

Kulluna Irada's speech at CEDRE

Paris, France

April 6, 2018

Ladies and Gentlemen,

Let me first thank the French government for their invitation today, and the Lebanese government for their willingness to engage on required structural reforms at the conference Kulluna Irada organized last month in Beirut and which gathered a number of governments, private sector, civil society, media and donor representatives.

Kulluna Irada is a civic organization for political reform founded and exclusively supported by Lebanese citizens at home and abroad.

We are here to be constructive but not complacent.

Eleven years after the Paris III conference, we are gathered here to discuss the Government of Lebanon stabilization and growth program which is premised on the notion that infrastructure investment and spending, financed by a concessional aid package, will crowd-in private sector investment, create jobs, and raise the growth rate that will help reduce the government budget deficit and put the public debt onto a sustainable path.

This is not the first time Lebanon attempts to fund such a large infrastructure plan. However, in this instance, the timing and context differ significantly:

Globally, the international agenda is crowded with risks, while global liquidity is getting more expensive in a rising interest rates environment, and development aid is not as generous nor as easily accessible.

Regionally: Conflicts and the persistence or intensification of Middle East proxy wars render regional economic cooperation more difficult, while lower oil prices dampened intra-regional flows, including remittances, exposing Lebanon's vulnerabilities. Our neighbors are busy advancing their own economic reform agendas; competing for the same capital Lebanon is vying to attract.

Locally: The economy is in worse shape than ever before: anemic growth with eroding potential prospects, large and widening fiscal and external imbalances; unsustainable public finances fueling high-interest rates; and unlike before, a much weaker sovereign and banking sector balance sheet. These have crowded out investment from the private sector, suffering already from the co-dependency of its main players on the political class, which long nurtured state-sponsored quasi-monopolies in key sectors at the expense of a vibrant job-creating SME sector

and entrepreneurs.

The demographic shifts resulting from the influx of Syrian refugees has compounded years of mal-governance and exacerbated existing structural problems. Poverty, joblessness, lack of robust safety nets and inequality (among the highest in the world) is today a key source of tensions amplifying the brain-drain migration of Lebanese youth and driving youth radicalization.

Our lessons learned from past episodes of externally financed infrastructure stimulus packages is still fresh and not encouraging. What went into infrastructure did not contribute to increasing productivity, create sustainable jobs and new industries, resulting only in a temporary stimulus, with higher debt levels. Add to that rampant corruption often leading to extra-budgetary disbursements on a sectarian and clientelist basis.

Does the proposed Capital Investment Plan (CIP) and its financing strategy help address these problems?

We, along with many of our fellow citizens, have serious concerns that this is not the case and that the stabilization logic, its underlying assumptions, and the proposed scenario may be excessively optimistic. Our skepticism relates to both the approach and the content of the proposed plan.

First; we are extremely concerned about the appetite for accumulating debt for infrastructure, even if concessional. We have serious legal reservations about the Government's intention "to present to Parliament, the entire CIP of around USD 17 bn to authorize it to enter into loan agreements with official lenders and donors and that no parliamentary approval is required for private sector investments for infrastructure within the framework of the recently approved PPP law"[1]. Past experience in funding reconstruction and infrastructure projects has been inefficient and resulted in corruption, huge waste, and delays. And after years of public investment stalemate, existing absorptive and implementation capacity has unfortunately not improved.

Given Lebanon's unsustainable debt stance, we caution against such a rapid pace of debt build-up and providing any potential privileges to new creditors as opposed to former ones. We call upon the IFIs, and notably the WB, EIB, EBRD and the IMF to uphold their economic, financial and fiduciary responsibility and ensure a robust follow-up and monitoring mechanism that is in the context of a macro-fiscal framework that is democratically validated.

Our concern is compounded by the quality of the strategic analysis and planning that underpinned the CIP project selection and rationale. While we welcome the cooperation with the World Bank for quick screening of the projects, such a large infrastructure program necessitates considerations of thorough economic feasibility and analysis of social returns on investment. To what extent is the CIP anchored into a strategic plan aimed at reducing our gaping social disparities, creating jobs, and addressing the rising health and environmental risks of ill-conceived policies and projects? The credibility of the CIP can only be enhanced if enshrined in a solid socio-economic vision and sectoral policy frameworks developed through

a serious process of open public and transparent consultations. These are essential to ensure the CEDRE process follows a successful path towards building the public buy-in it is aiming for.

Third, we deplore the lack of any macro-framework prepared by the Lebanese authorities that would underpin the CIP and justify its financing strategy. We all agree that Lebanon's current debt and fiscal paths are unsustainable. But how does the CIP correct this path to make it sustainable; what are the macro-fiscal conditions and reforms? The announced fiscal adjustment plan of up to 1 percentage point of GDP per year is welcome and necessary. With a proposed acceleration of public investment levels to more than 2 percentage point of GDP per annum over the next 4 years through the CIP, where will the offsetting reduction in the deficit come from every year? Based on our estimates, even with the most decisive fiscal adjustment, which no doubt will face serious social and political backlash and conservative assumptions, the debt burden is unlikely to fall below the 145% of GDP by 2022.

