

Emerging Lebanon

Towards Economic Growth and Social Welfare

Roger Nasnas

Economic and Social Council President

In cooperation with

Ghazi Wazni • Kamal Hamdan • Mazen Soueid
Nasser Hoteit • Samir Nasr • Roger Melki
Mounir Kharma • Roger Khayat • Samih Geha

and the contribution of

Ghassan Moukheiber • Antoine Messarra • Ziad Baroud
Shadi Karam • Fadi Comair • Ziad El Hayek
Samir Abillama • Toufic Gaspard • Marwan Iskandar
Maroun Chammas • Haytham Omar • Lea Bou Khater
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DAR AN-NAHAR

2016

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***To all my fellow compatriots, women and men.
Let's build and develop our country together.***

Roger Nasnas

"What is missing the most in Lebanon, more than water, more than roads, more than electricity, are people totally dedicated to public welfare, trying together at all levels to solve the multiple problems of economic growth and human progress."

"If a change of mentality doesn't occur in the young Lebanese elites, if a new breath coming from an intellectual and ethical revolution doesn't spread all over the country, development will be fragile, and Lebanon wouldn't have filled neither its internal cohesion task, nor its supranational task of a civilizing pole. The reason for Lebanon to exist and to last is essentially of a human order. To rely on success due to an exceptional human quality will lose all its sense if this quality declines by the accentuation of frantic individualism. It is the dimension of the collective national and of the collective universal that could save the soul of the Lebanese nation (...)"

"Change of mentality and behavior, national solidarity renewed every day, and persistent and tenacious effort will facilitate the implementation of the plan (...)"

"It can appear abnormal, in a report on development, to attach so much importance to extra economic factors, among which the factor of 'human valorization' (...)"

"Relying on others for efforts that one can accomplish by himself is one of these morbid behaviors."

Père Louis-Joseph Lebre

Louis-Joseph Lebre, *Besoins et possibilités de développement du Liban. Etude préliminaire*, 2 vol., Beyrouth, Ministère du plan, Mission Irfed-Liban, 1960-1961, vol. 2, pp. 476-477. (Translated from French).

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Introduction

Roger Nasnas

The Way to Prosperity:

Development and Solidarity

The initiative of this book comes with the objective of breaking out from the existing conflict in the country where mingle the needy and protester voices, and for paving the way to a new society of welfare devoted to the good of citizens.

It comes after “Emerging Lebanon – Towards an Economic and Social Vision” edited in 2007.

Nine years have since elapsed, and we still find ourselves mired in a lame economy, a public administration that is plagued by vacancies yet to be filled and where corruption thrives, a fiscal situation characterized by bleeding from servicing a public debt that amounts to over US\$ 70 billion to date, a weak tax collection system that has gone weaker, and the absence of voted state budgets since 2005.

Moreover, we find ourselves facing a deteriorating social condition where a) the population below the poverty line climbs and unemployment rises, notably among the youth, leading our sons to emigrate in droves looking for a decent way of living, and b) a booming influx into our country of displaced Syrians reached the awesome number of 2,000,000 people (on a Lebanese population of 4.5 million), let alone the conditions known to prevail at the Palestinian refugee camps which already exist in the country from the South to Beirut, and from the North to the Bekaa.

Further, we find ourselves surrounded by the propagation of violence, instability and heightened concerns in many Arab countries, thus tying down their energies to their internal strife, and leaving their economies to fall into a situation characterized by powerlessness and all forms of bleeding. In addition, counter-terrorism efforts have taken the upper-hand over all other national priorities.

And we find ourselves against a backdrop of weakened economies in neighboring Europe, and in many other countries of the globe as well.

Looking at this grim picture, it was deemed imperative that we call for a joining of forces which would be purposed with moving from the present situation of waiting and inertia. Hence the idea of this book, so that it constitutes a cry “to us all” to accelerate work in two complementary directions:

First: It has become both a need and a must that we all, and wholeheartedly together, spring to action to halt the present “backward walk” of our nation, marked by deterioration and fatigue.

Second: It has become a must that we all together spring to action not just to break from the unfortunate past and the present conditions, but to draw a long term project that would reflect the role that befits Lebanon in the 21st century.

The studies included in this book are undoubtedly important on their own due to the figures, data, deep analysis and insightful synthesis which they carry. Most important, however, they bear the particular significance of being the launching pad to a dialogue of a dual scientific and pragmatic nature that aims at crystallizing a vision congruent to the Rise of Lebanon.

Do we need a standard plan, or the pulse of a developmental vision?

From the onset, a number of questions came to mind with respect to this national endeavor:

1- Which social economy to which state? Here, the complexity sprang from the change that has been occurring in core concepts, where the notion of country-states has shifted to a talk about the groups that make up the nation, and the one about centralization to decentralization, and where the discourse has moved from the separation of the public and the private sectors to the necessity of those two sectors to complement each other as the necessary condition for the country to rise.

2- Is the rise of the Lebanese economy a pure internal matter? Or is it the fruit of an interaction between internal and external forces working together? To what extent can one talk of the rise of the domestic economy as separate from the role that the Lebanese diaspora can play in it, or from the role that Lebanese investments play abroad. And what about the serious endeavor of attracting direct foreign investment into Lebanon?

3- To what extent we could inspire from, or apply, what has worked for other countries? Would it work for ours? That is, does Lebanon need a standard plan, or does it rather need what we call “the pulse of a congruent developmental vision” to pump blood into its economy, thus creating jobs, supporting the Lebanese “spirit of initiative”, and contributing to the materialization of the true role of Lebanon regionally and internationally?

4- Is the recovery plan responsibility of the state alone? Or does the state’s responsibility lie in marshalling all the national capabilities and capacities toward recovery? Or is it in bringing together all forces to rebuild entire economic sectors and bring about the global rise of the nation?

In the light of all of that this book came to galvanize all efforts towards a scientific and pragmatic dialogue which would contribute to the formulation of remedies and solutions.

It's quite evident that our crises have cumulated to the point of conceding that:

- a) Partial reform is not enough;
- b) Selective patch-work does not help any more.

Moreover, the recent years have reflected:

- a) A constant slide of the growth indicators, to the point that the year 2015 closed on no-growth;
- b) A diminished interest of the international community in supporting the Lebanese economy.

It has indeed become an insistent matter that we commit to agreeing a developmental vision that starts from reinforcing the concept of citizenship, and doesn't end at just expanding the role of civil society to go forward.

This vision begins with restoring confidence: The citizen's confidence in the state, and the confidence of society in the future.

Our commitment to a rational and realistic approach leads to the affirmation that our way to recovery is based on Developmental Integration and Societal Solidarity.

The entry point to that mixed realm rests on two fixed principles which summarize the organic inter-relationships among what is political (i.e. national consensus), what is of a security nature (i.e. stability and confidence in the state), administrative (i.e. automation and decentralization), and economic/social (i.e. potential and aspirations).

The First Fixture is committing to a partnership among the public sector, the private sector, and civil society, so that the Rise of Lebanon becomes a national project.

The Second Fixture is acknowledging that the Rise vision is not a pure academic matter, nor is it the responsibility of the politicians alone, and that it isn't just a function of economic and social considerations, but it also depends on reading through the changes that are occurring around us. Didn't Beirut's role as a transit point to the Arab hinterland diminish due to the conflict in Syria? Didn't tourism and investments in Lebanon ebb due to our internal political divisions, and to the inability of our institutions to deal with a host of vital infrastructure and services issues which range from electricity to telecommunications, to transportation, to garbage collection...?

This leads to emphasizing the conjoint nature of security and growth. In fact, there's no growth without security, and security relies on growth for sustaining stability.

In addition, emphasizing the Environment issue is also needed. In fact, it's one of the most prominent challenges in this century, the reason being that the environment isn't just a

Lebanese issue, but simultaneously a regional and international one as well. The thinning ozone layer, deforestation, desertification, the increased rate of polar melting, pollution, and water scarcity are universal problems par excellence.

These dangers necessitated the holding of Arab and international conferences, notably the historic COP 21 meeting in Paris on the 12th December 2015 which scored the unanimous voting of 195 countries on resolutions where they committed themselves to enact measures against the global warming phenomenon. The importance of this agreement transcends the protection of man and nature from pollution, as it carries the elevated status of being a model of international cooperation at the service of man which is deployed irrespective of the costly economic sacrifices which the industrial nations will make in terms of reducing their energy consumption, while minding that their search for alternative energy is obviously going to cost them even more.

To that effect, an integrated Environmental – Developmental – Security policy imposes itself as the means to safeguard Lebanon’s sustained development, and the planet’s ultimate safety as well.

The building of a modern state as the basis of success for the emerging country

The Emerging Task rests on three foundations:

First: National Consensus;

Second: Economic Stability requires a social safety net that doesn’t come at the detriment of growth;

Third: Building a modern and efficient state by breathing life into the institutions, adopting administrative decentralization, and evolving the laws and their application on the basis that “The Law is above All, and for All”.

In this context, a tripartite partnership among the public sector, the private sector, and civil society would lead to the acceleration of:

a) Lebanon’s competitiveness potential (Commercial relations, diverse languages, banking secrecy, educational curricula...);

b) How to meet the contemporary challenges of information technology and globalization.

The ensuing interaction leads to searching for new ideas for managing our economy, and for a new approach to our concept of the social contract.

It also points to the need for creating jobs in a dynamic way, and for diligently modernizing infrastructure and the basic services (electricity, education, health, transportation, and telecommunications).

The basic scope of these studies

The responsibilities of the said tripartite partnership encompass among other:

a) Launching Comprehensive Development by encouraging competitiveness and supporting the various sectors through tying incentives and improved financial support programs to training, job rehabilitation, and exports reinforcement, i.e. through improving the productivity conditions and supporting SMEs besides giving corporations the attention they deserve.

This requires fixing Public Finances, and improving the manpower structure in addition to the old-age insurance system and the educational sector, while taking into consideration the repercussions of the Syrian crisis, notably in what relates to the voluminous influx of the Syrian displaced into our country and its sizeable effects on our economic and social situations.

b) Consolidating the relations with brotherly (Arab) and friendly nations, and so in order to:

- Enlarge the spectrum of foreign markets for Lebanese products;
- Attract investments to Lebanon.

In this context, it becomes imperative to strengthen political stability; improve the economic environment by upgrading its technical and administrative instruments; and devise appealing investment programs.

The successive events and developments of the recent years revealed that:

- 1) Neither a local economy independent of the global economy can still exist;
- 2) Nor a local economy dependent of the external economic activity alone can still exist.

Thus, it becomes clear that reinforcing the ties with abroad on a pattern of openness, coordination and cooperation is a must in order to attract investments and systematize the exchange of goods and services namely at the level of the Knowledge Economy and tourism of all types in addition to media and art productions. Our internal work will then have priorities such as:

1) Reinforcing democracy so that our choices come out as the embodiment of the whole nation's vitality.

2) Opening the gates of opportunity to women in society, and securing them with civil rights so that they become capable of contributing to the Emerging Enterprise. For the magnitude of the tasks and challenges ahead necessitate the empowerment of the Lebanese woman to participate effectively and widely in the process of national development.

3) Safeguarding our liberal economy and re-energizing it by:

- a) Conducting fiscal, administrative and economic reforms;
- b) Supporting the private sector and energizing it through economic revitalization;

- c) Programs meant to empower it to become an essential partner in the Rise Enterprise;
- d) Tightening the coordination and integration inside the public institutions that support the productive sectors (Office of Grains & Beetroot, Deposits Assurance Institution, The Green Project, Kafalat) or inside the governmental programs set to support the productive sectors (Soft loans, BDL programs, Agricultural Exports Support Program).

Comprehensive developmental vision and administrative decentralization along with a modern social contract

It flows that these outlooks stem from the acknowledgement of four fundamental truths:

- 1) The Emerging of Lebanon is no more reliant on one sector without the others. It requires the activation of all sectors together.
- 2) It is no more restricted to some categories without the others. In fact, SMEs, as much as corporations, form a vital pillar of the economy to achieve growth and allow a better distribution of wealth.
- 3) It is no more limited to a local region without the others. It is rather facilitated by what I call "The Complementarity of Regional Development". The development of individual regions in the country activates overall development at the lowest cost, and keeps the citizens rooted in their land; in addition, it fosters the growth of inter-regional and national integration.

From this perspective, since the Taif Accord approved the adoption of Administrative Decentralization and divided Lebanon into the regions "Mohafazat", this calls for a careful look at the regions' economic and developmental considerations.

Doesn't development anchor belonging indeed?

The Emerging of Lebanon especially relies on setting a modern social contract that develops incentives for economic growth and maintains social justice. It is worthwhile to point out here that the private sector does not benefit from a post-retirement medical insurance scheme and does not adopt a retirement system altogether, whereas the public sector ensures pre and post-retirement medical insurance, and endows its workforce members with a pension for life that amounts to no less than 80% of their last salary prior to retirement.

In this overall context, we renew the call to enact the Old-Age Scheme, as it'll strengthen the confidence of the young generation in the country and in the future.

Prior to its mandate's maturity, the Economic & Social Council put before the Council of Ministers a project that remains valid as a starting point for further study and discussion in the light of recent developments (In fact, the Common Parliamentary Committees had induced some changes to its text at two intervals: in 2006 and 2008).

The studies that were conducted shed light on a host of questions which beg for an in-depth analysis. Among those were:

- Where is the balance between inflation and the evolution of real salaries?
- Does the workforce have a balance between the amount and type of their benefits from the existing social offerings on the one hand, and their retirement, health, education, electricity and public transportation benefits on the other hand?
- Is there an equitable parity between the growth in GDP and the growth of job opportunities available to both the young generation and the existing workforce?
- What are the repercussions of mounting emigration and unemployment on the state of the domestic labor market?

The Economic and Social Council is a need and a must

In consequence, it becomes evident that the reconstitution of the Economic and Social Council has become a necessity, as it would be a key player in the entire recovery process.

To elaborate, the importance of this council stems from three core functions, all inter-related and integrated:

- Collective representation
- Specialization and expertise
- Dialogue, consultation, and communication among the state, the forces of productivity, and civil society.

And in view of its being the point of intersection of the public sector, the private sector and civil society, the points of view that it adopts are normally the fruit of a constructive dialogue, as well as coordination and cooperation, among the various economic and social sectors, in a framework of scientific research and practical problem-solving. Which reinforces the practice of democracy in pondering economic and social problems, and in recommending solutions.

In parallel, the Economic and Social Council contributes to enhancing the communication with its counterparts and similar institutions in the Arab world and internationally. Which provides Lebanon with an extra opportunity to be kept abreast of economic and social changes across the globe. This wide exposure enables the Council to opine knowingly about those changes, and to draw on the experience of its counterparts abroad in what can improve the ways and means of the Rise at our end.

The topic of oil & gas discoveries and the vision of a comprehensive recovery

In this topic which is open for discussion, we would like to point out that the economic and social recovery of Lebanon would meet with a conclusive success when the national growth will

happen before, or without, it is tied to the discovery of our oil and gas reserves and their exploitation. The vision here is that this wealth is better invested in completing the envisaged recovery in a comprehensive way (enhancing the standard of living, limiting unemployment, and strengthening the social safety net) rather than looking at it as the starting catalyst to inducing the economic recovery. For the importance of our oil and gas reserves lies in how to invest it in the best interest of the citizen, society and the state, and in building the country's future.

Let's dare in order to advance

We are not saying that ours is a project for a ready-made recovery, and that there is no other effective endeavor.

What we are putting in your hands is a discussion paper that aims to facilitate the formulation of a comprehensive developmental vision that encapsulates the aspirations of all members of society, and helps Lebanon cross the bridge to performing its true role among the nations of this part of the world and globally as well.

Moreover, we would like to reckon that the economic and social Rise only bears fruit when it rests on a cultural revolution that drives a value system of heightened civil and human beliefs deeply into the citizen and society. For the shortest cut to stifle trouble, stem violence, and neutralize anxiety is the adoption of the golden triangle: Security – Growth – Education.

In spite of successive crises and challenges that have beset Lebanon since forty years, it remained resiliently steadfast. For this, it deserves from us all a coming-together and a congregation of efforts which will make it possible to launch its Rise Enterprise and set the country on the path to development.

Let's Dare to Advance!

Roger Nasnas

Methodology of the Book

A number of economists have contributed to this book's Part I "The Economic Challenge", and to its Part II "The Social Contract". Their names appear on the front cover. They took part according to the following mechanism:

- The topics of study were determined as to the degree of their interaction together, and to their capability of constituting economic and social leverage in case they were implemented in a timely fashion and executed properly;
- Each topic was discussed on its own over several meeting sessions, and one member of the group was tasked with formulating the study and distributing it to the other members;
- Comments that emerged further to drafting the study, and were agreed upon, were added thereto, while every member of the group was entitled to express their counter comments, if any;

Policies for reform were contributed by experts in its spheres who also bylined their specialized studies. We duly respected their points of view without discussion, even when those came out to be contrary to ours.

Executive summary

This book includes a set of assessments of the Lebanese economy, together with a package of recommendations for policies and measures that will allow to put the country's economic cycle on a developmental path, and to remove the obstacles that stand in the way of the economy's competitiveness. They will also allow the activation of the economy's capabilities and the fixing of glitches in its structure, and enable as well the work on redressing its accumulated deficit and increasing its productive capacities, in addition to protecting the country's human capital and its creative talent. Moreover, the book will help in the re-evaluation of the structural composition of the economy, in order to ensure that setting it off on this track would lead to securing the sustainability of its activities, the stability of its workforce, and the leveraging of all his energies.

The various contributions to this book indicate the depth of the crisis and the size of the required works site needed to remove all obstacles.

Competition in the Lebanese economy:

The recommendations on this subject relate to the enactment of a Competition Act meant to limit the entry and exit barriers, and to govern the declaration of sales agreements and the establishment of competition management, in addition to facilitating the legal and administrative transactions involved, promoting the integration of small and medium enterprises, and improving the means of monitoring the movement of goods and the application of competition policies.

Supporting the production sectors:

This can be achieved through a number of actions such as the activation of government work, the preparation of a comprehensive support plan, the integration among incentives to achieve the best results, the non-discrimination among sectors, the periodical assessment of the effectiveness of such programs and taking corrective measures, the non-exclusive reliance of support programs on finance, but on job rehabilitation and training as well, in addition to the development of systems of guidance and orientation, the restructuring of troubled institutions, and attracting investment funds with guarantees and assurances which allow them to extend their funding.

The work also includes the financing of the Lebanese Institution for the Promotion of Exports, increasing the activities of universities, and developing projects that concern women. To ensure the success of these initiatives, related international programs should be benefited from, as well as working with the organizations and professional associations of the private sector.

Improving the conditions of productivity:

Here decentralization plays a key role in creating a productive environment that affects competition and the improvement of the purchasing power and the labor market, in addition to curbing unemployment. It extends to the removal of the barriers that the business community faces, the adoption of administrative decentralization, the regulation of public facilities and utilities, the improvement of the investment climate, the control of economic costs, the halting of monopolistic practices, the maintenance of the level of education, the rational use of energy, and the investment in reforming the administrative system towards greater efficiency and effectiveness.

Returning Lebanon gradually onto the world investments map:

Here the benefits are many; they include:

Improving growth and economic performance, increasing foreign remittances, improving the economic environment with more productivity and efficiency, improving and training human resources, raising the level of technical and administrative tools, engaging in global markets, improving competitiveness, investing in natural resources, developing the country's infrastructure, as well as restructuring and improving the performance of public institutions.

The foreign inflows will revive the market and investment opportunities, and will strengthen the political and legal frameworks. The provision of a mature investment environment (the cost of materials, the tax system, bureaucracy, corruption) and an appropriate infrastructure will help in attracting investments.

The barriers are many, including the missing political stability, the social risks prevailing, and the impact of the Syrian displaced population. The list extends to weak governance, structural deficits, slow decision-making, the Public Treasury's diminished ability to fund investments, the fragility of the financial market, the weak legal environment, and the inexistence of a proper promotional scheme.

The policy for spurring small enterprises:

This policy is at the center of generating a robust economic cycle. It is built on foundations that include facilitating administrative transactions, encouraging legal entities to seek finance, helping in the globalization of institutions, working on the development of private initiative, and improving the bankruptcy and alternative opportunities laws. The State is also supposed to take care of social obligations, tax exemptions, and of supporting the marketing process and the ability to get financing on flexible terms.

Of great importance is the possibility for these institutions to get support meant to encourage their growth, environmental protection, production capacity and manpower development, as well as to benefit from proper incubation policies such as easing their required official paperwork and alleviating their external costs by assisting them in marketing and exporting. The whole work loop must enjoy stability: The basic tasks of a one-stop shop policy, helping establishments when closing down their business, reducing governmental bureaucracy, straightening burdens, assisting them to engage in public tenders, and focusing them on entering the European markets, must be available to support those institutions.

Public finance reform:

This main topic is based on the need to rein in the exploding deficit:

Through the rationalization of spending, controlling the waste of resources, the abolition of some spendthrift institutions and bodies, improving liquidity management through the establishment of a unified account, modernizing the Tenders Law, reforming the public sector reform and random employment, reforming the pension/end of service system, reducing the cost of servicing the public debt by controlling the size of the public debt, determining an annual cap on the increase in public expenses, improving public lands management, improving productivity, and strengthening the partnership between the public and private sectors.

As for the focus on tax policy, it includes a unified tax on incomes, raising the tax rate on individuals and interest earned, increasing taxes on tobacco and alcohol, reconsidering the tariffs, introducing a tax on profit from real estate sales, adjusting the value added tax, and re-imposing duties on petrol and diesel. This presumes the determination of a tax administration, auditing company permits, and the creation of a tax collection system, in addition to approving the Maritime Properties Law and collecting the funds resulting from the settlement of building violations.

The public debt can only be curbed by increasing the growth of the GDP, reducing the interest on the public debt, and improving the primary surplus and inflation rates, with the proviso that the repercussions are kept under control, secondary markets for the trading of treasury bills are created, and a medium-term debt management strategy is devised.

The circumstances surrounding such a program are linked to the actual situation of public security, which has so far been inappropriate.

It is also to be noted that the emergence of a comprehensive vision about the State budget, and respect for the mechanism of its submission and approval, are key elements in the whole picture. The absence of the account limitation is a problem in itself; add to that the necessity to modernize the method of collection and expenditure, the need to tackle all reform requirements, including fighting corruption and expanding the powers of inspection, let alone setting a unified system of social benefits, and taking all the measures necessary to control spending and activate collection.

As regards the Scale of Grades and Salaries: In spite of its rightful feature, its financial implications are nevertheless negative as they exceed the capability of the economy and the public sector to absorb it and to rein in its multiple effects which are of monetary, financial, inflationary, and economic dimensions.

The banking sector and financing the economy:

The strength of the sector and its growth helped to meet a large part of the financing needs of the private and public sectors. Subsidized loans contributed to pushing the economic wheel forward and ensuring social stability, especially in terms of housing and educational loans. However, there is a weakness in what regards the non-diversity of sectoral credit, and the loans are disproportionately focused on short and medium term loans, on commercial loans, and on business services and personal loans. Moreover, the industry and agriculture sectors are marginalized in this regard. But they have been able to take advantage of subsidized loans from foreign institutions meant to provide financing to the productive sectors.

The distribution ratio of loans is specific because of the limited lending opportunities. The necessary steps to improve the distribution of credit require the existence of an adequate repartitioning of the banking activity across the country's regions and the energizing of finance to small and medium enterprises, in addition to Lebanese banks having the opportunity to develop microfinance services.

To expand these missions, there is a need to improve the competitiveness, facilitate financing, and provide services. Accordingly, those policies cannot thrive unless growth returns, public finance is reformed, public spending is rationalized, and basic structural reforms are made.

The structure and characteristics of the Lebanese workforce:

A decline in the standards of living of vast categories of society, and a decline in social services of all kinds, resulted from the rush to liberate trade, fluctuations in growth, financial swelling due to the public spending patterns, fiscal deficit, the non-bridging of developmental gaps among the regions, and the deterioration in infrastructure.

The current reality lacks clear indicators related to demographic surveys. It is clear that job creation was not at the required level. Other manifestations are the contraction of work in agriculture and industry to the benefit of low-productivity services, fallen qualifications and know-how for the bulk of this type of workforce, as well as the difficulty for certain categories to find work (First job and jobs after the age of 45 years) and the decline in legal forms of work which provide a minimum social security. The low incidence of women in the workplace, and the gap resulting from the emigration of young people, are essential attributes of the employment market in Lebanon. And as it looks, improvement in the level of education is a fundamental trait of the workforce.

Decreasing the number of wage earners who are working for their own account is important for the development of employment. In addition, the workers in the service sector increased significantly to the detriment of the industry and agriculture sectors.

45% of Lebanese families have seen the emigration of one of their members (skilled and educated in particular), and unemployment reached 11% of the working population.

The poor have reached 38% of the total population, and are concentrated in the ranks of laborers, day workers and seasonal workers.

The lack of social protection for retirees, especially in the private sector, is a grave matter, as compensations can only serve a limited part of their retirement years.

The reforms should focus on: The development of evolved economic policies, the reduction of investment in cheap labor, reconsideration of the level of social benefits through a retirement system which replaces the insufficiencies of the present system and covers all workers in

Lebanon, and the replacement of the health insurance system by a comprehensive system that covers all residents. Further, an unemployment insurance system must be approved, and due reconsideration given to the development of the legislative and institutional framework of the system that governs the labor market, in addition to activating the process of rehabilitation through the National Employment Institution.

The old-age security system for the private sector:

The program aims to ensure a minimum pension and a reasonable exchange proportion, in addition to laying the foundation for paying that rate of insurance, on the basis that the monthly pension would equal about 40% of the retiree's final salary after having completed 30 years of service and paid out all contributions, while taking into account securing the stability of the pension, the capabilities of the private sector, and overall financial balance. The system rests on three pillars: A minimum salary, a complementary salary, and an appreciation complementary salary (for those with higher income) at a ceiling of 3 to 10 times the minimum wage. Further, moving from the end of the service system to the pension system would be possible under certain set conditions.

The proposed funding goes as follows:

- 10% by the employer.
- 4% deducted from wages and salaries.
- 2% by the state.

An optional additional proportion could also be adopted, on the basis of shared funding between the employer and the employee in specifically set proportions.

All is on condition that the administration of the system would be in the hands of an independent institution that manages investments in a transparent manner.

The Lebanese education sector:

- Strengthening the statistical data base, and the production and use of educational statistics.

- Developing a strategy for producing national statistics, inclusive of setting a timetable for regular national surveys that would allow for detailed analysis and a consistently updated population census, in such a way that it would constitute a solid ground for all national surveys on public and private schools, be the latter free or non-free, as well as on the schools that relate to various other institutions.

- Preparing a strategy for the dissemination of information and statistical data on a large

scale, while enabling citizens to have access to them and discussing them.

- Conducting periodic and systematic studies of cohorts of pupils.
- Encouraging qualitative studies that focus on the challenges faced by certain groups in accessing education, and so in order to better understand the key factors that cause those impediments and treat them.

- Promoting the access to education at all levels, with a focus on reducing the inequalities presently existing.

- Developing a plan to generalize kindergarten education at all public schools and UNRWA schools, and promoting training and curriculum development.

- Developing prevention programs against dropping out of school that combine social, financial and educational support.

- Establishing a program for a transitory period that contributes to the return of drop-outs to school.

- Developing a strategy aimed at increasing the opportunities for children with special needs to access schools.

- Intensifying efforts to improve the quality of education.

- The integration of modern indicators and quality criteria within a uniform approach, for use by educational inspectors in their assessment of public schools and free private schools.

- Monitoring and controlling the quality of teaching and learning in private kindergartens in Lebanon.

- Assessing teachers' training needs, and setting a close connection between training and performance monitoring.

- Establishing a special classification of the qualifications of kindergarten teachers, and putting them through corresponding training programs.

- Providing training in the education of children with special needs, and supporting the schools that seek to apply such a policy of integration.

- Strengthening the statistical data on dropout rates, and encouraging research on their causal factors.

- Developing a national strategy to address the high dropout rates among poorer students in the schools of the north and the Bekaa, as well as among Palestinians and Syrian students.

The public health policy and boosting its performance:

Research shows that the level of medicine in Lebanon is advanced, with the Ministry of Health needing to provide health services in regions and villages, and to work on the administration of patients in an equal manner. It also has to work on the quality of doctors,

insurance funds, hospitals, laboratories, pharmacies and other providers of medical services. The ministry's work extends to improving the productivity level required, and to the use of a sufficient number of doctors and paramedics, through a competition process between the private and public sectors in order to create a health investment climate and a demarcation line between the establishment of public hospitals and contracting with private hospitals. The ministry is also tasked with ensuring social solidarity to provide services at the level of the purchasing power, while contracting with third party managers/administrators to receive patients in the public sector, and so to avoid bureaucracy and influence pressures, as well as evolving the system at the National Social Security Fund to speed up the work, the ultimate objective of all this being that all categories of society would be provided with health services.

The effects of the Syrian crisis and migrants on Lebanon:

The Syrian population displacement has actually affected Lebanon's economic growth and inflicted damage on its tourism sector and public finances through both the pressures on public expenditure and the loss of many sorts of revenues. It also impacted foreign direct investment and led to the deterioration of the balance of payments, the contraction of the real estate activity, and to the decline in exchanges together with the widening of the deficit.

Although the banks have shown immunity to the crisis, and some benefits from the displacement factor were noted, inflation began to emerge as a result of the pressure on costs, especially those in the areas of education, health, and the social safety net. In addition, the effects on infrastructure, especially in water, electricity, and solid waste, and on the roads network, started to be felt.

Further, the pressure from migrants on the labor market had a negative impact on the Lebanese labor, the results being increased levels of unemployment, widened irregular employment, decreased wages, increased unfair competition and unfair employment, poverty on the increase, inflated consumer prices, and decreased income in poor areas.

Accordingly, the intensification of efforts to gain international aid is absolutely essential, and defining the legal framework for the Syrians in Lebanon is very crucial, while highlighting the importance of creating community areas inside the Syrian territory and helping the Syrians to return home, let alone fighting corruption, organizing labor together with devising local development projects in the areas where the displaced are deployed, rehabilitating infrastructure, helping the Lebanese poor, and confronting the tensions of all kinds by launching specialized programs, enabling the municipalities and civil society to resolve conflicts, training civil organizations on improved skills, and building the capacity of coordination between the

concerned authorities which deal with the displaced persons and the latter's host communities:

- Enhancing the coordination mechanisms between the international organizations and the government, civil society and the competent agencies, and creating a database to limit the dispersion of the relief effort, the overlap of stakeholders, the redundancy of activities, and the wastage of resources.
- Mobilizing talents available at civil and civic organizations, and in the displaced communities as well, in order to cover the shortage of resources and competencies, whether it is of a financial, technical or organizational nature.
- Using local talent and resources, and encouraging efficiency and accountability standards, for the purpose of confronting corruption and abuse of circumstances.

General conclusion:

1. The tasks required are complex and dense, cutting across the economic, social, developmental, financial and administrative spheres.
2. Real reform begins by controlling public finance, and increasing the capacities and margins of maneuver needed to finance all the lacking requirements.
3. The structural reform process requires an administrative works site that would be capable of developing the plans needed to address the wear in public institutions, and to improve their performance.
4. In all its aspects — Unemployment, retirement, education, health, transportation, housing, social security — the social policy needs a thorough review to ward off the dangers of marginalization, poverty, and destitution, let alone the literal suffocation of the current channels due to wastage and limited efficiency.
5. The economic policy must be directed towards the productive sectors, and towards increasing the capacity of the economy's overall competitiveness.
6. The negative indicators at all levels dictate to work in a balanced way on controlling the slide which is caused by negligence.
7. Lebanon disposes of unused capabilities and capacities which can be revived and activated, in order to gradually reach an overall solution to its problems that would stimulate economic growth and reduce social suffocation.

Prosperity for Lebanon: An Action Plan*

The first chapter of the Economic and Social Program was the last to be written in this book's precursor, "Emerging Lebanon, Towards an Economic and Social Vision." In a sense, it integrated the other papers by setting up the conditions for their realization. The failure of the Lebanese economy goes beyond the last few years or decades of turmoil, and pertains to a systemic weak productivity that Toufic Gaspard has thoroughly demonstrated in his book "A Political Economy of Lebanon, 1948-2002: The Limits of Laissez-faire", and summarized in the analytical part of the following study.

To achieve sustainable growth, Lebanon must first tackle the weak productivity of the economy that characterized it since independence. The way to face the challenge is to address some of the fundamental causes of the problem, which involves the adoption of a radically different policy orientation than in the past. This can be accomplished by bringing into the economic mainstream most of the Lebanese people and regions that have been left since independence at the margins of economic, social and political life.

In today's Lebanon, outside the continuing political turmoil that the region and Lebanon are suffering from, the key to an economic and political "unification" of the country, and to a higher path of sustained economic growth, are "Education" and "Communication". These nationwide development projects will enhance labor skills and productivity, bring substantial investments to the regions outside the center, and expand the national market for years to come. But perhaps the main contribution of such a new orientation in economic policy would be the enhancement of economic and social interaction among the Lebanese, which would much contribute to their political unification.

In parallel, there is a large consensus on the necessity to reform Lebanon's public administration. In the context of this economic Action Plan, two basic reforms are required rather than a full-fledged reform of all public institutions, which may be an illusory objective, at least in the near future. The two basic reforms deal with the judiciary and the size of the public sector.

(*) Toufic Gaspard

Furthermore, the Action Plan essentially aims for sustained economic development in the long term. If recovery is delayed, it is doubtful that it will be possible to address the critical factors and achieve sustainable growth. The favorable expectations induced by the overhaul of the education and communication infrastructure cannot alone reverse the adverse economic trend, though they can strongly support recovery. The enduring situation of recession, a high and increasing public sector debt, and of scarcity of credit to the private sector requires a resumption of demand to support efficient scales of production and raise productivity. This issue is addressed in the following chapter.

It is necessary to keep in mind that sustained economic development cannot neglect industrialization especially that it is in the context of industry rather than services that we nowadays find the new dynamic technologies. And an industrial policy that supports a modern and productive industrial sector is needed.

Lebanon is too small to have a proper and distinct environment policy. Our natural resources will be much better protected if Lebanon effectively adhered to international or regional programs that aim at the protection of earth and life.

The last four decades since 1975 have been particularly damaging for Lebanon. Fifteen years of an intermittent but destructive war during 1975-1990 have ravaged the economy and wrought havoc on all aspects of society and the polity. The peace that followed failed to fulfill most of the economic and political expectations. In fact, the following twenty five years until 2015 have been distinguished by restricted sovereignty and freedoms, much corruption, modest economic growth accompanied by few employment opportunities, and an unprecedented increase in public sector indebtedness.

The Lebanese economy has become weak and unproductive. It is also burdened by a public sector debt that is among the highest in the world in relation to GDP. Such an economy cannot reinvigorate growth, generate many employment opportunities, or support social and political stability. The Lebanese economy was unable to produce that kind of performance even in its heyday prior to 1975 when public sector debt was practically nil, the Government's finances in balance, and the balance of payments almost continuously in surplus. It then becomes evident that the deteriorated real and financial condition of the economy today, and the weakened institutional structures, make it virtually impossible to expect the resumption of strong economic growth and development. Lebanon desperately needs radical

actions to transform its economy into one that can bring economic prosperity for most of its people for generations to come. The issue is not merely one of economic prosperity, but also of political viability.

It is true that economic progress in Lebanon has been, and will probably be more so in the future, intimately linked to political developments in the country. Indeed, it would be difficult if not impossible to envisage economic prosperity for Lebanon without it being driven and sustained by a political authority that sees the economic transformation and development of the country as one of its principal national tasks. Specifically, the Lebanese confessional political system, with its constant need to accommodate political balances, and its associated rules of distribution of political and administrative powers, is unlikely to be compatible with a sustained drive for a radical economic change.

It is our belief, however, and it is a central idea of this paper, that if the Action Plan that is detailed below is successfully implemented in the next few years, it will by itself weaken existing political constraints and create a momentum for a more productive and democratic society. The idea is that a strong economic growth, which is accompanied by better job and income opportunities than has been the case since independence, would create a favorable basis for political reforms that establish the foundations of a prosperous and democratic republic.

Today, such an approach is feasible. Indeed, Lebanon currently is at a crossroads, with most of its people and social and political forces apparently ready to accept and shoulder major changes following decades of war and political and economic decline. In other words, there exists today a historical, and perhaps unique, opportunity for Lebanon to put its economy on a new sustainable path of robust economic growth and development, which would reinforce social cohesion and lay the foundations of a democratic political system. This paper proposes an Action Plan with the central objective of embarking the Lebanese economy on this new path.

The proposed actions have two dimensions, a long-term and a short-term one. Long-term measures are intended to correct the structural deficiencies of the economy in order to put it on a higher and more solid path of economic growth; the benefits of the long-term measures will be felt quickly and will accumulate over a long period, but these should be implemented as soon as possible. Short-term measures are intended to deal with the immediate problems of weak economic

growth and mounting public sector debt. Obviously, the two sets of measures will be mutually reinforcing in their impact.

Before presenting the details of the Action Plan, the performance and fundamental problems of the Lebanese economy need to be assessed. Section II below first presents a comprehensive evaluation of economic performance since after the end of the war in 1990, which offers a clear view of the present economic situation and its recent past. Section III follows with a more systematic evaluation of the essential structural problems of the Lebanese economy, those problems that need to be addressed by the economic reforms or the proposed long-term measures. Section IV then sets out the objectives of the Action Plan and presents its details, in its long-term and short-term dimensions. A final section concludes with summary remarks.

Economic performance: a systemic failure

Lebanon's post-war economic performance has been disappointing, far below the strong resurgence in economic activity and growth that was predicted and expected soon after the end of the war. This performance revealed the structural rigidities of the economy, and its weakness was accentuated by the fact that the post-war initial conditions were quite favorable to a strong revival in economic activity. Normal economic activity had in fact resumed from a low level of output, and with a relatively low level of government debt (see Table 1 below). Moreover, the nominal exchange rate was soon stabilized and continued on an appreciating trend since October 1992, while government spending strongly expanded during 1993-2015.

We present an evaluation of Lebanon's post-war economic performance, both overall and in all the major sectors of the economy during the period 1993-2015. We show that weak economic performance was pervasive in all sectors of the economy, which points to a systemic rather than circumstantial economic failure.

1. Growth and employment: Table 1 below summarizes the evolution of the gross domestic product (GDP) during 1992-2015.

The employment record has been equally poor. The most recent professional manpower surveys indicate unemployment rates of 8.5% in 1997 and 11.5% in 2001, and between 9% and 14% in 2007².

(2) See République Libanaise (2008, 1998) and Kasparian (2003), respectively. Kasparian's survey is based on Lebanese residents only.

Table 1: GDP Level and Growth, 1992-2015

		1992	2000	2005	2010	2015
GDP-current prices	\$ billions	6.1	17.2	21.5	38.4	50.7
GDP p.c.-current prices	\$	2,000	4,400	5,400	9,100	10,000
GDP -constant 1997 prices	LL billions	18.2	25.3	30.1	43.4	47.6
GDP growth 1993-2015	% p.a.	4.3%				
GDP p.c. growth 1993-2015	% p.a.	2.4%				
Exchange rate-aver. annual	LL/\$	1,713	1,508	1,508	1,508	1,508

Sources: Compiled from Ministry of Finance (www.finance.gov.lb) and Central Administration of Statistics (www.cas.gov.lb) publications

BDL's share in government debt at end November 2015, and its debt to domestic banks in foreign currencies are estimates. Notes: GDP is Gross domestic Product. "GDP p.c." is GDP per capita. In \$, it is rounded to the nearest 100. GDP and population numbers for 2015 are unofficial estimates.

GDP growth during the twenty three-year period was an annual average of 4.3% (compared to more than 6% during 1964-74), and 2.4% on a per capita basis, reflecting in part the appreciation of the Lebanese Lira vis-à-vis the US dollar. These are modest growth rates at best, especially when set against the favorable economic environment mentioned above.

However, these figures underestimate the true unemployment situation owing, in particular, to the reluctance of many respondents in manpower surveys to acknowledge their unemployment status because of the social stigma that is perceived to be attached to that status. Moreover, many of the employed are occasional or temporary labor (about 36% of all those employed in the private sector in 1997)³, underscoring the condition of large underemployment in Lebanon. The unemployment rate clearly would have clearly been higher without the emigration outlet for labor.

The improvement in the people's standard of living, including the provision of employment opportunities, truly is the main standard by which governments are judged in the economic and political domains. In this regard, the post-war record of Lebanese governments has been anything but a success.

Deficits and debts: Government without accountability: Throughout the post-independence period, and even until the early 1990s, Lebanese governments have remarkably succeeded in maintaining fiscal restraint. Government debt was almost nil

(3) See Gaspard (2004), Table 5.9.

in 1975, and budget deficits were few in the preceding thirty years. As Table 2 below shows, government debt still was at a relatively low level at end 1992.

Table 2: Government debt, 1992-2015 (At end period, in \$ billions and in %)

	1992	2000	2005	2010	2015
Government Gross Debt	3.0	25.2	38.5	52.6	70.4
o/w to BDL	5%	5%	25%	17%	25%
o/w in foreign currencies	12%	29%	50%	39%	39%
Gross Debt/GDP	50%	146%	179%	137%	139%
BDL foreign reserves	4.5	8.3	14.6	41.6	41.6
Foreign currencies	1.4	5.7	9.8	28.6	31.8
Gold	3.1	2.5	4.7	13.0	9.8
BDL debt to domestic banks	...	3.5	18.0	37.0	69.7
o/w in foreign currencies	...	3.1	11.9	18.8	34.0

Sources: Compiled from Ministry of Finance (www.finance.gov.lb) and Banque du Liban (BDL) (www.bdl.gov.lb) publications

Notes: 2015 Debt and Memo data are for end November. BDL debt to domestic banks is net of LL legal reserve requirements. BDL's share in government debt at end November 2015, and its debt to domestic banks in foreign currencies are estimates.

However, the true debt situation of official Lebanon is reflected in the debt of the public sector, which is defined here as the consolidated accounts of the government and the central bank BDL, excluding other public enterprises, which have relatively negligible debt. In other words, to obtain public sector debt, we first consolidate the debts of government and BDL (by simply subtracting from government debt its indebtedness to BDL) and then we add the debt of BDL to others⁴. The reason for focusing on BDL is that its debt to domestic banks has dramatically increased since end 2000, as Table 2 indicates, reaching more than \$71 billion by end 2015. BDL has recently become very active in the debt market by borrowing, mainly from domestic banks, in order to bolster its foreign reserves in actual and prospective defense of the fixed exchange rate of the Lira. It has in the process incurred significant losses (that should in principle be added to the announced fiscal deficit) as a result of borrowing from banks at significantly higher rates than the yield on its foreign assets.

(4) For methodological underpinnings of this calculation, see Blejer and Cheasty (1992), IMF (2001), and Mackenzie and Stella (1996).

We estimate consolidated public sector debt to have increased from \$3 billion at end 1992 to more than \$110 billion at end 2015. In any event, whether in absolute or GDP terms, consolidated public sector debt has been continuously and significantly rising, and its foreign-currency part also has notably risen to about 55% of the total debt. Moreover, more than 80% of the debt currently is to domestic banks, thus undermining their financial situation and that of the whole economy (more on that in section IV below).

The main problem with this debt situation, however, does not lie in the level of the debt but in its origin. By themselves, deficits and debts need not be economically harmful. On the contrary, they may be necessary, especially following a war period. The criterion that makes debt appropriate is the extent to which its proceeds are usefully applied to raise the productivity of the economy, which would raise living standards and also allow the reimbursement of the debt in the future. But this is not what happened, as Table 3 shows.

Table 3: Government cumulative expenditures, 1993-2014 (in \$ billions and in %)

Category	Expenditures	%
Interest on debt	60.5	33.6%
Wages & Salaries	56.0	31.1%
Capital expenditures	16.4	9.1%
Transfers to EDL	16.7	9.3%
Other	30.6	17.0%
Total	180.2	100.0%

1. Sources: Compiled from Ministry of Finance (www.finance.gov.lb) and Banque du Liban (www.bdl.gov.lb) publications

2. Notes: Figures are for consolidated general government, including Treasury operations and annex budgets, whose allocation among expenditure categories is estimated. Wages and salaries include pensions and end-of-service payments. "Other" includes various transfers to public and private institutions, and purchases of merchandise and services.

In fact, total investment expenditure during 1993-2014 was merely 9% of total spending, not all of it spent on reconstruction projects. It is difficult to reconcile these figures with the repeated claim that most of the government debt has been due to spending on reconstruction.

The failure of fiscal policy and the continuously rising public sector debt have been accompanied by an increasing fiscal burden on the Lebanese people. The fiscal burden, as illustrated by total government revenue, has almost doubled in terms of GDP, rising from 12% in 1992 to 22% of GDP in 2014, a substantial increase at a time when economic activity has been only moderately growing.

If anything, these developments indicate that the adverse debt dynamics have taken hold of the fiscal situation and the economy, and that only radical, i.e. substantial and sustained, effective reforms can break the vicious circle.

The monetary environment: Against growth. Since 1993, the Lebanese economy has been marked by an appreciating and then fixed-exchange-rate policy, and by relatively high interest rates, which both turned out to be very inimical to economic activity and growth.

A successful fixed-exchange-rate policy usually holds a requirement and an expectation. The requirement is a restrained fiscal policy, and the expectation is that real interest rates would fall to relatively low levels so that they become in line, i.e. not exceed for long, the growth rate of the economy, namely real GDP growth. Contrary to expectations, government spending expanded while output growth was modest, and interest rates, in nominal or real terms, have remained at high levels. This situation has exacerbated the debt burden and dynamics, and further hampered economic activity and growth.

For instance, in the last five years 2011-2015, the bank lending rate to the private sector averaged a real interest rate of more than 5% when the average real growth rate was less than 2%, noting that real interest rates should usually be close to growth rate levels, particularly when considered over a relatively long period.

In addition, as Table 3 above indicates, government has paid during 1993-2014 more than \$60 billion as interest cost on debt. Importantly, this sum represents about the third of all government spending during the period, and a little less than four times all government spending on capital expenditure. It also represents more than 11% of GDP, a remarkable number when for most countries interest cost of government debt amounts to about 2% of GDP.

The balance of payments: Debt in, Capital out, government economic policy and indebtedness have rendered the balance of payments weak in performance and

fragile in structure. Though merchandise exports currently amount at best to 10% of GDP, this should be compared to an average of 18% during the period prior to 1975. In parallel, and in contrast to the pre-war period, most factor and non-factor services, except for travel and transportation, now have a negative balance. And this is taking place in a “services” economy.

On the other hand, owing to a continuously strong positive capital account, the overall balance of payments has often remained in surplus. In fact, practically since independence until 2010, most years witnessed a balance of payment surplus, and there never were deficits for more than two consecutive years. Unfortunately, this pattern has recently changed in a major way since the balance of payments has been in continuous deficit during the last five years since 2011. This means that, on balance and in each year during the 2011-2015 period, more funds have been leaving Lebanon than entering it.

What is wrong with the Lebanese economy?

Lebanon’s weak performance on practically all economic fronts since the end of the war, and despite many favorable conditions, is indicative of structural problems in the economy. We need to identify these structural problems since a long-term solution, to be effective, will have to address the fundamental rather than cyclical or temporary problems.

Above all, it is important to realize that Lebanon’s structural problems are endemic since they have existed since independence and are not merely war sequels. There is in fact a widespread view, even belief, particularly among officials and that was noted in “Horizon 2000 for Reconstruction and Development”⁵, that by re-establishing the conditions prevailing in Lebanon prior to 1975 (essentially peace and some reconstruction, especially in Beirut) then Lebanon would regain its golden prosperity, and grow to its old vigor.

However, this belief regarding Lebanon’s prosperity prior to 1975 is again more of an illusion than a fact. The illusion was supported, and reality masked, by Lebanon’s strong financial performance and by macroeconomic stability, which manifested itself by the absence of public sector debt, a continuous surplus in the

(5) See Republic of Lebanon (1994).

balance of payments, and a strong currency. Yet, despite these unusually favorable economic conditions during the post-independence period until 1975, economic growth in Lebanon was equal to the average rate achieved in the developing world by and large, and even less than in most Middle Eastern countries. Moreover, the Lebanese economy has throughout its modern history failed to generate enough job opportunities to many skilled and less skilled workers who had to seek jobs overseas, particularly in the Arab Gulf countries.

Economic growth and development, which comes with a sustained increase in productivity, is usually accompanied by a significant change in the structure of output or GDP. But it is a remarkable characteristic of the Lebanese economy that its structure has little changed in the last half century, as Table 4 shows, which clearly points to the absence of structural change in the economy during this long period. Other than the standard decline in the share of agriculture, the only other noticeable change has been the significant increase since the early 1990s in the share of public administration, whose effective contribution to output and productivity is clearly doubtful.

Table 4: The structure of output by economic activity, 1950-2013 (in % of GDP)

	1950	1973	1997	2013
Agriculture	20	9	7	5
Industry	14	16	13	12
Services	59	68	69	72
Public administration	7	7	11	11
Total	100	100	100	100

Sources: Gaspard, 2004; Republic of Lebanon, 2005, and Central Administration of Statistics www.cas.gov.lb

Notes: Industry consists of mining, manufacturing, energy and water. Construction is included in services.

The Lebanese economy's fundamental structural problem is its weak productivity. Today, twenty five years after the end of the war in 1990, it produces an output per capita (at constant prices) that is only slightly higher than what it was four decades earlier in 1974. Notwithstanding errors of estimation and quality improvement in output, the evidence is still striking with regards to the weak productivity of the Lebanese economy and its workforce, whether at present or in the past.

Raising the productivity of the Lebanese worker will be crucial for sustained economic growth and development, and would address three essential needs for the economic and political viability of Lebanon: (i) it would raise incomes and the standard of living while reducing the need to secure income support through “confessional” and political patronage; (ii) it would make feasible the financing of the basic components of the social contract, including education, health and retirement benefits; and (iii) it would alleviate the burden of the public sector debt and re-engage banks into financing the private rather than the public sector.

We identify three major causes, not totally independent one from the other, that explain Lebanon’s predicament of weak productivity:

- Low skill and education levels
- Underdeveloped public institutions
- Underdeveloped regions

1- Low skill and education levels: Table 5 below shows the education level of Lebanese employed workers according to official national surveys conducted in 1970, 1997 and 2007.

Table 5: Employment structure by education and work status
(In % of total employment)

Education level	1970	1997	2007
Primary	80.0	45.2	33.6
Intermediate	9.4	21.1	23.3
Secondary	6.3	17.4	18.6
University	4.3	16.2	24.4
	100.0	100.0	100.0
Work status in private sector			
Waged in private sector	53	52	46
o/w Regular-waged	30	33	38

Sources: Compiled from Republic of Lebanon, 2008, 1998b, 1972

Work skills, and hence productivity, are largely determined by the level of education. By 1970, only about 11% of the workforce in Lebanon had at least a secondary education. By 2007, that ratio jumped to 43%. In fact, the quality of overall education in Lebanon has markedly declined during the war years 1975-1990 and afterwards, particularly in government schools. The overall deterioration in the quality of education at schools and universities is manifest and documented. The fact that worker productivity today, illustrated by GDP at constant prices divided by the number of the employed, is still less than it was just prior to 1975 confirms this assessment.

The low skill and productivity levels are not only the product of an inadequate education level but also, in a primary way, the result of an underdeveloped market economy or its private institutions. The number of waged workers, as opposed to independent or self-employed workers, in the private sector has remained at practically the same level of half of total employment, as Table 5 indicates. Moreover, only about a third of all the employed in the Lebanese economy are regularly waged, the other waged workers being occasional or seasonally employed labor. This type of labor employment constitutes a structural weakness of the economy and is detrimental to the accumulation of experience and learning in business enterprises, and hence is unfavorable to labor productivity.

2- Underdeveloped public institutions: The institutions of public administration in Lebanon are underdeveloped and incompatible with a modern productive economy. The notion of public service and support to private institutions, in facilitating their activities and development, is not in practice in Lebanon. For most citizens and enterprises, dealing with the public administration, including the judiciary, is taxing, costly and of an uncertain outcome. The problem is that Lebanon's public institutions not only do not support economic growth (a legacy of a long tradition of *laissez-faire*) but have also become obstacles to growth and development. The absence of structural change that is reflected by the stability of the GDP structure by economic activity, as shown in Table 4 above, points to the institutional rigidity of the Lebanese system. And institutional rigidity is not compatible with dynamic growth and development.

Moreover, the public administration in Lebanon is unduly costly. Its size has significantly increased, as Table 4 indicates, bearing in mind that the value added by the public administration is mostly composed of wages and salaries. More

important, employment in the public sector has become governed, and much more so than in the past, by strictly confessional and political considerations. In addition, average wages are often higher than corresponding wages in many sectors of the economy. It is then no wonder to witness the attraction of work in the public sector, where the pay is higher on average than in the private sector, and work is less demanding or responsible.

Underdeveloped public institutions, the judiciary in particular, may inhibit investment and growth in a direct and tangible manner. Private investment seeks, above all, to reduce uncertainty, and hence the risk associated with any contemplated investment project. The fact that the judicial process is lengthy, and that the rule of law may have little bearing on its outcome, substantially increase the uncertainty, risk and cost of investment in Lebanon. The result is that investors expect significantly higher profits to compensate for the higher risks and costs, the outcome being less investment and slower economic growth than in a situation with a more efficient and transparent public administration.

3- Underdeveloped regions: Since independence, economic development in Lebanon has been characterized by a much skewed distribution of income and wealth, and by large economic disparities between the center (mostly Greater Beirut) and the periphery (the rest of the country). More seriously, however, the regional disparities have not only been economic in nature but also social and cultural. Already in the early 1960s, in the first national and comprehensive socio-economic survey ever undertaken in Lebanon by IRFED for the Lebanese authorities, it was noted that while income disparities were marked between urban and rural areas, the disparities were significantly more marked in schooling, and in the availability of cultural and general social facilities. To a large extent, that situation still prevails today.

The small size of Lebanon, which constitutes an advantage in terms of making easy the economic and social communication among its separate parts, presents nonetheless a picture of distant rather than close communities and unified markets. The size advantage has become an impediment. Today, much like in the past, most economic, political and cultural activities continue to be concentrated in Beirut and its surrounding areas of Mount Lebanon. For instance, Beirut and Mount Lebanon, which include about half the total population of Lebanon, witness a concentration of about 82% of all commercial bank deposits and benefit from more than 88% of total bank credit to this day.

An economic action plan for lebanon

It is now time to present the details of an economic Action Plan that would address Lebanon's fundamental problems as outlined above.

Action Plan objectives: The objectives of the Action Plan are essentially two. First, Lebanon's economy needs to be put on a path of higher growth, which would allow it to grow over a long period (at least over two to three decades) at a sustained higher rate than it has been able to do in the past. To illustrate, it is our belief that if the actions detailed below are implemented, GDP growth would double its average rate since 1993 to a range of at least 7 to 8% a year over a period of ten to fifteen years. Assuming that the population would be growing at an annual rate of 2% at most, per capita GDP (or, roughly, the standard of living) then would also double in 12 to 14 years.

Concerning these growth objectives, it is important to note that a significantly higher growth rate than in the past is absolutely necessary for a tangible improvement in the standard of living, and is crucial as well in order for the economy to afford the basic elements of the social contract, including in particular education, health, and pension benefits.

The second objective of the Action Plan is developmental, which concerns a better distribution of income and wealth. This would, by itself, promote economic growth and provide as well a basis for social and political stability. In other words, though the modalities and main objectives of the Action Plan are mostly economic, they are at the same time, and in a fundamental manner, national and political in their orientation. The implementation of the Action Plan should create solid foundations for political consensus and stability.

To accomplish these objectives, the Action Plan seeks to remedy the structural weaknesses of the Lebanese economy; it also proposes economic policies that would support economic recovery in the short term.

Actions for long-term growth and development: The Action Plan should above all focus on measures that raise the productivity of the Lebanese economy in a sustained manner. In addition to the necessary reform of the public sector, we identify two central actions that would accomplish this objective over the long-term. These are:

- Provide a good-quality and low-cost public education to all, at least until the end of the secondary level.

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- Establish a modern transport and communications network across Lebanon.
 - Reform the public sector.

These actions directly address two of the fundamental reasons we identified above as explaining the state of low productivity in Lebanon, namely a low skill and education level, and the underdevelopment of Lebanese regions outside the center. Addressing the situation of underdeveloped public institutions is taken up later.

It should be noted at the outset that if the objective of these actions is to create a sustained long-term effect, they will also have a tangible short-term impact, at least through the considerable positive expectations they will generate regarding the economic and political future of Lebanon, and through the related capital inflows and investments they will generate. The short-term impact of these actions should not be under-estimated.

a) A good-quality public education to all: Providing a good-quality and low-cost public education to all, at least until the secondary level, would start the process of enhancing labor skills and economic productivity in Lebanon. The emphasis here is on good quality, particularly in languages, math and sciences. An important message that this action would also give is that all young Lebanese would be provided an equal opportunity for a good-quality minimal education at little cost. As such, this is not only an economic action but also an essential social and political measure that bears a message of national solidarity and equality of opportunity.

All currently advanced economies or newly industrializing countries, as in Southeast Asia, have had a good system of education play a central role in their rapid pace of economic development. The role of a good education, as human capital, in promoting economic development is well known in the economic literature. A good basic education, at least until the secondary level, is widely recognized as a critical factor in economic and human development. Studies have shown that its annual rate of return, whether private or social, usually is above 10%, which is a very good return on investment! Moreover, a good education bears important derivative economies, such as a better raising of children, better informed citizens, and better voting and system of political accountability.

Education reform should focus above all on the training of teachers in public schools and on correcting the serious misallocation of their numbers among schools

and regions. Teachers in public schools, which include about half the students in Lebanon, often are under-trained or do not possess adequate qualifications in the basic subjects of languages, math and sciences. Fortunately, school buildings are not in shortage. Moreover, experts agree that providing professional training and upgrading the qualifications of teachers over a number of years is not a costly proposition.

All in all, and notwithstanding estimation errors concerning the cost of educational reform, the required investment does not appear to be large while its economic and social returns would be disproportionately high. The point here is that the financial costs of the reform are relatively minor, and that the main issue is that the Lebanese authorities should attach a primary importance to this fundamental reform, and quickly start implementing it to achieve a substantial and definitive raising of education standards in public schools. Private schools with deficient standards and performance would then naturally have to follow suit in terms of raising their own standards.

b) Establish a modern transport and communications network across Lebanon: The other critical action consists of the building of a modern road and telecommunications (phone and internet) network for rural Lebanon that would significantly ease travel and communication between rural and urban areas. The project would start with a fast modern railroad track along the coast of Lebanon. In parallel or shortly afterwards, the road would be linked to major road axes to be built or upgraded in rural Lebanon. In short, the aim is to create road and electronic highways, fast and inexpensive, which would lay the physical foundation for fast growth.

The main purpose of this major action is not simply the raising of economic productivity through the improvement of road and communications traffic but a much more fundamental one of unifying (and hence expanding) the national market, and of stimulating investment in housing and related activities. People and businesses would then be willing to locate outside Beirut and the center of Lebanon, which would stimulate social and political interaction among Lebanese, which by itself is a very important national objective.

It is difficult to overestimate the substantial positive impact that such investments in infrastructure would have on economic activity for years to come. The investments

would take advantage of the small size of the country and bring most of the population and areas of Lebanon to mainstream economic activity by facilitating transportation and communication in general. They would also provide incentives for people and businesses to reside outside Greater Beirut, thereby significantly reducing its high population density, drive up real estate prices in rural regions from their currently very low levels, and stimulate investments in these regions overall. The realization of such a project would not only alter in a fundamental way the economic landscape of Lebanon but also satisfy a greater political good by affording a better national integration among disparate rural communities.

If the full benefits of a significant improvement in human infrastructure or education typically take several years to be realized, the economic impact of an overhaul in physical infrastructure can be extensive and almost immediate. The two actions, briefly described above with their long-term benefits, would substantially raise positive expectations about the future of the Lebanese economy, increase private investment, stimulate the inflow of foreign capital, and reduce the cost of the financing of these projects.

The costs of the two actions will not be prohibitive, especially for education. The projects associated with these actions can be financed from domestic and foreign borrowing, foreign grants, and from the Lebanese State's budget (in a relatively minor way). The contribution of the private sector, including banks in particular, will be crucial: banks need to understand that by actively participating in the financing of these projects, they would be directly contributing to the growth that they will be benefiting from for years to come. Foreign assistance and grants would then be more forthcoming than usual to the extent that foreign donors are presented with a coherent economic development plan that the Lebanese authorities undertake to implement.

c) Reform the public sector: The reform of the public sector in Lebanon has always been a very sensitive issue in view of its direct link to the distribution of political and administrative power in the country. However, in the context of this economic Action Plan, two basic reforms are required rather than a full-fledged reform of all public administration, which may be an illusory objective, at least in the near future.

The two basic reforms deal with the judiciary and the size of the public sector. It is understood that the main problem with the judiciary is not in the nature of the

laws but rather in their non-application. Specifically, many cases take years to be settled in court, and many more are perceived as not being adjudicated on the basis of their legal merit. This state of affairs introduces much uncertainty to the process of investment and significant artificial economic costs, with adverse implications on private investment and economic activity in general. An efficient judicial process, where judges are well trained and reasonably paid, and where cases are adjudicated within a predictable and short period, then becomes essential for an efficient and productive economy.

As Table 4 above shows, the size of the public sector, in terms of wages and salaries and in relation to GDP, has significantly increased compared to the pre-1975 period. The wage bill in the budget currently amounts to about \$5 billion, or about 10% of GDP, and it is clear that the corresponding output that is in principle produced is much less than what is indicated by this expenditure amount. Containing current expenditure, especially interest cost (see below on this) and wages and salaries, which amount to more than two thirds of the total budget, becomes essential for fiscal reform. Regarding wages and salaries, the number of contractual staff will have to be drastically reduced over time while reducing the overall number of public employees through natural attrition.

These two reform measures are feasible. In fact, they were already prevailing prior to 1975, when the judiciary was a reasonably efficient body, public sector staff limited in number, and the budget was rarely in deficit. So these measures are not unrealistic.

3. Actions for short-term recovery: The actions detailed above, though long-term in their full impact on the economy, need to be initiated as soon as possible and would thereby create in the short-term significant positive expectations about the future of the economy. However, these immediate positive effects are not sufficient and need to be supported by short-term actions that address weaknesses in the Lebanese economy that, if left without remedy, may undermine or at least weaken economic recovery and the impact of the long-term measures.

We focus on two short-term measures that would significantly support economic recovery out of the current recession. They are:

- The refinancing of public sector debt at lower interest rates and longer terms.
- The rescheduling of doubtful private sector debts to banks.

The two measures are related and they both deal with commercial banks, specifically with the asset side of their balance sheet.

a) Refinance public sector debt at lower interest rates and longer terms: At 140% of GDP (the figure is about 217% for the consolidated public sector), government debt is high by any standard (see Table 2 above). However, the major problem associated with public sector debt is that it is mostly held by domestic commercial banks and that these holdings represent more than half the total balance sheet of banks. Consider, in this regard, Table 6 below that shows the allocation of banks' assets between the public and the private sectors.

Table 6: The structure of commercial banks' assets

(At end period; in % of consolidated balance sheet, unless otherwise indicated)

	1974	1992	2005	2015
Claims on Public Sector	13	25	56	59
Claims on Government	-	21	26	21
Claims on BDL	13	4	30	38
Claims on Private Sector	47	33	21	26
Foreign Assets	32	40	19	12
Other	8	2	4	3
Total Balance Sheet	100	100	100	100
in \$ billions	5.4	8.0	68.5	183.2
in % of GDP	151	140	319	362

Source: Compiled from Banque du Liban (www.bdl.gov.lb)

Note: 2015 data are for end November.

According to Table 6, by end 2015 about 60% of bank assets are claims on the public sector whereas only 26% are claims on the private sector, down from around half the assets prior to 1975. This indicates that the Lebanese economy has been going through a process of bank disintermediation where the private sector has become a minor client of banks and where the banks' condition and profitability have become strongly linked to the financial condition of the public sector. Such a situation clearly presents serious risks to banks and to the economy at large.

Public sector debt in LL, which basically consists of LL-TBs issued by the Ministry of Finance and LL-CDs issued by Banque du Liban, should be refinanced by banks at lower interest rates, with a spread or margin over the 12-month LIBOR within the range 1%-2%, against an actual average spread of more than 5%. Of course, reducing interest rates on public sector debt should go hand in hand with public sector reform and the gradual reduction of government budget deficits over a number of years. The impact of this refinancing will be significant on the fiscal situation, and on banks and the economy overall.

Banks will not incur losses from this refinancing, only lower spreads that should have prevailed in the first place since the early 1990s. Lower interest rates on LL-TBs and LL-CDs issued by BDL will make lending to the private sector more attractive to banks, and to the private sector as well. Importantly, the announcement of the long-term measures cited above and the new “developmental” outlook of the authorities will most likely induce large capital inflows, which will support the exchange rate and make lower interest rates a viable new monetary anchor.

Clearly, the refinancing of public sector debt at lower interest rates, and the resulting lower interest bill on the budget, will be feasible in direct relation to the credibility of the long-term measures and their early implementation. Banks will subsequently start assuming to a greater degree their traditional intermediary role by lending more to the private sector, thereby participating, as they should, in the reinvigoration of economic growth.

b) Reschedule doubtful private sector debts to banks: With a continuously weak economic growth since 2011 and the persistent political uncertainty in Lebanon and the region, we expect more bank loans to the private sector to become non-performing or doubtful, and the overwhelming number of the borrowers in this category is small and medium enterprises. These enterprises, and in fact many enterprises in the private sector, suffer from a shortage in working capital funds, let alone funds for new investment.

Falling interest rates, following the implementation of the measures described above, will certainly stimulate new borrowing and investment, especially in the new positive environment that would result from the announcement and initiation of reforms. Rescheduling doubtful debts with the support of Banque du Liban will reinforce the positive environment and sustain the economic recovery that is needed in the short term before the impact of the long-term measures is fully felt.

Concluding remarks

Economic action plans for Lebanon have usually underlined the high level of government (rather than public sector) debt as the main economic problem facing the country today. They have also focused on privatization and general administrative reform as key solutions to Lebanon's predicament. For all, the hope has always been that these reforms will succeed in recapturing the presumed strong economic performance that was believed to have occurred before 1975.

But Lebanon only enjoyed a strong financial, and not economic or developmental, performance prior to 1975. And its performance on practically all fronts has been weak, or modest at best, since after the end of the war in 1990. The inexorably rising public sector debt and modest growth record to date are nothing but symptoms of deeper structural problems that have endured since independence but that have intensified and become more apparent after the war, exacerbated by political discord and widespread corruption. These problems are low productivity and underdeveloped institutions, associated with extensive underdevelopment outside the center of the country or of Beirut in particular.

The cause of the problem usually points to its solution. Raising the productivity of labor through a long-term program of raising education standards in all schools in Lebanon, particularly in public or government schools, is the *sine qua non* condition for sustained economic growth and higher standards of living. Markets alone do not ensure this outcome; they need the assistance of government. Moreover, linking together through a modern road and communications network the geographically close but economically and socially distant regions in small Lebanon will provide not only a massive economic boost but also underline the rebirth of a unified and modern Lebanon. Again, this is a task for both government and the private sector.

However, Lebanese governments that for the last twenty five years, have been incapable of simply ensuring regular electricity supply to citizens throughout the country, though at a cost that is among the highest in the world, are hardly likely to be capable of implementing a structural reform program as described above, let alone to have a genuine developmental outlook that is necessary for sustained reforms. The private sector, also, should think beyond the short-term by contributing to the financing of the long-term projects, in which it has itself a long-term interest since these projects will put the economy on a higher level of economic growth and development.

These are times when drastic change is possible. The Action Plan has to be initiated by a genuinely reform-minded government. If the actions described above are implemented, then perhaps the ensuing economic change will drive the political reforms that are necessary for the establishment of a modern and productive society where most citizens, rather than the few, can contribute to its development and share in its benefits.

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The Management of Change in the Lebanese Society*

Obstacles, Strategies, and Institutions First

Change requires a project, a vision, and a creative imagination. If it's merely driven by ideology, a mobilization of its forces would temporarily happen, only to be followed by despair, bitterness, and frustration. An alternative ideology would ensue, exploiting the symbolism of change and people anger, and feed political rivalry into desperate people.

Taking liberty in a political discourse about change without looking into its applications, such as the continuous discourse about the "abolition of political sectarianism," is not just restricted to the politicians, but it engages intellectuals as well. Does Lebanon really need programs of a general, vague, and slogan-type nature bearing broad titles and recommendations, in other words spectacular speeches of self-acquittal? Does Lebanon need a ministerial statement that speaks about everything, yet with no specifics, and lacks operational details relative to citizens' livelihood issues that define the capabilities needed to implement the proposed changes? Change is inherently a strategy that includes change agents and practical plans. By its very nature, it confronts obstacles, limitations, conditions, and resistance, or even meets support, in the context of the physical and human capacities available.

In the case of a pluralistic parliamentary system which groups eighteen sects and is based on a policy of negotiated settlements, and which looks indeed as the "Jeweller's Scales" which former Speaker Hussein Husseini likened it to, change in Lebanon collides in its strategic significance with a series of problematics.

Obstacles

1. The Problematical Feature of Political Power: Is the Lebanese State a deciding or an arrangement-making power? The way ministerial consultations to form a cabinet stretch, plagued by disablement and conditions from here and there, under the pretext of forming a national unity government, is a glaring example of a decomposing system because of the orderly and gradual decline of the two basic principles which are the rule of law, and voting. This is the central problematic area for the State's power and the legitimacy of its authority in a political system where a simple majority is not enough to make a decision, and where, contrary to Article 65 of the Constitution, the other camp

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literally exercises a “tyranny of the minority” which allows it to freeze the decision-making process. In many cases, the system is penetrated by external forces, whether in the form of a hostile or a “brotherly” occupation. It also gets subjected to external pressures that not only play on the internal differences and manipulate them, but also work on dressing them up with often-artificial sectarian characteristics.

Through the amendment to Article 49 of the Constitution dated 21/09/1990, the National Reconciliation Document of 5.11.1989 (Taif Accord) created a constitutional means which set the President of the Republic as the protector of the nation’s rule of law, while other balancing acts that were proposed made the President of the Republic an Honorary President rather.

The ‘Troika of Presidencies’ is an aberration of the constitutional rules. The delay in forming a government constitutes another departure from these rules, as a coalition government grouping all confessions/sects (Article 95 / T) does not necessarily include all political forces. In case the coalition included all political forces without exception, this undermines the principle of cabinet solidarity and the principle of executive or rather “procedural” power (Chapter IV), which is separate from the legislature. The government is then turned into a microcosm of the Chamber of Deputies, and the role of Parliamentary opposition and monitoring gets annulled.

The problem of power in the National Charter-based Lebanese system was often simplified. In fact, it is characterized by a multiplicity of decision centers (polyarchic). Also, an escape from the system’s requirements would be done through discussing “confessionalism/sectarianism”, or through exploiting Lebanese pluralism by political poles at home and abroad, in the desolate forest where politicians wrestle. In the first years of the Lebanese Civil War, the French envoy Georges Gorse labelled some of them “the demons of politics.”

The power in Lebanon is too vulnerable or lacking compass, because of the elites’ repressive position, which produces an elitist dictatorship (Elitocracy) in a system so rigid for others to participate in. Accordingly, authority finds itself in a situation such as former PM Rashid Karami described in 1976: “Between Camille Chamoun and Kamal Jumblatt, we arrived to this state of affairs.”

President Fouad Chehab, who was motivated to change from being in stable conditions relative to the presidents who followed him, collided with the problem of

state power. He later put forth the dilemma in clear and painful terms as being entwined with prospects considered dangerous and ineffective, and that in his statement of 04.08.1970, which was drafted by former Minister Fouad Boutros. He said, "I am convinced that Lebanon is not ready to adopt basic remedies which I can only adopt in the framework of respect for human rights and fundamental freedoms, which I'm always keen on."

Solving the chronic problem of power in a multi-balancing act, and in a hostile or undemocratic regional ocean, has historically been by the army's "Second Bureau" during President Chehab's presidential term, albeit contrary to his will, or by seeking to reconcile the impossible between the State and its nemesis as was the case with the Cairo Agreement of 1969, or by resorting to security by mutual consent in the multinational 1975-1990 wars, or by the domination of Lebanese-Syrian intelligence in the aftermath of the National Reconciliation Document ... and always with a Arab-style strong perception that the military may be the "solution" by the President of the Republic coming from the army, which was no doubt influenced by the exceptional symbolism of President Fouad Chehab.

2. Loose and Moody Practices: Change cannot be committed to, in any field, without streamlining the practices of a pluralistic parliamentary system. This system is not inherently loose and out of control; but the prevailing basis of quotas or positive discrimination is undisciplined and unbridled in favour of the political lords in their patronage and clientelism. Further, the requirements of reconciliation can lead to stepping out of the line of law (lawlessness) and repealing the principle of voting in the Council of Ministers even in the administrative context of appointing functionaries.

Every political system contains germs of corruption if it lacked boundaries. Transcending limits in the Lebanese system enjoys justification and a blessing mentality even which is summarized this way: This is a sectarian system! To justify the practice of favoritism or cronyism, a political pole, whose fundamental duty is the defense of the law, said, "As long as it's a sectarian system, we want our share!" Constitutional scholars and references of authority did not put rules to control the arbitrary exercise of quota in the representation of confessions. This moody practice is the most important barrier to efficiency and public service.

3. Dictatorship of the Elite and Patronage: The dictatorship of some political poles and their continuation in solving all problems through influence and practices of

patronage and dependency, and through the aggravation of sectarian polarization (pillarization) constitute the main obstacles to the adoption of public policies in the public interest. What's required is the adoption of renewed dynamics to modernize traditional leaders who essentially embody a national heritage in defending national independence, sovereignty, and are aware of the significance of Lebanon, unlike the new leaders who claim change (lumpen elite). This modernization is necessary to strengthen the principle of separation between the legislative and executive powers, and to guide the administration towards efficiency, productivity and public service.

What feeds the dictatorship of the elite, more than the political culture, is the stirring of the disparities between communities and raising their respective concerns about national security, sovereignty, the independence of Lebanon, and the nature of its relations with its environment on the basis of openness to all Arab countries and non-exclusivity with Syria or others. Feeding fear and exercising manipulation compel people to follow their sectarian leaders at the top for self-protection. The preamble of the amended Lebanese constitution stipulates: "Lebanon is a final homeland for all its citizens," thanks to the common suffering in 1975-1990 and the Beirut Spring of March 14, 2005, and the national solidarity during the war of July 2006. No sustainable in-depth change can be induced without making Lebanon cease to be an arena or sidewalk (or 'trottoir' – 'pavement' in the French sense of the word) "for the wars of others."

The separation between being a Member of Parliament (MP) and a Government Minister, as proposed by Nimatallah Abi Nasr's draft law, ensures a new dynamic in relations between the legislative and executive estates, and in the management of public policies. Ministers may be selected from the Parliament for reasons of balance and harmony, but when they are appointed, they should resign their Parliamentary seat.

4. Sustainability: Each change that is not characterized by sustainability constitutes a renewal of circumstantial and temporary nature. Sustainable growth in Lebanon was destabilized, not only because of the nature of the constitutional system, but due to the regional conditions: The Cairo Agreement of 1969 and its consequences, the 1975-1976 civil war, the Camp David Agreement, which was followed by Israel's invasion, and the domination of intelligence services, the frequent Israeli aggressions, and the war in July 2006 ... But these events which have a direct impact on security, safety, stability, and the economy, are not inevitably liable to extend to all areas. The reasons for the negative repercussions on the various institutions belonging stem from to State leaders whose

continuity is ensured through a six-year term for the President of the Republic and a four-year term for the Speaker of the Chamber. The Economic and Social Council (ESC), which by established by virtue of a constitutional amendment in 1990, aims to be an effective change agent, and the engine of continued counsel public economic and social policies.

Strategies

1- The President of the Republic as a Guardian of the Rule of Law : Constitutionalism did not realize some of the constitutional amendments that took place on the basis of the National Accord Document dated 05/11/1989 and the constitutional amendments dated 21/09/1990. The latter added the following section to Article 49 of the Constitution:

“The President is the head of state, and the symbol of the unity of the nation. He ensures respect for the constitution, and the safeguarding of Lebanon’s independence, its unity, and its territorial integrity, in conformity with the terms of the Constitution.”

This addendum is not a form of rhetoric. On the contrary, it provides a prerogative, or rather a role for the President of the Republic which is above other powers and their convergences and divergences. It’s a role of moral leadership of the country (moral judiciary) and guardianship of the principle of legality. The President of the Republic is not a mere mediator, but rather a protector of the Constitution in every case or draft law or decree, as well as a constitutional and judiciary “ombudsman” with precedence to the institutional Constitutional Council. He is an arbitrator in the legal sense who draws on arbitration systems, and therefore relies on legal rules, not on bargaining techniques. The moral leadership of the State and the safeguarding of the legal standards constitute a substantial work site that transcends prerogatives and the Maronite community even. By itself, it is an element of rallying and unity because it defends the rule of law as a means to achieve equality for all citizens, and to protect them regardless of their affiliations.

What affirms this new model of ensuring power balances, while avoiding turning the President into an honorary president or “The Baabda Man,” is the emphasis on the role of the President of the Republic as being the protector of the Constitution as stipulated in its new provisions, and as stated in the preparatory works and deliberations that preceded the Taif Accord. The focus on the new or renewed role of the President of the Republic was confirmed beyond the logic of prerogatives through the following

complementary constitutional provisions:

1. Revision of the Constitutional Council: The President of the Republic has the right to revise the constitutional council in matters pertaining to monitoring the constitutionality of laws (new Article 19).

2. Constitutional Oath: It's confined to the President of the Republic only (Article 50), whereas the reform proposals presented during the Taif deliberations, and before, raised the prospect for the Prime Minister to take the Constitutional Oath as well.

3. To send notices: The President, whenever necessary, has the right to address the Parliament by letters (the new Article 53-10).

4. Initiative in the Council of Ministers: The President of the Republic is entitled to present any urgent matter before the Council of Ministers from outside the agenda (new Article 53-11).

5. Reconsideration of laws and decrees: The President of the Republic has the right to ask the cabinet to reconsider any decision taken by the Council of Ministers within fifteen days from the date of submittal to the Presidency (Article 56). And "The President of the Republic, after briefing the Council of Ministers, has the right to request reconsideration of the law once within the specified period for issuing it; and it's not allowed to a refuse his request. When the President exercises this right, he becomes absolved from signing it into law until the cabinet debates it again and approves it with an absolute majority of the members who legally compose the cabinet" (new Article 57).

Thanks to these new texts and the way they complement each other and provide a practical way for the exercise of the function of "safeguarding" the Constitution, it becomes clear that the presidency is not a position among politicians, and is not a part of an influence system, and cannot be approached from the perspective of executive powers. It is rather a leadership role that goes above and beyond positions and powers in order to consolidate the authority of higher standards, and to exercise a constitutional and legal role that organizes this authority in public life.

Some "decisions" of the President of the Republic in connection with the aforementioned role of "ensuring respect for the Constitution" are not subject to the requirement of the signature of the Prime Minister and the Minister or Ministers concerned (new Article 54) because they don't have the status of normative decrees. If some would deem this signature necessary, it would be in this case just to acknowledge being in the know, and not for approval.

Many say, often from a culture of influence rather than democracy and rule of law, that the role of the President of the Republic amounts to “nothing!” This is due to ignorance of the extent and magnitude of this role and its responsibilities, as well as its professional ethics and the democratic culture that it requires¹. “Safeguarding” the constitution requires the daily efforts of a group of executives (cadres) to control the legal standards of projects and public policies, as well as monitor the compatibility of draft laws and decrees with the constitutional principles, and the course of the State’s law and order.

2- The rationalization of practices: The constitutional analysis is sterile because of the conceptual models and frameworks which prevail since the 1920s. The traditional approach is no longer innocent, for it justifies the continued sectarianism by politicians who do not realize the democratic obligations in a pluralistic parliamentary system. This indicates the need to adopt other approaches that are more deductive in nature.

The appointment of civil servants is subject to rules that are of a legal, administrative, and hierarchical character. Every time the principles of the rule of law are violated, while complying with the law only in form, it is considered a circumvention of the law. The principle of positive discrimination is not at the root of corruption affirmative; but rather its deviant practice with the blessing of constitutionalists and intellectuals. Countering sectarianism, whether in good faith, or by virtue of political competition and manipulation of the law, transformed into a means for legitimizing the practices of politicians who get absolved, as they are not held accountable in view of the going expression: ‘This is a sectarian system!’

Change requires contains the sectarian realities within set borders on the basis of the legal and administrative rules and the principles of the rule of law. It is a research approach and a renewal process for academics and social activists.

Every political system, with the exception of totalitarianism and dictatorship, comprises limits to prevent crossing the limits of authority. When politicians respect the limits, conviction is then formed in the likelihood of moving to a more competitive system, while avoiding the risk of permanent isolation and factional domination.

(1) Antoine Messarra: *The Roots of the National Reconciliation Document* - Taif, Beirut, Lebanese Foundation for Permanent Civil Peace, Oriental Library, 2006. 640 p., new edition added 0.2014.

Among the most salient problematic of governance is the necessity of harmony between the rule of law and the requirements of National Accord.

The existing system draws on politics of accommodation (who doubts that good management of accommodation is of democratic value?) in the spirit of the legislation in order to reach national solidarity, or on the contrary it could fall in the context of shared influence between some political poles, bosses who violate rules of law by illegal actions (lawlessness).

The subordination of all cabinet decisions to the practice of consensus, including the appointment of civil servants, is contrary to Article 65 of the amended Constitution.

And introducing all partisan contradictions in a coalition-of-sects government is a violation of the requirements of the availability of an effective opposition, and to the principle of cabinet solidarity and parliamentary control.

The practice model of the Lebanese system is burdened by thirty years of deteriorating practices. The resetting of the rule of law within the framework of the Lebanese particularity constitutes an enormous work site, with the President of the Republic being its main pillar, if he exercises his role as guardian of the Constitution in accordance with the new Article 49.

Many obstacles in the Lebanese system can be overcome if the minimum requirements in the application of the law were secure. Otherwise, any change in the system would be out of control in an estranged law of the jungle. The advantages of the National Reconciliation Document are that it opened the door for inducing a rational change.

3- Successive Approximations (Incremental Approaches): No change can happen in Lebanon by force or imposition from the top, and no chance of change to be induced through an enlightened despot. The change that was induced by President Fouad Chehab was made by incremental approaches, namely through a holistic vision and a progressive strategy. The reason is that change in a pluralistic parliamentary system and in a multi-balanced environment does not just pose technical problematic, but it also affects the institutional, personal, regional, and sectarian balances.

In a diverse society, change raises concerns of flipping the balances. So when a first dose induces psychological security, another dose is introduced, then another doses

would follow without compromising overall harmony or the resolve of the change agents. It may not be the ideal strategy, but it's the possible strategy. Had President Chehab injected all those doses at once, on matters of administrative reform, social security, and development, etc., they may not have been approved.

4- General Policies through Consultation: Change happens through incremental steps, and through consultation in public policy contexts. We have a pioneering example in the person of Professor Mounir Abou Assali. He managed the Educational Rise Plan, especially in what regarded the two articles of civics and history (1997-2002). The transformational process has been made possible through a policy of consultation with the political forces, often through peaceful neutralization of some of these powers, and in cooperation with the decision-makers and influential people in educational affairs. It is a typical case in the democratic management of public policy with chances for maximum efficiency, thanks to the participation and support of the decision-makers and persons of influence. Each public policy can enjoy likelihoods of application without deviation, and at the lowest administrative and financial cost, if it's lent support and the mobilization of people concerned.

5- Policy Change: If politics in Lebanon continue to be a power struggle among political poles for influence, and a mobilization for conflict, then change doesn't carry a chance to take place, even if sound programs were available. There is no change, nor rational governance without a public spirit. It's the duty of educators, professional bodies, trade unions, civil associations, and active persons in municipalities to develop a culture of public affairs in the face of patronage practices and local feuds. All issues must be put forth, without exception, in terms of quality of life and its impact on people in their daily lives, on their families and children, and on their health and future, based on the principle: Man First. Is it acceptable that a number of martyrs from all factions, and even none, be assassinated for the Beirut Spring to happen on 14th March 2005? The example of Poland is extremely useful: Protesters from the "Solidarity" movement would declare, at first glance, they did not deal in politics and did not oppose power ... but they wanted to ensure their bread and butter, and send their children to school!

On the opposite direction, there is a remarkable example in Lebanon of a past ineffective strategy, in the case of claiming a voluntary law of personal civil status affairs. This claim is part of Resolution LR 60 Date of 13/03/1936, which is still in effect but not implemented, as well as Article 9 of the Lebanese Constitution which stipulates that "the freedom of belief is absolute". Some re-2014 campaigns for the project grouped

activists from all sides: Non-sectarian, anti-religious, atheists, leftists, and secular! This previously led to the further politicization of the subject, and to giving it confessional/sectarian proportions, which involved it into a power struggle that went beyond putting a constitutional principle in actual practice and implementing a valid decision about the freedom of belief. It would have been more useful to act along the stratagem of the Polish “Solidarity” movement, i.e. by documenting 15-20 cases of injustice (mixed marriage, the fate of women and children, the rights of non-baptized children ...) to demand, practically and effectively, an end to the injustice inflicted in those cases, without any dogmatic or ideological approaches to the issue.

The Lebanese people would have more confidence in the allegations of some political leaders about their concern for Lebanon’s independence and sovereignty, its message and its role in the Arab world, when they would see well maintained roads, open public schools with is open high quality education, and when every citizen feels equality and dignity when dealing with the public administration... Change really starts when a Minister of Public Works, and Minister of Education, and a Minister of Energy and Water speak to citizens on road conditions, district schools districts, and home lighting respectively ... In response to a Minister’s statement, Ghassan Tueni wrote:

“We hope that Minister of Energy and Water would take care of lighting... instead of specializing in rejecting the use of experts from ‘colonial’ countries to investigate assassinations which our experts seek to suppress. Those ministers, who have an allergy for colonialism, and exclusively for the use of experts to investigate our assassinations ... effectively put themselves in the position of defending the criminals.”²

In Israel, why don’t “regional circumstances” obstruct the implementation of educational plans, road maintenance, the simplification of administrative procedures, and supplying households with electricity and water...?³

Contrary to the common perception, amending the electoral law is not the key to holistic change. It’s rather citizens with electoral behavior, not a clientele mindset — citizens who are aware of their legitimate interests and living rights — which is capable of changing Lebanon’s path in depth.

6- Think Globally, Act Locally: Holistic change will not be tangible and induce emulation and inspiration unless it’s embodied in society’s infrastructure at the micro level, in the street, neighborhood, school, factory, and municipality ... Each plan or comprehensive program that

(2) Ghassan Tueni, “Security Triangle... or the Triangle of Inciting Revolution then War”, An-Nahar, 3/10/2005.

(3) Henri Zgheib, “Let’s Know Our Enemy and Learn”, An-Nahar, 8/10/2005.

does not include pragmatic details to translate it into micro-actions or sectoral activities remains abstract, and does not carry sustainable human development. Further, it does not change the attitudes and behaviors of the dominant political culture, which is submerged in a haughty type of discourse. The multidisciplinary teams in charge of local development at the time of President Fouad Chehab in the 1960s, led by the Social Welfare Agency, and Joseph Donato in particular, constitute an inspiring model for conducting change.

At the local level, and given Lebanon's conditions, the major obstacles to ensuring public interest are centered domestically. At this level, family feuds and political differences are found in concentration. Sociologists and policy researchers often underestimated studies at the micro level, preferring research on, preferring to carry research on meta- or macro structures, whereas the culture of empowerment and sustainability grows at this level.

Owing to a traditional mindset, certain specific field activities, at an infrastructural level, were commissioned as if they were some kind "bread and circuses" (from the Latin phrase *panem et circenses*), a descriptive which was coined by the Latin writer Juvenal (Juvenal, *Satires*, X, 81) to mock at the Romans who were unable to think of matters other than free wheat distribution and participation in entertainment games.

Specific, concentrated, and cumulative actions along the concept of public spirit, which possess a contagious effect in a small country like Lebanon, tend to correct the deviations of politics as mere power struggles. Networks of corruption and patronage destabilize these actions from their roots, reproducing dependency on political lords. The municipal worker who cheats on the water meter in the village for the benefit of a certain consumer is often part of a network linking him to a chain that upwardly consists of an influential member of the municipal council, a Member of Parliament, and a Government Minister, and perhaps it goes further up in a regional web of patronage and corruption.

For internal and regional reasons, remedies will not come from higher policy makers at the summit of power, unless the people pursue their demands on a daily basis, in a society that is in the process of reconfiguring itself on the basis of its daily legal interests and legitimate rights. Every policy which is not citizen-centered, i.e. which does not depart from the citizen being a contributor to public revenues, therefore a beneficiary of public utilities and services, constitutes a national threat! The most important example of change by civil society is the "Bitlaa Bi-Ildna" program of the "Joy of Giving" organization, especially in the area of Baal Ad-Daraweesh and Baal Al-Dakoor in Tripoli.

7- Strategy at the core: In a small country like Lebanon that passes through situations where large programs could be frozen because of influence struggles, patronage, and local

conflicts, a strategy at the core is likely to be effective. This strategy goes against the prevailing trend of presenting meters-long plans, drawings, and recommendations to prove that a holistic view is available! Holistic view is needed of course, but the application requires a proper approach and complementary operational strategic approaches as well. The strategy at the core requires the search for axes where signs of change are detected, thanks to initiators and effective actors who have the ability to frame efforts and provide actual field examples in matters of change which lead to trust, emulation, inspiration, and empowerment.

For instance, when a program for the development of public education sector is set, a practical plan would be that ten or more public schools are selected each year across all the country's Governorates, and adopted as typical schools for micro applications.

8- Sectarian organizations with a public affairs mindset: It is possible for the many organizations pertinent to Lebanon's various sects (religious, educational, cultural, medical, social, service-oriented...) to be agents of self-development from inside (endogenous) in a society keen on its diversity, and sometimes reserved toward the imposition of public policies by the central authority. The history of Lebanon is filled with accomplishments made by pioneering educational institutions through schools scattered throughout Lebanon and addressing all Lebanese. Since the 1950s, the Islamic sects have sought to develop their educational institutions, thus contributing in addition to the public education institutions, to achieving greater equality at the social, economic, and cultural levels between the country's confessions. The communal organizations are capable to be the agents of self-development from inside, and for the public benefit, if they work with the mindset of public affairs. For example, if a Sunni charity seeks to group Lebanese from other communities or sects in the setting up of a neighborhood committee to improve the quality of life in that neighborhood, where Sunnis and non-Sunnis live... this action contributes to self and public development. There is nothing wrong with confessional organizations, as long as they are not closed, and they work with a mentality of development and public benefit.

9- Levers: While facing resistance and hurdles by its very nature, change needs levers which are capable of carrying and following it through. Where are the political parties, trade unions, professional associations, and civic society organizations...? If a Minister takes a pioneering position, and an MP proposes a draft bill, and a judge issues a typically and just ruling... who supports them when they are confronted by their a sophisticated system of influence? Are organizations and associations related to liberal professions, unions, banks, industrialists and traders simply an extension of political forces, or are they complicit with these forces, or they enjoy the necessary autonomy to defend their legitimate professional

interests, which positively reflect on the quality of people's lives? Several organizations of civil society have been penetrated and made dependent.

And where is the administration in Lebanon that would underpin the implementation of any public program of change? After thirty years of subjecting the public administration to dependency, one can nevertheless say that it still comprises efficient, functional and ethical staff; but an administration that is capable of carrying change management is alas not available. The National Administration Institute was created in collaboration with the National Administration Institute of France in order to qualify a new generation of administrators on the basis of its internal regulations dated 09.06.2005 with regard to the preparation and training of civil servants, which was approved by the board. There are two institutions which constitute the pillars of change in the Lebanese public administration: The board of the Council of Public Service which is free of patronage and keen to regain the authority of standards; and the National Administration Institute with its internal regulations for preparation, training and the restoration of its independence from penetration, neutralization, and disabling influences.

The Economic and Social Council, in spite of obstacles and disruption efforts that it confronts, constitutes a model for an attraction pole which is able to activate professional and civil structures which were rendered vulnerable throughout thirty years of penetration, and to energize public policy as well.

Besides vision and methodology, change in Lebanon requires the reconstitution of institutions in a practical and tangible fashion, namely the constitutional, security, political, administrative and social institutions, some of which used to "execute the orders," as per the expression of Prime Minister Fouad Siniora at the Parliamentary session of 05.10.2005⁴. Therefore, any change or development program should focus on the levers, i.e. the institutions, and on selecting the right and actors who are capable of carrying and following it through. The concept of institution consists of three elements: Organization, which ensures rational administration, governance and continuity; the Project subject to the concerned administration; and Leadership, i.e. competent persons without whom the organization would turn into a lifeless skeleton within a bureaucratic administration that works for perpetuating itself.

In a pluralistic parliamentary system, change requires a thorough knowledge of the areas of change, the limits of the system, and an awareness of the chances of change in a small country that whose conditions differ from those of such a vast country as Australia, and the

(4) A strategic and operational statement with regard to change, Newspapers 6/10/2005.

United States. Holistic change can be accomplished in Lebanon in less than five years if the conditions of efficiency are made available.

Among the speeches on change, the moralistic discourse (Puritanism) about the "corruption" and the "political class" raises fears. Puritan morality is more dangerous in politics than in private life, because it ignores the complex nature of politics, and demonizes 'the other', thus justifying the use of means which are disproportionate to the expected results, and disregarding costs and benefits. No success can be achieved in politics by expanding the domestic hostility networks. Without compromise, it rather lies in drawing wider support, neutralizing some competitors and detractors, limiting the damage, and perhaps in domesticating corrupt people and corrupters. No political action, in the distinguished sense, can be conducted, except with politicians, doers, and society, often as they come, not against or without them.

The more complex approach in a pluralistic system lies in the "cheese eaters", as President Fouad Chehab used to call them. They are the major handicap in the process of change, and are impossible to exclude (on assumption that their exclusion constitutes salvation). However, they can be neutralized or integrated within the change context in a reasonable way and in compliance with the law. This requires from society itself, through its various organizations, to be more aware of its legal interests and legitimate rights in life, and that it lends support to the policies of public interest. If the elite system in Lebanon moves in a cruel way, this goes back to relationships of influence. Laure Moghaizel, who is one of the most important change strategists, describes her struggle for more than half a century as follows:

"We put in 1949 an Action Plan that completes the efforts of the female pioneers. We departed from an inventory of the provisions of Lebanese legislation in the light of international conventions, and in comparison with Arab legislations. We turned demands into steps where we adopted a certain requirement in each, chosen for its importance on the one hand and for its proximity to the ideal on the other hand. We placed in it a specific and justified proposal, and we set a special committee for each step to organize activities and communication."⁵

Is there hope in formulating programs with a holistic but strategic vision, that include first measures, which may be a dozen or more, in order to push practically for change?

Lebanon is an exception in the region: An exception to the Zionist entity which introduced to the region an explosive factor which is the entwining of a religious identity with a

(5) Laure Moghaizel, *Woman Rights as Human in Lebanon*, Beirut, Joseph and Laure Moghaizel Organization, 1997, 188 p.
- Antoine Messarra and Tony Atallah (dir.), *Half a Century in Defense of Women Rights in Lebanon: Laure Moghaizel Archives*, Beirut, Oriental Library, 3 volumes, in cooperation with the Lebanese Foundation for Permanent Civil Peace, 1999-2008.

geographical area; and an exception to some Arab neighbors who often practice an Arabism of prisons instead of a civilized Arabism. Under the regional circumstances, Lebanon's options are three: Either "Zionization", which was impossibly pursued during the war through crossings, barricades and population sorting..., or "Arabization" in the real bad sense of drifting toward an "Arabism of prisons", or "Lebanonization" in its positive sense of attaining success in democratic diversity management and the spread of a democratic Arabism.

In this context, the exercise of the Lebanese State of its authority, in matters of its sovereignty in particular, faces obstacles and threats from surroundings which are hostile or undemocratic to a certain extent, since its geographical borders with its neighbours are vast need demarcation and protection. In view of the changes in international politics post 11th September 2001, the resolutions of the UN Security Council on Lebanon are situated in the context of supporting small vulnerable states that could become sources of proxy wars "for others" or terrorism.

The situation in Lebanon is an example of a blocked society whose conditions are frozen for regional reasons which continue to hold Lebanon as a hostage through a number, albeit decreasing, of local bosses. What can be done in such a freeze situation? The prevailing trend in the Lebanese, and the Arab mentality in general, is to wait, which is taken as a justification for inaction: Waiting for the international tribunal on the assassination of Prime Minister Rafic Hariri and his companions on 14/02/2005; waiting for regional changes; waiting for changes in the situations of Syria and Iran ... The roots of the waiting mentality go back to the 'Sublime Porte' complex in the memory of the Lebanese since the days of the Ottoman occupation.

In spite of its reality which is characterized by inertia, Lebanon enjoys some internal fortunes as reflected in national awakening through the "The March Dream" series by Marwan Najjar on LBC TV, in addition to chances of international support. However, the waiting mentality is widespread, as it was disseminated in the region by authoritarian regimes in order to justify their failures "due to foreign conspiracies."

Priorities for Change

What are the diseases and remedies in pluralistic parliamentary systems, or systems based on a National Charter? As in medicine, where every organ of the human body has regular functions in natural health conditions, every organ has its illnesses in case of disruption of these functions.

Focusing only on the pathological symptoms and their treatment through surgical removal of the diseased organ, without exploring the reasons for the health disorder in depth, is a methodical error.

In humanities science, diagnosis followed by treatment is required. A system cannot be criticized according to its pathological conditions, assuming that alternative systems are not exposed to pathological symptoms of their own. Applied methodology implies departing from the pathological symptoms to explore the causes of pathological delinquency, and find the appropriate remedy for the system. Neither flu medicines are prescribed to heart disease, nor atherosclerosis medications for diseases of the eye...

