

## A slew of reforms await new government

**Osama Habib|**

BEIRUT: Any new prime minister who will be named to head Lebanon's government will definitely encounter the million-dollar questions: Can he succeed where others have failed? Can he implement the bold economic reforms?

The other big question is will the new prime minister be able to ram the International Monetary Fund's economic remedies down the throat of Lebanon?

These questions linger as the rival political groups in the Parliament and outside the Parliament are still deeply divided on the nature of the new Cabinet and who is best suitable choice to handle this gigantic task.

To add wounds to the injuries of Lebanon, the Lebanese are still in a state of shock after Beirut Port blast on Aug. 4 that left more than 180 people killed, 8,000 wounded and around 300,000 homeless in Beirut.

This blast, which also caused billions of dollars in material damage, has forced the government of Prime Minister Hassan Diab to resign amid wide anti-government protests.

Lebanon's economy is in total shambles with over 40 percent unemployment, 50 percent below poverty line, \$91 billion public debt, rickety infrastructure and one of the worst electricity sectors in the region.

The new government, if it was formed soon, must take quick measures to restore the confidence of the international community, which expressed total disappointment over the failure of all the previous governments to implement a single reform.

On Aug. 9, Kristalina Georgieva, managing director of the International Monetary Fund, was very explicit in her statement during the virtual "International Conference on Support to Beirut and the Lebanese People Conference."

"We are ready to redouble our efforts. But we need unity of purpose in Lebanon – we need all institutions to come together determined to carry out much needed reforms.

She repeated that among IMF's conditions for financial support is the restoration of the solvency of public finances and the soundness of the financial system.

"Current and future generations of Lebanese must not be saddled with more debts than they can ever repay. This is why the IMF requires debt sustainability as a condition for lending. And the financial system must be solvent – those who benefited from past excessive returns need to share the burden of bank recapitalization, to protect the life savings of the vast majority of ordinary Lebanese depositors." Georgieva said.

The head of the IMF also urged the Lebanese authorities to put in place temporary safeguards to avoid continued capital outflows that would further undermine the financial system while reforms are taking hold.

"This includes adopting legislation to formalize capital controls in the banking system and eliminate the current multiple exchange rate system to help protect Lebanon's international reserves while reducing rent-seeking and corruption," Georgieva said.

But the key point in Georgieva's statement was the IMF's request to reduce the protracted losses in many state-owned enterprises.

"There must be more predictability, transparency and accountability – with comprehensive audits of key institutions, including the Central Bank," she stressed, a clear reference to the demand for forensic auditing of the Central Bank's account.

Habib Zoghbi, president of Harvard Business Club in Lebanon and an economist, favored a totally independent government consisting of professionals who have proven knowledge and track record and well versed in their fields.

"Each minister should be knowledgeable in the field of his ministry," he said.

Zoghbi said the first task of the new government in the first week is to stop paying the salaries of nearly 7,000 public employees who fail to report to work or who live abroad, adding that this step alone can save \$150 million a year.

He also proposed the closure of at least 20 of the 73 government institutions that are useless and spend public money inefficiently and with no important purpose.

This step, according to Zoghbi, this measure will allow the new government to save \$200 million a year.

He also underlined the need to reform the Central Bank according to a new program and strategy with a futuristic structure.

Zoghbi also called for the control of the borders with Syria through technologies, drones, GPS systems for transporters, scanners, dogs and a tracking system.

Zoghbi also proposed other steps to ease the financial pressure on the Treasury such as using private insurance to reduce the budget of the Health Ministry and improve control and efficiency, reform judicial system and create special mixed tribunal to recover stolen funds.

Dan Azzi, a former CEO of Standard Chartered Bank in Lebanon and a financial analyst, said that most Lebanese attach an inordinate amount of importance to geopolitical developments and external solutions to their problems, disregarding the explicit messages from world leaders.

“President Macron, arguably our strongest advocate, was asked by one of the protesters (regarding Macron meeting the president, the PM, and leader of the House of Parliament), Why are you meeting with these people?” Macron, unflinchingly answered the rebuke with, you elected them. I have to meet them. In other words, you reap what you sow,” Azzi said.

He reminded the Lebanese that the IMF issued a statement last week outlining the steps Lebanon need to take in order to receive the first batch of financial assistance.

“The IMF issued a communiqué last week, giving its conditions for moving forward with unlocking the billions of dollars in funding that Lebanon is asking for,” Azzi said.

He added that among the main points of IMF’s recommendations is that those who benefited from past excessive returns need to share the burden of bank recapitalization, to protect the life savings of the vast majority of ordinary Lebanese depositors.

“In other words, a bail-in and haircut/claw backs of excess returns of large depositors.”

Azzi said that the IMF wants capital controls and eliminating multiple exchange rates (i.e. remove subsidies on items like fuel and gasoline), comprehensive audit of BDL and other institutions, which is equivalent to a forensic audit, social net to protect the most vulnerable who are the ones hurt by the current devaluation of the lira, as well as the skyrocketing unemployment rate.

“What stopped the government moving forward with these conditions wasn’t the fact that the previous government was dominated by one side of the political spectrum, but ferocious lobbying by the effected socio-economic centers of power. These are old men in suits who expect to receive free money to distribute as they see fit, and continue with BAU, with no accountability for their role in getting us to this miserable state,” Azzi said.

For his part, Henri Chaoul, the former adviser to caretaker Finance Minister Ghazi Wazni, said that what is needed is an independent government with exceptional legislative power to do the following four things: “Manage immediate financial assistance to people in need caused by the bomb and otherwise; a management of an independent international investigation and not the circus that is going on now; the conclusion of an accord with the IMF that will include restructuring of the financial sector and all the reforms that need to take place with all laws that should accompany it.

Chaoul also called for new electoral law based on which immediate elections will take place.