

Government of Lebanon

**Vision for Stabilization,  
Growth and Employment**

**- C E D R E -**

**Conférence Economique pour le Développement  
par les Reformes avec les Entreprises**

APRIL 6, 2018

## **I- INTRODUCTION**

On the occasion of the Brussels Conference on Supporting the Future of Syria and the Region in April 2017, the Government of Lebanon (GOL) outlined its Vision for Stabilization and Development in Lebanon and its approach to mitigating the impact of the Syrian crisis with support from the international community by expanding employment, achieving economic recovery, and laying the basis for sustained growth in the medium to long term. It indicated that it was preparing a long-term Capital Investment Program (CIP) for which it would seek financing from lenders and donors for new projects, including non-traditional lenders and donors on concessional terms, as well as that international and bilateral institutions make available guarantees and insurance instruments that can enhance private sector participation in infrastructure investment.

The Government of Lebanon is very grateful that the Government of France has agreed to convene the CEDRE Conference on April 6, 2018 for which the Government is submitting not only its Capital Investment Program (CIP), but also its vision for stability and sustainable long-term growth and job creation. This vision is underpinned, beyond an increase in investments in infrastructure within a sustainable macro-fiscal and debt framework, with an increased role for the private sector, by 1) sectoral reforms to help ensure that the benefits of the investments are fully realized, and 2) structural reforms as a basis for good governance and an expansion of private sector activity leading to sustained higher economic growth, and 3) the development of a strategy for the diversification of Lebanon's productive and services sectors and the realization of its export potential.

## **II- EFFECTS OF THE SYRIAN CRISIS ON LEBANON**

Since 2005, and following the assassination of Prime Minister Rafic Hariri, Lebanon has experienced a series of crises arising from internal and external events, the latest of which is the Syrian crisis that started in 2011. This has resulted in a situation where Lebanon's stability is in danger.

The negative effects of the conflict in Syria and the displaced crisis have been devastating. GDP growth has plummeted from an average of 8% in the three years before the conflict to just over 1% in 2016 and 2017. Exports have declined by about one-third as a result of a loss of markets and trading routes. As indicated in the Government document presented to the Brussels Conference in 2017, the World Bank estimated that, as a result of the Syria crisis, some 200,000 Lebanese have been pushed into poverty (adding to the 1 million before the crisis) and that some 250,000-300,000 have become unemployed, in particular youth, with the overall unemployment rate doubling to about 20%. Unemployment among Lebanese youth stands at 30% according to UNICEF and is attributed in part to displacement by Syrian workers who accept lower wages. At the same time, the current rate of unemployment is a cause for deep concern. It has the potential for radicalization of the youth, resulting in potential security risks.

According to the World Bank's update in 2017 of the Economic and Social Impact Assessment carried out in 2016, the cumulative cost to Lebanon since the start of the conflict, in terms of lowering the GDP growth rate, was US\$18.15 billion through 2015. The fiscal impact in terms of

lower revenues associated with the lower GDP growth rate was estimated by the World Bank at US\$4.2 billion during 2012-2015. The main impact on the government's budget in terms of incremental expenditures resulted from the incremental transfers from the government to Electricite du Liban (EdL) for the provision of electricity to the displaced, which totaled about US\$1.0 billion during 2012-16 according to UNDP estimates.

The incremental fiscal deficits during 2012-2017 resulting from the crisis have been financed by high interest, short maturity, market debt (mainly Eurobonds). The increase in Lebanon's public debt that resulted from financing the crisis-related incremental deficits and of the interest thereon between the end of 2011 and 2016, is in the order of US\$6.0billion.

With depressed GDP growth and incremental fiscal deficits arising from the Syrian crisis financed by borrowing on market terms, the public debt to GDP ratio has risen again to about 150% by the end of 2017 and, of even more concern, interest payments on the debt have risen to about 10% of GDP in 2017, absorbing more than half of Government revenues. The average interest rate of public debt, which is mainly market debt, is about 7%. At the same time, the outstanding public debt, except for debt to official creditors (which accounts for only a small portion of total debt), has relatively short maturities.

The number of displaced Syrians in Lebanon is estimated at 1.5 million in Lebanon, of which about 1 million are registered by UNHRC. This is more than 30% of the total 4.8 million Syrians who have fled to Turkey, Jordan, Egypt, Iraq, and Lebanon according to the UNHRC, and is equivalent to the number of Syrian displaced that have requested asylum to Europe according to UNHRC. In addition, there are close to 0.5 million Palestinians and other nationalities as refugees in Lebanon. Consequently, close to one out of every three persons currently in Lebanon is a displaced or refugee. Prospects for the return of the Syrians to their home country in the short term are uncertain at best. The Government of Lebanon looks forward to a resolution of the Syrian conflict and will support international initiatives in this respect.

Social discontent about the consequences for Lebanon of the civil conflict in Syria and the presence of the displaced in Lebanon has been rising. According to UNICEF and a UNDP survey, 90% of Lebanese youth perceived an economic or symbolic threat from the Syrian displaced population present in Lebanon. Increased poverty and unemployment among Lebanese and the presence of unemployed Syrians, particularly youth, represent a situation that could result in increasing social unrest and violence and threaten the country's security and political stability, the repercussion of which will be felt beyond Lebanon's border. The worsening situation of the displaced combined with increased hostility in host communities, that have seen their economic situation worsened as a result of the crisis, will also provide incentives to the displaced to seek refuge elsewhere.

