



annd

Arab NGO Network for Development
شبكة المنظمات العربية غير الحكومية للتنمية

2019 Lebanese Revolution

March 2020

A FAILED GOVERNMENT TO SAFEGUARD ITS PEOPLE'S HEALTH

Political Updates	1
Socio-Economic Updates	1
Human Rights Violations	2
COVID-19 at a critical time in Lebanon's transformation, Diam Abou Diab	3
Lebanon's Sovereign Default, Dr. Hassan Sherry	4



Political Updates:

The month of March 2020 has seen political turbulences in Lebanon, and rising critics of a government incapable of taking correct and timely measures to prevent the spread of the novel COVID-19 virus. Indeed, first cases of Corona virus had started to appear at the end of February on passengers returning from infected countries, and the government failed to suspend all flights from these countries, or even to carry on serious measures and checkups at the airport upon the return of all said passengers. And therefore, the virus has spread across the country in a matter of days, as indicated by the Minister of Health on 6 March that Lebanon is no longer in the containment stage. Despite the rising numbers of infected people every day, the government only declared a mere state of emergency, more precisely a health emergency, on 15 March, effective until the 29th of the month and shut down most of the public and private institutions; it was later extended for two more weeks, until 12 April. This adds to the lack of government's transparency and sharing of numbers and facts regarding the spread of the virus, which can further jeopardize the health of the majority of citizens.

Protestors, activists and citizens have led a series of critics over social media on the government and concerned ministries, pushing them to take appropriate measures to contain the spread of the virus and safeguard the health of citizens. While the government failed to take prompt measures, activists and media outlets had initiated since the beginning of March calls encouraging citizens to remain at home in quarantine to contain the spread of the virus as much as possible. Moreover, the groups and movements have suspended all planned gatherings and protests to limit

the spread of the virus. The least that could be said is that correct initiatives have hence been initiated and led by the people while the government was hesitant to take prompt measures. Indeed, the government was not ready for a healthcare crisis given the rooted weak healthcare system and the lack of plans at the disaster management committee level to deal with such situation. Although the health of the people should be primarily considered, the hesitance of the government may be also explained by the limited choices it has given the political interventions of major parties and the dire economic and financial situations.

Socio-Economic Updates:

The socio-economic situation remains struggling for most of the Lebanese, who are now more prone to violations, especially of their right to health. As a matter of fact, Lebanon does not have an inclusive healthcare system that can guarantee free and efficient healthcare services to citizens. Currently with the spread of the COVID-19 virus, only one public hospital in Beirut, which is partially equipped is providing free services to patients infected by the virus, including the testing of the virus. Although the government has yet to explore the possibility of equipping public hospitals in other regions to cure infected patients free of charge, the private hospitals are currently charging great amounts for the COVID-19 test, and refusing to accept positive cases in their premises. This nationwide healthcare crisis comes at a critical revolutionary time to affirm the key demands of the revolution that include new social protection schemes and free public healthcare for all.

On another note, echoes are being overheard

on the inevitable need for an intervention from the International Monetary Fund (IMF), which could provide a few billions USD to boost the economic activities in the country, especially after the government decision on 7 March to default on its Eurobond debt for the first time, which had matured on 9 March; this adds to the decision made on 25 March of refraining from paying all the Eurobonds worth around 30 billion USD until 2037.

In normal cases, an IMF intervention would mean more austerity measures and a tighter grip on the social services spending, including social protection and possibly healthcare too. Talks are still informal and unofficial, but they have been led by many politicians and decision makers. And therefore, fear has been increasing among people who are deprived of their basic and decent social rights and find their health currently in jeopardy, mainly due to the policies all previous governments have adopted, which could even worsen as a results of an IMF intervention. On a side note, Lebanon's contribution to the IMF would only allow him roughly 900 million USD, but per the preferential treatment, the sum could raise to around 9 billion USD, which would still not be enough as an estimate of 20 and 25 billion USD will be needed to overcome the current crisis. Moreover, a new draft law has been circulated lately to legislate the capital controls currently informally enforced by the banks, especially in regards to withdrawing bank notes in foreign and local currencies. The draft law has had many versions and changes and hasn't been reverted to Parliament until the time of writing this bulletin. Yet briefly, the draft law provides more power to the governor of the central bank, as well as banks to individually and arbitrarily specify the ceiling of withdrawal in foreign currency as they deem convenient, which would eventually have further



