

# **ABL Plan for Economic Recovery**

September 2021

## Executive summary

To be completed

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## Contents

<b>Executive summary</b>	<b>2</b>
<b>1. Rationale and introduction</b>	<b>5</b>
<b>2. Baseline macro-economic scenario</b>	<b>6</b>
2.1. Background	6
2.2. The Lebanese Contraction in Comparative Perspective	7
2.3. Nominal Exchange Rate and Inflation	10
<b>3. Priority reforms to be launched within the first 100 days of the new government</b>	<b>13</b>
3.1. REFORM #1: Negotiate an IMF program	14
3.2. REFORM #2: Reconstruction and reform of Beirut port	16
3.3. REFORM #3: Governance and integrity legislation	18
3.4. REFORM #4: Reforms of Social Safety Nets - 1	20
3.5. REFORM #5: Reform of the current custom tax system	22
3.6. REFORM #6: Fill the infrastructure gap	24
3.7. REFORM #7: Reforms of Social Safety Nets – 2	26
3.8. REFORM #8: Reforms of Electricité du Liban (EdL)	28
3.9. REFORM #9: Fiscal consolidation – Revenues increase	30
3.10. REFORM #10: Fiscal consolidation – Expenditures reduction	32
3.11. REFORM #11: Public debt restructuring	33
3.12. REFORM #12: Streamline procedures to start a business	35
<b>4. Other reforms that should be considered for the medium- and long-term vision of Lebanon</b>	<b>36</b>
SUPPORT TO BUSINESSES	36
4.1. REFORM #13: Upscale the agriculture value chain	37
4.2. REFORM #14: Reform of the Telecom sector	39
4.3. REFORM #15: Streamline requirements for construction permits	40
4.4. REFORM #16: Ease private property registration	41
4.5. REFORM #17: Strengthen governance in the non-financial sector	42
4.6. REFORM #18: Establish Lebanon as a Knowledge economy	44
SUPPORT TO HOUSEHOLDS	46
4.7. REFORM #19: Reform of the Health sector	47
4.8. REFORM #20: Reduce the size of the informal sector	49

4.9. REFORM #21: Reforms of the Labor market	51
4.10. REFORM #22: Reform of the Education system	53
4.11. REFORM #23: Strengthen microfinance program	55
4.12. REFORM #24: Reform of the Water system	57
4.13. REFORM #25: Reform of the Solid Waste management system	59
CONNECT LEBANON TO THE WORLD	61
4.14. REFORM #26: Strengthen tax deferrals in strategic sectors	62
4.15. REFORM #27: Strengthen financial support for export activities	64
4.16. REFORM #28: Enact a proactive industrial policy	65
4.17. REFORM #29: Develop the Tourism sector	67
RESTORE THE FINANCIAL SECTOR SUSTAINABILITY	69
4.18. REFORM #30: Consolidate the banking sector	70
4.19. REFORM #31: Review the banking sector oversight framework	71
4.20. REFORM #32: Restructure the Lebanese capital market	73
IMPROVE PUBLIC GOVERNANCE AND BALANCE THE GOVERNEMENT'S BOOKS	75
4.21. REFORM #33: Join the Stolen Asset Recovery Initiative (StAR)	76
4.22. REFORM #34: Fiscal consolidation – Structural reforms	77
4.23. REFORM #35: Restructure the CDR	79
4.24. REFORM #36: Review the governance of SOEs	81
4.25. REFORM #37: Reform and empower State Audit Court	83
4.26. REFORM #38: Streamline public administration	85

## 1. Rationale and introduction

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**Following the long-awaited formation of a cabinet, this document outlines a concrete and consensual action plan, geared towards sound economic policy and reformed governance.**

Our proposed reforms aim to restore robust institutions, meaning independence and public accountability, in the realm of monetary policy, public finances and more broadly in the functioning of the Lebanese public administration. Lebanon should break away with the patchwork of outdated ideologies, corrupted structures, and unproductive customs, that have undermined the country's functioning and fueled the current crises.

In the short-term, emergency measures should address key conditions for macro-economic stability, in line with IMF's views so that a program can be unlocked as soon as possible. Looking ahead, our vision for Lebanon is one based on knowledge economy, restored public accountability and equality across society. **Concretely, this means that our propositions are structured as follows:**

- **Priority measures**, to be launched within the 100 days the new Mikati government takes office, should aim at meeting IMF expectations and reignite growth;
- **Medium-term measures** should be designed to achieving a macro-economic stability;
- **Longer-term reforms** should pursue the objective to revamp the economic structure of the country so that it can thrive as it used to.
- **All measures are also clustered along five key topics:** Support to businesses, Support to households, Connect Lebanon to the World, Restore the financial sector stability and Improve public governance and balance the government's books.

Lebanon inability to react to emergencies is the key driver of this decline. We believe the plan we outline could reverse that trend *per se*, and would also secure badly needed foreign assistance as it would show commitment to reform. **At this point in time, either Lebanon acts decisively and emulates countries such as Azerbaijan, Madagascar, Peru or a couple of others who negotiated an IMF program which triggered steep and lasting growth episodes<sup>1</sup>, or it could end up being another failed state.**

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<sup>1</sup> 7.4% average real GDP growth over a 7-year period in Azerbaijan, 6.3% real GDP growth over a 6-year period in Madagascar, 6.4% real GDP growth over a 4-year period for Peru, following deep recession episodes

## 2. Baseline macro-economic scenario

### 2.1. Background

**The Lebanese economy was already in crisis before the March 2020 sovereign debt default.** Fiscal and external imbalances were large and growing, the nominal exchange rate was misaligned, foreign exchange reserves had been depleting in spite of high interest rates, and output had been contracting for two consecutive years. Preliminary figures show that GDP at constant prices contracted by nearly 1.9% in 2018, by 6.7% in 2019 and by 25.0% in 2020 while international financial institutions such as the IMF and IIF expect output to shrink further by 9.0% in 2021.

**The hard default on the sovereign debt and its aftermath has greatly amplified the socio-economic consequences of the macro imbalances that preceded it and the tragic August 4, 2020 Beirut Port explosion further compounded the cost to the economy by causing enormous damage to the city’s infrastructure, transport network, business capital stock, residential housing and cultural assets and further disrupting trade and economic activity.**

**The prolonged political deadlock since the Diab government’s resignation in the aftermath of the Beirut blast significantly elevated political and economic uncertainty and led to further loss of confidence.** Albeit now the new Mikati government is in place, key drivers of uncertainty persist; particularly about the stability of the new political equilibrium, and the resolve with which the authorities will design and pursue an ambitious, comprehensive, and credible reform program.

**Critically, the political impasse hindered the dialogue with the IMF and other parties over a much-needed financial assistance program at a time when the compounded effects of the financial crisis, the Port of Beirut explosion, and the impact of the pandemic have strained the country’s medical and welfare services and led to an alarming surge in poverty and extreme poverty.** Indeed, recent estimates put the figure of those falling under the poverty line at approximately 1.7 million. In this context of extraordinarily heightened uncertainty, attempting to project the key macroeconomic aggregates over the medium term is bound to be more challenging than usual.

**This grim outlook has led the World Bank to consider Lebanese situation as one of the worst economic situations in recent history.** While it used to dub Lebanon’s crises a “deliberate depression” in autumn 2020, it now ranks it as one of the top 10, if not top 3, worst economic crises ever witnessed in the modern world.

**Table 1: Key Macroeconomic Assumptions**

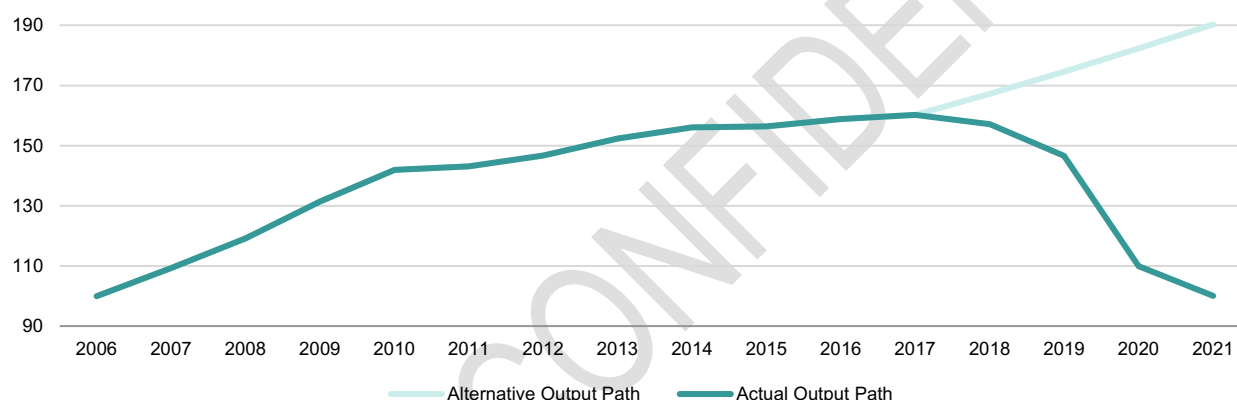
	2020	2021	2022	2023	2024	2025
Real GDP growth (yoy, %)	(25%)	(9.0%)	5.0%	7.0%	7.0%	6.0%
Inflation (yoy, %) - EOP	150.0%	100.0%	50.0%	25.0%	8.0%	5.00%
GDP deflator (yoy, %)	90.00%	70.00%	20.00%	10.00%	6.00%	5.00%
USD/LBP Parity	5,000	11,000	10,000	9,000	8,000	7,000

## 2.2. The Lebanese Contraction in Comparative Perspective

Since 2017, the Lebanese economy has lost nearly one-third of its gross domestic product and the IMF expects that, by the end of this year, the cumulative output contraction will approach 40%. The scale of the loss is even more pronounced if one compares the expected level of output at the end of this year with the level of output that would have been reached if the economy had grown steadily since 2017 at the average annual rate of the ten years prior to the onset of the crisis. Against this benchmark, the expected level of output at end 2021 corresponds to a stunning 48% GDP contraction (see Figure 1).

Additionally, such a deep contraction comes with ‘scarring effects’ on physical capital accumulation, human capital, and total factor productivity. A good deal of evidence suggests that severe recessions do not just depress nominal demand but tend to have persistent effects on the supply potential of an economy, weakening its resilience and requiring a concerted reform effort to avoid long-term damage and bring the economy back to the pre-crisis trend growth path.

**Graph 1. Real GDP Growth: Lebanon output path (2006 = 100)**

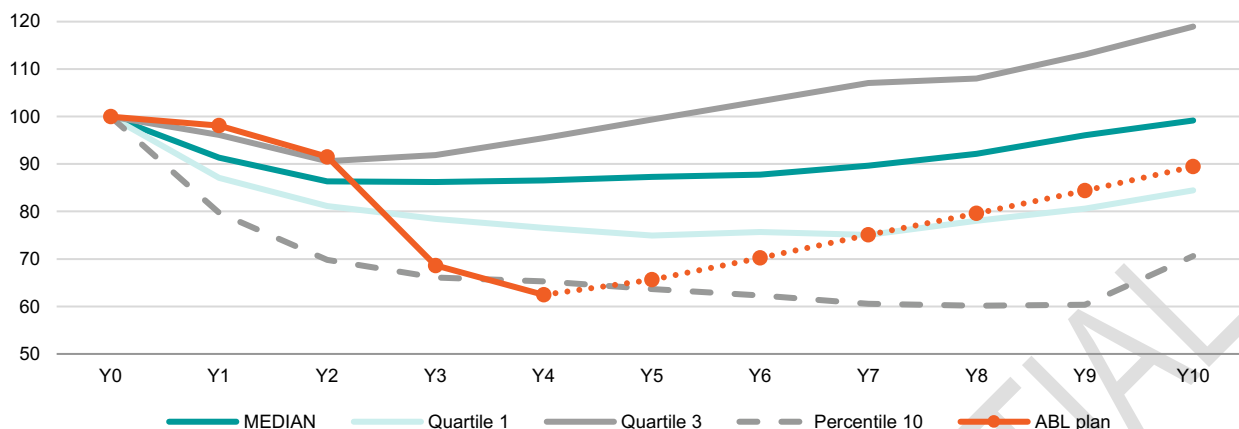


Source: IMF World Economic Outlook (April 2021)

Note: In the Alternative Output Path, the annual real GDP growth corresponds to 4.4% being the average growth rate recorded between 2007 and 2017.

Graph 2 plots Lebanon’s output contraction against the average output contraction and recovery of 90 major adverse shocks that took place, in different parts of the world, during the past 40 years. Major adverse shocks are here defined as either an annual output loss that exceeds 8% or a three-year cumulative output loss that exceeds 15%. The sample includes, among others, Argentina (2001), Bulgaria (1990), Iraq (1999), Russia (1992) and Zimbabwe (1999). Given the size and heterogeneity of the dataset, the sample is organized in quartiles and deciles according to the annual output contraction over a period of 10 years and the average economic recovery that followed the economic contraction. **Lebanon’s contraction places the country in the first decile of the distribution demonstrating that it is one of the deepest and longest depressions since 1980.**

**Graph 2. Real GDP Growth: Historical episodes of large and prolonged GDP contraction (1980 – 2019) – Statistical distribution (Y0 = 100)**

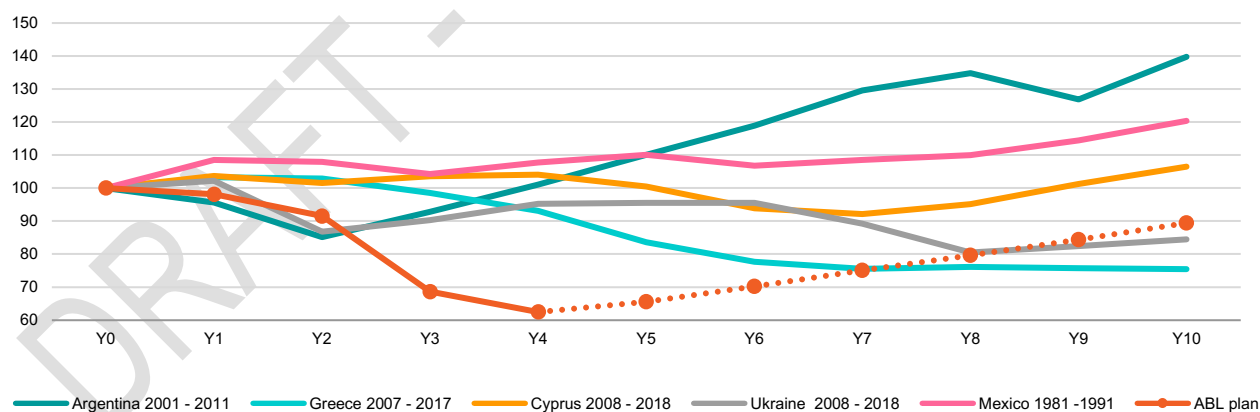


Source: IMF World Economic Outlook (April 2021) until Y3 and ABL estimations going forward  
 Note: Y0 corresponds to the first year of economic recession, for Lebanon being -1.9% in 2018

**Graph 3 shows that Lebanon also stands out as one of the worst cases among a much smaller sample of countries whose output contraction was triggered by similar causes i.e., fiscal, sovereign debt, and banking crises.**

**In such a small sample, idiosyncratic factors can account for a good part of the cross-country diversity.** Indeed, there is little doubt that the Covid-19 pandemic and the ramifications of the horrific blast in the Beirut port in August 2020 significantly strengthened the gravitational pull of recession in Lebanon in 2020. Yet, a complete explanation of Lebanon’s relatively worse economic contraction must be sought in systemic factors. **The domestic political impasse and the consequent lack of external financial support – unlike Cyprus or Greece – are two of such factors.**

**Graph 3. Real GDP Growth: Selected sovereign debt and banking crises (Y0 = 100)**



Source: IMF World Economic Outlook (April 2021) until Y3 and ABL estimations going forward  
 Note: Y0 corresponds to the first year of economic recession, for Lebanon being -1.9% in 2018

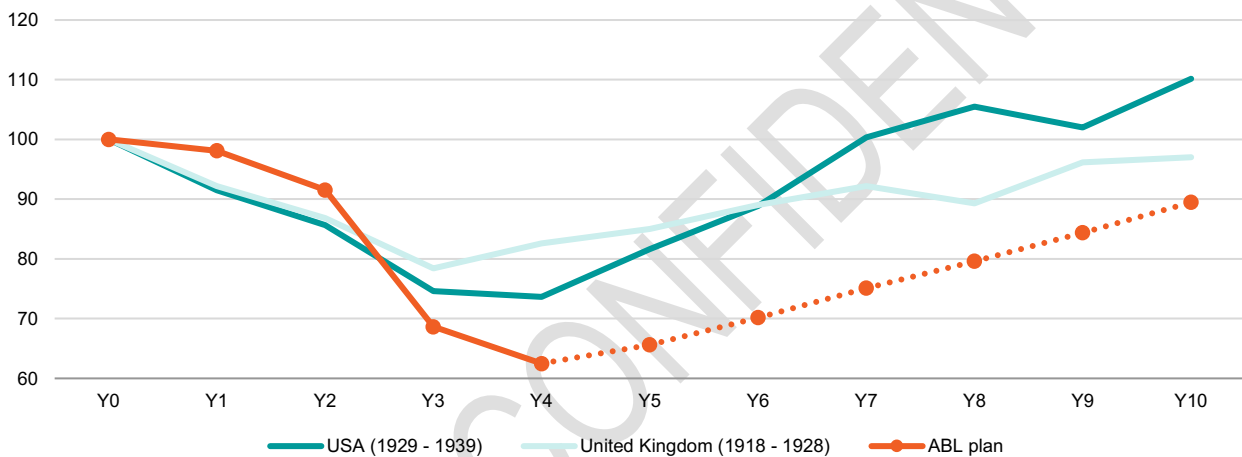
**Graph 4 compares Lebanon’s output contraction with two famous adverse shocks of the last century: the UK economic depression of 1918-21 and the US great depression of 1929-33.** Lebanon’s contraction is as lengthy as any of these two major events and its amplitude is deeper than the US Great Depression.



