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شبكة المنظمات العربية غير الحكومية للتنمية

POLICY BRIEFS

Lebanon's prospects:

Economic impasse or opportunity for reform?

Reaction to the IMF 2016 Article IV Consultation

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I. Reclaiming fiscal and monetary policies as instruments of growth

Monetary and fiscal policies are key instruments for economic policy in general. They reflect an intended economic model and the sought type of growth. Both policies are interlinked and complementary; they could not be treated in isolation. In the Lebanese context, these economic instruments have been used in a very conservative manner. This created economic patterns that have been penalizing the expansion of the real economy, crowding out investment, and deepening social inequalities. This led to the allocation of valuable resources to restrictive monetary practices favoring inflating rent-based activities, currency pegging, and debt financing.

The continued over-reliance of fixed currency exchange rate in post-war Lebanon not only defined monetary policy but also fiscal policy, draining the potential of the Lebanese economy and delinking public policy instruments from growth. "This monetary-fiscal policy mix led to a finance-biased economy" (Dibeh 2005). The continuous pattern of attracting foreign currency deposit inflows and sterilization of liquidity to maintain the currency pegging has led to a bloating in the banking and real estate sectors. While currency pegging has been necessary to restore stability in the post-war period, its grave costs on the real economy were repeatedly noted (see Nahas 2000, Corm 2003, Gaspard 2004, Dibeh 2005) and no serious measures were taken to redress the situation. "The rentier income from interest payments on deposits and T-bill subscriptions and bank profits plus ODA; remittances and foreign capital flows became a fetter in production as high real interest rates and real exchange rate appreciation suffocated the industrial sector. The process of deindustrialization in the postwar period was significant underlying a sort of Dutch disease phenomenon and shifted the economy towards commerce and the production of non-tradeables" (Dibeh 2005). Thus, instead of phasing out and restructuring the current monetary system (Corm 2003) and moving towards "business cycle or income-based individually recordable lending practices and towards resource stabilization and risk-based rewarding policies" (Nahas 2000), the over-reliance on costly monetary policies was deepened. As Nahas (2000) asserts "as long as capital will be seen as an unlimited resource that can be paid any price and given any use, the banking sector, including the Central bank and commercial banks, will continue being considered as solely responsible for the supporting of a distorted economic structure and for the perpetuation of short-sighted financial behavior."

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In this context, the 2016 IMF report on the Article IV consultation (referred to, hereafter, as "the report") showed that the Lebanese economic model has reached an impasse, especially with the decrease of deposit inflows, shrinking government revenues, and meager growth. The regional turbulences further exposed the vulnerability of the economic model dependent on outward looking sectors like real-estate and tourism that have taken a blow (para 8). Nevertheless, instead of considering this current impasse as an opportunity for reform and forward-looking thinking, the IMF only proposes short-term policies to save the status-quo, hoping for the regional instability to end soon.

Unfortunately, the report calls for reinforcing Lebanon's monetary policy while warning from the shrinking revenue base and calls for additional fiscal measures for the purpose of resource mobilization (para 25). This approach not only seems to treat monetary policy and fiscal one as separate and parallel blocks but also delinks them from economic growth, particularly inclusive and sustainable one based on social justice. In fact, the restrictive monetary policy praised by the IMF in the report has been one of the main impediments of public revenue expansion. The continued practice of currency pegging requiring liquidity sterilization and increased interest rates to attract foreign deposits has been incurring grave costs financially and economically impeding capitalist investments in the real economy and the expansion of the tax base. First, it has led to a rapid increase of public debt, more specifically domestically funded by banks, rendering banks as the main funder of the state. In return, the continuous need of the state to fund its expenditure and maintain currency stabilization has stripped fiscal policy from its economic function and rendered taxation as a mere extractive measure rather than an instrument for redistribution and encouragement of productive economic activities. In this regard, the Article IV Consultation does not go beyond business as usual stressing that "the banking system remains a critical pillar of Lebanese resilience" and that "monetary policy needs to remain geared to supporting the exchange rate peg".