In listing the diseases of pluralistic parliamentary systems, some researchers depart from the premise that other or competitive systems do not have flaws of their own, whereas each has its own malfunctions. So what are the diseases of pluralistic parliamentary systems? Chief among these are six diseases:

1. Weakness or the absence of an effective opposition because of the nature of the coalition of factions in the government.
2. Stagnant or slow decision-making because the absolute majority is insufficient in some cases.
3. Harsh application of quota rule for the benefit of patronage.
4. Weakness of State power, which is negotiation in front of multiple decision centers; and because of weak state legitimacy in relation to citizens.
5. External interventions through strengthening major minorities and partisan forces with a foreign stretch.
6. Sectarian pillarization (polarization) of leaders, with the risk of dictatorship by the political poles.

The negation of system sickness is a negation of treatment, whereas the two are intertwined.

In various plans, "conditional" expressions of political nature pop up in firm or timid forms, concerning the implementation of those plans, those conditions being related to the building of the state, governance, and political leadership.

For managing change in Lebanon, the primary conditions can be aligned as follows:

1. Spreading the culture of "Lebanon First" and Shutting Down "Lebanon the Arena". Lebanon will not rise, and no rising will have sustainability or get anchored in stability and reform, if Lebanon would be the scene for the conflicts of others. What follows is to benefit from the experiences lived since 1975, especially from those from the July 2006

war on Lebanon, to spread the culture of 'Lebanon First.' This culture is the peak for 'Lebanon the Message' which goes counter to the Zionist model, and the top for civilized Arabism, as well as the pinnacle of contemporary Islam in a creative interaction with Christianity. This culture is disseminated by NGOs working on issues of democracy, human rights, development, and citizenship; and through reviving the spirit and effectiveness of the education elevation plan, particularly civic education and history programs which were developed in the years 1996-2002.

There would be no new employment opportunities, no investment, no tourism, no brain drain, and no confidence development... unless Lebanon was a homeland, not an arena, whatever the considerations with patriotism and nationalism face value, for these effectively destroy the country and its nationalism.

2. Authority of Standards and Norms: To start the change, a restoration of the authority of standards is needed, through the essential regulating authorities of norms which are: The President of the Republic in accordance with the new Article 49, the Constitutional Council, the Supreme Judiciary Council, the members of the board of the Public Service Council, the Speakership of the Chamber, and the Presidency of the Council of Ministers... As in the human body, and as per Durkheim's social analysis, the health condition 'anomie' is described as the breakdown in regulatory functions. During years of dependency and occupation, there has been a graduated and systematic targeting of the authority of standards and norms.

Why the rule of positive discrimination is applied without controls and in a harsh way to cram the public administrations with cronies, namely since 1990, whereas over twenty official commissions were formed in India since the 1950s to find the best means of applying the system of positive discrimination to the benefit of society as a whole? This system has been of many advantages in India, in terms of equality, justice and effective democracy⁶. What's required in Lebanon is to initiate the formation of a ministerial committee of experts which would set the legal and administrative norms to apply positive discrimination positive at a time when it is applied in Lebanon in the worst way possible, while all sects have reached an equal degree socially, economically, and culturally, and each community without exception disposes of human talents with high competencies.

(6) Christophe Jaffrelot, "India: Democracy by Caste (A History of a Socio-Political Mutation, 1885-2005), Paris, Fayard, 2005 594 p.

3. The Separation of Holding Public Office at the Chamber of Deputies and in the Cabinet Simultaneously: The rising of Lebanon requires renewed dynamics in the management of public affairs which would be less dependent on electoral interests and cronyism, and able to mobilize competencies that are not limited to the poles of the elites, which one of the poles labeled as "first grade". These skills are available in most former and current members of the political class and in certain poles in particular. To separate between them holding public offices at the Chamber and in the Cabinet simultaneously might free them from some traditional restrictions that may be in line with exercising influence politics, but not in line with holding a cabinet position that requires another type of public affairs management. Separation might not be absolute, since the Government could consist of Members of Parliament (MPs) for reasons related to the necessities of representation; but in that case the MP who is appointed Minister must resign his seat at the Chamber. This move could ease the sectarian pillarisation of the leaders, broaden the scope of the political elite, contribute to the activation of parliamentary oversight (parliamentary blocks cover Ministers-MPs and prevent their accountability), and provide an executive management style for the Ministry. The applied comparative study about Lebanese cabinets, whether they were formed of MPs or from outside the Chamber, provides conclusions that favor the separation subject-matter, as per the draft law submitted by MP Nimatallah Abi Nasr⁷.

4. The two Mainstays of Administrative Reform: The two pillars of administrative reform are the board of the Public Service Council whose members are supposed to be a regulatory authority for standards in the public administrations; and the National Administration Institute as an independent institution, and in accordance with its internal procedural rules dated of 06.09.2005 developed by the board.

5. People's Daily Legal and Legitimate Affairs: There is a need to cut through the present state of inertia through people's daily needs in education, health, bureaucratic procedures, roads maintenance, neighborhood committees, and their participation in activating the role of municipalities... as well as through unions and professional associations that defend people's daily legal rights and their daily security and safety, without politicizing those rights in competitions among the elite.

6. Think Globally, Act Locally: This strategic slogan is most effective, especially in times of inertia. It's the path which rattles the dependency networks out of their deep

(7) Nimatallah Abi Nasr, "Proposal for segregating between being an MP and a Cabinet Minister", An-Nahar, 5/2/2005.

roots. Despotic regimes realize it. Therefore, they infiltrate all aspects of society to strengthen their own continuity. All obstacles and difficulties amass at the local level; centralized rational and pioneering plans might then fail upon implementation at the local level, where opportunities or obstacles get formed and accumulate, due to the structures made up of personalities, relationships, and practices. Arabic studies neglected the local level and often focused on the upper meta-structures⁸.

The Restoration of Rules in Public Work

1. The Constitution Is a Prescription, Not a Cure: The best constitutions are prescriptions, and not necessarily treatments. Did the patient comply with the prescription, its method of application, and its dosages? If he abided by the prescription but didn't heal, then the diagnosis would be repeated and the prescription adjusted. Some clauses of the Lebanese Constitution have not been in application for years, which precludes any serious discussion about amending it. In addition, any new amendment will not be applied or may deviate from its objectives. Hence the need arises to delve into the concept of constitutional governance, i.e. monitoring the application of the Constitution, instead of drifting toward proposing amendments. In any case, Lebanon does not now-a-days complain from its constitutional structure, but from numerous infringements in practice and application.

2. The National Reconciliation Document – Taif, and Why It Was Not Applied in Full: Each terms of this document is an authentic Lebanese produce authentic Lebanese, as 'Kishk' and 'Awerma', except for the clause relative to the withdrawal of the Syrian army from Lebanon. It does not hold to study the document without referring to the roots of the deliberations that preceded it, and so to inspire from the opportunities and obstacles. Wisdom dictates that we approach this matter along the principle enunciated by Prime Minister Rashid Karami in 1976, amid criticism of the 1943 National Charter: "Let's work toward what nurtures it, not what abolishes it."

(8) Some details are cited in: Antoine Messarra, "Governance in a consensual system (Lebanon after the constitutional amendments of 1990), Beirut, Oriental Library, 2003, 600 p.

Antoine Nasri Messarra, **The General Theory in the Lebanese Constitutional System**, Beirut, Oriental Library, 2005, 464 p.

- **The Legal Theory in the Pluralistic Parliamentary Systems**, Oriental Library, 2016.

- **Citizenship Culture in the Confessional Society (Lebanon from a comparative perspective)**, Beirut, Oriental Library, 2016.

About the problematic of Change:

Jacques Lang, *Changer*, Paris, Plon, 2005, 182 p.

« Pour changer le monde », no. spécial de *Manière de voir*, no 83, oct. nov. 2005, 98 p.

For the problematic of failure to comply with the spirit and letter of the full Taif document, one must go back to the declaration of Minister and MP Marwan Hamadeh at the parliamentary session dated 28/02/2005:

"I was commissioned to draft the preamble of the Ministerial Declaration. I carried out the work and presented it to the martyred PM [Rafic] Hariri. He approved it with the exception of one page, which I would like the Lebanese to know what it contained. He threw it in the trash bin next to his desk. I watched in wonder and asked him: 'Where did I go wrong, Mr. Prime Minister?' The page included a line confirming our national fixtures as based on a reference to the Taif Accord. The martyr looked at me and said, 'Marwan, you're mentioning Taif. Do you want us checked out?' The Taif upon which we built civil peace together had then transformed from a national given to taboo. It has now-a-days come back to cover other matters. Why? Is it because it mentions administrative decentralization or the independence of the judiciary? That's a joke; it's because it mentions Syria's withdrawal at each milestone which didn't happen, nor it seems that there's an intention to carry it out, and because it mentions the non-interference of the military apparatus in political life, a thing which didn't take place, but the opposite was rather done. 'Marwan, do you want us checked out?' Rafic Hariri had been under threat since then, as any inclination or tendency or direction or even harboring a certain notion of Lebanese independence would have reflected on him and us in terms of calamities." (Minister and MP Marwan Hamadeh, the parliamentary session dated 28.02.2005, and newspapers of 1/3/2005, namely Al-Mustaqbal, 1/3/2005).

The only clause in the National Reconciliation Document which was imposed therein related to the withdrawal or the "repositioning" of the Syrian armed forces. On this matter, some of the reference documents mentioned that [then-Syrian] President Hafez al-Assad "wrote the text by his own hand". Some negotiators say that it was mandatory to check with him personally! The reference documents also mentioned the citation in the Preamble of the Constitution about Lebanon's leading role in the commitment to the Declaration of Human Rights, and former PM Saeb Salam's remarks about the deadline for the formation of the Cabinet⁹.

3. The Much-Studied Election Law, and the Principle of Holding Periodic Elections: Lebanon has a long tradition of experimenting with electoral systems. It can be benefited

(9) Antoine Messarra and Rabiha Kais (supervision), « The Formulation of Constitutions within democratic transformations" (Arab and international experiences from a comparative perspective), Beirut, the Lebanese Foundation for Permanent Civil Peace and Conrad Adenauer Organization, Oriental Library, 2014, 342 p., pp 151-162.

from. The philosophy of this heritage is based on the principle of Single Electoral College where voters from various faiths elect candidates of various faiths.

The principle of periodic elections is above all else. Elections were postponed under the pretext of no consensus on a new electoral law. Such a consensus is the prerogative of the Parliament, not the street. There is a need to stop searching for an electoral law from scratch. This subject was saturated with technical studies through the Fouad Boutros Commission and other bodies of work. To retrieve the technical study is not necessary; it's rather the adoption of a political choice on the basis of the available official texts which are by themselves the result of efforts that identify the areas of the possible areas and those of the not possible.

Anyway, adequate representation is not just confined to a law, but it's rather associated with three elements: The election law, the administration of the election, and voter behavior. A bad electoral law may provide acceptable results if the election was administered with integrity and the voters conducted themselves as responsible citizens, not as mere voters. Inversely, a good electoral law may give poor results in case the election administration was bad, and the voters behaved as dependent, non-conscious individuals.

4. The Government in Lebanon as an "Enforceable" Authority: There could be no change, no effectiveness, no public policies, no accountability, no separation of powers, and no regularity of institutions in Lebanon if governments are modeled along mini-parliaments. The executive branch was labeled "the enforceable power" in the Lebanese constitution (Chapter IV), in a designation to render it more effective than executive power. In the language of Arabs: Make things run! The Parliament in Lebanon is therefore the permanent place for dialogue, whereas the Government in Lebanon is procedural and makes things "run", i.e. it's formed of 'technocrat laborers' vested with taking care of people's needs.

A coalition government in Lebanon is a coalition of "sects":

Article 1-95: "Confessions shall be fairly represented in the composition of the Government,"

It follows that a government in Lebanon is not one of national unity or national consensus, but a procedural cabinet that includes representatives of confessional communities, not representatives of all the political forces.

From a comparative perspective of pluralistic parliamentary systems, and in compliance with constitutional principles, there is a need to distinguish between Parliament seat and Cabinet office, to effectively separate between the two of them constitutionally or practically. Otherwise, the cabinet turns into a corporation of quota sharing and benefits exchange.

5. Article 65 of the Constitution, a Model of Constitutional Creativity: Article 65 of the Constitution is one of the articles which were broken and contaminated the most in practice since the Taif Accord document, while it's indeed a marvel of constitutional imagination at the comparative level. It simultaneously avoids, in such a multi-equilibrium environment as Lebanon, the tyranny of the majority abuse and the tyranny of the minority through the majority described as qualified majority in 14 specific and exclusive topics, while it leaves voting to deal with all other matters.

To objective from manipulating Article 65 for years since 1990 was to make the system ungovernable in Lebanon and resort to a 'Sublime Portel' A dilemma of minority and majority was created in a country where all communities are minorities. After all, each majority in Lebanon is composed members of members from various confessional denominations.

6. The President of the Republic: From the Powers to the Role: It's no longer possible to study the President's position in the Lebanese constitution, without referring to the roots of the National Reconciliation Document and the deliberations of 1975-1990 on the constitutional amendment.

After the tripartite agreement between three militias in Lebanon was concluded, but it later stalled, a German-European-Vatican mediation took place at the initiative of the Governor of Bavaria, Franz Josef Strauss, and two of his colleagues, Dieter Holzer and Heinrich Schoeller for the drafting of an alternative constitutional document. This process spanned from 24.09.1986 to of the 5.10.1986. Lebanese newspapers called the group "a German-Lebanese committee." Discussions of the document continued within the framework of a diplomatic initiative from September 1986 to end 1987. Through my participation in this extensive work I delved deeply into the problematic of reconciling between power sharing and separation of powers. It is an impossible problematic similar to squaring the circle. But the participants in the Taif meetings came up with a solution that stemmed from a highly wise and creative constitutional imagination. The treatment was embedded in Article 49 of the Constitution, where the president was ascribed the role of "safeguarding the respect for the Constitution ", together with prerogatives commensurate with that safeguarding role. This makes it a must, therefore, to get the Lebanese debate out of the issue of powers to the logic of the role¹⁰.

(10) Franz Josef Strauss's German-European-Vatican mediation efforts after the Tripartite Agreement, 24/9 to 5/10/1986, September 1986 to end 1987, the text and press excerpts in the book: The Roots of the National Reconciliation Document-Taif, aforementioned, pp 297-452.

R. S. Schulz, Franz Josef Strauss. The Man and the Statesman, R. S. Schulz, 1986, 216 p. (Deceased on 3/10/1988, L'Orient-Le Jour, 4/10/1988).

Is this a “reduction” of the President’s powers, or does it turn him into an Honorary President, or “The Baabda Man”? The moral leadership of the country under the rule of law (“What does The Book say?” would President Fouad Chehab say, in reference to the Constitution) is a substantial work site that transcends prerogatives and the Maronite community even. By itself, it is an element of rallying and unity because it defends the rule of law as a means to achieve equality for all citizens, and to protect them regardless of their affiliations.

Actually, within the mindsets prevailing in Lebanon, no confessional political side would like any in-depth change for the common interest that touches its positions of privilege. I came to realize this during the German-European-Vatican talks, which I was not personally away from. In the aftermath of the Tripartite Agreement between 24.09.1986 and 5.10.1986, do not personally away from them, the impact of the tripartite agreement between 24/9 and 10.05.1986, it was reported to one president that there was a mere likelihood to open the State’s 3 top posts partially to both Christians and Muslims for the purpose of reconciling between power sharing and separation of powers; he exclaimed to his interlocutor: “If I accept, they would totally isolate me!”

The amendment of Article 49 of the Constitution as part of the National Reconciliation Document, so that the President of the Republic is neither an Honorary President nor “The Baabda Man,” but rather the authority that “safeguards respect for the Constitution”, set the President as a Constitutional Council above the State’s Constitution Council institution. In that sense, the amendment to Article 49 actually ensured equality in the framework of the concept of State. Bechara Menassa, who participated in the Taif meetings, says - and I quite share his opinion - that then-Speaker Hussein Husseini is the one who “saved the day.” Further, former Minister Edmond Rizk, who also participated in the Taif meetings commented, when he listened to our detailed elaboration on the role of the President of the Republic in being “to ensure respect for the Constitution”, that “This is what we aimed for in the Taif document; and had we explained it with such clarity, perhaps the amendment proposal would have been rejected by some!”

7. Civil Society and Civic Movement: Three elements make civil society civil: Its launch platform being the needs of citizens, its defense of the public interest but not in the context relations of influence, its foundation on the law and institutions. Lebanese civil society today lacks effectiveness by virtue of three factors:

- The concept of law and institutions regressed due to abnormal practices, a populist change speech of a coup d’état intonation on the part of some political parties.
- The weakness of the professional and trade union movements since the 1980s; they are part of civil society, and are closer to the daily life of the people.

- The expansion of dependency networks where Lebanese beneficiaries reap benefits and positions. The so-called supremacy of the political class carries, though, injustice to some of its elements who struggled for the sake of sovereignty and the Constitution.

The political class in Lebanon today is not confined to politicians, but it also includes a wider group of affiliated beneficiaries.

When activists from the Lebanese civil society criticize the whole political class, they actually isolate themselves from political life. For civil society is not against politics, but rather seeks to domesticate politics and deal in total independence with political parties, leaders, and politicians. This goes with the proviso that these do not exercise any patronage, but rather abide by the guidelines that orient civil society as being independent from the Government apparatus, without any detachment from the civil policy and its actors.

8. The Constitutional Council: In its commitment to abide by the international charters of human rights, the Preamble of the Constitution assumes the expansion of the powers of the Constitutional Council, with regard in particular to the right to raise lawsuits in correction of laws issued before 1990 which may constitute a violation to the Constitution.

9. The Economic and Social Council: It is one of the fundamental institutions needed for retrieving the public debate about public policies in Lebanon from the street. It serves also to integrate the role of unions, professional associations, and society in the economic and social dialogue in an active way. This Council carries more priority than administrative decentralization, because of its role as an institution that disseminates a culture of public debate at both the national and regional levels. It also imparts reasons why not to fear that the promised administrative decentralization would create regional administrations more despotic than the central authority.

10. The National Administration Institute: There is a need to restore the independence of this institute from the Council of Civil Service, as its inception law stated that it's the door to train future leaders in the public administration, with it falling under the jurisdiction of the Presidency of the Council of Ministers within the legal concept of administrative tutelage in terms of legal monitoring only, not in terms of forced adaptation.

11. The Education Advancement Plan and Military Service: The best constitutions and the best institutions do not bear fruit without enriching education. This can be done in Lebanon through reviving the education advancement plan of the years 1996-2002, and restoring military service in a formula that does not harm the academic future of the youth, nor their career plans.

The Economic Challenge

The Competition in the Lebanese Economy

This report on competition in the Lebanese economy¹ has been prepared at the request of the Minister of Economy and Trade. It is a preliminary study or introductory scheme to develop a competition law in Lebanon. Such law would aim to strengthen competition conditions in the economy, which would lead to improved efficiency and productivity, provide strong pillars, stronger than those currently available, and foster production and employment.

The primary purpose of the report is to assess the degree of competition in the Lebanese economy, which is the starting point for the elaboration of a draft competition law.

Since 1975, the Lebanese economy has passed through critical and dangerous structural shifts during fifteen years of war, followed by over ten years of rebuilding and construction.

Although the economic recovery – i.e. the return to normal life – occurred relatively quickly, growth was not as strong as we had expected, as it reached less than 4% since 1993, despite the high increase in government spending to drive this growth forward. This result was, first of all, the strongest evidence that the Lebanese economy is suffering from defects in its very structure which hold it back, among which are poor competitive market forces.

The data which the report has been based on was obtained primarily from official sources. In particular, data regarding the Value Added Tax (VAT) for the year 2002 was supplied by the Ministry of Finance. This data is the main source for finding out about the concentration and market structure, and for studying and analyzing it. In addition, the report is based on information sourced from official statistics regarding the National Accounts for the year 1997, the survey on the living conditions performed in 1997, and the industrial survey 1998-1999.

(1) Study prepared by Dr. Toufic Gaspard in the book "Emerging Lebanon", First Edition 2007. Reproduced here for its importance, and for its continued relevance to this day since.

First of all, the report discusses the fundamentals that should govern the competition law and the goals that it would aim to achieve, especially in a developing country such as Lebanon. It then estimates the degree of competition in the economy from the perspective of market structure, with emphasis on the degree of concentration in different markets as a primary indicator of competition. The following section addresses the topic of the entry and exit barriers, which represents a structural and central characteristic for the competition level.

Finally a competition analysis will be performed, from the business perspective, focusing on exclusive market practices.

The last part of the report will summarize its findings and recommendations based on these results, which we propose for the competition law, along with the principles and elements that we need to adopt or reject within the law. This section also addresses the need for a regulatory body, such as a Competition Administration or a Competition Authority, and its primary functions and prerogatives. Finally we will put forth the recommendations in conjunction with the competition policies that would be beneficial for better economic achievements, with a focus on those that can be implemented relatively easily.

The need for a competition law

There is a basic theory in economic analysis that considers that competition has a good influence on economic efficiency and growth. That's why competition laws are required. This theory occupies a central position in the economic analysis as well as in economic development and growth strategies.

Competition in a particular market is a structural or behavioral feature. It refers, as a structural feature, to the existence of a large number of merchants in the market, so large that any vendor or any gathering of vendors would not be able to have an important influence on prices. From this angle, the competition states that no single party, or a small number of merchants, could have the means to control the market in what we call a 'monopoly power', or more specifically to determine the prices of goods. The size of any of the vendors will be small – not as an absolute value but relatively to the overall market size.

As for the behavioral feature in competition, it means, above all, the absence of exclusive practices and practices of collusion between sellers, for instance for price fixing and market sharing that restrict competition among vendors.

Competitive forces produce pressure in the markets, driving traders – by need not by choice – to productive efficiency whatever concept we resort to. In general, we should look at the competition as a dynamic manifold way that requires continuous and renewable resources to cope with the ever changing circumstances in the markets, where new products and/or new production methods are regularly created.

On the other hand, the absence of competitive structures and competitive behavior, in other words the existence of a monopolistic situation, leads to ineffective achievements and unfair distribution of income. Laws, such as the competition law, and economic policy aim to counteract the effects of harmful and hurtful non-competitive markets, or the effects of monopolistic control in general with its associated practices that hinder competition. It should be noted here that authorities should be constantly vigilant because markets, which are by nature dynamic and competitive, may turn at any time to monopolistic markets. Hence the need for a regulatory body to play this role.

A few thoughts and theoretical remarks

The concept of competition is an evolving one, in particular at the empirical level in the economic dimension of industrial systems. The analysis uses the following rule, or standard form, for industrial bodies: structure → behavior → performance.

This rule is based on a market pertaining to the production of a particular item. The structure of a particular market consists of various parameters, especially the number of sellers and buyers, and the maximum barriers to entry and exit, as well as the number of similar products. Regular behavior is often based on pricing and investment policies. The performance is the goal of the base-model because it reflects what has been produced by the market with its structure and its behavior and, in particular, in terms of economic development, the current production efficiency, the labor market, and the fair distribution of income.

Practically, access to full and entirely competitive market structures is difficult. This led to the creation of the “applicable competition” concept which is an operational base that can be used in empirical market studies, in order to estimate or to determine the degree of competition in it. It is said that applicable competition works well when appropriate conditions are available in the structure, behavior, and production. Structure requires two major conditions: The number of suppliers must be, firstly, at the highest possible level within the mass production scale, and

secondly, there should be no artificial barriers to entry. Usually, artificial barriers to entry exist in the regulatory environment, for example, the difficulty in obtaining investment licenses or the high cost of such permits. Natural barriers to entry are linked, for example, to the availability of large capital and/or large-scale production schemes, pertaining to technological considerations, such as electricity generation.

It turns out that the benefits of competition and the need to foster competitive behavior and structures are undeniable; but the issue is not easy, as it encounters many difficulties in developing countries.

The number of small enterprises in small-size developing countries is usually very high. In Lebanon, companies that have ten or less workers represent 90% of existing businesses. This situation implies that there is room for achieving huge economies of scale if the number of large institutions increased. Growing the competition in developing countries leads as well to profit decrease, which can have a negative impact on investments. In other words, the problem in Lebanon could lie in the need to increase the size of the companies, not to augment competition. The increase in size and concentration level might lead to better results thanks to economies of scale and higher profits, which would in turn foster investments.

Competition laws must take into account contradictory objectives or purposes. It is necessary, in order to justify the choice of a larger concentration of the market, to highlight the actual presence of economies of scale, which only appear within large production levels and do not fit into the competitive structure.

The level of concentration in the Lebanese market

The basic criterion to assess monopoly or monopolistic power is the market concentration. Market concentration is a structural feature that usually depends on the market share of major companies — three or five of the largest companies — or any limited number of vendors in a private production market. The United States has resorted to the use of the Concentration Ratio (CR) for the four or five (and up to eight) largest sellers. These quotas were referred to as CR4, CR5, and CR8. 'Sales' is the most widely used variable to measure the concentration level, and the most effective one in the Lebanese case. It is directly linked to the availability of information on VAT.

There is a criterion that is similar to the concentration ratio, which is Herfindahl - Hirshman Index ($SSi^2 = HHI$, where Si is the market share of the i^{th} seller). One advantage of this indicator is that it collects information on the number of vendors and their total distribution.

The most important issue in measuring the concentration ratio, or the market dynamics in general, is to draw the boundaries of the market that we want to measure, or for which we want to know the concentration level. To determine the market, alternative products on the demand side are considered the decisive factor. Vendors are contenders, and therefore their products target the same market if their products are “good” alternatives in the eyes of buyers.

The way the market boundaries were defined started to be known with the launch of the United Nations’ International Standard Industrial Classification of All Economic Activities (ISIC, Revision 3). The VAT Directorate at the Lebanese Ministry of Finance adopted this classification model and adjusted it with local conditions, by defining the activities until the four digit rank, and sometimes six digit. The report adopted this classification using the VAT on imported goods data in 2002.

Concentration measures are usually estimated for specific products’ markets. It is also possible to estimate the total range of concentration ratios for a group of activities or for the whole economy, for example by using data pertaining to interrelated boards of directors or those that are controlled by family businesses. These measurements are beyond the scope of this report and remain, in any case, useless in the absence of reliable information. The Concentration Ratios contained in this report are for specific markets or a specific product in manufacturing and services only. There are no recent data on sales in the agriculture field or other related variables in the markets or products. So the concentration measure for agriculture will be for the activity as a whole.

1. Concentration in agriculture: The figures clearly show (Table 1) an unbalanced distribution: 5% of the total farm owners exploit 47% of the total agricultural areas, while the lower half of the farmers exploit only 8% of the total acreage. The correspondent Gini coefficient, which gives us a summary of the degree of inequality in the distribution scale is 0.69%. This rate is too high.

Table 1: Distribution of farms by area 1997-1998
(Accumulated distribution)

	Number of farmers	Farm area
The higher	1%	25%
	5%	47%
	10%	58%
	20%	73%
The lower	10%	0.4%
	50%	8%
	75%	22%

Source: Lebanese republic and FAO, 2000

2. Concentration in industry and services: We have used in the report the data received from the VAT administration for the last three quarters of 2002 pertaining to local sales and exports relative to enterprises subject to VAT, which totaled 7402. These firms have at least an annual turnover of LL500 million (Lebanese liras), which is approximately equal to of USD 332,000. This data has been supplied by the Ministry of Finance. It indicates that this number (7402 companies) also includes some firms with a turnover less than LL500 million (which have the option to submit to the VAT even though they are not compelled to).

The total number of known markets is 288 without mentioning some service markets such as Sector 8 (education, health, and social work) and Sector 9 (social activities and personal services, among others) that mostly address non-profit activities. We did not mention as well activities under Sector 75 (Public Administration, security forces and compulsory social security), in addition to some few commercial banks that submitted data reports even though they were not obliged to do so in the first place. These 288 markets driven finally by 7029 firms are the subject of our analysis in this report.

CR3 and CR5 indicators show the concentration ratio for three and five companies, respectively (see tables). These firms are the major ones in the markets covered by the report. The concentration ratios are cumulative in each of the two indices. For example, the CR3 for a concentration ratio between 40 and 60% also addresses all markets where we have less than three firms, i.e. one or two, provided the concentration ratio in each

of these markets lies in the level 40-60%. The same applies to CR5 which contains all markets where we also have less than five firms, i.e. four, three, two or one, provided the concentration ratio in each of these markets lies in the considered level. Turnover in each of these markets includes domestic sales and export/import of goods which are covered by the concerned market.

Table 2: Markets distribution: concentration ratios CR3

CR3	Number of markets	Percentage %	Number of firms	Percentage %	sales (\$ millions)	Percentage %
80-100 %	83	28.8	635	9.3	3,362	16.5
60-80%	36	12.5	388	5.5	1,120	5.5
40-60%	47	16.3	1,141	16.2	3,591	17.6
20-40%	62	21.5	3,512	50.0	6,982	34.3
0-20 %	60	20.8	1,335	19.0	5,321	26.1
Total	288	100	7,029	100	20,374	100

Source: Based on VAT Directorate data at the Ministry of Finance

Table 2 shows the markets distribution where the index reaches CR3, which indicates the concentration value for the three largest firms, i.e. the market share that the largest three (or two or one) control in their specific market. This distribution for the CR3 index is perhaps the best evidence of the monopolistic and oligopolistic structures in the Lebanese market.

In 2002, 58% of the Lebanese markets, representing a bit less than a third of firms (31%), had an average concentration of 40% for the three largest firms. This includes, of course, all markets where there is less than three firms with a concentration ratio of at least 40%, which is nearly equivalent to eight billion dollars.

Table 3: Markets distribution: concentration ratios CR5

CR5	Number of markets	Percentage %	Number of firms	Percentage %	sales (\$ millions)	Percentage %
80-100 %	110	38.8	939	13.4	3,989	19.6
60-80%	40	13.9	915	13.0	3,246	15.9
40-60%	40	19.3	1,960	27.9	3,924	19.3
20-40%	48	16.7	2,899	41.2	5,290	26.0
0-20 %	50	17.4	316	4.5	3,926	19.3
Total	288	100	7,029	100	20,374	100

Source: Based on VAT Directorate data at the Ministry of Finance

Table 3 indicates the markets distribution for the CR5 values, meaning the concentration ratios for the five largest firms. When the concentration threshold rises to 60%, the result remains the same for a relatively large number of markets, thus representing an oligopolistic situation. In fact, in almost 52% of the markets, which represent more than a quarter of firms and about 36% of sales, the concentration for the five largest firms is at least 60%.

We can summarize the results related to the concentration in the Lebanese market as follows: High concentrated markets represent at least 50% of the markets, equivalent to at least 40% of the total sales. It can be considered as a monopolistic or oligopolistic structure and is likely to have a consequent behavior regarding prices and exclusive procedures.

Table 4 refers to a variety of markets which have high concentration. Selection criteria are CR1 for less than 40% or CR3 for less than 60%, and for a relatively large market size of at least 25 million US dollars.

Table 4: High concentration markets

ISIC Code	Economic activity	CRI	CR3	HHI ¹	Number of firms	Turnover in million \$
	Industrial products					
1554	Non-alcoholic beverages	45 (%)	69 (%)	26 (%)	10	172
1555	Mineral water	52 (%)	88 (%)	34 (%)	5	27
2103	Sanitary paper and face tissue	41 (%)	59 (%)	20 (%)	16	109
2421	Pesticides and other chemical agricultural products	59 (%)	64 (%)	35 (%)	5	95
2424	Soap	57 (%)	77 (%)	35 (%)	19	89
2425	Home cleaning products	49 (%)		24 (%)	2	61
2694	Cement and raw gypsum	46 (%)	65 (%)	25 (%)	16	75
2695	Cement and gypsum products	40 (%)	57 (%)	18 (%)	88	225
2892	Metal processing; General mechanical engineering	48 (%)	100 (%)	37 (%)	3	249
3130	Insulation wires and cables	67 (%)	85 (%)	47 (%)	5	61
453901	Elevators maintenance	43 (%)	79 (%)	27 (%)	13	21
	Wholesaling					
5050	Liquid fuels	95 (%)	96 (%)	90 (%)	218	169
512103	Birds and other animals	86 (%)	99 (%)	75 (%)	4	43
514100	Products of liquid,solid, and gaseous fuels	43 (%)	83 (%)	27 (%)	14	107
514101	Liquid fuels and mineral oils	88 (%)	98 (%)	77 (%)	23	89
514102	Liquid gas in bottles	71 (%)	95 (%)	54 (%)	5	33
	Services					
7123	Electronic equipment services (computers)	42 (%)	83 (%)	28 (%)	19	38
9000	Sewage, waste disposal, and similar activities	58 (%)	94 (%)	45 (%)	9	115

Source: Based on VAT Directorate data at the Ministry of Finance

1. HHI: Herfindalh - Hirshman Index.

Figures are based on VAT data as received from firms. This means that the actual concentration and market conditions can be quite different from the given figures for a certain single market. The main sources of errors do not apply to companies in the first year of the VAT operation system, nor to the classification issue of local and import companies with the appropriate ISIC codes. However, overall estimates give a good picture of the concentration degree in the Lebanese market – if not the lowest one.

High concentration strongly implies a monopolistic or oligopolistic behavior with a predicted collusion between companies, and exclusive practices that lead to raising prices, and consequently to lowering investment, which does not happen under more competitive conditions. Another tricky element, which should remain independent from the concentration degree in the market, is related to the high barriers to entry.

Barriers to entry

Measuring concentration in the various Lebanese markets provides a preliminary estimate, but not enough for the market accessibility. We can have a clearer picture of the accessibility of the market if we took into account the entry barriers, which are perhaps the key characteristic of the market structure, and which determine the level of competition in the market.

Traditionally, 'entry barriers' means the money and time that a new company will have to spend in order to enter the market. This definition means that 'entry barriers' is the cost incurred only by the new entrant in order to integrate into the market, and not by any enterprise already in the market.

We can divide entry barriers into two general categories, natural and artificial. Natural barriers to entry are usually technical in nature (such as technology production), or stem from some of the market parameters (as the size of the market), and lead to prohibitive cost conditions in a particular market. The artificial or non-natural barriers relate primarily to applicable rules, laws and regulations that practically deter the entry of at least some companies.

Natural barriers are classified into four models: economies of scale, capital requirements, the absolute cost characteristics, output diversification.

1. Natural barriers or obstacles to entry: Economies of scale and capital requirements. Economies of scale can represent a policy-maker, especially in small

economies, where you have to choose between the most efficient or the most competitive model, but not both. Economies of scale can be an important source of effectiveness if they provided the company with the lowest single production cost, as this is an important incentive for investment and a source of growth. In any case, it is a key factor in market concentration.

There is a way to resolve the above mentioned problem, by having the largest possible number of companies or projects that could be provided by the existing economies of scale. There is a new concept in this regard, which is the Minimum Efficient Scale of Production - MES in a particular market. Minimum Efficient Scale is the lowest production level where the unit production cost reaches the lowest degree, which is the least possible cost.

In a particular market size, considering for example the total annual output or total sales, the Minimum Efficient Scale will determine the maximum number of effective companies that a market can integrate, all of which producing at the lowest possible cost as provided by the available technology. For example, if the Minimum Efficient Scale is equal to the size of the market, the optimal market structure would contain only one company, and the market would turn into a "normal" monopoly. If the MES is approximately 20% of the market size, the optimal number of companies would be five, and so on. This measurement for the best possible number of companies is determined by the market size and the level of the MES, and becomes an evaluation measurement, used to assess that a market is naturally or artificially concentrated.

The above mentioned study considers that the minimum effectiveness degree is the MES along with the available economies of scale for the largest conglomerate of industrial activity (Table 5).

**Table 5: Economies of scale and entry barriers
selected markets**

ISIC code	Economic activity	MES ⁽¹⁾ (millions of dollars)	Size of the market (millions of dollars)	The largest possible number of companies (for an efficient output)	Actual number of companies ²
	Industrial products				
1533	Ready-to-eat animal food	4	51	13	5
1542	Sugar	4	51	13	1
2101	Pulp, paper	5.5	157	29	6
2421	Pesticides and other chemical agricultural products	4	95	24	5
2425	Home cleaning products	4	61	15	2
2892	processing and coating of industrial metals, and mechanical engineering in general	2.7	249	92	3
3130	Insulation wires and cables	5	61	12	5

Sources: Gaspard, 2004; and available data from the Directorate of VAT, Ministry of Finance, Lebanese Republic, 2000

1. The Minimum Efficient Scale of Production (MES) was estimated at the ISIC No. 2 level, which was applied for the corresponding markets to No. 4 level.

2. Number of companies as stated by the VAT department in 2002.

Financial requirements can be a significant impediment to investors. These barriers occur if the total required amount for the entry into the market and/or the required investment to fund new investments is, for example, related to the high production cost or the difficulty to access banking facilities. The fact is that the average real bank interest rate during the considered three years period 2000-2002 amounted to 11%. This is an important impediment, particularly during economic crises, i.e. when the economic activity slows down.

2. Artificial barriers to enter the market: The report considered three of these barriers as artificial, i.e. they are put forth directly by the authorities. These barriers are related to legal and administrative measures, exclusive agencies, and protection in general.

Lebanese courts suffer from shortage in staff. Judicial and legal procedures are slow and long-lasting. Companies which file lawsuits wait for years before a primary ruling is issued, then many years again for the appeal and final court stages. Even minor issues related to rents require years to come up with a solution between the landlord and the tenant. Long legal proceedings require pointless extra costs which are supported by the company and represent an obstacle to any investment to enter the market.

Although most of the administrative measures should be applied equally to all concerned parties, they are currently characterized by disparity and bias. The reality is that the more an organization is large, the easier it can obtain its administrative requirements. Generally speaking, Lebanese traditional style to deal with the administration is “nepotism”, meaning preferential treatment. This method is a burden and requires additional costs from individuals and institutions, which depend on the importance of this “nepotism”. This means that the entry barriers into the market are discriminatory and preferential when creating the company, and through its activity.

Finally, exclusive agents enjoy administrative and legal protection in Lebanon. Specifically, the goods imported by the exclusive agency cannot be legally imported and introduced to Lebanon by any other trader. After discussing this issue at length, a bill was sent to the Parliament; it stipulates that protection related to these exclusivities should be cancelled gradually, over a five year period. The bill actually addresses exclusive agencies issues and removes any legal official protection or obstruction for the entry of goods to Lebanon.

The law, if adopted and issued, would ease market access, stimulate competition, reduce prices, and benefit the consumer.

Pricing and exclusive practices

Exclusive practices are the result of non-competitive behavior. In the Industrial Organization Paradigm, non-competitive market structures facilitate these practices; and non-competitive markets are those that are characterized by a high degree of concentration and/or high entry barriers, knowing that exclusive practices can be stand-alone, independent from the market structure itself.

Exclusive practices are deliberate and intentional acts designed to avoid or dismiss entry into the market, i.e. to prevent any new players from accessing the market or to force them out.

Available information about exclusive practices in the Lebanese market is clearly determined by behavioral parameters related to the business running model or, in a more severe way, if the parameter was related to illegal practices, such as exclusivity/collusion agreements among companies.

Lebanese law 73/83 forbids connivance agreements. Article 14 explicitly prohibits cartels, i.e. all agreements among producers that "limit competition ... which would result in artificially high prices or in price protection decreasing". This legal proscription is in fact lenient, because concerned parties have to prove that such agreements have led to an "artificial" rise in prices or to price protection decreasing, an evidence which would be hard to get.

Regarding the exclusive agreements or connivance, Lebanese law is not really restraining, because the maximum fine reaches 100 million Lebanese liras (about \$ 67,000) and/or between ten days and three months imprisonment - Law 73/83 (Articles 34 and 26, amended by laws 72/91 and 490/96). In order to be restraining, fine should be higher than the expected profits that would result from this connivance.

Although agreements between sellers are confidential and could be difficult to detect, some indirect evidence may reveal their existence. Cellular communications in Lebanon are provided by Cellis and LibanCell. The two companies have adopted the same price for cellular communications since their inception, which almost represents a collusion between them on pricing. The mobile call fee in Lebanon is very high: 13 cents per minute to subscribers, which are added to the monthly subscription lump sum, and 35 cents for prepaid cards, versus 3 to 8 cents in other Arab countries.

'Very high profits' are profits that exceed the profit rate in other activities in the Lebanese market. The best policy in terms of competition is allowing free entrance into this lucrative cellular market. The consumer would thus benefit from a lower price and the best quality of service. However, the government chose to earn higher income, not to try to reduce prices for consumers.

Exclusive practices are applied horizontally and vertically. Vertical exclusive practices, namely by reducing spending, are applied among sellers and imposed by a key vendor to another vendor (downstream). Horizontal exclusive practices, namely by reducing horizontal spending, are applied among sellers at the same level of the production chain, and also applied between the seller and the final consumer.

Formal exclusive agreements may be limited in the Lebanese market, but not necessarily informal ones. One evidence of the existence of agreements among vendors is the lack of competitive prices; on the contrary, we witness congruence and similarity in the prices that are announced by vendors in the market. Exclusive agreements do not exclude, however, competition in other areas, such as advertising and product variety.

Exclusive vertical practices are very important in the analysis of competition in markets, because they might turn competitive markets into exclusive ones. Examples are numerous in retail markets, for instance in the non-alcoholic beverages and cosmetics markets, where many resellers are forced to adhere to the retail price (RPM) imposed by the wholesaler.

Discrimination or disparity is also practiced in production sectors in the Lebanese market. It entails setting different prices for the same product, after re-packaging and selling it under different brands, such as for canned food, or for home appliances, such as cookers and fridges...

Findings and recommendations

1. The competition in the Lebanese economy

VAT data for the year 2002 shows a relatively high degree of concentration in the Lebanese market.

By using the basic rule to identify the concentration ratio for the three largest companies (CR3) at less than 40% (typical rule is at least 40% for CR4), VAT data indicates that in 58% of the markets—totaling a little less than a third of the companies - are within this category. Total sales in these markets reach \$8 billion, or approximately 40% of the total estimated sales in all concerned markets.

These concentration figures also indicate that the Lebanese markets are not very competitive, and that monopolistic and oligopolistic behavior is commonplace. This non-competitive trend is due to several factors, the most important of which is the small size of the markets versus relatively large economies of scale. This situation crystallizes the MES having become large for the size of the market. The analysis also indicates another trend in some markets (Table 5) where the MES is small relatively to the size of the market, but where the concentration became high.

Business profile usually implies the presence of high barriers to entry. These barriers prevent turning markets into more competitive ones. Capital requirements as imposed by the MES, in addition to the cost of capital and low productivity, can also be significant barriers to entry.

These are mostly “natural” barriers to entry, because they are determined by technological considerations and general economic requirements more than by a specific market. The report argues that administrative and official institutions and administrative transactions in Lebanon are also important and “artificial” barriers to enter the market and exit it. So it is advised to develop a policy able to seriously address this subject.

Structural considerations for concentrated markets and high barriers to entry and exit clearly show the exclusive practices in Lebanese markets. Due to the nature of the variables, it would be hard to add more evidence to the report, while we can endorse the prevalence of exclusive practices.

2. Recommendations for a Competition Law: We propose the following principles for the drafting of a competition law in Lebanon:

1. Reduce barriers to entry and exit: Free access is inherent in the competitive process. In fact, efforts should aim to reduce and minimize barriers to entry and exit, and reduce the concentration level itself. That’s what we should focus on in the competition law and in the competition policy in general.

In practice, the focus on reducing barriers to entry and exit implies serious work on administrative and legislative reforms to facilitate procedures, gain time, and reduce costs resulting from administrative and legislative processes. Both consumers and merchants should highly benefit, along with the economy as a whole, from these reforms.

2. Disclosure of sales agreements: Competition laws usually deal with behavior or conduct, but not the structure itself. They consider exclusive practices which limit competition as illegal practices. Lebanese laws, as mentioned above, are vague and ambiguous, and when they are precise, they only talk about ‘cheating’ or ‘information forgery’.

The competition law should directly tackle exclusive practices. The law cannot consider all exclusive practices as illegal, whether on the principle or practical levels. It

requires the delivery of any written or unwritten reports on exclusive agreements concluded by vendors to the Competition Authority or Administration. It could alternatively restrict 'illegal behavior' to a few practices, such as agreements to fix prices or quotas in markets or in supply sources.

3. independent decision-making powers which give it the ability to look into competition related lawsuits, in the first degree. It can then be elevated to the appeal level, and if necessary to a Supreme Court.

Decree number 6821 of December 1973 delegated to the Ministry of Economy the task of antitrust fighting and competition promoting, for the benefit of the economy in general and consumer protection in particular. The Competition Authority or Administration may operate under the auspices of the Ministry of Economy and Commerce and the Minister's control.

It is important to point out, when it comes to the Lebanese condition, that the creation of a Competition Authority or Administration, while appreciated, carries also an additional bureaucratic risk, as it could become subject to, and operate for the benefit of political parties, because of the large economic interests that it should fight. These considerations lead us to put forward the following proposals in the subject of the Competition Authority's powers:

- The Authority should enjoy autonomy and have a limited number of members who have the best know-how and experience. This administration could be created as an institution that enjoys administrative and financial independence. Its budget should be assured from Chambers of Commerce and Industry, from the Association of Banks and/or through capital fees registered at the Ministry of Economy and Trade. Staff should include judges, an administrative team, and professional economists, in addition to a research and consultation body. The number should be the least possible to secure work.

- The Authority should examine the agreements that have been reported to it, and all exclusive practice areas. Cases that have been trialed before the Authority could then be looked at by courts of appeal. The Authority also has an advisory function with regard to, for example, new legislation and economic policy. The Authority may also have an information mission through publishing an annual report on its work, as well as on economic and technological developments and other trends

that significantly affect the competition in Lebanese markets and export competitiveness.

3. Recommendations for competitive policies: The competition law is one of the elements, though one of the most important elements in a competition policy. The following suggestions propose policies that could contribute to strengthening the degree of competition in the market.

1. Formalities: Reforms designed to facilitate legal and administrative transactions have a significant impact on reducing barriers and the cost of entry and exit. The economic and commercial activity in general follows a legal and administrative framework. Effective institutions are an essential base to reduce the cost of business operations, and consequently to increase the effectiveness of those processes.

2. Merger: Consolidation of small and medium-sized enterprises, especially industrial enterprises, should be promoted through tax cuts for example and other appropriate actions. The purpose of this task is to benefit from potential advantages of economies of scale which require special market studies to guide policy.

3. Transport: Better transport or freight road network also reduces costs and prices. Most importantly, it facilitates the spread of individual markets in the national sphere and beyond, it increases competition as it offers more benefits from economies of scale.

4. Follow-up on policies: National authorities need to pursue competition policies once launched in order to accomplish them. We refer here first to the Commercial Representation and Exclusive Agencies Bill. This law, by abolishing the State protection of exclusive agencies, re-places any trade problem in its right position between the international company and its exclusive agent, and it creates an opportunity for better competition and lower prices.

These policies can create an appropriate atmosphere and positive framework for the entrepreneurship. They make official institutions less dissuasive, reduce the cost of entry into or exit from the market, and encourage investment and competition.

Many of the recommendations in this report are general ones. This is not a disadvantage as concerned policies benefit several activities. Their impact is far-reaching and is not confined within a limited framework. On the other hand, particular market policies need extended information about individual markets by themselves.

This study has been prepared by Dr. Toufic Gaspard and published in the book 'Emerging Lebanon. Towards an Economic & Social Vision', first edition, 2007. We publish it again here due to its importance, and because not much has changed in this area in the past years.

Supporting the Production Sectors: From Institutions to Programs

Small and medium enterprises (SMEs) draw a lot of attention in all countries due to their primary role in national economies in terms of creating new jobs, or in the development of areas remote from the main business centers.

In recent years, Lebanon did not lag in keeping up with new institutions and investments or in supporting them in many areas, especially in the financial realm. It did so through the development of programs and institutions meant to support domestic investment or to develop the technical, administrative and commercial capacities of those institutions. In many cases, they also received funding or technical contributions from international and regional institutions.

The development of policies for supporting investments in Lebanon

Since its independence in 1943, Lebanon adopted a free economic system based on a market structure and without any direct interference from the public sector, with the exception of the state monopolizing the licenses of some services which were considered essential, such as electricity, water, telephone, and audio-visual media, and the exploitation of harbors, airports and railways. Along with the private sector, the Lebanese State also invested in the internal public transport sector through the Railway and Common Transport Organization, and in the health sector through public hospitals and clinics, and in the education sector through public schools and the Lebanese University. The State was forced at times to get involved in some troubled institutions such as banks (especially Intra Bank and its affiliates) and Middle East Airlines. The same took place with regards to the country's two oil refineries: The Lebanese State took over the ownership of the Tripoli Refinery as a result of the nationalization of the oil sector in Iraq, and the ownership of the Zahrani Refinery as well after the closure of the pipeline which supplied it with crude Saudi oil.

In addition to making these direct investments, the State took steps to support a number of sectors and domestic productive institutions in order to stimulate investments in fields that were considered essential for growth, such as agriculture, industry, tourism, and craft work. Moreover, the Lebanese State funded the promotion

of the tourism, business and cultural sectors through its governmental agencies concerned.

The governmental support for the private sector centered around several initiatives, including: (1) Administrative decisions to protect the national produce from competitive imports either by increasing customs and tariffs or by limiting the volume of imports partially or totally (2) The creation of specialized financial institutions to support investment in basic sectors, by securing funding or assisting in marketing the merchandise (3) The creation of specialized programs managed by the private sector while being financed by the Lebanese State's Treasury.

What are the most important steps taken in this domain since the early years national independence to this day?

1. Protection through import taxes and tariffs

In this context, the Lebanese State's support decisions mirrored those which most other states do to protect national production from foreign competition, especially in the sectors of agriculture and transformative industry. Among the decisions made were:

a) Increasing customs duty with regards to the types of goods to be protected, such as what is currently the case for vegetables, fruits, wine, poultry, cheese, some metals, and the furniture industry.

b) Limiting total or partial imports of goods similar to products produced in Lebanon, such as olive, citrus, and cement, through the imposition of import licenses by the Ministries of Industry and Agriculture, or the adoption of calendars that prohibit the import of certain agricultural commodities at certain times of the year where domestic production is sufficient to secure the needs of the Lebanese market. In spite of joining some free trade agreements, Lebanon kept a number of these decisions in place instead of cancelling them following the adoption of a new customs law in 2000. That law was based on the removal of all customs duties and their replacement by a value-added tax combined with a flat import fee of 5% on all imports. But the objections made to this law by some economic sectors led the Lebanese State to re-impose tariff protection measures on some categories and abolish the 5% fee on others which were considered as advantageous to national industries.

2. Support to the productive sectors by Governmental Institutions

These institutions proliferated between 1960 and 1975, providing a variety of services from funding to marketing, through to supporting the prices of some input materials and securing some rebates to ease the producers' cost burden. The most important of these institutions are:

a) The State-owned tobacco Régie Company: This institution is responsible for supporting the cultivation of tobacco through the purchase of the national harvest at prices based on the estimated farmers' cost, and for manufacturing and selling it abroad as well. It witnessed several developments and played a positive role in the period before the outbreak of the Lebanese civil war in 1975, especially in the successful manufacture of the bulk of the national production in its domestic factories. But the deterioration of the security situation and the decline of the institution's administrative capacity led to the halt of manufacturing and to the rise of its operating deficit as a result of keeping the entire staff of the institution on the payroll, expanding the tobacco cultivation licenses, the decline in output quality, and the big reduction in the selling price to foreign markets. Some of these costs were brought under control in recent years, but the annual financial deficit remained high in the absence of any viable economic conditions to this type of agriculture or improving its productivity. Those burdens were exacerbated by overlapping political and social factors, namely the consideration of the support for tobacco cultivation as a measure necessary to ensure the resilience of the people of South Lebanon, where the bulk of this agriculture thrives.

b) The General Directorate of Grains and Sugar Beets: It is the institution in charge of the support of wheat and beetroot cultivation through its purchase of their harvests and securing their marketing domestically. Its action consists of buying the national crop at prices based on the cost of production, which is usually higher than the international market prices. The General Directorate of Grains and Sugar Beets set up a mechanism to finance wheat by consumers effectively, and not by the Treasury, as the Ministry of Economy and Trade - which is responsible for this institution - sells the national wheat production to privately-owned mills at prices higher than world prices to cover the actual cost incurred by the farmers, then the mills effectively incorporate those price differentials into their operational cost, which results in raising flour prices and the price of the ultimate loaf of bread onto consumers.

As for sugar beets, the Ministry actually purchases the sugar output extracted from it, and it pays for the cost of its production at the only available processing plant located in Al-Masnaa. This output is sold to wholesalers in the Lebanese market. In previous years, this exhausting support to the Treasury was abolished; however, the government decided to re-adopt it about 3 years ago. However, the stoppage that had occurred resulted in a large decline of the quantities produced. It's worth mentioning that the cost of sugar beet processing became high due to the old machinery and techniques of the refining plant characterized by a low production capacity and a high consumption of fuel. The cost of sugar beet support is presently estimated at \$ 12 million annually, borne by the Treasury; whereas the support for wheat reaches around \$ 25 million annually, borne by the Lebanese consumer.

c) The Green Project: This institution was established in the early sixties of the last century to help in setting the infrastructure and rehabilitation of agricultural land in all Lebanese regions. As such the project benefited a large number of land spaces across Lebanon; it also contributed to the distribution of a large number of seedlings and seeds, in order to introduce new types of agricultural products and to help in foresting some areas. With the entry of Lebanon in its major crisis in 1975, this institution's services declined and remained marginal to this day. The Green Project lost its equipment and administrative capabilities, so its role has been reduced to distributing seedlings and seeds without any clear and effective agricultural strategy.

d) The Agricultural Bank and the National Bank for Development of Industry and Tourism: Besides securing some services for the agricultural and industrial sectors, adopting tariff protections and reducing imports, the Lebanese government proceeded to the establishment of financial and banking institutions aimed at securing medium and long-term investment loans at low interest. Several industrial enterprises benefited from these loans; however, the depreciation of the Lebanese national currency (Lebanese Lira or Pound) that took place from 1984 until its exchange rate was stabilized in 1997 resulted in the erosion of the capital of these institutions and the marginalization of their services, which made them cease to exist.

e) The Investment Guarantee Institution: In the early eighties of the last century, the Lebanese State attempted to revitalize investment in Lebanon by giving guarantees to investors as to the risk of acts of war, and compensations for

the material losses that could result from military operations. The Lebanese State committed to cover those risks from the Treasury's funds in the event of any actual incidents. Only a few private investments subscribed; however, the Lebanese State was forced to pay significant compensations to the cell phone operators in 1996 due to the Israeli aggression on Lebanon of that year which hit their structures and equipment. The services of this institution were gradually canceled, in spite of keeping its administrative structure in place albeit marginally.

f) The National Deposit Guarantee Institution / Kafalat: After the Intra Bank crisis of 1966 the Lebanese State set up the Deposit Guarantee Institution with the participation of the Association of Banks in Lebanon (ABL). The institution aims to guarantee the money of depositors in Lebanese banks in the event of bankruptcy of any of the latter. It was funded through insurance premium installments at the rate of 2 per mil borne equally between the banks and the Treasury over the entire deposits of each bank. These premiums are still paid by the banks, but the Lebanese State stopped paying its share due to its financial difficulties and its argument that the decision of the Central Bank of Lebanon (Banque du Liban – BDL) a few years ago to play the role of guarantor of any bank bankruptcy makes the Deposits Guarantee Institution redundant as an organ of compensation for the losses of small depositors. Indeed, the Deposits Guarantee Institution did not engage in any compensation since its inception. Thus it was able to achieve significant financial accumulations, some of which were transferred to 'Kafalat' Company which was established in 2000 to insure bank loans in the basic sectors, namely agriculture, industry, tourism, crafts and IT. Kafalat is 75% owned by the Deposits Guarantee Institution, and 25% by the Lebanese banks. This partnership allows ensuring an independent public administration that operates on the sound management practices of the private sector.

Since its inception, Kafalat has been able to provide around 11,000 loans worth more than \$ 2.5 billion. The industrial sector had the lion's share at about 60% of the value of loans, followed by the tourism sector at about 32%, while the other loans were distributed among IT enterprises at 5% and agriculture and craft workshops at 3%. As for the geographical distribution of Kafalat's loan guarantee scheme, it was better spread in comparison to the totality of the bank loans. In fact, the distribution of Kafalat's loans across the country's regions was more balanced, although there was of course a large share taken by Beirut and Mount-Lebanon where more than 75% of the Lebanese economic activity is centered.

Kafalat has been considered to be one of the most productive institutions of support to Lebanese economic activities, and that for the following reasons:

- Effective management not subject to the conditions of employment in the public sector

- Benefit from the loan support program developed by the Ministry of Finance and managed by the Central Bank of Lebanon

- Secure Support from the Lebanese banks, these being at the origin of loans provided to investors and insured by Kafalat, in addition to being present all over the country. Those loans remain under the management of commercial banks and Kafalat provides loan guarantees to banks, not to borrowers

- The support which Kafalat receives from international donors to Lebanon, such as the World Bank, the European Bank, and the US Agency for International Development – USAID. These organizations have helped to develop Kafalat’s programs and expand them to include several investment aspects, such as raising investment ceilings, improving loan conditions, lengthening loan maturities, and allowing for covering new projects — Start ups – as well as raising the ratio of secured loans from 75% to 85%.

Evaluation of public institutions supporting the productive sectors

Except for Kafalat, the institutions in charge of supporting the essential economic activities can be placed at the rank of institutions inefficient and costly to the Lebanese economy and the Treasury. The reasons for this failure are multiple, including:

- Political interference in these institutions which affects employment. As in all public institutions, favoritism supersedes competencies and professionalism in management and appointments.

- The lack of a clear vision for the public sector, which reflects the same on the strategies of support to economic sectors. Plus, not following economic developments thoroughly enough to adjust the support systems that were developed at a certain time but are no longer effective.

- Low administrative capacity of these institutions, especially after the outbreak of the Lebanese civil war in 1975 and the decline in productivity in the public sector since.

- Limited operating costs, unlike the high cost levels that other public institutions supportive of the economic activity incur. Let alone that most of these institutions do not play any active role any more, but their operating costs remain

nevertheless in full effect. This is the case in many other public institutions which are completely or partially out of commission, such as oil refineries, railways and public transport organizations..., as these have not only maintained all of their employees on the payroll till now, but some give them productivity bonuses and engage in some extra hiring.

- Failure to make quick decisions to close those institutions or activate them again, especially if the required treatments are based on laws rather than on decrees or ministerial and administrative decisions.

- Weak managerial productivity in the ministries responsible for the implementation of some of the support activities, such as the Ministries of Economy, Agriculture, Finance, and Industry.

- Weak productivity and rampant corruption in many of the institutions meant to support the economy, in addition to being subject to political favoritism but not subject to any accountability or performance indicators for success and productivity.

The programs for supporting productivity sectors in Lebanon

Besides the institutions established to support the basic sectors in Lebanon, the Lebanese State set up supportive programs to activate the economic cycle and to deal with some challenges that inhibit the proper functioning of some economic activities. The most important of these programs are:

a) The Subsidized Loans Program: This program was developed in 1998 after the bank interest rate on loans rose significantly under the effect of accumulated public debt and high interest rates on Treasury bonds. This rise in interest rates led to a large shift from productive economic investments into the most profitable financial instruments. This created an orientation toward proceeds and revenues because of the profits earned by depositors and investors for many years till now. This exclusion from investment in economic activities which is biased toward financial instruments is known as "Crowding Out Effect". It results in depriving the economy from the investment necessary for the development and improvement of production resources. On the other hand, high interest led to inflating the financial burden of the companies indebted to banks, making them reluctant to borrow for investment and business development. Consequently, the government decided to create a loan support program and entrusted its management to the

Central Bank of Lebanon (BDL) in collaboration with the Lebanese banks, through charging the Public Treasury a part of the interest rates levied by the banks on the investors. This support was designated only for investment loans and not for operational loans, and the benefiting sectors were restricted to five, being Agriculture, Industry, Tourism, Crafts, and IT.

The available facilities were not limited to the Treasury bearing a portion of the interests, but the loans also benefited from extending their maturities to 7 years, along being given a grace period of a year or two depending on the investment sector. The launch of the program coincided with the establishment of Kafalat. This facilitated the granting of loans to small and medium enterprises (SMEs) by providing guarantees to investors who do not have collaterals of a financial or in-kind nature and who normally cannot get investment loans due to their non-disposal of such required guarantees.

Since the inception of this program, the cumulative number of its supported loans reached about 16,000 at a value of \$ 12 billion, most of which were concentrated in the sectors of industry (60%) and tourism (32%), and in the areas of Beirut and Mount-Lebanon. The distribution of these loans translated into 5% of the borrowers getting about 40% of the value of loans available, while 60% of the borrowers got 20% of the loan values.

According to the mechanisms in place at the launch of this program, the supported interest rate was defined at 7% for loans that are less than five billion Lebanese Pounds, and at 5% for loans between 5 billion and 15 billion Lebanese Pounds, the latter being the maximum limit per loan. And if the accumulated interests are calculated, the cost per loan will be at an average rate of 27.5% over the span of the loan's life of seven years. This meant that for each loan of one million dollars, the Treasury was bearing \$ 270,000 until it was repaid. This cost was considered very high, especially after the total of the granted loans reached one billion dollars in 2010 alone. In 2011 the interest rates were reviewed and consequently reduced to 4.5%, without any distinction in the size of the loan.

This program has allowed the encouragement of investment in the last 15 years and has helped to renew the machinery and equipment in several Lebanese industries, and to launch a large number of touristic establishments.

There are of course a concentration of the volume of investments in the main production areas of Beirut and Mount-Lebanon, but the outlying areas also benefited from this program since many of the heavy industries are located outside the main economic centers due to the existence there of the necessary real estate space needed by such large industries.

In addition, small and medium loans which benefited from Kafalat were distributed in an equitable manner on all Lebanese regions.

Over the past years, the sectors that were not covered by this program requested taking advantage of it too, but their demands were not met despite the promises which they were made. This negative response was due to the non-enactment of public budgets since 2005 on the one hand, and to the Public Treasury running the risk of financial exposure in the event of an amplification of the volume of supported loans on the other hand.

b) Loan programs supported by BDL: BDL did not stop at managing loans supported by the Lebanese Treasury, but also developed programs to support investment loans in a number of sectors that did not benefit from such backing. These programs varied on the basis of the objectives defined by the financial authorities, including support loans for the housing and construction sectors, as well as banking facilities provided to encourage investments in the environmental, energy-saving, technical and creative spheres. In addition, it worked toward expanding into other sectors that do not benefit from the supported loans program. This array of extra loan supports was considered complementary to those provided by the Ministry of Finance.

In this context, BDL's program facilitated for the commercial banks to put into beneficial use 60% of their mandatory reserves deposited at BDL, which were not earning interest otherwise. It allowed the banks to subscribe to Treasury bills, provided that the interest earned would subsidize the interest they charge to their borrowers. This program provides support to approximately 4% of the interest paid by investors to the Lebanese banks.

For the sectors which the Ministry of Finance's program did not grant loan support facilities, BDL set a ceiling per loan at 60 billion Lebanese Pounds or about 40 million dollars. And since the Ministry's loan support ceiling was at \$ 10 million, BDL

allowed investors in industrial and touristic projects to take advantage of its own backed loans for investments in excess of \$ 10 million.

BDL's program was a resounding success with Lebanese banks and borrowing investors, but it quickly reached its upper limits due to its association with the banks' compulsory reserve. For the banks were exhausting all the potential upon which that reserve could allow them to extend credit.

Besides using the commercial banks' compulsory reserve, BDL resorted to lending the banks at low interest for the purpose of encouraging applications for housing and the provision of loans for the purchase of apartments and houses, thus keeping the construction sector active. In the first phase, BDL did not specify ceilings for loans, but introduced them gradually. Today they are specified at 800 million Lebanese Pounds per loan. As for other sectors, BDL allocated a part of the loans for green projects that seek to protect the environment or for investments in energy savings means.

In 2014 BDL introduced a new kind of economic support through the allocation of loans for banks at low interest, to be invested directly in the capital of creative industries and modern technologies, not just through lending institutions. And despite the enthusiasm that the associated Circular No. 331 caused, this program faced implementation challenges due to the scarcity of available opportunities, and to the low capacity of the commercial banks to contribute in the management of these investments. So the banks set up investment funds or contributed to existing ones on the grounds that those funds would manage the institutions which they would invest in. For it was realized that this kind of fund management was different from the traditional business of the commercial banks, let alone that the banks didn't necessarily have the expertise in enterprise management.

It's premature to evaluate the latter program, especially in light of the current political and economic crisis which inhibits investment in the first place, even if funding was made available.

Besides securing loans to institutions and encouraging banks to invest in some creative activities, BDL, in cooperation with the Association of Banks in Lebanon, showed flexibility in the management of some commercial loans whose beneficiaries faced difficulties in repayment due to the current economic conditions. This was made possible through re-scheduling measures or securing exceptional funds to avoid those

institutions faltering or going bankrupt. These operations are conducted on a case-by-case basis and according to the particular situation of each institution, especially in the real estate sector, where collateral is available but is difficult to liquidate as a result of the stagnation that this sector is currently undergoing.

c) Agricultural Exports Support Program: About 15 years ago Lebanon developed a program to support its agricultural exports, to compensate for the additional costs which exporters incur at the land border crossings in their export operations to the Arab countries which attract more than 90% of these exports. These burdens arise from administrative decisions or arbitrary measures imposed by importing countries. These measures include: Fixed rigid times for trucks to circulate on their roads, waiting periods at the border, prohibition of filling their tanks from their subsidized fuel, subjecting them to administrative fees which are unjustified, and health control at strict conditions inexistent in the laws of international trade. Further, added constraints result from bribes and corruption in many of the customs services of the neighboring countries.

The management of the agricultural export subsidies program was assigned to the Lebanese governmental agency for the promotion of investments, IDAL, with the collaboration of international monitoring institutions, such as Veritas and TÜV. An effective monitoring mechanism was put in place to avoid manipulation and financial waste. This experience was considered one of the most successful programs of support to the agricultural sector, as it facilitated the flow of agricultural goods abroad on the basis of quality improvement and a commitment to the technical and assurance specifications necessary for the exporters to benefit from the system's refunds. The improvements had an impact on the domestic market, as they imposed on the agricultural traders to abide by agricultural production specifications and packaging certified for export.

This program met with some negative criticism, such as high costs on the Treasury and delays in the payment of refunds by the Ministry of Finance. All this had a negative impact on farmers, as the traders linked their purchase of crops, their pricing and their payment terms to the actual collection of refunds. This situation confused the farmers and brought them to accept such terms out of their need for cash.

In addition, this program was criticized for its lack of periodical evaluation and adjustments so that it corresponds to developments at the levels of production and the market. This particularly related to the linking of the refunds to the actual productivity

of exports since some refunds were sometimes more than half the actual value of exports (for example, watermelon and sweet potato exports) at a time when other exports needed higher refunds to allow them to compete and enter new markets. The refunds were not associated with quality improvements of the produce or with capacity building programs and advanced monitoring methods which would allow it to have an enhanced quality and to enter new markets.

From programmed support to crisis management

With the entry of the Syrian political crisis in its fifth year and given the negative repercussions of the “Arab Spring” in many Arab countries, the Lebanese economy and institutions face great difficulties in maintaining the earlier levels of growth and securing access to traditional foreign markets, especially to Arab countries. In the first phase of the Syrian crisis, the Lebanese exporting enterprises faced a big increase in the costs of export by land, but they were able to cope with this new reality, especially with a large part of these channels having remained open for exports.

With the intensification of the crisis, all land crossings gradually closed and became a few months ago totally blocked. Today, exporting from Lebanon can only happen by sea or air, which imposes high costs that cannot be borne by the Lebanese exporting companies. In addition, foreign entities, Arab in particular, hesitate to import from Lebanon in view of the difficulties that the Lebanese companies face to ensure exports are made regularly and certainly, thus putting the importers at the risk of unsteady supply lines and losses in case the Lebanese exporters fail to deliver timely. This is accentuated by the fact that most of the Gulf countries do not currently encourage imports from Lebanon on security and political grounds, and they prohibit their citizens from traveling to Lebanon. This ban resulted in a big drop in the number of Gulf tourists, which deprived a lot of Lebanese touristic institutions of their traditional customers who had a high purchasing power. Available indicators show that the figures in the luxury business sectors fell at high rates, with the decline estimated from 15% to 30% in the last four years. The current crisis is not only affecting the overall export sector, but the trade and tourism sectors as well, both effectively being part of the most important activities of the Lebanese economy.

In an attempt to mitigate the effects of these new risks, the Lebanese Government devised some alternatives to external transport by securing cargo ships, a solution that allows avoiding the Syrian land borders and channeling goods through Turkish, Egyptian and Saudi ports, on the basis of the Lebanese Treasury bearing a large part of the

additional cost. But these solutions faced technical obstacles, namely the lack of sufficient volumes for export in a periodical and regular fashion, let alone the exposure of exported goods to damage and pilferage due to loading and offloading at ports, and the inspection and control measures that accompany these operations, leading to delays in delivery times. Because of these difficulties, the Lebanese Government has been unable to secure regular services for exporters, especially that the Lebanese public sector lacks the right system that would provide a good management of these issues. Moreover, in view of the internal political and administrative stalemate, it is also difficult to resort to sub-contracts with the private sector, as the latter is not enthusiastic to take part in projects that are costly and have no clear objectives. Add to that the difficulty in securing the refunds from the Lebanese Treasury on time.

The Lebanese government is also trying to extend the validity of certain permits and the due times of some taxes in order to assist companies to overcome their financial and monetary difficulties. But the economic bodies view these steps as shy and short of helping business institutions to cope with the crisis. They also invoke the absence of a clear vision as those measures are associated with sole decisions by the Minister of Finance. Further, these measures are often seen as fragmented. The tax administration has intensified its tax controls on companies, especially the institutionalized ones, but its actions are criticized as being random and discretionary, as well as relying on a harsh interpretation of the laws and tax regulations. The economic bodies and sectors also consider that these actions obstruct the business environment in an already difficult crisis situation which all productive activities and companies have been experiencing for the last four years, and which is characterized by a lack of viable solutions in the short and medium runs.

The economic bodies do not consider that the flexibility in the application of tax measures helps tax evasion, but that it is rather necessary to stimulate growth, especially in light of foreign competition. In its annual report, the World Bank considers that Lebanon is one of the weakest states in securing an economic environment that fosters investment, and that it does not update its laws and administrative mechanisms in all aspects related to the business environment.

Development of future support programs to the economic sectors

In spite of the many disadvantages that accompanied the specialized institutions and the programs of support to the productive sectors, it remains important for the public sector to continue developing them. In the framework of a clear plan and

effective mechanisms that help to secure high productivity, this would support and encourage national production, and reduce as much as possible financial waste and the costs to the Treasury. The framework of this support is summarized as follows:

1. The adoption of a comprehensive plan for government support programs, as opposed to taking partial steps in a random and hasty manner which get enacted under crisis, or under pressure from economic sectors or political agendas.

2. Integrating the support programs together for best results. Benefiting from subsidized loans or refunds could be conditional to the beneficiaries being subject to training programs of their human resources or enhancing their managerial competencies or improving the quality of their product and its specifications.

3. No differentiation between economic sectors and activities, as in not considering agriculture or the transformative industry as primary sectors in contrast to the services sector which accounts for more than 80% of national production, especially that the Lebanese manufacturing and traditional agriculture are no more in a position to compete regionally and internationally, and clinging to them is costly and not economically viable. What's needed is a thorough study of policies and plotting them along timelines with definite milestones, deliverables and key performance indicators.

4. Periodic assessment of the programs, determination of their actual results, and comparison of those results to the objectives set at the time of laying out the programs. This assessment includes the costs borne by the Treasury or the citizen or any other institution on the one hand, and the financial, economic and social outcomes on the other hand, such as job creation or anchoring the inhabitants of rural areas in their regions.

5. Making the necessary adjustments as would be derived from regularly made assessment to avoid any financial downturns that would have a negative impact on public financial resources or would increase the burden on citizens in their consumption activities. Such adjustments would not be limited to the financial indicators, but would also include administrative corrections to the institutions and programs. In addition, they would take into account regional and international trade liberalization agreements which Lebanon has adhered to and whose effects the country will work on improving.

6. Not just relying on the programs of financial support for the Lebanese producers, but expanding the scope of programs to include training, capacity building, and targeting special categories of human resources, especially women and the unemployed, in addition to fresh university graduates and dwellers of rural and remote areas.

7. Developing guidance and administrative support systems, and motivating consultants and owners of large companies to support projects and SMEs for the purpose of providing them with the necessary expertise and advice that would enable them to improve their productivity, gain access to finance, and expand their markets, domestic and foreign. These endeavors would also include giving fiscal and financial incentives to SMEs in their project pioneering efforts, in addition to providing expertise and professional tips to their owners, which would overall be conducive to the success of their businesses.

8. Developing initiatives for the restructuring of the troubled institutions, and giving incentives to new investors to contribute to the re-launch of these institutions and to allow for their perpetuity, including the protection of the jobs they provide.

9. Attracting companies, domestic and foreign investment funds through various incentives, including giving them partial guarantees for their investments, such as those enjoyed by the banks under Kafalat, and allowing them to take advantage of subsidized loans.

10. Activating the Lebanese institution for exports support (LEBEX) through specific and clear programs, such as ensuring promotional operations in a way that the exporters co-funding promotional activities in foreign exhibitions would see part of their costs covered in case they could not afford to realize the appropriate level of sales in their target markets.

11. The launching of entrepreneurship centers in private universities and in all the faculties of Lebanese University in order to develop the students' entrepreneurial spirit and motivate them to launch projects based on their creativity.

12. Supporting the development of enterprises run by women through incentives, distinct policies, and specialized training, in addition to encouraging the creation of associations and initiatives aimed at empowering women in entrepreneurship.

13. Taking advantage of available international and regional programs to launch most of these initiatives. For Lebanon has long been on the list of beneficiaries but missed a lot of opportunities which those programs presented for helping in the success of its projects relative to the support of institutions.

14. Ensuring the success of these programs with the active participation of the institutions and professional associations of the private sector. For these can determine the needs and successful projects that would strengthen institutions and assist them in developing plans and clear policies that help companies to cope with the rapid changes taking place in the global economy.

Improving the Conditions of Productivity

The concept of productivity stems from development strategies in emerging countries; it usually leads to increased demand for labor, and directly affects the living standard. The situation in developed countries is no different, but better awareness leads to a more equitable distribution of income. The productivity of human resources depends on their culture, their training and experience¹, the number of hours they dedicate to their work, a good surrounding administration, not to mention their social motives and professional behavior. The production capacities of human resources increase as much as they can make good use of technical means and advanced IT tools. The productivity of an organization rises as far as it can make use of highly qualified personnel and sophisticated equipment, and implement effective organizational plans. But it is difficult to link the productivity of the enterprise with the overall level of productivity of the country. We also notice that it is not an easy task to know the detailed reasons for the improvement or decline in overall productivity. Does the production capacity of a country come from the total production capacities available to institutions and individuals? Michael Porter states in his book "Can Japan compete?"² that some rural areas in Japan are still without electrical power, and a worker generates the energy needed to operate machinery by his feet, using a device that is similar to bicycle pedals. There is no doubt that the productivity of this worker is very low and he would have a hard time competing in the free market. But the output produced by this worker represents part of the assistance that the State would have to spend on him if he was unemployed. This situation represents one aspect of productivity that is achieved by the country, and it points to means by which the prosperity level that a society aspires to can be secured at the lowest possible cost.

There are in Lebanon, and in many countries around the world, companies that witness an outstanding success. There are also agricultural and industrial firms, especially in peripheral regions, which still work at a very low productivity level and would collapse one after the other if the State did not pay them special attention, this

(1) In the book « The Human Capital », Gary S. Becker considers that culture, training, and experience are an investment in the intellectual capital which is complementary to material and non-material productive investments.

(2) Michael Porter "Can Japan Compete?"

coming at the cost of depriving the gross domestic product of their contribution, increasing the unemployment rate, and speeding up emigration. This is one of the weak aspects of the free market economy. That's why developed countries support the living standard of modest income groups through a social policy that provides education and free medical care to all, compensates for unemployment, and makes available training programs designed to adapt competencies and experiences of unemployed workers to available job opportunities. Some countries, especially developing ones, ignore their social responsibilities, arguing that they exceed their budget capability. This leads to a loss in human resources and a waste of the money that the country spent in order to raise and train them. The result is that poverty and social marginalization increase, and a larger part of society becomes open to destructive ideas in so much as the gap between rich and disadvantaged people widens. In this manner, productivity interacts in a three-way form: Social, economic, and security-wise. We do not need to analyze all these dimensions here, but we would like to highlight their inter-links.

Productivity in the creation and distribution of wealth

Some researchers tried to make the economy as exact a science as physics; they used mathematical tools excessively, and achieved remarkable progress in specific areas. But it remains impossible to formulate economic reality in narrow limits and imagine the future through mathematical models. The economy is still, and will remain, an integral part of the human and social sciences. Today the world almost unanimously believes in the market economy, after having experienced state-oriented economies which were supposed to ensure equality to all citizens thanks to their underlying socialist regimes. As it came out, productivity collapsed in those regimes, and the gap in the living standards widened both internally among their own citizens, and between those and citizens of free-market economy countries. The end result is that equality was not achieved at home, and those countries collapsed out of their sheer economic failure. After the Iron Curtain crumbled, free economy took a new course. As the specter of the communist threat dissipated, most countries moved away from a production-based policy to favor an idle *rentier* economy without worrying about the resulting unemployment by virtue of the increased offer. As a consequence, the income gap widened between the affluent class and the working class, and between developed and developing countries.

The International Monetary Fund (IMF) recently published a study stating that the expansion of inequality has been a characteristic feature of our economies in the

last two decades, and has become an obstacle to more dynamic growth, because it has led to diminished levels of fairness and balance in the distribution of revenues³. But what is the standard of justice in the distribution of income, if we believe arguably that the market does not achieve such justice and that the optimal competition is not automatically attained in the markets? It is easy to perceive that the growing number of unemployed and/or economic migrants will reflect negatively on the gross domestic product and lead to slower growth. Here we face a dual equation: - Growth will retreat when differences in income shrink a lot and people no longer take advantage of their activity and their capital, as was the case in communist countries; - Growth also declines when the income gap widens, according to the conclusions of the above-mentioned study, and many similar reports and studies as well. Therefore, we believe that it is more rational to talk about the “effective distribution” instead of the “just distribution” and define it as a way of income distribution which provides the highest rate of growth. Justice is achieved through a system that gives low-income earners the highest possible absolute income. So “effective distribution” will be one of the elements of the “productivity.”

GDP growth and evolution

We had to use the hypothesis of “the most effective distribution ratio” and determine its content and its impact on productivity, and therefore its role, in generating economic development or crisis. It makes sense to say that this ratio will vary depending on various communities, and that it will hover around an equilibrium point determined by the overall socio-economic system of the country. The openness of countries to each other and the proliferation of audiovisual means have made it possible for high-end communities to reach a natural convergence among them, so much so that a similarity in consumption habits and an interaction in social protection policies got instilled, which suggests that “effective distribution” has become fairer among communities than it was in past decades. But as in that period which started in the early nineteen nineties, there has been a growing inequity in income in the leading countries of the world economy, could that situation have been one of the major causes of the global economic crisis?

The evolution of the gross domestic product, investment, job creation

Growth fell abruptly in Lebanon in 2011 after the decision made by the Gulf States to ban their citizens from visiting the country amid its deteriorating security situation.

(3) J. D. Ostry, A. Berg, C. G. Tsangarides: “Redistribution, Inequality and Growth”; IMF.

Growth remained low during the following four consecutive years. It was accompanied by heavy losses which led to the closure of many touristic establishments. The commercial sector was also affected, especially in the retail trade which suffered a similar decline in revenues and profitability. However, the difference between these two sectors was that tourism enterprises (hotels, restaurants, cafes) being labor-intensive, could not bear administrative costs when the crisis extended to more than a few weeks, whereas trade establishments could sustain the burden longer owing to much less administrative expenses being part of their cost structure.

Productivity fell at the enterprise level as a result of falling demand, and this extended to the economy overall. The economic configuration became weaker, as it is based on tourism and vulnerable to security conditions. And the emerging demand resulting from displaced Syrians did not have an effect on the overall activity in recent years.

Table 1: Gross domestic product

	2014*	2013*	2012*	2011	2010	2009	2008	2007	2006	2005	2004
At current prices, billion LL	67,555	65,772	64,800	60,419	57,300	52,974	43,465	37,050	32,89	32,089	31,593
At current prices, billion USD	44.8	43.6	43.0	40.1	38.0	35.1	28.8	24.6	21.8	21.3	21.0
At constant prices 2010, billion LL	61,707	60,685	59,663	58,436	57,300	53,075	48,117	44,093	40,33	39,705	38,649
At constant prices 2010, billion USD	40.9	40.3	39.6	38.8	38.0	35.2	31.9	29.2	26.7	26.3	25.6
Real growth %	1.5	1.5	2.5	2.0	8.0	10.3	9.1	9.4	1.6	2.7	
Inflation %	4	2.7	4.6	3.4	0.2	10.5	7.5	3.1	0.8	-1.1	
GDP deflator	109	108	108	103	100	100	90	84	81	81	82

Source: Calculated by the author, based on the Central Administration of Statistics data

The decline in productivity resulted in a steady drop in exports, amounting to a total of 28% for the last two years. In parallel to the decline in economic activity, the competition from Syrian workforce resulted in a real decrease in salaries and wages; otherwise exports and the budget deficit would have declined further.

Of course, this led to less and less investment in the production sector, while inflows continued to be invested in the real estate and financial sectors, albeit at a milder pace; a trend which did not bode well on improvement in productivity, or on the stability of the employment rate.

Table 2: Exports

	2014	2013	2012	2011	2010
Total exports, billion USD	3,313	3,936	4,483	4,265	4,253
Annual change, %	-15.83	-12.2	5.11	0.28	

Source: Calculated by the author based on Customs statistics

Growth without development

The fragility of the economic situation in Lebanon emerged in recent years as a result of its poor recorded growth. It led to social conflicts that did not reach a solution yet – and it would be hard to find satisfactory solutions for these conflicts, most notably the calls for a drastic amendment of the salary scale in the Administration. Analysts considered that this requirement threatened the stability of the currency and would reflect negatively on the standard of living and on the growth rate which is already nil, due to the size of the State in the Lebanese economy. Others considered that the public sector employees did not benefit at all from the growth that had been achieved in twenty years.

The high growth in previous years has not translated into significant improvements in living standards, or in the areas of official education and public hospitals, i.e. in services that constitute the first concern for citizens. We also noticed, across successive periods of the national life, a clear divergence between economic growth and inclusive development. The nineteen sixties were in fact the only period in the national life that knew tangible efforts to achieve balanced development, thanks to the plan developed by Father Lebre⁴ at the request of President Fouad Chehab's government, which created administrative and social institutions that are still working to date, although with varying efficiency.

(4) Louis Joseph Lebre^t : *Besoin et nécessité du Développement au Liban*; Mission IRFED, 1964.

All development efforts ceased during the civil war. As a downside, regions suffered from isolation, economic decline, and the destruction of public and private facilities. They were also deprived from the care of the Central Administration and lost most of the State fundamentals. The period following the tragic events was characterized by a major project, the "Reconstruction of Lebanon." It was funded at 80 percent by local means and/or foreign debt that had to be supported by the Treasury later on. The late Prime Minister Rafic Hariri used to say when some people drew his attention to the mismanagement and graft taking place: What to do? Should we stop the reconstruction process? At least, we would have rebuilt the country. This was in fact the positive outcome, while the impact on development was limited, and the productivity of investments and the workforce did not improve.

Productivity mainly evolves thanks to improved administrative procedures and the creation of the most effective means to improve quality and reduce costs. This grows to affect positively all economic sectors, mostly the industrial sector. We read in the local economic literature that successive governments in Lebanon since independence did not want to promote industry, as they were afraid that poverty belts would spread around the cities and strong communist-oriented unions would be formed. In fact, we have not seen any proof of that presumed trend. It may apply to some politicians, but it was not the position of the majority of the political class to the point that it would cause a deficiency in industrial development.

Since independence, Lebanon has enjoyed political freedom and a liberal economy, which was unique in the Middle East, attracting capitals and talents from Palestine, Iraq, Egypt, Syria and other countries in successive waves. This raised overall demand, production, salaries, wages, real estate prices, and the living standards. The outcome was that imports grew, but industrial and agricultural output shrank in favor of services, especially those associated with tourism, real estate activity, and the financial sector.

It was rightfully said that "Freedom and liberalism are the oil of Lebanon", because Lebanon has suffered from the Dutch disease⁵ due to the influx of capital and investments in that period of time, exactly as was the case in countries that woke up to the extraction of large quantities of oil which led to the improvement of purchasing power and family income, as those factors boosted demand and imports

(5) Dutch Disease.

but also resulted in limited exports and local production, and they created a steady rise in unemployment.

The Soviet model

While talking about the Soviet Union, Paul Krugman stated in his book “The Return of Depression Economics”⁶ that although production increased significantly in the nineteen fifties and early sixties, it was coupled with little progress in productivity. The GDP increased significantly thanks to the massive mobilization of labor and investments, whereas overall productivity evolved at a very slow pace. This inherently bore a forecast that growth would stop in the near future. Krugman concluded that the overall weakness of the productivity at that time, despite the strong growth, constituted in fact an early warning of the problems that will be faced by the Soviet Union.

The Soviet Union in that period was not only the State that contested the United States in nuclear power, it even surpassed the latter in the space race and launched the first spacecraft, Sputnik. Ultimately, it lost the battle on the economic front, as it was inefficient in putting at the disposal of its people consumer goods which were seen or heard of as being available in the West. That additional dimension of productivity, which consists of adapting to a specific demand as determined by the markets, was lacking. Upon this reality, the ideological structure that lasted for seventy years and almost swept the world ended up collapsing.

The purchasing power

The purchasing power of a currency does not necessarily reflect a productivity progress in the country, as many factors may contribute to the stability, and even to the improvement, of the purchasing power of the currency. We have seen in this regard the “Dutch Disease” case, an appellation chosen by The Economist magazine in the late nineteen fifties to describe the situation that the Dutch economy reached after the exploitation of the country’s oil resources. This situation also applies to other countries where unjustified revenues have similar effects on the economic activity, including positive foreign transfers and opening up to huge markets for political reasons, as in the cases of Taiwan and Hong Kong, or the adoption of a monetary policy with wide margins in the credit policy, which limits productive activity.

(6) Paul Krugman: *The Return of Depression Economics*; Penguin, 2000.

In contrast, the improved productivity in a country has a positive effect on the purchasing power of the currency. The Mundell–Fleming model⁷⁷ proved that when there is a disparity in productivity between two countries that are intensively dealing with each other (or among a group of countries), the least productive country has to limit its salary rises, otherwise its currency will depreciate.

All things being equal, productivity contributes to supporting the exchange rate, while declining productivity has the effect of depriving the national currency of its most important stability factors. At this point, the Administration will control the money supply and increase the interest rates on lending; investment in the production sector will decline, and job opportunities will drop.

Productivity and foreign trade

Through imports, the economy ensures better access to production input, among which are raw materials, auxiliary materials, intermediate goods, ready-to-use items, and other services needed in the production and consumption operations. Through exports, the economy ensures that resources necessary to finance the import operation get secured, leading to more employment opportunities in the country. In Lebanon's case, the "trade balance of goods and services" denotes this activity, and forms part of the current account balance, with the remittances of the expatriate Lebanese to their families excluded since they originate outside the country.

The World Bank encourages all countries to work on leveling the foreign trade balance (goods and services), in order to stabilize the global economy. When this balancing occurs, it achieves the highest rate of productivity resulting from foreign trade, thanks to the investments that it introduces and the job opportunities that it creates in the production sectors. So what are the measures that can be taken to reduce the inequality of the foreign trade balance? We notice here that the Lebanese remittances support household consumption and do not differentiate between imported and locally-made goods and services, and also that foreign deposits are so hardly engaged in the production sector as to have an impact on job creation.

When transfers to Switzerland exceeded the capacity of the economy for investment, Swiss banks applied a negative interest rate on depositors. Nevertheless, depositors did not move away from the Swiss financial market, as this market offers

(7) Mundell - Fleming Model.

advantages that are more important than the interest they would receive in alternative financial markets. The Lebanese financial market attracts depositors thanks to several advantages apart from the interest. Depositors will not move away from it if the interest rate moderately declined but rating improved. We note here that the level of deposit interest rates is defined by competition among local banks, more than that of global financial centers. A moderate decrease in the interest rates may on the contrary contribute to improving the national production, increase exports, and encourage investment in the production sector.

Productivity and the labor market

Lebanon has a good record in vocational training, proof of which the jobs that Lebanese graduates are able to fill in the Gulf States. Of course this sector can be improved, but the Lebanese economy could hardly benefit from it unless there are much more investments in the production sector. This will not happen unless profitability returns to private sector institutions that are able to hire. Such a scenario requires the development of procedures for the enhancement of the investment climate (see Chapter IV). We note in this regard that actual measures are still applied in the least effective way. Some cases represent even bottlenecks to the development of the business environment, and they hinder all efforts. This negative role was at times linked to the security situation, and at other times to high interest rates or to electric power failure.

The problem in Lebanon does not lie in individual productivity, as talents are available in various fields, but in the workforce level as a whole. This workforce now counts nearly 1.2 million people, of whom an estimated twenty percent are unemployed. Therefore, manpower is actually less than a million people, including 235,000 public employees (the central Administration and municipalities). Workers in the private sector do not exceed 750,000 people in all professions combined.

Unemployment

The workforce size is impacted by the effective employment rate of women and young people. But these categories often enter the labor market when opportunities are available intensively. They are ignored by the statistics, as they do not seek work in endemic unemployment conditions. They often choose to emigrate before getting their first job in Lebanon. Thus, addressing the unemployment issue will also lead to straightening out the workforce's size in the country.

In the Thirty “Golden” Years which were dominated by Keynesian thinking, unemployment was considered the most important disease in the economy, and that it ought to be addressed by monetary and fiscal policies. This trend continued in industrialized countries until the nineteen seventies, when the fear from inflation that can be sometimes induced by full employment dominated the economic thought. The “Chicago School”, along with brilliant economists, some of them won the Nobel Prize in economics, and among them were Milton Friedman, Robert Lucas, Robert Barro and others, embraced “the natural rate of unemployment” theory. According to this theory, it seemed that every attempt to reduce unemployment by monetary policy (increasing the money supply by expanding the lending base) or financial policy (increasing public investment spending through deficit and debt) was a good measure. That theory was the dominant one in all industrialized countries until the outbreak of the global crisis in 2007, when it became clear that its perpetuation under the circumstances was bound to lead the global economy to suffer damages far deeper than those of the global crisis that swept the world in the nineteen thirties and lasted until around World War II.

We have already highlighted that our economic convictions pass through the human and social sciences, and therefore economic mechanisms are subject to the evolution of the overall situation in the national and international contexts. This is what happened when the world was convinced of the need to support endangered activities with public money. Industrialized nations spent huge amounts of money, a large part of which was probably useless, in supporting financial and real estate institutions exposed to downfall. The recourse to the Keynesian theory appeared circumstantial when the Greek crisis was being dealt with, but the application of the conservative dogma, prevailing before the crisis, failed.

That’s why we would be reluctant to adopt any theoretical view and only seek to set ourselves the goal of getting out of the rampant unemployment in the country. The US Senate has passed in 1978 a law⁸ requiring the US administration to maintain unemployment up to 4%. US economist Lester Thurow had presented a proposal in 1968 to lower unemployment to 3% in the United States “to remove the marginalized minorities from the vicious circle of poverty.” We therefore propose to adjust the unemployment in a better way that deals from now on with all who wish to work,

(8) Humphrey Hawkins Bill.

including young people who migrate in search of jobs, and put an interim target that does not exceed 8%, a figure that the Lebanese economy previously experienced.

The workforce

Out of the 4.16 million people of Lebanon, those who are in the working age reach 2.72 million. The effective labor force constitutes less than 45% of this figure, equivalent to 1,220,000, of whom less than one million people actually work, including 235,000 in the public Administration.

The European Union aims, since the beginning of this century, to reach a target for the labor force that is equal to 70% of the working-age population – that is between the ages of 15 and 64 years. This goal has been hampered by the global crisis, and the average proportion of the workforce in the EU is still around 65% of the working-age population. Therefore, we have to reach this figure if we would like Lebanon to join world progress. This goal becomes possible when unemployment moves down to the lowest level.

The labor force in Lebanon would become in this case about 1.768 million (65% of the 2.72 million). At an unemployment rate of 5%, instead of 765,000 as is the case now, the workforce available for private production would become 1.44 million (1.768 million minus 5% minus 235,000).

Economic policy options

Our world is different from what it was two or three decades ago. Political axes have expanded to the size of continents; at the same time, areas inside countries call for self-management and even independence. The EU seeks to tighten links with its natural surroundings; it created for this purpose the Union for the Mediterranean and merged with it to prevent any confusion. On the other hand, Catalonia is calling for independence from Spain. Similar examples are numerous in the past and present, and they will multiply in the future. Some States seek to join unions in order to strengthen their positions in the global economic arena; and regions are eager to get their independence in order to manage their destiny in their own way. It is important to know the magnetic forces in the world in order to explore the future.

Economic relations between Lebanon and the Gulf Cooperation Council

Trade exchange between Lebanon and Saudi Arabia represented 6.71% of the total trade exchange in 2014, coming in first place. Trade with the United Arab

Emirates constituted 5.74% and came after China (6.25%), but before Italy (4.63%). The total exchange with the Gulf Cooperation Council (GCC) countries reached 14.27% of our international trade⁹.

Only for the trade of goods, the Exports/imports coverage rate with these countries reached 84%, without regard to the services that have the largest size in the Gulf States. Exports rose 42% for the last seven years, and imports 35%.

Table 3: Trade with the GC

Exports to GCC countries				Imports from GCC countries		
Year	Value (thousand USD)	Volume (tons)	Percentage (%)	Value (thousand USD)	Volume (tons)	Percentage (%)
2007	648,333	440,971	24%	815,904	893,753	6%
2008	777,699	485,848	22%	1,177,258	925,056	7%
2009	767,241	414,807	22%	898,056	1,017,746	6%
2010	848,713	421,673	20%	1,174,312	1,121,697	6%
2011	816,249	429,692	19%	1,485,519	980,078	8%
2012	891,193	449,057	20%	1,517,835	1,120,803	7%
2013	884,105	444,617	22%	1,339,574	932,615	6%
2014	920,648	508,014	28%	1,102,492	664,881	5%

Source: Economic Studies Center at the Chamber of Commerce of Beirut and Mount-Lebanon

Between 1985 and 2009, Lebanese investments in the GCC countries reached about \$4.7 billion, or 57.4 percent of total Lebanese investments in the Arab countries. The largest share of these investments was in Saudi Arabia, valued at \$2.4 billion, then in the United Arab Emirates at \$1.5 billion and Kuwait at \$683.6 million. GCC investments in Lebanon are estimated at about \$11.4 billion, representing 92.7 percent of Arab investments in Lebanon. The largest share is sourced from Saudi Arabia at \$4.8 billion, followed by the United Arab Emirates at \$2.9 billion and Kuwait at \$2.8 billion.¹⁰

(9) "Econews" Bulletin, Issue 43, 5th April 2015.

(10) Economic Studies Center, Chamber of Commerce in Beirut and Mount Lebanon.

The estimated value of Lebanese expatriates' remittances was more than \$8 billion in 2014, half of them from Saudi Arabia at about \$4 billion, then \$2.5 billion from the rest of the Arab Gulf states and \$1.5 billion from the rest of the world.

Lebanon's role in the Union for the Mediterranean

The Union for the Mediterranean was created in 2003. It has since been a debate topic between its two sets of adhering parties: The first was considering it as a project for the Mediterranean, similar to the European Union; the second saw it as an economic need. But there was no agreement on the creation of an extension entity to the EU, especially that there are four EU countries on the Mediterranean (Italy, France, Spain and Greece), as well as Portugal, which is almost located on the Mediterranean, and the Baltic Sea countries. Everyone was convinced that Euromed, which includes European and Mediterranean countries, was a necessity to sustain the competition with the giant economic groups that share the world, especially the United States, China, the Association of South America's 'Mercosur' countries, and the Group of Asian States 'Asean'. It was finally agreed to create a "Union for the Mediterranean", bringing together 43 countries. Referring to its economic role, it was nicknamed a "Union of Projects" needed to raise the level of the Mediterranean countries, so that the region could play its role in promoting equal opportunities in the global trade.

Lebanon's privileged location between the Gulf and the Union for the Mediterranean, and its integration in the economies of those two groups, should help it play an important role in the spheres of investment, finance, and transfer of technology and expertise between the two groups. This is not only a key driver for the Lebanese economy, but it is also beneficial to the two groups, and is one of the elements of the country's natural productivity.

Cooperation with the Southern Mediterranean countries

The trade deficit is a major economic burden on Lebanon in terms of the unemployment that it induces. It is supported by the country because it is compensated by the financial flows. But these inflows do not compensate for the loss in the overall production capacity and development.

The deficit is increasing in Lebanon, as the country imports high-value-added consumer goods, while it exports agricultural crops and raw materials. This is the very nature of foreign trade with industrialized nations, which accounts for ninety percent of southern countries' trade, including Lebanon.

Despite the agreements concluded by the Arab League, especially the Greater Arab Free Trade Zone Agreement and the Agadir Agreement, as well as the recommendations of the World Bank, the pattern has not changed. Apart from the unbalanced trade balance in goods and services, there is no room for economic stability unless it is based on the creation of enough job opportunities.

However, if southern countries were to find a way to develop their multilateral economic relations, everyone's interest would be met. Until this is achieved without jeopardizing the free market economy, investment should be developed in modern industries and in branded goods required by the markets. This supposes, first of all, the adoption of an active policy to encourage investment.¹¹ We refer to this now in order to link it with the productivity enhancement means.