Graph 4 also illustrates the distinct recovery paths that the UK and the US followed in the aftermath of their roughly equally sized contractions: it took more than 20 years for the UK to return to its pre-crisis level of output but took less than 4 years for the US to fully recover from the Great Depression. **At the root of these divergent recovery paths lies a differing degree of resolve to take bold steps and address the fundamental economic imbalances that propagate a crisis.** Indeed, there would have been no robust and sustained economic recovery from the US Great Depression if the newly elected Roosevelt administration adhered to the economic policy framework of previous administrations and had not taken bold action to reform it.

**A key lesson of history for Lebanon is that a deep contraction does not necessarily entail a slow recovery. Despite undergoing one of the worst contractions on record, economic recovery in Lebanon can gather steam quickly if the new government pursues with vigor an ambitious and credible reform program supported by international financial assistance.**

**Graph 4. Real GDP Growth: Interwar period (1918 – 1939) for the United Kingdom and the USA (Y0 = 100)**



Source: IMF World Economic Outlook (April 2021) until Y3 and ABL estimations going forward, Federal Reserve for the USA and Bank of England for the United Kingdom

Note: Y0 corresponds to the first year of economic recession, for Lebanon being -1.9% in 2018

**What does the data tell us about the pace of economic recovery in the aftermath of major contractions?** Table 2 summarizes the duration and amplitude of economic recoveries in the aftermath of 90 contractions that took place since 1980 and that either exceeded 8% in one year or 15% cumulatively over three years.

**Table 2. Recovery paths following large output contractions**

	Length of Recovery (years)			Amplitude (CAGR %)			Rebound Strength	Recovery Strength
	Min	Max	Median	Min	Max	Median	Median	Median
<b>All Events</b>	1	9	3.0	0.4%	156.0%	20.0%	3.8%	4.5%
3 <sup>rd</sup> Quartile	1	9	6.5	4.5%	65.2%	37.6%	4.9%	6.0%
2 <sup>nd</sup> Quartile	1	9	5.0	3.1%	39.6%	21.1%	3.2%	3.5%
1 <sup>st</sup> Quartile	1	8	1.0	0.4%	17.6%	2.5%	1.6%	1.8%
1 <sup>st</sup> Decile	1	7	1.0	0.4%	9.0%	1.5%	1.4%	1.3%
<b>Sovereign Debt Crises</b>	1	7	3	0.7%	40.0%	7.7%	2.7%	4.0%
<b>Interwar USA</b>	4			37.7%			10.8%	9.4%
<b>Interwar UK</b>	4			16.5%			5.3%	4.1%

Source: IMF World Economic Outlook (April 2021), Bank of England, Federal Reserve

*Methodological Notes:*

- **The statistical distribution of “All Events” is defined by the distribution of Recovery Strength**
- **Length of Recovery** is defined as the number of years between the first year of positive or 0% growth and the next year of economic recession, during the first 10 years following the episode of economic contraction as identified above (either exceeded -8% in one year or -15% cumulatively over three years)
- **Amplitude** is defined as the cumulative annual growth rate (CAGR) between the first year of positive or 0% growth and the next year of economic recession, during the first 10 years following the episode of economic contraction as identified above (either exceeded -8% in one year or -15% cumulatively over three years)
- **Rebound Strength** is defined as the first positive y-o-y growth rate during the first 10 years following the episode of economic contraction as identified above (either exceeded -8% in one year or -15% cumulatively over three years)
- **Recovery Strength** is defined as the average y-o-y economic growth between the first year of positive or 0% growth and the next year of economic recession, during the first 10 years following the episode of economic contraction as identified above (either exceeded -8% in one year or -15% cumulatively over three years)

**The above summary statistics offer valuable guidance for the economic outlook of Lebanon and serve as the basis of our baseline macroeconomic scenario.** The scenario assumes that the new Mikati government will endorse a comprehensive reform agenda and gain the IMF financial support in the context of a multi-year program. The authorities’ credible policy course lowers economic uncertainty, strengthens investor confidence, and paves the way for a steady stream of official capital inflows. The recovery path will be steep and has the potential to resemble that of the 3<sup>rd</sup> quartile of our historical sample. Driven by a robust ‘bounce-back’ effect and the synchronized recovery of the rest of the world economy, output will rebound substantially in 2022 and the recovery will gain traction during the following years. Economic reforms will support a potential growth path of 5% to which the economy is expected to converge by 2028.

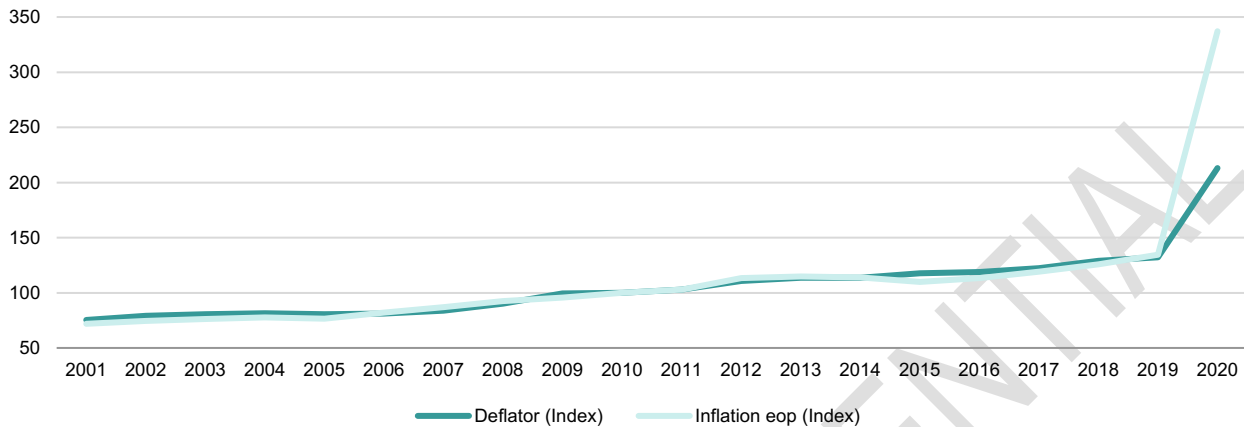
### 2.3. Nominal Exchange Rate and Inflation

For years, Lebanon was able to enjoy exchange rate and price stability with the LBP/USD parity stable at 1,508 and consumer price inflation hovering on average at 3.9% per year. **Nonetheless, persistent current account imbalances, weakening macroeconomic fundamentals and market sentiment led, over the past two years, to a substantial drying up of capital inflows, especially non-resident deposits, and accentuated external financing pressures.**

Thus, since the onset of the crisis, the country’s gross foreign exchange reserves declined significantly and, by the end of March 2021, they were standing approximately at 55% of their 2019 level. The ensuing pressure on the nominal exchange rate has been immense. This massive

currency depreciation was bound to have a substantial impact on price inflation. Consumer prices (end of period) rose by 150% in 2020 and are expected to increase further by 100% in 2021 with dramatic consequences for the anchoring of inflation expectations and, importantly, the living standards of millions of Lebanese households and firms.

**Graph 5. Lebanon: Inflation and Deflator**



Source: IMF World Economic Outlook (April 2021)

What is the outlook of price inflation in the near- and medium-term? **Without massive external financial support and substantial domestic action to address the large macroeconomic imbalances, the exchange rate could depreciate further and potentially lead to hyperinflation.** Key to avoiding this doom scenario would be the following:

- 1) Unlocking external financial assistance to strengthen the US dollar reserves and alleviate the pressure on external financing and the parity.
- 2) Strengthening the external position of the country and reducing the need to attract non-resident deposit flows: meeting the goal of improving Lebanon's external competitiveness would require a sustained reform effort across a wide range of fields. But a currency realignment with the aim to unify the multiple exchange rates at a new sustainable rate should be the first important step in this direction.
- 3) The currency alignment will have to be conducted bearing in mind the current level of the black-market exchange rate, which now stands above LBP/USD 16,000. Considering that a sizable component of the previous hikes owed to the pessimistic expectations on prolonged political instability, an attempt to reunify the exchange rate could land at a floating value of c. 11,000, should optimal policies be in place and should the new government be able to spur confidence in the macroeconomic outlook. Experience from several countries shows that the currency alignment could happen quickly, particularly as in Lebanon the current multiple exchange rates system no longer protects international reserves.
- 4) As a matter of fact, for the currency realignment to stick, and for inflation expectations to be re-anchored, a new monetary policy framework should be adhered to. The new policy framework should be founded on higher operational independence of the central bank and the endorsement of a credible inflation forecast targeting regime in the framework of a floating exchange rate system.

- 5) In addition, BdL, following its new policy framework, should provide guidance on the pace at which it will provide FX through auctions (via daily or weekly auctions) on a time-horizon that should be at least 12-month long, make explicit its reaction function and strictly commit to its new policy mandate. The unified market clearing exchange rate will be critical for restoring macroeconomic stability and strengthening investments and growth.
- 6) A successful currency realignment will, by definition, affect the real value of household income and wealth. As the size of realignment will be substantial (c. 630% of nominal depreciation), it will be imperative to accompany it by the development of a large-scale and multi-faceted social protection program and the deployment of active labor market policies.

The baseline scenario assumes that the new Mikati government will endorse these reforms and therefore the LBP/USD parity will initially depreciate and then stabilize at end-2021 at LBP/USD 11,000. Afterwards, the scenario is based on the assumption that inflows of FX will gradually recover (initially from IFIs and then from the private sector), coupled with tighter fiscal and monetary policy in the medium-term. The exchange rate will start appreciating again and inflation would decline steadily converging to a parity of LBP/USD 6,000 (following the initial overshooting) and an inflation rate of 5% by 2026. Another crucial factor determining the reappreciation of the exchange rate will be political stability and clarity of policy-making.

Although, in the short run, they entail substantial sacrifices for the Lebanese people, there is no doubt that these policy choices will eventually lay the foundations for stability and growth while protecting the interests of wage-earners, pensioners, and those dependent on foreign aid from the ravages of runaway inflation.

### 3. Priority reforms to be launched within the first 100 days of the new government

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**Lebanon will not start recovering until and unless it achieves the following immediate goals:**

- 1) Obtain fresh financing from the IMF and its sister multilateral lending institutions;
- 2) Restructure its balance sheet, which includes securing a primary surplus in the medium term; and
- 3) Take growth stimulating action, including the disbursement of CEDRE-financed infrastructure spending with high local content.

**Simultaneously, the social impact of these reforms needs to be cushioned by an effective and efficient social safety net.** Achieving the above objectives necessitates that Lebanon implements the 12 priority reforms listed below.

Although some of the reforms are likely to be demanded by the IMF, the goal of the priority reforms goes beyond that of obtaining balance-of-payments support: **the priority reforms are the minimum cornerstone necessary to fuel a rapid economic recovery consistent with the ambitious medium-growth potential** that will be enabled by the other set of reforms.

These reforms aim at restoring macro-economic stability, and would be a precondition for any IMF support, and those aiming at rekindling growth, namely:

- Negotiate an IMF program
- Launch the reconstruction of the Port of Beirut
- Enact governance and integrity legislation
- Reform the current customs system
- Revamp Electricité du Liban
- Fill the infrastructure gap
- Rationalize and expand social safety nets
- Progress towards fiscal consolidation on both revenues and expenditure sides
- Negotiate with creditors and re-establish BdL solvency
- Reduce the procedures to start a business

**This priority reforms can be finalized or at least launched before the elections**, as no more time can be lost on political grounds.

### 3.1. REFORM #1: Negotiate an IMF program

Immediate

#### 3.1.1 Why?

In order to put Lebanon on the path towards economic and financial recovery, it is paramount to obtain an IMF program. Specifically, to finance Balance of Payment deficits as well as to restore a stable FX position, an exceptional access IMF program of c. USD 5 billion would be required.

Successful negotiations for an IMF program would be the needed catalyst for additional official credit as well as the framework for implementing crucial emergency measures. The requirements to broker an agreement with the fund include passing a capital control law, restructuring of BdL and government's liabilities, and finally the unification of the exchange rate.

#### 3.1.2 What?

##### Legislate capital control law:

- **Capital controls (including temporary limitations on the withdrawal of bank deposits) are a standard feature of the sovereign debt crisis-fighting toolkit around the world.** The main goal of capital controls is to reduce foreign currency outflows in a context of depleted central bank reserves. Further, legislating temporary limits on bank withdrawals allows for the opportunity for banks to regain liquidity and protect depositors' assets

##### Achieve Banque du Liban solvency:

- **Banque du Liban ('BdL') is Lebanon's largest creditor and, as a consequence of the Government's default, BdL's balance sheet is severely impaired.** The Government of Lebanon does not have the fiscal space to fulfill its fiscal support obligation vis-à-vis BdL through the issuance of foreign currency-denominated long-term debt
- **Accordingly, addressing this liability is key to restore confidence in the banking system, reestablish Banque du Liban's ability to conduct monetary policies, and as a result enable economic recovery.** The reform would need to go hand in hand with the enactment of a capital control law to fend off risks of sudden and sharp inflation (for further details see Reform #11)

##### Restructure public debt:

- **The guiding principle of the public sector debt restructuring should be that of good-faith negotiation.** The IMF will not agree on a program if the Government refrains to seat at the table with its creditors.
- **The outcome of the negotiation should be to put the debt-to-GDP ratio on a downward sloping trend.** Based on consensual fiscal and macro-economic assumptions, the debt level could target sub-100% levels within a 10-year forecasting horizon (for further details see Reform #11)

##### Unify the exchange rate:

- **The current multi-tiered foreign exchange regime introduces distortions** (including significant smuggling of subsidized goods), deters investment, and **introduces complexity** in the measuring and forecasting of economic activity. While a sudden flotation of the FX rate is certain to deepen the economic collapse (due to the FX mismatch in BdL's balance sheet), FX unification is a desirable goal that should be achieved within the next 18 months

- **The unification of the exchange rate will not be possible unless a program is negotiated with the IMF** accompanied by a financing package
- Two of the pre-requisites before unifying the exchange rate will be to have the public debt restructured and public finances on a sustainable path together with the restoration of BdL’s solvency and ability to conduct a monetary policy

### 3.1.3 Impact

Economic
<p>Endorsement of the economic/fiscal/financing plan by the IMF, together with capital formation from the CEDRE financing and the significant reduction in the amount and servicing cost of the remaining debt will lead to:</p> <ul style="list-style-type: none"> <li>• The opportunity to re-access the capital markets as a means to fuel economic growth; and</li> <li>• Enhance Lebanon’s attraction as a destination for FDI</li> </ul> <p>The reestablishment of BdL’s solvency will:</p> <ul style="list-style-type: none"> <li>• Stimulate domestic consumption by avoiding the adverse wealth effect of a deposit nominal haircut</li> <li>• Enable BdL to follow sound monetary policy and thus halt the purchasing power erosion due to the lack of inflationary anchors</li> <li>• Reverse the direction of capital and financing flows</li> <li>• Allow banks to finance exports necessary for reserve accumulation</li> </ul> <p>The unification of the exchange rate will:</p> <ul style="list-style-type: none"> <li>• Provide a clear macroeconomic framework, halt distortions in savings and consumption patterns and foster investments</li> </ul>

### 3.1.4 Implementation timeline and responsibilities

#### Timeline

1 - Negotiate an IMF program	M1	M2	M3	M4	M5	M6	M7	M8	M9	Q4	Q1	Q2	Q3	Q4	Y3	Y4
Engage with the IMF technical staff to establish a macro-fiscal framework																
Engage in good faith negotiations with domestic private creditors and obtain an agreement in principle																
Engage in good faith negotiations with foreign private creditors and obtain an agreement in principle																
Obtain the IMF financing through exceptional access program																
Strike a deal and execute the restructuring operation by the completion of the 1st IMF program review																
Completion of the IMF program and implementation of required reforms (including unification of the exchange rate)																

#### Implementing bodies:

- Prime Minister
- Ministry of Finance
- Banque du Liban

## 3.2. REFORM #2: Reconstruction and reform of Beirut port

**Immediate**

### 3.2.1 Why?

On August 4, 2020, a massive explosion in the Port of Beirut (PoB) devastated the city, killing at least 200 people, wounding thousands, and displacing around 300,000. The cost of infrastructure reconstruction is estimated to be between USD 600m and USD 2bn.

**The PoB is the main gateway for the external trade of Lebanon, but it has failed in its key role as an enabler of economic development in the country.** Despite the growth in volumes and revenues in the port over the last 10-15 years, the PoB has failed to guarantee safe and efficient operations, and to undertake the necessary long-term planning for the benefit of the port and the nation.

**On top of the need to rebuild infrastructure, the the PoB's governance should be revamped,** as recommended by major international institutions that highlighted the negative impact of the plethora of public agencies and regulations currently underpinning the PoB's framework.

