



**SHAKE ON IT:
A FAIR IMF
PACKAGE FOR LEBANON**

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LEBANON AND THE IMF CAN STRIKE A DEAL THAT PLACES THE BURDEN OF RECOVERY ON THOSE WHO CAN AFFORD IT





EXECUTIVE SUMMARY

Defaulting on Lebanon's foreign-held debt may have patched up the country's financial wounds, but it has not stopped the internal bleeding. To achieve that, Lebanon will need a comprehensive reform package and a shot of fresh US dollars to recapitalise local banks and keep the economy moving. But, who will administer the shot? For a host of reasons, Lebanon is fast running out of willing international donors. Soon enough, Lebanon will be left with the world's lender of last resort instead: the International Monetary Fund (IMF).

But there is a snag. The IMF is likely to demand economic measures similar to those which sparked a national uprising in October last year. A punitive package of reforms aimed purely at repayment of IMF loans and austerity would exacerbate inequality, push Lebanon deeper into recession, increase the debt-to-GDP ratio, and, in all probability, make repayment to the IMF almost impossible to achieve.

Instead, the IMF and policy makers should strike a deal which balances much-needed financial, economic, and institutional reform with the social realities of a country in the midst of an anti-establishment uprising. First and foremost, any IMF package will need to address how the burden of state financing is unfairly levied on the poorer segments of society.

Progressive tax reform and collection will need to be at the heart of this process, with a focus on increasing collection rates and closing loopholes for income tax avoidance and evasion. The ludicrously low top tax rate of 25% should be the first to go—top taxpayers in OECD countries typically pay between 40% and 60%.¹ By simply increasing marginal taxes on high-

income earners to 40%, the government could harness almost \$7 billion per year. This is over double the potential revenue from the IMF's suggested VAT hike which would hit the poor harder than the rich.

Privatisation, another typical IMF demand, should not be considered in the short term. Lebanon's underperforming state assets have relatively low value, especially given the dire economic situation. In the current climate, privatisation would amount to a wasteful fire sale; instead, privatisation should only be considered in the medium-to-long term, when a future government can negotiate any sale from a position of strength. To get there, the government must implement long-awaited institutional reforms in the electricity sector, the telecommunications sector, and other key industries. Above all, Lebanon must establish and empower independent regulators, capable of defending the public good over private interests.

Otherwise, Lebanon will fall prey to the same fate as other countries that implemented hastily thought up IMF-led privatisation. Egypt and Tunisia, for example, did not have strong regulatory institutions to prevent regime elites from carving private monopolies out of former state assets. In Lebanon, that will mean that ministers kiss goodbye to their lucrative portfolios, which have long been cash-cows for their respective parties.

The IMF will be open to serious discussion with the Lebanese government. However, in return, Lebanese negotiators must be ready to bring meaningful policy suggestions to the table. Arriving empty handed would simply allow the IMF to impose its own agenda on a country which cannot afford austerity and regressive taxation. This time, the bill must be split equitably, with the richest shouldering their fair share of the burden.



INTRODUCTION

In March 2020, Lebanon made a historic decision. By opting to default and restructure Lebanon's payments to foreign creditors, Prime Minister Hassan Diab's government lost the country's much-vaunted record of never having defaulted on a debt. In the preceding weeks, the looming March 9 deadline —when \$1.2 billion in Eurobonds was due to foreign creditors—sparked much debate.

For those opposing the default, Lebanon may as well have upheld foreign-held debt payments, given they are a fraction of the total (around \$12 billion at face value by the end of 2019, compared to \$90 billion in total sovereign debt). Avoiding default might have bolstered Lebanon's financial credibility, but the pro-default camp had a simple question: what is the value of saving face when market confidence is already at rock bottom?



“(The) decision to default appeared to briefly respect the country's frustration with the decades-long, vicious cycle of debt, borrowing, and lack of meaningful reform and social investment.”



The voice from the street was clear: the government should not pay. In the end, Cabinet's unanimous decision to default appeared to briefly respect the country's frustration with the decades-long, vicious cycle of debt, borrowing, and lack of meaningful reform and social investment. It was also a decision that many experts favoured, noting that with the

dwindling reserves of Lebanon's central bank, the Banque du Liban (BDL), a default at some point between 2020 and the final maturity in 2037 was inevitable. By some estimates, the BDL would have run out of usable reserves within two years if it continued providing US dollars for essential imports and shelling out on debt payments. The government had already taken small steps to address its technical inadequacies by requesting technical assistance from the IMF.

BOX 1: Eurobonds refer to debt in foreign currency - usually US dollars. Lebanon, for example, has issued around \$33.5 billion in Eurobonds, which were bought by foreign investors, local banks, and the BDL. Although the exact breakdown is unpublished, foreign investment funds were thought to own around a third of Lebanese Eurobonds in September 2019. This figure is likely to have increased after local banks started to sell Eurobonds to foreign funds since October 2019, when nationwide protests pushed down Eurobond prices.

By early March, the stage was set for a legal fight with Lebanon's foreign creditors, many of whom are far from sympathetic to Lebanese interests. And the battle is still far from over. Even with postponed Eurobond repayments, Lebanon is in desperate need of a cash injection to import basic necessities, recapitalise local banks, and make good on future debt payments. The options for such funding are scarce; with few reforms in sight, the tantalising \$11 billion promised at CEDRE in April 2018 is hardly around the corner. What's more, Gulf countries and the US will be loath to fund a cabinet formed by Hezbollah and its allies.



