

# Briefing Note on SOEs in Lebanon

March 2021-Version02

## Introduction:

SOEs are not clearly defined in the Lebanese public sector panorama. More than 110 organizations are classified as “public institutions” – government institutions that enjoy administrative and financial autonomy and are placed under the stewardship of a specific “Minister” - but not all of them can be categorized as SOEs. These public institutions take the administrative form of a Council, a Commission, an Institution, a Court, or other.

In the scope of this note, we have adopted the following criteria to define an SOE:

1. Enjoys administrative and financial autonomy
2. Is partially or totally controlled by government
3. Engages predominantly in commercial/economic activities.

In Lebanon, the Government has a monopoly in the utility sector through several State-Owned Enterprises (SOEs) such as:

- Ogero for telecom landlines and two mobile companies;
- Electricité du Liban for electricity production and transmission;
- Four water authorities.
- The Casino du Liban (mixed public-private enterprise),
- The tobacco procurement, manufacturing and sales (Régie des Tabacs et Tombacs);
- The national airline (Middle East Airlines);
- in addition to ports (Ports of Beirut, Sidon, Tyre and Tripoli).

## SOE's Financial management

SOEs have independence in preparing their budgets which need to be approved by their board of directors and then by Parliament. They are required by law to publish an annual report and to submit their books for independent audits and to the Court of Audit<sup>1</sup>. However, the Ministry of Finance does not receive the annual accounts of SOEs that it is charged with overseeing, and contingent liabilities are not reported on<sup>2</sup>.

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<sup>1</sup>Lebanon - Doing Business, Investing in Lebanon Guide, Volume 1 Strategic Practical Information, Regulations, Contacts, International Business Publications USA, 2019

<sup>2</sup> Open Budget Survey 2019, International Budget Partnership, April 2020, <https://www.internationalbudget.org/sites/default/files/2020-05/lebanon-202002150030.pdf>

SOE's planning capacities are weak, further weakening their budgeting process. Their accounting and financial reporting practices are not standardized as there is no unified accounting system in place and no template for the annual closing of accounts.

While generally endowed with mandates that typically go beyond their stated commercial objectives, SOEs in Lebanon are perceived as inefficient and subject to sub-optimal governance arrangements. Often, their board of directors are either not appointed or subject to clientelism and political pressure.

SOEs do not currently adhere to the OECD Corporate Governance Guidelines.

Their provision of services is often overshadowed by the sectarian nature of Lebanese politics. They suffer from inefficiency, low productivity and lack of innovation. These poorly performing operational assets are a major factor behind the country's dismal rankings in the cost of doing business (143 among 190 nations), corruption (137 among 180), and overall infrastructure (89 out of 141)<sup>3</sup>.

As well, most regulatory authorities intended to oversee and provide a competitive environment for the work of SOEs are either dysfunctional (such as the Telecom Regulatory Authority) or have still not materialized yet (such as the Electricity Regulatory Authority).

## SOE's Fiscal Position

Some SOEs are revenue-generating. In 2020, they were expected to contribute to 15.8% of Government Revenues.

Over the past 5 years, SOEs and public institutions are estimated to have generated between 11 and 14% of public revenues. The telecom sector contributed to the largest share, followed by the Port of Beirut, the Beirut International Airport and the "Casino du Liban". The table below provides a range of net revenues from two types of SOEs over the past 3 years:

**Table 1: Net revenues from selected SOES 2017-2019 (in billions of LBP)<sup>4</sup>**

	2017	2018	2019	TOTAL
Revenue transfers from the Telecom	1,936	1,614	1,427	<b>4,978</b>
Revenue transfers from the Port of Beirut	174	110	220	<b>504</b>

The creation of a multi-billion wealth fund – The Public Assets Management Fund- that would include the country's SOEs assets to offset a large part of the public debt and boost GDP size was even proposed by the Government in its Financial Recovery Plan, in solution to the current fiscal and financial crisis.

However, many SOEs constitute a liability to the State. Credit to government and state-owned enterprises to GDP (%) in Lebanon was reported at 60.57 % in 2017, according to the World Bank<sup>5</sup>.

<sup>3</sup> Lebanon's Hidden Gold Mine, Dag Detter & Nasser Saidi, Carnegie Middle East Center, July 2020, <https://carnegie-mec.org/2020/07/16/lebanon-s-hidden-gold-mine-pub-82306>

<sup>4</sup> Lebanon Citizen Budget Dashboard, available on <https://bit.ly/3qSuPI3>

<sup>5</sup> <https://fred.stlouisfed.org/series/DDEI08LBA156NWDB>

Lebanon registers the largest share of unreported spending: officially classified off-budget spending is equivalent to more than 16% of total budget<sup>6</sup>, while tens of public institutions, among which large SOEs, still operate outside the budget<sup>7</sup> and manage substantial amounts of public funds that are not submitted to the legislature's approval or reported into consolidated data.