**The reform of the governance should encompass the PoB as well as the other major ports of the country,** namely that of Tripoli.

### 3.2.2 What?

**Response to immediate needs:**

- Stabilization of the damaged structures

**Establish an appropriate and robust institutional governance for the port sector:**

- Establish a national port and maritime authority responsible for strategic planning and policy-setting.
- Establish landlord port authorities for the Port of Beirut, and, if relevant, other main ports
- Have commercial operations being managed by specialist private terminal companies and licensed stevedoring operators

**Reconstruct the physical infrastructures of the PoB:**

- Execute a procurement process in a transparent and competitive manner, leveraging on the updated public procurement framework and mobilizing private sector financing

### 3.2.3 Impact

Economic
<ul style="list-style-type: none"> <li>• Enable economic development and reconnect Lebanon with the rest of the World through trade</li> <li>• Increase port revenues</li> <li>• Revitalize a large section of the capital city</li> <li>• Create job opportunities both in the short and in the long-term</li> </ul>



### 3.2.4 Implementation timeline and responsibilities

#### Timeline

2 - Reform and reconstruct the Port of Beirut	M1	M2	M3	M4	M5	M6	M7	M8	M9	Q4	Q1	Q2	Q3	Q4	Y3	Y4
Reform of the Port governance framework																
Reorganize the Customs administration																
Execute the procurement process for the reconstruction in a transparent manner																
Rebuild the infrastructures																

#### Implementing bodies:

- Ministry of Public Works and Transportation
- Ministry of the Economy
- Port administration
- Customs Administration

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### 3.3. REFORM #3: Governance and integrity legislation

**Immediate**

#### 3.3.1 Why?

**An inadequate governance framework is blamed by the international community, donor organizations and Lebanese citizens for the country’s economic and social challenges.** An IMF audit conducted during the summer of 2019 stated that Lebanon’s “high level of corruption” has severely impacted governance— and was seen as a key impediment to economic viability.

**These perceptions indeed worsened in the past two years** (Lebanon’s CPI ranking declined by 5 places in the past decade). While civil society (such as the Lebanese Transparency Association, Lebanese Oil and Gas Initiative and others) has always been vibrant, the state framework for investigating and prosecuting corruption is widely perceived as being ineffective.

**Some, but unfortunately insufficient progress, has been made last year with the passage of the Anti-Corruption Law in April 2020**, almost a decade since it was first introduced. This follows the passage in previous years of a widely hailed Access to Information and also a Whistleblowing Law, neither of which have not yet been fully operationalized.

**Financial and economic reforms, whether bearing on Lebanon’s capacity to receive and administer foreign aid, its ability to reconstruct critical infrastructure damaged by the August 2020 Beirut Port Explosion or bearing on the country’s ability to revive foreign investment (through IDAL) are all contingent on the implementation of a robust anti-corruption framework.**

#### 3.3.2 What?

- Consolidate and conduct a comprehensive review of all governance and integrity laws and regulations with a view to identify gaps (adherence to international treaties, transposition of best practices) and introduce specific proposal for rectifying them
- Conduct empirical analysis to understand how Lebanon can improve its governance perception performance (CPI and WGI analysis)
- Enhance the governance model, human and financial resources of the Anti-Corruption Authority based on the OECD/WB best practices
- Create effective mechanisms for collaboration between state and non-state actors, engaging the latter in the reform process
- Create and implement specific anti – corruption processes in high-risk sectors (oil and gas, SOEs, etc.) and activities (procurement, hiring, etc.) both at federal at municipal levels

#### 3.3.3 Impact

##### Economic

- Given that Lebanon is widely perceived as one of the more corrupt countries (149/180 ranking in the Corruption Perception Index in 2020), which undermines its attractiveness and can also deter the diaspora and other foreign investors from investing in the country
- Lebanon also ranks equally poorly on the other most authoritative governance index World Governance Indicators produced by the WB). For further info, refer to Annex.

### 3.3.4 Implementation timeline and responsibilities

#### Timeline

3 - Governance and integrity legislation	M1	M2	M3	M4	M5	M6	M7	M8	M9	Q4	Q1	Q2	Q3	Q4	Y3	Y4
Conduct a review of all governance and integrity laws to identify gaps	█															
Conduct empirical analysis to understand how Lebanon can improve its governance				█												
Review the governance model of the Anti-Corruption Authority based on OECD/WB		█														
Establish specific anti-corruption processes in high-risk sector						█										
Create mechanisms for collaboration between state and non-state actors										█						

#### Implementing bodies:

- Central Bank
- Ministry of Justice
- Parliament
- Civil society NGOs (LTA, LOGI, etc.)
- Anti-Corruption Authority

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### 3.4. REFORM #4: Reforms of Social Safety Nets - 1

**Immediate**

#### 3.4.1 Why?

The World Bank recognizes that the National Poverty Targeting Program (NPTP) has the foundational features of an effective social safety net program, including progressive targeting and information on applicant and beneficiary households. However, the current level of coverage is far from adequate to the current needs of the population. By end-2020, about 1.7 million people (45.1% of the population) are estimated to be under the World Bank-defined poverty line, of which 841,000 people (21.8%) under the extreme poverty line.

If unmitigated, the consequences of such a situation for the Lebanese population will leave deep and lasting scars and weigh on the outstanding human capital of the country, deepening social and gender inequalities, triggering a decline in school enrollment rates and fueling tensions between vulnerable Lebanese and non-Lebanese communities.

#### 3.4.2 What?

- **Assess the impact of the crisis on poverty in Lebanon to build a precise understanding of the new facets of social distress in the country, in order to reprofile the thresholds to be eligible to social allowances** (currently at 7.7 USD/day) **to widen to coverage of the social safety net, and revamp the existing instruments** for those at the bottom of the income distribution
- **Continue to deliver cash card program in cooperation with the World Bank**, as approved in mid-September 2021
- **Promote a new outreach campaign to ensure that potentially eligible households apply and to improve public awareness of the NPTP as well as of wider social protection rights.** In Lebanon, confidence towards the public administration is probably at a historical low. A communication campaign outlining the benefits provided by the existing programs as well as strengthening the administrative capacity to manage the application inflows would reinvigorate the ties between the State and the Lebanese citizens
- **Allocate additional budget resources to adequately cover the Lebanese population.** Between 2014-2016, the cumulative cost of NPTP amounted to USD 214 million, equal to around 0.41% of country's 2019 GDP<sup>2</sup>. To provide coverage to at least 150,000 households in 2021 with cash transfers large enough to provide actual relief<sup>3</sup>, 1.6% of GDP should be earmarked in the fiscal budget of 2021

#### 3.4.3 Impact

Economic
<ul style="list-style-type: none"> <li>• Reduction of poverty and extreme poverty</li> <li>• Preservation of human capital</li> <li>• Fostering consumption</li> </ul>

<sup>2</sup> Of which USD 124.2 million for E-card food vouchers, USD 62.3 million for health benefits, USD 15.7 million for education services, and the remaining USD 11.7 million for administrative expenses.

<sup>3</sup> As per 2021, we assume that a USD 175 monthly regular transfer to each household would cover the primary needs. The estimation is based on the highest amount provided by UN agencies in the forms of cash transfers to the poorest segment of the population, through its "Multipurpose Cash Assistance Program".

### 3.4.4 Implementation timeline and responsibilities

#### Timeline

4 - Expand the current outreach of social safety nets	M1	M2	M3	M4	M6	M7	M8	M9	Q4	Q1	Q2	Q3	Q4	Y3	Y4
Assess the new facets of poverty in Lebanon and reprofile the thresholds to be eligible to social allowances	█			█											
Promote new outreach campaigns	█	█	█	█	█	█	█	█	█						
Allocate additional budget to the NPTP										█	█	█	█		

#### Implementing bodies:

- Ministry of Social Affairs
- Ministry of Finance

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### 3.5. REFORM #5: Reform of the current custom tax system

Short-term

#### 3.5.1 Why?

Lebanon is plagued with the smuggling of goods to Syria through illegal border crossings. The smuggled items generally include oil derivatives, drugs, in addition to illicit drugs and weapons, on top of a variety of basic goods. This comes with three major challenges:

- **Smuggling is severely harming competition in Lebanon** as illicitly traded goods are often sold at much lower prices than local products. This in turn hampers the development of a dynamic and sound private sector in Lebanon.
- **Customs duties and VAT collection at the border are greatly impacted by undeclared trade.** Using a conservative measure which estimates that 33% of total imports consist of contraband goods, the loss in Customs and VAT income on imports would be equivalent to around USD 500 million per year. The World Bank estimates that custom taxes declined by 44% y-o-y during the first half of 2020, and it reasonably decreased by more than 50% y-o-y during the whole year 2020.
- **Declared imports of goods bought at market exchange rates are subject to Customs and VAT rates calculated at the official exchange price.** This effectively reduces VAT and Customs receipts and distorts prices in the economy.

#### 3.5.2 What?

**Combating smuggling and adopt in the short-term Customs reforms:**

- Establish control gates and strengthen supervision at the ports, the airport and checkpoints

**Align the custom duties to the devaluation of the LBP:**

- Apply the free-market exchange rate on the imported goods to calculate the VAT in order to align prices of imported goods to the one in the economy. This would not necessarily require prior exchange rates unification.

**Streamline, automatize and reduce the cost of trading across borders:**

- Adopt a Risk Management (RM) system and Post Clearance Audits (PCA) system
- Develop and implement a national e-single window for custom formalities and foster electronic payment with the update of the existing ASYCUDA-based system
- Adopt one-stop-shop procedure for container inspection in the presence of representatives of Customs and other authorities and involved parties to reduce the time and cost of clearing procedures. This would also lower the risks of corruption

#### 3.5.3 Impact

Economic
<ul style="list-style-type: none"> <li>• Improved business environment and competition given the reduced amount of smuggled, priced below-market goods</li> <li>• Easing of procedures for traders fostering import and exports activities</li> <li>• Improved border security</li> </ul>

### 3.5.4 Implementation timeline and responsibilities

#### Timeline

5 - Reform the custom administration	M1	M2	M3	M4	M5	M6	M7	M8	M9	Q4	Q1	Q2	Q3	Q4	Y3	Y4
Strengthen control gate and strengthen border supervision	■															
Update custom fees and VAT on imported good to reflect real prices in the economy	■		■													
Streamline, automatize and smoothen customs procedures				■							■					

#### Implementation bodies

- Ministry of Finance
- Customs
- Security Forces
- Airport

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### 3.6. REFORM #6: Fill the infrastructure gap

Short-term

#### 3.6.1 Why?

**Lebanon is suffering from investment gaps and ranks 130 out of 137 countries in terms of quality of infrastructure.** This hampers growth as it reduces productivity, prevents companies from investing and exporting, deters foreign investment, and reduces service delivery.

**The Capital Investment Plan (CIP) released in 2018 and reviewed by the World Bank<sup>4</sup> had outlined a strategy to address this challenge.** The COVID-19 pandemic, the blast of the Port of Beirut, as well as the default on the sovereign debt have delayed its implementation. But its recommendations have become even more urgent as country has sunk into depression.

Large capital expenditures required could be partially covered by official sector lending (including CEDRE) and by co-financing with the private sector (including through PPPs).

#### 3.6.2 What?

**Priority investments would be the enablers of growth for any economic activity. They include:**

- **Power projects and electricity grid.** It is well known and documented that the inefficiencies in Lebanese electricity system have required massive subsidies. Investments would be aiming at improving the efficiency of generation and transmission of electricity, reducing the need to resort to fuel oil, as well as developing renewable energy (see also Reform #9 on Electricité du Liban).
- **Fiber projects to enhance connectivity, as Lebanon ranks poorly in terms of digital adoption and broadband speed.** This translates into higher prices for telecommunication, directly impacting productivity and growth.
- **Transport infrastructure, which comprises the Port system destroyed in August, but also the roads and highways and railways.** To properly design and build transportation networks, a centralized authority would be required, setting an overarching strategy to ensure an efficient prioritization and phasing of the different projects based on their socio-economic value added (see also Reform #2 on the Port of Beirut).
- **Other sectors suffering from investment gaps that could be addressed in the in mid-term** include water and waste-water management, industrial zones, tourism and creativity and knowledge related investments. For these sectors a few projects have been already presented in the CIP, that could be implemented in partnership with the private sector, notably through PPPs. These projects include:
  - **Dams:** El Bared Dam, Ain Dara\*Azounieh Dam, Maaser El Chouf Dam and Lake
  - **Wastewater systems:** Qortada-Sfaileh-DeirKhouna-Hlaliyeh, Aley (Maasriti/Chourit)
  - **Other:** National Data Centers, Hazardous waste interim storage, Tripoli Special Economic Zones

#### 3.6.3 Impact

##### Economic

- Improved business environment that could attract FDI and boost growth potential
- Better living standards for the population

<sup>4</sup> Strategic assessment: A capital investment plan for Lebanon, World Bank 2018



### 3.6.4 Implementation timeline and responsibilities

6 - Fill the infrastructure gap	M1	M2	M3	M4	M5	M6	M7	M8	M9	Q4	Q1	Q2	Q3	Q4	Y3	Y4
Capital expenditures in the electricity sector																
Capital expenditures in fiber optic and connectivity																
Capital expenditures in transport infrastructures (highways, railways)																
Capital expenditures in sector-specific projects (water and waste management)																

Implementing bodies:

- Ministry of Public Works and Transportation
- Ministry of Energy and Water
- Ministry of the Economy
- Council for Development & Reconstruction (CDR)

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### 3.7. REFORM #7: Reforms of Social Safety Nets – 2

Short-term

#### 3.7.1 Why?

The current social protection landscape is threefold: targeted protection of the poor through the National Poverty Targeting Program (NPTP), programs to support persons with disabilities, and institutional care for children (both are delivered by the Ministry of Social Affairs (MoSA). Although previous governments already committed to develop a National Social Registry allowing for a swift and effective identification of needy households, results have yet to materialize.

**Synergies between the existing programs should be pursued in order to free up fiscal space to allocate the resources to the most efficient social programs.**

#### 3.7.2 What?

- **Conduct a full assessment of current measures in place provided by different line ministers**, as well as of their targets, and the allocated budgets. One priority should be to identify all beneficiaries of the existing programs and transparently publish the list of partners (NGOs, Civil Society Organizations, etc.) that partner with the government in the provision of such services
- **Set up a coordination committee across stakeholders involved**, including the World Bank and the Ministry of Social Affairs to avoid duplication and enhance the transmission of know-how
- The NPTP already disposes of an extensive database. Efforts to utilize these data beyond the program itself to inform other initiatives and refine social policies targets should be advanced.
  - For instance, better coordination and information exchange on children in institutional care and NPTP performances could be attained. Current efforts of Ministry of Interior and Municipalities and the Ministry of Social Affairs to collect information about the beneficiaries of the National Social Solidarity Program (NSSP), in the new platform “IMPACT” are very encouraging
- **All in all, these measures could free up fiscal space by means of rationalizing expenditures without cutting on existing program**

#### 3.7.3 Impact

Economic
<ul style="list-style-type: none"> <li>• The reallocation of the budget to women and children would enable to increase the number of beneficiaries.</li> </ul>

### 3.7.4 Implementation timeline and responsibilities

#### Timeline

7 - Rationalize current expenditures of social safety nets	M1	M2	M3	M4	M5	M6	M7	M8	M9	Q4	Q1	Q2	Q3	Q4	Y3	Y4
Conduct an audit of existing allowances	■	■														
Identify regulations to be updated			■													
Decide on a pace to phase out overlapping allowances				■	■											
Enact updated regulation						■	■									

#### Implementing bodies

- Ministry of Social Affairs
- Ministry of Finance

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### 3.8. REFORM #8: Reforms of Electricité du Liban (EdL)

Short-term

#### 3.8.1 Why?

In recent years annual Treasury transfer to EdL ranged between USD 1.2 to 2.3 billion. This huge drain on the country's finances is mostly due to high generation costs (primarily due to continuing reliance on temporary generation solutions, such as the power barges, and the consumption of expensive heavy fuel oil and diesel oil, instead of gas for the existing power plants), the sector's operational inefficiencies (primarily due to high network technical losses, nontechnical losses and inadequate billing collection), and lack of proper governance.

The resulting electricity shortages coupled with the sustained financial losses of EdL and implicit subsidies hamper economic growth through distortive effects on investors' confidence, through disruptions of the value chain due to insecurity in the production of goods and services and through continuous fiscal burden. They also contribute to amplify inequalities, further impacting poorer households already severely hit by the crises the country is facing.

