

# 2019 Lebanese Revolution

**TWO MONTHS TOWARDS CHANGE**

**WEEKS 5 - 7**



## Socio-Economic Updates:

Since 17 October 2019, Lebanon has been witnessing a massive wave of unprecedented nationwide protests, calling for a massive change in the country. These protests are motivated by the direct repercussions of the economic and monetary crisis on the Lebanese population, but are indeed rooted in a structurally flawed economic system and wicked political practices and corruption embraced by the successive governments for decades. Please refer to ANND's News Bulletin I for background information.

The first major victory the revolution achieved with the win of Melhem Khalaf as Chair of Beirut Bar Association on 17 November marked the end of the first month of the Lebanese Revolution<sup>1</sup>. Since then, protestors have achieved two wins despite the threats and violations that did not cease to exist.

On 19 November, protestors peacefully

<sup>1</sup> This victory is very important because it helps in redefining the role of the bar association as man protector of the Human Rights in Lebanon. It also has had an immediate impact on the performance of the bar association. When Lebanese Authorities in Tyr arrested 18 protestors who broke the rest house run by Mrs. Randa Berry, the wife of the Speaker, the ex-chair of the bar association withdrew the assignments of the appointed lawyers due to political pressure. Yet the newly elected chair went in person after midnight to protect the rights of the protestors detained by the internal security forces in Beirut claiming their right to assign lawyers during the investigation process.

gathered and successfully blocked all roads leading to the Lebanese parliament, prohibiting the members of parliament from attending the parliamentary session and unequivocally pass a new amnesty law. This law is tricky in all aspects as it allows amnesty to individuals and groups involved with financial and ecological crimes – among other crimes, and would thus block any attempt to file lawsuits and condemn anyone, including politicians and public officials, for any corruption related charges.

The second win on 22 November came as the result of the efforts of all the groups of the society, including youth, elderly, women, children, professionals and artists, among other, put together in order to celebrate one big national independence day, a genuine one the country has never seen before. The number of Lebanese protestors and displays, especially in the Martyrs' square in downtown Beirut, showed cooperation across all citizens and the efforts they are willing to put together to achieve real change in the country.

Nevertheless, weeks 5 and 6 of the revolution saw increased violence incidents, laying from arbitrary arrest of protestors to escalated clashes in the streets. On 23 November, five youth including two minors were arrested and detained by security

forces for taking down a banner belonging to a political party. On the same day, supporters of Hezbollah and Amal movement violently clashed with peaceful protestors in Beirut and other regions to denounce the closure of roads. These updates have worryingly added to the increased amount of violence since the eruption of the protests in October, firmly denounced by the United Nations Experts and Special Rapporteurs who called on the Lebanese government to respect the right to the freedom of expression and protect protestors.

Following the closure of banks for almost two weeks during the first month of the Revolution, and several interruptions later, the economic and fiscal situation has continued to worsen. Indeed, banks are still keeping a tight grip on all kinds of transactions and money withdrawal, further reinforcing the informal capital control and increasing restrictions on individuals and businesses. These controls have had tremendous implications on different economic and social sectors:

The restrictions on foreign currency (particularly USD) have strengthened the black market controlled by the exchange offices that are buying the dollars with rates amounting to 50-70% from the official rate of dollar to Lebanese pound. As a result,



Lebanon's Syndicate of Gas Station Owners announced on 27 November an open strike to begin on 28 November denouncing the losses they claim to endure due to the presence of two dollar rates in the market. This strike ended temporarily on 30 November, with high chances of resuming soon; besides, it prompted taxi drivers to denounce the closure of gas stations and thus their inability to make their daily living. Similarly, the economic bodies in Lebanon have threatened with a possible strike given the rise in the prices of essential goods and lack of basic commodities and food in the market.

Furthermore, the financial crisis has had direct implications on the education sector, where a few private schools resorted to decreasing the wages of employees in half due to default in paying the tuition fees. And therefore, the threat of an open strike by the Private Schools Teachers Union is imminent. Likewise, the health sector has had its share of the crisis threat. On 15 November, most private hospitals closed their doors to raise awareness on the critical situation the health sector has reached in Lebanon. And with the continued failure of government to pay them, the risk of healthcare interruption remains high.

