

LEBANON

**PUBLIC FINANCE REVIEW**

# PONZI

## Finance?



JULY 2022

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International Bank for Reconstruction and Development / The World Bank

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**Cover design and typesetting:** Sarah Alameddine



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## A MESSAGE TO THE LEBANESE PEOPLE

Today, Lebanon is confronting compounded shocks which are altering the country in fundamental ways. Separate from the effects of COVID-19, which Lebanon shares with the world, the country's financial and economic crisis has been ranked by the Bank as one of the most severe globally since the mid-1800's. It is important for the Lebanese people to realize that central features of the post-civil war economy—the economy of Lebanon's Second Republic—are gone, never to return. It is also important for them to know that this has been deliberate.

Most painfully, a significant portion of people's savings in the form of deposits at commercial banks have been misused and misspent over the past 30 years. These are earnings by expats who toil in foreign lands; they are retirement funds for citizens and perhaps the sole resource for a dignified living; they are necessary financing for essential medical and education services that consecutive governments have failed to provide; they are funds to pay for electricity in light of colossal failures in Électricité du Liban.

Political slogans for the *sacrosanct of deposits* are hollow and opportunistic; in fact, the constant abuse of this term by politicians is cruel. Not only does it flagrantly contradict reality, it prevents solutions to protect most, if not all small and medium depositors, in dollars and in cash. Losses should have been accepted and carried by bank shareholders and large creditors, who have profited greatly over the last 30 years from a very unequal economic model. This should have occurred at beginning of the crisis (over 2 years ago) to limit the economic and social pain of the financial crisis.

The World Bank has called this *The Deliberate Depression*. The series of Lebanon Economic Monitors have explained that deliberately inadequate policy responses were not due to knowledge gaps and the absence of quality advice. Instead, they were a result of (i) a lack of political consensus over effective policy measures; and (ii) political consensus in defense of a bankrupt economic system, which benefited a few for so long. While social pain was inevitable with the bursting of the bubble, it has been unnecessarily painful: triple

digit inflation rates; hoarding of essential goods; comprehensive power supply blackouts and water supply shortages across the country; collapse of education, health, and other basic services.

In this Public Finance Review (PFR), we show that *The Deliberate Depression* was also deliberate in the making over the past 30 years. In fact, the title of this PFR questions to what extent this was Ponzi Finance instead of Public Finance. We show how the Government consistently and acutely departed from orderly and disciplined fiscal policy to serve the larger purpose of cementing political economy interests. It did this by:

- i. Accumulating debt—beyond fiscal needs—to maintain deposit inflows under a fixed exchange rate, the overvaluation of which permitted excessive consumption, generating an illusion of wealth.
- ii. Acting as distribution channels for subsidies and transfers—centralized around public services—to further entrench the power-sharing confessional system.

*The Deliberate Depression* was also deliberate in the way the State was hollowed out of the provision of basic services to its citizens. This hollowing of the State was a desired/deliberate outcome intended to cement public-private privilege for principal economic benefactors of the Second Republic. Elite capture of State's resources for private gains necessitated weakening of public service delivery so that (1) it allowed lucrative and dollar-inflated private sector contracts (such as oil import business, generators, waste collection, but also private schools, hospitals etc.), and (2) confessional groups could tighten their grip on citizens by supplanting the State in these service provisions.

While Lebanese citizens should know how and why this happened, they should also understand that this is for Lebanon to engage seriously in the macro-fiscal, financial, and sector reforms the World Bank has been stressing for decades. The earlier these reforms will be initiated, the less painful the cost of Ponzi Finance will be on the Lebanese people.

## رسالة إلى الشعب اللبناني

الفقاعة، فقد كانت هذه المعاناة شديدة الألم بلا داع؛ معدلات تضخم تزيد على ١٠٠٪؛ إحتكار السلع الأساسية؛ انقطاع شامل في إمدادات الكهرباء ونقص إمدادات المياه في جميع أنحاء البلاد؛ انهيار قطاعات التعليم والصحة والخدمات الأساسية الأخرى.

يُبيّن تقرير مراجعة المالية العامة، أن الكساد المتعمّد كان أيضاً مقصوداً وجرى الإعداد له على مدى الثلاثين عاماً الماضية. إن عنوان هذا التقرير، في الواقع، يتساءل إلى أي مدى كانت هذه العملية مخططة تمويل بونزي بدلاً من كونها مالية عامة. كما يُبيّن التقرير كيف انحرفت الحكومة بشدة وعلى نحو مستمر عن سياسة المالية العامة المنهجية المنضبطة، وذلك لخدمة الغرض الأكبر المتمثل في تعزيز مصالح الاقتصاد السياسي. وقد قامت بذلك من خلال:

(١) مراكمة الديون - بما يتجاوز احتياجات المالية العامة - للحفاظ على تدفقات الودائع بسعر صرف ثابت، ورفع مُبالغ فيه لقيمة الليرة اللبنانية مما سمح بالإفراط في الاستهلاك، وخلق بالتالي وهماً بالثروة.

(٢) العمل بمثابة قنوات توزيع للدعم والتحويلات - المتمركزة حول الخدمات العامة - لزيادة ترسيخ النظام الطائفي لتقاسم السلطة.

وكان الكساد المتعمّد مُتعمّداً أيضاً في الطريقة التي تم بها تجريد الدولة من قدرتها على تأمين الخدمات الأساسية لمواطنيها. وأتى هذا التجريد كنتيجة مقصودة تهدف إلى ترسيخ الامتيازات العامة والخاصة للرعاة الاقتصاديين الرئيسيين للجمهورية الثانية. وتطلّب استحواذ النخبة على موارد الدولة لتحقيق مكاسب خاصة إضعاف الخدمات العامة من أجل: (١) السماح بإبرام عقود مُربحة وضخمة بالدولار الأميركي مع القطاع الخاص (مثل أنشطة استيراد النفط، والمولدات الكهربائية، وجمع النفايات، وكذلك المدارس الخاصة، والمستشفيات، إلخ)، و(٢) تمكين المجموعات الطائفية من إحكام قبضتها على المواطنين من خلال حلولها مكان الدولة في تقديم هذه الخدمات.

وبينما يجب أن يدرك المواطن اللبناني كيف ولماذا حدث كل ذلك، عليه أيضاً أن يعي بأن على لبنان أن ينخرط بجدية في عملية إصلاح الاقتصاد الكلي والمالية العامة والإصلاحات القطاعية التي يشدّد عليها البنك الدولي منذ عقود. وكلما تم الإسراع ببدء هذه الإصلاحات، كلما كانت تكلفة تلك المالية الوهمية أقل وجعاً على الشعب اللبناني.

يواجه لبنان في الوقت الراهن صدماتٍ متفاقمة تضع البلاد على مسار تغيير جذري. وبمعزل عن آثار جائحة كورونا التي يعاني منها لبنان كسائر بلدان العالم، فقد صُنّف البنك الدولي الأزمة المالية والاقتصادية في لبنان باعتبارها إحدى أشدّ الأزمات على مستوى العالم منذ منتصف القرن التاسع عشر. ومن الضروري أن يدرك الشعب اللبناني أن أهم عناصر اقتصاد ما بعد الحرب الأهلية - أي اقتصاد الجمهورية الثانية في لبنان - قد انتهت إلى غير عودة. ومن المهم أيضاً أن يدرك الشعب اللبناني أن ما حدث كان مُتعمّداً.

والأشدّ إيلاماً هو أن جزءاً كبيراً من مذكرات الناس، والتي اتخذت شكل الودائع لدى المصارف التجارية، قد أسيء استخدامها كما إنفاقها على مدى الأعوام الثلاثين الماضية. تلك هي المذكرات التي جناها مغتربون كدّهم العمل الشاق بعيداً عن وطنهم؛ وهي المعاشات التقاعدية للمواطنين وربما تكون المصدر الوحيد لتأمين عيشهم الكريم؛ وهي مصدر تمويل ضروري للرعاية الصحية والخدمات التعليمية الأساسية التي أخفقت الحكومات المتعاقبة في تقديمها؛ وهي أموال تُستخدم في سداد فواتير الكهرباء في ضوء الإخفاق الشديد في مؤسسة كهرباء لبنان.

إن الشعارات السياسية المتداولة عن قدسية الودائع هي شعارات جوفاء وانتهازية؛ في الواقع، إن إساءة السياسيين استخدام هذا الشعار على نحو متكرّر أمر يتسم بالقسوة. فهو لا يتعارض بشكل صارخ مع الواقع فحسب، بل يحول أيضاً دون التوصل إلى حلول لحماية معظم المودعين من أصحاب الودائع الصغيرة والمتوسطة، إن لم يكن جميعهم، وتكون حمايتهم بالدولار الأميركي وبالنقد. فكان يجب قبول الخسائر وتحميلها على المساهمين في المصارف وكبار الدائنين الذين حققوا أرباحاً ضخمة على مدى الأعوام الثلاثين الماضية من نموذج اقتصادي غير متكافئ. وكان من الضروري القيام بذلك في بداية الأزمة (أي منذ أكثر من عامين) للحد من المعاناة الاقتصادية والاجتماعية الناجمة عن الأزمة المالية.

لقد أطلق البنك الدولي على هذا الوضع صفة الكساد المُتعمّد. فقد أوضحت سلسلة تقارير المرصد الاقتصادي للبنان أن عدم كفاية الاستجابات على صعيد السياسات عمداً لم يكن بسبب الفجوات المعرفية والافتقار إلى المشورة الجيدة، لكنه يُعزى إلى ما يلي: (١) غياب توافق سياسي على الإجراءات الفعالة في مجال السياسات العامة؛ (٢) وجود توافق سياسي على الدفاع عن نظام اقتصادي مفلس، أفاد عدداً ضئيلاً لفترة طويلة. وعلى الرغم من حتمية المعاناة الاجتماعية نتيجة انفجار

## MESSAGE AU PEUPLE LIBANAIS

Le Liban est actuellement confronté à de multiples chocs qui transforment le pays de manière fondamentale. Abstraction faite de la COVID-19, dont les effets se font sentir au Liban comme partout dans le monde, le pays est en proie à une crise financière et économique qualifiée par la Banque d'inégalée à l'échelle mondiale depuis le milieu des années 1800. Il est important que le peuple libanais comprenne que des composantes clés de l'économie de l'après-guerre civile — c'est-à-dire de l'économie de la Deuxième République — ont disparu pour toujours. Il est aussi important qu'il sache que leur disparition résulte d'actions délibérées.

Tragiquement, l'épargne déposée par les citoyens dans des banques commerciales a, pour une large part, été utilisée et dépensée à mauvais escient au cours des trente dernières années. Il s'agit des gains durement acquis par des Libanais partis travailler à l'étranger ; des pensions qui sont peut-être, pour certains citoyens, l'unique moyen de vivre dignement ; des ressources nécessaires à l'obtention de services de santé et d'éducation essentiels que l'État n'assure pas ; et des moyens de payer des factures d'électricité dues aux défaillances massives d'Électricité du Liban.

Les slogans politiques concernant le *caractère sacro-saint des dépôts* sont aussi vides de sens qu'opportunistes ; de fait, il est cruel de la part des politiciens d'employer constamment cette expression de manière abusive. D'une part, cette dernière est totalement contraire à la réalité et, d'autre part, elle fait obstacle à l'adoption de solutions qui pourraient protéger la plupart, sinon la totalité, des titulaires de dépôts de montants faibles ou moyens, en dollars et en espèces. Les pertes encourues auraient dû être acceptées et assumées par les actionnaires des banques et les créanciers importants, qui ont grandement profité d'un modèle économique très inégalitaire pendant les trente dernières années. Ils auraient de surcroît dû le faire au début de la crise financière (il y a plus de deux ans) de manière à atténuer les dommages économiques et sociaux provoqués par cette dernière.

La Banque mondiale a qualifié la situation de *Dépression délibérée*. Différents numéros de la série *Lebanon Economic Monitors* expliquent que l'adoption de mesures délibérément inadéquates n'a pas tenu à un manque d'information et à l'absence de bons conseils, mais qu'elle a résulté : i) de l'absence de consensus politique sur des mesures pouvant être efficaces ; et ii) de la volonté politique de défendre un système économique désastreux qui a si longtemps profité à quelques privilégiés. Si l'éclatement de la bulle ne pouvait que causer des souffrances sociales, ces dernières ont été inutilement aggravées par un taux d'inflation à trois chiffres ; le stockage de biens essentiels ; des coupures de courant généralisées ; une pénurie d'eau dans tout le pays ; et l'effondrement des services d'éducation, de santé et d'autres services de base.

Dans cet examen des finances publiques, nous montrons que la *Dépression délibérée* est le fruit de l'action menée, elle aussi délibérément, au cours des 30 dernières années. De fait, l'on peut se demander, comme le titre de cet Examen l'indique, dans quelle mesure les finances publiques n'ont pas plutôt servi à construire une pyramide de Ponzi. Nous expliquons comment les autorités publiques se sont systématiquement détournées de toute politique budgétaire rigoureuse et harmonieuse dans le but plus général de conforter des intérêts économiques et politiques. À cette fin :

- i. L'État a accumulé des dettes — *supérieures aux besoins budgétaires* — pour maintenir l'entrée de fonds grâce à un régime de taux de change fixe dont la surévaluation a permis d'alimenter une consommation excessive et de créer l'illusion de richesse.
- ii. L'État a utilisé les services publics comme courroie de distribution de subventions et de transferts pour enraciner encore plus profondément le système confessionnel de partage du pouvoir.

La *dépression délibérée* s'est caractérisée par l'amenuisement également délibéré de la

participation de l'État à la prestation de services de base à ses citoyens. Ce retrait de l'État avait pour objet de renforcer les privilèges conférés par les relations forgées entre le secteur public et le secteur privé par les principaux acteurs économiques de la Deuxième République. Pour que les élites puissent accaparer les ressources à leurs propres fins, il a fallu dégrader les services publics assurés de manière à permettre : 1) l'attribution au secteur privé de contrats et de marchés lucratifs pour des montants en dollars artificiellement gonflés (notamment pour l'importation de pétrole, la fourniture de générateurs, la collecte des déchets, mais aussi pour l'enseignement privé, les

hôpitaux, etc.), et 2) le resserrement de l'emprise des groupes confessionnels qui se sont substitués à l'État pour assurer ces services.

S'il importe que les citoyens libanais sachent comment et pourquoi leur pays se retrouve dans cette situation, il leur faut aussi savoir que c'est au Liban qu'il incombe de poursuivre résolument les réformes macro-budgétaires, financières et sectorielles que la Banque mondiale prône depuis des dizaines d'années. Plus vite les réformes seront entreprises, moins lourd sera le fardeau imposé au peuple libanais par la structure de Ponzi.

## ACKNOWLEDGEMENTS

The *Lebanon Public Finance Review* (PFR) is a product of the World Bank's Lebanon Macroeconomics, Trade and Investment (MTI) Global Practice. Task Team Leaders are Wissam Harake (Senior Economist) and Kamel Braham (Human Development Program Lead for Mashreq). Core team members are: Mahmoud Haidar (Consultant, MTI), Lars Jessen (Lead Debt Specialist, MTI), Haocong Ren (Senior Financial Sector Specialist, FCI), Naji Abou Hamde (Economic Analyst), Amal Talbi (Lead Water Resources Management Specialist), Alexis Lucien Emmanuel Madelain (Senior Energy Specialist), Mira Morad (Senior Transport Specialist), Ronald Eduardo Gomez Suarez (Senior Economist, Health), Elisabeth Sedmik (Economist, Education), Haneen Ismail Sayed (Lead Operations Officer). Other contributors include: Sally Zgheib (Senior Water Supply and Sanitation Specialist, SMNWA); Rajesh Balasubramanian (Senior Water Supply and Sanitation Specialist, SMNWA); Sameh Mobarek (Senior Energy Specialist, ISAE1); Tu Chi Nguyen (Senior Energy Economist, IMNE1); Yanchao Li (Energy Specialist, IMNE1); Rita Ghorayeb (Consultant, IMNE1); Rida El Mawla (Consultant, IMNE1); Anne Cecile Sophie Souhaid (Senior Transport Specialist); Gaelle Samaha, Consultant IMNC1); Flavia Nansubuga (HR Specialist, Compensation and Benefits, HRDCB); Sherin Varkey (Senior Health Specialist, HMNHN); Son Nam Nguyen (Lead Health Specialist, HMNHN); Farah Ashfahani (Health Specialist, HMNHN); Katriel Friedman (ET Consultant, HMNHN); Rim Atoui (Consultant, EMNGU); Montserrat Pallares-Miralles (Senior Social Protection Specialist, HMNSP); Fahmina Rahman Dutta (Social Protection Specialist, HMNSP); Khalil Fouad Dagher (ET Consultant, HMNSP); Nathalie Lahire (Senior Economist, HMNED); Lucas Gortazar (Consultant, HMNED); Hana Addam El Ghali (ET Consultant, HMNED); Gustavo Nicolas Paez Salamanca (Consultant, HMNSP); Kawthar Dara (Consultant, HMNED) and Mohamad Hussein Mansour (Consultant, EMNPV); Cynthia Yammine (Program Assistant, MNCLB); Alain Barakat (Program Assistant, MNCLB)

The PFR has been completed under the guidance of Eric Le Borgne (Practice Manager) and Saroj Kumar Jha (Mashreq Regional Director). Zeina Khalil (Senior External Affairs Officer) is the lead on communications, outreach, and publishing.

Co-financing for the PFR was provided by The German Federal Ministry for Economic Cooperation and Development.

The PFR has been developed in partnership with Charbel Nahas (Professor of Political Economy and Public Policy, AUB), Elissar Smaha (Researcher), Petra Smaha (Researcher) and Mounir Doumani (Researcher).

The team is grateful to the peer reviewers Kevin Carey (Lead Economist, MTI), Anna Schneider (Senior Policy Officer at Federal Ministry for Economic Cooperation and Development), Heba Elgazzar (Program Leader Human Development, HECDR) and Simon J. Stolp (Practice Manager, ISAE1) for their insightful and constructive comments. The team would like to also thank Dr. Samir Daher for his comments.

The team benefitted from guidance and insight from Christos Kostopoulos (Lead Economist, MTI).

The team also thanks the Lebanese Citizen Foundation for organizing workshops of experts over September 28-29, 2021. Views and commentary from participants in these workshops provided significant insight and feedback.

The findings, interpretations, and conclusions expressed in the PFR are those of World Bank staff and do not necessarily reflect the views of the Executive Board of The World Bank or the governments they represent.

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# EXECUTIVE SUMMARY

I. **Lebanon's macro-financial bankruptcy is with such (relative) scale and scope that it has likely undermined the political economy of post-civil war Lebanon**—The Second Republic.<sup>1</sup> This political economy thrived under large inflows of deposits that funded a public-private privilege<sup>2</sup> for the few (including the financial sector) and political patronage that exercised dominion over public administration. The finality of the sudden stop in October 2019, however, seems to be leading to the disintegration of this political economy, as manifested by a collapse of the most basic public services, persistent and debilitating internal political discord, and the resignation/exodus of some of the social and economic elite who have traditionally benefited from this model. The poor and the middle class, who were never well-served under this model in the first place, are carrying the main burden of this bankruptcy. In fact, Lebanon is undergoing a socio-political-economic transition to an as-yet-unknown re-configuration.<sup>3</sup>

II. **The Public Finance Review (PFR) analyzes Lebanon's public finances over a long horizon, to understand the roots of the fiscal profligacy and its eventual insolvency.** To do so, the PFR links three critical elements in three Sections. **Section I: Fiscal Policy in the Second Republic; Section II: Macro-Financial Restructuring; Section III: Public Service Non-Delivery.** A fourth critical element is geopolitics, which is beyond the scope of the PFR. Taken together, these form critical determinants of the outcomes for any future socio-political-economic re-configuration.

III. **We qualify our work with the following important caveats.** Firstly, while the examination herein focuses on public finance, it is balance of

payments (BoP) considerations that drove economic policy over the examined period. Motivated by BoP pressures, quasi-fiscal operations undertaken by the central bank generated massive costs that were unseen, unacknowledged and under-reported. Further, Lebanon continues to be the largest per capita host of refugees globally, as a result of the eruption of the Syria war. The PFR does not dissect this global public good that has been rendered since 2011, as it has been more thoroughly assessed in the Bank's 2020 publication *The Fallout of War: The Regional Consequences of the Conflict in Syria*.

## Section I: Fiscal Policy in the Second Republic

IV. **Section I illustrates the role of public finance in the elite capture narrative, identifying and—to the extent data permits—quantifying diverted resources.** Methods behind GoL's consistent and acute departure from orderly and disciplined fiscal policy are identified. This departure was not due to the lack of resources—where sizable capital inflows persisted for decades—or alternatives—with incessant warnings, advice and advocacy for reforms from local stakeholders and international partners. Instead, the departure was highly consistent with the objective of serving the interests of an entrenched political economy, which instrumentalized State institutions using fiscal and economic tools.

V. **Fiscal activities reveal the two most prominent and systematized features of this political economy, namely:**

- i. Debt accumulation to reinforce the confidence channel in the macro-financial system. This

1 Lebanon's economic crisis is likely to rank in the top 10, possibly top three, most severe crises episodes globally since the mid-nineteenth century. Lebanon's Nominal GDP plummeted from close to US\$55 billion in 2018 to an estimated US\$22 billion in 2021, with US\$ GDP/capita falling by around 60 percent. Such a brutal contraction is usually associated with conflicts or wars. ([Spring 2021 Lebanon Economic Monitor](#), LEM).

2 The collusion of public and private representatives at macro and micro levels to guarantee capture of resources.

3 As early as Spring 2016, the World Bank declared the bankruptcy of the business model for the political economy of The Second Republic; "... a socially and economically bankrupt model, whereby human capital is exported in return for inflows that finance rent-seeking activities that aggravate imbalances." ([Spring 2016 LEM](#))

was necessary to maintain robust deposit inflows under a fixed exchange rate, the overvaluation of which permitted excessive consumption, generating an illusion of wealth.

- ii. The realization of political and financial benefits from both excess costs imposed on the citizenry and privileges granted to the few. This occurred through distribution channels involving subsidies and profit-making that were centralized around public services, further entrenching the power-sharing confessional system.

#### **VI. From analyses undertaken, the PFR identifies five financial accounts for the Second Republic:**

- a. Official public internal and external accounts (fiscal, balance of payments, debt etc.);
- b. Undisclosed losses accumulated in BdL accounts and presented only symbolically under “other assets” in the BdL balance sheet;
- c. GoL deferred or refused due payments (i.e., arrears) that amount to forced debt and/or losses on beneficiaries;
- d. Excessive money creation by BdL; and
- e. The absence of, or significant deficiencies in, basic public services that taxpayers financed publicly, and then once again via substitute services from private providers (electricity, water, etc.).

#### **VII. The above elements prefigured the massive losses that were imposed on the depositors after the collapse.**

### *Section II: Macro-Financial Restructuring*

**VIII. Key Policy Decisions (KPDs) for the restructuring of the macro-financial system—primarily, public debt-fiscal-monetary-financial sectors—are identified and simulated.** Section II updates Technical Assistance offered by the Bank under the PFR to the GoL in early 2020 to help authorities devise a crisis management strategy. We are able to gauge some of the losses in the system, as partially observed through the balance sheets of the three main stakeholders: Government, BdL, and the banking sector.

#### **IX. For illustrative purposes, we undertake scenario analysis and the simulations incorporated, with the aim of gauging the impact of KPDs.** Key takeaways:

- Lebanon’s macro-financial system became characterized by strong interlinkages between the fiscal-monetary-financial sectors, rendering one dependent on the other, as one sector’s liabilities constituted another’s assets, binding oversized balance sheets.
- Debt restructuring measures (both domestic and foreign debt) will fail to reduce the debt-to-GDP to below 100 percent and sufficiently create a fiscal space. Hence, growth is essential for debt sustainability.
- Debt restructuring measures will incur substantial losses on BdL and commercial banks.
- Unification of the exchange rate will significantly shrink BdL’s and banks’ balance sheets.
- An essential outcome of reforms in the financial sector would be to notably improve BdL’s Net International Reserve (NIR) position, which is currently estimated to be significantly in the negative.
- Transparency regarding the disclosure of standard central banking information, such as NIR, and the use of recognized international accounting practices is a critical component of the strengthening of transparency and accountability of public finances. In fact, the sheer size of the sovereign, BdL, and banking system balance sheets would have never reached the elevated levels reached by the eve of the crisis in 2019 if economic actors had been able to see that the NIR had turned negative long time before the crisis.

### *Section III: Public Service Non-Delivery*

**X. Section III analyzes the implications of Lebanon’s macro and structural policies on the (failed) provision of key basic services to the population.** We illustrate failures in core components of the social contract as manifested by low (and falling) quality of basic public services in the following sectors: Water, Electricity, Transport, Health, Education and Social Protection.

**XI. The PFR shows serious gaps in the financing of basic public services, prevailing long before—and aggravated by—the current crisis.** On the revenue side, low cost-recovery led to an unsustainable fiscal burden and negatively impacted the provision of electricity and water to the population. The sector analyses confirm the inefficiencies in public spending, which reflect the stressed macro-fiscal conditions analyzed herein. The low level of capital expenditures resulted, among others, in lack of investments in additional electricity generation capacity and network maintenance. This, in turn, constrained Electricité du Liban (EdL) from meeting electricity demand, promoting instead costly and highly polluting alternatives provided (very lucratively) by the private sector.

**XII. The successive shocks that hit Lebanon since 2019 affected both the supply and demand sides in critical sectors.** The collapse of the local currency and ensuing economy-wide shortages in foreign exchange (FX) have resulted in sharply increasing costs across sectors. The sectors also suffered from shortages of goods and services in the economy, resulting in the deterioration of the quality of service provided. The high inflation rates have led to sharp declines in the purchasing power of salaries for public sector employees (among others). Critical sectors are losing thousands of qualified personnel in the ensuing brain drain from the country. The end of the FX subsidy exacerbated the inflationary environment for households. Their coping strategies consisted of looking for more affordable alternatives (such as moving their children from private to public schools) when available, or simply reducing their utilization of services through, among others, less hours of generators' electricity, lower consumption of water or delayed health care.

**XIII. The compounded crises further revealed the fragility of Lebanon's service provision model, itself a product of elite capture of State's resources for private gains that necessitated weakening of public service delivery.** While addressing such

fragility would be a medium- to long-term agenda, Lebanese people need immediate assistance. This section proposes a series of sector-specific measures and policies aiming at addressing the immediate needs of the population while engaging in medium-long-term reforms to improve the performance, sustainability and resilience of public service provision. The proposed measures focus on the following main objectives:

- *Ensure sustainability and affordability of basic services* through proper investments, better cost-recovery policies and improved governance, notably in Water, Electricity and Transport sectors.
- *Enhance equity in public spending* particularly through reducing out-of-pocket (OOP) healthcare expenditures, realigning education financing, prioritizing progressive social protection interventions targeted to the poor and vulnerable, and addressing the structural problems of the public pension to ensure sustainability and fairness.
- *Improve efficiency in government spending throughout the sectors.* This would include, among others, rebalancing the health system toward preventive and primary care, containing overall health care expenditures (notably pharmaceutical), more efficient allocation of inputs to public schools (teachers and infrastructure) and adopting policies to reduce the high student repetition.

**XIV. Furthermore, as expounded on in the [Lebanon Systematic Country Diagnostic](#) (SCD 2016),<sup>4</sup> the hollowing of the state is a desired/deliberate outcome intended to cement public-private privilege for principal benefactors of Lebanon's post-civil war economy.** Elite capture of State's resources for private gains necessitated weakening of public service delivery so that (1) lucrative and dollar-inflated private sector contracts could step in (e.g., oil import business, generators, waste collection, but also private schools, hospitals etc.), and (2) confessional groups could tighten their grip

<sup>4</sup> [World Bank \(2016\) "Lebanon Systematic Country Diagnostic"](#).

on citizens by supplanting the State in these service provisions. For Lebanon's public finances, public policy, and the public sector to start delivering for its citizens, this fundamental feature of the pre-crisis regime needs to be overhauled.

## Policy Implications

**XV. An important value added for the PFR is that it presents analyses and policy recommendations across the economy during crisis conditions with a perspective for long-term sustainability.** Both the Macro and Sector sections suggest urgent interventions that are consistent with longer term reforms that have been examined, analyzed and stressed repeatedly by the Bank for decades.

**XVI. Long-term macro and structural deficiencies were left unresolved over the post-war period,**

**despite numerous in-depth analyses and accessibility of financing.** In a series of policy notes, the World Bank identified critical macro, structural and sectoral reforms to help mitigate risks and boost potential growth. In December 2016, the WB published a White Paper that included World Bank staff assessment on needed reforms for a new Government to introduce and implement, following two and a half years of a Presidential vacancy and institutional paralysis.<sup>5</sup> This list was later developed and attuned in the WB Strategic Assessment of the Capital Investment Plan (CIP) for Lebanon<sup>6</sup> that was presented in the CEDRE conference in Paris in April 2018. Lastly, in the Fall 2020 Lebanon Economic Monitor (LEM), entitled, *The Deliberate Depression*, the Bank presented a reform agenda that looked to strengthen the overall economic management in Lebanon in a way that is more inclusive and more accountable (see [Box 1](#)).

5 World Bank (2016), *Priority Reforms for the Government of Lebanon*, December 2016.

6 Harake, Wissam and Christos Kostopoulos (2018), *Strategic Assessment: A Capital Investment Plan for Lebanon*, World Bank Group, Washington DC.

### Box 1. Main Pillars of the Reform Matrix as Published in the LEM Fall 2020.

**At the heart of the proposed reform agenda are governance and accountability reforms that seek to strengthen overall economic management in Lebanon in a way that is more inclusive and more accountable; in doing so, the proposed reform agenda seeks to rebuild trust.** The reform agenda compromises the following five pillars:

#### 1. **A Macroeconomic Stabilization Program:**

Lebanon needs to arrest high inflation, rapid currency depreciation and the proliferation of multiple exchange rates. It needs to put in place a path to public debt sustainability based on debt restructuring and a sustainable fiscal framework, and to include a strong social protection package. The challenges of fiscal adjustment, and the necessary banking sector restructuring will require full realization of resulting losses according to international accounting norms, which will need to be distributed according to the hierarchy of claims and in an equitable manner taking into consideration past realized benefits.

#### 2. **A Governance and Accountability Reform Package:**

Lebanon needs to address the primary sources of corruption and inefficiency in the public sector in order to create budgetary savings, improve development impact, and begin to rebuild trust between government and citizens. Reforms under this package aim to rebuild trust by: (1) strengthening management of public funds through public finance, investment, and debt management reforms; (2) reforming public procurement, in part to increase fair private sector participation; (3) improving transparency and inclusion through complying with and joining the Open Government Partnership (OGP); and (4) boosting accountability through anti-corruption and judicial reforms. These reforms can be viewed as the building blocks of a public sector reform that is needed to rebuild the Lebanese state.

#### 3. **An Infrastructure Development Reform Package:**

Lebanon's dilapidated infrastructure is a developmental constraint. Among the vital basic services that are needed, Lebanon lags in (1) electricity, (2) telecommunications, (3) port system, (4) transportation, and (5) water and sanitation. Lebanon needs urgent investment in these sectors, which the state can ill afford, and which the private sector is unwilling to undertake, given opacity and weak regulatory governance. Reforms to limit fiscal and quasi-fiscal deficits of state-owned enterprises, strengthen management, regulation and governance, and encourage private investment will need to be prioritized.

#### 4. **An Economic Opportunities Reform Package:**

The economic crisis will bring new opportunities that primarily stem from domestic price adjustments and the depreciated currency. Enterprises and finance must identify these opportunities and use them to create new jobs. Lebanon will need to lighten the burden that it places on its enterprises by simplifying processes and procedures, reduce operating costs, and undertake fundamental reforms to level the playing field. Lebanon will also need to ensure that the banking sector can perform its intermediation function. These reforms can be supported by an economic development plan that ensures markets work efficiently and are unhindered by specific sectoral constraints to growth.

#### 5. **A Human Capital Development Reform Package:**

A key aspect of sustainability and growth for Lebanon's economy is recapturing the human capital potential. For Lebanon, part of the challenge is the fiscal constraint of supporting necessary public services. The other part of the challenge is sector efficiency and management. A strategy for stabilization, economic efficiency, and restoration of trust needs to include reforms that support the development of human capital, and at the same time create fiscal space to dedicate this type of expenditure to support such reforms in a sustainable budget framework.

# موجز

عملية لإعادة تشكيل الأوضاع الاجتماعية والسياسية والاقتصادية في المستقبل.

١١. **تجدر الإشارة إلى الاعتبارات التالية.** أولاً، في حين تُركّز الدراسة في هذا التقرير على المالية العامة، فإن اعتبارات ميزان المدفوعات هي التي كانت تحرك السياسة الاقتصادية خلال الفترة المشمولة بالدراسة. فما يقوم به المصرف المركزي من عمليات شبه مالية، نتيجة ضغوط ميزان المدفوعات، نشأ عنها تكلفة هائلة لم تكن ظاهرة ولا مُعترف بها وغير واردة في أي تقارير. إضافة إلى ذلك، لا يزال لبنان أكبر مضيف للاجئين على مستوى العالم، نسبةً لعدد السكان، وذلك نتيجة لنشوب الحرب في سوريا. ولا يحلّ هذا التقرير هذه المنفعة العامة التي يقدمها لبنان إلى العالم أجمع منذ عام ٢٠١١، حيث قد خضعت لتقييم متعمق في تقرير للبنك الدولي بعنوان نتائج الحرب: تبعات الصراع في سوريا على المنطقة.

## القسم الأول: سياسة المالية العامة في الجمهورية الثانية

١٢. **يوضح القسم الأول دور المالية العامة في سريّة استحواذ النخبة على الموارد، حيث يحدّد الموارد المحوّلّة ويقدّر حجمها، بالقدر الذي تسمح به البيانات.** ويقوم بتحديد الأساليب التي تسببت في ابتعاد الحكومة اللبنانية على نحو مستمر عن سياسة المالية العامة المنتظمة والمنضبطة. ولم يكن هذا الابتعاد ناتجاً عن نقص الموارد حيث استمرت تدفقات رأس المال الكبيرة لعقود، أو في البدائل عن هذه السياسات، مع استمرار التحذيرات والمشورة والدعوة إلى الإصلاح من أصحاب المصلحة المحليين والشركاء الدوليين. بدلاً من ذلك، كان ابتعاد الحكومة متّسقاً إلى حد كبير مع الهدف المتمثل في خدمة مصالح

١. **يأتي حجم ونطاق الإفلاس المالي الكلي في لبنان (نسبياً) على نحو قد يؤدي إلى تقويض الاقتصاد السياسي للبنان بعد الحرب الأهلية -الجمهورية الثانية.** فقد ازدهر هذا الاقتصاد السياسي في ظل تدفقات ضخمة من الودائع مؤلّت امتيازات<sup>٧</sup> عامة وخاصة للقلة (بما في ذلك في القطاع المصرفي) ومحسوبة سياسية مارست هيمنة على الإدارة العامة. غير أن النهاية، التي تمثلت في التوقف المفاجئ خلال شهر أكتوبر/تشرين الأول ٢٠١٩، تؤدي على ما يبدو إلى تفكّك هذا الاقتصاد السياسي، كما يتضح من انهيار الخدمات العامة الأساسية، واستمرار الشقاق السياسي الداخلي الموهن لأوصال الدولة، واستقالة/هجرة بعض النخب الاجتماعية والاقتصادية التي كانت استفادت من هذا النموذج. في الوقت نفسه، فإن العبء الأكبر للأزمة يقع على كاهل الفقراء والطبقة المتوسطة، وهي الفئات التي لم يكن النموذج القائم يلبي حاجاتها أصلاً. في الواقع، يمر لبنان الآن بمرحلة تحوّل اجتماعي وسياسي واقتصادي في عملية إعادة تشكيل غير معروفة أبغادها بعد<sup>٩</sup>.

١٣. **يحلل تقرير مراجعة المالية العامة أوضاع المالية العامة في لبنان على مدى أفق زمني طويل لفهم جذور الإسراف في المالية العامة وإفلاسها في نهاية المطاف.** وللقيام بذلك، يربط

هذا التقرير ثلاثة عناصر حيوية في ثلاثة أقسام. **القسم الأول: سياسة المالية العامة في الجمهورية الثانية؛ القسم الثاني: إعادة هيكلة المالية الكلية؛ القسم الثالث: عدم تقديم الخدمات العامة.** وثمة عنصر حيوي رابع هو الوضع الجيوسياسي، لكنه يتجاوز نطاق هذا التقرير. وتشكل هذه العوامل مجتمعة عوامل بالغة الأهمية في تحديد نواتج أي

٧ سحتل الأزمة الاقتصادية التي يواجهها لبنان المركز الأول على الأرجح بين أشد عشر أزمات، ورّثاً بين أشد ثلاث أزمات، حدة على مستوى العالم منذ أواسط القرن التاسع عشر. فقد انخفضت قيمة إجمالي الناتج المحلي للبنان من حوالي ٥٥ مليار دولار عام ٢٠١٨ إلى ما يقدر بنحو ٢٢ مليار دولار عام ٢٠٢١، في حين انخفض نصيب الفرد من إجمالي الناتج المحلي بنحو ٦٠٪ من حيث القيمة الدولية. علماً بأن هذا الانكماش الشديد يصاحب في العادة الصراعات أو الحروب. ( **المركز الاقتصادي للبنان، ربيع ٢٠٢١** ).

٨ تواطؤ ممثلي القطاعين العام والخاص على المستويين الكلي والجزئي لضمان استحواذهم على الموارد.

٩ اعتباراً من ربيع عام ٢٠١٦، أعلن البنك الدولي إفلاس نموذج الاقتصاد السياسي للجمهورية الثانية؛ «... نموذج مفلس اجتماعياً واقتصادياً، يتم بموجبه تصدير رأس المال البشري مقابل التدفقات الوافدة التي تمول الأنشطة الريعانية التي تؤدي إلى تفاقم الاختلالات». ( **المركز الاقتصادي للبنان، ربيع ٢٠١٦** )

اقتصاد سياسي مترسخ استخدم مؤسسات الدولة من خلال الأدوات المالية والاقتصادية.

٧. **تكشف أنشطة المالية العامة عن اثنتين من أبرز سمات هذا الاقتصاد السياسي وأكثرها منهجية، وهما:**

- i. تراكم الديون لتعزيز قناة الثقة في النظام المالي الكلي. وكان ذلك ضرورياً للحفاظ على تدفقات وافدة قوية للودائع بسعر صرف ثابت، ورفع مُبالغ فيه لقيمة الليرة اللبنانية مما سمح بالإفراط في الاستهلاك وخلق ثروة وهمية؟.
- ii. تحقيق منافع سياسية ومالية من التكاليف الزائدة المفروضة على المواطنين والامتيازات الممنوحة للقلة. وحدث ذلك من خلال قنوات التوزيع التي تتضمن دعم، وتحقيق أرباح كانت متمركزة حول الخدمات العامة، مما زاد من ترسيخ النظام الطائفي لتقاسم السلطة.

٧i. بناءً على التحليلات التي تم إجراؤها، يحدّد هذا التقرير خمسة حسابات مالية للجمهورية الثانية:

٢. الحسابات الداخلية والخارجية الرسمية العامة (المالية العامة، ميزان المدفوعات، الدين، إلخ).
٣. الخسائر المتراكمة غير المعلنة في حسابات مصرف لبنان ولم تُعرض إلا بشكل رمزي تحت «أصول أخرى» في المركز المالي لمصرف لبنان.
٤. قيام الحكومة اللبنانية بتأجيل أو رفض المدفوعات المستحقة (أي المتأخرات) التي تصل إلى فرض الدين و/أو الخسائر على المستفيدين.
٥. إفراط مصرف لبنان في طبع النقود.
٦. غياب الخدمات العامة الأساسية أو اتسامها بأوجه قصور شديدة، وهي الخدمات التي يمولها دافعو الضرائب الذين يتحملون تكلفتها مرة أخرى من خلال خدمات بديلة تقدمها شركات خاصة (الكهرباء، والمياه، إلخ).

٧ii. دلّت العناصر المذكورة أعلاه على الخسائر الهائلة التي فُرضت على المودعين بعد الانهيار.

## القسم الثاني: إعادة هيكلة المالية الكلية

٧iii. يحدد هذا القسم القرارات الرئيسية لسياسات إعادة هيكلة النظام المالي الكلي - تحديداً الدين العام وقطاع المالية العامة والقطاع النقدي

**والقطاع المالي- ويجري محاكاتها.** يُحدّث القسم الثاني المساعدة الفنية التي قدمها البنك الدولي بموجب هذا التقرير إلى الحكومة اللبنانية في أوائل عام ٢٠٢٠ لمساعدة السلطات على وضع إستراتيجية لإدارة الأزمات. ويمكننا قياس بعض الخسائر في النظام، كما لوحظ جزئياً من خلال ميزانيات أصحاب المصلحة الرئيسيين الثلاثة، وهم: الحكومة، ومصرف لبنان، والقطاع المصرفي.

٧x. **لأغراض التوضيح، نجري تحليلاً للسيناريوهات ونماذج المحاكاة المدمجة، وذلك بهدف قياس أثر القرارات الرئيسية لسياسات إعادة هيكلة النظام المالي الكلي.** في ما يلي استنتاجات مهمة:

- يتسم النظام المالي الكلي في لبنان بروابط قوية بين القطاعات المالية والنقدية والمالية العامة، مما جعل أحدها يعتمد على الآخر، حيث تشكل التزامات أحد القطاعات أصولاً للقطاع الآخر، مما يربط ميزانياتها.
- لن تؤدي تدابير إعادة هيكلة الديون (سواء الدين المحلي أو الأجنبي) إلى خفض نسبة الدين إلى إجمالي الناتج المحلي إلى أقل من ١٠٠٪، أو خلق حيزاً كافياً في المالية العامة. ومن ثم، فإن النمو ضروري لاستمرارية القدرة على تحمل أعباء الدين.
- ستُكبد إجراءات إعادة هيكلة الدين مصرف لبنان والبنوك التجارية خسائر ضخمة.
- سيعمل توحيد سعر الصرف على خفض ميزانيات المصرف المركزي والبنوك انخفاضاً شديداً.
- تتمثل إحدى النتائج الأساسية للإصلاحات في القطاع المالي في تحسين ملحوظ في مركز صافي الاحتياطي الدولي لدى مصرف لبنان، والذي يُقدر حالياً على نحو سلبي بنسبة عالية.
- تعد الشفافية في ما يتعلق بالإفصاح عن المعلومات القياسية لمصرف لبنان، مثل صافي الاحتياطي الدولي واستخدام الممارسات المحاسبية الدولية المعترف بها، مكوناً بالغ الأهمية لتعزيز شفافية الماليا العامة وخضوعها للمساءلة. وفي الواقع، لم يكن حجم الميزانيات السيادية والخاصة بمصرف لبنان والنظام المصرفي ليبلغ أبداً المستويات المرتفعة التي وصل إليها عشية الأزمة في عام ٢٠١٩، لو كانت الجهات الاقتصادية الفاعلة تمكنت من رؤية أن صافي الاحتياطي الدولي قد تحوّل سلباً قبل قبل نشوب الأزمة بزمان طويل.

## القسم الثالث: عدم تقديم الخدمات العامة

X. **يحلل القسم الثالث تداعيات السياسات الكلية والهيكلية للبنان على (الفشل في) تقديم الخدمات الأساسية الرئيسية للسكان.** ويوضح أوجه الفشل في المكونات الأساسية للعقد الاجتماعي كما يتضح من ضعف (وتراجع) جودة الخدمات العامة الأساسية في القطاعات التالية: المياه والكهرباء والنقل والصحة والتعليم والحماية الاجتماعية.

XI. **يُظهر هذا التقرير فجوات خطيرة في تمويل الخدمات العامة الأساسية، كانت سائدة قبل الأزمة الحالية بمدة طويلة وتفاقمت بسببها.** وعلى صعيد الإيرادات، أدى انخفاض معدل استرداد التكلفة إلى أعباء مالية غير مستدامة وأثر سلباً على توفير الكهرباء والمياه للسكان. وتؤكد التحليلات القطاعية أوجه القصور في الإنفاق العام، والتي تعكس أوضاع الاقتصاد الكلي والمالية العامة التي تم تحليلها في هذا التقرير. وأدى انخفاض مستوى الإنفاق الرأسمالي، من بين عوامل أخرى، إلى نقص الاستثمارات في زيادة قدرات توليد الكهرباء وصيانة الشبكات. وأدى ذلك بدوره إلى إعاقة مؤسسة كهرباء لبنان عن تلبية الطلب على الكهرباء، مما عزز اللجوء إلى بدائل باهظة التكلفة وعالية التلوث (و مربحة للغاية) يقدمها القطاع الخاص.

XII. **أثرت الصدمات المتعاقبة التي أصابت لبنان منذ عام ٢٠١٩ في القطاعات الحيوية على جانبي العرض والطلب.** فقد أدى انهيار العملة المحلية وما أعقبه من نقص في النقد الأجنبي على مستوى الاقتصاد كله إلى زيادة حادة في التكلفة في هذه القطاعات. وعانت تلك القطاعات أيضاً من نقص السلع والخدمات داخل الاقتصاد، مما أدى إلى تدهور نوعية الخدمات المقدمة. وأدى ارتفاع معدلات التضخم إلى انخفاض حاد في القوة الشرائية لرواتب موظفي القطاع العام (على سبيل المثال لا الحصر). وتفقد القطاعات الحيوية نتيجة لذلك آلاف الموظفين المؤهلين عبر نزيف الموارد البشرية الذي تشهده البلاد. وأدى انتهاء دعم النقد الأجنبي إلى تفاقم الضغوطات التضخمية على الأسر. وتشمل إستراتيجيات التكيف الخاصة بهذه الأسر البحث عن بدائل ميسورة التكلفة (مثل نقل أطفالها من المدارس الخاصة إلى المدارس

(الحكومية) عند توفرها، أو ببساطة الحد من استخدامها للخدمات كخفض ساعات توليد الكهرباء بالمولدات أو خفض استهلاك المياه أو تأخير اللجوء للرعاية الصحية، ضمن إجراءات أخرى.

XIII. **كشفت الأزمات المتفاقمة أيضاً هشاشة نموذج تقديم الخدمات في لبنان، وهو في حد ذاته نتاج استحواذ النخبة على موارد الدولة لتحقيق مكاسب خاصة استلزمت إضعاف الخدمات العامة.** وفي حين أن معالجة هذه الأوضاع الهشة تمثل أجندة متوسطة إلى طويلة الأجل، فإن الشعب اللبناني بحاجة إلى مساعدة فورية. ويقترح هذا القسم سلسلة من التدابير والسياسات القطاعية المحددة التي تهدف إلى تلبية الاحتياجات الفورية للسكان مع بدء إصلاحات على المدى المتوسط لتحسين أداء الخدمات العامة واستدامتها وقدرتها على الصمود. وتركز التدابير المقترحة على الأهداف الرئيسية التالية:

- ضمان استدامة الخدمات الأساسية وتحمل تكلفتها من خلال الاستثمارات السليمة، وتحسين سياسات استرداد التكلفة، وتحسين الحوكمة، لاسيما في قطاعات المياه والكهرباء والنقل.
- تعزيز الإنصاف في الإنفاق العام، لاسيما من خلال خفض الإنفاق الشخصي المباشر على الرعاية الصحية، وإعادة تنظيم تمويل التعليم، وإعطاء الأولوية للإجراءات التدخلية التدريجية في مجال الحماية الاجتماعية التي تستهدف الفئات الفقيرة والأكثر احتياجاً من اللبنانيين، بالإضافة إلى معالجة المشاكل الهيكلية للمعاشات التقاعدية العامة لضمان الاستدامة والعدالة.
- تحسين الكفاءة في الإنفاق الحكومي في جميع القطاعات. ويشمل ذلك، على سبيل المثال لا الحصر، إعادة التوازن في النظام الصحي عبر التركيز على الرعاية الوقائية والصحة الأولية، واحتواء الإنفاق العام على الرعاية الصحية (لاسيما المستحضرات الصيدلانية)، وزيادة الكفاءة في تخصيص مستلزمات المدارس الحكومية (المعلمين والبنية التحتية)، واعتماد سياسات للحد من ارتفاع معدلات الرسوب لدى الطلاب.

XIV. **علاوة على ذلك، وكما ورد في [الدراسة التشخيصية المنهجية](#) للبنان (الدراسة التشخيصية**

عُرضت على المؤتمر الاقتصادي للتنمية (سيدر) في باريس في شهر أبريل/نيسان ٢٠١٨. وأخيراً، وفي تقرير المرصد الاقتصادي للبنان عدد خريف ٢٠٢٠ الذي صدر بعنوان **الكساد المتعمد**، قدم البنك أجندة إصلاحية تستهدف تعزيز الإدارة الاقتصادية في لبنان بطريقة أكثر شمولاً وخضوعاً للمساءلة (انظر الإطار أ).

**المنهجية، ٢٠١٦)١٠: فإن تفريغ الدولة هو نتيجة مرغوبة/ متعمدة تهدف إلى ترسيخ الامتيازات العامة والخاصة للمستفيدين الرئيسيين من اقتصاد لبنان بعد الحرب الأهلية. وتطلّب استحواذ النخبة على موارد الدولة لتحقيق مكاسب خاصة إضعاف الخدمات العامة لكي: (١) تحل محلها عقود القطاع الخاص المربحة والمتضخمة بالدولار الأميركي (على سبيل المثال، أنشطة استيراد النفط، والمولدات الكهربائية، وجمع النفايات، والمدارس الخاصة والمستشفيات، إلخ)، و(٢) تحكم الجماعات الطائفية قبضتها على المواطنين بأن تحل محل الدولة في تقديم هذه الخدمات. ويجب إصلاح هذه السمة الأساسية لنظام ما قبل الأزمة لكي تبدأ المالية العامة والسياسة العامة والقطاع العام في لبنان بتقديم الخدمات لمواطنيه.**

### الانعكاسات على صعيد السياسات

**XV. ثمة قيمة مضافة مهمة لهذا التقرير وهي أنه يعرض تحليلات وتوصيات على صعيد السياسات في مختلف القطاعات الاقتصادية في ظل الأزمة من منظور الاستدامة على المدى الطويل. ويشير القسمان الكلي والقطاعي إلى إجراءات تدخلية عاجلة تتسق مع الإصلاحات الأطول أمداً التي قام البنك الدولي بدراساتها وتحليلها والتشديد عليها مراراً وتكراراً على مدى عقود.**

**XVI. تُركت أوجه القصور الكلية والهيكلية طويلة الأجل دون معالجة طوال فترة ما بعد الحرب، على الرغم من التحليلات المتعمقة العديدة وإمكانية الحصول على التمويل. وفي سلسلة من مذكرات السياسات، حدد البنك الدولي إصلاحات بالغة الأهمية، سواءً أكانت إصلاحات على صعيد الاقتصاد الكلي أو إصلاحات هيكلية أو إصلاحات قطاعية، وذلك للمساعدة في تخفيف المخاطر وتعزيز النمو المحتمل. وفي شهر ديسمبر/كانون الأول ٢٠١٦، نشر البنك الدولي «الكتاب الأبيض» الذي تضمّن تقييماً أعده خبراء البنك بشأن الإصلاحات اللازمة كي تطبقها حكومة جديدة، وذلك بعد عامين ونصف العام من شغور منصب رئيس الدولة والشلل الذي أصاب مؤسساتها. وتم إعداد هذه القائمة في وقت لاحق وإدراجها بما يتناسب مع التقييم الإستراتيجي الذي أجراه البنك الدولي لخطة الاستثمار الرأسمالي في لبنان<sup>١١</sup>، والتي**

١٠ **البنك الدولي (٢٠١٦) «الدراسة التشخيصية المنهجية للبنان».**  
١١ البنك الدولي (٢٠١٦)، الإصلاحات ذات الأولوية للحكومة اللبنانية، ديسمبر/كانون الأول ٢٠١٦  
١٢ وسام حركة وكريستوس كوستوبولوس (٢٠١٨)، تقييم إستراتيجي: خطة للاستثمار الرأسمالي في لبنان، مجموعة البنك الدولي، واشنطن العاصمة.