Standing amidst an economic mess of its own making, the Lebanese government will almost certainly decide to apply for IMF financial aid. Only one question remains: Can Lebanon strike a deal with the IMF that will avoid wreaking even more havoc on the Lebanese?

THE IMF: LENDER OF LAST RESORT

The IMF is an international organisation that lends money to countries in balance of payment problems (see Box 2). The international community established the IMF, alongside the World Bank, in 1944 at the Bretton Woods Conference—hot on the heels of global financial crises caused by the Great Depression and World War II. In response, the IMF aims to ensure the stability of the international monetary system in its 189 member states.² Each country contributes a “quota”—in other words, a buy-in—upon admission to the IMF. The amount of this quota is calculated according to factors such as the size of its economy and international reserves.³ For example, Lebanon’s quota is worth around \$874 million;⁴ by comparison, the United Kingdom—whose Gross Domestic Product (GDP) is around fifty times the size of Lebanon’s—paid a quota of almost \$14 billion.⁵

The IMF tries to encourage a more unified global monetary policy by providing two types of assistance: technical and financial. All member states are entitled to receive technical assistance and training in areas including central banking, monetary and exchange rate policy, tax policy and administration, and official statistics. Some 80% of the IMF’s technical assistance goes to low-income and lower-middle-income countries, as well as post-conflict countries.⁶



“In Lebanon’s current financial quagmire, economists estimate that the cash injection required to recapitalise local banks and pay off foreign currency debt (without obliterating the BDL’s foreign reserves) is between \$15 and \$25 billion.”



The World Bank classifies Lebanon, which requested technical assistance in February this year, as a middle-income country.⁷

BOX 2: The Balance of Payments weighs up a country’s imports and exports of goods, services, and capital. Lebanon, for example, must borrow foreign money because it imports more than it exports, creating what is called a current account deficit. This stagnates the local economy in the long term and leaves the country indebted to foreign lenders.

IMF member states may borrow an amount not exceeding their IMF quota whenever they want. However, if the IMF judges a country’s debt to be “unsustainable,” the country may borrow more than its quota by securing exceptional access lending.⁸ For these countries, usually following a period of technical assistance, the IMF provides financial assistance—in other words, a loan, with conditions. Loans to low-income countries are typically extended on terms substantially more generous than market loans, and these are known as concessional loans.⁹ This can be achieved through interest-free grace periods, or by setting interest rates lower than market rates.

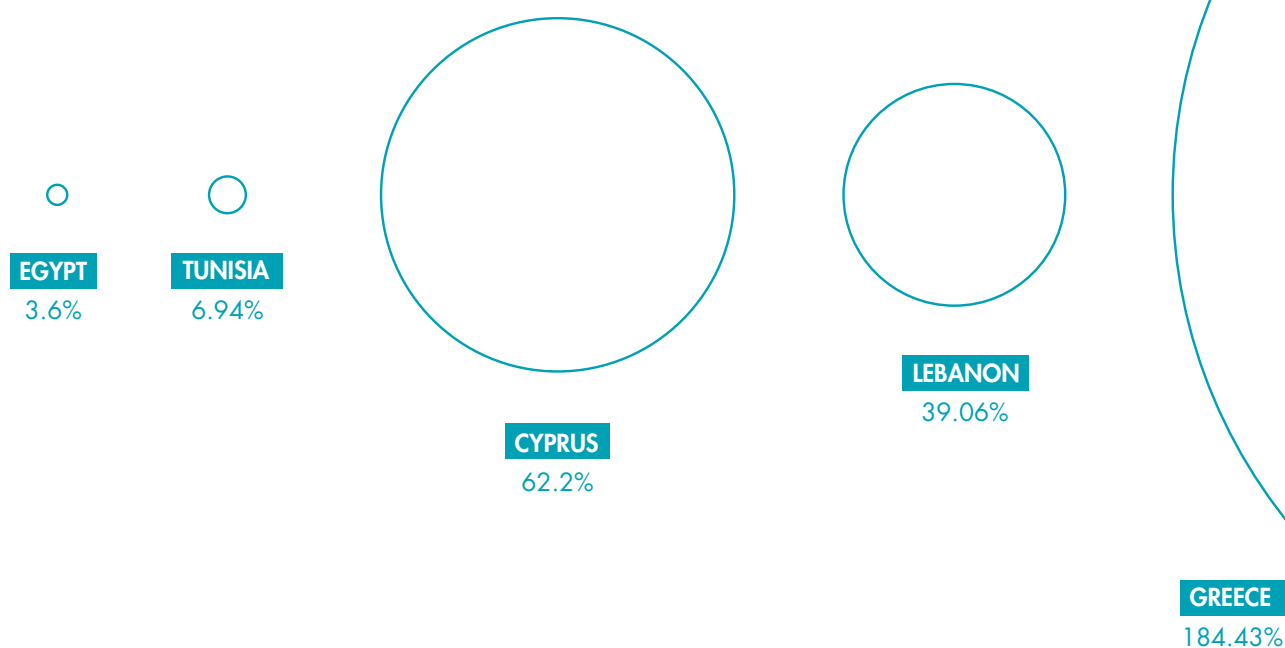


Figure 1. The size of actual / proposed IMF bailouts relative to the country's GDP.