The worsening socio-economic situation has also had direct implications on the individual level. Unfortunately, three individ-

uals committed suicide within five days, between 1 and 5 December, either because they can no longer afford the cost of living or pay their due debts, triggered by the termination of work or the reduction of wage by considerable amounts.

On the political level, the President decided to postpone the parliamentary consultations to nominate a prime minister from Monday 9 to Monday 16 December because the main political groups were unable to agree on a candidate. This move has been highly criticized because it is a violation of the constitution and democracy, whereby the ruling elite is conferring and agreeing on names for PM and upcoming ministers before the consultations. However, the real power remains in the hand of protestors who can overturn any agreement and government and continue to call for the righteous demands in new and very unpredictable ways, to be keenly observed.



## The Debt Crisis: Facts and Possible Way Out

Lebanon is a middle-income country whose fiscal policies have been trembling for decades, with a debt rate currently hovering around 86 billion USD, roughly 150% of the Gross Domestic Product (GDP). The severe deterioration in the economy represents the direct results of the liberal policies the successive governments have adopted at all levels since the 1990s, in an attempt to reconstruct the wrecked economy, sovereignty, governance and infrastructure the 15-year civil war had created.

The recent fiscal and monetary crisis is the result of the financial engineering the Banque du Liban (BDL) has adopted in the past years, consisting of borrowing USD funds from local banks at unreasonably high interest rates, resulting in higher BDL debt in USD and negative net reserves. Moreover, these financial engineering have tempted the local banks eager to proliferate their gains to invest their money in Eurobonds and halt investment in the market and the productive sectors of the economy.

Although these measures had been taken by a few decision makers and primarily the BDL governor to serve the benefits of an elite holding both and joint banking and political powers, the burden is shared among all citizens, and the repercussions especially affect the middle and low-income households. More precisely, the current fiscal crisis will lead to major losses in the business sector, culminating the work of hundreds of small and medium enterprises and thus causing the cessation of employment of

thousands of individuals. The deterioration of the Lebanese pound to the USD, which was further exacerbated by the amplified black market, is deemed to continue and to cause a severe rise in the rate of inflation and thereby an unprecedented rise in the rate of poverty to about 50%.<sup>2</sup>

Lebanon's debt has been for years crumbling the public budgets, where it has held the biggest share known as debt servicing, and thus stalled fundamental spending in the social and development sectors, further regressing the impact on the social protection level.

Lebanon's debt is not sustainable and is predicted to continue to grow indefinitely under the current fiscal and monetary policies. Yet on a positive note, around 70% of the debt is internal and thus immediate and drastic steps may be able to mitigate the risk of a long-lasting economic recession, as well as opening negotiations with lending banks.

So in light of the liquidity crisis, a number of short term measures can be adopted to minimize the risks associated with the crisis. First, banks are encouraged to recapitalize and shareholders to infuse more capital and turn their gains into shares to secure a stronger recovery in the aftermath of the

<sup>2</sup> Experts describe the fiscal policies implemented for the last ten years as a "Ponzi Scheme" that led to the complete failure of the fiscal and financial system. (A Ponzi scheme is a fraudulent investing scam promising high rates of return with little risk to investors. The Ponzi scheme generates returns for early investors by acquiring new investors.)

crisis. Second, banks should lower the high interest rates on deposits, from 8-10% on

deposits in foreign currency and 12-16% in local currency to approximately 4%, as per the rational values. Third, debates have risen lately on either a haircut on large deposits could mitigate the consequences of financial distress or diminish the trust in the Lebanese economy. This measure is believed to be the last resort, and an improbable option highly contested by the government and big depositors. For this kind of haircut, two options can be considered. One is a strict haircut on large deposits, and another is a haircut on the interest rates of deposits that made huge profits as per the financial engineering. Yet in all cases, the haircut needs stringent standards and a thorough review of the market, liquidity and the volatility risks, to avoid any harm to medium households' deposits and small to medium-sized enterprises.