## الإطار ١. الركائز الرئيسية لمصفوفة الإصلاحات كما نُشرت في تقرير المرصد الاقتصادي للبنان، عدد خريف ٢٠٢٠

**٣. حزمة إصلاح تطوير البنية التحتية:** تشكل البنية التحتية المتهالكة في لبنان عقبة أمام التنمية. ومن بين الخدمات الأساسية الحيوية المطلوبة، يسجل لبنان تأخراً في القطاعات التالية: (١) الكهرباء، و(٢) الاتصالات، و(٣) شبكة الموانئ، و(٤) النقل، و(٥) إمدادات المياه والصرف الصحي. ويحتاج لبنان إلى ضخ استثمارات عاجلة في هذه القطاعات التي لا تستطيع الدولة تحمل تكاليفها، والتي لا يرغب القطاع الخاص في القيام بها، نظراً لما يحيط بها من غموض وضعف الحوكمة التنظيمية. ومن الضروري إعطاء الأولوية للإصلاحات الرامية إلى الحد من عجز المالية العامة وشبه المالية العامة في المؤسسات المملوكة للدولة، وتدعيم الإدارة والتنظيم والحوكمة، وتشجيع الاستثمارات الخاصة.

**٤. حزمة إصلاح الفرص الاقتصادية:** ستوفر الأزمة الاقتصادية فرصاً جديدة تنبع في المقام الأول من تعديل الأسعار المحلية والعملية التي انخفضت قيمتها. ويجب على الشركات ومؤسسات التمويل تحديد هذه الفرص واستغلالها لخلق فرص عمل جديدة. وسيحتاج لبنان إلى تخفيف العبء الذي يلقيه على كاهل مؤسساته من خلال تبسيط العمليات والإجراءات، وخفض تكاليف التشغيل، وإجراء إصلاحات أساسية لتحقيق تكافؤ الفرص. وسيحتاج لبنان أيضاً إلى ضمان قدرة القطاع المصرفي على أداء وظيفته في الوساطة. ويمكن مساندة هذه الإصلاحات بخطة للتنمية الاقتصادية تضمن عمل الأسواق بكفاءة ودون عوائق بسبب قيود قطاعية محددة تعوق النمو.

**٥. حزمة إصلاح تنمية رأس المال البشري:** يتمثل أحد الجوانب الرئيسية للاستدامة ونمو الاقتصاد اللبناني في استعادة إمكانات رأس المال البشري. وبالنسبة للبنان، يتمثل جزء من التحدي في القيود المالية التي تعوق مساندة الخدمات العامة الضرورية. أما الجزء الآخر من التحدي فهو كفاءة القطاع وإدارته. ويجب أن تتضمن أي إستراتيجية لتحقيق الاستقرار والكفاءة الاقتصادية واستعادة الثقة الإصلاحات التي تدعم تنمية رأس المال البشري، وفي الوقت نفسه خلق حيز مالي لتخصيص هذا النوع من المصروفات لدعم هذه الإصلاحات في إطار مستدام للموازنة.

تقع إصلاحات الحوكمة والمساءلة، التي تسعى إلى تدعيم الإدارة الاقتصادية العامة في لبنان بطريقة أكثر شمولاً وخضوعاً للمساءلة، في صميم أجندة الإصلاح المقترحة؛ وبذلك، تسعى هذه الأجندة إلى إعادة بناء الثقة. وتتناول أجندة الإصلاح الركائز الخمس التالية:

**١. برنامج لتحقيق استقرار الاقتصاد الكلي:** يحتاج لبنان إلى وقف ارتفاع معدلات التضخم، وسرعة انخفاض قيمة العملة، وانتشار أسعار الصرف المتعددة. وينبغي له أن يضع مساراً لاستدامة القدرة على تحمل أعباء الدين العام على أساس إعادة هيكلة الديون ووضع إطار مالي مستدام، وأن يعتمد حزمة قوية من تدابير الحماية الاجتماعية. ويتطلب كل من التحديات الماثلة أمام تصحيح أوضاع المالية العامة وإعادة هيكلة القطاع المصرفي الضرورية الإدراك الكامل للخسائر الناتجة وفقاً للمعايير المحاسبية الدولية، والتي سيتعين توزيعها وفقاً للتسلسل الهرمي للمطالبات وعلى نحو منصف مع مراعاة المنافع السابقة التي تحققت.

**٢. حزمة إصلاح الحوكمة والمساءلة:** يحتاج لبنان إلى معالجة المصادر الرئيسية للفساد وعدم الكفاءة في القطاع العام من أجل تحقيق وفورات في الموازنة، وتحسين الأثر الإنمائي، والبدء في إعادة بناء الثقة بين الحكومة والمواطنين. وتهدف الإصلاحات في إطار هذه الحزمة إلى إعادة بناء الثقة من خلال ما يلي: (١) تعزيز إدارة الأموال العامة من خلال إصلاحات المالية العامة والاستثمار وإدارة الديون؛ (٢) إصلاح المشتريات العامة، وذلك لأسباب منها زيادة المشاركة العادلة للقطاع الخاص؛ (٣) تحسين الشفافية والشمول من خلال الامتثال لشراكة الحكومة المفتوحة والانضمام إليها؛ (٤) تعزيز المساءلة من خلال مكافحة الفساد والإصلاحات القضائية. ويمكن النظر إلى هذه الإصلاحات على أنها الركائز الأساسية لإصلاح القطاع العام المطلوب لإعادة بناء الدولة اللبنانية.

# RÉSUMÉ

**I. La faillite macro-financière du Liban est d'une telle ampleur et d'une telle envergure (relatives) qu'elle a probablement compromis l'économie politique du Liban de l'après-guerre civile — c'est-à-dire, de la Deuxième République<sup>13</sup>.**

L'économie politique s'est caractérisée par une période florissante due aux importants flux de fonds qui ont financé la situation privilégiée d'un petit nombre d'acteurs bénéficiant de relations forgées entre les secteurs public et privé<sup>14</sup> (y compris le secteur financier) et dont l'influence politique a dominé l'administration publique. L'arrêt soudain et irrémédiable de ces flux en octobre 2019 semble toutefois avoir provoqué la désintégration de cette économie politique, dont témoigne l'effondrement de la plupart des services d'utilité publique de base, la discorde débilante caractérisant le processus politique et la démission ou la fuite d'une partie des élites sociales et économiques qui avaient jusqu'à profité de ce modèle. Les classes pauvres et moyennes, qui n'ont jamais tiré d'avantages de ce modèle, assument toutefois l'essentiel de la charge imposée par cette faillite. De fait, le Liban poursuit une transition sociopolitique économique qui débouchera sur une nouvelle organisation dont la forme est encore inconnue<sup>15</sup>.

**II. L'Examen des finances publiques analyse l'évolution de ces dernières sur une longue période de manière à exposer les racines profondes de cette prodigalité financière et sa défaillance à terme.** Il relie, à cette fin, trois facteurs cruciaux, qui font l'objet de trois sections. **Section I : Politique financière durant la Deuxième République ; Section II : Restructuration macro-financière ; Section III : Absence de services publics.** La géopolitique,

quatrième facteur d'importance cruciale, sort du cadre du présent Examen. Conjointement, les trois facteurs indiqués précédemment détermineront les résultats de toute reconfiguration sociopolitique économique à venir.

**III.** Il nous faut ici formuler d'importantes mises en garde au sujet de nos travaux. Premièrement, si l'examen qui fait l'objet de ce rapport couvre les finances publiques, ce sont des considérations ayant trait à la balance des paiements qui ont motivé la politique économique suivie durant la période considérée. Les opérations quasi budgétaires effectuées par la banque centrale en raison des pressions exercées sur la balance des paiements ont eu des coûts considérables qui n'ont pas été pleinement mis en évidence, reconnus ou déclarés. Le Liban a de surcroît continué d'accueillir le plus grand nombre de réfugiés par habitant à l'échelle mondiale, par suite de l'éruption de la guerre en Syrie. L'Examen des finances publiques n'étudie pas ce bien public mondial, qui persiste depuis 2011, car il a fait l'objet d'une évaluation plus approfondie dans le rapport intitulé *The Fallout of War: The Regional Consequences of the Conflict in Syria* publié en 2020 par la Banque.

## Section I : Politique financière durant la Deuxième République

**IV. La Section I décrit la manière dont les finances publiques ont soutenu l'accaparement des ressources par les élites, en indiquant et, dans la mesure permise par les données disponibles, en quantifiant les ressources détournées.** Elle

13 La crise économique libanaise comptera vraisemblablement parmi les dix, et peut-être les trois, plus graves crises observées dans le monde depuis le milieu du XIX<sup>e</sup> siècle. Le PIB nominal du Liban qui était de l'ordre de 55 milliards de dollars en 2018 a chuté à un niveau estimé à 22 milliards de dollars en 2021, tandis que le PIB par habitant en dollars a diminué d'environ 60 %. Une contraction aussi brutale se produit généralement dans le contexte d'un conflit ou d'une guerre. ([Spring 2021 Lebanon Economic Monitor](#), LEM).

14 Collusion de représentants du secteur public et privé aux niveaux macro et microéconomiques dans le but de garantir la mainmise sur les ressources.

15 La Banque mondiale avait, dès le printemps 2016, annoncé la faillite du modèle d'activité de l'économie politique de la Deuxième République, en déclarant qu'il s'agissait d'un modèle non viable sur le plan social et économique, qui donne lieu à l'exportation de capital humain en échange d'entrées de fonds finançant des activités de recherche de rentes qui ne font qu'aggraver les déséquilibres. ([Spring 2016 LEM](#))

recense les méthodes adoptées par les autorités libanaises pour s'écarter systématiquement de toute politique budgétaire harmonieuse et rigoureuse. Ces divergences n'ont pas tenu à un manque de ressources (les entrées de fonds sont demeurées importantes pendant plusieurs dizaines d'années) ou à *l'impossibilité d'agir autrement* — les parties prenantes locales et les partenaires internationaux n'ayant cessé de fournir des avertissements et des conseils et de promouvoir la poursuite de réformes. De fait, la voie suivie cadrerait pleinement avec la volonté de servir les intérêts d'un système d'économie politique enraciné dans le cadre duquel les instruments budgétaires et économiques ont servi à exploiter les institutions de l'État.

**V. Les activités budgétaires mettent en relief les deux aspects systématiques les plus notables de cette économie politique, à savoir :**

- i. L'accumulation de dettes pour renforcer la confiance dans le système macrofinancier. Il était nécessaire de procéder de la sorte pour assurer la poursuite d'importantes entrées de fonds dans un contexte caractérisé par un régime de taux de change fixe, dont la surévaluation a favorisé une consommation excessive et a créé l'illusion de richesse.
- ii. La réalisation des avantages politiques et financiers dus à la fois aux coûts excessifs assumés par la population et aux privilèges conférés à un petit nombre de personnes. Cette situation a été permise par le recours à des circuits de distribution donnant lieu à l'octroi de subventions et à la réalisation de bénéfices dans le domaine des services publics, ce qui a encore conforté le système confessionnel de partage du pouvoir.

**VI. L'examen des finances publiques recense, sur la base des analyses effectuées, cinq aspects des comptes financiers durant la Deuxième République :**

- a. Les comptes publics officiels internes et externes (comptes budgétaires, balance des paiements, dettes, etc.) ;
- b. L'existence de pertes non déclarées dans les comptes de la Banque du Liban, inscrites de manière symbolique dans la rubrique « Autres actifs » de son bilan ;
- c. Le report à *une date ultérieure* par les autorités libanaises du paiement des montants exigibles ou leur refus de les régler (arriérés), ce qui a eu pour effet de contraindre les détenteurs de ces créances à s'endetter ou à enregistrer une perte ;
- d. Une création de monnaie excessive par la Banque du Liban ;
- e. L'absence ou l'insuffisance marquée des services publics de base financés par les versements des contribuables à l'État, puis le paiement de services de remplacement à des prestataires privés (électricité, eau, etc.).

**VII. La situation décrite précédemment a provoqué des pertes considérables pour les déposants après l'effondrement du système.**

## Section II : Restructuration macrofinancière

**VIII. Des analyses ont été menées dans le but de recenser et de simuler les principales décisions stratégiques concernant la restructuration du système macro-financier — essentiellement la dette publique, les finances publiques et les secteurs monétaire et financier.** La section II décrit les dernières modifications apportées à l'assistance technique proposée aux autorités libanaises par la Banque dans le cadre de l'examen des finances publiques au début de 2020 afin de les aider à formuler une stratégie de gestion de la crise. Il est possible d'évaluer certaines des pertes encourues par le système, qui sont en partie visibles dans les bilans des trois principales parties prenantes : l'État, la Banque du Liban et le secteur bancaire.

**IX. Nous avons procédé à une analyse de scénarios et à des simulations intégrées à des fins d'illustration, dans le but d'évaluer l'impact des grandes décisions stratégiques.** Les principales conclusions qui peuvent en être tirées sont indiquées ci-après :

- Le système macrofinancier du Liban s'est, à terme, caractérisé par la création de liens étroits entre les secteurs budgétaire, monétaire et financier, qui a rendu ces derniers tributaires les uns des autres, les passifs enregistrés dans un secteur devenant des actifs pour un autre, et a relié des bilans d'un niveau excessif.
- Les mesures de restructuration de la dette (intérieure et extérieure) ne permettront pas de ramener le ratio de la dette au PIB à moins de 100 % et de créer une marge de manœuvre budgétaire suffisante. Seule la croissance pourra assurer la viabilité de la dette.
- Les mesures de restructuration de la dette engendreront de fortes pertes pour la Banque du Liban et les banques commerciales.
- L'unification du taux de change aura un important effet de contraction sur le bilan de la Banque du Liban et sur ceux des banques commerciales.
- Il est essentiel que les réformes du secteur financier permettent de considérablement améliorer la position des réserves internationales nettes de la Banque du Liban qui, selon les estimations, est actuellement fortement négative.
- Les efforts de renforcement de la transparence et de la responsabilisation dans le domaine des finances publiques doivent impérativement améliorer la divulgation des informations générales de la banque centrale, notamment la position des réserves internationales nettes, et imposer l'utilisation de pratiques comptables agréés au plan international. De fait, les bilans de l'État, de la Banque du Liban et du système bancaire n'auraient jamais atteint les niveaux très élevés enregistrés juste avant la crise de 2019 si les acteurs économiques avaient eu la possibilité de constater que les réserves internationales nettes étaient devenues négatives longtemps avant la crise.

### Section III : Absence de services publics

**X. La section III analyse les répercussions des politiques macros et structurelles du Liban sur l'offre (extrêmement déficiente) de services de**

**base essentiels à la population.** Nous exposons les défaillances des principaux éléments du contrat social dont témoigne la qualité insuffisante (et de plus en plus *réduite*) des services publics de base dans les secteurs suivants : eau, électricité, transports, santé, éducation et protection sociale.

**XI. Cet examen des finances publiques fait ressortir l'existence de graves carences au niveau du financement des services publics de base, qui existaient bien avant la crise actuelle, mais que cette dernière a encore aggravées.** Du côté des recettes, le faible taux de recouvrement a provoqué une charge budgétaire intenable et a eu des répercussions négatives sur l'alimentation en électricité et en eau de la population. Les analyses sectorielles confirment l'inefficacité des dépenses publiques qui s'explique par les tensions macrobudgétaires analysées dans le présent rapport. La faiblesse des dépenses d'équipement s'est traduite, notamment, par l'absence d'investissements dans de nouvelles capacités de génération d'électricité et dans l'entretien du réseau. Il n'a, de ce fait, pas été possible à Électricité du Liban de répondre à la demande d'électricité, ce qui a favorisé le recours aux solutions de rechange coûteuses et très polluantes, fournies (de manière très lucrative) par le secteur privé.

**XII. Les chocs qui se sont succédés au Liban depuis 2011 ont eu des répercussions aussi bien sur l'offre que sur la demande dans les secteurs essentiels.** L'effondrement de la monnaie nationale et la pénurie de devises qui s'en est suivie à l'échelle de l'économie ont fortement accru les coûts dans les différents secteurs. Ces derniers ont également souffert de l'insuffisance des biens et services disponibles, qui a provoqué une dégradation de la qualité des services assurés. Le taux d'inflation, qui était très élevé, a entraîné de fortes diminutions du pouvoir d'achat des rémunérations des employés du secteur public (entre autres). La fuite des cerveaux du pays prive des secteurs essentiels de milliers de travailleurs qualifiés. Les ménages sont en butte à une inflation encore plus rapide parce que les dépenses en devises ne sont plus subventionnées. Ils font face à la situation en recherchant des solutions de remplacement meilleur marché dans la mesure du possible (par exemple, en transférant dans le système public leurs enfants jusqu'à

scolarisés dans le privé), ou simplement en ayant moins recours aux services (par exemple, en réduisant l'usage d'électricité produite par des générateurs ou leur consommation d'eau ou encore en repoussant des consultations médicales).

**XIII. Les crises qui se sont mutuellement renforcées ont fait ressortir la fragilité du modèle de prestation de services libanais qui, pour permettre l'accaparement par les élites des ressources de l'État pour leur propre bénéfice, a exigé la dégradation des services publics.** Bien qu'il ne soit possible de remédier à la précarité de la situation qu'en poursuivant un programme à moyen et long terme, le peuple libanais a besoin d'une aide immédiate. Cette section présente une série de mesures et de politiques particulières qui ont pour objet de répondre aux besoins pressants de la population tout en mettant en place des réformes à moyen et long termes conçues de manière à améliorer la performance, la viabilité et la résilience des services publics. Les mesures proposées visent principalement à atteindre les objectifs suivants :

- *Assurer la viabilité des services de base et veiller à ce qu'ils soient d'un coût abordable* en procédant à des investissements adaptés, en prenant des mesures pour améliorer le recouvrement des coûts et en améliorant la gouvernance, notamment dans les secteurs de l'eau, de l'électricité et des transports.
- *Accroître l'équité des dépenses publiques*, notamment en réduisant les dépenses de santé à la charge du patient, en réaménageant le financement de l'éducation, en donnant la priorité à des interventions de protection sociale progressives, ciblées sur les groupes de population pauvres et vulnérables, et en remédiant aux problèmes structurels du régime de pension public pour assurer sa viabilité et son équité.
- *Améliorer l'efficacité des dépenses publiques dans tous les secteurs.* Il s'agit notamment de rééquilibrer les opérations du système de santé au profit des soins préventifs et primaires, de maîtriser les dépenses globales

de santé (en particulier pharmaceutiques), d'affecter plus efficacement les intrants (enseignants et équipements) aux écoles publiques et d'adopter des politiques visant à réduire les taux de redoublement qui sont actuellement élevés.

**XIV. Par ailleurs, comme l'explique le [diagnostic systématique du Liban](#) (SCD, 2016),<sup>16</sup> la dégradation des services de l'État est un résultat souhaité/délibéré des efforts menés pour consolider les privilèges tirés des liens tissés entre les secteurs public et privé par les grands acteurs de l'économie libanaise après la guerre civile.** Pour permettre aux élites d'accaparer les ressources à leurs propres fins, il a fallu dégrader l'offre de services publics de manière à permettre : 1) l'attribution au secteur privé de contrats et de marchés lucratifs pour des montants en dollars artificiellement gonflés (notamment pour l'importation de pétrole, l'obtention de générateurs, la collecte des déchets, mais aussi pour l'enseignement privé, les hôpitaux, etc.), et 2) le resserrement de l'emprise des groupes confessionnels qui se sont substitués à l'État pour assurer ces services. Il importe de remettre à niveau cette composante fondamentale du régime d'avant la crise pour que les finances publiques, la politique publique et le secteur public puissent commencer à réellement servir les citoyens.

## Répercussions sur les politiques publiques

**XV. L'examen des finances publiques a une importante valeur ajoutée parce qu'il présente des analyses et des recommandations stratégiques à l'échelle d'une économie en situation de crise, en vue de créer des conditions viables à long terme.** Les sections consacrées à la situation macro-économique et aux secteurs proposent des interventions d'urgence compatibles avec la poursuite des réformes à plus long terme examinées, analysées et recommandées à maintes reprises par la Banque depuis des dizaines d'années.

**XVI. Il n'a pas été remédié aux défaillances macro et structurelles existant de longue date**

16 [Banque mondiale \(2016\) « Lebanon Systematic Country Diagnostic ».](#)

**durant la période de l'après-guerre, malgré les nombreuses analyses approfondies qui leur ont été consacrées et la disponibilité de financements.**

La Banque mondiale a recensé, dans sa série *Policy notes*, des réformes macro, structurelles et sectorielles pouvant contribuer de manière fondamentale à atténuer les risques et à accélérer la croissance potentielle. En décembre 2016, la Banque mondiale a publié un livre blanc présentant les évaluations des membres de ses services sur les réformes que devrait adopter et mettre en œuvre une nouvelle équipe gouvernementale, après deux années et demie de vide à la présidence et de paralysie institutionnelle<sup>17</sup>. Cette liste a

été ultérieurement complétée et adaptée dans l'évaluation stratégique de la Banque mondiale du plan d'investissement en capital établi pour le Liban<sup>18</sup> qui a été présenté lors de la Conférence économique pour le développement, par les réformes et avec les entreprises (CEDRE), organisée à Paris en avril 2018. Enfin, la Banque a présenté dans le numéro de l'automne 2020 du *Lebanon Economic Monitor* (LEM) (Rapport de suivi de la situation économique du Liban), intitulé *The Deliberate Depression*, un programme de réformes visant à renforcer la gestion économique d'ensemble au Liban d'une manière plus inclusive et plus responsable (voir l'Encadré 1).

17 Banque mondiale (2016), *Priority Reforms for the Government of Lebanon*, décembre 2016

18 Harake, Wissam et Christos Kostopoulos (2018), *Strategic Assessment: A Capital Investment Plan for Lebanon*, Groupe de la Banque mondiale, Washington DC.

### Encadré 1. Principaux piliers de la matrice des réformes publiée dans le numéro du LEM de l'automne 2020.

**Le programme proposé se fonde essentiellement sur des réformes de la gouvernance et de la responsabilité ayant pour objet de renforcer la gestion économique d'ensemble au Liban d'une manière plus inclusive et plus responsable ; il vise, ce faisant, à rétablir la confiance.** Le programme de réformes comporte les cinq piliers suivants :

**1. Programme de réformes pour la stabilisation macro-économique :** le Liban doit maîtriser une inflation soutenue, la rapide dépréciation de sa monnaie et la prolifération de taux de change multiples. Il doit suivre un plan basé sur la restructuration de la dette et l'établissement d'un cadre budgétaire durable pour promouvoir la viabilité de la dette publique, et aussi adopter des mesures de protection sociale. Il sera nécessaire, pour faire face aux difficultés posées par l'ajustement budgétaire et réorganiser comme il se doit le secteur bancaire, de comptabiliser les pertes en appliquant les normes comptables internationales, et de les assumer de manière équitable en respectant la hiérarchie des créances, compte tenu des bénéfices antérieurement réalisés.

**2. Programme de réformes de la gouvernance et de la responsabilité :** le Liban doit s'attaquer aux sources primaires de la corruption et de l'inefficacité dans le secteur public pour pouvoir réaliser des économies budgétaires, améliorer l'impact des mesures sur le développement et commencer à rétablir la confiance entre les autorités publiques et les citoyens. Les mesures incluses dans ce programme visent à rétablir la confiance : 1) en renforçant la gestion des ressources publiques grâce à la poursuite de réformes des finances publiques, des investissements et de la gestion de la dette ; 2) en réaménageant le système de passation de marchés publics dans le but, notamment, d'accroître une participation équitable du secteur privé ; 3) en améliorant la transparence et l'inclusion grâce à l'adhésion au *Open Government Partnership* et au respect de ses directives ; et 4) en accroissant la responsabilité grâce à la poursuite de mesures de lutte contre la corruption et de réformes du système judiciaire. Ces différentes mesures peuvent être considérées comme les éléments constitutifs d'une réforme du secteur public nécessaire à la reconstruction de l'État libanais.

**3. Programme de réformes pour le développement des infrastructures :** l'état déplorable des infrastructures

libanaises fait obstacle au développement. Le Liban n'assure pas suffisamment la fourniture de services essentiels de base dans les domaines : 1) de l'électricité, 2) des télécommunications, 3) du système portuaire, 4) des transports et 5) de l'approvisionnement en eau et de l'assainissement. Il lui faut impérativement réaliser des investissements dans ces secteurs, que le secteur public n'a pas les moyens de financer et que le secteur privé est peu désireux d'effectuer en raison de l'opacité et des carences du cadre réglementaire. Il importera de donner la priorité aux réformes visant à limiter les déficits budgétaires et quasi budgétaires des entreprises d'État, à renforcer la gestion, la réglementation et la gouvernance, et à encourager l'investissement privé.

**4. Programme de réformes des perspectives économiques :** la crise économique est source de nouvelles opportunités dues, essentiellement, aux ajustements des prix intérieurs et à la dépréciation de la monnaie. Les entreprises et les institutions financières doivent recenser ces dernières et les exploiter pour créer de nouveaux emplois. Le Liban devra alléger le fardeau qu'il impose à ses entreprises en simplifiant les processus et les procédures, en réduisant les coûts de fonctionnement et en procédant à des réformes fondamentales assurant des conditions *équitables*. Le Liban devra également veiller à ce que le secteur bancaire puisse assumer sa fonction d'intermédiation. Il sera possible d'appuyer ces réformes au moyen d'un plan de développement économique garantissant un bon fonctionnement des marchés non entravé par des obstacles sectoriels à la croissance.

**5. Programme de réformes de la valorisation du capital humain :** la viabilité et la croissance de l'économie libanaise sont largement tributaires du recouvrement du potentiel de son capital humain. Pour le Liban, le problème tient en partie à la charge financière imposée par le soutien aux services publics nécessaires, mais est aussi lié à l'efficacité de la gestion des secteurs. Toute stratégie de stabilisation, d'efficacité économique et de rétablissement de la confiance doit prévoir la poursuite des réformes nécessaires à la valorisation du capital humain ainsi que la création de la marge de manœuvre budgétaire requise pour consacrer des ressources à la poursuite de ces réformes en les inscrivant dans un cadre budgétaire durable.

# **I. FISCAL POLICY IN THE SECOND REPUBLIC**



# CHAPTER 1.

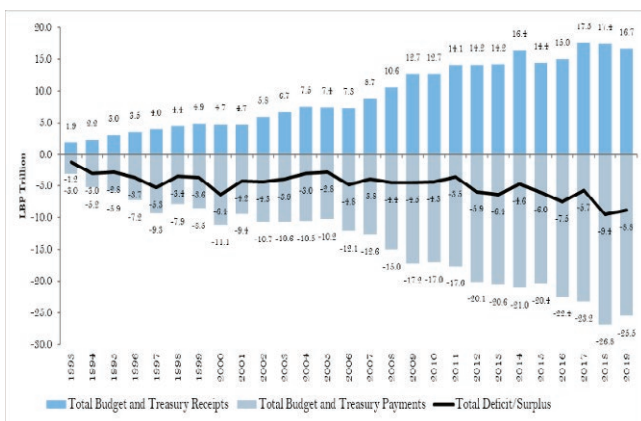
## FISCAL LANDSCAPE

### A. EXAMINATION PERIOD

1. The period under examination spans 1993–2019, ending with the eruption of the financial and economic crisis in Q4-2019.<sup>19</sup> Henceforth, we shall refer to that time as simply the period. Over the period, the overall fiscal balance registered an uninterrupted deficit that expanded, in nominal terms, by 8.1 percent, on a Compound Annual Growth Rate basis (CAGR) (Figure 1).<sup>20</sup>

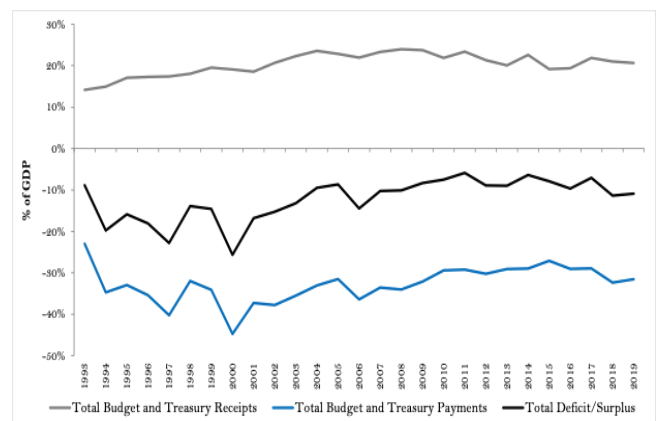
2. When compared to GDP (Figure 2), the overall deficit widened from 9 percent in 2013 to 26 percent in 2000, before gradually improving through 2011 where it reached 6 percent. From 2012 it once again widened until reaching 11 percent in 2019. Never during this whole post-civil war period has Lebanon's budget ever been in balance or surplus. The average overall deficit during the period was 12.2 percent of GDP.

Figure 1. Lebanon's fiscal balance was consistently and significantly negative since the end of the civil war ...



Sources: Ministry of Finance and CAS.

Figure 2. ... with the fiscal deficit averaging 12.2 percent of GDP over the period



Sources: Ministry of Finance and CAS.

19 Where data is available, sources are duly cited. Where data is missing and can be estimated, the methodology is clearly explained. Where data is missing and cannot be estimated, or is not estimated under the PFR, a place holder is indicated for possible future work.

20 The Compound Annual Growth Rate from observation  $t = 0$  to  $t = n$  is  $CAGR = \left( \frac{a_{t=n}}{a_{t=0}} \right)^{\frac{1}{n}} - 1$  such that  $a_{t=n}$  and  $a_{t=0}$  are values of at time and respectively.

## B. REVENUES

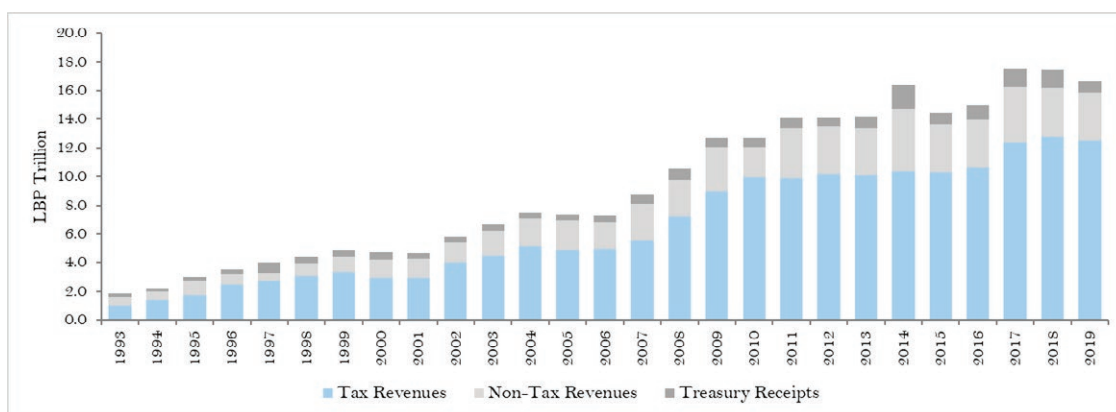
3. On the revenue side, budget and treasury receipts<sup>21</sup> are composed of three components: tax revenues, non-tax revenues (detailed and analyzed separately below), and treasury receipts. We note two important trends over the period:

- Total revenues CAGR was quite solid at 8.8 percent, marking a considerable capacity to levy and collect revenues (Figure 3).
- Tax revenues increasingly dominated total revenues over non-tax revenues and treasury

receipts. For instance, in 1997, the respective shares were: 67 percent, 14 percent, and 19 percent, while in 2019, they became 75, 20, and 5 percent, respectively.

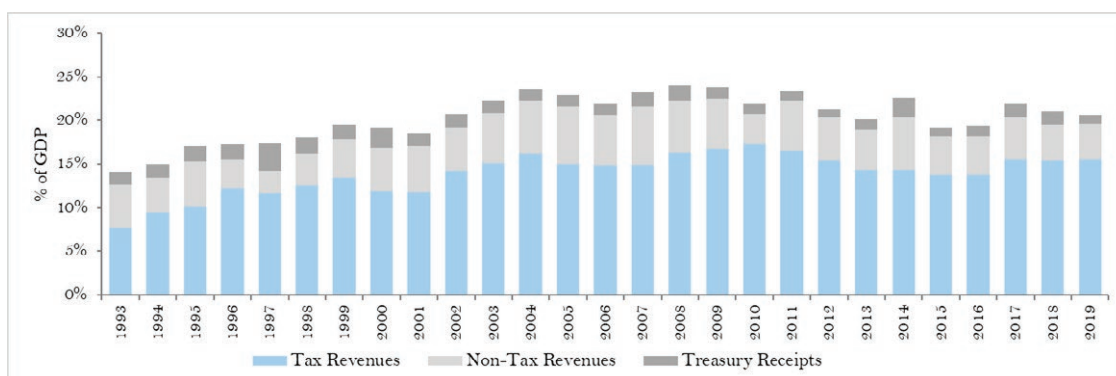
- This also applies to the percentage share points of GDP (Figure 4), where tax revenues nearly doubled from 9 percent in 1993, to 16 percent in 2004, and remained practically at the same level until 2019.

**Figure 3.** A post civil war effort succeeded in considerably enhancing the capacity to levy and collect revenues ...



Source: Ministry of Finance.

**Figure 4.** ... with tax revenues nearly doubling from 9 percent in 1993 to 16 percent in 2004.



Sources: Ministry of Finance and CAS.

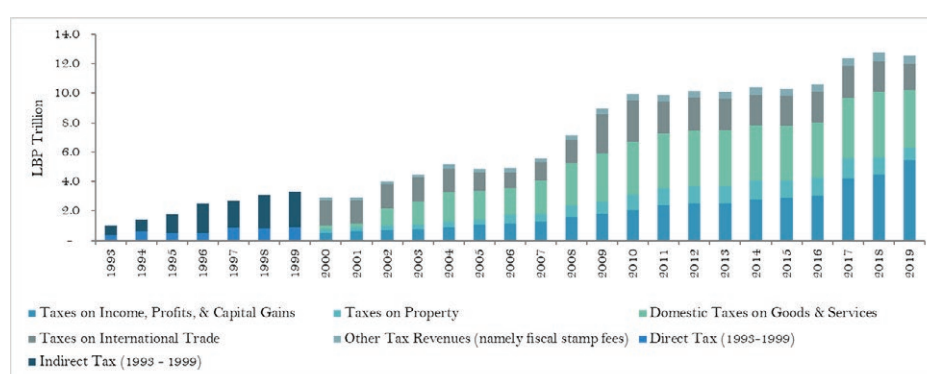
21 The terms budget and treasury receipts/expenditures are adopted as per formal public finance statements. Details and implications of such usage are explained in the quasi-fiscal chapter. Combined, budget and treasury receipts or expenditures give an aggregate cash-basis account of public revenues and expenses.

## C. TAX REVENUES

4. **Key inflection points of tax revenues (and associated policy undertakings) are analyzed in paragraph C.** The evolution of tax revenues (Figure 5)<sup>22</sup> reveals three notable features:

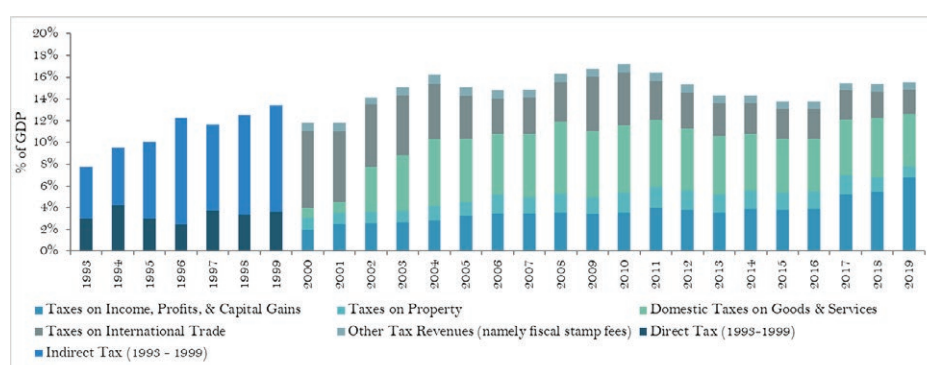
- A robust growth of 7.9 percent CAGR (over the 2000-2019 period), further confirming the observation made earlier regarding the capacity of the state to levy taxes, noting that this period was dominated by a fixed exchange rate regime.
- A considerable growth in the shares of total tax revenues (over the 2000-2019 period) for (i) taxes on income, profits and capital gains, which rose from 17 percent in 2000 to 43 percent in 2019 (or from 2 to 7 percent of GDP); and (ii) domestic taxes on goods and services, which increased from 7 percent to 31 percent in 2019 (fluctuating between 5 and 7 percent of GDP). Meanwhile, the share of total tax revenues for taxes on international trade concurrently dropped from 60 percent in 2000 to 14 percent in 2019 (or from 7 to 2 percent of GDP). The introduction of the Value Added Tax (VAT), effective as of 2002, partially substituted for taxes on international trade (mainly customs), which substantially declined as a result of Lebanon entering into trade agreements.
- A relatively stable share (on the low side) for taxes on property, hovering from 7 percent of tax revenues in 2000 to 12 percent in 2019, and constituting merely 1 to 2 percent of GDP. This was the case despite massive investments and price appreciation in property markets over the period, Figure 6.

Figure 5. The total tax revenues shares for taxes on income and VAT grew at the expense ...



Source: Ministry of Finance.

Figure 6. ... a declining share for taxes on international trade



Sources: Ministry of Finance and CAS.

22 The detailed breakdown of tax revenues is not available from the Ministry of Finance (MoF) for the years 1993-1999 and it is therefore detailed here along two categories only: direct and indirect taxes.

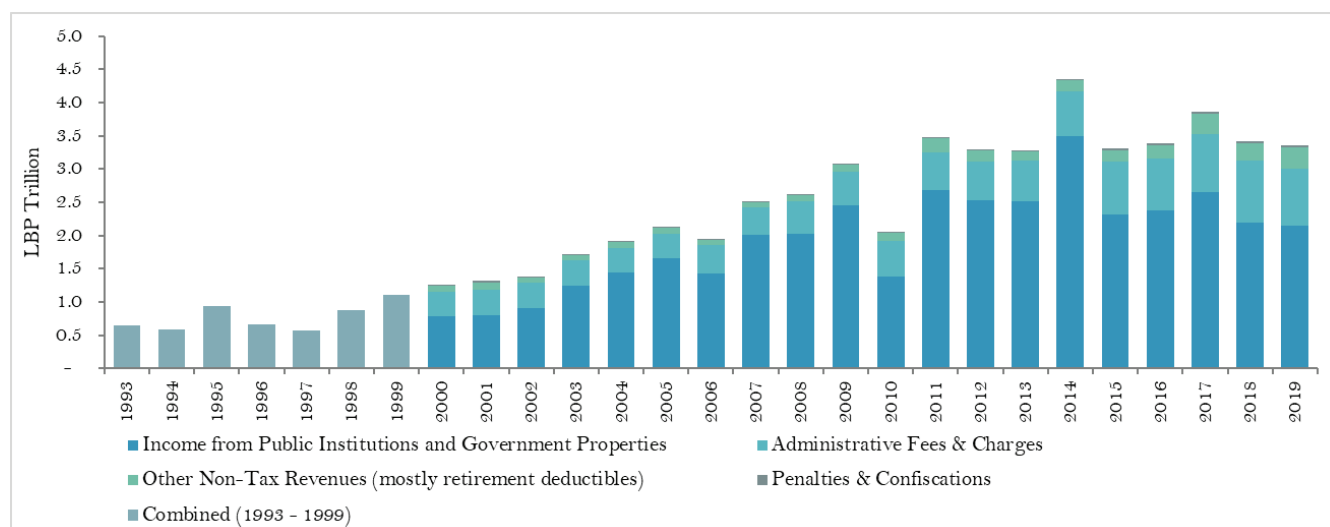
## D. NON-TAX REVENUES

### 5. Non-tax revenues (Figure 7 and Figure 8) show:

- A smaller overall growth pattern with a CAGR (over the 2000-2019 period) of 5.3 percent and the percentage of GDP fluctuating between 2.5 and 6.7 percent.

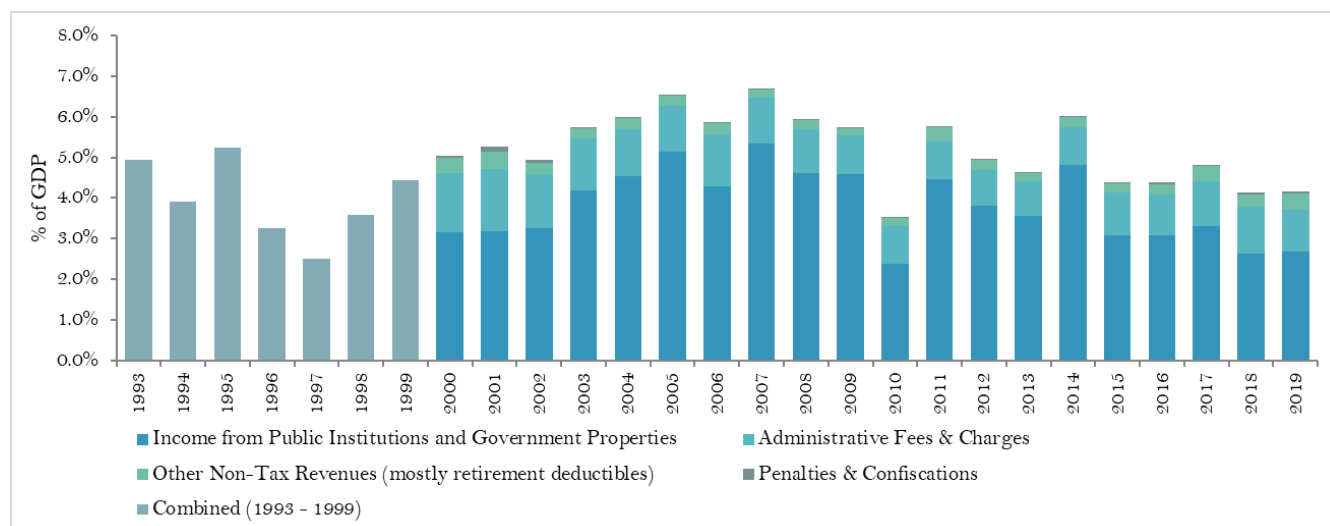
- Several departure points from the overall trend, notably in 2006, 2010 and 2014, in both levels and as a share of GDP; these will be subject to a subsequent closer examination in this PER.

Figure 7. Non-tax revenues also grew over the period ...



Source: Ministry of Finance.

Figure 8. ... with exceptions in 2006, 2010, and 2014



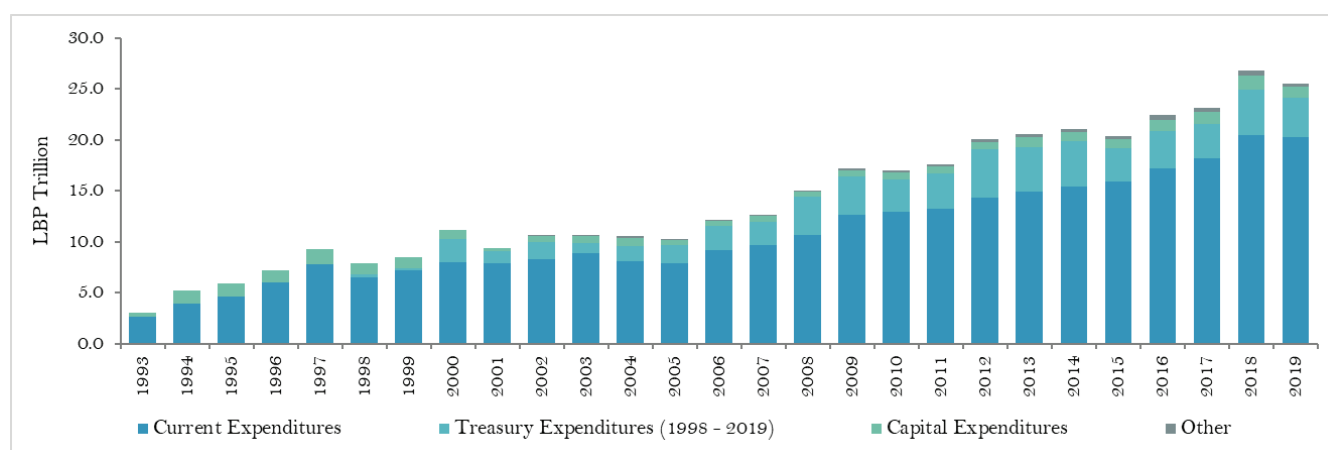
Sources: Ministry of Finance and CAS.

## E. EXPENDITURES

6. Over the period, the evolution of total expenditures (Figure 9 and Figure 10) illustrate the following:

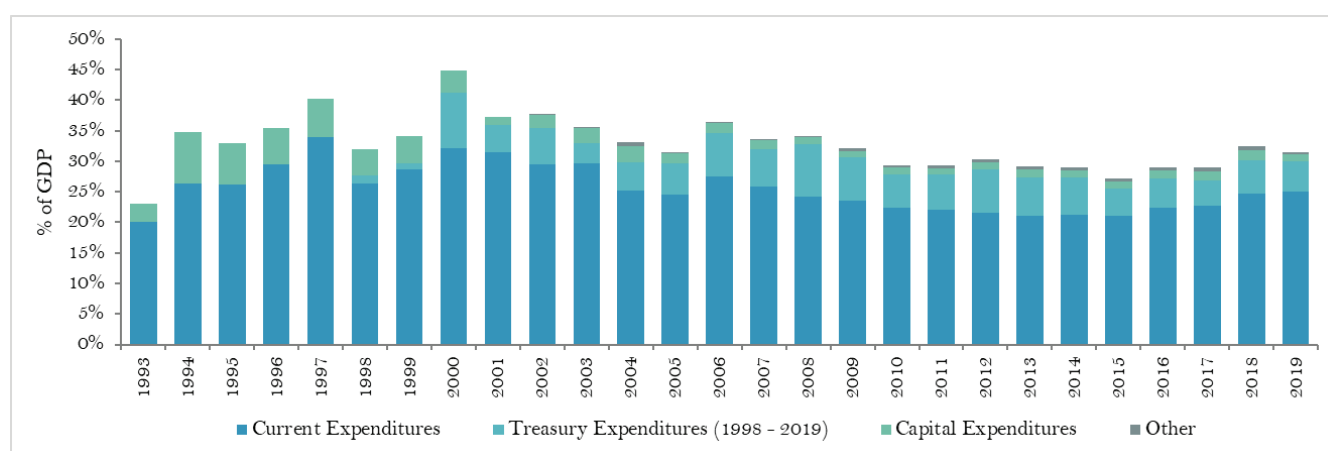
- Nominally, a robust growth at 8.5 percent CAGR, compared to a mild decrease in percentage of GDP.
- Current expenditures' growth occurred at 8.2 percent CAGR. They peaked at 34 percent of GDP in 1997, declined to 21 percent in 2013–2015 and then started increasing again to reach 25 percent of GDP in 2019. A more detailed look at current expenditures is presented in the following paragraph. Treasury expenditures, predominantly consisting of transfers to EdL until 2008, and later registered under “various transfers” are further elaborated in Subsection F.
- Substantially diminishing capital expenditures, especially as a share of GDP from a peak of 8 percent of GDP in 1994 to 1 percent of GDP in 2019; these are examined in paragraph G.

Figure 9. Expenditures underwent a robust nominal growth ...



Sources: Ministry of Finance.

Figure 10. ... compared to a mild decrease in percentage of GDP

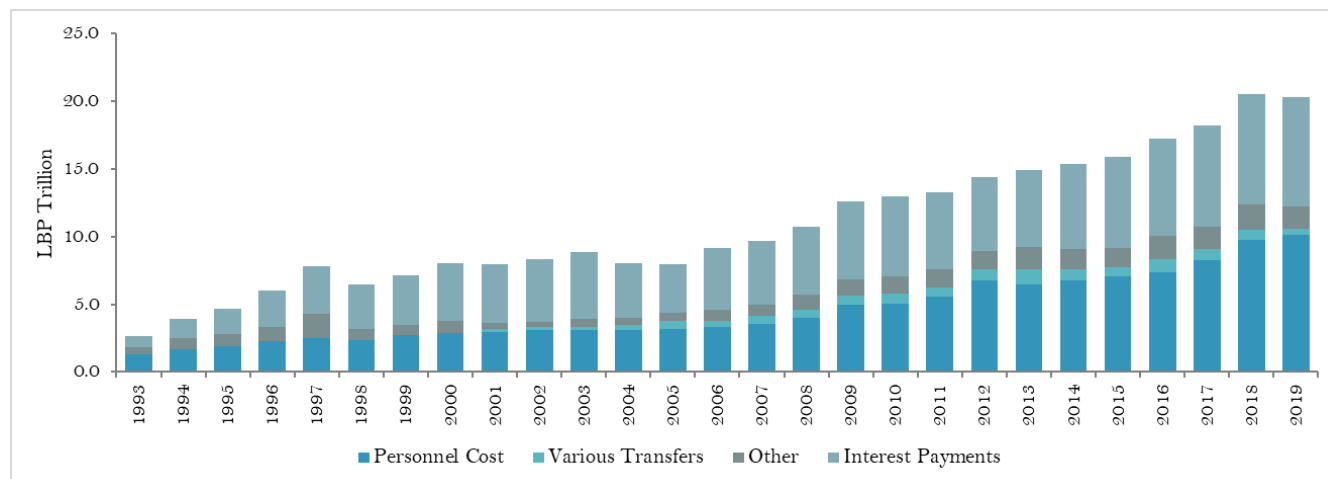


Sources: Ministry of Finance and CAS.

## F. CURRENT EXPENDITURES

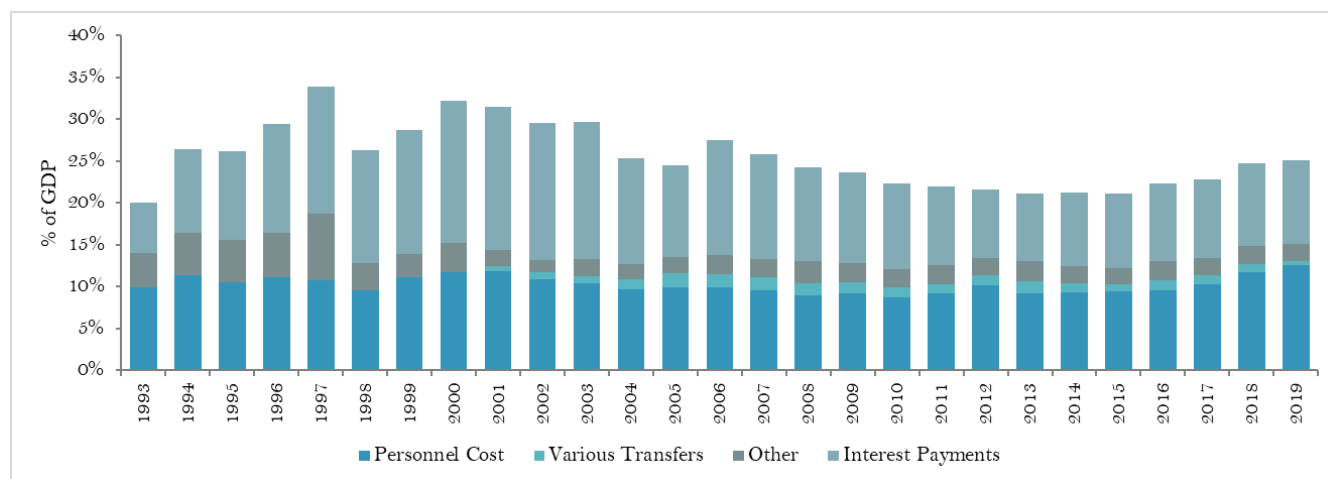
7. **Figure 11 and Figure 12 show a pattern of two dominating categories: “personnel cost” and “interest payments.”** These categories will be furthered examined individually.

**Figure 11.** Expenditure categories of “personnel cost” and “interest payments” dominate in both nominal terms ...



Source: Ministry of Finance.

