

**FRAUD AND COLLECTIONS IN THE LEBANESE
GSM SECTOR**

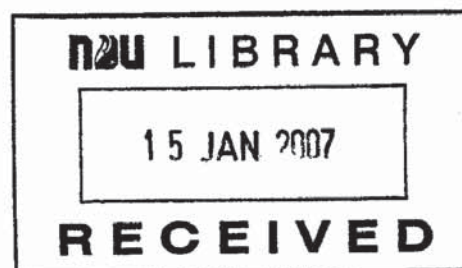
**The Case of
Alfa Telecommunications**

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ABSTRACT

FRAUD AND COLLECTIONS IN THE LEBANESE GSM SECTOR

By

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NOTRE DAME UNIVERSITY, 2006

This thesis studies the implications of introducing the public sector domination in what it used to be a private sector business. It is related to the mobile technology in Lebanon which shifted from a former prosperous management to an operator on the Lebanese government's payroll. Comparing the previous Cellis era to the new Alfa epoch revealed that the former days were much better in terms of management. With all the outside interference and the relation to Syrian officials, the Lebanese GSM sector was in state of outmost glory and technological advancements compared to its worldwide adjacents.

In each company, losses are inevitable ranging from a small lost stapler to a large multimillion dollar investment. Alfa's case went beyond those staplers and erasers to become a matter of millions of dollars lost each year from the fraudulent customers. An organized bad debt management is imperative for the well being of this sector, benefiting the revenues and sustaining the reputation of both Alfa and MTC touch.

This work was performed for the main purpose of resolving the issue of collections because defrauders are constantly finding ways to steal talk-time from both networks at the time no security measures are being adopted to prevent such actions. Following those facts, experts in Telecom associated the management's inflexibility in defensive measures towards the perpetrators as being equivalent in crime. It is considered criminal not to take definite measures to stop them as they are criminals in taking advantage from both networks to benefit the most at near no cost terms.

Adding to that is a suspicion of some sort of money laundry actions in the Lebanese GSM sector. This criminal fact is not directly related to Alfa; rather it is associated to the wholesalers who are Alfa's and MTC's main customers for block sales of lines and services. **Just in case** both operators' managements are aware of money laundry schemes and they are silent for the sake of sales, one would deduce that they are both accomplices in crime. If those doubts are correct, we can ask ourselves the following question: Can a major business in Lebanon exist and operates without being polluted with money laundering?

INTRODUCTION

As many political analysts describe, corruption and conflict of interests are widely reputed in Lebanese economies. Politicians who were known to be Syrian related during the occupation, had the perfect coverage and backup to assume vital shares and positions in key sectors which are considered to be goldmines¹. Even though what has been said, the creation of Cellis and LibanCell after the Lebanese wars gave people a flame of confidence in their economy especially that they were privately formed by European companies at no license cost whatsoever². All Lebanese thought that their country was in his first steps towards modernization and gave boost for many to follow the same trend by attracting other foreign companies to Lebanon.

But the government's Build-Operate-Transfer (BOT) contracts' cancellation in June 2001 raised a lot of questions concerning the investment concept in Lebanon: We can understand that in times of war, no country in the world is safe enough to invest in, but what about Lebanon in times of peace? There were many cases about individuals who came to Lebanon to invest and live in "their country", and because of a "tailored" legislation serving pressure groups or (a) politician(s)' interests, they lost everything in the process and either kept living in misery or traveled back again with no hope to return back. Is investment in Lebanon safe in terms of security and economy?

¹ Gambill, Gary, "Lebanon's Cell Phone Scandals", The Middle East Intelligence Bulletin, New York, USA, (January 2003). http://www.meib.org/articles/0301_12.htm

² There wasn't any gain for the government from the BOT contracts in the beginning because they were granted to both companies at **no cost**. **The Lebanese government should have at least sold each one for \$1.5 billion compared with Morocco's case in 1999** where a license to build and operate a second GSM network for 170,000 subscribers amounted to \$1.14 Billion. In Lebanon case each company was liable to build and operate a network for 250,000 subscribers each later upgraded to 500,000 each. The Lebanese government should have formed an audit committee consisting of Financial and Technical professionals to examine the agreed upon profits and the authenticity of the technical data.

Because of +36 billion USD as a total debt³, money shortage will be always present in Lebanon except of some sort of miracle wiping them away and for good. That money shortage leads to poverty and people start resorting to new unorthodox ways to make money. There are present cases where they are trading with lines that they do not own. They are either using other people's IDs or forging them many times to arrange fake contracts. In some instances they are using dead people's IDs to reach their goals.

Around 70% of the monthly bad debts⁴ through payment failures come from the Southern Beirut area and regions such as "Hay el Selloum" and "Roueiss". After many investigations through personal efforts and insiders, the collections department found out that the people living there are using the services of the MOT without paying more than one quarter of what the bills are worth as a maximum figure.

As the responsible in the collections department, I have prepared a preliminary study back in mid 2005 and presented it to FalDete board of directors and managers. I was able to achieve around 10% of what we suggested, the part which "does not cost money" to realize according to management directives and can have a good impact on minimizing losses. One suggestion formed the first real venture between the two competitors through a common blacklisted grid intended to fight defrauders who are causing losses on both the operators and people.

³ Banque Du Liban monthly publication as of (July, 2006).
<http://www.bdl.gov.lb/pub/mb/mb146/MB146- July2006.pdf>

⁴ According to Alfa's second quarter of year 2006.

Because of the summer 2006 war over Lebanon, 90% of Alfa's employees were unable to attend work, including the cashiers and sales department. On the other hand, the collections department was able to get to work on a daily basis. The responsibility of all wholesalers' purchases was momentarily diverted to it for payment and delivery of goods. This section of the company raised many suspicions and doubts potential Money Laundering actions related to those dealers. Each 2-3 days those wholesalers buy and stock huge amounts of recharge cards and lines for later use. The following questions rise here: how are they paying huge amounts of cash in that short period and why are they stocking that much which can last for the next one year and a half? Is Alfa realizing and suspecting⁵ that those enormous cash⁶ transactions might be used to launder dirty money? Analyzing this phenomenon without deep investigation will only permit inquiring with question marks and never with actual facts. Alfa is a services company whose only interest is to increase sales in competition with the other GSM operator (MTC touch).

⁵ Meaning the MOT through its account "MIC 1" with FalDete management.

⁶ Checks are never used.

PART I

Historical Details

Of the

Lebanese GSM

From

1994 till 2006

CHAPTER 1

THE LEBANESE GSM SECTOR FROM 1994 TILL JANUARY 2004

1.1 HISTORICAL BACKGROUND

The story of the Lebanese GSM began in 1994; where the Ministry of Telecommunications awarded two 10-year (BOT) contracts to two cellular phone companies, LibanCell and Cellis for establishing a GSM 900 MHz cellular network covering the Lebanese territories⁷. This story served as a front page publicity showing the world that Lebanon is only interested in modernizing itself without care for profit. That was the official excuse for granting⁸ the licenses rather than organizing a sales bid which could have filled a major chunk in the huge Lebanese debt. But the real truth is that Lebanese politicians and officials (backed by the Syrian Regime⁹) simply wanted to make profits by introducing a badly needed service or a luxury item into the market. They knew that the Lebanese people are always hungry for the latest technologies, so market penetration shouldn't be too hard to achieve; especially that it facilitates their daily life. As a result, they were able to obtain stakes and arrange contracts with both operators without paying a dime to the MOT to what should have been a bid in the first place. Consequently both

⁷ The European Survey of Information Society Projects and Actions (ESIS), Project Survey the MiddleEast Area, (March 1999-January 2001) inclusive. Europe, <http://www.eu-esis.org/esis2reg/LBreg7.htm>

⁸ ESIS, "The Regulatory Developments of Lebanon", (April 2000), Europe, <http://www.eu-esis.org/esis2reg/LBreg4.htm>

⁹ Gambill, Gary, "Lebanon's Cell Phone Scandals", The Middle East Intelligence Bulletin, New York, USA, (January 2003). http://www.meib.org/articles/0301_12.htm

networks were created in the cheapest ways possible, with costs limited to equipment, rent and personnel.

1.2 STAKES, POLITICAL CONNECTIONS, TARIFFS AND PRICING

Although shares in both companies have somewhat changed hands since then, the majority stakes in both competitors were still owned by Lebanese political elites with close ties to the Syrian government. Eighty six percent (86%) of LibanCell came to be owned by Ali and Nizar Dalloul. According to reliable sources, the Dalloul brothers actually fronted for Syrian Vice-president Abdul Halim Khaddam and former Syrian Chief of Staff Hikmat Shihabi. Cellis came to be 30% owned by a close friend of the Assad family – former Public Works and Transport Minister Najib Miqati, along with his brother, Taha, and nephew, Azmi¹⁰.

The government, which controls pricing, allowed the two companies to set subscription fees that were nothing short of highway robbery. From 1998 up till 2001, the two competitors in agreement with each other and the government raised the calls' costs from 6 US cents per minute to 14 US cents¹¹ to increase its share of the gross revenues. Whom to blame for allowing such an action to occur in the first place? The government never took action to stop this pressure on consumers because it benefited from having more revenues to fill the increasing public debt. Whereas mobile telephone calls cost around 3-8 cents per minute in other Arab countries, in Lebanon the cost was 14 cents per minute for post paid lines and 39 cents

¹⁰ Gambill, Gary, "Lebanon's Cell Phone Scandals", The Middle East Intelligence Bulletin, New York, USA, (January 2003). http://www.meib.org/articles/0301_12.htm

¹¹ The Daily Star, "Cell phones: overpriced and underserved." Beirut, Lebanon, (August 17, 2002).

per minute for pre-paid phone cards. How can the government talk about breaking the monopoly when the current mobile companies are charging the same prices and providing the same services? Comparing Lebanon to the US, the 1 prepaid minute for international call costs 10-16 cents according to options¹² whereas in Lebanon, the 1 prepaid minute for international call costs \$2.34. As for the local calls, the prepaid minute costs 14 cents flat at the time the Lebanese minute costs 39 cents. Furthermore the fierce worldwide competition is driving operators to provide very appealing offers such as giving away free phones with lines purchases and vice versa, special student packs¹³, etc... In Lebanon, subscribers were forced to pay \$500 as a starting subscription fee in order to register and use the desired phone number¹⁴. The fees dramatically decreased to \$110 for the regular line¹⁵ in 1998 up till \$550 for the golden number.

Although the BOT contracts stipulated that the government was to receive 50% of the profits earned by LibanCell and Cellis, both companies allegedly understated their revenues. The less they would report the lower the government share in proceeds and taxes would be proclaimed. The contracts also limited each company to 250,000 subscribers, but both exceeded this limit to become adjacent to 485,000 till 2001. Doubling the number of lines in service will surely attract more revenues for both competitors. According

¹² Nobelcom USA. "Fees for international calls, the example of calls to France." USA (December, 2006) http://www.nobelcom.com/nobelcom/jsp/productselection/productselection.jsp?from_country=1&to_country=487

¹³ Le French Mobile, France, (December, 2006). <http://www.lefrenchmobile.com/en-home.html>

¹⁴ In Lebanon it is widely known that the Cellular post paid are bought through a purchasing contract. In fact the contract people sign is a subscription contract which is based mainly on a mutual agreement from the part of the operator to provide service and on the other hand the end user paying for that service. If the end user fails to settle his bills, the contract would be cancelled; the line confiscated by Alfa/MTC and a follow up on the pending bills would be legally dealt with.

¹⁵ Gambill, Gary, "Lebanon's Cell Phone Scandals", The Middle East Intelligence Bulletin, New York, USA, (January 2003). http://www.meib.org/articles/0301_12.htm

to Telecom experts¹⁶, the stated additional revenues were never adequate to the related increase of lines. The question rise here, why couldn't the government at that time impose a legal agreement dealing with that increase of lines? As long as Rafiq Hariri was Prime Minister, however, the Lebanese government looked the other way.

1.3 THE CONFLICT WITH THE MOT

After the election of President Emile Lahoud in 1998, Hariri was replaced by Selim al-Hoss, who directly started an "anti-corruption" fight designed to dismantle the former Prime Minister's domination network. Because of the sale of an additional 500,000 lines above their contract agreement, Hoss's cabinet imposed a \$300 million penalty¹⁷ on each of Cellis and LibanCell. The duopolies rejected these allegations and referred the dispute to international arbitrators in New York and Paris. Furthermore, they were confident that the Syrian political "barons" who were collecting their share of their profits would not permit Hoss to revoke their licenses.

This incident stopped the GSM attempts in turning the BOT contract into 20 years licenses, the action that would have probably generated high revenues for the Treasury and give momentum for the operators to upgrade the sector to the latest technologies. The setback also affected the BOT contracts by forbidding the government to bring in a third operator in 2004.

¹⁶ Gambill, Gary, "Lebanon's Cell Phone Scandals", The Middle East Intelligence Bulletin, New York, USA, (January 2003). http://www.meib.org/articles/0301_12.htm

¹⁷ The Daily Star, "Phone firms haggle over taxes." Beirut, Lebanon, (April 20, 2001).

Both Cellis and LibanCell proposed to pay for the former government an amount of \$1.35 billion each for 20-year licenses, provided that the latter drops all charges and tax claims against them¹⁸. The MOT and precisely the Telecommunications Minister at that time, Issam Naaman refused that offer. There had been a lot of babble from Telecom experts concerning what have happened in this context, but they all agreed upon the facts that the values of cell-phone licenses worldwide have dropped dramatically since its appearance, and the Lebanese government cannot hope for a better deal if not the same in the future¹⁹.

In this period, two major facts occurred: a new Minister of Telecommunications was appointed (Jean Louis Qordahi) and Cellis was the first to launch the GPRS feature in Lebanon. A new fight erupted concerning this issue, from the part of the MOT stating that this new feature is in breach of the BOT contract because it needed an earlier approval and a new taxing system, and from the part of Cellis claiming that the GPRS used was directly related to the GSM sector and not similar to the one used in trafficking. Thus Cellis was abiding by the BOT which stipulated that both operators should be always boosting the sector to the latest technologies. Those disputes had their echo reach all over the business world signaling insecurity and corruption in Lebanon²⁰. It wasn't until that present time that the former

¹⁸ The Menareport, "Lebanese Cellular Firms Refuse to Endorse Ownership Transfer Deal." Beirut, Lebanon, (December 11, 2002).

¹⁹ Especially after the story of the UMTS: UMTS license auctions fetched billions of dollars for governments in the United Kingdom and Germany in 2005, before the companies realized they could not afford such high bids for unique services that could take years to make a return. Universal Mobile Telecommunications System (UMTS) technology required an entirely new infrastructure, and therefore a separate contract or license.

