

LEBANON ECONOMIC VISION

ADVOCACY GUIDE



CONSULTATION & RESEARCH INSTITUTE
مؤسسة البحوث والإستشارات

STRUCTURE AND COMPOSITION

This advocacy guide is structured as follows:

- ❖ The outline mirrors the structure of the Lebanon Economic Vision report (LEV)
- ❖ Each slide (sub-topic) presents:
 - ✓ A summary of the main weaknesses that were identified and developed in detail in the first assessment report
 - ✓ A list of the recommendations offered by the LEV (where available)
 - ✓ A list of additional or alternative advocacy recommendations offered by the study team and presented in a bright yellow box

LEBANON'S ECONOMIC VISION

ECONOMIC ASPIRATIONS

- ❖ Challenges
- ❖ Principles
- ❖ Vision

SECTORAL ENGINES

- ❖ Agriculture
- ❖ Industry
- ❖ Tourism
- ❖ Knowledge Economy
- ❖ Financial Services
- ❖ Diaspora

ENABLERS

- ❖ Infrastructure
- ❖ Government (administration, finance, legislation)

INSTITUTIONAL MECHANISMS

ECONOMIC ASPIRATIONS

- ❖ Challenges
- ❖ Principles
- ❖ Vision

Diagnostic Weaknesses

- ❖ The report identifies challenges (*highly volatile economy, limited government ability to ignite growth, non-conducive business environment*) that are in reality symptoms of deeper structural dysfunctions (*geopolitical instability, sectarian political system, intertwined interests of the political and business elites, neoliberal economic model*) in Lebanon's economy

Therefore...

- ❖ The report proposes ill-adapted solutions in unrealistic timeframes that will not bear fruit unless the underlying dysfunctions are addressed

Advocate for

- ✓ Addressing the structural dysfunctions, starting with dismantling the oligopolistic political-business complex which feeds on sectarian identities

ECONOMIC ASPIRATIONS

- ❖ Challenges
- ❖ **Principles**
- ❖ Vision

Diagnostic Weaknesses

- ❖ An almost exclusive focus on growth to the detriment of social justice and sustainability

Advocate for

- ✓ Re-igniting the tripartite social dialogue among the three partners of growth namely the state, employers, and workers within both current (ECOSOC) and new platforms
- ✓ Institutionalizing social and environmental assessments for all proposed national initiatives

ECONOMIC ASPIRATIONS

- ❖ Challenges
- ❖ Principles
- ❖ **Vision**

Diagnostic Weaknesses

- ❖ A purely neoliberal perspective that views the sole responsibility of the state as ensuring the best environment for business and investment, rather than regulating the market and ensuring social protection

Advocate for

- ✓ Transition from a safety net perspective that targets specific vulnerable groups to a welfare perspective based on strong institutions that offers social protection to citizens (quality public education, universal healthcare, pension, etc.)



SECTORAL ENGINES



SECTORAL ENGINES

- ❖ **Agriculture**
- ❖ Industry
- ❖ Tourism

- ❖ Knowledge Economy
- ❖ Financial Services
- ❖ Diaspora

Diagnostic Weaknesses

- ❖ The diagnosis lacks three major obstacles: the saturation of regional and global markets, Lebanon's inability to reach the production volume required to become cost competitive, and the oligopolistic nature of the agricultural input market
- ❖ The selection of agriculture as a priority sector that may act as a lever for the Lebanese economy does not seem highly defensible

LEV Recommendations

- ✓ Promote the application of modern technologies
- ✓ Improve local (and regional) food markets
- ✓ Support transition towards higher-value crops and livestock
- ✓ Facilitate access to international markets
- ✓ Explore legalization of cannabis cultivation

Advocate for

- ✓ Focusing sector reforms on high-value crops and crops tied to agro-food and medicinal industries
- ✓ Providing agricultural workers with the protection of the labour law which currently excludes them
- ✓ Tackling the issue of high employment informality (around 90%), addressing land informality in Northern Bekaa, and the high incidence of child labour in this sector
- ✓ Including use of resources such as water while selecting priority crops

SECTORAL ENGINES

- ❖ Agriculture
- ❖ **Industry**
- ❖ Tourism
- ❖ Knowledge Economy
- ❖ Financial Services
- ❖ Diaspora