Internal organization and administrative decentralization

The World Bank Group issues a yearly report about the easiness and/or difficulty of doing business in each of the 189 countries concerned. At the end of 2014, the projected figures for 2015 were released in the 'Doing Business in Lebanon' report. They showed that Lebanon ranked 104 on the 189 countries scale, drawing back two notches from the previous year.

The most important obstacles were identified in construction permits (rank 164), resolving insolvency (rank 136), starting a business (rank 119), access to financing (rank 116), and enforcing contracts (rank 110). The Lebanese Administration is characterized by a despotic bureaucracy, which is theoretically justified by its mission being to secure good transaction practices, but this often constitutes a cover for bribes.

(11) Refer to this book's Chapter 4.

Table 4: Doing business in Lebanon

Rank	2015	2014	Change
Starting a Business	119	112	-7
Construction Permits	164	159	-5
Getting Electricity	57	53	-4
Registering Property	106	104	-2
Getting Credit	116	111	-5
Protecting Minority Investors	106	102	-4
Paying Taxes	40	35	-5
Trading Across Borders	97	96	-1
Enforcing Contracts	110	110	0
Resolving Insolvency	136	133	-3

Source: World Bank group, Doing Business in Lebanon

We should make a proper comparative measurement between the cost of lost time as a result of such bureaucratic practices, and the risk that we could face if we decided to reduce administrative steps which are not useful to achieve a transaction. The Administration did not neglect injecting IT into its processes, but it did not reorganize transaction procedures in its departments in an up-to-date manner. In addition, it did not create a central organism that would help in the adoption of advanced technical means and seek to facilitate and activate transactions in a modern and coordinated way, a key requirement for smoothing out business transactions in Lebanon and their follow-up.

Lebanon's ranking in doing business explains why foreign investment shies away from the country's production sectors, while it attracts abundant investments in the financial and real estate sectors.

Administrative decentralization

Decentralization is important as part of this research to the extent of its contribution to the improvement of productivity in administrative work and/or the associated production achieved by the private sector. The Lebanese system practices administrative decentralization at the municipal level, as the municipal council is elected by the local population, and the law gave large powers to local officials (Article 50 of Legislative Decree 118). These especially cover the establishment and management of public schools, nurseries, vocational schools, public housing, public restrooms, swimming pools, public hospitals, sanatoriums, dispensaries, museums, public libraries, theatres and movies, clubs, stadiums, means of local transport, and public markets, i.e. most of

the facilities related to the process of regional development. But the law did not give the municipality the needed funds to achieve these projects, nor did it give municipalities the authority in administrative areas that the central authority would like to retain. The central Administration has made up for this deficiency by adopting its own decentralization, as it established in the regions local branches for its departments which deal with citizen affairs.

The Committee that was formed to prepare a draft administrative decentralization law, headed by then-Minister Ziad Baroud, rectified these lacunas and submitted its report in 2013. The project aimed at liberating the elected local authorities from the central Administration, and at providing them with large and effective prerogatives through administrative and financial autonomy. It submitted them to subsequent audit only while stressing on the sovereignty of the municipal prerogatives and finances, and considering the Caza a "decentralized" area. It also introduced a "decentralized" fund that replaced the "Independent Municipal Fund", to be run by an elected council and to be applied within specific procedures which fulfill municipalities' needs according to balanced development criteria. It supported the public-private partnership in order to achieve inclusive growth, in addition to a number of administrative reforms aimed at supporting creative initiatives in the regions.

The adoption of the administrative decentralization draft law will lead to the enhancement of the productivity of both the local administrations and the private entities that interact with them. As a result, the emerging situation would be characterized by the following elements:

- The rise of competition among municipalities, inciting them to always strive for the better to satisfy the public opinion which would compare and build its judgment based on the achievements realized here and there. Despite the present limited capacities, some municipalities, especially some federations of municipalities, have excelled in their developmental work. If financial capabilities were assured to all, success stories would be expected to abound much more at the levels of municipalities and Caza;

- Municipal council members will have to compete for office on the basis of development programs instead of patronage by local leaders. This will pave the way to young people willing to carry out responsibilities to devote themselves to the cause of public affairs;

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- The supervision that will be exercised by the public opinion, and the comparison among local authorities in different districts, will reduce the administrative sluggishness, bureaucracy, corruption, and nepotism;
 - This would overall open opportunities for free initiative and creativity, with both combining to form a productivity engine whether in the private or public sector.

The welfare State and the free market economy

The welfare state was created at the end of the nineteenth century, driven by the feeling in some developed countries that there was a need to pursue a social policy that provided protection for citizens from risks encountered mostly by the most vulnerable ones, especially when they would lose their jobs or reach the retirement age. The first organized measure to cover healthcare was taken in the UK, following the Lord Beveridge Report of 1942. The State took in charge health services for the entire population albeit at the minimum amenity level, and funded it through the State budget. France followed in 1945 by the establishment of a dual system based partly on State aid, and partly on an insurance system which is funded through the contributions of the beneficiaries and the companies in which they work.

The welfare state grew during the economic boom that followed World War II, but countries started facing difficulties in implementing their social policy starting from the nineteen seventies, a difficulty followed by growing financial deficits. This was due to lower growth, a higher rate of poverty and exclusion, and notably an increase in the number of retirees relative to the labor force by virtue of the demographic evolution that took place as a result of medical progress and the spread of health care.

The market economy, which dominated from that period on, caused a decline in the size of the State: First, because the heavy taxes that the welfare state needed effectively hindered economic activity, and secondly because the State's intervention in the economy ruled out the private sector and led to unproductive monopolies. The market economy differs from the capitalist system, even though it thrives under that system, as the investment, production, and consumption are determined according to supply and demand, regardless of the ownership of the production means. The market economy has achieved high and sustained productivity in the West, ultimately contributing to the collapse of the communist system which was based on centralized planning and decision.

The market economy did not push countries to abandon the social responsibility they had practiced for half a century, but these countries no longer strived to develop it. Some social systems, such as health insurance, did retract even in developed countries. Emerging countries declined from carrying out necessary social obligations, such as old age coverage and unemployment insurance, as is the situation in Lebanon so far.

Unfortunately, economic and social disparities rose between industrialized and developing countries since the demise of the communist threat, while the poverty and marginalization rate rose in most societies. The percentage of people below the poverty line reaches 30% in a large number of emerging countries, and in industrialized countries even, the situation being worse in developing countries. It's a situation that contributed to stability risks and security threats in many parts of the world.

Joseph Stiglitz sees no alternative to the market economy, but he believes that it is unable to perform its role because of the disparity of information handled by the markets, and therefore the State should have a leading role in organizing the markets and straightening out the track, in order to allow the market economy to reach its full dimensions.

The organization of public utilities

The study on health policy in Chapter 15 of this book concludes toward the need to transform the Ministry of Health into a regulatory body, and to transfer the administrative and/or trade activity that the Ministry is practicing through the import and distribution of drugs, the hospitalization of patients, and other tasks, to existing institutions, such as the National Social Security Fund, or to newly devised ones. This is compatible with Stiglitz's theory adopted by most economists, namely that economic freedom, a source of productivity, does not automatically exist in the market economy, and does not materialize unless it is imposed by a regulatory body that has the proper knowledge and authority.

In recognition of the need to regulate and control the markets, the Lebanese legislator created a regulatory body in the field of telecommunications and in the field of oil and gas. We wonder now how effective they have been. The regulatory body has prerogatives, but it is the concerned Ministry which answers to the government for the sector. Accordingly, it is difficult to overcome conflicting interests and underlying differences. So we consider that the Ministry should be the regulatory

body which exercises planning, awards investment licenses, exercises control and supervision, and determines the proper execution terms. It should leave to private administrations the conduct of the routine affairs that take 90 percent of its time, let alone delegating it to the local administrations after the extended decentralization would be put in application.

Modern orientation for production

It is in the nature of markets that certain activities become obsolete whereas others emerge. This constitutes the basis of the commercial profitability for a company, and the basis of the GDP evolution. This conversion constitutes an aspect of the market economy's intelligence. The more a country is able to produce sophisticated goods and services, the greater the income per capita and the national standard of living. This is related to technical development, and the ability to create, innovate and build a value chain in all production areas. The State plays an important role as a catalyst for meaningful activities, and a controller to curb monopolies and illegal competition, as well as the organizer of international relations and trade agreements.

In recent years, a significant development occurred in the Lebanese economy:

The share of services in economic activity increased despite its already high percentage share. This led to a severe crisis when tourists stopped flowing into the country starting 2012 – which suggests that Lebanon needs diversified economic activities which are less affected by the political and security conditions.

Investment in the productive sector vanished, despite the fact that Lebanon attracts annually about three billion US dollars as real estate investments, which suggests that the productivity of the country is low (but not the productivity of young people who find worthy work opportunities abroad). That's why more efforts should focus on the enhancement of the investment climate.

Markets have evolved towards "quality" as a result of the income concentration in the hand of the privileged classes. This led to the unexpected proliferation of franchise ventures for the most important foreign brands, and was in turn a catalyst for the creation of distinctive Lebanese brands and their spread to Arab countries, even Europe.

Economic and social choices

According to Adam Smith, the best results for a society are achieved if each person was allowed to take care of its own interests. This is how the market economy achieves the highest domestic product, provided that everything that restricts the freedom of the market players was removed. Economic factors that improve productivity are related to the following:

- The investment climate, where there are in the front line conditions that only the State can control. If the State did not give all competing producers similar opportunities, the individuals would not be able to compensate for it via their own means. This is particularly true in the example of investment law, trade agreements, customs protection, energy price, labor law, access to finance, credit interest rates, indirect taxes, social burdens, and other restrictions that govern the production process.

- This does not mean that the State can address all those matters. It is, however, always able to control a number of costs that are commensurate with the human energy cost, so that the country is able to balance the imports and exports of goods and services.

- Reduction of monopolistic practices and unfair competition. For that goal, exclusive agencies should be eliminated, agreements on prices and/or quotas forbidden, and initiatives taken to reduce the number of undeclared companies and offer them the necessary incentives for the application of the law.

- Maintaining the level of education at all school stages, as well as university education and vocational training; linking universities and vocational schools with the private sector.

Total Factor Productivity

The Total Factor Productivity, as defined by Robert Solow, economist and specialist in economic growth, constitutes the highest productivity rate that an economy can achieve out of the productive energies that it enjoys. It is created through the most efficient interaction among the various production factors as defined by Pareto: i.e., when it is no longer possible to increase one's satisfaction without diminishing another's satisfaction, through making any change in the allocation of resources.

In other words, all things being equal, the best productivity is achieved when the State determines for certain what resources the economy needs more.

In the final analysis, we can note the following:

- First: Unemployment inevitably leaves behind a part of the production capacity available in the country outside the scope of the production field;
- Second: The percentage of the current manpower out of the total working age population shows how effective the human resources in the country are, particularly women and young people who have a low percentage of participation in the actual workforce;
- Third: We wonder if low employment is due to lack of investment, and consequently of job opportunities, or to an economic recession that pushed a number of enterprises out of the production cycle;
- Fourth: We wonder if the current economic system stimulates enough research and development in order to achieve creativity and innovation which constitutes on the one hand the productive base, and on the other hand the feasibility of existing activities;
- Fifth: The absence of foreign direct investment in the production sector reflects the poor investment climate in Lebanon, as well as relates to the findings of the 'Doing Business in Lebanon' report that ranked Lebanon 104 among 189 countries.

For example, we may ask some questions about the economic policy, in terms of its impact on productivity:

- With our firm belief in the opening-up policy, was the signed Partnership Agreement useful before adjusting the productivity of the economic activities, which collapsed as they have not been adequately prepared to openness? The Ministry of Economy bears a large responsibility in this regard;
- What is the cost of the ailing energy-intensive industries, knowing that they constitute the most modern industries?
- What is the cost of the electric power sector, in addition to the financial losses incurred by the State as a result of EDL's continuing deficit, if we took into account the waste resulting from electricity generation in homes and neighborhoods?
- What is the impact of the crowding out that the State has caused in the financing market, by excluding the production sector from this market because of the high interest rates resulting from the growing public debt? The Central Bank is trying to compensate for that policy by granting credits with reduced interest rates in various fields, but this measure cannot activate the economy, although it's alleviating the damage.

Investment in the production sector

In economic terms, the benefits of money inflows to Lebanon, whatever their source and destination, are limited to the willingness to invest those funds in the production sector. If that happens, the investment would indicate that the bad productivity in this sector has been alleviated, and the competitive capacity of the economy has been restored. This investment will create work opportunities which Lebanon is in dire need of, in order to manage its unemployment currently estimated at 20 percent, and to generate an increase in the workforce which now accounts for less than 45 percent of the working-age population (between the ages of 15 and 64 years), so that the proportion could become 65 percent of the total.

Incoming money targeted at families' consumption only develops imports, though we acknowledge that there is a need for these inflows due to the massive youth emigration. Likewise, real estate investments develop inflation.

It transpires from this analysis that improving the production sector is a priority for the Lebanese economy. This invites a comprehensive new look, which goes beyond the considerations that have so far prevented the development of the Lebanese economy:

- We should improve the investment climate – we already developed this topic in the fourth chapter – so that Lebanon could reach an acceptable rank in the international Doing Business list. That's because relationships with the outside world for small countries, including Lebanon, are a much more vital need than for large countries. We have seen that the Lebanese economy is integrated to a large extent with the economy of the Gulf, and the investment climate gets reflected dramatically on Lebanon, positively or negatively;

- Work should be done to secure a better balance among sectors. The tourism sector undoubtedly constitutes the most feasible activity of the Lebanese economy due to the openness of this economy and its association with the Arab world. But it is very much influenced by the security situation, a crucial factor which we do not have control over. First and foremost, the fragility of the security situation reflects on tourism. Due to this fact, there is a need to develop less feasible sectors, but characterized by a better immunity to security conditions;

- The inter-sector parity must interact with a similar trade balance parity, covering the trade in goods and services, namely in view of promoting employment in the country. We have seen that both unemployment and the low percentage of the workforce are major obstacles to the level of productivity that is compatible with the country's potential;

- Lebanon has a large Diaspora abroad that enjoys a very high potential. It is also eager to strengthen relations with the motherland, and to contribute to productive investment and sound economic relations if Lebanon fulfilled its duties towards them: Recognition of the Lebanese citizenship to their children and grandchildren, and the right to vote abroad.

Redirecting investment to target the production sector is the main entrance to improving productivity in Lebanon. Therefore, we should not question if this is possible or not. Whatever the cost, it remains the only guarantee for the stability of Lebanon over the long term.

The capacity for implementation

What hinders the improvement of productivity in Lebanon?

Several things do:

First of all, bureaucracy; second clientelism; third corruption; all followed by indifference and a weak faith in the possibility of change. On the other hand, there is a core force that seeks to promote governance and transparency, and believes in democracy, human rights, and that continuing the current approach would lead to perdition. Society evolves and development occurs in leaps, after people get tired of waiting for many years for change to materialize. So there is no room for despair, and people who believe in this country still have to work on establishing good governance, hoping that they may become the weighty majority.

1. It is not easy to give up bureaucracy, which is defended by some on the grounds that it guarantees the administrative processes. But it hides a lot of corruption by obscuring transactions so that they can only be solved by bribes. Advanced societies have abandoned bureaucracy and are following today modern and flexible management systems resulting from public administration having evolved toward the Public Management. The Lebanese Administration benefited in the past from Canadian experts recognized worldwide in their specialty, but their suggestions were not applied;

2. Nepotism sometimes takes a partisan character, other times sectarian; it seeks most of all to guarantee voters. Some believe, perhaps rightly, that they can only find jobs through the leader whom they defer to. The behavior of some justifies the behavior of others, so it is not feasible to address this disease before finding solutions. I think the

only solution is to adopt public policies that provide job opportunities matching the size of demand;

3. From nepotism emerges the “Lebanese formula”, i.e. equality among the religious sects in the Administration, particularly for employment. Some consider that this situation does not hinder the Administration, as we can choose the best human talents from each religious sect. But this is a serious error known as the “Impossibility Theorem”¹². This has been proven repetitively by experience.

4. Lebanon is not a unique case when it comes to the spread of corruption and bribery. But what is needed is to work on spreading awareness about their bad consequences on economic growth and social development. Corruption should not be viewed as a natural disease that society has to cope with. The denunciation of corruption constitutes the first step toward eliminating it.

5. When the State takes charge of its social obligations, this does not limit its economic potential. The opposite is true, as this will develop the workforce, prevent the emigration of young people for economic reasons, and achieve the “total factor productivity” that we seek to achieve.

(12) Kenneth Arrow : The Impossibility Theorem.

Foreign Direct Investment: Returning Lebanon Gradually onto the World Investment Map

The Foreign Direct Investment (FDI) is one of the main factors acting as an incentive for growth in Lebanon, not only due to its direct positive impact on the national economy's activities, but also because of the positive psychological effects it generates on the general economic atmosphere, knowing that such changes will put Lebanon back on the international investments scene, which investors were regularly away from, owing to the political instability in Lebanon since 1975.

The liberal economic system adopted by Lebanon since its independence in 1943, as well as its unique hosting economic environment and active human resources, had all allowed Lebanon to attract foreign investments of all types and in various sectors.

Historical Development of Foreign Investments in Lebanon

In the early years of its modern history (1943 – 1975), Lebanon attracted international foreign investments, mainly from developed industrial countries which used Lebanon as a main platform to serve the Levant countries of the Mediterranean Sea all the way to the Gulf States. Foreign investments were not limited to commercial mediation transactions and exchange of goods and services; they targeted real production in many sectors where those investments played the more important role, such as cement, food products, water and beverage bottling, transportation, distribution, production of oil and its derivatives (refining), as well as insurance, banks, education, media and advertising.

Lebanon attracted as well a large number of non-Gulf Arab investors from neighboring Arab countries, because of forced immigration (Palestinians) or as a result of economic policies adopted in many countries such as in Syria and Iraq, where the private sector's role was reduced and investments nationalized, which constrained many Arab businessmen to establish their production, commercial and service units in Lebanon.

There are many examples of foreign investments in Lebanese economic sectors; foreign banks for instance dominated 75% of the banking activity till the year 1975, whereas we had to wait till the early nineteen-seventies to see the first General Manager of one of the Lebanese insurance companies among one hundred companies operating in this field.

As for the oil sector, the majority of the import, refining and distribution operations were funded by international foreign capital, in addition to numerous factories scattered in many Lebanese regions.

These investments were not limited to subscriptions in capital and money transfers; there were many foreign supervising managers and technicians on the Lebanese territories working hand in hand with, and training, the Lebanese workforce on production, sales, distribution, and management operations.

"Lebanonization" of productive sectors

With the beginning of the security troubles and military operations in 1975, termed the Lebanese Civil War, Lebanon's investment image changed and witnessed deep changes that led at first to the flight of the vast majority of the foreign labor and skills; later on, with the prolongation of war, many foreign companies closed, foreign capital was withdrawn and shares transferred to Lebanese partners, while regional services provided from Lebanon were suspended.

All these companies transferred their activities to regional capitals and states, and most of them moved their Lebanese managers and employees to the new countries where they settled. This caused Lebanon to lose many active human resources. This "Lebanonization" took place very quickly, along with the withdrawal of foreign capital.

Lebanon lost all its regional and international foreign markets, its national economy declined enormously in production operations, and the flow of investments reversed course. As a result, most Lebanese companies were obliged to establish production and service units in substitute countries to serve customers who left Lebanon, or they were in search of new markets to compensate for their losses in Lebanon.

Change in Foreign Investors Identity

Once the peace and security were restored at the end of 1990, and the reconstruction works were launched, foreign investments returned to Lebanon,

although at a slower pace than expected. However, the identity of foreign investors changed, and the sectors attracting foreign investments as well. Available statistics on foreign investment sources indicate that non-Arab foreign countries' participation is shy and represents only a small part of the investments, being limited to some partnership projects in the public sector, such as in telecommunications, touristic projects, hotels or transportation (companies...). Other forms of foreign investments appeared in relation with management contracts and franchise activities based on promoting global trademarks, especially in the fast food industry (McDonald's, Burger King..) or in the jewelry and garments sector (Louis Vuitton, Hermes, Chanel..).

In that context, it is important to note that Lebanese companies were able to develop and export their own trademarks through management contracts and franchise, mainly in the food industry. Many restaurants and commercial shops of a Lebanese identity opened in many Arab countries (Wooden Bakery, Casper & Gambini's, Zaatar w Zeit, Kababji, etc.). In doing so, Lebanon was the only Arab country that succeeded in developing brands capable of achieving wide appeal to Arab or Levant consumers.

How to approach FDI models?

There is naturally an international definition of the FDI concept set by international organizations, such as the International Fund Corporation (IFC) and the World Bank, and based on the ownership by a foreign investor of the whole or part of a national company capital. The minimum percentage fixed by the World Bank is 10% of the capital of the target company, and is considered to be sufficient to enter in a long-term relationship that could contribute to changing management patterns and setting a new approach to the production, marketing and exploitation methods of the target company by the foreign investor.

Multiple factors and conditions exist to determine foreign investments in Lebanon, including the following:

- a. Production unit must be subject to tax on profits in Lebanon.
- b. It must have fixed assets and a sufficient number of permanent employees.
- c. Its accounting and financial records must be different and separate from the mother company abroad.
- d. It must directly perform all production and commercial transactions related to goods and services.

- e. It must be directly involved in sales, marketing and promotional operations, and issue billing invoices.
- f. The unit located in Lebanon must cover all expenses resulting from its operations within Lebanon.

What are the FDI specifications in Lebanon?

Foreign investments take various forms and a varied methodology, each having its own characteristics and effects on the company and local economy. Globalization developed more forms of foreign investments due to the facility of commercial and service exchange and money transfers. Definition of FDI has subsequently expanded to cover multiple operations, including:

1. The green investment based on the establishment of complete new companies such as building new hotels or creating previously-inexistent industrial or commercial units, not via acquiring existing assets and properties. There are many examples of the same in Lebanon; in the past few years, many foreign investors injected large funds in many new companies, especially in real estate development, distribution and warehousing activities, as well as in hotels, retail companies, and transportation companies, etc.

2. Acquiring equity in, or acquiring existing Lebanese companies. Such foreign investments are considered to be the result of strategies and plans set by foreign big companies, not necessarily because they are drawn to the internal Lebanese market, but for the following main reasons:

- Expanding their activities outside traditional markets, for they regard Lebanon as having promising investment opportunities, either for its internal market volume or just for their presence in the Lebanese market being considered as one in a trend setting market. Indeed, many marketing and promotion foreign managers believe that their company's presence in the Lebanese market strengthens the brand and enhances the company's commercial image, especially in the retail and distribution industry.

- Buying shares in existing Lebanese companies is not limited to Arab and Gulf investors; global companies do so as well within their strategic expansion plans. Nestlé, for example, bought the first Lebanese water bottling company in order to

dominate the larger part of the Lebanese market, and Heineken, the international beer brewing company, bought Almaza breweries and Laziza trademarks, and became the only player in the Lebanese beer market, within its strategy to assert itself as the world's category leader, knowing that it made similar moves in most MENA countries.

3. In addition to direct investments in Lebanese companies whose management was transferred to their foreign partner, the Lebanese market witnessed many Lebanese companies being bought by Arab and Gulf capital or investment funds which acquired the larger part of the capital but kept the local management, as happened with the Credit Libanais Bank, bought by EFG-Hermes, or the oil derivatives distribution company.

4. Partnerships with the private sector in some government projects on BOT- Build Operate & Transfer basis (e.g. Mobile phone companies) or on sub-contracting basis (Subscribers and Collection Department at EDL- Electricité du Liban, the country's prime electric power institution). In this context, many partnerships were achieved through joint ventures between Lebanese investors and foreign partners. This kind of joint projects, between the public sector and private investors, with foreign investments in the lead, was expected to grow more considerably, but the mismanagement and bad governance in the public sector, added to internal political conflicts, prevented the execution and achievement of privatization projects, although decisions in that respect were taken repeatedly.

The difficulty of partnerships between the private and public sectors mainly resides in the failure currently witnessed, for instance, in the oil sector in Lebanon. Despite all projected opportunities, the promulgation of a law in that regard, and the launch of the first public tenders, the national commission in charge of the management of this sector, LPA- the Lebanese Petroleum Administration, failed to approve the final bidding process which would have ultimately awarded major corporations the prospection and exploitation operations in that sector, let alone that it's expected to become the most substantial platform for foreign investments.

5. Management contracts and franchise: To bring private Lebanese companies back onto the world map of quality and best services provided, especially in tourism and trade sectors, many Lebanese companies resorted to management contracts with global brand owners to enhance their image and turn their projects into

successful enterprises. Many hotels and Lebanese companies operate under international hotel names such as "InterContinental" and "Four Seasons", or world-renowned fast food chains (Burger King and McDonald's), or are associated to luxurious international brands such as Hermes and Chanel, and less luxurious, such as Zara and H&M, etc.

Some might wonder how these companies form part of foreign investments, since there are no real investments made in Lebanon by the foreign partner who is, on the contrary, granting the Lebanese company a license to use its commercial name against a royalty fee and a certain percentage of the sales and profits.

Although the flow of money to Lebanon is absent, license contracts constitute an important factor in modern foreign investments. These are more and more based on intellectual property, especially that Lebanon is the only country to have developed companies which were in turn able to grant license contracts for trademarks developed and disseminated by their owners abroad wherever they attracted clients and consumers. Lebanese companies that entered into franchise contracts are around 90, and in different sectors, especially in the restaurants field and the fashion industry, with sales outlets exceeding 400 stretched across many Arab countries and international markets.

6. Expatriate Businessmen Investments: FDI is not based on nationality or citizenship, but on the investor's place of residence. Investments made in Lebanon by expatriate businessmen are therefore accounted for as part of FDI.

In fact, non-resident Lebanese play a crucial role in the national economy via money transfers into national banks, and expenditures on the Lebanese territory, added of course to their direct investments in companies and economic projects of all kinds.

Some of these activities are a direct extension of the activities of expatriates' companies abroad, while other investments are based on available opportunities in the Lebanese market which attract the financial resources of non-resident Lebanese. The latter try to benefit from investment opportunities in the market of their home country instead of blocking their funds in financial accounts of feeble return, especially that earnings from interest rates decreased to less than half percent in international financial markets since the beginning of the global financial crisis of mid-2008.

The expatriates' role is not limited to their private investments in the Lebanese

market; it includes as well foreign external investments made by clients of Lebanese working abroad. It is well known that Lebanese human resources working in many other countries, especially in the Gulf region, have attained important positions within their companies, and are close to the final decision-makers; they can therefore encourage Gulf financiers to make profitable investments in Lebanon. In many cases, Lebanese expatriates partake in the investments of foreign or Arab clients in Lebanon, in particular in real estate projects and in the construction field.

Foreign investments made by expatriates are regarded as one of the most important promising financial sources for the Lebanese economic sectors, being associated in most cases with social and familial factors, and not only with the direct profitability of the investments made. It is noticed that a large number of expatriate investors prefer sometimes to invest in regions and cities they originally hail from, and not necessarily in Beirut and its neighboring cities.

What are the FDI's benefits on host countries' economies, and their impact on the Lebanese economy?

Like many countries, Lebanon benefits from FDI, knowing that such benefits are multiple and vary according to their nature and the country's hosting economic environment. States with an open economy and trade exchanges, or a skilled workforce, are more appealing than countries that are strict as to receiving foreign investments, or protective towards their economy as to the entry of goods and foreign services, or resistant to employing a foreign workforce. Benefits of foreign investment are multiple, some direct and other indirect.

1. Enhancing economic growth and performance

It is difficult to determine and assess the direct and indirect benefits of foreign investments on a national economy, in particular in Lebanon where economic figures are unavailable and active companies lack clear information about sectors or activities. However, certain approaches and analysis might help in providing an approximate assessment of the impact of these investments.

FDI is one of the essential components of economic growth in many developing and even industrial countries. The World Bank deems that the impact of these investments does not stop at their direct results and growth rate, but it also includes indirect results whether by improving the productivity in the sectors receiving foreign investments or by generating enhancements to the production, marketing,

promotion and financing methods, as well as inducing positive change on internal providers who find themselves obligated to upgrade their performance and commit to world quality standards usually adopted by transcontinental companies.

The results of FDI change according to the partnership sources and sectors of investment. The longer and more diversified a production chain is, the deeper the impact of such investments. In that context, Lebanon enjoys special characteristics allowing it to benefit even more from foreign financing of its production projects, in spite of the political and security fluctuations that limit the non-residing investors' propensity to invest in Lebanon.

There are no available statistics in Lebanon on the influence of internal and foreign investments on economic growth, but some partial comparisons between sectors or with similar countries help in estimating the growth rate of the National Product at around 0.6% for every one billion dollars of investment. In other words, if the investment volume represents 1% of the value of the domestic product, the additional growth rate of this product shall be in Lebanon of 0.24% for every one billion dollars invested. There are of course differences between investments according to their nature (new investment, buying existing assets, operations expansion, etc) and the sectors that attract them (construction, trade, industry, etc.).

2. Increase of foreign money transfers

Direct money transfers supply financial markets that are in need of financial resources that national economic activities fail to engender.

Many consider this positivity to be marginal and not representing a substantial source for the Lebanese market since the Lebanese banking sector has internal financing and enjoys a high financial liquidity. Indeed, bank deposits represent more than three times the real volume of the economy. Subsequently, should there be any effective investment opportunities, they can be provided by the domestic banking sector, without having to necessarily wait for external transfers.

Not many economists share this analysis. They consider that bank deposits do not spare the need for internal and foreign investment transfers which are usually used for long-term investments. That feature is rarely available in bank deposits which are usually provided for short-term ends and are not suitable for investments

of a long-term nature. Moreover, bank loans are not granted usually for investment purposes, but they mostly aim at covering operating expenses.

As for investments, they are financed by investors' partnerships and long-term loans provided by investment funds or investment banks. According to World Bank analysts, the most important weakness of Lebanese companies is the increase of their bank debts in relation to their capital investment. Therefore, incoming capital cannot be considered as a luxury or a marginal surplus, but a major component of investment.

3. Contributing to the improvement of the economic environment

Foreign investments of whatever nature constitute encouraging factors for creating an attractive economic ambiance, and form an essential constituent of the improvement of the economic image of Lebanon and its return on the international investments map. As shown here above, foreign investments are different today from what they were in the seventies of the past century. In the aftermath of the withdrawal of foreign capital due to the Lebanese war, it was gradually replaced by investments from Lebanese expatriates and Gulf capital sources, with their preferred targets mainly being the construction sector, the retail trade industry and the touristic domain.

On the other hand, established companies do not invest in goods or in providing services for regional markets, but aim essentially at servicing the internal market to benefit from economic opportunities within Lebanon. With these changes, Lebanon lost its regional role as a mediator between international and middle-eastern markets.

Decreasing work opportunities volume as a result of foreign investments, since new investors reduce the volume of wages or replace some existing positions with non-Lebanese workforce considered less expensive than the Lebanese internal workforce, or similar to it but in a better way.

According to available figures and data, estimated work opportunities resulting from a new internal or foreign investment in Lebanon are of one direct work opportunity for every investment of a value ranging between 150,000 and 300,000 US dollars, in addition to 0.7 to 0.8 indirect work opportunities created in sectors providing this investment (back flow) or related to this sector (forward flow).

4. Enhancing and training human resources

The presence of a foreign partner, in particular a non-Arab partner, contributes to improving the performance of the internal workforce, either by way of training and development, or through administrative and production methods adopted in international companies. Such an improvement is not limited to managers or employees working at the facility subject to investment, but it reaches as well their suppliers. Indeed the new administration imposes on companies dealing with it new ways and high-quality production requirements, as well as strict specifications with regard to packaging, storage and transportation, that can only be met by training human resources working at the providing companies.

Let's take foreign investments in the retail trade for example. They imposed on agricultural companies and food products industries commercial and industrial conditions that were not previously required. In order to meet such requirements and specifications, local providers had to invest in equipment and modern production lines, and to train their workforce.

5. Foreign technical and administrative transfers

The entry of foreign partners in Lebanese companies was not restricted to money transfers only. There were bank transfers and new production techniques that local partners benefited from, at all phases of the local production chain. These techniques expanded to include all players in the local private sector, considering that during the 1975-1990 Lebanese war the country regressed in applying new production methods due to the political and security situation prevailing, let alone the reduction in new investments and the risks involved during that period.

Modernization of production, sales and distribution methods was not only due to foreign partnerships; a big part of it was introduced by returning Lebanese compelled to go out of the country during war years and who, in turn, acquired modern production and trade methods, which they applied in the local market.

6. Entering international markets

Improvements made through foreign partnerships or by returning Lebanese allowed Lebanese companies to meet new local requirements, and enabled those to export according to international standards specified abroad on goods and services needed. Some international and regional rehabilitation programs helped in improving the performance of companies and employees, in order to meet

international markets requirements, and thus helped Lebanon return to the Middle Eastern and international markets.

7. Enhancing competitive skills

With new foreign and local investments, Lebanon was able to improve its production and reinforce its competitive skills to face foreign competition. This allowed it to reach many foreign markets through trade liberalization agreements, and prepare for free initiative agreements with many countries, Arab and European in particular.

Modernization programs financed by regional and international institutions played a major role in enhancing competitive skills, in addition to the financial support of the Ministry of Finance and soft loans supported by the Bank of Lebanon. These loans are based on investment outlays only without operating costs and they cover all sectors, especially investments in knowledge and new technology. Naturally, foreign investments benefit from such support and from all incentives granted by "IDAL" - the institution in charge of encouraging investment in Lebanon -, in particular from tax exemptions for investments in the less developed regions of Lebanon, away from Beirut and the city concentrations on the coast.

8. Exploiting natural resources

Countries very often resort to the local and foreign private sector to develop their natural resources, especially to extract materials, such as in mining and oil and gas, where foreign partners usually have a vast expertise coupled with financial and marketing means that are not available in small national economies. Lebanon has never experienced such foreign investments, as it is waiting for the promising oil and gas prospection and exploitation contracts, knowing that they have been delayed by the official administrative complications prevailing for many years now. Until such contracts are executed, it is difficult to approach this kind of investments and determine their success in Lebanon.

9. Exploitation of infrastructure projects

In addition to natural resources development, foreign investments participate in the development of a number of infrastructure projects in many sectors, including electricity, telecommunications or waste management. These foreign investments take various forms, such as "BOT", partnership or traditional participation, and management contracts. The most important example in this context remains the

mobile phone development contracts; Lebanon has indeed witnessed many problems in this area due to various political interferences, and contracts were revoked before their term, which lumbered the National Treasury with additional charges and made it lose its credibility. Waste management contracts or Beirut port infrastructure contracts regularly suffer from similar issues due to political interference in elements of the economy, in addition to rightly or wrongly suspected transactions, with the most recent of all being the closure of Beirut Port's Basin 4.

Despite the approval of privatization laws many years ago, and the establishment of a Higher Council for Privatization and appointment of its Board members, this Council remained paralyzed because of the political and administrative conflicts in Lebanon, in particular because of the Ministers' refusal to waive some of their powers as required by law. In their attempt to compensate for that failure, some politicians suggested to replace complete privatization by PPP (Public Private Partnerships) projects. However, with these solutions, the State continues to play a substantial role in the management of projects that were supposed to be operated by the private sector. These solutions failed to break the wall of the political refusal to waive the State's full rights in the management of official economic sectors. Financial burdens increased due to the mismanagement and deterioration of the quality of projects operated by the State.

10. Restructuring and improving the performance of public institutions

The majority of experts consider that delaying privatization or incorporation of public economic institutions, and ill governance, led to enormous direct losses by the National Treasury, in addition to indirect losses for investors and the Treasury, accompanied by wasting multiple economic opportunities.

Accumulated losses for EDL are estimated to exceed 16 billion US dollars during the last twenty years, which are twice the expenses spent on infrastructure and reconstruction after the war for the same period. The Lebanese government is facing a big dilemma in that sector, since the annual deficit of EDL has gone beyond 2 billion dollars, yet providing only around 60% of the needs of local power consumption. Adding to these losses, EDL lacks an efficient administration. The one currently in place is drowning in big and complex problems which make EDL's productivity deteriorate. It is unexpected that the administration of this public utility is unlikely to improve unless with a total reconsideration of essential investments and the effective participation of the private sector, whatever the way chosen: privatization, direct

partnership, shared production and distribution operations, etc. All these solutions are expected to include major foreign partnerships that would help ensure the success of EDL's restructuring.

What are the attraction factors of foreign investments in Lebanon?

The flow of foreign direct investment is influenced by multiple internal factors that help in attracting them to, or repelling them from, the national market. These factors are divided into four main axes that are summarized as follows:

1. Market Volume and Available Investment Opportunities, including:

- Economy volume and national income per capita;
- Real growth rate;
- Foreign openness to national economy;
- Economic indexes stability, and control over general budgets deficit;
- Efficient governance in public sector.

2. Political and Legal Framework:

- Laws and legislations in terms of quality and reform;
- Law enforcement and facility of rulings issuance;
- Execution of contracts and issued rulings;
- Positive business organization environment;
- Political legislations and sound governance;
- Political and security stability, and absence of violence and terrorism.

3. Investment Environment:

- Human resources cost and productivity;
- Tax system on profits and capital;
- Bureaucratic requirements and complications thereof;
- Corruption and seriousness in fighting it.

4. Infrastructure:

- Transport means and facilities;
- Traffic control quality and management;
- Quality of maritime and air transport services;
- Provisioning of telecommunications and quality thereof;
- Provisioning of energy and electricity and quality thereof.

Where does Lebanon stand from these encouraging FDI factors?

The traditional openness of the Lebanese economy and the total liberalization of money transfers and money markets remain one of the most attractive factors of foreign investments, along with the banking secrecy laws, the laws on establishing Off-shore and Holding companies, and the Code of Commerce that does not differentiate between a Lebanese and non-Lebanese investor.

The Lebanese diaspora contributed to the expansion of the investments volume through the direct investments of Lebanese working abroad, or by convincing local capital owners to partake in their investments in Lebanon. It is important to note once again in this context that investments made by Lebanese residing abroad are accounted within foreign investments in view of the foreign flow of funds having no consideration for the nationality of the investor but for their place of residence or where their companies are domiciled.

There are some tax incentives and financial facilities that help in attracting capital, by way of soft loans supported by the Ministry of Finance, under the supervision of Lebanon's Central Bank (BDL) which grants, in its turn, additional loan facilities to complete the ones provided by the Ministry of Finance and to cover all sectors. There are as well tax exemptions granted to investors, especially in remote areas, as developed with the help of "IDAL", Lebanon's investment development authority.

Besides these facilities, foreign investors benefit from the high private enterprise spirit that characterizes Lebanese businessmen locally or abroad. Partnerships and privatization programs planned for many years by the Lebanese State are supposed to form as well a huge incentive for attracting foreign investments, in particular if the central government is able to launch tenders for oil and gas prospection and extraction from the Lebanese regional waters.

Furthermore, various social factors would help in attracting investors, including the cultural and leisure environment that Lebanon enjoys, in comparison with its neighboring countries, and the great number of high-quality schools and universities providing competent and productive human resources for Lebanon since decades past.

What are the factors obstructing foreign investments in Lebanon?

Obstructing factors for foreign investments in Lebanon are not different from those faced by Lebanese investors residing in Lebanon, of which we mention the most important:

1. Political and security instability at different levels, starting from internal political divergences and frictions to the destructive regional conflicts, as well as the confessional and religious tensions, arms deployment, external interventions, inability to renew institutions and to respect constitutional deadlines, and risks of the expansion of lawless areas.

2. Increasing social risks resulting from the massive Syrian influx and the presence of more than one million Syrian citizens in all Lebanese regions, and the negative consequences thereof on the Lebanese economy, National Treasury and infrastructure.

3. Weak governance in all public sectors and difficulty of decision-making and of law enforcement, as well as a big recess in the productivity of public institutions and general authorities, especially those related to the management of some economic activities, such as electricity, water, phone, transport, health and public education, in spite of the enormous financial charges incurred by the Treasury.

4. Annual deficit of general budgets and the accumulation of a public debt that exceeds 66 billion US dollars equivalent to approximately 25% of the existing domestic product, minding that the budget deficit has worsened in the last three years as a result of slow revenues and increased expenditure volume due to the electricity deficit, salary raises and increased staffing in public institutions.

5. Slow administrative decision-making and weak governance led to the increase of bribes and legal violations, in the absence of effective controls and due to the difficulties and complications of administrative formalities related to licenses and permits required from the private sector to set up and run business.

6. With the increase of the State's financial deficit and its debt accumulation, the Treasury's capacity to finance investments in infrastructure operated by the public sector declined, and the allocations rate for infrastructure projects dropped to no more than 5% of the total budget expenditures, which led to the deterioration of this infrastructure and its services. This situation was aggravated by the flow of Syrian migrants who accelerated the slide, knowing that the World Bank estimated the aforesaid acceleration to 300 million dollars per year.

To face the fragile infrastructure, Lebanese are forced to provide these services from their own investments. This burdens companies and establishments even more,

increases their expenses, and hinders their ability to compete in local and foreign markets.

7. A worrying decline in economic growth in Lebanon during the last four years to 1% and 2% after it had reached approximately 10% in previous years. Current rates are not sufficient to attract internal and foreign investments, especially with the huge decrease of investment opportunities in traditional sectors such as construction, tourism and trade. Forecasts of international organizations remain pessimistic as to the future of economic activity in Lebanon, a pessimism that is enhanced by the prolongation of the crisis and its future risks, in particular in view of the plunging oil prices and its consequences on the Gulf countries that attract many Lebanese economic clients.

8. The fragility of the financial Lebanese market represents a negative factor for hosting foreign capital, since it is hard for foreign investors to get out of their investments through financial markets, especially that regional investment funds are not interested in the Lebanese market, which results in Lebanese companies losing long-term investment funds.

Lebanese banks grant Lebanese companies loans for projects, but these companies lack partnerships in capital and long-term financing.

9. The legal and regulatory environment in Lebanon is one of the most negative factors affecting foreign investments, due to the slow pace of legislation promulgation and reform process, delay in rendering court rulings, especially commercial ones, the failure of the judicial courts to accompany modern financial transactions, the failure to execute issued judicial decisions, especially those related to contracts concluded with the Lebanese State.

It is important to note that legal instability in turn forms an obstacle to foreign investments, since proposals are regularly made to annul tax incentives previously granted, without any time limits, or to introduce new taxes or increase some, without any coordination whatsoever with the business sector or the economic experts even. It is true that these proposals have not been approved yet, but mentioning them regularly, and even including them in the budget drafts that have not been approved for ten years, repels investors, especially foreign ones.

10. Not to forget that the State and Lebanese professional and commercial associations failed to set promotional policies and plans for investing in Lebanon that focus on positive factors existing in the Lebanese economy and available opportunities for investments, and to provide information and statistics to investors that would help them orient their investments. It is true that Lebanon created establishments to promote investments but the competent authorities' work remains shy and insufficient.

Recommendations

- 1) Ensure a modern legal and organizational environment which is effective, stable, and attractive to investments, namely foreign ones. It would also be endowed with the characteristics of enforcing the honoring of contractual obligations, speeding up judicial rulings and their execution, and facilitating the conduct of business operations in Lebanon.
- 2) Activate the financial market for proper reception of foreign capital by means of facilitating the participation of international and regional investment funds into the capital of Lebanese companies, and encouraging long term investments.
- 3) Activate the investment promotion institutions, for them to adopt, in collaboration with the commercial and professional associations, policies and plans for promoting investment in Lebanon, while emphasizing on the positive elements already existing in the national economy and the investment opportunities that it presents, together with ensuring proper data and statistics as well.
- 4) Accelerate privatization and partnership in the various public economic activities, such as electricity, water, communication, transport, health, and education, in order to attract international funds and administrative capabilities in view of improving the governance and productivity aspects of the concerned public institutions.
- 5) Accelerate the governmental decision-making process along with upholding the credibility of the Lebanese State in international contractual situations, thus avoiding what took place in the mobile telephony sector or what's presently taking place in the oil and gas sector.

The Deficit in the Balance of Trade and the Risks of Financial Imbalances

Lebanese foreign trade exchanges are witnessing deep transformations since the year 2011 as a result of the regional upheaval caused by the “Syrian Revolution”, the internal economic slowdown, and the global volatility of commodity prices, as well as the variations in exchange rates among the major currencies, especially the European and Asian currencies versus the US dollar. The Balance of Trade is also witnessing similar changes concerning the countries of import, with a higher proportion of purchases from Asian countries and reduced imports from European countries and the United States.

Inflated Import Bill

The value of Lebanese imports slowed down in 2013 and 2014, after it registered record highs between 2009 and 2012, rising from \$16.2 billion in 2009 to more than \$20 billion in 2012, an increase of 30% for that period despite the economic slowdown and the stable-to-downward fluctuations of commodity prices in global markets.

In fact, these developments were associated with the Syrian political and military events of the past few years, and the migration of more than 1.3 million Syrians toward Lebanese territories, representing about 30 percent of the Lebanese population. This displacement had contradictory effects, as the imports of luxury goods dropped because of the economic downturn triggered by the Syrian crisis, the decline in tourist flows, and the ban announced by Gulf countries on the travel of their citizens to Lebanon. At the same time, the imports of basic consumer goods increased due to the presence of displaced Syrians. Another reason was the fact that a lot of imports had been redirected to the Syrian market through Lebanese seaports and land borders, after the closure of all non-Lebanese land borders with Syria and the international ban on direct exports to Syria for many consumer and intermediate goods.

The rise in Lebanese imports between 2009 and 2012 was not only linked to an increase in demand levels, but was also affected by the sharp rise in global prices

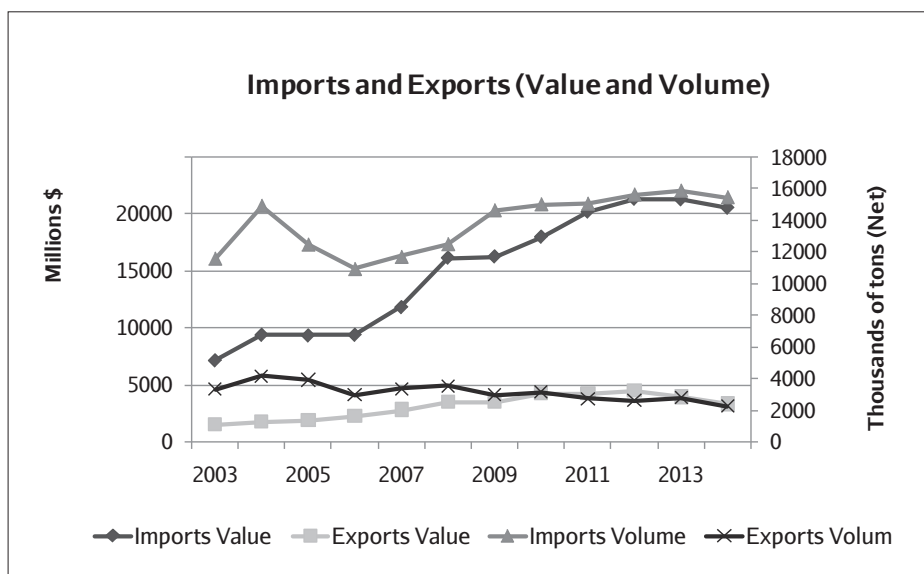
recorded in that period. Therefore, the recorded 30% increase in import value represents only an 8% rise when we take into account import volumes, as Lebanese imports rose only from 14.6 million tons in 2009 to 15.8 million tons in 2012. These rates remained the same in the two following years 2013 and 2014.

**Evolution of the Lebanese foreign trade between 2007 and 2014
in value (millions of dollars)**

	Imports	Annual change	Exports	Annual change	Commercial deficit	Annual change	Total trade	Annual change
2007	11,815	25.7%	2,816	23%	(8,999)	26.5%	14,632	25.3%
2008	16,136	36.6%	3,478	24%	(12,658)	40.7%	19,614	34.1%
2009	16,242	0.7%	3,484	0.2%	(12,758)	0.8%	19,726	0.6%
2010	17,964	10.6%	4,253	22%	(13,711)	7.5%	22,217	12.6%
2011	20,158	12.2%	4,265	0.3%	(15,893)	15.9%	24,424	9.9%
2012	21,280	5.6%	4,483	5.1%	(16,797)	5.7%	25,763	5.5%
2013	21,229	-0.2%	3,936	-12.2%	(17,293)	3.0%	25,165	-2.3%
2014	20,494	-3.5%	3,313	-15.8%	(17,181)	-0.6%	23,807	-5.4%

	Imports	Annual change	Exports	Annual change	Trade deficit	Annual change	Total trade	Annual change
2007	11,708	7.0%	3,363	13%	(8,344)	4.6%	15,071	8.4%
2008	12,506	6.8%	3,523	5%	(8,983)	7.7%	16,028	6.4%
2009	14,632	17.0%	2,962	-15.9%	(11,670)	29.9%	17,593	9.8%
2010	15,003	2.5%	3,109	5%	(11,894)	1.9%	18,113	3.0%
2011	15,050	0.3%	2,717	-12.6%	(12,332)	3.7%	17,767	-1.9%
2012	15,624	3.8%	2,602	-4.2%	(13,022)	5.6%	18,226	2.6%
2013	15,868	1.6%	2,776	6.7%	(13,092)	0.5%	18,644	2.3%
2014	15,452	-2.6%	2,236	-19.5%	(13,216)	0.9%	17,688	-5.1%

Source: Lebanese Customs



Structural Shifts in the Lebanese Balance of Trade

Lebanese foreign trade exchanges witnessed radical shifts in the past ten years. This had a profound impact on the structure of foreign trade and on the discrepancies related to the deficits of the Balance of Trade and the Balance of Payments. These factors can be divided into several areas:

Fluctuations in Prices of Raw Material

Raw materials, particularly oil derivatives, have witnessed many price fluctuations in international markets, as the price of crude oil rose from about \$25 per barrel in 2005 to reach almost the ceiling of \$150 in early 2008, before falling back sharply in 2009 to less than \$45 per barrel. It then returned to an upward trend to reach more than \$100 in 2013, before dropping back to less than \$50 currently. Expectations tend to forecast a persistence of these low rates for years to come.

The value of oil imports represented in 2014 about 23.2% of total Lebanese imports, or around \$4.75 billion, after it almost reached the ceiling of \$6 billion in 2012, representing 28% of total imports that year, followed by a decline of 20.5% in two years. The oil bill had exceeded the proportion of 32% of total imports in 2007.

The recorded fluctuations in the imports of petroleum products not only reflect global prices fluctuations, but they also result from the volatility of statistics done by the administration of EDL (Electricité du Liban), the Lebanese electricity company. Oil imports are not recorded within Customs statistics on the actual import date, but when the Customs formalities are accomplished and VAT actually paid. If we look at the imports volume of oil derivatives, we notice that the quantities of imports in 2012 reached a total of 6.6 million tons, while the average ranged between 5.5 and 5.7 million tons per year.

The Impact of the Syrian Crisis

Besides fluctuations in raw material prices in the global markets, the structure of the Lebanese imports was impacted by the evolution of the Syrian crisis since 2011. The large increase in the number of displaced Syrians had an impact on the volume of Lebanese imports in the category of basic consumer products. This volume is increasing by 6% to 7% per annum, despite the deterioration of the growth rate of the Lebanese economy. An Imports increase has been visible for basic consumer goods, while imports of luxury products are continuously decreasing. The imports data for private cars presents a clear evidence of that trend, as the number of imported new cars increased in the past five years, while their total value fell from \$1.9 billion in 2010 to \$1.5 billion in 2014.

The impact of the Syrian crisis is not limited to the consumption of displaced Syrians in Lebanon. We also have Lebanese imports specifically dedicated to the Syrian internal market. That market had to secure a part of its foreign purchases through the Lebanese ports, whether for logistical reasons due to difficulties related to truck transport inside Syria, or because of the sanctions imposed by the international community on exports to Syria. Imports to Syria through Lebanon are not limited to consumer goods, but also cover intermediate material allocated to Syrian industrial plants, those that are still working despite the tragic events there.

The Effects of the Global Exchange Rate Fluctuations

The US dollar witnessed sharp fluctuations in the past ten years, especially versus the Euro, the Japanese Yen, and most other foreign currencies. The US dollar exchange rate improved by an average of 25% in the past three years, allowing the relative mitigation of Lebanese imports, as the Lebanese national currency has been pegged to the US dollar at a fixed exchange rate for the last 20 years, and the Lebanese economy is dollarized since the second half of the eighties. Most Lebanese

imports are realized on the US currency basis. That's why we notice, for example, an overall decline of the value of some imports in recent years, whereas the volume of these imports has increased in the same period. The opposite is true in periods when the US dollar drops versus other currencies.

Changes in the Import Countries

Since the year 2013, China ranked first in the list of exporting countries to Lebanon. The value of Lebanese imports from this country reached \$2.5 billion in 2014, or about 12.1% of the total value of Lebanese imports, ahead of Italy which occupied the second place with \$1.6 billion, or 8% of Lebanon's import bill. The United States had maintained for several years the first position among the top exporting countries to Lebanon, thanks to its exports of oil products. But the emergence of new exporters of oil derivatives and the decline in world oil prices have weakened the level of imports from the United States. The rise in the US dollar exchange rate has contributed to a decrease in the imports of cars and other vehicles from the United States, which ranked fifth in the list of exporting countries to Lebanon. In 2014, France and Germany respectively occupied the third and fourth places in the list of exporting countries to Lebanon, with a close value representing each about 6% of the total import bill.

Due to the decline in the Euro exchange rate in the past months, Lebanese imports from European countries are expected to improve in the coming years, despite the competition from Asian countries led by China, South Korea and India. It is also expected that imports from Arab countries would decline because of the decreasing competitiveness of those countries, especially with the closing of the Syrian land borders through which all goods used to pass when exported to Lebanon.

Evolution of exports to Lebanon according to countries of origin

Country	2012			2013			2014		
	Million \$	% of total	Annual change	Million \$	% of total	Annual change	Million \$	% of total	Annual change
China	1,772	8.3%	9.1%	2,283	10.7%	28.8%	2,484	12.1%	8.8%
Italy	1,83	8.6%	-2.0%	1,789	8.4%	-2.2%	1,645	8.0%	-8.1%
France	1,541	7.2%	2.0%	1,535	7.2%	-0.4%	1,275	6.2%	-16.9%
Germany	1,202	5.6%	5.4%	1,242	5.8%	3.3%	1,257	6.1%	1.2%
USA	2,376	11.2%	19.4%	1,5	7.1%	-36.8%	1,227	6.0%	-18.2%
Russia	423	2.0%	-17.7%	901	4.2%	112.9%	887	4.3%	-1.5%
Greece	891	4.2%	193.6%	607	2.9%	-31.8%	816	4.0%	34.4%
Turkey	966	4.5%	14.9%	1,134	5.3%	17.5%	706	3.4%	-37.8%
Belgium	423	2.0%	69.1%	301	1.4%	-28.9%	604	2.9%	100.9%
UK	519	2.4%	-0.5%	632	3.0%	21.9%	537	2.6%	-15.0%
Others	9,339	43.9%	-2.7%	9,305	43.7%	-0.4%	9,056	44.2%	-2.7%
Total	21,28	100%	5.6%	21,228	100%	-0.2%	20,494	100.0%	-3.5%

What Goods Are Imported to Lebanon?

Petroleum products are at the forefront of Lebanese imports, representing about 25% in value. The Lebanese oil bill is set to decline due to the drop in global oil prices and to a stronger US dollar exchange rate. The value of oil imports are expected to decline further in case EDL was able to improve the efficiency of its production, or to use liquid or natural gas in its main power generation plants (Beddawi and Zahrani), which are more energy efficient than those operating on diesel or heavy derivatives. The additional production would replace small private generators which consume large amounts of diesel fuel, because they are not able to reach the economies of scale that can be achieved by large production plants.

Food and beverage imports come in second place, representing in 2014 about 17% of the total value of Lebanese imports. Despite the price decrease and the declining US dollar exchange rate, the value of food imports continued to grow, due to the rise in the number of consumers and the constant influx of displaced Syrians to Lebanon, or inside Syrian territory, as a significant portion of Syrian imports passes through Lebanese ports. The estimated volume of food and beverage imports is about 3 million tons, including about 1.2 million tons of wheat and its derivatives. Car imports are ranked third in the list of imported goods, totaling \$1.5 billion in 2014, with a decline of 6% from previous years. These variations resulted from the decline in the exchange rates of the Euro and the Korean Won on the one hand, and the shift on the demand side toward small and medium-sized vehicles and less luxury and large cars.

Machines and production tools come in fourth position, including those related to industrial production or to construction. These imports constitute about 6.3% of the total imports bill, with a steady decline since 2010 because of the internal economic crisis, especially in the construction sector. The estimated imports of these commodities reached about \$1.27 billion in 2014, versus \$1.35 billion in 2010. These imports are considered among the most important indicators of the economic growth trends.

Changes in the value of the main imported products

	2012			2013			2014		
Merchandise	Annual change	% of total	Millions USD	Annual change	% of total	Millions USD	Annual change	% of total	Millions USD
Petroleum products and fuel	31,8 %	28 %	5 892	-15,20 %	24 %	5 000	-5,00 %	23 %	4 747
Food and Beverages	1,30 %	14 %	2 950	6,90 %	15 %	3 153	7,50 %	17 %	3 391
Vehicles, cars and motorcycles	1,20 %	7 %	1 459	7,30 %	7 %	1 565	-5,80 %	7 %	1 473
Boilers, machinery and equipment	-9,70 %	6 %	1 175	13,10 %	6 %	1 329	-4,80 %	6 %	1 266
Pharmaceutical products	-0,30 %	5 %	970	12,50 %	5 %	1 091	4,60 %	6 %	1 141
Gold, precious stones	-26,00 %	7 %	1 585	-28,40 %	5 %	1 136	-14,10 %	5 %	976
Others products	4,70 %	34 %	7 248	9,80 %	37 %	7 955	-5,70 %	37 %	7 500
Total	5,60 %	100 %	21 280	-0,20 %	100 %	21 228	-3,50 %	100 %	20 494

Decline in the Competitiveness of Lebanese Exports

Lebanese exports dropped significantly in the past two years. Sales of Lebanese companies abroad had reached about \$4.5 billion in 2012. They then fell to \$3.9 billion in 2013 and to \$3.3 billion in 2014, down by 27% in two years.

There are many interpretations of this decline, some of which are linked to the external market conditions, while others are due to internal factors. They can be summarized as follows:

1. The deterioration of security conditions in Syria led to the closing of all Syrian land crossings toward Jordan and Iraq, preventing Lebanese trucks from passing through on their way to the Arab markets, particularly the Gulf States, which are the main markets for Lebanese exports. It is known that the vast majority of Lebanese exports are transported in refrigerated or normal trucks by land to the Gulf States. The Lebanese authorities have tried to secure alternative transport means by sea through the Lebanese ports, toward the Saudi market and then on to the rest of the Gulf countries. But this mode of trucking (RORO) proved to be too expensive, requiring long transport periods and lacking regularity. The result is that a large number of Gulf traders are reluctant to accept the new delivery conditions.

2. Demand has fallen in the GCC countries with the decline in oil prices, the economic slowdown in these countries in the last two years, and the cancellation or halt of a number of projects in the public and private sectors. The drop in demand also worsened due to the involvement of the Gulf Countries in the political and military crisis in Yemen, Iraq, Syria, and to a lesser extent in Bahrain. This has led to the expansion of defense expenses in these countries, the purchase of military equipment, or even the direct participation in military operations in some cases.

3. The decline in the competitiveness of Lebanese goods, as their prices increased due to a higher US dollar exchange rate, and consequently the Lebanese Lira's exchange rate, compared to other international currencies. Moreover, new competitors have emerged from Asian countries, and even within the Gulf States themselves which have managed to improve their productivity and benefit from the support provided by their governments to domestic producers.

4. The already weak competitiveness of Lebanese exports has worsened due to the low added value of exporting industries that are mainly based on traditional light

manufacturing associated with direct consumption, whereas heavy industries based on machinery and intermediate goods enjoy a higher competitiveness. The increasingly fragile Lebanese competitiveness has been further threatened due to the inability of Lebanese goods to cope with quality specifications and technical requirements set by more modern production standards in the region and the world. What exacerbated the export difficulties even more was the emergence of new problems related to the high production costs of Lebanese industries, whether in terms of operating costs or investment, because of the deterioration of the local infrastructure in the past few years.

What Are the Most Important Lebanese Exports?

Agricultural commodities and food industries occupy the first position among Lebanese exports, and they accounted for nearly 23% of the Lebanese sales to foreign markets in 2014. In the second place come jewelry exports, representing about 16% of Lebanon's sales abroad. These exports have significantly declined in the past two years as their share was about 38% in 2013 and 35% in 2011. Most industrialists consider that these exports are related to specific operations and one single firm, therefore not representing a real high added value and not initiating an intensive economic cycle, let alone being limited to confined commercial operations.

In the third and fourth ranks we have small equipment and tools related to some production operations such as power generators, and equipment used in the construction sector such as ready cement machines, iron cutters, or some vehicles for transporting building materials, or aluminum doors and windows manufacturing. The book industry has lost a significant portion of external customers with the decline of this activity in all global markets, the rise in electronic publishing and media, the deterioration of the printing activity, and the emergence of Gulf competitors in recent years.

Analysts blame Lebanese industries for their inability to adapt to rapid technical developments in industrial manufacturing activities, but these require significant investment that is lacking in the Lebanese economy due to the internal and regional political conditions. These conditions have hindered the ability of Lebanese investors, residents and expatriates, to take business risks inside the country. Foreign importers were also more reluctant to make commitment with Lebanese companies as they feared the latter would be unable to secure the delivery of goods

on a regular basis and at a good price. These concerns are not limited to Arab markets, but also reached other markets where Lebanese exporters were able to sell a part of their goods.

The most important Lebanese exports

	2012		2013			2014		
Products	% of total	Thousands USD	Annual change	% of total	Thousands USD	Annual change	% of total	Thousands USD
Food and beverage	13%	593,623	20.7%	18%	716,733	5.5%	23%	755,812
Gold and precious stones	38%	1,724,498	-55.4%	20%	769,722	-29.6%	16%	541,658
Radiators and machines and tools	5%	216,839	14.1%	6%	247,518	-9.8%	7%	223,376
Electrical equipment	6%	261,48	-0.9%	7%	259,026	-14.4%	7%	221,77
Plastics and products of	3%	136,095	0.4%	3%	136,693	-4.5%	4%	130,593
Processed vegetables and fruits	2%	108,449	6.9%	3%	115,956	10.2%	4%	127,738
Other goods	32%	1,442,146	17.2%	43%	1,690,309	-22.4%	40%	1,311,908
Total	100%	4,483,130	-12.2%	100%	3,935,957	-15.8%	100%	3,312,855

Expansion of the Lebanese Diaspora

Lebanese exports have benefited from the expansion of the Lebanese Diaspora in a large number of foreign countries. This has helped to create new markets, where the Lebanese presence constitutes the prime factor in fostering demand for Lebanese goods and services. This is particularly noticeable with the new Lebanese deployment in the Arab non-Gulf countries, such as Iraq, Morocco, Algeria, and Sudan. Lebanese businessmen flocked heavily to these countries in the past two decades and are now helping to raise the demand for some Lebanese industrial goods, as they have affiliations or business relationships there and enjoy wide negotiating abilities in establishing commercial contracts, delivery and payment terms, transportation ... But the deterioration of the security and economic conditions in the importing countries has reduced the capacity of the Lebanese businessmen there to order large amount of goods from their home country, and has also led to business opportunities shrinking to some limited areas.

What Are the Main Importing Countries of Lebanese Goods?

Saudi Arabia topped the list of importing countries from Lebanon with a total of \$377 million in 2014, or 11% of the total exports. Saudi Arabia regained this rank without in fact any increase in its purchases, because at the same time, there has been a decline in Lebanese jewelry exports to Switzerland and South Africa where generally one of them was the number one export destination. The reason is that a jewelry company operating in these two countries manufactures its products in Lebanon and exports them back to these two countries. In 2014, this activity has obviously decreased.

In second position in the list of export destination countries comes the United Arab Emirates with 10% of the total foreign purchases from Lebanon, totaling \$320 million for 2014. Sales towards the UAE were the most affected by the political and military developments in Syria, as Lebanese sales to this market fell from \$420 million in 2010 to \$320 million in 2014.

Turkey's ranking dropped in the past three years to the sixth place with less than \$150 million of purchases in 2014 and a market share of 4%, whereas those purchases almost reached \$300 million in 2011. This is due to the fact that most Turkish imports from Lebanon were actually collected scrap metals. But as a new steel plant was established in Lebanon, it buys up a large part of these materials, leaving a small quantity available for export. At the same time, the exchange rate of

the Turkish Lira versus the US dollar deteriorated, which resulted in less demand from Turkey for Lebanese goods. The Syrian market also fell during this period.

The Discrepancies in the Balance of Trade

The deficit in the Lebanese trade balance increased in recent years with the rise in imports and a weak export activity. Exports no longer cover more than 16.2% of the total imports, while this figure had crossed the threshold of 23% in 2007.

The yearly deficit of Lebanon's Balance of Trade is currently more than \$17.2 billion. This is an alarming level, especially in light of the deep recession going on for 5 years now, with unpromising prospects both internally and externally, and with a significant decline in investment and a lack of improvement in the tourist flow from Arab countries, namely the Gulf.

Many economists consider that the Lebanese traditional commodity exports, including products from agriculture and the manufacturing industries, will see a radical change in the coming years. Lebanese exports are expected to become more related to technical services and cultural products, as Lebanon and the Lebanese people enjoy significant competitive capabilities and privileged relations abroad which the Lebanese Diaspora, with their influence in many countries, have helped to build.

Major exporting countries to Lebanon

Country	2012				2013				2014		
	Thousands USD	% of total	Annual change	Thousands USD	% of total	Annual change	Thousands USD	% of total	Thousands USD	% of total	Annual change
Saudi Arabia	358,94	8%	16.6%	346,835	8%	-3.4%	346,835	11%	346,835	11%	8.8%
UAE	352,036	8%	9.2%	331,653	7%	-5.8%	331,653	10%	331,653	10%	-3.5%
South Africa	864,38	19%	28.4%	397,925	9%	-54.0%	397,925	9%	397,925	9%	-25.4%
Iraq	211,346	5%	7.0%	272,267	6%	28.8%	272,267	8%	272,267	8%	-6.0%
Syria	294,275	7%	37.0%	523,645	12%	77.9%	523,645	7%	523,645	7%	-53.8%
Turkey	157,194	4%	-43.0%	182,798	4%	16.3%	182,798	4%	182,798	4%	-20.7%
Jordan	142,239	3%	11.9%	141,755	3%	-0.3%	141,755	4%	141,755	4%	-8.4%
Qatar	85,473	2%	7.1%	93,859	2%	9.8%	93,859	3%	93,859	3%	-0.4%
Switzerland	547,336	12%	6.3%	174,725	4%	-68.1%	174,725	3%	174,725	3%	-50.5%
Egypt	88,111	2%	30.3%	73,207	2%	-16.9%	73,207	3%	73,207	3%	14.5%
Other	1,381,800	31%	-6.9%	1,397,288	31%	1.1%	1,397,288	39%	1,397,288	39%	-8.3%
Total	4,483,130	100%	5.1%	3,935,957	100%	-12.2%	3,935,957	100%	3,935,957	100%	-15.8%

Evolution of the trade balance deficit

	Trade deficit in million \$	Annual change
2003	-8,285	-
2004	-10,773	30.0%
2005	-8,558	-20.6%
2006	-7,980	-6.8%
2007	-8,344	4.6%
2008	-8,983	7.7%
2009	-11,670	29.9%
2010	-11,894	1.9%
2011	-12,332	3.7%
2012	-13,022	5.6%
2013	-13,092	0.5%
2014	-13,216	0.9%

There are of course internal conditions that must be secured in order to develop these promising sectors, including the availability of a favorable framework, the creation of new cultures, and moving away from political conflicts that constitute today a major burden on the direct domestic and foreign investments. The development of economic performance and productivity in all public and private institutions will depend on the political performance that should be far better than what we are witnessing now, where we have a constant degradation of the institutions, loss of opportunities, and the aggravation of economic difficulties, especially those related to export to the Arab countries.

The Deterioration of the Balance of Payments

Despite the decline of political, economic and administrative conditions in the past years, inflows and remittances kept flowing into Lebanon, although at a slower pace, to take advantage of the benefits offered by the local monetary and financial markets, as well as the services provided by the Lebanese banking system. But foreign financial inflows are no longer sufficient to cover the trade deficit, the budget deficit, and the interest paid on foreign deposits. As a result, the Balance of Payments has been recording successive deficits since 2011, reaching \$1.9 billion for the first eight months of 2015, an alarming level for a national economy already suffering from the scarcity of investments. Foreign inflows make up a significant portion of internal investments that mainly target the real estate and tourism sectors; they generate consumption activity through retail establishments as well. All these activities are adversely affected by the developments and the deterioration of the internal political and economic situation.

Evolution of the balance of payments

Year	Balance of payments in million \$	Annual change
2008	3,462	--
2009	7,899	128.2%
2010	3,325	-57.9%
2011	-1,996	-160.0%
2012	-1,537	23.0%
2013	-1,128	26.6%
2014	-1,408	-24.8%

The Oil & Gas Equation

The exploration pace of oil and gas in the Eastern Mediterranean accelerated in the 1990s and the first decade of the third millennium, starting from the Nile Basin in Egypt's exclusive economic zone, to the Levant Basin (or the Sham Basin, as it was called by Arab geographers) which covers the waters of Gaza, Palestine, east of Cyprus, Lebanon, and Syria. Based on the results of these discoveries, especially those conducted prior to 2010, the US Geological Survey (USGS) center worked on gathering all data related to the waters of the Eastern Mediterranean within an area of 83,000 km², estimating the average natural gas reserves at about 122 trillion cubic feet, and oil at about 1.7 billion barrels.

Exploration works did not stop at the results of the US Geological Survey. The Levant and Nile Basin countries conducted their own geophysical surveys, covering tens of thousands of square kilometers in Egyptian waters and Levant waters. Dozens of wells were explored and probed, the latest of which was drilled revealing huge discoveries exceeding thirty trillion cubic feet of natural gas, in Zahr field from Shourouk block, north of the Egyptian geological Nile basin. That was preceded by large discoveries in Palestinian waters estimated at 25 to 30 trillion cubic feet of natural gas, and significant discoveries in the Cypriot sea comprising 3 to 5 trillion cubic feet of natural gas.

As for Syria, oil and gas discoveries were not new. The presence of more than 8 trillion cubic feet of natural gas and more than one billion barrels of oil in the mainland has been confirmed. In the sea, explorations are still taking place in full swing, without interruption, despite the security turmoil.

Field N°	Field name	Discovery year	Stocks (in trillion cubic feet)	Operator
1	Marine	2000	1 – Production did not start yet	British Gas – Palestine
2	Mary-B	2000	1 – Production started in 2014	Noble Energy – Palestine
3	Noa and Pinnacles	2000	1.2 – Production started in 2012	Noble Energy – Palestine
4	Leviathan	2010	16	Noble Energy – Palestine
5	Aphrodite	2011	7	Noble Energy – Cyprus
6	Karish	2013	1.8	Delek – Palestine
7	Zahr	2015	30	Eni – Egypt

Recent discoveries in the Levant and Nile basins



In Lebanon, the Administration launched about three years ago the procedure for the prequalification of international companies that have expressed their interest in exploring and producing oil and gas off the Lebanese coast. This actually occurred at a critical time for such a new development. Lebanon is suffering from a deterioration of the security situation, a decline in tourism activity, and from negative impacts on all economic sectors. It is helplessly witnessing the suffering of the Syrian population, and their exodus to Lebanon exceeding by far its capacity. The oil-related development occurred while growth was collapsing next to zero, after a prosperous period where it had reached an average of 8 percent for the years that followed the Israeli invasion of 2006. Now, the public debt returned to its upward trend, following a brief stability level and a downward drift as it had declined to below 134 percent of gross domestic product (GDP) following the Paris III Conference.

Exploring oil and gas became feasible as 2-D, and especially 3-D surveys, which were conducted by many companies in the region, resulted in estimated reserves in the Lebanese sea equal in their value to many times the public debt. The credibility of the results increased when the neighboring countries confirmed the presence of oil and gas in geological layers that extended to Lebanon. It was not the first time that Lebanon hoped to enter the oil-producing scene, but it was the first time that it relied on modern technologies capable of detecting, at a high reliability level, the natural resources that lay below. This was not a recent activity in Lebanon. Back in 1926, the French High Commissioner Henry de Jouvenel issued a decision that authorized the exploration of underground resources, especially oil. Methane gas and some heavy hydrocarbon resources were discovered in successive periods, but the high cost of extraction did not allow the exploitation of wells. In the early fifties of the last century, a group of Lebanese businessmen founded a company to extract oil in the Bekaa Valley, chaired by Mr. Charles Amatoury, Honorary Consul of a Latin American country in Lebanon. The company undertook exploration attempts in vain, and consumed all its capital; it then issued debt certificates to continue its work, but it was soon disappointed. The company collapsed, inflicting the responsibility on its top management. This is a known event nicknamed the 'Oil Adventure'.

About ten years later, a successful entrepreneur from the Debbas family established a similar company to explore for oil, and a lot of businessmen were so keen to partake in its shares that those who were able to contribute to the company were considered lucky. The project was also supposed to explore for oil on land. After unremitting efforts to extract oil that yielded no result, and suffering severe losses at

the time, the company met a similar fate of having to close and liquidate. This activity was based on the above-mentioned legislation which was issued under the French Mandate authorizing the exploration for minerals and oil and their exploitation. This legislation appeared to businessmen as a presumption of the presence of oil. Those who are familiar with the history of that period know that oil exploration did not need at that time more than such a decision. The time when Colonel Drake used to throw his hat randomly to determine the place where a well should be drilled is not too distant in the past. We can find on the website of the Bassel Fuleihan Financial and Economic Institute¹ a list of the historical wells drilled in Lebanon after World War II and before the civil war in Lebanon:

Table 1: Oil well drilling across history

Drilling year	Location	Well depth (m)
1947	Turbol	3,075
1953	Yohmor	2,672
1960	Al-Kaa	2,557
1960 / 1961	Adloun	2,150
1963	Sohmor	1,433
1962	Tall Znoub	1,421
1966 / 1967	Ibrin	650

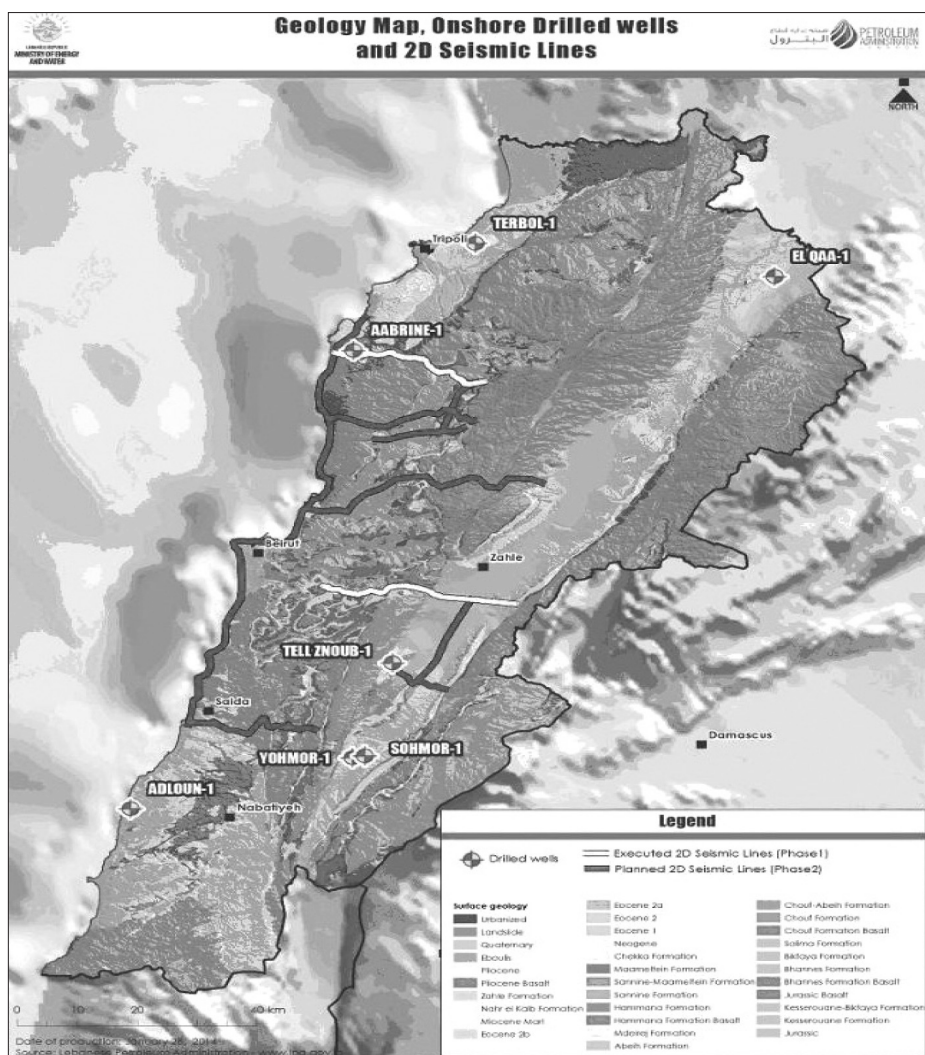
The modern search for hydrocarbon resources in Lebanon

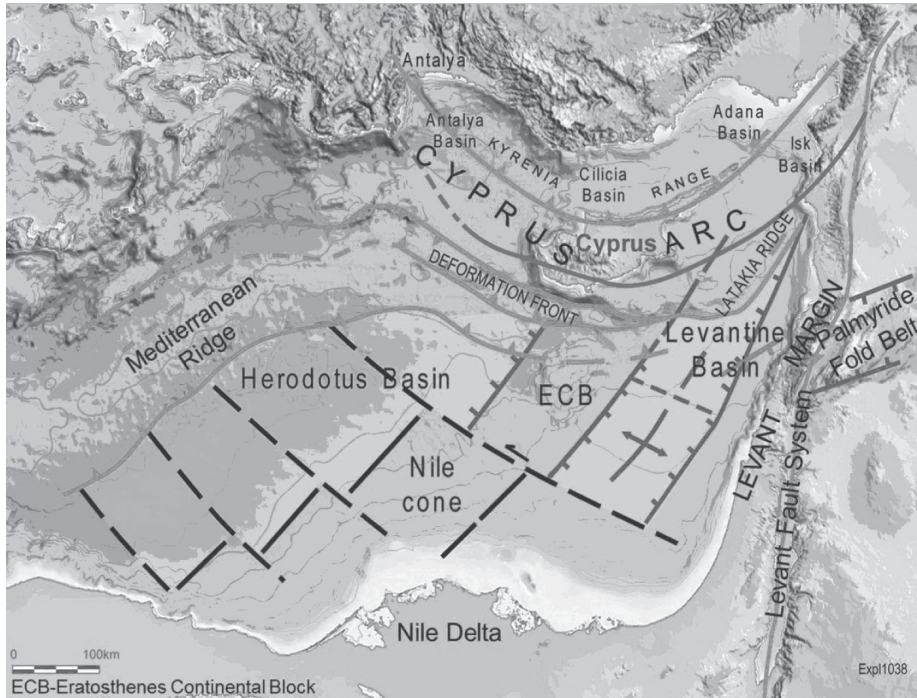
The search for hydrocarbon resources is currently performed without cost to the concerned states, as it is taken in charge by specialized companies that undertake this work over specific areas of the country which grants them such a license; they then sell the data to production companies wishing to explore for oil. In 2000, Spectrum, a company with regional activity across the Mediterranean Sea, filed a request before the Lebanese State to perform a seismic two-dimensional (2D) survey in Lebanon's exclusive economic zone, and was attributed a specific zone to survey. It carried out the activity, and presented positive results to the Lebanese State and to interested

(1) Bassel Fuleihan Financial and Economic Institute, 6th 5, Oil and Gas.

companies. In 2001, the Council of Ministers tasked Southampton Oceanographic Center with the delineation of the exclusive economic zone. In 2002, TGS NOPEC Company carried out a two-dimensional seismic survey in the exclusive economic zone, as part of a comprehensive survey that it was doing over the Eastern Mediterranean. The company said after the survey that "the huge oil prospects lie in the upper part of the Eastern Mediterranean basin" (i.e. the area where Lebanon is located).

Locations of the drilled wells which were explored before the civil war in Lebanon



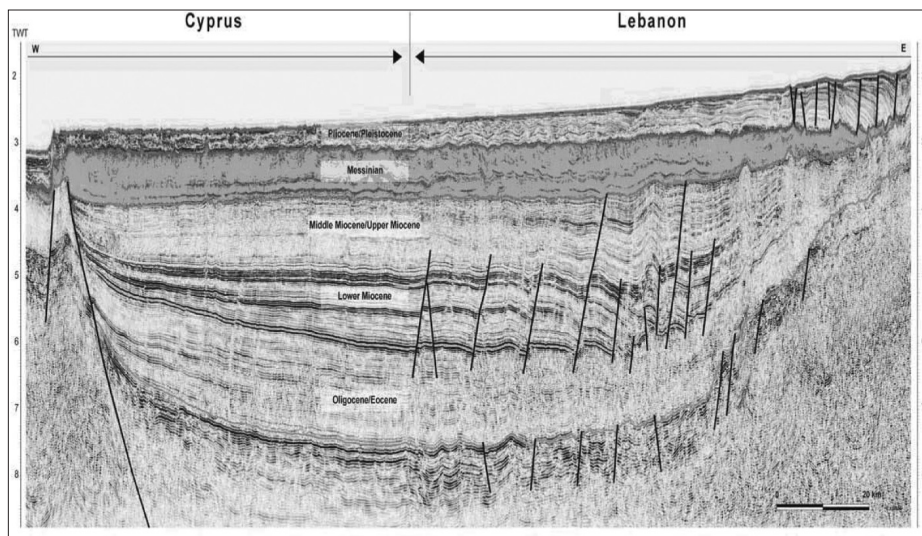
Picture 1 – The East Mediterranean region

Source: Image copied from the Geological Survey, dated 6/10/2008

In February 2007, PGS performed a 3D geophysical scanning that covered an area of 2,350 km². In the same year, Lebanon and Norway launched the “Oil Cooperation for Development” program. Negotiations also took place between Lebanon and Cyprus to demarcate the boundaries of their respective exclusive economic zones. In October 2007, the Council of Ministers discussed the first draft of an oil and gas prospecting policy.

In February 2009, PGS extended its operations by executing a 2D survey on an additional 4,900 km² area, and signed an agreement with the Government to integrate and manage all of the available seismic data. In February 2011, it obtained the right to conduct a 2D survey on another area equivalent to 3,800 km² and a 3D seismic survey on 1,400 km².

Picture 2 – The 3D seismic survey performed by PGS in the Eastern basin



Source: Petroleum Geo Services – PGS 17/7/2013

In May 2009, the Council of Ministers passed the demarcation line of the exclusive economic zone of Lebanon. In August 2010, the Parliament approved the decision to extract oil resources from the sea. In July 2011, Beicip Franlab Company, an international consultant in the field of oil and gas, completed the evaluation report and resource base.

Between June 29, 2011 and July 1, 2011 the First International Forum dedicated to oil and gas exploration was held in Lebanon. The Administration had started in June 2011 the Strategic Environment Assessment (SEA) work, and prepared a marine licensing round between the fourth quarter of 2011 and the first quarter of 2012.

Oil and gas in the Lebanese waters

In 2013 two-dimensional surveys had already covered 100% of the exclusive economic zone, and three-dimensional surveys 70%. There is no doubt that oil and gas estimates off the Lebanese coast are serious and are based on the most modern technical exploration techniques. But in general, experts would not consider the results final for any region and in any case, before drilling the first well and extracting samples of oil or gas. Not a single test well has been drilled so far.

At this stage we can only rely on official speeches, based on technical reliable investigations. Spectrum estimated gas reserves in the region that has been explored and that covers 3,000 square kilometers in the south-west of Lebanon (out of 22 700 km²) as equivalent to 25 trillion cubic feet². Roudi Baroudi, Secretary General of the World Energy Council, also said that oil production would reach 90,000 barrels per day for the next twenty years³. Energy Minister Gebran Bassil had also declared that “under the potential projection of 50% probability pertaining to 45% of the exclusive zone area, the current estimates amount to 96 trillion cubic feet of gas and 865 million barrels of oil”.⁴ The US Geological Survey estimated in the same year that the eastern basin of the Mediterranean Sea, covering an area of 83,000 square kilometers, contains 122 trillion cubic feet of natural gas and 1.7 billion barrels of recoverable oil.⁵

The exclusive economic zone

The ‘exclusive economic zone’ is the maritime area over which the State has sovereign rights to explore for, and exploit, natural resources. It has been determined within 200 nautical miles from the main line (370 km), and within the rights of others from neighboring countries. The ‘territorial waters’ (or ‘territorial sea’) are within 12 miles (22.2 km) distance from the shore, where the State shall exercise full sovereignty, similar to the sovereignty it has on the mainland. But it is also acknowledged that the State has sovereign rights in the exclusive economic zone for economic exploitation in accordance with the Customary International Law. Article 74 of the Convention on the Law of the Sea stipulates the need for negotiation and agreement among countries with opposite and/or adjacent coasts. Lebanon had agreed since 2007 to negotiate with Cyprus in order to delimitate the exclusive economic zone between the two parties, based on the halfway line, in which each point is equally distant from the nearest point on the baselines for both parties.

Based on that, the Lebanese offshore, which constitutes the exclusive economic zone, extends over 22,700 km² along the Lebanese shore from Arida in the north to Naqoura in the south. It then passes by the territorial waters in the north up to approximately 130 kilometers away from the shore, and in the south up to 80

(2) The Daily Star, August 22, 2015.

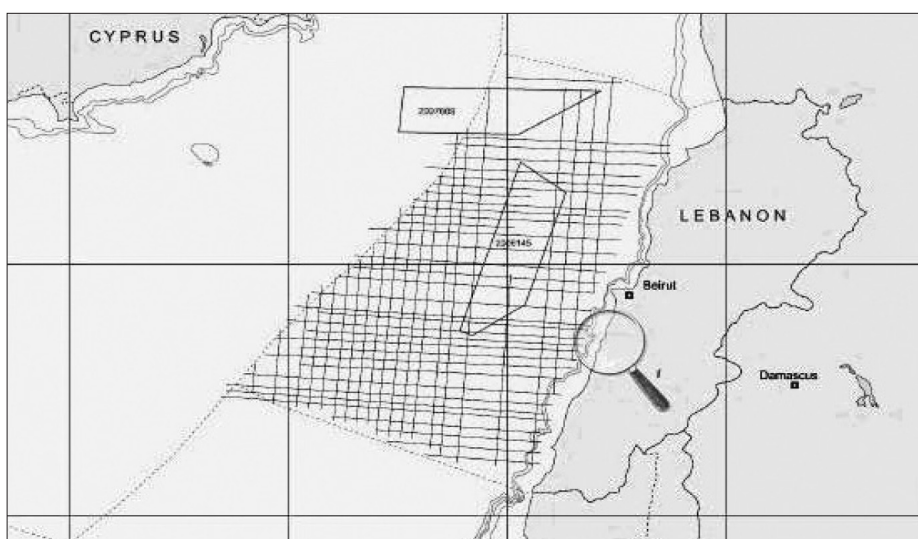
(3) Ibid.

(4) Reuters, Oct. 27, 2013.

(5) Bankmed, Marketing and Economic Research Department, Oil and Gas in Lebanon, 2014. .

kilometers. This area has been divided into 10 spots, each one of them could be independently franchised. But the Cabinet did not agree on the map to date (of the writing of this chapter), and the decree still lies on the Council's agenda waiting to be approved.

Picture 3 – Lebanese economic exclusive zone



Source: Lebanese Petroleum Administration

The Lebanese Petroleum Administration had determined that the number of blocks that will be proposed to licensing will be five blocks, leaving the remaining five for the second phase. The decree pertaining to the distribution of the blocks and how to exploit them (an Exploration and Production Agreement prototype) was submitted to the Presidency of the Council of Ministers on the day the government of PM Najib Mikati resigned. The following government of PM Tammam Salam did not take a final decision about it yet. The decree also includes the approving the bidding terms, particularly the financial terms (the maximum profit) and the technical conditions (depth of wells).

On the other hand, geophysical surveys from the air of the Lebanese mainland were performed by NEOS & Petroserv joint venture. Preliminary results showed high potential for the presence of oil.

The oil is a blessing

That phrase occupies a special position in the economic literature, as it became an expression of the conditions that a country needs to apply, so that oil would not turn into a “curse” that would generate many economic, social, and financial problems.

In absolute terms, the discovery of oil will improve national wealth. The first reactions coming from officials and citizens were that this wealth will pay back the public debt which Lebanon is suffering from, as if by the move of a magic wand. But integrating an oil economy into one that is based on traditional production is not an easy matter, and many countries have suffered from its negative consequences. The most famous historical risk story was “The Dutch Disease”, which Lebanon has suffered from some of its signs before the discovery of the oil wealth even.

All things being equal, growth increases when unemployment falls and the proportion of the workforce out of the working age population (15-64 years) rises. Unemployment increases in a circumstantial way, according to market factors or political factors that affect the economic cycle. The proportion of the workforce out of the working age population is linked to structural factors that reflect the deep reality of the economy. In the 1970s, when the Netherlands extracted abundant amounts of gas from the sea, it attracted additional amounts of foreign currency, which led to the rise of the national currency's (the Guilder) exchange rate at the time. It also led to mixed outcomes which featured an improvement of the living standards, an increase in consumption and imports, a decrease in exports, and a decrease in investment and employment opportunities. That is why, for example, Algeria decided to separate oil revenues from the real economy, and created an independent fund dedicated to promote infrastructure construction. In this way, the State avoided the implications of the extra income not related to the main production, and benefited at the same time from the development of infrastructure which it was unable to accomplish through the regular public budget. Thus, Algeria avoided the creation of a discrepancy in the economic activity and high unemployment, but it did not benefit from the development of the economy to enhance the living standard which is generally ensured by increased revenues from oil. Financial reality in Lebanon is not very different from the Dutch Disease phenomenon, as capital inflows and foreign direct investment in the real estate sector, as well as the Lebanese revenues from abroad (remittances by the Diaspora included), have created only 3,500 jobs last year, at a time when the country needed

35,000 jobs, and perhaps 50,000 if the employment rate had to be on par with international standards where manpower constitutes 65% of the working-age population.

The importance of the oil and gas discovery and exploitation in Lebanon will depend on their integration in the real economy, their effects on the overall living standards, and their contribution in reducing unemployment and strengthening the social safety net. Their importance will not lie in the reserve and revenue levels, if those resources would not have a positive effect on the unemployment rate and on the emigration trend.

Oil and gas extraction strategy

The good exploitation of the hydrocarbon wealth will need a dual strategy. The first would try to hold on to the available quantities and benefit from them for a long time, to secure from them the highest possible revenue, and develop complementary industries, especially those which use this raw material. The second is related to the interaction of the oil economy with the existing economic activity; it will be positive if the traditional production kept on performing at least at its previous level, and if the gross domestic product recorded a rise equivalent to the new product's value.

The first part of the strategic equation for oil and gas constitutes a primary preoccupation to the Lebanese Petroleum Administration, even though it did not succeed so far in implementing its plans due to the present circumstances. But that plan is good and will undoubtedly yield the desired benefit. The second part of the required strategy, i.e. the integration of the oil sector into the overall economy in a positive way, is on the agenda of no official so far, and this is what makes us fear for Lebanon's future with its "oil and gas", more than we fear for Lebanon's "public debt".

Exploring oil and gas, and concession procedures

The economic exclusive zone is divided into ten sections, and each of them will be subject to a tender for oil and gas extraction. This will be gradually done to sustain the reserves and improve the concession terms. The latest Administration's plan dealt with three areas at most, but it will gradually carry on to include the other areas. It had identified blocks number 1, 4, 5, 6 and 9 as the first areas for awarding concessions. Launching the bid and the contracting procedure requires the following material:

- A draft map for the marine blocks division;
- A draft tax law;
- A draft decree pertaining to an exploration and production agreement prototype;

All these elements are ready and waiting for approval by the Council of Ministers.

- Companies will need three months to prepare their applications;
- The Administration will need six months to review the applications and make its evaluations;
- One month will be needed to sign the exploration and production agreement;

Drilling would begin within six months from the date of the agreement signing.

Picture 4 -Demarcation map of the maritime blocks



Fair transaction and favorable conditions

The exploration and production process takes a long time (from 5 to 10 years for exploration, followed by 25-30 years of production), and therefore requires a long-term concession. In order for the State to preserve its rights to benefit from its natural wealth, it needs a fair agreement for profit sharing that will not be affected by the extent of time, as well as taxes that will be collected from every related economic activity. We will expand on this approach at the conclusion of this chapter.

On the economic level, the use of gas for electrical power production provides savings by 1.5 to 2 billion US dollars per year. It also facilitates the establishment of energy intensive industries that form in all countries the backbone of industrial development, because they are needed by many manufacturing industries to secure raw and intermediate materials locally. Production will include liquefied natural gas, mainly methane and LPG, and especially propane and butane that are used in power plants, in addition to methadone and ethylene which are needed by the plastics industry, as well as in fertilizers and other manufacturing. The cost of ethylene production in non-oil producing countries is five times the cost of such production in oil producing countries.

The Dutch Disease in the Lebanese economy

If we simply visualize that Lebanon is on the verge of extracting oil and gas in the near future, and it got the terms that it wants from the investing companies, and the State has benefited from sufficient revenue to cover the budget deficit and increase investment expenditures, will all this increase job opportunities? Not necessarily. The Lebanese experience shows us that emigration continued at a high rate during the reconstruction years. Capital inflows, whatever their origin, whether through borrowing and/or revenue, whether from the Diaspora or from under the ground and seabed, will lead to more imports in absolute terms, and relatively to the export value. The Lebanese economy lacks sufficient production capacity to build a competitive edge that would help it strengthen its parity with the global economy. The growing foreign trade deficit generally translates into less job opportunities. The jobs that will vanish due to the collapse of some productive activities will not be compensated by a few hundred jobs emerging in the oil field and the petrochemical industry if that proved feasible thanks to its proximity to the oil wells. The adopted regulation that imposes hiring 80 percent of the staff from Lebanon in the oil companies will not constitute a real solution, as it only addresses a small part of the problem, and it will contradict a number of existing or future economic agreements

that will be negotiated with neighboring countries. Such a measure would also threaten Lebanese jobs abroad. Also, the preference imposed by the Lebanese Petroleum Administration in supply bids in favor of the national industry up to 10 per cent in value will not lead to correcting the disparity in development and in the labor market, although it denotes a sincere intention to address the problem.

In financial terms, some studies suggest that the GDP will pursue its progress normally, but the oil and gas revenues will be added to it. This will result in filling the gap in the budget deficit, and reducing the public debt, according to the following model:

Table 2: Oil and gas revenue projection and GDP

<i>Year</i>	2014	2020	2021	2022	2023	2024	2025
Nominal GDP	47.80	64.06	67.26	70.62	74.15	77.86	81.75
Oil, State revenue		0.84	0.97	1.11	1.28	1.47	1.69
Gas, State revenue		2.04	2.35	2.70	3.10	3.57	4.10
Total GDP		66.94	70.57	74.43	78.53	82.90	87.55

Political and economic data do not allow us to know when Lebanon would be able to capitalize on its oil wealth. At same time, we cannot anticipate the future and draw socio-economic policies without minimal expectations that would most likely concretize, so that any better conditions would constitute good news reflecting positively on the overall situation.

The nominal GDP for 2014 amounted to 47.8 billion US dollars. Inflation in recent years ranged between zero and two percent. It would be almost impossible to estimate growth. If the stability of the local and regional political situation was restored, we could witness a growth rate of 8 percent, as was the case between 2007 and 2011. But if political glitches and instability continued, it would be difficult to register growth for the current year. So, we adopted a rise pace in the nominal gross domestic product up to 5 percent for the next ten years, reflecting growth and inflation all together.

Estimating oil and gas revenues seems a mere random exercise until now. Despite the advanced scientific surveys, we cannot guarantee the existence of recoverable

oil and gas before the drilling of test wells, which did not occur yet. Estimates would also be very difficult before we could witness stabilized oil price levels, which have been significantly reduced in recent years, reaching less than half their original value, as the oil barrel price decreased in a few years from \$100 to settle around \$50. Also, the gas declined to a third of its value after it surged to eight dollars per thousand cubic feet five years ago.

Moreover, if we consider for the sake of argument that investment flows along the right track, there is a plan to conduct the bidding process and award well drilling rights in a gradual way to take advantage of the best terms, so that revenues would start to appear when extracting hydrocarbons begins after five years, while quantities would gradually rise before stabilizing after at least a decade.

Table 2 above takes into account all these data to come up with fairly reasonable figures. It is worth mentioning that when random numbers multiply, they tend to correct each other instead of accumulating errors. We have adopted in this model a barrel priced at US \$100, and extraction pace at 90,000 barrels per day⁶. We also projected that the extracted gas would be 1.8 trillion cubic feet⁷ annually, at a price of \$3.4 per thousand cubic feet.

If this modest income resulting from the energy sector ended up to be true, it is feared that GDP would decline, as the weakening in a number of economic activities would exceed in results the volume generated from the new activities. Lebanon is highly exposed to this risk because it already suffered from the Dutch Disease since the early 1990s and the end of the civil war. Therefore, we have no regret for the current delay in the oil exploitation process, as it would be better to wait for the implementation of structural solutions which could ward off the imminent risks in terms of rising costs, falling productivity, and declining employment opportunities.

Application of the Action Program

All measures seemed ready to start the oil exploitation process at the beginning of 2013, whether in terms of the set of laws which would regulate the sector, the Petroleum Administration's role, and that of the other departments concerned by

(6) Refer to the statement by Mr. Roudi Baroudi, Secretary General of World Energy Council, Part 3.

