



الكتلة الوطنية  
NATIONAL BLOC

**“PRIVATIZATION OF LEBANON’S PUBLIC ASSETS  
NO MIRACLE SOLUTION TO THE CRISIS” (Albert  
Kostanian, 2021)**

*A summary*

**Albert Kostanian, Senior Policy Fellow for Economics at the Issam Fares Institute (AUB), recently published a paper entitled “Privatization of Lebanon’s Public Assets: No Miracle Solution to the Crisis” in which he assesses the impact of privatizing some of the Publicly Held Assets (PHA) <sup>1,2</sup> on the population’s long term overall welfare.**

**The criteria used to assess the impact of privatizing PHAs on the population’s overall welfare are the following:**

- 1- Competitiveness and efficiency that could result from the engagement of the private sector.**
- 2- The public services or goods the citizens would benefit from after the privatization.**
- 3- The impact the privatization could have on the Treasury.**

**Albert Kostanian finds that the privatization of PHAs is not currently a judicious solution for the financial crisis. By assessing the values of the selected PHAs, he estimates that the revenues which would be generated by the privatization on the short term are minimal compared to Lebanon’s aggregate losses.**

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<sup>1</sup> Middle East Airlines (MEA), Casino du Liban, Régie Libanaise de Tabacs et Tombacs, Lebanon’s airports and ports, state-owned real estate, the telecommunications sector (fixed and mobile), Electricité du Liban, and the water establishments.

<sup>2</sup> For the remainder of the summary, the acronym PHA will be used to refer to Publicly Held Assets.

# A Fragile Framework for PHAs in Lebanon

## 1. PHAs categories and examples in Lebanon

PHAs can be classified in four categories:

- State owned enterprises: MEA, Casino du Liban, and the Régie
- Transportation infrastructures: Airports and maritime ports
- Real estate: lands and buildings
- Public utilities: Ogero, MIC1 and MIC2<sup>3</sup>, EDL, and water establishments.

## 2. Inadequate implementation of regulatory reforms related to privatization in Lebanon

Albert Kostanian starts by pointing out an extremely important point: the privatization framework in Lebanon (Law 228) was only established in 2000, just before the Paris I Conference in 2001, due to international donors' pressure. Moreover, the laws related to the privatization of electricity, telecommunications and water sectors were only enacted in 2002, prior the Paris II Conference in 2002 for the same reason. Similarly, the Public-private partnerships (PPP) law 48 was only enacted in 2017, one year before the Paris IV Conference was held.

Consequently, the regulatory reforms mentioned previously were not properly implemented in Lebanon.

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<sup>3</sup> Mobile Interim Companies (e.g. Alpha and MTC).



### 3. Missing preconditions for privatization in Lebanon

Lebanon lacks the basic environment needed to privatize PHAs such as a sound regulatory environment to provide licenses and sanction monopolistic practices, anti-corruption laws and framework, transparent public procurement mechanisms, well-performing capital markets, and fair competition.

### 4. “The privatization of corruption”

Since those who defend the privatization of PHAs have not suggested a sustainable plan or strategy with clear objectives, the privatization of PHAs, without the prerequisites mentioned above, would benefit the politicians alone.

## Selection criteria of the PHAs to privatize

The PHAs that present feasibility and attractiveness for privatization in Lebanon are the following:

- Assets presenting high readiness for privatization (e.g. MEA and Casino du Liban). These assets present little to no risks from a national perspective.
- Assets with high privatization potential provided a national strategy and proper frameworks are in place (e.g. Régie, Lands and buildings and Telecom).

The privatization of these assets is subject to sectorial frameworks and regulations.

- Assets to be potentially developed under concession<sup>4</sup> or affermage<sup>5</sup> or lease<sup>6</sup> contracts (e.g. Airports, maritime ports, EDL, and water establishments).

The privatization of these assets using the cited methods could yield long-term benefits to the population and the government.

## Recommendations and impact of the privatization by sector

Albert Kostanian presented a table recommending the method of privatization to utilize by sector/PHA. The table also assesses the impact of privatization on Sector competitiveness and efficiency, Service accessibility, and the treasury.

Below is a summary of the table:

PHAs	Recommended method	Impact assessment		
		Sector competitiveness and efficiency	Service accessibility	Treasury
MEA	Full or partial divestiture <sup>7</sup>	Positive impact	Positive impact	One-off revenues <sup>8</sup> of 600 to 740 million USD to the Central Bank of Lebanon.

<sup>4</sup> A concession agreement is a grant of rights, land or property by a government, local authority, corporation, individual or other legal entity.

<sup>5</sup> Affermage contracts are generally public-private sector arrangements under which the private operator is responsible for operating and maintaining the utility but not for financing the investment.

<sup>6</sup> A lease agreement is a contract between a landlord and a tenant that states what the tenant will pay monthly for rent and for how long.

<sup>7</sup> Divestitures happen when a company disposes of all or some of its assets by selling, exchanging or closing them down, or through bankruptcy.

<sup>8</sup> One-time revenues arise from non-operating activities, that is, those outside a company's usual activities. An example of a one-time revenue would be the periodic sale of an asset—such as a building—at a profit.



Casino du Liban	Full or partial divestiture	Positive impact	Positive impact	One-off revenues of 320 to 420 million USD to the Central Bank of Lebanon.
Régie	Privatization and change of scope of activities	Positive impact	Uncertain impact	One-off revenues of 1,440 to 1,700 million USD to the government.
Airports	Concession	Positive impact	Uncertain impact	Cannot be quantified.
Ports	Concession	Positive impact	Uncertain impact	Cannot be quantified.
Real estate	Partial progressive privatization	Negative impact	Uncertain impact	Theoretical valuation between 7,120 million USD and 14,380 million USD. However, unlikely to materialize in revenues for the state in the short or medium terms.
Telecom	Full or partial privatization	Positive impact	Positive impact	The valuation of the main telecom assets held by the Lebanese state, Ogero, MIC1 & MIC2, ranges between 2,180 million USD and 4,280 million USD.
EDL	Concessions	Positive impact	Uncertain impact	Progressive reduction of EDLs yearly losses: between 1.5 billion USD and 2 billion USD.
Water	Affermage or lease	Uncertain impact	Uncertain impact	The government cannot expect to generate upfront fees by granting water affermage or lease contracts in Lebanon.

## Estimation of the selected PHAs' values and potential revenues

Given the limited data and resources available, Albert Kostanian estimated PHAs' values which robustness is limited. He estimates that the PHAs total value (excluding assets to

be subject to concessions) ranges between 12 billion USD (conservative scenario) and 22 billion USD (optimistic scenario), thus averaging 17 billion USD. In parallel, based on the estimations, the gross revenues that could be generated for the Lebanese State from privatizations (excluding concessions, lease or affermage contracts<sup>9</sup>) could amount between 6 billion USD (conservative scenario) and 13 billion USD (optimistic scenario) on the short term.

**By assessing the values of the selected PHAs, Albert Kostanian estimates that the revenues which would be generated by the privatization on the short term are minimal compared to Lebanon's aggregate losses.**

**Hence, privatizing PHAs does not present a key solution today, especially since the prerequisites are absent, and the regulatory framework highly fragile.**

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<sup>9</sup> It would be crucial to note that concessions, lease or affermage contracts would generate growing incremental revenues or savings over time.