²⁰ The Daily Star, "Cellis takes on the ministry, Mobile phone operator insists new service is part of contract." Beirut, Lebanon, (May 15, 2001).

Minister Naaman admitted that Prime Minister el Hoss should have allowed him to accept both Cellis and LibanCell's offers of \$1.35 Billion each.

On June 14, 2001 and after the return of Hariri to his previous governmental position (Prime Ministry), the Higher Council for Privatization in Lebanon "suddenly" terminated the BOT contracts for the countries' two mobile network operators three years ahead of their expiration. Simplifying the matter, the operator's contracts were cancelled without recourse. Many points of view have been disclosed in this context, for example the Higher Council for Privatization claimed that all parties had reached an "amicable" agreement; thus the decision was made accordingly. It is obvious that this statement was clearly far from true given the constant debate over that decision.

As for LibanCell's Chairman Hussein Rifai, he stated: "We were astonished on Monday April 17, to hear the Minister announcing the failure of the negotiations and end them unilaterally. We were stunned even further by the decisions of the Council of Ministers on April 19, which could only lead to terminate the company's activities. It is deplorable to realize that our detractors barely know the BOT contract terms, our figures, and the real story behind the GSM crisis. The members of the Parliament themselves asserted their lack of knowledge on the subject requesting information and documents. All the recent developments indicate that the Council of Ministers' knowledge of the contract and of the file is equally superficial. We firmly refuse all the allegations we are accused of, and will be regrettably forced to recourse to international arbitration as per the contract's stipulations."

Concerning Cellis' Chairman Salah Bou Raad, the latter reported that the MOT asked him in May to participate in the dictation of the license's legal text. He was able to present some projected terms and conditions on the basis of which a license could be granted. Qordahi gave him verbal approval for the plan and promised to confirm it in writing by June 11, so that France Telecom could prepare a preliminary offer and present it to the MOT before the end of that month. Regrettably, Bou Raad was surprised when the Ministry of Telecommunications terminated Cellis' contract without advance notice²¹.

The DailyStar reported at that time that Cellis and LibanCell knew in advance and though the Higher Council of Privatization that the premature termination of the 10-year BOT contracts was a strong possibility²².

Following all those allegations, the truth about this issue was never to be known. It is possible that Cellis and LibanCell knew that the termination of the contracts was seriously considered and pretended not to know, but one thing is for sure is that those cancellations did not benefit neither investment in Lebanon nor the Lebanese Treasury for the huge penalties that the country had to pay for violating an internationally protected contract. The latter's breach at that time had the worst impact over the BOT contract in particular, the government in common and Lebanon in general. Concerning the BOT contract, this violation dragged the country to international arbitration with enormous amounts of compensation. As for the reputation, can foreign firms still trust investing in Lebanon and have faith in the Lebanese government?

²¹ The Daily Star, "Cellis tells its side of phone contracts fight." Beirut, Lebanon, (July 7, 2001).

²² ITP Technology News, "Lebanese Government fires mobile operators." Beirut, Lebanon, (June 14, 2001). <http://www.itp.net>

It is very obvious that political intervention is destroying the country's investment reputation via worldwide businesses.

For over a year, debate raged within the regime and in the country at large concerning the fate the mobile phone sector. Hariri proposed an international auction to sell two 20-year operating licenses for an up-front fee, supposedly to help relieve the country's debt burden of 24 Billion, but the investors and economists never trusted those proposals²³. Some economists²⁴ argued that: "Technologies change so fast that 20 years is a long time to have a license. It's recommended that contracts have a 10-year life at the most²⁵".

President Emile Lahoud opposed the sale of operating licenses, fearing that Hariri and his allies would outbid other investors, and demanded that the mobile phone sector be nationalized.

Obviously Cellis and LibanCell sought seeking International Arbitration at the Courts of Paris according to the details of the BOT contracts. For that the Lebanese government needed a victory in the shortest time possible which came from the Lebanese Council of State²⁶. The latter issued a ruling on Wednesday the 18th of July, 2001 stating that LibanCell cannot seek arbitration outside Lebanon over alleged violations of the agreement. The Council of State committee presided by Judge Ghaleb Ghanem said that he was revoking an item in Article 30 of the BOT contract because LibanCell had no right to seek arbitration outside Lebanon following that most of the company's shares (Over 86%) are owned by Lebanese and thus the

²³ Gambill, Gary, "Lebanon's Cell Phone Scandals", The Middle East Intelligence Bulletin, New York, USA, (January 2003). http://www.meib.org/articles/0301_12.htm

²⁴ Of them Chairman of Sotel Mr. Louis Hobeika.

²⁵ The Daily Star, "Cellis condemns contract breach." Beirut, Lebanon, (June 16, 2001).

²⁶ The Daily Star, "Cell-phone firms likely to ignore Shura's ruling." Beirut, Lebanon, (July 19, 2001).

company's contract falls under the Lebanese jurisdiction. However, the Council said that Cellis, which is majority-owned by France Telecom (around 70%), had the right to seek arbitration in Washington because the contract was signed in Beirut and Paris, thus any settlement in Paris will come biased towards the French operator²⁷.

According to some Legal Counsels²⁸, off the record events happened in this context and away from reporting. Those lawyers were both closely monitoring the case and according to them, both Cellis and LibanCell threatened both the MOT and the government in taking the matter to international arbitration in case the cancellation was not reversed and the companies compensated. The Lebanese government "*forgot*" that the BOT contracts included the Article 30 stating that any conflict should occur; the dispute should be taken solely to International Arbitration. Any party from either side cannot just take the measures it would see fit by amending the contract to serve its purposes. Cellis and LibanCell are partly owned by foreign companies, so the fact beyond contestation dictates that international arbitration is to be used in this case. The latter trying to achieve another "breakthrough" to overcome both companies and evade international arbitration, settled a new national law stating that international arbitration is never to be used against the Lebanese MOT. The government was trying to trick both Cellis and LibanCell just to intimidate them, but it never worked because there were foreign stakes in both and the original BOT contract dictated that international arbitration is to be used in case of conflict. So the

²⁷ The Daily Star, "Cell-phone firms likely to ignore Shura's ruling." Beirut, Lebanon, (July 19, 2001).

²⁸ Mr. Joseph Yazbeck and Mr. Imad Saleh.

latter's efforts were futile and finally decided to switch to private agreements and settlement with both companies²⁹.

During this time, a fierce political fight was in process between the President and the Prime Minister over many aspects related to Lebanon's economy, of which Hariri repeatedly accused Lahoud of conspiring to "dynamite the Paris II conference." The Prime Minister wanted to privatize the GSM sector and use the sale proceeds to fill the country's debt burden at the time the President wants to keep it nationalized³⁰. Finally the two loggerheads agreed to allow Cellis and LibanCell to run the cellular systems in return for a fee from September until the end of January 2003. Although Qordahi refused to give more details about the government proposal to allow the two current firms to operate the cellular systems, sources close to both sides claimed that each company has been offered \$5 million each month to maintain normal operations³¹.

1.4 OUTCOME OF THE CONFLICT

Consultancy KPMG, which was appointed by the government to assess how much to compensate Cellis and LibanCell for terminating their contracts, proposed that both companies receive USD341 million combined. On November 28, after a marathon round of closed door negotiations which delayed the weekly cabinet meeting for almost two hours, a draft agreement concerning the compensation to both operators was reached between

²⁹ Lawyer Joseph Yazbeck, personal interview 15/06/2006.

³⁰ Gambill, Gary, "Lebanon's Cell Phone Scandals", The Middle East Intelligence Bulletin, New York, USA, (January 2003). http://www.meib.org/articles/0301_12.htm

³¹ The Daily Star, "Talks on mobile operators take marathon turn." Beirut, Lebanon, (August 7, 2002).

President Lahoud and Prime Minister Hariri. That draft offered the two companies \$179 million each in return for their signatures on the transfer agreement; however both operators refused to endorse the transfer of ownership.

The Lebanese mobile operator Cellis has announced that it still considers the government's termination of its management contract illegal, threatening to take the case to the International Court of Arbitration. The announcement suggests that the France Telecom-backed venture is still not prepared to surrender the last of its operational assets, including offices and equipment, to the Telecommunication Ministry until the arbitrators pass a verdict on its dispute with the state. Cellis filed an additional complaint at the UN Trade Rights commission for violation of the investment protection treaty signed between Lebanon and France. By mid December, a final agreement was arranged with the MOT stating that both companies cash the \$179 million each in partial settlement where the difference (if any) is settled and judged through international arbitration. Both LibanCell and Cellis Chairmans signed an agreement to this effect³² where they transferred the ownership to the government for the time being³³.

In earlier 2005, a Geneva-based international arbitration court ordered the Lebanese government to pay \$266 million, in addition to the interest accumulated from the date of the court order and lawyer's fees to France

³² Gambill, Gary, "Lebanon's Cell Phone Scandals", The Middle East Intelligence Bulletin, New York, USA, (January 2003). http://www.meib.org/articles/0301_12.htm

³³ BuyUSA, "Dispute Settlement in Lebanon." USA, (June 2006) http://www.buyusa.gov/lebanon/en/dispute_settlement.html

Telecom³⁴. Later in mid 2005, another arbitration ruling ordered the Lebanese government to pay \$266 million to former LibanCell as well as ruled in favor of the MOT to receive \$1 million from the operator³⁵. In early November 2005, the Lebanese Cabinet approved to pay \$96 million to France Telecom, constituting the final settlement of the international arbitration between the two sides³⁶.

The next step for the Lebanese government was to work on the sale of those two GSM companies; expected deadline was set in early 2003³⁷. In the meantime and through The Network Custody and Operation Agreement of August 2002, Minister Jean Louis Qordahi granted both Cellis and LibanCell the right to carry on operating until the end of January 2003.

The privatization process was attempted numerous times between January 2003 and January 2004, however disagreements among the political leaderships were the origin in all the delays³⁸. Meanwhile extensions were granted for both operators until the 7th of January 2004 when the Higher Privatization Council started organizing a bid process amid fears that companies competing for the contract would not meet the Lebanese government's high expectations³⁹.

³⁴ Bank Audi SAL, "Lebanese government ordered to pay US\$266 million to LibanCell." Research department, Report Week 30, Beirut, Lebanon, (July, 2005).

³⁵ The \$266 million figures for both operators include the \$179 million paid previously to them by the Lebanese government.

³⁶ Bank Audi SAL, "Lebanese government to pay US\$96 million to France Telecom." Research Department, Report Week 47, Beirut, Lebanon, (November 2005).

³⁷ ITP Technology News, "Lebanese GSM crisis is nearly over, predict analysts." Beirut, Lebanon, (March 31, 2003). <http://www.itp.net>

³⁸ Country Commercial Guides, "Lebanon Status." Washington, USA, (July 2006). [http://commercecan.ic.gc.ca/scdt/bizmap/interface2.nsf/vDownload/CCG_0300/\\$file/X_6167523.DOC](http://commercecan.ic.gc.ca/scdt/bizmap/interface2.nsf/vDownload/CCG_0300/$file/X_6167523.DOC)

³⁹ The Daily Star, "Bids for cellular networks reported as low." Beirut, Lebanon, (January 6, 2004).

CHAPTER 2

THE LEBANESE GSM SECTOR FROM JANUARY 2004 TILL DECEMBER 2006.

2.1 REFUSAL OF OPERATIONAL OFFERS FOR CELLIS AND LIBANCELL

Six local and international companies submitted the required documents and are deemed qualified to bid for the sector's long term licenses: LibanCell, Investcom Holding (Luxembourg), Orange (France), OTE (Greece), Wataniya Telecom and Mobile Telecommunications Company (Kuwait). The seventh company, Germany's Detecon, is pre-qualified to bid only for the operating license. Unfortunately the highest offer the government got was around 1Billion US Dollars for each operator at the time it was aiming towards the 1.6Billion and above⁴⁰. So the government proposed other options to bid on: one for a 20-year license, one for a 20-year license with a clause guaranteeing the government 40 percent of revenues, and one for a three-year management contract. All the other companies pulled themselves from the deal except for Orange (or Cellis), LibanCell and Investcom. Then the first two were banned on the ground that they are currently locked in a dispute with the government. To make things worse, the required bank guarantee which was first set at 25 million dollars was later raised to \$100 million, so obviously all those facts point out that the

⁴⁰ The Daily Star, "Bids for cellular networks reported as low." Beirut, Lebanon, (January 6, 2004).

government was desperately trying to sabotage the entire bid and placed Lebanon on the list of un-credible countries⁴¹.

At that time, the cabinet voted on postponing the bid for another 4 months and extended the “operating” contracts for Cellis and LibanCell for the time being.

The Lebanese government temporarily shelved the privatization of the Telecom sector until market conditions improved and invited companies to submit their offers to manage the two cellular networks for four years. It was looking for new operators other than Cellis and LibanCell to run the sector at a lesser managing cost than 15 million dollars per month, so a new operating bid was organized and started to shape in the middle of March, 2004 with 15 potential companies entering “the game”⁴².

2.2 THE TRANSITION TO FALDETE AND MTC

On the 29th of March 2004, the bid was given the green light. Only 7 companies presented offers, and the German Detecon was able to overcome the others by an astounding 30% less of what the current operators are charging for both companies. It gave an offer for LibanCell network for \$192.3 million and Cellis network for \$201.3 million both for four years. Because the bid regulations stated that one operator cannot control both companies (obviously for competition purposes), Detecon had to choose to

⁴¹ The Daily Star, “Cellis, LibanCell may score extended contracts after disappointing telecom auction results.” Beirut, Lebanon, (January 12, 2004).

⁴² The Daily Star, “Final offers for cellular network due March 29.” Beirut, Lebanon, (March 25, 2004).

run either Cellis or LibanCell. According to the latter's choice, the following low bidders (Orange for Cellis at \$229.3 million and MTC for LibanCell at \$209.3) will assume control of one of the others⁴³.

Orange desperately wanted to take control of Cellis obviously because it is the mother company of FTML which used and still is running the current operator. It offered the German Detecon \$10 million so it will give up Cellis and choose to manage LibanCell instead. Its efforts were in vain, Detecon foresaw its best interest in selecting Cellis which automatically granted LibanCell to its second lowest bidder, MTC Kuwait. The management contracts were made official on the 5th of April 2004, and were due to run out in June the 1st, 2008⁴⁴.

2.3 COMPARING "Alfa" TO THE FORMER "Cellis" IN TERMS OF MANAGEMENT

It is usually known that with a new management come improved conditions and superior ways of operations. The issues of the current operators are that they were both appointed through the lowest offering bid initially organized by the Higher Privatization council of Lebanon. Because of that bid, Alfa was obliged to save on expenses and stick to basics concerning working conditions. Such savings include repairing equipment instead of changing them, even though they became highly depreciated and sometimes inoperable. In other words, the company is operating on a "diet"

⁴³ Reuters, "Lebanon awards Detecon cellular contract." London, England, (April 3, 2004).