repercussions on small depositors who will remain vulnerable to arbitrary decisions and circulars. The different changes made to this draft law have been probably influenced by the decision made on 5 March by Lebanon's financial prosecutor to freeze the assets of around 20 banks and their top executives after a number of hearings he conducted with banks' representatives accused of one, transferring money overseas during the two-week closure of banks after 17 October 2019, and two, discounting the Eurobonds they held and were due on 9 March, in favor of foreign funds. However, before the day ended, a judge suspended the prosecutor's order.

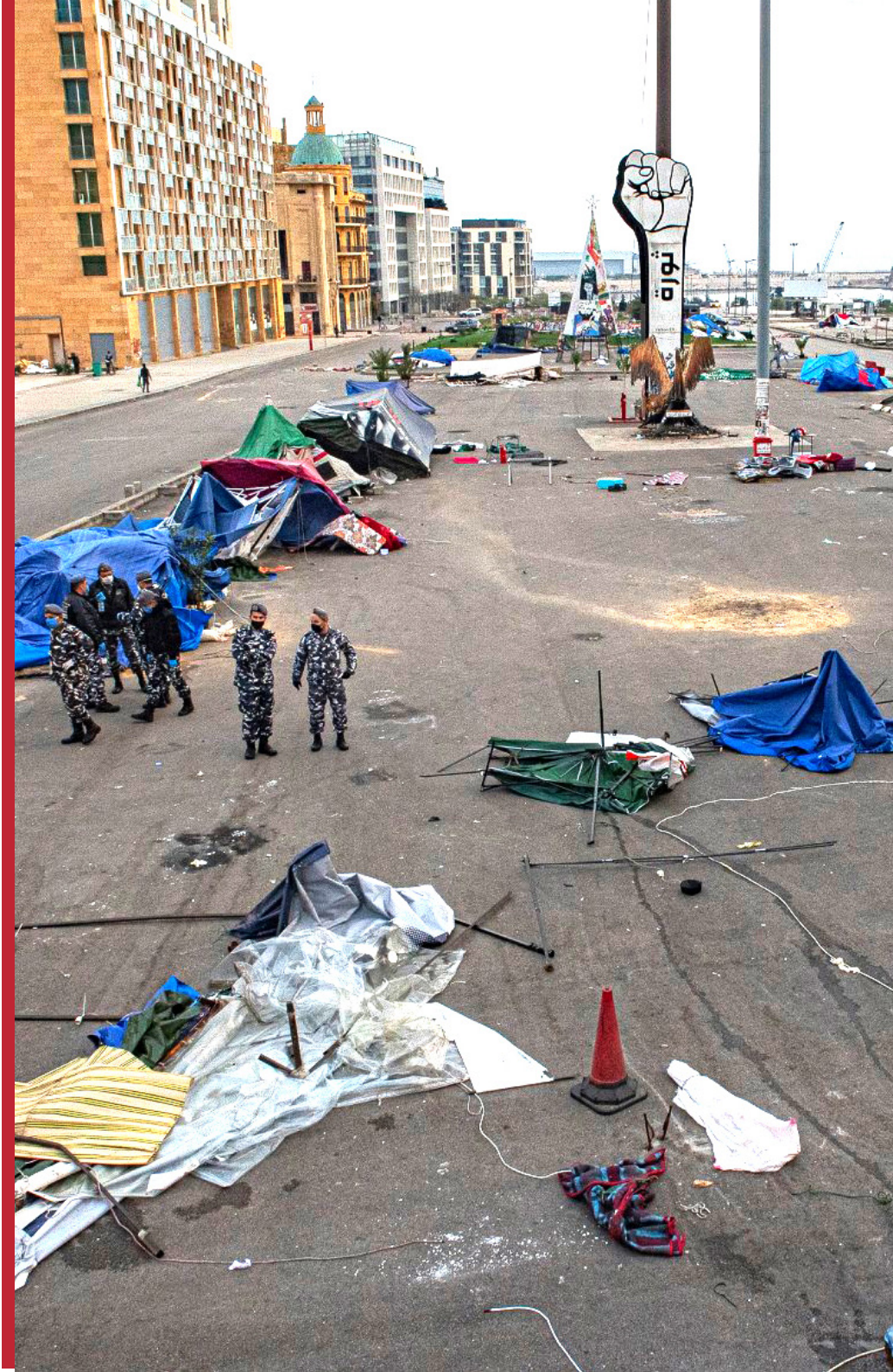
The governor of the central bank recently allocated 7 billion USD in loans to banks at zero interest, provided that they in turn lend them to the private sector at zero interest, to ensure institutions continue to pay the salaries of their employees. Knowing that the governor issued a circular specifying the new ceiling of exchange rate at the exchange offices by 2000 Lebanese pounds to 1 USD, he is still unable to have the parallel market adhere to this ceiling, where the exchange is almost reaching 3000 Lebanese pounds to the 1 USD. So at what exchange rate will the banks lend these loans, and in what currency, USD or Lebanese pound?