#### 3.8.2 What?

**Establish a regulatory authority overseeing the electricity sector (modernize Law 462/2002):**

- Immediately apply Law 462/2002 without amendments and prepare the required secondary legislation that may be needed. This must include the establishment of an autonomous and independent Electricity Regulatory Authority (ERA), and should be followed, as per the Law, by a mandatory audit of EdL and the freezing, reviewing and undertaking of audits of all electricity contracts, together with a rationalization of current expenses for EdL's personnel

**Redesign the system of subsidies provided to end-users:**

- Conduct tariff adjustments aiming at financial sustainability of EdL and increasing cost recovery
- Integrate a comprehensive approach to design a social safety net and targeted smart subsidies to protect the poorest groups affected by the tariff adjustments

**Update EdL's infrastructure to guarantee financial sustainability and operations while progressively integrating natural gas and renewables in the energy mix:**

- Lebanon needs around 1500 MW of power generation capacity on top of the current 2060 MW installed capacity. Hence, it is vital to advance electricity grid rehabilitation, applying smart grid accounting for the integration of renewables in the energy mix and adopt natural gas for power generation
  - Provide subsidies to install off-grid solar panels that are self-sufficient on a standalone basis. This would entail larger initial capital spending for the end-consumer (who would borne the installation costs together with the cost for the solar panel and the battery)
  - These costs would be eventually offset by the zero-cost for generation and distribution (excluding maintenance cost)
- With respect to distribution, the deployment of smart distribution systems is also encouraged together with the installation of modern meters to improve billing collection
- Financing for these infrastructure investments in the short- and medium-term should be secured through bilateral and multilateral credit lines, since International Private Producers (IPPs) will be reluctant to invest in Lebanon in the short-term

### 3.8.3 Impact

Economic
24h access to reliable electricity provision coupled with a reduction of fees to private generators companies would spur productivity, consumption, investments and ultimately economic growth

### 3.8.4 Implementation timeline and responsibilities

#### Timeline

8 - Reform EdL	M1	M2	M3	M4	M5	M6	M7	M8	M9	Q4	Q1	Q2	Q3	Q4	Y3	Y4
Establish the regulatory authority (ERA)	■															
Undertake audit of EdL and rationalize current expenditures on personnel		■	■													
Redesign the system of subsidies				■	■	■	■	■								
Install new generation capacity and update current infrastructures									■	■	■	■	■	■	■	■

#### Implementing bodies:

- Parliament
- Ministry of Energy and Water
- EdL
- Newly established ERA

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### 3.9. REFORM #9: Fiscal consolidation – Revenues increase

Short-term

#### 3.9.1 Why?

In the current context, the government should endorse a multi-annual economic adjustment program aiming to **dispel uncertainty, restore stability, and provide the foundations for a new era of robust and inclusive economic growth.**

**The primary goal of the economic adjustment program should be to set fiscal policy on a sustainable track.** A new fiscal strategy should have the ambition to reverse the adverse dynamics of the debt-to-output ratio through a combination of revenue and expenditure measures. **A sustained commitment to correcting fiscal imbalances after several years of economic mismanagement will be key to enhance the credibility of fiscal policy, restore economic confidence, and support the gradual return of the country to international capital markets at sustainable rates.**

**Overall, the large fiscal consolidation program should be extended over a number of years and should be grounded on realistic fiscal targets and credible parametric expenditure and revenue measures.** In addition, given the enormous increase of poverty rates, tax hikes should be calibrated to ensure progressivity and protection for the most vulnerable households.

#### 3.9.2 What?

Revenue measures could include:

- **Higher indirect tax revenue** stemming from an increase of VAT from 11% to 16% from end-2021 and the elimination of certain VAT exemptions, partly introduced in 2022, and fully implemented from 2023 onwards;
- **Higher direct tax revenue**, stemming from increasing the income tax on capital gains from 10% to 15% and maintaining and increasing the tax on interest income from 10% to 12%.
- **Introduction of a one-off wealth tax levied on taxable wealth** (including real estate, financial assets, and mobile assets) on wealth valued at more than a given threshold. Such one-time levy should be promoted as a matter of national unity, stressing its non-recurrent and exceptional nature, while providing the highest degree of clarity when it comes to the expenses financed by such levy. The tax rate should be proportional and range between 1% and 3%.

#### 3.9.3 Impact

Economic
<ul style="list-style-type: none"> <li>• Initially it may have repercussions on private consumption given the impact of VAT on prices and the impact of higher direct tax hikes on disposable income</li> </ul>

### 3.9.4 Implementation timeline and responsibilities

#### Timeline

9 - Revenues mobilization	M1	M2	M3	M4	M5	M6	M7	M8	M9	Q4	Q1	Q2	Q3	Q4	Y3	Y4
Introduce a one-off wealth tax																
Higher indirect tax hikes																
Higher direct tax hikes																

#### Implementing bodies:

- Ministry of Finance
- Parliament

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### 3.10. REFORM #10: Fiscal consolidation – Expenditures reduction

Short-term

#### 3.10.1 Why?

The share of government expenditures – and, in particular, the share of social welfare expenditures – to GDP is already relatively low (even lower if Treasury advances to EdL are excluded). Reducing it further would leave key sectors, such as health, education, and social protection, without vital resources with severe implications for social cohesion and stability.

**There is however significant scope for rebalancing public expenditure by reallocating resources away from areas with low expected social returns to areas with potentially high social and economic returns.** The rebalancing of public expenditure by gradually reallocating towards widening, reshaping and strengthening the country’s social safety net should be a key component of the fiscal consolidation plan.

#### 3.10.2 What?

Expenditure measures could include:

- **Implementation of the, already legislated, electricity sector reform**, which will eliminate all state subsidies to Electricité du Liban (‘EDL’) by 2024 (for more details see Reform #9);
- **Measures targeted at the reduction of the wage bill**, related to the freezing of military headcount, as well as the revision of the package of benefits for high-ranking military;
- **Revision and proper implementation of measures on military retirement;**
- **A comprehensive spending review** across all departments of central government and state-owned enterprises aiming to yield savings of at least 0.5% of GDP.

#### 3.10.3 Impact

Economic
<ul style="list-style-type: none"> <li>• The expenditure rationalization exercise should not have a strong impact on economic activities, if well calibrated</li> <li>• On the other hand, its long-term benefits are larger fiscal space going forward, a more reliable public administration and more efficient processes</li> </ul>

#### 3.10.4 Implementation timeline and responsibilities

Timeline	M1	M2	M3	M4	M5	M6	M7	M8	M9	Q4	Q1	Q2	Q3	Q4	Y3	Y4
<b>10 - Expenditures rationalization</b>																
A comprehensive spending review across all departments of central government and SOEs																
Start reprofiling EdL advancements																
Reduce wage bill in the public sector																
Revision of measures on military retirements																

Implementing bodies:

- Ministry of Finance
- Parliament



### 3.11. REFORM #11: Public debt restructuring

Short-term

#### 3.11.1 Why?

Lebanon's public debt burden is unsustainable and the country is in default on its external debt.

Lebanon needs balance of payment support from the IMF and other multilaterals and infrastructure financing from the CEDRE conference to restore confidence in its economy and rebuild a future. Both, and the subsequent access to credit markets, will be contingent on:

- Debt relief sufficient to restore debt sustainability; and
- Good faith negotiations with Lebanon's private creditors

Restructuring Lebanon's public debt would address those two points.

#### 3.11.2 What?

##### 3.11.2.1. Domestic debt

- **LBP denominated debt does need to be restructured.** Although prior to the default domestic debt represented 63% of the total public debt burden, its weight has shrunk due to inflation and devaluation. This total would be further reduced after completing the LIC debt exchange transaction. Finally, domestic debt is relatively small and coupons are actually negative in real terms.
- **Establish the Lebanese Investment Corporation ('LIC') as a Lebanese S.a.l.** that would pool State assets. The State would remain the owner of the assets, but the LIC would be in charge of managing them to maximize their monetization to discharge BdL of all Lebanese-law claims held against the Government of Lebanon.
- The operation would unfold as follows:
  - **Issue 100% of the LIC's common stock to the Government of Lebanon in exchange for Lebanon's ownership/domain on SOEs, Inland real estate, Coastal land**
  - **Issue 100% of the LIC's non-voting preferred stock to BdL in exchange for the total and final discharge of all Lebanese-law claims against Lebanon held by BdL**
- The actual implementation of the LIC should start with a clear valuation of the value of State's assets

##### 3.11.2.2. External debt

- **USD 30 billion of Eurobonds need to be restructured** through a combination of principal reduction, coupon relief, and maturity extension
  - Of the total Eurobonds outstanding, about USD 5 billion is held by BdL, c. one third is owed to Lebanese banks, and the balance to foreign creditors (mostly institutional investors and private banking clients)
- **The guiding principle of the public sector debt restructuring** is that, given an agreed path of projected primary surpluses and economic growth, the debt ratio should have a downward-sloping trajectory and target sub-100% levels within a 10-year forecasting horizon
- **Concretely, the process starts with the negotiation between the Government and private creditors, which ought to be in good faith to unlock IMF funding, and a financial**

transaction when an agreement is reached that results in a significant reduction of the debt burden.

### 3.11.3 Impact

Economic
<p>The reestablishment of BdL’s solvency will:</p> <ul style="list-style-type: none"> <li>• Stimulate domestic consumption by avoiding the adverse wealth effect of a deposit haircut</li> <li>• Enable BdL to follow sound monetary policy and thus halt the purchasing power erosion due to the lack of inflationary anchors</li> <li>• Reverse the direction of capital and financing flows</li> </ul> <p>Allow banks to finance exports necessary for reserve accumulation</p> <p>The restructuring in good faith of external government debt will be conducive to the endorsement of the economic/fiscal/financing plan by the IMF. This, together with capital formation from the CEDRE financing and the significant reduction in the amount and servicing cost of the remaining debt will lead to:</p> <ul style="list-style-type: none"> <li>• The opportunity to re-access the capital markets as a means to fuel economic growth; and</li> <li>• Enhance Lebanon’s attraction as a destination for FDI.</li> </ul>

### 3.11.4 Implementation timeline and responsibilities

#### Timeline

11 - Restructure Lebanon Government debt	M1	M2	M3	M4	M5	M6	M7	M8	M9	Q4	Q1	Q2	Q3	Q4	Y3	Y4
Assess the exact value of State assets																
Engage in good faith negotiations with domestic private creditors and obtain an agreement in principle																
Engage in good faith negotiations with foreign private creditors and obtain an agreement in principle																
Establish the LIC																
Proceed with the financial operation to restore BdL's solvency																
Strike a deal and execute the restructuring operation																

#### Implementing bodies

- Prime Minister
- Ministry of Finance
- BdL

### 3.12. REFORM #12: Streamline procedures to start a business

Short-term

#### 3.12.1 Why?

The unemployment rate is set to reach unprecedented record, already hovering above 30% with youth unemployment being even higher (the World Bank estimated in December 2020 that 40% of youth is neither in employment nor in education or training). Providing a more friendly regulation to favor entrepreneurship should be an absolute reform priority.

Countries with heavier regulation of business entry have higher corruption and larger unofficial economies, but not better quality of public or private goods. **Simplifying entry thus helps entrepreneurship and reduces corruption.**

#### 3.12.2 What?

To facilitate the process of starting a business:

- The minimum capital requirement of LBP 5 million for establishing a new company can be eliminated, as did Turkey and Egypt in 2018
- Also, several procedures can be merged to simplify the process:
  - It takes 8 steps in Lebanon versus 6 on average in the region to create a company
  - For instance, all the steps performed by the Ministry of Finance could be merged (Notifying the creation of the company, registering the company at the National Social Security Fund and Registering for VAT)

In addition, entrepreneurship programs (such as Berytech, South Bic, BIAT, etc.) should be more closely coordinated. These programs need to be reinvigorated and provided with additional resources, especially in scale-up, access to foreign markets, knowhow, and general business advice.

Finally, Lebanon could set up a dedicated governmental body, with a solid governance structure and effective management to advance and monitor business environment reforms.

#### 3.12.3 Impact

<b>Economic</b>
Facilitating the starting of a business would enable higher job creation, consequential unemployment reduction and yield higher GDP growth

#### 3.12.4 Implementation timeline and responsibilities

Timeline																
12 - Reduce the cost and procedures to start a business	M1	M2	M3	M4	M5	M6	M7	M8	M9	Q4	Q1	Q2	Q3	Q4	Y3	Y4
Eliminate the minimum capital requirements to start a business																
Merge the administrative procedures at the MoF																
Coordinatin of public and private entrepreneurship programs																

#### Implementing body

- Minister of Finance
- Minister of Economy
- Investment Development Authority in Lebanon

## 4. Other reforms that should be considered for the medium- and long-term vision of Lebanon

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### SUPPORT TO BUSINESSES

The end-game of any plan for Lebanon should be to kick-start the real economy, as no well-being for households nor sustainable financial stability can be expected without sound businesses. Focusing only on the public debt restructuring and on the banking sector consolidation would be short-sighted. Thriving corporate sector would create jobs, alleviating poverty; pay taxes, balancing the government budget; and export, addressing the balance of payments challenges.

However, the challenge is daunting as it consists not only in addressing the current crises but also in reversing trends Lebanon experienced since the 2010, with below par growth and productivity gains. Supporting businesses in an efficient manner therefore requires revamping the overall growth engine of the country, with many interlinkages between suggested measures.

Medium- and long-term reforms contributing to this objective, that are included in this plan, can be clustered into three categories:

1. **Transversal enablers:** business cannot be competitive without good infrastructure and good connectivity. This is why filling the infrastructure gap is amongst the top priorities and initiatives to be launched as soon as possible (Reform #6), while working on the framework of telecommunication should follow shortly after (Reform #14). Finally, a well-functioning financial sector allowing companies to access funding easily and at a reasonable cost is a necessity (Reforms #1, 11, 30, 31, 32).
2. **Sectoral reforms:** Lebanon already enjoys well-developed sectors on which it could build to speed up and consolidate its recovery. These sectors should contribute to boost export as well as create jobs. Tax incentive could be implemented in most export-oriented industries such as industrial electrical machinery and equipment (Reform #26) to further accelerate their growth. In parallel, Lebanon boasts vast arable lands that should be leveraged to develop the agriculture sector (Reform #13), a well-educated workforce able to success in the knowledge economy (Reform #18), and an attractive coast and rich history that can underpin the development of tourism (Reform #29).
3. **Regulatory reforms:** Beyond industrial policies and public investment plans, companies first and foremost require a stable, simple and predictable regulatory environment. Lebanon's performance on that front has been deteriorating over the past decade and needs to be strengthened, at least aiming at meeting regional best-practices. The reforms would include in priority the simplification of the process to start a business (Reform #12), but also the streamlining of the procedures to get a construction permit (Reform #15), to register property (Reform #16), and to strengthen non-financial corporate governance (Reform #17). In parallel, transparent and accountable institutions will provide businessmen and investors with the required level of confidence (Reforms #3, 33, 35, 36, and 37).

## 4.1. REFORM #13: Upscale the agriculture value chain

Medium-term

### 4.1.1 Why?

Lebanon has very large amount of arable land and has therefore the potential to become one of the main suppliers of high-quality fruits and vegetables to the region. During the last decade, agriculture contributed to around 4.5% of Lebanon's GDP and employed around 4% of the employed labor force (c. 60,000 workers). The production of crops is concentrated on potatoes, tomatoes and cucumbers, although coffee and grapes constitute the main agriculture exports. Exports of agricultural products have been on the rise over the last couple of years reaching USD 193.1 million in 2019 mostly driven by increasing demand from Gulf countries for fresh products. Arab countries remain Lebanon's main export markets for agricultural products, accounting for 77.8% of total exports in 2019, including KSA (22%), Qatar (17%) and Syria (12%).

The development of the sector, which should be considered highly strategic given its potential export rebound and its strategic role domestically, is hampered by many obstacles.

- Fierce **illegal competition** with smuggled products from Syria
- **Lack of access to credit** in a context where SMEs in the sector are already highly dependent on borrowing (particularly for pesticide and other chemicals)
- Very large share of **small farms** (more than 90% of enterprises in the sector)
- Lack of effective government support amid **absence of strategic planning and investment**

### 4.1.2 What?

The **persistent trade deficit registered in the sector could now be reversed**. Considering the strong depreciation of the LBP, if coupled with the right reforms, Lebanon can expect a boost in agriculture, and possibly regional trade. Reforms of the agriculture sector include:

- Support a transition from low-return traditional crops towards **higher-value crops** such as kale, little gem lettuce, blueberry, raspberry, passion fruit, seedless grapes, and jujube. This could be achieved by providing incentives, information, consultancy, training, and seeds of the new varieties to farmers
- Promote **smart farming** to boost yield and provide training and assistance to upscale the quality and quantity of production while at the same time design a comprehensive export development strategy that should be focused on renegotiations of transit fees and accumulation of economies of scale
- **Negotiate with countries of transit** trade by land (mainly Syria) to lower transit fees to facilitate exports to Jordanian, Iraqi, and Gulf markets. At the same time reinforce customs control and fight products smuggling from Syria
- **Develop specific partnerships with relevant countries**, such as the Gulf Cooperation Countries, to develop sub sector such as sustainable agriculture
- Provide **guarantees and co-financing instruments** for the acquisition of new technologies and supporting research facilities
- Build new roads in remote agricultural areas and **implement PPP program for investment in marketing infrastructure**

### 4.1.3 Impact

Economic
<ul style="list-style-type: none"> <li>• Ensure food supply to the country</li> <li>• Reverse the current account deficit</li> <li>• Attract more Foreign Direct Investments</li> <li>• Create additional employment while gaining productivity gains</li> <li>• Agriculture used to grow at an average of c. 2% p.a.<sup>5</sup></li> </ul>

### 4.1.4 Implementation timeline and responsibilities

#### Timeline

13 - Upscale the agriculture value chain	M1	M2	M3	M4	M5	M6	M7	M8	M9	Q4	Q1	Q2	Q3	Q4	Y3	Y4
Support a transition from low-return crops to higher value ones																
Promote smart farming (including through guarantees and co-financing instruments) while designing a comprehensive export development strategy																
Renegotiate with transit countries lower fees to facilitate exports																
Build new roads in remote agricultural areas																

#### Implementing bodies

- Ministry of Agriculture
- Ministry of the Economy
- Customs Administration
- Ministry of Public Works

<sup>5</sup> 2010 – 2019 average

## 4.2. REFORM #14: Reform of the Telecom sector

Medium-term

### 4.2.1 Why?

The **Lebanese telecom sector is characterized by high tariffs, lack of transparency and low quality of the services**: Lebanon ranked 95 out of 141 countries in ICT adoption in 2019, according to the World Economic Forum, and 195 out of 221 countries in broadband speed in 2020 according to Cable’s Worldwide Broadband Speed League. Moreover, mobile data and voice prices are about 2–3 times its regional peers.