(7) According to the estimates mentioned in Part 3.

the new activities. Global companies submitted to the Lebanese Government requests to participate in the bidding, which led to the launching of the qualification process to identify companies that can participate in the long-term exploration and production operations. The first concession cycle was scheduled to begin in May 2, 2013 and end on November 4th of the same year.

Twelve global companies were qualified as “operators” and thirty four as “right holders” participating within the consortia. Qualified companies had the right of set up groups to participate in the tenders, so that each group includes one “operator” and at least two “right holders”. But the Administration loitered in holding a first bid because of the Council of Ministers’ delay in approving the decree that defines the executive procedures.

Since the announcement of the qualified companies in April 2013, the Administration postponed the bid for five consecutive times, and the process is now postponed open-endedly. Two years have passed since the qualification process, and still the concession awarding date has not been determined. It is possible that it would occur in the next few weeks, provided the decree gets issued— and there is nothing that should prevent this to happen— but is the Council of Ministers ready to issue the decree after it suspended it all that time? Upon issuance, would qualified companies be still willing to engage in bidding? The question is likely well placed in light of the changes that might have occurred in the private situation of each company. It also becomes increasingly critical if the decline in oil prices continued, which would adversely affect the feasibility of the project for all parties, except the consumer. The Administration finds itself, at best, with 12 groups of companies eligible to enter the bid. Will that number allow the country to obtain the best terms?

The Administration is behaving cautiously and does not disclose its decision in this area, as if it had two choices: First, if a decree was issued shortly, and eligible companies are still willing, the Administration will organize the bid; otherwise, it will open a new qualification cycle. Here we have another opinion. Time has been long, circumstances have changed, and a new cycle of qualification has become useful, if not necessary. Therefore, announcing such a new session will allow operationally capable companies which did not participate in the past and/or did file an application but were not able to provide the required qualifications, to prepare themselves for the new round. This would be very profitable to Lebanon. For example, Norway, a country that has a reputed history in this area, organizes a qualification process regularly

every two years. Among the benefits of this measure is that it offers opportunities to Lebanese companies to prepare themselves to meet the required specifications, mainly through integration with Arab and/or foreign firms, and to enter the operational arena. Of course, the already qualified and willing companies oppose this direction, as even a small number of new Lebanese companies will add to the competition and may win a contract for some blocks, within a minimal sacrifice from the Lebanese Treasury. A competitive bidding among companies may be conducted according to the “exploration and production agreement”. So the greater the number of participants, the harder to witness an implicit understanding among them, and the better the benefits for the State. Noting that the deals are meant to last a long time: Exploration may take up to ten years, and production up to thirty years.

Table 3 – Qualified companies as operators⁸

USA	Anadarko Petroleum Company
USA	Exxon Mobil
USA	Chevron
Brazil	Petrobras
Italy	Eni
France	Total
Spain	Repsol
Netherlands	Shell
Denmark	Maersk
Norway	Statoil
Japan	Inpex
Malaysia	Petronas

Export routes of the Lebanese gas to the world

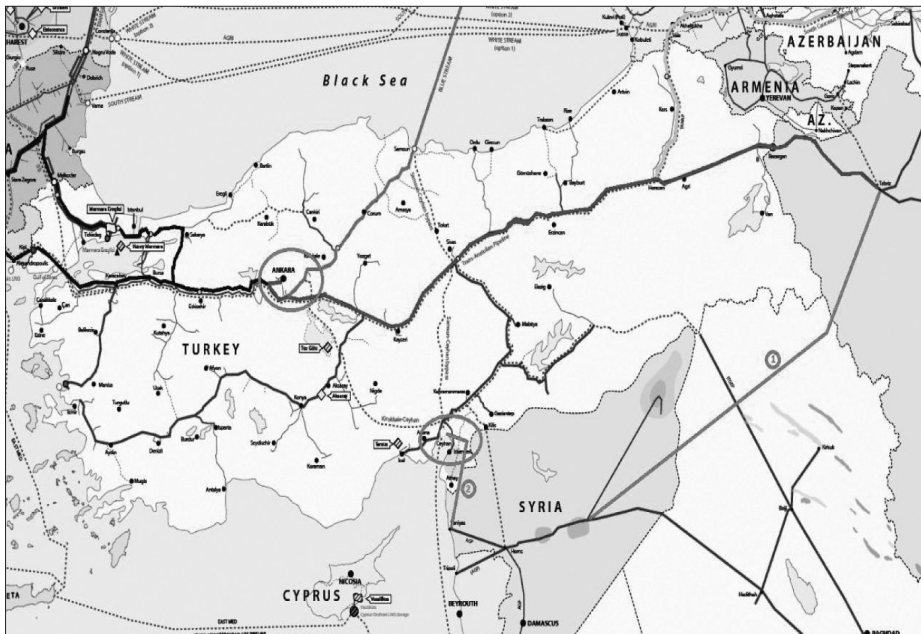
The global gas market is divided into three regional markets: the North American market, the European market and the Far Eastern market. The export markets of the Lebanese gas will comprise of the European and Far Eastern markets. Access to the European market will be achieved via land pipelines across Lebanon to Syria, Turkey, and Europe, or through liquefied gas (LNG) carriers. As for access to the Far Eastern markets,

(8) Ministry of Energy and Water, Qualification Results - April 18, 2013.

it will be necessarily conducted via LNG carriers. Of course, the development of gas liquefaction terminals requires a huge gas production that can only be ascertained after the drilling of exploratory and test wells.

Gas transport by pipelines or by sea requires huge investments, including the construction of terminals, gas processing plants, gas liquefaction facilities, and storage plants. It is worth mentioning that three pipelines link Lebanon to nearby countries. The first one, Tapline, transported Saudi oil from Qaisumah to Sidon in South Lebanon for further export to Europe. This pipeline stopped operating in 1967. The second one links Kirkuk to Tripoli in North Lebanon and was meant to export refined Iraqi oil to Europe; it stopped working in 1976 by decision of the Iraqi authorities. The third line links Tripoli to the Arabgas line, which connects Egypt, Jordan and Syria. Transporting the Lebanese gas through this line requires the construction of additional links from Banias in Syria to Turkey, then to the Blue Stream Russian pipeline that arrives at Ankara, or the Eastern Anatolia-Ankara line.

Connecting Lebanon through the Arab gas pipeline to Turkey, and then to Europe



The management and application stages

The Lebanese Petroleum Administration finalized the Road Map which was approved by the Government on December 27, 2012, and served as a base for the companies' qualification. The results of the qualification process were announced on April 18, 2013. The Lebanese administration's plan for oil and gas was, and still is, to conduct exploration and start production in two or three, or maximum five years, provided that this first stage is limited to a maximum of five blocks.

Decree 10,289/2013 set the regulations related to petroleum activities, in application of Law 132 dated 24/8/2010. Article 10 also defined the prerogatives of the Lebanese Petroleum Administration. Article 7 detailed the required conditions for company qualification, including that the applicant should have a legal representative resident in Lebanon, and that the right holder has to establish a legal entity and appoint a general manager for it. The minimum capital required for the non-operator right holder is half a billion US dollars, and for the operator right holder ten billion dollars. It should also have sufficient technical means that allow it to drill to a depth of 500 meters below the seabed.

The "Exploration and Production Agreement" to be concluded between the State and at least three right holders, including one operator, also comprises customary appendices which are an integral part of the agreement. These regulate the relationship between the State and the right holder in order to carry out the exploration of oil and/or gas, and its production within the blocks that have been allocated to it inside Lebanon's exclusive economic zone. This right is granted through a competitive bidding process, regulated by the Petroleum Resources Act in Marine Waters, and the rules and regulations of the petroleum activities.

The oil sector includes all exploration, extraction, refining, and transportation operations, either by ships or pipelines, and the marketing of petroleum products. The exploration period includes drilling exploration wells to confirm the presence of hydrocarbons. It also comprises the evaluation stage which requires digging tests and experimental wells to determine the scope and limits of the reserves, their characteristics, and to prove the viability of their extraction. The exploration stage takes between 5 and 10 years; it will be followed by the extraction stage, which extends between 25 and 30 years.

State revenues and the benefits for the economy

State royalties have been initially fixed at 4 percent of the produced gas, and between 5 and 12 percent of the produced oil. This percentage will be further determined by the tendering process.

The State and the right holders share the remaining resources, as determined by the process. The State's share rises once the right holders have recovered their investments, noting that the cost of each well ranges between 120 and 180 million US dollars.

Investing companies pay all taxes imposed by the Lebanese tax system.

Investors have also to recruit 80 percent of their human resources from the Lebanese workforce. They should grant the Lebanese industry 10 percent price advantage for their supply needs. The breakdown of jobs in this emerging activity is estimated to be 25 percent for administrative jobs and 40 percent for technology and engineering posts.

The Lebanese Petroleum Administration has stated in the oil forum organized at the French ESA business school on June 8, 2015 that the State's profits resulting from royalties, profit sharing, and corporate profit taxes, might exceed 75% of the overall profit, which is considered very high. But such a figure requires more scientific assertions, which the Administration promised to furnish to the public.

The suitable economic environment for oil exploitation

We mentioned above the risk of oil and gas exploitation without an economic environment suitable for this activity. We should now describe such an environment and the ways to reach it, in order to avoid the Dutch Disease, and benefit from the proceeds that this natural wealth will generate.

We also found that the stated protectionist measures, especially the mandatory 80 percent of Lebanese workforce and/or the 10 percent price advantage for the Lebanese industry, are inconsistent with the WTO rules and do not do us any good, as they provide at best jobs for a few hundred workers, and do not add a lot to the national industry turnover.

a) Returns without production

When the State charges taxes on the economic activity, it transfers the purchasing power from the taxpayers to the State. This does not change anything in the total purchasing power that would enhance the overall demand. According to the national

income equations, supply and demand equalize in the foreseeable future, and the economy stabilizes. But when oil is extracted, various parties will share different kinds of proceeds, including the companies, the State, and all those who contributed to the production. Companies and service providers will be paid compensations for their costs and fees, like all other sectors, and the State will enjoy net proceeds, as a free gift from nature. At that point, the demand will exceed the available supply in the country, thus increasing import with its improved conditions and competitiveness; the domestic production will then decline, and job opportunities in the country will shrink.

This notion seems inevitable if the country began producing oil and gas in the current economic environment; it will also cause a collapse of the remaining production sectors over the long-term. This is what happened in Lebanon as a result of remittances and the international aid which poured in while productivity did not evolve in parallel to steer the emerging capabilities towards investment. Even the service and informal sectors will be harmed as they are influenced by the cost structure albeit to a lesser extent, besides their vulnerability to the political and security situation.

b) Building the appropriate environment for exploiting the underground wealth

Every economic activity is characterized by differential advantages that depend on the human capital and its interaction with the financial and technical capital accumulated over time and/or naturally available in the country. The market economy resorts to the most effective production factors to perform feasible economic activities. A sector's prosperity often denotes high differential advantages for only a fraction of the production factors. The result can be significantly improved if other production factors in turn improved.

For instance, good climate, stability, and beautiful nature attracted tourists before private investment started in hotels, restaurants and touristic areas, and before the students became aware of the upcoming employment opportunities in this field. On the long run, factors combine to make out of the differential features a series of competitive advantages. Here, research and comparison should be done between the production factors' effectiveness and what is ultimately achieved on the growth and overall development levels. Thus, the productivity of the human energy will lead to a productive sector when it reaches economic maturity.

If we want to take advantage of the demand which our underground energy resources will invite, we should develop our supply capacity at the required speed and

efficiency. This would need a productivity large enough to attract investments. And it could be achieved when the economy reaches a high degree of “full productivity of the production factors”, where the human capital and the technical capital are used at their utmost possible efficiency.

c) Effective productivity criteria

The economy can benefit from the emerging bounties of nature while maintaining employment and living standards when it reaches “full productivity of the production factors”. But this phenomenon remains a theory and is difficult to measure within the perspective of anticipating the oil and gas exploitation effects on the economic and social situation, and drawing a wise policy in this area. But we can observe some of the indicators in order to explore those effects:

- A decline in the number of the unemployed down to the ‘frictional unemployment’ level. This means that the investment is generally feasible and opportunities are available for all who wish to work. Therefore, we should expect that, most likely, the supply parameter will encounter the high demand parameter and the economy will remain stable;

- Heavy investment in manufacturing industries indicates such a growth in productivity as to ensure leading the emerging demand, in adequate quantities, to the domestic production, and avoiding the deterioration of the current account balance and the breakdown of employment opportunities in the country.

d) Preparing the suitable economic environment

Economic studies end usually with a list of demands, all of them useful despite the disparity of their effects on the economy. Present circumstances do not allow the inclusion of numerous proposals and demands, because the economy is facing an imminent danger and a rare opportunity.

The imminent danger lies in the risk that the State launches the exploration and production process before setting up the suitable environment. Unemployment would increase in this case, migration will be exacerbated, human capital will decline, poverty will worsen despite the growth, social development variance between the affluent and the marginalized will widen, and the country will be exposed further to political problems and security shocks.

The opportunity is to benefit from the extensive human power which is capable of production and has not yet entered the labor market. Manpower in Lebanon is limited to 45% at most of the working age population. This percentage reaches at least 65% in developed countries. There is an enormous reservoir of people ready to enter the labor market if favorable conditions are available to the youth and women where we find the highest proportions of unemployment.

The measures are the same as those adopted by the Central Bank of Lebanon (BDL) since a while, sometimes to encourage investment and other times to support consumption. But the sectoral effort does not sufficiently compensate for the overall needed work on the economic front. This suggests that priority should be given to the use of oil revenues to bridge the fiscal deficit before investing in infrastructure and other projects. This should lead to freeing up the interest rates so that they match the rates enjoyed by hard currencies. Without this measure it would be impossible for the economy to regain its competitiveness, production, and export capacities.

A prudent fiscal policy should then follow, benefiting from oil and gas revenues to ease the tax burden on the citizens, rather than increasing these taxes to meet the deficit which has been caused by spending according to the twelfth budget rule. The State should, in this area, adopt a special policy for the micro-companies to encourage them to get out of the informal sector, fulfill their tax and social obligations, and put an end to illegal competition.

It remains that the real wealth is the human capacity, and priority should be given to the education sector, which fortunately maintained a high level in the region. There should also be a suitable matching with the future needs of economic activities, so as to maintain the youth in the country and find them jobs that secure them a prosperous future.

Towards a more integrated oil policy and better governance

An integrated oil policy

What is striking, compared to developed and even developing countries, is that Lebanon chose to start the exploration and production process without an 'energy policy' that has clear economic, social, and geopolitical goals.

A quick look at the management of energy affairs in any non-producing country, not necessarily a developed one, will show us that at the top of the pyramid of the energy

or oil management sectors, there is an energy policy for thirty years with specific objectives, attached to a road map. We also see that, in some countries, such a policy is accompanied by an extensive work program that has to be ratified by the people's representatives: General Assemblies or Parliaments.

The quality of the energy policy goals accurately determines the governance quality, the responsibilities, and the distribution of roles among public institutions, as well as the management of daily affairs. The equation is a simple one, as it is based on a solid and simple principle: The sources of the fossil energy are non-renewable, so any error in governance will lead to a definitive loss of wealth, to damaging local communities, and to undermining the economics of future generations.

As non-comprehensive examples, we can say that resorting to sources of energy in an intensive way to generate electricity, develop oil refineries, set up a regional storage facility for hydrocarbons, develop regional facilities for petroleum services, encourage petrochemical industries, or manage revenues is mainly related to the specific targets that have been defined by the energy policy in Lebanon. After determining these targets, a governance method should be devised as matching the objectives of the energy policy.

In a simple paraphrase we could say: "Tell me what the energy policy in Lebanon is for the next twenty or thirty years, and I will tell you which governance would fit such a policy."

First, the oil policy

An utmost importance should be given within this policy to the Southern blocks touching the borders of occupied Palestine, for two reasons:

- The first is that the Israelis have discovered oil and are working to develop Palestinian fields a few kilometers away from the Lebanese border, raising the possibility of oil presence in Lebanese areas in the vicinity of these fields.
- Protecting our oil assets from any pumping towards Israeli stations operating in occupied Palestine.

Secondly, any integrated oil policy should cover all sectors, from distribution and refineries, termed "Downstream", through storage and transportation, termed "Midstream", to extraction and production, termed "Upstream".

Third, the oil policy should address vocational training, scientific research, revenue management, corporate governance, and transparency.

Downstream

- Lebanon should benefit from the declining oil and gas prices, and import natural gas as of today, as its regional price has been reduced to less than one-third, and use it as a basic commodity for electricity production, and as raw material for the development of petrochemical industries capable of creating high level sustainable jobs (skilled workforce). To mention some of these industries: Methanol fuel, fertilizers, detergents, plastic materials known under the ethylene and polyethylene common names, and fabrics.

- Develop marine facilities for the reception of liquid gas and its gasification. Pipelines should also be established to deliver gas to the power plants and the petrochemical plants and, why not, to homes.

- Cancelling the operations of the oil refineries in the late 1970s was a strategic error that had cost, and still costs, the Lebanese citizens and future generations a large portion of the public debt.

Lebanon has imported – and is still importing – petroleum derivatives from south European refineries at international prices, knowing that these refineries import oil at 'Spot' prices, which touched a quarter of what world oil prices were a year and a half ago. Just a reminder: The spot market is one hundred percent legal and is more applied now on liquefied natural gas. If our local refineries had been kept and rehabilitated, we could have imported crude oil at spot prices and the Lebanese citizen would have bought fuel at lower prices, or the State revenues would have increased through taxes on fuel, and electricity production would have been less expensive, since fuel is cheaper.

Establishing refineries is a cornerstone not only to lower fuel prices or take advantage of related taxes, but also to secure Lebanon's fuel self-sufficiency.

Midstream: Storage and transportation

It is abnormal to neglect the strategic oil storage sector, as Lebanon is a non-producer country (so far). This is a priority that must be technically studied to determine how to operate strategic long-term storage.

How can Lebanon play a role on the regional oil map even if it was not an oil producer? In the early 1990s, an international company considered establishing a regional center for the storage of liquefied natural gas in Lebanon for further export to the East Mediterranean retail market. Shouldn't we think again about such a project? Currently, liquefied natural gas is being marketed from Turkey, and earlier from Egypt. Why not think up a real feasibility study for such a project?

Regarding transport, linking LNG port terminals to electricity power plants and to factories is considered a primary priority. This should be followed by an economic and social feasibility study to extend gas pipelines to the cities, and eventually to villages.

"Upstream": Exploration and production

If drilling began today, and the presence of oil or gas was confirmed in commercial quantities in the coming year, extraction would start after 7 to 9 years.

The contracting system currently in place is a production-sharing system, in accordance with the Petroleum Resources Act in Lebanese Waters, issued in 2010. This law stipulates the possibility for the State to participate at a certain share in the exploration and production activities. It also stipulates the possible establishment of a national oil company if the presence of oil in commercial quantities in Lebanese waters has been ascertained.

The State's contribution to exploration and production activities since the start, through a State-owned national company or a joint stock company with a controlling voting right for the State, is considered the backbone of the petroleum industry development, from the "Downstream" to the "Upstream" phases. The contrary would be abnormal, as a national company would allow Lebanon to take full control over exploration, field development, production, and global marketing mechanisms. It would also allow for a close monitoring of the operating companies in Lebanon. In this scenario, Lebanon will be considered a co-producer, as per the 2010 law (and not just a participant in the profits, as is the case now).

It is necessary to consider developing the 2010 law to take into account the real geological data so as to possibly prepare several contract types with the investing companies, including the Lebanese national company, for the concessions or services for example, in addition to the existing production sharing scheme.

One of the upstream industry characteristics is that it brings in large investments worth billions of dollars during the development phase of the fields, as well as in building processing plants, and exporting. Foreign companies recruit for these tasks thousands of skilled workers for a certain period as determined by the development plans. In the production phase, the number of workers will be reduced to only a few hundreds. But the presence of a national company (State-owned or mixed capital) will help create sustainable jobs and contribute through internal and external earnings in increasing income.

Site delimitation and the development of oil facilities for refining, processing, and export

The site delimitation is subject to several factors, most notably the availability of vast areas and the distance from the oil production locations. But the situation in Lebanon is easier than we would think, as there are already two oil ports which are still on the world oil map: Tripoli (Iraqi oil company's refinery site) and Zahrani (Tapline/Saudi Aramco's refinery site). The presence of two seaports to receive and export oil and gas is considered sufficient for the import of gas and oil in the current pre-production phase and for later export. It is necessary to launch studies aiming at promptly developing these facilities.

Scientific research on energy

Despite the availability of scientific capabilities in Lebanon, we are conducting the strategic studies outside Lebanon, such as the geological and geophysical analyses that determine the assets (oil, gas, and mining) of the Lebanese Republic independent since 1943. In contrast, this is not the case in Israel, where the Geophysical Institute of Israel is the agency that performs analyses of geological data resulting from exploration in the occupied Palestinian territories and waters. And of course, this is the case in Italy or Russia or Algeria, where national institutes are carrying out these tests, and the results remain confidential with no public reporting.

The creation of a national 'Geological Institute for Oil', in line with the general policy in developed countries, is an urgent necessity, as this would allow the State and its national oil company to rely on an independent scientific opinion not influenced by foreign oil policies.

On the other hand, a national office should be established to conduct strategic studies concerning field and facility development from the technical, economic and

social aspects, which would allow Lebanese officials to obtain consulting services completely independent from international lobbies or those related to companies interested in investing in Lebanon.

Of course, these institutes should remain under strong scientific control to ensure the credibility of any counseling or advice supplied to the Lebanese State.

In parallel, Lebanese universities and research laboratories should be incited to carry out research concerning energy, mines, and petroleum, which would help put Lebanon back on the world's scientific research map.

Skills development

There is no doubt that Lebanon has great skills in all fields. But it is necessary to develop university and vocational curricula, to keep up with the needs of the energy industry that is developing very rapidly. The curriculum development and the creation of local educational institutions to form a Lebanese youth in the field of energy will reduce our dependence on foreign labor. It will also allow the export of such labor abroad, especially through the Lebanese National Petroleum Company.

Second, good governance

The petroleum sector's governance would be based on four key cornerstones, in addition to the Ministry of Energy & Water, namely: The Regulatory Authority, The National Petroleum Company, the Production Studies Office, and the scientific institutes (Geophysics Institute, the Strategic Studies Office).

The Regulatory Authority

Its mission covers all elements of the Petroleum activity's value chain, from Downstream (refineries, liquefied gas reception and marketing), through Midstream (storage and transportation), to Upstream (exploration and extraction). It also comprises petroleum activities on land and sea. Its main task is to develop legal frameworks, technical standards, public safety, and the environment, and closely control petroleum activities taking place in Lebanon. The Authority will be subject to permanent audit, and scientific and technical scrutiny, to ensure the validity of the opinions that it submits to the Ministry or the Government.

The National Company

The creation of a national oil company is a natural move to exploit oil wealth in

Lebanon. Its task would be executing petroleum activities, such as developing oil refineries, liquefied gas stations, transport and storage, exploration and extraction. The national company can also sign contracts with non-Lebanese companies, and according to Lebanese law, to carry out petroleum activities. It will be subject to scientific scrutiny, and to administrative and financial control carried out by the Lebanese State, as is the case with other public institutions.

The Production Studies Office

This office is purely scientific, as its mission is to give advice and consultation to the Regulatory Authority and The National Company about the sound production ways that should be applied by operators. The idea is to avoid the use of undeveloped production methods, or means that would lead to production intensification at some stage, which could cause the deformation of the site and its characteristics. The production site's efficiency would then decline in the long-term, and the production rate would decrease.

This office will be submitted to financial, scientific and administrative control.

Scientific institutes: The Geological Institute and the Office for Petroleum and Mining Strategic Studies

The Government, the Regulatory Authority, and the Production Studies Office will rely on the studies carried out by these institutions to estimate Lebanon's petroleum wealth, and to determine development plans and strategic options for energy. These scientific institutes will be subject to close scientific, financial, and administrative control, to ensure the validity of the scientific advice that they submit to the mentioned public institutions.

The civil society

The role of the civil society should not be confined to participation in public debates pertaining to the energy sector. Its representatives should be invited to be part of the supervisory bodies, or of those tasked with pursuing oil business or projects. For example, representatives of the civil society should be within the Regulatory Authority's Board or other scientific institutions, as well as on the boards of scientific inspection councils, and within the technical follow-up operation committees that could have an impact on society and the environment.

Third, transparency

Lebanon's accession to global anti-corruption associations will not be enough to

make the oil industry a clean sector. The oil industry needs full participation in the details of the decision making, from recommendations to the final signature and execution. It also needs access to the details of the technical process, from the initial design to implementation and post-implementation.

Scientific and technical control plays an important role in the fight against corruption, especially in submitting recommendations upon which Lebanese officials will rely to make decisions and control operators.

Should we adopt, within the fight against corruption, a special law for energy issues?

It is essential that the oil policy includes a special chapter dedicated to the fight against corruption that takes into account all technical, administrative, and scientific details.

Annex 1

Article 10: The Lebanese Petroleum Administration⁹

- A 'Petroleum Administration' shall be created pursuant to this law, which shall enjoy financial and administrative autonomy, with the Minister [of Energy & Water] exercising tutelage authority. Certain financial and administrative decisions of the Petroleum Administration shall be subject to the approval of the Minister as stipulated by the decree regulating its organization.

The Petroleum Administration is subject to the provisions of this law and its internal regulations. It shall neither be governed by the provisions of decree 4517 pertaining to the general management of Public Institutions, nor be subject to the Council of Civil Service; it shall be only subject to the posteriori audit of the Public Audit Court.

- The board of the Petroleum Administration shall be appointed by a Council of Ministers decree taken on the basis of a proposal by the Minister. A decree shall determine the organization of the Petroleum Administration, its internal regulations, modes of work, and conditions for employment, positions, and salary scales. The Petroleum Administration shall have the following duties and powers:

- a- Conducting studies to promote the Lebanese Petroleum potential.
- b- Submitting to the Minister assessment reports about the qualifications and capabilities of applicants for Petroleum Rights.
- c- Preparing draft invitations for bids, terms of reference, licensing, and related agreements in accordance with this law.
- d- Assisting the Minister in negotiating Exploration and Production Agreements, and submitting reports on results of negotiations to the Minister in order to enable the Council of Ministers to make the final decision.
- e- Managing, monitoring, and supervising petroleum activities, and the proper implementation of licenses and agreements; and in this regard submit quarterly reports to the Minister for approval.
- f- Evaluating plans for development, transportation, cessation of petroleum activities, and decommissioning of facilities.
- g- Managing petroleum activities data.
- h- Keeping and managing the petroleum register.

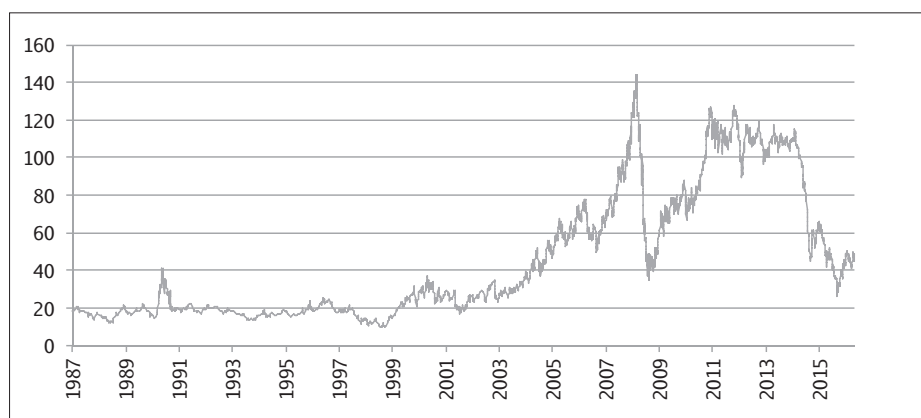
(9) Law No. 132 dated 24/8/2010.

Annex 2

Oil prices crisis and its impact on the development of the exploration and production sector in Lebanon

Since more than a year, oil and gas prices have been falling until they reached less than \$30 for Texas (WTI) and North Sea (Brent) barrels, and less than \$26 a barrel for Venezuela's production. This development occurred after a period where the price exceeded US \$130 a barrel, as illustrated by the following chart.

Brent (Europe) crude oil



Evolution of the Brent prices from 1987 to 2016

The prices of natural gas transported in pipelines and as liquefied natural gas (LNG) have lost more than half their initial values. LNG is currently sold in Asia's markets at around 6 to 7 USD, instead of 17 to 23 USD. The pipeline gas is sold to the Levant markets at 4 to 5.5 USD, instead of 9 to 13 USD. In European markets, the prices have declined to 6-7 USD from 10-14 USD.

What should be noted is that this price crisis was accompanied by a drop in the number of drilling and production platforms by about a third, and even by a half, in many oil-producing countries. It also led to the bankruptcy of a large number of small and medium businesses active in unusual oil subsectors, such as schist oil. This has resulted in the layoff of tens of thousands of specialists in all countries. Moreover, investments declined by a third to half in all large oil companies, halting any new projects in the areas which did not witness any recent discovery. Huge gas projects were frozen in Russia, Canada, Australia, Nigeria, and Angola, waiting for better days. As a result of this situation, infrastructure investments stopped in oil-dependent African countries and some Arab countries; engineering companies and factories closed down in different parts of the world.

In Russia, declining oil prices have led to a sharp drop in the exchange rate of the ruble versus the dollar, by almost half, without a visible effect on the social life.

In Scotland, the economic life has been clearly affected by the low oil prices; several production platforms have been shut down, and thousands of specialists were laid off.

In developed countries like Norway, falling prices had an impact on the exploration and extraction dynamics, but without any effect on the social aspects.

On the other hand, the drop in prices led to a quick shift towards downstream industries, and the development of oil refineries and petrochemical plants. This would allow large companies to limit their financial losses and create a significant number of long-term jobs in the producing countries, as in Russia, Algeria, Saudi Arabia, Iran, Iraq, Egypt, or transit countries, as in Turkey, or in reception countries, as in India, China, and Korea.

In the midst of this complex picture, what is the position of Lebanon and what impact this crisis would have on the oil situation?

An independent observer will undoubtedly notice that the decline in world oil prices has reflected on the price of fuel used in the transportation and electricity production. The transport budget for a regular citizen has dropped by about a half, which means saving 100 to US \$200 per month. The cost of electricity production, which depends in Lebanon on liquid derivatives, also dropped by about 60%, which means a yearly saving for the Treasury of about 1.5 billion dollars.

But can we say that Lebanon has fully benefited from the fall in oil prices? Of course not. We should not forget that the fall in oil prices is followed by a decline in prices of natural gas, including liquefied natural gas. The current regional price of a million English BTUs caused by liquefied gas is about 6 or 7 USD, while this price was about 17-23 USD two years ago. If Lebanon was eligible to receive liquefied natural gas tankers and gas pipelines to feed the power plants, this would have saved more than two billion USD off the bill of the fuel currently used. Moreover, the lack of gas sea terminals and pipeline-transported gas to feed industrial zones has resulted in a missed valuable opportunity that cannot be compensated to develop our economy. This gas would have been used not only as a fuel, but as a low price feedstock to develop petrochemical industries and create numerous jobs, as is the case in Turkey, an oil-importing country.

The other question that naturally arises is related to the impact on the exploration and production industry which, as we have said above, is going through its birth pangs. Should we go on with this journey or stop it, pending improvement in prices?

Of course, we are facing a dilemma due to conflicting factors: On the one hand, if we completed the bid process and started exploration, production will not begin before 7 to 10 years.

During this period, prices could rise again. But the profit sharing equation between investing companies and the State should be determined now, taking into account several risks, including the current price crisis. So, the profits that the State would obtain later would be lower than if prices were high right now. In such circumstances, many countries take themselves charge of the exploration operations, so as to confirm the oil contents, then they launch the bidding process for field development and production. Confirmation of oil content reduces risks, especially those resulting from a drop in prices, which improves the State's share of production and profit. But of course, this rule cannot apply to Lebanon. On the one hand, the current laws do not allow the separation of exploration from drilling-production. On the other hand, the State is not able to spend hundreds of millions of USD to explore, due to the country's bad economic situation.

Nevertheless, the Lebanese State should complete the preparation of the legal framework for the first bid, especially approving the decrees pertaining to the division of the Lebanese economic waters into blocks, and the decree pertaining to the production sharing agreement, along with the necessary amendments to secure a prominent share for the State. Furthermore, the State should finalize the draft law concerning the special taxes related to the petroleum activities. We also need to come up with final regulations for the gradual block concession commissioning. And we have to qualify new companies in order to raise the competition level among investors, after which follow-up on the first bid would be done.

If companies offered a high production and profit share in favor of the State, the latter could award a block or two only. If the production and profit share is low, no awarding should be done. A new bidding cycle could then be called for, after introducing amendments to the legal frameworks and to the law itself, so as the exploration-drilling process is separated from production, in order to confront any new price crisis better.

Advocacy for a Small Business Act

The policy for spurring small enterprises comprises a number of financial and fiscal measures, in addition to training programs in various fields. It aims to support the creation and development of micro - enterprises (employing fewer than ten people, including the employer and his family) and small enterprises (less than 50 people).

Small enterprises, namely of the micro type, have occupied a prominent place in economic life, and they increased in importance after the outbreak of the 2008 global financial crisis. For the prosperity of these institutions has proven to be one of the most important means of combating endemic unemployment in the Western world, which had not seen such jobless figures for decades. The unemployment rate exceeded 10% in several countries of the European Union— particularly in France and Italy, rose to 15% in Portugal, and even to 25% in Greece and Spain, where youth unemployment stood at 40%. As for the Southern and Eastern Mediterranean countries, the average unemployment rate stood at more than 14% before the global crisis, so it obviously went up on account of that crisis and the 'Arab Spring'. But more seriously, the reality of employment in those countries is not structurally viable owing to the fact that the manpower ratio does not exceed 45% of the working-age population (between 15 and 64 years), which experts say is not enough, as the percentage in the European Union rises to 65% in comparison.

The European Union (EU) decided in 2010 to help the Southern Mediterranean countries in developing and implementing the 'promotion of small enterprises policy' - "Small Business Act" - as it was applied in Europe, and tasked the European Training Foundation (ETF) based in Turin with the preparation and implementation of programs aimed at rehabilitating education and improving vocational training, especially at the level of the owners of micro and small enterprises, and notably the newly emerging ones.

The Lebanese State responded positively to this project, and so did the rest of the nine beneficiary countries in the Southern and Eastern Mediterranean. Accordingly, Lebanon signed a cooperation agreement aimed at eventually ratifying and implementing a framework law aimed at developing the micro and small enterprises, namely the emerging ones which are in need of special care in order to continue and grow.

Good governance in the field of investment in the Southern Mediterranean

ETF embarked on preparing a draft for Lebanon, as for the other recipient countries, and set up a joint committee grouping representatives of relevant Ministries, civil society and economic bodies. This gave rise to a first project aimed at training those young people wishing to set up an individual enterprise and assume the role of “businessman”, through experiences at a smaller scale than what they will find in the real business world.

The first project was chosen by consensus out of three projects which would successively come. In addition, six institutes were selected to implement this program, with the Dekwaneh vocational school topping the list.

The European experience

The adoption of the European Union in 2008 of the ‘promotion of small enterprises policy’ - “Small Business Act” - indicated a consensus among the EU countries on the importance of small enterprises and their distinct role from the general economic activity, and on the necessity of putting their activities within an appropriate framework for both their establishment and development. The global crisis became one of the reasons that prompted the implementation of this policy, as those countries had anticipated a rise in unemployment and needed to find ways to keep it within limits. It is worth mentioning that the European policy encompassed medium-sized enterprises (employing under 250 people), thus making that policy of support to small enterprises cover 99% of those establishments and about 70% of GDP.

The European ‘promotion of small enterprises policy’ – “Small Business Act” – is distinguished by the following three factors which the investor considers essential for the prosperity of the enterprise, and for encouraging employment:

- First: Reducing bureaucracy and facilitating all administrative procedures (paperwork, formalities, transactions);
- Second: Facilitating the access to funding;
- Third: Helping in the globalization of small and medium enterprises, by thrusting them open the doors to global markets.

Facilitating administrative procedures

With the economic openness at the global level, it became difficult to give incentives for investment which the State does not pay for. The exemptions and

guarantees to transfer profits and capital which the States granted to encourage investment have become normal and regular practices that benefit everyone in the light of the economic openness which is of a comprehensive feature in the European countries, and of the growing type in the Southern and Eastern Mediterranean countries. This became all the more true after the signing of the Euro-Mediterranean partnership agreement and the agreement on the Grand Free Trade Area, as well as the Agadir Convention and others; in addition to entering and / or seeking to enter the World Trade Organization (WTO).

Evaluations now center on the benefits of investment with regard to employment and income, in comparison to the cost of tax waivers and / or granting soft loans and / or selling land at reduced prices for setting up projects. Note that the investor does not consider those benefits unless they ensure the project's profitability, which is not certain, and the opposite is true. For if the investment climate is not favorable, whatever the State does to promote investment goes in vain. But if the climate is healthy and supports expectations of profitability, investment comes even in the absence of all artificial incentives.

The truth is that the problem is not in incentives, but in obstacles, the most important being administrative red tape. The setting up of a company in some countries is made in less than an hour and costs a few Euros; certainly less than the charge paid by the applicant for parking his or her car. In Lebanon the process takes weeks, sometimes months. Moreover, what is more difficult than the establishment of companies is their closure and liquidation, for it takes years. It is natural that the investor abstains from investing in business in Lebanon and similar bureaucracy-laden countries (which reflects negatively on GDP), unless they set incentives that offset the cost and hassles of bureaucracy.

The International Finance Corporation (IFC) which relates to the World Bank (WB), is entrusted with the task of classifying countries in terms of the ease of doing business therein. It issues every year a list of all countries that it examines, based on both precise and flexible standards/criteria. For example, the 'Doing Business in Lebanon' report ranked the Lebanese administration 105 among 218 countries in terms of business climate. Every State which is conscious of its interests seeks to be classified among the top-tier countries which are characterized by a strong appeal, in contrast to those which give costly incentives that sometimes outweigh the benefits of investment.

Facilitating access to funding

Banks are naturally attracted to large companies with known values as determined by their share trading on the stock exchange, and which are able to invest large sums of money while having a credible track record in honoring their loan repayment obligations. Those companies often do not require guarantees or collaterals that limit their borrowing capacity. This is known as 'the mechanism of financing large companies' ("Corporate Finance"). Banks are quite content with this credit market, let alone if it's accompanied by a more significant local market for Treasury Bonds. In contrast, the medium and small enterprises seeking credit find themselves putting up collateral that often exceeds the loan amount, which leads to the limiting of their capacity for borrowing, and of their production ability by extension.

Here comes the role of the State together with the financial authorities, the international institutions, and the economic bodies. The oldest and most important example comes from the US where the institution called 'Small Business Administration' was created in the early 1950s, tasked with financing and / or providing the necessary guarantees to small and medium enterprises. Further, the World Bank and the European Investment Bank (EIB) fund small and medium-sized enterprises through local banks, and on easy terms according to predefined criteria. There are also several funds with a global or regional call that seek to meet the needs of small private institutions by funding innovative projects that contribute to the development of production and consumption.

At the local level, the 'loan guarantee funds' ("Credit Guarantee Funds") played the biggest role in the globalization of companies, as they stemmed from the professional sectors and have had an intimate knowledge of the economic activities which they ensure, and they often exercise the role of advisor in the employment and credit areas. In Lebanon, the Central Bank (BDL) played a major role in the financing of small enterprises through the funds it allocated at soft interest rates, for the purpose of allowing them to make up for a part of their weak productivity, and to enter the competition arena on more favorable terms.

Facilitating enterprise funding is not, however, confined to granting the establishments easy borrowing terms, but it also deals with training them, namely the micro and emerging ones, on the preparation of financial statements and the proper presentation of their business project, in addition to laying down a proper Business Plan that clearly illustrates the project's viability and endows the company with that level of credibility which the banks need for lending out their depositors' money. This work is

provided almost for free in the countries of the South by such international agencies as the United Nations Industrial Development Organization (UNIDO) and the United Nations Development Program (UNDP), as well as AFD of France, GIZ of Germany, and others, in addition to several US and European programs. This work is also at the core of the tasks of the chambers of commerce, industry and agriculture in the countries of the South.

Helping to globalize the enterprise

What is the difference between the globalization of the enterprise and export? Since the opening up of world markets, it can be said that all that is sold in foreign markets will rather be up for sale in the local market, and all that is sold in the local market will find channels into foreign markets. This is because the opening of markets to each other lends itself to improving the conditions of consumption, and thus enables both the consumer and the manufacturer to use the most suitable resources wherever they exist.

On the other hand, the production of a local firm got broader prospects, as it could contemplate selling into many other markets which consume vast quantities not previously experienced in the local market, thus benefiting from economies of scale to improve its productivity and its capacity to compete. This brought about enhanced standards of living in all parts of the free world and contributed to the elimination of the command economy.

Sources of the 'promotion of small enterprises policy'

It would be useful to know the sources and origins of the 'promotion of small enterprises policy' in order to understand its dimensions and the application of its objectives, so as to benefit from it fully. The idea is attributed to the initiative taken by the President of the United States in 1932 to counter the economic collapse caused by the financial crisis known as "The Great Depression", whereby he established the "Reconstruction Finance Corporation" to finance companies, large or small, that have suffered from the economic crisis. Later, President Franklin D. Roosevelt used that institution as an effective tool in his plan to revive the economy labeled "The New Deal" by expanding its powers and equipping it with competent staff. This institution played its role to the fullest until World War II which constituted by itself a production project of gargantuan proportions that supported all American corporations, along the Keynesian model. More and more, this institution directed itself toward the medium and small enterprises and continued into being until 1952 when it was replaced by an institution more suited for this purpose.

At that time, President Eisenhower chose to establish an entity with specific targets and resources for helping small businesses, instead of that giant institution. On July 30, 1953 the US Congress passed a law for the establishment of the “Small Business Administration” governmental agency aimed at “helping, guiding, protecting, and preserving the interests of small enterprises.” The legislation stipulated that the agency will seek to ensure that small enterprises obtain their fair share of government tenders.

In early 1954, the Small Business Administration agency began to grant loans directly to small enterprises, as well as give them guarantees with respect to the banks, and to provide them with technical assistance and training in various areas of business as well; it also took care of the victims of natural disasters.

And then the US administration created “the agency for encouraging investment in small enterprises” in 1958. That agency also initiated work on fighting poverty as well, through its “Equal Opportunity Loan” program.

The principles that underpin the policy of encouraging small enterprises

In this endeavor, the European Union and the other participating countries rely on ten principles. It’s natural that they would be applied in the beneficiary countries, including Lebanon. Our duty lies in assessing them in the light of our economic/social reality, even if within the context of our existing political and security conditions, in order to determine their possibility of success and therefore the wisdom of adopting them. These principles are:

1. To encourage individual initiative

The Lebanese citizen does not need a lot of inciting to venture and establish his own business. The love of initiative is in his nature. It’s cultivated by his free economy environment, the absence of large industrial enterprises capable of providing loads of employment opportunities, the absence of an all-attentive State, as well as by the prevalence of family life characterized by support—which easily provides a small amount of capital for launching a private initiative, and a strong desire to acquire knowledge.

In recent years, unemployment has doubled the need for individual enterprises to compensate for diminished employment opportunities, hence the emergence of startups, a phenomenon which has now become the sole alternative formula for the country’s rampant emigration and its resulting loss of young human talents capable with their energy and efficiency to contribute to the nation’s development and growth.

Here comes the importance of having an investment climate which provides equal opportunities for all sectors and activities, with both the needed productivity for playing on the world markets scene and the required defense of the domestic market in view of the global economic openness coming along. This is said in the full knowledge that small organizations are short of the productivity levels that large corporations enjoy by virtue of economies of scale, and their ownership/control of the means of production and modern distribution, in addition to their ability to procure their production components at the best prices, and to get adequate funding at the most favorable terms. This clearly indicates the measures that must be taken by the economy at this stage to shore up and maintain the small enterprises, especially the modern and recent ones, in order to take advantage of their contribution to GDP, and to the reduction of the country's unemployment rate as well.

2. Bankruptcy Law and alternative opportunity

IFC proposed to the Lebanese government a number of guidelines meant to update the Bankruptcy Law for making it adequate to economic development. The State encourages the establishment of small businesses and sees in it the best solution to combat unemployment, but it turned out that the lifetime of these enterprises is very limited, as only one out of five newly created institutions remains in existence five years later. The other four either go through voluntary liquidation or through bankruptcy. Now-a-days, any institution which finds itself unable to meet its payables is subject to bankruptcy, whether it's suffering from a deficit in assets or liquidity. It is very hard for a party that went bankrupt to rejoin the business world. This means that a wise bankruptcy law is a prerequisite for maintaining production enterprises, their human resources, and their managerial talents.

It is worth mentioning that there are many reasons for bankruptcy, but it can be said that most of them are ascribed to fixed or circumstantial economic situations. A useful analysis goes as follows:

- The economic development of a country makes some activities no more viable in spite of having been very successful at a certain time. This is a known phenomenon which has been analyzed at length by a number of economists, including Paul Romer (Crazy Explanation of the Production Slowdown) and Robert Mundell (Mundell Fleming Model), and in the 1960s the Boston Consulting Group, as well as William Petty (Petty's Law) at the beginning of organized economic thought, which raises three questions:

Is it possible to develop production to comply with the changing markets?

Is the management of the organization capable of undertaking this development, noting that most of the time the owner of a small enterprise actually masters a certain profession and cannot do something productive with another?

Does the State have a role in developing the enterprise through providing an investment climate which is conducive to the development of production and/or the sale of the establishment and/or merging it with another?

In times of economic crisis, a significant number of solvent institutions regress, owing to losing liquidity due to tightened credit policies and the difficulty in collecting receivables. If and when the State does not fully appreciate the particularity of such circumstances and helps these organizations to navigate through that critical stage, it effectively ends up losing a significant part of GDP.

As some economic activities depend on foreign factors in view of the economic openness which widens day after day, the domestic political and security situations affect them seriously. In recent years we have seen the collapse of many Lebanese tourism enterprises by the boycott of Arab tourists of the country. It is not long ago that we used to say, "Tourism is Lebanon's oil wealth." Is it not worthwhile maintaining and preserving?

In both the macro and micro views, the most important assets are intangible, e.g. brand name, reputation, experience in production and marketing, benchmarks and differentiation points, suppliers, customers, human resources, organization and administrative structure. Bankruptcy sends all that into oblivion. Of course, an arbitration law exists to reconcile between parties, but resorting to it has become only theoretical in recent years.

The Presidency of the Council of Ministers has set up a working group to develop a Bankruptcy Law that includes added phases, and modifies the existing regulations for achieving the desired objective of an enterprise not to get taken out by bankruptcy if there is an alternative solution. This solution comes through "restructuring measures" and "rescue measures" before resorting to "liquidation proceedings". We are, though, afraid that this project doesn't emerge more complicated than the current bankruptcy law if a majority of economists and businessmen do not participate in it. That's because the solution is not only procedural; it rather lies in the investment climate and in the ease of development of the enterprise's legal form, sale or merger, therefore the

evaluation of its intangible assets—all that being an impossible task within the current commercial law and the tax system in effect.

3. Public Administration: Focus on limited actions first

It's a priority to raise the level of the Eastern and Southern Mediterranean countries in relation to the European Union. The latter considers them an integral part of the economic environment which it leads and views as a joint bloc capable of competing with the US and Asian economic giants, and of taking advantage of the benefits of global openness. The EU's philosophy in this regard is, rightly, that support does not help unless it generates sustainability in the beneficiary countries.

It is worth mentioning that most of those countries were among many emerging countries in the world, had the economic crisis, especially the Arab revolutions, not affected their economic activity. By definition, it is the nature of emerging countries to be able to develop and grow on their own.

All of the above calls for achieving quick results on the programs in store, whether they are supported by the EU or directly by the Lebanese government. In order for this to materialize, priorities must be considered and verifications made on the impact of the measures to be taken; and this, of course, reduces the number and size of the projects, depending on their effectiveness. The administration's drawers are full of projects that did not see the light of implementation for many years.

4. The administration's response to the needs of small and medium enterprises

The desire to respond to the needs of small and medium enterprises has been taken for granted in most countries of the world after the outbreak of the 2008 economic crisis and the ensuing rise in unemployment to unprecedented levels. Defined as 'small' are those enterprises whose workforce does not exceed 49 salaried employees, in addition to smaller establishments, including very small (micro) enterprises with a maximum of nine people that comprise the employer and his family. Medium enterprises are those which employ between 50 and 249 salaried people. Small and medium enterprises make up more than 99% of private businesses, contribute about 70% of GDP, and employ nearly 80% of the workforce.

With the technical development and the spread of information technology (IT) that reached most economic activities, especially in the industrialized nations, the optimum output resulting from economies of scale is found in medium-sized enterprises, thus

making them no longer in need of the same care that small enterprises do. That's why they are cited so little in economic policies aimed at supporting small institutions. Some approaches suggest that 60% of small businesses in Lebanon arise and thrive in the undeclared (grey) economy. This phenomenon constitutes unfair competition with regular establishments and deprives the State of significant revenue.

Studies on the competitiveness of very small enterprises presented by the "Economic Research Forum" in Cairo in 2007 showed that they are absolutely unable to survive if subjected to the same social and tax obligations that regular establishments abide by. For example, it was shown that productivity in the top 500 companies in Turkey is three times the average productivity in very small enterprises; and as it turned out, a similar situation exists in Morocco, Egypt and Lebanon.

To maintain the micro enterprises and integrate them into the declared economy is very necessary. It presumes:

a) The State taking it upon itself the social obligations of micro institutions, thus effectively playing a simple role in insuring against unemployment;

b) Subjecting them to direct taxes, namely on real or estimated profit, but exempting them from indirect taxes that raise their costs;

c) Assisting them in the process of marketing and export through specialized and effective agencies, such as those in place in European and Asian countries;

d) Securing them funding on acceptable terms equivalent to those that big competing enterprises benefit from. It is to be noted that under the global economic openness, financing terms have a major burden on foreign trade, and what ought to be done is seeking to finance all productive institutions at the real interest rates prevailing internationally;

e) Encouraging training centers in various technical and managerial fields, and establishing a closer relationship between those training institutes and the private sector's establishments.

Note that all this does not make the Treasury incur cost, but the opposite is true, as the transfer of a large number of enterprises from the undeclared economy to the regular economy ensures that partial tax revenues get into the State's coffers rather than nothing at all; and that compensation for social obligations does not exceed a fraction of the compensation for unemployment. It may be imperative to apply this system sooner or later in order to preserve the country's human potential.

5. Enabling medium and small enterprises to participate in public tenders

All data indicate that small businesses are unable to compete with the big establishments, whether national or foreign, for several reasons, including:

- The weakness of productivity in small and very small enterprises;
- The dual difficulty of finance and compliance with the terms of tender documents, namely in what regards deadlines and delayed payments;
- Delivery deadlines that require a large production capacity.

Nevertheless, the American Small Business Administration insisted since the 1960s on securing a share of the public tenders to small enterprises. This assumes the assignment of a quota or a percentage of goods and services for competition among small enterprises alone. In principle, this is incompatible with the World Trade Organization's rules.

The Lebanese State committed to give an advantage of 10% in public tenders to local production which gets a Lebanese certificate of origin which states that the inherent added value is more than 40% of the total cost delivered to the factory. But the Lebanese administration does not differentiate between large and small plants, as the advantage is given to national production in general. This is also inconsistent with WTO's rules.

Of course, in the global openness environment, it is difficult to adopt such measures that give advantage to a class of enterprises, especially to domestic production, as they jeopardize the many benefits that accrue to the economy from global trading. However, one should firstly be aware that refraining from granting such an advantage has a tremendous cost on GDP and employment; and secondly, that there is a need to find an alternative solution acceptable to WTO. Maurice Allais engaged in a debate about importing uniforms and luggage for the French army from abroad. He said at the time, "There is no interest in import as long as the price difference does not exceed the value added in the importing country"; and when he was told that imports from developing countries constitute an indirect assistance to these countries, he expressed a strong objection by saying, "For industrialized countries to help developing countries in this way is effectively extending help from the poor of the industrialized countries to the wealthy of the developing countries."

6. For small enterprises to obtain fruitful finance

Small enterprises face numerous obstacles when they need to finance their activities:

- Advances are not granted to small enterprises but in exchange for collateral, which reduces their borrowing capacity;

- Advances to small enterprises are granted at a margin that exceeds three hundred basis points with respect to local competition, and more as regards competing abroad;

In Europe, the financial institutions that facilitate the financing of the production of small enterprises are 'credit guarantee funds'. They operate along the same model as the Lebanese institution Kafalat which has so far performed significant benefits to small businesses in Lebanon, but its capacity is limited as it serves all sectors, is in need of collateral, and depends totally on the Central Bank of Lebanon (BDL) to compensate for the difference on its soft interest.

In Italy, for example, 'credit guarantee funds' grew up in the same production sectors within the professional associations and trade unions, and became by virtue of specialization quite versed in the activity of the member enterprises. This enables those funds to provide proper guidance and advice to the concerned enterprises, as well as guarantee their debts. Analysts consider that the 'credit guarantee funds' played the bigger role in globalizing the small and medium enterprises in the 1960s. Their number today exceeds 800 firms, of which 50 percent are capitalized at over a million Euros, and the central bank considers them as financial institutions subject to the banking oversight commission.

7. Opportunities available for small enterprises in the EU market

The European Union is seeking to raise the level of production of the Southern Mediterranean countries in an orderly fashion since the signing of the Barcelona agreement in 1995. It also considers them part of the Euro-Mediterranean economic bloc which it would rely on over the long run to face the giant blocs that are sharing globe economic dominance. This European desire to help was manifested even before the Euro-Mediterranean vision came into being, at the hands of the late Lebanese Ambassador Kesrouan Labaki who managed in the 1970s to get a full exemption for the most part of the Lebanese industrial production. When desire converges with interest, everything becomes possible thanks to correct steering. But that did not happen in actual practice, as Lebanon is struggling with a large deficit in foreign trade, especially with the European Union which ranks first with respect to Lebanese imports.

Despite the large aid obtained by Lebanon and the rest of the Southern Mediterranean countries from the EU in order to reduce the economic and social disparities between the two shores of the Mediterranean, the gap has widened regardless. It is more likely that the main reason is the growing trade deficit between the

two groups. This deficit causes many negative results on the economy, including the weakness of investment in the sectors of production, high unemployment and emigration, the decline of the GDP, and the increase in the cost of living whenever domestic production disappears from the markets for lack of economies of scale. The World Bank has sought for several years to persuade the countries with trade surplus, including a large number of industrialized nations, to work toward balancing the trade balance. In the US economic literature, the trade balance includes the exchange of goods and services. But far as we know, many countries did not comply with the new directives aimed at economic stability and growth; and on the contrary, in the northern Mediterranean countries, technical barriers to imports abounded, and in the Southern countries openness regressed.

With respect to the European market in particular, the most important obstacle that the countries of the South suffer from is the non consideration of services as being within the partnership agreement, these having become almost of the same importance as the exchange of materials and goods. If implementation of the agreement on services takes effect, the region would make a big step toward balance and economic recovery in all countries; with both the North and the South reaping benefits. That will go according to the recognized modern theory supported by the World Bank which says, "Balance is the most effective economic factor; every effective system yearns for balance" (Kenneth Arrow). Endowing services with exemptions, as is the case with goods, mainly benefits small enterprises as they are more present in number and activities in this sector.

8. Technical competence and creativity

Technologies are evolving in two directions; first in the direction of cost reduction through more efficient production means, and the second in the direction of quality. The former develops competitiveness directly, and ensures the product a bigger share of the available markets; and the second anticipates changes in the demand that was induced by richer societies in most parts of the world after World War II.

This development automatically takes place at large companies, with their ability to set aside a portion of their profits for "research and development" (R&D). This matter is extremely important, but the number of large companies is very limited, and when R&D becomes within the grasp of small and medium enterprises, their chances of success multiply exponentially. That's why countries seek to rehabilitate small enterprises, increase their technical efficiency, and encourage their creativity.

Lebanon exerts a special effort in this regard, exemplified by BDL having devoted 600 billion Lebanese liras (Lebanese Pounds) for loans through commercial banks to small creative enterprises at a symbolic interest rate. Kafalat institution also put in place a special program that supports innovative enterprises. Further, a number of public administrations were embraced by the Chamber of Commerce for the implementation of a French program, which is candidate to become Euro-Mediterranean, to fund R&D in small establishments. The basic program awards a 50,000 Euros grant to the enterprise that achieves innovation along European standards, and implements it in partnership with two associate establishments from two countries, one of them at least from the Southern shore of the Mediterranean Sea, and the other from the Northern side. On the application level in Lebanon, the Board of Trustees which administers the fund ruled that cooperation with one country on the Mediterranean was enough at this stage, because the immediate goal is to support intra-regional trade, especially among the countries of the South. Also, each significant update in production and / or management is deemed "innovative", in terms of the need to develop the enterprises and improve their productivity.

9. Encourage the type of growth which protects the environment

No one disagrees on the need for using alternative energy, reducing greenhouse gas emissions, and protecting the environment in general. But in the short term, it is not easy to implement a policy useful to the environment when we know that the intensity of energy use is the economic growth indicator. The United States has refused to sign the Kyoto agreement for limiting gas emission gas, since its industries could not resort to alternative energy use in a way that would provide stability in production and prices. The difficulty increases in such times of crisis as we're experiencing today; therefore any suggestion should better take into account the immediate economic needs as well as the need to preserve the environment for the foreseeable future. In this regard:

Firstly, if it's not possible to stop carbon emissions, it is necessary to reduce them to what is a vital and irreplaceable level that would meet the needs of consumption and intermediate production. And when one does not find anything more appropriate than money to determine the priorities of consumption, we see it useful to levy onto gas-emitting industries a tax that progresses with time on a "Pay as you pollute" basis, which would then be used either to incentivize alternative energy use and / or orient consumption toward goods which are "friendly" to the environment.

Secondly, it's strange that the cost of oil, which needs tens of millions of years to form, is less than hydropower, solar power and wind energy, all of which are renewed and limited in cost to their usage technical means. Moreover, the deterioration of the ozone layer is considered to have more dangerous effects on man than nuclear power. It is worth mentioning that the formula that was consistently applied by countries and oil extraction companies consisted of the discovery of a new reserve equivalent to the annual consumption. This equation is no more valid since many years, as oil consumption grew to become many fold the size of yearly emerging reserves. This leads to one conclusion: The need for doubling the effort in the search for alternative energy.

10. The growth of small and medium enterprises

The small enterprises which employ less than 50 salaried, and the very small businesses with fewer than 10 including the project's owner and members of his family, lack productivity in general and ensure their competitiveness in the market only through tax evasion and refraining from their social obligations. This is unfortunate, and it generates unfair competition, and deprives the State of part of its revenues.

Medium-sized enterprises are divided in two categories. There are those traditional establishments which lack productivity and cannot effectively compete as they stand, and we see them always seeking protection, easy credit and technical assistance; and there are those other medium enterprises that have reached their "optimum capacity", thanks to the information and communication technology revolution, and have achieved full production capacity which may benefit them from economies of scale. The latter are prone to self-development and do not need more than an investment climate free of administrative obstacles. Their situation resembles that of large companies altogether.

The medium enterprises which lack sufficient production capacity are de facto similar to small and very small enterprises, as nothing could benefit them over the long run if their production capacity would not improve. Thus we regretfully see that under the circumstances, the costs of training, funding, and marketing go in vain. The only solution open for small businesses and some medium enterprises in this regard is to merge them and help them to reach the size that ensures them optimum capacity.

The manpower working in the production sector

More than 70% of paid employment in the private sector is provided by small and medium-sized enterprises. This phenomenon is known in all countries that rely on a

market economy, where a proportion of 70% to 80% of the total work force is in the production sector.

The distribution of the workforce, according to the size of the institution

The category or class which an enterprise belongs to is determined by different factors which interact with each other in terms of the organic linkages that exist among them. It has been the practice to formulate it through the theoretical number of employees which is commensurate with the available data. The most important of these factors are:

- The actual number of employees;
- Total salaries and wages that reflect the efficiency of the employed;
- The actual capital of the enterprise;
- The sales turnover and / or the resulting net profit;
- The value added.

The number of employees in economic entities in both the declared (regular) economy and the undeclared economy constitute about 60% of the total workforce. The balance is repartitioned between the public sector and the liberal professions.

Distribution of workforce in private sector establishments

Category of enterprises	Estimated number of enterprises	Percent	Number of workers	Percent
Excellent	1,031	0.62%	77,3	13%
1 st – Large enterprises	2,859	1.72%	85,763	15%
2 nd – Medium	6,341	3.83%	57,069	10%
3 ^d – Small	40,847	24.64%	122,541	21%
4 th – Micro	55,112	33.25%	110,225	19%
Informal sector	60,601	36.56%	121,203	21%
Total	165,761	100.00%	574,101	100%

Approach of the labor market as per enterprises registered at the chambers of commerce.

The distribution of the workforce in productive sectors

The National Social Security Fund (NSSF) is the main reference for determining employment. The number of registered workforce in the fund amounted to 593,805 at the end of 2012. Its breakdown is: 560,239 Lebanese and 33,070 non-Lebanese. Of the total number, 462,529 belong to an establishment that has an owner, and the rest were admitted under a special law.

This does not, of course, mean that all registered workers pay their contributions and benefit from social security. There is no doubt that a large number of them have quit work or emigrated and did not declare this change of status for some reason. Also, the proportion of undeclared enterprises is more than 20% of the establishments which operate in the Lebanese market, and they employ a parallel proportion of the labor force.

It is worth mentioning that the micro establishments, declared and undeclared, employ more than 40% of the workforce; they are born immediately when an opportunity is spotted, and they contribute to the reduction of unemployment and emigration. But it is known that their ability to survive is limited, and they need a special policy to support their activities and ensure their sustainability, which is very essential in crisis conditions.

The number of registered workers at NSSF as per job category until 31-12-2012

Type of work	Males	Females	Total
Regular worker	302,660	137,087	439,747
Temporary worker	11,171	1,611	12,782
Bakeries	708	373	1,081
Newspaper salesman	46	0	46
Hired driver	4,443	10	4,453
Driver owner of vehicle	36,141	85	36,226
Student	23,127	33,665	56,792
Doctor	5,708	1,308	7,016
Maritime sector	91	0	91
Moukhtar	2,064	30	2,094
Teacher	6,061	27,416	33,477
Total	392,220	201,585	593,805

Source: NSSF

The distribution of the workforce over the various sectors

The official statistics still declare low unemployment rates (between 8.5% and 11.0%) and ignore the youth, especially those who are holders of academic degrees or professional diplomas who do not yet enter the labor market despite how long their unemployment has been; and they ignore as well those who have migrated due to lack of job opportunities. The figures do not correspond to the reality of unemployment, which is considered by responsible public opinion sources to be at around 20%.

And what is more dangerous is the weakness of the proportion of the labor force to the working-age population, with it being about 45%, at a time when it's at an average of 65% in Europe and targeted to reach 70% according to the "Lisbon Strategy 2001".

The distribution of the workforce in all job categories

Salaried registered with NSSF paying subscription	330,000
Salaried registered with NSSF not paying subscription	90,000
Registered with NSSF according to a special law	150,000
Liberal professions not subject to NSSF and undeclared	190,000
Public Sector	235,000
Total	995,000

Source: Approach to jobs and activities according to available statistics from NSSF

The size of the public sector appears to be high in proportion to the total human resources already working in the country. Without touching on its productivity, its number stands to be equivalent to 23% of the total workforce.

It is worth mentioning that the main problem is in the weakness of the labor force. This comes from different factors, the most important of which are:

- High unemployment in the country, which does not encourage some categories of citizens to search for work;
- Low percentage of women entering the labor market;
- Dense emigration in search of more suitable conditions;
- The absence of an unemployment security scheme, which otherwise helps people to wait for job opportunities;
- The proportion of salaries and wages to the cost of living. The average wage at the end of 2013 reached 1,700,000 Lebanese liras.

The workforce

Population	4,160,000
Working age (14-64)	2,720,000
Workforce number	1,245,000
Effective workforce	996,000

Compiled from the population census, CAS 2013

The population figure mentioned as relative to Lebanon includes foreigners other than both the Palestinians residing in refugee camps and the displaced Syrians.

In the interim targets to be specified within "The policy for spurring small enterprises" feature the raising the manpower ratio to a minimum of 60% of the population of working age, and actually controlling unemployment in the range of 8%, which translates into making the labor force amount to about 1.5 million people, i.e. at a 50% increase from the current reality.

Comprehensive Development Strategy

The policy for spurring small and medium-sized enterprises dictates directing it to all sectors in all regions of the country, improving the investment climate, let the market forces select the activities which are most effective in the market, supporting the activities endangered with collapse at this juncture, and finding solutions that serve the national economy and the rights owners. This is done through a series of measures which interact with each other to achieve the desired goal.

Maintaining the quality, and fostering innovation

Lebanon is characterized by a high level of education, and by a skilled technical labor force. It attracts students from around the Arab world, and the Lebanese participate in the most important construction works in the Gulf, as well as occupy high positions in commercial enterprises there. It is very necessary to maintain this level of attainments for Lebanon, in order to safeguard its foreign markets and the standards of living of its resident people. In confirmation, the recent years have witnessed a steady growth of the certification industry, which specialists estimate at 20%, at a time when most of the economic activities are on the decline.

Innovation occupies a special place, as on the one hand it improves productivity by finding more efficient production means, and on the other hand it attracts demand by offering goods and services that stand out from competition's and lead to the success

of the enterprise. In this context, it is worth mentioning again that BDL has established a special fund to support innovation whereby small and medium-sized enterprises are granted credit at a symbolic interest rate to finance innovative projects, and Kafalat institution has developed a special program to finance innovative enterprises.

This is undoubtedly well and good, but not enough, because innovation in most cases results from research and development, where success is not guaranteed. That's why establishments abstain from borrowing for this purpose, albeit at a symbolic interest rate. For this reason, the French administration created a fund to finance innovation known by the acronym "FARO"¹ which awards enterprises presenting innovative projects a grant of 50,000 Euros to research and develop the idea upon which the project is based. Further, FARO is liable to become a Mediterranean program with presence in all the member countries of the Union for the Mediterranean. In Lebanon, a similar body was created grouping several public institutions and the board of the Chamber of Commerce of Beirut and Mount-Lebanon, but it did not get a commitment to renew its funds periodically, which forced it to dispense soft loans rather than outright grants.

The role of innovation in economic growth and progress is seldom unknown, but it is mostly done by companies which are able to set aside a portion of their sales or profits for research and development, which makes the endeavor limited to large companies that dispose of big potentials. But if small and medium enterprises manage to get funds to spend in this arena, the country would see a multi-fold multiplication of its capacities to create, innovate, advance technically, exploit patents, and to effectively access the realm of the knowledge economy.

Incubation policies

The Lebanese economy has transcended the level of competition on price in all areas. It got elevated to this status by the rise in standards of successful sectors, namely the financial and tourism sectors (with the exception of the current situation), the services sector, and some industrial activities as the excellence certifications attest to. However, the operating capacity of those sectors, especially in an economy at the level of the Lebanese economy, is much less than the capacities acceptable for the industry and agriculture sectors. This is particularly true of the agro-industries sector which has become of low productivity because it is labor-intensive and faces relatively high costs,

(1) Fonds d'Amorçage de Réalisation et d'Orientation.

namely in energy and in operational money cost being at levels actually higher than what's incurred by international competition.

This reality calls for correcting whatever possible of the existing economic policies, joining technical progress, and supporting those small and medium enterprises that have sufficient flexibility to be part of the world of technology if given the potential for research and development. The easy credit programs by BDL, Kafalat, and project FARO are in context, but are not enough, at a time when soft financing for housing and durable consumer goods actually meets aggregate demand.

Thus we see that good measures have been taken, and they seem necessary on their own, but their impact on the general economic situation varies according to their impact on each other and the degree this affects the markets. Some of those initiatives have a multiplier effect on the others; so if they were given priority, meaningful results would be achieved quickly enough to counter the negative repercussions on the economic cycle, especially under crisis conditions. This did not happen any time on the part of the Lebanese administration; it didn't since the relationship with the European Union started in 1995, and it persisted so even after the signing of the partnership agreement in what regards the programs purposed for the development of Lebanon's business environment. Assessing the usefulness and importance of initiatives, namely setting them on a priority scale is a body of knowledge on its own called Regulatory Impact Assessment; alas it has never been taken seriously in Lebanon!

Strategic goals

The three goals that were adopted in the European experience² for supporting small enterprises, namely "Reducing bureaucracy and facilitating all administrative procedures; Facilitating the access to funding; and Helping in the globalization of small and medium enterprises" point to the necessity of adapting them to the reality of Lebanon.

Europe's policy for supporting small enterprises addresses also medium-sized enterprises, i.e. all establishments which employ less than 250 wage earners. This denies micro establishments any priority, a matter which should be reservedly dealt with in Lebanon, where the low proportion of "manpower" to the working-age population is the main problem leading to GDP decline, and to the expansion of the poverty belt around the cities.

(2) Refer to the passage on "The European Experience".

For example, facilitating the funding of micro enterprises will only help if they could first self-expand and/or seek to grow through mergers, in order to reach the size of establishments that are able to produce at optimum capacity.

Having said that, we see the adoption of the following objectives as the criteria for determining the right measures to be taken in the context of the policy to spur small enterprises:

Facilitating administrative procedures

This objective is an essential part of improving the investment environment; it is all the more necessary in the case of small businesses, as they cannot cope with the complex bureaucracy that characterizes the Lebanese administration. It is worth reiterating that out of five newly created establishments, only one remains in existence after five years. Opening and/or closing a business, as well as doing import and export and social security paperwork, and other formalities, could be made easier, as in other countries that have achieved progress in the public administration area.

Streamlining external costs

Small enterprises suffer from a low output level by default, as a result of the lack of economies of scale. This requires streamlining their expenses before extending them soft credit, which would otherwise be liable to dissipate by virtue of financial losses, thus wasting the guarantees which were put up. That's why the continuity of small enterprises is a function of them controlling their expenses. This particular task is at the core of sound management in launching an enterprise and in ensuring its operational stability until it becomes on safe mode through organic growth and / or merger with similar and / or complementary establishments.

Assisting the enterprise in marketing and export

With the global openness of the markets, the enterprise has become vulnerable to global competition. Farmers and industrialists call for protectionist policies, let alone small and emerging enterprises! So in order to preserve the openness and its benefits, and avoid serious damage that could befall the productive sectors, especially small enterprises, countries resort to support measures. For example, the European countries set up specialized export institutions; as well as export guarantee institutions.

The sublime objective in this regard is in balancing the balance of trade and services, which would make a statement that the country is able to grow and create jobs. This goes as per the long-standing recommendation of the World Bank.

The program for implementing the policy of support to small enterprises

To a far extent, we see the system applied in the European Union wise in terms of its encompassing the areas that an enterprise needs to cover, namely in what concerns the prioritization of the initiatives to be undertaken, whereby the procedures that carry more influence on each other take up a more advanced rank. So:

1. In setting up establishments: Assigning a single counter for the registration of sole proprietorships and companies, a role that could be played by the Chambers of Commerce, Industry and Agriculture in Beirut and other areas;

2. In closing establishments: Exempting the organization from the tax levied on the appreciation of its intangible assets upon its sale, and / or its merger with one and / or several other organizations, whether its management stayed on or not;

3. In reducing administrative red tape: Such a reduction is needed in all areas, by cancelling redundant or unnecessary procedures, and assigning a single counter for all types of paperwork formalities;

In addition: Generalizing the use of the Internet to process all kinds of administrative formalities (e-government), and legitimizing electronic signature;

4. Alleviating the burdens set on micro enterprises as a compensation for their low output level, with the State subsidizing part or all of the social obligations which they are subject to, in exchange for entry into public tenders;

5. Public Tenders: Setting in public tenders a quota for products that can be made in Lebanon, as the Ministry of Industry would attest to if necessary, for the enterprises that employ less than 50 salaried, whether they commit the supply out of their own plants or through sub-contracts with local third parties liable to benefit as well. This regulation is very important, and is implemented in the United States since 1954;

6. Enterprise funding: What is needed is to assist the enterprise in getting trade finance at the interest rate prevailing in the countries which trade with Lebanon the most. This initiative was the first action taken by the United States upon setting the Small Business Act in 1953.

The encouragement by the State of the setting up of Credit Guarantee Funds, and inducing real competition among them, ultimately relieves the State from the burden

of intervening in this regard, let alone saving the Treasury financial burdens which the market thus rather assumes;

7. Focus on European markets: This stems from the project in place with the EU, which involves its pledge to encourage imports from the Southern Mediterranean countries. The underlying premise is the alleviation of the Technical Barriers to Trade and / or facilitating credit conditions and quality certification by a sufficient number of local laboratories. To achieve this, a permanent body should be tasked with follow-up and results monitoring;

Moreover, services, including art and technical works, information technology, and all intellectual works should be exempt of duties. The partnership agreement exempted goods from fees but left services out, as these did not have a significant size at the time; they have now become as important as physical products, provided they are given the opportunity. Eventually, this will play out well to reduce the trade deficit with the European Union;

8. Encouraging technical competence and creativity: The distinct feature of the aforementioned French fund, FARO, is that it controls the foundations of R&D to achieve the globalization of enterprises through technological progress and innovation. This fund's financing multiplies the potential of small enterprises in the field of R&D.

In conclusion, we see how the formula for spurring small enterprises works, based on logical and cumulative actions:

- First: In facilitating the establishment and development of the enterprise, and reducing the administrative hurdles that it faces;

- Second: In streamlining its expenses, identifying markets for it to take-off to, and reducing unfair competition that may come in its way;

- Third: After achieving feasibility, resorting to/accessing soft financing and reaching globalization stage;

- Fourth: In adopting a technical development mechanism which compensates for high operational costs;

- Fifth: In the enterprise evolving in a natural way to reach optimum production capacity through organic growth and / or merger.

Public Finance

Public finances suffer from a chronic and deep deficit, threatening economic, financial and social stability. It worsened in recent years to reach 9.5% of GDP in 2013 as a result of indiscriminate and uncontrolled spending, failure to approve the public budgets, the burden of displaced Syrians, low economic growth rates, and the decline in tax revenues. The fiscal deficit reached 6.2% of GDP in 2014 and 8.56% in 2015*. These causes were echoed in the primary balance, which turned from a surplus in the years 2007 to 2011 to a deficit in the years 2012 and 2013, then to a large surplus in 2014 (1,970 billion Lebanese liras – LL –) due to the significant increase of revenues from telecom by 40% (980 billion liras), followed by a surplus of 800 billion liras in 2015 due to a much less deficit in EDL accounts, which decreased by about 1,200 billion liras.

The situation of public finance is worrisome, especially with the upward trend of the fiscal deficit which is in dire need of immediate reforms, including simultaneous reforms in tax and spending policies, in addition to new measures that would foster economic growth and the GDP.

Spending policy:

1. The growth of public expenditure

The total spending (public budget + treasury) during the years 2007 to 2014 increased by about 67%, from 12,587 billion liras to 21,032 billion liras, but spending to GDP ratio decreased from 33.45% to 28.17%.

The evolution of public spending was as follows:

- Rises in 2007 and 2008 by 36.6%, due to increased EDL expenses by 52%, and increased allocation of salaries and wages by 38%.
- Stability of public spending in the years 2009 and 2010.
- Higher public spending in 2011 and 2012, by about 14% per annum, due to

(*) Adnan Daher: Preambles of the General Budget 1921 - 2012.

increased provisions for salaries and wages by approximately 21.5%, and increased transfers to EDL by about 29%.

Evolution of the public spending (Budget + Treasury), in billions of LL:

	2007	2008	2009	2010	2011	2012	2014
Total spending	12,587	14,957	17,167	17,047	17,601	20,081	21,032
Salaries and wages	3,583	3,97	4,936	5,066	5,533	6,723	6,727
Debt service	4,94	4,957	5,784	5,893	5,655	5,457	6,314
Investment spending	558	514	550	701	676	760	883
Transfers to EDL	1,479	2,43	2,259	1,797	2,626	3,408	3,157

2. The evolution of major expenditure items:

a) Allocations for salaries, wages and add-ons: They made up 32% of total spending in 2014, compared with 29% in 2007, registering during the years 2007 to 2014 a gradual increase of 87.74%. The increase mainly comprised pensions and end-of-service compensations with an increase of 106%, from 889 billion liras in 2007 to 1,893 billion liras in 2014.

The reasons for the spending increase are: The raise of the minimum wage by 200,000 liras in 2008 (totaling about 400 billion liras), the 'cost of living raise' within the 'salary scale' project in 2012 (about 850 billion liras), and the large recruitment policy in education and security departments since 2007 until year 2014, in addition to transforming outworkers into regular employees.

We expect this rise in wage allocations to continue in the coming years due to the absence of real reforms in the public sector, and the increase in political appointments, especially in the sectors of education and security forces. Likewise, we fear that a significant rise will have been witnessed in 2014 and the coming years in the 'pensions and end-of-service spending' if the new salary scale was approved, as about 21% of public sector employees would then retire in the following five years at magnified new salaries.

The number of public sector employees is about 165,000, if we count administrative and military personnel, in addition to teachers and retirees. These are distributed as

follows: Faculty 28,486; outworkers in education 24,653; the military 93,576; administrative personnel 17,226; add to that the retirees who count about 80,000.

b) Public Debt Service: Public debt service constituted 30% of total public expenditure and 38.5% of total public revenues in 2014. Between 2007 and 2013, it witnessed a slight rise, by about 15.6%, from 4,940 billion liras to 5,714 billion liras, despite the increase in public debt amount during this period by about 51%, from \$42 billion to \$63.5 billion. The slight rise in debt service is due to the fact that the monetary and fiscal authorities succeeded in reducing interest rates on the public debt between 2% and 3% (percentage points). It is also due to the decrease in global interest rates to record low levels, even to zero for the US dollar, and to the high liquidity level of the banking sector starting 2008.

The average interest rate on LL Treasury Bonds was around 6.89% in 2014, compared to 9.25% in 2007, and the average interest rate on Eurobonds was 6.40% in 2014 versus 8.5% in 2007. We now fear that interest rates on the dollar might rise in the global financial markets in the coming years, as a result of the gradual change of the US monetary policy. This would reflect negatively on the public debt service.

Finally, it should be noted that the public debt service dropped dramatically as a proportion of GDP, from 13.12% in 2007 to 8.45% in 2014, for a total decrease of 64%, due to the significant growth of the gross domestic product by 89.9% during the period 2007-2014, compared with 27.8% growth of the public debt service.

c) Transfers to EDL: These financial transfers represented 15% of total expenditure and 4.4% of GDP in 2014; they were the largest source of financial bleeding for the public Treasury, as they rose between 2007 and 2014, by 113%, from 1,479 billion liras in 2007 to 3,157 billion liras in 2014.

Lebanon benefited in 2015 from the decline in global oil prices, therefore EDL achieved a drop in the deficit of nearly 1,200 billion liras.

Introducing reforms at the EDL becomes one of the most important challenges for the State due to the sector's risks on the public Treasury and its impact on the economy and businesses, as well as on the daily life of citizens. The government should bring about a reform process for this institution through a review of the tariffs, improving collection, switching to the use of natural gas instead of fuel oil, reducing technical and

non-technical waste, renovating distribution and transport networks, increasing production capacity, in addition to forming a regulatory body for the sector and establishing a partnership between the public sector and the private sector.

Transfers to EDL have reached about 20,215 billion liras in the period from 2007 to 2014, and constituted in 2014 about 48% of the public budget deficit.

Finally, the adoption by the Parliament of a bill to “authorize the government to grant temporary electricity production licenses to the private sector for a period of two years” is considered a positive and healthy decision for the sector.

Three items (provisions for salaries and wages, debt service, and transfers to EDL) represented 77% of the total spending in 2014, which means that the government’s capacity to increase social benefits and investment is weak.

d) Investment expenditure: They accounted for about 1.28% of GDP in 2014 and less than 1.2% in the years 2007 to 2009. The size of the investment expenditure is weak compared to neighboring countries, where the ratio is up to 2.8% in Morocco, 4.1% in Egypt, 6.6% in Turkey, and 7.4% in Jordan.

The weakness in investment spending has a negative effect on the development of infrastructure and water and road networks; it also reflects negatively on economic growth and on the capacity to attract investors, companies, and businessmen. The State should bank on the partnership between the public sector and the private sector to implement its investment projects due to the weakness of its financial capacities.

Tax policy

The tax policy has low efficiency, as it failed to attract investment, achieve fiscal justice, balance between direct and indirect taxes, or reduce tax evasion. Its only target was to search for tax sources in order to increase revenues without paying attention to the implications of this policy on the economic and social levels. It also neglected its role in the economic growth process, such as to activate investment, generate jobs, improve social and living conditions, and achieve justice and fairness in the distribution of income.

1. Evolution of total public revenues:

a) General revenue growth: Total revenues increased in the years 2007-2014 by about 7,651 billion liras or 87.45%, from 8,749 billion liras in 2007 to 16,400 billion liras in 2014. Increases were especially registered in 2009, by 20.4%, due to a surge in tax revenue by about 24.8% in 2011 by 11%, due to the increase of non-fiscal revenues related to telecom profits, and in 2014 due to the growth in Treasury revenues by 103%, and telecom revenues by 33%.

- Tax revenues have been affected in the period 2010 - 2014 by the slowdown in economic activity and the elimination of the 5,000 lira fees on gasoline, in addition to the cancellation of the VAT on diesel oil, which resulted in losing yearly revenues equivalent to 500 billion liras and 300 billion liras respectively.

- Telecom revenues constitute about 70% of non-tax revenues; they have increased during the period from 2007 to 2014 by about 84%, from 1,660 billion liras to 3,054 billion liras.

b) Total public levies: Total public levies in 2007-2014 registered 21.96% of GDP in 2014 and 24.32% of GDP in 2009.

- Total public levies declined in recent years, from 23.9% of GDP in 2011 to 20.8% of GDP in 2013, due to the Syrian crisis, the weak growth of non-tax revenues, and a higher growth of the GDP compared to that of overall revenues.

The evolution of total public revenues

	2007	2008	2009	2010	2011	2012	2014
Tax revenues	5,583	7,177	8,960	9,976	9,885	10,187	10,388
Non-tax revenues	2,511	2,612	3,069	2,043	3,468	3,286	4,354
Total revenues	8,749	10,553	12,705	12,684	14,070	14,164	16,400
Total revenues/GDP	21.51%	23.5%	24.32%	22.66 %	23.9%	22.49%	21.96%

2. Characteristics of the fiscal system

a) A weak fiscal load: The tax burden in Lebanon is weak, ranging from 17.8% of GDP in 2010 to 13.9% of GDP in 2014, compared to 18% in Jordan, 21.6% in Tunisia, and 23% in Morocco.

- The tax burden declined as of the year 2011 from 16.8% of GDP to 13.9% of GDP in 2014, impacted by the Syrian events and the slow economic growth.

Note: The tax burden in Lebanon may increase by more than 12% if the Government took into account, among tax revenues, those collected from the telecom sector, which constitute more than 60% of total telecom income; this means that the tax burden could rise to 19.1% of GDP in 2011 instead of 16.8% and 16.7% of GDP in 2014 instead of 13.9%.

Telecom income ranged between 1,660 billion liras in 2007 and 3,034 billion liras in 2014, accounting for more than 65% of non-tax revenues.

b) The structure of tax revenues: Domination of indirect taxes: Indirect taxes formed, on average, 67% of the total tax revenues in the period 2007-2014; they mainly relied on VAT revenues, which accounted for about 32% of total tax revenues. But we noticed at the same time that the indirect tax share has strongly decreased from 68.54% of total tax revenues in 2010 to 63.92% in 2011, due to the cancellation of some fees on gasoline, worth 500 billion liras, in addition to the rise in income tax revenue on corporate profits by about 27.8%, and on wages by about 20.4%.

Structure of tax revenues

	2007	2008	2009	2010	2011	2012	2014
Total tax revenues	5,583	7,177	8,96	9,976	9,885	10,187	10,388
Direct tax share (%)	32.95	32.74	29.5	31.46	36.08	36.4	38.9
Indirect tax share (%)	67.05	67.25	70.5	68.54	63.92	63.6	61.1
Tax revenues/GDP (%)	14.83	16.03	17.15	17.8	16.8	16.18	13.9

3. The distribution of total tax revenues

Total revenues collected in 2014 amounted to about 10,388 billion liras composed of:

a) Direct taxes: They amounted to 4,040 billion liras and accounted for 38.9% of total tax revenues, distributed as follows:

- Income tax on income, profits and capital reached 2,795 billion liras, including:
 - Income tax on profits: 1,119 billion liras, or 10.77% of the total tax revenues. These revenues are considered low, as a result of the low rate of income tax on profits at 15%, compared to Morocco at 30%, Turkey at 20%, Egypt at 30%, Jordan at 24%, and Syria at 28%. Lebanon has adopted a low rate to attract corporate investment, but it did not achieve that goal.
 - Income tax on wages and salaries: 643 billion liras, or 6.19% of total tax revenues. This tax is also low as a result of the low tax rates which range between 2% and 20%; it mainly affects public and private sector employees, or basically middle and low-income class.
 - Income tax on bank interest: 711 billion liras, or 6.84% of total tax revenues. It is also low because of the low tax rate of 5%.
 - Tax on property: 1,245 billion liras, or 12% of total tax revenues. It is considered to be low because it does not include the profit tax on real estate, and due to the low level of fees on real estate properties (5% to register a property...) as well.

b) Indirect taxes: 6,348 billion liras, or 61.10% of the total tax revenues. Their breakdown is as follows:

- Taxes on goods and services: 3,811 billion liras, or 36.68% of the tax revenues, mainly including:
 - VAT: 3,302 billion liras, or 31.78% of the total tax revenues. It is considered low as a result of many exemptions on goods and services in the health, education, agriculture and transport sectors, and as a result of the application of a single low rate (10%), even on luxuries. By comparison, VAT rate reached 16% in Jordan and 18% in Tunisia. So we suggest to apply multiple VAT rates, one for luxury goods and another for basic commodities.
 - 2,042 billion liras, or 19.65% of the total tax revenues. They are also considered low, due to the abolition of gasoline, worth 500 billion liras, and the lack of clarity in the

classification of goods among luxury, non-luxury, and basic goods, when setting up the tariffs...

- Other tax revenues (especially stamp): 495 billion liras, or 4.76% of total tax revenues.

The fiscal deficit

The budget deficit has become a serious concern in the last period, as it took in 2012 and 2013 an upwards trend, after it had recorded important declines in the years 2007 to 2011, from 10.22% of GDP in 2007 to 5.9% in 2011. In 2014, it scored a deficit of 6.2% of the gross domestic product, while public revenues increased by 15.48% (2,200 billion liras). The primary balance also is becoming a concern after it turned from a surplus in the years 2007 to 2011, reaching record levels of 2,505 billion liras, or 4.25% of GDP, to a deficit of 166 billion liras in 2012, and 366 billion liras in 2013 (0.3% of the gross domestic product). In 2014, it achieved again an exceptional surplus of 1,970 billion liras.

Public budget deficit: Primary balance

	2007	2008	2009	2010	2011	2012	2014
Public budget deficit	3,845	4,197	4,438	4,342	3,571	5918	4,632
Deficit/GDP (%)	10.22	9.65	8.38	7.57	5.9	9.4	6.2
Primary balance	1,102	900	1,625	1,855	2,505	(166)	1,970
Primary balance/GDP (%)	2.9	2	3.11	3.3	4.25	(0.3)	2.64

The deficit in public finances requires adequate measures to improve the primary balance, reduce debt service, and increase the size of the gross domestic product.

As a comparison, the European Union had set, according to the Maastricht agreement, a maximum tolerable fiscal deficit below 3% of GDP (Golden Rule). While we note that few European States have committed themselves to this ratio, in 2013 the majority actually exceeded it: Portugal 4.9%, France 4.3%, Spain 7.1%, and Greece 12.7%.

As for oil-importing Arab countries, they have recorded a deficit in public finances in 2013 amounting to 14.6% of GDP in Jordan, 5.4% in Morocco, 5.9% in Tunisia, and 14.1% in Egypt, while oil exporting countries recorded a surplus of 28.7% of gross domestic product in Kuwait, 11.3% in Qatar, 8.3% in Saudi Arabia, and 7.1% in the UAE.

Finally, it should be noted that had the Lebanese Parliament adopted the proposed salary scale, without installments and without insuring appropriate real resources for it, this would have caused record highs for the deficit in the general budget in the year 2015. The deficit would have exceeded 12% of GDP as a result of the inaccuracy in cost and revenue expected figures, and for failing to take into consideration the enormous consequences of the salary scale on the end of service compensation cost in the coming years, as approximately 21% of public sector employees would retire during those years. They would have reached about 1,893 billion liras in 2014, representing 9% of total spending, compared with 889 billion liras in 2007, an increase of 1,004 billion, or 113%.

Reforming public finance

Public finance reform may be achieved by setting an annual ceiling for the deficit, then gradually lowering it to reach in the medium term less than 5% of GDP, and by improving the primary surplus to reach in the medium term between 5 and 7% of GDP. Public finance reform may be achieved through simultaneous and integrated steps that consist of the following factors.

Reform of the spending policy

1. Rationalize spending: It aims to reduce wasteful spending, fight corruption, and improve the efficiency and productivity of the public sector, according to the following procedures:

- Reduce wasteful consumption expenditures (fuel, communications, equipment ...), the costs of hospitalization and garbage collection, in addition to the costs of the customs and real estate administrations, as well as exercise tight control on tax revenues from corporate profits and on the number of undeclared taxpayers...

- A gradual abolition of the Council of the South, the Fund for the Displaced, and the High Relief Authority.

- Reduce spending on non-profit associations, and tighten control over their activities to ensure their transparency and credibility, especially as their annual expenditures exceed 250 billion liras.

- Activate the role of control bodies, particularly by expanding the powers of the Central Inspection Bureau.

- Strengthen the role of the Accounts Court to tighten control over public spending.

2. Improve cash management through the establishment of a unified Treasury bank account where all public money will be deposited, in order to have an efficient management of the financial surplus existing in the accounts of some public institutions which are not in use currently.

3. Modernize the public tender law to fight waste and corruption and ensure transparency.

4. Introduce reforms to EDL, the main source of waste of public money, as this public institution owes to the public Treasury from 1993 to 2014 about 24 billion dollars, accounting for about 36% of the total public debt.

5. The reform of the public sector: Public sector reform should aim at increasing productivity, reducing waste, and containing its growing cost, through the following steps:

- Freeze hiring in the public sector for three years to contain the rising cost of wages, and retirement and end of service pensions.

- Reduce the size of the public sector through the recruitment of one person to replace every two employees who retire.

- Conduct a comprehensive survey on the public and educational sectors to find out their true headcount needs and the number of superfluous staff.

6. Reform the pension and end of service system: This is one of the most important challenges of the government because of the high cost of this system on the general budget, as it represented in 2014 about 2.6% of GDP; and this percentage is expected to rise in the coming years.

The public sector operates according to two systems for retirement and end of service: The first is dedicated to military and security forces, and the other to civil servants. A third system applies to the private sector. The government is working on integrating the three systems into one unified system.

7. Decrease debt service by reducing the size of the public debt (privatization -

securitization) and its cost (diversify its funding sources, substitute domestic debt by foreign one...).

8. Define an annual ceiling for the increase in total expenditures that would be linked to the GDP growth rate.

9. Improve the management of public-owned land: The Lebanese State owns about 79,000 plots, distributed all over the territory.

PM Najib Mikati previously put forward the idea of establishing a national institution for the management of public assets in order to improve revenues that could be sourced from them.

10. Introduce an administrative reform in order to improve productivity and efficiency.

11. Strengthen the partnership between the public sector and the private sector for the implementation of infrastructure projects.

Reform of the tax policy

It aims at increasing taxes to 23% of GDP and achieving justice and fairness in their distribution by improving their collection and the tax structure itself, so that the direct taxes share of total tax revenue would rise to 40%. Reform should be a catalyst factor to investment and the economy, generating jobs, contributing in addressing social and living problems, and achieving fiscal evenness among economic sectors.

The most important reform steps are the following:

- Introduce the tax, which adds together all sources of income for each taxpayer; it should increase tax revenues and reduce tax evasion.
- Raise the tax rate on the income of individuals for the higher income bracket to 25% (currently, this tax ranges between 2% and 20%).
- Raise the tax rate on bank deposits' interest from 5% to 7%.
- Increase taxes on alcohol and tobacco.
- Reconsider the custom duty rate on a number of commodities.
- Introduce a tax on the real estate profit at a rate of 15%. But it should include a fiscal exemption when the transaction concerns the main residence of a household, for a maximum

of two homes. It should also include a 10% reduction for each full year of ownership. The seller would be exempt from this profit tax if the ownership lasted for a full 10 years.

- The application of several rates for the VAT: 15% for auxiliary items and 10 percent for basic commodities¹.

- Re-introduce taxes on gasoline and diesel fuel.

Tax reform also needs efficient steps to curb tax evasion and to combat wastage, including:

- Modernizing the fiscal administration through the recruitment of adequate staff and the introduction of modern technologies.

- Creating an administrative body directly related to the Director General of the Ministry of Finance, dedicated to the auditing of the declared corporate profits and the declared property values when registering real estate transactions.

- Activating the collection administration to actually recover the money ensuing from building violation settlements.

- Adoption by the Parliament of the draft law pertaining to the fines on maritime public properties.

Fixing the financial accounts

Correcting the inaccuracies in the financial accounts allows the government to approve the 'closing accounts' pending since 2003 (the latest closing account proposition was approved). This is a prerequisite for the approval of the general budget (Article 87 of the Constitution and 195 of the Public Accounting Act), as it helps to regulate spending, facilitate legislative and judicial control, and return to fiscal discipline, transparency, and clarity.

The Director General of the Ministry of Finance succeeded in fixing the final financial accounts until 2010.

The Public Debt

The public debt is a chronic and troubling backlog in Lebanon. It increased in recent years as a result of the surge in public finance deficit and the slowdown in GDP growth. The public debt has economic, financial, and social risks, which affect economic growth and investment, and also limit the State's welfare assistance and its contribution to

(1) There is no consensus on the multiplicity of the VAT percentage.

investment. It also degenerates public finance accounts, leads to the destabilization of the global financial markets' confidence, and induces rating agencies to reduce their sovereign credit rating as well as the rating of the Lebanese banking sector as the main financier of the sovereign debt. Furthermore, it raises interest rates for public and private borrowing, and threatens the monetary stability in the medium term.

The European Union fixed, in its Maastricht agreement, a maximum public debt to GDP ratio at 60% (the Golden Rule). But only a few EU countries committed to this standard, as the ratio in 2013 was around 175% in Greece, 93.5% in Spain, 129.5% in Portugal, 123% in Ireland, and 93.5% in France. Lebanon should reduce its public debt to GDP ratio in the medium term to less than 100%.

1. The growth of public debt

The total public debt amounted to about 100,365 billion liras in 2014, equivalent to 66.57 billion dollars, compared to 63,406 billion liras (42.06 billion dollars) in 2007, an increase of 50.9%. It is expected to reach \$70.2 billion in 2015 and account for 138% of GDP.

In contrast, the public debt to GDP ratio recorded between 2007 and 2014 a decline from 168% to 134.4%, due to a GDP growth rate that exceeded the public debt increase.

Growth of the public debt (in billion LL)

	2007	2008	2009	2010	2011	2012	2014
Total public debt	63,406	70,941	77,112	79,298	80,887	86,959	100,365
Debt to GDP (%)	168	159	148	142	137	138	134.4

2. The distribution of the public debt

The total public debt was distributed, between the years 2007 and 2014, in the following manner:

- The domestic public debt in Lebanese liras: It reached in 2014 about 61,752 billion liras, accounting for 61.5% of the total public debt, compared to 31,373 billion liras in 2007, accounting for 49.7% of total debt.

- In 2014, the Central Bank of Lebanon (BDL) was holding 32% of the domestic lira debt and the banking sector 51%, a total of 83%, in comparison to 28.9% for the BDL and 53.5% for the banking sector in 2007, or a total of 82.4%. These percentages indicate the stability of the domestic debt financing sources.

- The external debt in foreign currencies: It amounted to about 38,613 billion liras, or 25.61 billion dollars, at the end of 2014, accounting for 38.5% of the total public debt, compared to 32,033 billion liras (21.25 billion dollars), or 50.3% of the total debt in 2007.

The reason for the decline in the share of foreign currency debt in the total public debt is related to the debt restructuring policy, as monetary and fiscal authorities succeeded in extending Lira-denominated Treasury bonds to 10 and 12 years, and reducing their interest rates so that they became close to the Eurobonds levels.

Distribution of the public debt (in billion LL)

	2007	2008	2009	2010	2011	2012	2014
Total public debt	63,406	70,941	77,112	79,298	80,887	86,959	100,365
Public debt in LL	31,373	43,465	44,973	48,255	49,340	50,198	61,752
Public debt in foreign currencies	32,033	27,476	32,739	31,043	31,547	36,761	38,613

Eurobonds constituted about 90% of the total public debt in foreign currencies in 2014. Lebanese banks hold 66.5% of them, equivalent to about 23,767 billion liras or 15.765 billion dollars, compared to a stake amounting to 16,670 billion liras (\$11 billion) in 2007, an increase of 42.5 %.

3. The decline in the average cost of public debt

The public debt average cost decreased from 7.7% in 2007 to 6.29% in 2014, an 18.3% decline due to the following reasons:

- Decrease in the overall interest rate for the lira-denominated domestic debt from 8.3% in 2007 to 6.37% in 2014, down by about 23%, due to excess liquidity in liras in banks as of 2008, and their inability to employ them.

- The drop of the overall interest rate of the public debt in foreign currencies from 7.10% in 2007 to 6.16% in 2014, down by about 13.2%, as a result of several factors:

Record low interest rates at the US and European central banks, and a significant increase of the capital flows that exceeded the banks' absorption capacity during the period 2008-2010, in addition to a surge in investors' and business' confidence in Lebanon, the flexibility and strength of the banking sector, and the wise policy of the BDL.