Source: IMF, IMF Members' Financial Data by Country

In most cases, like a bank, the IMF expects to receive its money back with interest and within a certain timeframe.¹⁰ A country with Lebanon's economic history might reasonably expect to borrow around 10 times its IMF quota (around \$9 billion). But in Lebanon's current financial quagmire, economists estimate that the cash injection required to recapitalize local banks and pay off foreign currency debt (without obliterating the BDL's foreign reserves) is between \$15 and \$25 billion. Taking \$20 billion as the average, the amount required is almost half of Lebanon's GDP. IMF bailouts of neighbouring Tunisia and Egypt, by comparison, only came to 6.94% and 3.6% of their GDPs respectively, while the IMF's bailout to Greece

(along with the European Commission and the European Central Bank) dwarfs those packages [see Figure 1]. But the IMF and the European Union's joint bailout of Greece was an unprecedented measure to stop the spread of Greece's sovereign debt to other EU countries. A bailout of this size is unlikely to be granted to a county like Lebanon where the risk of contagion to other financial systems is all but non-existent.

STRINGS ATTACHED

The IMF's history in the region and further afield should be a warning to Lebanon. Broadly speaking,



the IMF tries to stabilise a country's debt by demanding certain reforms –if these reforms do not take place, the IMF may withhold its funds. Following a debt crisis across Latin America during the 1980s, the IMF, World Bank, and the US Treasury established a standard reform package for distressed countries, dubbed the “Washington Consensus.” The package prescribed adjustments including expanding the domestic private sector, openness to global markets, and macroeconomic stabilisation.¹¹ These recommendations stemmed from the belief that greater global market integration will attract more financial resources, allowing local businesses to create more jobs.¹²

In reality, the Washington Consensus reform package has had devastating effects in lower-income countries, such as nearby Egypt and Tunisia. Like many developing countries, Egypt and Tunisia found that privatisation and market liberalisation could not stimulate private sector-led growth without a substantial amount of public investment.¹³

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Moreover, the packages' one-size-fits-all nature did not require mitigation measures aimed at ameliorating the reforms' impact on vulnerable community members (e.g. mandatory spending on social safety nets). Weak regulatory institutions failed to prevent regime elites from carving private monopolies from

former state assets. This made liberalisation and privatisation policies vulnerable to elite capture, which concentrated assets among an unaccountable kleptocracy, amplified wealth gaps, and reduced the market's competitiveness.¹⁴

BOX 3: The World Bank, also created in 1944 at the Bretton Woods Conference, has a very different role to the IMF.¹ While the IMF promotes international monetary cooperation, the World Bank - formerly the International Bank for Reconstruction and Development - lends money to lower and middle-income countries to help them pursue infrastructure projects. In effect, the IMF is similar to a bank, while the World Bank is a development fund.

The 1990s saw growing criticism of the ideas associated with the Washington Consensus, spurred in part by financial crises in East Asia and Latin America, which brought about the election of many left-wing regimes. In response to this criticism, the IMF stated that it would make poverty reduction its main goal, instead of pure economic growth. However, IMF lending conditions still adhere to many of the precepts of the Washington Consensus.¹⁵

WHAT DO THE IMF'S CONDITIONS MEAN FOR LEBANON?

If Lebanon received financial aid from the IMF, it would be a likely candidate for several of the reforms laid out in the Washington Consensus. In fact, the IMF published its annual “Article IV Consultation Staff Report” (Article IV report) in October last year, outlining recommended reforms for Lebanon. The key elements of this recipe are: raising Value-Added Tax