**Current telecom Law n. 431 (2002) should be updated to ensure a quality framework to the fast-evolving sector, and to guarantee citizens access to high-speed, reliable, and affordable broadband.** Any potential revision should address the sector’s regulatory framework and the emergence of new services and business models.

### 4.2.2 What?

- Establish and strengthen the **telecom regulatory authority**
- Ensure a continuous and **priority supply of diesel** to telecom operators to avoid service interruption
- Accelerate the **fiber optic project**. Provide financing to contractors working on the project. This will enable them to pay for imports of the needed material to deploy the fiber optic network
- **Review the Telecom Law** (Law n. 431) to advance the process of liberalization of the sector – and more generally review the governance of the sector and of major operators

### 4.2.3 Impact

Economic
<ul style="list-style-type: none"> <li>• Improved access to internet stemming from higher-speed infrastructures and lower costs could have disruptive effects for the Lebanese economy</li> <li>• ICT adoption and faster connection would foster economic activities and attract FDI</li> </ul>

### 4.2.4 Implementation timeline and responsibilities

#### Timeline

14 - Reform of the Telecom sector	M1	M2	M3	M4	M5	M6	M7	M8	M9	Q4	Q1	Q2	Q3	Q4	Y3	Y4
Appoint the Telecom regulatory authority																
Ensure continuous and reliable supply to telecom operators																
Accelerate and develop the fiber optic project																
Review the Telecom Law (n. 431)																

#### Implementing bodies

- Ministry of Public Works and Transport
- Ministry of Telecommunications
- Ministry of Finance
- Ministry of the Economy and Trade

### 4.3. REFORM #15: Streamline requirements for construction permits

Medium-term

#### 4.3.1 Why?

In Lebanon, at present, 22 procedures are needed to acquire a construction permit, as compared to an average of 16 in the region. As a result, it takes more than nine months to secure a construction permit in Lebanon, i.e., more than the double that in the rest of the region. In Jordan for instance, the process takes only two months.

**The result is older housing infrastructure, and the associated health and safety problems that come with it. A significant boost to GDP growth and employment would also be unlocked with smoother procedures.**

#### 4.3.2 What?

Several procedures can be merged, the time for administrative approvals can be cut by a third, and costs can be halved. These steps will bring Lebanon to the average of the Middle East and North Africa region, with further possibilities for improvement available. For example, the builder needs a topographic study and a geotechnical/soil test in two separate procedures, requiring 22 days. These procedures can be combined with the procedure for obtaining a planning certificate from the municipality.

#### 4.3.3 Impact

Economic
<ul style="list-style-type: none"> <li>Modernizing the stock of existing housing and business infrastructure creates construction jobs and has a multiplier effect on other sectors such as transport and furniture</li> </ul>

#### 4.3.4 Implementation timeline and responsibilities

Timeline

15 - Streamline requirements to get a construction permit	M1	M2	M3	M4	M5	M6	M7	M8	M9	Q4	Q1	Q2	Q3	Q4	Y3	Y4
Merge some of the current 22 procedures																
Implementing bodies:	<ul style="list-style-type: none"> <li>Ministry of Infrastructure</li> </ul>															



## 4.4. REFORM #16: Ease private property registration

Long-term

### 4.4.1 Why?

The massive reconstruction efforts to private property that are needed in Beirut after the port blast would be made easier should the process for private property registration be eased. Such simplification may encourage more families and businesses to improve their properties, resulting in higher property valuations and better returns on savings into real estate.

### 4.4.2 What?

Registering property could be significantly eased, as it requires 37 days in Lebanon versus 17 in Jordan, and costs 6% of the property value to be compared with 1% in Egypt. Lebanese quality of land administration lags behind regional peers, far below regional average.

These reforms could go hand in hand with facilitating the delivery of a construction permit.

In parallel, Lebanon could launch a review of the land cadastre to cover the whole territory in a transparent manner.

### 4.4.3 Impact

Economic
<ul style="list-style-type: none"> <li>The main benefit of simplified procedures on registering and re-registering property is increased valuations of housing and business property. This increased valuation, in turn, provides better return on savings of the population.</li> </ul>

### 4.4.4 Implementation timeline and responsibilities

Timeline

16 - Ease private property registration	M1	M2	M3	M4	M5	M6	M7	M8	M9	Q4	Q1	Q2	Q3	Q4	Y3	Y4
Reduce the number of practices to register a private property																

Implementing bodies:

- Ministry of Infrastructure
- Ministry of Economy and Trade

## 4.5. REFORM #17: Strengthen governance in the non-financial sector

Long-term

### 4.5.1 Why?

Key corporate governance provisions in Lebanon are enshrined in the Code of Commerce (CC) which establishes basic standards, notably with respect to board composition, remuneration and liability. **Considering that the law is dated, several of its provisions are not in line with internationally recognized corporate governance practices.**

Strengthening minority shareholders protection may bring more capital investments into the reconstruction and rehabilitation efforts of the government, particularly from diaspora investors. **It is a much-needed reform considering the investment gap and financial shortage of foreign currency Lebanon is facing.**

**Reforming the corporate non-financial sector governance and strengthening minority shareholders rights would thus contribute to enhance transparency and accountability, which are critical to the reconstruction of the country.**

### 4.5.2 What?

- Revise CC's provisions on unlimited personal liabilities
- Establish corporate governance code/guidelines in line with international best practices (with respect to the percentage needed to call general and extraordinary shareholders' assemblies, notifications for shareholders' meetings, etc.)
- The regulators might wish to consider introducing more rigorous provisions, at least for non-executive and independent directors, by limiting the number of concurrent board appointments they may hold. Also, the tenure of independent directors should be limited
- Minority investors' protection can be improved in Lebanon, in particular in the area of corporate director liability (more limited in Lebanon versus Turkey and Saudi Arabia), shareholders' rights (presence of audit committees like in Turkey), and corporate transparency (e.g., disclosure of individual managers' compensations, or board members' primary employment and directorships in other companies).

### 4.5.3 Impact

#### Economic

- Increased protections for investors may bring much-needed diaspora money to the reconstruction and rehabilitation efforts. Such investments, particularly in basic infrastructure, have a large multiplier effect, in the order of 1:4 to 1:6

#### 4.5.4 Implementation timeline and responsibilities

##### Timeline

17 - Strengthen governance in the non-financial sector	M1	M2	M3	M4	M5	M6	M7	M8	M9	Q4	Q1	Q2	Q3	Q4	Y3	Y4
Revise CC's provisions on unlimited personal liabilities																
Establish corporate governance code/guidelines aligned with international best practices																

##### Implementing bodies:

- Ministry of Justice
- Ministry of Finance

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## 4.6. REFORM #18: Establish Lebanon as a Knowledge economy

Long-term

### 4.6.1 Why?

The current situation poses several challenges to the development of Lebanon’s knowledge economy, meaning growing activities that would build on Lebanese population human capital. In particular, sub-par connectivity infrastructure and weak domestic demand for innovation hamper this sector to thrive as it could. While Lebanon is not yet recognized as a destination for outsourcing industries, it possesses key assets, namely the strong universities and competitive creative industries (fashion, film) necessary to gather strong international recognition.

**Yet, Lebanon has the potential to, within five years, almost triple the knowledge industries’ contribution to GDP and employment.** This growth will be unleashed by the potential of its human capital to become a regional leader in FinTech, CreativeTech, EduTech, and HealthTech through strong adoption across priority economic sectors. In parallel, the country will be in a position develop a regionally renowned outsourcing sector with brand recognition, attracting the establishment of multinational companies’ outsourced operations. An aggressive marketing and commercial strategy could be envisaged for the highest value-added sectors and activities such as specific niches in creative industries, finance, and education.

The development of knowledge-intensive activities would also contribute to slow down the brain drain and the exile of talented young population out of the country.

### 4.6.2 What?

- **The development of the knowledge economy would benefit from many other reforms**, such as an upgrade of connectivity speed and reliability to regional standards (see Reform #14), the creation of a robust corporate governance regime (see Reform #17 and #36), and the development of local capital markets (see Reform #32), in particular to grow a venture capital industry in the mid- to long-term
- **The government can also support the development of tech start-up through specific procurement rules** to implement its e-government strategies with as many local firms or the enactment of regulatory reforms to enable and facilitate cross-border digital payments
- **Financial incentives could be considered**, such as the establishment of tech parks, tax expenditures on R&D spending by companies, or the increase of relevant budget lines
- **An International Nation branding effort**, with the promotion of Lebanese universities abroad to attract foreign students, or the creation of a “LebTech” label once the knowledge economy ecosystem is ready

### 4.6.3 Impact

Economic
<ul style="list-style-type: none"> <li>• Increase employment rates and foster economic activity</li> <li>• Halt the brain drain and retain high skilled labor force in the country</li> <li>• Support export and the current account</li> <li>• ICT sector used to account for c. 2%, health c. 3%, education c. 7% p.a. and financial services c. 8% p.a.<sup>6</sup>.</li> </ul>

<sup>6</sup> 2010 – 2019 averages

#### 4.6.4 Implementation timeline and responsibilities

##### Timeline

18 - Knowledge economy	M1	M2	M3	M4	M5	M6	M7	M8	M9	Q4	Q1	Q2	Q3	Q4	Y3	Y4
Specific procurement rules for tech-related tenders to the benefit of domestic firms																
Set up financial incentives																
Brand internationally "LebTech"																

##### Implementing bodies

- Council of Ministers
- Ministry of Economy and Trade
- Ministry of Communications
- Ministry of Foreign Affairs

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## SUPPORT TO HOUSEHOLDS

**The Lebanese population is going through a plight it was not prepared for and the social consequences of the crises will leave lasting scars on individuals lives and families.** Decisive, bold and ambitious actions are needed to alleviate this overwhelming burden. Supporting households also nurtures the economic recovery, as consumption has accounted for more than 100% of GDP for years in Lebanon. More generally, well established academic literature has evidenced the positive economic impact of having a healthy and well-educated population. Finally, Lebanon is more exposed to social unrest than other countries, for a series of obvious historical and geopolitical reasons, and cannot afford to further deteriorate the security, become hostage of foreign diplomatic strategies, or even fall into civil-war kind of context.

The reforms outlined in the plan can be clustered along these three lines:

1. **Alleviating poverty** with an expansion and an improvement of the social safety nets currently in place in Lebanon. This includes both ensuring more citizens are eligible to the existing schemes and streamlining the intervention of the national and international stakeholders, including the World Bank and NGOs. Such initiatives, already underway with the support of multilateral institutions, should be launched as soon as possible (Reforms #4 and 7). In the medium-term, fighting informality would also widen the access to social safety nets, besides bolstering the government's income and supporting the productivity of the economy (Reform #20).
2. **Ensuring decent working conditions and remuneration** as the depreciation of the LBP has dramatically reduced the purchasing power of the population. Additionally, most companies have been constrained to lay off part of their work force and/or curb salaries. Relevant measures in that regard can include both a reform of the labor market designed to facilitate hiring and increasing the minimum wage, amongst other things (Reform #21), and facilitate the creation and development of declared micro-firms through the expansion of Lebanese micro-credit activities, with banks supports (Reform #23)
3. **Strengthening Education, Hygiene, and Health.** Some activities are both economic sectors that can contribute to growth and key to make live in Lebanon attractive. These include in particular the Education, which is particularly critical to fuel the development of a knowledge economy in Lebanon over the medium-term and to reverse the deterioration of Lebanese performance in international indices (Reform #22), Health, in particular in the aftermath of the pandemic (Reform #19) and the Water and Waste Management system (Reforms #24 and #25).

## 4.7. REFORM #19: Reform of the Health sector

Medium-term

### 4.7.1 Why?

During the last decades, Lebanon has been recognized for having taken many steps to strengthen its health service provision; In 2018, it ranked 33<sup>rd</sup> among the 195 economies listed in the Healthcare Access and Quality Index, being the first in the region.

However, the crisis highlighted that many challenges remain. Healthcare service is provided primarily by private hospitals, with public hospitals accounting for c. 18% of the total hospital beds and many medications remain unaffordable for low-income patients, which are served by networks of NGOs offering essential medications diseases free of charge. The cost of healthcare goods and services has been covered in the following manner: MoPH (21.4%), National Social Security Fund (23%), Private Insurance (19.1%), NGOs (3.1%), Out-of-pocket expenses (33.1%).<sup>7</sup>

Given the large increase of unemployment, fewer people will be covered by the NSSF going forward and will rely on the MoPH to cover their health expenses; at the same time fewer people will be able to afford the premiums for private insurance schemes and out-of-pocket expenses are set to rapidly grow.

### 4.7.2 What?

Short-term policy actions:

- **Reconstruct health facilities** heavily damaged by the August 4<sup>th</sup> explosion
- Establish **financing instruments for pharmaceutical and medical imports**
- Clarify the mechanism and the time schedule for **paying dues owed by insurance companies** to hospitals
- Enhance primary and urgent care by providing **additional financial support to primary healthcare centers** distributed across the country. Currently, 80% of healthcare centers is managed by NGOs
- Adopt policies to **prevent readmission**<sup>8</sup>, in particular through improved patient education and medical follow-up through primary care providers instead of hospitals

Medium- and long-term policy actions:

- Establish a multi-stakeholder **health coordination platform** with balanced representation of civil society and other relevant stakeholders to ensure the transparency, effectiveness, and efficiency of the health response, particularly of the use and allocation of existing subsidies
- **Clear government hospitals arrears**
- **Reduce cost of hospitalization for the MoPH:**
  - Negotiate better prices when buying generic drugs
  - Revise method to determine ceilings for funds allocated to hospitals by the Minister of Public Health for payment of hospitalization cost to citizens not covered by NSSF. Criteria to take into account in order to match the ceilings to the real needs of each hospital include geographic location, demographics, and provided services

<sup>7</sup> Latest data point being 2017. People who do not qualify to benefit from the employment funds (NSSF) and who do not have the means to obtain private health insurance are in principle covered by MoPH. In addition, since 2016, all Lebanese senior citizens (65 years and above) are in principle covered by the MOPH for hospitalizations ("Decree number 109 by MoPH, Change in Proportion of Health Coverage")

<sup>8</sup> being the hospitalization of a patient within a short period of time after discharge from an initial hospitalization for the same diagnosis, or as a consequence of that diagnosis

- **Digitize operations at NSSF** to speed up procedures and reduce errors, cost, and corruption
- Develop a phased **universal health coverage** strategy to progressively expand beyond primary health care access for the most vulnerable

### 4.7.3 Impact

Economic
<ul style="list-style-type: none"> <li>• Improve life expectancy</li> <li>• Enhance access to healthcare services</li> <li>• Reduce income and structural gaps</li> </ul>

### 4.7.4 Implementation timeline and responsibilities

#### Timeline

19 - Reform of the health sector	M1	M2	M3	M4	M5	M6	M7	M8	M9	Q4	Q1	Q2	Q3	Q4	Y3	Y4
Reconstruct health facilities damaged by the Port explosion																
Establish financing instruments for importing medical and pharmaceutical products																
Enhance primary and urgent care units and adopt policies to prevent readmission																
Establish a multi-stakeholder health coordination platform																
Clear government arrears to hospitals																
Reduce cost of hospitalization for the MoPH																
Digitalize operations at NSSF																
Develop a phased universal health coverage strategy																

#### Implementing bodies:

- Ministry of Public Health



## 4.8. REFORM #20: Reduce the size of the informal sector

Medium-term

### 4.8.1 Why?

Informality looms large in Lebanon – self-employment in the country was officially at 36.5% of total employment in 2018, before the pandemic. **And around 60% of economic activity, in terms of money exchanging hands, in Lebanon is informal.** A key challenge for the government is to focus fiscal incentives toward jobs in the formal sector.

**The challenge is widespread in the MENA region**, which has to take steps to move away from the corrosive duality of a split informal and formal society. The pandemic has pushed even more businesses into the informal sector, creating a larger source of social unrest than before the COVID-19 crisis emerged.

**Small firms are reluctant to register and formalize their activities, largely because they see registration as having few benefits.** Among larger informal firms, the time, fees, taxes, and inspections that registering involves also matter for their decision to remain informal, indicating a propensity to opt out of the formal sector as a mechanism to escape policy enforcement. According to the World Bank, three-quarters of informal owners in 2018 report that they do not register their firm because they see no real benefits to registration. The other main reasons given are the time and fees involved with the process and higher taxes.

### 4.8.2 What?

- **In the short-term, regulatory reforms and communication campaigns should be prioritized.** Information interventions would provide informal firms with information regarding the registration process and the benefits of registration, including for instance, protection of the firm business name better access to loans, and limited liabilities. Information campaign are more impactful when combined with simplification of the procedures which could simplify the ease of starting a business.
- **In the medium- to long-term, further incentives, including financial ones, could be enacted to strengthen the coverage rate.** Tax incentives/social security reduction would reduce the “cost of being formal”. An example is the SIMPLES reform in Brazil 1997 whereby six different federal taxes and social security contributions were combined in one unique discounted monthly-based rate. Other measures could include the conditionality of social benefits upon the regularization of the worker’s situation. In parallel, fines and penalties against firms relying on undeclared work could be increased as a deterrent.

