MEDIA

The services sectors of commercial and news media as well as the print industry have contributed to the historic reputation of Lebanon as hive of creativity and, in regional comparison, free expression. Digital content creation and ventures in Lebanon benefit from a large, multilingual and ambitious talent pool. Economic restraints against development of Lebanon as natural design, media, and content creation heavyweight in the Middle East and North Africa region have to be addressed. In the quest of preserving jobs, elevating quality, advancing competiveness, and improving sustainable returns in Lebanese industry, many of the listed proposed measures under the preceding four pillars and 19 policy priorities of the Executive Economic Roadmap 4.0 are relevant for the enablement of private sector industry. The need to implement policy priorities in terms of legal, institutional, and structural reforms on the level of private sector industries has sadly been amplified by the failure to implement or even tackle the vast majority of measures that have been proposed to the public decision makers by the many and highly qualified contributors to the previous iterations of the Executive Economic Roadmap. You may therefore recognize one or several proposed measures copied over from one or several previously existing policy priorities under the new media and content development policy priority, in addition to the proposed measures that our editorial team has drawn up on basis of the Economic Framework roundtables in March 2021 and our magazine's special reports of the past two years. Additions and feedback submissions to the proposed measures in pillar 5 for the enablement of industries are highly encouraged and requested.

POLICY PRIORITY 22.1
ENABLE MEDIA, PUBLISHING AND CONTENT CREATION VENTURES

Main Challenges

- *Promote the use of Lebanese talent internationally*
- *Create media clusters and coworking creative opportunities*
- *Improve access to finance*

Proposed Measures

Measure 22.1.1
Lobby for additional investment in content creation, and the establishment of a specialized investment fund.

Measure 22.1.2
Tap into available international funds and support programs targeting quality content and journalism.

Measure 22.1.3
Create "free zones" for media.

Measure 22.1.4
Develop physical and digital infrastructures and technology clusters.

Enable

Agenda Priority 22

Measure 22.1.5
Engage with educational institutions to qualify skilled graduates in neuroscience, data analytics, and coding.

Measure 22.1.6
Partner with the Lebanese diaspora and overseas entities in the creation of remote work opportunities for Lebanese content creators.

Measure 22.1.7
Establish an independent entity that promotes Lebanese content in international creative festivals.

Measure 22.1.8
Support designation of the content creation industry in Lebanon as a strategic pillar for the country by the government or the public sector.

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HOSPITALITY

Hospitality, albeit often dichotomous in terms of the warm and welcoming "ahlan wa sahlan" mindset that characterizes operators from the smallest to the very large versus legal obligations, adhered-to industry standards and staff professionalism at hospitality ventures, is both a significant services industry for hard-currency revenue generation and a major employer in the Lebanese labor market. Lebanese concepts for hospitality management, restaurant branding and design, franchise solutions with region-wide appeal in Arab markets, and creation of new food and beverage concepts (F&B) persist although they have suffered in the pandemic and economic crises. In the quest of preserving jobs, elevating quality, advancing competiveness, and improving sustainable returns in Lebanese industry, many of the listed proposed measures under the preceding four pillars and 19 policy priorities of the Executive Economic Roadmap 4.0 are relevant for the enablement of private sector industry. The need to implement policy priorities in terms of legal, institutional, and structural reforms on the level of private sector industries has sadly been amplified by the failure to implement or even tackle the vast majority of measures proposed to the public decision makers by the many, and highly qualified, contributors to the previous iterations of the Executive Economic Roadmap. You may therefore recognize one or several proposed measures copied over from one or several previously existing policy priorities under the new hospitality and food and beverages industry policy priority, in addition to the proposed measures that our editorial team has drawn up on basis of the Economic Framework roundtables in March 2021 and our magazine's special reports of the past two years. Additions and feedback submissions to the proposed measures in pillar 5 for the enablement of industries are highly encouraged and requested.

POLICY PRIORITY 23.1
ENABLE FOOD & BEVERAGE AND HOSPITALITY ENTREPRISES

Main Challenges

- *Improve access to finance*
- *Rebuild Lebanon as a tourist destination*
- *Develop integration with international source markets of tourism*
- *Develop usage of hospitality exports such as franchising*

Proposed Measures

Measure 23.1.1
Coordinate efforts for accessing international grants, technical assistance, and capacity building programs.