All figures were converted into USD at the official rate of \$1: LL1515

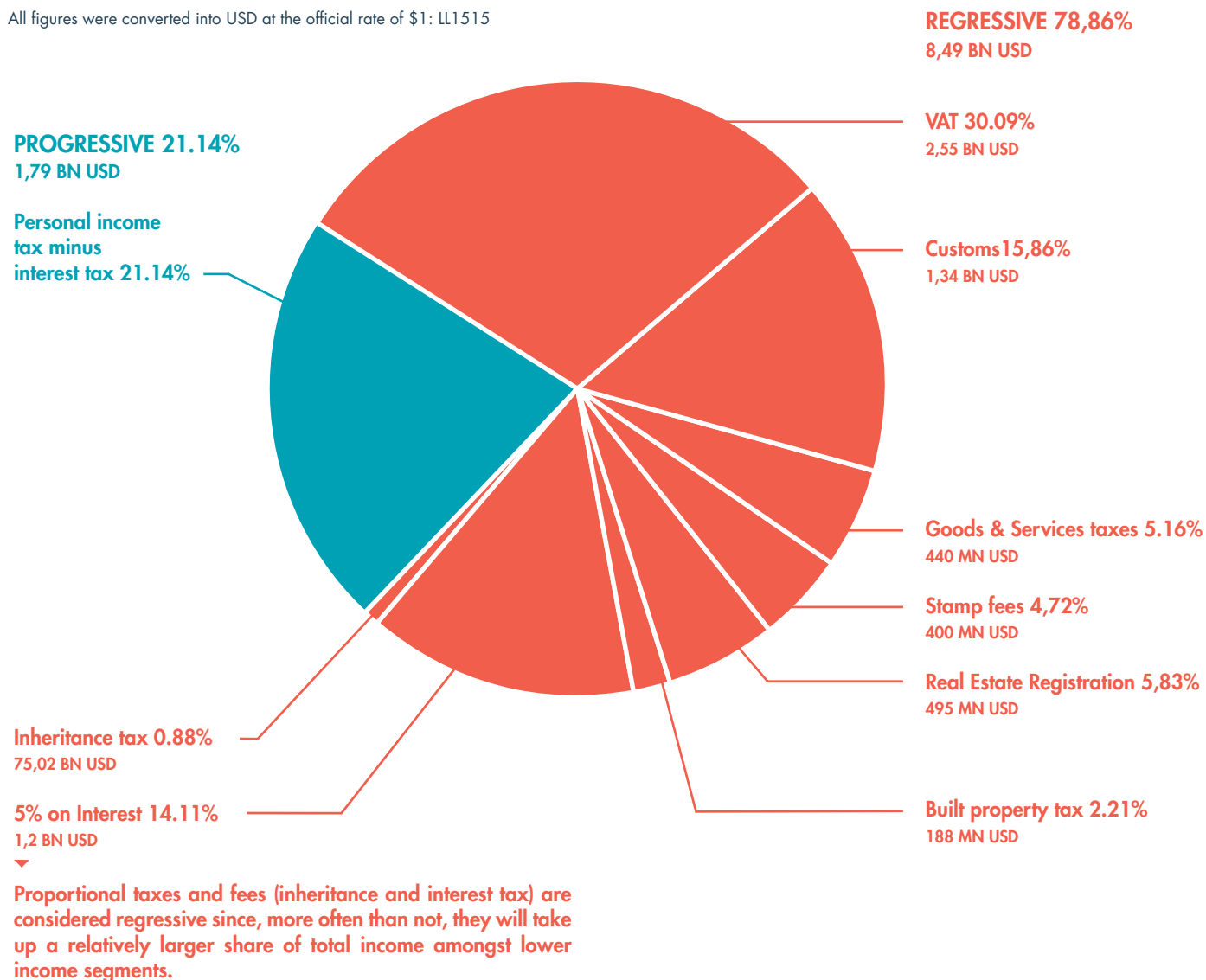


Figure 2: Regressive and progressive tax revenues (2018).

Source: Lebanon Ministry of Finance, Fiscal Performance 2018

(VAT) and fuel excise rates, improving tax collection, privatisation, cutting public sector spending, and implementing electricity sector reforms. So what would these reforms mean for Lebanese citizens?

RAISING VAT AND FUEL EXCISE

Under a financial relief package, the IMF would almost certainly demand that Lebanon increase its VAT rate. At present, when Lebanese consumers buy

goods or services, they must pay an extra 11% in VAT. The Article IV paper suggested driving up the VAT rate to 15% or even 20%.¹⁶ Separately, the IMF also proposed that Lebanon increase the excise payable on gasoline by LBP 5,000 per 20 litres.

The IMF has been asking Lebanon to raise the VAT rate for a decade now, and it is not hard to see why.¹⁷ In the dysfunctional Lebanese tax ecosystem, VAT stands



RAISING VAT PUTS MORE PEOPLE IN POVERTY



ABOVE
THE POVERTY LINE



BELOW
THE POVERTY LINE

30% IN POVERTY
(UNDER CURRENT VAT)



50% IN POVERTY
(UNDER IMF PROPOSED VAT RATE OF 15%)

Figure 3: Increasing Value Added Tax (VAT) from the current 11% to 15% is likely to increase the number of people in poverty from 30% to 50%.

Source: World Bank; Chaaban, Jad; Salti, Nisreen. *Economic Research Forum Working Paper Series, 2009*

BOX 4: VAT's main attraction is that it is easy to collect. Consumers pay automatically at the point of sale, and then the service provider remits the extra 11% collected to the Ministry of Finance. This process makes VAT an indirect tax, given that the service provider collects revenue on behalf of the government. An excise is slightly different from a goods and services tax (e.g. VAT) because the supplier pays the government when it procures the relevant good (e.g. gasoline), and then recovers that amount from consumers later. Like VAT, imposing an excise requires minimal government collection efforts.

Yet, if the IMF is sincerely interested in salvaging the Lebanese economy and someday getting back the money it (may) loan the country, it will avoid increasing the VAT rate. Lebanon is already embroiled in the early throes of a recession, with consumers cutting back on spending – even for essentials. Raising the price of everyday goods will drive people to make fewer purchases, causing the economy to contract even further. If this happens, then a VAT increase does not make sense in macroeconomic terms.

