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Opinion

Is Lebanon ready for the Cedre Conference?

If the current government seeks new loans (\$17.25B) for 250 projects from Cedre yet yields similar past results, then the economy will risk defaulting on its debt obligations in the future.

by Abdallah Hayek | Source: Annahar | Date added: 29 March 2018 | Last update: 29 March 2018 | 20:10



Lebanese officials will be heading to Paris on April 6 in an effort to secure pledges to revamp its ailing economy (HO)



BEIRUT: Exactly one month before voters take to the polls in the country's first parliamentary's elections since 2009, Lebanese officials will be seeking \$17 Billion at the Paris IV conference (Cedre).

A National Infrastructure Investment Program was prepared for this international event, which covers the next 12 years - from 2018 until 2030. The report, which consists of 165 pages, is divided into three phases of 4 years each.



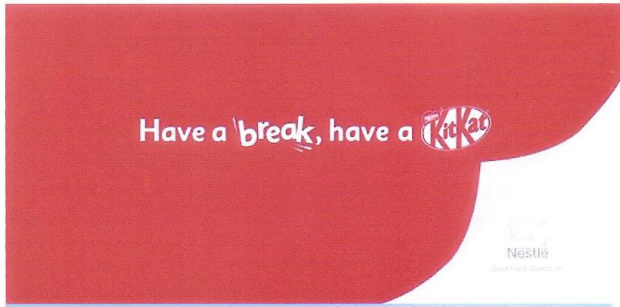
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Phases 1 and 2 target a total of \$17.25 billion, while phase 3 targets an amount of \$5.7 billion, bringing the total amount to around \$23 billion.

The transportation sector represents 33% of phases 1 & 2, while electricity, water projects and wastewater treatment and distribution networks will account for 21%, 18%, and 14%, respectively. In the third phase, 35% of the funds will go towards electricity (generation and distribution), and 30% will go towards all remaining sectors and land expropriation.

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Since 1993, the government has been asking for loans, subsidized by international donors. Most of the lending was granted to improve infrastructure. 25 years later, little improvement is seen: the quality of roads has deteriorated and public transit is still out of reach.

If the current government seeks new loans (\$17.25B) for 250 projects from Cedre yet yields similar past results, then the economy will risk defaulting on its debt obligations in the future.

Methodology

The report did not emphasize the important role that municipalities and local authorities play in maintaining and funding the infrastructure facilities used by their residents every day.

In other words, it is too risky to ask the current centralized administration to manage any large-scale infrastructure and public projects, due to the under-qualified staff and the bureaucracy of the system. If this reality doesn't change, and corruption remains widespread, then the debt will accelerate and the economy will suffer in the nearest future.

The lack of strategic thinking in the report is reflected by the same approach that was outlined in official programs released over the past

25 years. There are no noticeable improvements, the same ideas are repeated and new recommendations are outlined.

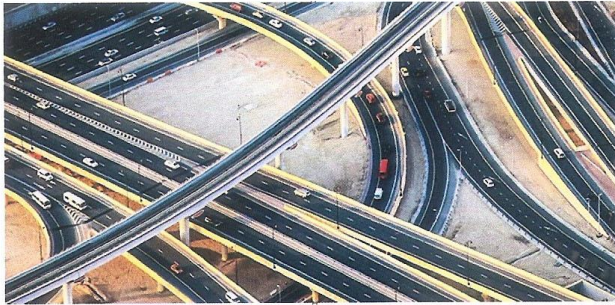
Supporting Data

The National Infrastructure Investment Program was based on data and analysis prepared by relevant ministries, which usually employs unqualified staff. The findings were marred by lack of transparency and biased data.

An example of the government's shortcomings is the exclusion of the new expected building licenses from the transportation analysis.

The government also lacks the required data and skills for proper planning, design, and implementation of infrastructure projects.

One such example is the failure to develop a network of periphery roads around the capital. Such projects were proposed over 30 years ago, with most of the expropriations completed since then. These projects, however, have yet to see the light of day.



Technical Assessment

The report admits that most of the listed small and medium-term projects need more feasibility and technical assessments.

Yet, this still hasn't been done.

The layout and content are not up to the standard, with the report riddled with unclear and confusing comments, as well as figures lacking supporting data.

One such example is the blatant admission on page 48 that the projects put forth lack the required data and analysis, with further discussions to be held once data becomes available.