⁴⁴ The Menareport, "Kuwait's MTC wins Libancell management contract." Beirut, Lebanon, (April 7, 2004).

and the operating shareholders are saving as much as they can save until their contract is over in June 2008.

Addressing from a personal standpoint about an internship done at the former “Cellis”, overall conditions were much better at that time. Everything was overly “granted” making the employees feel secure, confident about their career’s future and at ease concerning benefits. They used to have incentives for better output, free training schedules both locally and outside, free education (for further degrees), appealing leisure clubs offers, recreational time outs fully paid by Cellis...

In the same context, office equipment was bought at the highest costs from the most expensive suppliers even though the same equipment can be bought for quarter the price at other cheaper suppliers⁴⁵. One may ask why such a company spends so incarelessly on possessions. Can we relate that overspending to money laundering purposes? According to the former FTML’s management’s way of thinking, company reputation was first to come. Its goal in Lebanon was to build a greater empire before the government’s interference and termination of the contracts. It was spending heavily on telecommunications equipment, office equipment, the most advanced services in the world; even some of them are proudly created in Lebanon, copyrighted⁴⁶ and sold to foreign operators, including France. It was even planning buying the lands in front of the existing centers and setting up two more with an aerial bridge in between all four. In Sum Cellis

⁴⁵ “Obeji Better Home” and “Polyform” badges are still present on the office equipment to date of this thesis.

⁴⁶ Clip Alert, which notifies through a message that a certain number tried to reach the user but couldn’t because the mobile was either off at that time or there was no network coverage.

was looking for a good reputation in the marketplace at first and in the entire world in second, materialized by the most prestigious suppliers and by the most expensive items they can find. They were excellent in advertising and they never cared for operational costs as long as “Cellis has the best service ever.”

What the current management is doing right now is minimizing costs at their lowest degrees possible. Some managers are even sitting in their offices with both lights and air conditioning off just to shave expenses and render the operating management more profitable. When Alfa assumed management, employees’ salaries were cut in half and in other cases divided by four for the same position that was once occupied⁴⁷. The salaries’ increases were worse than ever and the overall benefits are still applicable but on a much lower extent than before. Unlike MTC which is operating in 20 Middle Eastern and African countries⁴⁸, Alfa’s current management is not sure to continue operating the company after 2008. Concerning the working environment, nothing is functioning properly: all the equipment is very old and barely getting replaced. The network machines are becoming obsolete because four newer generations⁴⁹ were launched worldwide while the Lebanese Telecom is still 7 years behind. The sector needs a complete overhauling procedure costing millions of dollars and the current equipment must be sold as soon as possible before it becomes worthless. The point of views of the current management is clearly understood and cannot be

⁴⁷The Collections Expert position was managed by a person earning 3 times more during Cellis management.

⁴⁸MTC Touch, “[MTC wins 4 prestigious industry awards from leading magazine CommsMEA.](http://www.mtc telecom.com/muse/obj/lang.default/portal.view/content/Media%20centre/Press%20releases/MTC%20wins%204%20awards)” Kuwait, Kuwait, Annual Report (2005), <http://www.mtc telecom.com/muse/obj/lang.default/portal.view/content/Media%20centre/Press%20releases/MTC%20wins%204%20awards>

⁴⁹The three newer generations are: 2.75G, 3G, and 3.25G and soon will be launched the 3.5G.

blamed. It is not logical for anyone to pay for anything unless it becomes its personal property. So why should both operators fund new equipment when it is deemed to leave them behind after few years? This is clearly not the best way to run a company or boost employee morale and output.

After reading the history of the Lebanese GSM, people may assume that every sector which becomes related to the government will be abused, neglected and far away from any technological advancement. A BOT contract bid should have been organized in the first place and its proceeds could have helped in relieving the country's debt burden. Behind the motto of "heading towards modernization", the government at that time (backed by the Syrians) granted those contracts for both Cellis and LibanCell in conjunction with the pro-Syrian politicians in Lebanon.

The Lebanese mobile sector witnessed increases in cellular fees at the time others were providing attractive offers and decreasing tariffs for the sake of more customers. The truth behind all those actions is that the MOT wanted to increase the revenues and serve the rising deficit, so deals were made with both operators to form a very weird negative market duopoly. What was the use of two competitors at the time they had a unified price list for the same options? That duopoly clearly outshined the attributes of a monopoly to become resembling more like a dictatorship.

By the end of 2007, the Lebanese GSM would be behind the world mobile technology by four generations. This should never be acceptable because the Lebanese people are paying the top worldwide rates for a technology which is becoming more and more obsolete. Seeing the huge amounts of ongoing

political debates, the vital sectors in Lebanon should be run and organized by parties without political bias or interference.

PART II

Collections of

Unpaid Bills

Challenges

and

Recommendations

CHAPTER 3

COLLECTIONS OF UNPAID BILLS, PROCEEDINGS AND CHALLENGES

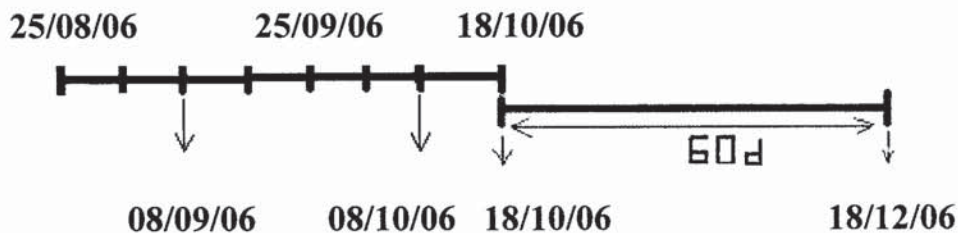
What differed from the previous epoch of collections to the one operating under Alfa was simply getting deeper into the market. By that it is meant that the key to success was getting into people's twisted methods of stealing lines with no way to retribution and punishment whatsoever. In the same field it is imperative to find new methods not only to deal with collections, but also to prevent their occurrence. The lower the losses for any company the better is its financial shape and the higher its value in the marketplace. The fraudulent discoveries that were made in the field of GSM were surprisingly unimaginative at the time they were revealed. Those were alarmingly reported to Alfa's management who practically never undertook any important defensive measures especially with the lack of proper funding. The collections department at Alfa decided to step in on a personal effort but still was bounded by the proper funding and management backup. A lot of successful defensive measures were suggested and some realized, based on better knowledge of the tricks used by defrauders. But still collections are considered as the weakest and in the same time toughest department in the company; weakest in its support and toughest in its achievement.

3.1 THE FOUR STAGES COLLECTIONS AT ALFA

To explain how collections are performed at Alfa, a complete explanation is crucial concerning the basics of the billing procedure⁵⁰. From billing, the concept of collections would be grasped deeply and the following data will be understood clearly.

3.1.1 The case of normal collections

Taking the below example of a bill date on 25/08/2006 extending biweekly to 08/10/2006 then the green part of 10 days till 18/10/2006 or from 18/10/2006 till 18/12/2006 of 60 days. The section of normal collections expands in between 25/08/2006 and 08/09/2006. The following interpretation will be built according to the mentioned bracket and a further explanation will be developed to better understand the different links in the collections mechanism.



⁵⁰ It is applicable for both Alfa and MTC Touch.

In the case of normal collections, the payment period is set to be within the next 10 days of the bill issuance according to the contract. Quoting section 11.1 of Article 11⁵¹:

“All entries on the bills and registers of MIC1 SAL shall be deemed authentic and accepted by the subscriber. Bills issued by MIC1 SAL are formal notices to pay within 10 days at most as of the issuance date. In all cases, the payment must necessarily be made before or not later than the payment deadline shown on the bill.”

The payment deadline was settled later on after two weeks of issuance and not 10 days. Related to the above example, assuming the case of a customer who used his post paid line and was billed on 25/08/2006. According to the contract, this client has a time period of two weeks (08/09/2006) to pay or else his line will be switched off but on receiving mode only⁵².

During the period extending from 25/8 till 08/09, he would be using his line for further calls, so this talk time will be billed on 25/09/2006 even though he cannot use his line from 08/09 till 25/09 for the outgoing calls. The second bills of 25/09/2006 have to be paid along with 25/08/2006 bill both by the latest 08/10/2006. Failure to pay them will result in a completely switched off line. According to the contract, the client can still reclaim his line if he pays all the suspended bills during 10 days after 08/10/2006. But seeing people's bad economic condition in Lebanon, and the high

⁵¹ Article 11 of Alfa's fixed line contract's term and agreements, "Mode of Payment" Lebanon, (June, 2004).

⁵² His won't be able to make calls, but he can still receive incoming calls.

probability of many defaulting in their payments, Alfa⁵³ was providing a time extension of 50 days more than stated in the contract⁵⁴ for people to pay all their dues and regain back their suspended lines.

To better understand the next three collections procedures, it is crucial to mention the difference between the existing collection departments at Alfa:

- The first one is divided into two: The Calls Limiting Department and the first resort Collections Department. Concerning the Calls Limiting Department, the latter's task is to monitor people's outgoing calls' bills and regulate them in a way they do not exceed an imaginary limit. For example a customer's usual bill is between \$120 and \$150 per month, if it happens one month his invoice is climbing abnormally to much higher levels, Alfa has the right (so as MTC) to ask that client for either an upfront payment or a certain amount of deposit as a guarantee in case of default.

- The first Collections Department deals with bills exceeding 08/10/2006 but below 18/10/2006. They use methods as calling customers on their alternative contact numbers "to remind" those of their payments and in the same time evade the case of reaching the 60 day limit for payment.

- The second Collections Department is also known as the last resort department for regaining the bills once considered highly uncollectible.

⁵³ It was the implementation of Cellis in the first place, and after Alfa resumed control, it continued in the same trend as its predecessor.

⁵⁴ By the contract it is meant the original terms and conditions that are signed by people upon purchase of a post paid line. Article 16.2 states that people are to pay within 10 days of the suspension of the line or according to a time period set by the service provider himself. The timeline was set within a bracket of 60 days which was not clearly stated in the contract.

Those cases are usually dealt through Legal notices and Lawsuits. The uncollectibles being followed up are those two consecutive unpaid bills extending from 18/10 and above, even after 2 years. For the cases extending more than a year, they usually consist of huge unpaid amounts of companies who became bankrupt.

3.1.2 The case of doubtful collections⁵⁵

The case where the subscriber becomes doubtful concerning his bill payment is the part when the first invoice that was billed on 25/08/2006 is still unsettled as of 08/09/2006. The probability of occurrence of this case is the most reputed at Alfa, especially in times of war and assassinations in Lebanon, many run late on paying the first invoices. The line will be switched off for outgoing calls from 08/09/2006 till 08/10/2006⁵⁶ but still is on for the incoming calls. This procedure was never accurately stated in the contract but it benefited mostly the non payer on behalf of the operator. The related article (section 14.1 or article 14⁵⁷) in this context stated the following:

“In case the subscriber fails to pay in total or in part the bill at the set time shown on the bill, MICI SAL reserves the right to proceed to suspend the line and/or to take all necessary measures in order to recover the due sums, in particular those mentioned in Article 11 herein.”

⁵⁵ Still taking the example above as a point of origin in explanations.

⁵⁶ He can pay the 25/08 invoice between 08/09 and 25/09, but in case he didn't, he will still receive incoming calls till 08/10.

⁵⁷ Article 14 of Alfa's fixed line contract's term and agreements, "Line Suspension" Lebanon, (June, 2004).

The contract clearly never mentioned anything about allowing incoming calls in case of first bill non payment. Rather it stipulated that the line would become entirely deactivated when the allowed payment phase is exceeded, so this procedure contradicted the contract on behalf of the subscriber.

At this level, the case can still be resolved outside the first Collections Department, so the latter has no real impact at this stage.

3.1.3 The case of highly doubtful collections

The highly doubtful part when the second bill is also due and still not paid, the customer will have then two consecutive unpaid bills. This is when the previous quoting is applicable and until this stage that the line will be switched off completely and the beginning of the first resort collections is highly active especially for high amounts. This collections department's work extends for the period in between 08/10 till 18/10. At this level, collection units have a direct impact on retrieving customers' unpaid bills but still without resorting to legal methods.

What should also be noted at this stage is that a penalty clause is applicable just in case the line is reactivated again upon settlement. Alfa has the right to charge a penalty payment of \$27.5 (including VAT) following section 15.2 of Article 15⁵⁸:

⁵⁸ Article 15 of Alfa's fixed lines contract's terms and agreements, "Penalty Clauses." Lebanon, (June, 2004).

“Overall charges and expenses, of any kind, resulting from delayed payment, suspension and reactivation of the line, or termination of agreement, fall to the subscriber if the suspension or the termination occurs due to him, in particular if he fails to meet any of his obligations provided in Articles 7, 10 and 11 herein.”

This penalty payment cited above is originally tailored beginning the delay of the first bill and above but it leniently became applicable starting the second bill delay. But in rare cases where the customer repeatedly misses the first payment bracket (more than 4 times a year), this clause would be applicable accordingly.

3.1.4 The case of dead money collections

The period extending from 18/10 and above, is the period where the collections unit (as already explained) as “the dirty collectors” plays a key role in preparing the list of defaulting customers, arranging the necessary Legal warnings and finalizing the files necessary for Lawsuits. The denomination of “dirty collectors” comes according to the concept used to attract irretrievable monies. The perfect example would be deceiving the non payer into payment at the time his line is not retrievable anymore. But this dishonesty is always favoring the original contract that was signed and never based on illegal actions. The unpaid bills should be paid sooner or later and

cannot just be erased with the confiscation of the line by Alfa itself and its sale again in the market.

It should also be noted that according to the contract, Alfa has the right to confiscate the line on 19/10 following the example cited earlier. The Section 16.3 of the Article 16⁵⁹ details the following:

“ Termination of agreement on MICI SAL’s initiative:

The agreement is de facto terminated 10 days following the line suspension on MICI SAL’s initiative, unless the reason of such suspension disappears within this period of time or if MICI SAL extends the deadline so that the subscriber meets his obligations.”

Instead of the allowable 10 days, Alfa is granting 60 days before customers lose their lines and be legally sued for the unpaid amounts.

It is clearly shown throughout the stages; the actual procedure is benefiting the customer at Alfa’s expense. Taking the latter as a private business, the real profit occurs when the line is constantly in use without interruption and never when it becomes deactivated. Granting 60 days instead of 10 days forms a lost opportunity to Alfa to earn a minimum of \$55⁶⁰ as if the line was normally in use. But still the terms and conditions of the contract highly benefit the operator at the expense of the customers. For example there should be some stated punitive laws protecting the consumer

⁵⁹ Article 16 of Alfa’s fixed lines contract’s terms and agreements, “Termination of the Agreement.” Lebanon, (June, 2004).