More severely, some economists have been listing the option of decreasing the value of the Lebanese pound in its peg against the USD to cure the banking sector, disregarding the rapid repercussions this would have on low and middle-income households whose purchasing conditions will decrease as a result of decrease in local currency's value and hyperinflation, and become more prone to fall into poverty. Likewise, the compulsory transfer of all bank deposits from foreign currency (particularly USD) to local currency will devalue the Lebanese pound and have similar

socio-economic repercussions on the majority of Lebanese.

Furthermore, other theories suggest an intervention from the International Monetary Fund (IMF) as a bailout, primarily to restructure the government debt and inject liquidity into the market to relieve the pressures on the banking system. However, an IMF intervention would also mean devaluating the local currency, possible depeg of the currency, removal of subsidies of essential commodities such as energy, gasoline and wheat, and more importantly, imposing more debt on the country. Likewise, the long awaited CEDRE package of about 11 billion USD in aid and soft loans (larger part) has not seen the light yet due to government delays in adopting the required reforms. CEDRE represents a group of projects that were compiled and ranked according to priorities and readiness, but lacks a comprehensive plan and economic vision and therefore the same concerns are prevalent.

In light of the upcoming maturity of Eurobonds, Lebanon needs to negotiate the restructuring of its debt and the possibility to cancel amounts and annul interest rates. Despite the payment made on 28 November of 1.5 billion USD worth Eurobonds, fears of default on debt during upcoming Eurobonds (worth around 3.5 billion USD in 2020) is still high amid the current fiscal crisis.

Additional measures on the long run are required to mitigate the socio-economic risks in the future. The parliament should vote unanimously on adopting a progressive tax on wealth that would fairly share the burden among society and increase government's income, which may help curbing the rising debt rate. This

should be accompanied by a new taxation policy that shall serve for redistribution of wealth and encouragement of productive economic sectors, rather than mere extraction of taxpayers' funds for debt servicing. A correct taxation policy is considered key for equitable distribution of losses, and the first steps towards building a fair social protection system.

At this stage of the economic recession and fiscal crisis, Lebanon has little room to escape a long-lasting recession, one that neither the public nor the private sector can avoid, and whichever repercussions will primarily affect the low and middle classes and have enormous socio-economic problems. And consequently, drastic changes need to be urgently taken on the macroeconomic level to avoid the entire economic and financial collapse and maintain what's left from social protection. In order to do so, measures and policies that will shape the future need to be made in a participatory way through a national and social dialogue, involving all the civil society and the government, that discusses the dire socio-economic updates and agree on the prospective measures. The current parliament roughly represents half of the population, and is therefore not eligible for taking any critical decisions independently on behalf of the Lebanese population. Consequently, the international community needs to refrain from engaging in any programs solely with the government that have not been consented with the people, and instead support all attempts to recover the public assets.

It is also worth noting that the banks are applying capital controls illegally, without issuing a law allowing them to do so; on the contrary, these measures are based on an internal agreement between the banks and the central bank. Moreover, the central bank issued a circular (number 536, on 4 December) lowering the interest rate on the deposits (to a maximum of 8% in local currency and 5% in foreign currency). This step was supposed to be preceded by restructuring the internal debt and decreasing the interest rate of the loans owned by the commercial banks from an average 15% to 10%. Otherwise, the BDL is undermining the fair distribution of the burdens.





## Asset Recovery: The Revolution's Key Request

“Action against Corruption” together with the “recovery of the stolen public funds” are the pivotal points of the current Revolution in Lebanon. Global indicators show it well, as much as the chants of the people in the street. The country ranks 138th out of 180 countries according to Transparency International Corruption perception index. Widespread corruption in its all forms including bribery, nepotism, patronage has been a chronic challenge in the country with its destructive impact on social and economic development. Stolen public assets increased as well as the violations of people’s right of enjoyment of economic and social rights, including the rights to education, health and social services.