**Figure 12.** ... and as a percent of GDP



Sources: Ministry of Finance and CAS.

## G. PUBLIC DEBT

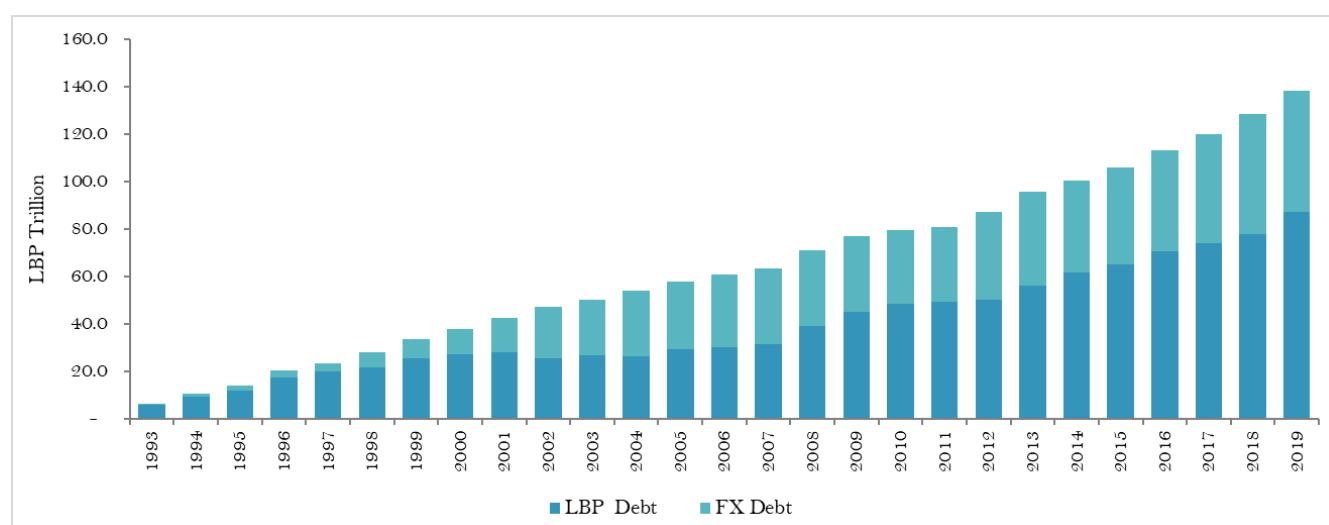
8. **Public Debt, as Figure 13 and Figure 14 show, manifested a rapid evolution at a CAGR of 12.6 percent over the period.** As a ratio of GDP, gross public debt reached 183 percent in 2006, falling to 131 percent in 2012, before growing again to reach 171 percent in 2019.

9. **The trajectory of FX debt suggests a steady increase in authorities' dependence on it for financing until mid-2000's, after which the share of the FX debt to total debt declined somewhat, remaining at comparable levels until 2018 before increasing suddenly in 2019.**

10. **Between 1993 and 1997, FX debt consisted chiefly of development/reconstruction loans.** Starting in 1998, authorities' justification for issuing Eurobonds was to substitute for the more expensive LBP debt. As illustrated in Figure 13, there was instead a parallel increase in both LBP and FX debts until 2001, and then after Paris II conference.

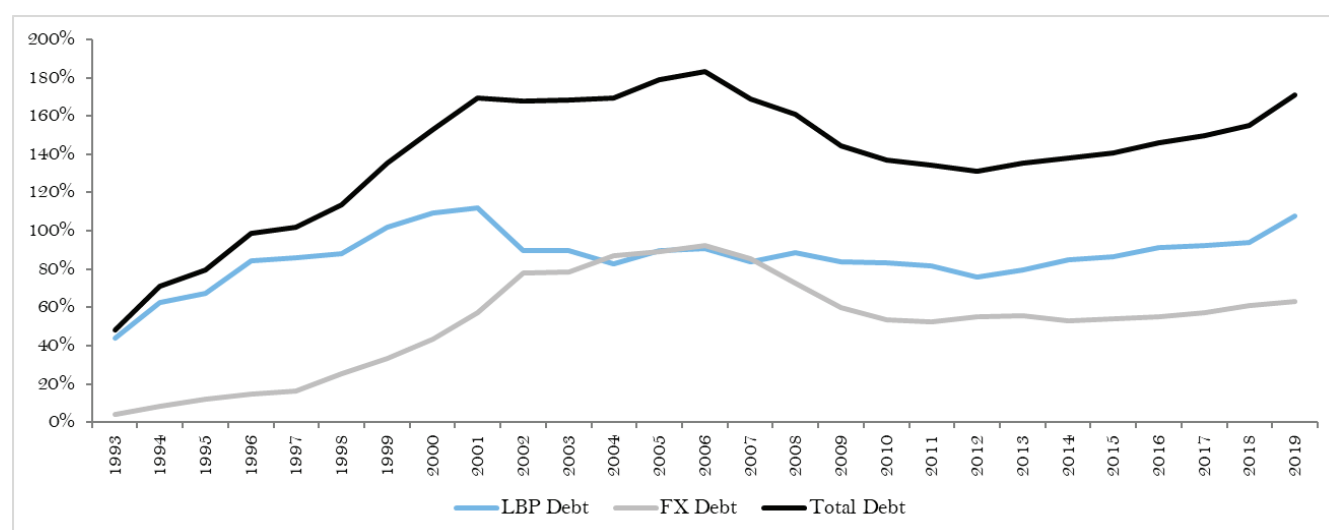
11. **After 2006, the sharp increase in oil prices constituted an external transitory shock that sharply accelerated capital inflows, and subsequently, GDP growth, lowering the debt-to-GDP ratio.** The resulting excess in liquidity was reflected in the evolution of public debt; a further analysis is provided below.

**Figure 13.** Gross public debt manifested a rapid evolution at a CAGR of 12.6 percent over the period ...



Sources: Ministry of Finance.

**Figure 14.** ... peaking at 183 percent of GDP in 2006, falling to 131 percent in 2012, before rising to 171 percent in 2019



Sources: Ministry of Finance and CAS.

## CHAPTER 2.

# OBSERVATIONS & ANALYSES

### A. PRIMARY DEFICIT/SURPLUS

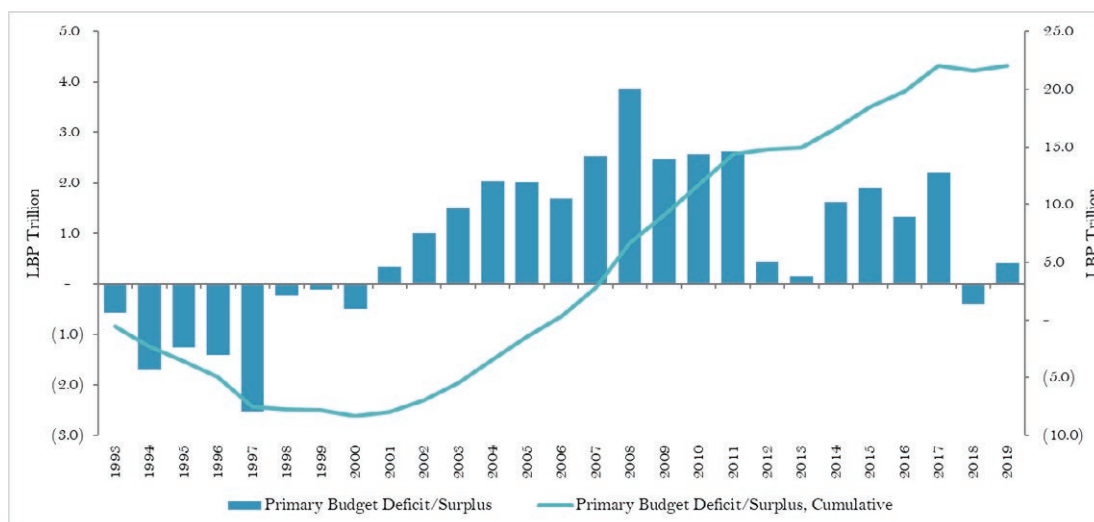
12. From 1993 till 2019, the Government of Lebanon accumulated a Primary Surplus of 22 trillion LBP at the level of budgetary revenues and expenditures (Figure 15); the cumulative primary surplus, when “treasury” operations are included, comes to around 5 trillion LBP (Figure 16). Yet, the overall fiscal balance manifested a chronic deficit that accumulates to some 123 trillion LBP, while the debt-to-GDP ratio grew from 48 percent to a staggering 171 percent over the same period.

13. The question therefore becomes: with the capacity to levy and collect revenues as shown

above, what are key elements to examine to gain a better understanding of the underlying deeper dynamics? Simply put, how does a country with a cumulative primary surplus over 26 years be the theatre of such a monumental collapse as the one that struck in Q4-2019?

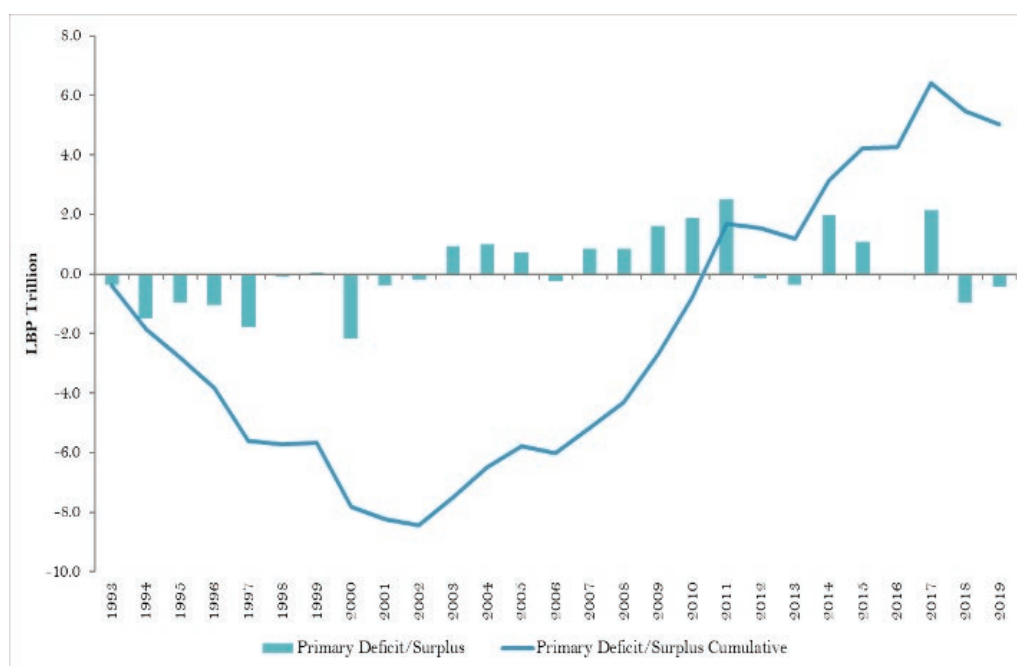
14. In this Chapter, key analyses are proposed to address the main intricacies of the fiscal landscape, and to suggest a framework that depicts the underlying policy levers.

**Figure 15.** The large overall fiscal deficit was despite an accumulation of a primary surplus ...



Sources: Ministry of Finance.

Figure 16. ... when excluding and including “Treasury” operations



Sources: Ministry of Finance and CAS.

## B. FOUR PHASES OF PRIMARY BALANCE

15. We examine the primary balance evolution using a phase-based approach for the underlying fiscal policy directions. Four phases are inferred/considered (Figure 17).

- a. **Phase 1, 1993-1997:** A post-civil war phase marked with the optimism of reconstruction, reflected by a clearly negative primary balance. This included increased spending for recruitment of personnel to the civil and security bodies and capital expenditures, incurring debt.
- b. **Phase 2, 1998-2002:** This phase saw the beginning of an undeclared/informal austerity era, notably with a steep reduction in capital expenditures and increases in taxation, narrowing the primary deficit to almost balance. The exception is a short episode of a steep deficit in 2000, which can be considered as an outlier in this phase. This was driven by payments of accumulated arrears from past years and other fiscal bookkeeping undertakings.
- c. **Phase 3, 2003-2011:** A respite phase marked by a clear primary surplus and the amassing

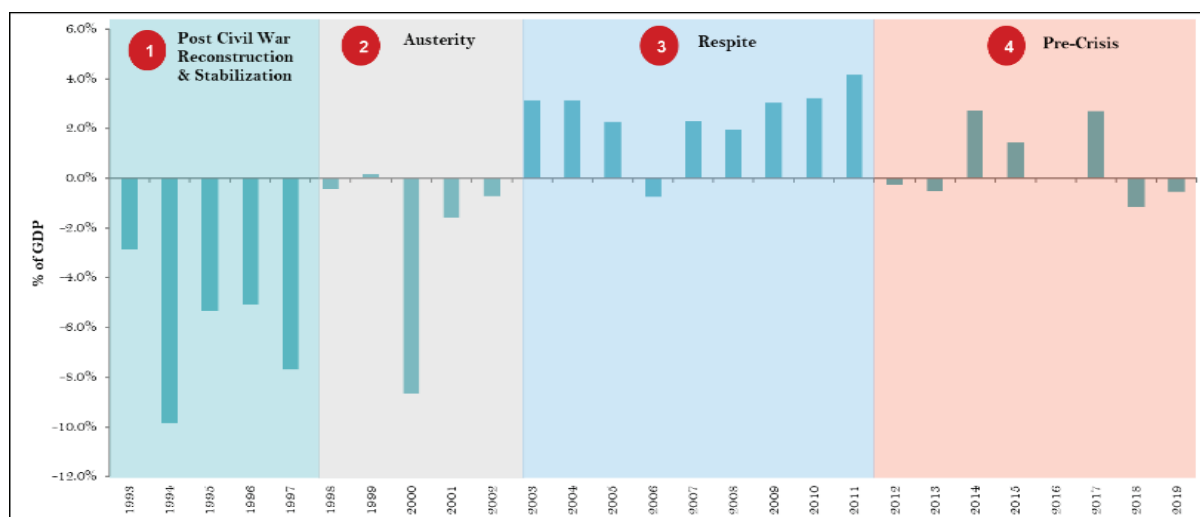
of capital inflows driven by an improved sentiment in the aftermath of the Paris II Conference, surging oil prices, and positive spillovers of the global financial crisis of 2008. The latter involved capital fleeing from global financial institutions to Lebanon's bank-deposit regime, which offered attractive returns and was perceived as a safe haven. Another outlier in 2006 corresponds to as the war with Israel as a well as to paying a judicial settlement to the mobile companies that had a BOT (Build, Operate, Transfer) arrangement with the GoL.

- d. **Phase 4, 2012-2019:** A pre-crisis phase of turmoil that was heavily impacted by the eruption of war in Syria, the massive influx of Syrian refugees (making Lebanon the host for the largest per-capita refugee population in the world), the economic fallout (closure of trade routes, oil price sharp fluctuations, losses in tourism) and political/security unrest. Hence, the primary balance reflected these stresses falling prey to the many severe repercussions. This phase also witnessed (i) a heavy expansion of “financial

engineering” operations by the central bank (Banque du Liban, BdL) in an attempt to prevent/delay a sudden stop scenario; and (ii) proliferation of political financial spending via a surge in partisan recruitment into the public

administration, State Owned Enterprises, and military & security agencies, in addition to wages and taxation increases, specifically leading up to the 2018 elections.

**Figure 17.** Primary balance in relation to the four phases



Source: Ministry of Finance and CAS

## C. TAXES OVER THE PERIOD

**16. Analyzing the revenue side more closely reveals the following inflection points over the four phases that illustrate the afore-mentioned capacity to levy and collect taxes:**<sup>23</sup>

- Phase 1: despite an annulment of the tax on interest income and a reduction of the income tax (1994/1995), tax revenues increased by 1 percentage point (pp) of GDP in both 1994 and 1995, driven by the post war growth in economic activity, especially characterized by a massive influx of capital.
- Phase 2: in the budget of 1999, taxes on income and consumption were increased leading to a 1 pp of GDP rise in each of direct and indirect taxes. Tax revenues subsequently underwent a sharp reduction in 2000 and 2001 (close to 2 pp of GDP) due to a slowdown of the economy (0 and 1 percent growths in GDP, respectively).
- Phase 3: the introduction of the VAT and the re-introduction of taxes on interest income in 2002 allowed tax revenues to increase again to reach 16 percent of GDP by 2004, dropping again over 2005-2006 from another economic slowdown and the 2006 war with Israel. The increase observed between 2007 and 2010 (3 percent of GDP) was due to accelerated growth. This growth was fueled by reconstruction efforts after the 2006 war, followed by massive capital inflows escaping the global financial crisis and due to favorable higher oil prices. This particular period constituted a missed opportunity for the Government to undertake taxation measures to benefit from very favorable external factors (especially capital in-flight and oil prices' appreciation).
- Phase 4: from 2011 till 2016, tax revenues stagnated in absolute value and decreased by 3.5 pp of GDP indicating that growth was

<sup>23</sup> Refer to the Annex for a brief description of Tax changes over the period.

driven by sectors little impacted by taxation (notably real estate, also fueled by subsidies on housing loans). The most recent attempt at introducing fiscal measures to boost revenues

was in 2017, where taxes on interest income and VAT were raised to 7 and 11 percent, respectively, which managed to slightly increase tax revenues (by 1 pp of GDP).

## D. EXPENDITURES' DRIVERS

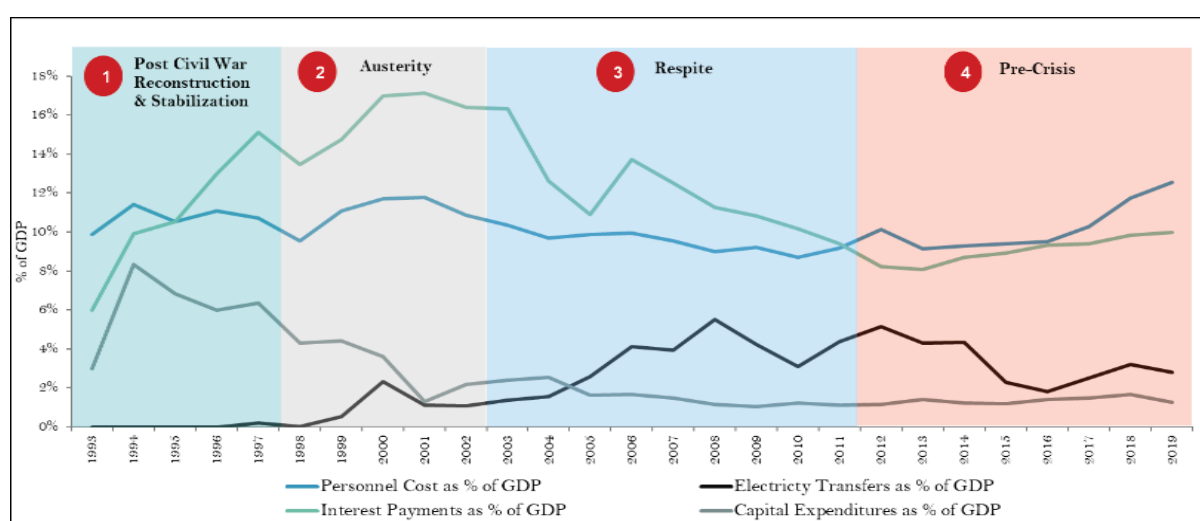
17. **Four components constitute the majority of expenditures and bear important dynamics that reflect key policymaking and political efforts that drove Lebanon's fiscal position.** As per the terminology used in published GoL fiscal accounts, these categories are:

- Personnel cost: corresponding data include wages and benefits of public servants.
- GoL transfers to EdL: until 2008, transfers to EdL were made under the rubric Treasury

Advances, and for the rest of the period under Various Transfers.

- Interest payments: a key lever of quasi fiscal undertakings, as we shall examine in greater detail in the following chapter.
- Capital expenditures: the prominent parameter that distinguishes Phase 1 from subsequent phases. [Figure 18](#) shows the four expenditure items as percentage of GDP over the period.

**Figure 18.** The four main expenditure items over the period.



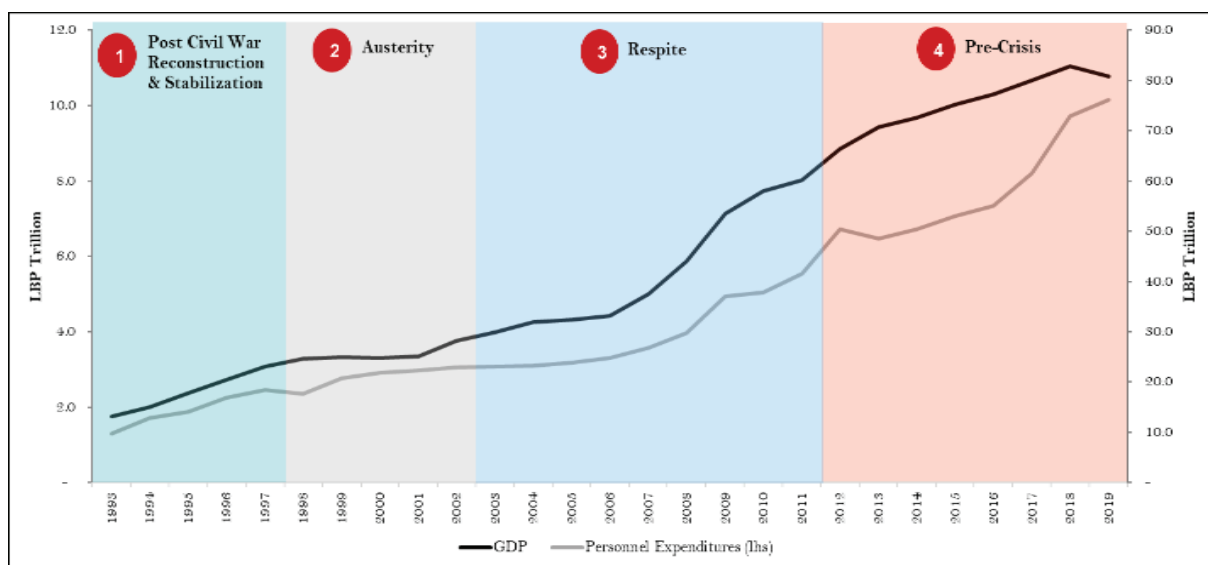
Source: BdL and WB Staff Calculations

## E. PERSONNEL COSTS

18. **Over the period, contrasting expenditures under this category against the official and growing GDP shows a profound and indicative divergence (Figure 19).** This is further reflected in [Figure 20](#) showing personnel expenditures as percentage of GDP decreasing from 12 percent to close to 8 percent between 2000 and 2011. Subject to Lebanon's governance deficiencies,

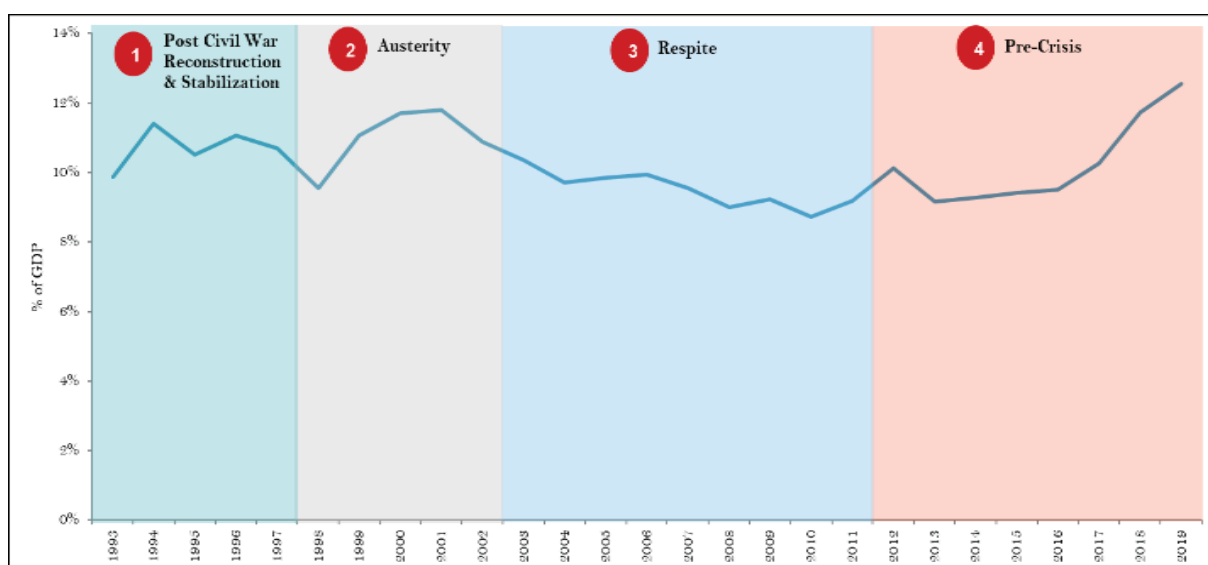
spending under this category served as an elite capture instrument for partisan politics and social manipulation rather than one for boosting human capital and public administration. When compared with a few countries with similar socio-economic profile, personnel costs in Lebanon shows a further stark contrast, as explained in Subsection K of this Chapter.

**Figure 19.** In nominal terms, personnel expenditures rose steadily ...



Sources: Ministry of Finance.

**Figure 20.** ... however, they declined as a percentage of GDP, rising again toward the end of the period.



Sources: Ministry of Finance and CAS.

19. In phases 1 and 2, personnel costs as a percentage of GDP were stable while nominal GDP doubled. This included a one-off wage correction measure in 1998 to catch up with lost purchasing power. In phase 3, the share of personnel expenditures to GDP fell from 12 to 9 percent as a consequence of the austerity-respite dynamics. In the beginning of phase 4, one-off wage

correction measures took place after four years of social unrest. Specifically, an advance payment was passed in 2012 followed by a law in 2017 that provided the rest of the wage increase. This wage increase was coupled with a large increase in recruitment in both civil service and in the military.

20. **The share of public employment is estimated at some 14 percent,<sup>24</sup> a rate substantially lower than the lowest share assessed in LIC to MIC (from 45 to 22 percent, respectively).<sup>25</sup>** The comparative consideration used in Lebanon's case is provided for in paragraph 38 below and Figure 31, whereby the personnel costs (as percentage of GDP) were analyzed in comparison with Jordan, Cyprus, and Tunisia—countries with comparable macroeconomic profile, exposure to similar

external factors and size, albeit with some varying contexts. The personnel costs were consistently at lower levels in Lebanon, in all the period under examination, albeit with an elevated rate of informality, assessed at some 55 percentage of total employment.<sup>26</sup> Hence, the costs of public employment were not excessive in GDP percentage terms, but certainly in terms of efficiency and political cooptation.

## F. ELECTRICITY TRANSFERS

21. **Electricity tariffs were last adjusted in nominal terms in 1997 based on the assumption of a price of oil at around US\$20 per barrel—in real terms these tariffs have plunged.** Whereas oil prices took off toward end of the 1990s, electricity tariffs remained unchanged. This no-decision stance lasted for 25 years thus far and can hardly be explained in the context of a pure public finance approach. In addition to setting a tariff significantly below cost recovery, non-payments of electricity bills by consumers are widespread. These contribute, to a large extent, to EdL's large and chronic losses (dating back to the early 1980s) and the need for similarly sized and frequent budget transfers to EdL.

22. **More generally, a political economy equilibrium in the electricity sector was cemented over the period.** This explains lack of progress on addressing long-standing structural bottlenecks in the electricity sector, despite readily available technical and financial means. Important economic factors that drove this equilibrium include:

- a. Failure to allocate necessary investment financing to increase production capacity in line with rising demand as a result of austerity

decisions adopted after 1997. The lack of investments resulted in reduction of generation capacity and hence a larger dependence on private sources, thus precluding any political support for tariff increases.

- b. Importantly, rationing power production by BdL also served to reduce the impact on the FX reserves of the Central Bank, pushing substitution of electricity consumption to private generators' suppliers that, in turn, drew on commercial banks' financing using banks' own foreign assets. This is despite the fact that the FX needed by private generators would be greater on a per kilowatt basis, due to the more expensive (and more polluting fuel used (diesel versus fuel oil), as well as other inefficiencies. Hence, power rationing by EdL cost the economy at large more FX.
- c. After 2011, BdL commenced more aggressive operations to collect commercial banks' foreign assets as part of its gross reserves. This substitutability factor is clearly in effect from 2011 as foreign assets of BdL expanded at the expense of commercial banks' foreign asset position (Figure 25). The substitution itself, aside from its economic burden on consumers, became increasingly untenable.

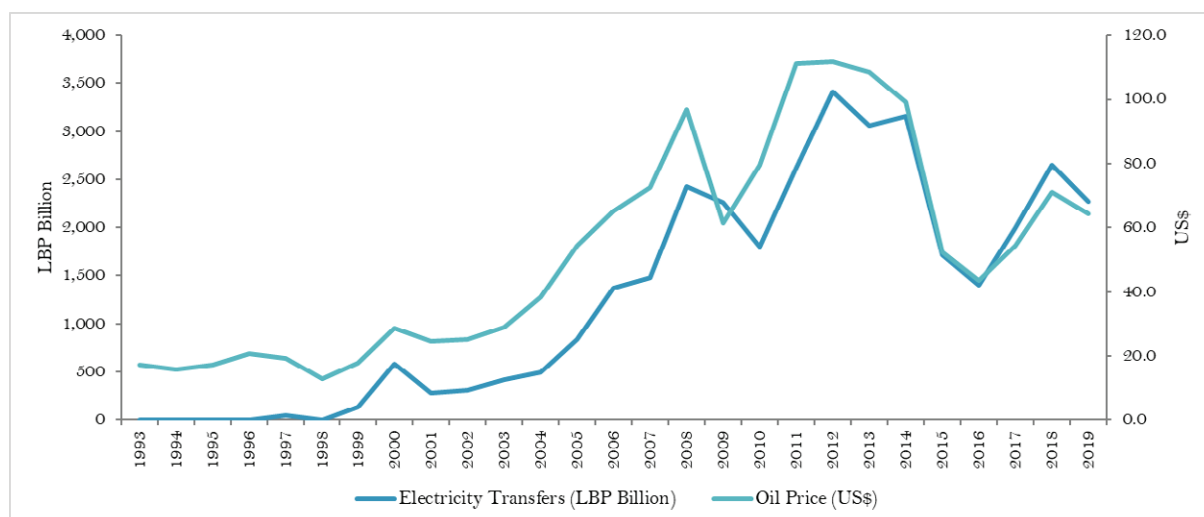
24 Islam, Asif M., Dalal Moosa, and Federica Saliola. 2022. *Jobs Undone: Reshaping the Role of Governments toward Markets and Workers in the Middle East and North Africa*. Washington, DC: World Bank. doi:10.1596/978-1-4648-1735-9. License: Creative Commons Attribution CC BY 3.0 IGO.

25 Merotto, Dino, Michael Weber, and Reyes Aterido. 2018. "Pathways to Better Jobs in IDA Countries: Findings from Jobs Diagnostics." World Bank, Washington, DC. License: Creative Commons Attribution CC BY 3.0 IGO.

26 "Labour Force and Household Living Conditions Survey 2018-2019 Lebanon, Beirut, 2020". Issued by the Lebanese Republic Central Administration of Statistics (CAS); International Labour Organization (ILO); and the European Union (EU).

23. More specifically, in fiscal reporting, electricity transfers depict the fuel subsidy in state-owned power generation, and hence, the high correlation between oil prices and these transfers, as depicted in Figure 21.<sup>27</sup>

Figure 21. A high correlation between oil prices and electricity transfers



Source: Ministry of Finance, World Bank

## G. CAPITAL EXPENDITURES

24. Investment expenditures practically collapsed after Phase I, Lebanon's reconstruction. Figure 22 illustrates the steep dis-investment as of 1997.<sup>28</sup> Shortly thereafter, it reached levels that fall below minimal maintenance and service-continuity.<sup>29</sup> let alone levels found in Low-Income, Developing Countries (LIDCs) or even in fragile states.<sup>30</sup> As a result, the Government's capital stock declined steadily over the period (Figure 23).

25. Capital expenditures tightening reflects the need for less expansionary fiscal policy and subsequently, at signs of market stress arose, austerity measures. The ensuing deterioration of public services compounded the needs, and costs, of public service substitution (with private services) and subsequent financing needs.

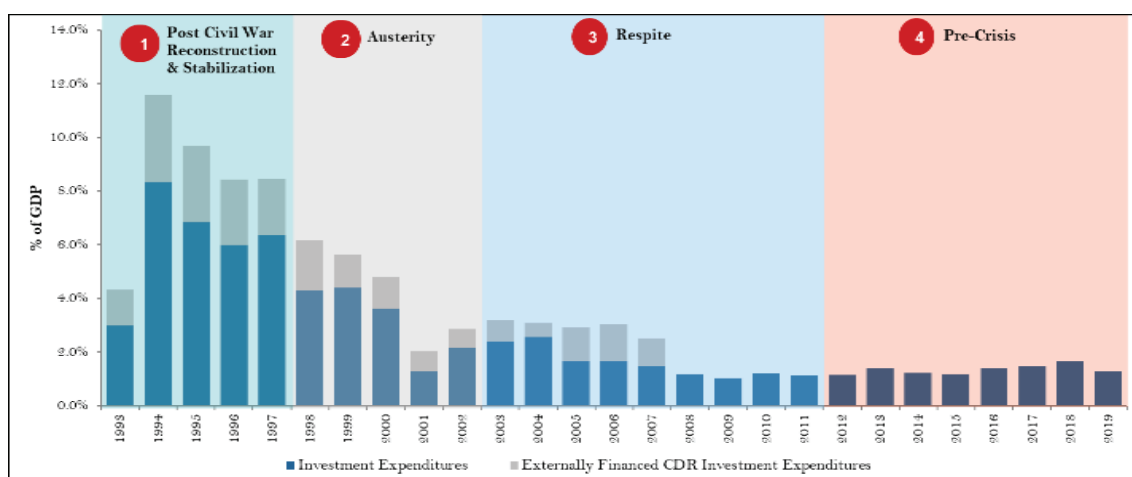
27 No phases were shown in this graph as the main driver in the electricity subsidy is an external factor, namely the price of oil.

28 Reported investment expenditures are composed of two components: first, as reported by MoF, and second, the capital expenditures undertaken by the Council of Development and Reconstruction (CDR). The latter was financed by foreign debt that the CDR contracted directly but that was not reported in public accounts/debts.

29 "The sole maintenance of the public capital stock (not considering natural resources), including a complete overhaul of the power sector would broadly cost 2.3 percent of GDP every year (over the period 2005-9); and the Ministry of Economy and Trade concludes that the depreciation of public infrastructures represented 2.4 percent of GDP in 2002." (Public Investment Program, CDR, 2006, page 42).

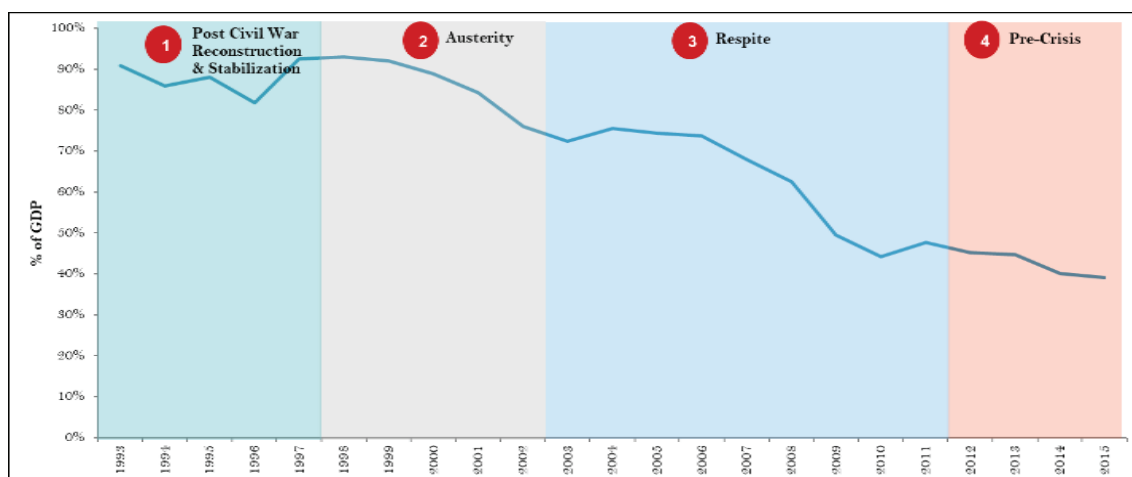
30 Gurara, Daniel, Vladimir Klyuev, Nkunde Mwase, Andrea Presbitero, Xin Cindy Xu, and Geoffrey Bannister. 2017. *Trends and Challenges in Infrastructure Investment in Low-Income Developing Countries*, IMF WP/17/233, November 2017.

**Figure 22.** As a result of a steep dis-investment since end-Phase 1,



Sources: Ministry of Finance and CAS.

**Figure 23.** Government's capital stock declined steadily over the remaining part of the period



Sources: Ministry of Finance and CAS.

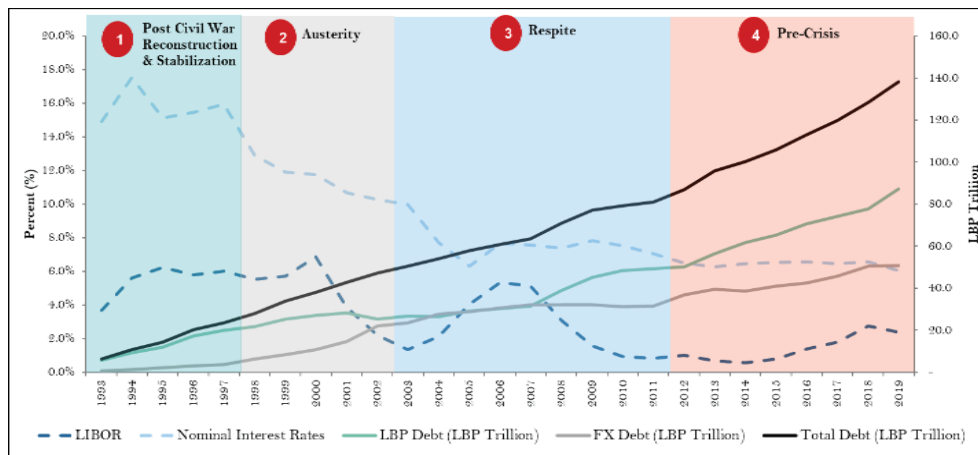
## H. INTEREST EXPENDITURES

26. With the issuance of Eurobonds in 1998, the spread between nominal interest rates<sup>31</sup> and LIBOR started to decrease in spite of continuously increasing indebtedness levels. The spread narrowed to its lowest level in the middle of phase 3, as capital inflows surged, before widening again to a somewhat stable trend thereafter (Figure 24).

27. The capacity to incur such indebtedness over a prolonged period of a fixed peg regime, through recycling of foreign assets internally between the BdL and commercial banks—as will be discussed at length in the following chapter—allowed excessive consumption/subsidy. This, however, came at the expense of increased risk to sudden stop scenarios, where the arrest of capital inflows exposes the whole system to a perilous threat of exhausting itself, as the crisis of Q4-2019 shows.

31 The nominal interest rate on gross public debt (in LBP and FX) was computed by dividing total interest payments (in LBP and FX) in year  $n$ , as reported by the ministry of finance, by the average of the gross public debt in years  $n$  and  $n-1$ .

**Figure 24.** The spread between nominal interest rates and LIBOR started to decrease in spite of continuously increasing indebtedness levels.



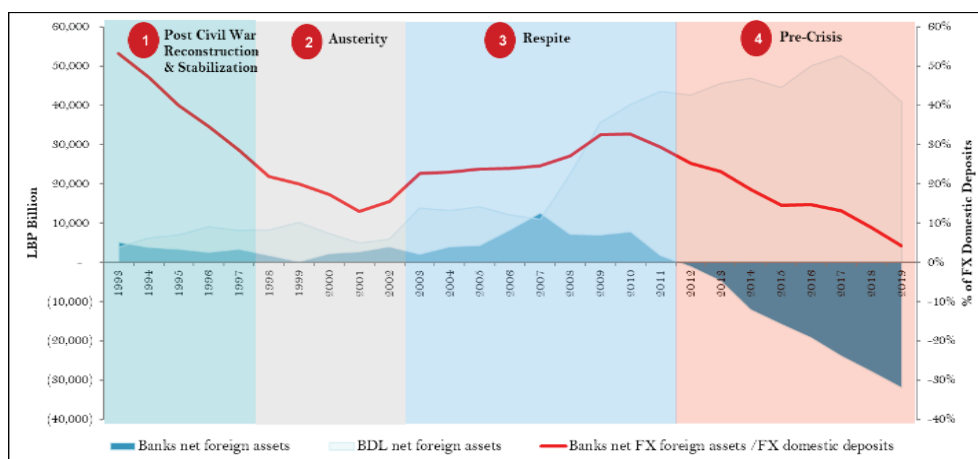
Source: Ministry of Finance, Federal Reserve Economic Data

## I. PRESSURE POINTS ON THE BALANCE OF PAYMENTS

28. Due to the strong linkages between Lebanon's fiscal position and the balance of payments (BoP), we proceed to examine key indicators of the latter over the period. The Monetary Coverage of Broad Money (M4) by Net Foreign Assets<sup>32</sup> reveals a pattern that, when mapped onto the four phases of our analysis (Figure 25) shows the following trend:

decreasing coverage starting in Phase 1 and well into Phase 2, recovering considerably thereafter through Phase 3, only to start declining again in phase 4, reaching therein alarming levels towards its end, in a direct correlation with the crisis eruption.

**Figure 25.** Since 2011 foreign assets of BdL expanded at the expense of commercial banks' foreign asset position.



Source: BdL

32 This is calculated by dividing banks' net foreign assets by M4 sourced from BdL.

## J. INDEBTEDNESS LEVELS

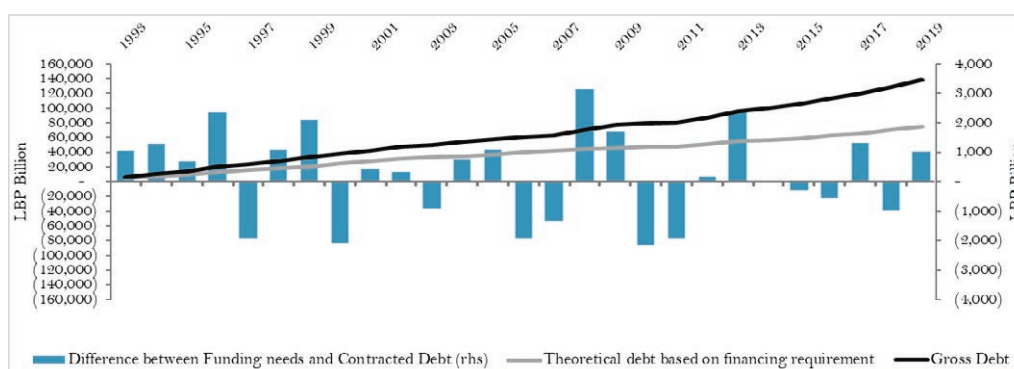
29. We examine Lebanon's debt accumulation, which, as a ratio to GDP, became one of the highest globally, reaching 171 percent by the eve of the financial crisis. In principle, accumulating debt leads to an increase in interest rates, inviting capital placements thereto at the expense of productive investments (i.e., the crowding-out effect). It also restricts the State's margin of maneuver, eventually causing a financial crisis.<sup>33</sup> Thence the concern with the *sustainability* of public debt.

30. We begin by assessing recorded borrowing levels in relation to deficits. This is based on the comparison of actual and theoretical gross public debt at year ends, incorporating roll-over and new debt. Specifically, we calculate *theoretical debt based on financing requirements*<sup>34</sup> and compare it to *actual gross public debt* and the *difference between funding needs and contracted debt*,<sup>35</sup> all at years' end. We do so for both, budgetary operations and cumulative budgetary and non-budgetary (treasury) operations.

31. Results of the calculations are illustrated in Figure 26 and Figure 27. This exercise allows us to draw the following conclusions:

- There is a seeming volatility in regard to lending beyond or below deficit/needs resulting in a cumulative LBP6.7 trillion of additional public debt,<sup>36</sup> as the graph shows.
- By end-2019, the theoretical debt based on financing requirements comes out to be about half (54 percent) of actual gross public debt (as reported by MoF), when considering cumulative budgetary and treasury operations.
- By end-2019, the theoretical debt based on financing requirements comes out to be 31 percent of actual gross public debt (as reported by MoF), when considering only cumulative budgetary.

Figure 26. Difference between estimated fiscal funding needs ...



Note: Positive numbers indicate debt contracted on top of funding requirements. Negative numbers indicate that the additional debt contracted in the year is lower than the funding requirements. Theoretical debt is calculated assuming interest rates calculated using reported interest expenditure and debt figures.

Sources: Ministry of Finance and CAS.

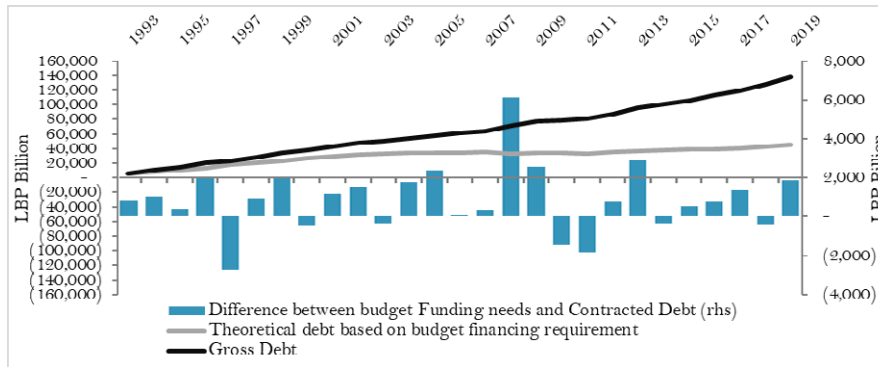
33 The Lebanese Money and Credit Code, by prohibiting the Central bank from financing the state deficit, had imposed, in principle, a strong constraint regarding the accumulation of deficits and debts.

34 Theoretical debt at time  $t$  equals theoretical debt at time  $t-1$ , plus the primary deficit at  $t$  (as reported by MoF), plus the interest incurred on the theoretical debt at time  $t$ . The interest incurred on the theoretical debt at time  $t$  is equal to the theoretical debt at time  $t-1$  multiplied by the rate on interest payments at time  $t$ . The rate on interest payments at time  $t$  is calculated as the ratio of interest payments at time  $t$  (as reported by MoF) to the average of actual gross public debt at times  $t-1$  and  $t$  (as reported by MoF).

35 The difference between funding needs and contracted debt at time  $t$ , is the difference between (i) actual gross public debt at time  $t$  (as reported by MoF) and (ii) actual gross public debt at time  $t-1$  (as reported by MoF) plus the overall fiscal deficit at  $t$  (as reported by MoF).

36 When we sum the difference between funding needs and contracted debt from 1993 to 2016, we get LBP 6.7 trillion for cumulative budgetary and treasury operations.

Figure 27. ... and contracted debt was pervasive.



Note: Positive numbers indicate debt contracted on top of funding requirements. Negative numbers indicate that the additional debt contracted in the year is lower than the funding requirements. Theoretical debt is calculated assuming interest rates calculated using reported interest expenditure and debt figures.

Sources: Ministry of Finance and CAS.

**32. We proceed to formulate conditions for stabilization of the debt-to GDP-ratio.** These conditions are derived from standard accounting formulae, focused on the primary balance (Box 2). Stabilization of the debt-to-GDP ratio generally translates to imposing a maximum limit on the primary deficit-to-GDP ratio. Such a limit depends on the debt level, interest rates, the GDP growth rate and inflation (deflationary effect on GDP). As suggested by Equations 1 and 2, we deduce that

debt dynamics are considered sustainable when (i) the nominal interest rate  $i$  is inferior to the nominal GDP growth rate  $g$ , that is  $i < g$ , no matter what the debt level may be; and (ii) the primary surplus is sufficiently large to offset  $i > g$  effect. These relations are based on all variables being measured in national currency. The sustainability of debt in forex depends more on the outflow of net exports but also on the delta between rates of interest on assets and liabilities, in forex.

### Box 2. Debt Stabilizing Conditions

We describe debt dynamics using classical formulations. Specifically,

$R_t \equiv$  due collected revenues

$X_t \equiv$  primary due paid expenses

Hence the primary balance is,

$$P_t = R_t - X_t$$

For an initial public debt  $D_{t-1}$ , the debt service is

$$S_t = D_{t-1} * i_t$$

Public debt then becomes:

$$D_t = -P_t + D_{t-1} * (1 + i_t)$$

As a ratio of GDP, denoted by  $Y_t$

$$D_t/Y_t = -P_t/Y_t + D_{t-1} * (1 + i_t)/Y_t$$

Denoting the growth rate of  $Y_t$  as  $g_t = Y_t/Y_{t-1} - 1$

$$D_t/Y_t = -P_t/Y_t + (D_{t-1}/Y_{t-1}) * (1 + i_t)/(1 + g_t)$$

Denoting  $d_t = D_t/Y_t$  and  $p_t = -P_t/Y_t$ , the above equation becomes

$$d_t = -p_t + d_{t-1} * (1 + i_t)/(1 + g_t)$$

$$p_t = -d_t + d_{t-1} * (1 + i_t)/(1 + g_t)$$

For debt to be stable,  $d_t = d_{t-1}$

Hence, the debt stabilizing primary balance,  $p_t^s$ , would be

$$p_t^s = -d_{t-1} + d_{t-1} * (1 + i_t)/(1 + g_t) \quad (\text{Equation 1})$$

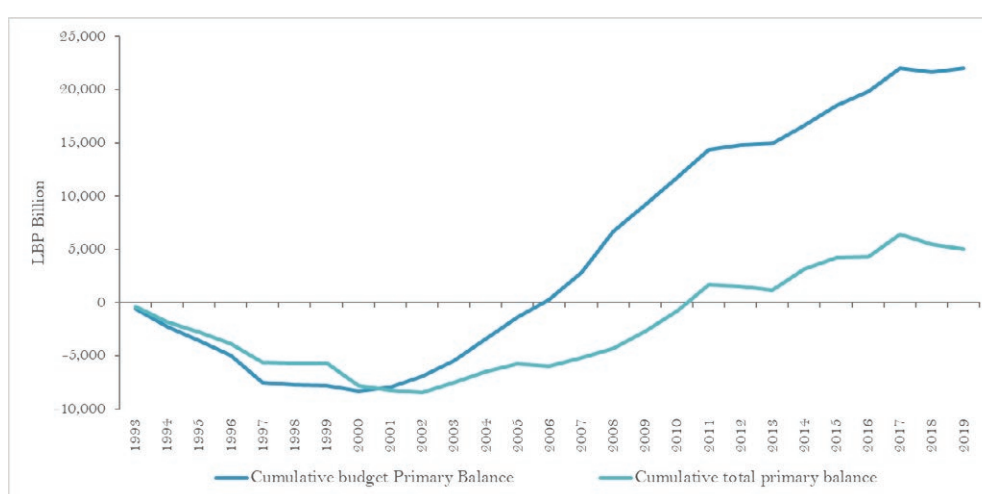
$$p_t^s = (i_t - g_t)/(1 + g_t) * d_{t-1} \quad (\text{Equation 2})$$

33. It is therefore quite remarkable that this was not at all the case in Lebanon; nevertheless, this state of affairs lasted nearly for thirty years. How could it have been possible? To illustrate the complex mechanisms according to the above classifications and between the cited actors, several approaches are postulated.