Measure 23.1.2
Develop industry-level strategies for contributing to the rebuilding of inbound tourism in Lebanon.

Measure 23.1.3
Advocate for reforms that will benefit F&B enterprises and the hospitality sector.

Measure 23.1.4
Shift from short-term profit orientation to long-term sustainable hospitality ventures.

Enable

Agenda Priority 23

Measure 23.1.5
Seek investment for overseas expansion of Lebanese F&B concepts.

Measure 23.1.6
Create a platform for sharing experiences of F&B operators with investors and industry peers.

Measure 23.1.7
Diversify businesses and distribute workforce in popular branches to achieve a material return to remain resilient.

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KNOWLEDGE ENTERPRISES

Lebanon's information and communications technology (ICT) sector and the native tech entrepreneurship ecosystem has passed through several, complex and contradictory but always noteworthy, phases since the implementation of reconstruction and development efforts in the early 1990s. Rollouts of mobile telephony happened ahead of other countries in the Middle East and North Africa region but the duopolistic system fell victim to policy disagreements and corruption. The New Economy enthusiasm at the turn of the century translated into many inventive commercial establishments in the software and IT industry but encountered strong competition by companies located in much larger countries that improved faster than Lebanon in terms of tech infrastructures and ease of doing business. In the 2010s, the nascent entrepreneurship ecosystem received a much appreciated funding boost but this comparative advantage was drawn asunder by the financial crisis of 2019. Given that the strongest asset base in the Lebanese economy is one of human capital, ease of communicating, and knowledge-based entrepreneurialism, it is a no-brainer to focus on the tech entrepreneurship and knowledge enterprises as industry of great future importance. In the quest of preserving jobs, elevating quality, advancing competiveness, and improving sustainable returns in Lebanese industry, many of the listed proposed measures under the preceding four pillars and 19 policy priorities of the Executive Economic Roadmap 4.0 are relevant for the enablement of private sector industry. The need to implement policy priorities in terms of legal, institutional, and structural reforms on the level of private sector industries has sadly been amplified by the failure to implement or even tackle the vast majority of measures proposed to the public decision makers by the many, and highly qualified, contributors to the previous iterations of the Executive Economic Roadmap. You may therefore recognize one or several proposed measures copied over from one or several previously existing policy priorities under the new information technology and knowledge enterprises policy priority, in addition to the proposed measures that our editorial team has drawn up on basis of the Economic Framework roundtables in March 2021 and our magazine's special reports of the past two years. Additions and feedback submissions to the proposed measures in pillar 5 for the enablement of industries are highly encouraged and requested.

Enable

Agenda Priority 24

Main Challenges

- *Improve access to markets*
- *Develop access to finance*
- *Develop new coworking spaces and ecosystem infrastructure*

POLICY PRIORITY 24.1

ENABLE TECHNOLOGY AND KNOWLEDGE ENTREPRISES

Proposed Measures

Measure 24.1.1
Focus on premium outsourcing.

Measure 24.1.2
Solve the access to impact finance by encouraging businesses in Lebanon to have a social impact, measure it and communicate on it to investors.

Measure 24.1.3
Find and develop niches of export growth for knowledge and IT enterprises.

Measure 24.1.4
Encourage all Lebanese knowledge enterprises and freelancers to use platforms offered by Lebanese IT enterprises for reaching global markets.

Measure 24.1.5
Create spaces for IT and knowledge enterprise actors to exchange and brainstorm ideas.

Measure 24.1.6
Advocate for labor law reforms to formalize the work of freelancers in Lebanon.

Measure 24.1.7
Lobby for legal facilitation for the incorporation of social enterprises.

Measure 24.1.8
Engage with public sector partners and economic advocacy partners in efforts to improve hard and soft infrastructures for transportation, export facilitation, shift to renewable sources of energy, waste management and other macro-level priorities highlighted in Executive Roadmap pillars two, three, and four.