### **III- THE GOVERNMENT RESPONSE: VISION FOR STABILIZATION, GROWTH AND EMPLOYMENT**

The challenge now is to reverse the recent trends in growth and poverty and unemployment, with support from the international community in terms of grants and concessional financing, to avoid a further escalation of levels of market debt and reduce the interest burden. Without such reversal, the time bomb is likely to explode. The Government needs to take the leading role in reversing the worsening socio-economic trends, but it cannot do so without the support of the international community.

A sharp increase in public investment will help to quick-start the depressed economy and give a boost to the confidence of Lebanon's private sector. Such confidence would be further enhanced with a clear signal of donor support for the Capital Investment Program on the occasion of the CEDRE Conference.

The Government's vision for stabilization, growth and employment in order to meet this challenge is based on four pillars:

#### **Vision for Stabilization, Growth and Employment—Four Pillars**

I. to sharply increase the level of public investment in the short term, by accelerating the implementation of projects for which foreign loans have been committed so as to generate employment quickly; and to embark upon a major program of new projects for infrastructure investment to lay the basis for long term growth, with an increased role for the private sector, that will generate employment during their implementation, reduce the significant gaps that exist between the demand and need for infrastructure services and the supply, and increase the productivity of the Lebanese economy, in part by reducing the cost to the economy of the lack of adequate infrastructure;

II. to ensure economic and financial stability through fiscal adjustment that will allow the envisaged expansion of public investment within a viable macroeconomic framework with a sustainable debt scenario;

III. to undertake sectoral reforms to ensure the sustainability of the infrastructure investments, and structural, cross-sectoral reforms to ensure good governance and guarantee that the potential for private-sector led growth is realized to the fullest extent and is sustainable. These include fighting corruption, fiscal governance and reforms, modernization and restructuring of the public sector, customs modernization, capital market reforms, and creating the conditions for a recovery of Lebanon's private sector, traditionally the backbone of Lebanon's economy, which has been affected by political instability and the Syrian crisis; and

IV. to develop a strategy for the diversification of Lebanon's productive and services sectors and realization of Lebanon's export potential, underpinned by an enabling business environment, including removal of bottlenecks to private sector investments, and macro-economic and financial stability.

## **Pillar One. Increasing the Level of Public Investment**

### **The Capital Investment Program (CIP)**

Lebanon's infrastructure was devastated by the end of the 1975-1990 conflict. Following the substantial completion of the post war reconstruction program, the level of public investment has declined steadily to about 3% of GDP during 2001-05 and 2% during 2006-10. As a result, significant gaps between needs and supply existed already before the onset of the Syrian crisis, particularly in the water supply and wastewater sectors, with respectively a quarter and one-third of households without connection to the networks, and the electricity sector, with a gap of about one-third between demand and supply by Electricite du Liban (EdL).

With increasing fiscal constraints during the Syrian crisis, public investment has declined further during 2011-17. Capital expenditures were only 1.4% in 2016 and 2017. At the same time, the rate of private investment also declined from close to 30% during 2007-10 to just over 20% during 2011-15 because of the Syrian crisis and the domestic political crisis, which has now been resolved following the formation of a national unity Government at the end of 2016.

Gaps between the demand for and supply of infrastructure have widened with the presence of the displaced, in particular in the electricity sector, primarily a result of the provision of electricity to the displaced Syrians in the order of 480 MW according to the UNDP, equivalent to nearly one fifth of installed capacity. At the same time the existing public infrastructure has deteriorated, in part for the same reason, in particular, in the roads sector, with an increase in nationwide traffic of 15% according to World Bank estimates.

The first priority now is to sharply increase the level of public investment from the depressed levels of recent years, through accelerated implementation of projects for which loans have already been extended. To this end, the Government has already begun to address some of the key factors that have caused delays in project start up: (i) loan signings and ratification, and (ii) insufficient allocation of local counterpart funds, particularly for land acquisition because no budgets had been approved by Parliament and the overall budgetary constraints. All loans approved by lenders as of end-2017 have been signed or approved for signing by the Cabinet, and Parliament ratified about US\$400 million of loans over the past year. As regards counterpart funds for projects for which foreign loans have already been provided, the Government decided, in consultation with the Banque du Liban, to issue bonds for the financing of the land acquisition and other counterpart funds required in an amount of US\$700 million.

In order to avoid delays in the start up of new projects as a result of delays in parliamentary ratification, and to avoid the necessity of presenting each individual project and loan to Parliament before its implementation can start, the Government intends to present to Parliament, the entire CIP for both phases with a request to authorize the Government to enter into agreements with official lenders and donors for loans on concessional terms. No parliamentary approval is required for private sector investments for infrastructure within the framework of the recently approved PPP law. Budgets for 2019 and beyond will include allocations for counterpart funds required for CIP projects supported by official lenders and donors.

The Council for Development and Reconstruction (CDR) will be responsible for the implementation for a significant number of the CIP projects. CDR will also be responsible for

implementation of projects on behalf of ministries that have only a limited capacity of their own, at their request. The World Bank rates CDR's capacity as "good to solid". The Government will, as needed, outsource project implementation activities to the private sector.