Debt service of the public debt (in billion LL)

	2007	2008	2009	2010	2011	2012	2014
Total paid interest	4,694	4,957	5,784	5,893	5,655	5,457	6,314
Paid interest on domestic LL debt	2,515	2,847	3,663	3,763	3,552	3,333	3,934
Paid interest on foreign debt	2,179	2,110	2,121	2,131	2,103	2,124	2,380

4. The cost of the public debt and GDP growth

Nominal GDP growth rates notably exceeded interest rates for debt in the years 2007 to 2009, which led to a significant decline of the public debt to GDP ratio; in the following period, the GDP growth rates were less than debt interest rates (in the years 2010 and 2011).

Nominal GDP annual growth should be higher than the debt interest rate to maintain economic and financial stability and to ward off risks.

Debt cost compared to GDP

	2007	2008	2009	2010	2011	2012	2014
Average debt cost (%)	7.7	7.81	8.15	7.64	7.13	6.74	6.96
Average nominal GDP growth (%)	14.5	18.9	16.7	7.1	5.15	6.98	4.9

5. The evolution of interest rates and maturities

a) The evolution of average interest rates on LL Treasury bonds was the following:

- The 36-month category attracted in 2014 the largest share of the total Treasury bonds in lira (38.8%), the 60-month category 23.33%, and the 84-month category 20.8%. In 2007, the 60-month category (the longest maturity in the market then) acquired a share of 12.30%, whereas the 36-month category had a share of 69.50%.

- Interest rates on 36-month Treasury bonds fell by about 30.3% between 2007 and 2014, and on the 60-month bonds by about 41.4%.

- The monetary and fiscal authorities have succeeded in prolonging the Lira Treasury bonds term to 10 and 12 years at an interest rate of 8.24% and 8.74% respectively in 2014, an indication of the investors' and depositors' confidence in the strength of the monetary situation and the rightness of the applied monetary policy.

- The average term of the LL Treasury bond portfolio rose from 1.62 years in 2007 to 3.15 years in 2014.

- The average real interest rate for Treasury bonds in lira was about 3.5% during the period 2007-2014.

Evolution of the average interest rates

	2007	2014	Change
3-year LL Treasury bonds (%)	9.32 (%)	6.48 (%)	- 30.3 (%)
5-year LL Treasury bonds (%)	11.5 (%)	6.52 (%)	- 41.4 (%)
7-year LL Treasury bonds (%)	-	7.75 (%)	-
5-year Eurobonds (%)	6.25 (%)	5.15 (%)	- 17.6 (%)
7-year Eurobonds (%)	7.375 (%)	6.15 (%)	- 16.6 (%)
15-year Eurobonds (%)	8.25 (%) 9 (%)	6.75 (%)	- 18.18 (%)

b) The evolution of the average interest rates and maturity terms of Eurobonds:

- Interest rates on the 7-year Eurobonds decreased by 16.6%, from 7.375% in 2007 to 6.15% in 2014, and interest rates on the 15-year Eurobonds decreased by about 18%, from 9% in 2007 to 6.75% in 2014.

- The average age length of the Eurobonds portfolio changed from 5.01 years in 2007 to 6.1 years in 2014.

- The average real interest rate on Eurobonds was approximately 2.5% in the period 2007-2014.

c) Comparison between the interest rates on Eurobonds and interest rates on LL Treasury bonds:

The interest rate on the 5-year Eurobonds was 5.15%, compared to 6.74% for LL Treasury bonds for the same term, a difference of 1.59%. The interest rate on the seven-year Eurobonds was 6.15%, compared to 7.5% for LL Treasury bonds for the same maturities, i.e. a margin of 1.35%. The Government may replace the internal debt by external debt for these two categories in order to reduce the cost of public debt, but the margin has become narrower while the risk level is higher. The Government should target long maturities in excess of 10 years, where the margin is larger with less risk.

d) The fluctuations in interest rates in the Beirut market on LL Treasury bonds or Eurobonds are contained and minor, as if the Beirut interest rate market was independent, where prices are determined according to internal factors (deposit growth, the level of liquidity, the fiscal deficit...), far from the effects of foreign markets.

6. Limited public debt risk

The cost of the Lebanese debt rose in the first months of 2014 because of the political and security risks, and the declining economic and financial indicators. The spread on Eurobonds reached about 380 basis points, compared to a spread of approximately 288 basis points in emerging markets.

Lebanon's economy can absorb the public debt risks in the medium term for the following reasons:

- Sterilization by the BDL of the lira liquidity by encouraging banks to subscribe to certificates of deposit and long-term lira Treasury bonds, in addition to its success in extending maturities to 10 and 12 years. It also urged banks to propose loans in lira instead of dollars.

- The time distribution of debt in foreign currencies and the extension of their maturity, so as to alleviate the financial pressure on the State.

- The sources of public debt financing, in lira or in foreign currencies, are internal (commercial banks and the Central Bank of Lebanon) at more than 80% of the domestic LL debt and 70% of foreign debt Eurobonds.

- The high liquidity in foreign currencies within the banking sector, where the deposit dollarization ratio is about 65% of total deposits, which contributes to ensuring due payments in foreign currency and facing impending obligations.

- BDL's reserves in foreign currencies, valued at \$38 billion, enhance the confidence of depositors in their national currency.

- The government's ability to contain the public debt existing in the financial market, which constituted between 61% and 68% of the total public debt in the period 2007-2014, with a value of between 38,622 billion liras (25.62 billion dollars) and 65,377 billion liras (43.36 billion dollars).

7. Evolution of the net public debt

The net public debt declined from 156% of GDP in 2007 to 115.7% in 2014, a drop by 26%. In contrast, the net public debt rose about 36.19% over the period 2007 to 2014, from 58,939 billion liras in 2007 to 86,398 billion liras in 2014.

Indicators show that GDP growth significantly exceeded the growth of the net public debt during this period.

Evolution of the net public debt

	2007	2008	2009	2010	2011	2012	2014
Net public debt (billion LL)	58,939	62,615	66,590	67,819	69,903	74,043	86,398
Net public debt to GDP (%)	156	140	127	121	119	118	115.7

How to deal with the public debt crisis

Addressing the public debt crisis is one of the government's most important challenges due to its economic, financial and social repercussions; this should be done through the following procedures and factors.

1. Increase nominal GDP growth: Lebanon's economy needs a political and security stable environment to achieve strong economic growth rates; it also requires large investments in infrastructure, activating the partnership between the private and public sectors, and directing investments towards the knowledge sector, or sectors with high added value or high competitiveness.

The Lebanese economy needs an adjustment in its operating model, because the current model is not effective, as it is based on the services sector and is unable to create enough jobs. It encourages emigration and remains a hostage of internal and external political relations and security issues. That's why, the local economy requires now a new model based on innovation. It also needs the implementation of reform processes related to a new concept of the State and its role, the taxing and spending policies, and the labor market. It should rely on new industrial bases that enjoy better competitiveness, clear goals, and an orientation toward green innovation.

From 2011 to 2014, the economy recorded a weak growth rate, less than 1.5%, due to the repercussions of the Syrian crisis, uncertainty, and the paralysis of constitutional, parliamentary and executive institutions, in addition to the lack of political and security stability, which significantly affected the two main engines of growth, investment and tourism. In contrast, the economy registered a strong growth in the years 2007 to 2010 with an average of 8.5% as a result of Lebanon's success in containing the global financial crisis of 2008 and the Dubai crisis of 2009, as it became a safe haven for investments and deposits, and a main touristic oasis in the region, with 2.3 million tourists in 2010, while foreign direct investment exceeded \$4.5 billion and financial flows \$20 billion in 2009.

Evolution of the GDP

	2007	2008	2009	2010	2011	2012	2014
Real growth rate (%)	9.4	9.1	10.3	8	2	1.5	1.5
GDP (billion LL)	37,629	44,748	52,235	55,965	58,851	62,963	74,656

The gross domestic product almost doubled during the years 2007 – 2014, from 37,629 billion liras in 2007 to 74,656 billion liras in 2014. The significant growth was especially achieved in the years 2007, 2008 and 2009, with an average growth of nearly 17% annually, due to the strong rise in real growth rates and inflation rates.

The containment of the public debt growth requires a nominal GDP growth higher than that of the public debt.

2. A decline in real interest rates on the public debt: Any further reduction in interest rates requires the continuation of the restructuring policy, through the replacement of internal debt, particularly that exceeds ten-year maturity, by external debt of the same maturities, as the external debt is still less than 50% of the total debt, representing 38.5% in 2014. In addition, the margins between domestic LL debt and external dollar debt for the long term exceed 1.5%. We may also cut the actual rate by diversifying sources of financing for the public debt (external soft loans).

3. Privatization: It needs an internal consensus and external investments. Privatization should stimulate growth, improve social services, and reduce the cost of services. Likewise, the State should encourage partnership processes between the public sector and the private sector. The most important public facilities that are candidates for privatization are: Intra Company, Middle East Airlines, the transport sector, fixed telephony, the water sector, and the two cellular phone companies.

4. Oil and gas income (with emphasis on transparency): This will contribute to solving the majority of Lebanon's economic, financial, and social problems, especially those related to the public deficit and the worsening debt size; it would also turn Lebanon into a key hub for services, investment, and finance in the region.

5. Securitization: The State would be able to collect instant money ranging between 8 and 10 billion dollars from global financial markets, at low interest, through securitization for ten years of the telecom sector revenues that reached about two billion dollars in 2014.

6. Improve the primary surplus: It contributes to cover a part of the debt service. We note in this context that the primary surplus amounted to 2,505 billion liras in 2011, accounting for 4.25% of GDP, and covered 44% of the debt service, which led to a slight increase of the total public debt not exceeding 2%. We also noticed slight increases in the total public debt in the years 2009 and 2010 because there were significant primary surpluses. In contrast, public debt increased in the year 2012 by 7.5%, and in the year 2013 by 10%, when the primary surplus turned into a primary deficit.

The improvement of the primary surplus is a prerequisite to contain the public debt. It can be achieved through a reformed tax policy that promotes revenues, and a better spending policy that contains expenditures and wastage.

7. Increase inflation rates, but on condition that its consequences remain within control and containment, on the social, economic, and financial levels.

Evolution of the primary balance (deficit-surplus)

	2007	2008	2009	2010	2011	2012	2014
Primary balance (LL billion)	1,102	900	1,625	1,855	2,505	(166)	1,970
Debt service (LL billion)	4,940	4,957	5,784	5,893	5,655	5,457	6,314
Total public debt (LL billion)	63,400	70,941	77,112	79,298	80,887	86,959	100,365

Improving public debt management

- Create an administrative unit for the management of the public debt within the Ministry of Finance; its tasks would be to improve public debt management with respect to its distribution between the domestic debt in lira and foreign debt in foreign currency, based on the interest rates, maturities, and risks.

- Establish a secondary market for the trading of LL Treasury bonds, and expand the holder base.

- Develop a medium-term public debt strategy that includes key targets (Ministry of Finance source):

- Reduce the risk of refinancing by maintaining an orderly pattern in the process of debt repayment.
- Reduce the risk of debt repayment by contracting another debt, through lengthening the debt portfolio repayment period.
- Stabilize the share of foreign currency debt below the 50% ceiling of the total public debt.
- Increase the proportion of public investments that are financed through soft loans.

The situation of the public debt and the confidence of financiers depend on the ability of the State to always respect its financial commitments. The reduction of the public debt to GDP ratio is a complex process due to internal political differences and the difficulty to implement reforms in public finance through privatization or securitization. Furthermore, the increase in GDP growth rate requires a stable internal and regional political and security environment. The government should therefore work now on stabilizing the public debt to GDP ratio and put it on a downward path, while waiting for better internal and regional circumstances. It should also strengthen the resilience of the economy and the steadiness of social conditions to face expected upcoming shocks.

The General Budget

It is a legislative instrument that authorizes the government to spend revenues and collect taxes and fees. It includes all spending and revenue estimates for the coming year. It constitutes a comprehensive economic and social vision that aims economically at stimulating growth, controlling inflation, supporting institutions, promoting regional development, developing infrastructure, and securing jobs. Its social targets include improving social, health and educational benefits, reducing unemployment, decreasing poverty, securing a social safety net, narrowing the gap between rich and poor, and achieving justice in income distribution.

Notes on the preparation of the general budget by the successive governments

1. The lack of a comprehensive vision in the budget

The majority of public budgets remained without economic and social vision. Their goal was limited to the search for sources to increase revenues, and for ways to reduce the fiscal deficit. This led to the aggravation of social and economic problems, and the loss of the budget's economic and national role.

2. The non-respect of the constitutional deadlines*

The preparation of the budget and its approval's process require the following steps:

- The Minister of Finance should submit the draft budget to the Cabinet by September first.
- The Minister of Finance should submit to the legislature by November the draft budget, in its finalized version as it was adopted of the Council of Ministers.
- The Parliament should ratify the budget before the end of the ordinary session period; in case it failed to do so, the President of the Republic, in accord with the Prime Minister, calls immediately for an exceptional session that continues until the end of January.

3. In case no budget has been approved, the Transitory Twelfths process is applied

Successive governments have been spending since 2006 on the Transitory Twelfths base, as the last general budget passed in Parliament dates back to the year 2005.

(*) Adnan Daher, "The General Budget in Lebanon, Preparation and Ratification".

Transitory Twelfths budget characteristics:

- The Transitory Twelfths budget is considered a temporary and exceptional budget that gives the government the right to spend and collect fees and taxes for a period of one month. But it has become in the Lebanese context a budget without time limits, giving spending rights until a full new budget is approved. In this context, it should be noted that all successive governments since 2006 committed legal and constitutional irregularities in their spending, as they overrode their legal expense authorization, because:
 - The provisions of the Transitory Twelfths budget do not allow ministries to take measures that would increase the financial burden on the last State budget that was approved by the Parliament, i.e. the 2005 budget.
 - They do not take into account new needs anticipated for the following year or necessary amendments to the collection and spending schemes.

Article 60 of the Public Accounting Act stipulates that Transitory Twelfths budgets are set on the basis of the permanent funds earmarked in the budget of the previous year, taking into account what was added to them, and dropped from them.

Article 86 of the Lebanese Constitution stated: "...Previous year's budget must be taken as a basis, then add to it whatever other permanent supplementary credits were introduced, and remove from it the credits that have been dropped."

In this context, the Parliament approved in 2008 Law No. 63 which authorized the government to grant employees an additional 'cost of living' of 200,000 liras for a total value of 400 billion liras. Furthermore, Law 238/2012 opened additional credits worth 8,315 billion liras, under the government of PM Najib Mikati; law 1/2014 added new credits worth 626 billion liras, law 15/2014 added credits worth 340 billion liras, and more recently Law 11/2015 added credits worth 4,500 billion liras.

The total spending legally authorized became 24,181 billion liras, to which should be added credits that go back to the program-laws, and unused credits transferred from previous years.

4. Payment of salaries and pensions for public sector employees

No government may stop paying salaries, pensions, and end-of- service compensations, as:

- Salaries and pensions are considered, according to the Public Accounting Act,

permanent basic expenses that hold a mandatory and priority characteristic within the public spending, when the government sets up the distribution and allocation of credits. Articles 62 and 63 of the Public Accounting Act allow the Minister of Finance to reserve funds for the whole year if they are related to salaries and equivalent expenses.

- Salaries and wages are debts owed by the State's Treasury, and do not require a previous authorization from the Parliament, as they are not subject to the Transitory Twelfths rule; the Government should pay them through payment orders and not credit commitments.

- The payment of salaries and pensions is part of the supreme national interest, security, stability, and continuity of public facilities.

- Legally, the right to a salary arises as a result of the contract between the employee and the State, which gives rights to employees in exchange for work done, and constitutes a binding debt that the State must honor, in exchange for this work.

Article 55 of the Public Accounting Act stipulates that the contract alimony is: Accomplishing a work that results in a binding debt for the Government.

This type of contract has a permanent and continuous effect; it is automatically renewed whenever its grounds are still in effect, and remains binding for the State. So the government has to primarily safeguard compulsory and permanent expenses (salaries, pensions, end-of-service compensations, debt service...), then consumption spending and all other expenses.

In case credits earmarked for pensions and salaries are exhausted, the government may:

- Introduce a bill before the Parliament to open extra credits in accordance with Article 27 of the Public Accounting Act, which states that "no additional credits would not opened up except by law" and Article 85 of the Constitution, which states that "no exceptional credit may be opened up, but by a specific law."

- Open supplementary credits in accordance with Article 26, paragraph 2, of the Public Accounting Act, which stipulates: "The government may open up by decree necessary supplementary credits, which will be covered from the reserve funds..." And in case reserve funds are not sufficient or unavailable, Article 196 of the Public Accounting Act states that the deficit should be registered in the credit account...

As a conclusion, we can say that salaries and wages are expenses binding to the government, and should be funded from general revenues, the reserve funds, the Treasury credits, or through loans in case of Public Treasury's incapacity. But the most appropriate solution for financial discipline, efficiency control, and observing the law is through "legalizing spending", which means opening up additional credits through the Parliament.

5. Lack of account closure

The account closing or closure is a comprehensive audit tool that comprises all budget conclusions, and a posterior control tool for the Parliament on the budget implementation by the government, in accordance with the authorization that had been granted to it. It includes final spent amounts, revenues, and results, and allows comparison between the projections contained in the budget bill and the real numbers occurring at the end of the budget year.

Article 87 of the Constitution imposes the presentation each year before the Parliament of the final accounts, for approval before the publication of the following budget.

Article 197 of the Public Accounting Act also requires the government to refer the account closure draft (for the previous year) to the Parliament before November first, accompanied by the general report put down by the Audit Court.

Based on this, no budget may be passed for the year 2016 without the Parliament's approval of the closing accounts for 2014, unless the government submits a draft law authorizing the Parliament, exceptionally, to approve the 2016 budget without being accompanied by the account closure bill for 2014, provided that the government commits itself to present the final financial accounts for the year within a specified period of time (for example, three years).

It should be noted that the last account closure approved by the Parliament was in 2003, and it was annexed to the 2005 draft budget. It should be noted too that the General Directorate of the Ministry of Finance has recently made major achievements on the public accounts level, as it was able to determine the input and output balances for the final financial accounts, and to reconstitute the accounts pertaining to the BDL, the Treasury credits, budget credits, and temporary registers, as well as

handled a large part of the final financial accounts until 2010; it also started to develop a clear and transparent framework to ensure the regularity of public finances.

The Ministry of Finance should prepare account closure bills for the years 2004 to 2014 and transfer them to the Parliament for approval, for the sake of maintaining consistent public finances.

6. Non-inclusive budgets

The principle of inclusiveness requires that all revenues and expenditures without exception should be itemized in the general budget, in order to allow the assessment of the overall financial situation. Inclusiveness prevents wastage and gives the parliamentary and judicial authorities the possibility to check the validity of the budget implementation.

Therefore all public financial operations should be included in the budget, especially those related to loans and donations managed by the Council for Development and Reconstruction and the High Relief Authority which are currently realized outside the budget.

7. Increased reliance on Treasury credits to finance the State's needs

Reform steps for the preparation of the general budget

1. Adherence to the general principles of the budget:

- Improve the inclusiveness of the budget.

- Promote the principle of 'collective' resources, or non-allocation of revenues:

The 'collective' principle means that all revenues should be included in the revenue section, and all expenses in the expenditure section; in other words, a particular resource may not be allocated for a certain expense (the salary scale, its cost and resources should be included within the general budget without allocation).

- Always respect the annual budget principle: This requires that the budget should be placed for one year, and not to be extended through spending by the Transitory Twelfths method.

- Always respect the unity of the budget principle: This requires registering all State spending and revenues in one single account, which means that there is a need to lessen the specific accounts registered outside the budget, pertaining to guarantees, trust accounts, account credits...

2. Refrain from opening up credits on the basis of non-approved public budgets or make excessive recourse to the Treasury credits to finance the State's needs. The State is supposed to return to fiscal discipline through the adoption of the general budget annually.

3. The Cabinet should determine a ceiling for the total spending that is imposed by available resources, so that it does not exceed the GDP growth rate.

4. Cancel the practice of rescheduling non-used credits to the following year, in order to comply with the annual budget principle.

5. Switch to a budget structure that is based on performance and programs. This facilitates the accountability process and allows the assessment of the public administration's performance; it also allows monitoring the spending efficiency and setting targets in accordance with the priorities of the government.

6. Amend the Public Accounting Act: The current law was issued in December 30, 1963 and no longer meets economic, financial and social developments, nor the changes in the concepts of public financial management.

7. Adopt a medium-term framework for spending to enhance the government's ability to forecast revenues and expenses in order to reduce the fiscal deficit. This will require from the ministries to provide estimates of their needs for the medium term (Ministry of Finance source).

8. The Ministry of Finance is working on improving the framework for the public budget in two directions:

- Restructuring the Budget and Expenditure Control Directorate and establishment of a Department for Economic Analysis.
- Developing a new legal framework for the preparation of the general budget, whether by amending the Public Accounting Act, or through the adoption of a new budget classification (amendments to the administrative, economic, and functional classifications).

9. Tax legislations should be separated from the budget, and tax laws should be issued distinctly from the budget.

10. There should be a gradual commitment to two golden rules: The first is that the fiscal deficit should not exceed 5% of the gross domestic product, and the second is that the public debt to GDP ratio should not exceed 100%.

11. The Ministry of Finance should be entrusted with the setting up of a draft law for accountability in public finance; its goal being to fix the budget deficit and public debt levels (Fiscal Accountability Law).

The draft budget for 2015

The 2015 budget has been prepared under security and workers' pressures; so it turned out to be traditional with no economic vision or reforms, and did not include any measures to stimulate growth or to contain the displaced Syrians crisis.

The 2015 budget is considered just a series of figures, with a lot of additional spending on unproductive items, such as salaries and wages, and additional taxes that were set to fund part of the new salary scale. The output was a worrisome deficit.

An initial reading of the general budget's figures shows the following:

General expenditures - They induce the following observations:

1. General expenditures were estimated at 23,362 billion liras, equivalent to 30.7% of GDP, compared to 20,500 billion liras of real spending in 2014, an increase of 2,862 billion liras, or 14%, whereas GDP growth in 2015 is estimated at about 6.5%, far less than the growth of public spending.

2. Salaries and wages registered a significant increase by more than 10%, or 355 billion liras, as a result of increasing the number of public sector employees by about 7%, or 11,700 people, for security, political and social reasons: Recruitment of 10,500 security and military personnel (152 billion liras), regular enrollment of 2,500 previously volunteer members in the Civil Defense (42 billion liras)...

3. The three main items, salaries (6,342 billion liras), debt service (6,585 billion liras), and transfers to EDL (3,056 billion liras) constitute approximately 68.4% of the total public expenditures.

4. Public expenditures did not include the salary scale project, nor the cost of the required salary adjustments for public sector employees, which are supposed to cost 1,300 billion liras, divided over two years, or 650 billion liras for the first year.

5. Expenditures barely included any cost pertaining to the displaced Syrians needs. The recent Kuwait conference promised an assistance amounting to \$3.8 billion for the displaced Syrians (four million outside their countries), as Lebanon is already hosting 1.2 million refugees and needs about one billion dollars more.

6. EDL: Its deficit was estimated at about 3,056 billion liras. The general budget did not take into account the positive implications of the falling global oil prices on the EDL deficit, which is estimated at 1,100 billion liras if the price of an oil barrel remained less than \$60 in 2015. The government should benefit from this saving in order to complete its new power plants and rehabilitate old ones, so that the production capacity would increase. It also has to start implementing reform steps for the electricity sector (reconsider the tariffs, etc.).

Tax revenues - They induce the following observations:

1. Tax revenues were estimated at 12,108 billion liras, equivalent to 15.9% of GDP, compared to 10,825 billion liras estimated for 2014, an increase of 1,283 billion liras or 11.85%. The increase resulted from new tax measures providing additional revenue estimated at about 1,330 billion liras. This means that there is no anticipation of growth in the tax revenue that could result from an improvement in economic activity.

2. The structure of tax revenues: The increasing share of direct taxes.

- Direct taxes: They were estimated at 4,956 billion liras and accounted for 41% of total tax revenue, compared to 3,973 billion liras, accounting for 36.7% of total tax revenue, estimated for 2014. The increase is due to new tax measures that would improve the expected revenue from income, profits, and capital taxes, by about 928 billion liras.

- Indirect taxes: They were estimated at 7,151 billion liras, accounting for 59% of total tax revenue, compared to 6,851 billion liras in 2014, an increase of about 301 billion liras, or 4.39%.

- Tax revenues did not take into account the effects of a cheaper euro and falling oil prices:

- A decline in the euro rates by about 15% could reduce the import bill from the Eurozone amounting to \$6.3 billion by about \$800 million. This may cause a loss of customs revenues and VAT of more than 150 billion liras.

- The decline in global oil prices to \$60 a barrel may cause a loss of revenues in

the value added tax on gasoline of more than 150 billion liras, whereas diesel is exempt since 2012 from the value added tax and other fees.

3. VAT revenues are over-estimated, as the budget anticipated an increase of 6.2%. So are customs revenues which were anticipated to rise by 3%, and tax on profit revenues anticipated to rise by 32.8% in 2015.

4. Most significant new tax measures: The tax on bank interests rose to 7%. This tax, decided upon insistence from the Speaker of the House, mainly affects the banking sector, as it would cost it about 300 billion liras. The corporate tax was also raised to 17%. An excise duty was imposed on diesel fuel (4%), while a real estate profit tax was introduced at an average rate of 15%.

The fiscal deficit:

It was estimated at 7,728 billion liras, accounting for 10.16% of GDP. It is a worrisome figure because it has implications on interest rates, the sovereign credit rating, and the banking sector. It is feared that the deficit would have risen to 8,328 billion liras, accounting for 10.9% of GDP, if the Parliament had passed the salary scale bill, and the first installment of 600 billion liras was added to the total spending.

Real Growth:

It was estimated at 2.7%, an exaggerated figure as we expect it to remain weak, less than 1.5%, because there is no anticipated improvement on the political and security levels, the World Bank having estimated growth for 2015 at about 2.5%. Lebanon needs a 5% growth to maintain social stability.

Inflation:

It was estimated at 4.5%. This is also considered too high, as IMF estimates inflation to be 1.1% in 2015 due to falling global oil prices and cheaper euro, whereas food prices are expected to remain stable in the international markets.

Public debt:

It was estimated at \$71 billion, accounting for 140% of GDP, and distributed into 38.5% of external debt and 61.5% of domestic debt. The public debt to GDP ratio took an upward trend in recent years.

On the legal level:

The adoption of the 2015 draft budget requires to be accompanied by the draft account closure report for 2013 and by the Audit Bureau report, in accordance with

Article 197 of the General Accounting Act. Also, Article 87 of the Constitution imposes the submission of the final financial accounts to the Parliament for approval before the publication of the budget for the second following year. But it also authorizes the Parliament to exceptionally approve through constitutional amendment the 2015 draft budget without being complemented by the account closure report, provided that the government committed itself to submit the final accounts for the year 2013 within a specified period of time (for example, three years).

Main Recommendations:

1. Include in the 2015 draft budget the additional cost of the salary scale project, for two years, estimated at about 650 billion liras in 2015, along with the additional tax measures that are supposed to fund it, estimated at 510 billion liras. These tax amendments include a rise in the VAT rate to 11% (300 billion liras), higher stamp fees on construction permits (150 billion liras), and increased duties on imported spirits (60 billion liras), so as to comply with the budget inclusiveness principle. The Speaker of the House asked the Minister of Finance to add an appendix to the general budget pertaining to the salary scale project.

2. Intensify international contacts to contain the crisis of the displaced Syrians, as the Kuwait Conference pledges are insufficient and the Treasury's capacities are weak.

3. Reconsider the draft budget figures after taking into account the effects of falling oil prices and the euro exchange rate on the financial transfers to EDL and the tax revenue.

4. Reduce investment spending by postponing some projects, due to the lack of capacity to implement them (water supply, CDR ...) and activate the partnership between the public sector and the private sector (P.P.P.) for infrastructure, electricity projects...

The salary scale project

The Mikati government referred to the Parliament the salary scale project aiming at revising the wages and salaries of the public sector employees. It is a rightful project that is 16 years late, as the last salary adjustment had been decided and applied in 1998, with retroactive effect from 1996. The government has also approved in late 2008 Law No. 63 which granted all public employees a monthly 'cost of living' lump sum worth 200 thousand liras.

The salary scale project includes the following components:

- Bill No. 10415: It aims at the creation and modification of some taxes in order to fund the salary adjustments and the 2008 increase.
- Bill No. 10416: It aims at adjusting salaries according to the salary scale scheme and the latest increase.

The salary scale project concerns about 165,300 beneficiaries, permanent and temporary regular employees, and individual outworkers, distributed among 19,226 regular administrative beneficiaries, 53,139 educational staff among which 24,653 are outworkers, 93,576 beneficiaries from the military and security corps. Added to them are about 80,000 retirees.

Public sector employees are divided into several administrative classifications (public administration, teaching staff, military and security forces). According to their level, they are distributed into categories (five categories), categories into ranks (first and second), and ranks into degrees (22 degrees).

Several committees were created within the Parliament to study the salary scale draft. They issued four different reports on the cost of the scale and the possible financial resources to fund it: The initial project prepared by the Mikati government; the report of the first parliamentary subcommittee (headed by MP Ibrahim Kanaan); the report of the Joint Parliamentary Committee; and two reports presented by the second parliamentary subcommittee (headed by MP George Adwan).

The four committee reports convened on dividing the salary scale project into three main sections:

1. Rights and equity: Bill N°: 10416, which aimed at giving employees their rights, and determining the cost of the scale.
2. Available resources: Bill N°: 10415, which aimed at identifying funding sources available for the scale.
3. Reforms: They dealt with the reform steps for the public sector.

Second report issued by the second parliamentary subcommittee (MP George Adwan)

The second parliamentary subcommittee (MP George Adwan) issued its second report, pertaining to the coverage of the salary scale cost, which obtained the approval of most political forces. They also agreed to cancel the retroactive effect and the proposed installments for two years of the salary scale increase. They granted six exceptional grades to public administration employees and to the teaching staff. But the report faced objection from the military, who considered it unfair, and asked MPs to separate their salary scale from those of the civil servants categories. The report also faced protest from the union of private school teachers as they considered that they have not been treated on equal grounds with their colleagues in the public sector.

The report of the second parliamentary subcommittee proposed the following tax measures:

Bill 10415: It included the following tax revenues totaling 1,762 billion liras:

- Raising the VAT rate to 11%: 300 b.
- Raising the relative fee rate from 3 to 4 per thousand: 110 b.
- Raising the stamp fee on phone bills: 60 b.
- Raising the stamp fee on invoices and receipts: 45 b.
- Increasing the stamp fee on building permits by 1.5%: 150 b.
- Adding a fee on cement production: 50 b.
- Doubling the fees for public notaries: 30 b.
- Increasing taxes on spirits: 60 b.
- Increasing the exit fee on travelers by land: 25 b.
- Increasing the exit fee on travelers by sea and air: 100 b.
- A fee on container loads: 30 b.
- Fines on built marine properties: 75 b.
- Raising the tax rate on lottery prizes: 6 b.
- Amending Article 45 of the income tax law and introducing a new tax on real estate profits: 150 b.
- Amending Article 32 and raising the tax on corporate profits to 17%: 120 b.
- Amending Article 72 of the income tax law by cancelling the reduced rate on dividends distribution: 40 b.
- Raising bank interest tax rate from 5% to 7% and including the interbank interest profits in this tax: 410 b.

Comments on the proposed tax measures

1. Direct taxes and indirect taxes:

- a) Direct taxes: 870 billion liras, accounting for 49.3% of the total proposed taxes
 - A tax on real estate profits: 150 b.
 - Amending the income tax, Article 32: 120 b.
 - Amending the income tax, Article 72: 40 b.
 - Increasing the stamp fee on building permits: 150 b.
 - Raising the tax rate on bank deposit interests: 410 b.

b) Indirect taxes represent 50.7% of the total proposed tax revenues, most notably raising the VAT to 11%: 300 b.

2. Taxes on the economic sectors:

a) The banking sector: 460 billion liras (imprecise), accounting for 26.1% of the proposed revenues, including:

- Amending the income tax rate, Article 51: 410 billion liras; this estimation is low and inaccurate, as we expect the outcome to reach 550 billion liras, resulting from the revenues of the banking sector's own investments (380 billion liras), in addition to the result of raising tax rates on customers' deposit interests (170 billion liras).
- Amending Article 32 of the income tax law: 50 billion liras.

b) The real estate sector: 318 billion liras, or 18% of the proposed revenues.

- A tax on real estate profits: 150 b.
- The amendment of Article 32 on corporate tax: 18 b.
- Stamp fee on building permits: 150 b.

Bank and real estate tax revenues represent 44% of the proposed revenues, or 778 billion liras.

3. Fines on public marine properties:

75 billion liras. We notice that this measure tripled the fees which were imposed by Decree 2522 in 1992. Estimation should be based on actual 2014 prices, and public properties should be divided according to their category (commercial, touristic, residential).

On the other hand, there is a difficulty in collecting this tax, because it needs political consensus which is not available now. Furthermore, estimates are unclear

and inaccurate; they ranged in previous years between 50 billion and 150 billion liras.

The Parliament should approve the bill pertaining to the settlement of marine property violations, which may provide an annual revenue exceeding 600 billion liras in the next three years.

4. Raising VAT to 11% for an expected revenue of 300 billion liras, enters within the framework of the reform steps decided at the international Paris conferences dedicated to Lebanon's assistance. It is easy to collect this tax, as the State gets 75% of the VAT at the customs border offices. This tax affects all segments of the population and raises the inflation rate.

It would have been worthier to raise VAT on luxury and non-necessary items (specific list) from 10% to 15% which would have affected the well-off social segments and taken into account the current difficult living conditions of the less privileged.

Bill No. 10416 related to the cost of the salary scale: 1,940 billion liras.

There are no conclusive or precise cost figures for the salary scale; the estimated amount is distributed as follows:

a) The lately applied salary increase: 850.915 billion liras. To be paid to public sector employees with retroactive effect since February 2012. It reaches about 71 billion liras per month, and is distributed as follows:

- Administrative body: 49.35 b.
- Faculty members: 92.92 b.
- Outworkers in general education: 24.3 b.
- Outworkers in technical education: 22.8 b.
- Military: 390.2 b.
- End-of-service compensations: 64.8 b.
- Retirees: 206.3 b.

b) Adjusting salaries: 1,089 billion liras. There are no final figures; the estimated amount is distributed as follows:

- Administrative body: 66.5 b.
- Granting 6 degrees to the administrative body staff: 92.4 b.
- Faculty members: 96.16 b.

- Granting 6 degrees to the teaching staff: 115 b.
- Military and security corps: 227 b.
- Retirees: 148 b.
- End-of-service compensations: 105.9 b.
- Free schools: 58 b.
- Public institutions: 160 b.

Note: The total spending related to the military staff is expected to exceed 802 billion liras, constituting more than 41.5% of the total salary scale.

Reforms

Reforms go together with the salary scale bill and aim to increase the efficiency and productivity of the public sector and control its cost; they include the following measures:

- Determine the coming role of the public sector and the basis for a better cooperation and partnership with the private sector.
- Manage the excess staff in the public administration and education sectors.
- Develop a future plan for the public funds, councils, and institutions.
- Stop all recruitment in public administrations for two years (and replace two retired employees by one).
- Halt all recruitment in the public institutions that suffer from a deficit in their budget, and perform an assessment study to see if they should be kept or not (privatization, public-private partnership).
- Stop all employee and outworker recruitment in the public sector.
- Amend working hours and increase them from 32 hours to 35 hours per week.
- Finalize anti-corruption draft laws.
- Carry out a thorough survey of public departments, institutions, and schools, to ascertain the number of employees, outworkers, and freelancers, and determine their cost.
- Establish a single social security system.
- Expand the prerogatives of the Central Inspection and enhance the accountability process.
- Amend Article 34 of the pension and end-of service system.

Economic and financial implications of the salary scale

1. It will impede the economy: The proposed tax measures will hamper the ailing economy which recorded important declines in recent years, from 7% in 2010 to less than 1% in 2013, as they affect consumption, income, and profits; they target several economic sectors (real estate, banking, commerce), as well as all population strata.

We fear at the same time that the public salary increase would induce similar requests from the private sector.

As for betting on a positive extra consumption due to increased salaries, the effectiveness of such a bet is highly questionable, as data showed the weak effects of the first salary rise for public sector employees, which was applied since February 2012, on economic growth in the years 2012 to 2014.

In parallel, it should be noted that the extra consumption may widen the deficit of the trade balance and the balance of payments.

2. The salary scale will raise the inflation rate: It will lead to uncontrolled and unjustified rises in the prices of goods, due to the lack of effective government control, the greed of traders, and the monopolistic system, combined with such other elements as increased demand for consumer goods.

We also have to point out that the first repercussions of the salary scale have already appeared, even before the adoption of the whole package, through rises in tuition fees in private schools and universities.

3. A threat to monetary stability in the medium to long term: The salary scale will lead to inflation and declining purchasing power of the national currency in the medium term, as a result of injecting a large non-productive cash mass in the consumption market, in the form of salaries that would give the beneficiaries the possibility to contract bank loans worth many times the new salary.

4. Negative effects on public finance and debt. It will raise the deficit to more than 12% of GDP, for the following reasons:

- Lack of accurate figures about the real cost of the scale. Furthermore, the declared costs do not include other increases in public spending that may result (bonuses, allowances, transportation, medical care, schools fees...).

- The funding sources will be inadequate and insufficient as a result of the economic slowdown, the difficult social conditions, the problems faced by businesses, and the increased cost of the scale.

- The scale induces in fact non-productive current expenses, which will raise the share of salaries in public spending from 21% to more than 26%, at the expense of other social expenditures and investments.

- The general budget expenditures will rise in the coming years (social expenditures, investment, debt service, displaced Syrians expenses), versus unchanged overall revenues as a result of political instability and lack of security, whether internally or regionally, and as a result of the difficult economic conditions and the decline in activity for most economic sectors, especially services (tourism, trade, real estate).

- Enrollment of about 15,000 people in the military and security forces in the coming period, because of the ailing security situation.

- There will be disturbing effects on pensions and end-of-service compensations, as their volume will rise in parallel with the new salaries. The retirement-related spending will even grow in a larger amount in the coming years, due to fact that 22% of employees will retire in the short term, and they will be replaced by new staff with higher salaries.

Pension expenses and compensations have already increased starting 2010, by about 32%, from 1,391 billion liras to 1,831 billion liras in 2013.

The deterioration of public finances will trigger a growth in public debt higher than that of the GDP. This will prompt the international rating agencies to reduce the Lebanese sovereign credit rating which, in turn, will raise interest rates onto both the public and private sectors, and shake the confidence in the Lebanese banking sector.

Installments

The parliamentary committee's decision to divide the burden of the salary scale over two years (payroll increases amounting to 1,089 billion liras) is a positive and wise financial resolution, as it alleviates the effects of the scale on the economic, financial, and inflationary levels. It also gives the State an opportunity to find additional financial sources resulting from the evolution of the economic situation, from better waste control, or from improving the collection and reducing tax evasion.

The government should have opted for four- or five-year installments, instead of two years, so that the effects would be absorbed in a more comprehensive way, and the employees would not lose their new earnings or purchasing power, due to the fact that economic conditions will remain difficult in the coming stage.

The adoption of the scale is a due right for public sector employees, but its implementation without knowing its precise cost, and without securing permanent and temporary resources, will pose significant risks and consequences that would be difficult to overcome in the next phase.

The government should include the scale, with all related expenditures and resources, in the draft general budget, not just a part of it (the latest salary raise), in compliance with the rules of inclusiveness, unity, and annualized aspect of the budget, in order to ensure better transparency and clarity in the real figures of the public finance deficit.

The Banking Sector and Financing the Economy

The deterioration of public finance and the increase of Lebanon's debt have raised a problematic issue in terms of the ability of the financial sector in general, and banks in particular, to finance the growing needs of the State, without affecting their ability to finance the private sector at an affordable cost that does not constitute an impediment to investment.

To look into the financing structure prevailing in the Lebanese economy, this chapter tackles the following four pillars:

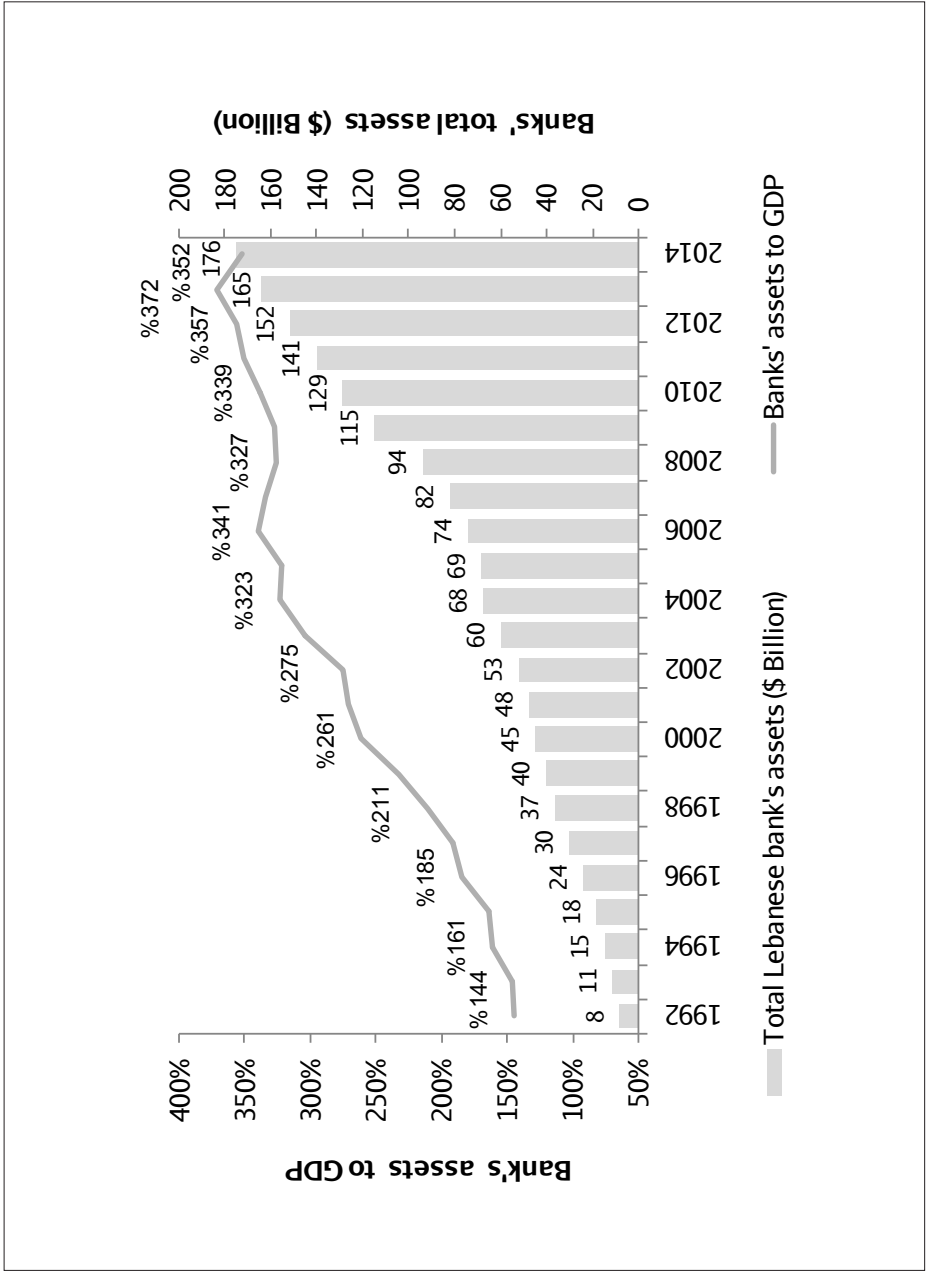
- Is there a funding gap in the Lebanese economy, which prevents us from reaching high levels of investment?
- Does the current distribution of bank financing lead to the best impact on the economy, in terms of sustainable and equitable growth?
- What are the required steps to reach an integrated financing system that stimulates growth and contributes to the achievement of social justice?
- What are the difficulties and the potential risks at the financing capacity level?

In dealing with these four topics, we will have a scientific and realistic picture of the situation of the Lebanese banking sector in terms of Strengths, Weaknesses, Opportunities and Threats (SWOT analysis).

The first topic is linked to the size of the banking sector, the size of loans to the private sector, and their proportion to the size of the national economy, or Gross Domestic Product.

One of the most prominent strengths of the Lebanese banking sector lies in its size compared to the national economy. In light of the volatile conditions witnessed by Lebanon in the last two decades, Lebanese banks have shown high flexibility and stable growth. Perhaps one of the most important factors that boosted this growth was that the

Chart 1: The evolution of the Lebanese banks' assets



Source: The Central Bank of Lebanon (BDL), IMF

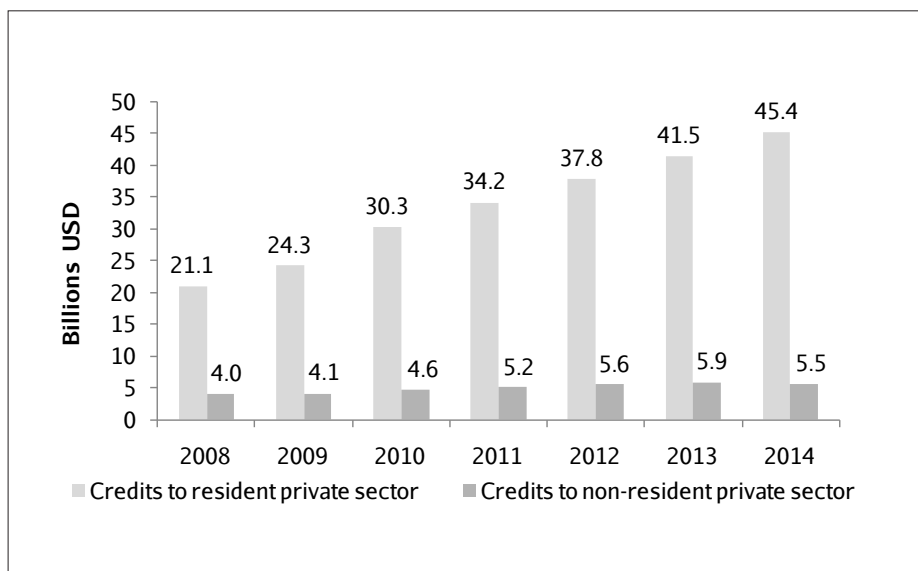
The Lebanese banking sector has been among the largest in the world relative to the size of the economy. Despite the Lebanese civil war of 1975-1990, the banking sector was able to maintain its size, as the percentage of its total assets to the GDP reached 144% in 1992. It maintained a continuous growth in the last twenty years; banks' assets rose by an annual average of 15.5% to reach \$175.7 billion in 2014, equivalent to 352% of Lebanon's GDP. With assets exceeding three times the size of the Lebanese economy, Lebanese banks are now not only a financial intermediary, but also a mainstay of the national economy.

The first topic: The size of the banking sector and loans to the private sector

Comparison among Lebanon, the Arab region and the world shows that Lebanon's banking sector has one of the highest ratios of total assets to GDP, as it reached 352%, compared with an average of 161.9% for the world, 277.3% in the European Union, and 106.0% for emerging markets. This shows the sector's strength and proves that the Lebanese financial system is mainly based on banks, which play a key role in financing companies, individuals, and the public sector. For example, this high ratio of Lebanese bank assets to GDP can be compared to 179% in Jordan, 114% in the United Arab Emirates, 100% in Turkey, 306% in France, and 230% in Germany. The Lebanese banks' assets to GDP ratio has allowed them to fund the public sector, as banks have a large proportion of the total public debt, and the private sector as well, as loans to the private sector represented more than 102% of GDP in 2014.

The strong growth of the banking sector has allowed it to meet the needs of the public sector without creating a dangerous crowding out for the private sector loans. Banks continued to support the private sector through uninterrupted lending to both corporations and individuals.

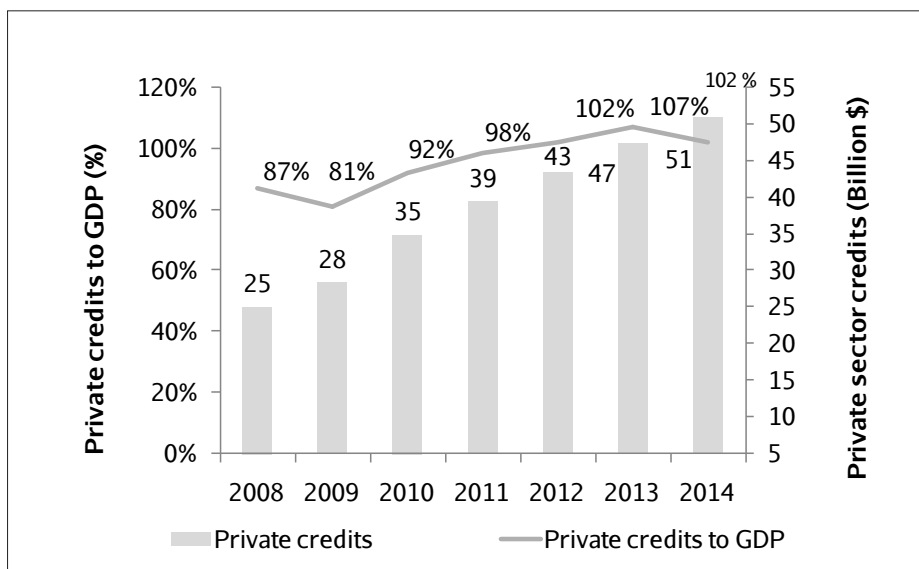
Loans granted to the resident and non-resident private sector maintained their high level in spite of the decelerating economic growth in Lebanon over the past years, though at a lighter pace, as they reached \$50.9 billion by the end of 2014, registering an annual growth rate of 7%, after rising by 9% in 2013 and 11% in 2012. Loans to the resident private sector represent a large part, with a share of 89%. The non-resident private sector obtained 11% of private loans. Most of those non-resident loans are set to fund Lebanese businessmen in overseas projects (especially in the Arab world and Africa).

Chart 2: Loans to the private sector

Source: The Central Bank (BDL) and Association of Banks in Lebanon (ABL)

Therefore, banks play a key role in financing private individuals and companies at an affordable cost as the average interest rate on Lebanese lira (LL) loans registered 7.3% in 2014, and the average interest rate of loans in foreign currencies 7% in the same year. The ratio of private sector loans to the GDP, which amounted to 102% as mentioned, is considered high compared with emerging countries such as Jordan (72%), the UAE (59%), and Turkey (57%). The banking sector constitutes, through its advances, the main backer of the driving sectors of the Lebanese economy, whether for investment or consumption. The high ratio of private loans to the GDP is related to the fact that the banking sector is the basic recourse for corporations and individuals to obtain financing. For two reasons: First, the lack of sizable stock and bond markets that could have been, if they were available, a substitute for companies to get financing. Second, Lebanese companies are characterized by their individual and family nature, resulting in weak capitalization and limited ability to self-finance.

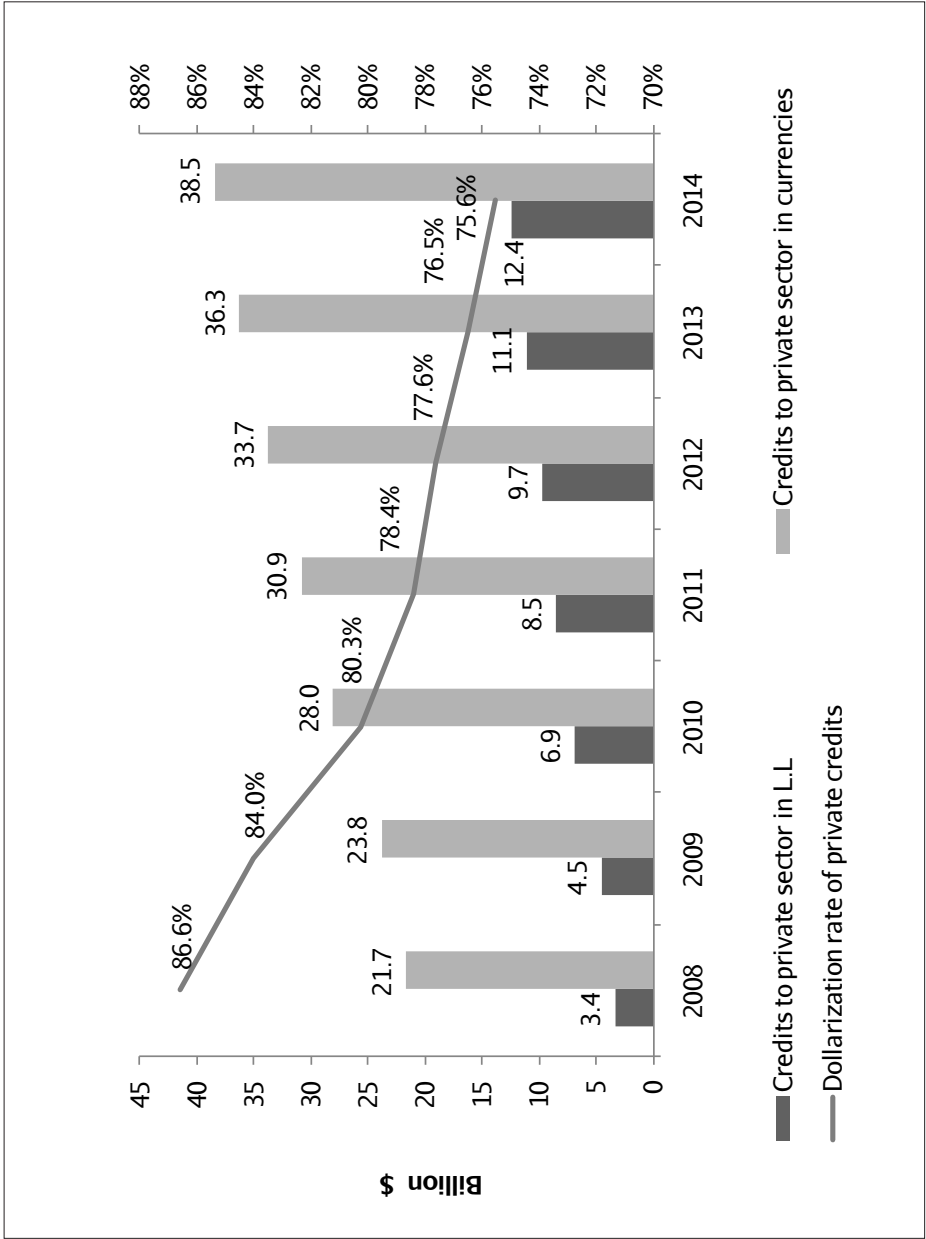
Chart 3: Private sector loans to GDP



Source: The Central Bank (BDL), Association of Banks in Lebanon (ABL), IMF

Advances to the private sector in Lebanese liras have witnessed a growth exceeding the increase in foreign currency loans. Between 2008 and 2014, lending in Lebanese liras rose by an annual average of 25.1%, while foreign currency loans increased by an annual average of 10.1% in the same period. So, the loan dollarization ratio decreased from 86.8% in 2008 to 75.6% in 2014. This decline was due to the incentives provided by the Central Bank of Lebanon for some types of loans, in addition to subsidized loans in Lebanese liras. The Central Bank launched in early 2013 a program to incite banks to grant credits benefiting most economic sectors, in order to push economic growth forward. As part of this initiative, about 1.4 billion US dollars were made available to banks at an interest rate of 1% to lend companies and households after the fulfillment of the reserve requirement mechanism. Banks responded positively to this initiative, as a large portion of the amounts earmarked for corporate and residential lending was used. Banks also benefit from partnerships for the private sector financing with the European Investment Bank (EIB), the French Development Agency (AFD), the International Finance Corporation (IFC), the Arab development funds, and the Arab Monetary Fund.

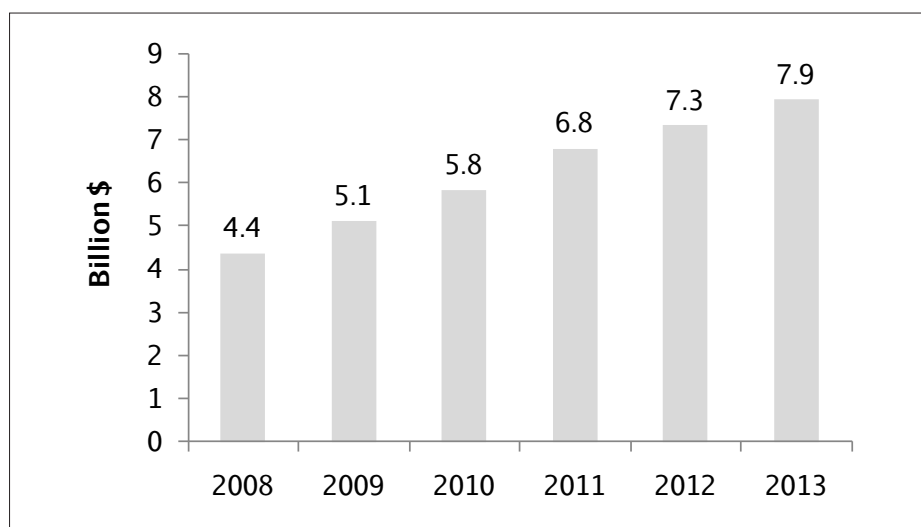
Chart 4: Dollarization ratio of private loans



Source: The Central Bank (BDL), The Association of banks in Lebanon (ABL)

Regarding loans granted to the private sector, companies obtained the largest share, as corporate loans represented 59% of private loans at the end of the year 2013. These loans are split between large companies at 32%, and small and medium-sized enterprises at 17%. It is worth mentioning that small and medium enterprises have gained a growing interest from Lebanese banks in recent times, as reflected by the loans granted to them having risen from \$4.4 billion in 2008 to \$7.9 billion in 2013. The BDL was instrumental in stimulating banks to offer credit to small and medium enterprises, in addition to the role played in this regard by Kafalat (a Lebanese financial institution that aims to help small and medium-sized companies to obtain financing from commercial banks). The latest of these stimulus measures was BDL's Circular No. 331, which aimed at supporting economic and social growth, and at contributing to job creation through backing intellectual and creative skills. The Circular urges Lebanese banks to contribute to the capital of local emerging companies. It complemented a series of decisions that aimed at financing corporations and pushing the economic cycle forward, in addition to providing quality jobs for the Lebanese youth with high competencies. This provides funding sources for knowledge-economy companies, which enjoy a high positive return, as these companies had faced financing challenges in the past.

Chart 5: Loans granted to SMEs

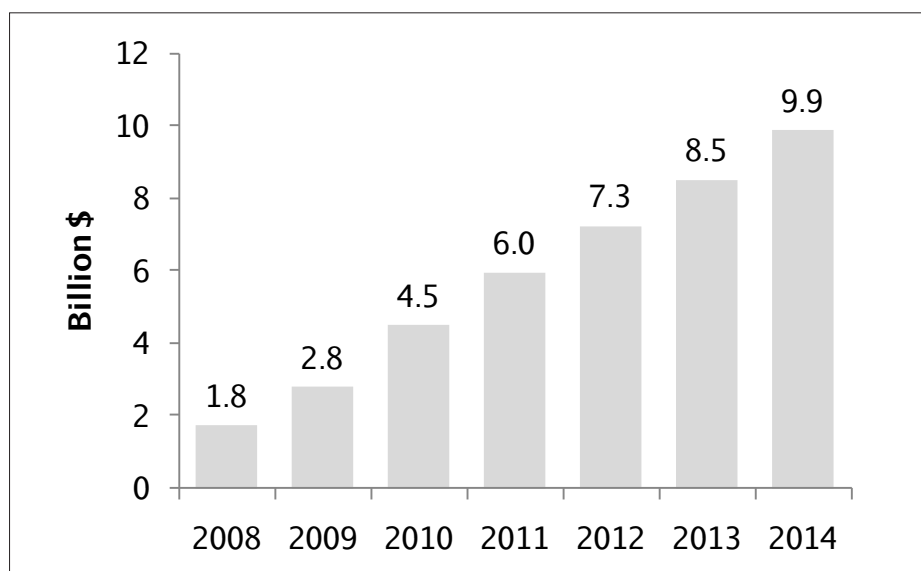


Source: ABL

The distribution of loans according to sectors has witnessed a structural shift over the last decade. Personal loans allocated to finance consumption have risen seven times. Their share of total private loans has doubled to reach about 28.8%. This increase in personal loans reflected the strategy pursued by Lebanese banks to grant fully secured loans with high interest rates. A large part of personal loans are those granted for housing, which rose at an average annual rate of 35% between 2008 and 2014, to reach \$9.9 billion in 2014. BDL played a key role in stimulating bank lending for housing, especially for limited income families. BDL statistics show a remarkable rise in the number of borrowers who benefited from available exemptions, as the number of borrowers increased from 85,998 in 2012 to 94,305 in 2013. The Public Corporation for Housing (PCH) also plays a key role in this area. Since its inception in 1996, this institution aims to provide subsidized mortgages with maturities between 10 and 30 years for families with monthly income not exceeding 6.75 million Lebanese liras (US \$ 4,500). In 2013 the PCH received 6,480 housing loan applications and approved 5701 loans, equivalent to 88% of total demand. Around 5,533 housing loan contracts were signed worth 1,061 billion Lebanese liras (\$674 million) in 2013.

These subsidized loans have contributed not only to pushing forward the economic cycle, but also to achieving social stability, especially in relation to the residential loans that allowed home acquisition for many resident and non-resident Lebanese households. Educational loans also contributed to covering education expenses and securing a better future for many students. So, Lebanese banks played a role in improving the social conditions of families and individuals in Lebanon.

Chart 6: Housing loans



Source: The Central Bank (BDL)

It must be pointed out that although the size of private loans is large, the banking sector was still able to maintain a high liquidity ratio. The ratio of loans in foreign currencies to deposits in these currencies reached 40.5% in 2014, and the ratio of loans in Lebanese liras to deposits in that currency reached 25.1% in the same year. These low percentages are evidence of the high financing capacity of Lebanese banks, and reflect the opportunity for banks to continue to play a central role in the financing of institutions and individuals.

So, the Lebanese economy does not suffer from a lack of finance capacity because the size of the Lebanese banks and their cumulative ratio to GDP are factors that allow them to finance both public and private sectors, and maintain at the same time high liquidity levels, which is also important due to the political and security conditions that Lebanon is going through.

But the availability of liquidity and the ability to finance do not necessarily mean that loans are well distributed. Size is one thing and distribution is another, a topic which we will be addressing in the second part of this essay. In fact, the credit distribution in

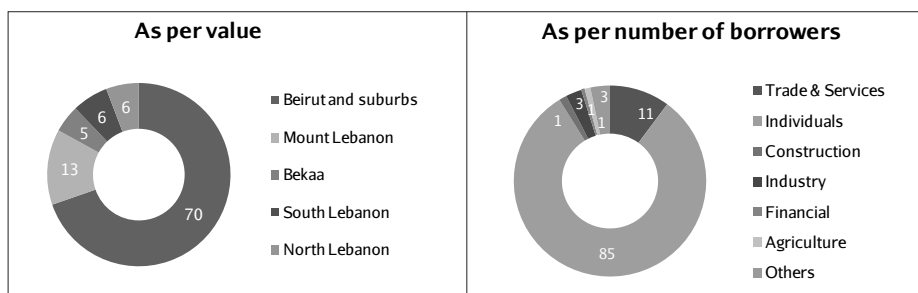
Lebanon is suffering on two levels, first on the macro level as we are witnessing a lack of diversity in sectoral lending, and secondly at the micro level where we notice a high level of concentration in loans.

Second topic: Weaknesses: The distribution of credit in Lebanon

One of the weaknesses of the banking sector is the lack of diversity in the sectoral credit. Loans granted to economic sectors are predominantly concentrated in the trade and services sector, as they accounted for 33.8% of the total private loans at the end of the first quarter of 2015, but represented only 11% of the total number of borrowers. Loans granted to individuals constitute 28.6% of the total value of loans, most of them being concentrated in the housing sector (approximately 61%). In the same period, construction and building loans accounted for 16.9%, benefiting only 1.4% of all borrowers. On the other hand, the shares of industry and agriculture in overall credits respectively reached 11% and 1.2% at the end of the first quarter of 2015. It must be pointed out that these bank credits to agriculture only include direct loans, and do not comprise indirect loans granted to agricultural cooperatives and importers, nor trade activity in agricultural and animal products, and in agricultural machinery and equipment.

We conclude from these facts that the trade and services sector has the largest share of loans among economic sectors, followed by individuals and construction, these sectors accounting together for about 80% of the loans. As these three sectors are directly affected by economic, political and security shocks, this makes banking loans vulnerable to the same risk factor.

Chart 7: Distribution of bank credits on sectors (March 2015)



Source: BDL

When we look at the evolution of the economic sectors' shares in banking credits, we find that the share of trade and services sector fell from 38.2% in 2009 to 34% in 2014. The share of individual borrowers increased from 22.2% in 2009 to about 29% in 2014; the share of construction and building increased by about two percentage points. In contrast, the manufacturing sector saw a stable share of loans at around 11%. The same goes for the agricultural sector, as the value of granted loans has increased, but did not succeed in exceeding 1% of the loans. In spite of the evolution in the sectoral distribution of bank loans, it is still the trade and service sector that accounts for the largest share of private sector loans while loans to industry and agriculture are still low. This is due to the fact that Lebanese banks adopted a conservative financing policy, upon which they mainly focused on short-term and medium-term loans, as are most of the trade, services and personal loans.

Table 1: Evolution of bank credits according to sectors

Evolution of bank credits according to sectors				
	2009		2014	
	Value (\$ billion)	Share (%)	Value (\$ billion)	Share (%)
Trade & services	12.1	38.2 (%)	19.5	34 (%)
Individuals	7	22.2 (%)	16.5	28.8 (%)
Construction	4.8	15.3 (%)	9.6	16.7 (%)
Industry	3.7	11.8 (%)	6.2	10.8 (%)
Financial intermediation	2.6	8.2 (%)	3.4	6 (%)
Agriculture	0.3	0.9 (%)	0.7	1.1 (%)
Others	1.1	3.4 (%)	1.5	2.6 (%)
Total	31.6	100 (%)	57.3	100 (%)

Source: BDL

The lack of diversity in sectoral credits is also due to the lack of diversity in economic production in Lebanon. The Lebanese economy is mainly based on trade and services which combine to about 54.8% of the GDP, one of the highest ratios in the world. The most prominent sub-sectors covered by this sector are the trade sector (29.3% of GDP), financial services (14.5%), and tourism (11.7%). Over the last two decades, each of the tourism sector and the financial sector constituted basic pillars of the national economy, and were the largest contributors to GDP growth and to employment. Following the trade and services sector in terms of contribution to the gross domestic product, the real estate and construction sector comes second, representing about 19.8% of the national income as it benefits from steady and strong capital flows. What contributed to the growth of this sector is the real demand for housing, not for speculation. While trade-services and real estate-construction were growing, the role of the industry and agriculture sectors was shrinking. Today industry represents about 11.3% of the GDP, while the agriculture sector only contributes to about 4.1%. Regarding the industrial sector, Lebanon faces many challenges that hinder its growth, most notably the policies and regulations which do not incite to industrial investment, in addition to the political instability prevailing. We add to these obstacles the high production costs in manpower and energy which pushed the Lebanese industry towards transformation and assembling industries. The agriculture sector is facing similar challenges, such as high production cost, in addition to the fact that agriculture is vulnerable to climate change and foreign competition through agricultural imports. Therefore, the agricultural sector has also moved towards commercial crops which are meant for export.

It is worth mentioning that in order to improve the diversity in sectoral credits, BDL incited banks to offer subsidized loans to industry and agriculture. These include: medium and long-term subsidized loans, subsidized loans guaranteed by Kafalat, subsidized loans granted on the basis of the protocol signed with the European Investment Bank, subsidized loans granted by the International Finance Corporation, subsidized loans granted by the French Development Agency (AFD), and others. Loans subsidized by the central bank to economic sectors reached about 2.73 billion US dollars at the end of 2014, most of which are industrial loans, followed by tourism and agricultural loans. Industrial loans acquired the largest share of subsidized loans, reaching about 1.45 billion US dollars, or 53.1% of total loans. The tourism sector came in second place in value of subsidized loans, and acquired 0.92 billion US dollars between 2011 and 2014, representing 33.7% of total backed loans. The agricultural sector obtained between 2011 and 2014 subsidized loans worth 0.36 billion US dollars,

equivalent to 13.2% of total backed loans. In conclusion, the measure taken by the Central Bank of Lebanon gradually contributes not only to the activation of the economic cycle, but also to the balancing-out of sectoral lending in an improved way.

Another weak point concerning bank loans lies in their distribution among single beneficiaries. At the end of the first quarter of 2015, the value of loans worth less than LL25 million amounted to about 4.3% of the total value of the private sector loans, but were distributed to 62.8% of the beneficiaries. Also, for example, 21.8 percent of borrowers benefited from loans in the LL25-100 million range, which formed only 6.2% of the total value of the private sector loans. In contrast, loans exceeding LL10 billion accounted for approximately 46.5% of the value of banking loans, benefiting only 0.23% of the total number of borrowers. The high ratio of concentration of loans in Lebanon reflects the close links between major Lebanese banks and large corporations and economic groups. Many important sectors such as small and medium-sized companies are still relatively excluded, as they are not benefiting enough from banking services. The high concentration of loans reveals the need to activate the lending to small businesses and the development of the microfinance industry.

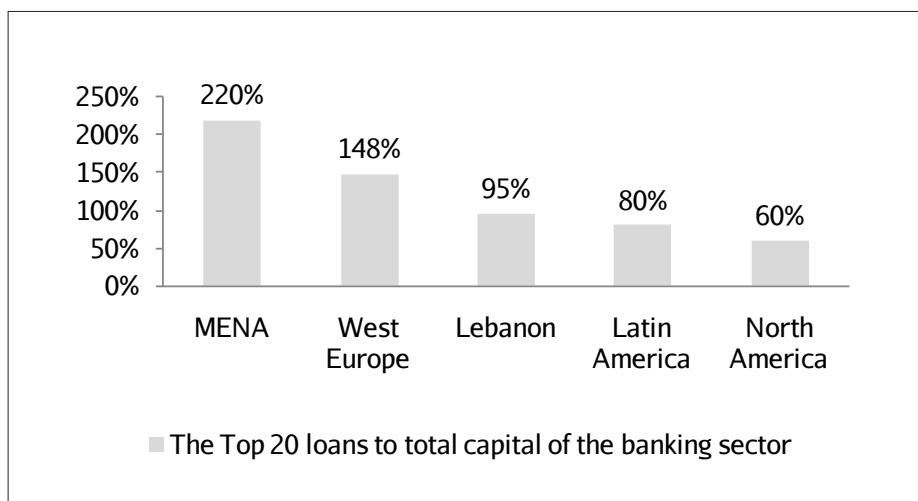
Table 2: Distribution of bank loans as per value and beneficiaries

Distribution of bank loans as per value and beneficiaries (March 2015)		
Loans value (LL million)	Distribution by value (%)	Distribution by number of borrowers (%)
Less than 25	4.29 (%)	62.81 (%)
25-100	6.16 (%)	21.8 (%)
100-500	15.24 (%)	12.66 (%)
500-1,000	5.09 (%)	1.22 (%)
1,000-5,000	13.53 (%)	1.5 (%)
5,000-10,000	9.13 (%)	0.21 (%)
More than 10,000	46.54 (%)	0.23 (%)

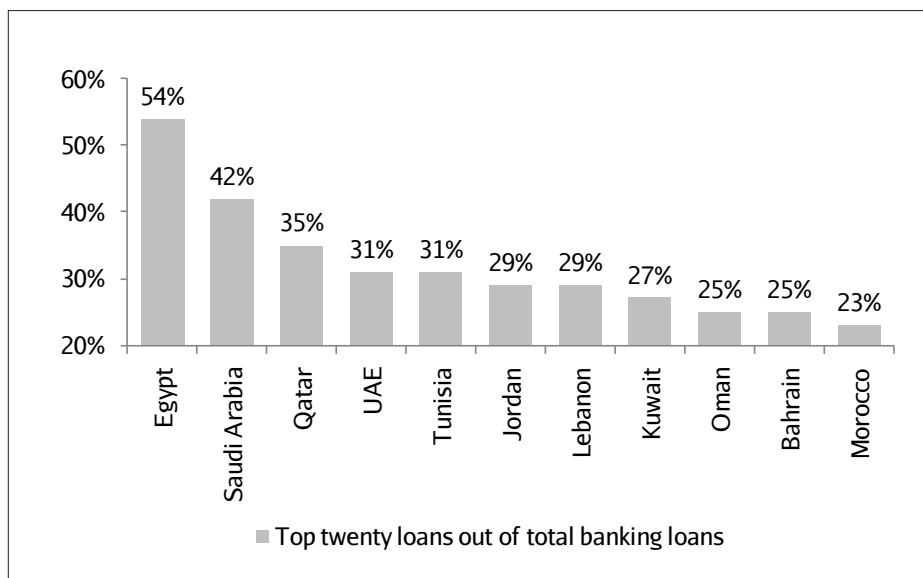
Source: BDL

Perhaps the most notable indicators that show the level of credit concentration is the Top Twenty Loan Exposures-to-Equity Ratio and the Top Twenty Loan Exposures-to-Loans Ratio. In 2010, the top twenty loans represented 95% of the Lebanese banks' capital, compared to 60% in North America, 80% in Latin America, and 220% in Middle East and North Africa. This shows that Lebanon has a loan concentration ratio just like neighboring countries. The top twenty loans accounted for 29% of the total loan advances in Lebanon in 2010, compared with 54% in Egypt, 42% in Saudi Arabia, 27% in Kuwait, and 25% in Morocco. Most countries of the Middle East and North Africa region, including Lebanon, are characterized by a high loan concentration due to limited opportunities for small and medium-sized companies and individuals to obtain financing.

Chart 8: The top 20 loans to total capital of the banking sector



Source: Standard & Poor's, the World Bank

Chart 9: The top twenty loans out of total banking loans

Comparison between Lebanon and other countries in the Arab region in terms of loan concentration ratio shows that the banking sector in Lebanon, as in most countries in the Arab region, lends to a small group of companies and individuals. The relationship between the number of loan accounts per 1,000 citizens and loans-to-GDP ratio indicates that Lebanon lies under the Simple Regression Line, which shows the value of loan accounts that you would expect from the loans-to-GDP ratio. Although the loans-to-GDP ratio in Lebanon is around 102%, the number of loan accounts per 1,000 citizens is only 314. This indicates that the Lebanese banking sector still lags behind some countries in the Middle East, where the number of loan accounts per 1,000 citizens reaches a high level, such as in Turkey (875) and the United Arab Emirates (650), while loans-to-GDP ratio is considered low in these countries compared with Lebanon.

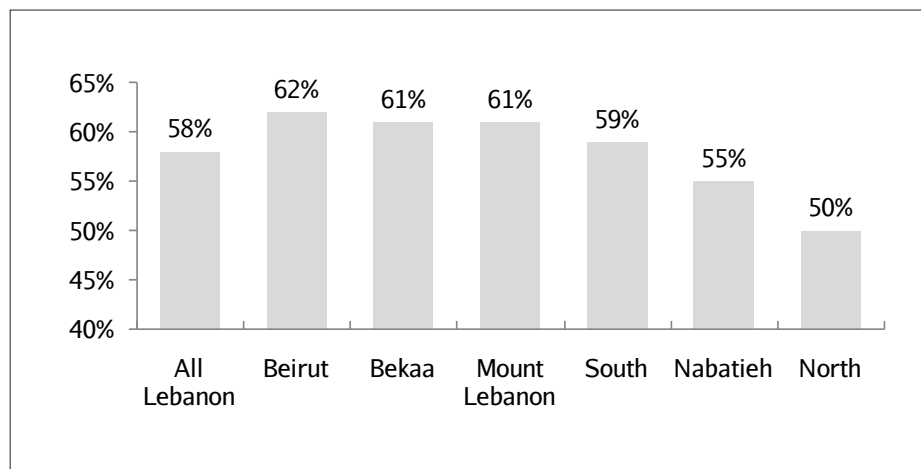
The third topic: Opportunities or required steps to reach an integrated financing system that contributes to achieving sustainable and equitable growth.

First, promote parity in the distribution of banking activity among regions.

In spite of the remarkable growth of the Lebanese banking sector, and in spite of the development of banking services in Lebanon during the last decade, there are still many

areas in Lebanon that are not benefiting enough from banking services. They are considered fertile ground that Lebanese banks can take advantage of to expand their business inside Lebanon. A study conducted by InfoPro Research in 2010 showed that about 58% of Lebanese citizens benefit from banking services, meaning that 42% of citizens do not use any of the banking services. The study also showed that out of those who do not benefit from banking services, there are about 85% of them who are seriously thinking about getting at least one banking service. Bankerization Rate differs among Lebanese regions. In Beirut, around 62% of the population use banking services. Likewise in each of Mount Lebanon and the Bekaa, where 61% of the population benefit from the presence of commercial bank branches. In contrast, only 55% of the Nabatieh residents and 50% of the north residents have an account or a bank loan. Such a difference in the banking inclusion among Lebanese regions shows that there is still an opportunity for Lebanese banks to deliver local banking services, providing further growth in their assets, deposits, credits, and consequently profits.

Chart 10: Bank inclusion rate in Lebanese regions



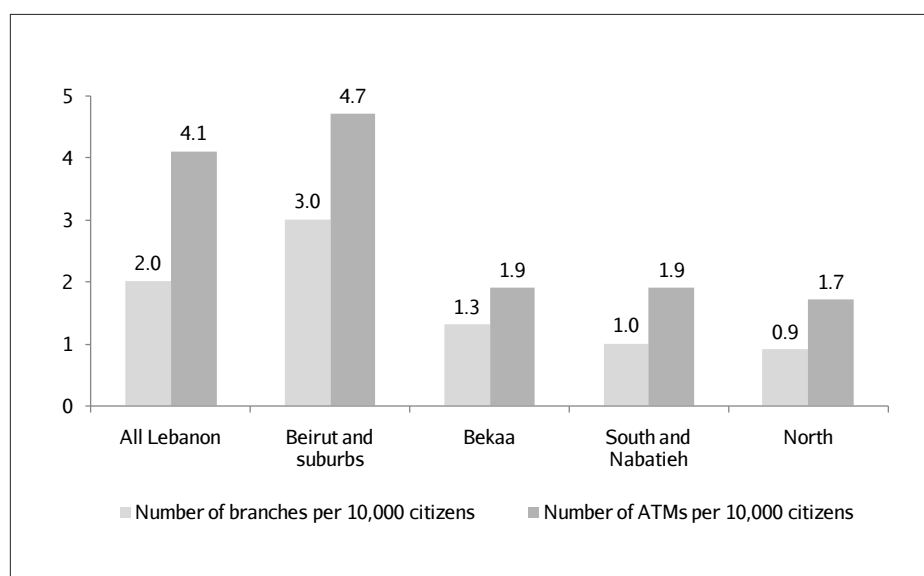
Source: InfoPro Research

The difference in the distribution of banking activity among regions is also visible through the unequal distribution of bank branches across the Lebanese territory. At the end of 2014, Beirut and its suburbs comprised 548 banking branches, equivalent to

53.7% of the total branch network. The Mount Lebanon area got in the same year 19.0% of the branches (the equivalent of 194 branches). In contrast, only 9.9% of commercial bank branches are established in northern Lebanon and 6.7% in the Bekaa.

As for the banking inclusion ratio in Lebanese regions compared to the number of their inhabitants, according to the InfoPro study, Beirut and Mount Lebanon enjoy about 3.0 bank branches and 4.7 ATMs per 10,000 citizens. South and Nabatiyeh regions have about 1.0 branch and 1.9 ATM for every 10,000 citizens. In northern Lebanon, there is 0.9 bank branch and 1.7 ATM per 10,000 citizens. That's why commercial banks operating in Lebanon have an opportunity to attract more customers in these areas, who do not benefit from banking services, by opening new branches and installing ATM machines there.

Chart 11: Distribution of branches and ATMs in the Lebanese regions



It should be noted that the expansion of operating banks into the different areas of the country largely depends on the improvement of the development conditions in these areas. Lebanon suffers from unbalanced development and from the geographical concentration of economic and social development. Therefore, there is a fundamental need to establish plans and development projects to achieve territorial development,

which in turn would lead to more employment opportunities in peripheral regions and develop their economy. This balanced development would also encourage banks to engage in all Lebanese regions and enable them to contribute to their development and the activation of their economy. The benefits will then be shared, as peripheral areas would benefit from banking services that were not previously available, while banks would benefit from an opportunity to expand their domestic presence, which would lead to the growth of their turnover and profits.

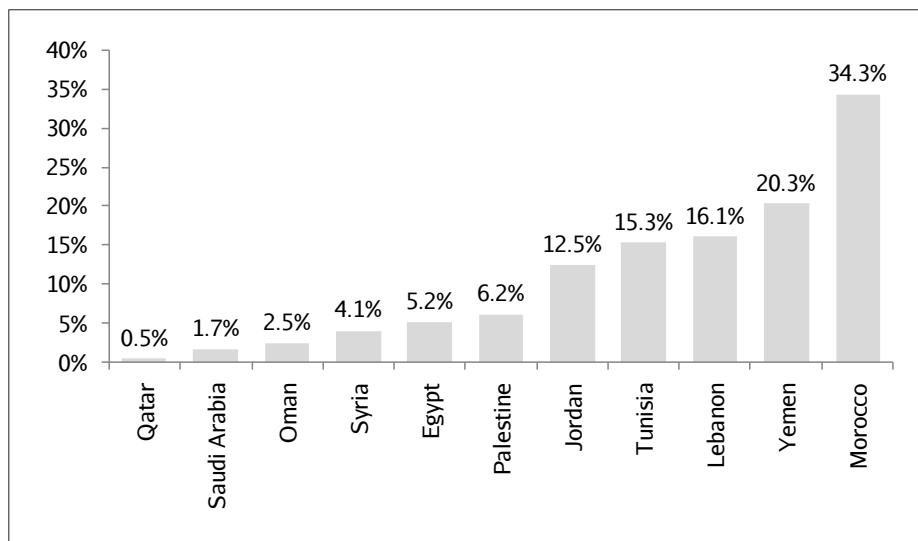
Secondly: To strengthen the financing of small and medium enterprises.

Banks have a real opportunity to expand their activities toward the financing of small and medium-sized enterprises. These companies play a key role in the Lebanese economy, although there are no accurate statistics about their contribution to the GDP. This is partly due to the lack of a clear and established definition of SMEs. The European Commission defines SMEs as establishments, regardless of their legal form, which employ less than 250 people and/or have assets that do not exceed 50 million euros and an annual turnover that does not exceed 43 million euros. The European Commission, the Organization for Economic Co-operation and Development (OECD), and some governments in the Middle East and North African countries tend now to amend this definition, separating small enterprises and medium-sized enterprises. For example, small businesses are defined as those that employ less than 50 people and have annual turnover and/or total assets that do not exceed 10 million euros. This definition naturally differs in many of the Middle Eastern economies due to the small size of the local companies. In Lebanon, the Ministry of Economy and Kafalat (the previously-mentioned Lebanese financial institution that aims to help small and medium-sized companies to obtain financing from commercial banks) define small and medium-sized companies as those that employ a maximum of 200 employees. A report issued by Kafalat said that if the European definition for small and medium-sized enterprises was applied in Lebanon, then these companies would make up 95% of the total operating companies and provide about 80% of the jobs. The majority of these companies are classified in the category of 'micro companies' because they rely on retail, and focus mainly on meeting the needs of the local market.

SMEs are essential for the activation of the Lebanese economy, as they follow innovative business models and play an active role in the development of traditional industries. They also lead the growth in Knowledge-Based Sectors, such as information technology, telecommunications and media. In spite of their large scope

and position in the Lebanese economy, they have hard time obtaining financing from commercial banks. This is due to many considerations, notably that small and medium-sized enterprises often provide incomplete and irregular information due to the lack of adequate accounting and financial management and forecasting systems, unlike large institutions that can resolve this problem more easily. This lack of information in the small and medium enterprises is more noticeable in family businesses where the boundaries between personal and professional credit are not clear. Banks are not able to assess the capacity of the enterprise/family to reimburse the loan. Another problem lies also in the guarantees that these companies provide on loans, and which are often rejected by banks. In addition, banks face high fixed costs in the evaluation of credit for small and medium-sized enterprises because of inadequate disclosure and poor quality of the financial information that they provide.

For these reasons, the financing environment for small and medium-sized companies is not yet considered flawless. Commercial banks have an opportunity to increase their advances to this sector. It is worth mentioning that the difficulty faced by these companies in obtaining financing in Lebanon are the same as those faced in most neighboring countries. Many of Middle Eastern countries are confronting what is known as the “financing gap”, this meaning that there is a large number of small and medium-sized companies that can use money in a productive way whenever it is available, but face difficulties in obtaining financing from the official financial system. Lebanon is therefore not alone in SMEs confronting financing challenges, despite the abundant liquidity in the banking system. On the contrary, the share of banking loans granted to SMEs in Lebanon is comparatively high reaching up to 16.1%, whereas this share is 1.7% in Saudi Arabia, 5.2% in Egypt and 12.5% in Jordan.

Chart 12: Share of credits granted to SMEs out of all loans

Source: The World Bank

Due to the size of SMEs in Lebanon, it is important that banks direct their policies and growth plans towards funding this sector, as it would constitute an opportunity for them to expand locally, without significantly affecting credit risk. When we look at the distribution of doubtful loans, we find that 4.7% of these loans are related to loans worth less than 100 million Lebanese liras (which are often granted to small and medium enterprises). In addition, doubtful loans make up about 3.2% of loans that are less than 100 million LL. In contrast, 60.4% of doubtful loans originate from loans in excess of 10,000 million Lebanese liras (which are often granted to large companies); and doubtful loans constitute about 9.1% of this category of advances. This is an incentive for commercial banks to activate the financing of small and medium-sized enterprises. This can be achieved through better knowledge from banks about this sector, its customers, and the potential revenues that banks may expect from SMEs financing. Also, banks could find an effective way to reduce operating costs related to the study of small enterprises' credit files, through new and innovative ways to assess the credit (i.e. the establishment of loans, monitoring, and collection).

Supporting small and medium businesses has been taken into serious consideration by the Lebanese authorities. That's why Kafalat was created in 2010. It is owned at 75%

by the National Deposits Guarantee Institution, while fifty banks own the remaining 25%. Kafalat supports small and medium enterprises as it guarantees loans granted by the participating banks, based on studies supplied by applicants that show the sustainability of the proposed economic activity. Guarantees are granted to the concerned bank, which in turn may request additional collateral, in order to make the loan safer for the bank. Kafalat programs are directed to small and medium-sized enterprises in one of the following economic sectors: Industry, agriculture, tourism, craft production, and advanced technologies. Loans secured by Kafalat have contributed to activating many small and medium-sized enterprises and increasing their productivity. In detail, since 1997 until the end of the year 2014, Lebanese banks have issued loans worth 1.26 billion US dollars to support emerging projects by taking advantage of loan guarantees secured by Kafalat. These loans are distributed as follows: 53% for the industry, 19% for tourism, and 27% for agriculture.

Table 3: Kafalat programs to support SMEs

Kafalat programs to support SMEs				
Program	Investment type	Max. loan amount (million LL)	Max. loan duration (years)	Guarantee (%)
Kafalat Basic	Investment in fixed assets and operating capital	300	7	75 %
Kafalat Plus	Investment in fixed assets and operational needs	600	7	85 %
Kafalat Innovative	Financing fixed assets and operating capital needs	300	5	90 %

Source: Kafalat

BDL also plays an active role in inciting banks to finance small and medium enterprises. It is in the process of promoting a law for secured lending, which aims to encourage lending to small and medium enterprises, when they do not have enough immovable collateral to get funding. They are not able to take advantage of their current assets as collateral for the loans, because banks and other financial institutions refrain from taking these assets as collateral, due to the absence of centralized records for them. This law aims to promote lending in exchange for movable collateral through a legal mechanism that allows banks to provide credit to industrial, agricultural and commercial projects in exchange for movable guarantees as is the case now with immovable guarantees. The Central Bank is pushing towards adopting a modern legal framework for secured transactions, which entitle SMEs to access credit on the basis of movable collateral.

All this would create new opportunities for commercial banks to expand their domestic activity in the financing of small and medium enterprises sector, which does not benefit enough from banking services. Mutual benefits will be assured as banks would have a broader diversity in their loan portfolio, while productive sectors would benefit from a better activity which would be reflected positively on the country's economic growth.

Third:

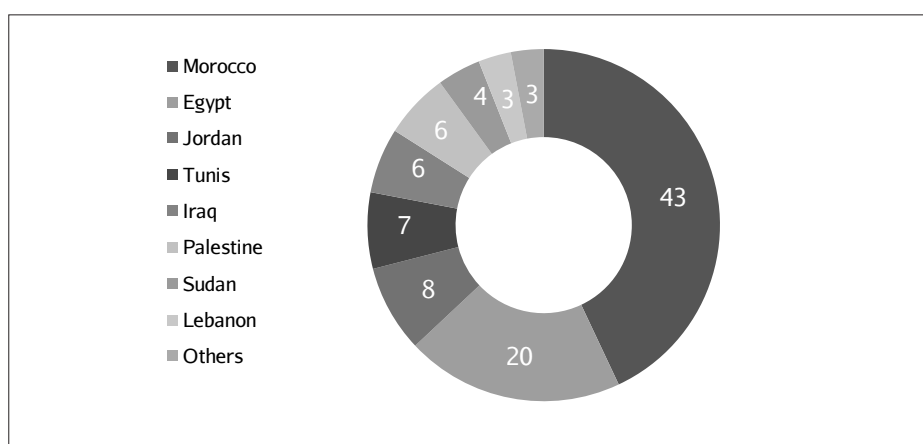
Lebanese banks have the opportunity to develop microfinance services which are marginally available so far. The microfinance industry started in Lebanon in the nineteen nineties, but despite some growth achieved the sector is still an emerging market with a low access rate. The term "microfinance" refers to the provision of financial services on a sustainable basis to low-income people and small projects. It includes not only granting loans, but also providing deposit and money transfer services and insurance as well as business development services. In Lebanon, Micro Finance Institutions (MFIs) so far focus almost exclusively on credit, granting small loans to individuals with limited income in an attempt to improve their financial position and reduce poverty levels in Lebanon.

Eight years ago, according to the IFC (International Finance Corporation), the microfinance sector in Lebanon consisted of 11 institutions, with a total loan portfolio of about \$33 million. Today, the number of MFIs exceeds 20, with granted loans of about \$62 million. So, there still are a limited number of local microfinance institutions, or rather micro lending institutions (as most of them focus on providing

lending service, versus a small number of other financial and non-financial services). Among the most prominent of these institutions: Lebanese Association for Development (Al-Majmoua), Amin, Al-Qard Al-Hasan, Makhzoumi Foundation, Imkan, Association for the Development of Rural Capacities, as well as some commercial banks. Most of these institutions have been established by local and international organizations to provide various social and economic development services, including microloans, often offering loans at lower interest than those available in the market. These institutions currently serve about 38,000 customers. Despite the progress of the microfinance sector in Lebanon, it remains limited as it supports only 12% of the citizens who really need microcredits.

Compared with the rapid growth of the microfinance industry in the Arab region over the past ten years, this sector is still lagging behind in Lebanon, and is far from meeting all potential demand for microloans. Lebanon's share of the total value of microloans in the Arab world constitutes only 3%. In contrast, Morocco's share of these loans reach 43%, Egypt's share 20%, Jordan 8%. In terms of the penetration rate, the ratio of borrowers who obtained a microloan out of the total potential micro-borrowers is only 12%. This is also to compare with the penetration in Jordan which reached 54%, Tunisia 46%, and Morocco 36%. This proves that microfinance services in Lebanon do not meet all the demand, and that there are still many opportunities for banks to develop this sector and reach various categories of Lebanese citizens.

Chart 13: Market share of selected Arab countries in the microfinance industry



Source: Sanabel Institution

Table 4: Inclusion rate in microfinance

Inclusion rate in microfinance	
Country	Ratio (%)
Jordan	54 (%)
Tunisia	46 (%)
Morocco	36 (%)
Mauritania	25 (%)
Egypt	24 (%)
Lebanon	12 (%)
Palestine	10 (%)
Iraq	3 (%)
Syria	3 (%)
Yemen	3 (%)
Sudan	2 (%)

Source: Sanabel Institution

According to the Economist Intelligence Unit, Lebanon is ranked 40th out of 55 developing countries, and 11th out of 15 countries in the Middle East and Africa region according to the Global Microfinance Index. This index evaluates the microfinance environment through two components: (1) The regulatory framework and practices, which assess market access and regulatory matters, and (2) The supporting institutional framework, which handles institutional and commercial practices. The index also takes into account the impact of political shocks on the microfinance sector. Lebanon received a score of 33.3 points in 2013, registering a decline from 33.5 points in 2012. Lebanon's score is less than the global average of 44.4 points, as well as the Middle East and North Africa region's average of 41.1 points. The Economist Intelligence Unit considered that the supervision on the microfinance sector in Lebanon is weak and ineffective, as the authorities do not have the ability to regulate the financial operations of MFIs. It also notes that the political instability and lack of interest from the authorities led to a delay in introducing reforms in the microfinance sector.

Table 5: The Global Microfinance Index

The Global Microfinance Index 2013			
Country	Score	Rank in Middle East Africa	Global rank
Kenya	61.1	1	5
Uganda	53.8	2	8
Ghana	53.3	3	13
Rwanda	48.4	4	22
Nigeria	45.2	5	24
Tanzania	47.9	6	25
Mozambique	44.0	7	30
Morocco	38.3	8	35
Madagascar	35.9	9	37
Senegal	34.4	10	39
Lebanon	33.3	11	40
Cameroon	31.7	12	43
Yemen	31.0	13	44
Congo	28.4	14	46
Egypt	27.3	15	49

Source: Economist Intelligence Unit

The limited microfinance services are due, to a large part, to the restricted capacity of NGOs to expand. Although they grant microloans, most of these non-governmental organizations are involved in a number of other development activities, and therefore are not heavily capitalized to increase investment in their microfinance portfolio. Most microfinance institutions in Lebanon lack the financial and operational capacity for sound large-scale money management. Even those which are specialized in microfinance and have a large number of customers are still limited compared with similar microfinance institutions in the region. This is due to the hesitation of these institutions to expand rapidly in the unclear political environment. In addition, micro lending is not regulated by any formal legal text, as it is the Ministry of Interior and Municipalities, rather than the Ministry of Finance or the Central Bank, which currently supervises all microfinance institutions that operate in this sector. The only form of support the sector received from BDL is a directive issued by the latter that allows local commercial banks to use 5% of their mandatory reserves for microfinance initiatives. Also, MFIs have weaknesses related to the restrictions imposed on charitable institutions, and therefore have limited ability to obtain money because they are not allowed to accept deposits. As such, microfinance institutions are largely dependent on donor funds, which translates into a lack of stability in access to credit. This constitutes an opportunity for commercial banks that have ample liquidity thanks to private sector deposits – which would enable them to offer microfinance services.

Commercial banks in Lebanon can therefore take advantage of the weaknesses of microfinance institutions and turn them into a funding opportunity in the following form:

- Capacity building: It is clear that there is still room for significant growth in the microfinance industry in Lebanon, due to the failure to meet the large demand for microloans. The current microfinance institutions need to improve their internal capacity and to come up with more innovative schemes in order to promote their products and services.

- Activate competition: In other countries in the region (such as Morocco and Jordan), one of the main driving factors of the microfinance sector growth is competition among institutions. In Lebanon, the level of competition in this sector is very low because there are no many players in it. Therefore, commercial banks can play a role to ignite competition, which would develop the services offered by this sector.

- Facilitate financing: Despite the excess liquidity in the banking system, this surplus has not yet been translated into investment in microfinance. This is due to the relatively short record of success in this sector. Therefore, Lebanese banks should facilitate the financing of microloans by using their excess liquidity.

- Provision of new services: The microfinance sector in Lebanon is expected to expand further. While microloans dominate the microfinance services, micro-savings are absent due to the organizational structure of MFIs; likewise, micro-insurance services are also inexistent in this sector, in spite of the instability climate that dominates in Lebanon. Lebanese banks have the opportunity to develop modern services, especially in view of their structure allowing them to offer these services.

It should be noted that the Lebanese government should play a decisive role through the implementation of effective policies to ensure the safety of micro financial service providers and to put MFIs under the supervision of the regulatory requirements of the Central Bank. The government should develop an appropriate legal environment through suitable and feasible credit laws. Lebanese authorities have an important role in the provision of information through the establishment of a credit office or a central risk bureau. These offices/centers would enhance practices in the context of better information provision and policy implementation that encourage the granting of short maturity microloans.

Topic IV: Threats that the financing structure may face in Lebanon

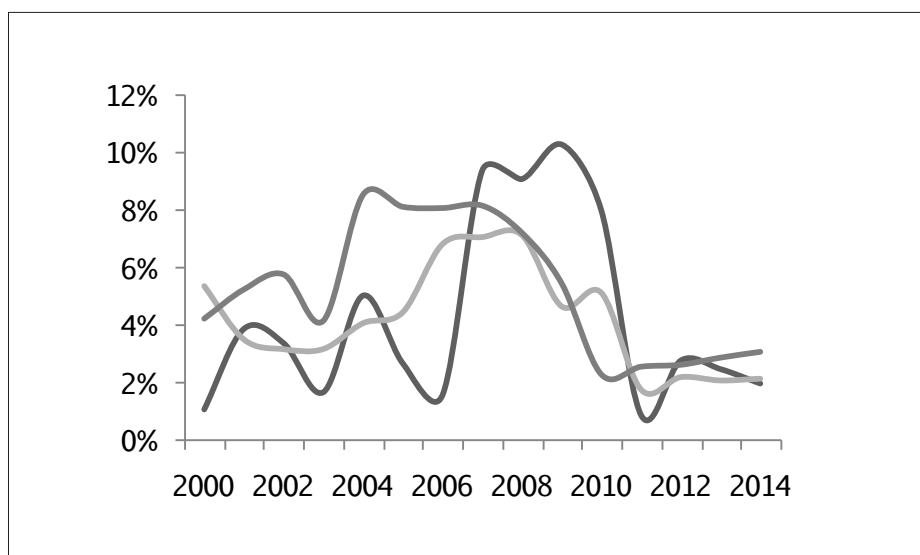
The two primary risks for the financing structure in Lebanon are: The ongoing weakness in economic growth, and the continual degradation of public finances.