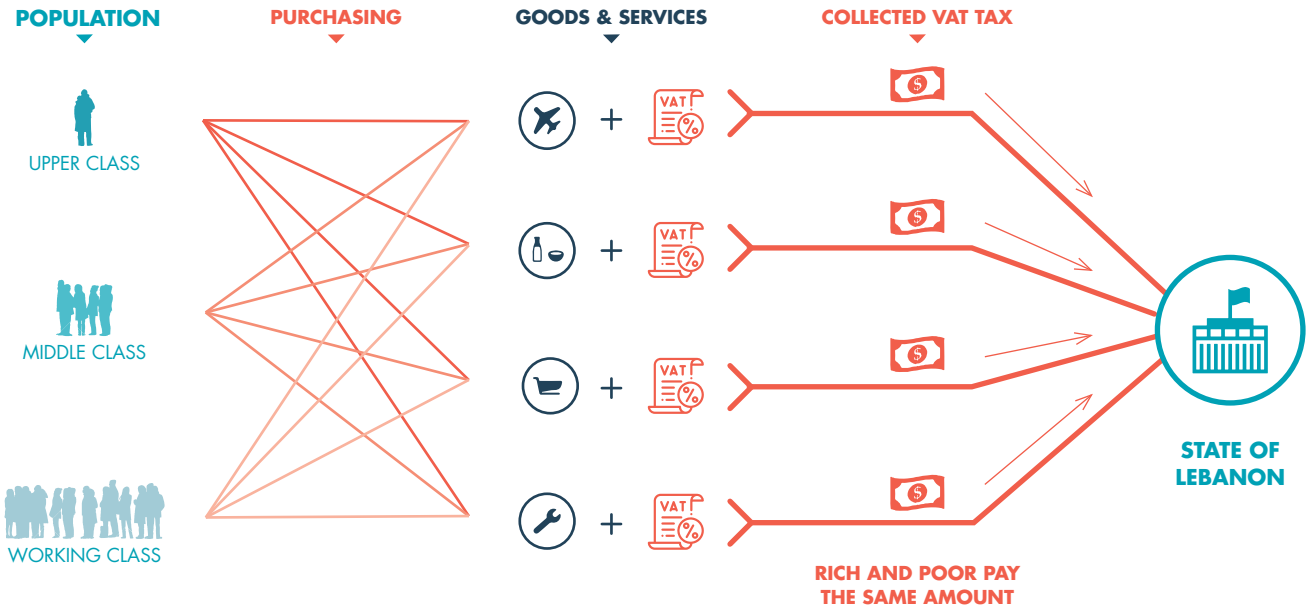
Beyond macroeconomics, VAT is a regressive tax. It entrenches wealth divisions by taxing all citizens equally, regardless of their individual wealth (see figure 4). When a café charges VAT to its customers, a billionaire like former Prime Minister Saad Hariri pays the same amount of VAT on bottled water as a poor farmer from Bekaa. The difference between handing

out as a lonely, reliable form of public funds. VAT accounted for 30.1% of government revenue in 2018, while progressive taxes (i.e. income tax) made up just 17% over the past decade.¹⁸



THE DIFFERENCE BETWEEN BETWEEN PROGRESSIVE AND REGRESSIVE TAX SYSTEMS

REGRESSIVE TAXATION:



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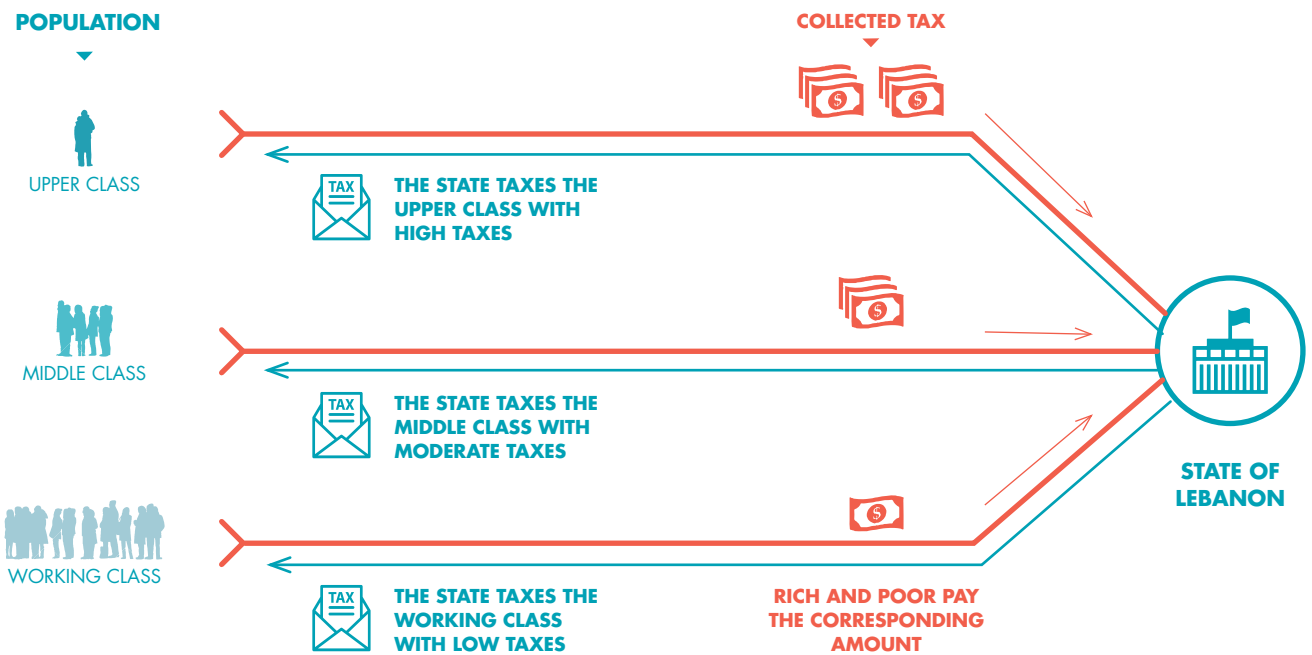


Figure 4: The difference between between progressive and regressive tax systems.



over 11% and 15% is unlikely to worry Hariri; but that amount could send vulnerable Lebanese households into poverty. One 2010 study predicted that a 5% VAT increase would have increased the number of Lebanese in overall poverty from 30% to 50%.¹⁹ The same concerns apply to increasing the excise on gasoline, which is an essential purchase for many poorer Lebanese.