### 4.8.3 Impact

#### Economic

- The programs to increase formalization will bring more benefits to workers, will support the development of the private sector, with businesses that can participate in regional or global value-chains.
- Only formal firms can grow by using various financing schemes supported by the government.
- Such programs would have more impact if they were combined with policies to improve access to finance, reduce taxes, and simplify tax procedures for small firms. Informal entrepreneurs see the main benefits to formalizing as being to improve access to finance (nearly half the firms), to be able to issue receipts and attract customers, and to have better access to raw materials and government services

#### 4.8.4 Implementation timeline and responsibilities

##### Timeline

20 - Reduce the size of the informal sector	M1	M2	M3	M4	M5	M6	M7	M8	M9	Q4	Q1	Q2	Q3	Q4	Y3	Y4
Strengthen communication campaigns about the benefit of formal status				█												
Provide tax incentives to firms willing to formalize							█									
Increase fines and penalties for undeclared work											█					

##### Implementing bodies:

- Ministry of Economy and Trade
- Ministry of Finance

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## 4.9. REFORM #21: Reforms of the Labor market

Medium-term

### 4.9.1 Why?

**Lebanese labor market had been under test since 2011** amid the large inflows of Syrian refugees in the country, and took one of the heaviest tolls and the different crises in Lebanon. By June 2020 Lebanon lost 550,000 jobs, recording 30% of unemployment rate. These data do not take into account the additional impact of the August 4<sup>th</sup> tragedy.

**Currently, the labor market is characterized by a very large share of informality** (around 35% of the employed labor force), an insufficient social security coverage (nearly 20% of the employed labor force is not covered), low women participation, chronic brain drain, and a qualification mismatch between job requirements and education levels (32% of the employed labor force is considered overeducated for their job while 21% is deemed undereducated).

The lack of a well-functioning labor market is conducive to higher unemployment rate, declining living standards, and in the long-term loss of human capital.

### 4.9.2 What?

#### Short-term policy actions:

- **Clarify the application of the labor law in times of economic crisis** such as when a layoff or salary cut is considered arbitrary. The existing procedure is inefficient and time-consuming and new regulation should allow for amicable settlements
- Implement Ministry of Labor's decree that exempts employers hiring **first-time job entrants from NSSF dues**
- Review the **national minimum wage to** adjust it for hyperinflation
- **Take into account inflation** in the setting of public wages through partial indexation measures with a sunset clause
- Introduce an emergency income **support program to vulnerable uninsured employees**

#### Medium-term policy actions:

- Develop a national strategy addressing **skills mismatch, women participation and brain drain**
- **Extend the coverage of NSSF** to include new segments of the labor market who currently do not enjoy social security coverage, such as micro and small auto-entrepreneurs and freelancers
- Update **vocational and technical education** curricula to better align future employees' skills with the needs of the job market

### 4.9.3 Impact

#### Economic

- Increase employment rates and foster economic activity
- Halt the brain drain and retain high skilled labor force in the country
- Improve women condition in the society

#### 4.9.4 Implementation timeline and responsibilities

##### Timeline

21 - Reform of the labor market	M1	M2	M3	M4	M5	M6	M7	M8	M9	Q4	Q1	Q2	Q3	Q4	Y3	Y4
Update the exiting procedures to execute layoffs in times of economic crisis	█	█														
Exempt employers hiring first time-job entrants from NSSF dues	█	█	█	█	█	█	█	█	█	█						
Review the national minimum wage and adjust it for the current inflation	█	█														
Create emergency subsidies to protect jobs and to encourage employers to retain workers	█	█	█	█	█	█	█	█	█	█						
Develop a national strategy for labor policy addressing structural challenges											█	█	█	█		
Extend the coverage of NSSF to micro and small auto-entrepreneurs and freelancers										█	█	█	█	█		
Develop a plan to ensure financial sustainability of the NSSF						█	█	█	█	█						
Update vocational and technical education curricula to better align future employees' skills with the needs of the job market											█	█	█	█	█	█

##### Implementing bodies

- Ministry of Labor
- Ministry of Economy and Trade

## 4.10. REFORM #22: Reform of the Education system

Long-term

### 4.10.1 Why?

Recent studies pointed out at the declining performance of the Lebanese educational system, particularly when it comes to primary and secondary education. As a matter of fact, the World Bank's Human Capital Index (HCI) suggests that a child born in Lebanon today will reach, on average, only 52% of their potential productivity when they grow up. This is lower than the average estimates for the region. The declining performances is partly to be attributed to extremely low public expenditures (measured at PPP in 2019) per student.

The main factors contributing to poor educational performances are related to: ineffective utilization of teachers and outdated curricula that do not match labor demand, insufficient or poor infrastructure, increasing school drop outs, and inadequate sector coordination.

In parallel, the increasing competition from regional countries in attracting international students has progressively reduced the attractiveness profile of Lebanon.

### 4.10.2 What?

#### Mid-term policy actions:

- Rehabilitate **public school buildings** to meet safety requirements and improve accessibility to students with physical disabilities
- Implement **coordination mechanism with the Ministry of Social Affairs** to exploit synergies with social safety nets instrument in order avoid school drop out
- Support the **lowest performing primary and secondary schools** to improve educational quality

#### Long-term policy actions:

- Build public–private partnerships to allow for **increased on-the-job training**
- Commit to a **new national curriculum framework** and update lifelong courses for teachers in order to align their teaching methods and content with current technologies and demanded skills in the labor market
- Set up a task force to aiming to **attract more international students in Lebanon**, in particular through the promotion of partnership with international universities

### 4.10.3 Impact

#### Economic

- Strengthened Human Capital accumulation, setting the basis for a knowledge-based economy
- Upskill the labor force for achieving steady productivity gains in the long-run
- Achieve fairer society based on equality of opportunity

#### 4.10.4 Implementation timeline and responsibilities

##### Timeline

22 - Reform of the education system	M1	M2	M3	M4	M5	M6	M7	M8	M9	Q4	Q1	Q2	Q3	Q4	Y3	Y4
Rehabilitate public school buildings to meet safety requirements																
Implement coordination mechanism with the Ministry of Social Affairs to exploit synergies with social safety nets instruments																
Address and support the lowest performing primary and secondary schools to improve educational quality																
Build public-private partnerships to allow for increased on-the-job training																
Commit to a new national curriculum framework and update lifelong courses for teachers																
Earmark public funds for more research and development in the IT sector																
Set up a task force to lead and execute an international education strategy																

##### Implementing bodies:

- Ministry of Education
- Ministry of Social Affairs

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## 4.11. REFORM #23: Strengthen microfinance program

Long-term

### 4.11.1 Why?

The Lebanese microfinance sector had been growing steadily, with compound average growth rates of 30% in number of clients and 38% in outstanding portfolio over 2006-2013<sup>9</sup>. However, data suggests that the sector has been underperforming in terms of expansion due to obstacles posed by legislation and the regulatory framework, and by lack of capital to lend. Microcredit is mainly provided by NGOs with mild support by the government.

Evidence points at an unequal distribution of credit with **more loans going to men than to women and with low shares allocated to start-ups**. A sizable share of loans is used for non-productive purposes (56% including loans for housing and cars, and credit to consumption).

In the current crises, where access to credit is limited and unemployment rates are set to remain high, offering subsidized lending could provide an effective tool to fight against extreme poverty and businesses disruptions.

### 4.11.2 What?

- **Provide liquidity to microfinance institutions**
  - In particular credit lines should be allocated to **women-led businesses** and towards productive use (i.e., avoid credit to consumption or car loans)
- Establish **public-private partnership between NGOs, commercial banks and the public sector** to offer **financial education** and setting up additional micro-credit programs in remote areas
- Establish an integrated **credit registry accounting for micro and small loans**
  - Currently, only banks and Non-Banking Financial Institutions (NBFIs) report to the BdL's credit registry, leaving out NGOs and cooperatives that do not fall under the Central Bank's umbrella. As a result, less than 19% of all microfinance borrowers was registered in 2017

### 4.11.3 Impact

#### Economic

- Microcredit is found to be a positive contributor to income, education, women's empowerment and employment
- Furthermore, it reduces vulnerability to external shock

<sup>9</sup> Latest datapoint available

#### 4.11.4 Implementation timeline and responsibilities

##### Timeline

23 - Strengthen microfinance programs	M1	M2	M3	M4	M5	M6	M7	M8	M9	Q4	Q1	Q2	Q3	Q4	Y3	Y4
Provide liquidity to microfinance institutions			■	■												
Establish public-private partnership to offer financial education and setting up additional micro-credit programs					■	■	■	■	■	■	■	■	■	■		
Establish an integrated credit registry accounting for micro and small loans					■	■	■	■	■	■						

##### Implementing bodies

- Ministry of Economy and Trade
- Ministry of Social Affairs
- ABL

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## 4.12. REFORM #24: Reform of the Water system

Long-term

### 4.12.1 Why?

**Essential public services related to health, education, and water were already strained by the protracted Syrian refugee crisis, the compounded economic and political crisis, and the COVID-19 pandemic.** The explosion of the Port of Beirut has added further pressure on the already inadequate water infrastructures. The World Bank estimates that the blast has caused damages to the water and sanitation facilities of more than USD 40 million.

Indeed, in the water sector, about half of the supply is unaccounted for, while only 8% of sewage is effectively treated. **The main reasons for this situation include lack of human resources, low revenue collection, poor infrastructure for water and wastewater, as well as inadequate operation and maintenance.**

In Lebanon, the capacity to store surface water is very low (6%) compared to a regional average of 85%. In addition, the exploitation of groundwater does not take into consideration the need for ensuring sustainability, thus harming the country's water access in the medium-term. Finally, an issue of fiscal sustainability also exists since the four Water Establishments (WEs) have serious difficulties in collecting fees and ensuring continuity of services.

### 4.12.2 What?

#### In the short-term:

- Provide technical assistance to the water utility most impacted by the blast, the Beirut Mount Lebanon Water Establishment (BMLWE), especially on operations and maintenance costs of the main infrastructure

#### In the medium-term:

- Improve the collection of water bills from households and firms across all regions
- Ratify the updated National Water Sector Strategy to organize the chaotic exploitation of underground water by the private sector
- Establish the Water Executive Committee to pilot transparent implementation of the updated water sector strategy and strengthen the role of municipalities within its framework
- Revamp and maintain drinking water networks where currently almost half of the water is lost due to leakages
- Recycle domestic wastewater, especially in the Bekaa, in order to avoid pollution and reduce the abusive exploitation of underground water
  - Promote drip irrigation and other modern watering methods which are more efficient than traditional flood irrigation, as agriculture is the number one water consumer

### 4.12.3 Impact

#### Economic

- Reduced water leakages and increased water security
- Improved living standards and health conditions
- Reduced environmental impacts

#### 4.12.4 Implementation timeline and responsibilities

##### Timeline

24 - Reform of the water system	M1	M2	M3	M4	M5	M6	M7	M8	M9	Q4	Q1	Q2	Q3	Q4	Y3	Y4
Provide technical assistance to the water utility most impacted by the blast	■															
Improve water bill collection						■										
Ratify the updated National Water Strategy						■										
Establish the Water Executive Committee and strengthen the role of municipalities						■										
Revamp and maintain drinking water networks						■										
Improve recycling of domestic wastewater											■					

##### Implementing bodies

- Ministry of Public Works and Transport
- Ministry of Energy and Water
- Ministry of the Economy and Trade
- Beirut and Mount Lebanon Water Establishment

## 4.13. REFORM #25: Reform of the Solid Waste management system

Long-term

### 4.13.1 Why?

Lebanon spends on average USD 154.5 to manage every ton of solid waste. In comparison, Algeria and Jordan spend USD 7.2 and USD 21.5, respectively. On an annual basis, Lebanon spends around USD 420 million on solid waste management, while Jordan and Tunisia spend between USD 48 and 54 million per year. **Lebanese inefficiencies are largely due to inadequate infrastructure.**

**Improved waste management practices (though recycling) could save up to USD 74 million year for the Government.** Recycling is completely underused as 85% of solid waste goes to open dumps or landfills, while only 10-12% of the country's waste cannot be recycled. The environmental impact of improper waste management is also very high.

In addition, the explosion of August 4<sup>th</sup> has caused further damages to the sector, estimated at USD 20 million to USD 25 million, according to the World Bank.

### 4.13.2 What?

#### In the short-term:

- Rebuild the solid waste recycling and sorting facility at **Karantina** which was destroyed by the Port's explosion as well as the solid waste composting facility at **Bourj Hammoud**
- Treat the hazardous garbage dump by the **Port of Tripoli** which runs the risk of explosion from methane gases it harbors
- **Update the national solid waste strategy** developed by the Ministry of Environment (that has been approved as a roadmap by the Parliament in August 2019) with:
  - Strict environmental requirements for the 25 sanitary landfills and three incinerators that have been planned
  - Improvement of the cost-recovery profile of the projects

#### In the medium-term:

- **Reduce the quantities of solid waste:**
  - Apply the government decree issued in September 2019 that requires sorting solid waste at source, in close coordination with municipalities.
  - Prioritize recycling over other options, as it is an effective and feasible solution. Use advanced technology in the recycling industry
- Implement waste treatment projects through public-private partnerships (PPPs) between **municipalities** and private sector companies
- Develop the legal framework for storage and handling of **chemicals**
- Create **public awareness programs** to promote sustainable waste management practices that respect the right to health and a clean environment, while demonstrating the health risks of open dumping and burning

### 4.13.3 Impact

#### Economic

- Environmental benefits including improved health conditions for both human and animal species

#### 4.13.4 Implementation timeline and responsibilities

##### Timeline

25 - Reform of the solid waste management system	M1	M2	M3	M4	M5	M6	M7	M8	M9	Q4	Q1	Q2	Q3	Q4	Y3	Y4
Rebuild the waste treatment infrastructures destroyed during the explosion requiring an Environmental Impact Assessment	█			█												
Treat the hazardous garbage dump by the Port of Tripoli	█															
Update the national solid waste strategy				█												
Apply the law delegating municipalities overseeing the sort-at source process as well as drop-off centers										█	█					
Prioritize recycling over other options and invest in advanced technology											█		█			
Implement waste treatment projects through public-private partnerships (PPPs) between municipalities and private sector companies											█		█			

##### Implementing bodies

- Ministry of Public Works and Transport
- Ministry of the Economy and Trade

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## CONNECT LEBANON TO THE WORLD

Lebanon is relatively small economy, that has been facing for year current account deficit. Boosting exports and re-opening to country to the world is therefore a strategic priority. From a historical perspective, it is also part of the Lebanese identity and DNA.

Opening up Lebanon to the rest of World needs first a foremost to **enable exchanges** through fixing fundamental issues. The port reconstruction should be launched at rapid pace in the first 100 days of the new government (Reform #2) and the currency should be stabilized, first with a proper capital control law (Reform #1) and then with a unification of the official and the black-market exchange rates (Reform #1).

In parallel, the government should work on enhancing exports. The **custom administration** needs to be upgraded up to global best-practices to facilitate both imports and exports (Reform #5) – which will in turn also support the government's budget. A proactive **industrial policy** supporting sectors where Lebanon has an edge could also yield quick results, such as a further expansion of industrial zones, quality certification to access foreign markets and close cooperation with business operating in these sectors (Reform #28). Exporters would also strongly benefit from stronger **trade finance environment**, building on the Oxygen fund and passing new dedicated legislations (Reform #29).

A more open Lebanon is also a more attractive one. **Tourism** would unlock capital inflows and has the potential to become a thriving sector (Reform #29). All the reforms included in this plan would also restore confidence from foreign players, and in particular the **Diaspora**. Any specific measure can restore on its own the inflows Lebanon used to benefit from, but the swift implementation of economic and politic strategy would enable do so. Same goes with **FDI**, as foreign investors will consider again Lebanon as a relevant geography only if it enjoys institutional stability and conducive business environment.

#### 4.14. REFORM #26: Strengthen tax deferrals in strategic sectors

Medium-term

##### 4.14.1 Why?

**In the current dire circumstances extending and fine-tuning tax deferrals would facilitate the rebound of strategic sectors:**

- According to a January 2021 analysis by the World Bank, 12% of Lebanese businesses ceased operations only in the fourth quarter of 2020, and one-third reduced their workforce by 60% on average.
- To offset the impact of the multiple crises, further exacerbated by pandemic, the previous government included emergency tax deferrals in the 2021 budget. Among them, tax deferral for startups, for corporations in the manufacturing and tourism sectors and reforms of the revaluation of fixed assets, were listed.
- These measures are needed, but they should be aligned with a national economic strategy to yield actual long-term results.