Lebanese banks are facing the risk of the persistence of the present economic situation in Lebanon. Since 2011, the Lebanese economy is going through a period of slow growth and macro-economic weakness as a result of several internal and external factors. This situation has started gradually to affect growth levels in the Lebanese banking sector because banks are forced to work under difficult economic conditions. Therefore, there is a concern that the lack of improvement in economic conditions may add more challenges for the banking sector, specifically with regard to the growth of corporate and personal loans.

GDP in Lebanon registered an average growth rate of 8.5% between 2007 and 2010; one of the highest growth rates in the world, but this rate fell to below 2% between 2011 and 2014. This is due to many external factors, such as the ongoing Syrian crisis, as well

as internal factors, such as the degradation of the security and political situation, which led to a decline in consumer and investor confidence in the economy. Furthermore, the high growth witnessed in the past few years was not accompanied by bold decisions to implement reforms that address key sectors, such as energy and telecommunications. This has led to a sharp deterioration in the macro-economic framework when the country entered in a phase of political and security instability. When comparing with other countries relatively affected by the regional crisis, we notice that the economic performance in Lebanon was more volatile than other countries', precisely because it was impacted by significant internal security shocks.

Chart 14: GDP growth

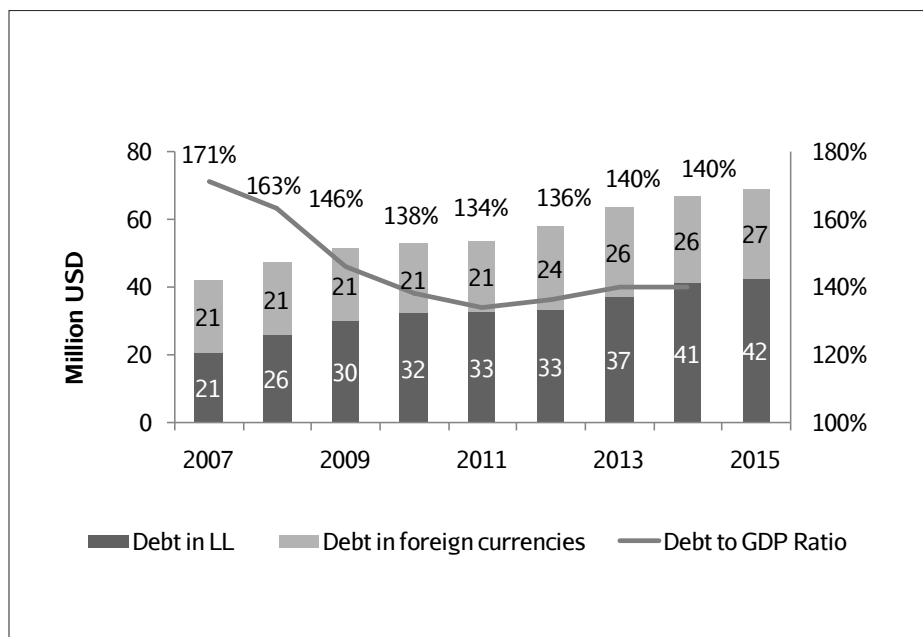


Source: IMF

Moreover, the decline in economic growth in Lebanon has had a direct impact on the State budget. With the slowdown in GDP growth, government revenues slowed down as well, while government spending rose due to the failure of the successive governments to follow a proper spending policy. All this led to higher fiscal deficits combined with low growth, which impacted negatively on the debt to GDP ratio, after a period of relative improvement since 2007. The dynamics of public debt in Lebanon

started to recover significantly after 2006, precisely thanks to the high economic growth in that period. But the slowdown in economic activity, the fiscal deficits, and the increased Interest Rate Risk Premium due to the crisis in Syria inverted the remarkable progress in reducing the debt to GDP ratio. This ratio rose from 134% in 2011 to 140% in 2014. It should be noted that Lebanon's inability to contain the public debt and make it sustainable (i.e. reducing the debt to GDP ratio), may reflect negatively on the credit rating of the sovereign debt. As Lebanese banks carry more than half of this debt, the downgrade of the sovereign debt has a negative impact on the credit rating of Lebanese banks.

Chart 15: Lebanese public debt

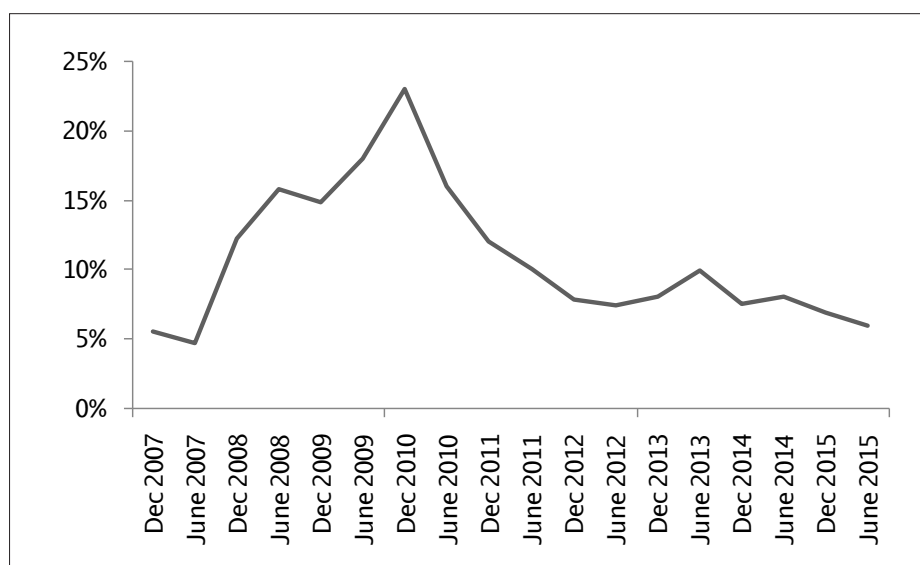


Source: BDL, IMF

If the unfavorable economic situation continues in the coming period, this may cause further slowdown in the growth of bank deposits. After a growth in private deposits by an annual average of 15.4% in the period from 2007 to 2010, deposit growth fell to an annual average of 7.7% in the 2011-2014 period. This situation continued during the first half of the year 2015; where the deposit growth (5.9%) was lower than the growth

in the first half of the previous year (7%). This decline in growth occurred despite the fact that Lebanese banks pay higher interest rates on deposits compared to regional and global markets. If this slowdown in the growth rate persists, the balance sheet of Lebanese banks may weaken, especially that the private sector deposits constitute the main source of funding for the Lebanese banking sector.

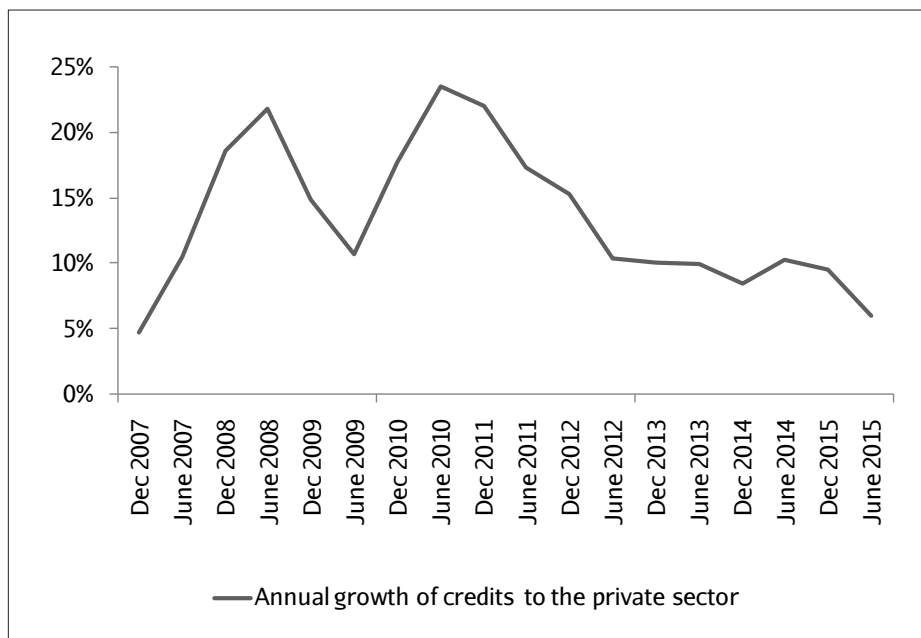
Chart 16: Annual growth of private deposits in banks



Source: BDL

Likewise, bank loans to companies operating in Lebanon witness a decrease in growth level due to instability in the country. The economic slowdown had a negative effect on many productive and service sectors, which found themselves unable to run their activities as before. This was reflected in corporate lending levels, primarily due to lower loan demand as companies hesitate to take a decision on the expansion of their business, and secondly because Lebanese banks were hesitant to grant these loans due to the increased risks, as the operating environment was declining. After a period where bank loans to the private sector witnessed a growth at an annual average of 15%, in 2007-2009, the growth of loans fell to an annual average of 14.2% in the 2010-2014 period. This trend continued during the first half of the year 2015 as loan growth (7%) was lower than the growth in the first half of the previous year (10%).

Chart 17: Annual growth of credits to the private sector



Source: BDL

Conclusion:

This chapter presented in a scientific and objective way the strengths, weaknesses, opportunities and threats in the financing scheme of the Lebanese economy, which is an acceptable and effective scheme to a large extent. But the political and economic risks began to infiltrate the system through lower growth rates in bank deposits and in private sector loans, a drift which requires better attention and treatment. The best handling may be done through, first of all, structural reforms needed to expand the productive capacity of the economy, and secondly through active measures to reform public finances and rationalize spending.

The Social Contract

The Structure and Characteristics of the Lebanese Workforce

Introduction about the general economic frame that impacts the status of the labor force and its evolution

This research aims to analyze the structure and characteristics of the labor force in Lebanon which includes, as a statistical definition, all workers in all sectors and branches of the economic activity, in addition to the unemployed. The workforce constitutes the main foundation of economic and social growth. Its properties affect to a large extent the development scheme of the national economy. These properties are in turn affected by the general orientations of the economic development in the medium and long term. The importance of the role played by the workforce, as a general leverage for the economy, has increased over the past three decades. This is due to the evolution of the global economic theories since the mid-1980s, from the almost exclusive focus on the narrow concept of economic growth, to a broader development concept, then to special emphasis on the sustainable human development concept, which focuses on the role of “human beings” rather than on the role of “bricks and mortar” in making growth happen. In order to understand the status of the labor force and its development –in quantity and quality - we need to have a deep understanding of the foundations and mechanisms that governed the development of the economic structure of the country during the era which followed the Civil War (1975-1990). That is because the correlation between the two parameters of this equation is a powerful one and statistically proven, as confirmed by different international experiences.

The development of the Lebanese economy in the postwar period has been influenced by a succession of political and security shocks resulting from internal conflicts and repeated Israeli attacks, then especially by the overall fallout on Lebanon by the Syrian crisis since 2011. During the same period, however, the economic development has also been affected more strongly by internal policies and factors that had a large and direct interactive effect, not only on the economic situation in

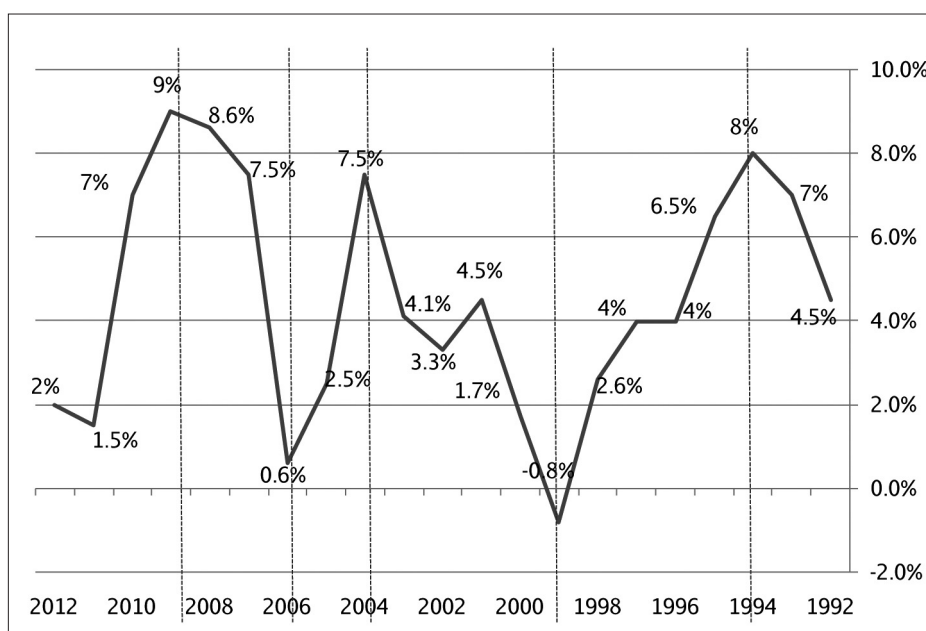
general, but also on the situation of the labor force and its main characteristics. In this context, we may review the most prominent of these factors as follows:

1. Lebanon's integration pattern into globalization, and the way the country dealt with it after the 1990s included some imbalances, which lessened the potential benefits that it could have reaped from this trend, and exacerbated the negative aspects associated with it. The "national reconciliation" at the end of the civil war coincided with a clear victory, on the global level, of the neo-liberal economic theories mainly expressed by the "Washington Consensus". This resulted in calls to liberalize the exchange of goods and services, implement structural adjustment, reduce the role of the State, and reinforce "the supply side economy". The "Raised Hand" policy has been so widely adopted that we witnessed a large rush towards trade liberalization. This was mainly achieved through an ambiguous engagement into the WTO and the Euro-Mediterranean partnership negotiations before ensuring that the national interests associated with these negotiations were relatively balanced. This is what practically led to discarding – without real compensation – the necessary protection of domestic production. It has also contributed to the worsening of the trade deficit, expanding the dependency on foreign markets, subjecting the Lebanese party to exchange terms determined by the foreign party in many areas (e.g. controlling global import prices, double standards in defining and practicing dumping policies, refraining from easing technology transfer, strict adherence to the rules prescribed by the foreign party in intellectual property, certificates of origin, and production standards and specs).

2. Since the early 1990s, spiral sharp fluctuations in annual growth rates have been recorded - as shown in chart (1). These growth rates have seen successive cycles of recovery and slowdown. Periods between 1993 and 1995, then between 2007 and 2010, recorded the highest growth rates. In the first period, the growth was the result of the natural economic takeoff just after the end of the civil war and the launch of the reconstruction process. In the second period, it was the result of the positive economic impact that Lebanon cropped from the outbreak of the global economic crisis. This has contributed to transforming this country into a safe haven - albeit temporarily - for large inflows of remittances, capital, and direct foreign investment (knowing that Lebanon did not profit well from this opportunity, which is rare in normal circumstances). In contrast, the lowest rates of growth were recorded during the period between 1998 and 2003, due to the exhaustion of the reconstruction effects, and the deterioration of the fiscal deficit and the public debt crisis. It was

later followed by another era of sharp decline in growth rates after 2011, owing to the Arab uprisings, especially with the Syrian influx to Lebanon. It is clear that this spiral pattern of the growth rate evolution was reflected negatively on the performance of the Lebanese labor market and the labor force structure. Overall, the annual economic growth rate since the mid-1990s reached about 4% on average, half of what was expected under the reconstruction programs that were put in place in the first half of the 1990s.

Chart 1: GDP growth rates¹ in Lebanon (1992-2012)



(1) Sources: IMF – World Economic Outlook, October 2009; Report: “Presidency of the Council of Ministers – Economic Accounts (1997-2007); Lebanon Country Profile 2013 (Ministry of Finance, 2008-2012 period).

3. In connection with these trends, the real economy weakened during the last two decades amid the emergence of a financial swelling caused by the financing schemes of public spending. Other factors include real estate episodic surges of rentier nature, especially in urban areas, the decrease of the relative weight of agriculture and industry in the GDP by at least one-third, and the restraint of the high added value production to a few highly-concentrated economic activities. Several factors have contributed to the weakening of the domestic production's competitiveness and the decline of export(of goods and services). Among these factors: The weakness of basic infrastructure facilities (especially electricity) and the high production costs –due to the distortion of the internal price structure and the high weighted exchange rates of the national currency. These developments indirectly translated into the rising role of consumption in defining economic growth – especially the consumption based on import rather than on domestic production. They also translated into the big boom of a few parasitic low-productivity services, and other modest and improvised activities. In connection with this type of economic growth, the export/import coverage rate declined to about a half of what it was in the mid-1970s, with consequent wholesale negative effects on the performance of the local labor market.

Chart 2: Comparative structure of the GDP, between 1997 and 2010

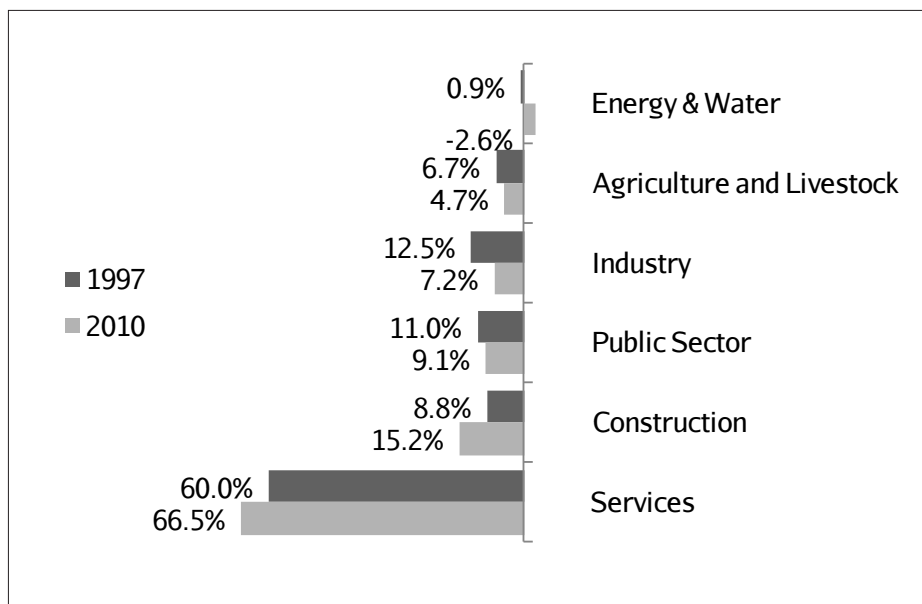


Table 1: GDP real growth rates in the 1997-2009 period, as per economic sectors²

Economic Sector	Cumulative real growth rate of GDP	Average annual growth rate of GDP	Contribution to the real GDP growth
Agriculture & Livestock	11.1%	0.9%	1.4%
Energy & Water	73.9%	6.3%	-1.8%
Industry	20.2%	1.5%	4.7%
Construction	40.3%	2.9%	8.0%
Services	78.0%	4.9%	79.0%
Trade	71.6%	4.6%	27.4%
Transport & Communication	216.8%	10.1%	18.5%
Business Services	97.5%	5.8%	4.6%
Maintenance & Repair	13.5%	1.1%	0.2%
Lodging	25.9%	1.9%	3.0%
Hotels & Restaurants	90.7%	5.5%	4.0%
Personal Services	12.9%	1.0%	0.6%
Health Services	69.6%	4.5%	5.5%
Education Services	36.1%	2.6%	4.8%
Financial Services	104.0%	6.1%	10.6%
Public Sector	47.3%	3.3%	8.5%
TOTAL of GDP	61.3%	4.1%	100.0%

(2) "IMF: Lebanon: Real GDP Growth Analysis, 1997-2009" (March 2011).

4. The emergence of the fiscal deficit and the public debt problem in this period was clearly reflected in the performance of the Lebanese economy and its stability, especially in the State's ability to finance its expenditures. The absence of budgets and annual public account closures since 2005 has facilitated an out-of-control expansion in current spending, characterized by ample embezzlement, in conjunction with the absence of real legislative and institutional control over the evolution of this spending. This is what led to the continued growth of the State's financial deficit, despite the increase in the tax burden by almost two folds since the mid-1990s. This fact has compelled the political class to work in every way in order to cover its spending: to raise funds, remittances, aid, and "guarantees" from outside, through donor country conferences and close ties with the Arab oil-producing countries. This enabled banks to achieve a sustainable increase in the size of deposits, and allowed the State to continue to borrow an even larger part of these deposits - albeit with high interest rates - to finance the deficit and debt service. The State subdued the monetary and fiscal policies and the high interest policy for this purpose, ignoring the negative consequences of these policies on the macro-economic level.

5. This pattern of economic development has prevented the country from achieving one of the basic objectives of the reconstruction plans that were developed in the first half of the 1990s, which was to bridge the economic gap among regions. The economic activity continued to be generally concentrated in the "Greater Beirut" area, whereas the economic weight in peripheral areas was declining, in terms of their share of the basic infrastructure, private investments, employment opportunities, and the fruits of the economic growth. These regional disparities were reflected in the imbalanced relationship between the central and local authorities with respect to the management of the economic and social development in its geographical dimensions. The local and municipal situation outside Greater Beirut remained subject to economic polarization, controlled by a coalition of interests which had the upper hand in the "center", whether at the legislative level, capital formation, supply of human resources, or financing (municipal dues at the Independent Municipal Fund). This imbalanced relationship between the center and the peripheries is largely responsible for the labor market's underperformance outside Greater Beirut, particularly in the North and the Bekaa, which have the lowest rates of economic growth and virtually no new jobs.

6. The reconstruction era in the second half of the 1990s has been successful in achieving relative progress in the re-establishment and development of public

utilities and basic infrastructure; but the conditions of these networks quickly deteriorated. This is evidenced by the present conditions of electricity, energy, water, public transport, and public education. This deterioration – which does not serve growth nor job creation – resulted from a sharp decline in public investment, starting from the beginning of the third millennium. Investment spending has not exceeded on average 7% of the total national investment over the past four years. The preoccupation of the political class with their own interests, and the internal rivalry to take away what can be taken from the non-productive public spending, led to a fatal deficiency in the maintenance of basic infrastructure, and a failure in the reconstruction of the public administrations and the productivity of their human resources. As a general outcome, the increase in public spending was no more than a record rise in the cost of the political class (as per the amounts booked from the public spending), in conjunction with a record low in the size and quality of public service that this class was supposed to provide to all citizens.

7. On the social level, the prevailing economic growth pattern did not succeed in improving the living conditions of large groups of workers. This finding is supported by a broad range of official and semi-official indicators, including the decrease of the wages share in the GDP compared to its level in the mid-1990s, whereas the share of capital gains and royalties increased. This decrease was not caused by the decline of the employees/total workers ratio, but rather by the rising imbalance between the consumer price evolution on the one hand, and the average wage evolution on the other. Indicators of inequality and discrimination also deepened, in terms of size and type of workers' access to social services and basic public services. This is especially the case regarding retirement, health services, the quality of education (especially public education), and provision of electricity, water, public transport, social welfare, and the care for the disabled. Half of the Lebanese currently lack consistent health coverage, while nearly two thirds lack regular retirement programs, including more than 150,000 wage earners in the private formal and informal sector who are not declared to the National Social Security Fund. All Lebanese also lack an employment insurance system, whereas unemployment is increasing, especially among the youth and workers belonging to poor families and below medium. Inequality indicators are also increasing in the distribution of tax burdens, as the bulk of this burden is concentrated on the consumption of wage earners and medium and poor social groups, through the dominance of indirect taxes and fees in the State revenues.

The current situation of the labor force in Lebanon

First, statistical gaps

Before embarking on the analysis of the labor force's situation and its characteristics, we must point out to some shortcomings and statistical constraints which impede the adequate understanding of all aspects of this situation. We can highlight in this regard the following basic research determinants:

- A total lack of national demographic surveys, in the strict sense of the word (the only national population census goes back to 1932), in a country like Lebanon that is characterized by its small size and extreme openness to migration flows since before the outbreak of the civil war, and especially after the end of the war.

- The relative scarcity and irregularity of field investigations (based on statistical sampling) which relate to the labor force and the labor market, and therefore the time intervals between these researches are large.

- There is often a difference in the methodologies used in these researches (including certain definitions and concepts, methods of sampling, and statistical methodologies).

- Most field researches issue statistical results based on the Lebanese *mohafazat* (governorates) level, without going down to the *cazas* (counties) or major cities level.

- Lack of a (Lebanese) legislation which defines the concept of residence which would then assign precise distinctions between those who are effectively resident in Lebanon and those who are non-resident. This is important for the sake of estimating the total number of Lebanese living in Lebanon and the total number of workers.

- Researches do not cover most – if not all – various social categories that constitute an integral part of the workforce; some examples include: Palestinians living in the refugee camps, cheap foreign labor inflows to Lebanon, Syrian labor (before the Syrian exodus to the country, and after).

These statistical gaps involve many complications for the current analysis of the labor force situation in Lebanon. They show that the most detailed official data on the subject date back to 2004 (Central Administration of Statistics - CAS, 2004), and that some update was done in 2009 (CAS, 2009). In parallel, non-official data were released on the same subject in different periods between 2004 and 2012, from studies or field work carried out by such international institutions as the World Bank

and the International Labor Organization, or carried out by universities active in Lebanon, e.g. USJ. These official and non-official data tend to be congruent and consensual in general. But noticeable differences stand out among them in many detailed indicators, either because of discrepancy in the methodological approach, or due to uneven content of the statistical questionnaires and their inclusion degrees. When using the available statistical results, this paper will seek to mention the specific research reference that led to these results.

Table 2: Major statistical field surveys that addressed the labor force characteristics in Lebanon³

Survey year	1970	1997	2003	2004	2007	2009
The institution that performed the survey	CAS	CAS	USJ	CAS	CAS	USJ
	International Labor Organization (ILO)					
	Center for Educational Research and Development (CERD)					

Second, comprehensive approach to the main trends that govern the labor market

We notice that, in general, the high economic growth rates over the past decade were not associated with a parallel growth in creating new jobs. The World Bank⁴ points out that the average annual GDP growth rate reached about 3.7% between 1997 and 2009, while the labor force growth rate in the same period did not exceed 1.1%. In addition to this disparity, with its obvious economic significance, a major

(3) Consultancy & Research Institute (CRI) - "Review and Assessment of Labour Market Information in Lebanon": (2011).

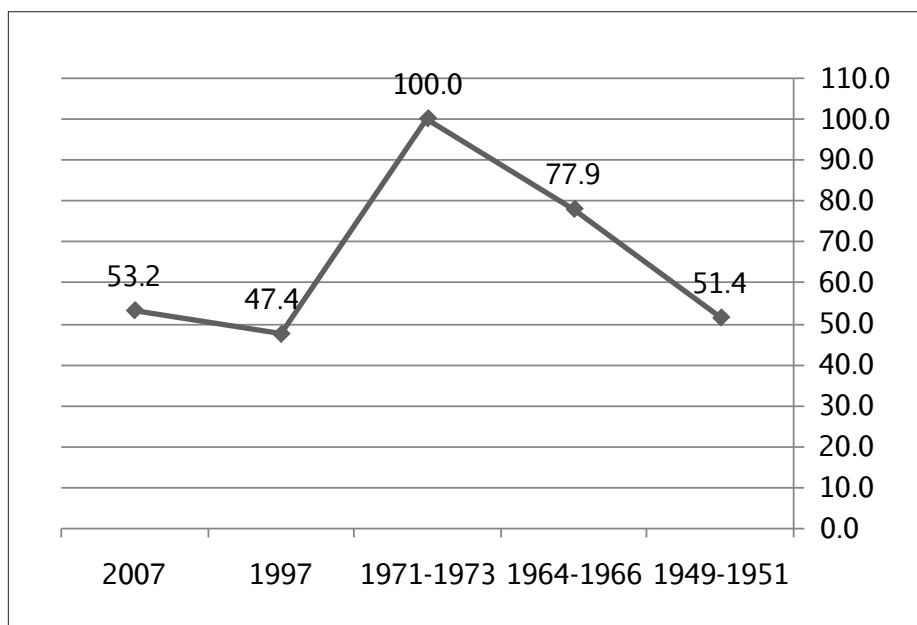
(4) World Bank report, December 2012, "Lebanon: Good Jobs Needed – The Role of Macro, Investment, Labor, Education and Social Protection Policies", Middle East and North Africa Human Development Group – David Robalino and Haneen Sayed – December 2012.

It is to be noted that there is a difference between the figures for the average annual GDP growth rate during 1997-2009 of the World Bank study (3.7%) and the IMF study (4.1%) as previously stated in Table 1.

paradox shows that the jobs created by the local economy in that period were in their majority concentrated in low productivity sectors and were activated in general by low-skilled labor, while the Lebanese educational system expanded in producing more and more high-skilled graduates. The past decade involved - as will be shown in detail further in this paper - a gradual transition of the workforce from agriculture and industry, to low productivity third sector activities (retail trade, car maintenance, especially used ones, transportation and storage, real estate activity...), along with a steady growth in the proportion of self-employed. The World Bank had notably found⁵ that 61% of the self-employed and 35% of the wage earners are now enrolled in low productivity service activities, while only 14% of the wage earners and 3% of the self-employed are engaged in high productivity service activities. The Lebanese scheme of the workforce's gradual transition from the first and second sectors to the tertiary sector was radically different from the scheme achieved in industrialized countries, where the transition was mostly towards high productivity service activities, which grew due to the "maturation" and saturation of the industrial sector. This confirms that the predominance of "noble" service activities is largely linked to the extent of growth registered in the industrial era, and this is precisely what the Lebanese experience missed out on.

(5) World Bank report 2012, *ibid*.

Chart 3: Work productivity indicator⁶ between 1950 and 2007
 (as of constant prices in the 1972-1974 period)



One of the key signs of the labor market's weakness too is that the majority of wage earners and self-employed (65%) hold only a high school diploma or below (World Bank study)⁷, including 40% who only hold the elementary certificate or below. Two-fifths of the wage-earners consider that their skills are not commensurate with their work requirements. This also applies to a part of university graduates and vocational education ones who enter annually the labor market, as confirmed also by their employers when they talk about the obstacles that they face. These employers point out in particular to the difficulty in finding good quality technical, engineering and administrative skills, and staff who are proficient in the

(6) Source: "National Social Development strategy" – UNDP and Ministry of Social Affairs (With support from the Inter-Ministerial Committee for Social Issues) – 2010.

The indicator was calculated as being 100 for the period 1971-1973.

(7) World Bank report 2012, opcit.

digital economy, in computer and foreign language skills, and have the ability to work independently and in teamwork. This obstacle may be due to the growing brain drain and the migration of skilled people, along with the increasing flow of cheap low-skilled foreign labor to the Lebanese market. A number of factors contribute to the migration of local talents, among which two are the most important: A steady rise in the cost of living in Lebanon compared with the level of revenues on the one hand, and the notable difference in wages and associated benefits in the competitive labor markets on the second hand, especially in the Gulf countries.

The labor market is characterized in Lebanon by the difficulty in finding the first job, as well as the difficulty in re-entering the labor market for those who were unemployed - at the age of 45 years and above - and tried to go back to work again. Various studies agree on the time spent by the first-time job seeker in order to actually get a job. This period reaches 18 months on average for those who are not holders of a formal diploma (according to the World Bank)⁸, and is about 10 months for those who have completed their college education and began the journey to seek employment, while it is more than a full year for the rest of first-time job seekers. This long job-searching journey applies also to the unemployed who have previously worked (especially in medium and older ages), as they spend on average more than a year to get a new job. The labor market is also characterized by the fact that personal relationships are the most important tool that allows access to work – a feature that may have a positive aspect for a few Lebanese, and a negative one for the majority. This relationship aspect is not limited to parents, relatives and friends, but it expands to politicians, public officials, and confessional leaders. These kinds of relationships weaken the professional working environment, and increase nepotism between some workers and the political class.

Within the local labor market's characteristics, we also notice the important weight of informal work, and the extreme slowness in the transition process of informal activities to formal ones, as compared to many other countries. Although there are no accurate and updated official statistics about the size of informal activities in various sectors in Lebanon, the World Bank's estimates suggest that this phenomenon affects more than 20% of wage earners and 30% of self-employed in

(8) Ibid.

low-productivity activities. These ratios greatly increase if we take into account a broad range of non-Lebanese workers, who are rarely declared to the National Social Security Fund (NSSF), even if they dispose of a residence permit or a contract registered at the Ministry of Labor. The growing phenomenon of informal employment raises doubts on how comprehensive the coverage of the NSSF is for salaried workers in Lebanon, and on the extent to which the labor legislation is enforced. It also highlights some aspects of the inequality and social exclusion, especially concerning a large part of those workers who do not profit from most social benefits and safety nets available for regular workers.

Third, the available statistical estimates about the total number of the population (resident in Lebanon)

According to the Central Administration for Statistics - CAS⁹ (the 2004 and 2009 surveys), the total number of residents in Lebanon was about 3.75 million people in 2004. It rose to about 3.86 million in 2009, while the latest World Bank's estimates suggest this figure exceeded the four million people threshold (without the displaced Syrians). We also noticed, through the results of the 2004 study, that 6.6% of the total residents are non-Lebanese, and this figure does not include the Palestinians living in the camps, nor the traditional flow of migrant workers from Syria and from other cheap labor exporting countries. The dynamics of demographic growth show that the Lebanese (resident) population is moving rapidly toward less youth, amid a marked decline in fertility rates (which is reflected in the decrease in the average number of children per woman from 5.1 children in 1970 to only two children in 2004), and a rise in life expectancy (from 61 years in 1960 to 72 years in 2004). These results also indicate that the working age residents (15-64 years) constitute about 65% of the total number of residents. More than half of the residents are concentrated in the Beirut and Mount Lebanon *mohafazat*, while the rest is distributed over the North (20.5%), the Bekaa (12.5%), the South (10.5%), and Nabatiyeh (5.9%). This denotes clear differences among these various provinces in terms of employment mechanisms, which are related to the natural demographic growth on the one hand, and, on the job market's demand governed by the evolution of economic activity and entities, especially private ones, on the other hand.

(9) Central Administration of Statistics (CAS), National Study of Living Conditions of Households (2004); "Multiple Indicators Cluster Survey 2009".

The population residing in Lebanon is distributed over around 880,000 households (2004), with an average estimated size of 3.4 members per household, compared with an average size of 4.5 members in 1970, reflecting the decline in the average number of children in the family from nearly 3 children in 1970 to 2.2 in 2004. According to the CAS study in 2009, there is almost equal distribution of residents by gender, where women account for about 50.3% of the total residents versus 49.7% for males, but with a gap in favor of males in the age groups below 29-year-old. This gap turns in favor of women in the age groups ranging from 29 to 64 years.

Table 3: Distribution of age groups¹⁰ according to gender (2009)

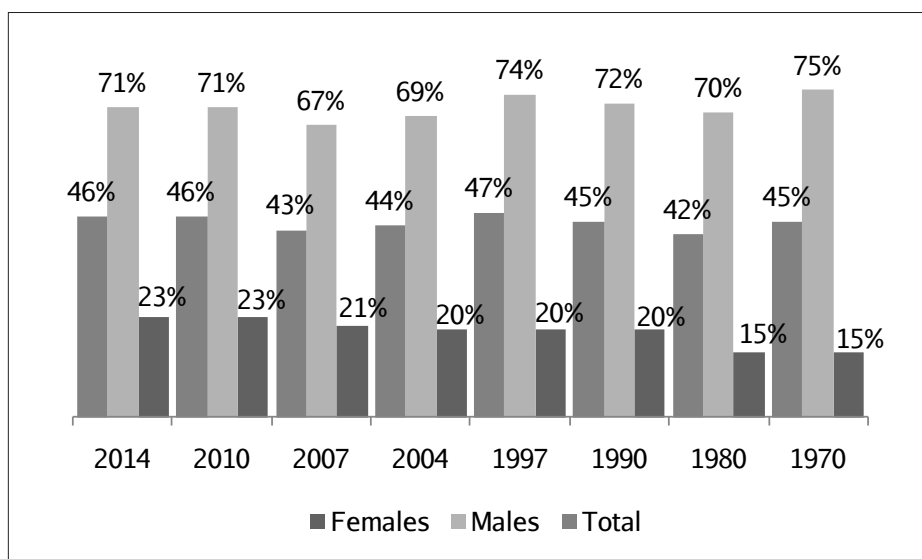
Age group	Female	Male	Total	Female/Male ratio
0-4	5.3	5.7	5.5	0.9
5-9	9	9.7	9.3	0.9
10-14	9.5	10.6	10	0.9
15-19	9.8	11.3	10.6	0.9
20-24	9	9.4	9.2	0.9
25-29	7.7	7.4	7.6	1
30-34	6.5	5.8	6.1	1.1
35-39	7.2	6.2	6.7	1.1
40-44	7.3	6.3	6.8	1.1
45-49	6	6.2	6.1	1
50-54	7.6	5.9	6.7	1.3
55-59	4.3	4.1	4.2	1
60-64	3.4	3.4	3.4	1
65-69	2.6	2.9	2.8	0.9
70-74	2.1	2.4	2.3	0.9
75-79	1.2	1.4	1.3	0.9
80-85	1	0.9	1	1.1
+85	0.5	0.5	0.5	0.9

(10) CAS, "Multiple Indicators Cluster Survey 2009" (Published 2010).

Four, economic activity rate in Lebanon

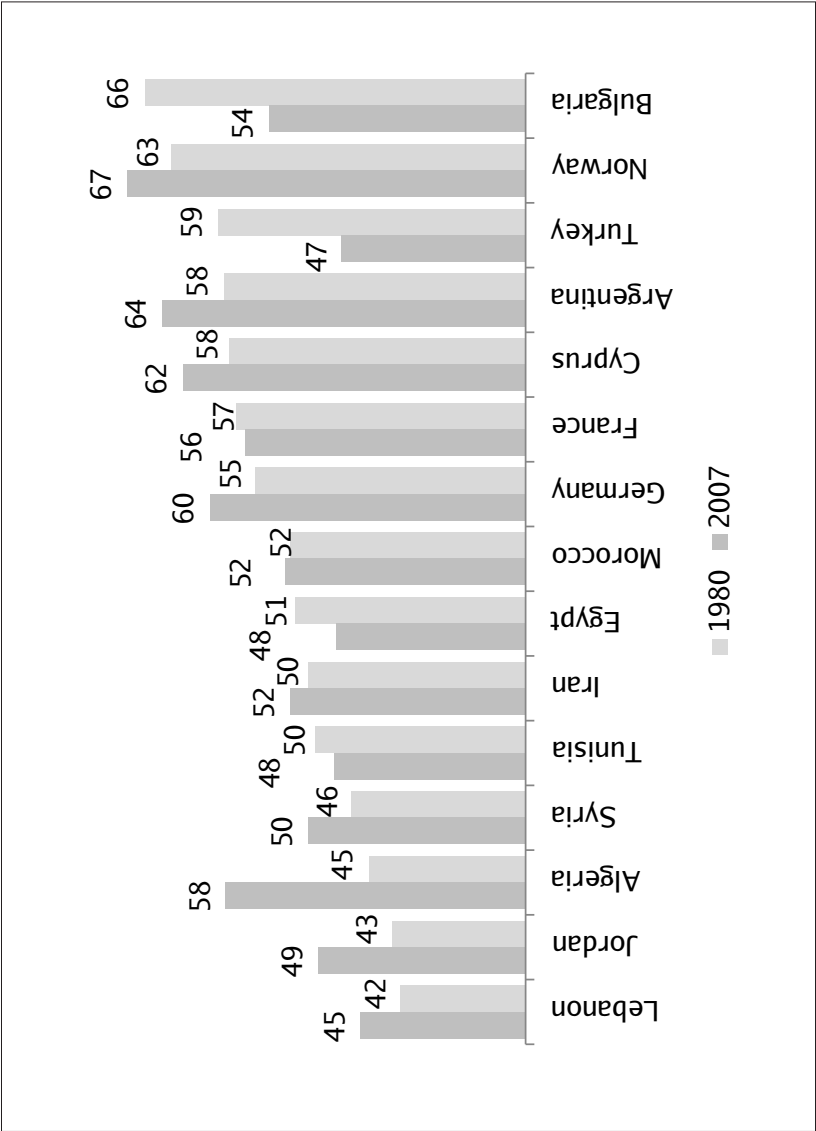
The rate of the economically active in Lebanon is a composite of those actually working and the jobless, as a percentage of the total residents in the age groups above 15 years. According to the results of the CAS study, the rate was about 44% in 2004, marking a high consistency over more than three decades, as it was about 45.3% in 1970. The rate of the economically active in Lebanon is low in comparison with that of most neighboring countries, as this rate is up to 49% in Jordan, 50% in Syria, 52% in Morocco, and 58% in Algeria. This low level is due to two main factors: First, the persistent low level of female participation in the labor force (20% of women aged 15 and above were working in 2004, and 23% in 2014); that's more than the female working rate in 1970 (15%). The second factor is the decrease of male participation in the work market due to several factors, most notably the increasing male migration rates, which was reflected in a drop in their activity rate in Lebanon from 75% (of the 15 years and above male age group) in 1970 to 68% in 2004.

Chart 4: Distribution of those economically active by gender (1970-2014)¹¹



(11) International Labor Organization (ILO), "Economically Active Population" (6th edition, October 2011); Central Administration of Statistics (CAS), "Living Conditions of Households for Years 1970, 1997, 2004, 2007".

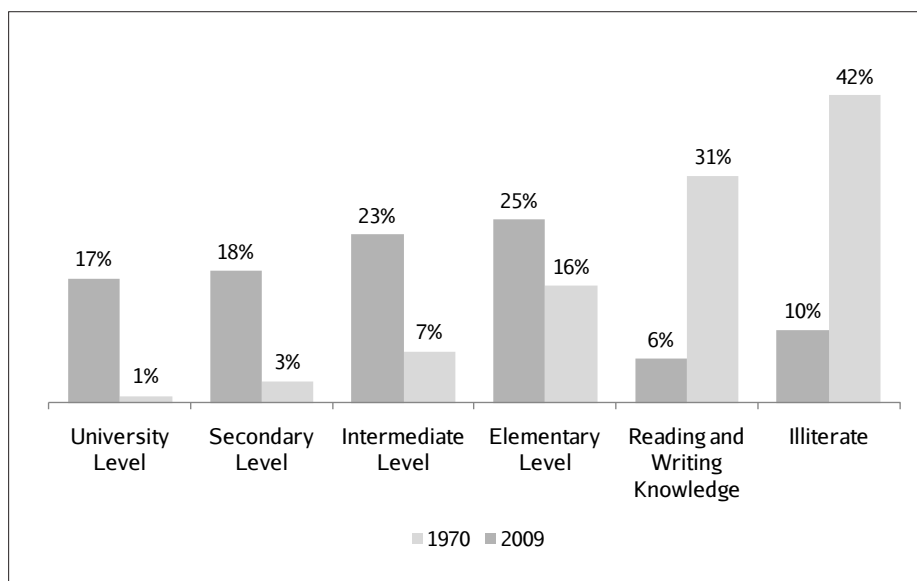
**Chart 5: Labor force out of the working age population (%),
in 1980 and 2007, in some selected countries**



Five, about the low women activity rates

It is surprising that the persistent low level of women's participation in the workforce does not follow at all the steady improvement in women education indicators over the past decades. The rates of women enrollment in most education phases, particularly university education, are at present beyond those of males, according to the educational statistics. Between 1970 and 2009, the proportion of illiterate women decreased from 42% to 10%, and the proportion of women who only have writing and reading skills dropped from 30% to 6%, while the proportion of women who have a university degree increased from 1% to 17%. Despite this improvement, female activity rates remained modest. This could be most likely interpreted by cultural and moral inherited factors, in addition to the direct and indirect "pressure" from the community on women to prevent them from working after their marriage or the birth of their children. One example of this material pressure is the gender disparity in employment conditions, especially in the informal sector and the private sector, and the low wage or income levels that do not stimulate women to work when compared to the expenditures that they would have to pay should they leave their house and join the labor market. We can also add the lack of many public services that would support women's work after marriage (such as the dissemination of children nurseries and kindergartens in public schools, and the creation of nurseries and other services in the workplace).

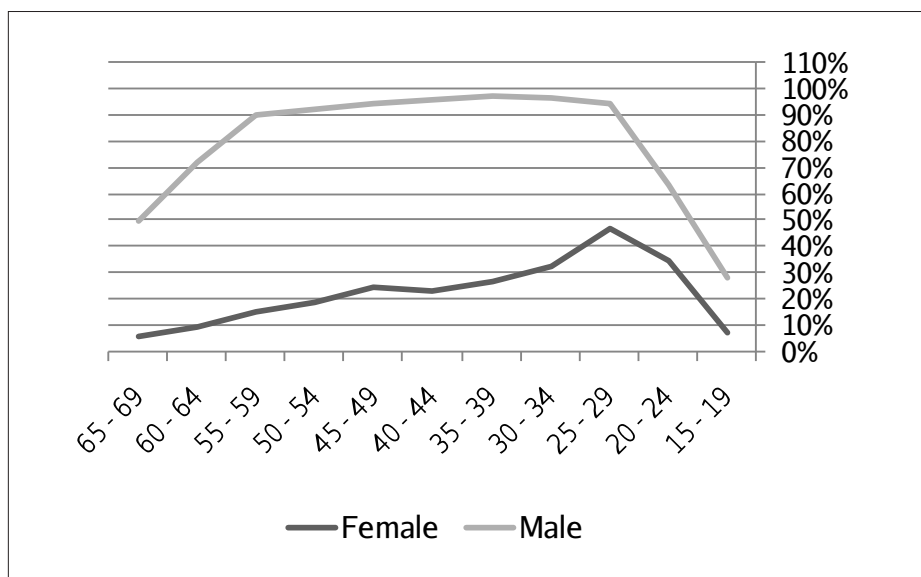
Chart 6: Comparison among female educational levels (3 years and above), according to the education phase, between 1970 and 2009



Variations in economic activity rates became even more obvious when viewed according to gender and age group variables. The women's activity rate reaches its peak (47%) in the age group between 25 and 29 years –where the upper ceiling corresponds to the threshold of women's age at their first marriage. But it remains almost equivalent to half the rate of male activity in this same age group. Then the women's activity rate moves gradually and surely downwards as women move from one age group to the next. It decreases to about a third of the male activity rate in the age group between 30 and 34, then to about a quarter – and then to less than a quarter – of the male activity rate in the age groups of more than 34.¹²

(12) CAS (Published 2010), *ibid.*

Chart 7: Economic activity rates¹³ according to age (15 years and above), and gender (2009)

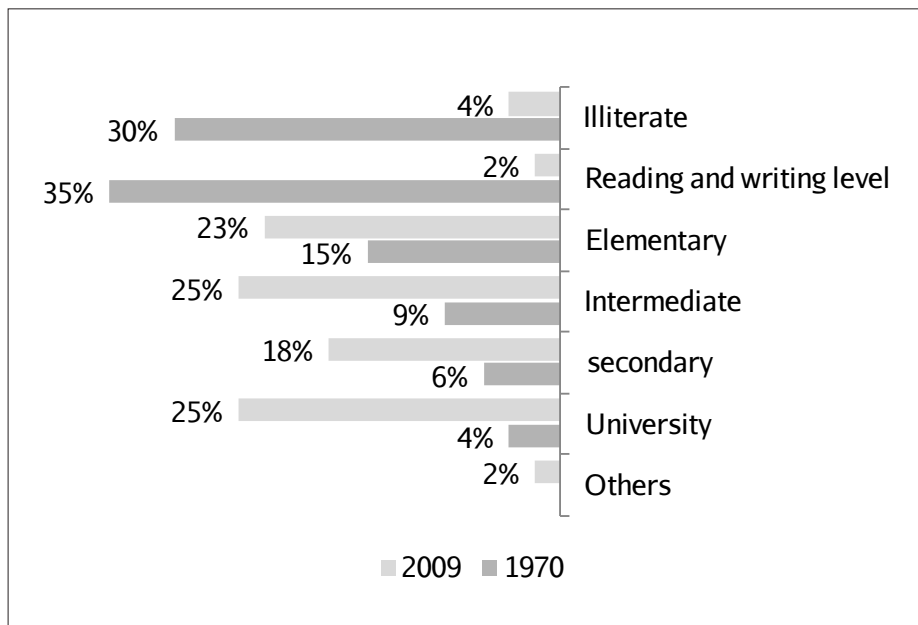


Six, distribution of workers according to the educational level

There has been a significant improvement in the educational level of workers during the past decades, in conjunction with the substantial rise in school enrollment rates at various education stages. We observe, at first, a drop in the illiteracy rate among workers, from 30% in 1970 to 4% in 2009. We also notice a significant rise in the proportion of university degree holders, from 4% of total workers in 1970 to 25% in 2009. In conjunction with these two trends, an interesting decline from 35% in 1970 to 2% in 2009 was registered in the percentage of those who can only read and write, while holders of elementary, intermediate and secondary certificates largely increased.

(13) *ibid*

Chart 8: Comparison in the distribution of the labor force (15 years and above) according to the educational level (between 1970 and 2009)

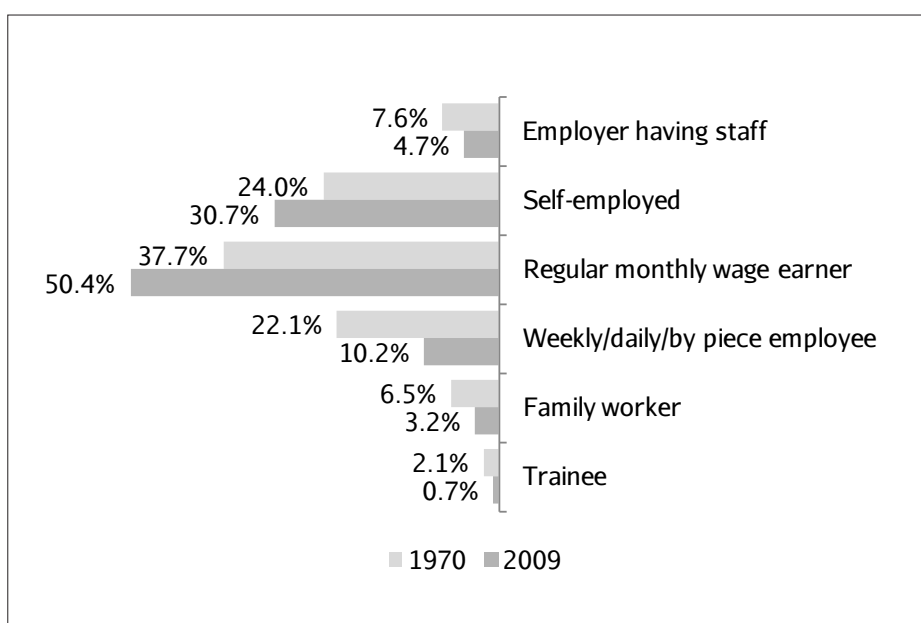


Seven, distribution of workers according to the work status

Wage earners constitute about half the total labor force in Lebanon (in 2009), reflecting a decline compared to 1970 (as they were around 60% according to the CAS study). This decrease in the proportion of wage earners is contrary to the general trend recorded in advanced industrial nations, where the employees' rate registered a gradual rise till it stabilized in most of these countries to record levels of between 70% and 90% of the total workforce. It is likely that the civil war factors, the micro enterprises boom, and the weakness in the industrial activity, have contributed to the relative decline of salaried workers in Lebanon during the encompassing period since the 1970s. Wage-earners are followed, as per their relative weight in the labor force, by the self-employed who are more and more numerous, as they now reach 30.7% of total workers (2009). The breakdown of the self-employed is distributed on a wide range of professions and activities, some of which are linked to, or are branches of, various free professions. Others, more numerous, are distributed among simple activities with limited or marginal added value. In addition to these two

categories, there is a third category of workers who are wage earners but paid daily, weekly or by piece; they make up 10.2% of the total workforce. The rest is distributed among employers (4.7% of workers), family workers (3.2%), and trainees in the workplace (0.7%).¹⁴

**Chart 9: Distribution of the labor force according to the work status
(between 1970 and 2009)**



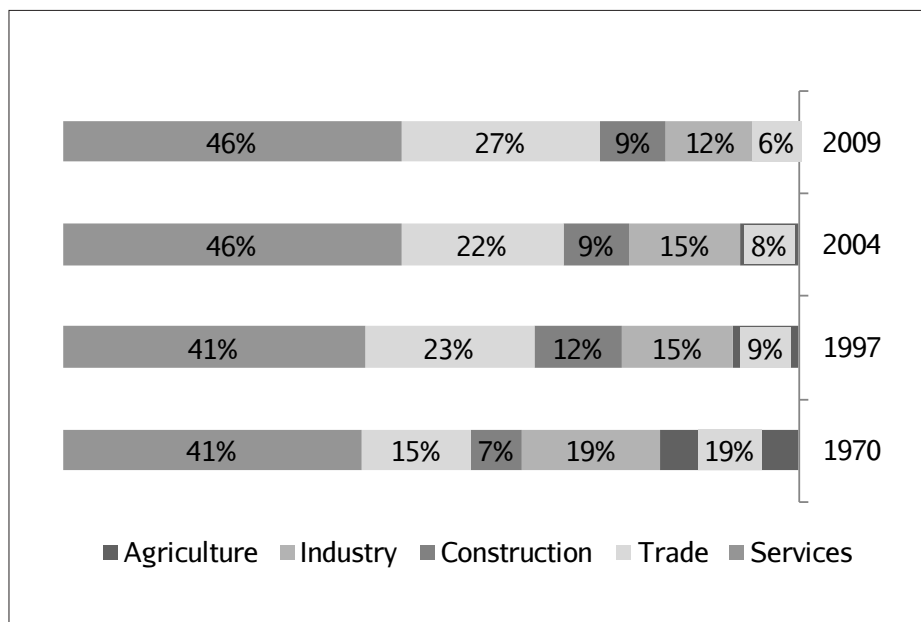
Eight, Sectorial distribution of workers

The past four decades witnessed a noticeable increase in the proportion of workers in the tertiary sector, i.e. in trade and service activities, as opposed to a sharp decline in the proportion of workers in the agriculture and industry sectors. This development came as a natural result of the actual choices, stated or implied, which were made by the successive governments since the early nineties, as partly mentioned in the introduction to this paper (trade liberalization, customs rates

(14) *ibid*

reduction, financial “swelling” as a result of the fiscal deficit schemes, real estate successive surges...). In comparison with the sectorial distribution of workers before the outbreak of the civil war in the early 1970s, it is evident that the largest drop is that of the agricultural sector, as the percentage of workers in this sector fell from 19% in 1970 to around 6% in 2009. Likewise, the proportion of workers in the industrial sector decreased from 19% to 12% in the same period, after the decline in its competitiveness both in the local market versus the imported products, and in Lebanon’s traditional export markets versus the growing competition of products coming from other sources. On the other hand, the tertiary sector’s share jumped from 56% (15% for trade and 41% for services) to 73% (27% for trade and 46% for services)¹⁵ in this period. The proportion of workers in the construction sector also rose from 7% to 9% between 1970 and 2009, while this sector had accounted for about 12% of total employment in 1997 which witnessed the peak time in the reconstruction programs.

**Chart 10: Distribution of the labor force according to the economic sector
(in the years 1970, 1997, 2004, 2009)**

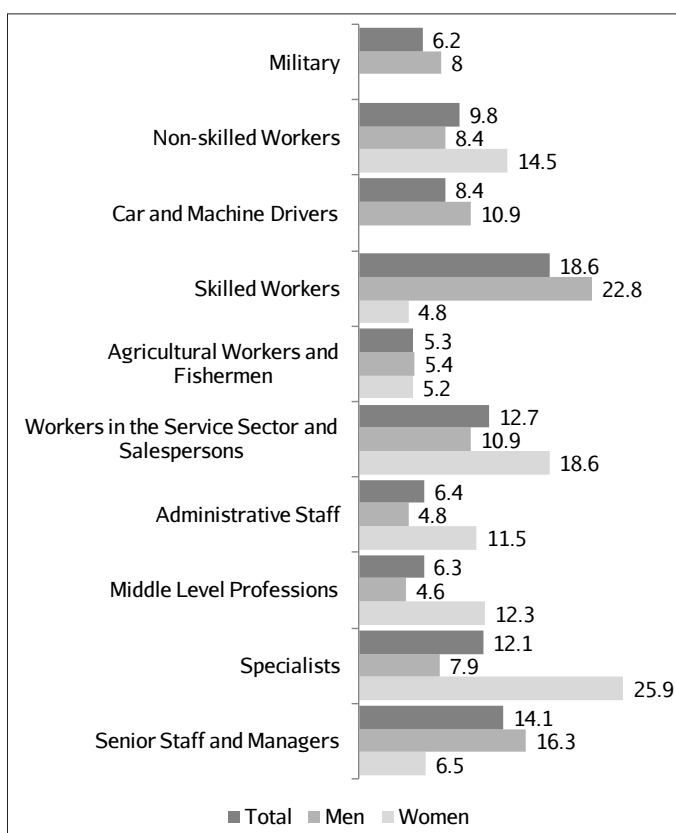


(15) *ibid*

Nine, distribution of workers according to the main professional levels and gender

The most important socio-professional categories are distributed over four main levels: Skilled workers (18.6%), senior staff and managers (14.1%), specialists (12.1%), and workers in a variety of service professions (12.7%). We notice that there is a form of occupational division on the basis of gender, as women predominantly work in specific professions, whereas men dominate most other professions. The percentage of women (out of total working women) exceeds that of men (out of total male workers) in some specialty professions (teachers, educators, medical helpers, liberal professions...) at a 3 to 1 proportion. Women's work also predominates in many service professions that require limited skills (salespersons in shops, office clerks, workers in service activities, and as technical assistants...)¹⁶.

Chart 11: Distribution of the labor force according to professional categories and gender (2009)



Ten, The impact of emigration on the demographic situation

The demographic evolution of the resident population has been influenced to a large extent by emigration. This factor has always constituted an essential feature inherent to the demographic reality, even if its annual flows were unequal among periods. According to the latest studies, 45% of Lebanese families have seen the migration of one of their members abroad during the period between 1992 and 2007, with a clear disparity in the migration rates according to *mohafazat*.¹⁷ The highest migration score was in Beirut and the lowest in the Bekaa. Average migration has risen from 6.4 people per thousand during the years 1977-1996 to 9.6 individuals per thousand between 2002 and 2007. About 70% of emigrants over the years 1992-2007 were workers, while the students' proportion was only about 6%. Emigration has been characterized by the predominance of the youth category, as about 77% of emigrants during the period 1992-2007 belong to the younger age groups between 18 and 35 years old. The economic activity rate among emigrants (who are of working age, between 15 and 64 years), exceeds the activity rate among residents. This applies even more on females, as the activity rate was 34.8% among those who migrated, compared to 20% rate for those who remained resident in Lebanon. Arab countries have been the main destination for about a third of the total number of emigrants during this period.

The Lebanese emigration flows had registered record levels during the civil war years, then calmed down during the reconstruction era, but they later regained their upward trend, especially as of the beginning of the third millennium, rising to more than 38,000 migrants per year (as opposed to about 25,000 migrants per annum during the period 1975-2000). This emigration has mostly affected experienced staff, college and high technical institute graduates, and the middle and upper skilled individuals. Such migration induced a high political cost, since it contributed (and still does) to emptying the country from specific profile citizens (the voters) who could be considered more aware and demanding for their legal rights, keen to give their opinions and ask for accountability, and tough in raising their voice of criticism about issues related to public affairs.

The amplified migration among this category of human resources has also contributed to the weakening of the labor market environment, and of the legislative

(17) Choghig Kasparian: "L'émigration des Jeunes Libanais et Leurs Projets d'Avenir" – USJ (2009).

and institutional frameworks that regulate those markets. This involved a huge economic cost that was often covered-up – by most politicians inclusive – through the non-innocent glorification of the “virtues” of migration and its consequent remittances. It reflected an utterly blunt blindness to what the Lebanese community had spent (as public and private funds) on the education of children since birth till they graduated. This cover-up also includes the origin of the problem that lies in the incapacity of the prevailing economic model to generate decent work opportunities and absorb local and emigrant human resources. This fact has prevented the country from benefiting from these resources – as a priority – to develop the comparative advantages of the country’s economy, and to strengthen creative activities, entrepreneurship, and professional productivity in high value-added activities.

Unemployment rates

Official statistical data indicate the volatility of unemployment rates within contained limits, until 2009. According to the CAS¹⁸, unemployment averaged 6.4% in 2009, compared to 7.9% in 2004 and 8.5% in 1997, while it was about 6% in 1970. Unemployment rate among women in 2009 was estimated to be about twice the level for males. The rate also recorded its highest levels in age groups between 15 and 29 years, reaching about 20%, with a clear decline after 30 years, and further after the age of 35 years. Unemployment rates, as distributed according to the educational level, indicate that the top percentage of the unemployed concerns workers with a university degree (8.8% in 2009). Beyond the official data released on unemployment rates (particularly by CAS), it is worth mentioning other data issued by the World Bank¹⁹, stating that the unemployment rate has reached about 11% in 2010, and would likely rise to almost 20% in 2014, as a result of the worsening Syrian refugee crisis in Lebanon.

The following two tables show some characteristics of the unemployment phenomena in Lebanon, according the CAS study.

(18) CAS (Published 2010) op.cit.

(19) World Bank report 2012, op.cit.

Table 4: Unemployment rates according to age groups and gender (2009)²⁰

#	Age groups	Female	Male	Total
1	15-19	30.3%	17.4%	19.8%
2	20-24	20.5%	13.1%	15.6%
3	25-29	13.4%	6.5%	8.8%
4	30-34	7.2%	3.7%	4.7%
5	35-39	6.1%	2.1%	3.1%
6	40-44	5.2%	1.4%	2.2%
7	45-49	4.4%	1.6%	2.2%
8	50-54	0.3%	2.0%	1.6%
9	55-59		2.1%	1.8%
10	60-64	1.2%	3.7%	3.4%

Table 5: Unemployment rates according to the educational level and gender²¹

#	Top educational level	Female	Male	Total
1	Illiterate	3.7%	4.7%	4.4%
2	Reading and writing knowledge	6.1%	3.6%	4.0%
3	Elementary	9.1%	4.1%	4.6%
4	Intermediate	10.5%	4.4%	5.2%
5	Secondary	14.3%	5.3%	7.7%
6	University	11.4%	7.0%	8.8%
7	Undefined educational level	8.0%	27.3%	13.9%

(20) CAS (Published 2010).

(21) *ibid*

Unemployment is characterized by some basic features, including:

- The gap between supply and demand regarding work opportunities. The gap from the supply side is fed by the increasing number of annual arrivals to the labor market as a result of demographic evolution. It is fed on the demand side by the inability of the labor market to create adequate jobs, as a result of the structural features of the Lebanese economy and the lack of a clear relationship between economic growth and the labor market. Even when economic growth rates reached record levels in the period between 2007 and 2010, this has not been clearly translated into creating more employment opportunities.

- The labor market is also characterized by a sharp contrast between the labor supply structure and the demand structure. The supply structure is governed, to a large degree, by the size and type of output generated by the higher and vocational education system, which in turn is determined by the prevailing demographic data. The higher education produces large numbers of graduates from the faculties of Arts, Law and Social Sciences, and relatively lower numbers from specialty faculties (such as engineering, medicine, science, economics...). The formal and informal vocational education also provides a large number of graduates, but this education is suffering from a weak level, and from a discrepancy between its specialties and the actual needs of the national economy.

- In contrast, the demand for labor, especially the part coming from the private sector, is influenced by the characteristics of private businesses in Lebanon. The statistical survey of buildings and establishments which was carried out by CAS in 2004 indicates that more than 88 percent of these private establishments have less than five workers. They are predominantly family or simple businesses with a limited added value. As for large companies, they constitute, in variable degrees, "oligopolies" in about two-thirds of the total number of production and consumption markets in the country. Their number is limited, and their expansion in a small market like Lebanon does not allow them to generate sufficient demand for labor, commensurate with the high number of graduates, especially those with competitive university disciplines. This is what encourages graduates to seek emigration in quest for better work conditions, effective social protection, sustainable professional careers, a more stable political and social environment, and better quality of life.

- The weak institutional relationship between the university and educational institutions in general – including vocational education – and the business community implicates a negative effect that impacts the labor market's performance and structure. Universities and educational institutions are not really aware of the importance of preparing their students to the professional world for the pre-joining the job market period and after. According to relevant studies²² few establishments are really involved in this regard. According to available data, more than 87 percent of companies have said that they do not need to train or rehabilitate their employees, and 93 percent of them did not allocate any budget for this purpose.

- The structure of workers' wages – in the formal private sector, and further in the non-formal – is characterized by clear discrepancies. Part of which may be due to the impact of persistent political and security events on some companies, and its effect on economic growth. It may be also caused by increased indirect taxes, associated with the decline in the quantity and quality of public services, forcing wage earners to finance some of these services from their own pocket. However, the primary cause of this imbalance remains in the persistent condescending attitude of decision makers toward the wages and social benefits issue in general. The partial and improvised wage rises, which were applied to workers in the private sector after 1996, did not fully compensate for the actual deterioration in the purchasing power of wages during this period. The proceeds of the two official rises which were decided in 2008 and 2012 covered, at best, only half of the cumulative loss that hit the actual wages since 1996. This most likely explains the causes of decline in the total wage share at the macro level as a percentage of GDP, according to the data derived from the National Accounts.

- The social protection – especially with regard to health insurance, family allocations and end-of-service indemnities – is limited to only some categories of wage earners. Based on the available data, more than one-third of the total private sector employees in Lebanon is not covered by the National Social Security Fund, and so they finance alternatives to this coverage out of their own pocket. Even for those who benefit from the NSFF coverage, the actual value of these benefits as a percentage of the average wage has declined compared with what it was in the early

(22) Labor Market Study, Statistical Survey Results – Corporate, National Employment Institution, in cooperation with UNDP, Beirut, 1997.

1970s; knowing that the average wage itself at that time was much higher than the average wage today.²³

In summary, the Lebanese economic model was not from the historical angle able by nature to create what the country needs in terms of job opportunities, in quantity and quality. Available data suggest that around 40 to 50 thousand new entrants flow annually to the labor market (including more than 30 thousand university graduates, and two-thirds of this number as graduates of vocational education, formal and informal). In contrast, the total demand for labor – by private companies, existing or created each year (formal and informal), and by some public institutions, such as the military, education, in addition to the self-employed – corresponds, at best, to one-third of this total annual offer. This explains to a large extent the persistent unemployment problem and the increased migration of human resources, knowing that this migration often contributed to alleviate the unemployment rate. The employment problem is not limited to the gap between supply and demand. It also raises many other issues: The relative decline in the wage weight, and the increase of the proportion of informal workers, especially among the self-employed and some wage-earners. These do not benefit from the legal wage rises, legal transport allowances, health protection, and end-of-service compensation. In addition to these problems, there is the persistent issue of the flow of non-Lebanese (and non-Syrian) cheap labor, almost without any control.

How do poverty features affect some categories of wage-earners

The discrepancies plaguing the local labor market have a much heavier effect on poor wage-earners, according to the results of the UNDP study on poverty in Lebanon²⁴. The rate of economic activity of poor people (38% in 2004) is below the activity rate of the non-poor (estimated at 45.4%). The unemployment rate among the poor is about 14.9%, versus only 6.7% for the non-poor, i.e. eight percentage points higher. These differences tend to surge when it comes to women's unemployment. The rate of unemployment reaches 26.6 percent among poor women, compared to 8.2 percent among non-poor women. This conclusion is true, though less sharply, for men, as the unemployment rate among non-poor men reaches 6.2 percent, while it rises to 13.5 percent among poor men. While the youth unemployment rate in the age group 15-24 years is estimated at 20 percent, this rate

(23) CRI (1985) – Study on the Evolution of Prices and Salaries in Lebanon 1974-1984.

(24) "Poverty, Growth, and Income Distribution in Lebanon" report, UNDP (2008).

risers to a record level when it comes to poor youth. Out of two young poor having a high school diploma, one of them is unemployed. When we consider poor youth who possess a university degree, we notice that one out of every three is subject to unemployment, as opposed to one out of every five graduates for non-poor young men. In general, poor youth unemployment rate is almost equal to twice the non-poor youth unemployment rate. This means, for the young poor, that improving educational attainment is not enough to break the vicious cycle of poverty, but other conditions should be provided too.

In the same context, poverty is more concentrated among day-workers and seasonal, temporary, or by piece workers. These categories represent about a third of the total poor workers, while we find another third in the self-employed category. Poverty is less present in the public sector, by comparison to the private sector. Poor workers in the public sector - which employs about 15 percent of the total number of workers - represent only 7 percent of the total number of poor in the country. The results also showed that poverty - and particularly extreme poverty - prevails most in the agricultural sector, and therefore in regions where this sector plays an important role. Out of every five poor workers there is one who works in the agricultural sector. The latter gathers more than one-third of the total poor workers in the Mohafazat of the North, Bekaa, and Nabatiyeh. This trend also applies to a certain extent to the construction sector, where poverty is quite present. Household size also plays an important role in determining the specifications of poor families, as it turns out that poor individuals generally live in larger families than those in which non-poor persons live. The average difference at the national level between poor and non-poor household family sizes is about 2.2 people. The family size is the largest in the North, which also suffers the most from poverty and extreme poverty, while Beirut - with the lowest average of family size - has the least poverty rate.²⁵

The employees and the multiplicity of end-of-service and retirement systems

The right to have an old age protection is enshrined in legislation and constitutions, and in many of the ILO international conventions. But the translation of this right into reality varies from one country to another in terms of effectiveness, mechanism, and funding modes. To date, Lebanon lacks a law to safeguard aging workers in the private sector. Lebanon is almost unique among the Middle East and

(25) *ibid*

North Africa countries for the multiplicity of its pension systems. In the public sector there are two retirement systems - one for the military and another for civil servants - and they are funded on the basis of 'pay-as-you-go'. The private sector has an end-of-service compensation system, which is mainly funded through the capitalization principle. Available statistical data (dating a decade ago)²⁶ indicate that the two public retirement systems, run by the Ministry of Finance, were covering about 6 percent of the workforce at an annual cost of about 2.7 percent of GDP, with the two lacking an independent reserve. In contrast, the end-of-service private compensation system - which aggregates at present cash reserves estimated at 18% of GDP - covers about 25% of the total workforce. On average, its annual expenses are less than one percent of GDP, and it is administered by the NSSF. These data show that the three insurance systems cover less than one-third of the total labor force, hence a low inclusiveness degree.

In addition, these systems suffer from many shortcomings. The most important ones are the following: The end-of-service private indemnity system provides the retiree with a limited compensation lump sum, which is hardly equivalent – after converting it theoretically to a monthly wage – to 30% or 35% percent of the wage. It also bears a high risk which is shouldered by the retiree, as he becomes solely responsible for investing the lump sum. The retiree may for instance take wrong investment decisions; he is also exposed to fluctuations in currency rates, consumer prices, and financial markets. These risks particularly affect young people, who tend to cash out their compensation lump sum as soon as they lose their job and become unemployed. This decision drastically reduces the value of the compensation as high penalties apply when there is nearly a liquidation of the indemnity account. The end-of-service indemnity system also involves other disadvantages, including the high costs that are supported by the employer, especially for the settlement amounts that range, on average, between one-third and half of the total compensation amount. This situation encourages employers to evade declaring workers, restrain their recruitment policy, or recruit on the basis of short term or seasonal or irregular contracts. The two public retirement systems, for the military and civil servants, are relatively more "generous", as they provide a monthly pension equal to 80 or 85 percent of the last wage to those who worked for their entire period. But on the other hand, these two systems are not sustainable in financial terms, because no cash reserve has been constituted for this expenditure, and they are mainly funded by

(26) World Bank: "Regaining Fiscal Sustainability in Lebanon: A Public Expenditure Review" (2005).

public money. The high value of the average wage in the public sector, and the possible worsening of the macro-economic imbalances, throw a shadow of doubt on the capacity to continue funding these two systems.

The general framework for the main reforms required in the labor market

The analysis of the labor force and the labor market showed that there are many problems and great challenges on many levels, including in particular: high unemployment, the growing recruitment of cheap and low-productivity non-Lebanese labor instead of skilled competent Lebanese who tend to emigrate more and more, the growth of informal work in different economic sectors, increasing glitches and weaknesses of wage labor, as well as other problems and challenges. To face this situation, economic policies affecting the labor market should be coordinated among several ministries and public institutions, in order to determine the required reforms, based on the following basic pillars:

First: Reform and develop macro-economic policies, particularly those that stimulate the real economy, and reduce current imbalances in tax policy which discourage investment in productive sectors and encourage easy non-productive income. Efforts should be made to develop public investment plans (electricity, public transport, water, sewage, communications, and other public facilities) and enhance the financing tools for companies that produce tradable and exportable goods and services, especially SMEs. On the other hand, the quality of public education (academic, vocational, and college) should be improved. On the business side, procedures for the establishment and liquidation of companies should be simplified, the competition law and the decentralization law should be adopted to bridge the gap among regions and improve the labor market performance. Among other measures, the present laws and regulations should also be updated and enforced, and the institutions that have an impact on economic activity should be developed.

Second: Stop betting on an economic model based on investment in cheap workers (domestic and imported), who do not benefit from social services and security. This model should be replaced by another one that invests in human resources and absorbs young Lebanese proficiencies who are produced by the education system, and who now tend to emigrate more and more. The gradual move towards this model may involve a high cost in the short term, and may need a radical change in the mentality and behavior of institutions. But it remains in the medium and long term the most effective way to enhance the division of labor, embrace the

technology world, achieve high rates of sustainable economic growth, develop competitiveness, and reach a larger social welfare and political stability.

Third: Reassess the social security systems by benefiting from efforts made by domestic public and semi-public entities in collaboration with the World Bank and the ILO, in order to develop alternatives to these systems. The outcome of these efforts resulted in the introduction of a bill for retirement and old-age security, which has been referred to the Parliament long ago. That bill transfers new private sector workers to a unified new system, while current workers may keep the present rights and compensations with respect to the end-of-service indemnity. The proposed old-age security scheme has a lot of positive aspects and is more sustainable than the present one. But while dealing with it, we have to make sure that social rights are preserved and the following basic principles are respected:

- The transition to the new system should not constitute a cover-up to evade the payment of amounts owed by employers to NSSF adherents ('settlement amounts'). Recovering these amounts, and maintaining their real value (even if they were paid by installments at moderate interest rates) are crucial to secure the success of this transition.

- The repartitioning part of the new system should be strengthened, while the current version is mainly based on capitalization. This could be achieved through insuring a guaranteed minimum pension, taking into account the cost of living in the country, and allowing for the necessity to reassess it along the way in light of changes occurring in the cost of living. This can be funded through higher taxes on the upper wage brackets, and possibly through a contribution by the State, albeit within limited amounts.

- The new system should be applied to all wage earners in the country, unlike the present system that only covers less than half of the total wage earners. One of the most important social rights is to offer a wide coverage base and include undeclared workers who suffer most from exposure to risk.

Four: Replace the current public and semi-public health insurance systems with a comprehensive national health system that covers not only workers and their

families, but all Lebanese residents, so that the whole population would be freed from health care concerns and its associated unfairness. This national system should provide minimal health care for residents, leaving room for those who want to get better and broader health coverage to fund it from their own pocket by purchasing it from private insurance companies. The adoption and implementation of this system requires a pre-agreement on its financial and administrative architecture. But in all cases, it should be funded from public money (the State's revenues), and it should replace NSSF's current sickness and maternity branch after reforming it radically and developing it properly.

Five: Unemployment insurance is one of the most prominent social rights, and an integral part of most social contracts adopted by developed countries, even though with variable coverage degrees. It should be inspired by some basic and well-established principles: The right to work, the solidarity in front of risk and uncertainty, and the need to maintain social, economic and political stability. The unemployment insurance issue has been seldom raised in Lebanon, although the law that established NSSF in the mid-1960s mentioned the possibility of expanding the effects of this law to include this type of insurance. However, the outbreak of the war in Lebanon, and the general impoverishment which resulted, in addition to the glaring flaw in the performance and priorities of the political class and sect leaders, have prevented the adoption of an unemployment insurance.

Six: Develop the legislative and institutional framework governing the labor market, especially in view of this framework being almost inexistent now or having a very limited effectiveness. The Ministry of Labor in particular should establish a comprehensive and reliable information system on the labor market in order to monitor the evolution of supply and demand, and develop and institutionalize the CPI committee and the National Institution for Labor. The Ministry should prepare – through NSSF and in collaboration with other ministries – programs to reduce informal employment, both among the private sector employees and among the self-employed, and to encourage them through flexible measures to declare their activity in return for additional benefits and guarantees. The Ministry should also pass a new labor law and commit to enforce it, reform and activate the workers' unions, as well as develop a modern union structure that promotes adherence to these unions and transparency in union representation.

Seven: Facilitate the work finding process, whether for employees or self-employed, to new entrants into the labor market, including graduates of universities and vocational educational centers, as well as to those who dropped out from the educational system. Promoting vocational training and hands-on experience in the workplace –through cooperation between the Ministry of Labor and employers’ associations –plays an important role in facilitating the work finding process. The National Institution for Labor should define the operational procedures that facilitate the transition process from education to work, pursue its course of implementation, and evaluate its results on a continuous basis. It should also implement without delay the project which has already been adopted, concerning the stimulation and improvement of the first job prospects to young entrants to the labor market.

The Pension System and Social Protection

Old age insurance systems are the cornerstone of social economic policies and a positive factor of social stability and justice. Whereas retirement systems were confined to armies and armed forces till the early 20th century, they extended to include all workers, which became the standard in all countries, except for a few ones. Retirement systems and investment savings funds that resulted thereof induced a qualitative change in the economy of developing countries, for example in Central and Latin America, and in Eastern Europe, where such funds have played a considerable role in orienting local investments towards public or private developmental projects, the revenues of which going eventually to the beneficiaries of the system.

The International Convention 102 issued by the General Conference of the International Labour Organization on 28/06/1952, labeled as the Social Security (Minimum Standards) Convention, set the key frameworks of old age insurance systems, the most important of which are:

1. Retirement benefits shall be in the form of periodical payments (Art. 28), which means that the end of service indemnity system currently in force in Lebanon is not in harmony with this Convention;
2. The qualifying period to complete in order to benefit shall be 30 years of contribution or employment, or 20 years of residence (Art. 29);
3. The benefit shall be equal to 40% of the last wage before retirement of beneficiaries who completed 30 years of contribution or employment (Table in Part XI);
4. The retirement pension is to be periodically reviewed, in order to maintain its purchasing power in view of naturally mounting inflation rate.

Not to forget that the International Labor Organization is affiliated to the United Nations Organization, and is composed equally of government representatives, employers and employees.

In this context, this study shall present an outline of retirement systems and the general context in Lebanon, and include a detailed presentation of a balanced

retirement system in conformity with the above stated standards, within a structure that ensures the system's sustainability. Beneficiaries shall be free to subscribe to an additional optional system offering tax incentives with a fixed limit, enhancing therefore their pension entitlements.

General Outline of Retirement Systems

Private sector retirement systems are classified according to a number of key determinants, such as the nature of benefits and contributions, mandatory and voluntary pension regimes, pension regime being privately or publicly administered, and funding.

a) Nature of benefits and contributions

The general concept of retirement systems is to pay lifelong pensions upon retirement of beneficiaries, as per the set benefits' terms and conditions. In general, pensions are related to wages previously earned and to years of service, or they are already fixed and reviewed from time to time. Pension may be received as well from accumulated contributions, where pension is calculated by taking into account the accumulated amount and the pension expected to be paid.

In cases where pension depends on wages, beneficiaries' rights are created pursuant to an equation based on precise factors, where earned pension may be determined for example by 2% of the last wage before retirement for each year of service, with a ceiling for the monthly wage subject to this equation, to be fixed and reviewed periodically pursuant to a defined decision mechanism. As for regimes granting fixed pensions, they usually aim at preventing retirees' poverty. Pension in this case is one and the same for all beneficiaries without any distinction in respect of years of service or achieved wages during work period. For pensions paid out of an accumulated amount, contributions are usually fixed on the basis of a certain percentage of the wage, with the possibility to set a ceiling for wages subject to such a regime.

b) Mandatory and Voluntary Regimes

Mandatory regimes, also known as general pension regimes, are generally mandatory for all workforces. Subscribing to such regimes is compulsory in such a way that it becomes a legitimate right for employees and an obligation for employers. As for voluntary pension regimes, employees have a choice whether to subscribe or not. But such regimes usually offer tax incentives to encourage workers' subscription

and to help increase their retirement pension. The majority of developed countries have adopted both mandatory and voluntary pension regimes, as is the case in France, United Kingdom, Germany, Canada, Australia, Japan and many other countries.

c) System administration between private and public sectors

In general, mandatory retirement systems are administered by an independent public institution, subject to specific governance and high standards in respect of the transparency of their administration and investments. This public institution often drafts annual detailed reports on its activities, reports that are presented for accountability, review and audit by the executive or legislative powers, as it is for example in France, Germany and Canada. In some countries like Australia, Hong Kong and Morocco, general pension regimes are administered by the private sector, and employers choose a private insurance company to deposit their contributions whereas this company administers contributions, benefits and investments in the interest of the employers while preserving the rights of beneficiaries.

d) Funding

Many adopted retirement systems finance and pay due pensions from revenues often collected from taxes (Pay as you go); in other words, the retirement system does not accumulate contributions in an investment fund. These systems often constitute the main pillar of old age insurance, as in Canada and United Kingdom, for example, where all retirees are granted a sufficient pension without distinction to their wages before retirement, which is financed by the National Treasury.

The biggest part of retirement systems depend on long-term savings, where an investment fund is created along with the pension regime, the returns of which contribute in providing an additional income source for the fund. These systems are either fully funded, meaning their total assets equal at any time the total due pensions or beneficiaries' earned rights, or partially funded as in most countries, meaning their assets are not sufficient to pay all obligations in case of liquidation of the retirement system. Partially funded retirement systems are financed jointly and severally by all their subscribers whatever their categories, or by virtue of a legal clause that determines the pensions financed by the National Treasury in emergency cases, as the State remains the last insurer of any retirement system.

General context of old age insurance in Lebanon

Social Security Law promulgated in 1964 established the end of service indemnity regime still in force to this day, granting private sector employees an allowance equal to one month wage for each year of service, according to the last wage earned before requesting the indemnity, as per maturity conditions. This system is funded by contributions up to 8.5% of the monthly wage declared to the National Social Security Fund (NSSF), of which 0.5% is deducted to finance the system administration expenses, which means 8% of the wages are allocated for the financing of indemnities. The Social Security system mentions that the end of service law is temporary until a general Law on old age insurance is drafted alike to the vast majority of other countries.

The average entitlement granted by the end of service indemnity system has not exceeded 15 million Lebanese pounds for the year 2010, as per NSSF's official statistics, and 25 million Lebanese pounds for the year 2014, according to first estimates. In other words, and pursuant to economic estimations, the average end of service indemnity is not sufficient to cover the ordinary expenses of one single person for three years at most, not to mention unforeseen expenses, including health care, knowing that private sector retirees have no insurance coverage of any sort, except for medical expenses covered by the Ministry of Public Health.

On the other hand, public sector functionaries, including armed forces officers, benefit from a system that ensures them a pension ranging between 80% and 100% of their last earned wage before retirement. This is a benefit of considerable importance since it equals, according to documented estimations, the total wages earned by private sector employees during all their service years. This system is financed by contributions equivalent to 6% of the wages in the public sector. According to actuarial studies, this is an insufficient percentage, since the contributions ratio required for creating a reasonable balance within this system varies between 35% and 40% of the wages, which means that the financing disparity is covered directly by the Treasury's general revenues.

Statistics published by the Central Administration of Statistics (CAS) show that the private sector in Lebanon forms more than 85% of the total workforce, 40% of which are within what is known as the informal economy, according to a study published in 2009 by the CAS.

**Table EA.17B: Percentage distribution of employed (aged 15 years and above)
according to type of economic activity sector and sex, Lebanon, 2009**

Type of economic activity sector	SEX		
	Women	Men	Women & Men
Public	11.0	12.7	12.3
Private	87.9	86.5	86.6
Other	(1.2)	0.9	0.9
Total	100	100	100

(*): Number less than 25 cases

(n.n): Number between 25 and less than 50 cases

It is true that the average wage in the private sector is higher than the average wage in the public sector; however the private sector lacks three major components benefiting the public sector:

- Medical insurance upon reaching retirement age;
- Old age insurance, where public sector functionaries benefit from a pension ranging between 80% and 100% of their last wage before retirement;
- Unemployment guarantee where, in comparison to private sector employees, public sector functionaries are not exposed to dismissal risks because of employer bankruptcy or other legally accepted causes of unemployment.

Not to forget that employees working within the informal economy have none of these benefits.

Many studies have shown that the difference in the average wage in favour of the private sector is absolutely insufficient to amend the disproportion existing in the labour market structure between private and public sectors, and resulting from the above mentioned benefits.

It is therefore necessary to rapidly set a legal basis that allows, in the short term, to improve work conditions in the private sector, including old age insurance.

Lebanon witnessed during the nineteen nineties of the past century repeated invitations for drafting old age insurance, leading in the year 2000 to a three-pillar draft

law, based in its first part on the minimum retirement pension for all retirees subscribed in the system in conformity with the minimum wage, and, in its second part, on a wage-related pension according to a fixed limit changing with the average wage, while its third part remained optional for those who would like to receive a complementary pension. The retirement pension received would then be the total sum of the pensions of all three pillars.

This law was never promulgated in spite of its well balanced structure and flexibility which enabled the easy amendment of its factors for the purpose of maintaining the system's financial sustainability. It was replaced by a one-dimensional draft law in 2004, based on the full funding of the contributions that were determined without any guarantees to beneficiaries or limit to wages or minimum pension. This law was endorsed by the President of the Republic, but the Cabinet did not approve of it back then.

In 2006, there was an attempt to revive this Law project; it was undertaken by several deputies after a few amendments were made to the draft law of 2004, the most important of which being the addition of a minimum retirement pension, a separate administration for the pension and investments funds, and placing the latter under the supervision of the Central Bank.

The first amendment introduced a fixed minimum pension in Lebanese pounds in the text of the Law, which rendered its review mechanism difficult because it needed a vote by the parliament, while the law of 2000 was, on the contrary, flexible in this regard, where minimum pension changed automatically with the minimum wage. Furthermore, the Central Bank's supervision over the investments fund required the amendment of the Code of Money and Credit, as well as skills, techniques and necessary follow-up to ensure conformity and suitability between adopted investments policy and the nature of retirement fund obligations.

Later on, the Parliament's Joint Commissions Committee made many amendments to the draft law of 2003 whereby many decisive articles were cancelled and replaced by referrals to Cabinet decisions, in particular the article placing the investments fund under the supervision of the Central Bank, and other provisions were added defining the investments administration and the administrators' competence. The aforesaid amendments led to a great number of stakeholders protesting against the draft law being unenforceable if voted, since it required many decisions to be taken by the

government, the majority of which were technical and related to changing factors that needed studies and follow-up through a sound amendment mechanism yet to be found. In addition to those factors came the inexistence of a ceiling for the pensions subject to the system, which somehow blocks out the private sector from subscribing to it, and the ambiguity as to the technical and investment responsibilities governing the general investment policy.

All three draft laws of 2004, 2006 and 2008 are similar in their essence, as they all establish a system that determines contributions without the benefits, and sets a minimum pension of uncertain features. All these draft laws neglected the preliminary requirements stipulated in the Conventions of the International Labor Organization, related to the necessity of establishing a clear minimum pension and a replacement ratio for the last wage before retirement as mentioned above, with the obligation to maintain a reasonable flexibility within a defined governance that allowed the amendment of the system's elements in order to improve it and sustain it. Moreover, these draft laws adopted a financial structure that includes a savings fund for contributions capitalization, and an alternate distribution fund to finance the insurance part and the minimum pension. This structure was not applicable however, because it ignored the money allocations needed for the payment of retirement pensions when due, and it failed to clarify how to administer the flow of cash between the two funds, which is not in effect possible.

Many attempts were undertaken to adjust the draft law prepared by joint committees in 2008 without altering its essence, but in vain.

Meanwhile, the World Bank and the International Labor Organization submitted a worksheet to the Lebanese government comprising the general principles and major considerations to be taken into account by the future system, followed by an actuarial study setting a certain scenario of old age insurance within a flexible framework internationally known as notional accounts, where beneficiaries have their accumulated amounts in nominal accounts, without necessarily having any actual corresponding financial asset. It is a system that allows distribution transactions among beneficiaries while maintaining the form of a capitalized system. It enjoys the flexibility necessary for its sustainability, although its administration requires high technical skills and expertise as well as developed information systems, which means that the system administration may be expensive, leading therefore to undermining its advantages.

The principles worksheet and relevant study were referred by the Lebanese government to the Parliament, given that the official draft law version was the one approved by the joint commissions. Any serious amendment or development in the course of the law shall call for the government retrieving the draft law for review and reframing, and then sending it back to the Parliament for study and voting, or for a competent parliamentary commission to undertake that task. In view of the general national experience, there is no doubt that the first choice is the fastest.

Old age insurance in the context of the general social economic policy

The social economic policy in Lebanon lacks many components that contribute to the general feeling of absence of what is called social justice.

Medical insurance for instance is available for the following social categories:

- a) Public sector functionaries, armed forces officers, and their families.
- b) Private sector employees and their families, who automatically benefit from the NSSF allocations until the medical insurance stops once they attain retirement age or upon quitting their job in the private sector.
- c) Members of some professional orders such as Engineers, Lawyers, and Physicians, etc. who benefit from the Order's mutual fund, which includes a partial or full coverage by an insurance company.
- d) Beneficiaries of insurance programs provided by private insurance companies.

Estimations indicate that the total of the above mentioned categories do not exceed 55% of Lebanese residing in Lebanon, whereas the absence of insurance coverage is mainly noticed in groups of people beyond retirement age, non-regulated liberal professions, and low-income people, knowing that these groups don't benefit from a general coverage program and can't afford to contract insurance from the private sector due to the high cost of insurance premiums.

There are many factors negatively affecting the labor market, especially if we compare public and private sectors, where public sector functionaries benefit from a health medical insurance before and after retirement, as well as a lifetime retirement pension varying between 80% and 100% of their last wage before retirement, and an elevated immunity in respect of work continuity guarantee. Since its establishment, the Lebanese State never reduced the number of its functionaries, as the majority of countries do, including countries that apply budget austerity measures. In comparison, the private sector does not benefit from any medical insurance after retirement, and has no retirement system and no unemployment

guarantee in forced cases, such as the employer's bankruptcy. It is worth noting that the public sector's productivity is not comparable to that of the private sector.

If we compare the value of these benefits for a 25 year-old employee who wants to choose between working in the private or public sector, we would find that a LBP 1,000,000 salary in the public sector is equal to a LBP 1,500,000 salary in the private sector; which means that comparing wages between both sectors without taking into account other benefits is unmistakably unfair for private sector employees. Furthermore, this comparison reflects the value of services provided by political organizations to their partisans by securing them employment in the public sector, even at relatively low wages.

As for a comparison with the informal economy sector, it is not possible due to the unavailability of sufficient information. Not to forget that there is no health insurance or retirement pension or any other benefit for employees working in this sector, except for the ones provided by subscribing to professional orders or contracting private insurance policies. Comparison shows as well that the general revenue in the private sector is concentrated in the work years period, before retirement age. Private sector employees are subsequently burdened by the necessity to plan and save for after-retirement period, and to calculate all expenses, including medical care expenses which multiply even more at that stage; while the general revenue for public sector functionaries is distributed in a well-balanced manner due to the retirement system and lifelong medical insurance.

Within the framework of reforming the labor market, two priorities related to social economic policy emerge from all that precedes: The first is to set a general system for medical insurance in which all workforces are equal and covering after-retirement phase, and the second is to set a retirement system for the private sector, providing the minimum internationally recognized benefits with regard to all that preceded.

Structure of proposed retirement system

This study presents the frame adopted by the Social Economic Council for a balanced old age insurance system, to be primarily applied to declared employees, and containing necessary incentives for the expansion of the scope of coverage to include progressively all social categories.

a) Objective

We tried through this study to reach a system that is able to achieve the following:

1. Awarding a minimum pension related to minimum wage;
2. Providing a reasonable replacement ratio¹ in harmony with Convention 102 issued by the General Conference of the International Labor Organization, while preserving the system's financial balance;
3. Setting the foundation that allows the increase of the replacement ratio, especially for the high wages range.

The main goal of the project is to provide the highest replacement ratio possible and maintain at the same time a pension equal to 40% approx. of the last wage earned before retirement after 30 years of service and paid contributions, knowing that the ultimate objective is to preserve employees' rights in the long term by ensuring the sustainability and stability of the retirement pension system, while taking into account the private sector's capacities and the financial balance of the retirement system.

b) The system's three pillars

The proposed retirement system consists of three complementary pillars, each providing a part of the expected retirement pension.

1. The first pillar: Minimum pension

All beneficiaries benefit from this pillar, in particular low income people, where the main goal of it is to ensure a minimum pension based on 60% of the minimum wage in force upon retirement.

2. The second pillar: Guaranteed complementary pension

All employees receiving an income higher than minimum wage and up to the fixed limit benefit from this pillar that aims at granting beneficiaries who completed 30 years of paid contributions a pension equal to 40% of the last wage earned before retirement, with a maximum limit based on 4 times the minimum wage in force upon retirement. Beneficiaries who exceeded 30 years shall be granted more than 40%, while those with lesser years of contribution receive less than 40%.

(1) Replacement ratio is the retirement pension value divided by the last wage earned before retirement.

3. The third pillar: Approximate complementary pension

This pillar is reserved for people with high income exceeding the fixed limit set in the second pillar, and is optional. It aims at providing a complementary pension based on 15% of the last wage earned before retirement with a limit ranging from 3 to 10 times the minimum wage.

The proposed system is a capitalized system and not a distribution system in the restricted sense of the word. Distinction must be made between systems that grant a fixed pension and are known as “defined benefits” systems, and distribution systems known as “Pay as you go”. In fact, defined benefits systems are extremely capitalized and are technically equal to “defined contributions” systems which guarantee a minimum investment return on contributions.

The chart here-below shows how the proposed system reflects on many groups of employees according to different properties as to their current monthly wage. These groups are distributed according to the following table; they represent employees expected to pay their contributions to the system for 30 years.

Table 1: Models of wage groups adopted in this study
(figures in thousands of Lebanese pounds)

Model of	1	2	3	4	5	6	7	8
Current monthly wage of employee	650	800	1000	1500	2000	3000	4000	5000
Monthly wage of employee at retirement age	1531	1885	2356	3534	4713	7069	9426	11782

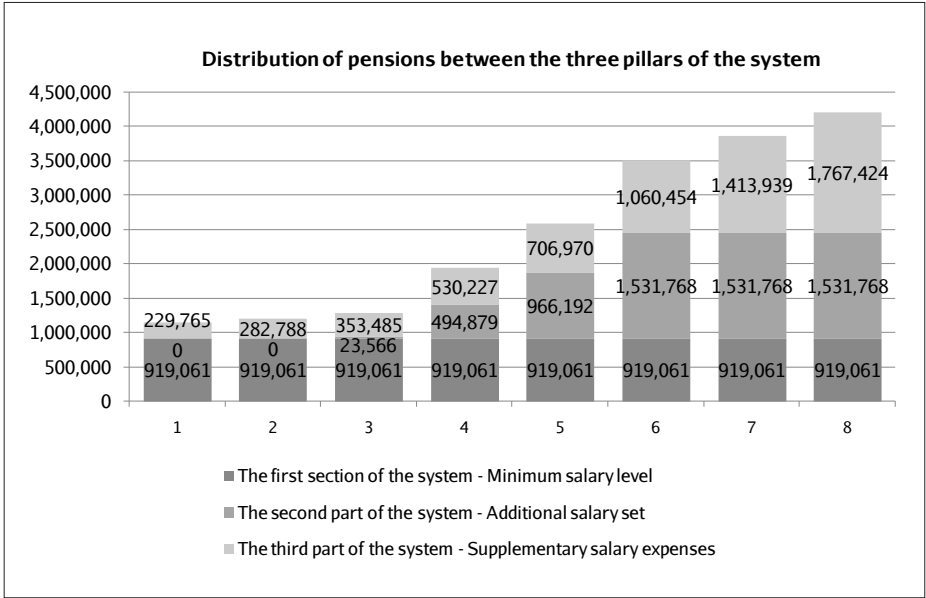
The 1st group represents employees earning approximately the minimum wage, LBP 650,000 per month in reality, while the 7th group represents employees receiving an average monthly wage of LBP 4,000,000.