⁶⁰ The minimum monthly subscription equals \$27.5 (including VAT). 60 days form two months or in other words $2 \times 27.5 = \$55$.

in case of line suspension for technical reason. Quoting section 14.5 of Article 14⁶¹:

“In case the network is damaged and if MICI SAL considers that the line must be suspended for technical reasons without prior notice, the subscriber accepts such a measure.”

This case virtually never happened before but what if for a special reason at times of peace, the connection was off for a whole month. Is it fair that the subscriber pays for an undelivered service?

After carefully reading the terms and conditions, one can conclude that it is tailored in a way not to negatively affect the operator in any way possible. Still such deals proves inflexibility of the Lebanese mobile system which is in need of a desperate overhaul.

3.2 COLLECTIONS PROBLEMS AND CHALLENGES

3.2.1 Legal issues

It is known that according to the Lebanese Judicial System, cases can take many years and be very costly in order to reach a verdict, so lawsuits for small amounts are most of the time negligible. On the other hand, a debt is always a debt, it cannot just be erased away and forgotten about. The name of the defaulter will be always recorded hoping maybe for an appropriate

⁶¹ Article 14 of Alfa's fixed line contract's term and agreements, "Line Suspension" Lebanon, (June, 2004).

judicial law to be set helping the recovery of these funds at the lowest costs possible. As for the large amounts, especially those above \$500, a lawsuit is inevitable. Alfa deals with an external lawyer responsible for preparing the appropriate documentation and procedures related to filing proceedings, then going on through the process until reaching the court hearings and probable settlements.

Some of these defaulters are very intimidated by the hearing notice they receive and they decide to settle their bills without going to court. Others think that the company will not go through this and a verdict will be reached in its favor obligating the offender to pay his dues even if he is not present at that time. In this case, the police have the task of apprehending the non-payer and oblige him to pay or go to jail.

One thing must be understood though, why are collections in the GSM market so hard to achieve? The answer is very simple: people are paying for something deemed non material in their opinion. They are paying for a service and not for an item, thus they are not getting something material for their money. What does make it worse is that payment of bills is done after usage of the line and not upfront as it is the case with many services around the world⁶². When someone requires the service of a rented car, he pays for it upfront as well as a certain amount of deposit just in case the car gets caught in an accident. Also when he requires the services of a guide tour, payment is done up front. But the collection of the GSM bills works in backwards and is vulnerable to the mercy of cheaters and defrauders.

⁶² For example Poland, Haiti, Egypt, France, etc...

3.2.2 Technical Challenges

This is one of the hugest drawbacks of the collections system and requires immediate attention and updating to get the ultimate collection process. The system was created from the late operator “Cellis” and was based on French criteria and labeling comments which needs conversion to the currently used English system. Because most of the “Cellis” employees left the company, not all words and labels are easy to understand especially that English was a requirement for new recruiters. Converting this system into English was not feasible because it would take years to update all +550,000 customer files that are currently in use.

Moreover the current system in use is dated from 1994 without any major modifications. It is based on an obsolete technology with neither any room to improvement nor any online feature to check for current updates. Entries take up to two days to become online on the system, and in case of a delay in the manual entry system, updates may take up to two weeks to appear. How can collections be exercised through a weak management scheme? Many times embarrassment took case while calling customers asking for the bills at the time they have already paid.

Technically speaking, the computer system should be totally replaced and modernized in order to achieve a better service. It should be online in the first place to best see the transactions as they happen, and be alterable in the second place to best suit all the needs of all departments in the company.

The Telecommunications sector is based on speed with the billing procedure constantly running as we speak. If the system isn't online, disaster will keep flowing and losses incurred without barriers.

3.2.3 Managerial Challenges

To put it in the best way possible, the collection of money claimed from non-payers in both operators benefit directly the Treasury of the Lebanese government. Those employees are getting paid by Alfa to do a job profiting solely the Lebanese MOT, this is why they are usually neglected from yearly merits and considered as a burden more than a gain. Such employees cannot currently grow in their career waiting for the privatization process to occur.

Over the past years, the Collections department proved to be pioneering in its outmost innovative ideas for better operations. But its greatest drawback is that it is never heard because each project requires a certain amount of funding and effort, those that the current management doesn't want to hear about for the time being.

3.2.4 Political Challenges

It has been always known that no big investment in Lebanon is set up without having politicians' hands into it. Big investments are always made in conjunction with politicians unless the funding comes from a very wealthy non-Lebanese party wanting to invest in the country.

What is the relation between collections in the telecom sector and politicians? The only rational relation that can be set is related to the broader aspect of the telecom sector known as commitment. How can an inexperienced politician handle professionally the details of a sector? Taking the collections part, the government set the collections norm above which unpayables should not exceed so high that both companies have a margin of 3.6 times of what the real figure is now. In other words consider that the government said that collections are not to exceed 5% of total revenues. Without the collections department's effort, the real figure is neighboring the 1.4%, so what would the real figure be if a greater effort is being made in that department? Because the current system is based on an operating license with contracts set with the MOT, The Lebanese Minister of Telecom should really do his homework in this context and formulate norms to be followed in order to minimize collections to the lowest possible. For example if collections average 1.4% of revenues, then the minister should set a norm of 1.2% to oblige both operators to work more on collections and reach the 1.0% figure...

Unfortunately Ministries in Lebanon are divided according to political interests and very rarely according to qualifications. The first quality that the Telecom Minister should be known in is integrity because of the high volume of revenues related to this sector. The second quality should be related to his degrees and qualifications enabling him to assume such a position: it is preferred that he would be a telecom engineer holding an additional Master's degree in Business. If any meeting should be held between the Minister and the two operators concerning overhauling or

upgrading the network, he should be able to understand the technical words related to the sector. This is why a clean, qualified and technically educated person⁶³ should be chosen to monitor and guide this sector to objectively drive it to higher levels.

3.2.5 Social Impact

In all communities around the world, cheaters are always present and waiting the right occasion to illegally interfere in any business for profiting purposes. What if it was as appealing as using a product or service and pay later for it? They can just exploit it and simply never pay. Unlike car rental services where the user should pay a certain amount before having the car, the Lebanese telecommunications sector is based upon the use of the service before paying for it.

On a social level, and related to a survey done by the Ministry of Social Affairs, the largest number of the Lebanese population earns less than LBP 300,000 in the late nineties. In other words the majority of the Lebanese people are poor and they are getting poorer following the disintegration of the economic conditions and the monthly increase of the total debt. This is why they are finding many ways to earn money, even if it was from illegal actions. Such ways for example is benefiting from talk time without paying the bills, or paying what is worth of 25% of the bills.

⁶³ In an ideal situation.

With people digging for new methods to rob the sector and their numbers increasing substantially, the non payable sums are also rising. What is making it worse is that both operators are currently idle and are limited to running both sectors without improvements. Both collections departments in Alfa and MTC are eye witnessing an increase in fraud without much to do about it.

As stated before, the answer to salvation still lies in the privatization of the sector. The latter comes with flexibility and room to deal definitively with the occurrence of scam. In any society scammers are always present; the best defense ever is to either avoiding or taking preventive measure from them.

3.2.6 Regional Challenges

The 2006 Israeli war over Lebanon made the Telecommunications sector suffer a lot. In thirty three days, Alfa sustained a loss equal to normal 9 months loss⁶⁴ in days of peace. All the regional powers have interests in Lebanon and they will always be causing local insecurity just for them to reach and protect those interests. At the time when the Lebanese think that peace is starting to reign over, an unexpected incident happens causing the operators to provide extended periods for bills settlements and in consequence incurring more losses.

⁶⁴ According to the financial data of the collections' department at Alfa.

Another regional threat to the Lebanese Telecom sector is the huge amount of Lebanese fleeing their country before paying their dues. Either leaving on a temporary basis, or definitely or occasionally visiting the Lebanon, many are leaving without paying their bills. Those leaving on a temporary basis, four months of absence are enough for him to loose his line and refuse to pay his dues. Those definitely leaving the country are considered as a lost cause; even if Alfa sues them, its right will be lost after three years according to the Lebanese Judicial Law. As for those occasionally visiting as tourists, they should be given prepaid lines instead of fixed ones not to incur unpaid bills after take off.

Stiffness is the only drawback of collections in the telecom sector. There is no budget to plan and organize remedial methods to deal with fraud and unless it is transferred to the custody of the private sector, cellular in Lebanon will sink to its doom. Either technologically or managerially meaning, an overhaul is essential and crucial for its survival.

3.3 WORLDWIDE UNCOLLECTIBLES COMPARISON

A special collections report⁶⁵ was performed by two British companies called Talgentra⁶⁶ and Analysys Consulting⁶⁷ concerning collections failures

⁶⁵ Talgentra and Analysys, "Mobile Operators failing to collect 5% of the customer billings." Great Britain, (February 20, 2006).

⁶⁶ Talgentra is a global IT solutions company providing customer management, billing and revenue collection systems for utilities, communications businesses, financial services organizations and the public sector. <http://www.talgentra.com/>

of mobile operators around the World. That report was published on February 20, 2006 and dealt with many aspects related to collections such as the level of debt write off, responsibility for collections, collections techniques, etc... A comparison will be set now between the report's findings and the status of collections at Alfa. Starting with the level of debt write off in the report, 90% of the mobile operators around the world admitted to have some level of bad debts. This percentage seems to be very realistic because not all operators have post paid lines to offer. Having a certain amount deemed uncollectible is not feasible in prepaid lines cases for the sole purpose that their proceeds are obtained in advance of consumption unlike the post paid lines' cases. Few are those operators who are solely relying on prepaid lines for revenues, hence the high probability that the 10% difference stands to be correct. The operators also admitted that the amount of written off averages between 5 and 9% of total billings each year. According to an Alfa employee, the company's written-offs amount to an average of 0.5% per year⁶⁸. Comparing this figure with the one mentioned in the report proves that collections at Alfa are in a much better shape than most of the World operators. That fact was also assured by Financial Managers and Telecom Specialists inside the company but admitted that the real truth is far from great. A problem is rising at an increasingly proportional pace, known as intentional fraud.

Most of Alfa's and MTC's non payables come from fraudulent actions committed by the perpetrators. They are virtually increasing at an

⁶⁷ Analysys is a British Telecom consultancy company which provides strategy and management consultancy, information services and start-up support throughout the telecommunications, IT and media sector. http://www.analysys.com/default_acl.asp?Mode=article&iLeftArticle=41&m=&n=

⁶⁸ According to an interviewee wishing to stay anonymous at Alfa.

approximate figure of 3% pace above the 0.5% average per month. According to an interviewee at Vodafone UK, fraud is barely committed in fear of severe judicial sentences in this context. Uncollectibles in Great Britain just occur solely through the usage of a mobile line and simply without paying for the service.

Following the report statement concerning the operators' attitudes to bad debt, write-offs are approved at 39% of operators and at 53% by the finance departments. In the Lebanese Mobile Sector, the truth of uncollectibles is somehow very disturbing and related to the qualities of the typical public sector. The current operators are managing a public sector's business for a monthly fee to be obtained according to the bid results in early 2004. Alfa and MTC are operating through a very specific contract of which collections of bad debt was erroneously set in the first place. Based on the statement of an Alfa collections expert, the contract stated that both operators are to manage collections on behalf of the government with proceeds not exceeding 1.7% of total revenues. The beneficiary from those earnings is solely the MOT without any percentage whatsoever to the operators. Any collections agency involved in money reclaims is to have a variable percentage stake according to what it manages to gather in the process. The contract with the government is set on a fixed status, with the clause neighboring to: "Collections is a must and should not exceed 1.7% of total revenues from all operations." With the entire proceeds going to the Lebanese government and the work done by Alfa and MTC, collections are not backed as it should if the sector was privately owned. Even though Alfa managers may admit to 100% unapproval over bad debts, they are being ignored extensively in the real essence. In sum, collections of bad debts are

getting ignored as long as the norm is still below the 1.7% level originally set in the contract.

The Talgentra/Analysys report also mentioned an important aspect of bad debts known as “the responsibility for collections”. Accordingly, many operators foresee that collections are to be exercised at all departments of the company which can include billing, IT, fraud, credit management, customer service, collections and the finance departments. That subject represents the weakest point at Alfa because of the conflict of interests which is present in all departments. Furthermore, the lack of motivational incentives is not helpful for employees to upgrade their tasks and improve the general work procedure. This is why each department focuses on its proper task without caring whatsoever on overall company benefit. Collections are ignored, and its support is the minimal possible.

The report also mentions that the operators do not seem to have a coordinated approach to deal with the increasing number of defaulters and the lack of knowledge concerning better collections techniques. This statement is debatable if compared to both Alfa and MTC. The operators could just be evading new projects especially when they require a lot of time and money to implement. They could be also pretending that they do not have the necessary know-how to deal with collections because of the absence of benefits they would earn in the process. Whatever is the case in the Lebanese GSM sector, one thing is for sure is that collections can be resolved with a bit more of accuracy in the short term and with minimal funding on the long term.

Mentioned in the report are also the collections techniques used such as phones, SMS notifications (54% of mobile operators are using this method), letters, litigation and door-to-door visits. The former Cellis adopted all of the above, especially door to door visits. It hired once the services of an external collections agency which caused embarrassment to people in their own work environment and obliged them to pay their dues. Because of the complaints caused by that technique, the management at that time decided not to implement it anymore and chose to sue defrauders at legal courts. This procedure is still in effect during Alfa's management with no important modifications to mention in this field. They are currently limited to two SMS information during the two consecutive unpaid bills, followed by a phone call notifying the payment obligation in the soonest possible and finally by legal warning notices before heading towards potential lawsuits.

There was a mentioning in the report about the employment of collections staff outside normal office hours (37% of operators). This staff employed would surely require overtime funding which is much greater than normal office hours. This case applies only when the operator owns the company and is the sole beneficiary of the collections proceeds. As stated before, Alfa is incurring costs of collections⁶⁹ deemed not necessary as long as those proceeds are diverted towards the Lebanese government's treasury.

The collections report states that the majority of operators rely on inadequate functionality in the billing system or on proprietary systems that are unsuitable for current market conditions. Inflexible management techniques are the cause of this poor functionality and often lead to

⁶⁹ Collections employees in all departments are numbered to 40.

inefficiency in operations. Creativity is the key to success in any business and new ways should be tailored to deal with a constantly changing variable in that business. Bad debts are closely related to fraud, and the latter can have many faces and can take many forms. In either way it can sustain a lot of damage to the company's revenues and cause harm to innocents if no defensive measures were adopted.