34. The simplest way would be to estimate the state of public finances in the narrow sense, if the

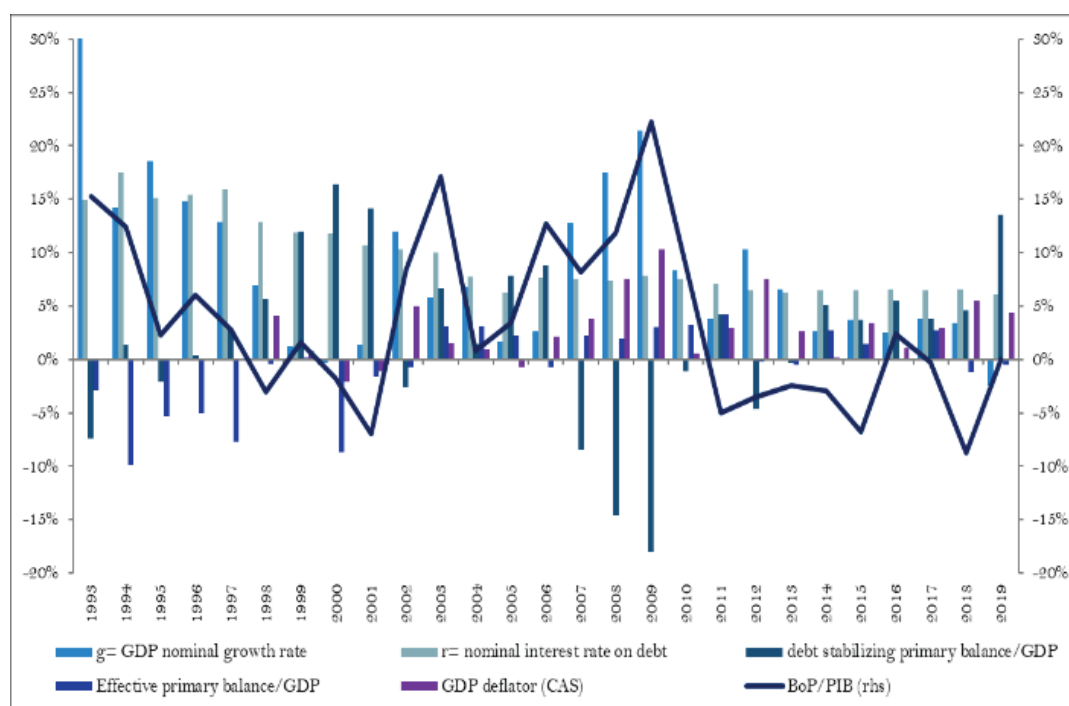
classic and legal rules of public funds management had been respected (debt, deficit, etc., without even integrating the operations and losses of the Central Bank), and to compare their evolution with the one observed in actuality. Figure 28 below plots the cumulative budget primary balance (excluding treasury accounts) with cumulative total primary balance (including treasury accounts), illustrating the gap/difference between the two. We specifically note is the drop-off from 1997 onwards.

Figure 28. Gap between budget and total primary balance accumulated over the period.



Source: Ministry of Finance.

Figure 29. The primary deficit was, with rare exception, smaller than the stabilizing deficit.



Source: WB staff calculations.

35. **Second, we go a step further and apply the common stabilization rule of the ratio of public debt to GDP mentioned above.** Then, we no longer distinguish between regular and irregular expenditures, but we continue to omit the quasi-fiscal actions of the Central Bank and their consequences. [Figure 29](#) above compares the stabilizing primary balance (relative to GDP) with the actual primary balance, with the evolution of growth rates, interest rates and the deflator.

36. **The rare years (2002 and 2007-2009) in which the primary deficit was lower than the stabilizing deficit were those in which the GDP deflator was at its highest level (5-10 percent), along with real growth (7-10 percent).** In fact, those in which capital inflows surged, obviously for external reasons, whether due to the Paris II Conference in 2002 or the oil boom between 2007 and 2011, accompanied by the arrival of large donations following the war in 2006 (the balance of payments surplus in each of these phases was between 10 and 20 percent

of GDP). The period before 1997 has not been covered by the publication of national accounts. But there was a dramatic rise in domestic prices, which was not enough to offset the spending spree, which was much more about appeasing the militias than financing reconstruction, as well as dramatic reductions in taxation.

37. **Public borrowing obviously served other objectives than financing the public deficit.** We posit that a key objective was to meet balance of payments needs via sustaining the banking system profitability and attracting capital inflows, as evidenced in Chapter 3, Subsections C and D. More generally, fiscal policy in Lebanon was an integral component of a defective growth model, which, while subject to excessive external and internal shocks, was deliberate and reasonably well targeted. In [Box 3](#), we take from the LEM, Fall 2018, entitled [De-Risking Lebanon](#) to present a brief growth decomposition that highlights important characteristics on growth and productivity in Lebanon.

### Box 3. Excerpts from LEM Fall 2018 entitled De-Risking Lebanon.

Lebanon's real GDP growth has decelerated sharply since 2010, but its main drivers have remained services characterized by low productivity and low employability potential for high-skill labor. The service sector constituted 72.4 percent of real GDP over the 2004-2016 period, while industry and agriculture made up a much less 14 percent and 4.3 percent of GDP, respectively ([Figure 30](#)). Real estate is the largest service sector, averaging 13.7 percent of GDP over the same period ([Figure 31](#)), and increasing to 17.3 percent if combined with construction. Wholesale and retail trade is also a principal output for the economy, making up 13.4 percent of GDP. This is followed by public administration at 9.4 percent of GDP and financial services at 7.3 percent of GDP. All but financial services are low value-added sectors and do not generate high-skill employment opportunities. Additionally, all but wholesale and trade of the aforementioned sectors, lend themselves to rent seeking.

On the demand side, the economy is strongly biased towards a large structural external deficit position.

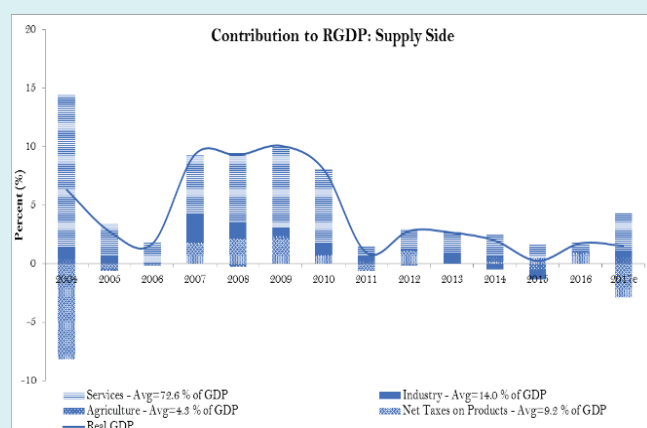
Lebanon's economy is heavily consumption based, with private consumption averaging 88.4 percent of GDP over the 2004-2016 period ([Figure 32](#)). The main supply-side sectors identified above—real estate, trade, public administration, etc.—do not produce the consumption goods in demand, which are instead largely imported. This renders the external sector a large net negative on output, averaging -24.4 percent of GDP over the 2004-2016 period. Meanwhile, total investments at 23 percent of GDP has mostly been focused on a non-productive, rent-seeking, real estate sector.

Lebanon ranks as one of the least competitive economies, both globally and regionally. The Global Competitiveness Index (GCI) by the World Economic Forum ranks Lebanon 105th of 137 countries, ahead of only Yemen in the region ([Figure 33](#)). Moreover, Lebanon's backslide in competitiveness has been the most marked in the region over the past decade. The leading drags on Lebanon's competitiveness have been its macro-economic environment, a dilapidated infrastructure and weak institutions and governance.

As a result, the economy has struggled to reduce widespread poverty and to generate inclusive growth, as job creation has been weak and poorly distributed. The long-run, employment-growth elasticity is estimated to be 0.2 (World Bank 2012), much lower than an estimated MENA average of 0.5 (IMF 2014). Meanwhile, the employment that has been generated has been concentrated in low productivity activities as those involving higher productivity have not grown proportionally. Over the past decade or so, domestic trade accounted

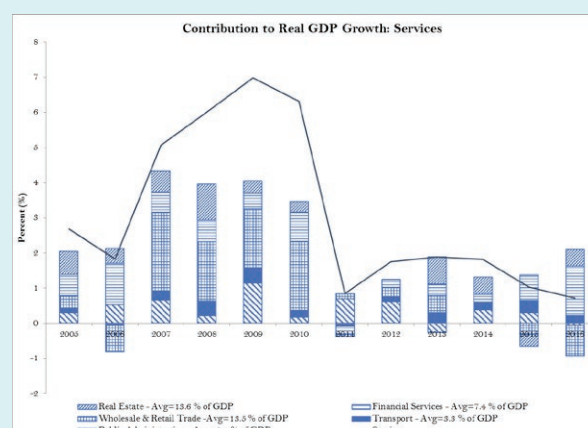
for about 47.3 percent of all new employment, public and private services for 34.7 percent, and construction for nearly 10 percent (ILO 2015). Thus, and in mirroring the structure of the economy, relatively low productivity activities dominated employment growth, while growth in productive activities such as communications, agriculture and manufacturing was marginal. Moreover, since foreign labor dominated low skilled (less productive) activities, high GDP growth rates have not translated into significant job creation for the Lebanese.

**Figure 30.** Services are the main drivers of economic activity in Lebanon ...



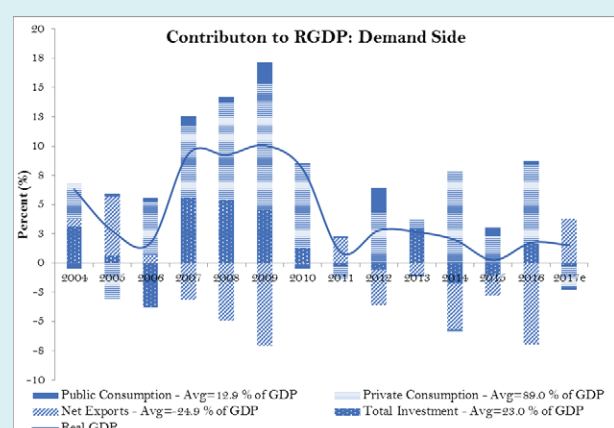
Sources: CAS and WB staff calculations.

**Figure 31.** ... dominated by largely low productivity sectors ...



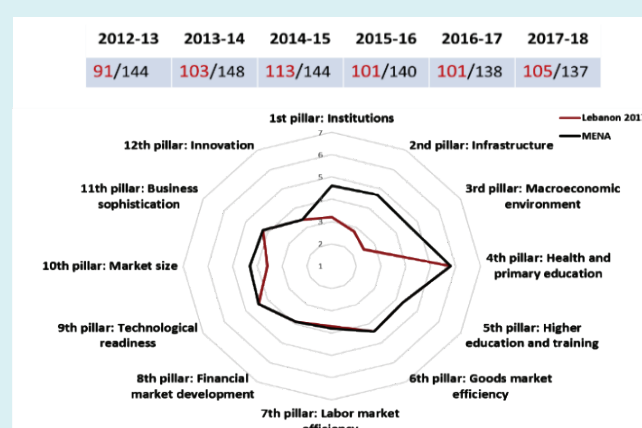
Sources: CAS and WB staff calculations.

**Figure 32.** ... biasing the economy toward large external deficits.



Sources: CAS and WB staff calculations.

**Figure 33.** Long term structural deficiencies renders the Lebanese economy uncompetitive.



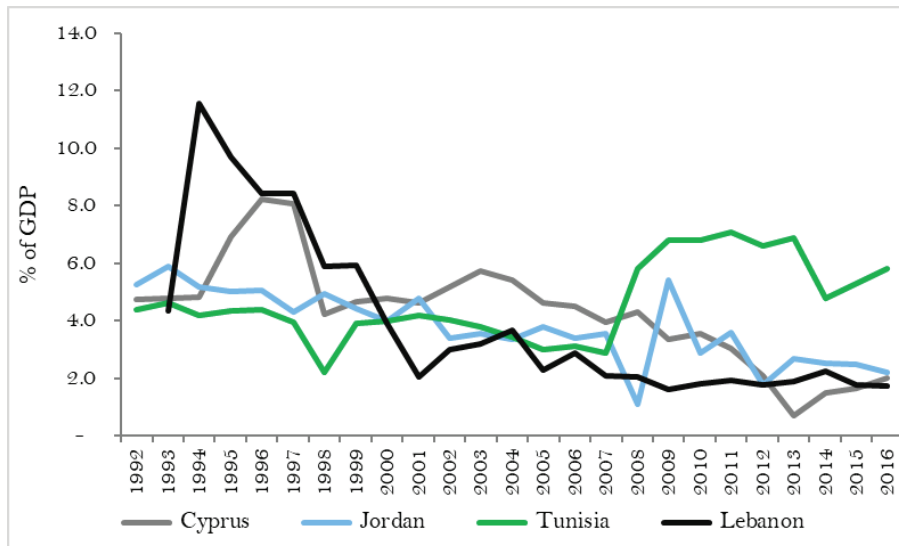
Sources: WEF Global Competitiveness Report.

## K. INDICATIVE FISCAL BENCHMARKING

**38. Cyprus, Tunisia, and Jordan are countries that were included for comparative benchmarking vis-à-vis Lebanon, due to their similar macroeconomic profiles, exposure to similar external factors and size—albeit with some varying contexts.**

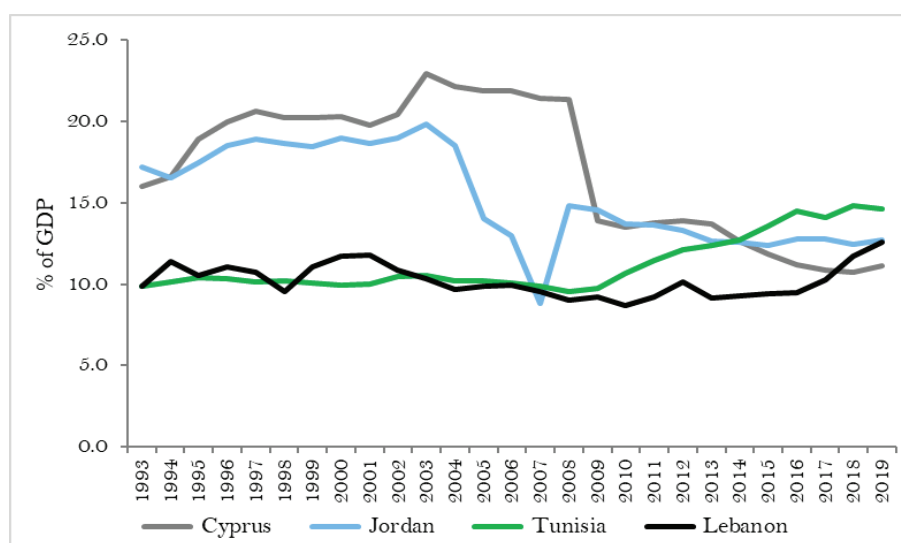
- Net investment in non-financial assets, as percentage of GDP (Figure 34): Thus benchmark was found to be significantly higher in Lebanon than in the other three countries in the 1990s post-civil war era, dropping dramatically thereafter. From 2000 until 2011, Lebanon invested substantially less than its peers (as percentage of GDP). Following the regional turmoil and ensuing economic hardships, the investment ratios in Tunisia and Jordan also declined, while investments were also weighed down by the financial crisis in Cyprus.
- Compensation of employees, as percentage of GDP (Figure 35): Across all the period under examination, the ratio for Lebanon was lower than in the other three countries, decreasing until the mid-2000s. Only Cyprus comes close post 2011, and only as a result of the very harsh financial crisis it underwent.
- Tax revenues, as percentage of GDP (Figure 36): In spite of the increase in taxation ratios as detailed above, and the manifested capacity of the state to levy taxes especially following the end of the civil war, Lebanon's relatively low taxation ratio is prominent among the four countries. Jordan's tax ratio becomes comparable to Lebanon's from the end of the first decade of the millennium, due to a sharp slowdown of economic activity.<sup>37</sup>

**Figure 34.** Net Investment In Non-Financial Assets (% of GDP)

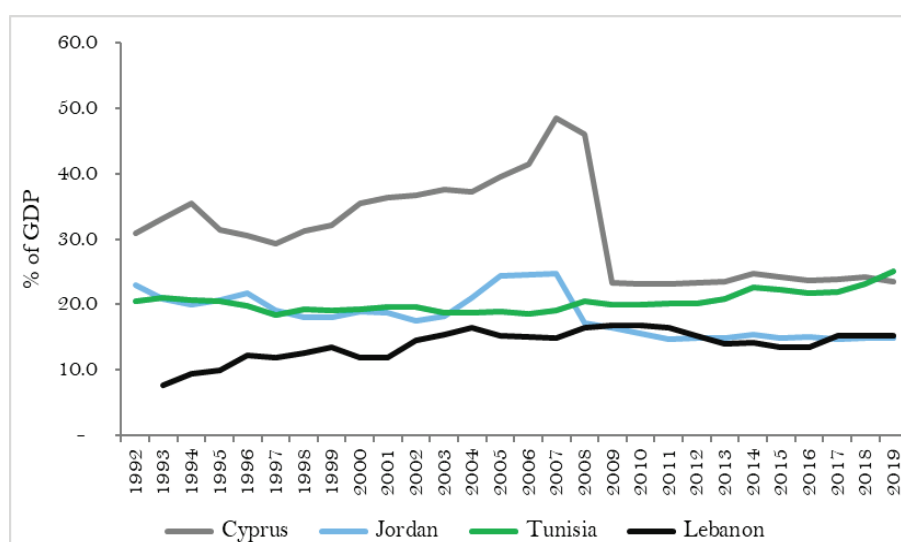


Source: Ministry of Finance, CDR (1993-1996), WDI

<sup>37</sup> This is due to first the global financial crisis (via the impact on the GCC countries) followed by the regional turmoil.

**Figure 35.** Compensation of Employees (% of GDP)

Source: Ministry of Finance, CDR (1993-1996), WDI

**Figure 36.** Tax Revenue (% of GDP)

Source: Ministry of Finance, CDR (1993-1996), WDI

## CHAPTER 3.

# QUASI-FISCAL & OTHER ACTIVITIES

### A. DEFINITION AND SCOPE

39. “Central banks and other public financial institutions (PFIs) play an important role as agents of fiscal policy in many IMF member countries. Their activities in this guise can affect the overall public sector balance (the balance of both the nonfinancial and the financial public sectors), without affecting the budget deficit as conventionally measured. These activities, which are often referred to as quasi-fiscal operations or activities (QFAs), may also have important allocative effects.”<sup>38</sup>

40. QFA activities are considered under three types: Classical, which are commonly known central bank QFA operations, the activity of Gold Assets Re-Evaluation, and Public Finance Activities Masking Dues/Debts. We also discuss a category of *Other Public Finance Related-Activities Causing Deficit/Loss*, to complete the picture of the fiscal performance, to the extent of information and data availability (Figure 37).

Figure 37. QFA activity in Lebanon.



38 Mackenzie, G.A. and Peter Stella. 1996. *Quasi-Fiscal Operations of Public Financial Institutions*, IMF Occasional Paper 142, October 1996, page 1.

## B. BDL SUBSIDIZED LOANS

41. **As of 1997, Lebanon's central bank launched a number of initiatives to entice medium and long-term lending to the private sector.**<sup>39</sup>

Notably, in 2001, BdL allowed for a reduction in commercial banks' reserve requirements in return for undertaking lending in a number of sectors, including IT, agriculture and tourism.

42. **The reduction in banks' reserve requirements was substantially expanded in 2009.** "The success of these incentives led BdL to increase the deduction ceiling to 90 percent in January 2011."<sup>40</sup> As part of this subsidy scheme, BdL lent a total of US\$3.37 billion over the 2013-15 period (Figure 38). This constituted just under twice the net profit after

tax for commercial banks in only one year, 2015 (LBP2,811 billion, or US\$1.85 billion), or 29 percent of the consolidated income of banks (LBP17,403 billion).<sup>41</sup> In excess of 76 percent of this subsidized lending went to the housing sector (Table 1).

43. **The large subsidy relative to commercial banks' revenues and profits clearly point to its dominant role in banks' operations, let alone constituting a major public policy intervention by the central bank.** This served BdL's pivotal role in safeguarding the dollar peg at low interest rates, at the expense of increased indebtedness and more entrenched dependence on inflows of US\$ deposits.

**Table 1. Sectoral Distribution of Utilized Credit Benefiting from Deductions in Banks' Reserve Requirements or in Banks' Liabilities (in Percent)**

	Deductions in Reserve Requirements			
	Mar-12	Mar-13	Mar-14	Mar-15
Housing Sector	76.60	77.11	77.94	79.59
Productive Sectors	3.89	3.65	3.91	3.89
Microcredits and Microcredit Institutions	0.06	0.43	0.37	0.24
Educational Sector	1.34	1.54	1.72	1.87
Environmentally Friendly Projects	0.40	0.46	0.57	0.50
	Deductions in Liabilities			
	Mar-12	Mar-13	Mar-14	Mar-15
Housing Sector	12.67	16.70	19.64	22.87
Productive Sectors	4.10	4.12	2.70	1.79
Subsidized Loans Guaranteed by Kafalat	1.96	2.31	2.17	1.96

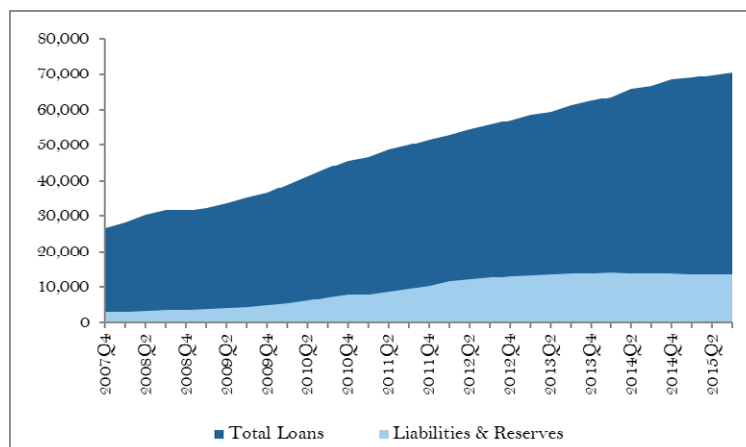
Source: BdL Quarterly Bulletin (2015 Q1) Table 3.4.7 (for utilized credit benefiting from deductions in banks' liabilities subject to reserve requirements) and Table 3.4.8 (for utilized credit benefiting from deductions in banks' reserve requirements). The figures provided in the Table account for utilized credit in both LBP and/or foreign currencies

39 For a detailed description of this QFA, see World Bank. 2016. *The Big Swap: Dollars for Trust*, Lebanon Economic Monitor, Fall 2016.

40 Ibid, page 29.

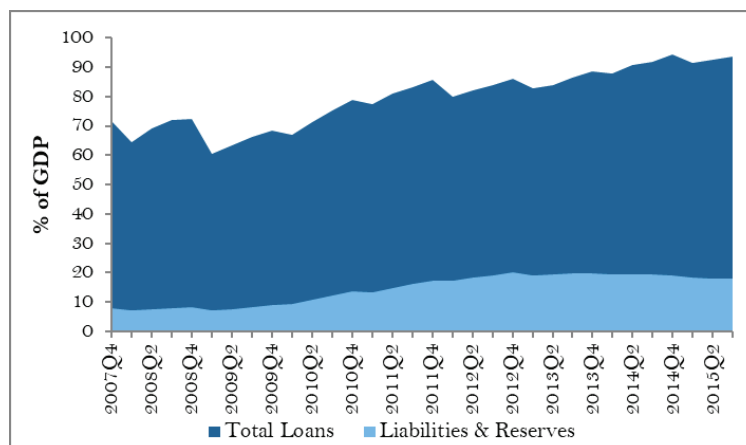
41 Association of the Banks in Lebanon (ABL, [www.abl.org.lb/Library/Files](http://www.abl.org.lb/Library/Files)).

**Figure 38.** A steady nominal increase in total loans driven by loans benefitting from reductions in reserve requirements ...



Sources: Ministry of Finance.

**Figure 39.** ... increasing relentlessly as a percentage of GDP from 2009, exceeding 90 percent in 2015.



Sources: Ministry of Finance and CAS.

## C. BDL & COMMERCIAL BANKS' MUTUAL BORROWING ARRANGEMENTS

44. **Starting in the 1990s, BdL consistently intervened with domestic banks (generally small or medium size) that faced difficulties, by orchestrating a takeover by another local bank.** The main declared driver was the safeguarding of deposits and sustaining trust in the banking sector as the “backbone” of the economy and stability. Larger banks were enticed to undertake the buying operations, with the support and encouragement of BdL in the form of medium to long-term financing schemes of needed buy-ins; the mechanisms

involved mutual-borrowing operations, whereby BdL assumes part of the losses on the acquired banks' balance sheets. Engaged sums were relatively modest and were differed over multi-year undertakings.

45. **This was a key strategy to maintain confidence in the banking sector and sustain the peg and deposits' attractiveness.** For instance, the BdL list of banks in Lebanon, updated in February 2021, reached 142 in its count<sup>42</sup>—a very high number for

42 BdL, <https://www.bdl.gov.lb/pages/index/4/25/List-of-Institutions-Supervised-by-BdL.html>

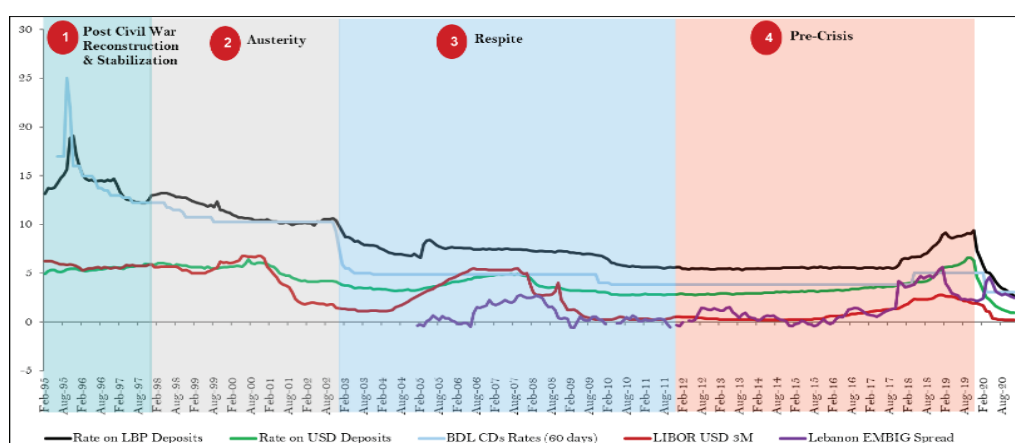
a country the size of Lebanon, but also indicative of the many operations of the sort described. This compares to 61 active banks in the list—an estimate based on a manual count of known active banks. This strategy was inconsistent with best practices in banking resolution, which necessitated the principle of allowing non-systemic banks to fail. Instead, such arrangements gave way to future larger and more systematic mutual borrowing arrangements.

**46. Figure 40 illustrates the combined and sequenced effects of BdL's operations over the period.** During phase 1 and most of phase 2, rates on US\$ deposits remained close to the 3-month US\$ LIBOR, while rates on LBP deposits were slightly above LBP CDs' rates. The issuance of Eurobonds (starting in 1998) decreased pressure on LBP deposit rates, progressively narrowing the gap with rates on US\$ deposits. Meanwhile, the J.P. Morgan Emerging Markets Bond Index Global (EMBIG) spread for Lebanon spiked in

July 2006, coinciding with the Israel war, and remained elevated for two years, after which it subsided. It traced the movement of the 3-month LIBOR before breaking away from it in November 2017—PM Hariri's resignation episode from Saudi Arabia—maintaining a high level for two years, before spiking again in March 2020 when Lebanon defaulted on its debt payments. Paris II Conference in November 2002 led to a sharp decrease in rates on LBP deposits and an even sharper decrease in CDs' rates. The 2008 global financial crisis and the increase in oil prices further disconnected rates on US\$ deposits from LIBOR.

**47. Apart from transitory episodes—especially the 2005 assassinations and political turmoil, and the 2005-2006 increase in international rates—rates on LBP and US\$ deposits, as well as those on CDs and LIBOR remained almost constant until the end of 2017, even though inflows were substantially diminishing.** The crisis became imminent.

**Figure 40.** Despite slowing inflows, LBP and US\$ deposit rates, as well as CD rates and LIBOR remained almost constant until the end of 2017.



Source: BdL and Federal Reserve Economics Data.

## D. BDL & COMMERCIAL BANKS' MUTUAL SWAP ARRANGEMENTS

**48. Swap arrangements were initially intended to compensate a few relatively large commercial banks for losses incurred in their regional operations—Iraq, Turkey, etc.<sup>43</sup>** This involved larger

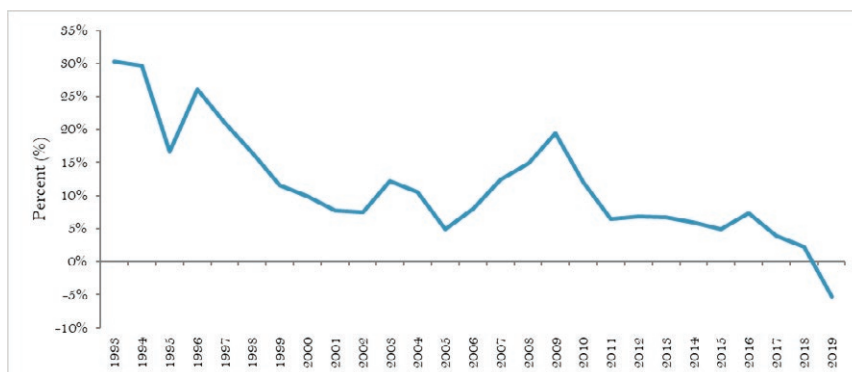
and more swift rescue packages than earlier and was consistent with BdL's strategy of maintaining confidence in the banking sector and sustaining the peg and deposits' attractiveness. It also gave way to

43 See for example, Reuters in 2015, <https://www.reuters.com/article/iraq-kurds-economy-idUSL8N13M46420151204>

a second more strategic goal of compensating for diminishing deposit inflows (Figure 41 and Figure 42) especially in the times when the Syrian war was most active and oil prices dropped sharply.

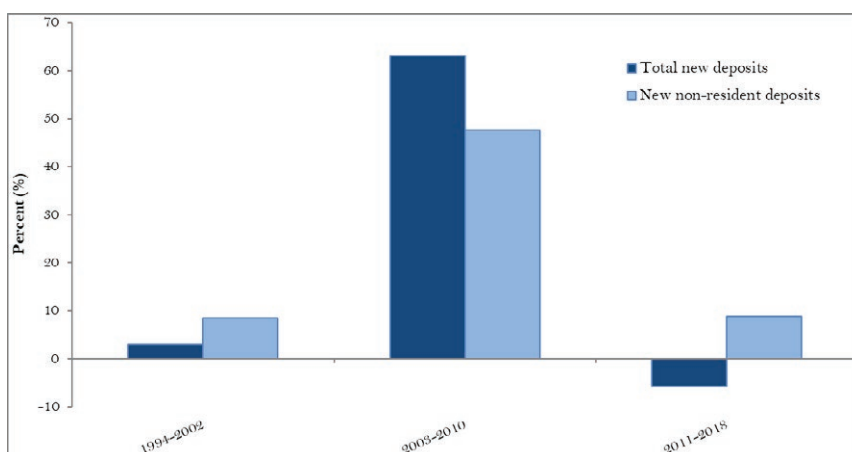
This second mutual swap scheme will be enlarged and progressively generalized, as the following paragraph depicts.

**Figure 41.** Deposit growth has been decelerating steadily since 2009...



Source: BdL

**Figure 42.** ... not only nominally, but also as a percentage of GDP



Source: BdL and WB Staff Calculations

## E. BDL & COMMERCIAL BANKS' FINANCIAL ENGINEERING ARRANGEMENTS

49. **Following the eruption of the war in Syria, Lebanon experienced a deterioration in its balance of payments.** This included a combination of worsening exports combined with diminishing capital inflows within the context of a sharp deceleration in economic growth. In response, BdL set in motion, starting in Q2-2016, large swap

operations—dubbed financial engineering—to the tune of US\$13 billion<sup>44</sup> to incentivize FX deposit inflows and reinforce BdL's reserve position.<sup>45</sup>

50. **This mechanism exposed the difficulty that BdL was facing in sustaining its strategy of winning time and hoping for better days.** The ensuing

44 IMF 2016 Article IV Consultation Report

45 These operations are studied in a series of Lebanon Economic Monitors, specifically in: World Bank (2016), *The Big Swap: Dollars for Trust*, Lebanon Economic Monitor, Fall 2016

operations set the stage for much larger losses when the crisis finally erupted in Q4-2019 crisis. Such arrangements between the BdL and the commercial banks helped disguise the real interest rate cost on inflated government debts. The IMF 2016 Article IV Consultation Report, states that an “additional

US\$2.7 billion in income from interest earned on the bank accounts, most of which are at the BdL, in 2018 relative to the year before. This produced stable net income of US\$2.2 billion in 2018 in an otherwise weak economy and despite higher taxes, rising NPLs and declining credit to the private sector.”<sup>46</sup>

## F. GOLD ASSETS RE-EVALUATION

**51. BdL cancelled, in three stages (2002, 2004 and 2007), a total amount equivalent to US\$3.73 billion of public debt in Lebanese pounds (LBP5,597 billion, Box 4) that it held against purely accounting re-evaluations of gold.** These cancellations were, at least partially, components of the series of Paris Conference agreements. As far as is publicly known, no actual disposal has taken place.<sup>47</sup> The operations in question led to

a disguised reduction of the public debt and to depriving BdL of interest income on the cancelled debt, while reducing the public account deficit for all subsequent years. When applying the interest rates calculated based on public interest expenses and the gross public debt, the US\$3.73 billion disguised reductions in the public debt effectively hid in BdL accounts an additional debt of some US\$10.3 billion (LBP15,929 billion).

### Box 4. Gold Assets Re-Evaluation Calculation

The effect of the re-evaluation of gold on the public debt is calculated as if this operation did not take place, since the public debt has been artificially deflated therefrom. The respective debt is effectively hidden in BdL accounts as it continues to incur interests on it.

To calculate the 2019 hidden debt generated for each of the gold re-evaluations—LBP2,7000, LBP517 and LBP2,380 billions in 2002, 2004 and 2007, respectively—accrual of would-be debt service is added. That is, for the 2002 re-evaluation operation, the 2019 hidden debt would be

$$= \text{LBP}2,700(1+r_{2003})(1+r_{2004})(1+r_{2005})\dots(1+r_{2019})=\text{LBP}9,118$$

The same formula would be used on the remaining two operations. As such, when incorporating the interest rate reported by the ministry of finance, the re-evaluated amount of 5,597 billion LBP becomes 15,929 billion LBP.

Year	Re-evaluation of gold reserves (LBP billions)	Hidden Public debt in 2019 (LBP billions)
2002	2,700	9,118
2004	517	1,439
2007	2,380	5,373
Total	5,597	15,929

Source: IMF Reports, MoF and World Bank staff calculations.

<sup>46</sup> IMF 2016 Article IV Consultation Report

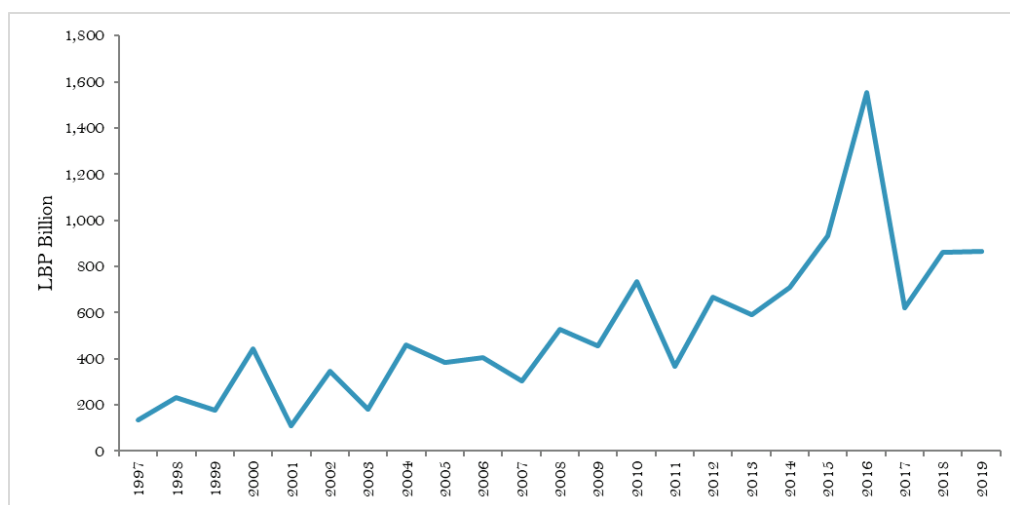
<sup>47</sup> The legality of these operations is questionable. On the one hand, the Money and Credit Code that established the BdL in 1964 stipulates that in the event of a disposal of gold, 80 percent of the profits made would revert to the Treasury. On the other hand, Law 46 of 1986 came to prohibit the disposing of gold assets in any form.

## G. MASKED DUES/DEBTS ON GOVERNMENT: DUES TO MUNICIPALITIES

52. **The bulk of municipalities' revenues are collected through the central government, especially fees on telecom: 10 percent on all bills.**<sup>48</sup> MoF statements show transfers to municipalities—whether to the “independent municipalities’

account” or to individual municipalities—that were intermittent, volatile and opaque (Figure 43). Due to lack of data, we are unable to estimate arrears resulting from unsettled municipality fees on electricity or on imports.

Figure 43. Transfers to municipalities have been opaque and volatile.



Source: Ministry of Finance

53. **Municipalities' dues, receivable or collected through the government, are effectively debts until settled.** The main use of funds collected by the government on behalf of municipalities was to finance large solid waste handling. Telecom

dues, especially mobile telephony priced in US\$, since 1995, were long withheld and only partially remitted, mainly in 2016. The estimated telecom arrears due to municipalities are LBP2,538 billion.<sup>49</sup>

## H. MASKED DUES/DEBTS ON GOVERNMENT: NATIONAL SOCIAL SECURITY FUND (NSSF)

54. **Government arrears resulting from dues to the National Social Security Fund (NSSF) is estimated to be US\$5.4 billion** (Figure 44). Arrears have mainly accumulated in the first decade after the end of the civil war and have stagnated since—if disregarding interest on the debt between 2004 and 2013. In 2014, the state stopped settling its dues

anew, increasing arrears from LBP1,000 billion to reach LBP3,185 billion in 2019. When incorporating the reported interest rate on the public debt during this period, the arrears reach LBP8,101 billion of unreported public debt, equivalent to US\$5.37 billion, at the official peg rate (as of May 2022).

48 Municipalities should have also been receiving a custom tax: 3.5 percent on all imports. This, however, has never been implemented.

49 Calculations on arrears accumulating as of 1997: estimated total collected LBP5,925 billion minus total settled 3,335LBP billion. Source: Ministry of finance, Ministry of Telecom and Banks estimations where data was not available.

### Box 5. Masked Dues/ Debts on Government

Actual data for Government's annual dues to the NSSF (flow data) and total, end of year, (EOY) arrears to the NSSF (stock data) are available from 2005 onward, while the annual paid dues to the NSSF (flow data) are available from 1993. To be able to calculate cumulative arrears to the NSSF, we would want to find/estimate values for the years 1993-2004. We proceed as below.

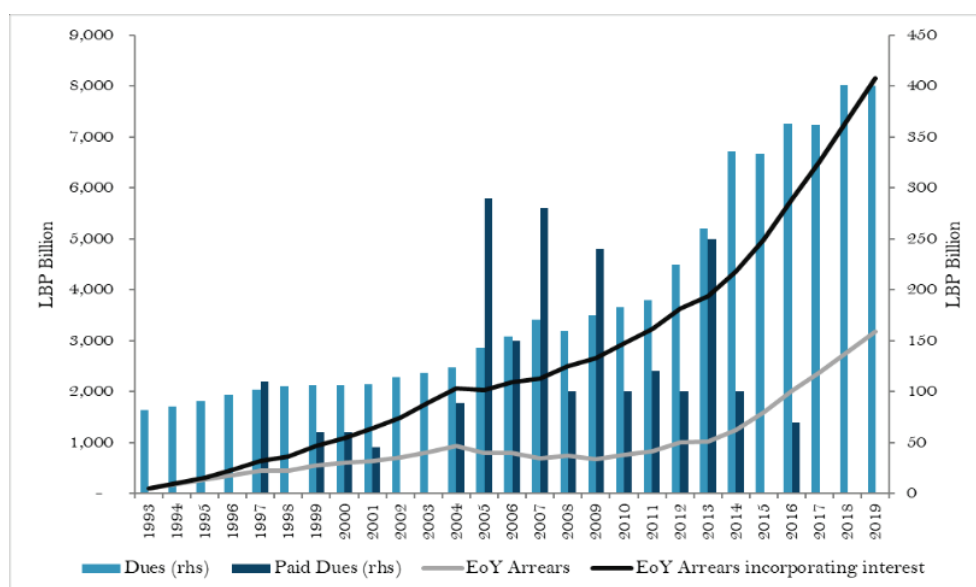
First, we estimate annual dues to the NSSF (flow) prior to 2005 using an exponential regression taking GDP as the independent variable. The regression's R2 is 0.92. Given actual data for total EOY arrears (stock) are available starting in 2005, we work backwards using regression results to

fill total EOY arear values for the earlier years. For example, total EOY arears in 2004 would be total EOY arears in 2005 (stock) minus arears in 2004 (flow); the latter would be the (regression-estimated) annual dues (flow) in 2004 minus annual paid dues (flow). We proceed to calculate year-on-year (yoy) debt evolution (flow), by subtracting total EOY arears at time  $t-1$  (stock) from that at time  $t$  (stock).

This hidden unreported debt should also be subject to interest rate. Specifically, we calculate the EoY arears incorporating interest accrued at time  $t$ , which we did by applying the interest rate on EoY arears incorporating interest accrued at time  $t-1$ , plus yoy debt evolution at time  $t$ .

Source: MOF

**Figure 44.** NSSF arrears have mainly accumulated in the first decade after the end of the civil war and have stagnated.



Note: Dues between 1993 and 2004 have been estimated based on a regression of dues to GDP ran on the years 2005 to 2018; Dues of 2019 are assumed to be the same as 2018

Note: Dues between 1993 and 2004 have been estimated based on a regression of dues to GDP ran on the years 2005 to 2018; Dues of 2019 are assumed to be the same as 2018

Sources: NSSF, Ministry of Finance, Central Administration of Statistics

## I. MASKED DUES/DEBTS ON GOVERNMENT: GOVERNMENT'S ARREARS, DUES OF EXPROPRIATIONS, DUES TO HOSPITALS, CONTRACTORS, ETC. DUES TO NATIONAL DEPOSIT GUARANTEE INSTITUTION

55. **The required empirical data for assessing these masked dues on government, as cited in the respective categories, were not found in any official reference that is available across the many examined sources.** The qualification of such dues

and their contribution to public debts are not to be underestimated, however. Further investigative work, outside the scope of the present fiscal review, should be undertaken in the future.

## J. OTHER PUBLIC FINANCE RELATED-ACTIVITIES CAUSING DEFICIT/LOSS

56. **This category includes various activities—listed below—that were found to be substantially relevant in terms of their sizes and effects on public finances, although they would not qualify to be strictly accounted for as QFA, nor was data sufficiently available to assess their amplitude.**

Given their impact, especially in terms of effects on deficit or loss in financial resources, but also their qualification as to the nature of public management of the GoL, these activities are substantially relevant in the examination of public finances.

## K. DUALITY OF BUDGET AND TREASURY OPERATIONS

57. **The Lebanese legal framework for undertaking public expenditures and revenues is delimited by due parliamentary budgetary processes.** Lebanon had no ratified budget from 2005 until 2017; expenditures were based on special measures. Specifically, when budgets are not ratified in time, exceptions are granted by law for expenditures to extend for a maximum of one extra month. In such a case, expenditures may be undertaken on a 1/12 basis of either (i) the previous year's (or last) ratified budget or (ii) a draft budget submitted by cabinet but not yet ratified by parliament.

58. **Outside of budgetary revenues and expenditures, treasury revenues and expenditures denote such transactions that are made out of the official treasury account.** The payments from or to the treasury account may include transactions that are either (i) necessary for executing the budget that are of a transitory nature (e.g., performance guarantees), or dues to third parties (e.g., collection of dues to municipalities), or (ii) urgent/exceptional

cases, such as unscheduled treasury advances for an emergency fund, or for securing some extra financing to EdL, etc. The principle remains that, in spite of the necessary or urgent nature of such payments, they should fall within the budget limitations and as such be settled within a year from the undertaking or covered by a due budgetary process.

59. **In actuality, the GoL adopted a practice of undertaking expenditures outside of the strict binding legal framework.** First, expenses were undertaken from the treasury account with no regard to budgetary provisions or due processes. Second, the 1/12 extra month expenditures were considered open in time, especially during extended political deadlocks. Third, donations approved by the executive branch were considered expendable with no prior budgetary approval. Fourth, the authorizations granted in the budget for borrowing within set budget deficit ceilings, were extended to include 'treasury deficits' as well, rendering such constraints practically inexistent.

## L. DONATIONS

60. **Over the period, both in-kind and cash donations increased in size and number** (see Annex B). In-kind donations, which are approved through decrees by the Council of Ministers, seldom included respective financial estimations/valuations. An extensive review of cash donations in the years 1992-2000 reveals that they were accepted through decrees that systemically noted a budgetary item under which the donation was accounted. Following 2000, this due process became an exception. Instead, respective donations were transferred outside the public budget accounts.

61. **It is worthy to note the spikes of cash donations in years 2000, 2006, and 2007, for reconstruction purposes.** In year 2006, the largest 3 cash donations combined amounted to LBP1,765 billion (more than 5 percent of the GDP for that year) from Kuwait, KSA, Qatar and the World Bank.<sup>50</sup> In comparison, the 'other non-tax revenues' that usually include donations in the budget did not exceed LBP85 billion in year 2006.

## M. SETTLEMENTS OF UNPAID DUES' BUDGETARY PROVISIONS

62. **Reviewing the budget documents for the period reveals an increasingly systematic undertaking of establishing settlements of unpaid dues.** This came in the form of substantially discounting past dues, whether for consumed services, incurred charges or fees, or non-payments of imposed taxes, under the justification of enticing respective late partial payments.

63. **Not only did such settlements annul substantial receivables, but moreover—given the recurrence of the practice—they encouraged non-payment of public dues in general and treated paying citizens in a penalizing and inequitable fashion.** This damaged the credibility and image of GoL in public finances' management.

64. **Public estates occupation, specifically the maritime public domain, have been conceded to private individuals or companies.** Public lands constitute a major part of State assets. Usufruct of public domains, notably maritime public domain, was facilitated *de jure* since the 1940s through decree 4810/1966. This decree allows property owners adjacent to the public maritime domain to occupy part of the coast for private use. Typically, the government leases these lands for minimal fees over long periods of time and even grants further exceptions allowing for further exploitation.

In addition, amid controversial delineations and ownership of lands, fraudulent deeds are easily achievable. Another way for relinquishing public domains is the settlement of illegal occupation of public property. Encroachments on the maritime domain, but also lands reclamations (from the sea), have increased in surface area and number through the civil war period (1975-1991) but also during reconstruction years.

65. **After the war, the General Directorate of Cadastral Registries in Lebanon surveyed 2.8 million square meters of illegally occupied public maritime domains.** Such practices ensure high profitability for a small elite mostly from the maritime public domain (for example, resorts owners and real estate companies) hindering the public's access to the coast.

66. **Recently, and with recurring crises, the government formulated decrees or included articles within budget laws to settle encroachments on public domains, mainly maritime domains, to ensure public income from settlements' fees and fines.** The first attempt was in the mid-1990s to fund the wage correction back then. However, all such undertaking failed to retrieve public assets from occupation or increase state revenues. In contrast, they embedded an acceptance of the de

50 Source: cabinet decrees 17882, 17972 and 18034.

facto situations. For instance, after several deadline extensions, the final delay to submit requests for settlement of encroachments on the maritime public

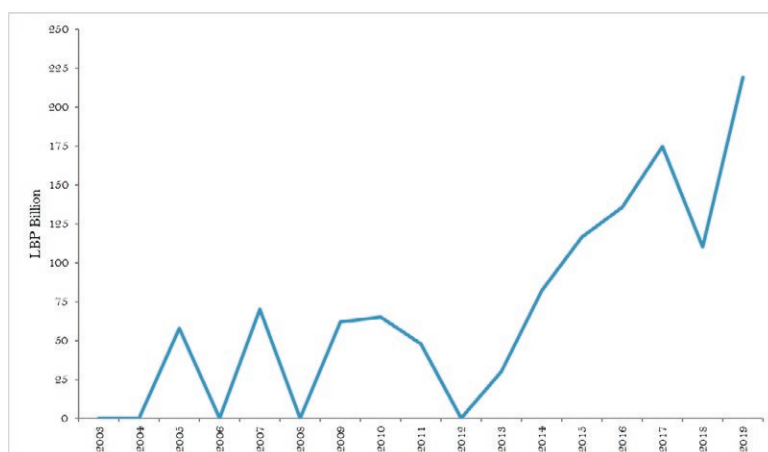
domain was set for November 2019. Until that date, less than a third of the “encroachers” had submitted due formal requests to the Ministry of Public Works.

## N. INSTITUTIONS OUT OF DUE REGULATION: THE CASES OF BEIRUT SEAPORT AND LEBANON OIL ESTABLISHMENTS.<sup>51</sup>

**67. Port of Beirut (PoB):** Upon the expiry of a concession granted by the French “Mandate” Government in 1925 to the French company “Compagnie du Port, des Quais et des Entrepôts de Beyrouth” in 1960, a Lebanese company “Compagnie de Gestion et d’Exploitation du Port de Beyrouth” was entrusted with continuing to operate and manage

the seaport until end of 1990. The Government of Lebanon thereafter put in place a “temporary commission”, that effectively took hold of the assets and operations. The Ministry of Finance had no visibility on the accounts of this temporary entity. As such, there is a lack of transparency and credibility behind PoB transfers to the Treasury (Figure 45).

Figure 45. Revenues from PoB have been variable.



Source: Ministry of Finance

**68. Lebanon Oil Installations:** These include two pipelines with sea-terminals, stocking facilities and refineries, respectively installed to bring oil from Saudi Arabia and Iraq, named Zahrani Oil Installations (ZOIL, was owned by Trans Arabian Pipeline, TAPLINE), and Tripoli Oil Installations (TOIL, was owned by Iraq Petroleum Company, IPC).<sup>52</sup> The Government of Lebanon de-facto inherited the associated assets in the seventies: large storage facilities, sea terminals and (currently out-of-order) refineries and pipelines. The GoL, however, did not establish any legal framework for their subsequent operations and management. A transitory

commission, “Lebanon Oil Establishments”, was put in charge of managing the facilities. The storage facilities were partially destroyed in the Israeli invasion of 1982; however, the remaining capacities are still considerable, even in regional terms. The refinery in ZOIL was completely stopped in 1989, as was TOIL in 1992. Lebanon Oil Installations thereafter acted as a trade agency and storage facility, importing various types of petroleum in competition and complementarity with private importers and distributors. The Ministry of Finance receives yearly transfers with no visibility of the associated accounts, as well.

51 Other State-Owned Enterprises (SOE) could be considered following the same framework, pending the availability of respective data; for example: Régie Libanaise des Tabacs et Tombacs, Middle East Airlines, Casino du Liban, etc.

52 See website leboilinst.com.

## O. GOVERNMENT WAIVERS: THE CASES OF SOLIDERE AND ELYSSAR, THE WAIVER GRANTING AGENCY INVESTMENT DEVELOPMENT AUTHORITY OF LEBANON (IDAL)

69. **The required empirical data for assessing the Government waivers, the cases of SOLIDERE and ELYSSAR, were not found in official sources.**

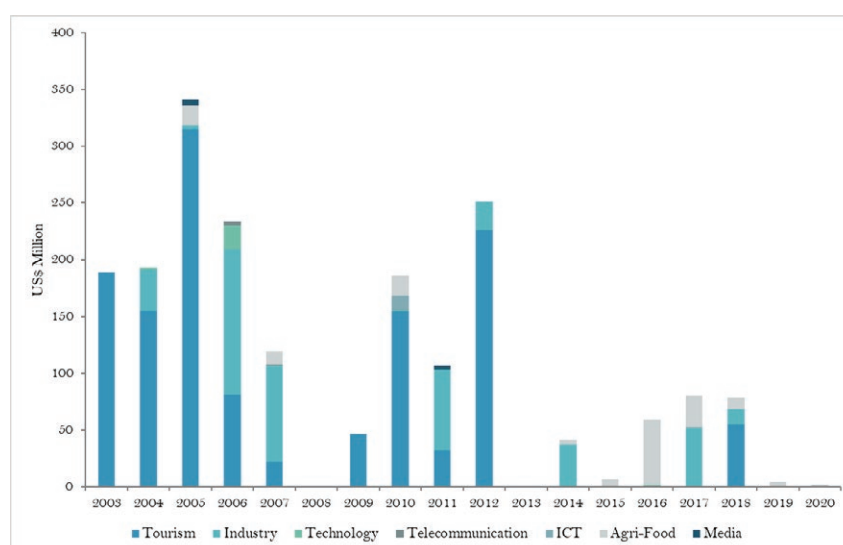
The implications of such waivers are not to be underestimated, however. Further investigative work, outside the scope of the present fiscal review should be undertaken.