The following paragraphs will examine the IMF analysis and recommendations presented in the report. First it will tackle issues related to monetary policy arguing that a reform in this regard is essential to stimulate investment. Second, it will critically address the report's view on fiscal policy, while emphasizing the need for fiscal instruments that go beyond debt servicing. Finally, it will present policy suggestions in view of putting Lebanon on the path of sustainable and inclusive growth.

II. Monetary policy: source of rent or investment stimulus?

While criticizing the BdL's latest financial operation deeming it unsustainable and increasing the dollarization risk; the report fails to explicitly state its real outcome of the operation. It goes on explaining the different steps of the operation as well as its positive and risky results, nevertheless it, interestingly, does not acknowledge that these practices have contributed to maximizing banks' profits through the use of public funds. BdL's last actions are a stark example of the authorities' encouragement of rent seeking behavior within the Lebanese economy. In fact, what the IMF calls "excess LL liquidity" is an excess of profit amounting to an equivalent of nearly USD 5 billion that the report highlights the need to absorb. This can only be done through issuing more treasury bills to be purchased by banks, thus resulting in more profit. The operation and its future implications represent a strong reminder that the current monetary policy renders the state a mere medium to channel wealth

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from tax payers to private banks, a practice that has been going on since the early 90s. As Gaspard (2004) contends "Government expenditure has therefore become a mechanism of money transfer to rentiers and to the politically privileged [...]. Indeed, banks have become in the 1990s the main beneficiaries of the government's economic policy. Commercial bank capital accounts have increased form $143 million at end 1992 to $3.3 billion at end 2002."

As a matter of fact, BDL's practices have accelerated and inflated the profit that private banks are already making from lending the state through the purchase of treasury bills and Eurobonds. BdL has repurchased T-Bills in Lebanese pounds by paying a price for each bill of 139 percent of the original price (the original price plus half of the interests profit that would be been realized at maturity) (Zbib 2017) . Thus, this operation is not isolated from the longstanding tactics, in the post-war period, which the state constituted the main client of private banks. This has been reinforced by the fact that the TB auctions shielded the market from competition by foreign investors, rendering it a closed club for Lebanese banks, which artificially raises interests above market rates (Dibeh 2005). In this regard, the report's recommendation that "the BdL would need to withdraw from T-Bill and Eurobond auctions and encourage banks to participate directly" is timely and necessary. Nevertheless, the IMF needs to go further and highlight the long run implications and risks of the current role of the Lebanese banking system.

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The report did not tackle the weak and insufficient role of Lebanese private banks in funding the private sector and securing liquidity for investments. This indicates that the IMF seems to consider their role in funding public debt a de-facto reality, as opposed to their "normal" function of financing private sector investments. These kinds of policies would strengthen the unholy marriage between the Lebanese banks and the state through the monetary policy that acts as a tool to subsidize private banks. Maintaining currency pegging through sterilization of liquidity (i.e. high interest rates and treasury bills) has rendered banks' profits dependent on the increase of public debt. Unless, this link is broken, the proposed policies claiming to strengthen confidence in the banking system will only lead to exacerbating public debt and its service.

The report goes further to recommend that "the BdL would instead need to use interest rates as a more direct and easily communicated policy tool to secure foreign exchange inflows". The proposed increase in interest rates to attract foreign currency would only further penalize the real economy and fuel further rent-seeking behavior by realizing excess profit through the banking system. "The combination of high nominal interest rates and price stabilization, the latter mainly owing to the exchange rate peg policy, has produced a situation of high real interest rates [...]. The impact of the high cost of money has mainly been a delinking of the financial sector from the real sector, and of economic opportunity from the majority of people and enterprises" (Gaspard 2004). At a time of meager and slacking growth, the IMF recommends further contractionary policies instead of a counter-cyclical expansionary one.