Diagnostic Weaknesses

- ❖ Failure to mention the predominance of micro and small enterprises characterized by simple processes, informality of labor, and a low presence of business-to-business exchange
- ❖ Failure to account for the flooding of Lebanese and regional markets with cheaper products due to the rapid liberalization of foreign trade

LEV Recommendations

- ✓ Prioritizing high-potential subsectors: food-processing, high-end design and marketing, Syrian reconstruction, high-skill products
- ✓ Developing National Integrated Industrial Parks (NIIPs)

Advocate for

- ✓ Supporting MSEs in their transition into larger vertically and horizontally integrated enterprises starting with an initial assessment of the main bottlenecks to growth
- ✓ Revising current trade agreements (mentioned in the diagnostic but not in the priority recommendations)
- ✓ Introducing regulatory mechanisms (subsidies, fines) that promote cleaner industrial processes
- ✓ Preparing the potential synergies between industrial development and the future oil and gas era in Lebanon

SECTORAL ENGINES

- ❖ Agriculture
- ❖ Industry
- ❖ **Tourism**
- ❖ Knowledge Economy
- ❖ Financial Services
- ❖ Diaspora

Diagnostic Weaknesses

- ❖ Failure to mention internal tourism as a resilient source of visitors and as a vector of local development
- ❖ Insufficient focus on the role of the environment in the growth of this sector

LEV Recommendations

- ✓ Focus on attracting leisure tourists from 15 source countries by building core offerings in Beirut, Byblos, and Sour, and develop ultra-luxury eco-tourism hubs
- ✓ Position Lebanon as a convenient destination for regional medical tourists by offering specialized services
- ✓ Grow the Meeting and Incentive segment (with a focus on UAE, Qatar, Kuwait, KSA, and Iraq)

Advocate for

- ✓ Resolving the solid waste management problem as a pre-requisite to any tourism reform
- ✓ Providing social protection for seasonal workers

SECTORAL ENGINES

- ❖ Agriculture
- ❖ Industry
- ❖ Tourism

- ❖ **Knowledge Economy**
- ❖ Financial Services
- ❖ Diaspora

Identified Weaknesses

- ❖ This venture requires sizeable investments (e.g. the Beirut Knowledge Village) that may not yield the expected outcomes.
- ❖ The Vision does not provide any cost estimates however preliminary of the cost of these proposed projects.

LEV Recommendations

- ✓ Become a highly productive digital economy, acting as a digital talent hub
- ✓ Position Lebanon as a leading regional outsourcing destination for BPO services and a global hub for middle east research and analytics service desks
- ✓ Become a regional creative hub in a specific set of niches (branding, fiscal and non-fiscal incentives)
- ✓ Become an educational hub, attracting regional and international students

Advocate for

- ✓ Establishing the pre-requisites for a knowledge economy (matching educational skills, ICT services) before making sizeable and risky investments
- ✓ Increasing data production at all levels and ensuring its wide dissemination

SECTORAL ENGINES

- ❖ Agriculture
- ❖ Industry
- ❖ Tourism
- ❖ Knowledge Economy
- ❖ **Financial Services**
- ❖ Diaspora

Diagnostic Weaknesses

- ❖ Financial services are not labour intensive by definition and are therefore unlikely to generate employment, as acknowledged by the report itself

LEV Recommendations

- ✓ Strengthen the financial services sector to enable the country's economic development agenda (beyond banking)
- ✓ Position Lebanon as an investment management and offshoring hub
- ✓ Develop centers of excellence in specific niches (project finance, digital and analytics, actuarial studies, equity and investment research)

Advocate for

- ✓ Ensuring that any incentives given to this sector are counterbalanced by progressive incentives that benefit lower income groups
- ✓ Address the discrepancies in the provision of banking credit across genders and sectors

SECTORAL ENGINES

- ❖ Agriculture
- ❖ Industry
- ❖ Tourism
- ❖ Knowledge Economy
- ❖ Financial Services
- ❖ **Diaspora**