It is imperative to constantly monitor the market for newly used fraudulent actions and compensate with the appropriate measures. The offensive and defensive actions should be parallel to each other at all times. If it happens that collections management stays idle while defrauders implement new methods to drain revenues (as it is the case currently at Alfa), uncollectibles would be heading towards a proportional increase and more thieves would be encouraged to follow illegal actions. Stating again, defrauders are diving more and more into stealing talk time from both operators and countermeasures are virtually non-existent at that time.

3.4 SCAMMERS IN THE GSM SECTOR

Scammers mean robbers and defrauders who managed to become con artists and professionals in taking advantage of lines without paying the bills. They can very easily benefit from 450\$ worth of talking⁷⁰ at the time they pay \$110 as a maximum⁷¹. In the GSM sector, people pay the monthly subscription up front but the calls are paid after the line was used. The way it is operating, no business in the world can survive as such depending on

⁷⁰ Around 52 hours.

⁷¹ Will be explained further in this study.

people's "word" for payments and settlements. Perpetrators are always there and they are committing fraud in the worst possible cases.

How people are tricking the GSM sector in Lebanon? Thieves are just twisting and working out new ways to steal from it without surveillance, and upgrade it to become their daily profession. To purchase a post paid line, the contract requirements are limited to a copy of a personal ID, a personal signature of approval and the cost of the line according to its importance. Usually the shop must check the authenticity of the ID, the age of the client (which should be normally above 18), photocopy and insert it in the contract along with the client's signature. There are two major problems at this stage:

- 1- The authenticity of the photocopied ID.
- 2- The authenticity of the information given as an address and the customer's signature.

Alfa and MTC do not uniquely sell their products from their own shops rather they rely on sub-dealers and external shops which are not expanded on all Lebanese territories. The agreement was that they transmit real info and correct contracts concerning each and every client. Unfortunately not all of them are sincere concerning that task, so they forge contracts for many purposes:

- 1- They are in agreement with telecommunication shops and they forge contracts for the purpose of splitting profits.
- 2- They are benefiting from renting fixed lines to third parties.

3- They are benefiting from using fixed lines for personal use without paying.

Such people steal and forge identities to buy lines with the full knowledge of the shop(s) in question. Concerning the stolen ones, the photocopies are used to buy lines and use them without paying. They also won't be registered on their personal names. In some cases, dead people's identities are used and lines purchased without a real proprietor. The latest trend is using the same identity many times while changing the info and/or picture upon photocopying.

Understanding more the actions of those fraudulent shops and thieves, it is important to give an interpretation of their behavior. Considering the concerned client ID is present and ready for misuse in the context of stealing a line. Let's consider that this shop has an identity of a person named George Assaf, and he (the shop) is preparing a line to be mated with this ID. Because of their huge quantities and because Alfa and MTC's procedures are based on calling the new line owners on their alternative contact numbers, these shops have to organize their thefts in a way they do not get confused when Alfa's welcoming call occurs. For that the following book sample is commonly used as a norm for perpetrators:

<i>Name</i>	<i>Personal ID details</i>	<i>Complete Address</i>	<i>Alfa Line</i>	<i>Alternative line</i>
George Assaf	Mtolleh - Chouf, Father: Joseph Assaf Mother: Bernadette Aoun Date Of birth: 11/10/197X.	Mansourieh - Metn Near Rosary School Street 3, Sector 2	03/140294	04/401191 03/443777 03/895549
Ziad Chamly	Haret Hreik, Beirut Father: Samir Chamly Mother: Nayla Boutros Date of birth: 04/03/1941	Rabieh - Metn Near St Peter's Hospital	03/111111	04/530130 03/437729 03/898552
ETC...				

The fraudulent shops and individuals, have to set a special book of which the upper sample is performed. When the signed contract arrives to Alfa or MTC touch (from the shops), employees have to check its authenticity and call each and every customer on his alternative line. The call consists of asking about the info that were being filled in the contract (ID details, address, line numbers, etc...), and in case of unconformity the line will be automatically suspended until the customer comes to either operator with his original identity and related details.

But these robbers are very professional in what they do, when they see either operator's incoming call, they open the book and prepare themselves for the employees' questions. If they will be asking for a female for example, the guy who answers the phone pretends to be her husband or brother and offers to give the details that are being asked for. Having the book in front of him, there will be no trouble whatsoever complying... The operator's employee confident about the legitimacy of the information provided and about the customer, agrees to it and the latter escapes getting caught in the process.

To steal lines, use them or rent them, such shops and people often use dead people's IDs. After the bills are due and none are paid, Alfa or MTC start taking legal action towards them that turn out to be in vain. According to the Lebanese Criminal Law, when a person is dead, his heir will be the person to settle his debts or receive his will. But the case in the Telecom sector, the person in question turns out to be already dead. This case shifts from being an heir settlement into a fraud case whose punishment is inflicted by the operator against the perpetrator (not necessarily the heir). It is very easy to trace the shop from where the line was sold and forbid him from selling any of the products again. The wholesalers are also notified not to extend him that privilege in this context.

Some people go to cellular phone shops to sell their handsets or replace them, for that they need to provide them with their identities to photocopy and keep it as a reference to the device⁷². Some dirty shops are using those IDs to buy lines, use them and incur costs on their proprietors. Some shops

⁷² Just in case it turned to be stolen, and a lawsuit against the thief was placed.

are in agreement with others to exchange copies and use them at their will. There should be a special TV media warning done by the MOT concerning such people⁷³, out of 1000 post paid lines sold each month, there are near 550 which turn out to be used with stolen/forged/dead people's IDs. Waste from those fixed lines only amount to \$2.5 million per year⁷⁴.

By law the operators can sue them but it would cost a lot of time and money to reach a verdict, the thing that is not needed at each and every case. Alfa's management thought for example that the best way was just to forbid these shops from trading with Alfa products. As for the ones heavily forging identities are blacklisted with some reservations because forbidding shops would result in lower sales. The shop or the defrauder pays \$110 as a cost of line⁷⁵, use or rent it incurring bills of around \$450. That way he paid near \$100 for a line and benefited from \$350 more. In some cases and if the shop purchases a big bulk of lines, he shall receive a certain number offer for free. He can normally activate and use them and incur additional profit with no cost whatsoever.

The shops who are renting cellular lines are also the ones in agreement with telecom shops that are using what is known here as "Centrales". Before the Israeli invasion to Southern Beirut, there was many illegal shops there giving offers on minutes of calls. Some shops are selling local cellular calls at very low rates makes telecom experts wonder how ever are they earning profits. For example, 6 minutes for 1000 Lbp even though it is well known that each minute of cellular costs a minimum of 0.143 USD. For 6 minutes

⁷³ That is if the MOT knows about them.

⁷⁴ According to the statement of a Manager at Alfa (wishing to stay anonymous).

⁷⁵ The shop pays around \$100 or a little more, he gets them directly from Alfa suppliers at a certain cost.

the shop cost is 0.864 USD which is more than 1000 LBP ($1000/1507.5 = 0.663$ USD). What conclusion can one draw from all this and how they are they renting calls at such very low costs? The answer is very obvious; they are not worried to pay in the end of the month...

Another fact was that such "Centrales" use a device called "Tellular" which originally is used as a transmitter of GSM waves for home security purposes⁷⁶. Those devices are converted in a way that is used to extend surrounding houses with cellular lines upon request. In other means, when a house in the vicinity of the shop requires a cellular line to make calls, the shop would transmit to him waves enabling the device at his house to be used and the shop would charge him accordingly. Of course, the lines that are being used in the process are never paid for, thus increasing unpayables and targeting potential victims with the contract ID.

As for those constantly purchasing fixed lines with different IDs, they are all related to forging with the help of sub-dealers personnel. Those sub-dealers may be entrusting their employees to monitor the authenticity of the contracts' selling procedures as well as be accomplices in the wrong doing and pretend they know nothing about the subject. In most cases the first choice is the more feasible, because those employees can be easily bribed to help the small shops as for their employers would not risk their major business with both Alfa and MTC touch for few thousand dollars gains.

⁷⁶ Hodges, Ray, "Cellular/PCS: Complement or Substitute for Wireline Telephony?" *New Telecom Quarterly*, (1995). http://www.tfi.com/pubs/ntq/articles/view/95Q1_A5.html

3.5 MONEY LAUNDERING DETECTION?

As explained before, there is not a slight chance whatsoever that Alfa is directly or indirectly related to any money laundering cases. But something grabbed my attention concerning the dealers that Alfa provide with phone lines and their subsidiaries⁷⁷ especially during the 2006 Israeli invasion. Each couple of days, those dealers ask Alfa's Sales Department to provide them with a huge set of recharge cards and phone lines while paying cash for it.

A personal effort was exercised out of curiosity concerning the products which have been handed to the dealers. After some inquiries vis-à-vis their messengers, it turned out that they have a gigantic storage of lines and recharge cards still unused and can last Lebanon for the next year and a half. It is true that they have the responsibility to replenish the small shops, but seeing the storage they have, they can restock the small shops like three times per day and for the next year and a half that if they stop now receiving products from Alfa or MTC. Paying large sums of cash each 2-3 days for a huge number of products, having a great storage for those products... all are potential signs of money laundering schemes that have been designed in the most ingenious ways possible.

⁷⁷ As stated earlier, I got the chance to do the necessary paperwork for these wholesalers, they were buying huge amounts of products and extensively stocking them. There is just no explanation to alleged times of shortage but what is known as "special prices" in the black-market. They are just controlling the prices without supervision.

What makes it worse is that in times of War or in agreement with each other, those wholesalers declare that they don't have any recharge cards and start selling the "few they still have" with a price above limit, in other terms the black-market. They create their own equilibrium in the market and twist it in their behalf at the time the real balance should be in favor of end users.

What should both Alfa and MTC do in this case? If they are in the real light of what is happening, then it is definitely an ethical status divided between selling products, increase profit, and reduce the number of products given to those wholesalers, reduce their storage, and in consequence the possible money laundering operations behind it. Those shops may be earning more than the operators themselves through the same products, at one time laundering money without any loss, and at another time selling the products above market limit because of the shortage "rumor". In an ideal economy, the operators should inform the Lebanese Judicial Courts in case of Money Laundering suspicion. But still the best solution is to set and abide by a "gentleman's agreement" concerning sales volume and profit or a drastic change where the two operators handle the selling by themselves erasing the role of wholesalers and signing punitive contracts with small shops in cases of overpricing.

3.6 OTHER MANAGERIAL ISSUES

Another noticed problem in Alfa was the conflict of interests between departments which is giving employees a harder time in pursuing new changes. A very important opinion was established between two consultancy companies specialized in the Telecom sector. Already cited above, one of them is Talgentra and the other is Analysys. Quoting the opinion:

“One of the key reasons identified for the high write-off figures is that the collection of monies due on unpaid bills often falls between the responsibilities of different departments within an operator - which indicates that a cohesive revenue management strategy is not in place. This uncoordinated approach is directly affecting the bottom lines of operators.”

An example of a cohesive management strategy was implemented by one of the pioneers in today's management: Mr. Carlos Ghosn. When the latter was first appointed Nissan's Chairman in 1999, it was struggling with 11 billion dollars debt and with the most outdated non-selling designs ever. Today it has become one of the most successful car maker in the World with the greatest marketing strategy ever⁷⁸. The major decision Mr Ghosn did to revive Nissan was that he dealt with a similar issue we are facing at Alfa. He imposed the concept of cross-functional teams (CFT's) having two leaders from middle management and from the same level on each team which are

⁷⁸ Jackson, Keith and Tomioka, Miyuki, “The Changing Face of Japanese Management.” Routledge, USA, (2003).

composed of 10 members each^{79 80}. If this concept is applied over Alfa, two CFT's are to be used at the most.

Those cross-functional teams usually have 10 members of which the head of unit (called driver) manages and assigns the tasks of each of the members as well as the way work should be done. As for the two leaders of this team, their task is not active as their subordinates; they just facilitate access and cooperation in all of the company's departments using their titles as influence. Please note that to achieve these teams, additional recruitment is not required because they are mainly gathered from current company staff.

Implementing this strategy over Alfa would for sure create some sort of middle arrangement between all the departments with conflicting interests. Losses may eventually decrease; new ways customized for safely operating the billing and collection, and provide better service for clients. The biggest problem is that each department in Alfa is a "stand-alone" concerning overall work done, so one department's decisions are always contradicting the others. It is not really known how Head of departments' meetings are performed and how agreements are arranged, but one thing for sure is that monthly group meetings are crucial to ensure harmony and guarantee a "one answer" criterion to a one question basis in the company's different departments. This case is brought up because of the amount of negative feedback the collections department is sustaining for the last two years. They complain that they are getting many answers to one question, either through

⁷⁹ Gold, Allan and Hirano, Masao and Yokoyama, Yoshinori, "An Outsider Takes on Japan." The McKinsey Quarterly, Tokyo, Japan, (2001).

⁸⁰ Melton, Jim, "When Teams Work Best." Business Communications Quarterly, Vol. 66, New York, USA, (2003).

the hotlines or through the customer service or even through the collections sub unit service...etc.

No offense was meant to Alfa's management, but that proves that no monthly or quarterly meetings are being held to discuss the obstacles facing the daily work. One thing should be understood though is that all aspects in any company are always interrelated, and one department can never work without the other. In my opinion, the best way to ensure synchronization in our company⁸¹ is for managers and Head of Departments (HoD) to hold private meetings with their subordinates, listen and take notes of their problems and represent them in the monthly meeting (or according to need) to the other managers in question.

Even though Alfa and MTC are providing a way of communication to end users, they are failing to provide internal communication for their employees. They are drifting from the custom reliable foreign management status to the typical undependable Lebanese way of administration. The GSM sector in Lebanon as stated is in a duopoly status, so in other words competition is very limited, hence a gold mine. Every profitable business should be exploited to the maximum concerning efficiency in operations materialized in a smoother and respectful relationship between employee and supervisor, an unbiased employee treatment, incentives programs, biweekly or monthly meetings, follow up of planned projects, weighing the difference between budgeted plans and achieved plans, etc...

⁸¹ If no CFT's will be implemented.

SOLUTIONS AND RECOMMENDATIONS

As explained before, the GSM market in Lebanon is in a virtual state of duopoly, where only two competitors are in control and they are both owned by the Lebanese government and run by two private operators. This fact can be like an advantage to all parties especially to the government if there was a mutual alliance to deal definitely with uncollectibles. The following are logical solutions concerning collections in order to lower bad debts and with respect to the contracts by legal supplements if necessary.