From 2011 to 2015, the lending interest rates to the private sector reached 5 percent on average while GDP averaged 2 percent. This once again confirms the monetary policy fostering exclusionary growth that does not give incentives for private sector investments (Gaspard 2017). This cannot be de-linked from fiscal policy and power relations within the Lebanese economic system. In addition to the banking sector, this long-lasting narrowed scope of monetary policies contributed to booming the real-estate sector; both sectors are exempted from taxes on profits and represent key drivers of economic and political rent.

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Looking into the distribution of loans' structure reveals that nearly 34 percent of loans (the biggest share aggregated relative to credit for other activities) was equally disbursed to construction and building (16.7 percent) and housing loans (17.2 percent) (Association of Banks in Lebanon 2016). This explicitly exposes the role of commercial banks in funding both the supply and demand on real-estate activities. It is worth mentioning that BDL is encouraging capital accumulation in the real estates through several schemes that subsidies part of the housing loans programs issued by private banks. In parallel, commercial banks continue to purchase government treasury bills in order to finance the public debt and its service where banks' claims on the public sector reached LBP 56,308 billion, i.e. 21.3 percent of banks assets compared to 25.8 percent for the claims on the resident private sector. In general, the share of bank loans to the public sector and deposits at BDL reached 57.4 percent of bank assets in 2014 (Association of Banks in Lebanon 2016).

The abovementioned unveils the existence of a clear process of reverse distribution of wealth, as the government uses the tax payers' funds to finance the public debt servicing and management through T-bills. The latter became one of the main sources of money creation at the banks' side which benefit from access to secured funds to invest in construction and real-estate sectors which are creating the main loan's products – the housing loans- that are partially subsidized by the BDL.

In other words, citizens are financing banks through a two stages process; first through the amount of taxes consumed by debt servicing, second through housing loans that are subsidized by the Central Bank. In addition, recent findings show a high presence of the political elite within the banking system in the form of share possession or having a seat at the board (Chaaban 2015). This is a clear indication of the bankers' moving into power, rather than polititians turning into bankers. It is one of the most important features of Lebanon's political economy, especially after the war, as bankers and real estate developers take a larger share of power and appoint their own representatives. Moreover, "several real estate developers and contractors held, and still hold, prominent governmental positions, and several politicians have investments in the construction sector. One family alone is alleged to own, directly or indirectly, 59 real estate companies in Lebanon. Looking into publicly available information, it is immediately apparent that other prominent Lebanese politicians from across sectarian divides are also involved in real estate, together representing the main force driving the sector. The state's lower-level bureaucrats also have their share in the real estate sector, apparent for instance when municipality members are directly involved in issuing and reviewing permits for demolition and construction" (Saksouk-Saso and Bekdache 2015). In this context, the recommendation stating that "the BdL also needs to withdraw from quasi-fiscal schemes. It would need to allow old subsidized credit schemes to expire, while refraining from adding new ones" is a first step in the direction of ending the favoritism towards the real-estate sector, however it needs to be inserted in a wider economic policy to encourage sustainable growth where monetary and fiscal policies are crucial elements not confined to the objective of resource extraction for debt financing.

Finally, one cannot but doubt the resilience of the Lebanese banking system pointed out by the IMF (para 65). The two main clients of Lebanese private banks are the state and individual consumers. In 2014, the Governor of the BdL stated that consumption loans represent 50 percent of household income in Lebanon (Wehbe 2014). Both clients sustain their expenditure through means that do not originate from their income, the state through further debt and individuals through remittances and loans.

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The former suffers from deteriorating revenues and the latter from decreased purchasing power, deteriorating working conditions and unstable remittances inflow. Both don't show clear patterns of solid growth potential in their revenues. This, could not but provoke our skeptical understanding of the banks' resilience. This intensifies the risk of defaulting and might create a vicious circle where the banks' loans to both parties represent a significant part of their nominal wealth and annually declared profits.