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CHEMICALS

The chemicals producing and processing industries of Lebanon have long been significant on regional level and have displayed potentials for exports to Arab markets and for participation in production ventures. In this, similar to the paper and apparel industries, the diverse chemicals sector entails both companies that are of medium size regionally (but large employers by local standards), such as paints and pharmaceutical manufacturers, and small and micro enterprises producing organic skincare products and clean cosmetics. The country's biotechnology and pharmaceuticals sector has for decades been dominated by imported medical drugs. A shift to more domestic production is warranted by economic constraints on importation and by the fact that local manufacturers have technical capacities which can be activated through both substitution of imports with local products in the Lebanese market and partnerships between manufacturers and international companies for growing regional markets. In herbs and essences, Lebanon has potentials that have been widely discussed in the late 2010s, such as potential for cultivation of cannabis. Local medicinal herbs and boutique beauty products can nurture exports and have investment potentials.

POLICY PRIORITY 25.1

ENABLE SPECIALIZED CHEMICALS, HEALTH AND BEAUTY ENTREPRISES

Main Challenges

- *Empower substitution of imported pharmaceuticals with Lebanese generica*
- *Develop supply chain and certification for locally developed organic skincare products*
- *Enhance regional market access and reputation of cosmetics made in Lebaonn*

Proposed Measures

Measure 25.1.1
Improve online sales and deliveries of boutique producers of organic cosmetics through partnerships with logistics specialist firms, online communication agencies, and multiple ecommerce platforms.

Measure 25.1.2
Support natural cosmetic formulations produced in Lebanon by developing regulations, testing and certification for locally sourced ingredients.

Measure 25.1.3
Invest in research and development (R&D) of products using local medicinal herbs and essential oils.

Measure 25.1.4
Align with consumer trends in cosmetics and focus on non-harmful, sustainably produced, and cruelty-free tested products.

Enable

Agenda Priority 25

Measure 25.1.5
Adopt best practices of disclosing sources and using only environmentally and socially responsible ingredients as well as plastic-free recyclable packaging and economic transparency to enhance reputation of Lebanese beauty products to sophisticated consumers.

Measure 25.1.6
Substitute as much as possible imported brand medicines with far more affordable products of similar quality under local manufacture and suspend doctors' authority to tick a "non-substitution" box when prescribing medicines.

***Measure* 25.1.7**
Shift from subsidizing imported medical drugs to subsidizing imports of raw materials. Build trust in generic medicines of local production and, for not locally produced drugs, originating from reference countries through awareness building and communication campaigns.

Measure 25.1.8
Allow subsidies of imported brand drugs if no substitution is feasible at near or equal quality.

Measure 25.1.9
Work towards bi-lateral agreements with regional markets; implement product standards and country of origin certificates that ease exports of Lebanese health and beauty products to key target markets.

Measure 25.1.10
Establish an industry alliance and support organization for small and artisanal producers of organic skincare and cosmetics and develop a country-of-origin certification mechanism for health and beauty from Lebanon. Develop export campaigns to boost image and awareness of Lebanese beauty.

Measure 25.1.11
Continue and step up R&D for cannabis-based medicinal products and legalization of medical use of products that comply with health requirements such as proven non-addictiveness.

Measure 25.1.12
Engage with public sector partners and economic advocacy partners in efforts to improve hard and soft infrastructures for transportation, export facilitation, shift to renewable sources of energy, sustainable waste management and other macro-level priorities highlighted in Executive Roadmap pillars two, three, and four.

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RENEWABLE ENERGY

Prior to the crisis of everything, considerations in the energy sector focused on resources exploration and power generation with state leadership and a dominant presence of the public utility, EDL. The energy exploration and hoped-for exploitation of oil and gas wealth was both government-organized and speculative. The power production and distribution was both deficit generating and politicized, with a significant but nominally illegal and broadly corrupt segment of private power generation in the shadow economy. Fledgling companies and minor public sector projects of photovoltaic solar energy systems on municipal and provincial levels have been pursued since the 2000. Simple solar thermal systems (water heaters) had been brought to market even earlier. However, efforts dedicated to renewable energies were driven, and often strongly subsidized, by foreign development funding. Adoption of renewable energy solutions relying on wind, solar, and hydro sources was slow and impeded by required upfront investments (despite the diminishing costs of PV systems globally, the artificially low tariffs for electricity produced at high cost from fossil fuels acted as barrier against adoption of renewable energy) and by delays in administrative processes. The equation of power was turned on its head by the Lebanese crisis of 2020 and the predictable removal of subsidies for EDL. In the course of 2021, subsidies ceased in a few steps and the energy dependence of Lebanese households under a corrupt and politicized system turned into abject energy poverty. In parallel, the world was forced by climate shocks to ask how long planet earth will survive if the usage of fossil fuels and other climate risks remain uncurbed. Seeking solutions for Lebanon's survival need for electricity in the context of the necessary global transition to renewable energies, Executive not only produced a Special Report on Energy but also invited renewable energy experts to a roundtable that convened on November 19, 2021. The Roadmap recommendations for the renewable energy industry represent a combination of recommendations derived from the renewable energy roundtable and report (both realized in partnership with Konrad Adenauer Stiftung REMENA) and measures that were proposed in previous years and included in the Roadmap's Strategize Energy policy priority.

