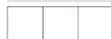


Global Economy

How public assets can help revive Lebanon



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By: Guest writers



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This is a guest post by Dag Detter, an investment adviser and former president of Stattum, the Swedish government holding company and Nasser Saidi an economist and former Minister and Central Bank Vice Governor in Lebanon, arguing that Lebanon should create a national wealth fund to help it maximise the value of public assets and thus better address its debt imbalances.

Lebanon is in the throes of a fiscal, banking, currency and debt crisis. It is negotiating a rescue package with the IMF and a restructuring of its public debt which stands at 175 per cent of GDP with an estimated budget deficit of 15 per cent.

Across the globe and in Lebanon, policymakers have focused on managing the debt to get the country back in balance. But they have largely ignored the question of how public assets and real estate can help to alleviate the problem. Governments around the world, including Lebanon, have trillions of dollars of public assets. These are potentially a hidden gold mine in the fight against debt crises, or more pertinently an iceberg because so little of the wealth is visible to sovereign bond investors. Globally, the IMF estimates public assets are worth at least twice that of global GDP. Yet the assets are often badly managed and frequently not even accounted for at all. Given that in most countries public wealth is larger than public debt, managing it better could help to solve many debt issues while also providing material for future economic growth.

The idea of public asset wealth may not ring true to anyone familiar with the operational part of the government portfolio in Lebanon. Yet the portfolio plays a fundamental role in the economy because it operates in important sectors on which the broader economy depends. This is why the [importance of well-governed SOEs cannot be overstated](http://www.oecd.org/corporate/ca/corporategovernanceofstate-ownedenterprises/50087769.pdf) (<http://www.oecd.org/corporate/ca/corporategovernanceofstate-ownedenterprises/50087769.pdf>).

Lebanese public assets include basic public utilities (Electricité du Liban or EDL), water utilities, public transport infrastructure such as airports, MEA the airline and telecoms company OGERO — as well as the Casino du Liban, Regie Libanaise des Tabacs et Tombacs and others. Most of these assets are classified as non-performing and in many cases are a drain on the treasury (EDL accounts for 30 per cent of the budget deficit).

But that is not where the lion's part of the wealth necessarily lies. What is missing from the common perception is the real estate owned by the government. The economic value of public real estate can be worth at least as much as GDP and often several times the value of the operational part of any portfolio.

As it stands, however, the value embedded in government-owned real estate is largely hidden below the surface due to the public sector's [failure to adopt modern accrual accounting](https://ftalphaville.ft.com/2017/08/23/2192292/americas-governmental-accounting-standards-board-is-giving-ruinously-bad-advice/) (<https://ftalphaville.ft.com/2017/08/23/2192292/americas-governmental-accounting-standards-board-is-giving-ruinously-bad-advice/>) as recommended by the International Public Sector Accounting Standards Board. The opacity of the real estate segment is often helped by the lack of an accurate cadastre, which is a land registry based on an official geographic information system (GIS) identifying relevant data on all geographical objects.

Often only a crisis can bring on the political will to make bold changes. In this case the change should be to ensure that every penny generated with an increase in yield from public commercial assets is a penny less from budgetary cuts or increases in taxation.

The first step to unlocking the potential value in public assets is by assigning an independent specialist agency to the matter. This shouldn't be too controversial. Most governments around the world already delegate the management of several core public financial operations to separate professional institutions. For example, the management of government debt is outsourced to a debt management office while the responsibility for setting interest rates is assigned to a central bank. Authority is delegated to professionals for the very reason that they are expected to be politically independent, neutral, and can be easily held accountable against narrowly defined targets.

If public assets were managed in a similarly professional way, it is conceivable they could generate on average an additional 3 per cent of GDP annually in revenues to the government, [according to the IMF](https://blogs.imf.org/2019/06/18/a-global-picture-of-public-wealth/) (<https://blogs.imf.org/2019/06/18/a-global-picture-of-public-wealth/>). This income could be used to pay for investments in infrastructure and other public services. Properly structured, improvements in public wealth management could also help to win the war against corruption by introducing private sector disciplines, including transparency, commercial objectives and political insulation through independent holding companies such as national wealth funds. This would address in a single stroke two of the great problems of our age (both present in Lebanon): the shortage of infrastructure investment due to the overhang of the public debt and debt service and democracy's vulnerability to bad governance.

National wealth funds to the rescue

First of all, the management of public commercial assets should be conducted with full transparency, echoing the procedures of listed companies. All implicit opportunity costs should be made visible in budget reviews to the various public services and government departments using these assets. A fully integrated inventory of public assets should then be established and maintained, where the market value of each assessed asset takes into account its potential for alternative uses so as to maximise potential yields. This would force managers to design and develop comprehensive business plans for all assets, putting each asset to its most productive use while making visible the cost of using the asset in any suboptimal way.

The second step in unlocking public wealth lies in the separation of governance of public commercial assets from policymaking. As demonstrated by a century of experimenting with public asset management in both Asia and Europe, the best way to manage public commercial assets is through an independent corporate holding company – a National Wealth Fund - at arms-length from short-term political influence. As in the private sector, it would come with internationally accepted corporate governance and accounting standards. There can be no professional management of public commercial assets without such a vehicle. Separating the regulatory function within a government from that of ownership in a clear and transparent way would thus enhance the likelihood of increased private sector

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In addition to these concerns, Mr Nicholas also raised the killing by Saudi state agents of journalist Jamal Khashoggi in 2018.
"You could find Crown Prince Mohammed bin Salman paying the 10 and 100 per cent and taking over a 100. How beneficial for you, mate?", said Mr Nicholas. "I just can't imagine a situation where someone who is implicated in murder is allowed to take over an English club"

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Dan McCrum
@FD

Replying to @FD

In case customers of Monzo have any concerns given recent events, the group stopped using Wirecard in 2018.

(That was after Wirecard and Monzo were proud winners of the Best Prepaid Product of the Year at The Card and Payments Awards 2017.)

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investments and foreign direct investments, as well as improved services towards the consumers.

In the Lebanese case, it makes sense that a National Wealth Fund taking charge of public assets could help the country forge a comprehensive macroeconomic and structural plan to address the country's multiple crises.

A key objective would then be to use the holding company to restructure public assets and to combat endemic corruption so as to increase efficiency and productivity, and to institute effective corporate governance.

An efficiently managed National Wealth Fund would cut the drain on the government's budget and resources, increase the value of public commercial assets, provide revenues and would be a major contributor to fiscal sustainability. More efficiently managed assets would contribute to a higher rate of real GDP growth, and lower private sector operating costs.

If properly administered, the move would then bolster faith in Lebanon's credit rating assessment, lowering the cost of borrowing on the international market, thus benefiting society as a whole.

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Signed in as **dag deffer**. [Edit](#)