The preparation of the CIP by the CDR in consultation with all ministries, and its approval by the Cabinet, represents an important step in improving public investment planning in Lebanon. The program will be reviewed and updated on an annual basis so as to adjust it to reflect evolving priorities in terms of sequencing and project size resulting from detailed appraisals, including financial viability analysis, and environmental and social impact assessment of the projects that for many of the projects is yet to take place.

With respect to private sector investment in infrastructure, the adoption of the Public Private Partnership (PPP) Law in August 2017 lays the basis for private sector participation in the implementation of the Capital Investment Program. It established for the first time a legislative framework for the adoption of PPP projects – a framework which conforms to internationally recognized standards and best practices. The PPP Law eliminates the ad hoc approach to dealing with PPP projects and sets out clear procedures for their design and tendering, and ensures transparency. The law does not require any implementation decrees. In order to facilitate the work of the Higher Council for Privatization and Partnership (HCPP), decrees related to the Council's internal administration, human resources and financial management are in the process of being submitted to the cabinet with the objective of expanding the council's capacity to reflect its additional responsibilities under the PPP law. A very successful conference on investment in infrastructure, with attendance of domestic and international companies and financial institutions, was held on March 6, 2018 in Beirut to show case PPP projects in the CIP.

The Government of Lebanon has requested from the World Bank an assessment of the capital investment program. In its assessment, the World Bank confirmed that the CIP can be an effective tool to help reinforce Lebanon's depleted infrastructure, thereby supporting a boost in economic growth. More specifically, the assessment concluded that, if well implemented, the CIP can increase Lebanon's growth potential, generate employment opportunities, and make the Lebanese economy more competitive. It also emphasized that 1) the choice of sectors are appropriate for a CIP for Lebanon, 2) many projects are relevant; indeed, some are critical, 3) many projects have been in the planning stages for a long time, 4) sector reforms are essential to make the projects sustainable and 5) private sector participation is necessary.

The Government of Lebanon is cognizant that a strong public investment management would allow for more predictable, credible, productive and efficient investments. In this connection, the Government has requested that the IMF undertakes a Public Investment Management Assessment to identify the steps needed to improve the institutional framework before undertaking large investment projects, and to assess the risks and potential fiscal costs arising from any public private partnership projects.

### The Sectoral Allocation of the CIP

The table below shows the allocation of the CIP for Phase I and Phase II and the envisaged financing.

| <b>CIP by Sector (US\$ million)</b>     |                |                 |                         |
|---|----------------|-----------------|-------------------------|
|   | <b>Phase I</b> | <b>Phase II</b> | <b>Phase I &amp; II</b> |
| Water                                   | 2,257          | 878             | 3,135                   |
| Waste Water                             | 1,364          | 1,040           | 2,404                   |
| Solid Waste                             | 1,400          | 0               | 1,400                   |
| Transport                               | 2,863          | 2,820           | 5,683                   |
| Electricity                             | 2,151          | 1,441           | 3,592                   |
| Telecom                                 | 700            | 0               | 700                     |
| Infrastructure for Tourism and Industry | 84             | 255             | 339                     |
| <b>TOTAL</b>                            | <b>10,819</b>  | <b>6,434</b>    | <b>17,253</b>           |
| <b>FINANCING</b>                        |                |                 |                         |
| Government                              |                |                 | 2,253                   |
| Private Sector                          |                |                 | 5,000                   |
| Official Lenders and Donors             |                |                 | 10,000                  |

The capital investment program presented to this Conference comprises projects in the physical infrastructure sectors for which funding by official lenders or private investment is sought. The project selection is based on an assessment of existing and projected gaps in the provision of infrastructure services, on a national and regional basis, taking into account the projects that are currently underway and those for which funding has been provided. It has also taken into account poverty indicators of the regions. The total cost of the CIP during the first two phases of the program (2018-2021 and 2022-2025) is estimated at US\$17.253 billion, including the estimated cost of land acquisition of US\$ 1.7 billion. In many cases environmental and social impact assessments and full appraisal are yet to be completed. It is therefore important to emphasize that the proposed phasing in the CIP '2018-2021' and '2022-2025' represent funding phases, while implementation is expected to take longer. Accordingly, disbursements from new loans will not take place until the second half of 2019. In addition, actual disbursements on projects are not expected to go beyond US\$1.6 billion on average annually.

Investments in the electricity sector as per above, and in the transport and telecommunications sectors will help increase productivity of Lebanon's economy and reduce business costs. Investments in transport will generate large savings in time and reduce pollution from emissions.

The Government envisages that all new generation capacity in the electricity sector, except for one replacement plant, will be provided by the private sector under Power Purchase Agreements, including power generation from sources other than hydrocarbons, including solar and wind.

The Government also envisages that the construction of facilities for the supply of liquified natural gas (LNG) to allow a conversion from fuel to gas in existing plans, will be undertaken by the private sector. Such conversion would reduce the cost of power generation and pollution. Pending the completion of construction of new capacity, the government is considering the possibility that part of the gap in electricity supply will be covered under power purchase arrangements with private sector power barges. The investments in transmission and distribution networks with ongoing and new projects are required not only to expand the networks in line with the increase in generation capacity as part of the CIP, but more importantly in the short term to reduce the excessive technical losses. This would also contribute to reducing budget transfers to EdL.