It is imperative therefore for the Lebanese people, and private sector to know in detail what the government is embarking on before endorsing any financing strategy or contracting new loans for the CIP purposes, including any type of implicit or explicit government guarantees to the private sector under the PPP framework, which remains untested in Lebanon.

We thus call upon the government as part of the CEDRE process to undertake public consultations about the cost and benefits of various reform scenarios for any macro-fiscal adjustment, including whether it is considering one that balances the fiscal consolidation imperative with debt restructuring and burden sharing with creditors. This is essential to add legitimacy and accountability to the CIP and the government plans, ensure public buy-in into any reform plan and provide the predictability for private sector investors.

The passage of the recent 2018 budget justifies our concerns. While re-normalizing the budgetary process is commendable, the budget blatantly includes measures that undermine fiscal responsibility by granting tax amnesties and encouraging regularization of illegal building permits, further exacerbating tax evasion and spreading corrupt practices in urban planning harmful to the environment. Notable is the thin approval rate of the budget by only 50 MPs out of 125.

We want CEDRE, its process, and implementation mechanisms to rectify these irregularities and not endorse them!

Lastly, private sector investment is no doubt a key necessity to revive growth. We do not think however that this should be done necessarily and only by privatizing all public services: presenting it as a solution or a substitute for failed state institutions is at best a fallacy. Lebanon's experience with private sector involvement in infrastructure projects is poor, particularly given nepotism and the entanglement of business elites with public sector officials in a context of a weak governance set up. The proposed PPP framework is one solution. We strongly suggest that fit for purpose legal and regulatory governance safeguards are in place as the Higher Council for Privatization assumes a more dynamic role it, including:

- Accountability framework that guarantees a level playing field, prevent conflicts of interest and safeguard the interest of the sovereign, notably regulatory and competition authorities in key infrastructure sectors.
- Fiscal institutions capable to understand and manage the often-debilitating fiscal risks and contingent liabilities associated with PPP

Moreover, the logic of private sector-led growth should aim to encourage new and emerging high value-added sectors, notably the knowledge-based sectors, the digital economy, energy, agro-tech, ecotourism, etc. some of which are areas that could be fully exploited and seeded in PPP initiatives. It would be critical to capitalize on the CEDRE framework to help the economy regain competitiveness and sustainable job creation in those sectors.

Ladies and gentlemen,

We believe the choice that should motivate CEDRE should not be a binary one: letting the system collapse or knocking at the doors of the international community to help us rescue it. We believe there is a third way forward, one that transforms the system by building a new social contract between the citizens and the State along the principles of good governance, sustainability, efficiency, accountability; and competence. Without such a value and rule-based system, we will not attract growth enhancing private investments that the Lebanese deserve.

We hope that the CEDRE process becomes the platform and the catalyst for -and we call upon the international community to support- the reform effort of the Lebanese State through a robust follow-up mechanism which ensures the following milestones:

Present as soon as possible a home-grown thoroughly assessed and well-founded macro-fiscal framework that supports building a credible and sustainable debt path and socio-economic model. Such a framework should entail the appropriate conditionality to (i) revenue side reforms that discourage the rentier economy; and that allows for a more equitable income distribution; (ii) The comprehensive reform of the electricity sector without delays given its impact on growth and public finances; (iii) the restructuring of the colossal public sector wage bill, and (iv) the rationalization of public spending in a way to focus it on priority public services (education, and the environment). Fiscal reforms should also be accompanied and coordinated by proper adjustment to the monetary and exchange rate framework.

Prioritize efficiency enhancing reform as conditions to disbursement of future funding; notably: that each project goes through the full public investment cycle of sectoral planning, investment budgeting, project appraisal and selection, and management and monitoring of project implementation. Consideration of spatial planning and focus on reduction of social and regional disparities should be guiding principles.

the reform of the public procurement law and procedures, starting by immediate adoption of standard bidding documents, to capacity building of public purchasers and the modernization of control mechanisms by the court of account.

Adopt concrete measures to strengthen accountability and counter corruption as conditions for future funds disbursement. This includes (i) undertaking public consultations on the draft laws currently in Parliament, including illicit enrichment, protection of whistle-blower, corruption investigation commission, etc., in addition to preparing and calling for public consultations before passing the Law on conflict of interest; (ii) building a statistical base necessary for decision making, and monitoring spending and development outcomes starting by a population census and taxpayers; (iii) instill a discipline of budget transparency and regular public reporting by line ministries and the Council for Development and Reconstruction on project implementation progress and costs.

Ensure that competence and excellence in public service underpin policy formulation and regulation of private sector activity. We cannot relegate justice and administrative reforms to the second priority. While this is a long-term process, CEDRE can ensure that an action plan for serious and fiscally sustainable merit based civil service reform is put in place and implemented as a priority and that a national dialogue is launched on the independence of the judiciary.

Ladies and gentlemen,

Challenges are colossal, and it is therefore critical that the pillars of good governance require broad consultations of and permanent dialogue with citizens and their engagement. Kulluna Irada is ready to fully participate in this process and to serve as a platform for dialogue and a driver for proposals.

Thank you for your attention.