On top of that, Lebanon lacks an integrated information system that centralizes and integrates fiscal data. This partially explains the unavailability of in-year execution reports. Unreported risks and liabilities created fiscal risks, notably at the "Électricité du Liban" (EDL) – a major driver of the country's indebtedness.

In addition, the absence of a Treasury Single Account is further disrupting the sound management of public finances and cash, leaving it at the mercy of political frictions and costing the State millions in debt interests.

## An estimate of SOEs' Fiscal Size and Cost on the State

As mentioned in the introductory section, SOEs are not clearly defined by law. Data about their fiscal position is scattered and inconsistent.

The present note attempts to provide an estimate of their size and fiscal cost on Government, based on budgetary data available and on the following methodology:

1. The identification of 24 SOEs<sup>8</sup> among the 110 public institutions operating in Lebanon, based on the 3 criteria adopted in the introduction. For some SOEs, such as the Middle East Airlines, the Port Authority of Tripoli, Port Authority of Tyre and Port Authority of Saida, no data was available in the budget. Therefore, the financial activity of these SOEs was not accounted for.
2. The majority of these SOEs appear as a one-line budget item in the Lebanese budget, with only their net balance available publicly, either under the Revenue section in case the SOEs has a positive net balance and therefore generates revenues to the State or under the Expenditure Section, in case the SOEs has a negative balance covered by the State.
3. Available unaudited spending data provided by the Ministry of Finance was collected, classified, aggregated and analyzed in an attempt to provide an estimate of the real fiscal cost of SOEs on the State, covering for the period 2017-2019. It is important to note that officially audited spending data is not available as the latter is still pending the audit and approval of the Court of Accounts and Parliament.
4. The present methodology may include many limitations but still provides indicative figures as to the size and fiscal size of SOEs in public finances.

Results are available below:

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6 Institut des Finances Basil Fuleihan – Ministry of Finances, 2020, Citizen Budget Lebanon 2020, <http://www.institutdesfinances.gov.lb/publication/citizen-budget-2020/>

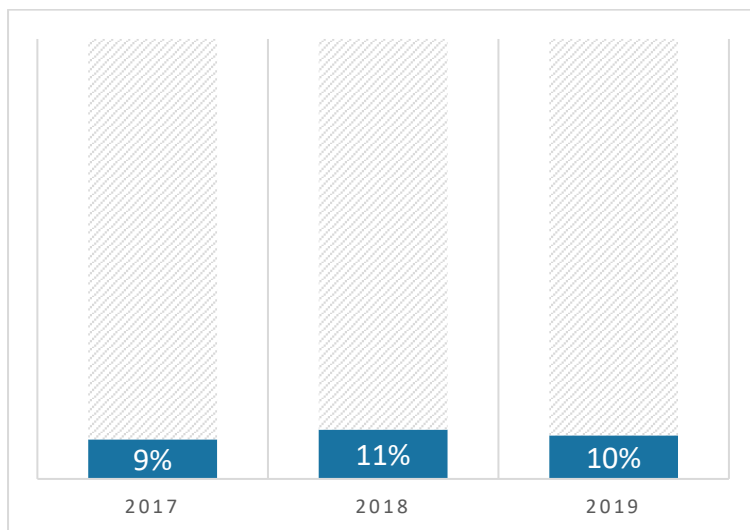
7 For instance, public hospitals, water management institutions, Beirut Port, Régie Libanaise des Tabacs et Tombacs, etc.

8 Banque du Liban, Beirut and Mount Lebanon Water Establishment, Bekaa Water Establishment, Casino du Liban, Electricite du Liban, ELYSSAR, Lebanon Television Station, Lebanese Petroleum Administration, Litani River Authority, National Archives Institute, National Lottery, North Lebanon Water Establishment, Ogero, Port of Beirut, Public Authority for Consumer Markets for Lebanon, Public Corporation for Housing, Public Hospitals, Public investment agency at Beirut airport, Rachid Karami International Fair, Régie des Tabacs et Tombacs, Railway and Public Transportation Authority, South Lebanon Water Establishment, Sports City Agency, Telecom.