Diagnostic Weaknesses

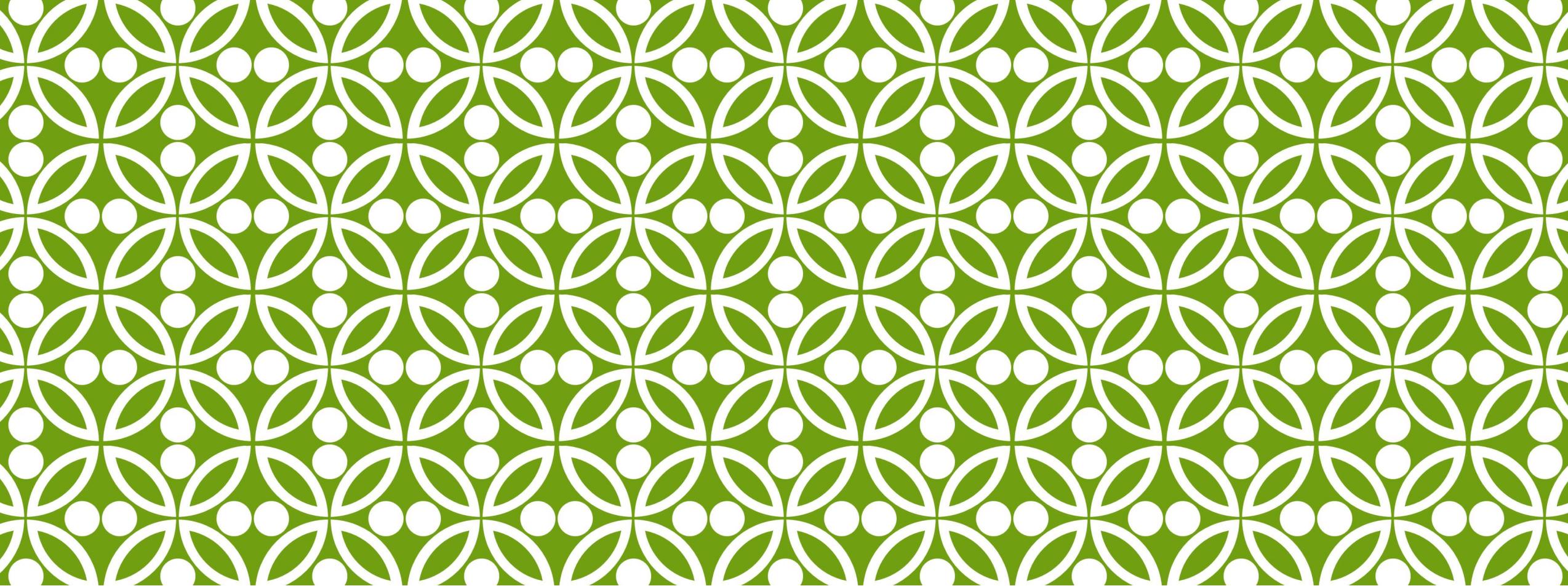
- ❖ The concept of “diaspora” needs to be more clearly defined
- ❖ The economic vision presents “diaspora” as an economic sector instead of an enabler of economic development
- ❖ The inclusion of the “seed” recommendation seems to countermand the classical role of a government in providing decent opportunities to all its citizens rather than grooming them for “export”

LEV Recommendations

- ✓ Seed: Prepare the next generation of Lebanese workforce and monitor emigration
- ✓ Radiate: Develop a solid diaspora database and promote national identity
- ✓ Reap: Leverage the diaspora network
- ✓ Advocate: Harness and formalize advocacy through establishing a diaspora advisory board

Advocate for

- ✓ Calibrating the reliance of the Lebanese economy on its emigrants
- ✓ Creating incentives to attract not only Lebanese migrant investors but especially high- skilled wage earners



ENABLERS



ENABLERS

- ❖ Infrastructure
- ❖ Government (administration, finance, legislation)

Diagnostic Weaknesses

- ❖ In view of Lebanon's excessive public debt, this enabler may end up further crippling the budget instead of igniting the economy
- ❖ This sizeable public infrastructure agenda poses serious social equity concerns because additional public debt represents redistribution in favor of capital owners who have lent money to the state and whose interest income is paid out of the taxes predominately levied on low and middle income categories