Investments in the water, wastewater and solid waste will fill gaps in provision of service with the aim of having all households in Lebanon connected to the networks and providing water and wastewater facilities to the Syrian displaced, and provide a solution to the solid waste crisis that Lebanon has faced in recent years. With investments in these three sectors (close to half of the total for Phase I), the Government also seeks to reverse the deterioration of the environment that has taken place.

As mentioned above, with the adoption of the PPP Law, Lebanon has established the legal framework for private sector investments in infrastructure. The Government envisages that about 30% to 40% of the financing needs will be provided by private investors, of which about US\$3.0 billion for phase I, with contributions from the private sector investment facilities of official lenders and donors and institutions. The total of projects that could be considered as meeting the requirements of the PPP Law is estimated by the HCPP at about US\$7.0 billion. However, in view of political or other risks that may be perceived by private investors given past political developments in Lebanon, the expectation of private investments is in the order of about US\$5.0 billion for Phases I and II of the CIP. Accordingly, the Government's estimates of financing needs from donors and official lenders are based on these expectations. This excludes the cost of land acquisition by the Government which is significant, particularly in the transport sector. Access by private investors to donor instruments for guarantees and insurance or mitigating risks would help the Government achieve its objective of private sector participation in the CIP in the magnitude envisaged.

### Impact of the CIP on Employment

The effects of the Syrian conflict on labor-intensive sectors such as tourism and export industries and residential construction, has subdued private sector activity in general, and as a result the pace of job creation has fallen short of the new entrants in the labor force. As indicated above, the overall unemployment rate among Lebanese has risen to about 20%, and to as much as 30% among youth. In addition to reducing current unemployment rates, employment opportunities are required for new entrants into the Lebanese labor force, some 40,000 per year.

The potential for employment creation by the private sector through increased activity and investment is limited in the short term, even though prospects have improved since the resolution of the domestic political stalemate last year. The humanitarian assistance being provided by donors and other donor supported interventions to displaced Syrians and host communities

modestly contribute to the provision of employment through the inducement of private sector activity. However, significant growth in employment in the short run can only be achieved through a sharp increase in the level of public investment expenditures.

Based on World Bank estimates of employment creation by the infrastructure sector in Lebanon, and on the sectoral distribution of the ongoing and proposed capital expenditures program, each US\$1.0 billion in capital expenditures generates close to 50,000 jobs, including both direct jobs and jobs created in the supply chain industries and other induced economic activities. In the roads sector alone, the direct and indirect job creation is estimated at close to 100,000 per US\$ 1.0 billion of investments. The employment opportunities to be generated by a sharp expansion of capital expenditures in the short and medium term, will help to absorb part of the new entrants and reduce existing unemployment levels.

The Government is preparing a national jobs program with assistance from the World Bank for which it has requested a US\$400 million loan, including a contribution from the GCFF, under its Program for Results modality. This program would target key legal and regulatory reforms, along with development and implementation of policies and improved mechanisms for fostering new partnerships with the private sector. It would help lay the policy foundations for jobs, catalyzing job creation through trade and investment, and connecting youth and women to jobs. The envisaged program of actions includes: (i) establishing a more conducive environment to promote private sector investment and inclusive job creation; (ii) creating job opportunities through expansion of the private sector; and (iii) ensuring equitable access to jobs by addressing the socio-economic exclusion of vulnerable groups, especially in lagging regions.

## **Pillar Two. Economic and Financial Stability - Macroeconomic Framework**

The Concluding Statement of the 2018 IMF Article IV Mission confirmed that the CIP, with concessional financing and private sector participation, is compatible with a viable public debt scenario, if coupled with a strong fiscal adjustment and structural reforms.

The Government recognizes that serious fiscal adjustment is key to ensuring economic and financial stability and maintaining a viable macroeconomic framework against the background of a debt to GDP ratio that has increased significantly during the Syrian crisis. There is consensus in Lebanon on the importance for fiscal adjustment and the Government is determined to move ahead in this direction.

The Government is committed to a fiscal consolidation of 5 percentage points of GDP over the next five years (i.e one percentage point a year). This will be achieved through revenue measures, including improved collection and a reduction of loopholes, as well as a reduction in spending where possible, including through a reduction in the Government's transfers to EdL which exceeded 4% points of GDP in recent years, as part of a broader effort to improve cost recovery in infrastructure services. The electricity sector plan adopted in 2017 envisages tariff increases.

In the midst of the Syrian crisis and the widespread discontent and reduction in living standards of broad segments of the population that have resulted from it, fiscal action will be a challenge, which the Government will meet with careful selection and phasing of the measures, subsequent

to the Parliamentary elections in May 2018. Nevertheless, the draft budget for 2018 includes revenue enhancement measures and measures to reduce current expenditures (other than interest on the public debt) for the first year of the fiscal adjustment program, ensuring that the current deficit will remain at the 2017 level in nominal terms, with a modest reduction of this deficit as a percentage of GDP.