Human Rights Violations:

Activists' calls have been lately addressed towards the fight against the spread of COVID-19 virus, and as such, Dr. Hadi Mourad was very vocal in criticizing the lack of measures of the Minister of Health during an appearance he made on a televised program, as well as exposing the practical violations of the ministry and the Minister himself who sought to promote uncertified Iranian medicine and products in the Lebanese market. As a result, the Minister intended to take away the practicing license of Dr. Mourad and summoned him for investigations. This process was later suspended.

Despite the declared state of medical emergency, Lebanese authorities have continued to summon activists for charges related to freedom of expression and social media posts shared on private accounts, which criticize the government, politicians and political leaders. As such, a former Minister of Health has been seeking to prosecute an attorney who is a vocal activist after he had accused him of medical misconduct; Another activist was summoned for investigation on 19 March for similar charges related to freedom of expression, but the hearing was postponed to after 29 March.

More severely, on 27 March, the riot police forcibly cleared dozens of people from the encampments in Martyrs' Square in Beirut, and removed and destroyed all the tents protestors had built which they justify to be in line with the government decision on 26 March of imposing a curfew between 7 PM and 5 AM.



COVID-19 at a critical time in Lebanon's transformation

Diam Abou Diab, Arab NGO Network for Development

Since roughly 2018, Lebanon has been witnessing severe crises on the economic and financial levels that have led to a complete recession in 2019 and currently 2020. For decades, Lebanon's social security systems haven't been in line with the basic human rights approach, and have more recently further dwindled as a result of the crises; according to latest Labour Force and Household Living Conditions Survey (LFHCLS) survey, 44% of residents do not benefit from any social protection scheme, and the State now seems unable to cope with the spread of COVID-19 and safeguard the healthcare of citizens while safeguarding other basic social security guarantees.

The government declared a state of medical emergency on 15 March 2020, binding for two weeks, but risks of ensuring citizens with access to basic income and maintaining access to the weak public healthcare will continue to increase as the economy remains still.

Certainly, the country is running into a deep recession where the private sector has been strongly hit, thousands of businesses closed, employees' salaries reduced, and which have all led to a rise in unemployment rate to an estimated 40% with more than 220,000 [jobs lost](#) in the private sector since mid-October 2019. According to the Syndicate of Owners of Restaurants, Cafes, Nightclubs and Pastry Shops, about 785 businesses in the food and beverages sector closed between September 2019 and February 2020, with 240 shut in

January alone. This adds to the significant outflows of foreign currency compared to inflows, further damaging the balance of payments. Unfortunately, these figures are deemed to continue worsening at a drastic pace given the widespread of COVID-19 and the halt of all the vast majority of economic activities. So how could the fragile Lebanese system and government cope with the spread of the virus and guarantee people's access to social protection including healthcare and income security?