The weak and limited ability of the Lebanese economy to create jobs and the increasing unemployment rates increases the risks of creating a defaulting wave which could have serious risks on the overall sector. This is not to undermine the importance of the liquidity reserves garnered by the banks which could be used a safety cushion in such scenarios. However, one should mention that such situation is sterilizing the liquidity and shifting it away from being lent to productive economic activities by the private sector. The access of the private sector to finance remains an important challenge due to the ongoing monetary policy. Furthermore, it was recently revealed that the current PM (who has shares in one of the main banks in the country) is one of the top 10 borrowers of the banks sectors which is the group controlling around 22% of the overall loans. As known, Mr. Saad Hariri is facing serious defaulting problems in his international businesses operations. In this context, one could interpret the recent financial measures undertaken by the BdL as a preventive intervention to avoid what could have generated a signaling defaulting crisis within the Lebanese banking sector.

III. Freeing fiscal policy from debt service

As stated above, the IMF report does not seem to link fiscal policy to the objective of achieving sustainable and equitable growth. The report emphasizes the primary objective of fiscal policy to mobilize resources for the purpose of debt stabilization and reduction (para 31), thus re-emphasizing its extractive function. To this end, the IMF proposed a series of tax measures, including the increase of corporate income tax, VAT and excise tax, interest income tax as well as the introduction of a capital gains tax on real-estate. While some of these measures are timely, their extractive purpose prevents them from having a meaningful economic impact. The entire tax system needs to be reviewed in order to respond to the need for economic restructuring and distribution and not a mere tool for revenue extraction for debt service purposes. The increase in corporate income tax is needed; however it ought to serve an economic policy towards encouraging certain sectors where potentials for comparative advantage, high value added and employment exist. Therefore, instead of only increasing a flat rate tax, it is worth considering reintroducing progressivity to the corporate income tax to include a number of incentives geared towards certain sectors that can realize the above-mentioned objectives.

Moreover, increasing interest income tax and introducing a capital gain tax on real-estate risk of not having meaningful effects if they are not geared towards penalizing rent-seeking behavior. In this regard, such taxes ought to render rent-based economic activities less appealing and making productive investments in high added value and employment rich sectors more attractive. This would be coupled with a growth oriented monetary policy based on increasing money supply to be available for investors using lower interest rates. For instance, the profits generated by the BdL's recent operations could have been used to disburse loans for small and medium enterprises. These kinds of measures would mobilize public resources as well as bolster productive and high added-value economic activities. This is likely to have the effect of reversing the effect of encouraging and proliferating of rent-based untaxed activities such the above generating super-profits have caused the dismantling of the taxed productive sectors and shifting capital from the second to the first.

In this regard, even the meager proposed increase of interest income tax is being heavily contested by the Association of Banks in Lebanon (ABL). The latter sent a memorandum to the Government stating that the proposed taxes risk of affecting monetary stability (Al-Akhbar newspaper 2017). In this regard the president of ABL, in line of the refusal of increased taxes, warned that this would affect the banking system which is based on placements in deposit certificates and treasury bonds (OTV 2017). This re-affirms the above mentioned remarks made on the Lebanese monetary system and the IMF report's recommendation. Moreover, it is also worth noting that the profits made by banks through the

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latest BdL operation are untaxed as well as interest income from Eurobonds. The ABL is also trying to avoid increased taxes on interest income as well as cancelling its reduction from corporate income tax (that is currently in place) through offering deals to the government. The deal entails that the Minister of Finance specifies the funding needs for 2017 that are expected from increased taxes on banks. Accordingly, the Ministry of Finance issues treasury bills with interests less to those in the market, and the difference would amount to the specified funding needs. In return, banks would commit to buy these T-bills that will be issued for one exceptional time (Wehbe 2017). On their part, the "economic committees", led by the federation of chambers of commerce and industry and the association of traders in Beirut, are spearheading the opposition against the slight increase in corporate income tax, salary scale adjustments and the new tax on real-estate capital gains. They are claiming that these measures would ruin the Lebanese economy. The ABL and economic committees are fiercely lobbying against these tax measures through media and through their representatives inside the government. The fact that these proposed measures are still insufficient to have a corrective impact on the economy and the continued lobbying against them shows once again that there is unwillingness to reform, whether from the economic committees or the government.