4.1 SHORT-TERM RECOMMENDATIONS

In the current status of the cellular sector in Lebanon, both politically and economically, short-term recommendations are more feasible for a better collections procedure. Those can be considered as improvements to the existing way of operations and are detailed as follows:

4.1.1 Prepaid line swap

After the 60 day period is over, and as stated before, a lot of unpaid bills amount above the \$450 ceiling. To attract such funds and instead of

plunging into a never-ending lawsuit⁸² it is suggested to offer clients against their lost lines⁸³, a prepaid line in case they settle their dues. This prepaid lines' selling price is around \$50, so instead of paying 190 future dollars to regain \$450, the operators are better off loosing \$50 in the process. Note that this option cannot be considered as a standard choice to be adopted all the time because if known publicly, people would "prefer" loosing their fixed lines in favor for those prepaid ones. In the end, the \$50 is still a loss; it shouldn't be used as a norm in collections. This project is highly feasible and should be carefully studied if decided to be implemented.

4.1.2 Discounting the total bill

Another method that can be relied on to attract what is considered as "dead money" is offering a special discount for those who defaulted their payments. By discounting their debt, people are driven towards payment and settling their dues permanently.

4.1.3 Increase of fixed lines' prices

Increase the fixed lines' prices \$100 for each of the three categories, where this additional amount is kept as a deposit and updated periodically according to each customer's calls needs. The plea to this

⁸² The lawsuit preparation and documentation along with stamps costs around USD 40, and still the lawyer charges %30 of the regained amount to himself, so total cost would be \$190 just to earn back the unpaid \$450.

⁸³ If they weren't able to retrieve them in the 60 day period.

decision is to try limiting the losses in case of unpaid bills occur. By this context, and considering 500 unpaid lines per month, instead of \$208,000 average loss, the actual figure will be $[208,000 - (500*100)] = \$158,000$. This way the operators would have earned quarter of their actual loss and intimidated people from incaressfully buying post paid lines for unorthodox purposes.

One subject should be also taken into consideration though is the lost revenue incurred through the payment of the additional deposit. Once the crook is subjected to paying \$200 (\$100 as the cost and \$100 as deposit) to exercise his illegal actions instead of \$100, it would set him back from continuing his activities. The rationale behind it is psychologically materialized by the existence of the deposit amount which is tailored solely to fight such fraud. It becomes a matter of conning the crook which most probably won't be accepted anymore by them.

4.1.4 The certificate of residency

Better implementation of the contract which requires a certificate of residency and a valid ID in order to become legal. This certificate should be approved and signed by people's hometown notary or equivalent and will give way to more accurate info about the client in question. Usually employees rely on new customers' words in filling the contract without knowing if the info given are either correct or not. This paper is always

legitimate and risks virtually do not exist or the notary's license would be revoked and be forbidden from practicing law again⁸⁴.

4.1.5 The issue of personal lines

Another obstacle in collections is the difficulty in reaching clients asking them to come and pay their dues. Each time non-paying customers see Alfa's known lines appear⁸⁵ on their mobile phones displays, they would just ignore answer and escape the connection.

The importance of this phone call lies in informing people they have to pay their dues or else Alfa is legally rightful in suing them according to the line's contract agreement. This process should be meticulously performed in a way not to appear threatening people with lawsuits in case of non payment (more like bribing a small kid with a lollipop in order to reach the objective). Two key ways of conversation are to be used: first non-payers should be aware that the due amounts are related to talk time they used without paying. The collectors should also stress that payment must be done or else legal actions are compulsory according to company policies. Another technique can be adopted through the phone call by showing the "great customer service" feature of the company who is calling its customers to remind them of their payments or else they will lose their line... Those are all collections tactics aiming at fooling customers and drive them to settle what they owe to minimize company losses and render the business riskless.

⁸⁴ Would he dare waste +9years of their life in vain just to forge a certificate of residency?

⁸⁵ 03/391111 and 03/391000

Another problem faced the collections department at Alfa when calling non payers with the company's widely known numbers (03/391000 – 03/391111). Each time the company numbers display on their mobile or land phones, they either answer stating it was a wrong number or just never answer at all. To resolve this issue the suggestions are the following:

Altering the collection employees office lines in such a manner that the outgoing calls read other than Alfa's usual lines. In case of impossibility, another suggestion would be to provide the collections agents with portable lines reading random numbers or private numbers which can be used to call clients and convey the message. Such lines adjustments are imperative to the daily work, on one side "tricking" clients into answering the calls and on the other side in case of no contact in the first place, they would be able to call back on the display number left as a missed call. But with the original renowned numbers left on their phones, some are calling back without knowing who to talk to and for what purpose "Alfa called them". Calling onto personal lines, the employee would be able to convey the message again, hence increasing his collections and minimizing the amount of unpaid bills. A further innovation in this field is the ability to call non-payers on an unusual time period, meaning after 5pm, and even on Sundays⁸⁶.

⁸⁶ Collections should be performed at anytime.

4.1.6 The clearing desk

Try to create some sort of cooperation or a common resource between MTC Touch and Alfa showing the ones defaulting in each company and their pending bills amount. It is common to know that no company would like to do business with a risky client, so the customer defaulting in Alfa can also default at MTC and vice versa. There should be some kind of cooperation between the two companies in order to minimize risk, hence increasing profit. Two proposals are available in this matter; the first is to make a shared electronic grid between Alfa and MTC touch screening the ones already defaulted in one company and obligating them to pay his/their dues before having the right to purchase any product of the other company. The other suggestion is on a broader scale and is more efficient for implementation in terms of integrity in operations and abiding by the duopolistic deal. The government itself is to make a separate desk handling uncollectibles where it receives daily lists of clients failing to pay their dues. Each new client desiring to buy a new line must get a clearance form from this desk with a very limited time frame to be used⁸⁷. This desk should balance the competition between the two companies⁸⁸ with no one having an advantage over the other. Please note that this concept should be currently applied on the level of the Ministry of Telecommunications and not on the level of either Alfa or MTC, because it contradicts with the marketing and sales department in both companies who always have greedy ambitions towards further sales⁸⁹.

⁸⁷ This clearance should not be more than a week old to be accepted.

⁸⁸ And in the future, the three companies, Ogero might interfere with a new company called LibanTelecom.

⁸⁹ Their only aim is to increase the sale of lines and recharge cards as much as they can without caring whatsoever in what state the lines would end up. If some preventive measures are taken, it would decrease sales and MTC will pick up that difference.

This idea was suggested to Alfa management who thought of it as a brilliant idea towards minimizing both operators losses. It actually got materialized by the creation of this common electronic grid between the two companies. Even though Alfa's management admitted that the clearinghouse was a better idea in a perfectly normal country, it could never be handed over to the Lebanese government and the MOT⁹⁰. The new order now in both companies states that each customer who desires to purchase a fixed line, his name will be run in both companies' databases for any hidden information.

4.1.7 Converting to a more reliable mailing agency

In the period extending from the 10th day after the expiry of the second bill and the 60th day, collection agents prepare a list of non payers to whom they need to send notices claiming the due amount that they must pay. Those notices are signed by the company's internal lawyer and send to customers through one of the legal mailers in Lebanon known as Libanpost. Each warning costs near \$3 and warnings number to an average of 550 per month, so the total amount would be around \$1650 as expenses. But it seems that Libanpost is not doing a good job and Alfa is receiving back around 75% of those warnings with a labeled cause "Not Found on This Address". Personal investigations were conducted by taking 10 samples of those warnings and checking the conformity of the locations. Surprisingly all 10 locations were found which proved

⁹⁰ Non-trusted Lebanese Public Sector.

Libanpost's negligence in the task they are entrusted to do. Either sent to the customer or not, the latter will still charge the same amount without a penny less. The suggestion is to try another mailing agency⁹¹, where at least they can deliver most of (If not all) the warnings to their destinations. Another suggestion is to make a new deal⁹² with Libanpost where the \$3 fee would be cancelled in case the warning doesn't get through to the customer.

4.1.8 Lines regain procedure on Alfa hotlines

Most of the time, people call Alfa's Hotline to inquire about their lines which were switched off and reached the time beyond the 60 day period. They inquire if their lines can still be regained for them "to pay their dues", and of course Alfa's contact center complies with the customer's demand, investigate it and report back the results... if the line is still available, people would come and pay, if not, they will just refuse to settle the bills and we would have incurred another loss.

The suggestion was an excellent plan helping the operators to raise collections in this issue. Instead of disclosing information about the line before payment, oblige the non payer to settle his dues to make any revelation about the line status feasible. This method should be set as a new policy regarding such collections conditions in order to pressure defrauders into paying everything they owe to Alfa or MTC. This part of collections relies heavily on the psychology of people rather than

⁹¹ i.e. one that originally handles collections.

⁹² Usually when a new management assumes control, new deals should be negotiated.

common sense⁹³. For example a customer shows interest to get his line back, so he asks if it is still available. The collection agent should ask him to pay whatever amount is due for him and then he is entitled to tell him if his line is still available or not. A debate rises, from the client's side fearing to pay for nothing and from the agent's side trying to attract dead money. Then little by little he starts reaching his mind that he used a service without paying for it, and sooner or later those are dues he has to pay. It is like renting a car, using it without paying and beating on his guilt drum trying to transmit the "lawsuit" idea in case he defaults. Furthermore there will be a lost opportunity for him to regain his line back. In the end, the collections agent should convince him by the fact that he can evade a lawsuit by paying his dues and most probably get his line which is worth too much for him or he can just ignore everything, loose the opportunity to regain it and sooner or later pay his dues. This tactic is being applied lately and seemed to be producing extra % 35 collections in this category deemed lost in the past.

Now all people asking about their lines are obliged to come to Alfa, pay the due amounts after which any info about their lines are to be disclosed.

⁹³ The issue concerns people who are really interested in gaining their lines because of its value and long time into service.

4.1.9 The issue of the forged bills

Concerning the counterfeit money that customers pay at the operators' cashiers, this is a big issue which needs a desperate solution. When people pay \$50 and \$100 bills, those cashiers just take note of the customer's contract number on those same bills without the latter's signatures... The plea to this is that customers come in huge quantities over the counters preventing the cashiers to work procedures slowly, rather switch to quick methods to ease up transactions and serve clients as fast as possible. Such way of work is causing lots of problems for Alfa such as forged bills and even unsigned checks⁹⁴. There are two solutions for those bills:

4.1.9.a Photocopy and sign the bills

Cashiers should photocopy the large sum notes as it is the case in banks and ask the customer to post their own signatures upon them. It is known that this method takes a lot of time, and the customer's queue will increase, but still Alfa will evade potential losses in this context. Furthermore people are used to bank queues and they can sure be used to Alfa's.

Legally speaking no one can oblige a person to replace a forged bill unless his personal signature is clearly present on it. The way cashiers are currently operating on counters is deemed to be unprotected at all. This

⁹⁴ Their only obsession is to serve customers as fast as they can without monitoring things such as complete checks info or authenticity of money. Each transaction is causing near two hours process for 9 employees in reporting and updating the system, as well as the worst conflicts possible with clients.

issue should be backed with a more concrete and time consuming methods, hence comes what is suggested in part (a) above and a better suggestion in part (b) below.

4.1.9.b Scan and sign the bills

The most feasible and advanced method in the market today is using a state of the art machine⁹⁵ that work as a bar code reader where bills of all sorts are inserted and an automatic and quick mechanism is initiated to read their numbers. For example when accessing the file of payment for a customer (who is in for payment), all the USD bills as inserted in that scanner which reads them fast enough producing a receipt with the customer's name, contract number, amount to be paid, denominations he paid, and finally a relative serial number near each denomination⁹⁶. After the receipt is generated, the customer signs personally upon it meaning he agrees on its contents in full. This way in case a counterfeit bill resurfaces, its roots can be traced back to its initiator who is legally obliged to switch it back.

Sadly speaking, the GSM sector is facing lots of issues currently, of which the highly inefficient operations. Upgrading anything currently comes from the operators' own bundles whereas the proceeds serve the MOT of the Lebanese government. The realization of all these technological advancements is feasible in only one case: Privatization.

⁹⁵ Such machines are operational in few Byblos Bank branches.

⁹⁶ i.e. a \$100 where it is shown upon it the relative code: DJ 22144582AJ10

4.1.10 Article 881 of the Lebanese Judicial Law

After carefully contemplating the benefits that could rise from Article 881 of the Lebanese Judicial Law, its implementation became a necessity especially that it could claim funds once assumed to become bad debts in the past. This Judicial Article consists of the following:

Retaining at third parties:

“Each loaner has the right to ask the judicial chief executor to retain the necessary funds at the eligible third party.”

Explaining this first part of this law, it indicates that if party “X” is entitled to funds held by party “Y”, and the latter is working and earning a salary from party “Z”, then party “X” has the right to sue party “Y” and legally claim the proceeds be handed directly to him (to “X”) from party “Z”.

Continuing with Article 881: “From the related funds:

- 1- Liquid amounts or cash debts that were temporary delayed or suspended on a condition.
- 2- Paper monies which are valued or able to be valued in Stock Exchanges or produced in forms of stocks, or profits and corporations’ dividends.
- 3- Shares in companies even after liquidation, disregarding the opposing verdicts related to Article 0909 of the Lebanese Judicial Law...”

The rest of Article 881 clearly shows the weak points where Alfa can take advantage to regain its losses. This article in general, forms a goldmine for operators because it is still unused as a procedure and ready to be exploited for the benefit of higher collections. The drawback of this method is that it disgraces non-payers sometimes in their own jobs and obliges them to pay what they have abused. The three points mentioned above can form the attack bases which can be used to reach the objective legally hence the correct way.

4.2 LONG-TERM MEASURES TO RESOLVE FRAUD

The collections department is in agreement with Alfa management that customers with pending balances over \$500 are to be legally followed up by the help of external lawyers. Even though the collected amount will be different than zero, still Alfa will be paying more than 20% of the total amount as lawyer and lawsuit fees. This translates to cost of collections amounting approximately \$25,000 per month⁹⁷ to lawyers which could be easily saved if definite defensive measures were applied and accepted in the first place.

According to an interviewee working at MTC, the latter is also struggling with fraudulent customers and they are looking for ways to reduce them for a better collection. Considering a \$200,000 average of uncollectibles per

⁹⁷ $\$25,000 * 100/30 \sim \$83,333$ which is lower than the \$208,000 maximum loss stated previously concerning monthly losses. The \$83,333 is approx the amount of lawsuits filed monthly against non paying clients.

month per each company⁹⁸ would make an approximate figure of \$2,400,000 per year per company and +\$4,800,000 loss per year from only the fixed lines in the GSM sector of Lebanon⁹⁹. No government wishes to see such a number “not earned” when in fact the proceeds can be reused back in other investments or better, to serve the country’s total debt. This is the direct reason why the collections system at Alfa is following a trend in need of a desperate change.