LEV Recommendations

- ✓ Launch infrastructure projects including pre-planned projects and new projects
- ✓ Improve Beirut's efficiency by enhancing transportation, waste management, and pollution; improving governance; developing a comprehensive urban plan.
- ✓ Reform the power sector

Advocate for

- ✓ Limiting investment to absolutely necessary infrastructure such as power, main transportation arteries, and ICT
- ✓ Funding infrastructure projects through a combination of debt and fiscal instruments that ensures an equitable distribution of the financial burden among the various income brackets
- ✓ Increasing the procurement technical capacity of ministries to implement their own infrastructure projects in collaboration with the Tender Board

ENABLERS

- ❖ Infrastructure
- ❖ Government : administration, finance, legislation

Diagnostic Weaknesses

- ❖ The dual accountability system through which civil servants answer to both their government and communitarian references is a major obstacle to the implementation of the proposed reforms

LEV Recommendations

- ✓ Reform public administration (productivity measures, digitization, anti-corruption purge)

Advocate for

- ✓ Enacting laws that explicitly disentangle sects from civil service hiring, promotion, and accountability
- ✓ Review the mandates of major ministries and public entities and reform their administrative structure to allow horizontal coordination

ENABLERS

- ❖ Infrastructure
- ❖ **Government:** administration, finance, legislation

Diagnostic Weaknesses

- ❖ The vision focuses on controlling OPEX expenditures whose share is limited to 24% of total government expenditures, while interest payments capture 32% and wages, salaries and benefits another 33% of the budget
- ❖ The reduction of already stretched public services disproportionately affects lower income citizens who rely more heavily on these services

LEV Recommendations

- ✓ Reform public finance (1% annual reduction in fiscal deficit out of GDP, expenditure ceiling, revenue growth in terms of tax level and tax collection effort)

Advocate for

- ✓ Curtailing the benefits of the upper echelons of the political branches and the civil service (including autonomous agencies) namely: the overly generous benefits and pensions of ministers, MPs, and tier 1 civil servants, and the private school subsidies granted to civil servants
- ✓ Integrating “Public Funds” into their appropriate ministries to allow transparency and budgetary accountability
- ✓ Enforce governmental oversight over NGOs that receive governmental subsidies

ENABLERS

- ❖ Infrastructure
- ❖ **Government:** administration, finance, legislation

Diagnostic Weaknesses

- ❖ The vision proposes transitioning towards more responsible public finance while at the same time proposing a sizeable infrastructure program financed almost exclusively by debt, thereby feeding into the vicious financial circle in which Lebanon has been orbiting for the past 30 years

LEV Recommendations

- ✓ Reform public finance (1% annual reduction in fiscal deficit out of GDP, expenditure ceiling, revenue growth in terms of tax level and tax collection effort)

Advocate for

- ✓ Address the very high cost of the monetary stabilization policy
- ✓ Restructuring the current debt in both its national and foreign components

ENABLERS

- ❖ Infrastructure
- ❖ **Government:** administration, finance, legislation

Diagnostic Weaknesses

- ❖ Failure to mention the current regressivity of the Lebanese tax structure thereby ignoring social equity concerns in a country characterized by one of the highest levels of concentration of revenue and wealth in the world
- ❖ Failure to sufficiently acknowledge the potential risks associated with privatization

LEV Recommendations

- ✓ Reform public finance (1% annual reduction in fiscal deficit out of GDP, expenditure ceiling, revenue growth in terms of tax level and tax collection effort)

Advocate for

- ✓ Restructuring the taxation system towards increased progressivity (a consolidated tax on all sources of revenue, progressive income taxation, and a progressive tax on the bank deposit interest).
- ✓ Conducting thorough financial, social, and environmental assessments of the various available alternatives to privatization and extract lessons learned from previous privatization experiences before opting to privatize additional public services