Table 2: Distribution of pensions according to the system pillars
(figures in Lebanese pounds)

Pillars	1	2	3	4	5	6	7	8
1 st pillar	919,061	919,061	919,061	919,061	919,061	919,061	919,061	919,061
2 nd pillar	0	0	23,566	494,879	966,192	1,531,768	1,531,768	1,531,768
3 rd pillar	229,765	282,788	353,485	530,227	706,970	1,060,454	1,413,939	1,767,424
Total	1,148,826	1,201,848	1,296,111	1,944,167	2,592,222	3,511,283	3,864,767	4,218,252

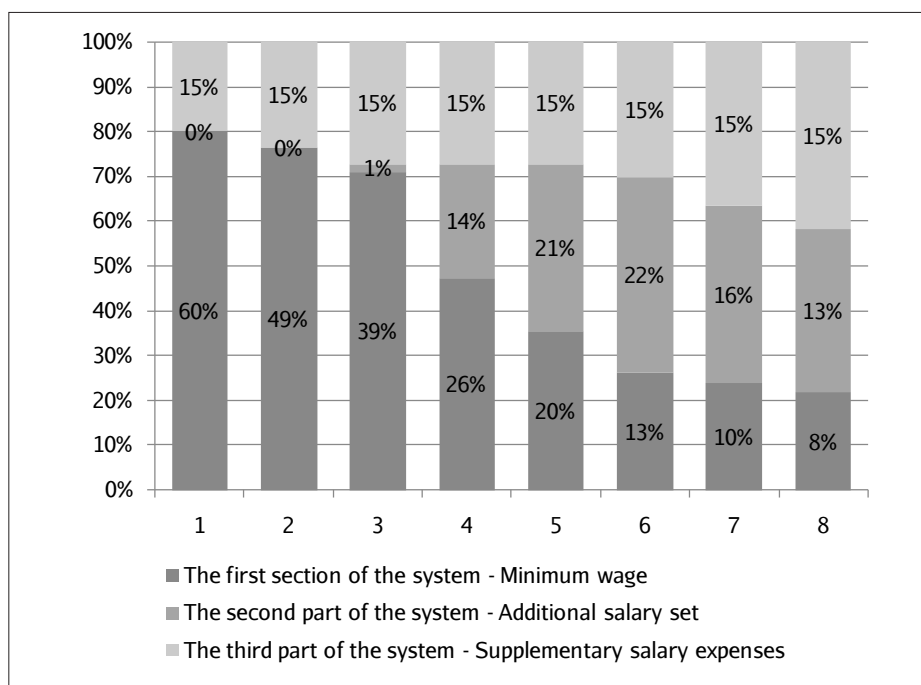
The table above shows the distribution of the pension among the three pillars of the system for each of the models. It indicates that the 1st and 2nd groups of employees shall receive a retirement pension corresponding to the minimum benefits of the system (the 1st pillar), but that they are not eligible for any benefits from the second pillar, knowing however that they can benefit from the 3rd pillar, which allows them to improve their pension by 20%. We notice as well that the total pension granted to employees of the highest wage groups (6, 7 and 8) from the 1st and 2nd pillars are equal, because of the fixed limit set in the 2nd pillar of the system.

Explanatory Chart 1: Distribution of pensions according to the system pillars
(figures in Lebanese pounds)



This explanatory chart clarifies how all three pillars connect and complete with each other in order to achieve the retirement system's expected objective. Therefore we notice that low income people, for example, benefit mainly from the first pillar whereas high income people benefit from the third one. The chart shows as well the reflection of the fixed limit set on incomes submitted to the second pillar, since benefits granted based upon this pillar shall not exceed a certain limit, which is approximately, in the example adopted in our analysis, LBP 1,700,000 whatever the monthly wage expected before retirement.

Explanatory Chart 2: Expected Replacement Ratios



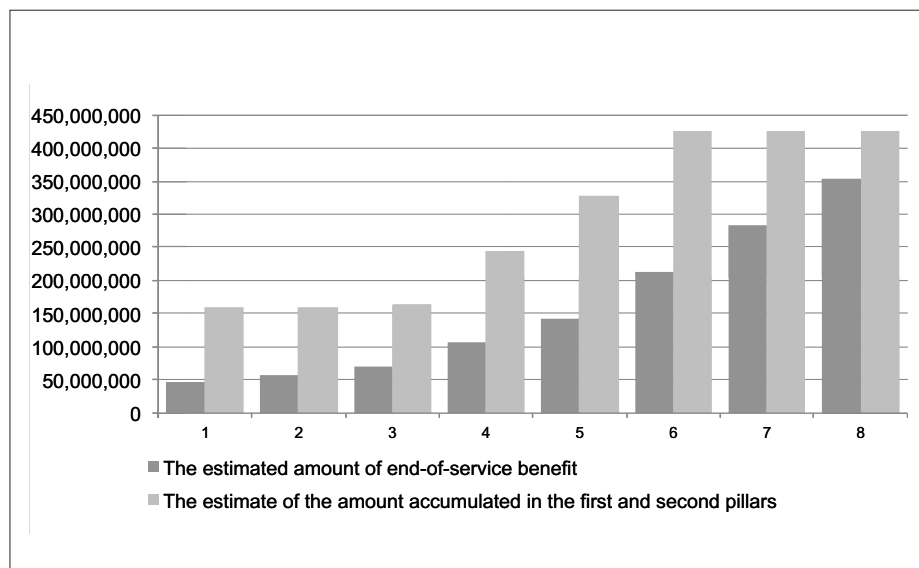
As for replacement ratios shown in the above chart, they reveal that the 1st and 2nd pillars provide a high replacement ratio for low income people, compared to their wages before retirement, which is at least 40% of the last wage earned before retirement by the first five groups, while replacement ratios decrease for high income groups because of the fixed limit set in the 2nd pillar.

The 3rd pillar provides equal replacement ratios between all groups, knowing that high wages groups benefit from it even better compared to the pension they receive

from the 1st and 2nd pillars. For example, the 1st and 2nd pillars help ensure a replacement ratio of 23% of the last wage earned before retirement, while the 3rd pillar may provide an additional pension equivalent to 15% of this wage.

On the other hand, and according to the following chart, comparing between benefits granted by the end of service indemnity regime currently in place and the first two pillars of the proposed system shows that the proposed system is definitely superior to the indemnity regime, for all groups which we have studied. We noticed, for example, that the accumulated amount in the 1st and 2nd pillars of the proposed system for low income people is equivalent to 300% of the end of service indemnity, while the medium income people benefit from an increase of 240% in comparison with the currently applicable regime. There is as well a relative decrease in the pension of the high income people, which will be compensated by the 3rd pillar and the tax incentives it offers.

Explanatory Chart 3: Comparison of benefits between the end of service indemnity regime currently in force and the first two pillars of the proposed system (figures in Lebanese pounds)



In brief, this analysis shows that the proposed structure establishes a mechanism that allows a limited redistribution of incomes from high income people to low income people, which is one of the desired properties of old age social insurance systems. As

we see, the first and second pillars provide 40% of the wage before retirement to a large number of people with income, represented by models 1 to 5 in the chart and consisting of up to 90% of the beneficiaries currently subscribed in the NSSF, as per declared wages.

c) Mandatory subscription in the system

Subscription in the first two pillars shall be mandatory for all employees under the age of 35 and optional for older ones, aged between 35 and 55 years, with a grace period not exceeding 12 months, during which the employee chooses to join the retirement system or remain in the end of service indemnity regime currently in force. As for employees who are 55 years of age or older, they remain subject to the end of service indemnity regime.

Subscription in the 3rd pillar is optional, with tax incentives granted to employees and employers, such as exempting contributions to the 3rd pillar from income tax on wages and profits, and exempting them from contributions currently applied to social insurance branches: end of service indemnity, sickness and maternity benefits, and the family benefits fund.

The transfer of employees from the end of service indemnity regime to the new retirement system shall be done with the preservation of all the rights they earned in the current regime, in particular in respect of their contribution years and accumulated assets. For example, a 40 year-old worker having completed 15 years of contributions in the end of service indemnity regime, where his total contribution in addition to the investment returns is LBP 5,000,000, shall be transferred to the new retirement system with his full 15 years seniority along with his LBP 5,000,000 assets.

d) Earning rights in the 1st and 2nd pillars of the system

Employees' earned rights are calculated according to years of service and contribution on the basis of 1.40% of the last wage for each year during the first 20 years and 1.20% for following years.

Retirement pension of a worker who completed 25 years of contribution, for example, shall be calculated on the basis of 1.40% for 20 years, that is 28%, added to 1.20% for the last 5 years, that is 6%; the replacement ration for this employee shall be therefore 34%. For another worker who has completed 35 years of contributions, his replacement ratio shall be calculated on the basis of 1.40% for the first 20 years,

that is 28%, added to 1.20% for the last fifteen years, that is 28%, which equals 46% of the last wage earned by the employee before retirement, submitted to the fixed limit based on 4 times the minimum wage. Earned rights after 30 years of service shall be 40% of the wage, and up to 52% of such wage after 40 years of service.

On the other hand, earned rights within the current end of service indemnity regime shall be computed within the new system to facilitate individuals' transfer, through an equation yet to be found.

e) Financing of pillars

The 1st pillar shall be financed by the Fund and National Treasury contributions, since the State remains the main guarantor of the minimum pension. As for the 2nd pillar, it shall be financed by the contributions of employers and employees.

Actuarial estimations indicate that the financing cost of both first and second pillars ranges between 14% and 18% of pensions, subject to a limit at an approximate average of 16%. Contributions may be divided as follows:

- 10% to be paid by employers
- 4% to be deducted from wages
- 2% to be paid by the State

The contribution rate is linked to many financial, economic and demographic hypotheses, as well as to the replacement ratio of 40% after 30 years of contributions. Modifying the fixed limit in both the first and second pillars does not affect in any way, whether positively or negatively, the approximate contribution rate that should be determined taking into account the system's sustainability, by decreasing the financing cost of the minimum pension and the expected replacement ratio. This cost may attain 3% to 4% of pensions subject to the fixed limit, in case of continuous financial stagnation. The system must carefully consider and preserve a solvency ratio and a surplus, in order to ensure a sufficient reserve in such cases.

As for the financing of the 3rd pillar, it depends on individuals and their goals from contributing to this pillar, where savings programs for retirement could be designed based on 5% of the monthly wage, according to the limit fixed in this pillar. Employers may as well contribute with an additional percentage ranging between 3% and 5% of wages, which enhances relationships between employers and employees by ensuring a kind of deferred pension for retirement.

f) System administration

We propose that the first and second pillars of the system are administered by an independent public institution, with an emphasis on setting necessary regulations to guarantee administration transparency, reporting, and administrative appointments. Among the important measures to be taken in this context, we point to the obligation of drafting a general and detailed annual report on the retirement fund's activities, administration, results and financial situation, to be audited by auditors and actuarial experts, then submitted and publicly discussed in the presence of the Cabinet and the parliamentary competent commissions, with the possibility for any citizen to have access to it.

Investments are best administered by an independent and financially autonomous institution, subject to high standards of auto-governance, with the necessity to maintain a high level of transparency in its periodic reports on the Fund's investments situation, choices, risks and returns. The investments administration shall abide by the strategies and goals set by the institution governing the retirement system, in view of the obligations arising from beneficiaries' rights.

Necessary legal frames need to be set up as well to organize work under the third pillar, mainly with regard to the licensing of bodies that shall produce and distribute retirement savings products, and the determination of their working rules, in particular the rules related to the administration of investments arising from the incoming contributions. Not to forget the necessity to delegate monitoring and supervision of this pillar to the Insurance Control Commission, or to establish a control body in that regard.

The Lebanese Education Sector

Dual Education System

1. The Juxtaposition of the Public and Private Sectors in Education

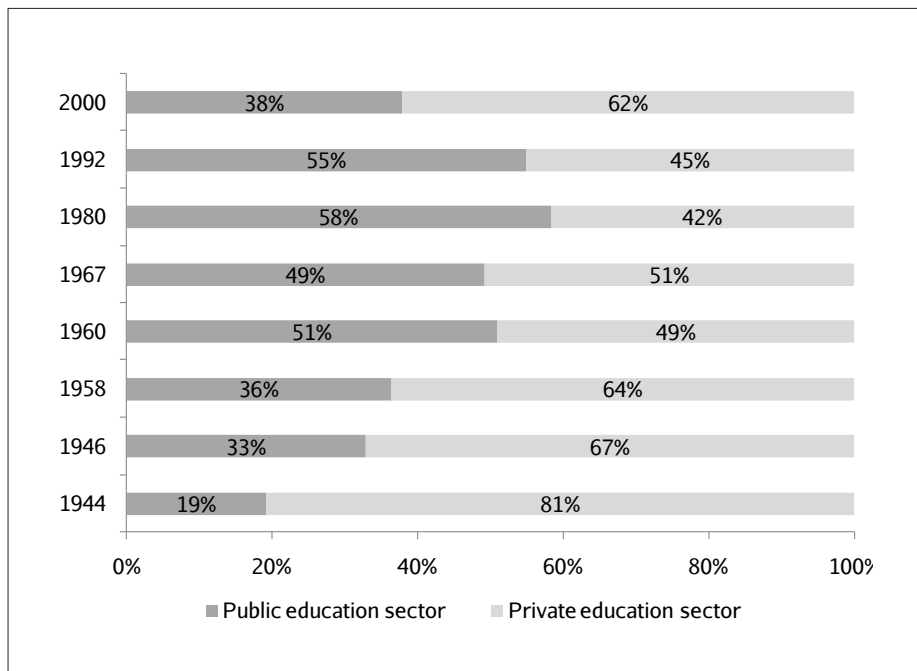
The education system in Lebanon is often described as a dual system where public and private educational institutions offer similar education services. These two sectors operate almost independently of each other, which makes them more adjacent sectors than complementary¹. The private education sector charges school fees and premiums, while public education is essentially free. As for the 'free' private educational institutions, their role is limited to providing this service at both the pre-primary (kindergarten) and elementary levels because they are largely supported by the State².

It is to be noted that the private education sector was ahead in its inception of the public education sector, as it was initiated by missionaries who created the majority of private schools before the proclamation of independence of Lebanon in 1943. After independence, the Lebanese State began construction of public schools until their number equated the number of private schools during the 1960s. However, the displacement of the population internally and externally, and the decline of the State's investment in public education during the civil war (1975-1990), enabled the private sector to play a greater role in education in general, over the last two decades.

(1) The Ministry of Social Affairs / United Nations Development Program (2010), the National Strategy for Social Development prepared by the Consultation and Research Institute CRI, Beirut: United Nations Development Program.

(2) The Ministry of Education and Higher Education (2004), the National Action Plan for Education for All 2004-2014, Beirut: The Ministry of Education and Higher Education.

Illustration 1: The evolution of the number of private and public schools between 1944 - 2000



Source: Nimr Fraiha (2003), "The Educational Center for Research and Development in 1017 days," Beirut: Dar – Alibdaa

Indeed, the private education sector is back in expansion at the expense of public education since the 1980s, in view of the State's semi-absence. This may be related to the growing parents' belief not to enroll their children in public education, unless they cannot afford the burden of tuition fees of private schools. The number of public schools reached 1,275 in 2013, as compared to 1,502 private schools and other free. Public education comprised about 44% of the total number of teachers (94,499 teachers) during the 2012-2013 school year, and about 31% of all students enrolled in the Lebanese educational system in that year³. The official enrollment ratio in public education is considered very low compared to other countries in the region (about 75% and 96% respectively in Jordan and Egypt in 2006)⁴.

(3) Educational Center for Research and Development, Statistical Bulletin for the Academic Year 2012-2013.

(4) Al-Masah Capital Limited (2011) MENA: Education Sector Report.

Due to the current perception of poor quality of education in public schools in comparison with private schools, the enrollment ratio in public schools in Lebanon continued to decrease in recent years. One reason behind the poor level of public education could be that a large number of teachers lack the adequate qualifications to teach.

“Significant discrepancies are evident between the public and private education at the level of terms of quality [...] Nine students out of 1,000 students in public schools earn the Baccalaureate [Secondary/Hi-School] certificate without from the first round, compared to 225 students in private schools”⁵. Despite the large number of public schools, and the concerted efforts of the Ministry of Education and Higher Education (MEHE) to improve the quality of teaching and learning, most parents prefer to send their children to private schools, based on their evaluation of the quality of education offered by private schools as being even better than the quality of education provided by public schools.

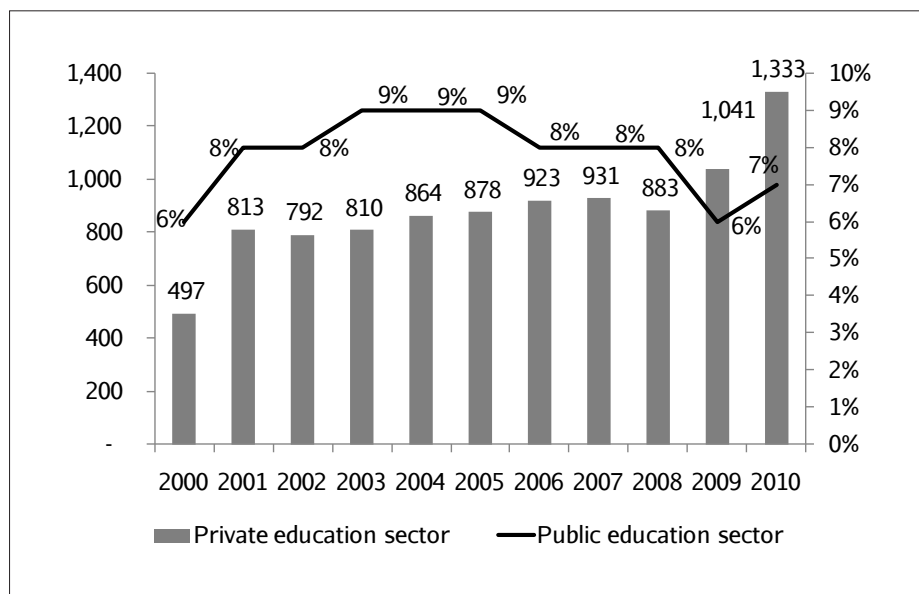
2. Public Spending on Education

The educational system in Lebanon is characterized by inadequate government spending on education, which only accounted for about 2.9% of GDP in 2001 then decreased to 2.7% in 2007, and 1.8% of GDP in 2009⁶. MEHE’s share of total State Budget’s expenditures ranged between 5.8% and 9% during the period between 2000 and 2010. In spite of the rise in public spending on education from about 497 billion Lebanese liras (LL) in 2000 to about LL1,293 billion in 2010, the share of expenditures allocated to MEHE from the overall Budget remained almost stable (5.8% in 2000, and 6.8% in 2010)⁷.

(5) United Nations Development Program (2009) Lebanon: National Human Development Report: Towards a Citizen’s State.

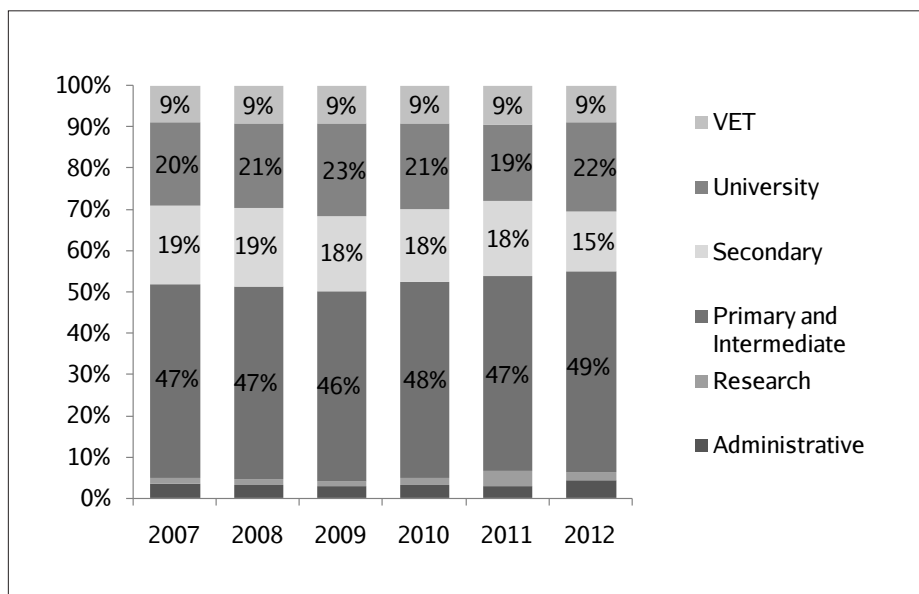
(6) UNESCO (2011) Institute for Statistics Global Education Digest 2009: Comparing Education Statistics across the World. Montreal: UIS.

(7) The Lebanese Government, The Budget Bill for the year 2000 and 2010, Beirut: Ministry of Finance.

Illustration 2: The Ministry of Education budget by its share of the total State Budget

Source: Ministry of Finance, the annual report on public finances and projects of public budgets laws between 2000 and 2010

It should be noted that there has not been an enactment of public budget laws since 2005 (thus resorting to a procedure of cut-off/pro-rating accounts), but the annual budget projects stayed with that share as almost the only indicator for estimate MEHE's budget, bearing in mind that such estimates may not represent MEHE's actual spending. Based on the available information, it is clearly noted that primary and middle school education receive the largest share MEHE's budget, followed by higher education and secondary education.

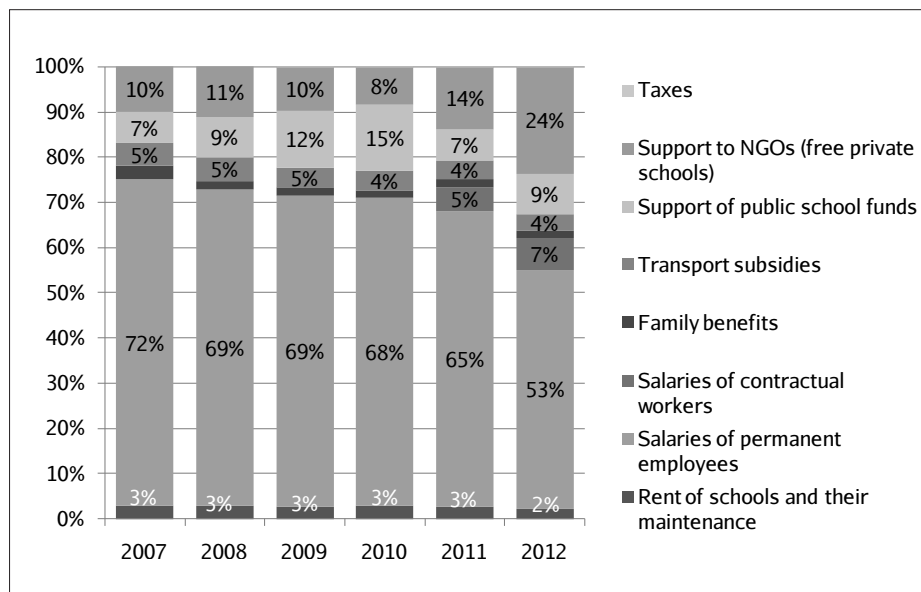
Illustration 3: Distribution of the Ministry of Education budget

Source: Ministry of Finance, Public Budgets Bills

The in-depth analysis of the structure dedicated to primary and secondary education expenses shows that the most important element in this expenditure is on salaries of teachers belonging to MEHE's cadre, and representing approximately 72% of the total budget for primary and intermediate educational levels in 2007. However, this ratio has gradually decreased to about 53% in 2012, due to flaws in the correction of teachers' salaries, and the State's increased reliance on contractual teachers, which led to an increase in the latter's part of the total allocation for spending on primary and secondary education.

The budget allocations for primary and secondary education include Government subsidies to private free schools, which registered a remarkable leap in their share of the primary and intermediate education budget between 2007 and 2012, from about 10% to 24% (4% total budget of the Ministry in 2007 to 11% in 2012). This leap took place in spite of a previous formal proposal to reduce support to free private schools with poor performance⁸, in an attempt to limit the volume of public expenditure on education.

(8) "The State of Education Financing in Lebanon: Facts, Figures and Suggestions" - The Ministry of Higher Education (2004).

Illustration 4: Budget distribution of Elementary and Intermediate Education 2007-2012

Source: Ministry of Finance, Public Budgets Bills 2007-2012

It is difficult to estimate the present cost per student in every stage of education in the public sector due to lack of recent and detailed data. However, the data available for previous years show that the annual cost per student at the primary level reached, in the middle of the first decade of the millennium, nearly LL1,930,761 (\$1,287), compared to LL2,593,465 (\$1,729) in the intermediate phase, and LL3,069,795 in high school (\$2,046)⁹.

Nevertheless, it is generally agreed on a large scale that the increasing public expenditure on education “was not associated with a parallel improvement in the size and quality of service production in the public sector”¹⁰. It should be noted that the lack of effectiveness of spending is due in great part, to inequitable distribution and ineffective use of resources (especially human resources)¹¹.

(9) The Ministry of Higher Education (2010): Quality Education for Development- General Framework for Strategy Development and Education- General Education Development Plan (pre-university): 2010-2015.

(10) United Nations Development Program (2009): National Human Development Report 2008-2009: Towards a Citizen's State.

(11) The Ministry of Higher Education (2010): Quality Education for Development- General Framework for Strategy Development and Education-General Education Development Plan (pre-university): 2010-2015.

The policy of grants and school assistance received by the employees of the State indicates that they use the bulk of these subsidies to educate their children in private schools. "In 2004, school grants received by public employees annually were estimated at \$150 million, 89% of which was spent by them on school fees for their children attending private schools"¹². And as shown in the table below, the proportion of these grants increased in 2011 to almost 13% of MEHE's total expenditure, which is equivalent to 3.5 times the value of aid that private schools themselves get (free private schools that serve the poorest of children).

Table 1: The distribution of expenditure of the Ministry of Higher Education 2006- 2009

	2006	2007	2008	2009	2010	2011
Education (billions of Lebanese pounds)	960	976	950	1,170	1,272	1,262
Ministry of Higher Education	89.0%	88.5%	87.9%	88%	87.9%	87.1%
Wages and salaries of the General Directorate of Education staff	56.0%	58.6%	54.1%	51.8%	54.6%	59.1%
Salaries and wages of the Directorate General of Higher Education staff	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Wages and salaries of the General Directorate of Vocational Education Staff (VET)	8.3%	8.1%	8.7%	9.5%	9.4%	9.6%
Financial contributions to the salaries and wages of the Lebanese University	17.8%	18.6%	19.4%	24.3%	22.7%	21.8%
Financial contributions to educational institutions, non-profit (private schools)	5.3%	4.4%	6.0%	4.4%	4.0%	3.7%
Buildings under construction (construction and rehabilitation of schools)	3.4%	3.2%	1.0%	0.5%	0.8%	0.5%
* Scholarships in the private education sector	11.0%	11.5%	12.2%	11.8%	12.1%	12.9%

Source: Ministry of Finance, "The Annual Public Finance Report", 2006 - 2011

(12) World Bank (2010): "Project Information Document" Report Number: AB5607.

3. Household Spending on Education

In addition to the education spending of public money, families bear a major share of the cost of education in public and private schools in the form of premiums and registration fees and other expenses, including textbooks, transportation, uniforms and activities outside the curriculum costs. The studies on family budgets for the years 1997, 2004 and 2012, show that spending on education is higher among high-income households. In fact, the proportion of money spent on education by families from their total money expenditure in 2012 was equivalent to 5% in households whose annual income does not exceed LL7.8 million Lebanese, while this percentage rises to about 8% in households whose annual income exceeds LL28 million Lebanese¹³. On average, the proportion of spending on education out of the total household expenditure in 2012 was about 6% nationally.

According to a recent study¹⁴, the total annual cost that a family incurs toward each student at primary level in a private school ranges between LL1,822,668 (\$1,215) and LL2,149,119 (\$1,433 US), depending on the discounts they manage to get on tuition fees. The total annual cost per student in the intermediate stage varies from LL2,139,819 (\$1,427) to LL2,473,818 (\$1,650). In the free private schools, registration fees in primary school for the 1999-2000 school year varied between LL325,000 (\$217), and LL375,000 (\$250). In addition, there are annual insurance premiums in the amount of LL25,000 (\$17) and LL5,500 per student as extra compensation for transportation in the case of schools, which are 300 meters above sea level. Thus, the annual cost total per pupil becomes between does not exceed \$506 per student, depending on the size of discounts on tuition fees¹⁵, and that's according to the same study. Whereas in public schools, and according to the same study, the total annual cost to the family for each student at the elementary level ranges from LL315,044 (\$210) to LL340,336 (\$227), and it ranges between LL422,000 (\$281) and LL474,653 (\$316) in the intermediate stage.

The table below shows the distribution of the comparative cost per pupil, according to the registration and the cost of books, transportation and food fees.

(13) Central Administration of Statistics (2012) National Survey of the Family Budget for the Year 2012, Beirut. Available on the website: <http://cas.gov.lb/index.php/demographic-and-social-en/householdexpenditure-en>.

(14) Helsinki Consulting Group (2005) "Needs Assessment Report": Helsinki Consulting Group.

"Needs Assessment report- Component 1.3: Rationalizing the Education Sector's Financing System" Education Development Project, world Bank Loan No. 7010-LE.

(15) *ibid*

Table 2: The distribution of the Cost of Education by Cost Items and Educational Stage in private and public schools (1999 - 2000)

	Free private schools			Subsidized private schools	Public schools	
Tuition fees	Kindergarten	Primary	Intermediate	Primary	Primary	Intermediate
Books	77	72	73	52	26	26
Transportation	3	7	7	12	18	18
Food and drink	10	9	8	13	16	16
Additional	5	6	7	13	28	28
expenses	5	6	6	9	12	12
Total	100	100	100	100	100	100

Source: Helsinki Consulting Group (2005) "Needs Assessment Report ", which was prepared at the request of the Ministry of Education, based on preliminary statistics- Educational Center for Research and Development

Distribution of Schools and their Characteristics

1. Distribution of Schools

The available data on the number and distribution of schools do not indicate that Lebanon suffers from lacks in that regard. Some studies rather indicate the existence of a surplus in the number of schools¹⁶. Furthermore, according to the results of a comprehensive survey of public schools in the context of the project "D-RASATI", Lebanese public schools do not suffer from an excess number of students in classrooms, which means that the schools have the capacity to accommodate a greater number of students. The average number of students per class, in almost 50% of public schools, amounts to 10-20 students, while the average is between 5 to 10 pupils per class in about 31% of public schools¹⁷.

(16) National Human Development Report (2009) of the United Nations Development Program in Lebanon "Toward a Citizen's State" (2008-2009).

(17) The Ministry of Higher Education (2011) "D-RASATI" Report on the Survey Results.

Therefore, the problem does not lie in the number of schools in Lebanon, but rather in their non-equitable distribution among regions. As a matter of fact, some regions are characterized by a clear predominance of private schools, while the opposite occurs in other areas where public schools dominate in number. More precisely, there is a predominance of public schools in the poorest areas of Lebanon, particularly in the North and South. However, the capital, Beirut, which is the relatively richest region in Lebanon, is home to the vast majority of private schools.

Table 3: The distribution of schools by Sector and Region

	Special free sector	Informal sector	Private sector	Total
Beirut	9%	37%	54%	100%
Beirut suburbs	14%	22%	64%	100%
Mount Lebanon	10%	49%	41%	100%
North	11%	63%	27%	100%
Bekaa	19%	52%	30%	100%
South	13%	55%	32%	100%
Nabatieh	16%	56%	28%	100%

Source: Educational Center for Research and Development (2010), "The Development of Education Indicators 2002 – 2010"

2. Physical Infrastructure and Services

Many studies have shown that public schools suffer from the problem of inadequate buildings and equipment. A study in 2004 showed that over 30% of the buildings do not meet school construction standards, and about 20% of the buildings need renovation and rehabilitation¹⁸. The study also highlights the lack of availability of services and school supplies - such as laboratories, libraries, computer and personalized rooms for workshops - in public schools. And if available, they are in most cases not used effectively for several reasons, among which are slow, or lack of, administrative decisions and the lack of specialized staff¹⁹.

(18) The Ministry of Higher Education (2004), The National Strategy for Education in Lebanon, Page 63.

(19) Study of Association of Secondary School Teachers -2001.

A recent comprehensive study was conducted in 2011 on infrastructure in 128 public schools out of 1,281 schools in Lebanon, financed of the United States Agency for International Development (USAID) in cooperation with the MEHE as part of “D-RASATI” to support the rehabilitation and development of schools and improving teacher conditions²⁰. The study shows that only 43% of public school buildings are owned by the MEHE, while the rest of the schools are owned by individuals, municipalities, religious institutions, or by civil society organizations. The type of ownership affects the mode of MEHE’s commitment to the issues of school maintenance and infrastructure development.

In addition, a number of rented school buildings is not initially designed for use as a school, and therefore lack the necessary equipment and complementary facilities such as playgrounds and laboratories. The study also suggests that school buildings owned by MEHE are relatively in a better condition than the rented ones. In detail, more than 30% of the school buildings owned by MEHE are compatible with the quality standards school buildings, compared to only 14% of schools not owned by MEHE²¹.

In terms of basic services, about 70% of public schools lack alternative sources of drinking water in case the primary source of this water is not drinkable. Moreover, over 25% of these schools have only one drinking water tap for every 33 students, while about 83% of those in charge of public schools reported that the water taps are in poor condition. In addition, almost half of these schools do not meet the required ratio of toilets to the number of students.

Regarding the equipment, over 60% of public schools are equipped with laboratories, whereas the rest of the schools lack such laboratories. In addition, only 38% of the schools have a laboratory dedicated to Information Communications Technology (ICT).

D-RASATI study identified a positive relationship between the rate of student enrollment and the school’s physical infrastructure, as students are more inclined to

(20) The Ministry of Higher Education (2011) “D-RASATI” Report on the Survey Results.

(21) The Ministry of Higher Education (2011) “D-RASATI” Report on the Survey Results.

join a school with suitable infrastructure. The study also highlights the negative impact of the school's incompatible physical condition on the rates of academic success in the official Brevet exams.

While the Governorate of North Lebanon represents the largest share of public schools compared to other governorates, a large number of public schools is in poor condition. According to the results of "D-RASATI " on the degree of need of each public school for rehabilitation, it was found that the schools in the North, Bekaa, and Mount Lebanon are the most needy. Moreover, 30% of Northern Lebanon schools are in the category of the most needy²².

Student Characteristics

1. The Distribution of Students

The total number of students enrolled in public and private schools, and in United Nations Relief and Works Agency (UNRWA) schools, in all levels of education, reached 975,695²³ students during the 2012-2013 school year. Students were distributed over 2,777 schools (public and private schools, and UNRWA), according to the educational levels as follows: 18% in pre-school, 48% in primary school, 21% intermediate, and 13 % at the secondary level²⁴. Overall, the public education sector absorbs only about 31% of the total number of students enrolled in schools overall, while the private education sector attracts more than 53%, despite the aforementioned relative convergence between the numbers of public and private schools. The remaining number of students in private schools distributed free (13%) and UNRWA schools (3%)²⁵.

(22) The Ministry of Higher Education (2011) "D-RASATI" Report on the Survey Results.

(23) Educational Center for Research and Development, Statistical Bulletin for the Academic Year 2012-2013.

(24) Educational Center for Research and Development, Statistical Bulletin for the Academic Year 2012-2013.

(25) Educational Center for Research and Development, Statistical Bulletin for the Academic Year 2012-2013, p 8.

Table 4: Female share of the total number of students in public and private schools and UNRWA schools 1974 - 2012

Education	1973-1974	2001-2002	2012-2013
Pre-primary	46.9%	48.6%	48.2%
Primary	47.2%	48.1%	48.1%
Intermediate	46.5%	52.1%	52.4%
Secondary	41.8%	55.0%	58%
All stages of public education	46.7%	49.8%	50.2%

Source: Center for Educational Research and Development, Statistical Bulletins 2001-2002, 2009-2010, 2012-2013; and The Development of the Education Sector in 20 Years: Statistics and Trends 1972-1973 / 1994-1995

Students enrolled in public schools in the Northern region, which is the poorest in Lebanon, represent the largest percentage of the total number of students in this region (46%), compared to only 23% of the total number of students in Beirut.

Table 5: The distribution of students by Sector and Region 2012- 2013

	Informal sector	Special free sector	Private sector	UNRWA	Total
Beirut	23%	7%	67%	4%	100%
Beirut suburbs	14%	10%	75%	1%	100%
Mount Lebanon	26%	8%	65%	1%	100%
North	46%	12%	38%	4%	100%
Bekaa	34%	24%	41%	1%	100%
South	36%	12%	38%	13%	100%
Nabatieh	40%	20%	40%	0%	100%
Total	31 %	13 %	53 %	3 %	100%

Source: Educational Center for Research and Development, Statistical Bulletin for the Academic Year 2012-2013

A study reveals for a number of interesting features in the distribution of students in the education sector, and by educational stage. At the kindergarten level, private schools account for the highest enrollment rate (63% in paid private schools, and 15% in free

private schools), while the proportion of students enrolled in public-sector pre-primary schools does not exceed 23%, which makes it a obvious reference to the weakness of public investment in pre-primary education. This low enrollment in kindergarten in the public sector can be explained by the lack of pre-primary educational services in all public schools. In addition, pre-primary education in private schools extend over three years (serving children from age three to five), while this stage is limited to two years in the public educational sector (serving children age four to five). These facts constitute an additional incentive for parents to enroll their children in private schools from kindergarten. Moreover, a worrying fact is that once these children enter private schools at this early stage of education, they are more likely to stay in these schools, thus diminishing the possibility of them moving to a public school. This constitutes a key factor among others to explain the reasons for the low percentage of students enrolled in public education before secondary school in general in spite of the sums that the State spends in that regard, as well as the continuing increase in the number of teachers, especially the recent wave of contract teachers.

The ratio of students enrolled in public schools gradually increases up the ladder of educational levels, whereby some 28% of the total number of students are registered at the elementary level, and around 35% at the intermediate level, and a maximum of 45% in secondary education. In primary schools in particular, nearly half of the total number of students (46%) are enrolled in paid private schools, and about 22% in the free private schools, which points to the preference of parents for private schools for their children's education.

This trend also applies to the intermediate and secondary levels, which free private schools do not offer. The ratio of students enrolled in private schooling at the intermediate level reaches about 61% of the total number of students at this stage, while the percentage of students enrolled in private secondary education reaches about 52% of the number of total students at this stage. It should be noted that the low level of enrollment in private schools at the secondary stage, as compared to that of the intermediate stage, is due to several factors, including the fact that tuition fees in private schools increase when moving to a higher stage of education, which leads families to rely on public schools for their children's secondary education. Another key factor is that public secondary education retains an overall quality and is relatively good or at least acceptable, compared to the decline in public education at both the primary and intermediate levels.

Table 6: The distribution of students by Sub-Sector and Educational Phase 2012- 2013

Educational phase	Number of students	In public sector	In free private schools	In private schools	In UNRWA	Total
Pre-primary	172404	23%	15%	63%	0%	100%
Primary	471626	28%	22%	46%	4%	100%
Intermediate	207889	35%	0%	61%	4%	100%
Secondary	123776	45%	0%	52%	3%	100%
Total	975695	31%	13%	53%	3%	100%

Source: Educational Center for Research and Development, Statistical Bulletin for the Academic Year 2012-2013

2. The Analysis of Enrollment Rates

Primary Stage: Considerable progress has been made in enrollment rates at the national level, making these rates close to the global average. However, there are still many inequalities, especially among regions, in addition to the prolonged absence of the policy of integration into the education system, which limits opportunities for children with special needs to access education.

The status enrollment rate²⁶ of Lebanese students in elementary school reached about 110.4% for 2004, and 104% in 2009, according to UNESCO, despite the absence of enforcing compulsory education strictly. The net enrollment rate²⁷ reached 92.7% in 2004. The gap between the status enrollment rate and the net rate is due to grade retention factors, and to delay factors which are discussed in the section on performance of the education system. Based on the statistical data of the Central Administration of

(26) The gross enrollment rate is the number of children enrolled in a certain stage of education (regardless of age) divided by the population of the official age group corresponding to the same educational level.

(27) Net enrollment rate is the number of children enrolled in a certain stage of education, who belong to the official age group corresponding to the stage of education concerned, divided by the total population in the same age group.

Statistics (CAS) for 2004, the fundamental differences do not exist in the net rate at the gender level, despite the fact that the male enrollment ratio (111.7%) exceeds that for women (109.7%)²⁸.

Intermediate Stage: While basic education includes both primary and intermediate levels, compulsory education in Lebanon is applied until the age of twelve, which is generally until the last year of primary school. This gap explains to some extent the decline in enrollment in the following years of education, starting from the intermediate phase which takes three years, while noting that students are not subject to an official examination to proceed to the seventh year (the first year of intermediate level). However, what can be indicated in this regard is a significant drop in enrollment of both Lebanese and Palestinian students, as well as the emergence of discrepancies at the level of social status in favor of girls. Specifically, the net enrollment rates among the Lebanese students witness a significant decrease, from 92.7% at the elementary level to 68.5% at the intermediate level. This may be related to lower primary school completion rates, high rates of repetition and / or dropout at this stage.

As for the total enrollment rate, it maintains a relatively high level, reaching 97.7%, thus indicating that high repetition rates may be the main factor behind it²⁹. In fact, the highest percentage of repeaters (failed) in all intermediate school years was registered in the seventh grade - the first year of this stage – as it approximately reached 8.5%³⁰. It is noteworthy that the gross and net enrollment rates with regard to girls rate (104% and 72%, sequentially) are higher than those registered for boys (92% and 65%), which most likely points to a higher repetition or dropout rate for male students.

(28) Central Administration of Statistics (2006), "The living conditions in Households, Year 2004".

(29) Central Administration of Statistics (2006), "The Living Conditions of Families in the Year 2004".

(30) Central Administration of Statistics, UNICEF (2009): Multiple Indicators Cluster Survey - Third Cycle - Lebanon.

Enrollment and Attendance at the Secondary Level

To move to the stage of secondary education, all students, including Palestinian refugees, undergo official examinations in the last year of intermediate education³¹. This is generally accompanied by a significant drop in enrollment rates at the secondary level. For Lebanese students, the gross enrollment rate at the intermediate level is 97.7% on average, which drops to 62.2% at the secondary level; and the net enrollment rate decreases from 68.5% to 42.3%, according to data from the Central Administration of Statistics (CAS) for 2004. The difference between the gross and net enrollment rates noted above are attributed to high rates of school retention and delays. Another reason for the decline in enrollment is that a number of post-intermediate students get enrolled in technical and vocational schools (423 schools, including 117 public, and 306 private), instead of pursuing secondary education. The latest statistics (2011/2012) indicate that 53,016 students were enrolled in these schools, most of them (31,056) at pre-university stage³².

According to the household survey³³ data for 2009, the total net enrollment rate at the secondary level for Lebanese students reaches up to 81.1%, with significant variations between regions, with the lowest rate being in Northern Lebanon (between 66.9% and 69.1%), and the highest being in some provinces of Mount Lebanon and Bekaa (90%). It should be noted that the net attendance rate was 85.2% for females, against 77.4% for males³⁴.

(31) In 2013, the Syrian displaced underwent their own State exams, but they were asked to show an identity document in order to obtain their results.

(32) Research Centre and educational development (2012), Statistical Review 2011-2012.

(33) Net attendance rate: the percentage of children who belong to the official age group corresponding to a certain level of education, and who attend this educational level. This statistic is from The National Household Data Survey. The net rate of attendance at the secondary level is the percentage of children who are in the official age corresponding to the stage of secondary education and attending secondary school or higher levels.

(34) UNICEF / Central Administration of Statistics (2011), "Multiple Indicator Cluster Survey - Third Session 2009 (MICS 3).

Table 7: Net attendance rates at the secondary level of Lebanese students 2009

Areas	Net attendance rate
Beirut province	83.9
Mount Lebanon Province	
Beirut's southern suburbs	83.8
Other Mount Lebanon	92
North Province	
Akkar - Minieh - Dinieh	66.9
Other districts of the North	69.1
Bekaa	
Baalbeck Hermel District	90.4
Other districts Bekaa	80.6
South Province	79.8
Nabatieh	80.6
Total	81.1

Source: Central Bureau of Statistics / UNICEF Management (2011), "Multiple Indicator Cluster Survey - Third Session in 2009"

4. The educational system performance

1. The size of the classroom

It is a known fact that congested classrooms are one of the factors affecting the quality of teaching and learning. But the results of the "D-RASATI" study showed that the average number of students in one class in about half of the total number of public schools (1,280 schools) is from 10 to 20 students, while a small percentage of schools (107 schools) declared a number of at least five students per class. The highest percentage of such a surplus in space (38% of schools) was registered in the district of Batroun of Northern Lebanon³⁵. It is therefore clear that the level of overcrowding in

(35) The Ministry of Higher Education (2011) Report - Studies "about the field survey".

the classroom is not a major issue in public schools, i.e. in terms of its negative impact on the quality of student learning. However, with the influx of displaced Syrians, it is expected that the degree of class congestion has changed significantly, particularly in the North and the Bekaa.

Table 8: The average number of pupils per grade and their distribution by sector

	Official		Special free		Private		Total	
	number	%	Number	%	Number	%	Number	%
Less than 10 pupils	366	26.81	18	4.88	128	11.84	511	18.2
From 10 to 15 pupils	256	18.75	50	13.55	146	13.61	452	16.1
From 16 to 25 pupils	603	44.18	141	38.21	549	51.16	1293	46.06
From 26 to 35 pupils	139	10.17	153	41.46	241	22.46	533	18.99
From 36 to 45 pupils	1	0.07	7	1.9	9	0.84	17	0.61
More than 45 pupils	0	0	0	0	1	0.09	1	0.04
Total	1365	100	369	100	1074	100	2807	100

Source: Educational Center for Research and Development, "The Development of Education Indicators between 2002 and 2010"

According to statistics from the Center for Educational Research and Development (CERD), all levels of education for the school year 2012 – 2013 registered the lowest rate for the number of students per teacher in the public sector (7.2 students per teacher), followed by the private sector (11.6 students per teacher), while the highest rates came from the free private schools (18.6 pupils per teacher) and UNRWA schools (19.9 students per teacher). The recent results for "D-RASATI" indicate the pupil-teacher ratio in public schools is from 1-5 students per teacher as a minimum, and 20 students or more as a maximum.

Table 9: The average number of Pupils per Teacher, according to Sectors

	Public schools	Free special schools	Private schools	UNRWA Private Schools
Number of teachers	41,307	6,888	44,703	1,601
Number of students	299,245	127,846	516,627	31,877
Number of schools	1275	358	1075	69
The average number of students per teacher	7.2	18.6	11.6	19.9

Source: Center for Educational Research and Development, "Statistical Bulletin for the Academic Year 2012- 2013"

In addition, CERD's statistics show that the suburbs of Beirut, the Bekaa, and the North recorded the highest rate of number of students per teacher. This would affect the quality of education provided by these schools. According to a 2003 study on a sample of 4,400 students in the fourth grade in public schools and free private schools, a negative correlation was found between the rate of the number of students per teacher on the one hand, and the rate of success on the other hand. The lowest rate of students per teacher was recorded in schools with the highest rate of success. The rate of students is higher in schools where the rate of success is average. These rates reach their maximum in schools where the success rate becomes low³⁶. In spite of that, since the low average number of students per teacher in public schools is generally associated with a low level of student performance, it is therefore clear that there are other factors influencing the quality of education and the learning process.

(36) Helsinki Consulting Group (2005) referenced previously.

Table 10: The average number of Students per Teacher in public schools, at all stages of education, by province

	Beirut	Suburbs of Beirut	Mount Lebanon	North	Bekaa	South	Nabatieh	Total
0 to 5	7.9	9.4	23.4	13	11	8.5	18.1	13.1
6 to 15	74.2	53.6	59.6	56	57.1	66.3	59.7	58.9
16 to 25	15.8	25.7	14.6	24.1	23.1	20.9	18.1	21.5
26 to 35	2.1	7.8	1.9	5.8	7.3	3.9	3.6	5.3
35+	0	3.4	0.5	1.1	1.4	0.4	0.4	1.3
Total	100	100	100	100	100	100	100	100

Source: Center for Educational Research and Development, The Development of Education Indicators Between 2002 and 2010

2. Curriculum, Teachers, and the Process of Teaching and Learning

The curriculum reform of 1997 was considered a big step towards improving the quality of education in Lebanon, in the various types of education, public and private (and UNRWA schools, where the same curricula are implemented). These new curricula encourage the acquisition of skills such as cooperative learning and opportunities for experiential learning which aim at broadening the students' educational horizons, and helping them acquire the skills necessary to grow in a developed and diverse world. However, there are studies that evaluated the new curricula and highlighted a number of problems. The most important of these studies and the most holistic is the study conducted by the Lebanese Association for Educational Studies (LAES) commissioned by UNESCO in 2003, which highlighted the following issues³⁷:

- Incompatibility between the goals and overall objectives and the practical implications of educational materials.

(37) UNESCO (2003), "The Evaluation Study of Educational Curricula in Lebanon," prepared by the Lebanese Association for Educational Studies - Beirut.

- Deficiency in matters related to competencies, skills, and the time frame for implementation, as well as the scope of learning and sequence.

- Problems of quality of content, in terms of adequacy, relevance, and validity of the translation of technical terms, and the change that results from the curriculum being in different language versions.

- The intensity of some of the content of educational materials compared to the actual number of weeks of teaching during the school year.

- The problems caused by the general use of foreign languages in mathematics and science education, in the third cycle (intermediate) and the first and second cycles (primary years). The inability of students to acquire foreign languages negatively affects their acquisition of skills in mathematics and science.

- Problems in the evaluation system relevant to the requirements of implementation of the new curriculum, and in its requirements for educational resources and equipment.

- The difficulties encountered by teachers in the appropriate implementation of the new curriculum.

- Difficulties in the development of school textbooks and discrepancies in the quality of textbooks and teaching material at various stages of education (e.g. Arabic), and gender stereotypes.

The table below shows the skills and competencies of the current educational cadre (2009-2010), by stage and sector (public and private). The table shows that over 75% of public sector teachers hold a university degree or a teaching diploma, compared with about 60% of teachers in private schools, and only about 40% of free private schools teachers.

Overall, public sector teachers are characterized by having higher qualifications than their counterparts in the paid private sector and the free private sector. Accordingly, the poor performance of public education is not necessarily linked to the education level of teachers.

Table 11: the distribution of teachers according to the Degree of Education and the Education Sector

Sector	Job	Educational attainment				
		Below secondary	Secondary	Teaching Certificate	Academic	Total
Official	Teacher	2%	20%	24.9%	53.1%	100%
	Administrative	4.1%	29.1%	37%	29.8%	100%
	Undefined	4.5%	28.5%	38.6%	28.7%	100%
	Total	2.4%	21.4%	26.9%	49.4%	100%
Special Free	Teacher	5.3%	54.1%	1.8%	38.9%	100%
	Administrative	9.5%	55.4%	2.9%	32.3%	100%
	Undefined		40%		60%	100%
	Total	5.8%	54.6%	1.9%	38.1%	100%
Private	Teacher	2.6%	37.1%	3.9%	56.4%	100%
	Administrative	9.9%	44.6%	2.1%	43.4**%	100%
	Undefined	3.3%	16.7%	1.7%	78.3%	100%
	Total	3.8%	38.2%	3.6%	54.5%	100%

Source: Center for Educational Research and Development, The Development of Education Indicators Between 2002 and 2010

The number of contract teachers in the public sector has gradually increased over the last twenty years - from 6,000 contract teachers in 1993-1994 (21% of teachers in total) to 14,308 in 2012-2013 (35 % of all teachers)³⁸. It should be noted that contractual teachers do not benefit from health insurance and pension plans, and are only paid against actual hours of instruction at the end of the school year. The increase in the number of contract teachers in public education is of influence on the quality of learning in schools. Most contract teachers are on part-time contracts, and are therefore in need

(38) Educational Center for Research and Development, Statistical Bulletin for the Academic Year 2012-2013.

to work in more than one school in order to secure their living conditions, which limits their available time for preparing for the classes they teach, and providing the additional support needed by students in schools. Contract teachers do not receive training by the CERD or the MEHE. The growing number of contract teachers has put great pressure on public schools, as it has led to fewer teachers being in the official cadre, normally supervising extra-curricular activities and participating in school committees.

Since the law does not allow teachers to join unions or union federations, they resorted to the creation of associations to support their claims for better working conditions. Diminishing wages and the dwindling opportunities within the official teachers' cadre has led the teachers associations in primary and secondary levels to carry out several strikes in recent times, the most recent being in 2013-2014.

3. Retention. Dropout. Success

Data available for the school year 1997- 1998 indicate that from a hypothetical cohort of 1,000 students enrolled in the first year of primary school, only 75 students graduate from secondary school (with a Baccalauréat diploma) without having registered failure or class repetition (School Retention). This rate varies according to the region: It reaches 161 students in schools in Beirut, and 48 students in the north; in the Bekaa it fall to 24 students. In addition, it varies depending on the parents' socio-economic group, with up to 224 students in families belonging to the middle class, and down to 27 students in poor families. However, this disparity culminates with regard to the public education sector where the rate falls to 9 students against 225 students in private schools³⁹.

In following statistics which date back to the 2004-2005 school year, the average rate of school retention reached 10% at the elementary level (the highest record being in Grade 4, at 17.9%), and 13.5% at the intermediate level (the highest record being in Grade 7, at 20.3%)⁴⁰. The delay in school (students who have passed the age appropriate for their class), which creates is a big challenge since it increases the risk

(39) Consultation and Research Institute CRI (2000): Free Compulsory Education in Lebanon. Beirut: The Ministry of Higher Education.

(40) The Ministry of Education and Higher Education (2004), the Lebanese Association for Educational Studies (2007) National Strategy for Education in Lebanon: Vision Document, the Educational Development of the Ministry of Education, Beirut project.

of dropout. It reached about 24.2% on average of the total number enrolled in primary schools, and 41% of the total number enrolled in intermediate schools⁴¹.

4. Dropout

Estimates of the school year 1997 -1998 indicate the dropout of 593 students on a hypothetical cohort of 1,000 students enrolled in the first year of primary school, before the end of secondary school (= dropout rate of 9.5 %). The total dropout rate of primary school as a whole is about 3.3%⁴² in the school year data. In 2004-2005, the dropout rate at the primary level was between 4.3% and 5.0%, from 5.4% at the intermediate level, and reaching peak in the Grade 9 which recorded 27%⁴³.

According to statistical data for the academic year 2004-2005, girls registered a dropout rate less than boys in all Lebanese regions. In addition, the highest dropout and repetition rates occurred in the North, the South, and the Bekaa, in comparison with Beirut and Mount Lebanon. The statistics of the year showed that the dropout and repetition rates are highest in the public sector in comparison to the private sector⁴⁴.

In addition, lower net enrollment rates in intermediate and secondary stages can be related either to the transfer of students from general education to vocational and technical education, or premature entry into the labor market. According to a report by the United Nations, many students in regions with high dropout rates believe that the education they receive is poor, and therefore prefer to leave school voluntarily at an early stage, as they associate the low quality of education with a high opportunity cost⁴⁵.

(41) Educational Center for Research and Development (2004) Statistical Bulletin for the Academic Year 2004-2005, Beirut.

(42) Educational Center for Research and Development (2000) Compulsory Education in Lebanon: The Needs of Public Education.

(43) Lebanese Commission for Educational Sciences (2007), the National Strategy for Education in Lebanon: Vision Document, A Project of the Ministry of Higher Education for Educational Development.

(44) *ibid*

(45) United Nations Development Program (2009), Lebanon, 2008-2009: National Human Development Report - Towards a Citizen's State, Beirut.

Learning Outcomes

It is evident from the results of the latest assessment of Grade 8 students' performance level in math and science (TIMSS 2011) that Lebanon ranked 25th among 42 countries in mathematics, and ranked 39 in science⁴⁶.

In TIMSS 2007, Lebanon occupied the rank of 28th among 48 countries in math and 40th in science. It is clear that, comparatively, the results remained almost stable in mathematics, while the results of science have decreased by 8%⁴⁷. Compared to the results of TIMSS 2003, and despite the marked improvement in the results recorded in 2007 and 2011, the results of the Lebanese students in math and science are still below the international average.

It is worth noting that the results of the public sector students in 2007 were below those of their counterparts in private schools, with a difference that reached 10% between the two sectors. Further, the students in the private sector recorded averages that are compatible with the international average in math and science.

Recommendations

• Strengthen Statistical data and the production and use of statistics for basic education:

- Develop a strategy for the production of national statistics, including a timetable for national surveys, to allow for a regular detailed analysis of the census, so that they form the foundation for all national statistics on free and non-free public and private schools, as well as the schools that pertain to various other institutions.
- Develop a strategy for the dissemination of information and statistical data on a large scale to enable citizens to access and discuss them.
- Conduct periodic and regular studies concerning cohorts of students.
- Encourage conducting qualitative studies which focus on understanding the challenges that face certain categories of students. This will allow a better understanding of the key causal factors and plan for their treatment.

(46) <http://timssandpirls.bc.edu/data-release-2011/pdf/Overview-TIMSS-and-PIRLS-2011-Achievement.pdf>

(47) http://nces.ed.gov/timss/figure11_7.asp, http://nces.ed.gov/timss/figure11_3.asp

- **Improve access to education at all levels, with a focus on reducing existing inequalities**

- Develop a plan for regular kindergarten in all public schools and UNRWA schools, to promote training and develop school curricula.
- Develop proactive programs to prevent school dropout; such programs should combine social, financial, and educational support.
- Develop a transition program that contributes to the re-enrollment of children who have left school.
- Develop a strategy to increase access of children with special needs to school.

- **Intensify efforts to improve the quality of education**

- The integration of newly developed indicators and benchmarks, to be used by educational inspectors in their assessment of private schools and free private schools.
- Monitor and control the quality of teaching and learning in private nursery schools in Lebanon.
- Assess teacher training needs, with a close link between training and performance monitoring.
- Prepare a special classification of the qualifications of teachers in kindergarten, and build their capacities.
- Provide training about children with special needs, and support schools that seek to apply the policy of integration.
- Strengthen statistical data related to school dropout rates and encourage research on the causal factors.
- Develop a national strategy to address the high dropout rates among the poorest students in the North and the Bekaa schools, as well as Palestinian and Syrian students.

The Public Health Policy and Boosting its Performance

The research methodology in health policy is based on the development of social needs and economic resources, through both a rational analysis sequence connected to reality, and the principles which we adopt for the development of this sector within the available means. This leads to the development of a practical strategy molded with reasonable targets and adequate risks; from which would emerge a practical implementation using the available means and capabilities. There is no room here to describe the health problems from a medical point of view, for this is a scientific affair which remains outside the scope of economic analysis. Further, the matter must be considered as one which must be adopted as is, i.e. in its comprehensiveness, and be processed from the economic, administrative, and social views, while avoiding medical details altogether in order to avoid any confusion.

Medical care in Lebanon is considered the citizens' first concern. For given the progress and development of health services, the citizen devotes a large part of his income to face the high cost of health services and hospitalization. This great progress and interest in health services and their latest technology have motivated many medical specialists and physicians with bright careers abroad to return home and practice the profession in Lebanon. The appeal attracts as well graduates of local universities affiliated with the most recognized medical centers in the world, which enjoy acclaimed scientific levels. Lebanon is distinguished by being an advanced medical center sought by many of the neighboring and other Arab countries. The public and private investment has enabled the establishment of hospitals and the import of the latest equipment. The number of beds and/or scanner equipment "scanner" and magnetic resonance imaging "IRM" with regard to the population number, is among the highest in the world.

The criticism in the medical field is limited to matters that concern administrative affairs. It appears from the statistics of the Ministry of Health that the administrative costs are still reasonable compared to the level of health services, as they do not exceed 8% of GDP (Table 1).

Table No. 1: Expenditure share on health from the GDP

	ASSESSMENT OF	2012	2014
		in Billion L.L.	in Billion L.L.
1	Ministry of Health	647.22	720.37
2	National Fund of Social Security (NSSF)	587.74	765.47
3	Cooperative of Employees	283.11	315.11
4	The Army	240.99	268.23
5	Interior Security Forces	97.87	108.93
6	State Security	9.49	10.56
7	Customs	7.35	8.18
8	General Security	18.45	20.54
9	Private Insurance	739.38	822.95
10	Mutual Funds	159.01	176.98
11	International Organizations	21.79	24.25
12	Families	1.735.23	1.931.35
	Total expenditure on health	4.674.63	5.172.92
	GDP	64.800.00	67.600.00
	Expenditure share on health	7.17%	7.65%

Source: Calculated pursuant to the website of the Ministry of Public Health

The average inflation rate of the expenditure on medical treatment reached 5.5% in recent years, since 2007. Accordingly, the unexpected increase since 2012 can be estimated, for various categories, as outlined in Table 1 above for the year 2014. However, this inflation is nominal, and the real rise will not exceed the resultant from the increase in the population number. Some savings actually happened in the last twelve months, which compensated for the rise in some of the cost elements of health care. For example, the medical bill for care inside hospitals has decreased by 19.89% year on year, i.e. from August 2013 to August 2014¹. Table 1 addresses the expenses incurred by the population and the State.

(1) Institute for Research and Consultancy "Consumption Price Index" October 2014.

A large number of citizens of Arab countries come to Lebanon seeking medical services. This may be considered as additional revenues to the medical sector which are, however, difficult to estimate since they do not feature in the Treasury's budget or the families'. As it seems, the pace of medical services to foreigners is on a steady rise, as is the sectoral product as well, which confirms the advanced level of medicine in Lebanon. It is worth mentioning that a number of hospitals have concluded agreements with the most advanced health institutions in the United States, and a number of Lebanese medical doctors practice their profession in Lebanon and the United States.

However this does not preclude that a large part of the population reels under the weight of high costs, so people do not obtain the appropriate medical service unless they were well-off or beneficiaries of the available security funds available for limited categories of citizens. This raises the issue of the closed state hospitals, some of which containing the best equipment, however not having been able to attract the necessary human resources for years. This is not due to the lack of capabilities or to a weakness in the medical corps, but rather to the deterioration of the administrative system, for one reason or another, despite the presence of high calibers in its ranks.

The major active authorities in the health sector in Lebanon

The problem of health in Lebanon is confined to administrative insufficiency in health matters; this is due to known reasons unrelated to the professional competencies of the medical body and/or the costs faced by the citizen and the State. Three main parties that participate in the management of the sector are: The Ministry of Public Health, the National Fund for Social Security (NSSF), and the independent health care funds. Irrespective of their own importance, the other active parties, such as hospitals, insurance companies, and the medical corps, find themselves compelled to adapt to the decisions by the said main parties in their regular work. For the latter manage more than eighty percent of the funds allocated to health, and therefore entirely control demand.

1. The Ministry of Health

All citizens who are not subscribed to the NSSF or to a health care fund and/or do not benefit from medical insurance with an insurance company, are the responsibility of the State, particularly the Ministry of Public Health. This category is in excess of 30 percent of the population. In performing its role, the Ministry of Health (MoH) administers the admission of all patients who are on the State's responsibility to the hospitals; in addition, it follows up on their treatment, settles their dues, and dispenses

the medical drugs for intractable diseases as these are borne by the Government rather than the citizens. The matter is taken up to the Ministry's Director General, and sometimes to the Minister himself, when an exaggerated sum is claimed, or in the event of an altercation with an MoH official. Such cases frequently happen because of the prevailing mentality which is rooted in a right to privileges instead of natural rights which any citizen is entitled to obtain automatically. Due to the magnitude of the burden resulting from this role, MoH is rarely left with a meaningful time to carry out the research, planning, supervision, and development functions which are needed for the administration of the health sector in Lebanon.

The above begs the question: Which party can both handle the admission to hospitals and dispense medical drugs? Certainly not the Ministry, as it plays a leading role that cannot be carried out by any other part, and this role assumes:

a) A future vision illustrating the features of the expected development, which would be based on the available data at the Ministry, the change occurring in the country, and the progress achieved in medicine worldwide. This prospective change must take into account the priority which the ordinary citizen places on health care in Lebanon, and on seeing his wishes for social transformations and national solidarity come true;

b) Proposing to the Council of Ministers a submittal of effective policies and budget that fulfill the needs of the citizen, and make available to him a level of health care warranted by the average per capita income, which is his lawful right. The submittal would also indicate how it can be used to achieve a possibly higher rate of productivity;

c) To determine and adopt the strategies that achieve this vision within the available means, in addition to providing medical and hospitalization care to all regions as well, in particular to the most destitute regions in the country's extremities, and protecting all categories of citizens, in particular the weakest in terms of children and the elderly;

d) To prepare and execute programs that aim to expand the health care network to all regions, to supervise the professional training to all medical assistants, to continuously raise the level of human resources, and to attract the competent and promising elements in the profession;

e) To create a financial engineering that takes the priorities into consideration and ensures that expenses are made in a phased way whereby each expenditure incurred today would still

provide for an expected expenditure tomorrow. This clarifies the role of prevention. Moreover, an insufficient budget in most cases expresses the failure in organizing the expenditures;

f) Activating the partnership with the private sector to make good use of available medical capacity, as well as monitor all suppliers of medical and hospital services and maintain quality and cost control, in addition to verifying the conformity of execution to the programs set for the purpose of improving the health services to the citizens;

g) Paying attention to the risks associated with common or imported epidemics, and taking all precautions in a timely manner, thus warding off those risks away from the citizens. The open doors among countries, along with the heavy movement of people, have made the risk of contagion a threat to the whole world whenever an outbreak of an epidemic occurs somewhere on the globe;

h) Giving utmost importance to food, water and air safety, firstly to ensure the health of the citizens, and secondly to build a positive image for the country, especially that it relies on tourism in a fundamental way. For this reason, a clear plan must be drawn and be inclusive of specifications set together with a mechanism of monitoring their application and deterring any offense or violation. The plan would also determine the authorities competent to execute it and follow its implementation through;

i) To release the Ministry in the short term from directly securing the admission of citizens to hospitals and following-up on their treatment, in particular through establishing or assigning a third party administrative company to carry out this role (TPA). The Ministry should also be freed up from the task of importing and distributing the medical drugs whose cost the State shoulders on behalf of the citizens, by assigning a public or a private establishment to perform that role;

j) In the medium and long term, adopting flexible strategies which interact with the realities on the ground to create an integrated health care network over the whole Lebanese territory. Those strategies would also use the best medical and administrative means available, and streamline those resources by organizing the competition that takes place between the private sector suppliers and the public sector;

k) The establishment of a technical and administrative structure capable of playing this role, and monitoring its execution closely to come out with the highest possible level of success, thus making the much agreed upon citizens' wish about the priority of health come true.

2. The National Fund of Social Security

The National Fund of Social Security (NSSF) is one of the institutions that were established during President Fouad Chehab's term, and is perhaps the most important of them because of its direct role in the stability of the Lebanese society. The Fund was established in the mid 1960s, and it comprised of three branches: Sickness and Maternity, Family Compensations, and End of Service Indemnity. There is no doubt that the main fund, Sickness, was a candidate for continuity from the beginning.

The law establishing the fund mentioned that the end of service branch was temporary until the establishment of the pension system, which was anticipated to happen within a two-year period. Before the establishment of the fund, the employee received 20 months when reaching the retirement age — 64 years for men and 60 years for women — and had spent twenty consecutive years in a single establishment. If the employee had willingly moved to another establishment before the due date, he would lose his compensation. However, if the employee was discharged by the employer, then he was due one month of compensation for each year of work in the establishment. The National Fund of Social Security was established to ensure the compensation of the employee wherever his place of work, even if he had willingly left his first employer and without justification (often for a higher salary). This became legitimate, and without negative consequences on the employee, due to his adhesion to the fund's End of Service branch, and the opposite was true.

The fund lost a significant portion of its cash assets, and of the cash accumulated to subscribers to End of Service Indemnity as well, due to the collapse of the lira (Lebanese pound) in the 1980s as a result of the security incidents the country went through, in addition to its administration's lack of experience in investing funds, and the limitations of its governing law in matters of maintaining the value of its assets. So in exception to its inception law of its *raison d'être*, NSSF was forced to link the disbursement of compensation to the settlement of contributions. Along with that, the fund had to make separate account reconciliations with each employer that the employee had worked for throughout a certain period. But what actually happened is that the employee bore almost entirely the burden for the years that preceded the currency's depreciation, especially when the resources of his employer's establishment had dwindled due to the deterioration of the security and economic conditions, and the account reconciliation was consequently not carried out.

The Family Compensations branch raises a basic problem: Is it only the employees who adhered to the National Fund of Social Security who deserve allowances to help them raise their children? What is the status of the unemployed, who constitute today twenty percent of the labor force? What about those who are unable to work due to a work or security emergency or a handicap? What about the small craftsmen, and the owners of micro enterprises? It appears that the only reason for assigning NSSF with family compensations is to load the burden onto the employer. This undermines societal solidarity under the concept of 'one nation' in favor of a factional solidarity rather; so this compensation often remains theoretical, as most employers take into account, in advance, the cost of family allowances they would have to incur on behalf the employee's wife and children, and deduct it from his salary upon employment.

The Sickness and Maternity branch constitutes the main branch for which NSSF was created, and which must be developed and maintained until the State is able to resort to a more comprehensive system that insures all citizens. NSSF in general, and the health security branch in particular, suffer from several distortions which we mention from our concern to maintain it as an important social need:

- First: The administrative formalities: The medical examinations and admission to the hospital, as well as the reimbursement for the cost of medical drugs and other medical services that take place outside the hospital, require the citizen to get a prior approval from NSSF's administration and long hours of waiting at the institution's service counters, let alone weeks if not months to recover those costs; whereas it takes the privately insured individual only minutes to get all admission formalities processed upon entering the hospital or laboratory. This proves the statement made at the beginning of this chapter that the main problem in health care in the public sector stems from weak organization and administration.

- Second: Age categories registered in the fund: The age categories that belong to the health security branch are the youth (Table No. 2), which means that the cost of medical care is still low, and that each project that benefits the "new" retirees, i.e. each project that excludes the retired before its release may not face difficulty in funding and/or risk running into a deficit, due to the percentage of the number of retirees as compared to that of workers in the first coming years. The percentage increases significantly when the category of 41/51 years reaches retirement, i.e. after an average of twenty years. The situation evidently exacerbates in the following ten years, which requires a very astute administration of the health file.

Table No. 2 : Lebanese insured by age in end of 2012

Age category	Male	Female	Total
Under 20	5.626	6.430	12.056
From 20 to 30	82.526	80.288	162.814
From 31 to 40	83015	45.102.	128.117
From 41 to 50	86.370	38.793	125.163
From 51 to 60	63.381	22.065	85.446
From 61 to 64	13.889	3.272	17.161
Above 64	25.933	3.549	29.482
Total	360.740	199.499	560.239

- **Third: The adherents to the Sickness and Maternity branch:** The Sickness and Maternity branch includes around 594,000 insured (Table No. 3), 560,000 of them Lebanese and 34,000 foreigners. The total amount of beneficiaries i.e. the insured, is around 1,322,000.

Table No. 3: No. of insured by type of work in end of 2012

Type of work	Male	Female	Total
Regular employee	302.660	137.087	439.747
Elective	11.171	1.611	12.782
Bakeries	808	373	1.081
Newspaper salesman	46	0	46
Employed driver	4.443	10	4.453
Driver-owner	36.141	85	36.226
Student	23.127	33.665	56.792
Medical physician	5.708	1.308	7.016
Sea sector	91	0	91
Mayor	2.064	30	2.094
Teacher	6.061	27.416	33.477
Total	392.220	201.585	593.805

- Fourth: The establishments registered at NSSF: The number of establishments subject to an employer is around 47,000 establishments (Table No. 4): 39,000 micro enterprises, 5,000 small enterprises, 2,000 medium enterprises and a few hundred major establishments². These enterprises comprise around 440,000 insured people who enjoy the fund's benefits together with their families.

It is common knowledge that the above-mentioned establishments pay subscriptions on behalf of around 300,000 insured out of the 440,000 registered in the fund who are affiliated to duly registered establishments, meaning that the third of the latter number i.e. around 140,000 registered do not pay their due subscriptions. This raises many questions.

Accordingly, we face a dual problem:

- The number of establishments subject to the Code of Commerce is estimated at around 180,000 establishments, only 47,000 of which are registered at NSSF (Table No. 4);
- Those establishments declare 440,000 employees to NSSF and pay subscriptions for 300,000 employees only.

Table No. 4: No. of establishments registered pursuant to the number of employees on 31/12/2013

No. of establishments	No. of employees
39.380	From one employee to 10 employees
3.472	From 10 to 20
1183	From 21 to 30
660	From 31 to 40
353	From 41 to 50
258	From 51 to 60
192	From 61 to 70
149	From 71 to 80
143	From 81 to 90
98	From 91 to 100
871	More than 100 employees
46.759	Total

Source: Website of the National Fund of Social Security

(2) Refer to the chapter titled "Advocacy for a Small Business Act".

- **Fifth: Elective insurance:** The elective health insurance includes elderly people who have expressed a desire to benefit in exchange for payment of subscription; they number 12,782 (Table 3). The law stipulates that NSSF is not obligated to pay its dues if a deficiency occurred in this section, contrary to the workers health insurance branch. For a certain time, the fund began to delay payments, until the wait stretched for years. It was a given that the insured must pay the subscriptions. In the face of this injustice, the administration of NSSF offered that one could pay the sum of one million Lebanese liras in exchange for cancelling the arrears and withdraw from the Fund.

- **Sixth: Deficit of the fund for Sickness and Maternity and the Family Compensations branch:** Since a few years, NSSF suffered from an accumulated deficit in the branches of Sickness and Maternity, and Family Compensations, which reached about 818 billion Lebanese liras by the end of 2011; we hope that the solution will not be in increased subscription values (Table 5). In the year 2011, the loss in the Sickness and Maternity branch amounted to 51 billion Lebanese liras. A balance is supposed to have been achieved after the ceiling was raised from 1.5 million Lebanese liras to 2.5 million Lebanese liras. NSSF financed the accumulated deficit from the surplus in the End of Service Indemnity branch. In principle, the owners of personal accounts hold title to this branch's money balance; however it is also common knowledge that a number of compensation owners have left their paid work and/or left the country before their indemnity became due, and lost a part of it. It is estimated that the value of the funds which do not belong to personal accounts that are able to claim them to more than the sum used by NSSF to close the deficit in its Sickness and Family Compensations branches.

Table No. 5: Financial Status for the three branches pursuant to the lump account of year 2011 (numbers in billion Lebanese liras)

Department	Revenues			Charges		Results
Sickness and maternity	Subscriptions	Interests (deficit)	Government payments	Allowances	Admin. expenses	
	495.838	(29.761)	80.699	554.753	42.999	-50.976
	546.776			597.572		
Total of accumulated deficit in the department of sickness and maternity as on 31.12.2011						-438.802
Family allowances	Subscriptions	Interests (deficit)		Allowances	Admin. expenses	
	288.636	(25.933)		271.894	301.920	-39.217
	262.703			301.920		
Total of accumulated deficit in the department of family allowances as on 31.12.2011						-379.748
Department of end of service indemnity	Subscriptions	Settlement sums	Interests	Allowances	Admin. expenses	
	561.457	67.729	486.064	257.534	32.750	824.966
	1.115.250			290.284		7.893.611
Accumulated sums in the department of end of service indemnity as on 31.12.2011						
Total of accumulated deficiency as on 31.12.2011 in branches of sickness and maternity and family allowances						-818.540

Source: Website of the National Fund of Social Security

- Seventh: The fund suffers from a rise in administrative expenses:

- The Sickness and Maternity branch: Out of subscriptions that reached around 496 billion Lebanese liras in 2011, the administrative expenses amounted to 43 billion Lebanese liras, at a rate of 8.66%;

- Family Compensations branch: In the same year, the subscriptions reached 263 billion Lebanese liras, and the administrative expenses amounted to 33 billion Lebanese liras, at a rate of 12.5%;

- End of Service Indemnity branch: Calculations in this department differ. The subscription is set at 8.5%, 8% of which is credited to the personal accounts and 0.5% allocated for administrative expenses. The latter percentage amounted to 33 billion Lebanese liras vis-à-vis the administrative expenses which reached 32.750 billion Lebanese liras. It appears that NSSF allocated for administrative expenses only the percentage set by the law.

Consequently, the average of administrative expenses throughout NSSF's three branches is about 10%, and the fund currently has 1100 employees on its payroll whereas its organizational structure allows for 2050 employees. Accordingly:

- What level would the administrative expenses reach in case NSSF decided to fill its personnel vacancies?
- Is it possible to make the necessary reforms with the number of current employees?

3. Independent funds

The specialists in the field of health attribute the high cost of medical care to the multiplicity of funds. On the one hand, some funds lack economies of scale; on the other hand, the disparity of services leads to growing complaints by those who do not enjoy the same rights. This is especially true with respect to the second class in hospitals or the first class even, at a time when the NSSF ensures a uniform class for all.

The accounts of National Health show that the current numbers in Lebanon are exaggerated, and that the basic problem that's obstructing medical services stems from weak administration which causes the main problems on the ground, these being: The concentration of medical and hospital services in some regions and their lack in others, the lack of fully equipped Government hospitals in human resources, the shortage in the number of male and female nurses, and the absence of reliable generics. These matters are not affected by the size of the fund, especially when it includes tens of thousands of insured, and sometimes hundreds of thousands. The development of information and communication technologies (ICT) made the units which benefit from economies of scale and optimum production capacity much smaller than two or three decades ago. Consequently, these small funds became relatively capable to compete and continue (Table 6).

Small funds are distributed among the cooperatives affiliated to the public sector, and comprise more than 14% of the citizens in addition to the mutual funds which have around 3.5%. The latter get established willingly by the insured and mostly under their management, and the State most often contributes to their funding. The independency which these funds enjoy has led to a wide variety in the medical terms used, as well as in the administrative procedures and benefits.

**Table No. 6: Sources and financing funds of health in Lebanon
(in billion Lebanese liras)**

Ministry of Health	720.37	13.93%
National Social Security Fund	765.47	14.80%
Cooperatives affiliated to the Sector	731.55	14.14%
Cooperative of Employees	315.11	
Army Cooperative	268.23	
Interior Security	108.93	
State Security	10.56	
Customs	8.18	
General Security	20.54	
Private insurance	822.95	15.91%
Mutual funds	176.98	3.42%
International organizations	24.25	0.47%
Families	1,931.35	37.34%
Total	5,7172.92	100%

Source: Calculated pursuant to the National Calculations: Expense on Health – Assessment of 2014

Strengths pertinent to the multiplicity of the funds:

- Homogeneity of the insured to similar needs results in the improvement of quality and cost control;
- It also develops the sense of belonging and responsibility towards the fund;
- Takes into account the standard of living and provides the required services;
- A single environment enables speed in making decisions and implementation;
- Facilitates the monitoring of small funds, and controlling them at more reasonable cost.

Weaknesses pertinent the multiplicity of the funds:

- Special services cannot be provided for some, even with a higher subscription, when the Government contributes with the cost;
- The differentiated services lead to dissatisfaction of those who do not benefit from the higher categories; and to demand similar services for all;
- The fragmentation of the funds hinders the improvement of medical services due

to the differences in naming diseases and the designation of medical procedures, and the method of contracting and payment;

- Economies of scale will not always be taken into account when creating a cooperative or a mutual fund.

Pertinent Opportunities:

- The security funds, including NSSF, contribute only to one-third of expenditure on health (Table 6), which means that the field is open to insure the health of citizens. But it is difficult to expand the scope of the funds and/or increase their number before straightening their performance; therefore we reiterate that this only needs an improvement in their general administration.

- The standardization of procedures, descriptions and transactions constitutes one of the most important factors for activating the funds and developing the services they perform.

The risks faced by the Health Sector:

- Due to the unemployment in Lebanon, hiring relatives and followers became the main concern of some politicians. This phenomenon contributed to overcrowding public administrations, including Government hospitals, clinics and related centers, which led in many cases to the employment of incompetent elements who are also neglectful of the public interest in view of the immunity they enjoy;

- This situation caused pressure on the salaries and wages in the public sector, so the qualified paramedics started to seek jobs in the private sector or even outside the profession;

- The priority given by the Lebanese to health in general contributed to the evolution and diversity of health care services. This increased the size of additional charges i.e. deductions and other conditions imposed by insurance policies. And despite the low per capita income in the country, the awareness of the individual in Lebanon of health matters played a significant role in increasing the demand for health services. Moreover, despite the large influx of Arab citizens to hospitals in Lebanon which encouraged many bright Lebanese doctors abroad to return home, this situation had negative consequences as it exposed shortages in some areas, namely in terms of hospital paramedics, as well as the disparity among and with the existing hospitals. Most of those doctors had emigrated for education and specialization then settled abroad due to the prevailing conditions during the war.

The development in the field of health care services has to be matched at the administrative level in terms of unification of administrative procedures and the

descriptions of medical conditions, as well as in terms of medical and surgical procedures, medicinal drugs and other medical services and needs. Thus, total understanding between the suppliers of medical services and the contracting authorities cooperating together at the patient's service would be achieved, in order to reach the maximum possible degree of productivity.

As for establishing all kinds of funds, the criteria that must be adopted to integrate the medical discourse and achieve the highest degree of transparency, have to be decreed by law.

Effective health policy and standards

Health policy is based on three basic elements:

- Comprehensive health coverage;
- Facilitating the patient's benefit procedures;
- Improving the cost, quality and transparency.

1. Comprehensive health coverage

The Ministry of Health insures all citizens who do not benefit from health coverage by NSSF or by one of the cooperative or mutual funds and/or establishments in the private sector³. The number of beneficiaries from one of the funds is estimated to be around 53% of citizens. The distribution of the other half goes in principle as follows: 30% at the responsibility of the Ministry of Health, 12% at the direct responsibility of the patient's family, and 5% covered by mutual funds. This matter remains however theoretical, for not all reach treatment centers since hospitals and clinics are not present in all the country's regions, and doctor clinics are inexistent in the peripheries.

This vision is reinforced by the burden which befalls the Ministry of Health, which is in the range of 14% for the total expenditure on health, a very small percentage in comparison the volume of the beneficiaries. It is to be noted that the ratio of the number of doctors to the population is among the highest globally, for there are 35.2 doctors for each ten thousand individuals (Table 7).

(3) An additional insurance contract can as well be concluded with insurance companies, to cover the percentage that the fund leaves to be paid by the insured. Employers often take up the additional insurance policy at their expense as a grant or fringe benefit to the employee.

Table No. 7: The number of doctors by 10 000 persons

Cyprus	Finland	France	Lebanon	Germany	Italy
27.5	29.1	33.8	35.2	36.9	38.0

Source: International Statistics for Health – 2013

How can it be induced that a hospital be set up in a remote area?

And how can it be induced that a doctor's clinic elects practice in such an area, in order for health care to be available across the country?

Hospitals are located in most areas; unfortunately many of them are not operational despite being equipped with sufficient and modern medical equipment. This is due to the unavailability of human resources in those areas, first of all the doctors.

Arrangements can be made in collaboration with the union of doctors and/or the union of private hospitals to encourage doctors to work in rural regions before obtaining a job in the city's hospitals.

Further, the ministry would follow through on the programs for equipping the regions with medical centers if the inactive hospitals return to being operational, either by updating their construction or by stimulating the existence of private hospitals.

The ministry's role is evidently instrumental in covering the deficiency of hospital presence in the sparsely populated and/or poor regions, which the private sector does not invest in due to the lack of economic viability in those areas. Here, the rules of competition between the public and private sector play a key role in achieving the overall economic feasibility for the health sector: The Ministry actually achieves savings in the Treasury funds when the private sector ventures to establish hospitals and agrees to contract with the Ministry under appropriate conditions; or the Ministry builds a hospital when an economic feasibility is available in addition to providing for the region's needs. The same thinking can be applied at the administration level, where the Ministry can assign the public or private sector to manage new hospitals. Thus the forces of market economy could achieve the highest economic feasibility, the best productivity, and the good use of resources.

2. Facilitating the patient's benefit procedures

This concerns the difficulties that the insured experiences with NSSF in order to obtain prior approval to hospital admission and/or medical tests and/or medical treatments and the delays in collecting the value of the paid bills whether in clinics or pharmacies.

These procedures have become routine and done in minutes before hospital admission for individuals enjoying private insurance policies, through companies specialized in managing health files and payments (Third Party Administrators- TPAs). The citizen considers that the ease of these procedures is a key consideration. Therefore, it becomes imperative to facilitate the paperwork process, especially for residents of regions distant from the main cities, by establishing regional admission centers which would spare the patient the burden of traveling long distances to obtain the pre-approval and the required health services.

The administration of health files dictates ongoing supervision on the admission to Government hospitals, whether State-owned or affiliated to the Ministry of Health. This is done through a roll of permanently resident doctors, who would oversee the admission of those patients who are on the responsibility of the Ministry of Health, and would approve their treatment. There is no difficulty in hiring a sufficient number of doctors in the remote regions if the principle of mandatory practice for two years in the rural regions before working in one of the city hospitals is adopted.

It is also wise to require the patient to bear a limited percentage of the value of the medicines, in order to limit unnecessary use. For example, if a 5% contribution is imposed on the patient, to the ceiling of 10,000 liras depending on the annual inflation rate, the cost to the Ministry will be 91% and 92% at most, thus saving the Treasury 8% and the total public expenditure 3%.

3. Improving the cost, quality and transparency

The total cost of medical care, in its absolute terms, is set outside the scope of this study, because it is a technical issue dealt with closely by technical studies that determine the level of medical services that can be provided to the citizen in accordance with the possibilities available. On the contrary, that study deals with the budget that can be allocated by the State to meet the cost of medical care in whole or in part, in lieu of the citizens who are unable to meet those burdens by themselves. In our view, the level

of medical services is determined by the average income per capita at purchasing power parity (PPP) as compared with other countries (Table 8). The offerings can be compared with those in countries with the same per capita income, in order to determine the quality and cost of medical services that deserve support.

Iran	Bulgaria	Mexico	Lebanon	Malaysia	Croatia	Argentina
\$ 12.800	\$ 14.400	\$ 15.600	\$ 15.800	\$ 17.500	\$ 17.800	\$ 18.600

Table No. 8: Average per capita income at purchasing power parity (PPP) for the year 2013

Source: The World CIA Fact Book

Existing projects and development in the right direction

In the mid-sixties, the National Social Security Fund (NSSF) established the end of service indemnity for a temporary period until the retirement scheme would be set. At that time, subscription to the three branches, End of Service Indemnity, Sickness and Maternity, and Family Compensations, became mandatory; and upon reaching the retirement age or requesting the payment of indemnity dues, the insured would exit the fund and lose the sickness security. The individual loses health coverage at retirement age, when he mostly needs it. Since the beginning, it was conceded that the system did not provide appropriate social coverage, but that it was better than nothing. Before NSSF's establishment there was no health coverage, and the employer used to give the employee a one month salary for each year of employment at a maximum of twenty years, which the latter received when he reached the retirement age (64 for the man and 60 for the woman), or if the employee decided to leave the job after twenty years of work for the same employer. The employee stood to lose his compensation if he left his job on his own before reaching the retirement age, or before the end of the mentioned work period. NSSF came to guarantee the salary or wage earner an absolute right to the accumulated subscription funds even if he moved from one job to another, or if he left the service before the retirement age or before working for a period of twenty years for the same employer. If he wanted to liquidate the compensation before the legal retirement age or before twenty five years of work (the period set by NSSF), then he would earn a partial compensation and lose the balance. Anyhow, he would be considered outside NSSF and would neither benefit from health insurance, nor from family compensations if he was married and has children. Often times the wage earner spent his end of service indemnity on medical services that he came to need after leaving NSSF.

1. Retirement plan and social protection

The unions and employers have been advocating this scheme since NSSF was established. Many such projects did not see the light, sometimes for fear of their cost on society, and other times to avoid giving credit to the political entity that proposed them. In the early 1990s, the Businessmen's Association presented a project based on three pillars: The first twice as equal as the minimum wage with mandatory adhesion of all concerned; the second under six times the minimum wage with mandatory adhesion as well; the third elective and addresses the people with high salaries. All adherents would benefit from health insurance. The first and second were built on the distribution system pursuant to the principle of community solidarity, while the third was based on the principle of capitalization, i.e. on private accounts as in private investment.

In 2001 the later Prime Minister Rafic Hariri drafted a project based only on capitalization as he was convinced that it would neutralize all argumentation and help in launching the project. Then the Government presented the project to the Economic and Social Council (SEC); it was unanimously approved within a month, after asserting that a first distributional part would be adopted as an expression of community solidarity.

The consecutive Cabinets made several amendments to the project, then it was presented to the Common Parliamentary Committee presided by MP Atef Majdalani, where deliberations took more than a year. When the Government of PM Najib Mikati came to power, the Minister of Labor, Boutros Harb, requested to reclaim the project. It was then discussed in detail with the representatives of the employers and labor unions in the presence of NSSF's administration and actuary specialists. This project ensures retirement after reaching the legal age with the continuity of health insurance for the retired and his family, same as when that individual was working. At that time, the subscriptions were set for an average of 13.5% to be borne by the employer, the insured, and the Government. But the discussions relative to increasing the subscriptions or decreasing the subjected salaries whenever there is a deficiency in the system were not completed. Before the Cabinet was changed, the Minister drew on the assistance of the International Labor Organization (ILO) which presented him with a study made by a Canadian consultancy firm that recommended relying on virtual subscriptions. In the latter's opinion, that system would satisfy both employment parties. The project came to a halt with the advent of the PM Tammam Salam's Cabinet.

2. The Project for benefiting the retired from health insurance

When the retirement project and social protection project got in trouble, the Parliamentary Committee looked for a project which would provide continuity of health insurance for the retired. All parties, the employer, the beneficiary, and the Government, each for 1% of the wage earner's salary with a maximum limit equivalent to the ceiling in effect at health insurance, which presently stands at 2.5 million Lebanese liras per month. The retired and his family members would benefit from the project as per the system in place at NSSF's Sickness branch, provided that the retired had contributed to the fund for a period of at least twenty years. The retired would later assume a 9% subscription from the existing minimum wage on the date.

The actuarial study showed it possible to maintain the rates of subscription until 2050, with the possibility that the system would be replaced before that by a retirement and social protection project, or by a comprehensive health coverage system for all citizens.

3. Comprehensive Health Project

This project was presented in 2012 by Minister of Labor Charbel Nahas at the time of PM Mikati's Cabinet. One of its advantages was that it did not exclude any person from health insurance. Practically, everyone would benefit from the NSSF's "insurance level" and whoever wished for higher class benefits had to contract private health insurance. This system would be funded by the State's budget and ensure solidarity among all members of society. However, the experience was that this system had met with serious deficits in several advanced countries; so some of them withdrew from it several benefits which were granted to the citizen, in order to limit its cost and ensure its continuity.

In modern history, when Dr. Jawad Khalifé was Minister of Health, he along with Dr. Karam Karam proposed an integrated vision of a comprehensive coverage. At that time, the Government was not prepared to face such an ambitious project, in view of the main obstacle being its funding. In principle, when a project covers all citizens, the adequate way to fund it would be through the State Treasury levying taxes. However, we must take into consideration the experiments in advanced countries where comprehensive health insurance became a source of cumulative and growing deficits. The main reason for deficit was the citizen claiming special and developed services while not being prepared to pay for their cost. In Lebanon there is a chance to provide for this funding through contributions from expatriates who wish to participate in the medical care

system by paying an annual subscription fee equivalent to the average tax paid by the beneficiary citizen⁴.

The strategy of change

The term “strategy” is often used to indicate various programs which are not necessarily connected; in this case, the failure of one program could lead to the failure of the entire project. We rather mean by “Strategy of change” a set of programs which are coherently related to the objective. If one of them fails, another one takes its place, which does not preclude the ultimate achievement of the project. Therefore we propose a strategy built on three pillars: Management of change, phased change, and the role of budgeting in achieving change.

1. Establishing the management of change

Change requires an administration which is fully aware of the health policy’s objectives and the available possibilities, and which is also capable of closely monitoring progress, anticipating demand, and monitoring the evolution of the quality and cost of medical services, as well as taking appropriate measures to straighten any deviation in the project’s course.

In order for the Ministry to carry out this role, it has to relinquish the executive such procedures that exhaust the conduct of its activities as granting prior approvals for citizens’ hospital admissions and dispensing free medical drugs. Alternatively, an independent regulatory authority must be established to handle the organization of the supply of health services; it would take care of granting permits to establish hospitals and clinics, and to import medical equipment and drugs, in addition to licensing the consumption of medicines, as well as authorizing the opening of pharmacies, setting their specifications, and monitoring their work.

2. Visualizing the stages of change

There is a relationship between the average per capita income and the level of services that the country can provide. The average per capita income in Lebanon is about 15,000 US dollars at purchasing power parity⁵. This determines the ability of the Government to spend on health, compared with countries that have similar per capita income.

(4) Details would be put forth upon acceptance of this principle.

(5) Purchase Power Parity.

This does not necessarily require the study of the level of medical services in similar countries since medicine is advanced enough in Lebanon, but to learn the direction which can be taken for spending on health in the future given the importance of this facility for the Lebanese people and their willingness to sacrifice in order to have an excellent medical service.

It should be noted that the adoption of the average per capita income at purchasing power parity, in comparison with similar countries, makes health services beyond the reach of a large segment of the population due to the disparity of incomes in Lebanon. However this is exactly the cost which falls on the shoulders of the Government to achieve community solidarity. The cost of these services are to be accounted for in the budget of the Ministry of Health and spent from tax revenues to cover low-income people.

Thus we would have identified the direction of health care, and the cost that the Government must bear; this can be implemented in stages until the set objective is achieved. The overall period may take from three to five years, during which the budget of the Ministry of Health may rise to provide adequate health services to the classes which are not well-off, at the level justified by the citizen's average purchasing power parity.

3. Linking the budget with achieving change

This entails a migration from one system to another. The present system is one where the operational budget of the Ministry of Health is determined by relying on the budget of the year prior, the number of its dependent citizens, and the installations budget, namely the establishment of hospitals and clinics pursuant to a plan based on the estimated needs or statistical studies of the expected needs. The move should be to a system based on "health power parity" which rests on the average purchase power parity of the per capita income, where its elements are distributed among the different needs as per a daily follow-up of health affairs where the right adjustments to the apparent needs are made, to the point where all Lebanese obtain the health services they aspire to and which the national revenues can warrant.

The prospective targets

We mention here the progressive targets which must be achieved in order to secure the required development in the field of health care. The adopted measures aim to improve the service and reduce costs.

1. Unification of the medical terms

Different terms are used to indicate the medical procedures, drugs, and services, depending on the multiplicity of references that contributed to the creation of health

care activities and the dissemination of medical culture in Lebanon, as they naturally had to rely on their own lexicons. At some time this was considered enrichment, but it became an obstacle in managing health facilities, organizing their work, and in unifying the discourse between the contracting parties interacting together in the medical field. This matter indicates the need to adopt common terms for dealing with each other.

2. Integration of administrative procedures

The Lebanese bureaucracy overshadows the administrative procedures in the medical field, as it's the fact in the various fields. The development of the health system needs to reinforce the relations and collaboration between the various insuring funds and suppliers of health services on the one hand, and the Ministry of Health and other relevant departments on the other hand. This requires the unification of the administrative procedures, in order to reach a rationally functioning system.

3. Bridging between the terms of benefit

The free economic system encourages disparity between the terms of benefit from the mutual funds that operate on principles similar to health insurance in the private sector. However, when the Government contributes to the financing of the fund and therefore assumes part of the cost, then special terms cannot be granted at the expense of the public money. That is, if we take for granted that the support of independent funds is righteous, instead of encouraging their members to subscribe in the National Social Security Fund.

The current and anticipated pressures

The multitude of funds is considered per se an invitation to compare benefits and claim similar terms, in particular at the expense of the Government. This is all the more the case when the classes of hospitalization vary.

1. Pressures resulting from conflict of interest

The employer, the employee, and the Government contribute to funding NSSF's Sickness and Maternity branch in different proportions. The parties consider that contributing is normal and rightful, as it improves the comfort level resulting from sickness insurance, in addition to work conditions and productivity. Moreover, the Treasury's contribution forms a direct expression of community solidarity. When the ceiling of subscriptions changes, the percentages remain the same, since they had been previously determined, semi-finally, by negotiations between the parties and as approved by the Government. The ceiling limits the sum of medical expenses on the

one hand, and the solidarity percentage among the wage earners on the other hand, as the legislator had considered that there was no need for the highly paid employees to pay subscriptions relative to their full salaries as long as the benefit is the same.

2. The pressures resulting from acquired rights

The disparity between the terms of benefit forms a source of dissatisfaction in reality, and feeds reciprocity demands by those who feel that their situation is not equivalent to that of others. This threatens the health sector's stability and causes the continuity of cost increase. The privileged refuse to retract the class benefits they obtained and consider these as acquired rights which cannot be relinquished. Therefore this matter must be treated early and not be allowed repetition in the next projects. Therefore the Government must not contribute in any fund that grants terms which vary from NSSF's.

3. The stagnation resulting from the impairment of possibilities

The economic crisis in the country, and the absence of growth in recent years, prevented the improvement of health affairs; further, the preservation of services became a difficult task. Each improvement during the current circumstances must be profited from, in order to work on closing the gap between the health services whose burden the Government assumes and contributes in, and on harmonizing the terms of benefit among the insured, in addition to limiting the practice of making analogies and claims.

4. The irregular situation caused by the displaced

Around 1.5 million displaced from Syria and Iraq currently live in Lebanon in difficult conditions, a large number of them in tents, where the risk of diseases and infections is increasing. This poses a double problem: Funding the necessary installations to face the emerging numbers, settling hospitalization bills, and paying up the providers of health services. It is true that the UN commission for refugees, UNRWA, and other international institutions contribute in medical costs, yet this is not enough to cover the actual requirements, which makes Lebanon humanely forced to cover costs that outweigh its capacity.

A special treatment is needed to confront this dilemma, beginning with an in-depth study of the needs and potentials. This basically raises the issue of international solidarity, since without it nothing can be done.

As for the level of installations, especially in hospitals and infirmaries, the plan to

equip the regions and rural areas could be accelerated in order to meet the needs of the displaced, and at the same time complete the expansion of the network of health services across the whole Lebanese territory. This means that a plan must be first prepared, so that the installations would fit the needs in the long run.

Instrument of change and the Ministry's Modus Operandi

The Ministry of Health (MoH) is the agent of change in regards to the sector, from its vantage point of handling the organization of the sector, and from having a clear vision of its future prospects and the goals that must be achieved for the vision to materialize. This makes it imperative to delegate the authority of executing many procedures which the ministry carries out today to executive administrators who are specialized in providing health services to the citizens. This particularly concerns controlling the admission of patients to hospitals, importing and taking over the distribution of medical drugs presently assumed by the Ministry. Alternatively, and in order to maintain the sector, a regulatory authority must be established and be vested with the powers necessary to practice this role.