70. **The Investment Development Authority of Lebanon (IDAL) is the national investment promotion agency that was established in 1994 with the aim of promoting Lebanon as a key investment destination, and attracting, facilitating and retaining investments in the country.** Investment Law No. 360, enacted in 2001, reinforced IDAL's mission, providing a framework for regulating investment activities in Lebanon, and providing investors with a range of incentives and business support services. It identified a set of priority sectors that showed the most promising opportunities in terms of their investment potential and impact on socio-economic growth, including the Agriculture, Agro-Industry, Manufacturing, Industry, IT, Media, Technology, Telecommunication

and Tourism sectors. In addition to its role as investment promotion agency, IDAL is entrusted with the active promotion and marketing of Lebanese exports including agricultural and agro-industrial products.<sup>53</sup>

71. **Analyzing the available data on IDAL subsidy of investments in the period 2003-2020 shows an overwhelming focus on the tourism sector—66 percent of all projects' investment costs or US\$1.276 billion, where a closer look reveals that the main costs therein are real estate in nature—followed by the industry sector, 23 percent, Agro-food at 8 percent, and the cluster of Technology, ICT, Telecommunication, and Media at some 3 percent (Figure 46).** Two observations are noteworthy: First, data regarding the cost of subsidies is not available, but the description of respective waivers includes NSSF, Taxation, and assets and/or operations' charges and fees. Second, numbers regarding job creation may be inflated as they are lopsided towards the tourism sector where part-time jobs could have been dominant.

**Figure 46.** IDAL Investment Types (in US\$ Million) (2003-2020)



Source: [www.investinlebanon.gov.lb](http://www.investinlebanon.gov.lb)

## **II. MACRO-FINANCIAL RESTRUCTURING**



## CHAPTER 4.

# COMPOUNDED CRISES

72. For almost two years, Lebanon's economy has been assailed by compounded crises, beginning with an economic and financial crisis, followed by COVID-19, then quite dramatically, the explosion at the Port of Beirut (PoB), and most recently, the war in Ukraine.<sup>54</sup> Of the three crises, the economic and financial crisis has by far the largest and the most persistent negative impact, potentially ranking among the top three most severe economic collapses worldwide since the 1850s, according to the [Spring 2021 LEM Lebanon Sinking \(to the Top 3\)](#).<sup>55</sup>

73. In October 2019, the economy plunged into a financial crisis brought about by a sudden stop in capital inflows, which precipitated systemic failures across the macro-financial system. This included severe impairment of the banking sector, large losses in deposits, a currency crisis and triple digit inflation rates. Further, a government default on its foreign debt (Eurobonds) on March 7, 2020, marked the first-ever sovereign default for Lebanon. The Eurobond default precluded access to international markets for foreign financing. Discussions with creditors on Eurobond restructuring have made no discernable progress.

74. In 2020, the World Bank (WB) termed Lebanon's economic and financial crisis a [Deliberate Depression](#).<sup>56</sup> Lebanese authorities countered the assailment of compounded crises with deliberately inadequate policy responses. The inadequacy is due less to knowledge gaps and/or quality of advice and more the result of a combination of (i) a lack of political consensus over effective policy initiatives; and (ii) political consensus in defense of a bankrupt economic system, which benefited a few for so long. In fact, the role of elite capture as a constraint to development in Lebanon was a central thesis of the WB's 2016 [Lebanon Systematic Country Diagnostic](#). Even prior to the onset of the crisis, the WB has long identified Lebanon as a Fragile Conflict Violence (FCV) country, and as such, the dire socioeconomic conditions risk systemic national failings with regional and potentially global consequences.

75. This section presents (updated) elements from work delivered to the Government of Lebanon in the Spring 2020 under the Public Finance Review. This was in response to a request by the then-incoming Government under PM Hassan Diab to assist in its crisis management strategy. We presented technical analysis with the

54 On August 4, 2020, a massive explosion rocked the PoB, destroying much of it and severely damaging the dense residential and commercial areas within a 1- to 2-mile radius. See World Bank (2020), *Beirut Rapid Damage and Needs Assessment*, August 2020.

55 In the Spring 2021 LEM (<https://openknowledge.worldbank.org/handle/10986/35626>), the Lebanon crisis is contrasted with the most severe global crises episodes as observed by Reinhart and Rogoff (2014) over the 1857–2013 period. See Reinhart, Carmen M., and Kenneth S. Rogoff. 2014. "Recovery from Financial Crises: Evidence from 100 Episodes." *American Economic Review* 104 (5): 50–55.

56 World Bank. 2020. *Lebanon Economic Monitor Fall 2020: The Deliberate Depression*. Washington, DC: World Bank Group. <https://openknowledge.worldbank.org/handle/10986/34842>.

objective of achieving macro-financial stabilization and poverty mitigation. We identified Key Policy Decisions (KPDs) that were (and continue to be) necessary for such a strategy. The objective was to undertake simulations on the impact of the KPDs, adopting qualitative and quantitative assumptions for illustrative purposes. We examine the “general

equilibrium” of these policies across the sovereign-BdL-bank balance sheets. This is not intended as a comprehensive macroeconomic stabilization strategy. The original work preceded discussions with the IMF and helped guide Government in its thinking. The KPDs are summarized below

### Key Policy Decisions

#### **KPD-D1 Debt Restructuring**

GoL to identify realistic targets for restructured terms for the outstanding stock of Eurobonds

#### **KPD-D2 Debt Restructuring**

GoL to identify new terms for its LL-denominated debt and debt held by BdL

#### **KPD-F1 Fiscal Reforms**

GoL to identify primary fiscal targets over the medium term consistent with debt sustainability

#### **KPD-F2 Fiscal Reforms**

GoL to identify progressive fiscal measures that meet primary balance targets

#### **KPD-F3 Fiscal Reforms**

GoL to implement fiscally-critical electricity reforms, such as the elimination of all HFO and diesel for EDL power generation by securing LNG supply and unbundle gas supply (FRSU); the introduction of progressive electricity tariff reforms; the accelerated reduction of technical and non-technical losses

#### **KPD-B1 New Monetary and Exchange Rate Regime**

BdL to adopt a new monetary and exchange rate regime that achieves unification and sustainability in the exchange rate consistent with the resources available and expected to the monetary authority

#### **KPD-B2 A Comprehensive Financial Sector Restructuring**

GoL to adopt and implement a bank resolution strategy to restructure the banking sector

## CHAPTER 5.

# BASELINE SCENARIO: NO POLICY ACTION

**76. We proceed by first specifying a baseline scenario (ScB) of no policy action, followed by a simulation of the KPDs impact.** The purpose is to specify a ScB scenario of non-action against which the impact of KPDs can be gauged. Select economic indicators for this scenario are presented in Table 10 in the Annex. The context for this scenario is:

- Lebanon will not be able to tap international markets for foreign financing.
- Informal capital controls will remain in effect preventing depositors access to their deposits.
- A multiple exchange rate system persists.
- We preclude a runaway inflation-depreciation spiral, which is a plausible scenario.
- Inflation rates remain in triple digits, subdued only by BdL's ability to control narrow money supply.

**77. The decision to default on the Eurobonds is a fait accompli marking the first ever sovereign default for Lebanon.** On March 7, 2020, the Government of Lebanon (GoL) decided against paying US\$1.2 billion in Eurobonds that was due on March 9. This marked the country's first ever sovereign default. Since then, Government has not paid any dues on its outstanding Eurobonds. In fact, Government and creditors have yet to

seriously engage in negotiations over restructuring the terms, which can involve face value of bonds, coupon payments and maturities.<sup>57</sup> In ScB, we assume these conditions persist.

**78. Under ScB, Lebanon's recession persists, is arduous and prolonged as the economy fails to reach a bottom.** Real GDP in 2022 is projected to contract by a further 6.5 percent, subject to extraordinarily high uncertainty. Principal assumptions include, continued inadequacy of macroeconomic policy responses, but the country is able to retain a minimum level of stability on the political and security scenes. Conditions of runaway inflation-depreciation, while a plausible scenario, is not assumed. Inflation rates remain in triple digits, subdued only by BdL's ability to control narrow money supply. Our projections are presented in [Table 10](#). They come with wide confidence intervals attributed to (i) a downside risk of gross FX reserves depletion, renewed covid outbreaks, higher commodity prices, especially oil; and (ii) an upside risk if Government agrees to and implements a comprehensive macroeconomic stabilization and reform program, such as the outline of the EFF it reached a staff-level agreement with the IMF (but, at as May 2022, is not yet in effect as numerous prior actions remain to be met).

<sup>57</sup> Toward that end, GoL has been advised by international financial and legal advisors, Lazard Ltd. and Cleary Gottlieb Steen & Hamilton, respectively.

**79. Monetary and financial turmoil continue to drive crisis conditions, more acutely through interactions between the exchange rate, narrow money and inflation.** The centrality of this dynamic on the macro framework is an important determinant of our macroeconomic outlook. Hence, policy with implications on narrow money supply,

such as liraification and monetization of the fiscal deficit, will continue to be critical to the inflationary environment. We assume that in 2022, the average exchange rate (AER)<sup>58</sup> suffers a similar depreciation as in 2021 (211 percent). That will keep the inflation rate in the triple digits.

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<sup>58</sup> This is a World Bank estimate of the average exchange rate in the economy in the context of the multiple exchange rate environment. For a more detailed account on the AER, please refer to: World Bank. 2020. *Lebanon Economic Monitor Fall 2020: The Deliberate Depression*. Washington, DC: World Bank Group. <https://openknowledge.worldbank.org/handle/10986/34842>.

## CHAPTER 6.

# KEY POLICY DECISIONS

### A. ON DEBT

**80. Public debt ratios, which were already unsustainable, are further aggravated by the economic crisis.** The debt-to-GDP ratio rose from 154 percent in 2018—already an extraordinarily high ratio—to 180 percent in 2021. Although the sharp depreciation in the local currency has implied a significantly lower dollar value for domestic debt, lowering the dollar value for total debt (the numerator in the debt-to-GDP ratio); this is, however, more than offset by a significantly lower denominator, GDP in US\$, also due to currency depreciation, leaving a larger debt-to-GDP ratio (Figure 47). So, whereas the surge in inflation is rapidly eroding the real value of domestic debt, the sharp depreciation of the currency continues to make Lebanon's sovereign debt burden unsustainable. Under ScB, the debt-to-GDP ratio is projected to reach 272 percent by end-2022.<sup>59</sup>

**81. If public debt were to be serviced at full face value, interest payments would be prohibitive, making this scenario unsustainable.** Historically,

GoL allocated a considerable portion of its budget to debt servicing. In 2019, the last year the Government fully serviced its debt, interest payments on public debt amounted to around 10 percent of GDP, consuming almost half of total government revenues.

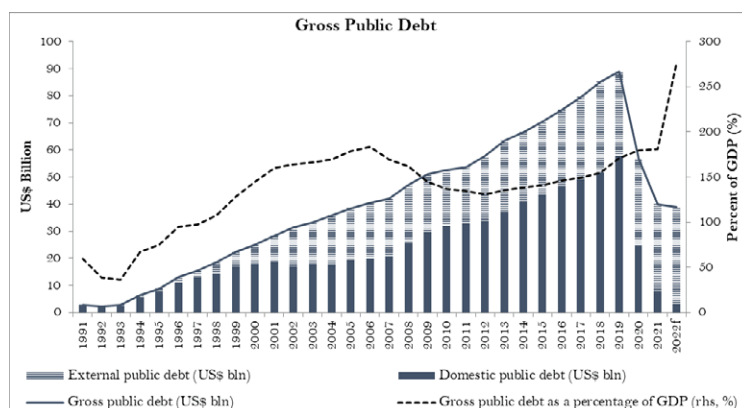
**82. Restructured terms on the outstanding stock of Eurobonds are a key parameter for projecting Lebanon's debt profile.** As mentioned earlier, Government and creditors have yet to seriously engage in the process of negotiations on restructuring the terms, which involve face value of bonds, coupon payments and maturities. Negotiations are expected to take months, and their outcome, while highly uncertain at present, will factor decisively on Lebanon's debt outlook. A Key Policy Decision is thus:

- **KPD-D1: GoL to identify realistic targets for restructured terms for the outstanding stock of Eurobonds.**

<sup>59</sup> Debt-specific ScB assumptions that reflect the status-quo include:

- On domestic debt: Government continues to service Treasury Bonds (TBs) held by commercial banks but extends its favorable arrangement with the central bank that allows it to suspend payments on TB coupon payments held by BdL.
- On foreign debt: Government remains in default status on its Eurobonds, unable to make payments on principal and interest. Government, however, continues to service multilateral and bilateral debt.

**Figure 47.** Valuation effects from exchange rate depreciations will pressure the debt-to-GDP ratio.<sup>60</sup>



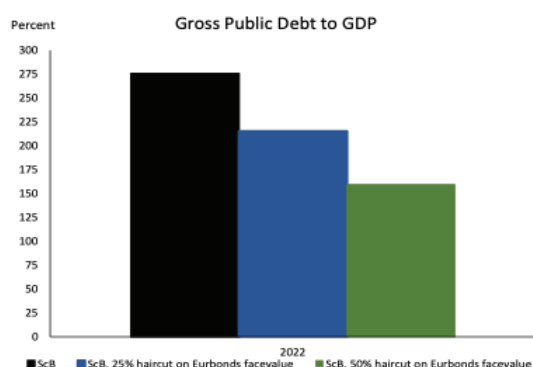
Sources: Lebanese authorities and WB staff calculations.

**83. For illustration, we simulate the effects on the debt outlook under ScB conditions for both Good Case and Bad Case outcomes for Lebanon in its discussions over Eurobond restructuring.** We consider a 50 percent haircut on the face value of the Eurobonds to be a realistic *Good Case* (GC), while a 25 percent cut would be a realistic *Bad Case* (BC). This is based on a study by Edwards (2015)<sup>61</sup> who examined debt restructuring determinants and outcome using data on 180 sovereign defaults over the period 1978-2010.<sup>62</sup> We simulate the impact on two main debt indicators: (i) the debt-

to-GDP ratio, which proxies for debt sustainability over the medium term; and (ii) the interest cost to total Government revenues, which proxies for the fiscal space available for Government to redirect scarce resources toward more productive sectors of the economy.

**84. Eurobond restructuring will neither be sufficient nor durable to make Lebanon's debt structurally sustainable.** While there is a striking improvement in the debt-to-GDP ratio under the GC assumption—with the simulation illustrating a fall

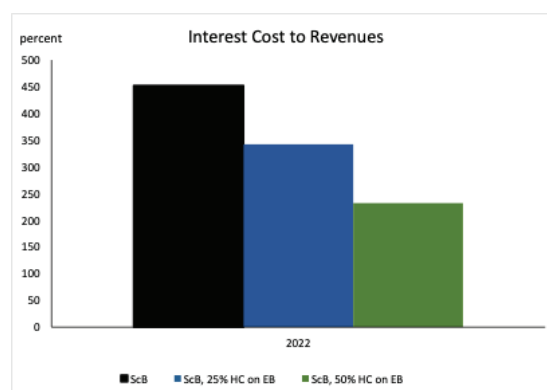
**Figure 48.** Eurobond restructuring is insufficient for public debt sustainability ...



Blue line is 25% haircut on Eurobonds, and green line is 50% haircut on Eurobonds.

Sources: MoF and WB staff calculations.

**Figure 49.** ... and cannot be expected to provide the needed fiscal space.



Blue line is 25% haircut on Eurobonds, and green line is 50% haircut on Eurobonds.

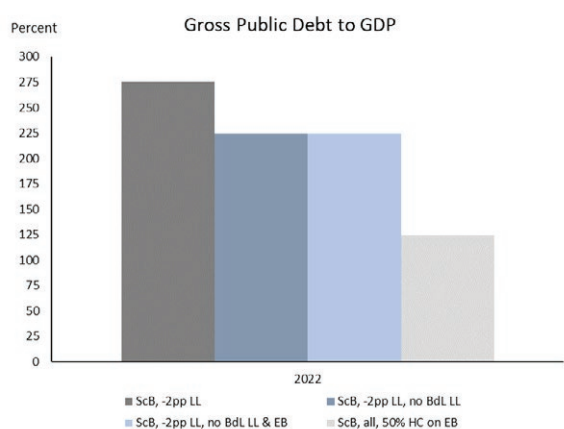
Sources: MoF and WB staff calculations.

<sup>60</sup> To convert domestic debt to US\$, we use the World Bank Average Exchange Rate for 2020, 2021 and 2022, estimated at LBP3,688/US\$, LBP11,843/US\$ and LBP38,000/US\$, respectively.

<sup>61</sup> Edwards, Sebastien. 2015. *Sovereign Defaults, Debt Restructuring and Recovery Rates: Was the Argentinean Haircut Excessive?* NBER, February 2015, Cambridge, MA.

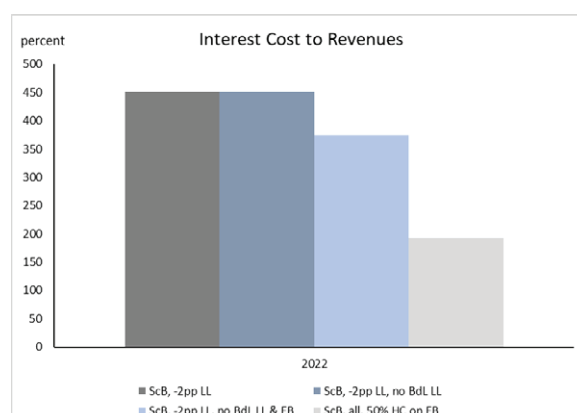
<sup>62</sup> Please see Annex E for further explanation.

**Figure 50.** Under ScB, debt-to-GDP will improve significantly with eurobond and TB debt restructuring/cancellation but will remain elevated.



Sources: MoF and WB staff calculations.

**Figure 51.** Under ScB, Eurobond and TB debt restructuring/cancellation is not sufficient to sufficiently create fiscal space.



Sources: MoF and WB staff calculations.

by 116 pp of GDP—it remains highly elevated at 159 percent of GDP (Figure 48). Similarly, while there is a corresponding improvement in the interest cost-to-revenue ratio—with the simulation illustrating a fall by 220 pp—it persists as a critical pressure point on public finances at 232 percent (Figure 49). Moreover, as neither the cost of debt is addressed, nor the country's fiscal leakages corrected, both indicators would likely resume a robust upward trajectory. This suggests a second Key Policy Decision:

- **KPD-D2: GoL to identify new terms for its LBP-denominated debt and debt held by BdL.**

**85. For illustration, we simulate the debt outlook of restructuring terms on LBP debt and debt held by BdL, also under ScB conditions.** Figure 50 and Figure 51 present the simulated outlook on debt-to-GDP and interest-to-revenues ratios, respectively,

for (i) a reduction of 2 pp in interest rates on the outstanding stock of Treasury bonds (TBs); (ii) plus cancellation of TBs held by BdL; (iii) plus cancellation of Eurobonds held by BdL;<sup>63</sup> and (iv) plus 50 percent (Good Case) haircut on the face value of Eurobonds. We can deduce the following:

- If face value haircuts on outstanding TBs are not considered—say, so as to not to further damage banks' balance sheets—netting out domestic debt held by BdL can be an option to reduce the debt-to-GDP ratio and increase the fiscal space.
- None of the measures will reduce the debt-to-GDP to below 100 percent and sufficiently create a fiscal space.
- Option iv generates the best results.
- Debt measures are insufficient for debt sustainability; growth is essential.

## B. FISCAL REFORMS

**86. Lebanon would need to undertake fiscal reforms to reinforce confidence in its fiscal policy.** In fact, even with the more ambitious debt measures, debt-to-GDP and interest-to-revenues remain elevated and

would likely resume an upward trend. This signifies persistent fiscal leakages and inefficiencies, which if not addressed, can lead Lebanon back to debt

63 Including the stock of Eurobonds as a measure would need to be checked with the Government's international advisors, on account of the *pari passu* clause.

unsustainability and debt distress. This suggests the following Key Policy Decision:

- **KPD-F1: GoL to identify primary fiscal targets over the medium term consistent with debt sustainability.**

**87. To achieve primary fiscal targets, fiscal measures should be highly progressive.** Equity considerations would warrant highly progressive measures that target key inefficiencies and realize resources from those who have disproportionately benefited from Lebanon's unequal growth model.

- **KPD-F2: GoL to identify progressive fiscal measures that meet primary fiscal targets.**

**88. Lebanon's expenditures are characterized by large budget rigidities which limit fiscal space and flexibility to react to shocks.** These expenditures are concentrated on wages, pensions, debt servicing and transfers to EdL, the combination of

which accounted for an average of 76 percent of total spending over the past decade.

**89. Electricity reforms should be prioritized.** The loss-making, publicly owned EdL imparts a staggering burden on Lebanon's public finances as structural and large operating losses (dating back to the 80s) are covered by the central government. In fact, annual budgetary transfers to EdL averaged 3.8 percent of GDP over the last decade, amounting to close to half of the overall fiscal deficit. At peak in 2012, the government transferred US\$2.2 billion to EdL, equivalent to 5.1 percent of GDP. If unaddressed, the electricity sector will derail recovery programs for the economy, necessitating the following Key Policy Decision:

- **KPD-F3: GoL to implement fiscally-critical electricity reforms, such as reduction of HFO and diesel input for EDL power generation by securing gas supply; the introduction of progressive electricity tariff reforms; and significant reductions in technical and non-technical losses.**

## C. THE FINANCIAL SYSTEM

**90. BdL ensured that banks offer attractive dollar spreads to finance the macro-financial system and maintain the peg.** BdL offered incentives and resources for banks to keep attracting foreign deposits and meet the economy's large external financing needs year after year. More specifically, BdL introduced various refinancing schemes as well as certificates of deposits (CDs), denominated in both US dollars and LBP, with maturities that extend over 15-year, 20-year and 30-year horizons. As such, private deposits, which were almost an exclusive financing source for banks, were primarily placed with BdL; by February 2020, the deposit to liability ratio was 78 percent,<sup>64</sup> while sovereign exposure was 68.2 percent,<sup>65</sup> of which 56 percent is exposure to BdL alone. BdL also bid on Treasury bills and bonds (TBs) in the primary market,

becoming the dominant buyer of government paper, and intermediated in the secondary market.

**91. As explained earlier in Chapter 3, BdL also intervened heavily in the real economy through subsidized lending.** The real economy became increasingly dependent on BdL financing, especially after 2011.<sup>66</sup> As balance of payments pressures compounded, BdL's interventions became more unorthodox, leading to the financial operations that began in 2016 (which became known as financial engineering), offering costly incentives for banks, carried opaquely by BdL, to increase their FX placements in BdL. Financial burdens on the central bank multiplied, compromising its role as the financial sector's stabilizer of last resort.

<sup>64</sup> This is calculated as total deposits at commercial banks (private plus public sectors) over the total balance sheet.

<sup>65</sup> The sovereign debt exposure is computed as a ratio of commercial banks' aggregate investment in Treasury Bills and Bonds, Eurobonds, and deposits at BdL relative to total assets.

<sup>66</sup> For a historical review on BdL subsidized lending please refer to: World Bank (2016), *The Big Swap: Dollars for Trust*, The Lebanon Economic Monitor, Fall 2016

92. This resulted in strong linkages across balance sheets, with a banking-sovereign feedback loop that was always a critical source for macroeconomic risk. It also became progressively more difficult to continue attracting foreign deposits as banks' balance sheets expanded to reach almost five times GDP. The finality of the sudden stop in October 2019 converted this risk into a systemic macro-financial crisis.

93. Lebanon's macro-financial system became characterized by strong interlinkages between the

fiscal-monetary-financial sectors, rendering one dependent on the other. Crosslinkages were established as one sector's liabilities constituted another's assets, binding oversized balance sheets. Hence, what otherwise could be self-contained shocks quickly led to systemic failures. These linkages are illustrated in Table 2 and Table 3, which present respectively banks' and BdL's balance sheets as of February 2020, the early part of the crisis; assets and liabilities are broken down according to main categories, and per currency denomination (LBP or US\$).

**Table 2. Commercial Banks' Balance Sheet (as of February 2020–early crisis period).**

Assets			Liabilities		
	LBP (\$ bln)	\$ (\$ bln)		LBP (\$ bln)	\$ (\$ bln)
Deposits with BdL†	120††		Due to BdL	15	
Deposits with other central banks		0.6	Resident deposits	31	90
Claims on resident customers	14	27	Non-resident customer deposits	3	27
Claims on non-resident customers	2	3	Non-resident financial sector liab.		8
Claims on non-resident financial sector		6	Public sector liabilities	4.0	0.8
Claims on public sector	0.2		Other liabilities	10	
LBP Treasuries	14		Capital	21	0.2
Lebanese Eurobonds		12			
Other securities	1.6	0.6			
Other	7	4			
<b>Total Assets</b>		<b>210</b>	<b>Total Liabilities</b>		<b>210</b>

† In Dec 2019 these fell by \$38 bln as a netting out took place vis-a-vis "other liabilities". For FC liabilities, Financial sector deposits in FC per BCC is as of 2/15/2020.

†† This is the combination of LBP and FX deposits.

Sources: MoF and WB staff calculations.

**Table 3. BdL's Balance Sheet (as of February 2020–early crisis period).**

Assets			Liabilities		
	LBP (\$ bln)	\$ (\$ bln)		LBP (\$ bln)	\$ (\$ bln)
Gold*		15	Currency in Circulation	9	
Foreign Currencies		28	Financial Sector Deposits†	120††	
Securities Portfolio**	38	7	Public Sector Deposits	5	
Loans to Local Private Sector	15		Valuation Adjustment	10	
Assets from Exchange Operations of			Other Liabilities	7	0.5
Financial Instruments	12		Capital Accounts	4	
Other Assets***	14	15			
<b>Total Assets****</b>		<b>144</b>	<b>Total Liabilities</b>		<b>154</b>

\* Gold is evaluated at the market price of the Ounce.

\*\* BDL holds in its Balance Sheet USD 5 billion Lebanese Eurobond, as of March 31 2020.

\*\*\* Includes open market operations and seigniorage. [BdL stated that govt owes \$14 billion in \$, which is not counted as foreign reserves]

\*\*\*\* Liabilities exceed assets by an amount that is not accounted for.

† For LBP liabilities, we take from CB balance sheets since these are audited. In Dec 2019 these fell by \$38 bln as a netting out took place vis-a-vis "other liabilities". For FC liabilities, Financial sector deposits in FC per BCC is as of 2/15/2020.

†† This is the combination of LBP and FX deposits.

Sources: MoF and WB staff calculations.

Public Debt  
TBs: \$58 bln  
Eurobonds: \$32 bln

### On BdL

94. **It is critically important to resolve a large negative Net International Reserve (NIR) position for the central bank.** According to the central bank, BdL's amount of gross foreign assets (excluding gold) amounted to US\$13.1 billion in currencies and US\$4.2 billion in securities as of January 2022. These gross assets, however, are faced by liabilities of a different magnitude in the form of commercial banks' foreign currency placements with the BdL. This data is not published, but based on World Bank staff estimations using publicly available information, these liabilities could approach the US\$80 billion mark. As a result, NIR (excluding gold) would be highly negative at, at least, US\$70 billion. A staggering amount, equivalent to around three times the current (and declining) dollar value of Lebanon's GDP.

95. **The peg has been dislodged in favor of multiple exchange rates and unification at the official rate is discounted.** The sudden stop in FX inflows implies an inconsistency between the official peg and the outlook on Lebanon's balance of payments. The US\$ banknote exchange rate (BNR) is subject to heavy fluctuations but has depreciated the Lebanese Lira by over 90 percent compared to the official exchange rate (LBP 1507.5/US\$ as of May 2022). The market for the BNR, which is managed by numerous (small-sized) exchange bureaus across the country, has become a main supplier of dollars for both real and financial activity. Meanwhile, commercial banks, which retain the official exchange rate, have heavily restricted withdrawals and transfers of customers' dollar deposits.

- KPD-B1: BdL to adopt a new monetary and exchange rate regime that achieves unification and sustainability in the exchange rate consistent with the resources available and expected to the monetary authority.

### On commercial banks

96. **GoL will need to adopt a strategy for restructuring the banking sector that includes recognition and distribution of losses in an equitable manner.** Equity considerations would warrant highly progressive burden-sharing measures that realize resources from those who have earned excessive returns on non-productive investments. Further, standard principles for addressing losses in banks' balance sheets include: (a) a recognized hierarchy of losses, (b) sustainability, and (c) equity. Options based on bank-by-bank assessment include liquidation, negotiated recapitalization, statutory bail-in, asset separation/transfer or merger for limited cases. Government also has the prerogative and legal jurisdiction to apply a wealth tax on some or all deposits as a tool to restructure the financial sector.

- KPD-B2: GoL to adopt and implement a bank resolution strategy to restructure the banking sector.

97. **An essential outcome of the reforms in the financial sector would be to notably improve BdL's NIR position.**

98. **To illustrate interlinkages across the macro-financial system we simulate, for illustrative purposes, the below KPD assumptions (KPDA):**

- KPDA-D1: Lebanon achieves a *Good Case* outcome on the negotiations over the Eurobonds, reducing face values by 50 percent;
- KPDA-D2: Other debt measures also include:
  - A reduction of 2 pp in interest rates on the outstanding stock of TBs;
  - Cancellation of TBs held by BdL;
  - Cancellation of Eurobonds held by BdL;

- KPDA-F2: GoL adopts a wealth tax on dollar deposits in the amount of \$30 billion, divided between 2/3 on resident deposits and 1/3 on non-resident deposits. For equity and burden sharing purposes, the wealth tax should exclude smaller depositors—for example, depositors with total accounts of below US\$150,000<sup>67</sup>

99. **BdL and banks will incur losses on their balance sheets due to the Sovereign debt restructuring, while the wealth tax will help deleverage the financial sector.** Table 4 and Table 5 present the balance sheets of commercial banks and BdL, respectively, as of December 2021, superimposed with a simulation of the first-degree impact of debt and fiscal measures. Main takeaways include:

**For banks:**

- On the assets side, the Good Case outcome on Eurobond restructuring reduces their face value by 50 percent. Since early 2020, banks have been deleveraging away from Lebanese Eurobonds, even prior to the Government's default. Further, in 2020, BdL instructed banks to take a 45 percent loss on Eurobond

positions.<sup>68</sup> This reduced banks' holdings of Eurobonds to US\$4.8 billion by December 2021. The restructuring reduces this further to US\$2.4 billion.

- On the liabilities side, the imposition of the wealth tax reduces resident and non-resident deposits by US\$20 billion and US\$10 billion, respectively.
- On the assets side, the wealth tax allows US\$30 billion to be netted out of banks' deposits with BdL.
- Banks' balance sheet is reduced by US\$32 billion.
- Net impact on banks' capital position US\$-2.4 billion.

**For BdL:**

- Cancellation of TBs and Eurobonds held by BdL, reduces BdL's asset position by US\$38 and US\$4.2 billion, respectively.<sup>69</sup>
- On the liabilities side, financial sector deposits decline by US\$30 billion.
- BdL's NIR improves by US\$26 billion (but remains negative by several tens of billions of US\$; multiples of GDP).
- BdL's balance sheet is reduced by US\$43 billion.

<sup>67</sup> The tax can be split in varying proportions between resident and non-resident customers deposits.

<sup>68</sup> In August 2020, BdL issued Circular 567 instructing banks and financial institutions operating in Lebanon to apply a statutory Expected Credit Loss (ECL) of 1.89 percent on foreign currency placements with the Central Bank (including certificate of deposits) and 45 percent on foreign currency placements with the Government. These provisions will be constituted progressively over a period of five years.

<sup>69</sup> According to BdL, the central bank holds US\$5.03 billion worth of Lebanese Eurobonds in its balance sheet. However, per BdL's published data, foreign securities at BdL amount to US\$4.192 billion by December 2021. While the difference could reflect BdL-specific accounting measures, we assume that BdL's Eurobond position is equal to the lesser of the two: US\$4.192 billion.

**Table 4. The Impact of Debt and Fiscal Measures on Banks' Balance Sheet.**

Assets			Liabilities		
	LBP (\$ bln)	\$ (\$ bln)		LBP (\$ bln)	\$ (\$ bln)
Deposits with BdL	82 <sup>††</sup>		Due to BdL	14	0
<i>o/w policy effect</i>	0	-30			
Deposits with other central banks	0	1	Resident deposits	25	60
			<i>o/w policy effect</i>	0	-20
Claims on resident customers	11	14	Non-resident customer deposits	2	13
			<i>o/w policy effect</i>	0	-10
Claims on non-resident customers	1	2	Non-resident financial sector liab.	0	5
Claims on non-resident financial sector	0	5	Public sector liabilities	4	1
Claims on public sector	0	0	Other liabilities	4	
LBP Treasuries	12	0			
			<i>Capital</i>	17	-2.0
Lebanese Eurobonds	0	2.4	<i>o/w policy effect</i>	0.0	-2.4
<i>o/w policy effect</i>	0	-2.4			
Other securities	2	1			
Other	7	3			
<b>Total Assets</b>	<b>143</b>		<b>Total Liabilities</b>	<b>142</b>	

<sup>†</sup> In Dec 2019 these fell by \$38 bln as a netting out took place vis-a-vis "other liabilities". For FC liabilities, Financial sector deposits in FC per BCC is as of 2/15/2020.

<sup>††</sup> This is a combination of LBP and FX deposits.

**Table 5. The Impact of Debt and Fiscal Measures on BdL's Balance Sheet.**

Assets			Liabilities		
	LBP (\$ bln)	\$ (\$ bln)		LBP (\$ bln)	\$ (\$ bln)
Gold	0	17	Currency in Circulation	30	0
Foreign Currencies	0	14	Financial Sector Deposits	82 <sup>††</sup>	
			<i>o/w policy effect</i>	0	-30
Securities Portfolio	3	0	Public Sector Deposits	8	0
<i>o/w policy effect</i>	-38	-4			
Loans to Local Private Sector	14	0	Valuation Adjustment	12	0
Assets from Exchange Operations of			Other Liabilities	2	1.3
Financial Instruments	12	0			
Other Assets	47	15	Capital Accounts	-35	26
			<i>o/w policy effect</i>	-38	26
<b>Total Assets</b>	<b>121</b>		<b>Total Liabilities</b>	<b>127</b>	

\* Gold is evaluated at the market price of the Ounce.

\*\* BDL holds in its Balance Sheet USD 5 billion Lebanese Eurobond, as of March 31 2020.

\*\*\* Includes open market operations and seigniorage. [BdL stated that govt owes \$14 billion in \$, which is not counted as foreign reserves]

\*\*\*\* Liabilities exceed assets by an amount that is not accounted for.

<sup>†</sup> For LBP liabilities, we take from CB balance sheets since these are audited. In Dec 2019 these fell by \$38 bln as a netting out took place vis-a-vis "other liabilities". For FC liabilities, Financial sector deposits in FC per BCC is as of 2/15/2020.

<sup>††</sup> This is a combination of LBP and FX deposits.

**100. Introducing a new exchange rate:**

- KPDA-B1: Unification of the exchange rate at LBP20,000/US\$<sup>70</sup>

**101. The impact of KPDA-B1 on the balance sheets of banks and BdL are illustrated in Table 6 and Table 7, respectively. Main takeaways include:**

**For banks**

- FX assets and FX liabilities in US dollars are unvaried.
- The dollar value of LBP denominated assets declines by US\$54 billion.
- The dollar value of LBP denominated liabilities declines by US\$60 billion.

70 This is used for illustrative purposes to gauge the impact on the balance sheets. For this to be a successful outcome, it would be a part of a macroeconomic stabilization strategy that would achieve unification and stabilization of the exchange rate.

- Banks' balance sheet is reduced by US\$54 billion.

Net impact on banks' capital position US\$-2.4 billion.

**For BdL:**

- FX assets and FX liabilities in US dollars are unvaried.

- The dollar value of LBP denominated assets declines by US\$70 billion.
- The dollar value of LBP denominated liabilities declines by US\$40 billion.
- BdL's NIR improves by US\$26 billion (but remains negative by several tens of billions of US\$; multiples of GDP);
- BdL's balance sheet is reduced by US\$70 billion.

**Table 6. The Impact of the New Exchange Rate on Banks' Balance Sheet.**

Assets			Liabilities		
	LBP (\$ bln)	\$ (\$ bln)		LBP (\$ bln)	\$ (\$ bln)
Deposits with BdL	59†		Due to BdL	1	0
<i>a/w policy effect</i>	0	-30			
Deposits with other central banks	0	1	Resident deposits	2	60
			<i>a/w policy effect</i>	0	-20
Claims on resident customers	1	14	Non-resident customer deposits	0	13
			<i>a/w policy effect</i>	0	-10
Claims on non-resident customers	0	2	Non-resident financial sector liab.	0	5
Claims on non-resident financial sector	0	5	Public sector liabilities	0.3	0.9
Claims on public sector	0	0	Other liabilities	1	
LBP Treasuries	1	0	<i>Capital</i>	1	-2.0
Lebanese Eurobonds	0	2.4	<i>a/w policy effect</i>	0.0	-2.4
<i>a/w policy effect</i>	0	-2.4			
Other securities	0	1			
Other	1	3			
<b>Total Assets</b>	<b>89</b>		<b>Total Liabilities</b>	<b>83</b>	

† This is a combination of LBP and FX deposits.

**Table 7. The Impact of the New Exchange Rate on BdL's Balance Sheet.**

Assets			Liabilities		
	LBP (\$ bln)	\$ (\$ bln)		LBP (\$ bln)	\$ (\$ bln)
Gold	0	17	Currency in Circulation	2	0
Foreign Currencies	0	14	Financial Sector Deposits	59†	
			<i>a/w policy effect</i>	0	-30
Securities Portfolio	0	0	Public Sector Deposits	1	0
<i>a/w policy effect</i>	-3	-4			
Loans to Local Private Sector	1	0	Valuation Adjustment	1	0
Assets from Exchange Operations of			Other Liabilities	0	1.3
Financial Instruments	1	0	Capital Accounts	-3	26
Other Assets	4	15	<i>a/w policy effect</i>	-3	26
<b>Total Assets</b>	<b>51</b>		<b>Total Liabilities</b>	<b>87</b>	

† This is a combination of LBP and FX deposits.

**102. To ensure an overall clean-up of the banking system, resolution actions need to be based on a rigorous and thorough bank-by-bank assessment of losses.** Any resolution action taken should be driven by principles developed to ensure legal soundness and the future stability of the financial system. These principles establish the framework for KPDA-B1 measures.

➤ **KPDA-B2:**

- Allocation of losses in line with the creditor hierarchy, i.e., shareholders losing before creditors.
- Further clarification, in law, of the creditor hierarchy in case of liquidation, as a basis to allocate losses.
- Any deviation from pari-passu treatment or the liquidation hierarchy needs to

be justified in the public interest and in compliance with the principle that creditors do not face higher losses than under the liquidation counterfactual (see below for the NCWOL under 18).

- Attribution of losses to creditors in proportion to the losses incurred by each individual bank, and not “across the board,” in order to avoid penalizing banks that are less exposed to investments in problem assets and their respective creditors.
- Banks with a non-viable business structure are to be liquidated or, in duly justified cases, good assets to be transferred to Bridge Bank (indirect bail-in).

# III. PUBLIC SERVICE NON-DELIVERY



## CHAPTER 7.

# EFFECT OF FISCAL POLICIES ON KEY BASIC SERVICES

**103. Dilapidated public service delivery is a principal manifestation of the hollowing of the State, which we argue, is a desired/deliberate outcome intended to cement public-private privilege for principal benefactors of Lebanon's post-civil war economy.** As expounded on in the SCD (2016) (Box 6), elite capture of the State's resources for private gains necessitated the weakening of public service delivery so that (1) lucrative and dollar-inflated private sector contracts can step in (e.g., oil import business, generators, waste collection, but also private schools, hospitals, etc.), and (2) confessional groups can tighten their grip on citizens by supplanting the State in these service provisions. This is what the 2016 SCD described as the **hollowing of the state** as an equilibrium strategy for the elite; it is therefore a desired outcome for them, as opposed to a failure of the system.

**104. This section analyzes the implications of Lebanon's macro and structural policies on the provision of key basic services to the population: Water, Electricity, Transport, Health, Education, and Social Protection.** The period of examination covers the pre-crisis phase identified in the macro-fiscal analysis as well as the crisis period (2019–2021).<sup>71</sup> Sector chapters attempt to respond to three main questions: (a) What was the status of the

sector before the crisis? (b) What has the impact of the crisis been on delivering services to the people? and (c) What policy measures are recommended to initiate reforms aimed at addressing the structural issues accumulated over the pre-crisis phase, on one hand, and ensure continuity of service provision on the other hand.

**105. The sector chapters build on the most recent evidence and findings from the World Bank work on each sector, complemented by additional analyses for the purposes of this report.** They benefited from a Facebook survey undertaken in July 2021<sup>72</sup> to collect information on Lebanese perception regarding the quality and access to public services. The main recommendations presented in this section have also benefited from the feedback of a panel of experts facilitated by the Lebanese Citizen Foundation during consultations which took place in November 2021.

**106. On the revenues side, we found that low cost-recovery led to an unsustainable fiscal burden and negatively impacted the provision of electricity and water to the population.** The main challenge comes from the electricity sector where obsolete tariffs, which have not changed since 1994, combined with collection losses result in very low cost-recovery:

<sup>71</sup> Throughout this section, crisis denotes the ongoing economic and financial crisis that commenced in end-2019.

<sup>72</sup> An online survey was initiated on July 30, 2021 using Facebook Ads Manager (Facebook, Instagram, Messenger, Audience Network). The survey targeted 72 unique audiences to ensure that responses are demographically representative. The survey was completed by about 7,000 respondents.

EDL's billing for energy delivered to customers covered only 30-50 percent of its expenditures in 2016 to 2018—and only 54 percent of those billed amounts were actually collected. Reliable financial data for Water Establishments operation is missing, but operational costs recovery is estimated to be in the range of 60-70 percent.

**107. Looking at expenditures, Lebanon does not allocate sufficient public resources to key services essential to the accumulation and protection of its human capital.** While Lebanon spends more of its GDP on health than other comparable countries in the MENA region, Government contribution represents only 29 percent compared with 33 percent for households out of pocket. Government spending on education is among the lowest in MENA, ranging between 2 and 3 percent of GDP over the past fifteen years, about half of the minimum international benchmarks for public education financing (4 to 6 percent of GDP). Similarly, the Government had spent a mere 0.02 percent of GDP on social assistance in 2017 and 2018, far below MENA (1 percent) and global (1.54 percent) averages.

**108. The sector analyses confirm the inefficiencies in public spending, which reflect the stressed macro-fiscal conditions analyzed earlier.** The low level of capital expenditures resulted, among others, in lack of investments in additional electricity generation capacity and network maintenance. This, in turn, constrained EdL from meeting electricity demand, promoted costly and highly polluting alternatives and, ultimately, resulted in rolling blackouts ranging, before the crisis, from three hours in Beirut to 13 hours in some rural areas. Another manifestation of inefficiencies in public expenditures is spending on social protection: In 2019, spending on social protection programs reached 6 percent of its GDP, higher than the average for Arab countries of 4.6 percent. However, only 3 percent of all social

protection<sup>73</sup> spending was targeted to the poor and vulnerable compared to 93 percent spent on formal workers in the public sector.

**109. As a result of inefficient policies, Lebanon's historically heavy reliance on private sector provision of basic services and inequality of access to such services have been sustained over the pre-crisis phase.** In 2018: 37 percent of electricity demand was covered by private diesel generators; only 2 percent of motorized trips, in Beirut and Tripoli, were undertaken using buses operated by the Railways and Public Transport Authority; public hospitals accounted for only 18 percent of the available beds in the country; and 56 percent of students were enrolled in private schools. This was mostly the result of government failure to provide reliable quality services, as the bulk of public expenditures was directed to pay for interests, EdL deficits and personnel costs, with little left to Capital and Operational expenditures. Such deliberate government failure which, as mentioned above, was intended to benefit private interests and confessional organizations, puts a heavy financial burden on Lebanese families and penalizes the poorest and most vulnerable parts of the population who are most in need of government support.

**110. The successive shocks that hit Lebanon since 2019 (Financial crisis, Port of Beirut explosion and COVID 19) affected both the demand and supply sides in the sectors under examination.** The inevitable end of the FX subsidy exacerbated the inflationary environment.<sup>74</sup> Over the summer of 2021, acute shortages of fuel<sup>75</sup> for both the private and public utilities led to severe electricity blackouts across the country; EdL, cut power supply to as little as 2 hours per day; private generators could only partially compensate and faced constraints in obtaining diesel fuel supply. Shortages in gasoline caused long queues for motor vehicles, leading to disputes and even violence between those waiting.

73 Spending on social protection includes social assistance, social protection, and social welfare programs

74 The subsidy was first imposed on critical imports—energy, medicine, and wheat—end-2019, then later extended to essential food imports (as identified by the Ministry of Economy and Trade). In this set up, the central bank, BdL offered favorable (lower exchange rates) to importers of these goods, financed by BdL's gross FX reserve position. This led to the drain in precious and scarce FX resources.

75 Supplies were available at inflated prices, which could only be afforded by a very few privileged consumers.

The health sector also suffered unduly, due to scarcities in essential medications and medical services while facing COVID-19 conditions. While these distortions have since moderated, this was at the cost of surging price levels that have further shrunk residents' purchasing power. Households' coping strategies consisted of looking for more affordable alternatives (such as moving their children from private to public schools) when available, or simply reducing their utilization of services through, among others, less hours of generators electricity, lower consumption of water or delayed health care.

**111. On the supply side, infrastructure damages due to the Port of Beirut explosion, price increases and shortages of goods (especially energy), and human resources losses disrupted further the provision of basic services.** The Beirut explosion in 2020 damaged 292 of the 813 health facilities in the country, significantly reducing access to care, especially for the vulnerable. Crisis-related macro-financial conditions have had a large bearing on the sectors, as the analysis here illustrates. The collapse of the local currency and ensuing economy-wide shortages in FX have resulted in sharply increasing costs for the sectors; much of these costs are directly related to the exchange rate (i.e., imports, dollar-contracted services, etc.). Triple-digit inflation rates have also raised costs denominated in Lebanese Lira. The sectors also suffered from shortages of goods and services in

the economy, resulting in the deterioration of the quality of service provided. The high inflation rates have led to sharp declines in the purchasing power of salaries for public sector employees, heavily affecting morale and the quality (and quantity) of work delivered. Critical sectors are losing thousands of qualified personnel, often fleeing the country: 30-40 percent of medical doctors and nurses according to the World Health Organization (WHO) and about 10,000 teachers according to the Center for Educational Research and Development (CERD).<sup>76</sup> Overall, the growing levels of poverty and unmet basic needs of the population pose a high risk of further deteriorating Lebanon's human capital.

**112. The compounded crises further revealed the fragility of Lebanon's service provision model, which relied heavily on the private sector, with a relatively inefficient and low-performing public sector.** Addressing this fragility should be a priority. This section includes recommendations for critical reforms aimed at improving the performance, sustainability, and resilience of public service provision. The proposed measures could be part of the medium-term fiscal framework considered as part of the GoL recovery package. The section also proposes a series of sector specific measures aimed at addressing the immediate needs of the population in terms of access to water, electricity, transport, health and education services, while providing financial assistance to the increasing numbers of poor and vulnerable households.

76 CERD (2021). "Statistical Bulletin 2020–2021.

**Box 6. Excerpts of the Lebanon SCD (2016) Related to Elite Capture of Public Service Delivery and The White Paper Presented to GoL in 2016, entitled Priority Reforms for the Government of Lebanon.**

A key feature of sectarian organizations has been their role in providing crucial social services such as education and health, and provision of welfare support to the most vulnerable groups—channeled through NGOs and the private sector. While this has been arguably beneficial in the absence of effective state institutions, it has deepened both societal cleavages and institutionalized a discriminatory and inequitable system for regulation of social and economic life, given that provision and targeting of services has often been linked to electoral campaigning. When combined with the privatization of public service delivery and direct financing by the state, this has also led to steep inequalities in access to services due to exorbitant costs for service delivery by private sector actors.

***On Education & Health***

Education in Lebanon is characterized by multiple adjacent systems, including public and private systems, functioning independently from each other. The majority of students in Lebanon attend private schools. Data also reveal that the poor tend to attend lower-quality public schools, and the wealthy attend higher-quality private schools. It should also be noted that the education system in Lebanon, because of its strong stratified nature—along income and confessional lines—does not perform its classic civic mission of being the “glue” that binds citizens to the State.

There also exists a two-class health system, with an inefficient and inequitable public health sector and a high-quality private sector. Service delivery is complex with both public and private institutions as providers. Out-of-pocket expenditures are the largest source of health financing and a shared inequitably across households.

***On Infrastructure***

The strong influence of private sector and sectarian interests in Government facilitated by the confessional system of governance has both impeded equitable and efficient distribution of investments in infrastructure (both construction and maintenance) and precluded the development of a national strategy that addresses infrastructure development as part of a broader holistic and inclusive development vision for the country.

The electricity sector is a striking example of an underperforming sector negatively affecting Lebanon’s macroeconomic situation, economic growth and its households. First, fiscal transfers to vertically integrated public utility EdL are the cause of a significant part of the country’s public debt. Second, different sources consistently point towards electricity as being a binding constraint to Lebanon’s competitiveness and ease of doing business. And third, a majority of Lebanese are connected to private generators to compensate for the deficiencies of the public service delivery. This is despite a strong demand for having higher electricity quality even at a much higher price. Political and confessional cleavages are preventing the materialization of reforms that have been on the table for more than 30 years.

***On Governance***

Governance is at the root of Lebanon’s failure to deliver basic services and generate inclusive growth and jobs. As such, a structural improvement in governance will not only provide typical returns reaped by other countries, but in the Lebanon-specific case, it will also reinforce resiliency to external shocks to which the country is frequently exposed.

Toward that end, the following medium-term reforms are emphasized: (i) complete the decentralization reform including a restructuring of the fiscal transfer system to provide localities with sufficient resources and a clear delineation of roles between the central and local governments; (ii) implement the Public Procurement Law of 2013 with a view to empowering the Central Tender Board (CTB) as an independent regulatory body, enhance public procurement capacity-building by the Institute of Finance, and move towards e-procurement at CTB; (iii) boost Public Financial Management (PFM) capacity in budget planning, preparation and execution to ensure efficient allocation of resources and improved service delivery; (iv) adopt proactive disclosure measures to mitigate corrupt practices by limiting discretionary opportunities for public officials and increasing accountability; and (v) enhance capacity of both the Central Administration of Statistics (CAS) and the Balance of Payments (BoP) unit at BdL to collect and disseminate regular high quality data by providing sufficient resources and securing their mandates.

## CHAPTER 8.

# WATER SECTOR

### A. PRE-CRISIS STATUS OF THE WATER SECTOR

**113. The 15-year civil war (1975-1990) had a devastating impact on Lebanon with the destruction of infrastructure along with the rapid urbanization of Beirut and neighboring cities, which was driven by internal displacement and the influx of refugees.** Dilapidated infrastructure coupled with increasing demand from a large population led to the unsustainable use of ground water, despite the construction of Qaraoun Dam and Litani Hydroelectric Project.

