

## Lebanon should implement 'painful' reforms

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BEIRUT: Lebanon needs to implement "painful" and "unpopular" reforms, especially concerning its large debt burden and in the realm of its energy sector, or it runs the risk of losing out on funding and foreign investment, the European Bank for Reconstruction and Development's vice president Jurgen Rigtterink said Monday. "We, as a bank, will be very, very careful to substantially increase our exposure in a country like this without having seen significant reform. That, I can say, is a fact," Rigtterink told The Daily Star in an exclusive interview. However, despite these stern words, Rigtterink made sure to emphasize that he was hopeful about reforms being implemented by the government, saying that after meeting with officials and other figures, he feels a sense of urgency and optimism.

"Somehow I get the impression, during all these meetings that the sense of urgency this time seems to be there. But I did feel somehow a sense of optimism, and from what I gather from my colleagues, who have more knowledge about it, that hasn't always been the case."

During his visit to Lebanon, Rigtterink met Lebanese officials and private sector figures to discuss financing potential projects in the country.

"The most important thing for us, for me, to determine [is] if you ... look at all the economic indicators and other things, they actually point to an imminent crisis.

"And obviously, we, like many organizations already working for a longer time here, are very concerned about that," he added.

When asked why he thought things would be different this time, Rigtterink pointed to the various wake-up calls, like the recent Moody's downgrade.

"Never waste a good crisis ... The economic indicators have been worsening and worsening and I think that everybody has been realizing that this cannot continue and things like a Moody's downgrade for example, this was one of several wake up calls."

"If these reforms do happen," Rigtterink said, "you will actually see us and other IFIs investing more, but even more importantly, you'll see more foreign direct investments coming back and only that can unlock the let's call it, stalemate or the low prospects here."

"Now we have not only a new government but a capable government. And we want to see how serious the government is about implementing the necessary but also painful reforms," he added.

"And they undoubtedly will be painful. Because reforms in general are painful, for a certain group. But not doing it will be more painful."

Aside from fiscal consolidation and a reform of the energy sector, Rigtterink would also like to see an overhaul of the tax system through tax compliance, which he implies was discussed in his meetings with officials.

"There are certain areas which, I shouldn't do this, because who am I? ... But I feel kind of strongly about it and it's also something which we have heard throughout the day.

"There's a large part of Lebanon which operates on the grey side, in the grey economy. So if ... you increase the tax revenue, not necessarily by increasing the tax for people who are already paying but actually try to include tax revenue from the people who are not paying yet and who are operating in the grey economy."

"And that might not be the most popular message in the world but actually when you put this in the points under the reform side I wouldn't mind that."

Rigtterink said the EBRD had invested over 244 million euros (\$270 million) in seven projects during its first year of operation in the country. While he couldn't discuss any official projections, he said that in its second year the figure would probably be "a little bit lower."

“Hopefully this year, we will do 100 million plus, and we’ll try to diversify in the coming years. We’ll go beyond banking; we would like to work with projects with your government through government-related projects, as we never give money directly to the government.”

EBDR believes in looking beyond Beirut and actively tries to engage with business communities all over the country, in order to create jobs wherever they are needed.

In fact, one of its current projects under review will finance main municipal infrastructure for three industrial zones in Lebanon, co-financed by the European Investment and the Italian government. It involves investments in three industrial zones located in Baalbek, Tourbol-Koussaya and Qaa-Hermel.

“There’s currently discussion in the new government about expanding the zones and there will be an imminent decision in the Council of Ministers in the next few weeks,” said Gretchen Biery, head of the EBRD Lebanon Office. Additionally, the EBRD has a program called “Advisory for Small Businesses” through which it currently provides business advice to 19 small businesses in close cooperation with the EU.

As it’s Rigterink’s first time in Lebanon, he shared a few insights about its people with The Daily Star:

“I think it’s fair to say that it’s great to see that there are many smart, successful, very highly educated, rich Lebanese people living all over the world ... but it actually would be much greater [knocks on wood] if they came back ... Maybe they will not necessarily come back, but we have to make sure that we build a country where these young people do not leave anymore.

And for that not only good education is necessary but also good job prospects.”

“I believe that the stars possibly are aligned. And hopefully I’m right,” Rigterink said.