A simple look at the GDP figures and composition by sector gives us a striking picture on favoring economic sectors over others, and more specifically rentier over productive activities. There is blatant inequality in taxes applied between productive sectors (industry and agriculture) and rentier sector (banks and real estate). The sectors with super profits are taxed the least which clearly shows the imbalance of power in the Lebanese economy where financial and real-estate elite who are connected and intertwined with the legislative and executive bodies are exempted or quasi-exempted from taxes,

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contrary to industrialists.

Indeed, the myriad of tax incentives and exemptions illustrate the power dynamics in the Lebanese system where sectors with the least employment generation, or at least skilled employment, are encouraged. The real estate sector constituting nearly 20 percent of GDP (BankMed 2015) is exempt from capital gains tax that is generated through price speculations. The same goes for the banking sector and the absence of any tax on deposits which reached LBP 209,793 billion (Association of Banks in Lebanon 2014), nearly 360 percent of GDP in 2013. These deposits are highly concentrated in the hands of a few clients, this can be seen through the concentration of credit (as a proxy measure since banks do not publish data about their depositors), where 1.5 percent of clients are responsible for 70 percent of disbursed loans in 2014 (Association of Banks in Lebanon 2014). This also reflects the inequitable meager tax on interest where small individual accounts and large accounts pay the same rate of tax on interests. The absence of a tax on deposits or a progressive tax on income from interest is justified by the bank secrecy law that hinders the access to information of bank clients. Therefore, for such taxes to act as economic tools they ought to be significant. Nevertheless, experience has shown that the business elite that is confounded with the political elite has fiercely resisted such measures even when they are meager and do not affect the prevalent economic patterns under the pretext that they would cause economic collapse. The fiscal behavior needs to provide a positive signal to encourage investment using the proper incentive mechanisms.

Furthermore, rather than proposing to restructure the VAT to redress its regressive impact as high income households benefit more from VAT exemption as a share of their expenditures than lower income households (Salti and Chaaban 2009), the report proposes its increase along with other indirect taxes. This once again feeds into the extractive concerns of the IMF, nevertheless revenue mobilization can be achieved through imposing different VAT rates according to the goods and services while removing exemptions on as yachts, air transport, precious and semi-precious stones, negotiable money, sale of built property, banking and financial services and others that are mostly consumed by high income groups.

On another note, the report states that "there is scope to increase tax compliance. Tax collection is only 50 percent of estimated capacity. Ongoing efforts in this area to further promote electronic tax declaration, among others, need to be strengthened". This recommendation suggests that the IMF adopts an administrative approach to taxation while overlooking the fact that the low compliance is not a technical matter but an issue of power relations. The proposed measures' implications would be borne mostly by wage earners. In fact, tax evasion is more commonly found among high-income earners with diversified sources of income (Assouad 2015). Lebanon does not have a global income tax regime, i.e. there exists different regimes for the different incomes earned by individuals. This leaves room for manipulation of the tax law in order to either find loopholes to legally avoid tax through the use of exemptions, or juggle between different regimes to pay the lesser amount of tax. These kinds of practices are more common within high income earners as they have the capacities and possibilities exercise such manipulations and exploit these loopholes. In fact, high income earners possess two advantages over other groups. First their income is more diversified between wages, rents, self-employment and business income. Moreover, sources of income other than wage are based on filing tax returns, meaning that the concerned individual is supposed to declare, where there is room for evasion and corruption. On the other hand wage earners tax is deducted from the source where the employer declares the salary of his employees. "As wages received are reported by employers, who generally do not have interest in underestimating the amounts, it is more difficult for workers to avoid paying taxes. Besides, the fiscal reforms undertaken in the 2000s (creation of a service of online declaration, creation

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of a separate unit within the revenue administration for the Deduction at Source of the Income Tax on Salaries in 2003, with the goal of automating operations of deduction at source), which aimed at increasing the number of taxpayers and at facilitating the management of tax illegalities, may have mainly affected low or middle-income taxpayers, and workers in particular" (Assouad 2015).