Even the supposed trump card of regressive taxes—their efficiency—proves flimsy upon closer inspection. It has been argued that VAT is a crucial element of the Lebanese tax system because it contributes more than one-third of total public revenue. While this is true, the real question should be: why can't Lebanon reduce VAT and make up the shortfall with fairer, progressive taxes? At present, goods and services taxes outstrip income tax revenue for two reasons: government tax collection is inefficient, and the top marginal tax rate is egregiously low, at 25%. By comparison, the average top income tax bracket for OECD countries is around 42%.²⁰ Therefore, VAT is only vital to Lebanese finances because the state has decided against more equitable options.

PRIVATISATION

Privatisation of state-owned assets typically appears in IMF-led reforms for distressed economies, and the issue will no doubt arise at negotiations over any financial assistance. Because public assets are typically valuable (having received government investment over time), privatisation is a relatively simple way for governments to raise money quickly. In any event, prevailing IMF logic suggests that private companies usually deliver key services (e.g. the water sector) more efficiently than government agencies do. In Lebanon, key state-owned assets include EDL, Beirut airport, and BDL-owned Middle East Airlines,²¹ along with the telecommunications, water, and education sectors.

To be sure, many of Lebanon's public assets are woefully underperforming. The failings of EDL require no introduction to anyone who has spent longer than one day in Lebanon: EDL's feeble coverage — supplemented by expensive and environmentally damaging generators— costs the treasury US\$1.8 billion annually. Zahle has already gone literally off the grid and turned to privatised, more reliable electricity. In this context, it is hard to believe that the private sector could perform worse than EDL currently does. The same logic might apply to liberalising and eventually privatising all or part of Middle East Airlines.



“The key risk of privatisation before fundamental political reform (is that) there is little stopping political elites from selling public assets to their cronies, on the cheap.”



Despite these realities, fast tracking privatisation is against Lebanon's long-term interests. Firstly, Lebanon's state assets will not raise a great deal of money now, due to both their chronic underperformance and the current economic and financial crisis. The purchase price for such an asset—even the mobile telecommunications sector, the second most valuable source of revenue after VAT²²—would be rock bottom, amounting to an effective fire sale.

Secondly, Lebanon's political elite has demonstrated that it cannot be trusted with overseeing any process of privatisation. For instance, the CEDRE package offered infrastructure investment in exchange for reforms to



the administration of various state assets, including the Beirut port and the electricity sector. The demanded reforms included appointing a board of directors for the port and creating a regulatory body for the electricity sector; yet even these basic measures remain ink on paper. The former Minister of Energy reportedly resisted requests to submit the private tendering process for electricity-related contracts to a CEDRE steering committee, insisting on the ministry retaining control.²³ The Electricity Regulatory Authority, an entity legally mandated to regulate the electricity industry and formulate private sector involvement remains a figment of legislative imagination. The primary reason ministers and parties are opposed to such regulating bodies since they restrict cash flow from their lucrative ministerial portfolios. This all illustrates the key risk of privatisation before fundamental political reform: there is little stopping political elites from selling public assets to their cronies, on the cheap.

CUTS TO PUBLIC SECTOR

Yet, privatisation is one manifestation of another likely IMF reform: reducing the size of Lebanon's public sector. At present, the state pays out around 300,000 salaries per year, costing around \$6.4 billion annually. Without a doubt, political elites have used pointless job positions to spread patronage for decades — estimates suggest that 9,000 to 13,000 employment contracts correspond to non-existent jobs. This obviously constitutes an unreasonable drain on Lebanon's public finances.²⁴

On the other hand, public sector reforms should not conflate the size of Lebanon's public sector with its efficiency. A 300,000-strong corps of public employees is not necessarily oversized for the country's needs; rather, the government simply does not deliver

BOX 5: State-run Electricite du Liban's power plants are outdated and rely on expensive, heavy fuel oil, while the public electricity grid constantly haemorrhages electricity due to technical faults and theft. Moreover, EDL's collection of electricity bills is sluggish and inefficient and electricity tariffs have been frozen at USD 9.6 cents since 1994.

enough at present. True civil service reforms could drive up the government's administrative efficiency without having to slash and burn the public sector (see Recommendations).

IMPLEMENT ELECTRICITY SECTOR REFORMS

The IMF will continue pushing the government to implement reforms of the electricity sector, which currently loses the state an exorbitant \$1.8 billion each year. These losses stem from the sector's many deficiencies [see BOX 5].



“Much like fuel excise, a blanket increase of tariffs would have a regressive impact, forcing poorer Lebanese to shoulder the same burden as the rich.”



In April 2019, the government passed an electricity sector reform plan that aimed to address these concerns, with a view to securing CEDRE funding for investment in power infrastructure. The plan entails constructing six new, natural-gas-fuelled power plants over six years and increasing electricity tariffs to cover the true cost of electricity production.²⁵



The electricity sector reform plan represents a positive step forward for the Lebanese people, whose quality of life and business opportunities have long suffered under the current, utterly dysfunctional system. If successfully implemented, citizens would no longer rely on the costly, unregulated private generator industry to secure power coverage during daily blackouts on the national grid. Based on IMF projections, the plans would also result in gradually increasing savings for the treasury: EDL's deficit could reduce by 0.1% of GDP in 2020 and 0.9% in 2021, before climbing up to 1.9% in 2025. In principle, then, an IMF financial assistance package could provide extra impetus for the much-needed overhaul of Lebanon's electricity sector.