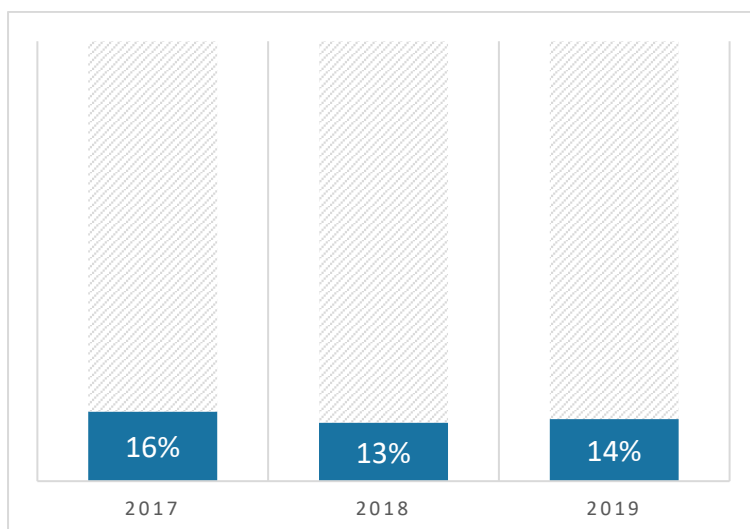
In the past three years, SOEs have cost the budget on average 10% of expenditures (Figure 1). Transfers to Electricité du Liban are the major driver of fiscal cost and compose between 89% and 96% of expenses on SOEs. The gradual lift of energy and fuel subsidy and reform of EDL are therefore expected to trigger a major change in the structure and size of fiscal cost generated by SOEs.

SOEs have generated on average 14% of all revenue (Figure 2). The Telecom surplus transferred to the Treasury contributes to between 60% and 70% of revenue generation. However, the sustainability of this source of revenue is threatened today by the depreciation of the national currency, as maintenance costs and international telecommunication subscriptions and dues are invoiced in USD.

**Figure 1: Fiscal cost of SOE in % of total spending (2017-2019)**



**Figure 2: Share of Fiscal Revenue from SOEs from Total Revenues (2017-2019)**



**Table 2: Aggregate breakdown of Fiscal cost generated by SOEs (2017-2019)**

Description	2017 (in millions of LBP)	2018 (in millions of LBP)	2019 (in millions of LBP)
Electricité du Liban	2,002,000.00	2,712,188.69	2,269,196.25
ELYSSAR	3,410.00	2,705.73	2,700.73
Lebanon Television Station	20,000.00	18,927.80	17,962.00
National Archives Institute	1,000.00	1,350.00	1,350.00
Ogero	-	238,749.69	-
Public Authority for Consumer Markets for Lebanon	871.00	871.00	878.00
Public Corporation for Housing	-	-	200,000.00
Public Hospitals	13,200.00	14,200.00	15,900.00
Rachid Karami International Fair	400.00	-	400.00
Railway and Public Transportation Authority	12,858.95	12,858.95	16,108.95
Sports City Agency	1,310.00	1,310.00	1,310.00
Water establishments	28,500.00	3,623.89	-
<b>Aggregated Total</b>	<b>2,083,549.95</b>	<b>3,006,785.75</b>	<b>2,525,805.93</b>

**Table 3: Aggregate breakdown of Net revenue generated by SOEs (2017-2019)**

Description	2017 (millions of LBP)	2018 (millions of LBP)	2019 (millions of LBP)
Banque du Liban	60,683.00	60,425.00	60,358.00
Casino Du Liban	121,510.00	134,862.00	116,122.00
National Lottery	80,500.00	60,964.00	66,226.00
Lebanese Petroleum Administration (Revenues from Oil & Gas)	150.00	-	-
Port of Beirut	174,935.00	110,000.00	219,555.00
Public institutions - Revenues from government shares	142.00	2,725.00	171.00
Public institutions - Tax on interests	6,658.00	4,953.00	10,266.00
Public investment agency at the Beirut airport	260,802.00	193,830.00	251,237.00
Régie des Tabacs et Tombacs	130,735.00	135,213.00	200,256.00
Telecom Surplus	1,936,006.00	1,614,119.00	1,427,966.00
<b>Aggregated Total</b>	<b>2,772,121.00</b>	<b>2,317,091.00</b>	<b>2,352,157.00</b>

Figure 3: Evolution of the fiscal cost v/s net revenue generated by SOEs (2017-2019) (in millions of LBP)