4.2.1 Bills payment in advance

No solution to any problem in the world is set without costs; some are accepted smoothly by people while others cause severe objections. The following solution needs a little time to be approved by end-users but later on proves to be a real advantage for them as well as provides an astonishing zero risk figure for the Telecom operators. What is suggested is instead paying their bills when due, people should settle them in advance¹⁰⁰. The prepaid amount will be allocated as the customer sees fit and in addition a minimum of \$50 deposit in case they reach their limit on a Saturday night¹⁰¹. This idea will first seem not to be feasible, but with the improvement of the paying methods and the integration of the online technologies, it will be the people’s favorite method: first as a tool of controlling their bills and second in enjoying a line like the prepaid lines at a low cost.

⁹⁸ The stolen fixed GSM lines amount to around \$150,000 alone, whereas the rest comes from normal non payment.

⁹⁹ Keeping it on the same pace, it will be rising by \$1Million annually.

¹⁰⁰ Paying their subscriptions in advance.

¹⁰¹ Or in a time when he can’t recharge back.

Many Worldwide countries are following a similar concept such as Haiti, Poland, Algeria, UAE, etc... but the difference is that the client buys recharge cards personally to make calls, and in case the minutes are depleted and it was a Sunday with no open stores, he would have to wait till Monday arrives. What was suggested before is simply a purely fixed line which is recharged online as the customer pleases. As permanent instruction by the customer, his line would be recharged automatically by a bank withdrawal unless he overcomes it with a one time order. In case no bank account is available, he can always show up at his provider's points of sale and settle his bill personally. With this idea converted to reality, both Alfa and MTC can decrease their risks to the minimum possible if not ever. However, adjustments are required following those changes concerning work done: the billing system should be online and a smart system recognizing the end of the customer's limit in the middle of his conversation warning him by a message while keeping his line open and withdrawing from his deposit storage. This SMS consists in informing the customer that he reached his limit which he should replenish as soon as possible or else risk of switching off his line and become unable to make calls.

4.2.1.a The effect on employees:

This first idea has also an effect on the number of employees still needed in both collections departments. Both operators would be able to shave around 40 employees from these departments and use them in more

profitable investments¹⁰². Maybe set up new branches and eliminate wholesalers? Or even as sales representatives?

4.2.1.b People's reaction to the idea:

This proposal had already been studied following a random conversational survey on around fifty individuals. A negative feedback dominated in the first place upon knowing the fact of payment in advance. The proposal was followed by a detailed explanation of its benefits especially the features of call limits helping them keep their end of the contract so as their lines, as well as control their calls according to capabilities. Considering this idea in deep, one would realize that it has two parts, the first is paying in advance, while the second is bill control. As marketing strategists, the operators have to focus on the bill control idea and make it reach the mind of all end-users before that of paying in advance gains momentum.

¹⁰² Employees are referred to "Human Resources" in modern companies.

GENERAL CONCLUSION

In sum, the current Mobile companies do not belong to the private sector anymore, rather to the public sector and in particular the property of the Ministry of Telecommunications. The managements in those two companies are just operators who won a four-year contract each at a certain fee after which the government will raise another bid or sell the entire sector for a certain price.

The task of operating a high tech business without upgrading it negatively affects revenues and threatens the company (ies) with possible bankruptcy in a very short time phase. Businesses involved in the domain of computers manufacturing, television stations, cellular phones, GSM businesses... are the most volatile high tech fields which require special care and constant updates. Falling behind the market can be disastrous in terms of advancement at the time humans live in a stressful competitive sector where they should be always thriving towards leadership. The worldwide mobile technology is booming in terms of technological advancements at the time it is virtually suffering from old age in Lebanon. There is more than 7 years GSM gap comparing to the highly developed economies. Experts have rated the current Lebanese cellular equipment as almost salvageable and can be used only to launch a GSM network in a fourth world country.

Furthermore the Lebanese people are enjoying the cell phones which having two cameras without knowing their true functions. People think that those are used to allow the user to photograph oneself, but is it the case? In

highly developed countries with the latest GSM technologies, the two camera handsets serve the user to see his counterpart live on the phone screen while addressing him and vice versa. The front camera captures the user and displays it on the other mobile device; this is what is called the “3.0G” technology. After the “2.5G” there was the “2.75G” then “3.0G” then “3.25G” and now the “3.5G”. Each time a newer version is released, the company has to change the entire Antennas’ electronic hardware as well as their bases costing billions of dollars.

What is happening to high tech innovations in Lebanon is outrageous and needs an immediate attention. The only public sector making achievements in terms of technology is the land line company known as “Ogero”. This part of the sector has no real cost nor a real technological advancement requiring constant update. The true work is in additional fiber optics whose cost is way cheaper than updating the GSM network. Concerning collections in this sector, it is not easy and profitable for a defrauder to steal a land line, because he should personally go to “Ogero” to sign a contract with his proper ID and pay LBP 212,000 of which LBP 100,000 is the cost of the line, LBP 100,000 is the deposit, and the rest are related to VAT and stamps. Why couldn’t the GSM operators make things difficult for the defrauders by incurring an additional \$100 deposit for example as Ogero is doing? Imposing such a guarantee in the beginning is very feasible; it might at least intimidate part of those cheaters while regaining a huge part as compensation... Many ideas are feasible, what is needed is a true effort, a real communication attempt and cooperation in the world of the Lebanese telecommunications.

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Lawyer Joseph Yazbeck, personal interview performed on the 15th of June, 2006, Beirut, Lebanon.

Lawyer Imad Saleh, personal interview performed on the 17th of June, 2006, Beirut, Lebanon.

ANNEXES

BOT: Build-Operate-Transfer.

MOT: Ministry of Telecommunications.

UMTS: Universal Mobile Telecommunications System.

FTML: France Telecom Mobile Liban.

GPRS: General Packet Radio Services.

GSM: Global System for Mobile Communications.

CFT: Cross Functional Team.

VAT: Value Added Tax.

HoD: Head of Department.

G (2.5G, 3.0G): Generation

APPENDIXES

1- Overview of Fal Dete Telecommunications:

Fal Dete Telecommunications:

- Fal Dete Telecommunications is the company that manages the GSM network in Lebanon.
- Alfa is the brand name of the network owned by MIC1 S.A.L
- All the employed Staff work under the Fal Dete Telecommunications umbrella.

Fal Dete Shareholder's Profile

FDT's shareholders are:

- Detecon Int, GmbH (51%)
- FAL Holding Arabia Co. Ltd (45%)
- Detasad, Detecon Al Saudia Co Ltd (4%)

Fal Dete capitalizes on the expertise in the telecom field of each of the member partners in order to deliver a global & professional solution for the GSM sector

Partners of Fal Dete Telecommunications

DETECON

Detecon International GmbH is one of the world's leading entities in the field of information and communications technology (ICT*). Detecon is 100% owned by T systems a 100% subsidiary of Deutsche Telekom

FAL HOLDING

FAL HOLDING is a Saudi company that has got a broad spectrum of activities in different fields such as Telecommunications, Hospital Management, Real estate, and High Tech industry among others...in the Kingdom of Saudi Arabia.

DETSAD

DETSAD is a Saudi Company being a joint venture between FAL Holding and Detecon GmbH actively involved in the Telecommunications industry in Saudi Arabia with a long track history for the past twenty years with the MoT in Saudi Arabia.

2- Overview of MTC Touch

MTC-touch:

Mobile Telecommunications Company (MTC) was founded in 1983 and is today one of the largest mobile operators in the Middle East and Africa, offering a comprehensive range of world-class voice and data mobile services to over 10 million customers spread across 5 countries in the Middle East and 13 countries in sub-Saharan Africa.

Listed on the Kuwait Stock Exchange, MTC's market capitalization exceeded US\$10 billion as at August 1, 2005. The shareholder base consists of 75.4% public and 24.6% by the Kuwaiti government.

MTC's corporate strategy can simply be summarized as "**3x3x3**", an ambitious, sustainable expansion strategy that will see MTC become a leading mobile and lifestyle services provider on the global stage by the end of the year 2011. Initiated in year 2002, it is this strategy that will make MTC a global player in three stages: regional, international and global, with each stage completed in three years, with an aim of reaching a subscriber base of 20 million. In essence, through acquisitions, partnerships and green-field opportunities, MTC aims to achieve in nine years what other companies have taken more than 27 years to achieve.

3- Overview of Ogero Land Lines

TELEPHONE SERVICES



Telephone line	International Access	Star Services	Special numbers
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Definition

Pricing

Subscription Process

List of Documents for Line Subscription

Additional Documents for Non-Lebanese Nationals Subscription

Definition

- Provides connection to the fixed telephone network.
- Enables subscribers to make and receive national, cellular and international voice and fax communication over the telephone line.
- Enables subscribers to dial-up access to the Internet Service Providers (ISP's) at cost-effective tariffs .

Pricing

Item	Fee (L.L.)
• Connection Fee	100,000 LL
• Deposit Fee	100,000 LL
• TVA	10,000 LL
• Fiscal Stamp	2,000 LL
• Total	212,000 LL
• Monthly Charges	12,000 LL
• Regular Usage Fee	49 LL/mir
• GSM Usage Fee	200 LL/mir
• ISP's 4-digit numbers Usage Fee	Flat Rates

- *Monthly Charges include CLIP, Call Waiting and Call Forwarding which are activated upon request.*

Subscription Process

Subscribe for a New Line:

- Visit your local OGERO Sales Office.
- Complete Application Forms for a New Line or related service .

List of Documents for Line Subscription

A copy of ONE of the following documents

- Identity Card
- Valid Passport
- Form (2) for Military Servants

A copy of ONE of the following documents

- The title deed.
- The building permit.
- The title of rent approved by the municipality or the notary.
- A sale contract certified by the Land Registry.
- A residence certificate provided by the mayor.

For more information, contact your local OGERO Sales Office.

or:

The subscriber needs to process the Subscription in person. Otherwise, you may authorize a delegate to process the subscription on your behalf following documents:

- a **Power of Attorney** certified by a Notary Public, if you reside in Lebanon,
- a **Delegation of Power** certified by the Lebanese Embassy, if you reside abroad.

Additional Documents for Non-Lebanese Nationals Subscription

In addition to the previous document, Non-Lebanese nationals need to present a copy of **ONE** of the following documents:

- Residency Permit and home address abroad,
- A Property Ownership Deed with a copy of valid passport,
- Long-term rental agreement (non seasonal) with a copy of valid passport

4- Alfa's Contract agreement.

SUBSCRIPTION TO ALFA SERVICE TERMS AND CONDITIONS

ARTICLE 1: OBJECT OF THE AGREEMENT

The object of the present agreement is to specify the supplying conditions of Alfa Service offered by MIC1 S.A.L. MIC1 S.A.L. has started providing this service since June 1/2004, for the benefit of the Lebanese Republic, Ministry of Telecommunications or for any other entity appointed by the latter, in accordance with the provisions of the agreements between MIC1 S.A.L. and the Republic of Lebanon (RoL) / Ministry of Telecommunications

ARTICLE 2: DEFINITIONS

2.1 Definition of the provided services

Alfa is a radio communication service that allows the subscriber to have access to 900 MHz waveband of the wireless Public domain on which the subscriber can send and receive local and international calls from any authorized GSM Terminal designed to accept the microprocessor card delivered to the subscriber.

Alfa is physically and contractually independent of the authorized GSM terminal allowing emission and reception, a terminal designed to accept the microprocessor card delivered to the subscriber.

2.2 Definition of the subscriber

Subscriber shall be considered a subscriber any person who has signed the present agreement.

2.3 Definition of the Alfa card

Alfa card is a microprocessor card. It constitutes a module that technically identifies and individualizes the subscriber over all GSM networks, whatsoever the authorized terminal used for emission and reception.

ARTICLE 3: CONDITIONS THAT SHOULD BE MET BY THE SUBSCRIBER

3.1 The signing natural person should provide the following documents and information:

- proof of identity

- proof of residence

- a bank address that the subscriber shall choose from the bank's list provided by MIC1 S.A.L. in order to pay his phone bills or to give an authorization for a direct debit.

3.2 The signing legal person subject to private law should provide the following documents and information:

- a certified true copy of the registration certificate delivered by the Commercial Register, or a certified true copy of the authorization or the acknowledgment of receipt granted by the competent authority.

- a copy of the last phone bill in case the legal person has already access to the Public network.

- a copy of the I.D. card of the person in charge of the legal person.

- a certificate from the bank of the legal person certifying that his phone bills shall be paid by banker's order.

3.3 The subscriber should file to MIC1 S.A.L. the above mentioned documents as well as a duplicate of the agreement's special provisions duly filled and signed upon subscription.

3.4 At the risk of early termination of the present agreement, the subscriber should not be indebted of due amounts resulting from other subscription agreements with MIC1 S.A.L. such termination shall take place without prior notice when MIC1 S.A.L. finds out this debt.

ARTICLE 4: SECURITY DEPOSIT

4.1 Upon agreement conclusion, and at any moment within the term of the agreement, MIC1 S.A.L. may while reserving all the rights granted to it under the present agreement, ask the subscriber for security deposit equal to the amount freely set by MIC1 S.A.L. in one of the following cases, without limitation:

- in case of payment incident

- if the subscriber has no permanent address on the Lebanese territories.

- if the subscriber has no personal phone subscription in Lebanon

- when the subscriber's consumption exceeds the usual rate according to MIC1 S.A.L. criteria.

However, when subscribing to International Access and Roaming options, security deposit shall be compulsory.

4.2 If the required security deposit has not been secured on the date fixed by MIC1 S.A.L., the agreement shall end on such date without the subscriber being entitled to claim compensation.

4.3 The amounts paid to MIC1 S.A.L. shall not be subject to any interest rate before the restitution date mentioned in Article 4 herein.

4.4. Restitution of security deposit

4.4.1. In the absence of a dispute over the amount due by the subscriber to MIC1 S.A.L., the security deposit shall be handed back utmost six months after the agreement termination when MIC1 S.A.L. deducts the amounts possibly due to it.

4.4.2 In case of a dispute over the amounts due by the subscriber to MIC1 S.A.L., the security deposit shall be handed back utmost six months after debt settlement by the subscriber.

4.5 Except for the case mentioned in article 4.4.1., the security deposit shall not offset the subscriber's debts.

4.6 MIC1 S.A.L. reserves the right to ask the subscriber, instead of a security deposit, for a bank guaranty covering the debts arising from the present agreement.

ARTICLE 5: CONCLUSION DATE AND EFFECTIVENESS OF THE AGREEMENT

5.1 The agreement shall be deemed concluded upon MIC1 S.A.L. approval, and shall come into force as soon as the line is made available to the subscriber.