In other cases, designs for several projects were completed, but the execution wasn't planned for the short term, which begs the question: why pay for such designs now if the projects won't be executed in the immediate future?

This is one example of corruption and incompetence in money management.

The report also admits that local authorities lack the administrative capabilities and "are not qualified to undertake such a national task"; this seems an odd confession to make at the Cedre Conference among international donors.

On page 87, the report argues that to secure financing from

international donors, Lebanon will need to let the private sector play a bigger role in running infrastructure projects.

To achieve that, local companies must participate in build-operate-transfer (BOT) and public-private partnership (PPP) projects using subsidized loans from donor countries, with the state retaining the ownership of these projects.

This involvement of the private sector would ensure that projects are delivered and operated in a timely fashion, avoiding unfortunate scenarios such as those mentioned in the report. On page 93, the government highlights that a bevy of wastewater treatment plants were executed but remain inactive due to the concerned authorities' lack of experience in operating such projects.

On page 122, the report also mentions that public water companies refused to pay electricity bills, which resulted in the closure of these plants. This should simply not be mentioned at a donor conference that will significantly shape Lebanon's economy for the next decade.

International Experience

An infrastructure report prepared by a state to raise an amount of \$17.25 billion from international donors must be organized and accompanied with supporting data. This report includes general ideas, with unclear figures and confusing costs. It would be extremely beneficial for Lebanon to draw lessons from other countries.

Australia's National Ports and National Freight strategies provide a useful blueprint for an effective model of public-sector leadership and investment in infrastructure. Launched in 2010 and 2011, these programs aimed to coordinate planning and funding across all levels of government for key transportation infrastructure systems, improve quality, and attract additional private-sector investment.

Other countries — including the United Kingdom, Denmark, Sweden, and France, have also launched similar infrastructure programs, demonstrating that strong public investment and strategic leadership is a prerequisite for modernizing and strengthening national transportation infrastructure in the context of the highly competitive global economy. The success of these and other countries in making infrastructure investment a national priority can provide several lessons for the Lebanese government.



Lack of Impact Assessment

The report did not outline the economic benefits using clear statistical figures. While the challenges are great, the economic benefits

associated with infrastructure investment can be powerful and sustainable:

Employment: \$1 billion investment in infrastructure will provide as much as 25,000 potential new job opportunities in Lebanon. In the first three years following an \$83 billion infrastructure investment package in the US, 1.7M job opportunities were created. (ASCE- University of Mass)

Productivity: The positive impact of infrastructure spending on growth has been well documented. A recent study from the University of Maryland found that every dollar spent generates as much as three dollars in new economic activity. A similar figure could be included in the report if an analysis of Lebanon's economy was conducted.

Competitiveness: The estimated impact of underperforming infrastructure on U.S. households is an average annual loss of \$3,100 in disposable personal income, which is associated with a rough reduction of \$2.4 trillion in aggregate consumer spending. (US Congressional Budget Office). No clear assessment of the cost of Lebanon's ailing infrastructure on the country's economy is defined in the Cedre report.

Conclusion:

Infrastructure is the backbone of a modern, competitive and productive economy. Although the challenges of maintaining such a complex and expansive system are significant, strengthening the infrastructure presents a crucial opportunity for policymakers to prioritize and reinvest in the critical drivers of future economic growth and competitiveness.

The benefits of doing so are substantial: infrastructure creates and sustains middle-class jobs, boosts productivity, and helps attract and retain business investment. I believe that strategic public-sector leadership is indispensable to reversing the underperformance and deterioration of the Lebanese infrastructure, which provides a critical foundation for economic growth and sustained competitiveness.

There is a very limited time to overhaul the report by an Ad-hoc committee of professionals and it surely won't be an easy task. But it is feasible if the government succeeded in selecting the right personnel to access data from all authorities. The report can be subject to major revision in order to improve the content in line with international standards.

The report is targeting \$17 billion in financing for 250 projects.

With the exception of the \$5 billion that Lebanon is expected to secure mostly in financing for refugee-related projects - which the international community and particularly Europe has an interest in providing to discourage Syrians from leaving Lebanon towards their shores - funding could fall short of our expectations.

Abdallah Hayek is the CEO of Hayek Group, a leading civil engineering, procurement and construction (EPC) company for buildings and infrastructure projects established in 1951.

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