

Mr. Farid Belhaj,
Vice President, Middle East and North Africa
MSN MC10-1007, 1818 H St NW,
Washington, DC 20433, United States

Re: World Bank Loan to Lebanon (Lebanon Emergency Crisis and COVID-19 Response Social Safety Net Project (ESSN))

Dear Mr. Ferid Belhaj,

We are writing this letter to express our deep concern and regret regarding the manner in which the loan to implement the ESSN project has been provided to the Government of Lebanon (GOL) by the World Bank Group. The conditions of the ESSN loan which aims at alleviating some of the suffering of the poorest segments of society during the current financial crisis, will perpetuate clientelist networks, entrench the power of ruling elites and encourage the perpetuation of unsustainable social protection and monetary policies.

On January 12, 2021, the World Bank has confirmed a humanitarian loan (hereinafter referred to as the loan) to the GOL with a total value of 246 million US Dollars, to be spent over the course of three years. The said loan is to provide emergency cash transfers and access to social services for poor and vulnerable Lebanese affected by the economic and Covid-19 crises with support to the creation of a national social safety net delivery systems for future shock responses.

The following conditions and mechanisms of the loan will play into the hands of the Lebanese oligarchs and help support their fraudulent, policies and practices:

1. Beneficiaries will lose a third of the loan's value to hyperinflation.

The program was initially designed to be distributed to citizens in US dollars in cash. However, after pressure from the Lebanese ruling class, the World Bank accepted to transfer the loan to the Banque du Liban (hereafter Central Bank) who will then distribute the cash transfers in Lebanese Lira at an arbitrary rate of 6,160 LBP for every dollar. The current market value of US dollars being 9400 LBP indicates that these conditions will deprive the beneficiaries of 30% of the total monetary value of the loan. This percentage loss will probably increase due to hyperinflation. Apart from being unjust, it is also illegal. According to Articles 2 and 229 of the Monetary and Credit Law number 13513 dated 1/8/1963 the jurisdiction of assigning the exchange rate is exclusively set by the parliament and cannot be enforced by Central Bank's circulars.

Also, informal and illegal capital controls, backed by the Central Bank will only allow depositors to retrieve a fraction of their savings each month at a rate of 3900 LBP and 1500 LBP. The illegal multiple exchange rate is considered an informal haircut on the savings of depositors in the Lebanese banks, which disproportionately affect the most vulnerable. By acquiescing to have the loan disbursed at an illegal and arbitrary rate, the World Bank will effectively subsidize a government and Central Bank which oversees the deepening of poverty in Lebanon through their refusal to offer a real solution to the financial crisis except in the form of the blatantly illegal depletion of depositors' assets in the banking sector. In effect, the loan in question amounts to the Bank also providing direct budget support to the GOL (which runs counter to the Bank's stated policies) without the state enacting any real reforms or fair solution to the ongoing financial and economic crisis in Lebanon.

2. The loan will subsidize imports through market oligopolies.

While more and more Lebanese population continue to fall under poverty line, if disbursed in its current form, World Bank loan will allow the Central Bank to continue blanket subsidies support which benefit exclusive importers and the power base of oligarchs tied to the GOL. The deduction from the real value of the loan proposed by Lebanon's Central Bank Governor and the Minister of Finance will be used to support basic import subsidies on fuel, medicine, and basic food parcels. While this mechanism looks effective on paper, the suggested support will in fact fund blanket subsidy schemes which are controlled by a set of monopolies which engage in anti-competitive practices (especially in the pharmaceutical industry), and in effect line the pockets of the ruling oligarchy. Also, the Lebanese parliament refused to pass draft laws that would ration subsidies according to a clear prioritization scheme; yet another evidence to the fact that the GOL has no interest in the public good and will implement policies contrary to basic economic logic, deplete the foreign currency reserves of the state, and maintain the current illegal haircut on depositors.

3. The loan will entrench unsustainable social protection policies.

According to the Bank, "social protection programs, including old-age pensions, universal health coverage, and even unemployment insurance are among the types of programs that Lebanon needs to strengthen or develop." And while the Bank purports that the ESSN is only temporary, it also acknowledges that "the GOL will need to finance its national SSN program from its own resources. This will require reprioritization and reallocation of budgetary resources towards SSN and social protection, away from ineffective and inequitable programs."¹

Hence, if the Bank knows full well that the GOL in its current state and membership does not have the fiscal space or real intention to reform social protection in Lebanon, then it should not seek to fund yet another programme which deepens the debt hole and provides another lifeline to a government and central bank which holds the deposits of ordinary people hostage. By funding the ESSN in this fashion, in effect the Bank and its sister organization, the International Monetary Fund (IMF), will be acknowledging that they do not work in unison to support sustainable solutions to poverty alleviation and sustainable development.

The irony of the fact that the International Monetary Fund (IMF) has halted negotiations with the GOL while the World Bank funds the same government is not lost on anyone. Should the loan in question be disbursed in its current form, the disbursement will constitute a two-faced policy whereby the IMF calls for a sustainable solution to the economic crisis before disbursement of any financial support while the World Bank disburses a loan to the same government and Central Bank that refuses to implement a solution to the same crisis.

In short, the Lebanese ruling elites have failed to put forward a transparent fiscal and monetary plan to deal with the economic, financial, monetary, and social crises. Instead, the Lebanese ruling elites have purposefully sabotaged the forensic audit of the Central Bank, blocked capital control draft laws, smuggled their deposits outside the country, and transferred the cost of the crisis to the poorest segments of society. The current loan rewards these practices, by injecting additional cash into a failed course of action

¹ The World Bank, Lebanon Emergency Crisis and Covid19 Response Social Safety Net Project (ESSN), January 12, 2021. Available at: <https://www.worldbank.org/en/country/lebanon/brief/lebanon-emergency-crisis-and-covid-19-response-social-safety-net-project-essn>.

Hence, we hereby request a reassessment of the conditions and mechanisms of this loan. Specifically, we ask the World Bank to:

1. Refuse to support the Central Bank or any government institution in the absence of a clear, transparent, and sustainable financial plan.
2. Distribute the money in either US dollars or LBP at the market rate in cash to the poor without going through the Central Bank, which will limit the fraudulent and illegal multiple exchange rate policies.

We trust that our objections will receive an affirmative response. We reserve our right to seek any legal remedies available to rectify the situation.

Sincerely,

The Depositors Union of Lebanon
Beirut, February 22, 2021