ENABLERS

- ❖ Infrastructure
- ❖ **Government:** administration, finance, **legislation**

Diagnostic Weaknesses

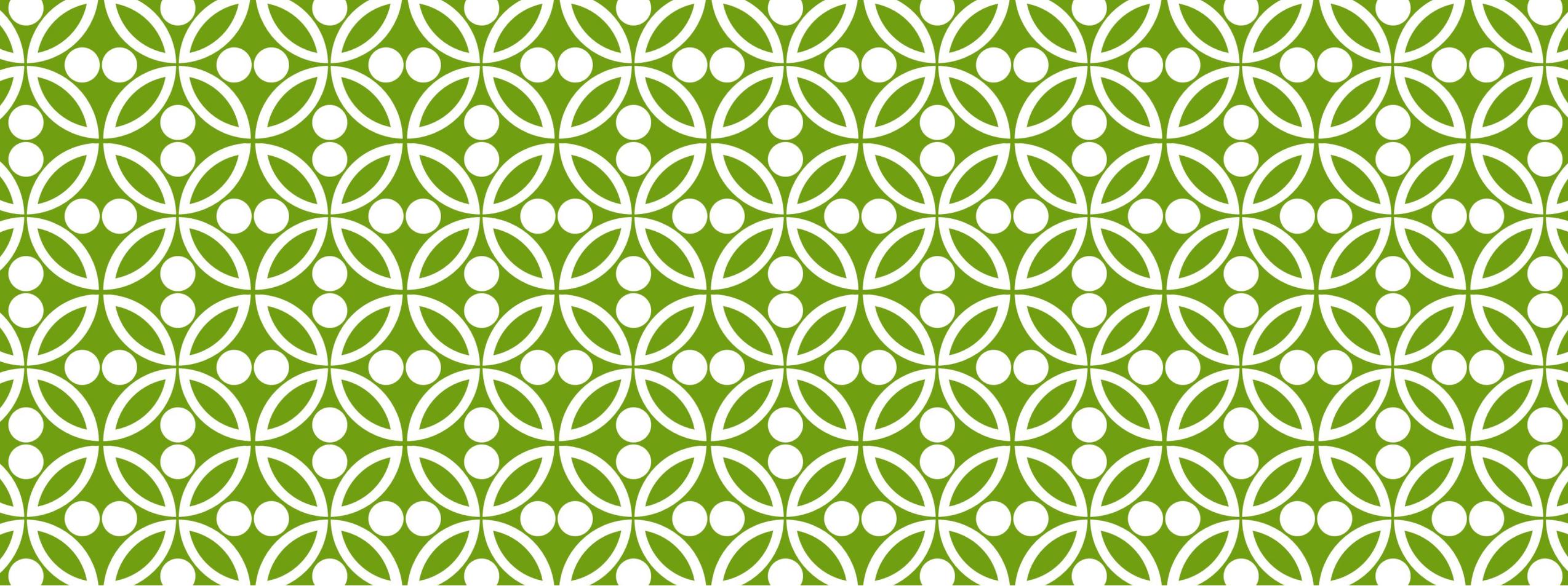
- ❖ Failure to acknowledge the lack of enforcement of current laws as an indicator that the proposed legislative reforms will most likely not lead to the desired objectives
- ❖ An almost exclusive focus on business facilitation laws and a quasi absence of legal reforms that are crucial from a social equity perspective

LEV Recommendations

- ✓ Increase legislative productivity (business environment, laws related to the vision's priority sectors)

Advocate for

- ✓ Ensuring the enforcement of existing laws especially those that are at the foundation of a secular democratic welfare state
- ✓ Enacting laws that will result in a fairer work environment for both businesses and workers (e.g. anti-trust law, labor code, decent wage, private sector pension reform)



INSTITUTIONALIZATION MECHANISMS



Diagnostic Weaknesses

- ❖ A relatively heavy structure that spans ministers and entails significant salaries (attractive compensation and benefits) seems counter-productive in view of the budgetary constraints stressed elsewhere by the report
- ❖ The new PMDU's lack of legal authority to break the vertical lines of reporting already established in government statutes as has been the case for previous PMUs

LEV Recommendation

- ✓ Setting up a Performance Management and Delivery Unit (PMDU) that reports to the Council of Ministers and performs five key functions: strategic planning, program management (implementation oversight), performance management, delivery support (debottlenecking), and marketing and public relations (image of the vision and its projects)

Advocate for

- ✓ Reviving the Ministry of Planning and endowing it with clear authority and lines of communications and accountability to perform the five proposed functions