According to LFHCLS survey, about 55% of Lebanese workers are enrolled in informal employment, and thus have no access to social protection guarantees. And given the current – and mostly likely continuing state of emergency, these workers will not be able to resume their activities and provide for themselves and their families; they have become more vulnerable amid the spread of COVID-19. New measures are therefore expected from the government at these dire times, including introducing an [emergency universal basic income](#) as urged by the OHCHR Independent expert on the effects of foreign debt and human rights. Similar calls have been echoed by economists and experts in Lebanon, who suggested practical draft plans to the government, aiming to provide the poorest and most vulnerable with a monthly allowance following the spread of COVID-19.

Lebanon's debt is unsustainable and has amplified at great rates; it is currently hovering around 90 billion USD, roughly 170% of the Gross Domestic Product (GDP). The dramatic debt increase resulted in an expanding debt-servicing burden, with limited exit routes ([See The Debt Crisis:](#)

[Facts and Possible Way Out](#)). The capacity of the Lebanese government to deal with this health crisis is very limited, mainly due to the large debt service requirements. Yet amid the current financial crisis, the government made a bold decision on 7 March 2020 to default for the first time in the history of the country on its Eurobond debt worth 1.2 billion USD, which had matured on 9 March; and the Ministry of Finance declared on 23 March that Lebanon will discontinue payments on all its foreign currency Eurobonds. These encouraging steps are essential in order to allocate the remaining low reserves in foreign currency available at the Central Bank (BDL) for basic expenditures in social protection over debt servicing, but indeed, they came late and has jeopardized any potential benefits. This adds to the lack of a clear rescheduling plan until date, one that should be consistent and transparent, and resulting from lengthy consultations with Lebanese constituencies. Some of the needed actions should include an implementation of fundamental reforms to the country's debt such as cutting a large bulk of it by negotiating its restructuring and thus stimulate its sustainability. On the short term, these efforts should support an increase in healthcare expenditure and other essential public services and halt any potential austerity measures to social protection. Moreover, the Ministry of Labor should collaborate closely with the labor unions and associations to quantify the consequences of this healthcare crisis on the labor force, and develop a targeted action plan to mitigate all the risks and contain the effects associated with the crisis. The Ministry of Social Affairs should entirely revise its National Poverty

Targeting Program (NPTP) to reflect most recent figures and situation and redirect its services. Measures should also entail equipping all public hospitals with adequate tools, promoting social safety nets and support to the poorest and most vulnerable households including migrants and refugees on the national level.

Nonetheless, transformative measures are inevitable for the long run, and shall be reflected in one clear and comprehensive economic vision, capable of placing Lebanon on a sustainable financial path, promoting the productive sectors in the economy such as industry and agriculture, and safeguarding equal and unequivocal social protection guarantees to all and in line with human rights. This transformation will require a strong political will and bold initiatives from a truly independent government equipped with real experts capable of dealing with and overcoming crises while maintaining a decent living to all; And therefore, the voice and the role of the people and revolution shall persist until change is achieved.

Lebanon's Sovereign Default: Turning Misfortunes into Opportunities

**Dr. Hassan Sherry, Adjunct Lecturer,
Department of Economics, Lebanese
American University**

This article was first published as a guest blog on behalf of the Arab NGO Network for Development (ANND) on the [European Network on Debt and Development \(Eurodad\) website](#).