The reduction in the overall fiscal deficit will be limited in the short term with the increase in the level of capital expenditures, and the debt to GDP ratio would thus decline only gradually in the next few years. With the expected increase in GDP growth as a result of the higher level of investment and reforms, the ratio would gradually decline thereafter. Bringing down the overall fiscal deficit while increasing capital expenditures implies that the primary current surplus, must be increased, and the outlays for interest on the public debt contained, with donor support in the form of concessional loans that reduce the need for market borrowing, in order to maintain a viable medium term fiscal and debt scenario.

Prospects for a sharp reduction in the fiscal deficits and the debt to GDP ratio and an improvement in the balance of payments in the longer term have improved with the possibility of oil gas and oil discoveries. Lebanon currently relies on imports for nearly all of its energy needs. The Government has taken action on initiating exploration of the potential for oil and gas resources in Lebanon's territorial waters, which was indicated by seismic surveys half a dozen years ago. It has adopted the necessary regulatory degrees of the Petroleum Law. The Parliament adopted a law on tax provisions, and the Government subsequently awarded exploration rights for two of ten blocks to a consortium of three international companies, that was not deterred by the Israeli claims on part of Lebanon's territorial waters. The contract was signed in February 2018. However, in case of finds, any production would not take place until at least five years after the actual start of exploration.

### **Pillar Three. Structural and Sectoral Reforms**

While increasing investment in infrastructure and fiscal adjustment are for a recovery of growth and employment creation and economic stability, the Government of Lebanon recognizes that the economy's full potential for sustained private sector-led growth at significantly higher levels, and increased social equity, will not be achieved unless they are complemented with structural reforms.

The need for reforms was recognized by previous Governments, but the political instability and crisis during most of the past two decades stood in the way of their implementation. A deep political divide emerged after the assassination of Prime Minister Rafic Hariri in 2005 and the end of the Syrian occupation. Lebanon suffered an Israeli attack in 2006 with subsequent political instability, and the Syrian crisis erupted in 2011. More recently there was a 29-month vacancy in the Presidency.

Following the election of President Michel Aoun, the basis was laid for the formation of a Government of national unity that includes all the country's main political factions. Senior positions in the civil service that had been vacant for a long time because of political discord, have been filled. The normalization of the political situation subsequent to the formation of a

national unity Cabinet will be complemented with the elections for a new Parliament, the first in nearly a decade, based on a new electoral law that provides for proportional representation and pre-printed ballots. The power sharing arrangements that are provided for in the Taef Accord that ended 15 years of conflict remain the backbone of Lebanon's democracy, which, with all its shortcomings, is a model for peaceful coexistence and tolerance in a region beset by conflict.

The Government is committed to undertaking the reforms that Lebanon requires to achieve its development potential, and has begun to do so over the past year in the midst of the Syrian crisis. Many of these reforms require careful preparation, consultations with civil society and other stakeholders and the building of consensus, and in some cases, parliamentary approval. This will ensure that reforms are sustainable and non-reversible.

***Lebanon- EU Compact.*** The Government is committed to the EU Compact that was adopted in November 2016 and will implement the commitments that Lebanon undertook as part of it, with the assistance of the European Union. The Compact comprises commitments with respect to stability (security and counter terrorism), governance and rule of law, and fostering growth and job opportunities.

***Global initiatives.*** The Government also expresses its commitment to global initiatives, in particular to the UN initiatives with respect to the *Sustainable Development Goals (SDGs)* and the *Prevention of Violent Extremism (PVE)*.

PVE is particularly important in view of the dangers inherent in the current situation with large numbers of unemployed youth that could be targets for recruitment, even though as of now activities of ISIS and Al Qaeda have been limited in Lebanon thanks to the country's security forces. The Government has appointed a National Coordinator and a national PVE strategy, which includes a mainstreaming of PVE concepts, has been developed and is currently under consideration by the Cabinet, and will be coupled with a comprehensive implementation plan.

Lebanon is committed to advancing on the UN SDGs. A National Committee headed by the Prime Minister was established in June 2017 to coordinate the national efforts to implement the SDGs and integrate them into national programs and strategies for sustainable development. The Parliament has established a Parliamentary Commission for the implementation of SDGs. Preparations are underway for a Voluntary National Review of the SDGs in the course of 2018. The potential of projects to contribute to meeting the sustainable development goals was one of the selection criteria for the CIP. The Government recognizes that the achievement of SDG #5, Gender Equality, by 2030 is indispensable for achieving a society's full potential, and will require actions and legislation over a broad front. The Cabinet includes a Minister of State for Women Affairs and the Government is committed to undertaking these actions, and has developed a comprehensive strategy and action plan to that end. It is also worth noting that in the run up to the May 2018 elections, the number of female candidates has increased nine-fold from the 2009 elections.

## Structural Reforms

The structural, cross-sectoral reforms undertaken by the Government since it took office in December 2016, the reform initiatives currently underway, and those planned for the short to medium term are presented below.

***Fighting Corruption.*** Lebanon joined the United Nations Convention against Corruption (UNCAC) in 2009. Corruption affects citizens and businesses alike, and tackling this major problem that Lebanon faces is thus a priority for the Government. The current Cabinet includes Ministers of State for Anti-Corruption and for Administrative Reform (as well as a Minister of State for Human Rights). The Parliament adopted an access to information law in January 2017, and is expected to adopt a legislation for the establishment of a National Anti-Corruption Commission. The Office of the Minister of State for Administrative Reform (OMSAR) has completed a national anti-corruption strategy that outlines four main strategic objectives: 1) enshrining transparency; 2) activating accountability; 3) limiting discretion in public administration; and 4) ending impunity; and actions required for their achievement. The preparation of a plan for its implementation is currently underway, with assistance from UNDP, and is to be completed by mid-2018, whereupon the national strategy and implementation plan will be submitted to the Cabinet.