5.2 The subscription fees shall be due as soon as the line is brought into service.

ARTICLE 6: TERM OF THE AGREEMENT

The agreement is for an undetermined period of time, the subscriber can not terminate it within the first 12 months except under the mentioned conditions in article 16.1.2 herein.

ARTICLE 7: ALFA CARD

7.1.1 Alfa card is physically and judicially independent of the GSM terminal, allowing emission and reception of local and international calls, and designed to accept the said card.

7.1.2 MIC1 in its capacity mentioned in article 1, is the sole owner of Alfa Card. The subscriber, holder of an Alfa Card can neither transfer, destroy, nor damage it in any way whatsoever.

7.1.3 The subscriber should not rent the Alfa card to a third party.

7.1.4 Any attempt to copy the technical identification data listed on Alfa Card is strictly forbidden.

Alfa is a registered trademark therefore any use of this trademark is forbidden at the risk of legal proceeding.

7.1.5 Alfa card being designed for the operation of authorized GSM Terminals, the use of authorized terminals shall comply with Alfa Card. The use of Alfa Card in an unauthorized terminal shall lead to Alfa line suspension without prior notice.

7.2 Loss or robbery of Alfa Card.

7.2.1 In case of loss or robbery of the Alfa Card, the subscriber undertakes to inform with no delay MIC1 S.A.L. by registered letter and enclose a copy of the complaint filed to the competent judicial authorities.

7.2.2 The date on which the written statement has been filed shall be considered to be the sole proof of the line suspension request.

7.2.3 In order to ensure a faster line suspension, the subscriber may that is without being discharged of the formalities mentioned in Article 7.2.1, inform MIC1 S.A.L. by calling 111 or 03 39 11 11.

7.2.4 MIC1 S.A.L. shall not be held responsible for the consequences of an inaccurate declaration or of a declaration that neither the subscriber nor his legal representative has given.

7.3 Withdrawal of the Alfa Card.

7.3.1 Alfa Card may be withdrawn from the subscriber for the same reasons relating to the line suspension, or the termination of the agreement as mentioned in Articles 14,16.2,16.3 herein.

7.3.2 For security reasons and necessities related to operating conditions, the Alfa card may be temporarily withdrawn from the subscriber.

7.3.3 In case the Alfa card is withdrawn, even temporarily, the subscriber should immediately comply with MIC1 S.A.L. request, and stop using the card upon receipt of such request.

As long as the subscriber holds an Alfa card, even though in breach of the regulations, he remains in debt of the cost of the telecommunication network use according to conditions set forth in Article 10.7 herein.

ARTICLE 8: OBJECT OF MIC1 S.A.L. OBLIGATION

8.1.1 MIC1 S.A.L. is held responsible for installing necessary means which assure the good work of the service.

8.1.2 MIC1 S.A.L. takes the necessary measures to assure the continuity and quality of the radiotelephonic service, however MIC1 S.A.L. shall not be held responsible for perturbations resulting from maintenance, strengthening, redevelopment or expanding of its network, or for works carried out by third parties. Hence, MIC1 S.A.L. shall not be held responsible in case of perturbation resulting from interferences or other in its network.

8.1.3 MIC1 S.A.L. shall not be held responsible for radiotelephonic interruption resulting from the suspension of operation by MIC1 S.A.L. of a frequency wave according to a public authority decision, or to an accidental matter or Force Majeure.

8.1.4 Alfa service organized in this agreement is physically and judicially independent of authorized GSM terminals, therefore MIC1 S.A.L. should not be held responsible for installation and the good functioning of these authorized terminals.

8.2 Compulsory benefits granted by MIC1 S.A.L.

8.2.1.1 MIC1 S.A.L.'s main obligation is to provide its subscriber with access to Alfa cellular network and as well as to the Lebanese public telecommunications network. It does not consist of providing him with terminal equipment. The object of this main obligation is called "main service". This main obligation is just a simple obligation of means.

8.2.1.2 MIC1 S.A.L. shall give the subscriber the Alfa card which entitles him to have access to the telecommunication network from any authorized terminal designed to receive this microprocessor card.

8.2.2 MIC1 S.A.L. main service is defined by the subscriber's choice of the geographical area in which he wants to send and receive phone calls.

However, MIC1 S.A.L. reserves the right to refuse at its own discretion the subscribers access to "International Access" and "Roaming" options.

8.3 Further benefits.

8.3.1 Further benefits should be expressly requested from MIC1 S.A.L. and shall be subject to special provisions attached to Terms and Conditions of the present agreement.

8.3.2 The subscriber shall be automatically listed for free in the MIC1 S.A.L. technical and electronic directory unless expressly refused by the subscriber.

ARTICLE 9: TARIFFS OF PRODUCTS AND SERVICES

9.1 Tariffs of products and services provided by MIC1 S.A.L. as well as their different terms of application shall be subject to a price list that MIC1 S.A.L. shall establish for its subscribers.

9.2 Tariffs modifications shall come into force one month after their publication. They shall be applied to all contracts, specially those under execution.

9.3 In the case mentioned in Article 9.2, the subscriber may terminate his contract in conformity with the modalities and within the period of time mentioned in Article 16.1, including the minimum period mentioned in Article 6

ARTICLE 10: OBLIGATIONS OF THE SUBSCRIBER

10.1 The subscriber undertakes to use Alfa card in accordance with Article 7 herein.

10.2 The subscriber undertakes to use the public telecommunications network pursuant to rules and regulations in force on the date of use, and to MIC1 S.A.L. prescriptions.

10.3 In case of breach of the above mentioned conditions, MIC1 S.A.L. may suspend the line with or without prior notice, or ask the subscriber without line suspension not to temporarily use his line.

Similarly, MIC1 S.A.L. may, at its own discretion, suspend the line with or without prior notice if it sees that the subscriber's consumption exceeds the usual rate. MIC1 S.A.L. enjoys this authority whether the subscriber has or not secured a security deposit in accordance with Article 4.1 herein.

10.3 The subscriber undertakes to pay or to assure payment of the price of products and services provided by MIC1 S.A.L. according to conditions and deadlines set forth in Articles 11 and 12 herein.

10.4 The subscriber undertakes to inform MIC1 S.A.L. not later than one month, of any modification made to information given to MIC1 S.A.L. upon agreement signature. In the absence of such notification, any modification to such information could not be used against MIC1 S.A.L. without prejudice to the application of Article 14 herein. The mentioned deadline is applied as of the date of such modification occurrence.

10.5 Any amendment the subscriber intends to make to certain special provisions of the subscription agreement essentially in connection with the subscriber's personal information, the mode of his bills payment or the services and options, should be made whether by calling 111, or by written request dated and signed by the subscriber and duly received by MIC1 S.A.L. according to procedures followed by MIC1 S.A.L. in each case and to which the subscriber undertakes to strictly conform at the risk of depriving such modification of any effect. The subscriber may object to some change already made by calling 111 provided that such objection takes place, on pain of reject, not later than 30 days as of such change.

10.6 The subscriber may not, in any case, transfer in whatever way the benefit from the present agreement without the prior written MIC1 S.A.L. approval.

10.7 As long as the subscriber holds, even though in breach of the regulations, an Alfa card, even after the line suspension or agreement termination, he remains in debt of the cost of the telecommunication network use.

ARTICLE 11: MODE OF PAYMENT AND DEDUCTION OF PAYMENTS

11.1 All entries on the bills and registers of MIC1 S.A.L. shall be deemed authentic and accepted by the subscriber. Bills issued by MIC1 S.A.L. are formal notices to pay within 10 days at most as of the issuance date. In all cases, the payment must necessarily be made before or not later than the payment deadline shown on the bill.

11.2 The subscriber undertakes to pay the cost of products and benefits secured by MIC1 S.A.L. as shown on the bill within deadlines mentioned in Article 11.1 herein.

11.3 Payments are due on the date shown on the bill.

11.4 In case of line suspension or contract termination, amounts due to MIC1 S.A.L. are due on the suspension or termination date. The subscription should remain due until the end or termination of the present agreement.

11.5 The payment is made:

a- by direct debit to the subscriber's bank account

b- at the subscriber's bank

c- at MIC1 S.A.L. counters

d- by any other way introduced by MIC1 S.A.L.

In cases a, b and d, bank charges and commissions or other fall to the subscriber.

11.6 In case of International Access or Roaming options, the payment must necessarily be made by direct debit.

11.7 The subscriber accepts, from now on, to consider bills issued by MIC1 S.A.L. to be liabilities for recovery of a personal right resulting from the present agreement in the favor of MIC1 S.A.L. and notice to pay. Therefore, the subscriber accepts, from now on, in case of failure of payment of any amount within the deadline set in such bills, and for any reason, that MIC1 S.A.L. proceeds to recover its debts according to the provisions of Articles 847 and subsequent in the Lebanese Civil Procedure Code, relative to the execution of liabilities and written undertakings.

ARTICLE 12: BILLING OF PRODUCTS AND SERVICES

12.1 Bills comprise:

- Charges of monthly subscription collected in advance

- Calls cost

- when need be:

1- charges of bringing the line into service

2- cost of possible complementary benefits

3- other charges due under the present agreement.

12.2 Bills are monthly. When the bills amounts are important, intermediary bills may be issued by MIC1 S.A.L. Intermediary bills are payable pursuant to conditions and deadlines set forth in Article 11 herein.

12.3 According to the chosen mode of payment, the bill is sent to the subscriber or at his bank address.

ARTICLE 13: INFORMATION AND CLAIMS CONCERNING BILLS

13.1 Since Alfa service is independent of the use of a GSM terminal peculiar to the subscriber, the units statement emitted by MIC1 S.A.L. is the only proof of operations effected by means of Alfa card.

13.2 MIC1 S.A.L. puts at the subscriber's disposal every documentary evidence related to the bill according to the techniques' state available to MIC1 S.A.L. within a claim deadline applicable to benefits provided within the scope of Alfa service. In all cases, no claim filed by the subscriber to recover the price of such services is accepted one year as of the issuance date of the relevant bill.

ARTICLE 14: LINE SUSPENSION

14.1 In case the subscriber fails to pay in total or in part the bill at the set time shown on the bill, MIC1 S.A.L. reserves the right to proceed to suspend the line and/or to take all necessary measures in order to recover the due sums, in particular those mentioned in Article 11 herein.

14.2 The line shall also be suspended in the same conditions if the subscriber fails to meet any of his obligations provided in Articles 7 and 10 herein.

14.3 In line suspension may occur in the same conditions for debts arising from other contracts concluded with MIC1 S.A.L. whether prior or subsequent to the present agreement.

14.4 In case the line is suspended at the subscriber's request, the subscription should remain due until the end or termination of the present agreement.

14.5 In case the network is damaged and if MIC1 S.A.L. considers that the line must be suspended for technical reasons without prior notice, the subscriber accepts such a measure.

ARTICLE 15: PENALTY CLAUSES

15.1 In case the line is suspended due to the subscriber, and in particular because the subscriber fails to meet one of his obligations set forth in Articles 7 and 10 herein, the subscription should remain due until the end or termination of the present agreement.

15.2 Overall charges and expenses, of any kind, resulting from delayed payment, suspension and reactivation of the line, or termination of agreement, fall to the subscriber if the suspension or the termination occurs due to him, in particular if he fails to meet any of his obligations provided in Articles 7, 10 and 11 herein.

ARTICLE 16: TERMINATION OF THE AGREEMENT

16.1 Termination of the agreement on subscriber's initiative.

16.1.1 In case of an agreement concluded for an undetermined period of time, the subscriber may terminate the agreement by registered letter in accordance with provisions of Articles 9.2 and 16.1.2 herein.

16.1.2 Without prejudice to Article 9.3, the subscriber may, as of the eighth month only, terminate his subscription agreement concluded for an undetermined period of time, at any time, with a four-month-prior notice.

16.1.3 Upon termination of agreement, the subscriber must hand back the Alfa card providing him with network access, to MIC1 S.A.L. that is the only owner in its capacity mentioned in Article 1.

The subscriber is held responsible, in the conditions mentioned in Articles 7 and 10 herein, for the Alfa card as long as it has not been yet handed back to MIC1 S.A.L.

16.1.4 In case of re-subscription, whatever the reason for which the previous agreement has been terminated, even though occurring by MIC1 S.A.L.'s mistake, the subscriber should not claim to benefit from his previous phone number.

16.2 De facto termination.

16.2.1 The present agreement is de facto terminated by the withdrawal, the cancellation or the nullity of the authorization granted to MIC1 S.A.L.

16.2.2 The present agreement is de facto terminated if the Republic of Lebanon/Ministry of Telecommunications uses its right to withdraw frequencies that are at MIC1 S.A.L.'s disposal.

16.3 Termination of agreement on MIC1 S.A.L.'s initiative

The agreement is de facto terminated 10 days following the line suspension on MIC1 S.A.L.'s initiative, unless the reason of such suspension disappears within this period of time or if MIC1 S.A.L. extends the deadline so that the subscriber meets his obligations.

16.4 Restitution of the Alfa card

Upon termination of agreement, for any reason whatsoever, the subscriber must hand back the Alfa card providing him with network access to MIC1 S.A.L. that is the only owner in its capacity mentioned in Article 1. The subscriber is held responsible, in the conditions mentioned in Articles 7 and 10 herein, for the Alfa card as long as it has not been yet handed back to MIC1 S.A.L.

ARTICLE 17: JURISDICTION

Should an amicable settlement not be reached, the parties agree to submit their disputes to the Mount Lebanon Courts.

ARTICLE 18: VOCAL SERVICES

18.1 Vocal services whose tariffs are on the price list are also delivered to persons subscribing to Alfa network of MIC1 S.A.L.

18.2 MIC1 S.A.L. shall not be held responsible for the content of information given within these services, such responsibility falling exclusively to the supplier of the relevant service whether towards subscribers or third parties.

18.3 MIC1 S.A.L. shall not also be held responsible for bad traffic flow, outage or interruption of vocal services which would fall to the service supplier.

18.4 MIC1 S.A.L. reserves the right at any time to stop, definitively or temporarily, the vocal services delivered to persons subscribing to its network.

ARTICLE 19: NULLITY OF PREVIOUS SUBSCRIPTION TERMS AND CONDITIONS

The terms and conditions of subscription to Alfa Service mentioned in the present agreement are applied mutatis mutandis as from its signature to all lines which are the subject of one or several subscription agreements to Alfa Service previously concluded with the same subscriber. Alfa Service subscription terms and conditions applicable to previous agreements become then null and void as of the said date.

ARTICLE 20: TRANSFER OF AGREEMENT

It is agreed, from now on, that the present agreement may, at any time, be automatically and without prior notice transferred with its components and in the same conditions, to any other entity than MIC1 S.A.L. nominated by the Republic of Lebanon/Ministry of Telecommunications to manage and/or operate GSM network.