

## Donors: More reforms needed or no money

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BEIRUT: While endorsing the draft 2019 state budget was a good first step, Lebanon must enact more serious reforms to unlock funds pledged at last year's CEDRE conference, two main CEDRE donors have told The Daily Star. The government must also continue working to implement the two major CEDRE commitments it has made headway on so far: fiscal and electricity reform.

"The budget is a good first step, but of course it is not sufficient by itself. Lebanon has accumulated a lot of challenges and many have become urgent," Wissam Harake, the World Bank's senior economist for Lebanon, told The Daily Star. The World Bank is the single largest donor under CEDRE, having pledged \$4 billion in soft loans out of the total \$11 billion.

At CEDRE, Lebanon promised to reduce its deficit-to-GDP ratio by at least 1 percentage point per year for five years, as well as to make structural reforms in the government and in sectors including electricity.

Government officials say the 2019 budget overshot that commitment by a wide margin - reducing it to under 7 percent from 11.1 percent, though the International Monetary Fund has projected a significantly smaller reduction.

The government is hoping to access the soft loans pledged at CEDRE to undertake vital infrastructure projects that it hopes will boost the country's ailing economy.

For the World Bank, Harake said that key factors in the short term were the implementation of the 2019 budget and an electricity plan that Cabinet adopted in April.

The plan aims to end a roughly \$2 billion yearly deficit in the sector.

Harake also said momentum should be maintained for the 2020 budget to be on the right track.

"We have highlighted that the priority is reform on the fiscal side and the electricity sector. These issues [fiscal and electricity reform] need to be front-loaded and we're happy to see that these two issues have been taken up immediately following government formation," he said.

While fiscal reform is important, reforms on the governance side take on an equally large weight if Lebanon wants to enter the project phase - that is, if it wants to see the money. And on that front, progress has been slower.

Harake points to the need for a robust public procurement law that would strengthen governance, thereby instilling confidence in prospective investors.

The government has also committed to forming the National Electricity Regulatory Authority, which is supposed to oversee the energy sector, including the commissioning of the new power plants central to the electricity plan.

**The body, mandated by Law 462 of 2002, was never formed. Its powers instead remain in the hands of the Energy Ministry and, to a lesser extent, the Finance Ministry.**

Donor nations and institutions want the body formed.

"The effective implementation of CEDRE requires that a robust and transparent monitoring mechanism be put in place, as well as an independent regulatory authority - to which the government has committed in its ministerial statement - namely in the energy sector," the French Embassy told The Daily Star in a statement.

"We very much hope that they will be established in the coming weeks, as they are highly anticipated by all the donors, including France," the statement added.

France organized the CEDRE conference and pledged 400 million euros in soft loans and another 150 million euros in grants, for a total of around \$613 million.

The International Support Group for Lebanon, which includes a number of donor states, also called for forming the regulatory body after the budget was endorsed, in addition to enacting a host of other reforms, including measures to increase transparency and fight corruption.

But political factions are divided on what the authority would look like, with the Free Patriotic Movement, which has held the Energy Ministry for 10 years, seeking to amend the 2002 law amid opposition from other parties.

"There is a school of thought among some in the government to diminish the value of the regulatory authority from what is currently stated in the 2002 law," Deputy Prime Minister Ghassan Hasbani said. Hasbani is a member of the Lebanese Forces, a main political rival of the FPM.

Energy Minister Nada Boustani and a number of other FPM ministers could not be reached for comment.

"They are pushing to modify the law before appointing the regulatory authority, which would effectively place its powers in the hands of the ministry," Hasbani said, in an apparent reference to the FPM.

Politics, then, could delay the reform process needed to provide donor states with the conditions they want before investing.

And there are few signs that officials will cease quibbling over relatively minor issues amid compounding financial woes. For example, the government hasn't met for nearly a month due to political tensions over a security incident in Aley.

And just Wednesday, President Michel Aoun held off on signing the 2019 budget into law over the reported inclusion of an article that a political source claimed Parliament had in fact voted down.

A meeting between Aoun and Prime Minister Saad Hariri that addressed the issue bore no immediate results.

“We want the CEDRE process to start last year, but it’s dependent on the government and its capacity to implement,” Harake said, stressing the need for political consensus, which he noted had been a vital contributing factor in endorsing both of the electricity plan and the 2019 budget.

“The timeline [for CEDRE] is set by the government, and the main determinant is the capacity of the government to implement the projects, and the efficiency and transparency with which they are implemented, which goes back to the reforms that the government has committed to.”