***Fiscal governance and reforms.*** For over a decade Government has operated without budgets approved by Parliament. At the end of 2017, Parliament approved the budget for that year and in March 2018 the Cabinet agreed on the budget for 2018. Future budgets will be completed prior to the start of the year.

The Ministry of Finance (MoF) has begun preparation, with World Bank assistance, for a comprehensive program aimed at strengthening fiscal governance for a US\$50 million loan designed to improve budget transparency, cash management, public debt management, MoF e-services, and the efficiency of public procurement. The Cabinet has recently approved an Advance Agreement for Preparation of the Proposed Strengthening Fiscal Governance Project for the amount of US\$6,000,000. The activities for which the advance is provided consist of a functional review of the Ministry of Finance and capacity building, a technical support to conduct macro-fiscal analysis and budget management, support to strengthen accounting, cash management and public debt management, and support on the implementation of international public sector accounting standards (IPSAS) cash-based accounting standards, and finally support to develop internal audit, MoF e-services, and public procurement.

The Ministry of Finance is also preparing the modernization of the land administration system, to be implemented with the support of a World Bank loan for US\$43 million. The project represents the first phase of a 10 years' Land Administration Modernization Program. The project's development objective is to improve access to land use and value data, property rights data, and geospatial information through the Land Registry and Cadastre system modernization.

The Ministry of Finance's Higher Council for Customs has laid out a comprehensive strategy for Customs reforms. The strategy is focused on: (i) simplifying procedures; (ii) updating the existing ASYCUDA-based system to support e-payments; (iii) enhancing electronic data entry and developing an electronic registration module, including an e-single window focusing on coordination among all of government's border agencies; (iv) strengthening risk management;

and (v) introducing a full-fledged Authorized Economic Operator (AEO) program, which will enable proven low-risk traders to avoid overly-burdensome inspection procedures.

**Digital transformation of the Government.** OMSAR has developed a comprehensive strategy for government digitization. The strategy that was unveiled in March is being reviewed by the World Bank. As next step, OMSAR will develop a program for the implementation of the strategy for consideration by the Cabinet in the course of 2018. The investment program of OGERO' Lebanon's telecommunications company, will create the basic capacity needed for the possible digitization of the public sector.

**Modernization and restructuring of the public sector.** The Government is committed to the reforms envisaged under Law #46 dated 21/8/2017 aimed at modernizing the public administration and containing spending. These include: 1) freezing of civil servants employment, unless approved by a cabinet decision, 2) designing a unified system for all social benefits to employees of the public sector, 3) reviewing the government's policy on subsidies and contributions to mutual public funds, 4) rationalizing expenditure on fuel in public administrations, 5) evaluating public employees performance. The cabinet established on 26/10/2017 an inter-ministerial committee mandated to conduct a comprehensive survey of the existing positions in the public administration (civil servants, contractual and other wage earners) as well as new required positions. It will also identify the total current and future outlays for human resources, including end of service indemnities.

**Public sector procurement.** Draft laws to modernize Lebanon's outdated procurement law and strengthen the procurement administration are currently before Parliament. They would enhance the transparency and efficiency of public procurement, which becomes even more important in view of the sharp increase in procurement activity that would result from the implementation of the CIP.

**Judicial reforms.** Three major EU-funded programmes are currently being implemented in the field of justice reform. The "Modernisation of the Lebanese Justice System" programme supports the automation of the operations and procedures of judicial courts through the development of software and procurement of hardware at the Beirut Palace of Justice and the Jdeideh and Jounieh courts. The "Support to the Reform of the Judiciary" programme aims at reinforcing judicial institutions' capacities through the provision of technical expertise from EU Member States, and support to develop the Lebanese legal aid system to increase access to justice for vulnerable populations. The "Advancing Juvenile and Criminal Justice in Lebanon" programme aims at enhancing the judiciary's capacities to handle terrorism cases in full compliance with international legal instruments and human rights norms, standards and good practices.

**Oil and gas sector governance.** In addition to the tax law that enabled the Government to proceed with the signing of the first exploration contract, the Government has submitted to Parliament a draft law on "Enhancing Transparency in the Petroleum Sector in Lebanon", which contains most of the provisions of the Extractive Industries Transparency Initiative (EITI). The draft law has been recently approved by the Parliament's Energy Committee and is on course to be ratified by the Lebanese Parliament General Assembly. A draft law on establishing a sovereign wealth fund is also being discussed in Parliament.