"It is unreasonable to expect consumers to pay more for the same level of service, especially if they will need to continue paying a second set of power bills to private generator operators."



The IMF's Article IV paper suggests raising the tariffs immediately, recognising that the frozen tariff levels (which effectively amount to a government electricity subsidy) fall below production costs. However, it is unreasonable to expect consumers to pay more for the same level of service, especially if they will need to continue paying a second set of power bills to private generator operators. And, much like fuel excise, a blanket increase of tariffs would have a regressive impact, forcing poorer Lebanese to shoulder the same burden as the rich.

IMPROVE TAX COLLECTION

Improving tax collection is one likely IMF-led reform which is cause for optimism. The state could realise a



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windfall by simply collecting the money owed by its citizens; recent estimates suggest that the Ministry of Finance fails to collect US\$3-4 billion annually. This yearly amount, if collected, would almost single-handedly cover the electricity reforms contemplated in the CEDRE package. The missing US\$3-4 billion also matches the range of additional revenue that the IMF would expect from a VAT increase: \$2.5 billion (with a 15% VAT) or \$3.6 billion (with a 20% VAT). At present, the Ministry of Finance faces several obstacles that hinder the efficient collection of Lebanese taxes.

First, Lebanese residents can hide their true financial positions from tax investigators with relative ease. Unlike in most countries, government auditors cannot compel banks to hand over their customers' banking information, due to Lebanon's outdated and harmful secrecy laws. Secondly, the massive cash economy means that the Ministry of Finance often cannot find a paper trail to confirm the income of each individual taxpayer. Finally, corruption permeates Lebanese society, allowing citizens with sufficient *wasta* (connections) to avoid serious tax scrutiny.²⁶ This ineffective tax collection system is one reason the government relies heavily on indirect, regressive taxes (e.g. VAT). (See the second instalment in this working paper series, "Coming Clean: Time to Open Lebanon's Chamber of Banking Secrets.")

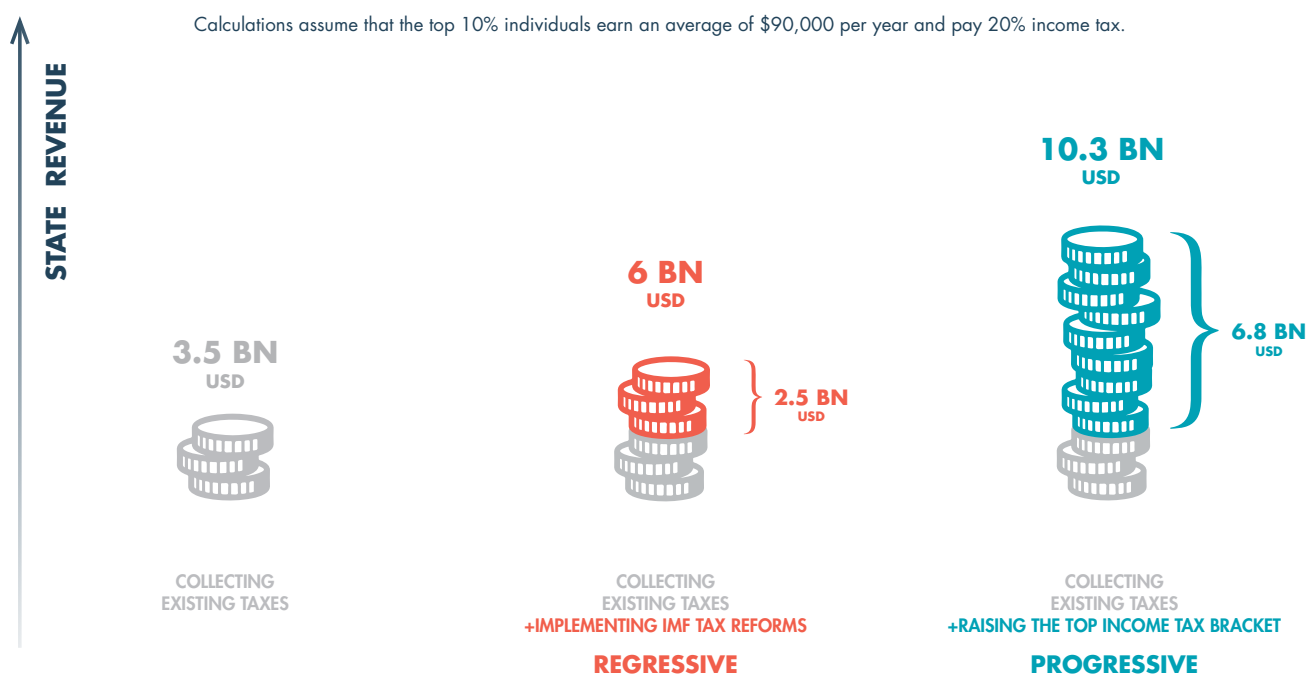


Figure 5: Different ways of increasing state revenue: raising the top tax bracket would harness double the potential revenue from the IMF's suggested VAT hike.¹

IMF Article IV Paper; Assouad, Lydia. "Rethinking the Lebanese Economic Miracle, 2018.