These are symptoms of the political economy of taxes and the prevailing power relations in the Lebanese economy that the report not only overlooks but also contributes to maintain through its recommendations. The economic and business elites are intertwined and often confused with the political and relations of favoritism and clientelism are prevalent. This translates into looking away from under-reporting and protection of tax evaders. It was manifested in several occasions particularly through the legalization of tax irregularities. In 2006, the Government exempted employers who were not paying their National Social Security Funds contributions from penalty fees on their delays; also the Ministry of Finance and the Council of Ministers regularly take decisions to exempt companies from paying their due fees on violations of tax reporting and delay in tax payments. This results in exempting large tax payers from significant funds to be paid to the treasury (An-Nahar newspaper 2015) . In 2016, the Minister of Finance sent a request to the Council of Ministers to exempt 14 companies (including banks and real-estate companies) from penalties on their late tax payments and violations that amounted USD 105 Million (Al-Akhbar newspaper 2016).

In this regard, it should be re-iterated that fiscal policy in general and tax reform in specific ought to be employed away from the concern of resource extraction for the purpose of debt service that will eventually feed into banks' profit, as has been the case throughout the post-war era. The entire lattice of fiscal policy ought not to be used as a resource expropriation system from the bottom strata of the society to the business and political elite, from consumers to suppliers and from productive sector to rent-based economic activities. Instead, it should serve as a measure of economic engineering towards employment rich and equitable productive growth and to fuel investment and domestic demand away from credit. The fact that 50 percent of household income is spent on credit reimbursement (Wehbe 2014) is not only due to the prevalence of low wages but is also one of the effects of the adopted monetary policy. Due to high interest rates hindering private investment, the banks employed the remaining of the excess liquidity through offering numerous and unnecessary consumption loans to private individuals. Moreover, the proposed increase of VAT and excise taxes as well as other consumption taxes proposed by the IMF and, subsequently, the government are fueling increased public discontent and will likely have the double effect of contracting demand as well as increase individuals' indebtedness. Thus, here lies the importance of implementing salary adjustment for the public sector to stimulate demand. Nevertheless, such measures ought to be more comprehensive to increase the wage share of GDP through stimulating employment by way of encouraging the development of high value added productive sectors through the proper fiscal and monetary policies.

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IV. Sustainable and inclusive growth: the need for proactive and counter-cyclical fiscal and monetary policies.

Based on the above, the achievement of sustainable and inclusive growth starts with re-orienting monetary and fiscal policies towards that objective. There is no doubt that this ought to include fostering the development of the knowledge economy as well as the improvement of infrastructure. The report proposes reforms to the electricity sector recommending to "to start the process of bringing tariffs up to cost-recovery levels". This might be an option, nevertheless not necessarily a sustainable one as the government needs to embark on a comprehensive reform that would foster jobs as well through improving the current infrastructure along with the establishment of green energy. This reform would extend to the overall infrastructure in the country, not only internet and electricity, but also transportation as well as the social infrastructure (education, health, etc.). Public investments in infrastructure are needed in order to crowd in private investments. In this regard, public private partnership (PPP) might not be the best option. Taking into consideration the structure of the Lebanese private sector which is dominated by politicians and their crony economies; the multitude of literature on the post-war reconstruction programs is a clear example of this problematic feature of the private sector (Najem 2000).