**Doing business environment.** The Lebanese Parliament is reviewing the Code of Commerce, including the provisions related to companies/corporations, with the aim of modernizing the

legal status of businesses. Also, an e-transaction and protection of personal data law has been discussed in Parliament and should be adopted soon. This law regulates the ICT sector in Lebanon, and identifies the legal basis for 1) electronic signature, 2) e-commerce, 3) e-banking services, establishes “Signatures and E-Services Authority”, regulates and supervises the work of e-data hosting platforms and the management of websites and domains (.lb), and ensures protection of personal data on electronic platforms. Moreover, the cabinet has reviewed, approved and submitted to Parliament in March 2018 draft laws related to 1) private equity fund, 2) facilitation of secured lending, 3) institutionalization of judiciary mediation, 4) revision of the insolvency law, 5) establishment of a legal framework for insolvency practitioners. In addition, plans have been developed for out of court workouts. A short and medium term plan was developed to streamline and re-engineer the business registration processes and provide a one stop shop for opening a business and implementation of the plan has started. A business support unit aimed at providing start-ups with free information, advice and licensing support has been established in the Investment Development Authority of Lebanon.

**Capital market reforms.** The Capital Market Authority is currently implementing a market development plan with support from the World Bank. It aims at: (i) transforming the Beirut Stock Exchange into a joint stock company, as a first step prior to privatization (a Government decree was issued for this purpose in August 2017); (ii) launching of an electronic trading platform, which would also include SMEs and start-ups, and provide for access to trading by the Lebanese Diaspora.

### Sectoral Reforms

The government is committed to undertake the required sectoral reforms that are needed to advance the sectors, making them more efficient and sustainable, in line with the basic framework of recommendations suggested by the World Bank in its assessment of the CIP. The sectoral reforms undertaken by the Government since it took office in December 2016, the reform initiatives currently underway, and those planned for short to medium term are presented below.

**Electricity.** With power generation capacity of EDL at less than half of peak power demand, the provision of electricity to the Syrian displaced, and Lebanese household and business relying increasingly on costly and polluting small generators to fill part of the gap, the Government adopted an “Emergency Electricity Policy” which includes: power purchase arrangements with private sector power barges with a supply capacity of 825 MW, during the construction of new power plants in partnership with the private sector under an independent power producer (IPP) arrangements enabled by the PPP law; construction of LNG infrastructure under PPP arrangements as part of the strategy to adopt a clean source of energy for power generation other than hydrocarbons, which would reduce electricity generation costs; and construction of photovoltaic and wind power facilities under PPP arrangements as part of the objective to diversify to clean energy. The Government has recently entered into a IPP agreements for the development of wind power and tenders have been issued for the construction of solar photovoltaic plants. Electricity tariffs will be adjusted with a view to reduce EdL’s losses. In the short term, with Syrian displaced absorbing part of the available EdL capacity, the increase will be limited to the equivalent of the reduction in the cost of private generation that results from the additional EdL supply. One of the fundamental reforms in the electricity sector is establishing

the regulatory authority to regulate the sector, as per article 7 of Law no. 462/2002 entitled “*Regulation of the Electricity Sector*”. The Government intends to review the aforementioned law with the objective of updating it. Another key reform measure is the corporatization of EDL (Electricite Du Liban) so that it becomes a well-established company with an assigned Board. The Board must overview EDL’s functions based on commercial foundations and create the necessary framework for activities related to generation, transmission and distribution. In addition to that, the status of the contracted employees within EDL will be settled in order to secure EDL’s operation and sustainability. The transportation infrastructure will be restructured for the optimal transportation of gas and fuel to the power plants. In addition to that, the transmission network infrastructure will be improved to secure the vital requirements for the efficient and successful operation of the distribution service providers.

***Solid waste.*** The Cabinet has decided in January 2018 on measures to resolve the crisis, including the expansion of landfill facilities, the construction of a composting plant and upgrading of sorting plans, and the construction of waste to energy plants. At the same time, responsibility for solid waste management will be decentralized to municipalities. A Framework Law setting forth the mechanism for developing solid waste strategies and plans is currently under final consideration by Parliament. The proposed law 1) establishes an integrated management of solid waste while taking into consideration scientific advancements in this field, 2) adopts "waste-to-energy" principles, and 3) identifies the role of municipalities within the framework of administrative decentralization of waste management.

***Water.*** A national strategy for the water sector was approved by the Cabinet in 2012. The strategy aims to 1) maximize potential of surface water resources and improve management and protection of ground water resources, 2) ensure proper and continuous access to high quality water supply through increased network coverage, 3) provide adequate quantities and quality of irrigation water, 4) increased coverage of waste water collection networks and treatment capacities, 5) introduce and implement a new tariffs strategy, and 6) enhance the legal set up to support the implementation of the national water sector strategy. The Ministry of Energy and Water plans to revise and update the strategy, to identify achievements to date as well as prepare a work plan for the remaining measures and projects that are yet to be implemented in line with the strategy approved by Cabinet in 2012. The Water Code Law, which is to cement the process of international agreements in the field of water and promote an integrated water resource management, and provides for delegation of management to the private sector, is currently in Parliament and is expected to be adopted before the May 2018 elections. More specifically, the law 1) confines authority over this sector to a single entity entrusted with the integrated management of the sector, including waste water and irrigation, 2) regulates management and usage of wells, 3) identifies a system to regulate, rationalize, develop and exploit water resources, 4) increases the efficiency of the systems for transport, distribution and operation of water facilities, in order to ensure sustainable management of water resources, and 5) adopts a "polluter pays" principle. The Government has recently appointed Chairpersons/Director Generals for the four Regional Water Establishments.