##### 4.14.2 What?

**Given the persistent and large current account deficit and the need for fiscal discipline, Lebanon's strategy for growth (both in the short- and medium-term) needs to be driven by exports and needs a focus on investment projects that have either a direct or indirect impact on export growth.**

Hence, beyond the widespread measures to help businesses cope with the pandemic, specific tax deferrals could be implemented in export-oriented sectors, and in particular tourism, industrial and electrical machinery and equipment, and start-ups in service sectors, including financial services and healthcare:

- Introduce income tax exemptions for companies that merge in the tourism and industrial manufacturing sectors, thus favoring economies of scale, cost reduction and improvement of Lebanese competitiveness abroad.
- Tax exemptions could also be granted (for instance 75% tax relief) to firms active in export-oriented sectors having at least 80% of their employees based in Lebanon

##### 4.14.3 Impact

Economic
<ul style="list-style-type: none"> <li>• Avoid massive employee layoffs</li> <li>• Avoid complete firms and sectoral closures</li> <li>• Contribute to the country's current account adjustment</li> <li>• Favor economic growth in strategic sectors</li> </ul>

#### 4.14.4 Implementation timeline and responsibilities

##### Timeline

26 - Tax policy in strategic sectors	M1	M2	M3	M4	M5	M6	M7	M8	M9	Q4	Q1	Q2	Q3	Q4	Y3	Y4
Introduce and extend tax deferrals																
Introduce long-term tax exemption in export-oriented sectors																

##### Implementing bodies:

- Ministry of Finance
- Ministry of the Economy
- Ministry of Tourism

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## 4.15. REFORM #27: Strengthen financial support for export activities

Medium-term

### 4.15.1 Why?

Lebanon needs to accumulate foreign exchange reserves in order to restore BdL’s dollar liquidity. In addition to the confidence-driven reversals of the capital and financial accounts, this requires the growth of Lebanese net exports of goods and services. While Lebanese banks’ dollar liquidity is extremely scarce, the local banking system has ample lending capacity in local dollars (“lollars”).

Lollar financing is adequate, and even compelling for exporters because their receipts are denominated in dollars. Therefore, until and unless FX unification occurs (or market forces drive the dollar/lollar rate to convergence, the capacity of Lebanese exporters to reimburse lollar pre-export financing will depend solely on the creditworthiness of the foreign buyer or of the bank confirming the letter of credit.

**Legislation needs to be put in place to make it appealing for banks to lend lollars to their export-oriented private sector clients.**

### 4.15.2 What?

- **Pass legislation unequivocally mandating the reimbursement of new loans in the currency in which they were disbursed**
- **Adopt regulation specifying which private sector borrowers can contract for lollar loans (i.e., to finance dollar-generating activity in the export, project, tourism, etc. sectors)**

### 4.15.3 Impact

<b>Economic</b>
The availability of pre-export financing will lead to incremental growth and will compound the effect to unified exchange rate and of the regained competitiveness of Lebanese industry

### 4.15.4 Implementation timeline and responsibilities

#### Timeline

27 - Strengthen export financing	M1	M2	M3	M4	M5	M6	M7	M8	M9	Q4	Q1	Q2	Q3	Q4	Y3	Y4
Pass legislation mandating the reimbursement of new loans in the disbursed currency																
Adopt regulation specifying which private sector borrower can contract for lollar loans																

#### Implementing bodies

- Parliament
- BdL
- BCC



## 4.16. REFORM #28: Enact a proactive industrial policy

Long-term

### 4.16.1 Why?

Even before the current crisis, Lebanon was characterized by slow GDP growth (1.7% in real terms over 2011-17), fiscal imbalances, and large current account deficits (average of 24.8% of GDP over 2011-2020). Given the persistent and large current account deficit and the need for fiscal discipline, Lebanon's strategy for sustainable growth needs to be driven by exports and needs a focus on investment projects that have either a direct or indirect impact on export growth.

**Untapped export opportunities can be specifically addressed.** These sectors to target should be those where Lebanon has a comparative advantage and where it could expand its production activity amid strong export opportunities. They include the production of industrial and electrical machinery, chemicals and ICT products such as radars (to be targeted in the medium- and the long-term). Specific public investment and marketing effort to attract private players in these field would realistically yield results in a short period of time.

In addition, **the establishment of additional industrial zones**, coupled with reforms to improve the business environment, would lead to improve Lebanon's FDI attractiveness profile. Such investment would in turn enhance the productivity of the Lebanese industries, and further contribute to enhance the current account.

In parallel, the government could launch several initiatives **to support the local production** with public demand, and with marketing campaign to encourage consumption of domestic goods. This can unlock additional demand for Lebanese firms and fuel growth.

### 4.16.2 What?

- **Understand and address the constraints faced by the sectors to be targeted through public-private collaboration.** The creation of "Productivity Taskforces" which include public and private sector participants could be tasked with identifying and addressing the most important binding constraints that prevent the development of key industries, including on the supply chain front.
- Introducing State's **preferential procurement rules for locally manufactured products**
- Promote the **'Buy Lebanese' campaign** through a joint effort between the Ministry of Industry and the Association of Industrialists
- Support **food-processing cooperatives and small food producers** to upgrade their standards and thus be able to sell their products to restaurants and hotels
- Invest in **upscaling the supply chain** that produces industrial and electrical machinery and equipment, since they offer significant export opportunities
- Revive programs that help industrialists obtain **quality certifications and access international markets**
- **Build additional industrial zones and accelerate the development of existing zones in Tripoli, Baalbek, Terbol, and El Qaa.**
  - El Qaa could focus on the construction material industry due to its proximity to the Syrian market in order to benefit from reconstruction projects in Syria and also in Iraq.
  - The Tripoli Special Economic Zone (TSEZ) could be a strategic location for IT projects because it offers attractive incentives. The submarine communications cable I-ME-WE (India-Middle East- Western Europe) is also linked to Tripoli which enables IT projects housed in TSEZ to benefit from easier and faster access to international servers and the global network

- All industrial zones could be granted a 10-year tax break or discount on profits as fiscal incentives for new investments

#### 4.16.3 Impact

Economic
<ul style="list-style-type: none"> <li>• Correct current account imbalances and help to progressively restore macroeconomic equilibrium</li> <li>• Foster job creation</li> <li>• Foster accumulation of know-how in Lebanese firms cooperating with international enterprises</li> </ul>

#### 4.16.4 Implementation timeline and responsibilities

##### Timeline

28 - Enact a proactive industrial policy	M1	M2	M3	M4	M5	M6	M7	M8	M9	Q4	Q1	Q2	Q3	Q4	Y3	Y4
Understand and address the constraints faced by the sectors to be targeted through public-private collaboration																
Improve the State's preferential procurement for locally manufactured products																
Promote the 'Buy Lebanese' campaign																
Invest in upscaling the supply chain that produces industrial and electrical machinery and equipment																
Revive programs that help industrialists obtain quality certifications and access international markets																
Build additional industrial zones and accelerate the development of other zones in Tripoli, Baalbek, Terbol, and El Qaa																
Provide a 10-year tax break or discount on profits as fiscal incentives for new investments in the newly established industrial areas																

##### Implementing bodies

- Ministry of Economy and Trade
- IDAL
- Ministry of Industries
- Ministry of Finance

## 4.17. REFORM #29: Develop the Tourism sector

Long-term

### 4.17.1 Why?

Lebanon can realistically aspire to becoming a Riviera destination offering a combination of entertainment, culture, and sea views with niche offerings in business meeting and medical tourism.

Lebanon's tourism sector is not living up to its enormous potential due to unclear branding and a tarnished image of the country, which the current crisis has further deteriorated. The tourism offering also lack prioritization and suffer from a limited range of ready-to-market products.

Lebanon has the necessary resources to, within five years, more than double the number of tourists it receives (to about 4 million per year). The growth vectors will be a rapid increase in arrivals from 15 countries to be targeted explicitly with "City & Entertainment", "Sun & Sea" and "Culture" offerings around three anchor destinations (Byblos, Beirut, and Sour). Lebanon could also bet on niche ultra-luxury eco-tourism offering and/or position itself as a preferred destination for Meeting and Incentives business travelers from GCC countries

The lack of a well-functioning labor market is conducive to higher unemployment rate, declining living standards, and in the long-term loss of human capital.

### 4.17.2 What?

#### Short-term policy actions:

- **Narrow the tourism infrastructure gap:**
  - Expand Airport
  - Encourage hotel investment
  - Improve urban transportation
- **Set up tourism board** with representation from all involved industries to promote incoming traffic from Middle East and GCC countries (KSA; UAE; Kuwait; Iraq; Jordan; Egypt), Europe (France, Germany, UK, Italy, Sweden and Turkey, and High-income diaspora countries (US, Canada, Australia)

### 4.17.3 Impact

Economic
<ul style="list-style-type: none"> <li>• Improve BoP</li> <li>• Incremental services economic activity in the Hotel and restaurants who used to grow at a 3% rate p.a.</li> <li>• Increase construction economic activity in the Real Estate sector, who used to grow at 14% p.a.</li> </ul>

#### 4.17.4 Implementation timeline and responsibilities

##### Timeline

29 - Develop the Tourism sector	M1	M2	M3	M4	M5	M6	M7	M8	M9	Q4	Q1	Q2	Q3	Q4	Y3	Y4
Expand the Airport																
Encourage hotel investments																
Improve urban transportation																
Set up a tourism board																

##### Implementing bodies

- Ministry of Finance
- Ministry of Tourism
- Parliament

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## RESTORE THE FINANCIAL SECTOR SUSTAINABILITY

No economy can grow without a sound and liquid banking sector able to fund investments. In Lebanon, the banks and government's financial situations are so intertwined that both need to be addressed together. Banks are indeed the main creditors of the State and could be severely damaged if the public debt restructuring is not conducted in a way that would allow them to survive, restart and amplify their lending to productive clients.

This starts with a good faith approach to **public debt restructuring**, aiming to design a workout that can be accepted by domestic and foreign bond holders while at the same time restoring public debt sustainability as per the IMF's criteria.

In parallel, **the financial sector needs to be both reignited and restructured.**

- The banking sector needs to be restructured as Lebanon large and dynamic banking sector has been hit particularly hard by the monetary and financial crises. The balance sheets of Lebanese banks have been severely impaired, preventing them to fund the recovery going forward.
  - **The consolidation of the sector should however be conducted on a case-by-case basis**, under the auspices of the regulator (i.e. BdL), based on individual business plans and recapitalization plans (Reform #30).
  - **To ensure the consolidation is set to last, the banking sector oversight framework could be adjusted too:** Lebanese banks performance at containing money laundering and terrorism financing has been acknowledged and lauded and should be further strengthened with corporate governance code aiming for more transparency and oversight of the management of the banks (Reform #31).
- Stronger capital markets would also provide companies with additional funding sources, while evidence shows that equity financing is a catalyst for innovation and growth. Through a restructuring of the Beirut Stock Exchange, easier access to capital markets could be granted to Lebanese firms, including to SMEs (Reform #32)

## 4.18. REFORM #30: Consolidate the banking sector

Medium-term

### 4.18.1 Why?

Lebanon has a very large and dynamic banking sector which has been hard-hit by the sovereign default and the consequent illiquidity of its deposits at BdL. Lebanon’s banking sector has been traditionally one of the largest employers of professionals in Lebanon and the country’s largest taxpayer.

However, the impairment of Lebanon’s balance sheets and restricted liquidity have restricted the sector’s ability to contribute to the recovery.

- **Recapitalization** of viable banks and merger/resolution of those too weak to operate should be the main driver of the banking sector reform.
- In addition, Lebanese banks will need to **re-focus their activity into financing private sector activity**, with a particular focus on high-growth, dollar-generating businesses.
- Finally, Lebanese banks need to diversify their product offering along the lines of **universal banking**, specifically adding corporate finance, project finance, consumer finance securitization, and other capital markets activities.

### 4.18.2 What?

- **Set objective criteria** for banks to continue operation in Lebanon based on:
  - A **business plan**; and
  - A **capital plan**
- Enact **universal banking** legislation

### 4.18.3 Impact

Economic
<ul style="list-style-type: none"> <li>• Increase private sector employment rates and ignite economic activity</li> <li>• Halt the brain drain and retain high skilled labor force in the country</li> <li>• Faster recovery</li> <li>• Higher potential growth</li> <li>• Increased banks resilience to shocks</li> </ul>

### 4.18.4 Implementation timeline and responsibilities

Timeline	M1	M2	M3	M4	M5	M6	M7	M8	M9	Q4	Q1	Q2	Q3	Q4	Y3	Y4
<b>30 - Consolidate the banking sector</b>																
Set objective criteria for banks to continue operations in Lebanon based on a business plan and a capital plan																
Enact universal banking legislation																
<b>Implementing bodies</b>																
<ul style="list-style-type: none"> <li>• Parliament</li> <li>• BdL</li> <li>• BCC</li> <li>• CMA</li> </ul>																

## 4.19. REFORM #31: Review the banking sector oversight framework

Long-term

### 4.19.1 Why?

The banking sector is the largest contributor to the country's economy, with 69 banks currently operating in Lebanon, of which 19 investment banks. For a variety of reasons, the stability of the sector is of greater importance as compared to other emergent market jurisdictions, not to mention the banks' primordial importance in resolving the current crisis.

**BdL has issued a series of circulars bearing on corporate governance of banks over the 2006-2016 period.** In essence, the Central Bank requires banks to formulate their own codes of good governance and to publish a summary thereof in their annual reports. The Banking Control Commission follows closely banks' operations and reviews governance protocols and processes at banks through both on- and off-site supervision.

**While Basel standards are respected in Lebanon, prevailing oversight norms are not sufficiently nuanced to adapt to the varied size of domestic banks, nor are they fully aligned with international governance standards** (OECD Principles of Corporate Governance and Based Corporate Governance Principles). Bringing back confidence in the Lebanese banking sector requires it to adhere to the highest governance norms and for these to be in line with their European peers.

### 4.19.2 What?

- **Update an earlier review of banks' governance structures**, notably at the level of boards, senior management, risk and internal audit frameworks and quality of disclosure (including peer and external benchmarking)
- **Review BdL governance-related circulars** and create a consolidated bank corporate governance code (to be applicable on a comply-or-explain basis with some mandatory provisions)
- **Require banks to review their governance frameworks** with a view to align them to the recommendations of the new code (within timelines to be specified in the code/circular)
- **Review the oversight arrangements** and the division of responsibilities (as far as bank governance is concerned) between the BdL and the Banking Control Commission (BCC) and bring in line with international standards

### 4.19.3 Impact

#### Economic

- Governance changes per se are not expected to have specific economic impact but instead aim to improve confidence in the sector. Specific changes at the level of board oversight, risk management and internal audit can affect KPIs such as NPLs. Further economic impact may be achieved through a mixture of governance/ restructuring of the banks (e.g. mergers and acquisitions)

#### 4.19.4 Implementation timeline and responsibilities

##### Timeline

31 - Review the banking sector oversight framework	M1	M2	M3	M4	M5	M6	M7	M8	M9	Q4	Q1	Q2	Q3	Q4	Y3	Y4
Update an earlier review of banks' governance structure																
Review the BdL governance-related circulars and create a consolidated bank corporate governance code																
Require banks to review their governance frameworks																
Review the oversight arrangements and division of responsibilities between BdL and BCC																

##### Implementing bodies

- BdL
- BCC

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## 4.20. REFORM #32: Restructure the Lebanese capital market

Long-term

### 4.20.1 Why?

The Bourse de Beirut/Beirut Stock Exchange is one of the second oldest stock exchange in the region, yet today is also one of the smallest and less liquid market, with a dozen listed companies, which puts it ahead only of Algeria in the Middle East and North Africa. From already this low point, the events of the past year have practically paralyzed it.

**Law 160 of 2012**, establishing the capital markets regulatory framework, previewed the corporatization of the exchange within one year of the introduction of the securities regulator and the privatization of the exchange one year after. While certain milestones of this Law have been accomplished, including notably the establishment of the Capital Market Authority to supervise listed companies and market intermediaries, the exchange itself has not been restructured and remains inactive. **In fact, reform of the capital market needs to be examined holistically to decide whether the BSE merits to be restructured before it is privatized (if it is indeed the best option).**

**Evidence demonstrates that equity financing is a key catalyst of long-term innovation and growth.** Stock markets that provide significant economic incentives to support small companies and associated infrastructure in the aftermarket will create higher rates of capital formation that, in turn, will generate jobs, economic growth and tax receipts (OECD, 2013)..

### 4.20.2 What?

- Conduct a comprehensive **review of legislative reforms** related to the capital market reform in the past decade to identify potential gaps and obstacles
- Consider how an **effective supervision framework of the capital market can be developed**, building on, but not limited to, progress created with the CMA<sup>10</sup>
- **Restructure the governance of the BSE** and the internal regulations (listing and trading rules etc.) to bring them in line with best practices
- Consider **mechanisms for SMEs to raise capital on the BSE** based on major reforms in the UK, US and also smaller markets
- Decide whether and in what **timeline, the privatization of the exchange** is indeed desirable and feasible under the present circumstances
- Consider whether the **restructuring framework** previously adopted by the BSE (including a license for an electronic trading platform) is a desirable way forward

### 4.20.3 Impact

Economic
<ul style="list-style-type: none"> <li>• The effect of economic deterioration on the country's SMEs has been disastrous. At the same time, prior measures adopted by the BDL for it to provide equity funding for innovative SMEs in conjunctions with banks (as an incentive for the latter).</li> <li>• The key impact of BSE restructuring would be to enable it to serve as a vehicle for financing of entrepreneurial firms.</li> </ul>

<sup>10</sup> At the same time, it ought to be recognised that the governance framework of the CMA remains unorthodox given that the entity is chaired by the Governor of the Central Bank

#### 4.20.4 Implementation timeline and responsibilities

##### Timeline

32 - Restructure the Lebanese capital market	M1	M2	M3	M4	M5	M6	M7	M8	M9	Q4	Q1	Q2	Q3	Q4	Y3	Y4
Review legislation related to capital markets to identify gaps and obstacles																
Restructure the governance of the BSE																
Consider mechanisms for SMEs to raise capital on the BSE based on major reforms in the UK, US and others																
Decide whether and in what timeline, the privatization of the exchange is indeed desirable and feasible under the present circumstances																

##### Implementing bodies

- Beirut Stock Exchange
- CMA

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## IMPROVE PUBLIC GOVERNANCE AND BALANCE THE GOVERNEMENT'S BOOKS

It is well known that governance challenges have contributed to the build up of the crises in Lebanon. Lack of transparency, corruption and nepotism all prevented the private sector from growing and SOEs from delivering on their social and financial objectives.