**114. The period commencing 2001 saw the consolidation of water service provision through the formation of the four Water Establishments (WEs): South Lebanon, North Lebanon, Beirut and Mount Lebanon, and Beqaa.** Historically, about 79 percent of the population was connected to the public water supply system, though the service has

been mostly intermittent and unreliable reaching as low as three hours per day across many regions in the summer. This led to increasing reliance on much more expensive private tankers and bottled water.

**115. The WEs have been in precarious conditions since their formation, suffering from inadequate technical, financial and commercial performance, making it challenging for them to deliver adequate services.** The WEs do not have a history of providing audited financial statements for public scrutiny, which makes analysis for this chapter difficult.<sup>77</sup>

**116. Only 8 percent of the wastewater receives secondary treatment, and the rest is discharged into water courses with or without preliminary treatment.**

### B. CRISIS IMPACT ON THE WATER SECTOR

**117. The economic and financial crisis resulted in a thirteen-fold increase in the cost of supplying water from public utilities.** The US dollar is the

basis for considerable parts of WE cost structure. However, WEs do not receive financial support from the Government and rely mostly on tariff collections,

<sup>77</sup> In the second quarter of 2021, the Ministry of Energy and Water requested the four WEs to provide summarized financial information with emphasis on their cost structures and evolution of billed and collected revenue for the period from 2018 to now as well as a projection to 2024. These are the data that has been used for analysis in this document. However, the information available from the four utilities does not allow a full comparative analysis. Based on data submitted and discussions with North Lebanon WE (NLWE) and Beqaa WE (BWE) an understanding of electricity costs for these two establishments was obtained. The other two WEs, i.e., South Lebanon WE (SLWE) and Beirut Mount Lebanon WE (BMLWE) did not report a specific breakdown of the expenditure for electricity.

which are denominated in LBP. Consequently, the depreciation in the LBP exacerbated the gap between WEs revenues and expenditures. While the WEs were able to sustain operations through acquiring subsidized fuel, delaying maintenance, and receiving international donor support, the removal of fuel subsidies adds to their financial burden and puts the water supply at risk. According to UNICEF “Unless immediate action is taken, the public water supply networks will collapse and, directly or indirectly, eliminate access to safe water to more than four million people.”<sup>78</sup>

**118. Electricity blackouts have affected the WE ability to treat, pump and distribute water.** Total energy costs (electricity and fuel) constituted between one-third to one-half of the operational expenditures (OPEX) for the WEs.<sup>79</sup> WEs were able to provisionally benefit from (i) the inefficient and costly FX subsidy on fuel imports,<sup>80</sup> and (ii) fuel subsidies provided by the Government from June 2021 through September 2021. With the removal of both types of subsidies, the WEs that rely exclusively on generators may collapse within months.<sup>81</sup>

**119. In addition, fuel and diesel shortages impacted the distribution of other water alternatives (i.e., water tankers and bottled water) that Lebanese residents have traditionally relied on to cope with water shortages.** The prices of these alternatives have significantly increased, and in some cases have doubled or tripled compared to January 2021.

**120. The sharp devaluation of the LBP has made it difficult for the WEs to buy spare parts and equipment which are mostly quoted in dollars.** The Beqaa WE (BWE) saw the share of Operation and Maintenance costs in their OPEX increasing from 2 to 13 percent between 2018 and 2020. These included water and wastewater testing equipment, other consumables, software licenses and fees to some contractors directly paid in dollars. It is

important to note that, in addition to the above-mentioned cost items that are directly purchased in dollars, other major items, such as treatment and disinfection reagents, are also linked to the FX even if not directly purchased in dollars.

**121. In the 2019 Update to the National Water Sector Strategy, all WEs were projected to experience a steep increase in billed revenue due to a combination of new customers signed, higher tariffs and improved collection.** These projections did not materialize and all WEs have witnessed a fall in revenue collection which has further exacerbated the operational deficit of utilities.

**122. WEs suffer depletion of human resources.** Staff salaries, denominated in LBP, lost a significant share of their purchasing power. Further, the fuel crisis created additional transportation costs to staff. The combined impact on the staff is significant, with many not coming to their offices—a dynamic shared across the public administration. Naturally, there will be increasing pressures on the WEs to increase salaries at some point to at least make up for part of the loss in purchasing power. Such decision of increasing salaries will depend on the national government.

**123. The absence of audited financial statements for the WEs hinders any reliable financial analysis of their performance.** For the BWE, the cost recovery (calculated as cash inflow/total OPEX) was expected to increase from 0.58 in 2019 to 0.76 in 2024. The OPEX between 2019 and 2020 has remained consistent at approximately LBP23 billion despite the sharp devaluation, which implies a decline in the level of the service and operations given the increase in energy, fuel and maintenance costs. The North Lebanon WE (NLWE) expects its cost recovery ratio to fall from 0.74 to 0.58 during this period mainly due to a reduction in revenue collection.

78 UNICEF. July 2021. *Drying-up Lebanon's water supply system: on the verge of collapse*.

79 For NLWE the energy cost was LBP9.7 billion representing one-third of the OPEX in 2020. For BWE, the energy cost in 2020 reached LBP10.2 billion accounting for more than 43 percent of total OPEX for the period. presentation at the BWE-Donor Workshop June 2021 - Unpublished.

80 Starting in end-2019, BdL offered favorable exchange rates for importers of certain essential goods, including fuel, medicines and wheat. This scheme, however, drained much of the gross FX reserves at BdL and could not be sustained. By Q3 2020, the FX subsidy was removed for most of these imports.

81 UNICEF. July 2021. *Drying-up Lebanon's water supply system: on the verge of collapse*.

**124. In June 2021, the O&M of Wastewater Treatment Plants (WWTPs) were formally transferred from CDR to the WEs.** However, it is not clear if this has already been implemented. In the case of BWE, these include the treatment plants in Zahle, Baalbeck, and Jeb Jannine – Saghbine. Based on information available from the BWE, these contracts could increase the annual O&M burden by LBP2.7 billion to LBP4.5 billion or by 20–43 percent.<sup>82</sup> Similar concerns are observed in NLWE where the combined annual operational costs for a group of WWTPs to be transferred to the establishment can reach the equivalent of US\$10 million.

**125. Using 2018 as a base year, it is estimated that the annual operational costs for all four WEs reached US\$105 million.** More than half of these costs originate at Beirut Mount Lebanon WE (BMLWE). However, due to its size and customer base, it is also the only establishment that reached cost recovery of operational costs in 2020 although CAPEX cannot be covered. It is worth stressing the limitation in estimating the OPEX based on WEs projected financial statements due to the absence of audits at the WEs.

## C. IMPACT ON THE RESIDENTS

**126. Most residents rely on (privately run) trucks and bottled water to cope with the shortages in supply from the WEs.** The remaining un-connected residents receive their supply from a combination of sources such as water trucks, illegal tapping, and private and municipal sources. With continued power cuts, the supply could be reduced further to 35 liters per capita per day (lpcd) against the standard of 165 lpcd.

**127. The feedback received from the Facebook survey, undertaken by the World Bank in June 2021, confirms the above analysis:**<sup>83</sup>

- Most residents are not receiving water supply from the WEs. Less than one-fourth of respondents have utility connections. A majority of those sampled do not rely on service provision by utilities but depend instead on bottled water.

- Four out of five residents live in areas with less than 6 hours of water supply per day, while only 15 percent reported water supply of more than 12 hours.
- There is excessive dependence on bottled water and tanker trucks. Over the last year, the price of a tanker has increased from LBP9,000-LBP30,000 for one cubic meter to LBP75,000-LBP125,000, compared to LBP1,000 per day for one cubic meter of tap water supply.<sup>84</sup> The price of water tankers breached LBP250,000 in some areas.

**128. The cost of water supply from alternative sources, in the face of the collapse of the public water system, is likely to increase by 200 percent.** This is likely to hit the poor and vulnerable the hardest.

82 Data on the impact of transfer of O&M of WWTPs in other WEs are not available.

83 See footnote 59 for specific information about the Facebook survey.

84 UNICEF. July 2021. *Drying-up Lebanon's water supply system: on the verge of collapse*.

## D. SHORT TO MEDIUM TERM SOLUTION FOR REDUCING WATER VULNERABILITY

129. **Over the medium term, there should be a concerted effort to improve the capacity of the WEs to become credible entities on whom residents can depend for basic services.** The gradual erosion of public confidence in the utilities has been a constant feature over the last decade. While residents depended on the private sector to meet the service gap, the recent crisis has shown that the private sector cannot completely replace the WEs when it comes to providing service over a large geographical area. At the same time, there are certain measures that could be introduced to reduce the dependence on grid connected electricity. These include:

- Solar panels for water treatment plants
- Bio-gas generation facility for medium- to large-sized plants
- Surface water storage when feasible (for example regional reservoirs to help manage the pressure in the network)
- Redundancies in the distribution system, so one area can be supplied from different sources.

130. **While addressing energy insecurity and financial instability is crucial to improving the reliability and sustainability of water services,** in the short-term the impact on the most vulnerable residents could be mitigated through:

- Time bounded cash and equipment support from development partners to continue to provide minimum services. This could be in the form of hard currency for purchases of fuel and spare parts for pumping stations and treatment plants.
- Tanker trucks (contracted by WEs in emergency situations) ensuring delivery of public water to low-income regions that are suffering from acute shortages of water supply. In such a case, the utility would contract the tanker trucks to deliver the water for vulnerable household at a price around the municipal water rate.
- Water from standpipe or from reservoirs for emergency supply of water.

## CHAPTER 9.

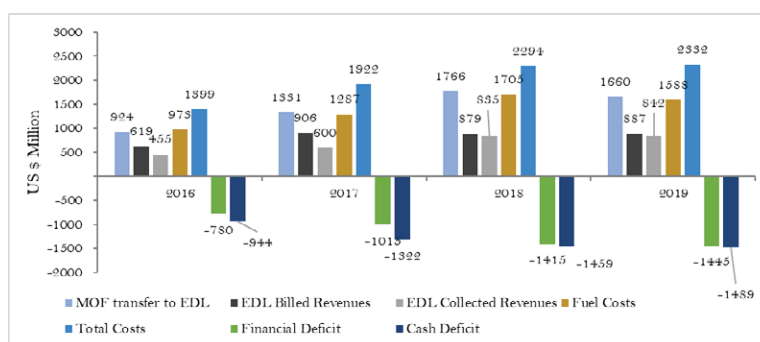
# ELECTRICITY SECTOR

### A. PRE-CRISIS STATUS OF THE ELECTRICITY SECTOR

131. Lebanon's electricity sector has long been at the center of the country's economic and fiscal challenges—often depicted as the epitome of the failed state. Annual budgetary transfers to Electricité du Liban averaged 3.8 percent of GDP over the last decade, amounting to nearly half of the country's overall fiscal deficit. At its peak in 2012, the Government transferred US\$2.2 billion to EdL, equivalent to 5.1 percent of GDP. During the years 2016-2019, Ministry of Finance (MoF) transfers to EdL ranged from US\$924 million to US\$1.66 billion. As of 2020, the cumulative deficit caused by the

electricity sector amounted to US\$40 billion. At the heart of this imbalance is EdL's high operating costs and low revenue. As shown in Figure 52, EdL's pre-pandemic billed revenues<sup>85</sup> remained stagnant below US\$1 billion, while its costs increased significantly from US\$1.4 billion in 2016 to around US\$2.3 billion in 2018-2019. Consequently, EdL's financial deficit grew rapidly from US\$780 million in 2016 to almost double by 2018 at US\$1.4 billion.<sup>86</sup> When collection losses are considered, EdL's cash deficit was even larger, totaling US\$944 million - US\$1.5 billion during 2016-2019.<sup>87</sup>

Figure 52. MOF Transfer, Revenues, Costs and Deficit of EdL Pre-pandemic (2016-2019)<sup>88</sup>



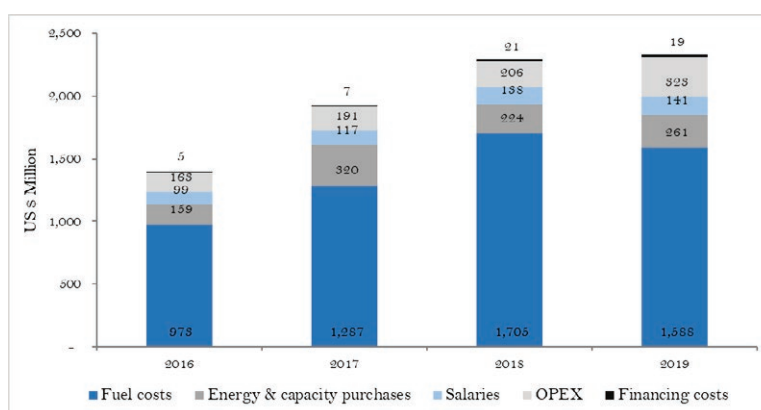
Sources: WB calculation based on EDL data; NB Revenues data for 2016 and 2017 and Costs data for 2019 are based on WB projections; rest of the data are based on EDL/MEW input.

85 Billed revenues are the anticipated revenues if the issued electricity bills are paid in full by all customers; billed revenues are usually higher than collected revenues due to losses in the collection process (e.g., non-payment).

86 Financial Deficit equals Billed Revenues minus Total Costs, whereas Cash Deficit equals Collected Revenues minus Total Costs.

87 Data for 2017-19 are estimates based on 2015-16 data, which assume a collection rate of 95 percent (the share of issued bills being collected) starting in 2018. The collection losses in 2016 and 2017 were significant due to delays in bill issuance and collection effort, which were gradually addressed in 2018-19.

88 The calculations for all figures in this document use an exchange rate of 1510 LBP to US\$, and an average electricity tariff at LBP138/kWh (which is the average tariff for the year 2016, the only year for which full billing and consumption data from EDL is available).

**Figure 53.** MoF Transfer, Revenues, Costs and Deficit of EdL Pre-pandemic (2016-2019)<sup>89</sup>

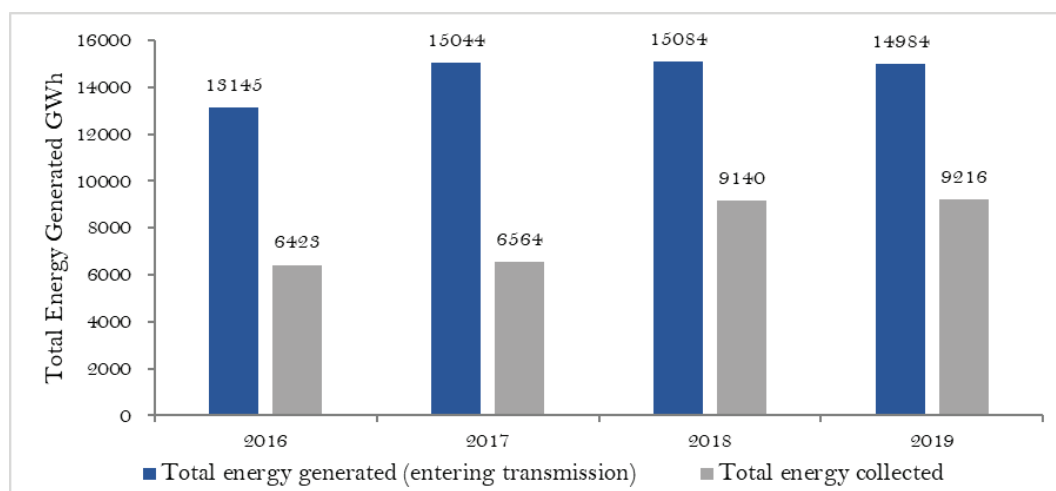
Sources: WB calculation; NB costs data for 2016-2018 are from EdL, whereas costs data for 2019 are WB projections.

**132. The causes of EdL's high operating costs are (a) its continued reliance on expensive, highly polluting imported liquid fuels for power generation and (b) high network losses.** Fuel expenses accounted for 60-74 percent of EdL's total annual costs in the 2016 to 2019 period (see Figure 53). In 2018, for example, fuel expenditures accounted for US\$1.7 billion of EdL's total annual costs of US\$2.3 billion. The majority of EdL's generation assets can use the cheaper and more environmentally friendly natural gas, but past attempts to set up gas import facilities and related infrastructure failed. Network losses also compounded the utility's financial challenges. In 2016-2019, these losses accounted for a staggering 38-56 percent of total energy generated. In 2018, for example, EdL's losses accounted for 39 percent, comprising 4 percent of technical losses on the transmission network and 35 percent on the distribution network (9 percent of technical losses and 26 percent of non-technical losses, primarily theft). While these technical challenges are not unique to Lebanon, the sector's track record shows that the country has been so far unable to mobilize the political commitment and decisions needed to take swift action to turn around the sector. Many of the past failures are linked to vested interest and political economy dynamics, reinforced by the lack of transparency, poor sector governance and weak institutional oversight of the sector.

**133. On the revenues side, EdL was hamstrung with non-cost-reflecting tariffs that have not changed (in nominal terms) since 1994 (in real terms that have drastically shrunk).** EdL's operating income remained consistently negative over the years and is heavily reliant on the MoF's fiscal transfers for financial equilibrium. Given the prominence of fuel expenditures in its total costs, EdL's financial performance is also very sensitive to fluctuations in international fuel prices. Additionally, the current crisis has highlighted EdL's vulnerability to fluctuations in foreign exchange as its costs are predominantly in US dollars and its revenues are entirely in Lira. EdL's average retail tariffs stand at US¢8-9.5/kWh<sup>90</sup> at the official exchange rate US\$/LBP of 1,507.5, but drops below US¢1/kWh at a market reflective rate (above LBP20,000 per US\$), while average costs, taking 2018 as an example, amounted to US¢27/kWh without accounting for collection losses. EdL's billing for energy delivered to customers covered only 30-50 percent of its expenditures over the 2016-18 period and has fallen at an estimated 3 percent in 2021 using market reflective rate, due to the drop of the market value of the Lira, and the drop of electricity outputs (attributable to sector inability to secure hard currency for fuel purchase) – the actual collected revenues were even less.

89 The calculations for all figures in this document use an exchange rate of 1510 LBP to US\$, and an average electricity tariff at LBP138/kWh (which is the average tariff for the year 2016, the only year for which full billing and consumption data from EDL is available).

90 In this exercise, average tariffs are back-calculated for each year, which is equal to Billed Revenues divided by Billed Energy. NB full EDL data on billing and consumption is only available for the year 2016, and data for other years involve World Bank team's projections.

**Figure 54.** Total Energy Generated vs. Collected by EdL (MWh)

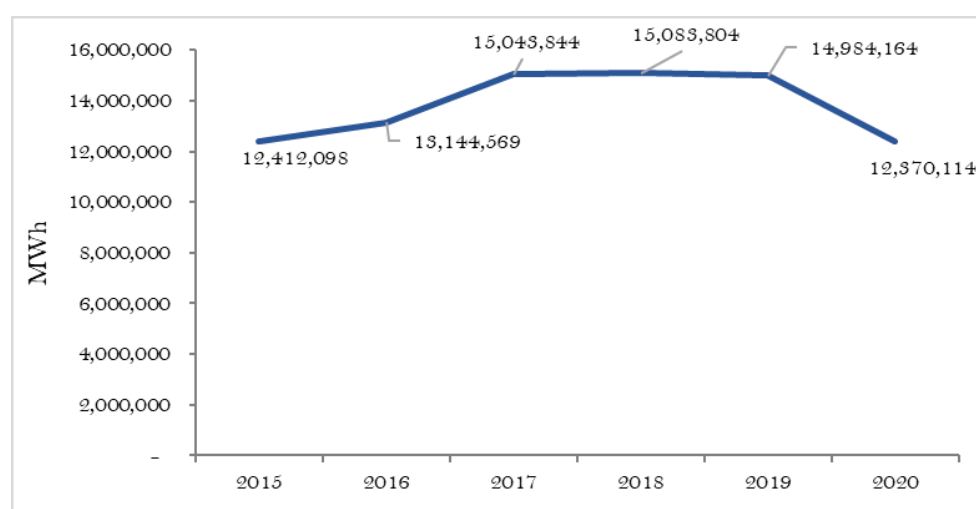
Sources: WB calculation based on EdL data for years 2016-2018; WB estimation for 2019.

**134. Collection losses, which vary from year to year, add another dimension to an already challenged financial environment in the sector** (see Figure 54). Until 2019, EdL was constrained by security and political reasons in terminating services or disconnecting customers for bill nonpayment, given that the largest collection losses resulted from nonpayment by public institutions and Palestinian camps. In 2019, the Ministry of Energy and Water (MEW) and EdL enlisted the help of the Army, Police, and the Ministry of Justice to start dealing with this issue, which resulted in improving residential collections and higher revenues for EdL. MEW and MOF also agreed to coordinate in dealing with arrears by public institutions, though it is unclear whether this coordination materialized as the sector continued to be politicized. Moreover, a strike by EdL staff in 2016 and a temporary lapse in 2017 of distribution service providers' (DSPs) contracts, which covered meter reading and collections, caused a 4- to 12-month lag in billing in some areas. EdL has not yet been able to recover from this, thus increasing its working capital needs.

**135. Chronic lack of investments in additional generation capacity and high network losses constrained EdL from meeting electricity demand in the country.** To cope with the generation shortfall, EdL historically used rolling blackouts to manage demand on its network, with customers enduring daily shortages that usually varied based on region. In 2019, for example, rolling blackouts ranged from three hours in Beirut to 13 hours in some rural areas. As a result, customers relied on privately owned diesel-fired generators to supplement EdL's supply to get 24 hours of electricity. The total commercial (subscription-based) private generator market size for 2018 is estimated at US\$1.1 billion, serving 1.08 million customers whose electricity purchase is estimated at 4 TWh. In total, the (private) market composed of fuel imports and distribution, generator sales, and maintenance services is estimated at around US\$2 billion. The total size of the labor force linked to the operations of private diesel generators is estimated to be around 13,200 persons. Diesel generators are estimated to have contributed around 39 percent of the total electricity Greenhouse Gases Inventory (GHI) in 2018, which is equivalent to 3400 Gg CO<sub>2</sub>eq or 11.4 percent of Lebanon's total estimated GHI emissions.<sup>91</sup>

91 For more details about the private diesel generators market, see ESMAP. 2020. "Distributed Power Generation for Lebanon: Market Assessment and Policy Pathways. (May), World Bank, Washington, DC. License: Creative Commons Attribution CC BY 3.0 IGO. <https://documents1.worldbank.org/curated/en/353531589865018948/pdf/Distributed-Power-Generation-for-Lebanon-Market-Assessment-and-Policy-Pathways.pdf>

Figure 55. EdL Energy Supply (MWh)



Sources: EdL data.

## B. CRISIS IMPACT ON THE ELECTRICITY SECTOR

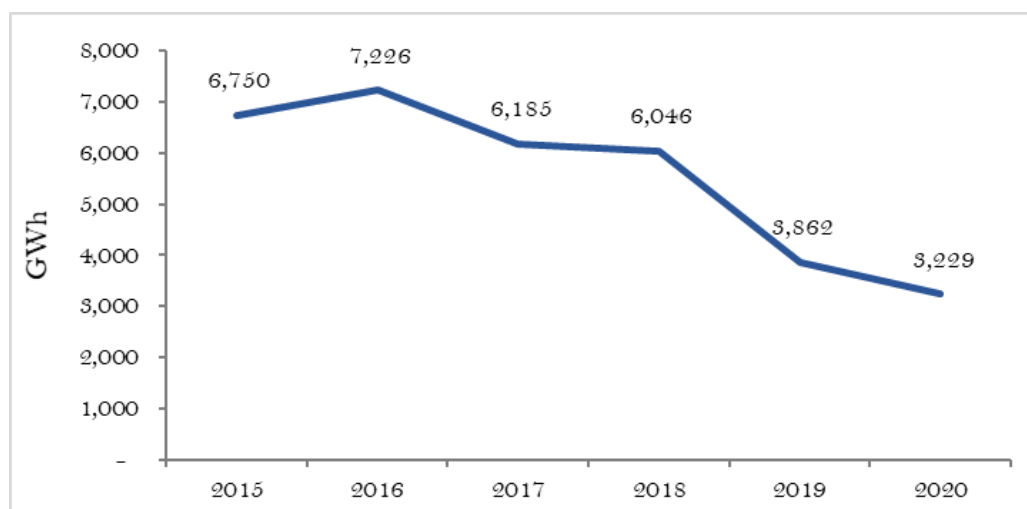
136. In 2020, the combination of the political stalemate, the Beirut port explosion, a worsening economic crisis, and the onslaught of the COVID-19 pandemic made the sector's conditions exponentially worse. EdL's generation fell by an estimated 17 percent year-on-year over the first 11 months (see Figure 55), causing widespread electricity blackouts. While data for 2020 and 2021 remains unavailable, anecdotal evidence and information indicate that generation declined to 60 percent in July 2021 with electricity blackouts lasting up to 22 hours per day. This drop in generation was mainly caused by fuel shortages that were badly disrupted by delays in importing new shipments, receipt of supplies that did not conform to required specifications, and EdL's inability to secure cash and foreign exchange for payment. The only silver lining was that the pandemic reduced electricity demand and the international cost of fuel as markets reacted to the sudden shock of a global demand slump, which helped reduce EdL's fuel costs and extend use of budgetary support provided by the MoF for 2020.

137. EdL increased use of rolling blackouts to reduce its fuel costs, forcing customers to increasingly rely on private generators for supplemental

supplies to compensate. Private generators were not intended to provide supplies for long hours at a time. Further, generator owners started to run into difficulty securing foreign exchange to import fuel. As a result, private generators started restricting supplies, leaving many families facing hours of total blackout. In the Facebook survey performed in June 2021,<sup>92</sup> surveyed residents indicated that they have on average 4.9 hours of electricity per day. Moreover, the rapid decline in the Lira's value, as the economic crisis deepened, also meant that the tariff for private generator supplies, which is Lira-denominated, had to increase to compensate for the additional cost of fuel, which is dollar-denominated. In addition, the end of the FX subsidy on fuel led to a sharp increase in fuel costs to private generators and invariably to customers.

138. Progress achieved in 2019 in reducing commercial losses on the distribution network was largely reversed in 2020. Financial pressures from the country's economic crisis significantly raised the political price for disconnecting illegal connections or non-paying customers. Lockdowns, social distancing requirements and the absence of an online billing and payment platform essentially suspended bill collection efforts from March 2020

92 See footnote 59 for specific information about the Facebook survey.

**Figure 56.** Billed Electricity Consumption to Be Collected by DSP (GWh)

Sources: EdL data.

through May 2020. Moreover, the August 4 explosion in the Port of Beirut caused severe damage to the distribution network within the blast radius and significantly damaged EdL's headquarters, including its national control center that manages the transmission network and the main data center for billing. This further slowed billing and collections, thus reducing EdL's revenues until billing commenced a month later using a backup data center. As a result, EdL's Lira-denominated revenue plummeted in 2020. As illustrated in Figure 56, billing for electricity consumption to be collected by DSPs dropped by 16 percent in 2020 compared to 2019, which itself was 36 percent lower than 2018.

**139. Along with Lebanon's economy, EdL's situation is estimated to have further worsened in 2021.** The crisis and its associated unemployment rate and sharp erosion in purchasing power will continue to challenge customers' ability to pay for EdL's electricity supplies. EdL's contract with the Algerian company, Sonatrach, for fuel supply expired at the end of 2020 and MEW has been buying fuels on the spot market. Although this seems to have generated small savings for EdL due to lower fuel benchmark prices over the early phase of the pandemic (these have reversed significantly in 2021 and especially in 2022 since the war in Ukraine), it also increased EdL's exposure to market fluctuations. EdL's arrears to its major private service providers (such as the DSPs that manage the distribution network,

the barge-mounted generators, and the O&M contractor that manages EdL's two largest public power plants at Zahrani and Deir Amar) continued to increase. As of the end of 2020, EdL's arrears to these contractors are estimated to be US\$320 million. As EdL's condition continued to get worse in 2021 and 2022, it is likely that these contractors will eventually stop work.

**140. In March 2021, Parliament approved around LBP300 billion (US\$200 million at the official exchange rate) in an emergency loan to finance fuel imports for EdL.** The approved amount is actually one third of what the Government had asked Parliament for. In May 2021, MoF approved only LBP100 billion in transfers to EdL under four installments, equivalent to US\$62 million at the official exchange rate. However, this did not guarantee actual access to US dollars. The conversion to US\$ was blocked by BdL, which was heavily rationing its stock of FX reserves. In April 2022, the Council of Ministers approved a US\$60 million from SDR to EDL to start settling payment arrears to contractors and suppliers and granted EdL access to US\$ from its collected revenues in Lira at BdL (est. LBP 400 billion) at the Sayrafa rate (for an estimated US\$18 million), that is many multiples the official exchange rate that EdL's tariffs are based on. Due to lack of fuel, Zahrani and Deir Amar power plants, which together provide 38 percent of Lebanon's electricity (870 MW out of total national generation capacity of 2,200 MW), have

temporarily ceased their operation multiple times (the latest on April 19, 2022). On May 14, 2021, the barge-mounted generator, which accounts for

380 MW of EdL's generation capacity, suspended its operations, claiming arrears of US\$100 million over the past 18 months.

## C. POLICY ACTIONS TO ENSURE CONTINUITY OF SERVICE DELIVERY

**141. Lebanon has little choice but to undertake comprehensive reforms of the sector to reverse the financial drain and decades of neglect and poor performance.** In the immediate terms, some quick actions include (a) engaging in regional energy trade to urgently obtain fuel for power plants and reduce generation costs (e.g., gas import from Egypt and possibly electricity import from Jordan); (b) scaling up renewable energy especially solar, through distributed schemes; (c) reducing commercial losses, shortening billing cycles and improving collection activities through enhanced DSP Contract execution; (d) upgrading transmission and distribution systems to reduce technical losses and investing in measures to reduce commercial losses on the distribution network and improve bill collection; and (e) with improvements in service, gradually adjusting electricity tariffs toward cost recovery.

**142. While addressing crisis-specific implications, it is vitally important that the Government pursues continued efforts to implement the vision for sector turnaround articulated into the policy statement “Setting Lebanon’s Electricity Sector**

**on a Sustainable Growth Path.”**<sup>93</sup> The 5-year plan conveys to the public and international community the Government’s roadmap to fix the power sector and put into context the short-term actions considered. The plan includes the following: reforms to the sector’s governance; strategies to increase security of supply in a least cost manner (launching bids for renewable energy and gas fired power plants); the procurement of gas supply through floating storage and regasification units (FSRU) and to move away from diesel and heavy fuel oil (HFO); and continued improvements in loss reduction and revenue collection. The plan has a timeline and a financing plan, and articulates the steps to implement the long-stalled vision of Law 462 for more private sector participation in the distribution and generation sub-sectors, strengthening EdL’s internal and external governance and modernizing its core business areas and administrative processes, and establish the Electricity Regulatory Authority.<sup>94</sup> These reforms will take time to implement, thus need to be started urgently to put the sector on a path toward financial viability and reliability of supply.

93 Adopted by the Council of Ministers on March 16 and disclosed on April 1, 2022. <https://energyandwater.gov.lb/ar/details/100777/setting-lebanon-s-electricity-sector-on-a-sustainable-growth-path-policy-statement-march-2022>

94 For a comprehensive account of existing challenges of the sector as well as actions to be taken, see: World Bank. 2020. Lebanon Power Sector Emergency Action Plan 2020. Washington, DC: World Bank.

## CHAPTER 10.

# TRANSPORT SECTOR

### A. PRE-CRISIS STATUS OF THE TRANSPORT SECTOR

**143. Annual revenues from the transport sector to the Ministry of Finance have more or less been stable over the 2017-2019 period.** As shown in [Figure 57](#), annual revenues to MoF from Beirut International Airport, Port of Beirut (PoB) and transport taxes and fees have averaged LBP235 billion (equivalent to US\$155 million at the official exchange rate), LBP168 billion (US\$112 million) and LBP780 billion (US\$520 million), respectively. The analysis of revenues in this section is based on limited data received from MoF for the purpose of this PFR and only reflects MoF's share of revenues from the transport sector. For example, PoB's revenues in 2017 amounted to US\$313 million, including US\$128 million from port dues, US\$57 million from handling, US\$34 million from storage and US\$95 million from other revenues,<sup>95</sup> while MoF's reported revenues from PoB amounted to LBP175 billion (US\$116 million at the official exchange rate) in the same year. The analysis is also a partial picture of the pre-crisis status of the transport sector as the data received from MoF is incomplete, with no information on staffing costs, revenues and expenditures from the Railways and Public Transport Authority's (RPTA) bus operation, expenditures on the Council for Development and Reconstruction's (CDR) transport projects, PoB and Beirut International Airport's operating costs and revenues per source of revenue, etc.

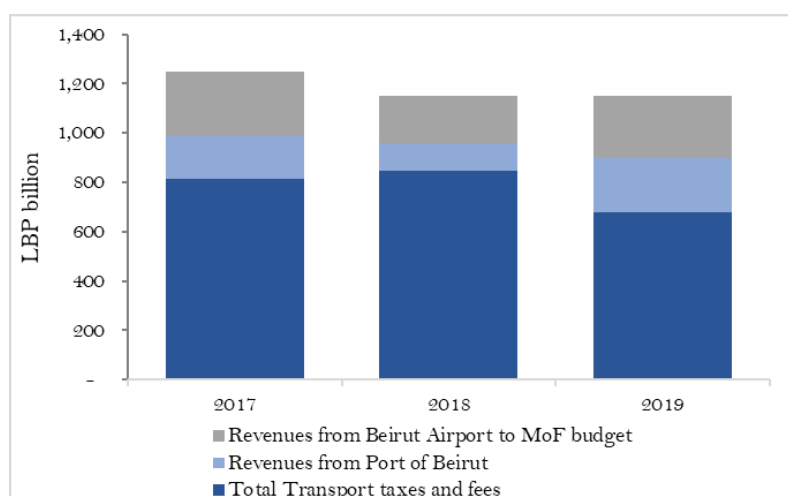
**144. Taxes and fees in the transport sector include driving license fees, vehicle registration fees, vehicle control fees and passenger departure taxes, with the least revenues emanating from driving license fees,** as shown in [Figure 58](#). Unlike other sectors (like electricity, water and telecom), there are no operational revenues from direct user charges in the transport sector.

**145. The breakdown of expenditures, as received from MoF, only includes dues to municipalities, with no data on operational costs or investments.** However, it is common knowledge that Lebanon's transport sector has long been suffering from years of underinvestment and poor planning/budgeting. Sector financing has primarily been focused on road maintenance, which has hindered the development of sustainable, high-quality, affordable and reliable transport systems and infrastructure. Lebanon's decaying infrastructure and poor public transport represent major drags to its economy and growth.

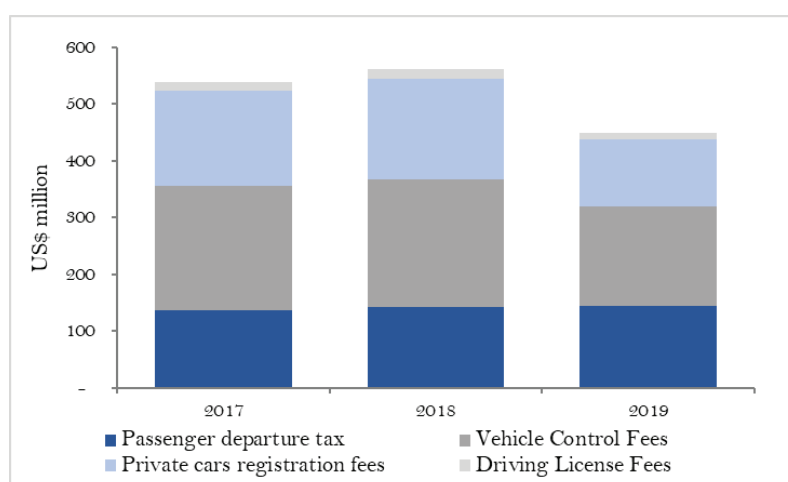
**146. Road transport in Lebanon was costly even before the crises, with no reliable alternatives to private vehicles.** Surveys show that transport costs before the crises accounted for about 13 percent of total household expenditures,<sup>96</sup> among the highest of all categories, surpassed only by housing and health expenditures. Despite this, most users rely on private vehicles to meet their transportation

<sup>95</sup> From Port of Beirut's website.

<sup>96</sup> 2012 Household Expenditure from the Central Administration of Statistics, 2012

**Figure 57.** Extract of Revenues from the Transport Sector to the Ministry of Finance

Source: Data received from MoF for the purpose of this PFR.

**Figure 58.** Extract of Revenues from the Transport Sector to the Ministry of Finance

Source: Data received from MoF for the purpose of this PFR

needs, and the average vehicle occupancy rate, at about 1.3, is very low.<sup>97</sup> It is estimated in the Capital Investment Plan (CEDRE 2018) that about 68 percent of motorized trips, in Beirut and Tripoli, were undertaken using private passenger car, while the share of public transport was 32 percent, including 16 percent for 'service' and taxi vehicles,<sup>98</sup> 14 percent for private sector buses and 2 percent for buses operated by the Railways and Public Transport Authority.

**147. Public transport in Lebanon is largely unregulated, which has contributed to the lack of proper, reliable, safe and affordable public transport.** The RPTA is a state-owned enterprise under the guardianship of the Ministry of Public Works and Transport and is the public operator who had a monopoly on railway and public transport operation in Lebanon; however, its role largely eroded over time due to the disappearance of the railways, the old tramway, and most of its bus operations (only about 35 small buses remain). To serve the demand,

<sup>97</sup> Council for Development and Reconstruction, 2015

<sup>98</sup> The term *service* is used to describe a taxi service shared by multiple passengers, who are charged a pre-known tariff along standardized routes. This is distinct from the traditional Taxi, that is charged based on length of route.

the public transport sector in Lebanon counts 2,200 privately operated buses as well as about 4,000 legal and 10,000 illegal minibuses and vans. In addition, there are about 33,000 legal and 20,000 illegal private taxis in Lebanon that operate on a chartered or shared-basis-service.<sup>99</sup> The trucking industry is also largely fragmented, with road transport companies privately owned.

**148. Poor transport connectivity and high transport costs represent a major drag on the Lebanese economy.** Lebanon's endemic traffic congestion is estimated to cost the economy 8 percent of GDP,<sup>100</sup> while the cost of road crash fatalities and injuries amounted to 5.4 percent of the country's GDP in 2016.<sup>101</sup> Transport contributes to 24.4 percent of CO2 emissions in Lebanon.<sup>102</sup>

## B. CRISIS IMPACT ON THE TRANSPORT SECTOR (2020 AND BEYOND)

**149. The COVID-19 pandemic caused main borders crossings, the airport and seaports, as well as some public-sector institutions to shut down for almost 3 months, resulting in trade disruptions and losses of government revenues.** Revenues from Beirut International Airport (to the MoF) and from passenger departure tax have indeed decreased from LBP249 billion in 2019 to LBP162 billion in 2020, and from LBP218 billion to LBP68 billion, respectively. Meanwhile revenues from PoB have increased from LBP220 billion to LBP266 billion between 2019 and 2020, which could be explained by the exchange rate collapse in 2020 as some PoB revenues are in US\$.

**150. Though the COVID-19-related lockdowns and mobility restrictions have been crucial to limit the spread of the virus, they have also disrupted travel patterns and have caused losses of income to public transport service providers, threatening the livelihoods of the most vulnerable.** Public transport service providers have been particularly hit by the crisis, with buses and vans banned from circulating and some private taxi companies experiencing only 6 percent of their usual business.<sup>103</sup> While leasing obligations and subscriptions have been lifted by some taxi companies, drivers still earn their livelihoods on a daily basis and rely on

travel demand to make a living. Therefore, with public and private institutions incorporating home-based-work schemes or rotating shifts to minimize close interactions between employees, transport demand reduced and caused, in turn, losses of income to public transport service providers.

**151. The explosion of August 4th at the Port of Beirut added to the multiple crises Lebanon had already been facing, namely the COVID-19 pandemic and the economic and financial crises.**<sup>104</sup> According to the Rapid Damage and Needs Assessment (RDNA) prepared by the World Bank in cooperation with the United Nations, the European Union and other partners, the explosion caused damages to the transport sector ranging between US\$280–345 million. The explosion caused many fatalities and injuries at PoB, as well as seven shipwrecks and significant damages to the general cargo terminal, including damage to the 120,000-ton silo that contained 15,000 tons of grains at the time of the explosion. The silos were used to store grain reserves and their destruction resulted in increased food security risks, which were already significant given the protracted economic and financial crises. The explosion also caused damage to the container terminal as well as to assets and facilities related to RPTA including

99 From the Directorate General of Land and Maritime Transport

100 Greater Beirut Public Transport Project, Project Appraisal Document, World Bank, 2018.

101 Lebanon's Road Safety Country Profile, Global Road Safety Facility, World Bank.

102 CO2 emissions from transport (percent of total fuel combustion), IEA Statistics, World Bank, 2014, <https://data.worldbank.org/indicator/EN.CO2.TRAN.ZS>

103 From a meeting with a well-established taxi company in Lebanon.

104 Beirut Rapid Damage and Needs Assessment (RDNA), August 2020, World Bank Group <http://documents1.worldbank.org/curated/en/650091598854062180/pdf/Beirut-Rapid-Damage-and-Needs-Assessment.pdf>

40 of the 50 buses operated by them and 16,000 square meters of RPTA warehouses and hangars, preventing the access of buses to fuel and spare parts. An additional 430 public and private vehicles were also damaged inside and outside the port, along with 1.5 kilometers of roads.

**152. More recently, the financial crisis has affected the trucking industry with truck drivers going on strike at the PoB, disrupting work in the port, and leading to financial losses for the government.** With wages not exceeding LBP1.3 million, truck drivers have seen their livelihoods affected by the exorbitant inflation rate and were therefore demanding wage corrections for better living conditions. Similarly, truck owners have seen their businesses affected by the increase in maintenance costs, with the prices of spare parts set at the banknote exchange rate; and were therefore demanding being paid in US\$, especially since their clients are paid in this currency. The strikes led to supply chain disruptions, with essential goods including foodstuffs not reaching traders and consumers.

**153. Crisis-related fuel shortages have also affected both private and public transport service provision.** The sharp devaluation in the Lebanese Lira, combined with the inefficiencies of the FX subsidy on fuel imports, resulted in raised prices for gasoline and diesel, leading to smuggling and hoarding. This, in turn, resulted in scarcities at gas stations and therefore endless queues and rising tension among drivers waiting in line to fill their tanks, with disputes sometimes escalating into shooting.

**154. The collapse of the FX subsidy on fuel is estimated to have increased the price of gasoline and diesel by a factor of 16-27.** Prices for 20 liters of gasoline and diesel have jumped, respectively, from about LBP28,000 in January 2021 to LBP454,000 in April 2022, and from about LBP19,000 in January

2021 to LBP520,000 in April 2022.<sup>105</sup> These figures show the scale of the crisis, especially if compared with the minimum wage of LBP2 million.<sup>106</sup> Hence, a minimum wage salary would be equivalent to the price of 90 liters of gasoline. According to the Facebook survey conducted in July 2021,<sup>107</sup> 54 percent of the respondents already spend more than LBP450,000 on a monthly basis for fuel, insurance, maintenance, etc., which is the equivalent 67 percent of the (then) minimum wage.

**155. Gasoline and diesel scarcity and their price increases have also affected taxi and public transport fares; with the unofficial fare reaching LBP30,000 as of August 12, 2021, and a 10-kilometer ride costing around LBP175,000 by private taxi and around LBP100,000 by Uber.**<sup>108</sup> With lack of regulation and enforcement, and the predominant informality in the public transport sector, users have seen fares varying from one operator to the other and often worry about operators' strikes and cessation of service. The dramatic increase in public transport cost is problematic, as the Facebook survey shows that the main barrier to the use of public transport for the non-Lebanese as well as students (intermediate level or less), and part-time or daily employees is the fare. According to the survey, 46.5, 38 and 34 percent (respectively) of the non-Lebanese respondents, intermediate-level students and part-time or daily employees who do not use public transport would consider using public transport if the fares were lower.

**156. The fuel subsidy removal is also estimated to have reduced car usage and encouraged the uptake of more sustainable travel alternatives (e.g., public transport, carpooling, etc.), leading to reductions in the negative externalities resulting from the transport sector.** In Lebanon, the total transportation-related externalities for gasoline and diesel oil in 2015 amounted to US\$1.10/liter and US\$38.10/liter, respectively, and include congestion, accidents, pollution, and greenhouse gas emissions.<sup>109</sup>

<sup>105</sup> <https://www.thefuelprice.com/Flb/en>

<sup>106</sup> The minimum wage was increased from LBP675,000 to LBP2,000,000 by virtue of Decree 9129/2022 signed by the President of the Republic on May 12th, 2022.

<sup>107</sup> See footnote 59 for specific information about the Facebook survey.

<sup>108</sup> Private taxi and Uber fares for a trip from Hazmieh to Hamra on May 20th, 2022

<sup>109</sup> MoE/UNDP (2015). Fossil Fuel Subsidies in Lebanon: Fiscal, Equity, Economic and Environmental Impacts. Beirut, Lebanon.

**157. These issues added to the country's long-term shortfalls in transport service provision and structural vulnerabilities, which include low-grade infrastructure, weak governance, and poor public financial management.** While the services provided by transport facilities and infrastructure are not an end in themselves, they

are a means to a series of wider ends and do play a vital role in facilitating the movement of goods, ensuring connectivity, and providing access to essential services (including schools, universities, hospitals, etc.) and employment for businesses and individuals, thereby contributing to human capital as well as economic development and growth.

## C. POLICY ACTIONS AND SCENARIOS TO ENSURE CONTINUITY OF SERVICE DELIVERY

**158. Port of Beirut: Nearly two years after the explosion of August 4, 2020, there is still an opportunity to “build back better” the ports system of Lebanon, and support trade and economic growth.** The reconstruction of the PoB should have four key foundation stones: (i) a new governance structure based on the landlord port model; (ii) efficient and modern Customs, border agency, and trade processes that have an essential role in addressing transparency, predictability and security issues; (iii) open and transparent bidding processes for selecting operators or concessionaires; and (iv) quality infrastructure that is contingent on a countrywide vision for the port sector and a revised masterplan for the PoB. A crucial pre-requisite to the rebuilding of PoB is the establishment of a robust institutional framework for the port sector that would restore the trust of the Lebanese society and economic operators.<sup>110</sup>

**159. Land transportation: Targeted cash transfer programs would help channel the assistance towards the most vulnerable and provide direct support to citizens to sustain their livelihoods.** Fuel subsidies are generally introduced to protect consumers from increases in oil prices; however, when non-targeted, these subsidies tend to disproportionately benefit higher-income groups as they have greater consumption trends. According to a 2015 study by the Lebanese Ministry of Environment and the United Nations Development Programme (UNDP), only 6 percent of total

transport subsidies in Lebanon are received by the poorest quartile (income level lower than US\$5,200 per year), while the richest quartile (income level higher than US\$19,200 per year) receives 55 percent of the total.

**160. Investments in public transport, as part of a National Transport Strategy, are crucial to sustainable response to the financial crisis and to the lifting of fuel subsidies.** Enhancing existing public transport and providing a reliable, affordable, accessible, efficient and viable alternative to private transport modes is all the more important today, in the context of increasing poverty rates and rising vehicle purchase and maintenance costs. This should involve creating a sound legal and institutional framework for good sector governance, addressing the informality and fragmentation of service providers, organizing the system into lines, investing in infrastructure such as stations, depots, and pedestrian access infrastructure in Beirut, supporting a bus fleet renewal scheme, and other best practices. These steps would help provide a well-organized, safe and reliable public transport system for all, particularly the most vulnerable, thereby reducing households' transport expenditures, improving transport connectivity, and enhancing access to services and employment for all. Additionally, these actions are essential to restoring trust of the private sector, which, in turn, is essential to the development in later stages of mass transit systems in the country.

<sup>110</sup> World Bank (2020). Reforming and Rebuilding Lebanon's Port Sector: Lessons from Global Best Practices.

# CHAPTER 11.

## HEALTH SECTOR

### A. PRE-CRISES HEALTH SECTOR STATUS AND OUTCOMES

**161. Lebanon registered positive trends in key health care outcomes in the last decade (2010-2019).** The country had the lowest maternal mortality ratio and infant mortality rate compared to its peers in the region. Life expectancy increased from 63.2 in 1960 to 78.9 in 2019; infant mortality ratio dropped from 56 per 1000 live births to 6 per 1000 live births. Mortality rates for infants under five have reduced from 10.3 deaths per 1,000 live births in 2010 to 7.2 in 2019.<sup>111</sup> (Figure 59 and Figure 60).

**162. Enhanced service delivery helped drive improvements in health outcomes.** The Lebanese health system offered high level of quality, efficiency and access to both hospital and primary care services. (Lebanon ranked 33 out of 195 countries in the Healthcare Access and Quality index).<sup>112</sup> Inpatient care is provided by a network of private and public hospitals, with public hospitals accounting for 18 percent of the available beds in the country.<sup>113</sup> The MoPH also oversees a national network of about 245 Primary Health Care Centers (PHCCs). Sixty-eight percent of the PHCCs belong to NGOs,<sup>114</sup> 13 percent are government PHCCs, and the rest belong to the municipalities.<sup>115</sup>

PHCCs have an average catchment population of about 25,000 inhabitants.<sup>116</sup> Under a unique model of public-private partnerships developed over the past few decades, the MoPH has been supporting the primary health care network by providing essential medicines, vaccines, and capacity-building, enabling the PHCCs to provide a comprehensive package of services. The expansion of primary health care services through this network effectively increased health care access in vulnerable communities. (PHCCs offer treatment to both Lebanese and non-Lebanese populations; with Syrian refugees accounting for at least 35 percent of the PHCC beneficiaries).

**163. Non-communicable diseases (NCDs) have become the most significant cause of mortality and morbidity.** In 2019, ischemic heart disease, stroke, lung cancer and hypertensive heart disease were the top four causes of mortality in the country. The prevalence of the main NCD risks remains high with tobacco use, high blood pressure, high body mass index, high fasting plasma glucose and dietary risks being the top 5 risks contributing to the total number of disability-adjusted life years

111 The World Bank. HealthStats. <https://datatopics.worldbank.org/health/>

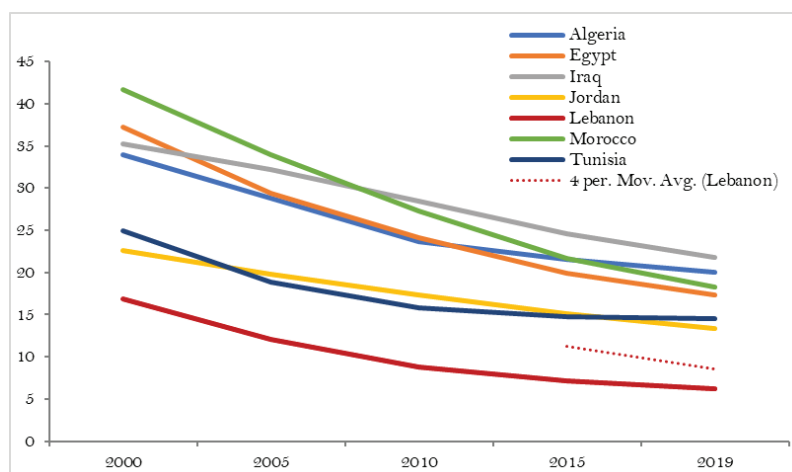
112 Fullman et al. 2018; Ibrahim & Daneshvar 2018

113 Lerberghe et al. 2018

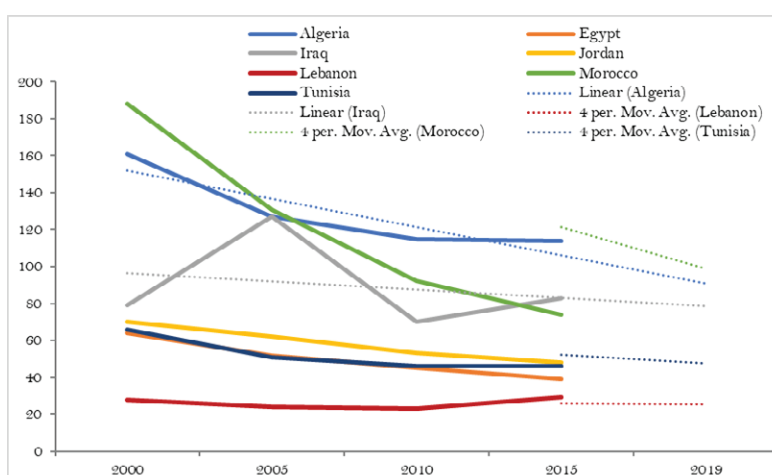
114 MoPH

115 WHO. 2017. [Primary health care systems-Case study from Lebanon](#)

116 World Bank staff calculation

**Figure 59.** Infant Mortality Rate per 1,000 Live Births

Sources: MoF and WB staff calculations.

