

Forensic Audit : The Purgatory of Lebanon

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Those of us who advocated for a forensic audit did so for a multitude of reasons.

The most obvious is that Lebanese depositors have a right to know why they can't get their money and what happened to it.

On a practical level, it's also a requirement by IMF and also "encouraged" by all the major Western powers, such as the United States, France, Germany and the European Union.

That we ran a Ponzi scheme in Lebanon is no longer a matter of contention ... except by our Lebanese Madoffs, and those media outlets they buy with their abundant funds, sourced from the remnants of the savings of Lebanese expats, essentially using their money to launch a media campaign to cover up what happened.

And the campaign worked marvelously well here in Lebanon, until they realized that the person who signs the checkbook at the IMF, supported by major donors from the West, is really the person they need to convince. Their success in Lebanon gave them the confidence to try to pull the same trick in France.

So they packed their bags, full of Ermenegildo Zegna suits and bright red Hermès power ties, wearing their oversized expensive analog Swiss watches, accompanied by their handsomely paid consultants, and off they went to Paris to convince officials there of their ridiculous plan to abscond with the rest of the bankrupt Lebanese state's assets to plug the giant hole in their Ponzi Scheme. All this, while the rest of the Lebanese populace had already lost 80 percent of its purchasing power. If they're lucky enough to still be employed.

The plan backfired spectacularly, insulting the sensibilities of the French so much, that they turned from apparent neutrality, and behind the scenes soft criticism, into the president of the French republic taking a vocal public position, announcing to the whole world that the Lebanese banking system was nothing but a regulated Ponzi Scheme benefiting the ruling elite. This is now the consensus among all the major Western countries, IMF and even the United Nations.

The first time I used the term "forensic accounting" was in a tweet, followed by an article with that title, in March 2019, when \$22 billion disappeared overnight from the Central Bank's balance sheet, explained away by various spokesmen and paid agents, and some useful idiots, in much of the friendly media as a "netting operation."

Like an Algebra problem in my 10-year-old's Math class: $x + y = y + 2$. So you just cancel out the "y" on both sides in a netting operation and get $x=2$. Except the "y" in the Central Bank's balance sheet was \$22 billion. That's bigger than the entire annual budget of the Lebanese government and around 40 percent of our GDP. When you can make an adjustment that big, overnight, you know something is wrong.

I only wish they could do a netting operation to wipe out our sovereign debt.

My support for this audit was motivated by a genuine desire to find out how the money was spent, because that comes in handy allocating losses. My own estimate is that up to 25 percent of dollar deposits were spent funding fuel for EDL, with the rest, up to 75 percent, on the Lira peg.

The BDL governor himself, in an interview with Hadley Gamble on CNBC, states that "the dollar funds were used on imports, which is why the banks have less liquidity [sic]."

Let me translate that. "Imports" is code for supporting the Lira peg - basically anyone needing to make a foreign purchase, like a phone, car, clothes or even a vacation in Turkey. "Less liquidity" is a euphemistic way of saying the money's toast.

I also estimate about 10 percent went to Ponzi interest, for the lucky or situationally aware few, who did a hit and run, coming in 2016 with \$10 million and exiting in 2019 with double their money. Those guys understood the dangers well, but figured they can get out in time, before the system imploded. Others, doubled down, and got caught, their wealth transformed into lollars, stuck in the banking system, and devaluing in solidarity with the Lebanese pound.

Originally, I had given them the benefit of the doubt. In fact, a senior official at BDL told me a few months ago that they welcome a forensic audit because "it would incriminate everyone." Today, it's pretty clear that my push for the forensic audit was justified. Only someone hiding something would push back that vigorously. What this means is that the real path to eradicating corruption in this country starts with this forensic audit. Perhaps, this will be the first of many steps to forensic audits of other institutions, like the various ministries and EDL. Perhaps this is our last chance to save this country, so we can leave it better for our children than our parents left it for us.

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