For the first time since the country's establishment in 1920, Lebanon has defaulted on its debt after its government opted not to repay a US\$ 1.2bn Eurobond that had reached maturity on March 9th. Although it can be difficult to predict sovereign defaults, the decision comes as no surprise as Lebanon has been striding down an unsustainable economic path for almost a decade now. Prime Minister Hassan Diab has put the country's total public debt at approximately US\$ 90bn or 170 percent of GDP, the world's largest debt-to-GDP ratio after Japan and Greece. The unsustainable debt figures are attributed to Lebanon's poor domestic and external economic performance as the country has continually registered, over a period of almost three decades, a twin deficit – both a current account deficit and a budget deficit. Based on data from the Ministry of Finance and UNCTAD, in 2018 the budget deficit stood at 13 percent of GDP, while the trade deficit hovered around 26 percent. The poor performance is partly attributed to the long-standing monetary policy of a fixed peg, which is a manifestation of the country's domestic political, social and economic interests.

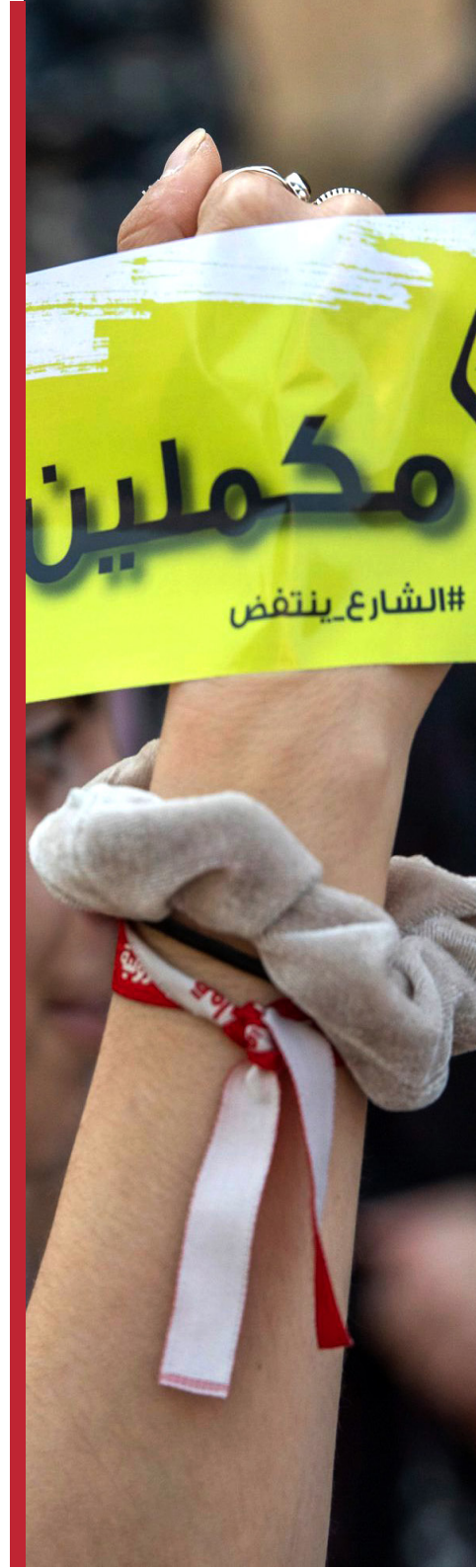
The default comes at a time when the Lebanese economy stands at a crossroads and the capacity of the state to provide for those less privileged is put to test. On one hand, the 2020 state budget set forth a US\$ 700mn reduction in spending to curb the deficit. On the other, the outbreak of the Covid-19 pandemic has exposed the deficiencies in public healthcare in the country despite colossal efforts by public health personnel to alleviate the problem. This invites the question – what is next for Lebanon and who will bear the brunt? A handful of non-mutually exclusive scenarios exist.

Firstly, a default effectively means a haircut on the debt. A conventional haircut would reduce the amount that will be repaid to creditors. Yet, another implicit form of haircut could entail restructuring the dollar-denominated debt held by Lebanese banks by redenominating dollar-denominated financial assets into domestic currency in order to alleviate pressures on foreign currency reserves held by the Central Bank (BDL). According to the Association of Banks in Lebanon (ABL) the total capital adequacy ratio (CAR), which gauges a bank's ability to avoid insolvency and losing depositors' money, was at a desirable 15% at the end of 2018. It therefore stands to reason that bank owners rather than depositors should bear the cost of restructuring. This becomes all the more reasonable considering that banks piled fortunes out of decades-old economic policies and several rounds of financial engineering that gave precedence to interests of financial capital over considerations of social justice.