Addressing these challenges is a long-term prospect, but it needs to be started as soon as possible, to restore confidence in public institutions domestically and towards foreign investors, including the Diaspora.

Actions to be launched in the short-term could include:

- Enact **governance and integrity legislations/regulations** to build on the achievement of the Anti-corruption law of 2020, combined with a reinforcement of the resources of the Anti-corruption authority (Reform #3).
- Design and implement a **medium-term fiscal strategy** to balance the government books, allowing to reallocate spending to most needed policies such as strengthening the Social safety nets thanks to improved income and enhanced tax collection performance (Reforms #9 and 10)
- To facilitate and speed up the reconstruction, the role and governance of the **Council for development and reconstruction** could be revised to assign the responsibility to the reconstruction of the Port of Beirut area to a single and transparent entity (Reform #37).

In the mid-term, other reforms could include several measures to ensure a full accountability on how public policies are conducted. This includes:

- Empower the **State Audit Court** to enable it to challenge the ways of working of the administration and foster accountability (Reform #37)
- Implement **Public Management Reforms** that would allow to sustain the equilibrium achieved by the medium-term fiscal strategy (Reform #34)
- Enhance the efficiency and the management of both **public administration** (Reform #38) and of **SOEs** (Reform #36) to improve the delivery of public services and make the most of tax payer's money.

Finally, a specific effort could be launched to **recover stolen assets**, both to contribute to funding the reconstruction of the country and for the sake of it (Reform #33).

## 4.21. REFORM #33: Join the Stolen Asset Recovery Initiative (StAR)

Medium-term

### 4.21.1 Why?

The Stolen Asset Recovery Initiative ('StAR') has been jointly established by the World Bank Group and the United Nations Office on Drugs and Crimes (UNODC) as a catalyst of international efforts to put an end to safe havens for stolen assets. Countries that have resorted to StAR support include for instance **Ecuador**, where StAR assisted in the work to establish an inter-agency asset recovery group, in addition to training staff in the newly created anti-corruption commission; **Ukraine** which was supported by StAR when seeking asset recovery in the United Kingdom; and **Tanzania**, where assets recovered with StAR's support financed the creation of an anti-corruption office. Egypt and Tunisia are also relevant precedents.

StAR would be useful for **addressing the allegations that some former politicians and public administrators have benefited from their public office and advise on the process of asset recovery.**

### 4.21.2 What?

The two national laws designed to control, prevent, and criminalize acts of corruption in Lebanon— Law 44 (2015) on anti-money laundering and terrorism financing, and Law 55 (2016) on the exchange of information for tax purposes - are ineffective and need strengthening

- In particular, Law 44 states that the **Special Investigation Commission (SIC)** of Banque du Liban (BdL) is the focal point within the authority to seize possibly suspicious bank accounts and to confiscate the movable and immovable assets that are proven to be the results of money laundering activities;
- The **National Anti-Corruption Commission (NACC)** is yet to be established, and support from StAR could result in its timely creation
- The actual recovery of stolen assets would however span over several years

### 4.21.3 Impact

<b>Economic</b>
<ul style="list-style-type: none"> <li>• Improving the reputation of Lebanon as a place to do business</li> </ul>

### 4.21.4 Implementation timeline and responsibilities

#### Timeline

33 - Join the Stolen Asset Recovery Initiative	M1	M2	M3	M4	M5	M6	M7	M8	M9	Q4	Q1	Q2	Q3	Q4	Y3	Y4
Strengthen the Special Investigation Commission (Law n. 44)				█												
Establish the National Anti-Corruption Commission					█											
Actual implementation of the recovery				█												

#### Implementing bodies

- Minister of Social Affairs
- Minister of Finance

## 4.22. REFORM #34: Fiscal consolidation – Structural reforms

Medium-term

### 4.22.1 Why?

Structural reforms of the way public finances are managed allow to safeguard and sustain gains from fiscal consolidation and debt restructuring. Increased transparency and accountability would also contribute to improve trust in public institutions and fight corruption. Finally, a continuous scrutiny of public expenditure eventually contributes to enhance public services delivery, which, in turn, goes with increased productivity..

### 4.22.2 What?

The following fiscal structural reforms should be introduced, in line with global best practices:

- **A stronger Tax Administration**, either through the enhancement of the already existing entity (for example through digitalization (including services towards taxpayers), better management of internal data, the strengthening of independent internal audit capabilities – see proposed Reform of the Cour des Comptes – and a new framework for external audit reporting), or through the creation of an Independent Tax Authority operating on the basis of Strategic Targets agreed with the Government and evaluated on the basis of the accomplishment of Key Performance Indicators. The reform of the tax administration could also include a stronger management of core tax functions, with reforms to the Tax Identification Number (TIN) system, compliance risk management and collection of tax arrears.
- **Setting up an Independent Fiscal Council**, or an Independent Panel of Experts, on the lines of European fiscal institutions, that will oversee budget execution and report on performance, including possible recommendations on overcoming bottlenecks and inefficiencies. This council would be separate from the Cour des Comptes, as some of its members could be independent academics for instance.
- **Treasury Single Account (TSA)**: The objective of a TSA would be to pool liquid resources and set up an improved cash management framework that would lead to an efficient use of entities' idle reserves and to a reduction in the cost of financing for the State. This will significantly improve the State's capacity to perform treasury operations and manage its liquidity, hence reducing financing costs. The scope of the cash pooling could be as broad as the entire public sector

### 4.22.3 Impact

Economic
<ul style="list-style-type: none"> <li>• Improved public finance management can contribute to better economic performance as better public services contribute to the productivity of the entire economy</li> </ul>

#### 4.22.4 Implementation timeline and responsibilities

##### Timeline

34 - Fiscal consolidation - Structural reforms	M1	M2	M3	M4	M5	M6	M7	M8	M9	Q4	Q1	Q2	Q3	Q4	Y3	Y4
Set up an Independent Fiscal Council																
Strengthen Tax Administration																
Set up a Treasury Single Account																

##### Implementation bodies

- Minister of Finance

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## 4.23. REFORM #35: Restructure the CDR

Long-term

### 4.23.1 Why?

The **Council for Development and Reconstruction (CDR)** was created in 1977 under the supervision of the Council of Ministers with the mandate to reconstruct the country following the civil war. Since its establishment, it has overseen the execution of over five thousand contracts with a combined value of over 16 billion USD according to its own accounts. Over the last decade alone (2008-2018), the CDR has supervised the implementation of virtually all major rehabilitation projects ranging from irrigation to waste management and construction of motorway bridges for a total amount of almost \$4 billion, approximately half from foreign donors.

**In the wake the August Port Exposition, this institution is ideally poised to assume the urban rehabilitation and reconstruction mandate.** At the same time, further efforts are needed to create trust in the governance of the organization and its transparency and integrity in awarding contracts. Evidence demonstrates that CDR is captured by political interests which has resulted in the award of reconstruction contracts to politically connected companies.

**Given the immense reconstruction needs of Beirut in wake of the August explosion, the governance of this process of CDR needs to be reviewed to give trust to the donor community and the Lebanese citizens.** Likewise, the tender process governing the award of Tenders needs to be re-examined from both legal and implementation perspectives. This will be imperative to receive donor funding which countries such as Germany and France as well as IOs such the EIB which declared interest in participating in the efforts, however on specific conditions which include greater donor transparency.

### 4.23.2 What?

- Review the **legal framework** relevant to the governance of the CDR and benchmark it to similar institutions to propose viable alternatives suitable
- **Engage with key donors to understand their conditionality requirements** in terms of transparency and accountability in the reconstruction process
- Review the **tendering process and procedures to create further transparency**, and alignment with the OECD and WB recommendations on public procurement
- Consider **rendering CDC subject to Cours de Comptes** review (in linkage with the policy note on reform of the latter)
- Consider **mechanisms for donor engagement** in the oversight process to provide further assurance to its integrity and transparency
- Formalize the **Public Investment Management legal and regulatory framework**, including guidelines and methodology, to improve efficiency in the use of reform and reconstruction funding

### 4.23.3 Impact

#### Economic

- Prior to the August explosion, approximately 70% of the trade flows passed by through the Port. Its immobilization by the blast has caused not only an immense degradation of public infrastructure but has also affected Lebanon's ability to export, which is critical to maintain a balance of payments. Furthermore, the blockages at the Port have further inflated prices of imported goods, which combined with real currency devaluation, have rendered foreign made products unaffordable to the average Lebanese consumer).

#### 4.23.4 Implementation timeline and responsibilities

##### Timeline

35 - Restructure the Council for Development and Reconstruction	M1	M2	M3	M4	M5	M6	M7	M8	M9	Q4	Q1	Q2	Q3	Q4	Y3	Y4
Review the legal framework of the CDR and benchmark it to similar institutions																
Engage with key donors to understand their conditionality requirements																
Review the tendering process to enhance transparency																
Formalize the Public Investment Management legal and regulatory framework																

##### Implementing bodies

- CDR
- Council of Ministers
- CDC

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## 4.24. REFORM #36: Review the governance of SOEs

Long-term

### 4.24.1 Why?

While Lebanon, unlike its peers in the region does not have many state-owned enterprises, a number of them notably EdL are strategic as they are supposed to fulfill important social obligations, but for years now have been failing. As mentioned in precedent analyses, the weight of EdL subsidies on the budget is possibly the highest of any electricity provider worldwide, while the company's ability to deliver has been worsening over the years.

While the performance of the EdL and recommendations on its reform are presented by the GSA in a separate note, the overall SOE sector merits attention as it is a subject of significant inefficiencies. Its reform, on the other hand, could unlock higher revenues for the state.

A key reason for underperformance of Lebanese SOEs is at their level of their governance, which is subject to antiquated laws on confessional appointments (based on the wider public sector model), and where procurement processes are not transparent, and subsidies are ineffectively structured (to be addressed in a separate note on subsidies).

**Considering that SOEs are expected to play an important role in the capitalization of the proposed sovereign fund, their governance needs to be urgently reviewed and this process needs to be completed before their ownership is officially transferred from the CB to the Fund.**

### 4.24.2 What?

- Review legislation bearing on governance of SOEs (laws and specific decrees constituting them) with a view to identify gaps vis-à-vis peer countries and the OECD Guidelines on Corporate Governance of SOEs (internationally recognized instrument)
- Review the composition and operation of boards of key SOEs (and all those to be transferred to the planned SWF) and conduct board evaluations to identify skills needed to enhance oversight and independence
- Review key elements of disclosure by SOEs (annual reports, etc.) as well as their internal governance documents (board charter, internal audit and risk framework, corporate governance code, anti-corruption policy, etc.) to identify gaps and challenges
- Suggest changes to the relevant legislation based on OECD and best in class examples - based on these amendments change and board assessments, propose specific governance and integrity changes for individual SOEs
- In the longer term, consider reviewing the governance of smaller SOEs currently understood to be under control of MOF and also the municipalities
- In the longer term partial privatization of some SOE stakes may be considered as an avenue to: improve their governance, develop the local capital market, and increase fiscal room for the state. In that case, consider innovative governance mechanism that would allow the state to retain control over critical decisions with lower ownership stakes

### 4.24.3 Impact

#### Economic

- A number of SOEs, notably those in the transport, electricity and telecommunication sectors perform critical social functions. Inefficiencies and governance failings in these sectors have long posed an issue. Further analysis is required to forecast potential financial savings and service provision improvements based for individual SOEs

#### 4.24.4 Implementation timeline and responsibilities

##### Timeline

36 - Review the governance of SOEs	M1	M2	M3	M4	M5	M6	M7	M8	M9	Q4	Q1	Q2	Q3	Q4	Y3	Y4
Review legislation bearing on governance of SOEs, their boards composition and their disclosure policies																
Amend the relevant laws based on OECD recommendations																

##### Implementing bodies

- Central Bank
- Ministry of Finance
- State Audit Court
- Selected municipalities

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## 4.25. REFORM #37: Reform and empower State Audit Court

Long-term

### 4.25.1 Why?

The Cours de Comptes (CdC), the State Audit Authority of **Lebanon**, is **technically one of the oldest government institutions in the country, established in 1951. The CdC is in principle established as an independent body, but is linked administratively to the Council of Ministers, which appoints its staff.** The entity's main responsibilities are to oversee the management of public resources by controlling their use and conformity of this to relevant laws, by attesting to the validity and regularity of the operations made with public funds and by rendering judgements for any infractions to laws and regulations in vigor.

While in principle, CdC audit covers the quality of management of finances of the central and local governments/public entities, the financial accounts of government accounting officers, and the final budget execution reports, its role in practice **is hampered by lack of resources and independence.**

**The CdC needs to play a stronger role in oversight of public expenditures** including, importantly for the purposes of the proposed plan, of state-owned enterprises (SOEs) which are to be transferred to the SWF. Its founding legislation and practices in appointment of senior staff need to be reviewed and improved in order to give it the mandate and resources.

### 4.25.2 What?

- Review the **Public Accounting Law** by virtue of which the Cours de Comptes was created with a view to reinforce its legal independence
- Ratify the **revised draft Court of Accounts Law** to strengthen Lebanon's existing oversight function and develop standards and manuals for performance and forensic audits
- Implement **IMF and other IO's (INTOSAI) recommendations** pertaining to scope of work and modus operandi of CdC and identify obstacles to implementing them
- Review the actual mandate and the governance mechanisms at the CdC with a view to identify mechanisms that could imperil its **operational independence**
- Provide **training to CdC**, leveraging experience from peer entities to address specific challenges and expansion to additional areas of work (notably arising from COVID-19<sup>11</sup>)
- Introduce **new technologies** to allow the CdC to effectively monitor the quality of public expenditures

### 4.25.3 Impact

Economic
<ul style="list-style-type: none"> <li>• Reduction of corruption and illegitimate transfers from government institutions as well as recommendations on how funds can be utilized more effectively.</li> <li>• Public sector confidence in the efficiency and integrity of the public apparatus.</li> </ul>

<sup>11</sup> Refer to for instance, the new strategy of the French Cours de Comptes responding to the COVID emergency

#### 4.25.4 Implementation timeline and responsibilities

##### Timeline

37 - Reform and empower State Audit Court	M1	M2	M3	M4	M5	M6	M7	M8	M9	Q4	Q1	Q2	Q3	Q4	Y3	Y4
Reinforce the legal independence of the Court				■	■	■	■	■								
Ratify the revised draft Court of Accounts Law to strengthen Lebanon's existing oversight function				■												
Implement IMF and other IO's (INTOSAI) recommendations								■	■	■						
Introduce new technologies to allow the CdC to effectively monitor the quality of public expenditures										■	■	■	■			

##### Implementing bodies

- State Audit Court
- Ministry of Finance
- Parliament
- Ministry of Justice

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## 4.26. REFORM #38: Streamline public administration

Long-term

### 4.26.1 Why?

Besides consolidating public spending, streamlining public administrations would lead to increased efficiency of public services and better value for taxpayer's money. This would translate into focusing the State's work on what is best managed by the Government, while transferring more responsibilities either to the private sector or to municipalities. A revised hiring policy, based on skills and merits rather than on acquaintances, would also greatly support the reconstruction of Lebanon. Streamlined administration would also be facilitated by wider use of e-services, which, if done by local companies, could support the development of innovative SMEs.

### 4.26.2 What?

The following administrative structural reforms should be introduced:

- **Entrust the private sector with managing some public services or SOEs.** This does not entail privatizing State's assets and is consistent with the set up of the LIC, as it could in particular take the form of PPP or concessions contracts. This could be envisaged for instance in the health, transportation or education sectors. The operational management of the National Social Security Fund (NSSF) could also be transferred to private players.
- **Developing e-government projects** would also contribute to streamline public services delivery, while at the same time help combatting corruption. As many filing information as possible could be performed online, e-signature and e-transaction should become common practice, etc. This would also be a catalyzer for simplified structures too. The strategy to advance the digitalization of the administration, prepared with the World Bank, should be implemented as soon as possible.
- **For the sake of simplifying public structure, and not to reduce public expenditures, some ministries could be merged or transformed into National Boards** dealing with the coordination of private players activities. This could include for instance utilities, following the reforms of the Electricity, Waste and Water reforms, for Tourism, for Telecom for instance.
- A reduced scope for Central Government policies could also go with **improved compensation of civil servants and widespread trainings**, which would go with skills and merit-based hiring and career paths of civil servants.

### 4.26.3 Impact

Economic
<ul style="list-style-type: none"> <li>• Better public services would reduce waste of and free up resources for productive activities, as well as facilitate the development of new businesses activities</li> </ul>

#### 4.26.4 Implementation timeline and responsibilities

##### Timeline

38 - Streamline the public administration	M1	M2	M3	M4	M5	M6	M7	M8	M9	Q4	Q1	Q2	Q3	Q4	Y3	Y4
Entrust the private sector with managing some public services or SOEs																
Develop e-governments																
Merged ministries and simplify public structure																
Improve compensation of civil servants and conduct capacity building effort																

##### Implementation bodies

- Council of Ministers
- Minister of Finance
- BdL
- Parliament

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