RECOMMENDATIONS

It is all too clear that the cookie cutter IMF package is neither tenable nor desirable for Lebanon. In all likelihood, the IMF's proposed reforms – which are primarily aimed at repayment of IMF loans – would spiral Lebanon deeper into recession, exacerbate the debt-to-GDP ratio, and further drive up inequality. Ironically, these developments would also make repayment to the IMF almost impossible to achieve. If the IMF and Lebanon's negotiating parties really have the country's best financial and socio-economic interests at heart, they will need to come up with a deal which balances much-needed financial, economic and institutional reform with the social realities of a country in the midst of an uprising – an uprising caused by policies similar to those being espoused by the IMF.

Tax collection will need to be at the heart of the reform process. Closing loopholes for income tax evasion would be a quick win; at present, Lebanon's tax revenue ranges from just 13% of GDP to 16%, while other middle-income countries collect an average of 24%. However, an IMF working paper estimates that Lebanon could increase this ratio to as much as 34% of GDP, or \$19.92 billion on last year's figures.²⁷ Improving tax collection could therefore create a massive dent in Lebanon's national debt, while also creating the foundation for a more equitable society, based on revenue from progressive taxes.

Next to go must be Lebanon's ludicrously low tax rates on the rich. Under the current system, the richest 10% of Lebanese (earning on average \$91,000 per annum) are legally required to pay only 20%



income tax. The average income for the top 10% of individuals is \$90,000, so they fall into the 20% tax bracket]. The average top tax rate in OECD countries, by comparison, is around 42%. In a country where some 55% of income is held by 10% of earners, income tax is an gigantic untapped revenue source. Raising Lebanon's top marginal tax rate to 40% would quickly increase state revenue by \$6.82 billion. This is over double the revenue that would be raised by the IMF's suggested regressive VAT hike —around \$2.5 billion. It is also almost double the amount that would be raised by simply collecting existing taxes properly (see Figure 5).

The IMF's proposed fuel excise hike would be especially perverse considering the behaviour of the Lebanese fuel cartel, which already inflates the price of fuel unreasonably to maximise profits.²⁸ If the treasury requires more revenue from gasoline sales, those funds should come from the fat profit margins of gas corporations rather than the pockets of Lebanese taxi drivers. The government could achieve this objective by increasing the fuel excise payable by gasoline producers, while also introducing fair competition legislation that ensures fuel prices remain at an affordable, acceptable level. Given that oil prices just fell through the floor, there is significant room for such a policy.

Privatisation should not be considered in the short term. Given the state of public services, fire sales in the current administrative environment would merely convert public monopolies to private ones. Instead, privatisation should only be considered in the medium-to-long term, when a future government can negotiate any sale from a position of strength. The primary sector for privatisation, mobile telecommunications, is only

attractive to international investors precisely because the government has spent the last decade developing the sector. To get there with other sectors, the government must implement long-awaited institutional reforms, especially in the electricity sector. Alongside any privatisation of state assets must come strict, independent regulators capable of representing the best interests of the public good over private interests.



“As for public sector cuts, policy makers should remember that simply slashing will not increase the civil service's efficiency.”



As for public sector cuts, policy makers should remember that simply slashing will not increase the civil service's efficiency. Digitisation of stone-age public records systems, embracing new technologies like Blockchain, filling new positions based on merit rather than creed, and implementing organisational structures developed by the Office of the Minister for Administrative Development – all are necessary steps to modernise a truly archaic public administration. These relatively straightforward changes would help to make the Lebanese state apparatus into a much stronger investment of public funds. It would also avoid the fallout from a slash-and-burn approach to public sector cuts, which would put many more Lebanese households—long dependent on government jobs for income—into poverty.

The CEDRE-driven electricity sector reform plan represents a positive step forward for Lebanese society. However, increasing electricity tariffs,



as recommended in the IMF's Article IV paper, should only occur after consumers are receiving a commensurately improved service. As the sector reform takes place, the government will need to take steps towards formalising the private generator industry. Generator operators should need to apply for licences and report to the government on their business activities. A blanket tariff increase will fall flat without this step, as the private sector will only be able to undercut efforts to make all Lebanese contribute to functional, 24/7 power coverage for everyone. The government will also need to appoint a truly independent regulator for the electricity sector to ensure that tariff collection and power distribution operates transparently and fairly.



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Alongside heavy infrastructure and capital investment, Lebanon desperately needs judicial reform. Conflicts of interest and anti-competitive market practices must finally be stamped out. For too long, politicians and economic elites have been in cahoots, creating little incentive to pass any sort of legislation or prioritising the public good. The parliament must enact strong conflict of interest and antitrust legislation to ensure that any future

investment or growth does not lapse into the hands of political and business elites.



"For too long, politicians and economic elites have been in cahoots, creating little incentive to pass any sort of legislation or prioritising the public good."



As the IMF assembles its financial assistance proposal, Lebanon must consider its cards very carefully. Playing a weak hand would allow the IMF and any other donor to impose its own agenda on a country which is already at breaking point. The IMF will be open to serious discussion with the Lebanese government. But in return, Lebanese negotiators must be ready to bring meaningful policy suggestions to the table. Arriving empty handed would simply allow the IMF to impose its own agenda on a country which can not afford austerity and regressive taxation. This time, the bill must be split equitably, with the richest shouldering their fair share of the burden.

EDITOR'S NOTE:

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The Ministry of Finance declined requests for comment on this paper.



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FIGURE & BOX ENDNOTES:

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- ii Calculations assume that the top 10% individuals earn an average of \$90,000 per year and pay 20% income tax.