***Telecommunication.*** Lebanon remains one of the few countries where the telecommunication sector is fully owned by the government. The sector is a main source of government budget revenues. The Government intends to develop and adopt a telecom policy aimed at liberalizing the sector and opening it further to private sector investment and utilization. This entails a

revision of the telecom law (Law 431). The Government also intends to appoint the telecom regulatory authority, and appoint the board of Liban Telecom, therefore leading to its corporatization. The investment program of OGERO, the state-owned telecommunications operator of the fixed line, includes projects to upgrade the fixed-line network (built in the 1990s as part of the Government's post-war recovery program) and deploy a nationwide fibre-optics based broadband network. The investment program of the 2 mobile companies (Alpha and Touch), both state-owned but privately operated, includes projects aimed at finalizing a nationwide deployment of 3G and 4.5G network with high coverage and quality of service. A significant part of the investments in the sector is financed from revenue generated by the sector. However, about US\$250 million have been identified as potential IPP projects. These projects specifically include building a cloud based national data centre offering various types of services, as well as deploying a third submarine cable connecting Lebanon directly to Europe, thus preparing Lebanon to be a tier-2 internet hub serving the region.

#### **Pillar IV. Development of a Strategy for the Diversification of Lebanon's Productive Sectors and Realization of Lebanon's Export Potential**

In preparation for the development of this strategy, the Government has contracted a McKinsey consultancy that is to diagnose the cross-cutting and specific constraints to an expansion and diversification of Lebanon's productive and services sectors, and identify potential sectors taking into account experiences in other countries. The study is to result in specific recommendations for Government actions and policies required to realize the identified potential, that are complementary to the Government's actions already taken and the initiatives that are underway to improve the enabling environment for private sector investment. The Terms of Reference and Scope of Work for this consultancy are presented in a separate document.

#### **IV- REQUEST TO DONORS AND LENDERS**

As of end 2017, Lebanon's gross public debt has reached close to US\$80 billion, or 152% to GDP. It stood at 137% at the end 2010, and a significant part of the increase in the ratio is a result of the Syrian crisis in terms of declining GDP growth and incremental fiscal deficits. Foreign currency debt, mainly market debt, amounted to about 40% of the total. Outstanding foreign currency debt to non-Lebanese official creditors accounts for less than 10% of total foreign currency debt. Official creditors, present at the conference, may rightly consider the current level of Lebanon's market debt a reason for concern. The Government of Lebanon shares this concern. The Government's track record with respect to meeting its debt obligations is unblemished. They have always been met even during the darkest days of war and crisis. Lebanon has never received debt forgiveness. Its official debt has never been rescheduled in the context of the Paris Club, its non-official debt has never been rescheduled and its private creditors have never been subjected to a 'hair cut'. Lebanon cannot allow this performance to become blemished.

The fiscal measures outlined above will limit the increase in debt over the medium term, notwithstanding the envisaged increase in capital expenditures. With financing of capital expenditures from existing project loans, and with new concessional loans for the CIP with

extended grace and maturity periods and concessional interest rates, the debt profile would gradually improve and outlays for interest payments would be contained.

The Government's request to official lenders and donors is to commit an amount of US\$7.0 billion on concessional terms to support Phase I of the CIP. In order to enable official lenders to provide financing on concessional terms and increase their exposure to Lebanon beyond the level that would be acceptable to them if such terms were not to be available, the Government requests donors to make a grant contribution of US\$1 billion to the World Bank GCFF to be earmarked for Lebanon (which would enable about US\$4.0 billion in concessional lending at GCFF terms). The Government hopes and expects that the European Union will allocate substantial financing for Lebanon under its External Investment Plan. The remaining gap is expected to be funded by the friends of Lebanon.

Since Lebanon has by far the highest ratio of Syrians displaced to own population, it is the country that has relatively been most affected by the Syrian crisis. The crisis is now in its eighth year. Some 200,000 Lebanese have been pushed into poverty and between 250,000 to 300,000 have become unemployed, partly because jobs were taken by the displaced. At the same time Lebanon has incurred additional market debt to finance the fiscal costs arising from the crisis. The amount of grants requested for the GCFF over an eight-year period are equivalent to just about US\$83 per year for each registered and non-registered displaced Syrian, and represents a small portion of the losses that Lebanon has incurred for providing a global public good, as per the estimates presented above.

This request is not related to direct humanitarian assistance, but will help reduce the need for it because of the employment opportunities that would be created with the implementation of the Government's Vision for Stabilization, Growth and Employment with support from the international community, and help prevent the displaced from seeking their fate elsewhere.

## **V- CONCLUSION**

The Syrian crisis is now in its eighth year. The potential for economic and social instability is real, as is the potential for radicalization of unemployed youth, Lebanese and Syrians, despite the efforts of the security forces supported by the international community. The potential for the displaced to seek refuge elsewhere is also high. Recent trends in economic activity, unemployment, and vulnerability of the displaced, must be reversed. Implementation of the Government's Vision for Stabilization, Growth and Employment outlined in this document is key to such reversal. A clear and concrete indication of support on concessional terms from the international community on the occasion of the CEDRE Conference will give hope that the Government's Vision can indeed be implemented. Past experience indicates that expectations inspired by signals of support by the international community, as well as positive domestic political developments, is the way forward.