The Lebanese case has shown the direct linkage between the power dynamics between ruling elites, business and key sectors including telecommunication, real estate, banks and the negative impact this has created both in terms of adequate standard of living, and access and affordability of services by all. The victims have been long suffering but since 17 October, the revolution made it clear that they can no longer resist and won’t accept this.

Indeed, Lebanon is party to United Nations Convention Against Corruption and has plenty of legislative frameworks in place, including the Lebanese Criminal Code (LCC), Criminal Procedure Law and the Law No. 318 of 20 April 2001 (amended in 2003) on the fight against money-laundering, the Civil Servants Regulations and the Labor law,

the “Right to Access to Information Law” of 2017, the “Illicit Enrichment Law” of 1999 and the “Whistle-blower Protection Law” of 2018; but what Lebanon initially lacks is the genuine political will to ensure the effective implementation of laws and procedures to address corruption. However, this is self-refuting as the politicians have been the most corrupt in the country.

The attempt to hold the Parliamentary session on 19 November to vote on the amnesty law and a law establishing a court for financial crimes actually showed that politicians disregarded people’s demands, given that the proposed law is in contradiction with any effort towards fighting corruption, tax evasion, money laundering but on the contrary would entrench impunity. Furthermore, the welcomed law of establishing a court for financial crimes is actually providing the parliament the mandate to nominate the judges, which is contradictory to the independence of the judiciary principle and to a real will to fight corruption.

The protestors and the civil society have highlighted the need for the parliament to adopt first and foremost the law guaranteeing the independence of the judiciary prepared by civil society actors as the first and essential step for combating corruption. This draft law provides measures for the judiciary and allow them to sue the corrupt and is thus vital for any asset recovery and sets the preliminary step for this process.

Ensuring stolen assets recovery is also crucial for addressing the call of protestors for new inclusive social policies. There are several successful cases of stolen asset recovery initiatives globally such as in the Philippines who recovered more than one billion USD in cash, mostly from Switzerland, that were stolen by Ferdinand Marcos, in Peru who has recovered over 174 million USD in cash and in Nigeria who has recovered 700 million USD in cash that were stolen by Sani Abacha. In the Arab region, we have seen similar successful initiatives in Egypt, Libya and Tunisia.

Each of these cases show that the process is lengthy but is sine qua non for justice to be ensured and steps could be put in place when there is clear commitment. It is also important to remember that for the Tunisian case, Lebanon played a significant role in returning 28.8 million USD (€26 million) to Tunisia that reportedly been held in a Lebanese bank account. The Lebanese cooperation shown at that time and the adherence to UNCAC provisions is much welcome, but the position Lebanon will take when it comes to responding to its own citizens’ calls towards assets recovery is clearly vital for the protestors.

The complexity of tracing the assets, coupled with the legal complications of multiple jurisdictions will be challenging but cannot be put forward as excuses. The determination of the people calling for change shows that excuses and complications will not hinder them from recover-





ing all the public assets. And consequently, steps should be taken immediately to address the theft of public assets by corrupt officials through an independent judiciary system, in addition to other essential steps including but not limited to:

- **Revising the action plan for the implementation of an Anti-Corruption National Strategy for 2018-2023, ensuring that effective policies and institutions are set in place for successful asset recovery, and enhancing transparency as well as preventive measures such as for corruption, money laundering, etc.**
- **Establishing a National Commission to implement a “Stolen Asset Recovery Initiative”**

These initiatives would definitely require international cooperation and assistance towards capacity-building, and sharing lessons learnt and best practices. Yet within the sustainable development framework, namely under Agenda 2030 and specifically under Goal 16.4, there is a universal commitment towards addressing this issue, and the Lebanese Revolution should be considered as a step towards meeting this Goal, reflecting people’s commitment to achieving sustainable development and leaving no one behind at the expense of enriched power holders and chronic corruption. And to reach this purpose, it is essential to have a political will and most and foremost to have an independent and responsible new government.

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.

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