In fact, international experience has shown the many pitfalls of PPPs in many aspects: the state would bear more risks than benefits and higher public spending as well as users' fees (Sanger and Crawley 2009); concealing additional debt burdens under the guise of PPP; as well as further expose the government to corruption through PPP contracts (Hall 2014). Furthermore, the IMF warned that "it is also possible that the government overprices risk and overcompensates the private sector for taking it on, which would raise the cost of PPPs relative to direct public investment" (International Monetary Fund 2004). This is not uncommon practice in Lebanon when it comes to the Government contracting private actors in managing public services or utilities due the intertwining web between the business elite and government officials, the latest example was manifested by the waste management crisis.

To this end, putting the country on the path of sustainable and inclusive growth needs more comprehensive strategies. In this regard, counter-cyclical monetary and fiscal policies are key. On the monetary level, interest rates ought to be lowered to the level of GDP growth in order to allow investors to benefit from the available liquidity with a preference for selected sectors with growth and employment potential tax reforms are crucial. Moreover, several crucial measures on the fiscal level and, more specifically, taxation need to be considered:

Social wage: In 2012, the former Minister of Labor proposed the "social wage" scheme in order to address stagnant wages in Lebanon. This scheme does not only involve raising the minimum wage, but most importantly it consists of unpaid social services, ranging from education and health to social protection. These services would be directly financed by taxes rather than by deductions from wages. This scheme thus includes a universal health care protection covering all citizens whether formal workers, informal workers, unemployed or inactive.

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This universal health care scheme would neither be financed through deductions from wages nor through deductions from the profit of firms or its savings. Instead it would be solely funded through taxing rentier income (Zbib 2011). The social wage would entail a series of tax measures as follows.

Taxing rents: Imposing a progressive rate on rentier income, including profits from sale of capital assets (such as real estate) as well as progressive tax on interest income and bank deposits. The rates of these taxes would be high where top marginal rates exceeding the existing ones on profit. This measure can be constraint by the bank secrecy law which does not disclose the size of bank deposits and thus the interest income earned by each depositor cannot be known. Therefore it would require either lifting bank secrecy laws or leaving a choice to depositors to disclose their accounts and those who do would benefit from a lower tax rate which would favor small depositors. As mentioned above, taxing rents would finance the social wage and at the same time impose a heavy cost on those activities where investors would have more incentive to channel their investments to productive activities.

Encouraging productive sectors and formal employment: As social service provisions, including universal health care, would be financed by taxes on rents, the contributions for health and maternity indemnities to the NSSF would be removed which will reduce labor costs for firms and encourage them to formalize the workers they employ. At the same time firms would be given certain conditional tax incentives to encourage their activities, such as tax cuts and exemptions for certain sectors. This would be in the frame of a general economic policies aimed at identifying productive sectors with growth and comparative advantage potential that would be encouraged to grow through low-cost credit and tax cuts (such as technology, green industries, agriculture, etc.).

Introducing the global income tax: on all income (except rents as specified above since a special tax would be levied) including income from profit of holding companies that would be taxed like other profits from income. Moreover, a restructuring of the different income brackets ought to be done while increasing top marginal rates in line with standards of middle and high income countries. This would also entail removing of a wide range of exemptions especially relating to the sectarian system that we mentioned throughout the paper.

Reforming tax on consumption and public investment in infrastructure: this would require two kinds of measures. First, replacing the uniform VAT tax rate with different scales according to products where basic food products would be taxed less than others. At the same time removing the exemption on luxury items and taxing them with higher rates. Second, there should be efforts to relief consumers from additional expenses that they incur on their consumption especially those related to electricity, water, transportation in addition to investment in education. This would imply significant public investment to reform these three sectors without privatizing them to ensure their full and sustainable coverage. Its benefits would not only benefit individual consumers but would also reduce costs on productive sectors (such as industry and agriculture) as they will have the necessary infrastructure to conduct their operations without inducing additional costs.

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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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