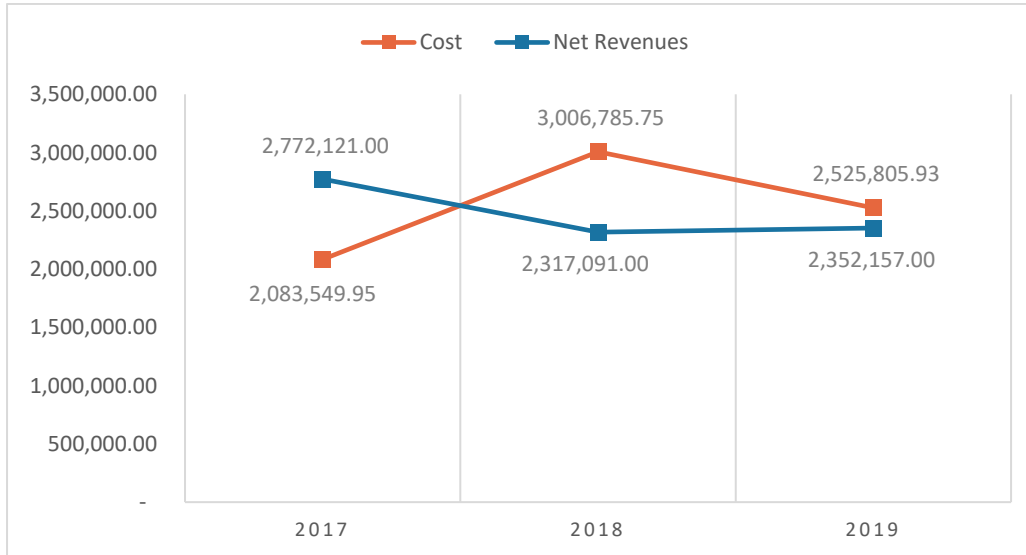
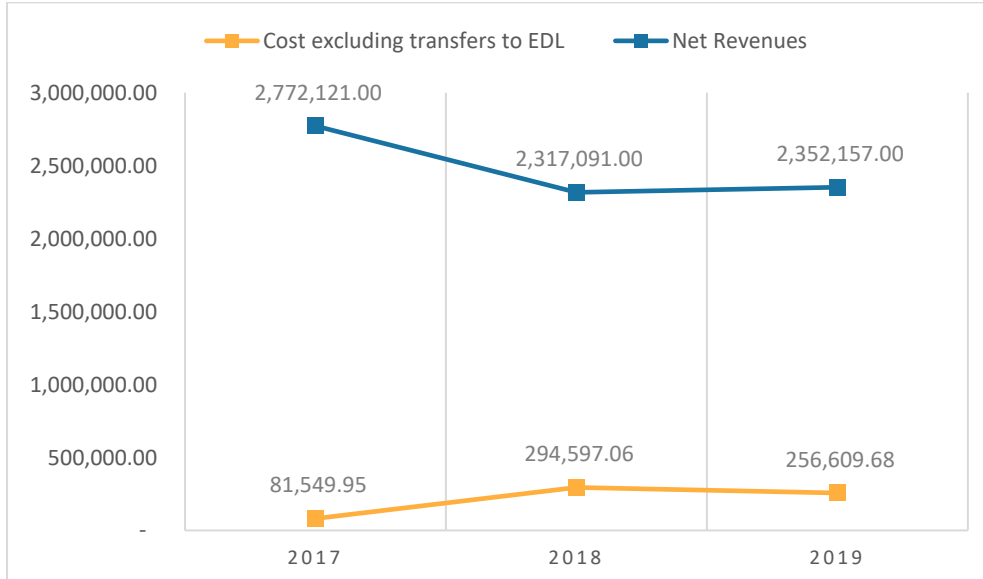


Figure 4: Evolution of the fiscal cost excluding transfers to EDL v/s net revenue generated by SOEs (2017-2019) (in millions of LBP)



## Reform measures

The 2020 Fiscal Transparency Report (FTR) highlighted various limitations of fiscal transparency, notably ones related to the lack of reliable and comprehensive publicly available budget data on State-Owned Enterprises (SOEs) and their government-guaranteed debt. The FTR prioritized the publication of budget data detailing allocations to and earnings from SOEs as a critical action to improve budget transparency and participation.

In her statement at the International Conference on Support to Beirut and the Lebanese People in August 2020<sup>9</sup>, the IMF managing director has reiterated the necessity of “*upfront steps to reduce the protracted losses in many state-owned enterprises. There must be more predictability, transparency, and accountability—with comprehensive audits of key institutions, including the central bank*”.

The draft budget for 2020 that aimed at a primary surplus of 0.6 percent of GDP, included propositions to liquidate, sell or privatize SOEs but no concrete measure was taken in that direction as the country defaulted on its debt and had to face the worst economic and financial crisis of its recent history characterized by a major devaluation of its national currency, hyperinflation and FX reserves shortages in addition to the Port of Beirut explosion on August 4th.

### About the authors

This note was drafted by Ms. Sabine Hatem, under the supervision of Ms. Lamia Moubayed Bissat. Data research, compilation and visualization of the fiscal estimates was conducted by Mr. Iskandar Boustani and Ms. Tonia Salameh.

### About the Institut des Finances Basil Fuleihan

The Institut des Finances Basil Fuleihan is a center of excellence that contributes to national capacity development in public financial management and governance. The Institute is an autonomous public institution operating under the tutelage of the Lebanese Minister of Finance.

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9 <https://www.imf.org/en/News/Articles/2020/08/09/pr20278-statement-by-imf-md-kristalina-georgieva-int-conference-support-beirut-lebanese-people>