**Figure 60.** Maternal Mortality Ratio (national estimate, per 100,000 live births)

Sources: MoF and WB staff calculations.

(DALYs) in 2019.<sup>117</sup> The burden from NCD diseases is expected to grow, as Lebanon's health system has traditionally been skewed towards curative care with less focus on preventive care services, which are more important for chronic, preventable, and costly-to-treat NCDs.

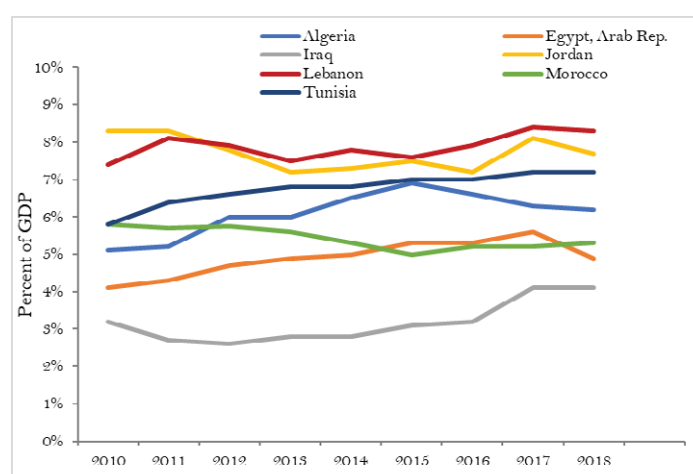
**164. Another chronic challenge for the health sector is the influx of displaced Syrians in Lebanon since 2011, which led to one of the world's highest concentrations of displaced people in any country.**

The total population of Lebanon increased by more than 38 percent between 2010 and 2019, rising

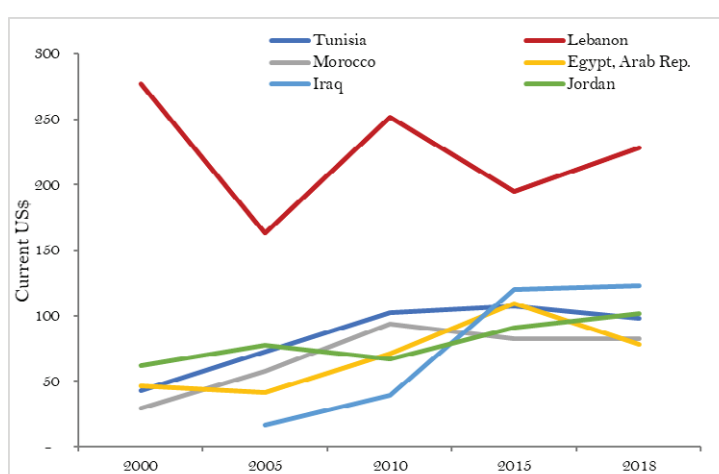
from 4.9 million to 6.6 million. As of 2020, 16.5 percent (914,648) of the registered displaced Syrian population are in Lebanon, and the GoL estimates that there are approximately half a million more unregistered displaced Syrians. The Syrian refugee influx has resulted in an unprecedented increase in demand for health services, putting considerable strain on the country's resources and public services. Poor access and utilization of maternal health services among Syrian refugees has likely contributed to an increase in Lebanon's maternal mortality ratio from 23 deaths per 100,000 live births in 2010 to 29 in 2019.<sup>118</sup> (See Figure 60).

117 <https://www.healthdata.org/lebanon>, IHME. Global Burden of Disease. Accessed on 27 Jan 2022

118 El-Kak et al. 2020

**Figure 61.** Health Expenditure (as percent GDP) Regional Comparison.

Sources: MoF and WB staff calculations.

**Figure 62.** Out-of-Pocket Expenditure per capita (current US\$).

Sources: MoF and WB staff calculations.

165. As of 2018, Lebanon spent 8.3 of its GDP on health, higher than other comparable countries in the MENA region. Health expenditures per capita increased over the last decade from US\$515 in 2009 to US\$686 in 2018, representing 6.99 percent and 8.35 percent of GDP, respectively (Figure 61). Only 55.6 percent of the population residing in Lebanon were covered by any type of health insurance. Of these, the National Social Security Fund (NSSF) covered 45.5 percent; the Army and the Internal Security Forces 20.1 percent; the United Nations High Commissioner for Refugees (UNHCR) 11.5 percent;

the Civil Servants Cooperative (CSC) 5.9 percent; respectively, while 15.3 percent were covered either through private insurance (10.5 percent) or mutual funds (4.8 percent).<sup>119</sup> The Ministry of Public Health (MoPH) acts as the insurer of last resort for hospital care for all those who lack formal coverage.

166. The health sector is skewed towards curative care, with the MoPH spending 73.3 percent of its budget on hospital care.<sup>120</sup> The MoPH subsidizes hospital costs billed by both private and public providers for the uninsured citizens: in 2019,

119 <http://www.cas.gov.lb/images/Publications/Labour%20Force%20and%20Household%20Living%20Conditions%20Survey%202018-2019.pdf>

120 MoPH Statistical Bulletin 2021

225,115 admissions were subsidized. (63 percent were treated in private hospitals, 37 percent in public hospitals). The largest number of private hospitals admissions subsidized were located in Mount Lebanon, which is also the region with the highest percentage of the poor.

**167. Pharmaceutical spending has been a disproportionately large driver of the high healthcare costs undermining the health system's ability to offer financial protection.** Pharmaceuticals accounted for 45 percent of total healthcare expenditures (US\$1.8 billion) in 2018, representing 3.5 percent of the GDP—one of the highest rates in

the region. Pharmaceuticals made up an even larger share of out-of-pocket expenditures on health, 53 percent in 2017, mainly because most of the items are either not covered by insurance or are not subsidized by the BdL. The country imported approximately 95 percent of its pharmaceutical products, while BdL subsidized the importation of medicines with a value estimated at up to US\$200 million annually, before the crisis.<sup>121</sup> This high financial burden can be attributed to many factors, notably the lack of a medicine regulatory authority, lack of national medicine policy legislation, absence of price-setting mechanism for prescription drugs and reliance on imported and branded drugs.<sup>122</sup>

## B. EFFECTS OF THE CRISES ON THE HEALTH SECTOR

**168. Three compounded crises – COVID-19, the Port of Beirut explosion, and the financial meltdown – have afflicted the health sector and its resources.**

The Beirut explosion in 2020 damaged 292 of the country's 813 health facilities valued at US\$95-115 million. As a result, access to care was significantly reduced, especially for the vulnerable.<sup>123</sup> In addition, the economic crisis has also severely affected the operations of hospitals and health care centers. The collapse of the local currency and ensuing foreign exchange (FX) shortages in the economy led to triple-digit price increases and acute shortages of important medical supplies and ancillary services, since Lebanese hospitals rely heavily on imported products. Specifically, the withdrawal of fuel subsidies led to surging cost of transportation for medical personnel as well as of power supply for hospitals. The inability of the government to continue subsidizing the imports of drugs at pre-crisis levels led to spiraling drug costs. An increase in unemployment rates has led to an increase in the number of uninsured citizens requiring government assistance to pay for health services. The overall effect has been a huge financial burden on the health

care system and a sharp decline in the availability of medicines and medical supplies.

**169. Children and vulnerable populations have suffered most, even though the full extent of the crises' harm is not yet known.** Due to the disruption in health care and the greater need for assistance, the compounded crises pose a high risk of reversing the positive trends on outcomes.<sup>124</sup> Significant reductions in coverage of routine child immunizations have been reported, with 43 and 31 percent decreases in private clinics and at the national level, respectively. Meanwhile, 30 percent of children are not receiving basic primary health care services.<sup>125</sup> Acute malnutrition cases are expected to increase; UNICEF reported that 30 percent of families had at least one child who skipped a meal or went to bed hungry. Access to clean water is also another compounding factor, with 20 percent of households reporting insufficient drinking water. Similar effects have been reported in other vulnerable populations, such as refugees, women, and the elderly.<sup>126</sup> People with NCDs faced the dual challenge of having a higher risk of contracting

121 International Trade Administration, 2021.

122 World Health Organization, 2010.

123 Ibid 92

124 Robertson et al., 2020

125 Mansour et al., 2021

126 Abouzeid et al., 2021; UNICEF, 2021

severe COVID-19 disease, and being more likely to die from COVID-19, while also having to forego preventive NCD health services. Additionally, the pandemic also exposed the huge unmet need for mental health services due to disruptions in mental health services and an increase in mental health conditions.<sup>127</sup>

**170. When the crises struck the financially fragile health care sector, the increased costs of care were largely passed on to patients, reducing access and further impoverishing families.** When COVID-19 emerged, Lebanese hospitals lacked risk management plans and were not prepared to operate under emergency conditions. Consequently, to mount a COVID-19 response, MoPH had to contract with private hospitals to establish costly COVID-19 care centers, diverting government funds away from public hospitals and PHCCs. Elective surgeries had to be put on hold.<sup>128</sup> Additionally, from 2020 to 2021 the compounded crises fueled a

73 percent increase in the number of beneficiaries for basic services in the MoPH network without a corresponding increase in funding.<sup>129</sup> Health facilities resorted increasingly to balance billing,<sup>130</sup> increasing prices, or prioritizing cash-paying patients. These coping mechanisms have increased OOP expenditures, creating financial barriers for the vulnerable population.<sup>131</sup>

**171. The crisis has led to shortages in the health workforce.** As a result of the crisis, health care workers, like their fellow residents, have suffered sharp decreases in their purchasing power, causing an exodus of skilled medical personnel; the WHO estimates at least 30–40 percent of medical doctors and nurses have left the country either permanently or temporarily.<sup>132</sup> It is likely that the crisis has also affected the primary health care workforce as PHCCs in particular, are known to face barriers in recruiting and retaining staff because most depend on NGOs rather than the government for funding.

## C. RECOMMENDATIONS

### *Short Term*

**172. Additional emergency resources can be urgently deployed across private and public health facilities (hospitals and PHCCs) to restore and preserve essential services.** Hospitals and PHCCs are overwhelmed and supporting their capacity to treat patients is critical. Immediate support to ensure continuation of services may include adoption of energy-efficient solutions like solar energy to reduce the dependence on the unreliable power grid, priority access to fuel subject to reasonable conditions, procurement of urgently needed maintenance equipment, and streamlined channels for distribution of medical supplies.

**173. The government can introduce incentives to attract and retain healthcare workers in the country.** Some measures include offering cash subsidies and non-monetary benefits to the workforce, fast-track accreditation of nursing schools, and active campus recruitment in schools to fill vacancies in health care facilities. In-kind incentives may include preferential access to training programs abroad, which can be achieved with agreements between international centers and local hospitals, and which can be facilitated by international development partners. All benefits should include requirements to practice in Lebanon a minimum number of years, under penalty of repayment of benefits previously received.

<sup>127</sup> <https://pubmed.ncbi.nlm.nih.gov/33587678/>

<sup>128</sup> Mjaess et al., 2021

<sup>129</sup> NSWG, 2022

<sup>130</sup> Balance billing is the term that describes a provider billing the patient for the difference between the provider's charges for treatment and the MoPH allowed amount. This is expected to happen in Lebanon because of the high inflation levels coupled with outdated tariffs used by the MoPH for reimbursement of healthcare services provided by contracted hospitals.

<sup>131</sup> Deeb, 2020

<sup>132</sup> [Joint statement by Dr. Tedros Adhanom Ghebreyesus, WHO Director General, and Dr. Ahmed Al Mandhari, Regional Director for the Eastern Mediterranean, On Lebanon. World Health Organization. September 2021.](#)

**174. Emergency regulations and systems can be introduced to guarantee timely and sufficient procurement of medicines.** A first step is to collect accurate information of medicine inventories at health facilities and storage centers to prioritize emergency distribution, by quickly deploying and applying rapid information tools. Alternative sources of funds such as donations and international aid should be identified. Simplified procedures to import and distribute medicines for catastrophic conditions and NCD management should be enacted. Public hospitals and PHCCs facing shortages or areas with high concentrations of vulnerable populations could be prioritized for support.

#### *Medium-Long Term*

**175. The government can initiate a reform process to rebalance the health system towards preventive and primary care.** As a first step, concerned authorities can propose for discussion a national comprehensive model of health care, which states a vision based on the principles of care applicable to all public, semi-public and private providers receiving public funds. This model, which should have preventive and primary care at its core, should also identify and delineate the technical, financial, and other resources required for scalability and sustainability of services. It should also eventually set clear paths of referral, continuity, and integration of services identifying clear financing sources and a yearly allocation from the national budget, as most current PHC services are funded by the donor community and depend on the availability of such resources.

**176. The MoPH pricing list and payment mechanisms to hospitals can be reviewed and updated to improve financial protection.** Updating the price list will help reduce balance billing practices for insured and vulnerable patients, improving the relationship between the hospitals and the MoPH, which will in turn help sustain health services delivery. Reviewing payment mechanisms will help improve efficiency and reduce costs for the MoPH thereby increasing sustainability while achieving acceptable healthcare outcomes for the population.

#### *Long Term*

**177. A strategy can be adopted to contain overall health care expenditures and improve financial sustainability of the health system, focusing on the pharmaceutical sector.** In addition to the greater emphasis on PHC services (since they are usually cost-effective), the government should consider mechanisms of prospective budgeting, centralized procurement of high-cost medicines, cost-containment strategies for drug procurement and distribution, an updated framework of management, and stakeholder oversight mechanisms. A strategy to improve local pharmaceutical manufacturing, focusing on essential medicines without patents, should also be encouraged, in coordination with the Ministry of Economy and Trade.

**178. The fragmentation of the health system can be reduced to accelerate progress towards Universal Health Coverage (UHC).** Adoption of a national model of care and unified rules for stakeholders will ensure that key populations and services do not fall through the cracks. The model should include updated regulations for the private insurance market and reduction of multi-coverage insurance, as well as strategies to improve financial protection. Such a model should prioritize the most vulnerable population, through the adoption of targeting policies based on demand subsidies and risk-sharing schemes, adopt nation-wide interventions such as resource pooling, improve benefit plans (positive or negative lists), implement a pro-poor policy of co-payments and coinsurance and establish capacity for periodic health technology assessments for procedures, medicines and devices.

**179. Investments in the health sector can prioritize the scale up of a package of essential health care services.** Preliminary estimates of the cost of a universal package, complementary to the current coverage provided by MoPH to the uninsured population, were conducted for this review (See [Box 7](#)). The projected costs of a universal essential care package are estimated to be 1.37 percent of GDP, with a growing yearly trend as population grow older. The breakdown of these costs by age group and type of service are presented in [Figure 63](#) and [Figure 64](#).

### Box 7. Estimating the Cost of an Essential Universal Health Care Package for Lebanon

This simulation was conducted estimating the cost of essential health care packages that would cover the following services: immunization, screening and diagnostic tests, follow-up tests (in case of chronic diseases), health care providers' consultations (doctors, others), pertinent counseling and health education, and medications when applicable as a complement of the coverage for inpatient service offered by the MoPH.

1. Wellness package: These packages would cover primary and secondary preventive services that should be provided to any individual depending on his/her age and gender and based on the following target groups (along the estimated per capita value):

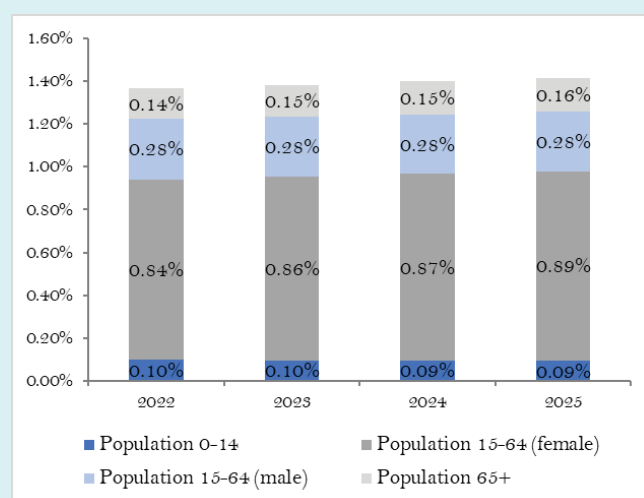
- 1.1. Wellness health package for children and adolescents (both genders) from birth till age of 18 years inclusive (Annual Premium est: \$1.37).
- 1.2. Wellness health package for adult females (aged 19-64 years) (Annual Premium est: \$0.95).
- 1.3. Wellness health package for adult males (aged 19-64 years) Annual Premium est: (\$0.69).
- 1.4. Wellness health package for elderly (aged 65+) (Annual Premium est: \$15.52).

2. Non-Communicable Disease Package: NCD health packages covering hypertension, diabetes mellitus, chronic obstructive pulmonary disease (COPD) and coronary artery disease (CAD). These packages cover secondary preventive services and ensure better control of and management of these chronic diseases to prevent future complications. The NCD package is a yearly package. estimated target population is 30 percent of individuals 15+ (Annual Premium est: \$68.16).

3. Safe Motherhood/ Maternal Health Package: This package covers antenatal services to be provided to pregnant women in addition to one postpartum visit. It is also a cross-cutting package with elements appearing under the Adult Wellness packages. These include family planning services, modern contraceptive methods, and gender-based violence screening and referral for both sexes. Target population is 4 percent of women 15+ (Annual Premium est: \$151.02).

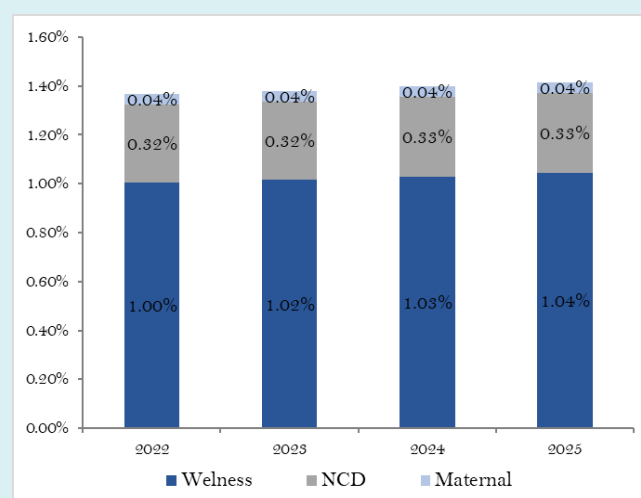
This exercise was sourced from the costing analysis conducted during the preparation of the WB Lebanon Health Resilience Project in 2019. Values have been adjusted to 2022 prices.

**Figure 63.** Cost of Universalization with Essential Package by Age Group (Percent of GDP).



Sources: MoF and WB staff calculations

**Figure 64.** Cost of Universalization with Essential Package by Service (Percent of GDP).



Sources: MoF and WB staff calculations

## CHAPTER 12.

# EDUCATION SECTOR

### A. PRE-CRISIS STRUCTURAL EDUCATION SECTOR CHALLENGES AND OUTCOMES

**180. Education in Lebanon further entrenched conditions for a hollowing of the state by being organized under a fragmented provision system and a complex financing scheme, resulting in a high prevalence of private education—subsidized, in part, through allowances to civil servant caregivers and private (family) payments.** Therefore, what is considered as “private education” in Lebanon is neither a private nor a public service, given that both fee private and free private schools are financed through both public and private funds. Overall, this can at least in part explain the disproportionately socioeconomic segregation. In 2020, around 54 percent of students in KG-12 were enrolled in private education.

**181. In Lebanon, education sector public financing<sup>133</sup> amounted to only 2 percent of GDP (2020), which is among the lowest in MENA and below international standards.** Spending has been fairly constant over the last 15 years, ranging between 2 and 3 percent of GDP and close to 10 percent of total expenditures (9.4 percent in 2020). This is below

the minimum international benchmarks for public education financing set out in the Education 2030 Incheon Declaration,<sup>134</sup> which calls for countries to provide an allocation to education of at least 4 to 6 percent of GDP and/or at least 15 to 20 percent of total public expenditures in order to achieve the Sustainable Development Goal 4 (SDG4) of inclusive and equitable quality education.

**182. Education sector financing in Lebanon is heavily reliant on donor financing, which makes up one-fourth of financing.** Overall public financing from the Ministry of Education and Higher Education (MEHE) is topped up by a further 24.3 percent through international donor funding, channeled mostly through UNICEF and World Bank.<sup>135</sup> Moreover, education allowances paid by other ministries to support civil servants to enroll their children in private schools also make up 11 to 14 percent of total education sector funding. [Table 8](#) displays the structure of financing by school network and financing source.

<sup>133</sup> Education sector spending or execution rates were not available at the time of this report. Therefore, the analysis uses budget allocated to the education sector as a proxy for education sector spending for the years 2020 onwards.

<sup>134</sup> Agreed upon at the World Education Forum 2015 in Incheon, South Korea.

<sup>135</sup> Moreover, education allowances paid by other ministries to support civil servants to enroll their children in private schools also make up 14 percent of funding.

**Table 8. Education Total Financing, By Financing Sources and School Type (LBP, Billion).**

	2017	2018	2019	2020
<b>Public Schools (Subtotal)</b>	<b>1831.5</b>	<b>2350.1</b>	<b>2301.5</b>	<b>2009.0</b>
<b>% of Total</b>	<b>79.9%</b>	<b>84.0%</b>	<b>85.2%</b>	<b>84.3%</b>
MEHE*	1592.7	1991.6	1995.2	1863.1
World Bank	68.7	73.3	91.2	25.2
UNICEF	114.3	229.1	166.5	66.5
Ministry Allowances (Public)**	55.7	56.1	48.6	44.0
<b>Private-Free Schools (Subtotal)</b>	<b>125.6</b>	<b>110.7</b>	<b>99.4</b>	<b>100.5</b>
<b>% of Total</b>	<b>5.5%</b>	<b>4.0%</b>	<b>3.7%</b>	<b>4.2%</b>
MEHE Transfers*	115.0	100.0	90.0	90.0
Ministry Allowances (Private-Free)**	10.6	10.7	9.4	8.6
<b>Private School Fees (Subtotal)</b>	<b>333.7</b>	<b>336.1</b>	<b>301.2</b>	<b>335.4</b>
<b>% of Total</b>	<b>14.6%</b>	<b>12.0%</b>	<b>11.1%</b>	<b>11.5%</b>
Ministry Allowances (Private-Fees)**	333.7	336.1	301.2	272.9
<b>Total</b>	<b>2290.8</b>	<b>2796.8</b>	<b>2702.1</b>	<b>2370.3</b>

Sources: World Bank team based on Ministry of Finance budget allocation, except: MEHE, MoF and UNICEF data. \*MEHE budget data.

\*\*Allowances for school attendance from MEHE and other Ministries (total) paid to civil servants

**183. Better education sector outcomes could be achieved, even with the current budget allocation to the Education sector.** While countries, such as Morocco, achieve similar outcomes with similar levels of financing, other countries, such as Egypt or Jordan achieve better education outcomes, as measured by standardized learning assessments, with even less per student financing. However, when looking only at public financing that goes to public schools, which accounts for 83 percent of public funding and supports 46 percent of students in Lebanon, this picture becomes even bleaker for Lebanon – relaying a much more inefficient education sector financing (see [Figure 65](#) below).

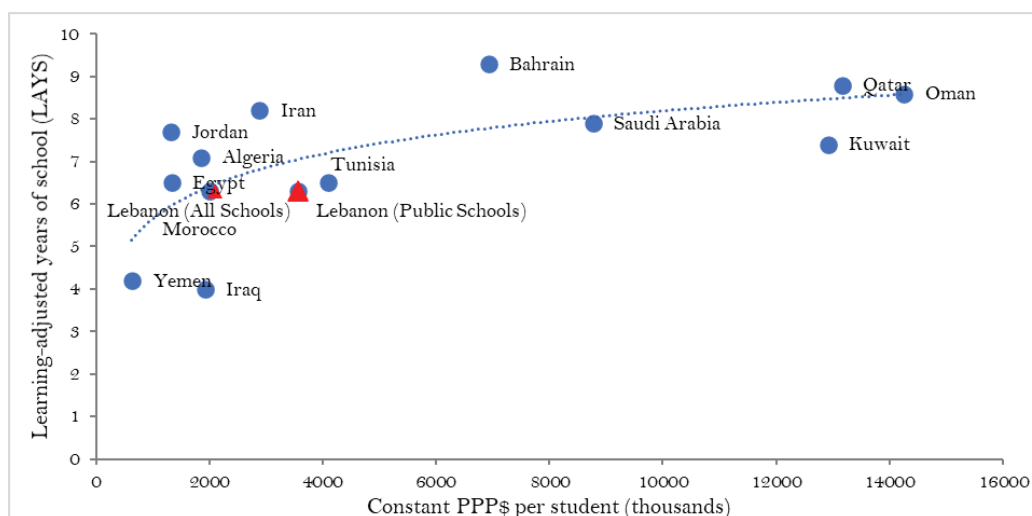
**184. Recent years (school year 2017/2018 to 2020/2021) have seen a decline in enrollment, mostly affecting lower grades, lower income groups, girls and private schools.** However, even before enrollment declined, Net Enrollment Rate in primary education decreased from 93 percent

to 89 percent between 2011 and 2018.<sup>136</sup> This dynamic affected more starkly the poorest wealth quintiles; enrollment rates in Q1- and Q2- wealth households fell from 87 to 74 percent and from 95 to 91 percent, respectively. While enrollment rates for girls are higher than for boys in both primary and secondary education, they have also dropped more than they have for boys over the 2011-18 period.<sup>137</sup> In 2018, around 60 percent of the 1.2 million students in Lebanon (KG to grade 12) were enrolled in private schools (excluding UNWRA); in 2020 this proportion decreased to 54 percent. The onset of the economic crisis in end-2019, drove many private school Lebanese students to public schools as families were no longer able to pay tuition fees at private schools.

**185. Lebanon has one of the highest repetition rates by international comparison, which not only hinders learning, but also is associated with high costs.** According to PISA 2018, 34.5 percent

<sup>136</sup> Household Budget Survey from 2011-2012 and Labor Force Survey from 2018-19.

<sup>137</sup> Gross enrollment rates have declined more for girls (decrease from 92 percent to 81 percent) compared to boys (75 percent to 73 percent) over the 2011-18 period.

**Figure 65.** Learning-Adjusted Years of School vs. Expenditure on Education per Student

Sources: WB Human Capital Project, WB EdStats database, Lebanon Ministry of Finance, CERD.

of 15-year-old students in Lebanon had repeated at least one grade<sup>138</sup>. Not only has grade repetition proven to be ineffective and inequitable in promoting learning, it also results in high costs, estimated around 83 billion LBP every year, or around 4.2 percent of the total budget of MEHE, to the country and thus high inefficiency of spending<sup>139</sup>.

**186. Learning outcomes have consistently declined over the last decade across all levels and types of school.** Lebanon's performance in international learning assessments, such as PISA and TIMSS has consistently declined over the last

decade, even before the Syrian crisis – pointing at long-running systemic issues at all levels of education. Lebanon ranked 73 out of 76 countries on the PISA 2018 reading test for 15-year-old students. While both public and private school students score below international averages, the differences in score between public and private schools is more pronounced than in other countries, pointing at large inequities in the Lebanese education system. In the poorest-performing schools, many 15-year-old students perform so low, that they can be considered functionally illiterate<sup>140</sup>.

## B. CRISIS IMPACT ON THE EDUCATION SECTOR

**187. While the education budget in 2022 increased in nominal terms, given high inflation, the real value of the projected education budget in 2022 is 26 percent less than in 2020.** Education sector financing as a share of government expenditures in nominal terms grew steadily during the period 2011-2020. However, with inflation levels reaching 84.3 percent, the education budget decreased in real terms by 45 percent between 2020 and 2021. The large increase of 180 percent in the budget in

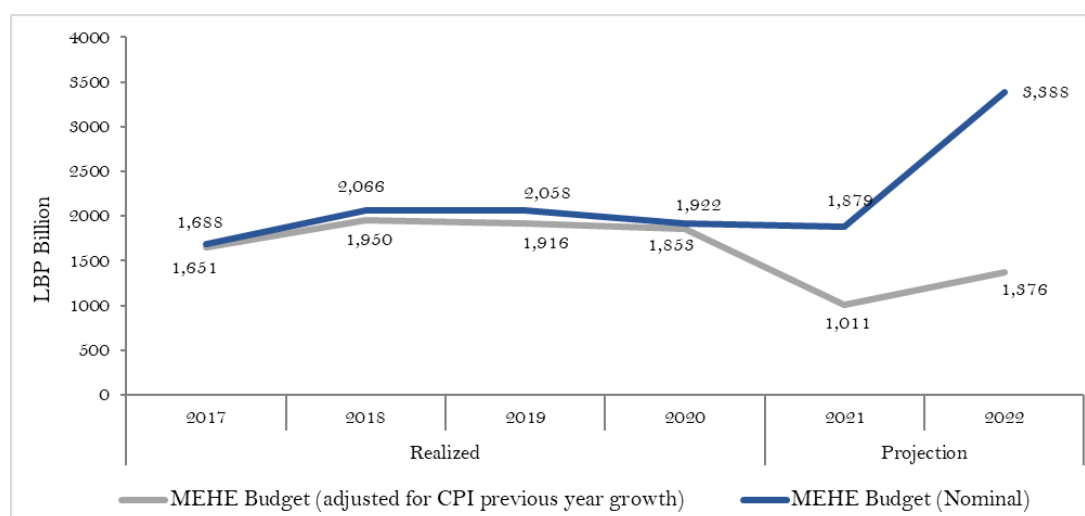
nominal terms in 2022, largely through a social assistance package, was however not able to offset large inflationary pressures, which reached 150 percent in 2021. (See Figure 66).

**188. The crisis has resulted in a dramatic drop in student enrollment in public schools, and a halt in the trend of students from private to public schools which was apparent at the onset and before the crisis.** While in previous years, the

138 OECD, PISA 2021

139 OECD 2018

140 Gajderowicz and Jakubowski. Forthcoming

**Figure 66.** MEHE Budget in Billion LBP, Nominal and Real

Sources: WB team based on MEHE data and WB (2021b).

drop in private school enrollment was somehow offset by increases in public enrollment, the latest transition numbers only point to around 3 percent of students transitioning. More worryingly, newest data of student enrollment in public schools, show a decrease between 2020/2021 and 2021/2022 of around 66,600 students. This is a 12 percent decrease in public school enrollment in only one school year. This drop is affecting Lebanese and Non-Lebanese students alike<sup>141</sup>. The full picture might even be more dire when private sector enrollment numbers are officially released.

**189. A sharp reduction in the number of private schools is fueled by the crisis, with school closures foreshadowing an alarming trend.** Around 198 private schools (5 percent of all private schools) closed between 2018 and 2021, comprising mostly KGs, primary and middle schools, while there is only a small increase in public schools (38 schools), mostly in middle and secondary school. The closures affected around 27,000 KG students (12 percent) and 8,000 (1 percent) primary education students<sup>142</sup>.

**190. The crisis puts a strain on day-to-day school functioning and education continuity.** The 2022

budget includes a large social assistance package for teachers that effectively increased nominal wages by 163 percent. However, this does not offset inflationary pressures. Teachers have lost around 42 percent of their purchasing power compared to 2020 (see Figure 67), while around 10,000 teachers (10 percent) left the profession since 2018<sup>143</sup>. This is in stark contrast to largely increased commodity and transportation (gas), which put a strain on the daily functioning of schools, as well as school's personnel purchasing power and, specifically, ability to pay for transportation to school.

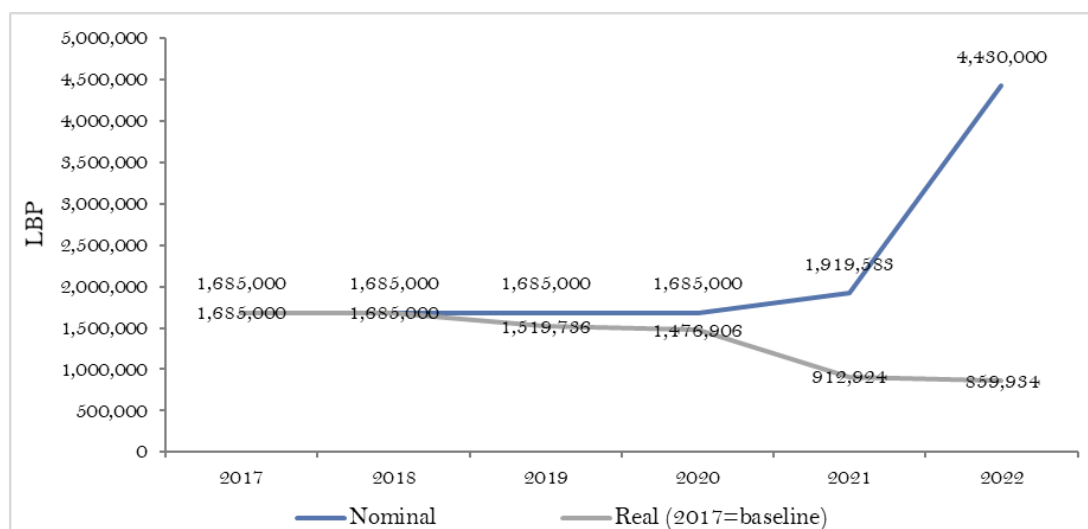
**191. Learning outcomes have further deteriorated during the recent crisis, with less than 10 percent of students in Grades 2 and 3 reading above basic proficiency level.** This is due to inadequate and inequitable provision of distant learning provisions, exacerbated by infrastructure impediments, and limited in-school resources to recover learning loss (catch up classes, etc.). Data from the Early Grade Reading Assessment (EGRA) for Lebanon shows that the share of grade 2 students reading at least at an intermediate level or above almost halved between 2018 (16 percent of students) and 2021 (9 percent of students).<sup>144</sup>

141 MEHE 2022

142 CERD Statistical Bulletin

143 CERD 2021

144 USAID 2021

**Figure 67.** Teacher Compensation in Real and Nominal Terms (Civil Servants and Contract Teachers)

Sources: MEHE and WB staff calculations.

### Box 8. Higher Education Financing and the Lebanese University

Lebanon has one public university – the Lebanese University (LU) – which enrolls around 36 percent of tertiary students. In 2020 enrolment in the Lebanese University has for the first time in years dropped, although marginally, possibly foreshadowing a dropout trend among families from poor backgrounds.

Higher Education financing is highly skewed, and input driven. Government funding is the primary source of funding, and most budget allocations

are devoted to salaries. Approximately 20 percent of the MEHE budget is allocated to the Lebanese University through transfers. Despite triple-digit inflation rates, budget allocations to the Lebanese University have been stable in MEHE budget. Funding of the Lebanese University is heavily reliant on Government (approximately 94 percent of its own financing in 2020). This makes the institution more susceptible to future fiscal and economic challenges. Financing at LU is input-based (per student based), instead of results/output based.

## C. RECOMMENDATIONS

**192. The education sector is facing unprecedented challenges and changes, which will necessitate a new set up of education service provision.** Financing of the sector must fundamentally adapt to ensure more adequate, efficient and equitable education for all children in Lebanon. The following chart presents preliminary recommendations. These recommendations are structured as firstly,

short term responses to address immediate needs and ensure education service delivery continuation given the worsening socioeconomic crisis. As well as secondly, medium to long term reforms needed to align education sector financing with the GoL's focus on providing a more sustainable and equitable education system for all children in Lebanon.

## Recommendations to Realign Education Sector Financing with Learning

Short-term response to address the crisis and avoid another lost year of learning	Other measures to prepare for medium- and long-term reforms
<p><b>Short term response must include a focus on school reopening &amp; learning continuation:</b></p> <ul style="list-style-type: none"> <li>• Continue performance-based teacher incentives next school year to counteract further teacher departure and reduced purchasing power. This needs to include ensuring their presence and delivery of lessons at school.</li> <li>• Ramp up support to schools for continued operations, including electricity and heating costs, school supplies, as well as learning materials for students at all levels</li> <li>• Provide catch-up and remedial interventions to counteract drop in enrolment and learning losses</li> <li>• Lastly, provide safety net programs for extremely poor students (in coordination with relevant other ministries), especially to upper secondary students and students at high risk of school dropout.</li> </ul> <p><b>Higher Education financing should focus on:</b></p> <ul style="list-style-type: none"> <li>• Revisit the budget allocation to LU in light of very high inflation rates.</li> <li>• Ensure that university premises are well maintained and operational in order for students to go back to in-person learning.</li> <li>• Provide emergency measures to support the basic running of the university and ensuring the return to in-person learning)</li> </ul>	<p><b>Realigning education sector financing to outcomes, taking into account changes in the education sector set up, while ensuring equitable access to education:</b></p> <ul style="list-style-type: none"> <li>• Shift from input-based to programmatic budgeting and adapt the per student funding formula to the changed set up of the education sector, taking into account higher enrollment in public schools; creating a funding formula for both first and second shift students, teacher allocation and school size, among other factors.</li> <li>• Relatedly, develop a framework for better teacher deployment based on the changing education sector needs</li> <li>• Consider eliminations of inefficient and inequitable education sector practices such as grade repetition.</li> <li>• Create a joint accountability framework for public funds spent in public, free-private and private education, and establish transparent criteria for student selection into free-private schools.</li> <li>• Re-evaluate and consider elimination of the subsidy to civil servants for private schooling. These savings could be used to improve the quality of both public schools and low-cost private schools.</li> <li>• Focus additional resources on lowest performing schools to close the stark equity gaps in the education system</li> </ul> <p><b>Strengthen education financing governance:</b></p> <ul style="list-style-type: none"> <li>• Strengthen system governance by creating a single database (SIMS) with a unique student ID and unique teacher ID to ensure reliable and transparent data entry, analysis, reporting and decision making.</li> <li>• This improved SIMS should be used for more refined analysis of basic indicators such as Student/Teacher Ratios, drop out and transition rates</li> </ul> <p><b>Higher Education financing should focus on:</b></p> <ul style="list-style-type: none"> <li>• Seek means to diversify the revenue sources for the LU and move out of the exclusive reliance on government financing, including changing the law 75/67 and law 6/70 and giving financial autonomy to the institution.</li> <li>• Develop a strategy for the LU to support improved institutional governance and a shift from input-based financing to performance-based financing. Establish a quality assurance and accountability mechanism for performance-based financing.</li> <li>• Align financing with national priorities, including economic development and labor market demands.</li> </ul>

## CHAPTER 13.

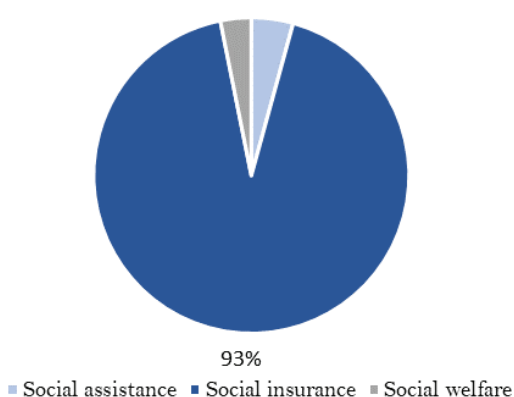
# SOCIAL PROTECTION

### A. THE STATE OF SOCIAL PROTECTION PROGRAMS IN LEBANON

**193. Government spending on social protection is high relative to countries in the region, but primarily benefits the non-poor.** In 2019, the Government of Lebanon spent 6 percent of its GDP<sup>145</sup> on social protection programs.<sup>146</sup> This is higher than the average social protection (SP) spending for Arab countries at 4.6 percent (ILO database). However, the bulk of Lebanon's social protection spending—93 percent in 2019—has been on social

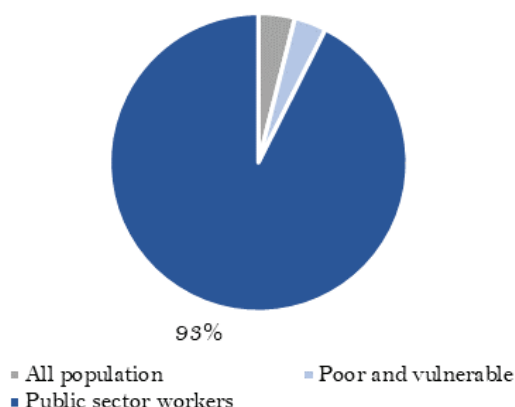
insurance compared to only 4 percent on social assistance (Figure 68). When considering spending based on beneficiary groups, only 3 percent of all SP spending was targeted to the poor and vulnerable compared to 93 percent spent on formal workers in the public sector (Figure 69). This demonstrates that despite having a relatively high budget, social protection in Lebanon is highly regressive, and has little effect on poverty.

**Figure 68.** Distribution of SP Spending by Pillars, 2019.



Source: WB staff calculations.

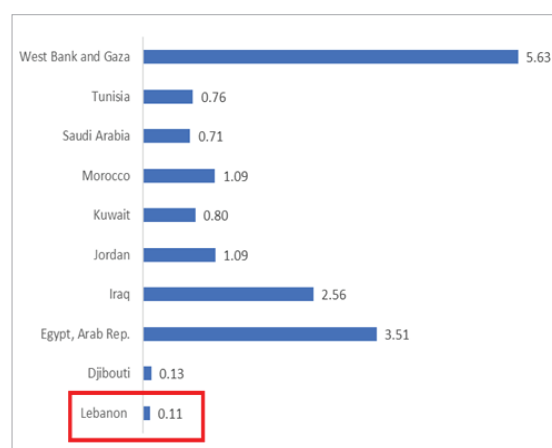
**Figure 69.** Distribution of SP Spending by Beneficiary Group, 2019.



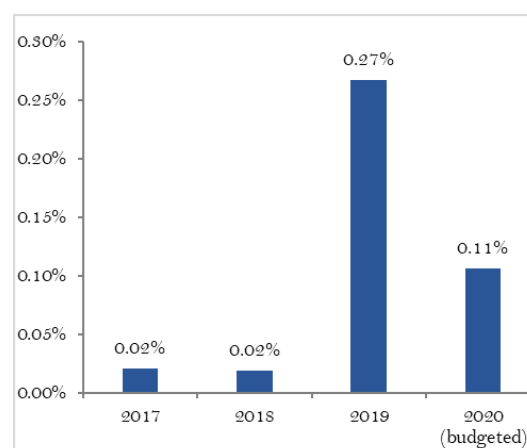
Source: WB staff calculations.

<sup>145</sup> GDP is at current market prices, in LBP. GDP data has been taken from the World Development Indicators.

<sup>146</sup> This includes social protection programs that are classified under the Social Protection function (Function 10) in the budget. For more details on the programs included, see: <http://www.institutdesfinances.gov.lb/publication/social-protection-spending-in-lebanon-a-dive-into-the-state-financing-of-social-protection/>

**Figure 70.** SSN Spending in MENA, as a % of GDP.

Source: ASPIRE Database and WB staff calculations.

**Figure 71.** SSN spending in Lebanon as a % of GDP.

Source: WB staff calculations.

**194. Current spending on social safety nets (SSN) does not meet the needs of the poor and vulnerable.** The Government of Lebanon budgeted to spend 0.11 percent of GDP on social assistance<sup>147</sup> in 2020 and had spent a mere 0.02 percent of GDP on social assistance in 2017 and 2018 (Figure 70 and Figure 71).<sup>148</sup> These figures are significantly lower than the average for the MENA region at 1 percent, as well as the global average at 1.54 percent.<sup>149</sup> In comparison, the government budgeted to spend 1 percent of GDP in 2020 on regressive fuel subsidies, as transfers to EdL. The universal fuel subsidy disproportionately benefits the wealthy. Only 13 percent of social assistance spending was targeted to the poor and the vulnerable in 2020, while 87 percent was generalized. Meanwhile, up until 2021/22, spending on poverty targeted assistance remained consistently low with limited coverage of the Lebanese population.<sup>150</sup>

**195. Weak social protection information systems hinder the government's ability to respond to crises.** An adaptive social protection system (ASP) is key to a government's ability to respond to crisis and support the poor and vulnerable to prepare for, cope with, and adapt to shocks. Two critical elements of

an ASP system are a social registry with substantial coverage and the underlying infrastructure that can enable vertical and horizontal expansion of safety net programs as needed (Bowen et al. 2020). In Lebanon, until the implementation of the ESSN, there was no social registry, or information on current household needs and welfare. As a result, implementation of social assistance programs face multiple inefficiencies and may not reach those most in need. The pandemic has highlighted the critical need to invest in a foundational, integrated social protection information system for Lebanon that serves as a gateway for people seeking social assistance. Such a system would reduce transaction costs and increase access for citizens, produce cost-savings and efficiency of user programs (by reducing duplication), and serve as a powerful platform to coordinate social policy

**196. Social insurance represents the highest share of SP expenditures in Lebanon (around 85 percent of total spending on SP in 2019).** Pensions alone absorbed around 3 percent of GDP in 2020,<sup>151</sup> despite its only benefiting around 2 percent of the population.<sup>152</sup> Even though pensions spending in the military scheme decreased from LBP2.4 trillion

147 This does not include the Emergency Crisis and COVID-19 Response Social Safety Net (ESSN) program

148 The sharp increase in the 2019 figure to 0.27 percent indicates a one-off increase in subsidized housing loan scheme.

149 World Bank 2018

150 The NPT, currently the main SSN program in Lebanon, covers only 1.5 percent of the Lebanese population

151 Per the Spring 2021 estimations, NGDP for 2020 is LBP 118,677 billion, and total pension spending was LBP 3.2 trillion.

152 In 2020 only 120,730 people (old-age and survivor pensioners) received some type of regular pension out of a total population of 6,825,445.

Table 9. Civil and Military Pension Schemes (2019 2020)

	Civil Servants Pension Scheme		Military Pension Scheme	
	2019	2020	2019	2020
<b>Number of beneficiaries</b>				
Old age	25,556.0	26,667.0	59,347.0	59,464.0
Survivors	9,911.0	10,040.0	24,330.0	24,559.0
<b>Average regular annual pension (basic+)</b>				
For old age	31.2	32.7	23.2	24.3
For survivors	18.2	20.1	19.5	13.2
<b>Total pension spending (LBP million)</b>	1,066,082.0	1,114,175.5	2,496,577.7	2,129,331.8
<b>Total regular pension spending</b>	977,182.2	1,074,754.0	1,496,018.4	1,575,814.7
Regular basic pensions	943,771.1	1,039,997.9	1,413,041.9	1,494,907.3
Regular allowances	33,411.0	34,756.0	82,976.5	80,907.4
Regular compensations	100.1	89.3	192,337.9	199,527.2
Lump sum payments	88,799.7	39,332.2	808,221.4	353,989.8

in 2019 to LBP2.1 trillion in 2020<sup>153</sup> (Table 9), after a short period, total pensions spending (for both military and civil service scheme) is projected to keep increasing from around 3 percent to more than 5 percent of GDP, unless reforms are implemented.

**197. The pension system in Lebanon covers only public sector and military employees, less than 10 percent of the active population.** System dependency ratios (beneficiaries—including old age, and survivors—divided by contributors) are expected to considerably increase.<sup>154</sup> On the other hand, private sector employees contribute to a separate system and are, at retirement, eligible only for a lump sum benefit. Lebanon is the only country in the MENA region without a legislated regular lifetime pension insurance for private sector employees. Coverage within the private sector does not exceed 20 percent of the employed.

**198. Pensions in payment in Lebanon are not protected and increases are arbitrary results of political decisions or negotiations.** Sporadic provisions of “high cost-of-living” allowances are not the right mechanisms to protect pensions, and they represent high uncertainty for both pensioners,

and projected Government spending. The policies followed so far have meant that the real value of pensions in payment has followed a ‘roller-coaster’ ride: declining slowly in the absence of pay increases and then jumping suddenly. There has been a highly unpredictable path for the pensions’ purchasing power. Without regular adjustments, the purchasing power of pensions for many retirees has been eroded and the living standards of many of them (particularly from the civil service scheme) have considerably decreased.

**199. Eligibility to survivor benefits is wide and their generosity high.** First, there is a large range of people eligible for these payments, in addition to spouses. This includes single, widowed or divorced daughters (regardless of age), students up to the age of 25, parents and single sisters. This range of beneficiaries greatly extends the duration for which benefits are paid to multiple decades. Such entitlements are common in the MENA region, but in Europe and North America benefits are almost wholly limited to surviving spouses. Pensions paid to spouses of working age tend to be limited (in value, duration or both). Account is also usually taken of the value of the surviving spouses own

<sup>153</sup> Early retirement is frozen until the end of July 2022, and some payments have been delayed.

<sup>154</sup> System dependency ratio in the military scheme is expected to worsen substantially. The number of beneficiaries in the civil service will grow for the next decade and saturate thereafter. The number of contributors prior to Covid-19 crisis was assumed to grow steadily over the period. As a result of the crisis the system dependency ratio's peak may be prolonged for several years. The picture for the military service is one of continual and rapid growth in the number of beneficiaries, expected to reach 100,000 in 2024. The system dependency ratio for the military is forecasted to grow so rapidly. In 2028 beneficiaries would outnumber contributors.

pension entitlement. Furthermore, in Lebanon, the survivor's pension is worth 100 percent of the deceased's entitlement. This is significantly higher than the norm in Europe (for example, of 50-70 percent) and is set at that level to disincentivize female labor participation as little as possible.

**200. Most of the old age population in Lebanon need to rely on family and/or other types of informal care or state transfers.** Benefit coverage of the elderly population is indeed very low. Fast demographic change in Lebanon, resulting from decreasing of fertility rates, longer life expectancies, and high emigration of the working age population,

impose a serious challenge of the country as an aging society, particularly considering that only a few benefit from pensions. Elderly in Lebanon (60+) comprise more than 14.6 percent of the total resident population,<sup>155</sup> but their share is projected to grow to more than 17 percent by 2030, and 32 percent by 2060. However, only 9.5 percent of households with elderly rely on revenues from retirement as a source of income. Furthermore, there are no specific social assistance or pension instruments, such as social pensions, to support older adults with sufficient income. Reliance on family ties and other informal support is not sustainable for the elderly in the long run.

## B. THE IMPACT OF THE CRISES ON SOCIAL PROTECTION

**201. Poverty and vulnerability have increased significantly, with severe implications for Lebanon's human capital.** Poverty was already increasing before the crisis, from 25.6 percent in 2012 to 37 percent in 2019. Tentative projections from the World Bank suggest that well over 50 percent of the population is likely to be under the national poverty line in 2020.<sup>156</sup> The 2019 Multidimensional Poverty Index (MPI)<sup>157</sup> for Lebanon reveals that 53.1 percent of the residents in Lebanon are multi-dimensionally poor, with the highest incidence among children, ages 0-4 years, at 66.8 percent. Average annual inflation ballooned to 85 percent in 2020, while average food inflation alone grew by a record 250 percent during 2019 (see Figure 72). From January 2021 to January 2022, the average year-over-year (yoy) inflation rate reached 157 percent with a corresponding food inflation rate of 328 percent. Since the removal of FX subsidies, yoy food inflation has increased sharply, reaching 483 percent in January 2022. This has dire consequences on the poor as food consumption forms a larger proportion of household expenses

of poorer households. Phone surveys conducted by the World Food Program (WFP) in May and July 2021 found that 46 percent of households reported challenges in accessing food and other basic needs. The unemployment rate also rose among the respondents, from 32 percent in January 2021 to 43 percent in the March-April period (World Food Programme, 2021). The pandemic has further heightened the vulnerability of the poor whose living, working and health conditions places them at greater risk compared to wealthier segments of the population.

**202. Issues around coverage and adequacy of transfers limit the poverty impact of social safety net spending.** Until 2019, the National Poverty Targeting Mechanism (NPTM) was the only SSN program in Lebanon that is targeted to the poor but covered only 1.5 percent of the Lebanese population with cash assistance. The program is being expanded with the Emergency Crisis and COVID-19 Response Social Safety Net (ESSN) and coverage is expected to increase to 27 percent as the

155 Central Administration of Statistics, International Labour Organization and the European Union, Labour Force and Household Living Conditions Survey 2018-2019 (LFHLCs), Lebanon, preliminary results.