A caveat is in order. Reports currently in circulation indicate that Lebanese banks

sold Eurobonds to several international investment firms and vulture funds at discounted rates in order to prop up liquidity. Whereas the ratio of domestically-held debt to that held by foreigners was about two-thirds in 2019, the ratio today may paint a largely grim picture as foreign-held debt, including by vultures, is on the rise. This will jeopardize Lebanon's position in future negotiations. Here, caution is warranted. Evidence suggests that vulture funds frequently target distressed debt of sovereign states with a weak capacity for legal defense, and sue them for reimbursement of the original value of the debt plus interest. By their very modus operandi, these funds pose a grave threat to Lebanon's capacity to restructure its sovereign debt, and divert necessary spending that is meant to guarantee basic human rights, particularly in the areas of health, water, food, housing and education. Despite international efforts to incorporate Collective Action Clauses (CAC) – a mechanism that grants power to debtors and curbs the capacity of vultures to undermine sovereign debt restructurings – into debt contracts, CACs remain limited. Furthermore, they protect sovereign states only against recognized strategies of vulture funds while overlooking novel financial shenanigans.

A haircut alone is not enough. A former deputy governor of BDL stated that Lebanon needs up to a US\$ 25bn bailout in order to navigate its financial crisis. To that end (and secondly), the government may resuscitate CEDRE, the Economic Conference for Development through Reforms with the Private Sector, which pledged to support Lebanon's ailing economy with developmental funding in the vicinity of US\$ 11bn. For reasons that are



mainly geopolitical, there is hardly anyone in line to inject bailout money at the moment.

Thirdly, and most likely, the government may resort to IMF lending which comes laden with conditions. Conditionality is focused on fiscal sustainability, of which austerity and a devalued currency constitute fundamental ingredients. Between 2011 and 2014, the IMF imposed a total of 331 conditions on Arab states that received loans. Inter alia, conditions encompassed cuts in government expenditures, higher VATs, and currency devaluations. In Lebanon, with the fragile institutional structures that exist, such conditionality is likely to amplify social costs, and force wage earners to bear the brunt of reforms.

Nonetheless, Lebanon may be able to turn its incumbent crisis into an opportunity. In the more immediate term, restructuring negotiations with creditors must be transparent. The government must heed progressive forces and ensure that the cost of restructuring is not shouldered by depositors. It must also step up efforts to advocate a fair multilateral debt restructuring mechanism. Similarly, potential negotiations with the IMF over a bailout package must be transparent and disclosed to the public. Any IMF lending arrangement must not contradict Lebanon's right for a positive structural change, which enhances its competitiveness without worsening worker conditions. In fact, contrary to mainstream policy advice, Lebanon needs measures that boost aggregate demand amid an already austere state budget and a faltering growth that is exacerbated by the outbreak of the pandemic. In parallel, various stakeholders including academics, civil society organizations, as well as trade

unions, the private sector and the media should be engaged in a national dialogue to devise a comprehensive strategy that would oversee Lebanon's transition to a more just economic model.






The Arab NGO Network for Development works in 12 Arab countries, with 9 national networks (with an extended membership of 250 CSOs from different backgrounds) and 23 NGO members.


P.O.Box: 4792/14 | Mazraa: 1105-2070 | Beirut, Lebanon.
Tel: +961 1 319366 - Fax: +961 1 815636

www.annd.org - 2030monitor.annd.org - civicspace.annd.org

 Arab NGO Network for Development

 Arab-NGO-Network-for-Development

 @ArabNGONetwork

 [anndmedia](https://www.youtube.com/anndmedia)