Enable

Agenda Priority 26

POLICY PRIORITY 26.1

ENABLE RENEWABLE AND CLEAN ENERGY PRODUCTION COMPANIES

Main Challenges

- *Update, adopt, and enforce renewable energy (RE) laws*
- *Develop comprehensive energy strategy with clear role for private sector RE industry*
- *Integrate renewable energy solutions in utility power generation*
- *Impose quality standards, empower independent regulator*

Proposed Measures

Measure 26.1.1
Issue and implement RE laws, namely Law 462 of 2002 and the Distributed Renewable Energy Law (DRE Law) of 2021.

Measure 26.1.2
Implement plan for grid reinforcement to pave the way for smart and clean grid solutions by the government; end EDL monopoly in electricity distribution and develop both distributed and utility scale RE projects to achieve national climate commitments.

Measure 26.1.3
Improve governance of energy sector; promote transparency at the Ministry of Energy and Water and administrative units.

Measure 26.1.4
Develop comprehensive strategies for electricity and oil & gas that are inclusive of power purchase agreements and wheeling in the electricity sector and cognizant of resource finds and climate mitigation needs in oil & gas as well as political and international realities.

Measure 26.1.5
Pursue decentralization and digitization of renewable energy sector.

Measure 26.1.6
Involve the private sector, affirm standards, and power-up the independent regulator.

Measure 26.1.7
Activate and de-risk finance of RE.

Measure 26.1.8
Ensure equitable provision of energy and protect vulnerable users.

Measure 26.1.9
Strategize to employ full spectrum of power generation options from gas-fired plants to decentralized and utility-scale wind and solar.

Measure 26.1.10
Put ultimate pressure for adoption of RE solutions on the relevant ministries and the entire political establishment.

Measure 26.1.11
Issue long-term warranty obligations and maintenance commitments as licensing requirements for new suppliers of RE solutions on household level, especially solar photovoltaic (PV) system vendors.

Measure 26.1.12
Replace heavy fuel oil with gas in power plants.

Measure 26.1.13
Organize an awareness campaign on system sizing and operation and component technologies, types, and specifications, documentation, standards, and maintenance and operation requirements.

Measure 26.1.14
Establish a regulatory body for decentralized power distribution.

Measure 26.1.15
Develop a conducive policy environment that will contribute to capitalizing on the use and benefits of solar energy.

Measure 26.1.16
Install solar panels on the rooftops of school buildings as a means to support the education sector.

Measure 26.1.17
Utilize existing micro grids of back-up generators to scale up solar energy on the short term.

Measure 26.1.18
Engage with public sector partners and economic advocacy partners in efforts to improve hard and soft infrastructures for transportation, export facilitation, shift to renewable sources of energy, waste management and other macro-level priorities highlighted in Executive Roadmap pillars two, three, and four.

Measure 26.1.19
Transition to a more open and competitive power market that supports the renewable take-off.

Enable

Agenda Priority 26

Measure 26.1.20
Diversify the energy supply and energy demand management on the technical side, but also tackle the political economy constraints that would allow the leapfrog towards renewables, by controlling the oil cartel value chain, and the diesel generators market and network.

Measure 26.1.21
Introduce participatory tools and channels in the energy transformation process that could foster acceptance and contribute to fair power dynamics and energy policies.

Measure 26.1.22
Construct new gas-powered plants in Zahrani and Deir Ammar with a capacity of up to 2,000 megawatts and a natural gas import facility in Zahrani.

Measure 26.1.23
Support financial vehicles that make it attractive to Lebanese depositors to invest their "libano dollars" in solar power projects.

Measure 26.1.24
Add climate risk mitigation measures to public and private RE projects to attract greater investments.

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