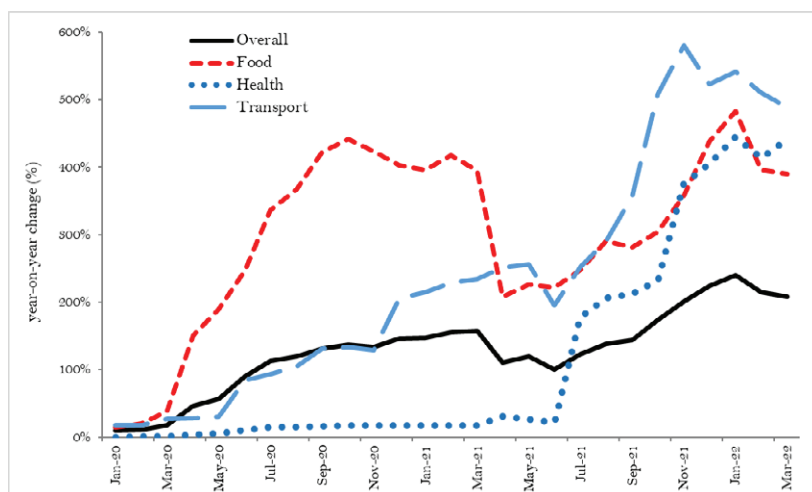
156 World Bank, 2021

157 The Central Administration for Statistics (CAS) together with the World Bank has developed the first official multidimensional poverty index for Lebanon using the nationally representative 2018-2019 Labor Force and Housing Living Conditions Survey. The index is derived from 19 indicators across five dimensions which are education, health, financial security/well-being, basic infrastructure and living standards. See forthcoming "Lebanon Multidimensional Poverty Index 2019", CAS and World Bank, March 2022.

ESSN is rolled-out. While this will be a substantial improvement on the coverage of SSNs in Lebanon, it will not reach the high numbers of households that have gone into poverty during the crisis. Poverty is estimated to have increased to over 50 percent in 2020, indicating a significant number of new poor

who need support to meet their basic needs. At the same time, the adequacy of transfers are severely affected by the high inflation facing the country. In this case, the real value of existing cash transfers has decreased rapidly, and with it their ability to adequately support the poor.

**Figure 72.** Lebanon Year on Year Monthly Inflation Rate from Jan 2020 – March 2022.



Sources: CAS and WB staff calculations.

## C. THE WAY FORWARD

### *Social Safety Nets*

**203. Three critical areas of reform are required to maximize the impact of SSN spending in Lebanon.** First, it is imperative that spending on progressive SSNs, targeted to the poor and vulnerable, is increased. Second, developing a robust social protection information system (SPIS) for Lebanon is necessary, both to effectively implement SSNs during the ongoing crises, as well as build resilience for the future. Third, implementing subsidy reforms to move away from generalized subsidies to poverty targeted cash transfers is critical for maximizing poverty impact while ensuring fiscal sustainability. These recommendations are discussed in more detail in the following paragraphs.

**204. Increase government spending on progressive SSNs.** Given the scale of the crisis and its impact on household welfare, further expansions of coverage

may be necessary to support the poor. This should be in the range of 1.5-2.7 percent of GDP (compared to pre-crisis level of 0.11 percent). In addition, the adequacy of SSN transfer values should be considered in light of high inflation. Global evidence suggests that coverage, in combination with benefit size and adequacy, is very often related to the impact of SSNs.<sup>158</sup> Fiscal sustainability of financing safety net programs is also critical. This can be achieved through a combination of approaches. In the short term, savings from the subsidy reform can be reallocated towards SSNs. Similar measures have been successfully implemented in Jordan recently, where a bread subsidy compensation was discontinued in 2021 while Takaful, the country's main poverty targeted cash transfer program, was scaled up. In the medium term, tax reforms that increase revenue through progressive taxation can sustainably finance government spending on social protection.

<sup>158</sup> World Bank 2018.

**205. Strengthen Lebanon's social protection infrastructure through a social protection information system (SPIS).** The current crisis has highlighted the need for strong underlying social protection infrastructure that enables governments to expand support to households to cope with shocks. There are significant gaps in Lebanon's current SP system, including the lack of a comprehensive social registry (that relies on a unique identification number for each citizen), weak IT infrastructure, and capacity issues. In order to increase the efficiency of current SSN programs and to prepare for future crisis, the government needs to invest in a robust and adaptive SP delivery system, such as the SPIS.

**206. Implement subsidy reform to transition from generalized subsidies to poverty targeted cash transfers.** The foreign currency subsidy scheme was distortionary, expensive (costing an estimated US\$287 million per month), and regressive. The depleting foreign currency reserve rendered its termination inevitable. The government introduced a complementary cash transfer program (BCCT) to support households. These are important first steps of subsidy reform and should be part of a comprehensive and consistent macroeconomic stabilization plan addressing all subsidy scheme. The coverage of BCCT should be phased out over a defined time period, excluding a greater percentage of the wealthy in each phase, until coverage is in line with a sustainable, government financed SSN program as the current crisis lessens.<sup>159</sup>

#### *Social Insurance and Pensions*

**207. Some recommendations to correct some of the structural and fundamental problems of the public pension system in the medium and long-term should be urgently considered given that the current system benefits only a few people but represents a large and growing financial burden on the national finances and so on the country's taxpayers.** In line with international best practices, the pension system in Lebanon would require a considerable

number of reform measures. Given the current crisis, it is advisable, however, to apply such pension reform measures in a gradual manner (to reduce promises into the medium and long term) and use the pension indexation measure to increase fairness among different beneficiaries mostly because of the multiplier effect<sup>160</sup> (and reduce expenditures into the near future). Promises should indeed be different for forthcoming and younger generations in public sector schemes in order to guarantee future sustainability. Also, as almost 30 percent of beneficiaries are survivors (not old age pensioners), some measures could tackle future benefits for survivors, particularly women. Today many of them are young, mostly receiving benefits from the military scheme instead of being in the labor market. Finally, a more holistic approach to protect people in old age, and other relevant aspects of population aging in Lebanon, could make the necessary pension system reform measures less painful and more acceptable if presented all together as a national strategy. The 2019 pension reform package would not reverse the long-term outlook. A more decisive package may provide a step further. Setting a goal of a "National Pension System" serving as many Lebanese as possible would increase public support and ease reform implementation for the Government. The following points could be considered:

- a. Specific recommended reform measures of the public pension system include:
  - **Abolishing the multiplier into the future.** Military employees could be rewarded during their active years, instead of using the multiplier at retirement.
  - **Abolishing the lump sum payments (above regular payments) for civil servants and military.** Although it is estimated that a relatively small share of new retirees opts for lumpsum payout instead of life-time pension, such option raises poverty risk for the insured individual and his/her dependents. Lumpsum

<sup>159</sup> World Bank, 2020

<sup>160</sup> Some beneficiaries of the military service and their dependents benefit disproportionately much more than the beneficiaries of the civil service scheme, mostly because of the effect of the multiplier. The military 'multiplier' increases the actual years of contributions (of an individual retiring from the military) into a higher, fictional number of years of contributions. The multiplier varies over time, depending on official summary of the scale of the security threat. It is a minimum of 1.5 and a maximum of 3.0.

payments in public pension systems fulfilling lifetime social protection objectives should not be allowed.

- **Widen progressively the calculation period for both military and civil servants (raise to 4 last years of service, then adding 1 year of service in the calculation every year).** Last wage rule is unfair and has been abandoned in most pension systems in the world. The best international practice is widening the calculation period to full career. In many countries, calculation periods for military are still set lower than the general rule but have been gradually widening towards general pension systems.<sup>161</sup>
- **Reforming survivorship pensions by moving from 100 percent to 94 percent share, and changing some of qualifying conditions as well (for instance the required time of marriage, etc.).** The survivor's pension (100 percent of the deceased's entitlement) is significantly higher than the norm. In Europe, for example, it is set at 50-70 percent, to disincentivization of female labor participation is minimized. The large range of people eligible for these payments, in addition to spouses, extends the duration for which benefits can be paid to multiple decades.
- **Ensure an automatic/regular (annual) pensions indexation to inflation.** Without regular adjustment, the purchasing power of benefits is eroded and living standards of retirees may fall behind the rest of the population. Ad hoc indexation of pensions in Lebanon have brought uncertainty to pensioners for many years. One of key pension parameters assuring stable income replacement and poverty prevention is pension indexation, particularly adjustment of pensions to reflect the dynamics of consumer price changes. Given the fact that the multiplier has created a huge inequity among pensioners from the military (and their dependents) and from the civil service, it

would be recommended that for the next few years the highest pension benefits of old-age beneficiaries from the military scheme and their dependents not to be indexed (increased).

b. Broader, system-wide recommendations include:

- **A broad reform package for the military that would include active labor-market policies to help the move into civilian life and moving toward a lower, transition benefit for the period from leaving military service to the normal pension age for the civil service of age 64.**
- **Opportunities for older adults to engage in more economic, volunteer and education activities.** Older adults in Lebanon are already relatively active in the labor force, largely driven by economic need. The latest labor force survey reveals that 9.8 percent of the working population are aged 60+ (4.7 percent are aged 64+). Their productive potential should be maintained and encouraged, not only in the short-term recovery requirements but also as a tool to mitigate long run demographic risk of a fast-aging country like Lebanon.
- **Implement financial and governance reforms in NSSF to implement a new Pensions Law that would provide a regular pension.** Current draft Private Pensions Law (PPL) in Lebanon envisages a shift from End of Service Indemnity lump sum payment at retirement towards a fully-fledged lifetime pension/annuity. Draft PPL will introduce a new formula for the pension benefit and shift the ultimate liability for its payment onto public finances. The Lebanese state will become responsible for social insurance and social security of its elderly citizens, which puts a strong requirement on proper management and supervision of the Pension Reserve Fund (PRF) in the long run. With NDC formula, Lebanese PRF would have a feature of a reserve fund with a role to partially or fully prefund pension expenditures.

<sup>161</sup> In 19 EU countries military pension parameters, including the calculation period, have been converging towards general pension parameters.

# FUTURE WORK

In the process of completing the PFR, the team encountered numerous knowledge gaps that have been either outstanding for a long time or made obvious and important by recent financial and economic conditions. The PFR adjusted for that by making assumptions and estimations, which have been clearly explained in the report, in order to comprehensively analyze public finance in Lebanon. The following are knowledge gaps that are key for identifying more targeted public finance reform measures:

- 1. Revenue Mobilization.** GoL would need to streamline tax administration based on a progressive revenue generating mechanism. Prior to the crisis, Lebanon's revenue generation was regressive in nature, and tax collection challenging. Over half of budget revenues were generated from taxes on goods and services (largely consisting of the Value Added Tax), taxes on international trade (customs, as well as excises on gasoline, cars and tobacco) and administrative fees and charges applied on various governmental services offered to the public. Meanwhile, direct taxation, property taxes and revenues from public institutions and government properties accounted for a bit over 40 percent of budget revenues. The country ranked low on the Doing Business indicator on Paying Taxes—113 out of 180 economies globally in 2017.
- 2. Capital Investment Program.** Infrastructural deficiencies have been and continue to be a principal inhibitor of growth. As such, a well thought out capital investment plan remains a pillar of Lebanon's growth perspective. In April 2018, GoL presented to donors at the CEDRE

conference in Paris its Capital Investment Plan (CIP). At the same conference, the Bank presented a Strategic Assessment of the CIP, which at the time generally found that the choice of sectors in the GoL CIP was appropriate, and that many of the listed projects were relevant. Critically, the Bank Assessment highlighted horizontal and vertical reforms, including the reduction of the fiscal impact, were essential to enable the CIP and make the projects sustainable and attractive to investors. However, in light of the financial and economic crisis, and the diminishing resources available to both the public and private sectors, a re-assessment of a Lebanon CIP is in order.

- 3. Public Entities and State-Owned Enterprises (PE-SOEs).** The PFR highlighted both inefficient spending as well as forgone revenues from the most fiscally critical PE-SOEs. Reform of these organizations is a significant factor in the recovery process. An important caveat would be to avoid restructuring/using PE-SOEs for the purpose of resolving balance sheet losses in the financial sector. This will constitute a flagrant bailout of—and a transfer from taxpayers to—financial sector shareholders. It is important to also add that this will not regain neither solvency nor liquidity of the financial sector; it will merely make shareholders (as individuals) once again owners of profitable assets. Analyses based on a more transparent access to information and data remains needed for Lebanon's PE-SOEs.

We stress that the above assessments must be consistent with, and a derivative of, a growth vision for Lebanon, one which remains outstanding. In fact, a new growth model for Lebanon should be the basis of the country's recovery prospects.

# ANNEX

## A. TAXATION - LEGAL REFERENCES

208. Legally, taxes can only be amended through budget laws. However, other amendments were ratified through separate laws or decisions/decrees. Also, with no budget laws between years 2006 and 2016, the tax amendments were cross checked in budget laws of years 1991-2005 and 2017-2019. The articles are mainly an update on the initial laws of income tax and built property tax. The income tax decrease of year 1994 mentioned in [paragraph C](#) can be found in law 282/1993 published in the Gazette in year 1994. The tax increase of year 1999 ([paragraph 16\(b\)](#)) is found in the budget law of that

year and is ratified through amendments of the legislative decree 144/1959.

209. The VAT ([paragraph 16\(c\)](#)) was introduced through a separate law 379/2001. The 2017 taxes increase ([paragraph 16\(d\)](#)) was ratified through law 64/2017 and not through the budget. This law included amendments of the original VAT law number 379, the income tax law, as well as update of other decrees and laws that specified fines or increased fees for various activities and products (public domain occupation, airport transit, tobacco, etc.)

## B. DONATIONS

210. Donations between years 1992 and 2000 were systematically collected. Note the increase of size and number of donations in year 2000.

Year	Type	Value (LBP)	Sender	Receiver in Lebanon	Decree #	Note
1992	-	-	-	-	-	none
1993	\$	LBP 1,889,320,000	Japanese Fund at the World Bank	BdL on behalf of treasury	4559	Education and Irrigation purposes
1993	\$	LBP 1,720,000,000	Qatar	BdL on behalf of treasury	4301	
1993	\$	LBP 8,652,500,000	UAE	BdL on behalf of treasury	2851	
1994	\$	LBP 42,900,000,000	Kuwait	no specific mention	4603	الهيئة العليا للأغذية
1995	\$	LBP 322,600,000	Japanese Fund at the World Bank	Council of Ministers	7301	Administrative Reform
1996	Inkind	-	Syrian Ministry of Agriculture	Ministry of Agriculture	9667	نصوب حرجية وتزينة عدد مليون
1996	Inkind	-	Korean Embassy	Ministry of Foreign Affairs	9488	سبعة عشر وحدة كمبيوتر مع طابعة
1996	Inkind	-	Lions Clubs International	Dahr el Bacheq Governmental Hospital	9491	السيارة ماركة هونداي مجهزة بألات طبية
1996	Inkind	-	no mention	Council of Ministers	9349	سيارات سياحية عدد 5
1996	Inkind	-	H.M.D. Ireland	Ministry of Public Health	9357	سيارة تويوتا لاندكروزر مجهزة بالمعدات الطبية اللازمة تستخدم كميادة نقالة
1996	Inkind	-	U.S. Government	Lebanese Government	9334	سنة وعشرين جهازا لتطوير المعلومات مع لوازمها
1996	Inkind	-	المجموعة الاقتصادية الأوروبية	CDR	9283	ست سيارات
1996	Inkind	-	مؤسسة الخضري في المملكة العربية السعودية	To be distributed to municipalities	9005	سيارة هيروليك لنقل النفايات عدد 13
1996	Inkind	-	European Union	Ministry of the Displaced	8992	التجهيزات والمعدات الزراعية
1996	Inkind	-	المنظمة العلمية للجمارك	Customs	8838	جهاز كمبيوتر وبرامج لمكافحة التهريب
1996	Inkind	-	لرهبانية المخلصية	ISF	8748	ثمانمئة مترا مربعا من العقار غير المسموح الذي تملكه الرهبانية المعنية على مدخل قرية جون - قضاء الشوف لتشييد مخفر
1996	Inkind	-	المكتب الكويتي للتنمية الاقتصادية نقابة مستوردي المواد الغذائية ومن شركة طيارة للتجارة والصناعة	Ministry of Public Health	8695	معدات وتجهيزات طبية لإنشاء مراكز صحية ومشتفيات
1996	\$	LBP 166,950,000	شركة طكو اشقر	no specific mention	8671	بغية إعادة تأهيل قسم من مبنى الجمارك في مرفأ بيروت
1996	Inkind	-	شركة طكو اشقر	Ministry of Finance	8562	خمس آلات واسمة للطوايح المالية
1996	Inkind	-	الجمعية الألمانية للتعاون	Ministry of Public Health	8370	معدات طبية
1996	\$	LBP 219,721,000	ابناء الجالية اللبنانية ومن اصدقاء لبنان في فرنسا	Lebanese Embassy in Paris	8187	وزارة الدفاع الوطني - لصالح اولاد شهداء الجيش
1996	\$	LBP 159,700,000	المؤسسة اللبنانية للتجارة الدولية لوريكو	المديرية العامة للحبوب والشمندر السكري	7984	اعادة تأهيل المستودعات في البقاع والشمال وشراء اجهزة ومعدات للادارة المركزية والمستودعات
1997	Inkind	-	Japanese Government	Ministry of Culture and Ministry of Education	11407	عدلات وآلات سمعية بصرية (آلات تصوير ومونتاج وانارة وصوت) لاعادة تأهيل وتجهيز مديرية شؤون السينما والمسرح والمعارض
1997	\$	LBP 398,840,000	World Bank	Ministry of Municipalities and Rural Affairs	11158	يكلف مصرف لبنان بقبضها حسب الخزينة
1997	Inkind	-	Syria	Lebanon	11098	مائة وخمسين ألف طن اسمت لمساعدة اهلي الجنوب والباق الغربي على اعادة بناء مساكنهم المهتمة
1997	\$	LBP 462,000,000	UNDP	CAS	10570	
1997	Inkind	-	اللجنة الطبية الدولية في فرنسا	Ministry of Public Health	10915	لزام 140 غرفة مستشفى تشمل اسرة - فرش - طاولات - كراسي ومعدات طبية موضوعة في ست حاويات بوزن اجمالي يبلغ حوالي خمسين طنا
1997	Inkind	-	الامانة العامة للانتربول - ليون	ISF DG	10883	منظم كهربائي قوة 220V - 2 KVA
1997	Inkind	-	مكتب العمل الولي	المركز الوطني للتدريب المهني التابع لوزارة العمل	10916	تجهيزات ومعدات
1997	Inkind	-	MEA	Ministry of Education	10624	معدات وقطع مستعملة منفاة لاستعمالها في قسم ميكانيك الطائرات في مدرسة يتر حسن الفنية العلمية.
1997	Inkind	-	no mention	Ministry of Agriculture	10525	سيارات عدد 4
1997	Inkind	-	ACSAD	Ministry of Agriculture	10464	عجلة زيتون عدد 50000
1997	Inkind	-	وكالة انباء الصين الجديدة "شينخوا"	الوكالة الوطنية للاعلام	9886	جهاز النقط لارسال الوكالة الصينية مع متسماته التقنية
1997	Inkind	-	Syrian Ministry of Agriculture	Ministry of Agriculture	10198	نصبة زيتون عدد 30000 ونصبة من الاشجار المثمرة المختلفة عدد 150000
1997	Inkind	-	World Vision International	Faculty of Medicine - LU & AUB	10473	كتب طبية
1998	Inkind	-	NBJ AIDE AUX Minorites	Qana Governmental Hospital	11719	معدات وتجهيزات واوات طبية
1998	Inkind	-	حسن عبد ضاهر وشهادة مصود حسين ضاهر	Ministry of Public Health	11755	العقارين رقم 502 و 321 - قضاء جبيل، ويسجلان على اسم النولة اللبنانية ووزارة الصحة العامة وينشأ مركز صحي عليهما. تنفع على اربع دفعات بقيمة 50000/ دولار اميركي كل دفعة وذلك بناء طبقتين اضافيتين على مبنى وزارة الشؤون البلدية والقروية
1998	\$	LBP 304,200,000	شركة فاريا- المزار للسيلحة والرياضة الشتوية	Ministry of Municipalities and Rural Affairs	12404	

1998	\$	LBP	304,200,001	UNDP	المديرية العامة للنقل البري والبحري	12818	تغطية نفقات شراء وتركيب رافعة على رصيف ميناء مدينة صور لزوم صنادي الاسماك
1998	Inkind	-		no mention	صلح وزارة المالية (مديرية الشؤون العقارية - مصلحة المساحة)	12926	مفروشات وتجهيزات مكتبية
1998	\$	LBP	227,100,000	no mention	وزارة النولة لشؤون الإصلاح الاناري	12924	لدعم وحدة التطوير الاناري
1998	\$	LBP	42,000,000	منظمة مدثور التابعة للمجموعة الأوروبية والبلغة ثلاثون الف اكو ECU الأوروبية	يكلف مصرف لبنان بقضها لصلب الخزينة	12943	اعتماد لوزارة السياحة
1998	Inkind	-		الصندوق الكويتي للتنمية الاقتصادية العربية	Ministry of Public Health	18	معدات وتجهيزات طبية لإنشاء مراكز صحية ومستشفيات
1998	\$	LBP	58,320,000	Government of Argentina	يكلف مصرف لبنان بقضها لصلب الخزينة	13334	لتحويل مشاريع اقتصادية واجتماعية في منطقتي الجنوب والبقاع
1999	Inkind	-		Syrian Ministry of Agriculture	Ministry of Agriculture	305	غرسه حرجية مثمرة عدد 1300000
1999	\$	LBP	40,000,000	شركة خضر قليل الصناعية ش.م.م	Ministry of Education	905	
1999	\$	LBP	527,800,000	صندوق ياباني خاص لتنمية الموارد البشرية بواسطة البنك الدولي للإنشاء والتعمير	CDR	930	لمشروع "التنمية السياحية والتراث الثقافي الحضاري"
1999	\$	LBP	603,200,000	صندوق ياباني خاص لتنمية الموارد البشرية بواسطة البنك الدولي للإنشاء والتعمير	CDR	930	لمشروع "التنمية السياحية والتراث الثقافي الحضاري"
1999	Inkind	-		Korean Government	معهد دير عمل الفني الرسمي	1026	معدات وتجهيزات تقنية
1999	\$	LBP	754,000,000	World Bank	رئاسة مجلس الوزراء	1052	Administrative Reform
1999	\$	LBP	557,250,000	European Union	Ministry of Environment	1095	لتنفيذ مشروع إنشاء مرصد لبناني للبيئة والتنمية
1999	Inkind	-		بريتش اميركلن توباكو Régie des tabacs et tobacs		1127	مكابس وتجهيزات كبرياتة لمعمل فرز التبوغ في الغازية
1999	\$	LBP	3,085,545,000	UNDP + Dutch Government + Arab Gulf Fund	CDR	1233	لتغطية برنامج اجتماعي - اقتصادي لجنوب لبنان
1999	\$	LBP	39,960,000,000	للمجموعة الأوروبية	CDR	1232	لتحويل مشروع التخطيط الاستثماري
1999	\$	LBP	140,244,000	World Bank	رئاسة مجلس الوزراء	1288	Administrative Reform
1999	Inkind	LBP	167,200,000	الوكالة السويدية الدولية للتنمية ASDI	رئاسة مجلس الوزراء (مجلس الانماء والاعمال)	1475	دراسة يقوم بها الاستشاري السويدي SWEDCO حول جنوب استخراج الغاز المولد من النفايات وتأمين مكتب برج حمود التعاون الثقافي لتحضير مشاريع مشتركة بين لبنان والماتيا ولدعم الخطوات المتخذة في اعادة اعمار لبنان
1999	\$	LBP	645,200,000	German Government	رئاسة مجلس الوزراء (مجلس الانماء والاعمال)	1528	Administrative Reform
1999	\$	LBP	59,850,000,000	المجموعة الأوروبية	رئاسة مجلس الوزراء	1584	معونة فنية للمساهمة في تمويل برنامج تحسين المستوى الأكاديمي للجامعة اللبنانية
1999	Inkind	LBP	742,500,000	Arab Fund for Economic and Social Development	رئاسة مجلس الوزراء (مجلس الانماء والاعمال)	1630	محمول "PORTATIF" مخصص لتقنين النقل النوعي للحبوب
1999	Inkind	-		شركة "الي" للاروية	Ministry of Defense + Ministry of Public Health	1631	Meds 5000 packs
1999	Inkind	-		شركة مطاحن التاج - لبنان	المديرية العامة للحبوب والاشمندر السكري	1810	لدراسة تأمين المختبر الوطني لمراقبة النواء عشر الات كتبية كهربائية نوع اولمبيا مع عشرة انابيب حبر - خمس الات تصوير مستندات
1999	\$	LBP	597,525,000	الوكالة السويدية الدولية للتنمية ASDI	CDR	1811	لتحويل دراسة اعادة تشغيل خط سكة حديد جونية - الجية
1999	Inkind	-		البوليس الجنائي الالماني	ISF DG	1910	كمساعدة في تحضير الخطة الامتامية الخمسية في اطار عقد الخدمات الامتالية الموقع مع الاستشاري "ACE/Monitor"
1999	\$	LBP	941,870,000	US Trade and Development Agency	Ministry of Transport	1934	مشروع ادارة النفايات السامة مشروع تقوية نظام الاثر البيئي
1999	\$	LBP	262,500,000	UNDP	CDR	2002	سيركلن صحيتين
2000	\$	LBP	271,350,000	Italian Government	Ministry of Environment	4211	مفروشات وتجهيزات مكتبية
2000	\$	LBP	150,750,000	Swiss Government	Ministry of Environment	4211	لإنشاء مركز بيروت لصناعة وبحوث التكنولوجيا الجديدة
2000	Inkind	-		no mention	رئاسة الجمهورية	4210	تمويل مشروع الدراسة حول احصاءات الاستثمار الاجنبي
2000	Inkind	LBP	450,020,000	شركة خضر قليل الصناعية	المديرية العامة للتعليم المهني والتقني	4133	الميلتر في القطاعات الاقتصادية
2000	\$	LBP	340,936,000	US Trade and Development Agency	المؤسسة العامة لتشجيع الاستثمارات	4134	هياكل اصدة حديدية في حدود مبلغ خمسين الف ريال سعودي
2000	\$	\$	66,367	World Bank	Ministry of Industry	4247	اجهزة كومبيوتر مع متماتها بالاضافة الى برامج وطولات وكراسي
2000	Inkind	-		شركة الباطين السعودية EDL		4249	لتجديد الدعم المؤسسي لمكتب الاوزون
2000	Inkind	-		British Embassy	ISF DG	4250	
2000	\$	\$	119,300	اللجنة التنفيذية للصندوق المتعدد الاطراف لبروتوكول مونتريال	Ministry of Environment	4279	

2000	Inkind	-	شركة "تريكوب"	Ministry of Information	4283	صحون لاقطة واجهزة لمراقبة البث الفضائي
2000	Inkind	-	برنامج الامم المتحدة للشعالات السكنية	Ministry of Public Health	4287	ثلاث سيارات
2000	Inkind	LBP 395,255,000	شركة بيارون انتر براين	Ministry of Education	4285	كمية من التجهيزات والمعدات التدريبية للمدارس
2000	\$	LBP 114,286,000	Ministry of Information in Kuwait	no specific mention	4276	-
2000	Inkind	-	هبة مقسمة من ملكي العقار رقم 587 منطقة رأس بيروت	Ministry of Public Works	4274	تغطية كافة تكاليف الدراسة والتنفيذ والاشراف لتشييد مبنى منارة رأس بيروت
2000	\$	¥ 5,000,000.00	Government of China	no specific mention	4289	لاستخدامها في مشاريع الاصل في جنوب لبنان او توريد سلع عامة
2000	\$	LBP 120,000,000	شركتي "ام الرب العقارية ش . م ل ودرجعة العقارية ش . م ل"	Lebanese Government	4284	تمويل قيمة الصور القضائية للمنطقة المحررة
2000	Inkind	\$ 4,900	شركة "افراسكو" الاميركية مكتب المجموعة الأوروبية للخدمات الإنسانية	وزارة الداخلية والبلديات - مديرية الدفاع المدني	4280	قاذف مياه من صنع اميركي يستعمل في مكافحة الحرائق الكبيرة بقيمة 4800/د.ا. مع غلوتين من المسائل الرغوي الذي يستخدم في حرائق الاحراج وقيمتها 160/د.ا.
2000	Inkind	-	ELI-LILLY-SUISSE-E	Baalbek Governmental Hospital	4288	معدات طبية
2000	Inkind	-	شركة "افراسكو" الاميركية مكتب المجموعة الأوروبية للخدمات الإنسانية	Ministry of Public Health	4286	
2000	Inkind	-	U.S. Embassy in Lebanon	ISF DG	4275	سعة اجهزة لكشف العملة المزورة Money-Scanner من طراز MS-22S (عدد اربعة) و MS-450 (عدد خمسة)
2000	Inkind	-	UAE	Ministry of Defense	4517	معدات عسكرية لصالح قيادة الجيش - لواء الحرس الجمهورية
2000	Inkind	-	اللجنة التنفيذية للصندوق المتعدد الأطراف لبروتوكول مونتريال	Ministry of Environment	4557	هي معدات , وتدريب وتطوير انتاج , ومساعدات مالية بقيمة 401.629/د.ا. وذلك من اجل تطوير المعدات الموجودة في المصانع بهدف استبدال مواد ال CFC-11 و CFC-12 بمواد صديقة للأوزون والبيئة.
2000	\$	LBP 63,250,000,000	المجموعة الأوروبية	رئاسة مجلس الوزراء (مجلس الانماء والاعمل)	4585	Administrative Reform
2000	Inkind	-	MEDSTAT	CAS	4587	جهاز معلوماتية مع توابعه وبرامجه
2000	Inkind	LBP 15,075,000,000	Canada Post	no specific mention	3898	post boxes for all buildings higher than 3 floors
2000	Inkind	-	اصحاب المقارين رقم 3650 و 2230 من منطقة المصيطبة العقارية	ISF DG	3923	
2000	Inkind	-	Korea	Ministry of Economy	4016	PCs and Printers
2000	Inkind	-	WHO	Marjaayoun Government Hospital	4017	Ambulance
2000	Inkind	-	اللجنة الشعبية العامة بالجمهورية العربية الليبية الشعبية الاشتراكية العظمى	Lebanon	4208	خمسة آلاف طن من مادة السولار (مازوت)
2000	Inkind	LBP 2,977,500	no mention	Ministry of Information	4132	AC
2000	Inkind	\$ 500,000	USAID	Ministry of Economy	3270	الف دولار اميركي لسنة اشهر وذلك من اجل التحضير لعملية انضمام لبنان الى منظمة التجارة العالمية
2000	Inkind	-	المسيد نظامي اوجي	Ministry of Health	3271	ثلاث سيارات اسعاف كليلة التجهيز اميركية الصنع من طراز فورد 350 . على ان يتم استبدالها من اجل دعم صمود الشعب اللبناني ازاء الاعتداءات الاسرائيلية.
2000	Inkind	\$ 25,000	مطاحن التاج	Ministry of Economy	3322	المندرية العامة للحبوب والشمندر السكري من اجل ترميم الانهيارات الحاصلة حول الاعصدة وصب الارضية واحد الجدران الخارجية للمستودع بباطون مسلح
2000	Inkind	\$ 10,000,000	Iraq	Lebanon	3332	Fuel
2000	Inkind	-	French Government	Saksakieh Governmental Hospital	3333	ثمانية وعشرين صندوقاً وست بالات بوزن اجمالي قدرة ثمانية واربعه وتسعون/894/ كلغ.
2000	Inkind	-	Bassoul & Hneineh	ISF DG	3340	Bus
2000	Inkind	-	اللجنة التنفيذية للصندوق المتعدد الأطراف لبروتوكول مونتريال	Ministry of Environment	3392	معدات للمصانع
2000	Inkind	\$ 4,421	WHO	LU Faculty of Public Health	3391	تجهيزات
2000	Inkind	6,826,900 Francs	المؤسسة الوطنية للتراث	وزارة الثقافة والتعليم العالي (المتحف الوطني)	3433	ACs & Vitrines
2000	Inkind	-	المنظمة العالمية للملكية الفكرية (ويو)	Ministry of Economy	3464	IT Systems
2000	Inkind	LBP 472,235,000	a group of individual contractors	Ministry of Education	3524	tables and chairs for schools

2000	Inkind	-	شركة ELI-LILLY-SUISSE-E	Ministry of Public Health	3535	Meds
2000	Inkind	-	Animal Life	Ministry of Agriculture	3601	معدات لدراسة وأنظمة تشغيل ومن خبراء لإنشاء مركز وطني
2000	Inkind	\$ 130,000	US Government - USTAD	no specific mention	3481	لنظم المعلومات الجغرافية (GIS)
2000	Inkind	\$ 150,000	بنك عودة -- المياني - - شركة ادارات - U.D.V	Ministry of Tourism & Ministry of Information	3672	اشغال ترميم وتأهيل واجهات مبنى وزارتي السياحة والاعلام
2000	Inkind	-	جمعية عدل ورحمة	ISF DG - Roumieh Prison	3707	Meds
2000	Inkind	-	المغترب اللبناني السيد خوان الخوري انطون	Lebanese Army	3706	كمية من البرادات والملابس صنع جمهورية الاكوادور
2000	Inkind	-	جمعية "اصداق التعليم الرسمي" في بعقلين	Ministry of Education	3708	Parcel number 2085 in Baaqline
2000	Inkind	-	بتصرف اللجنة الوزارية المكلفة بلقوف	على حاجات القرى المحررة	3705	1000 tons cement
2000	Inkind	-	شركة التراب الوطنية	المحل الاكبر لمنطقة الشرق الاوسط	3734	تجهيزات طبية واوعية من ضمنها نسبة خمسين بلمائة 50% لصالح المديرية العامة لرئاسة الجمهورية.
2000	Inkind	-	فرسان مالمط	"Lebanese People"	3734	خمس آلات غسل كلي مع المعدات والتجهيزات التابعة لها مواد والبليت لزوم تنفيذ اشغال بناء مدينة الاسد الرياضية في بلدة انصار- الجنوب.
2000	Inkind	-	المركز الصحي الحكومي في المنية - طرابلس	مجلس الجنوب	2091	شبكة ري لزوم مشتل الديبة
2000	Inkind	-	الشركة العامة للبناء السورية	Ministry of Agriculture	2150	لوحة فنية مائية ترائية من مجموعه "لبنان المدى 200 والضوء" لتعلق في السفارات والقنصليات اللبنانية في الخارج وفي مكاتب رئاسة مجلس الوزراء والمقر الخاص لمجلس الوزراء
2000	Inkind	-	Monaco	Ministry of Agriculture	2150	نصوب حرجية ومثيرة بكمية مليون ونصف مليون غرسة سيارة
2000	Inkind	-	Syrian Ministry of Agriculture	Ministry of Agriculture	2288	جهاز MODEM يستعمل لزيادة خطوط الاتصال بين لبنان والشركة المذكورة
2000	Inkind	-	German Government	Ministry of Education	2292	جهاز DCMEDTX 240F
2000	Inkind	-	شركة تلغوب الكندية	وزارة البريد والمواصلات السلكية واللاسلكية	2293	حاسوب مركزي وتوايحه وأنظمة مكننة معلوماتية وتوايحه
2000	Inkind	-	شركة تكوم الايطالية	وزارة البريد والمواصلات السلكية واللاسلكية	2293	محطة أرضية
2000	Inkind	\$ 58,000	WHO	المديرية العامة للأحوال الشخصية في وزارة الداخلية	2353	حافضة كتب وعدد من المعالج اللغوية المهمة
2000	Inkind	-	Nile Sat	وزارة البريد والمواصلات السلكية واللاسلكية	2484	موسوعات
2000	Inkind	\$ 540	German Government	LU Faculty of Humanities	2541	تشبيد معهد مهني تقني يبنيه على العقار رقم 2710/ من منطقة الدامور العنارية.
2000	Inkind	-	French Government	Ministry of Justice	2542	أجهزة تصوير وتلفزيون
2000	Inkind	-	السيد سلطان بن علي العويس	Ministry of Education	2598	مخصصة لمستشفى جزيين الحكومي وهي آلة تخدير وانعاش لزوم غرفة العمليات الجراحية.
2000	Inkind	\$ 1,715	WHO	LU Faculty of Public Health	2679	ambulance
2000	Inkind	-	ضباط الارتباط الامتاعي في قبرص	ISF DG	2788	4 cars
2000	Inkind	-	MSF	Ministry of Public Health	2797	خشرين الف بطاقة صحية تعريفية مغلطة.
2000	Inkind	-	المغترب السيد مصطفى حسين نصر	Baalbeck Governmental Hospital	2831	ثلاثة أجهزة كمبيوتر
2000	Inkind	-	UNDP	ISF DG	2807	مواد لوجستية.
2000	Inkind	-	مجموعة الاطباء المتحدون في المملكة العربية السعودية	Ministry of Public Health	2830	حجر اثري يعود الى الفترة الرومانية
2000	Inkind	-	الوكالة اليونانية للاتباء	الوكالة الوطنية للاعلام	2877	المعدات التي يحتاجها طلاب قسم تأهيل المعاقين في تدر ياتهم.
2000	Inkind	-	UAE	المديرية العامة لرئاسة الجمهورية (الحرس الجمهوري)	2876	trucks
2000	Inkind	-	السيد حافظ عبد الملك	DGA	2978	تجهيز مختبر لزيت الزيتون ولتدريب العاملين فيه
2000	Inkind	-	مؤسسة HANDICAP INTERNATIONAL	LU Faculty of Public Health	2994	
2000	Inkind	-	French Embassy in Beirut	ISF DG	3070	
2000	Inkind	-	Spanish Government	معهد البحوث الصناعية	3069	

211. Donations specific to reconstruction in years 2006 and 2007 are compiled below:

Type	Value	Sender	Receiver in Lebanon	Decree
Reconstruction related donations after 2006 war				
Inkind	ل.ل. 400,000,000	مؤسسة الأمير الوليد بن طلال الإنسانية	Lebanese Army	17494
Inkind	-	شركة الخليج للصناعات الدوائية - جلفار	Lebanese Army	17493
Inkind	ل.ل. 34,500,000	شركة يونيفارم ش.م.ل.	Lebanese Army	17619
Inkind	ل.ل. 327,000,000	Kuwait	Lebanese Army	17618
\$	452,250,000,000	Qatar	BdL Account	17882
\$	452,250,000,000	Kuwait	BdL Account	17882
\$	753,750,000,000	KSA	BdL Account	17882
Inkind	\$ 26,000	A.D.S Company	Lebanese Army	17812
\$	105,525,000,000	World Bank	Lebanese Government	17972
\$	د.ك. 3,000,000	الصندوق العربي للإنماء الاقتصادي والاجتماعي	no specific mention	17967
Inkind	د.ك. 2,000,000	قيادة العامة للقوات المسلحة الأردنية	Lebanese Army	18036
\$	ل.ل. 1,545,187,000	World Bank	Lebanese Government	18034
\$	\$ 2,155,000	MTC	Ministry of Communication	18085
Inkind	ل.ل. 1,165,000,000	السيد علي جميل حجازي	Lebanese Army	18122
Inkind	ل.ل. 19,920,000	السيد علي جميل حجازي	Lebanese Army	18123
Inkind	\$ 100,000	نادي روتاري - دبي	Lebanese Army	18124
Inkind	\$ 14,400	المنظمة الإنكليزية العربية	Lebanese Army	18126
Inkind	\$ 500,000	China	Lebanese Army	18121
Reconstruction related donations after Nahr el Bared events 2007				
\$	€ 30,000,000	Italy	CDR	Decision #50
\$	\$ 20,000,000	Turkish Government	CDR	Decision #27
\$	¥ 10,000,000	China	no specific mention	862
Inkind	-	China	Ministry of Telecom	1055
Inkind	\$ 8,282,000	UAE	Lebanese Army	1050
Inkind	ل.ل. 24,270,000	شركة سوكلين وأفران شمسين	Lebanese Army	1028
Inkind	-	Free Patriotic Movement	Lebanese Army	1027
Inkind	-	KSA	Lebanese Army	1026
Inkind	\$ 6,250	UNACO	Lebanese Army	981
Inkind	\$ 10,500	شركة BWS	Lebanese Army	970
Inkind	\$ 350,000	وديع العبيسي	Lebanese Army	969
Inkind	\$ 315,000	Italian Army	Lebanese Army	968
Inkind	ل.ل. 10,950,000	شركة «جلفار»	Lebanese Army	691
Inkind	ل.ل. 50,000,000	Pfizer	Lebanese Army	709
Inkind	-	جمعية فرسان مالطا اللبنانية	Lebanese Army	757
Inkind	-	Malia Holding	Lebanese Army	756
Inkind	\$ 31,580,000	Unipharm	Lebanese Army	833
Inkind	\$ 3,798,000	no mention	Lebanese Army	832
Inkind	\$ 7,500	Bio Diamond	Lebanese Army	831
Inkind	-	نبيل خالد المصبول	Lebanese Army	830
Inkind	ل.ل. 27,087,000	الشركة المصرية اللبنانية للتجارة المساهمة ش.م.ل. «بيبيسي كولا»	Lebanese Army	829
Inkind	ل.ل. 26,800,000	شركة «مرساكو»	Lebanese Army	828
Inkind	ل.ل. 67,120,000	شركة مايل ش.م.ل.	Lebanese Army	827
Inkind	\$ 20,000	السيد فرج نجيب ياسين	Lebanese Army	826
Inkind	-	France	Lebanese Army	825
Inkind	\$ 7,000	مصنع أحمد محمد سليمان الديرياني وأخوانه	Lebanese Army	824
Inkind	\$ 262,500	UAE	Lebanese Army	823
\$	\$ 30,000,000	البنك الدولي للإنشاء والتعمير	Ministry of Finance	Decision #118
Inkind	-	Iran	no specific mention	527
Inkind	ل.ل. 227,279,000	جمعية المساعدات الشعبية النرويجية (NPA)	Lebanese Army	550
Inkind	\$ 61,685,000	شركة «كوديفا»	Lebanese Army	555
Inkind	\$ 25,000,000	UAE	Lebanese Army	551
Inkind	\$ 9,000	France	Lebanese Army	546
Inkind	ل.ل. 19,000,000	شركة «أوميفارما»	Lebanese Army	544
Inkind	\$ 38,000	الوكالة السويسرية للتعاون والتنمية (SDC)	Lebanese Army	536
Inkind	-	خادم الحرمين الشريفين	Lebanese Army	566
Inkind	\$ 1,500,000	Germany	Lebanese Army	564
Inkind	\$ 100,000	وديع العبيسي	Lebanese Army	563
Inkind	-	France	CDR / Ministry of Environment	Decision #80
Inkind	\$ 45,080,000	France	Lebanese Army	604
\$	€ 10,000,000	المجموعة الأوروبية	CDR / GoL	615
Inkind	\$ 11,700	شركة "SANOFI AVENTIS"	Lebanese Army	613
Inkind	\$ 62,124	شركة POWER GROUP	Lebanese Army	703
Inkind	\$ 10,000	شركة رساملي يونس	Lebanese Army	699
\$	€ 5,000,000	Germany	Relevant Ministries	27
Inkind	€ 10,000,000	المجموعة الأوروبية	CDR / GoL	Decision #6

## C. SETTLEMENTS AND WAIVERS

212. Waivers take many forms and are applied to taxes, fines and/or fees. They can be settlements, exemptions, exceptions, or discounts. All budget laws include such articles. The most prominent is the article 11 of the law 64/2017, amended by law 132 in year 2019. The article proposed a multi-bracket formula and options to pay in installments to fine illegal occupation of the public maritime domain.

213. Another noteworthy waiver is article 60 of decree 2537/1992 that exempts Solidere from notary and registration fees as well as income tax for ten years.

## D. DATA

**Table 10. Selected Economic Indicators for Scenario ScB.**

	2013	2014	2015	2016	2017	2018	2019 Est.	2020	2021	2022
								Proj.		
<b>Real sector</b>	(annual percentage change, unless otherwise specified)									
Real GDP	3.8	2.5	0.6	1.6	0.8	-1.7	-7.2	-21.4	-10.5	-6.5
Real GDP per Capita <sup>1</sup>	-2.8	-3.2	-3.6	-1.1	-0.7	-2.2	-7.2	-21.8	-11.0	-7.0
Agriculture (share of GDP)	3.9	4.4	3.8	4.0	4.5	4.4	5.0	6.0	6.0	6.4
Industry (share of GDP)	14.2	13.4	12.7	12.8	12.3	12.0	10.7	12.8	12.8	13.7
Services (share of GDP)	70.9	71.3	71.9	71.6	71.6	72.2	74.1	76.9	79.0	77.5
Net indirect taxes (share of GDP)	11.0	10.9	11.6	11.7	11.6	11.4	10.3	4.3	2.2	2.4
<b>Money and prices</b>										
CPI Inflation (p.a)	2.7	1.2	-3.7	-0.8	4.5	6.1	2.9	84.3	150.0	120.0
Money <sup>2</sup>	9.0	6.0	5.1	7.3	4.2	3.0	-6.7	198.0	109.0	75.0
<b>Investment &amp; saving</b>	(percent of GDP, unless otherwise specified)									
Gross Capital Formation	27.6	24.9	22.2	22.6	21.3	20.7	12.3	7.7	5.0	16.0
o/w private	25.8	23.4	20.8	21.2	19.8	19.0	11.0	7.4	4.9	15.5
Gross National Savings	2.1	-1.3	5.1	2.2	-1.5	-3.5	-9.6	-1.6	-13.1	3.2
o/w private	-1.8	-3.9	1.0	-1.0	-4.8	-5.3	-10.5	1.4	-12.3	4.4
<b>Central Government Finance</b>	(percent of GDP, unless otherwise specified)									
Revenue (including grants)	20.1	22.6	19.1	19.3	21.8	20.9	20.7	13.1	6.3	6.6
o/w tax revenues	14.3	14.3	13.7	13.7	15.4	15.3	15.5	9.0	4.7	5.3
Total expenditure and net lending	29.0	28.9	26.8	28.5	28.5	31.8	31.2	16.4	7.3	8.2
Current	27.3	27.3	25.5	27.2	27.0	30.2	29.9	16.1	7.1	7.8
o/w Interest Payment	8.1	8.7	8.9	9.3	9.4	9.8	10.0	2.5	1.2	0.9
Capital & Net Lending (excluding foreign financed)	1.8	1.5	1.4	1.4	1.5	1.7	1.3	0.4	0.1	0.5
Overall balance (deficit (-))	-9.0	-6.3	-7.7	-9.2	-6.7	-10.9	-10.5	-3.3	-1.0	-1.6
Primary Balance (deficit (-))	-0.9	2.4	1.2	0.0	2.7	-1.2	-0.5	-0.8	0.2	-0.8
<b>External sector</b>	(percent of GDP, unless otherwise specified)									
Current Account Balance	-25.6	-26.2	-16.9	-20.4	-22.9	-24.3	-21.9	-9.3	-18.1	-12.8
Trade Balance	-28.4	-29.9	-22.8	-23.6	-24.6	-24.6	-24.9	-20.3	-36.1	-41.7
o/w Export (GNFS)	44.5	40.0	39.6	37.2	35.9	35.5	35.5	28.2	40.9	69.5
Exports of Goods	11.0	9.5	8.0	7.7	7.6	7.0	9.3	12.9	15.8	25.8
Exports of Services	33.5	30.6	31.6	29.5	28.3	28.5	26.1	15.3	25.1	43.7
o/w Import (GNFS)	73.0	69.9	62.4	60.7	60.5	60.1	60.4	48.5	77.0	111.2
Imports of Goods	45.3	42.5	35.1	34.9	34.6	34.2	35.1	33.4	57.6	80.8
Imports of Services	27.7	27.4	27.3	25.8	26.0	25.9	25.3	15.1	19.5	30.4
Net private current transfers:	3.4	4.9	6.8	4.8	2.3	2.5	5.7	14.2	22.7	36.3
Net Remittances	5.0	5.8	7.1	6.6	5.1	4.2	6.1	10.3	16.7	26.7
Net Income receipts	-0.6	-1.2	-0.9	-1.6	-0.5	-2.1	-2.6	-3.3	-4.7	-7.4
Capital Accounts	0	0	0	0	0	0	0	0	0	0
Gross Reserves (months of imports GNFS) <sup>3,4</sup>	11.7	13.1	13.8	15.2	15.6	14.3	14.3	18.8	12.6	10.0
<b>Total Public Debt</b>										
Total Debt Stock (in million US\$)	63,490	66,564	70,325	74,900	79,530	85,139	88,900	56,832	39,903	38,518
Debt-to-GDP ratio (percent)	135.3	138.3	140.5	145.7	149.1	154.0	171.1	179.2	180.6	272.0
<b>Memorandum Items:</b>										
GDP (in million US\$)	46,909	48,133	50,066	51,389	53,325	55,276	51,954	31,712	22,091	14,162

Source: Government data, and World Bank staff estimates and projections.

<sup>1</sup> Population figures, which include Syrian refugees registered with the UNHCR, are taken from the United Nations Population Division

<sup>2</sup> Prior to 2020 this is M3, including non-resident deposits; 2020 and after, this is M0 (currency in circulation)

<sup>3</sup> Gross Reserves (months of imports GNFS) = (Imports of Goods & Services / Gross Res. excl. Gold) \* 12

<sup>4</sup> Total Imports using the BOP data from the Quarterly Bulletin of BDL

## E. EUROBOND RESTRUCTURING

214. **Edwards (2015)<sup>162</sup> examines debt restructuring determinants and outcome using data on 180 sovereign defaults over the period 1978-2010.** Haircuts ranged from 7 percent on Uruguayan bonds in 2003, to 75 percent for Argentinian bonds in 2005. The 2012 Greek restructuring agreement imposed a haircut of 65 percent on bond holders. The author provides the below summary statistics on haircuts for the study's sample of sovereign defaults.

**Table 11. Summary statistics for haircuts over the period 1978-2010.**

	Mean	Median	Standard deviation
All episodes	37.0%	32.1%	27.3%
Bank loans	37.1%	37.6%	21.6%
Bond exchanges	36.9%	31.7%	27.9%
Africa	46.5%	39.5%	29.4%
Asia	32.6%	34.0%	17.9%
Europe	30.0%	19.7%	26.4%
Latin America	31.8%	28.1%	26.2%
Argentina 2005	74.8%	---	---

Source: Edwards (2015).

215. **In this note, we simulate the effects on the debt outlook of a Good Case and a Bad Case outcome for Lebanon's discussions over the Eurobond restructuring.** Important terms to be restructured include the Eurobonds' face value, coupon rates and maturities, with the Net Present Value (NPV) being a metric to gauge the aggregate effect. For our purposes, we refer to IMF (2013, page 21):<sup>163</sup>

There may be cases where significant haircuts in NPV terms could be obtained without a face value haircut by lengthening the maturity of debt and applying below-market interest rates. However, in these cases the assessment of the achieved debt relief is very sensitive to the choice of the discount rate. Avoiding a face value haircut may not be appropriate when it is critical to address uncertainty about the member's future viability.

As such, in our haircut simulations, we apply a face value definition—a percentage cut in face value—taking effect immediately, i.e., in 2022. For the size of the haircut, we refer to Edwards (2015), who examines a sample of sovereign default episodes. We consider a 50 percent haircut in face value as a realistic *Good Case* for Lebanon and a 25 percent cut as a realistic *Bad Case*.

162 Edwards, Sebastien (2015), *Sovereign Defaults, Debt Restructuring and Recovery Rates: Was the Argentinean Haircut Excessive?* NBER, February 2015, Cambridge, MA.

163 IMF (2013), *Sovereign Debt Restructuring, Recent Developments and Implications for the Funds Legal and Policy Framework*, April 26, 2013, Washington, DC.

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