1. The role of the Ministry in organizing the health sector

Whether the Ministry organizes the sector or the Government establishes a regulatory authority, the health sector needs to undertake the following tasks:

- a) To set the executive program for contracting with hospitals;
- b) To conclude contracts and follow-up on their execution;
- c) To set an executive plan to establish Government hospitals, and help in the administration of the subcontracting process, execution control, and equipping the facilities;
- d) To supervise all health services suppliers;
- e) To monitor the offerings of the insuring funds;
- f) To grant, and withdraw, the permits to practice the profession to all the establishments that deal with medical services, with the exception of those organized by the law;
- g) To take the necessary actions to straighten the course of the health sector whenever necessary; Etc...

2. Compatibility and coordination between the insurance parties

The consolidation of medical terms and administrative procedures presumes the prior understanding among the insurance entities, and agreeing on the terms granted

to the insured, in particular if the concerned fund benefits from the Government's contribution. In this case, the terms and benefits should not be different than those which are in practice by NSSF.

This warrants the consolidation, from the administrative and economic sides, of the sickness funds which benefit from the contribution of the Government. NSSF must perform this role as a prelude to the comprehensive medical coverage system. As for the funds existing at the expense of the insured, or the insurance schemes existing in the private sector, where the contribution constitutes an indirect increase to the salary subject to tax, it is the closest to private sector insurance and must be organized by the law which authorizes its establishment.

3. Role of the budget of the Ministry of Health in activating the sector

When preparing its budget each year, the Ministry must:

- Prepare a study of the expected volume of the treatments that will be made at the expense of the Ministry, based on historical data from previous years; with details of the contracts concluded with the private sector's hospitals;
- To prepare a study of the Government hospitals. While including those which are operational, it would also include those which are not operational, whether fully or partially, together with the reasons why. It would also comprise the anticipated volume of the treatments that must be carried out;
- To prepare a Program Act budgeting for the installations and equipment that will take more than one year, while determining the expected cost in the annual budget under preparation;
- To prepare a list of purchase and/or import of medical drugs, together with indications of the procurement sources.

Mechanism of coordination and development

The organization of the sector needs a system that connects all the service providers in order to ensure their proper inter-communication at the service of the patient. This is prevalent in all advanced countries since many years, particularly since the spread of the Internet in Europe twenty years ago. It is considered an important rule for medical work and for the implementation of administrative procedures as well, toward keeping the patient in a comfort zone.

1. Personal Medical Records

All hospitals currently save a personal file for each patient they treated, and put it under his disposal. These files gain a significant importance in emergency cases. They also constitute an important scientific reference when the patient is examined, and saves repetition of laboratory tests. Consequently, hospitals must be linked to one electronic center or server, thus allowing doctors to retrieve a patient's file for reviewing his medical history, provided that this action is made upon the latter's authorization.

2. The electronic center

Connecting public health departments, hospitals, pharmacies, and other providers of medical services together requires a central system or network shared by all concerned parties, so that they could immediately communicate with each other in order to carry out all the actions needed by the health system. Of course, the ministry must carry out this project and monitor its implementation and maintenance, as well as determine how to access it. Examples abound the world over in regards to such a link, and how to use it scientifically and administratively while maintaining the highest degree of medical ethics. Determining the best networking system available nowadays, and implementing it with the most suitable hardware and software, would make it possible to upgrade the health services across the whole Lebanese territory to a twenty-first century level.

3. The financial approach for the project

The equipping of medical facilities and linking same to the electronic network is not a costly operation, because most hospitals nowadays used the most advanced technical methods which can be linked directly to the network and owns most of the tools needed for this purpose. Consequently, this project can be immediately applied.

The executive program for the Health Policy

A practical program can be extracted from what has been presented to develop the health sector in Lebanon depending on its capabilities and the will of the Lebanese who give the health aspect a priority in their daily lives:

1. This paper's summary indicates that the level of medicine in Lebanon is advanced, and that it is sought by many patients from neighboring countries and the Gulf region and matches medicine in advanced countries. What is needed now is the generalization of a good health service at the same level in all the country's regions and to all social classes, in particular to those individuals who are marginalized and are treated on the expense of the "Ministry of Public Health".

2. Therefore, the Ministry of Health must take action in the management of the sector, especially in taking the measures aiming to provide the same level of health services in the regions and rural areas as those which the citizen receives in the capital's hospitals and doctor clinics. This requires the Ministry giving up its direct administrative responsibilities, in particular hospital admission as well as monitoring treatments and settling obligations, in addition to the distribution of medical drugs directly by the Government to the citizens.

3. As well, it should also focus on good management in order to achieve equality among regions, and for the deprived social groups. This leads to working on the value chain in the health field which consists of the Ministry of Health, doctors, security funds, hospitals, laboratories, pharmacies, and other providers of medical services.

4. This program aims to improve the productivity conditions for establishing the foundations of a quality value chain in various areas of health care and in the Lebanese territory: - Operating an adequate number of hospitals in the regions, at the level required - The use of an adequate number of doctors, and encouraging the opening of clinics - Encouraging the work of paramedics and all the providers of medical services.

5. The ministry executes the program through a "healthy" competition between the public and private sectors; and sets the parameters between establishing hospitals funded by the Treasury, and contracting with private hospitals to apply the Ministry's policy for the regions. This contracting can be carried out in part, thus leaving a floor of the private hospital for the doctors to invest in at the service of the well-off class. The Ministry would as well collaborate with the Order (Union) of Medical Physicians, the Order of Private Hospitals, and the Order of Pharmacists and other representatives of the medical services providers, to create an appropriate investment climate in the medical field over the whole Lebanese territory.

6. The average per-capita income at purchasing power parity determines the level of health care which the economy faces in a given country. This average represents the hypothetical rights derived from citizenship. Moreover, the difference between the rights derived from citizenship, and the actual capabilities of the working social groups, represents the margin of community solidarity.

7. Routine works must not continue, as in granting prior approval for the patient's hospital admission, monitoring his treatment, paying the dues and other medical and

laboratory procedures, and/or providing the patient with the medical drugs, directly on the responsibility of the Ministry. It is necessary to assign a third party administration company (TPA) to carry out these tasks, as is the case in the private sector, in order for the Ministry to carry out its main duties at the service of the health sector overall.

8. This also applies to the security funds, with NSSF in the forefront, where the administrative procedures require a long time and a big trouble, in addition to the long wait to collect the dues, whereas the TPAs provide these services to insurance firms in the private sector in an immediate fashion, earning them the respect of both corporations and individuals.

9. In the long run, all citizens must be included in the comprehensive health care program of the public budget, and of course on NSSF terms, i.e. what is known as "NSSF Class". Private insurance remains for the well-off in all classes. In order to avoid the deficits that occurred in several countries, we must totally separate between the comprehensive health insurance and private insurance.

Lebanon can easily rectify the health services due to the progress it made in the medical field; it can also rectify all anomalies that the citizen suffers from by applying administrative procedures tested in Lebanon and abroad. These will give immediate results and develop the health sector in Lebanon in the medium run. We do hope that the pertinent decision of adopting the afore-mentioned program will be made, for the good of the country and its citizens.

The Impact of the Syrian Crisis & Migrants on Lebanon

The Syrian crisis and its tragic complications related to the forced Syrian migration carry tremendous consequences as well as social, economic and financial risks beyond the State's and the public treasury's capacity. This migration negatively impacts economic growth, public finance, and the investment environment. It also exerts pressure on public services such as health and education services and leads to an increase in demand on the flabby infrastructure incapable of meeting the requirements related to water, electricity and sewage. Moreover, it drastically increases the unemployment rate; it creates illegal competition as well as tensions between Lebanese people and Syrian migrants, and significantly increases poverty which raises concern.

Moreover, the Syrian crisis carries political, security and demographic consequences. From the political point of view, it decreases the government's efficiency and impedes the work of constitutional institutions as a result of internal political divergence concerning the Syrian crisis. From the security point of view, it threatens social stability due to the random scattering of armed Syrian migrants in most of the Lebanese regions, particularly in remote border areas away from the State's authority, inspection as well as security capacities. From the demographic point of view, it threatens the critical demographic balance in host regions due to their high worrisome numbers, since in some areas; the number of migrants exceeds the number of locals.

The World Bank's studies estimate that Syrian migrants cost Lebanon 4.5 billion dollars per year: 1 billion dollars as direct cost and 3.5 billion dollars as indirect cost. In 2014, this cost constituted 10% of the GDP. The total amount exceeded 15 billion dollars between 2011 and 2015.

The Effects of the Syrian Crisis on the Lebanese Economy

The Syrian crisis hinders economic growth and pressures the public finance, aggravates the deficit in the balance of trade and reduces direct foreign investment.

It also transforms the surplus in the balance of payment into a deficit, harms the tourism and real estate sectors and impedes trade exchange between Lebanon and regional countries.

1. Drop in economic growth: The Syrian crisis has led to economic repercussions since it directly affected the main key economic sectors such as tourism and real estate. It has also negatively impacted investment due to internal unrest and uncertainty, and it has pushed citizens to save money and consume less.

Therefore, we notice a drastic drop in the economic growth between 2010 and 2011 from 7 % to 2%, to become 1.5% in 2012, 0.9% in 2013, and 1.5% in 2014, while it fluctuates between 0 and 1% in 2015. This drastic decrease still occurred despite the increase of consumption demand from Syrian migrants and despite government expenditure and the growth incentives basket introduced by the Central Bank of Lebanon at the level of loans and interests as well.

The Syrian crisis caused a decrease in the rate of the real GDP growth from 2011 until 2014. The rate was 5% in 2011, 4.5% in 2012, 6.1% in 2013 and 5.5% in 2014 compared to the estimations of the World Bank. The latter has predicted, before the Syrian crisis, that Lebanon will achieve a 7% economic growth in 2011 compared to its economic growth in 2008 till 2010 where Lebanon has achieved an average economic growth of 8.5% with 8.5% in 2008, 9% in 2009 and 7% in 2010. The economic growth was expected to remain as significant from 2011 through 2014 with an average growth of 7% annually.

The estimate amount of cumulative losses from 2011 till 2014 is around 9.725 billion dollars equivalent to a loss of 2,400 dollars per capita in the GDP due to the Syrian crisis which started in March 2011 and has caused a drastic drop in GDP growth during this period. The estimate amount of losses by the end of 2015 is around 13.225 billion dollars.

The cumulative GDP between 2011 and 2014 is around 175.504 billion dollars after the crisis, instead of an estimated GDP of 185.228 billion dollars during the same period had it not been for the Syrian crisis.

Finally, it is important to note that the Lebanese economy needs an economic growth of 5% annually to maintain its economic and social stability.

Evaluation of Economic Repercussions: (in million dollars)

	2010	2011	2012	2013	2014	Total
Estimated real GDP growth before the crisis (%)	7	7	7	7	7	
Real GDP growth after the crisis (%)	-	2	1.5	0.9	1.5	
Decrease in the real GDP	-	5	5.5	6.1	5.5	
GDP after the crisis	-	39039	41766	45179	49520	175504
Estimated GDP before the crisis	-	40990	44063	47935	52240	185228
Losses in GDP	-	1930	2300	2755	2720	9725

Source: The Ministry of Finance

According to the estimates of the World Bank, the cumulative losses in GDP between 2012 and 2014 as a result of the Syrian crisis are 7.5 billion dollars where the real GDP growth before the Syrian crisis is estimated to be 4.3% in 2012, 4.4% in 2013 and 4.4% in 2014; however, the decrease in real GDP growth is estimated to be around 2.9% annually during this period. This means that the GDP decreased by 1800 dollars per capita. According to the estimates of ESCWA experts, the GDP cumulative losses during this period are around 11 billion dollars while the GDP losses per capita are around 3000 dollars.

Evaluation of the Economic Repercussions by the World Bank (in million dollars)

	2012	2013	2014	Total
Real GDP growth before the crisis (%)	4.3	4.4	4.4	
Real GDP growth after the crisis (%)	1.4	1.5	1.5	
Decrease in the real GDP growth (%)	2.9	2.9	2.9	
Losses in the GDP (%)	1142	2459	3928	7530

2. Negative Impact on the Tourism Sector: the tourism sector is considered one of the most harmed sectors by the repercussions of the Syrian crisis, by internal political divergence, security instability, as well the prohibition of Gulf countries of their citizens to come to Lebanon. Therefore, we notice the following:

Tourism decreased significantly in 2011 by 24% from 2.168 million tourists in 2010 to 1.655 million tourist in 2011, which is equivalent to the loss of 513,000 tourists of which 315,000 were coming from Arab countries by land through the Syrian borders.

This recession continued in the next years, and tourism decreased in 2012 by 17.4% when Gulf countries decided to prohibit their citizens to visit Lebanon. Tourism decreased by 6.7% in 2013, then it slightly improved in 2014.

Lebanon lost between 2011 and 2013 around 818,000 tourists which constitute 37.7% from the total number of tourists, since the number of tourists dropped from 2.168 million by the end of 2010 to 1.350 million by the end of 2014.

Arab tourism was affected the most; it decreased from 41.2% of the total number of tourists to 36% in 2014. The decrease mainly occurred among Gulf tourists who decreased between 2010 and 2013 by 59% from 334,000 tourists by the end of 2010 to 135,000 tourist by the end of 2013.

At the same time, the indices showed a decrease during the last four years in the hotel business by more than 27%; it decreased from 68% in 2010 to less than 50% in 2014, whereas the percentage of hotel business in Abu Dhabi is more than 76% and

more than 80% in Dubai. Moreover, the prices of hotel rooms during this period dropped by more than 35%.

Finally, the contribution of the tourism and travel sector in the GDP has decreased from 29% in 2010 which is equivalent to 10.7 billion dollars to 19% of the GDP in 2014 which is equivalent to 8.6 billion dollars.

3. Deterioration of Public Finance: The Syrian crisis caused the deterioration of the public finance which resulted in the increase of its deficit between 2010 and 2013 which constitute 3.6% of the GDP, i.e. 1.7 billion dollars. The deficit increased from 5.9% of GDP in 2011 to 9.5% of GDP in 2013. The Syrian crisis also increased the primary deficit whose value was 1855 billion liras in 2010 which consist 3.3% of GDP to become 166 billion dollars and 366 billion dollars in 2012 and 2013 respectively, while a surplus was registered in 2014 of an amount of 1970 billion liras due to the increase of telecommunication revenues by 970 billion liras. The Syrian crisis has led to a drastic increase in the growth pace of the public debt from 52.6 billion dollars in 2010 to 66.57 billion dollars in 2014 with a percentage of 26.5%.

As for the deterioration of the public finance, it is due to the following reasons:

a) Pressure on the Public Expenditure: public expenditure has increased during the period of 2011-2014 by 6.28% from 17047 billion liras by the end of 2010 which constitutes 29.4% of GDP to 21032 billion liras in 2014 which constitutes 30.6% of GDP; in other words, the increase is of 3985 billion liras. This is the result of an increase in wages and salaries by around 1525 billion liras, Electricity of Lebanon transfers which are around 1446 billion liras, and public debt servicing which constitute around 220 billion liras, as well as the costs of the Syrian crisis migrants.

The Syrian crisis has led to a slight increase in social, health and education as well as social affairs expenditures in the period 2011-2013; expenditures has reach 0.5% of GDP which is equivalent to around 225 million dollars due to the increase of health expenditures which consist 0.4% of GDP equivalent to around 180 million dollars spent on hospitals and medication. Moreover, social affairs expenditures increased to constitute 0.1% of GDP equivalent to around 45 million dollars. As for the education sector, there was no significant increase in expenditures, and it reached 29 million dollars since education costs of Syrian migrants were covered by donor countries. These countries donated 20 million dollars to cover the expenses of about 40,000

Syrian children in 2012 and 35 million dollars to cover the expenses of 70,000 thousand Syrian children in 2013. In 2014, however, social, health and education expenditures increased significantly to constitute 0.8% of GDP equivalent to 380 million dollars due to the overflow of migrants.

Simultaneously, the Syrian crisis has led to an increase in the military and security allowances due to the events that occurred in the country and the clashes in the north that led the successive governments to recruit thousands of new military and security actors, and place thousands of other contractors in permanent positions, as well as pay the state of emergency compensations, as well as of the compensations of emergency alertness. The military and security allowances have reached about 77 million dollars in 2012 and about 39 million dollars in 2013; it is likely to significantly increase in the coming years where the government has decided to recruit 15,000 military agents, which will exceed their annual cost by 120 million dollars.

In addition to the social and security expenditures, migrants will also increase electricity consumption which has already reached 170 million dollars in 2013; they will also increase expenditures related to the maintenance of the damaged infrastructure which has reached around 0.4% of the GDP equivalent to about 180 million dollars.

According to the estimations of the World Bank, Syrian migrants cost the public finance during the period 2012-2014 around 1.1 billion dollars; the latter is a progressive cost that was estimated to be around 97 million dollars in 2012, and around 390.5 million dollars in 2013, then 614 million dollars in 2014. These amounts aim to cover the costs of the Syrian migration during the mentioned period in electricity (502 million dollars), education (194 million dollars), health (92 million dollars), solid wastes (71 million dollars), and public debt servicing.

Public finance will not be capable of handling the pressure of the random Syrian migration without external help, especially that the costs will increase in the coming years and might exceed the estimations of the World Bank due the overflow of migrants and the increase of security and social requirements.

b) Deadweight Loss of Taxation during the period 2011-2014: the tax burden has lost 3.3% of the GDP equivalent to 1.630 billion dollars. It has dropped from 17.2% of the GDP by the end of 2010 to 9.13 of the GDP in 2014 due to the loss of 0.84% of the tax burden in 2011, 1.04% in 2012, 1.2% in 2013 and 0.3% in 2014.

The main reasons of the deadweight loss of taxation are:

- Decrease of around 0.23% of the GDP in the income tax equivalent to 110 million dollars from 1.73% of the GDP in 2011 to 1.5% of the GDP in 2014.
- Decrease of around 0.85% of the GDP in the VAT equivalent to 420 million dollars from 5.7% of the GDP by the end of 2010 to 4.85% of the GDP by the end of 2014.
- Decrease of around 0.28% of the GDP in customs revenues equivalent to 135 million dollars from 1.45% of the GDP to an estimated 1.17% in 2014.
- Decrease of 0.35% of the GDP in real estate charges equivalent to 166 million dollars from 1.52% of the GDP to an estimated 1.2% in 2014.

It is noticeable that the decrease in taxes has mainly impacted the tourism sector whose revenues have deteriorated due to the decrease of around 27% in VAT, 9% in corporate taxes, as well as in the retail business sector that has shown a setback of around 10% in VAT revenues. Finally, this decrease has also impacted the real estate sector that has recorded a decrease of around 25% in the fiscal charges on authorized construction sites, and around 10% in the revenues of corporate taxes.

Furthermore, a significant decline of 85% and 68.6% respectively was recorded between 2010 and 2013 in the revenues of customs duties from 68.9 billion liras in 2010 to 10.4 billion liras in 2013 as well as VAT revenues on the Lebanese-Syrian borders from 141.7 billion liras in 2010 to 44.5 billion liras in 2013. The drastic decline occurred between 2012 and 2013 due to the enormous security risks on the roads.

Development of passageways revenues between Lebanon and Syria (in billion liras)

	2010	2011	2012	2013
Customs duties revenues	68.9	63.7	38.4	10.4
VAT revenues	141.7	139.9	113	44.5
Total	210.6	203.6	151.4	54.9

The deterioration pace of the public finance is expected to increase in the coming stages due to the scarcity of external assistance granted for migrants and due to the pressures of the public expenditures especially at the security, military and social levels, in addition to the weak growth in taxes revenues due to the continuous economic slowdown.

The World Bank foresees that the Syrian crisis will reduce the public revenues by around 1.5 billion dollars during the period 2012-2014 due to the loss of taxes revenues whose value is 1.047 billion dollars including the loss of 401 million dollars from income and corporate taxes as well as capital taxes, the loss of 402 million dollars from internal custom duties on goods and services, as well as the loss of non-tax revenues whose value is 487 million dollars. Moreover, the World Bank predicts an increase of 1.1 billion dollars in public expenditures during the same period which will lead to a deficit increase of 2.6 billion dollars in the public budget (6% of GDP).

Finally, the World Bank's report estimates a total required amount of around 2.5 billion dollars to redeem and stabilize the situation concerning public expenditures at the level of public services (1.4 billion dollars) and infrastructure (1.1 billion dollars).

4. A Decline in foreign investment: foreign investments recorded a drastic decline of 22.2% between 2010 and 2011 from 4.9 billion dollars to 3.8 billion dollars. Then, the former declined to 3 billion dollars in 2012, 2.83 billion dollars in 2013 and 2.8 billion dollars in 2014. This decline is the result of an uncertain and worrisome environment for investors due to the Syrian crisis. They particularly include investors from the Gulf who used to invest in both the tourism and real estate sectors – sectors that need political stability and security.

5. Deterioration in the Balance of Payments: the balance of payments recorded a major deterioration during 2010 and 2011 since it transitioned from a surplus balance of payments with a value of 3326 million dollars in 2010 to a deficit balance of payments with a value of 1995 million dollars in 2011. In other words, a loss of 5320 million dollars occurred due to the decline of an estimate amount of 2.4 billion dollars in financial flows from 16.3 billion dollars in 2010 to 13.9 billion dollars in 2011 as well as a 2.2 billion dollars' deficit increase in 2011.

6. A decline in the activity of the real estate sector: this activity witnessed a decline due to the uncertainty of the political and security situation and the increased risks.

Therefore, it recorded during the period of 2010-2014 a significant decline of 26.7% in authorized construction sites from 17.62 million square kilometer in 2010 to 13.55 million square kilometer in 2014. Real estate sales dropped by 26% from 94203 units in 2010 to 70721 units in 2014.

On the other hand, the overflow of Syrian migrants, particularly in Beirut and both regions of the North and Bekaa, led to a significant increase in rent prices of apartments and houses which infuriated the people in these regions, whereas the prices of apartments and plots have not increased due a limited buying activity which did not exceed 1300 unit in all Lebanese regions.

7. A decline in the trade sector: The Syrian crisis has caused a decline of more than 35% in the activities of this sector between 2011 and 2014, the closing of hundreds of businesses in Beirut and other areas, and the dismissal of hundreds of employees due to the unstable and uncertain atmosphere, while citizens became more saving-oriented, legal and illegal passageways were closed down between Lebanon and Syria, and tourism activities decreased. The Syrian crisis also led the government to lose revenues from the profits of institutions, customs and tax fees on the VAT and the income tax.

At the same time, the events in Syria significantly impacted trade exchange between Lebanon and Syria, and between Lebanon and regional countries since Syria constituted the trade corridors for these countries.

The impacts on trade exchange are revealed as follows:

a) Trade Exchange between Lebanon and Syria: Trade exchange between Lebanon and Syria was impacted by the events in Syria as well as the economic, financial and international sanctions imposed on it. It was also impacted by the decline of the smuggling activity between Lebanon and Syria and the dependence of the Syrian market on the Lebanese market to import for their internal needs.

The Lebanese exports to Syria increased by 78% especially between 2012 and 2013 from 294 million dollars in 2012 to 524 million dollars in 2013 since Lebanon imports petroleum derivatives for its internal needs.

On the other hand, imports in Syria recorded a 46.6% decline between 2010 and 2013 from 339 million dollars for 2010 to 181 million dollars for 2013. The Balance of

Trade in Lebanon recorded a surplus with a value of 28 million dollars in 2012, and a value of 343 million dollars in 2013, while the Balance of Trade in Syria has been recording a deficit.

Trade Exchange between Lebanon and Syria (in million dollars)

	2010	2011	2012	2013
Imports	339	310	266	181
Exports	221	215	294	524
Balance of Trade	(118)	(95)	28	343

b) Trade exchange between Lebanon and other regional countries through Syrian passageways (Masnaa - Abboudieh): Trade between Lebanon and regional countries was highly impacted. Transit transactions also declined to 383 million dollars in 2010, while re-exportation dropped to 153 million dollars due to the closing of passageways at the borders and the increase of security risks on Syrian roads. Impacts of the Syrian crisis are revealed as follows:

Trade exchange between Lebanon and regional countries (in million dollars)

	2010	2011	2012	2013
Imports	1219	1181	912	373
Exports	939	924	864	685
Total	2158	2105	1776	1058

- A significant decline of 69.5% in imports from 1219 million dollars in 2010 to 373 million dollars in 2013, as well as a decline of 27% from 939 million dollars in 2010 to 685 million dollars in 2013.

A significant decline was recorded between 2012 and 2013 consisting of a 59% of decline in imports and 20.7% in exports due to the closing down of the majority of passageways on the borders with Syria as well as the significant security developments in all Syrian areas.

- Lebanese exports declined from 22% of the total exports in 2010 to 17% in 2013. Also, imports to the area declined from 6.8% of the total imports to 1.75% in 2013.

- The number of transport trucks from Lebanon to regional countries declined from 145000 transportation transactions in 2010 to 45000 in 2013 due to the inflation of transportation prices and the increase of security risks on the roads.

c) Deficit increase in the total trade exchange: The Syrian crisis and the overflow of Syrian migrants to Lebanon led to a 26% deficit increase in the Balance of Trade from 33% of GDP in 2010 to 38.75 in 2013 equivalent to 13711 million dollars in 2010 to 17212 million dollars in 2013 due to the increase of import activities by the private sector, especially petroleum derivatives whose value increased by 60%, to cover the needs of both the Lebanese and Syrian markets. It is important to note that the price of an oil barrel increased during that period from 77 dollars to 100 dollars.

- Finally, it is worth mentioning that the trade and industrial sectors benefited from the Syrian crisis in the import and export transactions and migrant consumption.

Total Trade Exchange (in million dollars)

	2010	2011	2012	2013
Imports	17964	20158	21280	21228
Exports	4253	4265	4483	3936
Trade Deficit	13711	15893	16797	17292

d) A decline in transit activity: the number of trips conducted by transport trucks declined (transportation of transit goods from Lebanon to neighbouring countries) from 105,000 trips in 2010 to less than 30,000 trips in 2013. Also, the number of trips conducted by transport trucks declined (transportation of goods from neighbouring countries to Lebanon) from 114,000 trips in 2010 to 30,000 trips in 2013.

8. Lebanese banks: Lebanese banks have demonstrated a remarkable immunity and enduringness and have managed to contain the Syrian crisis and hinder its risks internally and externally. This is shown through:

- Internally, banks gathered reserves which almost reached 400 million dollars to cover bad loans, and requested guarantees in cash or in kind from their Syrian clients who were granted loans having a total value of less than 1 billion dollars which constitutes less than 2.2% from the total credits of the private sector. Moreover, the capital of Lebanese banks in Syria does not exceed 4% of their capital in Lebanon and is equivalent to about 267 million dollars. Even the deposits of Syrians in Lebanese banks does not constitute any threat even if they were withdrawn, since according to the Secretary General of Banks, it constitutes less than 3% of the total deposits which means less than 3.8 billion dollars.

The banking sector has achieved during the recent years a stable growth in its deposits ranging between 8% and 9%, as well as in its credits ranging between 9% and 11%. The former maintained acceptable levels of profit and has demonstrated a solid base of deposits and a high level of liquidity. The banking sector relies on financial flows sent by Lebanese immigrants abroad.

The banking sector abided by the American and international sanctions imposed on Syria at the level of banking and financial transactions, as well as the opening of accounts, and despite this, it did not witness any flights of funds and deposits.

- Externally, the 6 banks operating in Syria have adopted conservative and cautious policies through reducing the credits granted to Syrian clients and not competing to attract deposits. Therefore, there has been a decline in their total assets from 8 billion dollars in 2010 to 2.8 billion dollars in 2013. There has also been a decline in their private capitals from 545 million dollars to 273 million dollars of which 51% are Syrian contributions. Their credits declined by more than 65% from 3

billion dollars to less than 1 billion dollars. As for their deposit portfolios, they witnessed a decline from around 4 billion dollars to around 2.4 billion dollars, in addition to a decline in the net profit from 47 million dollars to around 23 million dollars.

9. Syrian Migrants Economic Benefits: 1.5 million migrants contribute in revitalizing the economic movement and reducing the frequency of economic slowdown through consumption and investment, reflected through the flow of international help that reached 800 million dollars in 2014; thus, an additional growth of 1.3% was recorded.

The affluent and wealthy category among Syrian migrants constitutes 10% and 15% of the total number of migrants. This category has enrolled their children in private schools and universities and has activated some economic and financial sectors. For instance, in the external trade sector, Lebanon has become the mediator between the Syrian market and international markets; therefore, trade transactions were reinforced between Lebanon and Syria as well as neighbouring countries. Import transactions to Syria and Gulf countries witnessed a growth. In the real estate sector, the mentioned category has bought a number of housing units (around 1300 unit) and rented thousands of apartments which constituted incomes and high rent allowances for owners. In the banking sector, the affluent people deposited money, took loans, made transfers and many other banking transactions. In the retail, tourism and industrial sectors, they made limited investments, but they contributed in the creation of hundreds of jobs for Lebanese people by opening shops, coffee shops and restaurants, hotels as well as transferring their plants from Syria to Lebanon. They contributed in the revitalization of industries that were long gone in Lebanon. Finally, in air traffic, Beirut International Airport became a link between Syrians and the outside world, while in maritime traffic, Beirut port witnessed a 10% increase in the number of containers in 2013 and a percentage of 40% compared to 2010.

In addition to all of the above, the cheap and qualified Syrian labour contributed in the agriculture sector due to the increase of demand from Syria and through land reclamation, harvest, and helping Lebanese agriculturists. In the construction sector, the cheap, capable and qualified Syrian labour compensated for the lack of sufficient internal labour.

On the other hand, Lebanon was not able to benefit from the capitals escaping the war estimated to be of billions of dollars by granting these capital investment

incentives, especially in the industrial sector similarly to what happened in other countries. Therefore, these capitals headed to Gulf countries, Turkey and Jordan.

Finally, the financial aids granted by the United Nations Organization as well as international and Arab agencies, estimated to be of hundreds of millions of dollars, contribute in the social and economic reanimation of some areas. They also contribute in reducing the burden on the public budget, particularly in the health and education sectors.

10. Inflation: Lebanon has managed to contain the inflation between 2010 and 2014 despite the increase of an intense consumer demand by Syrian migrants and despite the increase in prices of apartments for rent as well as the increase of food prices. Inflation rates ranged between 4.5% in 2010, 3.1% in 2011, 6.5% in 2012, 6.3% in 2013, and 3% in 2014 due to the increase in petroleum prices worldwide until the first half of 2014, due to apartment price were fixation, and to the increase of consumer demand of migrants, and the payment of a part of the series of ranks and salaries (high cost of living...).

Overflow of Syrian Migrants to Lebanon

The Syrian migrants' crisis is complicated, intense and hard to handle. It started as temporary for humanitarian purposes, and then it became a long-term political, economic, social and security crisis due to the internal political divisions related to it and the absence of a governmental policy to handle and organize it similarly to Jordan and Turkey. Even more, Lebanon witnessed an open borders policy which permitted the random, enormous and unprecedented overflow of migrants.

The number of Syrian migrants within Syria has reached in December 2015, according to the UNHCR, around 6.5 million migrants; whereas, the number of migrants to neighbouring countries has reached around 4.930 million migrants.

Lebanon has hosted a huge number of Syrian migrants outside Syria with respect to its population. In December 2015, their number has reached 1.070 million migrants constituting 24.3% of the total number of migrants. Turkey has hosted 1.9 million migrants consisting 43.2% of the total number of migrants, Jordan has hosted 20.4% equivalent to 813,000 migrants, and Iraq has hosted 7% equivalent to 213,000 migrants. Recently, around 400,000 Syrian refugees moved to Europe where they have caused a humanitarian, social and security crisis.

On the other hand, the Lebanese government estimates the number of migrants in Lebanon to be around 1.5 million Syrian migrants, while the World Bank predicts the number to reach 1.6 million migrants.

Syrian migrants registered in the UNHCR constitute 28.5% from the population in Lebanon, while they only constitute 5.49% in Turkey, 12.5% in Jordan, and less than 1% in Iraq and Egypt. In addition, we notice a disparity between the size of the Lebanese economy and its area from one hand, and between economies and areas of neighbouring countries from another hand. The size of the Turkish economy is 20 times larger than the Lebanese economy, the Turkish lands area is 80 times larger than the Lebanese lands area, and the Turkish population is 20 times more than the Lebanese population. In Jordan, the geographical area is 9 times larger than the geographical area in Lebanon and the Jordan population is 1.5 times more than the Lebanese population.

The number of Syrian migrants progressively increased in 2012 and 2013. It has increased from 18,000 migrants registered in April 2012 to 129,000 by the end of 2012, i.e. 10,000 more migrants each month. Then, the number drastically increased in 2013 where around 60,000 migrants entered monthly until the number reached 806,000 Syrian migrants by the end of 2013. In 2014, 337,000 more Syrian migrants migrated to Lebanon, i.e. an average of 28,000 Syrian refugees each month. In 2015, the government managed to stop the migration and the number became zero with a decline in the number of the ones registered in the UNHCR from 1.185 million migrants to 1.070 million migrants having a percentage of 9.70%.

Syrian migrants constitute a social and security threat in Lebanon since they threaten its existence due to their random and armed scattering in more than 1400 sites and in most of the Lebanese regions as well as due to the transformation of their sites into security spots outside the government's authority and supervision. Moreover, migrants constitute social threats due to their continuous clashes with Lebanese families, to their illegal competition for Lebanese people in the job market, and their concentration in remote and border areas historically poor and deprived. All of this aggravates the difficult living conditions in these areas. In addition, this creates a demographic imbalance and threatens the critical social balance in some host areas where the number of Syrian migrants has exceeded the number of Lebanese inhabitants.

The Syrian migration caused overpopulation in Lebanon; the population increased from 370 people per square kilometer to 520 people per square kilometer.

Syrian migrants are mainly distributed and in huge numbers in border areas that suffer from social and development problems, i.e. 24.5% of the number of migrants is established in North Lebanon equivalent to 287,000 migrants, and 35.5% in the Bekaa equivalent to 416,000 migrants. They are less present in Beirut and Mount Lebanon where they constitute 25.8% of the number of migrants equivalent to 133,000 migrants as well as in South Lebanon where they constitute 11.4% equivalent to 133,000 migrants.

Lebanon has also hosted, in addition to Syrian migrants, Palestinian migrants too. Most of them came from the Yarmouk camp in Syria; their number is estimated to be around 53,000 migrants added to 1.070 million migrants registered in the UNHCR and distributed in shelters supervised by UNWRA in Palestinian camps. The UNHCR has recently criticized the position of the Lebanese government; especially that UNWRA undertakes a portion of the Palestinian migration burden from Syria to Lebanon by offering nutritive and living aids and undertaking education and hospital costs.

Lebanese officials are worried that the Palestinian migration will cause an additional cause of tension which will increase the security instability due to the increase in the influence of extremist groups among migrants within camps.

Moreover, Lebanon has hosted a number of Lebanese migrants from Syria estimated to be around 50,000 migrants. They are distributed between Lebanese residing in Syrian villages near the Lebanese borders whose number is around 20,000 people and Lebanese having a double nationality, Syrian and Lebanese (more than 30,000 people).

From the total number of migrants, Syrian migrants are 48.2% male and 51.8% females, while 19.4% are children less than 4 years old.

33.8% of migrants are aged between 5 and 17 years old equivalent to 384,000 migrants at a studying age of which 90,000 have been enrolled in official educational schools and 65,000 participated in unofficial educational programs. The International Labour Organization estimates that 31% of the Syrian children are enrolled in schools;

the World Bank predicts that Syrian children will constitute 57% of the students in public schools and their number will range between 140,000 and 170,000 students in the academic year 2014-2015.

Syrian migrants are 53.2% children under the age of 18 who need healthcare, social care, protection, food and clothing; 21.4% of these Syrian children are between 5 and 11 of age.

Data show that the main migrating categories are the age groups between 18 and 59 years old; they constitute 44.1% of the total number of migrants. Data also show that number of female migrants exceed the number of male migrants, since men stayed behind in Syria to fight, protect their properties, livelihoods, and houses.

As for the Syrian labour, data show a 62% of Syrian migrants above 15 years old that constitute a main base capable of entering the job market in Lebanon, i.e. 733,000 Syrian migrants are registered from which around 47% are male equivalent to 344,000 male Syrian migrants. On the other hand, the government estimates the number of Syrian migrants above 15 years old capable of entering the job market equivalent to 930,000 migrants (62% from the number of migrants estimated to be around 1.5 million) of which 437,000 are males.

Reports indicate that the reasons behind the migration of about 60% are the clashes and the absence of security in their regions, while 32% migrated for political reasons.

Therefore, the return of Syrian migrants to Syria will not be anytime soon and is related to security and political events in Syria.

UNHCR reports indicate that most migrants live in difficult social conditions, since 40% live in tents and group shelters, unfinished buildings and garages of which 14% live in random camps outside the government's control and supervision which threatens the security in the Lebanese society, while 18% live in separated rooms.

The rest 60% live in housing sites of limited area (rooms or apartments) of which most lack for basic needs such as water, electricity, sewage and hygiene.

The UNHCR estimates the financial needs of migrants from the international family in 2015 to be around 1.760 billion dollars. Lebanon is expected to receive 57% of it equivalent to 749.4 million dollars. Also, UNHCR reports indicate that 70% of migrants live under the poverty line and that around 900,000 migrants received food

from the electronic card program. However, this program might be suspended by the UN agency responsible for food worldwide due to the refusal of donors to offer more financial support. This raises the concern of a tension increase within camps due to the decrease in the number of beneficiaries from the food while they drown in debt.

It is important to note that these aids are directly paid through international organizations working on the field and not through the Lebanese government, and that the European Commission has donated 485 million dollars. Additionally, we notice that UNHCR aids increased from 13.5 million dollars in 2010 to 370 million dollars in 2014.

On the other hand, the Lebanese government has set an international assistance plan for 2015 with an amount of 2.2 billion dollars distributed as follows: 37% for infrastructure, education and energy facilities and 63% for handling humanitarian matters whereas 45% equivalent to 1 billion dollars was invested in this domain. Also, a plan was set for 2016 with an estimate amount of 2.4 billion dollars.

The identity of Syrian migrants must be legally defined since Lebanon did not sign the 1951 UN Convention or the 1967 Protocol related to refugees. Nevertheless, all countries are obliged and shall respect the principle of “Non-Refoulement” (non-suppression) of any refugee accepted or registered at the UNHCR, especially if the “refoulement” (suppression) will threaten the freedom and life of the refugee. Moreover, the UNHCR is handling Syrians as refugees and not migrants.

The Syrian migrants’ portfolio requires a new approach at the development and hosting levels, as well as the level of presence, shelter and spreading of refugees. It also requires changing the open borders policy and stop welcoming more Syrian refugees. A policy to decrease the number of refugees and handle the situation of the illegally present refugees must be adopted as a prelude to return them to their homes.

The Effects of Syrian Migrants on public services and infrastructure

The overflow of Syrian migrants is causing high pressure on the public health and education services as well as on the social security network which is initially low and somehow religious. Moreover, the demand is also causing pressure on the flabby

infrastructure incapable of answering to their needs and consumption of water, electricity, and sewerage network. Repercussions appear as follows:

1. Public services repercussions caused by Syrian migrants: health, education and social security network.

The World Bank estimates the financial cost of the public services repercussions caused by Syrian migrants to range between 308 and 340 million dollars during the period 2012-2014. The estimated required resources to retrieve the quality of services like it was before the crisis is between 1.4 and 1.6 billion dollars.

a) Health Sector: the health sector is suffering from pressure, from an increase in demand on health services as well as an increase in health costs due to the overflow of Syrian migrants. Additionally, Lebanese people are facing difficulties in receiving proper healthcare and finding sufficient medicine, especially that a large number of migrants are in need of primary and secondary healthcare whose costs they cannot afford. They constitute 40% of the total number of primary healthcare cases (488,000 cases).

The health sector is suffering from an insufficient number of workers in the domain, the spread of illnesses and diseases (measles, tuberculosis, diseases transmitted in water...), as well as an increase in the cases of contagious diseases. This is due to the residence of Syrian migrants in insanitary places and the absence of sufficient immunity campaigns especially that more than 75% of Syrian migrants are women and children. Moreover, migrants are causing an increase in demand on hospitals and medications while the high cost of primary and secondary medical services constitute an obstacle.

Statistics conducted by the Ministry of Health indicate 1761 measles cases in Lebanon during 2013 compared to 9 cases in 2011, as well as 509 leishmaniasis cases among migrants in 2013 compared to 5 cases only in 2011.

Health expenses for Syrian migrants increased in the public budget during 2010-2013 by around 0.4% of GDP equivalent to 149 million dollars (223 billion liras) due to the increase in the medication bill from 128 billion liras in 2010 to 245 billion liras in 2013, as well as the public hospitals bill from 130 billion liras in 2010 to 286 billion liras in 2013. The drastic increases recorded in 2013 are 90% for medication and 15% for hospitalization.

The pharmaceutical sector in Lebanon, a small proportion of 3% from the public expenditures which ranged between 2010 and 2014 from 487 billion liras in 2010, constituted 2.5% of the public expenditures which are around 546 billion liras in 2014 which constituted 2.45% of the public expenditures. In other words, an increase of 12% took place. Public expenditures related to health are distributed as follows: 63% for hospitalization, 21% for medication, and 5% for primary care.

The World Bank estimates the financial cost of health services granted to Syrian migrants during 2010-2014 to be around 92 million dollars consisting of 6 million dollars in 2012, 38 million dollars in 2013, and ranging between 48 and 69 million dollars in 2014. Moreover, the estimated financial cost required to retrieve the quality of health services like it was before the Syrian crisis is of around 177 million dollars in 2013 and ranging between 216 and 306 million dollars in 2014, which makes a total of 383 and 483 million dollars.

Healthcare in Lebanon is considered expensive since 90% of it fall under the private sector, which aggravates the suffering and problems of Syrian migrants who find themselves obliged to legally register as migrants to be able to receive primary healthcare support from the UNHCR.

UNHCR data indicate that 53.2% of Syrian migrants are below 18 of age and are in need of social care and healthcare in 2015 equivalent to 157 million dollars. 19.4% of migrants are under 4 years old, 21.4% are between 5 and 11 years old, and 12.4% are between 12 and 17 years old.

b) Education Sector: this sector is facing many challenges due to the increase in the number of Syrian migrants in public schools from 1000 children enrolled in 2011 to 40,000 children enrolled in 2012 and 90,000 in 2013, of which 30,000 children are studying in unorganized classes supervised by NGOs. The World Bank estimates their number to reach in the academic year 2014-2015 between 140,000 and 170,000 children. Migrant students constitute 57% of the students enrolled in public schools in Lebanon.

On the other hand, data of public schools indicated that they can host 300,000 Lebanese students, while they were able to host 100,000 additional students before the Syrian crisis, i.e. 30% of the migrant students.

The education sector is facing several obstacles such as the incapacity of migrants to afford school tuitions and transportation fees (60% of families), no available places in schools (18%), and the absence of nearby schools (12%). It is also facing obstacles related to the social, educational, and language differences, as well as differences in the curricula, in addition to the increase in the failure rate among migrant students. Finally, it also facing challenges related to the pressure teachers are undergoing due to their incapability of handling special cases among migrants, as well as the flabby infrastructure of these schools (sewage, water piping, maintenance, space, etc.).

The government adopted measures which aimed to open new schools based on the rotation principle where 93 schools were rehabilitated to host two-third of the migrants in the first rotation, then another two-third in the second rotation. Most of these schools are located in remote and most deprived areas in Lebanon (the North and the Bekaa).

The enrollment percentage of Syrian migrant children of ages ranging between 5 and 17 years old around 35% from the total number of registered and unregistered Syrian children (31% in primary school and 2% in secondary school), i.e. 119,000 Syrian migrant students where the total number of Syrian migrant students is around 350,000 registered children and 35,000 unregistered by the end of 2013 with a total of 385,000 migrant students.

Statistics show that 65% of Syrian migrant students drop out of school, two-third are illiterate, 75% have a primary level of education and 3% have a university level equally for males and females. The number of registered and unregistered Syrian migrant students exceeded the number of Lebanese students in public schools during the academic 2014-2015 (around 275,000). The UNHCR raised its budget consecrated for migrants from 13.5 million dollars in 2010 to 196 million dollars in 2015.

The increase in the number of Syrian migrant children in the education sector led to a 0.6% increase in the public expenditure of the GDP during 2010-2013 equivalent to 330 million dollars. Moreover, UN agencies covered the additional expenses which reached around 160 million dollars.

The public education sector was able during the period 2011 till 2014 to contain the financial cost of Syrian migrant children thanks to the external assistance that

reached around 24 million dollars in 2012, and 52 million dollars in 2013. These aids were granted through the UN, while the public education sector was able to contain their numbers due to its extra capacity in public schools. However, the next stages raise concern if the numbers increased and the government's capacity will decrease which create a huge and dangerous crisis within the sector.

In this regard, the Ministry of Education has set a plan to respond to the crisis (Reaching All Children with Education in Lebanon – R.A.C.E.). During its first stage, it includes being able to host 100,000 Syrian migrant children in public schools funded by international donor institutions; the total cost is 200 million dollars, since the estimated cost per student is between 1500 and 2000 dollars annually according to the education stage. Then, the cost increases gradually to reach 600 million dollars during the three coming years with the increase in the number of Syrian migrant student receiving education to 400,000 students. Aid societies pay 160 dollars annually for each Syrian migrant student during the first rotation.

The World Bank estimates the financial cost of Syrian migrant children during the period 2012-2014 to be around 194 million dollars distributed as follows: 29 million dollars for 2012, 63 million dollars for 2013, and 102 million dollars for 2014. The estimated financial cost required to redeem the level of services of the Ministry of Education like they were before the crisis is around 97 million dollars in 2012, 183 million dollars in 2013, and between 348 and 434 million dollars in 2014, i.e. a total ranging between 531 and 617 million dollars.

The education sector expenditures represent 7.5% of the public expenditures, and they have increased during the period 2010-2014 from 1293 billion liras in 2010 with a percentage of 6.62% of public expenditures to 1651 billion liras in 2014 with a percentage of 7.53% of public expenditures, i.e. an increase of 358 billion liras with a percentage of 27.6%. This is due to the increase in the number of teachers as well as in their incomes to correspond to the expensive living cost.

c) Social Services: The effect of Syrian migrants also shows on the previously limited social expenditures, since these expenditures slightly increased during the period 2010-2013 constituting 0.1% of the GDP equivalent to 37 million dollars.

The World Bank estimates the financial costs of Syrian migrants related to social services to be 6 million dollars in 2012, 6 million dollars in 2013 and 9 million dollars in 2014, i.e. a total of 21 million dollars.

2. Infrastructure Repercussions caused by Syrian Migrants.

The infrastructure was already in a flabby state before the Syrian crisis due to overpopulation in some regions, as well as weak maintenance and rehabilitation; it is also technically and administratively unprepared and does not have the financial capacities to answer to the needs and demands of Syrian migrants and support their numbers.

The World Bank estimates that the Syrian crisis costs the Public finance regarding infrastructure during 2012-2014 around 589 million dollars; whereas, the required finances to redeem the stability of the sector is around 1.1 billion dollars.

The effect of Syrian migrants on infrastructure appears in the following sectors:

a) Water and Sanitation Sector: the overflow of Syrian migrants is causing an increase in demand on water supply as well as sanitation services; the demand reaches around 26.1 million cubic meter annually which constitute 7% of the total demand before the crisis.

According to the estimations of the World Bank, the financial cost of the water and sanitation sector is around 18 million dollars during 2012-2014, while the sector needs between 340 and 375 million dollars to maintain stability.

b) Solid Wastes: the overflow of Syrian migrants leads to an increase in the amount of additional solid wastes produced by Syrian migrants; this amount constitute around 324,000 tons annually equivalent to 15.7% of the wastes produced by Lebanese people before the beginning of migration (reports from the Ministry of Environment). This increase is causing pressure on the infrastructure for solid wastes management (waste sorting plants and dumpsites, etc.); it is increasing municipality expenditures by around 40% in 2012 and 2013, and polluting water resources as well as groundwater.

According to the estimations of the World Bank, the financial cost of waste expenditures is between 139 and 206 million dollars to maintain the level and quality of waste management like it were before the crisis.

c) Electricity: the electricity sector is suffering from huge problems due to its flabby infrastructure, weak production, and tremendous increase in financial losses that have reached 2 billion dollars annually. Syrian migrants are causing pressure on the electricity consumption and are increasing the demand on the production capacity by 20% which is around 300 megawatts.

The current production capacity of Electricity of Lebanon (EDL) is around 1200 megawatts and is continuously deteriorating 5% annually since years ago due to the flabby plants as well as technical losses. Moreover, the production capacity of the two Turkish steamboats is around 300 megawatts which makes a total of around 1500 megawatts. However, the total demand on energy is continuously increasing by 7% annually from 2600 megawatts in 2010 to more than 2900 megawatts in 2014 due to the population growth and the increase in economic activity.

According to the estimations of the World Bank, the additional demand on electricity by Syrian migrants is of 231 megawatts in 2013, and between 251 and 362 megawatts in 2014. The World Bank also estimates the financial cost to be around 16 million dollars in 2013, 170 million dollars in 2013, and between 314 and 394 million dollars in 2014, with a total ranging between 500 and 580 megawatts million dollars.

d) Road Transportation Sector: this sector witnessed an increase between 15% and 50% in road traffic according to the regions and the flow of migrants, in addition to a significant decrease in transport trucks transit services by more than 65% due to the economic slowdown.

According to the World Bank, the investment needs for this sector are between 246 and 525 million dollars between 2013 and 2014 to maintain the quality of roads, increase their capacities and find solutions for public transportation.

Estimates Development of Public Services and Infrastructure (in million dollars) by the World Bank

	2012	2013	2014	Total
Health	6	38	48	92
Education	29	63	102	194
Social Services	6	6	9	21
Water and Sanitation	5	5	8	18
Solid Wastes	-	33	39	72
***Electricity	16	170	314	500
Total	62	315	520	897

N.B.: The public services cost is witnessing a significant increase during the period 2012-2014 from 62 million dollars in 2012 to 520 million dollars in 2014, which 7.3 times more. It mainly affects the electricity sector, education sector, and health sector due to the increase of the worrisome number of migrants from 129,000 migrants in 2012 to around 1.5 million migrants in 2014.

**The financial needs to maintain stability of the public services and infrastructure
(in million dollars)**

	2012	2013	2014	Total
Health	38	177	216	431
Education	97	183	348	628
Job Market	-	-	166	166
Social Services	23	67	85	175
Electricity	39	214	57	310
Water and Sanitation	5	89	246	340
Solid Wastes Management	4	48	141	193
Transportation	-	43	203	246
Total	206	821	1462	2489

Source: World Bank

N.B.: Financial needs mainly show in the health and education sectors where they constitute respectively 17.3% and 25.23% from the total financial needs.

Effects of Syrian Migrants on the Job Market

The overflow of Syrian migrants leads to negative and deep repercussions in the job market, since it threatens its critical balance in supply and demand, as well as aggravates the already difficult circumstances. It also increases the problems of the market as well as the unemployment rate from 11% to 21% according to the World Bank, and 29% according to ESCWA. In other words, it increases the number of unemployed individuals from 220,000 to 324,000 by the end of 2014 due to the increase in the number of job seekers by 30% in 2013 and around 50% in 2014. Moreover, it mainly harms women and young workers with limited capacities. It also increases the unfair and illegal competition between Lebanese and Syrian workers. This contributes to the enlargement of an unorganized job market, decreases wages, and develops tension between Syrian migrants and host societies especially in poor areas.

Simultaneously, it is noticeable that the flow of Syrian migrants weakens governance in the job market and deteriorates work circumstances as well as decreases living standards in host areas.

Achieving stability in the job market and reducing the unemployment rate requires financial resources estimated by the World Bank to be around 166 to 242 million dollars.

In parallel, the ESCWA report indicates that the capita output ratio will record a 20% drop in case the Lebanese job market was not able to contain the Syrian labour and provide new economic sources; however, if the Lebanese market was able to contain the Syrian labour, it will witness a drop of 12.3%.

Characteristics of the Lebanese Job Market

The Lebanese economy suffers from structural problems which hinders it from creating sufficient job opportunities and from answering local employment needs. These problems aggravated during the last years due to the economic recession and the flow of Syrian migrants. Lebanon has never known a labour policy due to its liberal economic system, while unemployment is considered a conventional phenomenon in the job market.

The World Bank studies indicated that during the period 1997-2009, the Lebanese economy was less able to create job opportunities. The GDP increased by 3.7%; whereas, job opportunity creation increased by 1% only.

Jobs recently created by the economy were mainly in low-production sectors. This offered opportunities for labour of limited capacities (35%), and labour in general management (30%). Whereas, high-production sectors represented only 14% of the labour which reflects the fact that the job market in Lebanon attracts low professions. This is mainly shown in the trade sector followed by service sectors of low-production and the construction sector.

The situation of the Lebanese job market has driven many competent individuals and university graduates to immigrate and look for job opportunities abroad, especially that the 14% unemployment rate of university graduates is high. Whereas, unemployment rate among high school graduates is 15% compared to a 10% among workers who do not carry a diploma and 7% among those who went to primary school. This indicates that unemployment in Lebanese increases with the increase of the education level.

According to the World Bank, the Lebanese economy has to create 23,000 job opportunities annually during the next coming 10 years to contain newcomers, incentivize the economy, and face the increase in unemployment rate. This means that Lebanon has to create job opportunities 6 times more than the 3800 opportunity it is currently creating.

Studies of the Consultation & Research Institute conducted in 2011 indicate that the total annual number of job seekers is 61200 including 25900 workers and 13500 people who immigrated, which means that the annual gap between offer and demand is 21900. Statistics also show that 47.8% of the labour force is focused in substandard services (retail sale, transportation, etc.) and 9.8% in work of high-production (IT, banks, etc.).

Estimated number of Syrian migrants in the Job Market in Lebanon:

The job market in Lebanon is facing enormous challenges due to the flow of Syrian migrants and their entry to the job market. These challenges are hard to define due to the absence of clear, precise and comprehensive statistics about the number of Syrian migrant workers in Lebanon.

Data from the International Labour Organization indicate the ratio of active Syrian migrants in 47% among which 70% are male and 19% are female, compared to 44% active Lebanese among which 68% are male and 20% are female. They also indicate that

62% of Syrian migrants are above 15 years old, i.e. they are able to work; they constitute 930,000 persons out of 1.5 million migrants, which means that 450,000 Syrian migrants are active and represent 31% from the total number of Syrian migrants in Lebanon. Active Syrian migrants are distributed as follows: 31% working Syrian migrants equivalent to 315,000 workers, and 30% unemployed Syrian migrants equivalent to 135,000 Syrian. In this context, we notice that the unemployment rate is high among females and reaches 68% compared to 21% among males.

In addition to working Syrian migrants, the number of working children between 10 and 14-years-old is estimated to be around 20,000 with a percentage of around 15% out of 135,000 total number of Syrian migrant children, while most of them work in agriculture and selling goods on the roads...

In this context, it is important to note that 250,000 to 310,000 Syrian workers are permanent and seasonal workers in Lebanon, especially in the agriculture and construction sectors even before the Syrian crisis.

Challenges caused by Syrian migrants in the job market are shown as follows:

1. Increase in the unemployment rate: The Lebanese economy is suffering from an increase in the unemployment rate and from an imbalance between offer and demand and from a chronic crisis in the job market. The increase in the number of Syrian migrants and their intense demand for jobs leads to a significant increase in the unemployment rate from 11% to 21% according to the World Bank, and to 29% according to ESCWA. This means that number of unemployed people increased from 220,000 to 324,000 person, knowing that there isn't any precise scientific statistics in Lebanon related to the real unemployment rate. Official statistics estimate the unemployment rate to be around 11.9%, while ESCWA's statistics indicate 16%, and the Consultation & Research Institute estimations are between 10% and 15%.

Working Syrian migrants impact the job market, and they particularly affect young people, women, skilled workers and university degree holders. The unemployment rate among young people is considered high and is worrisome since it reaches 34%, while it reaches 18% among women. Also, working Syrian migrants impact most economic sectors, especially the trade sector followed by the industrial sector and the administrative sector, while the marketing services sector is the only sector benefitting from their presence.

Most of the Syrian refugees live in difficult economic and social conditions. Statistics indicate that 30% of migrants at the age of work are unemployed, and this rate increases among female working migrants to reach 68%. Statistics also show that more than 66% of migrants work in low-skilled jobs and compete with the Lebanese people on these jobs.

The International Labor Organization indicates that South Lebanon has witnessed the highest percentage of working Syrian migrants (61%), while Akkar has witnessed the lowest percentage (50%). Beirut and North Lebanon recorded the highest unemployment rates with 25% and 33% respectively, while the South and Northern Bekaa recorded the lowest unemployment rates. The Organization also states that more than 50% of unemployed people have a primary education level (36%) and an elementary education level (16%) and that a small number of unemployed people are above 55 years old.

The International Labor Organizations also says that 57% of working Syrian migrants are between 25 and 34 years old, while 54 percent are between 35 and 54 years old. It also indicates that the Syrian migrants labor is related to the level of education since it reaches 44% among illiterate Syrian migrants and 66% among Syrian migrants holding university degree and skilled workers.

2. Expansion of an unorganized labor in the job market: Unorganized Lebanese labor constitute more than half of the labor; it is unskilled and concentrated on construction, agriculture and the industrial sector, while 63% of labor in the agriculture sector is not declared, 55% in the industrial sector, 76% in construction, and 49% in high-value sectors. The Consultation & Research Institute estimates that 40% of labor in Lebanon are not registered in the National Social Security Fund.

The flow of Syrian migrant labor has led to the expansion of an unorganized scope of work due to the work of around 92% of Syrian migrants in low-skilled domains according to the International Labor Organization, i.e. without a regulating work contract and social protection, with a low income, for a seasonal or weekly job (56% of Syrian migrants), without the guarantee of receiving a stable monthly salary (23%), and without social benefits (86%).

The unorganized work of Syrian migrants is mainly based in the agriculture sector (24%), in local and personal services (27%), in construction (12%), and sales (8%). The concentration of unorganized labor mainly takes place in the North and the Bekaa.

According to ESCWA, Syrian migrant labor is impacting two categories in each sector: skilled workers and low-skilled workers. The flow of skilled Syrian migrants increases competition with skilled Lebanese workers. Moreover, it is no longer possible to recruit low-skilled Lebanese workers with the increase of low-skilled Syrian workers who accept to work with lower salaries and under more flexible conditions.

Finally, unorganized Syrian labor raises the level of unorganized labor in the Lebanese job market to more than 60%.

3. Reducing the salaries: The huge increase of offer in the job market due to Syrian migrants as well as their low salaries causes a drastic drop in the level of salaries. This mainly affects the lower middle class, which increases social and living problems as well as tension between Syrian migrants and Lebanese people in poor areas.

This drop impacts most of the economic sectors that require simple skills or that require experience and high skills in all Lebanese regions whether in the North, the Bekaa or the South.

Studies of the International Labor Organization show the low salary levels of working Syrian migrants compared to the salaries of Lebanese workers. The average monthly income for a Syrian migrant is 418,000 liras, 40% less than the minimum wage in Lebanon that is 675,000 liras due to the intensity of offers in the job market and their low-skills as well as education level. The studies show that the regions of Tripoli and Akkar have recorded the lowest level of salaries, while the highest levels are in the South, and that the average monthly income is very low and does not exceed 248,000 liras for female working Syrian migrants and 432,000 liras for males.

In this context, the ILO studies indicates that 57% of working Syrian migrants have a monthly income of less than 450,000 liras, 21% have a monthly income between 450,000 to 600,000 liras, 16% between 600,000 and 750,000 liras, and only 6% have monthly incomes above 750,000 liras. The studies also indicate that the incomes of females are 40% less than the incomes of males. Also, 50% of working Syrian migrants with low incomes depend on the UNHCR aids, while 22% depend on their savings.

ESCWA has declared that the residents of Lebanon will suffer from a drop of revenues equivalent to 10.5 billion dollars in case revenues decline by 50%.

4. Illegal and unfair competition on job opportunities: Competition on job opportunities is considered one of the most difficult challenges faced by host societies, where job opportunities decline and unemployment increases with the increase of the number of working Syrian migrants. Moreover, tensions and unrest increase between Syrian migrants and host societies.

Syrian workers accept to work in return for salaries lower than the salaries of Lebanese workers and without health or social insurance, for longer hours, and without registering in the National Social Security Fund.

Syrian workers were present before the crisis mainly in the seasonal agriculture sector, construction and local services. However, after the crisis, they are now present in all economic sectors (agriculture, construction, industry, individual services, tourism services, trade, etc.) and in all professions (handicraft professions, pharmacy, engineering, medicine, taxi drivers, etc.). Syrian migrants also began competing with Lebanese people in trade by establishing SMEs (commercial shops, restaurants) in several regions, especially regions close to the Syrian borders; they also started bringing Syrian goods in lower prices which threaten Lebanese products.

In the past, Syrian workers used to compete with Lebanese people on jobs that require simple skills. However, with the overflow of experiences and skilled Syrian migrants, competition now is impacting skilled Lebanese workers, especially that the Ministry of Labor has modified in 2013 the regulations related to foreign workers; now, Syrian workers can practice professions related to construction and electricity, as well as technical professions such as marketing and trade agents under specific conditions and regulations.

The overflow of Syrian migrants constituted a competition to the Lebanese labor especially in sectors that contributed in creating job opportunities in the recent years, such as the services sector, trade sector, self-employment, as well as low production services sector (retail trade, transportation, car repair, etc.)

Real, inequitable and illegal competition appears in low or medium-skilled professions; 40% of Lebanese labor having a primary education level work in these professions. However, 60% of Syrian labor having the same level of education are working in these professions. These professions are mainly located in the North and the Bekaa region.

When local people lose their jobs and get unfairly replaced, tensions and clashes are take place between Syrian migrants and host communities. This threatens the security and social stability as well as civil peace.

Syrian migrants have affected the job market, particularly the unorganized job market. The UNHCR report indicates that the only way to contain all this new labor in the short run is to implement infrastructure work projects in need of a huge number of labor; these projects can benefit host societies, create job opportunities, and improve infrastructure.

Finally, it is important to note that the cheap but skilled Syrian labor in Lebanon carry, on the other hand, economic and social advantages. It reduced productivity cost in production sectors such as the agriculture and industrial sectors, improves its competitiveness to export, expands expenditure in host areas, contributes in the growth, and reduces the price of several goods and services...

Effect of Syrian Migrants on Poverty

The flow of Syrian migrants aggravates poverty and increases the number of poor people. It also hardens social and living circumstances and pushes areas of poor inhabitants to become even more marginalized. It also eliminates equality, increases the dramatic geographic imbalance related to living standards, aggravates the lack of food safety, especially that Lebanon lacks a policy related to the combat of poverty or a social policy that hinders it.

The UN development report indicates that 36.6% of Lebanese people live under the line of poverty in 2008 among which 8% (equivalent to around 300,000 person) live under the lower poverty line, which means with less than 2.4 dollars per day, while 28.6% (around 1 million person) live under the higher poverty line, which means with less than 4 dollars per day for each person.

Poverty rates vary in Lebanon depending on the sector and the geography. At the sector level, it is mainly present in the agriculture and construction sectors as well as the unorganized sector. At the geography level, surveys show the proportional distribution of people suffering from poverty and extreme poverty from the total number of inhabitants in each Governorate. Poverty is concentrated in the North Governorate where the poverty rate reaches 52.5% while the extreme poverty rate reaches 17.75%, and in the Bekaa Governorate where poverty reaches 29.36% and extreme poverty reaches 10.81%. as for the South Governorate, the poverty and extreme poverty ratios are of 42.2% and 11.64% respectively; in Mount-Lebanon,

19.5% and 3.79% respectively; in the Nabatieh Governorate, 19% and 2.18%; and in Beirut, less than 6% and 1% respectively.

A study conducted by the World Bank indicates that poverty will spread wider and current poor people in Lebanon, amidst the migration of 1.6 million Syrian, will become poorer and their number will increase by 120,000 person constituting 3% of the population in Lebanon in 2013, by 50,000 more in 2014, i.e. a total of 170,000 additional poor people by the end of 2014.

Before the Syrian crisis, the World Bank estimated the required cost to improve services to the required level to be around 176 million dollars, among which a minimum of 50 million dollars to expand the range of the national program to support the poorest families. After the Syrian crisis, the World Bank estimates the cost required from the Ministry of Social Affairs to be of around 21.5 million dollars only during the period 2012-2014: 5.9 million dollars in 2012, 6.3 million dollars in 2013, and 9.3 million dollars in 2014.

Effect of Syrian Migrants on Poverty in Lebanon

1. The poverty crisis aggravated due to the spread of Syrian migrants in the poorest and most deprived areas in Lebanon. 64.1% of Syrians are distributed between the Bekaa (35.9%) and the North (28.2%) where the poverty rate is around 51% of the total number of poor people in Lebanon. 8.2% of Syrian migrants are located in the South where the poverty rate is 15.6% of the total number of poor people in Lebanon. Moreover, Syrian migrants are sharing the scarce resources with the Lebanese who are already living under the line of poverty.

Poor people in Lebanon are distributed as follows: 38% in the North, 13% in the Bekaa, 27.3% in Mount-Lebanon, 15.6% in the South, 4% in Nabatieh, and 2.1% in Beirut. While Syrian migrants are distributed in these governorates as follows: 35.9% in the Bekaa, 28.2% in the North, 25% in Mount-Lebanon, 8.2% in the South, 4.8% in Nabatieh, and 3% in Beirut.

In parallel, expenditures of the official social safety nets remained low and insufficient to cover the needs of the Lebanese people. Total social expenditures ranged annually between 22% and 24% from the total expenditures, while the government has allocated more than two-third of social expenditures for the wages of the public sector employees as well as end of services indemnity.

Before the crisis, the public expenditures on the social safety nets constituted only 1.3% of GDP. However, the flow of migrants as well as aids and donations from international organizations produced severe tension between migrants and host societies, especially in poor areas that felt aggrieved to be deprived from these aids.

The Lebanese government must ask international organizations and aid institutions to allocate around 20% of aids and donations for poor Lebanese families through a clear, transparent and accountable mechanism that delivers assistance to the targeted categories.

2. Food Inflation, Consumer Goods Inflation and Rents Inflation: Some studies have shown that prices rose by around 18% in the Bekaa and by around 12% in the North due to the increase of demand on food and consumer goods as well as the closing of official and unofficial passageways between Lebanon and Syria that used to allow smuggling and the arrival of cheap goods from Syria. Moreover, it is due to the increase in the transportation cost and the prices of petroleum derivatives worldwide, as well as rent prices that increased by 50% and 100% in some regions.

3. The unemployment rate has increased in poor areas and periphery areas due to the entrance of Syrian migrants to the job market and their illegal and unfair competition with the Lebanese labor. Before the Syrian crisis, 250,000 to 300,000 Syrian workers were working in the agriculture and construction sectors. However, after the beginning of the Syrian crisis, border and peripheral areas have witnessed the flow of thousands of Syrian workers looking for jobs with competitive and flexible conditions at the salary level, shifts, and social benefits, which caused a lot of Lebanese people to lose their jobs in these areas, thus an increase in the unemployment rate.

4. Decrease in income in poor areas: Surveys evaluating needs in some regions inhabited by the most vulnerable indicate that wages have dropped by 50% during the two recent years due to the deterioration of the security situation, due to competition, and the increase of migrant job seekers who accept lower salaries. Moreover, the drop in wages is due to an economic slowdown and the closing of borders which restrained trade and smuggling activities.

In this context, UN studies indicate that the flow of Syrian migrants to the poorest areas in Lebanon is leading to an increase in the household expenditure of poor families in host societies due to food inflation, as well as due to the increase of demand on basic services such as health services, water, electricity and education. These circumstances

aggravate the poverty situation in Lebanon and lead to a greater deprivation, i.e. the number of poor people in Lebanon will exceed 2 million.

Recommendations

After the first asylum crisis for Palestinians more than half a century ago, the Syrian crisis transformed from a temporary migration crisis of humanitarian characteristics in need of limited international assistance to an asylum crisis or a potential nationalization of Syrians crisis. It is a long-term, complicated and complex crisis carrying economic, social, and financial repercussions susceptible to aggravate in the coming stages due to the huge number of Syrian migrants constituting more than 38% of residents in Lebanon, the scarcity of external assistance which constitute less than 30% from the required assistance, the incapacities of the public treasury, the deficit in the public finance which exceed 10.5% of GDP, the increase of complications in the region, the increase of internal divergences towards the Syrian crisis, the confusion of the authorities and the lack of clear decisions related to migration.

These problems hinder the government from setting a comprehensive, national plan to face the migration crisis; it also hinders it from taking strategic measures to handle the crisis, especially that international aid procedures have become insufficient, and it has to be accompanied by developmental investment procedures or approach (create job opportunities, save energy, provide migrants with shelters, improve infrastructure, etc.) to contain this crisis.

The most important recommendations to contain the Syrian migrant crisis are:

1. Intensify the efforts of the Lebanese authorities to increase international assistance: The incapacity of the public treasury, the worrisome deficit of the public budget (10% of the size of the economy), as well as the increase in the number of Syrian migrants that reached 50,000 migrants every month among which 70% are marginalized, oblige the Lebanese government to seek a greater financial aid from the international community to ensure its economic and social stability, especially that the financial aid during the recent years was insufficient and did not exceed 200 million dollars in 2012, 800 million dollars in 2014, and 1 billion dollars in 2015. This financial aid was granted to Syrian migrants directly through international assistance and humanitarian aid agencies without passing through the government or the public treasury. This may encourage migrants to stay in Lebanon and encourage them to attract new migrants from their friends and families to Lebanon. In this context, the UNHCR contribution increased from 13.5 million dollars in 2010 to 370 million dollars in 2014.

After the transfer of around 400,000 Syrian refugees from the region, especially from Turkey to European countries causing a humanitarian, social, and security crisis in these countries, the Lebanese government can benefit from the decision taken by these countries to increase financial aid granted to countries hosting refugees.

2. The Lebanese authorities must coordinate with donor parties to allocate a part of the financial aid to developmental investment projects that stimulate the economy, create job opportunities, and promote social solidarity in areas where Syrian migrants are present. Lebanese authorities must also coordinate with the UN Agency to avoid the suspension of its food assistance to the UN World Food Program that reaches out to 1.1 million Syrian migrants and which causes, at the same time, tensions and unrest in camps since the migrant is incapable of providing food and clothing to themselves and their families.

The financial needs of Syrian migrants in Lebanon in 2015 are estimated to be around 1.760 billion dollars according to the UNHCR. Lebanon has received about 57% equivalent to around 1 billion dollars. Financial needs are distributed as follows:

- Humanitarian Protection (Ministry of Social Affairs): 261 million dollars
- Shelter (UNHCR): 115 million dollars
- Non-food Items: 135 million dollars
- Food Safety: 385 million dollars
- Education – Child Protection: 196 million dollars
- Water, Sanitation and Hygiene: 122 million dollars
- Public Health: 157 million dollars
- Social Cohesion (UNDP): 164 million dollars

International financial aid is not sufficient since international organizations are having difficulties defining the number of migrants and their needs due to the lack of migrant camps in Lebanon as is the case in Jordan and Turkey and due to the divergence of the different parties in the Lebanese government about how to handle the migrant portfolio, as well as due to the squandering, to the corruption, and to the lack of transparency in using these aids within some international organizations and Lebanese parties.

3. Defining the legal context of Syrians in Lebanon (migrant or refugee):

Lebanon did not sign the 1951 UN Refugee Convention and 1967 Protocol which

stipulates that when the authorities of a country grants the refugee status, they must respect their rights and obligations and are responsible for their protection, the preservation of their dignity, providing them with a safe shelter, appropriate living conditions (shelter, housing, health, food, etc.) as long as they are residing in this country, as well as answering to their needs and helping them restart a new life.

The Convention grants the refugee rights and prerogatives as the citizens of host countries and obliges the State with economic, social and humanitarian burdens.

In this context, international law distinguishes between two kinds of migrants: migrants who move from one region to another within their countries, and migrants who cross internationally recognized borders to another country (refugees). A refugee is a person that is persecuted in their country for ethnic, religious, political or social reasons, or because of a political performance which forced them to migrate to another country.

The Lebanese authorities are worried that if they sign this Convention, they will have to nationalize Syrian migrants in Lebanon or keep them for many years. They also worried that the Convention will define the rights and obligations of these migrants and will oblige the authorities to commit to these migrants and welcome them. Moreover, they are also afraid that donor States will be exempted from the Lebanese requests of financial support.

The Lebanese authorities managed to receive international recognition during the Berlin Convention that Lebanon is not a party of the 1951 Convention and 1967 Protocol, and that Lebanon is voluntarily implementing its items without any obligations based on the fact that the Lebanese Law does not mention refugees, and that the optimal and only solution is to return Syrian migrants to their homes.

Therefore, the government must set a clear and regulatory legislation to the asylum crisis to avoid ambiguities and jurisprudences. Especially that international organizations in Lebanon are handling Syrian comers as refugees and not as migrants.

4. Establishing camps for Syrian migrants in Lebanon: the policy of establishing camps has advantages as well as disadvantages.

The advantages of establishing camps for Syrian migrants are facilitating aid efforts, reducing the burden on host societies, gathering migrants in specific locations, controlling tensions and security problems, and observing their movements. However, there are some disadvantages for building camps since it creates fear among some that these camps might turn out to be permanent not just temporary as well as that camps will create disputes and security incidents among their inhabitants, and between these

inhabitants and host societies. Moreover, these camps might become armed security pockets outside the law and outside the State's authority and supervision.

Lebanese authorities must establish a management for the Syrian migrant camps affairs as is the case in Jordan. This management shall be affiliated to the Ministry of Interior and the Directorate General of the General Security. Its mission shall consist of defining camp sites, registering the number of migrants, defining in which site they have to stay as well as their movements conditions. Also, this management shall prepare a special services card in order to build a data base and avoid the transformation of these camps into armed security holes outside the law and outside the State's authority and supervision. Moreover, this management shall coordinate with international parties and organizations concerned with the matter.

The establishment of Syrian migrant camps requires coordination with the Lebanese Authority and regional countries, especially Syria. The government is faced with several options:

a) Establishment of Syrian migrant camps in Syria under the auspices of and funded by the United Nations. However, this option requires coordination between the Lebanese Authority and the Syrian Authority.

b) Establishment of Syrian migrant camps in buffer zones on the Lebanese-Syrian borders within the Lebanese territories. However, this option requires finding a huge land on the borders estimated to be of thousands of square meters, since according to international standards, each Syrian migrant needs 35 square meters, i.e. 30,000 Syrian migrants in a camp need a land of minimum 1 million square meters (in Lebanon, there are 1.5 million Syrian migrants). Also, the government must ensure protection and stability, as well as ensure the safety of Syrian migrants in border camps, and prevent their transformation into security holes outside the authority's control. These conditions are currently hard to achieve on the border lands of both countries. It is also impossible to impose security and military stability in these areas with the spread of armed people on both sides of the borders, and the lack of coordination between the Syrian and Lebanese Authorities.

c) Prevention of the establishment of new camps and keeping migrants in their current locations.

Finally, the government must enforce the prerogatives of security authorities, particularly the General Security in controlling the existing camps while waiting for the adequate conditions to establish new camps.

5. Reviewing the open borders policy and stopping the flow of new Syrian migrants: The number of Syrian migrants in Lebanon is enormous and is threatening its existence as well as the security, social and economic stability in Lebanon. Migrants now constitute 29.5% of the population according to the UNHCR and 38% of the population according to the Lebanese Authorities.

Lebanese Authorities must take severe measures to control the legal and illegal borders, reduce the number of migrants, as well as define their conditions of stay, work conditions and their locations. It is also important to establish internal fortification to protect the public interest, avoid social explosions between the Lebanese people and migrants, eliminate the increasing security risks resulting from the transfer of thousands of armed Syrians within Lebanese territories.

The Lebanese government has declared that it has stopped welcoming Syrian migrants except for urgent humanitarian cases (it is important to specify them), that it is refusing Syrian migration from regional areas such as Turkey, Jordan or Iraq, and that for a Syrian migrant to enter the Lebanese territories they must have clear papers.

The Lebanese government must also:

- Conduct statistics about the number of Syrian migrants
- Coordinate with the Syrian Authorities to gradually return Syrian migrants to safe Syrian areas
- Encourage Syrian migrants to gradually return to their country
- Drop the migrant status for whoever re-enters Syria and is willing to return to Lebanon; inspect the official migration papers of Syrian migrants present Lebanon
- Define humanitarian cases to allow the entry of women, children, seniors and the sick...
- Work on closing the illegal borders with Syria to stop the flow of Syrian migrants to Lebanon, control the illegal borders and ensure that each migrant is carrying official Syrian papers

6. Establishing the Repatriation Fund: it is funded by donor countries and its purpose is to encourage the voluntary return of migrants to their countries by granting them financial donations paid directly to them upon their arrival to their country.

These donations help Syrian migrants to rebuild, renovate and rehabilitate their demolished houses. UNHCR supervises this Fund in coordination with the Lebanese government.

7. Combating corruption: Corruption as well as administrative slowdown affect aid operations, since it discriminates among regions and among migrating categories, which causes severe problems and tensions among Syrian migrants and between Syrian migrants and host societies that feel aggrieved and experience inequality in the distribution of this aid.

8. Organization of Syrian labor in Lebanon: the crisis of Syrian migrants has impacted the job market since it has led to an increase in the unemployment rate, especially among young people and low-skilled workers. It also led to an increase in competition as well as an increase in the pressure on wages, a deterioration of work conditions, an increase in unorganized work, a decrease in income, and the increase in the number of working migrant children.

The Syrian labor in Lebanon can be contained in a context of development, investment and job creation by the following procedures:

- Organization of the Syrian labor in Lebanon by finding work mechanisms directed towards sectors not desired by the Lebanese labor (ILO).

The Labor Law issued in 1946 regulating foreign labor in Lebanon as well as bilateral conventions between Lebanon and Syria related to labor are no longer valid amidst the overflow of migrants, thus the necessity of the Lebanese Authority to look into them.

- Building the capacities of migrant host societies by supporting development projects that create job opportunities.

- Creating job opportunities by implementing projects that need a lot of labor (infrastructure projects: establish agriculture roads, rehabilitate infrastructure for schools, irrigation networks, etc.).

- Asking the international community (UN, donor countries) to offer flexible development assistance that fix Syrian migration impact on the job market.

- Combating child labor increase among Syrian refugees by reinforcing the role and prerogatives of inspectors in the Ministry of Economy and the Ministry of Labor to pursue violating institutions hiring children.

- Promoting the wages policy and organizing the work in the unorganized sector,

preserving the minimum wage, ensuring appropriate job opportunities, and promoting work safety.

- Improving the management of the Syrian migration to avoid their random entrance to the job market.

- Stopping the Syrian labor in Lebanon without a work permit issued by the Ministry of Labor that clearly specifies the professions and sectors in which they are allowed to work.

- Imposing a fine on every employer violating the law by using Syrian labor without a work permit, by not registering them in the National Social Security Fund, in order to reduce illegal labor which is unfair for the Lebanese worker.

- Sanctioning Syrian labor violating the law, i.e. working without a work permit, by banishing them from the Lebanese territories.

9. Local development projects to handle the Syrian migration: the huge number of Syrian migrants in poor areas as well as the scarcity of international assistance, the difficulty of defining the duration of the crisis, and the scarce humanitarian assistance, urge the Lebanese authorities to adopt a necessary local development approach to contain the migration crisis.

The bases of the approach are as follows:

- a) The government shall set a development, economic, medium-term, and comprehensive plan in life sectors that improve living standards, in economic sectors that create job opportunities, in collaboration with donor countries and NGOs, and in coordination with municipalities and donor parties.

- b) Create development investment projects in the areas where migrants are present that can contribute in moving the local economy, creating quick job opportunities, improving public services (health, education), and modernizing as well as developing infrastructure (water, sanitation, shelter, electricity, etc.). These projects appear in the following sectors:

- Health Sector: Establish or expand health centers in poor spread areas, intensify vaccination, build the capacities of an early disease warning system, and improve the quality of services.

- Education Sector: Build new schools or open new sections in public schools in spread areas to contain the increasing number of migrant students, apply some

modifications to the curricula to resemble the Syrian curricula to help migrant students to adapt, and generalize afternoon classes.

- Infrastructure Sector: develop the rehabilitation of water and sanitation networks, expand and modernize their absorptive capacity, take preventive measures to avoid groundwater pollution, support municipalities financially and technically to promote their capacities in the sanitation management and in ensuring the provision of safe water in spread areas. It is also important to implement development projects to increase the energy production capacity to cover the additional demand of Syrian migrants on electricity, as well as work with municipalities to provide shelters and rehabilitate unsafe buildings to shelter migrants.

c) The government shall ask UN aid agencies to offer humanitarian assistance for poor Lebanese families similarly to Syrian migrant families to avoid clashes between Syrians and host societies.

10. Establish a Development Fund in collaboration with the international and local community allocated to fund development projects in migrant spread areas, particularly in the poorest areas, as well as projects that activate the economic movement, support infrastructure and social services, and help resolve the problem of sheltering Syrian migrants.

11. The government must face the problems causing conflicts between migrants and host societies through:

- Containing the tensions between migrants and host societies:
 - Launch an experience and competencies exchange program, find new job opportunities for a productive work, expand the framework of projects depending on a huge number of labor to face competition on resources, services and job opportunities.
 - Empower municipalities, the civil society, and local leaderships to play the mediation role, come up with settlements and understandings to face political and cultural differences.
 - Promote active participation in attracting civil organizations and workers (after training them) to undertake the task of providing services to support international and governmental efforts as well as launch an entrepreneurship and professions program to face the spread of religious and political movement and the lack of civil participation.

- Empower social actors and promote their capacities to handle problems to compensate for the lack of participation in aid efforts.
- Coordinating among authorities concerned with migrants and host societies:
 - Promote coordination mechanisms between international organizations, the government, civil society, and specialized agencies to establish a data base in order to reduce the dispersion of aid efforts, avoid the overlap of tasks, as well as the duplication of activities and waste of resources.
 - Gather the available staff in civil organizations and NGOs as well as among migrants to cover the shortage of resources and competencies in their organizational financial and technical aspects.
 - Use competencies and local resources as well as insist on competency and accountability standards to face corruption and the exploitation of the circumstances.

Reform Policies

The Model and Plan for Setting Reform Foundations*

One cannot imagine reform without a set of foundations that open the door to a new horizon for the Lebanese economy. Those foundations would contribute to the country acquiring immunity and ability to grow, coupled with a rise in the living standards of its social classes. In addition, they would improve Lebanon's prospects to attract investments, and help the country position itself positively at the present juncture. For the current times are characterized by crucial regional and global economic conditions, as well as by turbulent and volatile regional and political situations.

The first foundation: It relies on restoring the margins of maneuverability within which the work on reducing, or even cancelling, the worsening public budget deficit would be undertaken. This action is necessary, and it could be achieved through a well-known set of measures meant to enhance the level of tax collection, without actually increasing taxes and duties. Such measures comprise fighting corruption and tax evasion, setting cost ceilings for certain projects, stopping wastage and indiscriminate employment in the public administration, and controlling non-productive expenditures. They also include reaching a 24-hour electricity supply plan without any technical, financial, or economic deficit as soon as administrative hurdles are bypassed and the door to power production by the private sector is opened. This would be all the more true if the resulting electricity fares would be lower than those presently charged by generator owners. Reaching such a plan is not an illusion, given the prevailing slump in oil prices. It, however, requires exerting appropriate efforts to overcome the present obstacles, and being effectively assertive in the face of pressures from circles with vested interests, thus bringing the modernization logic into full exercise.

The endeavor also entails working hard on launching the privatization process of telecommunications and the airport. In addition to the financial resources which will become available, this will open the door for distinguished performance at those two facilities, especially in the management of Internet services and the expansion of employment in the sectors of communication and transport.

The second foundation: This involves activating administrative reform, and the launch of e-government with a gradual reduction of the number of bureaucrats working in non-productive administrations, in addition to launching the broadest streamlining process for fixing the public administration. This would make possible increasing wages and salaries as a

(*) Samir Nasr

parallel move to gradually decreasing the number of functionaries on the payroll. In addition, the injection of highly efficient cadres into the main public administration posts would endow public services with a big momentum.

The third foundation: It lies in the implementation of all the recommendations made in relation to attracting investments, especially in the matters of speeding up judicial affairs, protecting individual property and minority rights, organizing trade issues, launching the stock exchange, activating the economic zones, and disseminating subsidized loans. All these reforms, in addition to those that would be made in the fields of electricity, internet, telecommunications, and the airport, could congregate to make Lebanon a parallel or a replacement center to states which have so far succeeded in attracting foreign corporations and creating job opportunities.

There are dozens of recommendations relative to the development of the business environment which have been published, particularly in what regards the establishment or the closure of companies, and the facilitation of dealing with the monitoring authorities and the judicial bodies.

The fourth foundation: It sets as pillars the establishment of a social safety policy based on old-age security and the dissemination of health insurance, in addition to policies for public transport, increased support for housing, enacting the Rents Act, the establishment of a "solidarity fund" for social cases of extreme nature, the launch of infrastructure projects in remote areas, the boosting of public education, and the strengthening of the Lebanese University.

The fifth foundation: It calls for the launch of major construction projects which would connect the country's various regions, and relieve the Greater Beirut area of traffic congestion. Also included are water, dams and sewage projects, along with addressing waste disposal and waste water treatment at the regional level. All this would be done within a clear national plan duly debated and approved by the Parliament, with its implementation hinging on securing funds through foreign loans.

The sixth foundation: This foundation concerns evolving the rules by which Beirut would be positioned as a financial center through a package of measures destined to launch the stock market and the financial markets under proper control and transparency, and the establishment of investment funds and financial instruments to put Lebanon again on the map of financial centers and stock trading. The measures also include benefiting from the strength of the Lebanese banking sector to reinforce Beirut as a magnet of competencies and financial tools, thus opening job opportunities at its banks and financial institutions which would encourage thousands of Lebanese, who are specialists in money matters but working abroad, to rather return and exercise their skills at home.

The seventh foundation: This foundation focuses on the environment, not just from a waste treatment angle, but also in the matters of reducing pollution and keeping up with the recently-concluded global agreement whose resolutions were: To curb environmental degradation in the air, land and sea; the use of the least harmful hydrocarbons, and the progressive switch to alternative energy; vast reforestation; adoption of public transport systems; dealing with polluting industries; and working on the conversion to gas and solar energy in a phased way.

The eight foundation: It places focus on the agricultural wealth in all its components, as well as on food production and the activation of all promotional, financial, and technical tools needed to build an agricultural sector capable of penetrating foreign markets, even if that requires a gradual transition from tobacco farming to food products while adequately compensating farmers throughout. This, however, requires proper coordination with policies relative to irrigation and digging artesian wells, with an added focus on agriculture and environmental conservation policies.

The ninth foundation: It bears on Public Health affairs, including all measures of prevention, awareness and monitoring for each adverse health effect. It also focuses on coordination in matters of investment in the hospital sector, and increasing the promotion of health tourism, as well as on ensuring proper guidance and the presence of a data bank in order to take advantage of all capacities in Lebanon. In this context, instituting a health card that allows the retrieval of a patient's health history is absolutely necessary, as it would drive treatment to a higher level.

Relentless work on setting treatment centers in Lebanon that cater for the Middle East region has the potential to attract thousands of patients. This would enable the health sector to raise its feasibility and create jobs for thousands of Lebanese doctors and health workers.

The tenth foundation: Its area of interest is educational affairs, in the sense that an independent higher education agency would ensure that quality education proliferates systematically by curbing commercial universities and raising the standards of education, thus endowing all degrees and diplomas with solid credentials to be recognized around the world. Bringing the present chaos in education under control, along with properly institutionalizing and monitoring curricula to meet international standards, would definitely be conducive to a more effective education that would undeniably be a boon to Lebanon's human capital. In addition, monitoring the quality of education at the primary and secondary levels would result in the formation of capable and efficient generations.

The eleventh foundation: Its feature is job creation, minding that this will only be achieved through a package of measures meant to drive up the incentives for investment, attract corporations, and develop the various sectors by doling out special incentives commensurate

with their conditions. As a result, the productivity wheel will turn, proof of which the actual cases of the digital companies that are supported by the Central Bank of Lebanon (BDL), the food companies which were propelled by quality in production, and the expansion of the wine industry following several success stories in export. Other cases in point are in the housing sector, in addition to the industrial and environmental investments backed by IDAL where a basket of tax incentives were given to several projects. Common sense lies in consolidating these activities and giving them a number of coordinated support measures in funding, taxation, administrative procedures, marketing, and technology, to enable them generate job opportunities, exports, investments in rural areas, environmental conservation, innovation, and transfer of a business activity from abroad to Lebanon, as well as enable them apply other standards of development.

But the basis of that support should invariably be an increase in the employment of Lebanese.

The twelfth foundation: The focus is placed here on art and culture, in addition to all forms of creativity. This realm is of a promotional feature for Lebanon, as building a positive and appealing image for the country would enable its products and services to penetrate foreign markets and bring about job creation at home.

It essentially brings into play the Knowledge Economy, culture, and artistic expression. Nothing precludes promoting both the production of films and holding all kinds of artistic and cultural activities, even if their commercial returns would at first be weak or of a long-term nature.

The thirteenth foundation: The promotion of scientific research sits at its core, in addition to spurring innovation, incubators, and all types of emerging enterprises. Scientific innovation is at the root of development and growth, and it represents a country's capacity to create diverse and significant investment opportunities. It also allows adding value to each activity, and the building-up of a major driving force for industrial production, be it in the classical sense or in the digital sector and many other sectors as well.

The promotion of these activities is essential if we were to raise the level of performance of the Lebanese economy, and the level of productive activities at home and abroad.

The fourteenth foundation: Here the development of the work of municipalities is highlighted, from it being the means to solve everyday problems in the regions and villages. Municipalities can provide services, and establish small-scale projects to ultimately attract and promote regional investments. The following functions must be at the core of the work of municipalities: The provision of social cover and environmental work; providing an appropriate economic climate; improving the conditions of housing; urban planning; waste treatment;

providing energy, water and irrigation; and the provision of parking lots and all other social services, health care inclusive. The volume of each municipality's work would naturally depend on its size, its resources, and on its capacity to contribute and perform.

Decentralization of the public administration begins at the level of municipalities. Being closer to the specific needs of their constituencies, these public bodies can provide support services and activities whose impact is more effective in their respective social environments.

Hence the need to give municipalities wider scopes of work, resources, and prerogatives.

This particular foundation does not make any kind of judgment, but aims at bringing services closer to citizens and at heightening the level of convergence of both the officials and residents in a certain region. It would thus make for a style of interactive democracy which is exercised away from narrow politics, and which is close to its ecosystem's needs, possibilities, and concrete achievements that bring relief to citizens in their daily life by simply improving it. It's also an arena which would induce healthy competition among municipalities by incentivizing them to work more productively.

The fifteenth foundation: This dwells on a number of measures for improving social affairs. These include the setting up of an unemployment fund, revitalizing the State's social welfare agency, improving the performance of the agency for employment, establishing intensive training centers for some service or industrial jobs, revitalizing the Green Project, improving the performance of NGOs through outreach, awareness, coordination, and guidance in order to strengthen civil society, creating an agency for refugees in order to take care of their affairs and train them for their return to their home country, Syria, after rehabilitating the heads of families in cooperation with international organizations.

- These foundations must go in parallel and be built by continuous coordination. It is our belief that with the political situation stabilizing in the short term, Lebanon would be in a position to claim massive aid from being home to 1.5 million Syrian refugees, on account of its stable security and political conditions. It could claim it as well on account of the country constituting in effect a barrier that stands in the way of refugees migrating to Europe, which is in fact helping the latter to resolve a part of the migrants problem which it faces. In fact, preventing the collapse of the situation in Lebanon averts a major crisis in the whole Mediterranean basin. Turkey got 3 billion Euros in brilliant negotiations with Europe. We can campaign for even more if we conduct good negotiations and make a convincing presentation of our projects.

- Also, paying due attention to investment in oil is absolutely essential towards Lebanon getting the ability to gain extra revenue streams in a few years' time as it awaits to contribute to the rebuilding of Syria and Iraq. For these two countries will present growth potentials for Lebanon to tap into, and benefit from, over the long run.

- Preparing an environment that fosters growth is a task of an immediate nature. In this context, some of the necessary reforms need a vision and a will, in addition to an agreement on the priority to secure them certain maneuverability margins which would allow them to happen.

This modest plan establishes a rational action model, and allows for gradually overcoming an extremely sensitive phase we are passing through, by means of:

1. Immediate structural reform measures based on a heavy reduction of the public debt over 5 years, in order to reach the acceptable limit of 80 -90% of GDP.

2. Requesting aid in the short term in amounts of up to \$ 5 billion over 3 years (Hence the necessity of exercising a dynamic foreign policy, and increasing the pressure on donor countries).

3. A focus on oil and gas exploration in the coming years, so that we start earning revenue in 6 to 8 years' time. It should be noted that it is possible to start extraction right after the size of the reserves has been determined, and drilling has commenced.

4. Preparation for the eventual phase of Syrian reconstruction, to enable us to provide the services needed within a 3 years' time (through equipping Lebanese companies with the suitable tools).

5. Being on stand-by mode to partake in three years' time in the development of Iraq once the rebuilding process will be launched there.

6. Taking advantage of the renewed openness in Iran to launch cooperation in the next two years (Boosting exports, sending technical missions, making commercial investments).

As for the means and tools, they are all available through: Lebanon's efficient banking system, its solid banking and financial sector, a useful administrative structure albeit worn out and in need of rehabilitation, its distinctive human potential, and the latent financial capital of Lebanese expatriates which awaits a suitable investment environment in their home country. Let alone the fact that the Lebanese Diaspora disposes of an integrated network capable of providing know-how, competence, capabilities, contacts, and supporting institutions.

Reform is a cumulative process. As one step gets implemented, its positive effects would extend to other areas, especially in creating jobs as soon as costs have been lowered and an appropriate economic climate has been set.

Having said that, the plan has high chances of success if it's approved. Moreover, its requirements and foundations revolve around five action axes:

1. A broad political consensus based on a memorandum of understanding that spells out all the elements of reform, and determines its terms and implementation mode.

2. Full transparency with regards to the plan's objectives and its implementation phases in terms of cost, obstacles, and deliverables, and according to a total disclosure of all the details pertinent to its various stages. This can be achieved through a full documentation of the proceedings, an assessment of their effectiveness, and the issuance of the necessary governing decrees.

3. The participation of all parties in the debate, in order for it to enjoy a complete national and civic consensus (Economic and social bodies included). The endeavor starts with issuing full drafts of the afore-mentioned topics in an accurately laid out way, and according to realistic estimates and procedures that are liable to be implemented.

4. Carrying out anti-corruption programs, and introducing full transparency in the accounting of expenses and the disbursement of funds. This can be achieved by clarifying the execution means, strengthening the monitoring and audit programs, working on the reduction of all types of waste — which is a form of corruption —, and slashing non-viable/non-productive spending in a systematic way.

5. Regular evaluations of the plan through the participation of the Parliament in overseeing the details of execution, including obstacles and problems in its course, so that the reform process will be pushed forward whenever it is hampered by power centers or special interest groups.

So... We see that the follow-up processes are absolutely necessary, because they give strength and legitimacy to the process of reform, as the inherent elements of imbalance (and their possible solutions) would thus get evident. For issues of privatization and partnership must be subject to full and systematic scrutiny, in addition to a methodic evaluation of their direct and indirect benefits in the short and long terms, from all the economic, financial, social, and environmental aspects.

On the other hand, it is to be kept in mind that resolving the multiple problems that will be confronted might meet with delays due to political obstacles.

The adoption of the reform foundations, laying out its programs, and building the overall vision, along with gradually setting procedures and developing the monitoring, follow-up, and evaluation system, are all functions of crucial importance. Further, they will be based on a "Memorandum of Economic and Social Understanding" that puts the series of policies that must be adopted in one integrated basket.

- Partial measures and raising taxes indiscriminately, as well as the adoption of incomplete policies, or any form of imbalance, will hinder the reform work because the

outlook would be incomplete and the procedures unacceptable. Accordingly, annual budgets must get acknowledged within the programs, and projected over a span of several years. The most evident example is the 'Scale of Grades and Salaries', as what is needed there is an integrated plan for administrative reform which includes: The accurate determination of public office posts along with corresponding division of labor and job descriptions, in addition to an increase in performance, productivity and working hours, the launch of e-government, taking advantage of retirement as a means to limit the headcount in the public administration, not to rather increase it. Once all this is in place, then a gradual increase of the said Scale could start being implemented while taking into account the situation of the Treasury, the increased purchasing power, inflation, and the effects of productivity in the context of public services activation. All thorny issues should be subject to a logical and comprehensive economic / financial / social analysis.

- As for the social reforms, they must serve to increase employment, and raise efficiency and productivity, not just come in the form of financial support.

- The complex process of growth is based on trust: Firstly in an all-encompassing integrated view; secondly in the credibility of implementation; thirdly in the calibers of the officials in charge; fourthly in realism; fifthly in transparency; and sixthly in the open outlook ahead. All these elements assume the various measures to be of a certain quality that restores to public decisions their prestige, induces respect to the approved track, and ensures the right adaptation to the requirements of the economic and social conditions. It's also necessary to benefit from foreign experiences and expertise; it helps to straighten the track taken. There are successful examples in Norway (for the management of oil affairs), in Dubai (in the management of citizen affairs), in Singapore (to attract investment), in some Eastern European countries (in returning to growth), and in Luxemburg (as a financial center), which are all states of Lebanon size. They can serve as a framework for action, a source of ideas, and as benchmarks for comparing results, while keeping in mind that all those states passed through difficulties before they reached their highest levels of efficiency.

- The re-activation of the Economic and Social Council (ESC) allows the preparation of a scientific debate which would be calm, professional, and figures-driven in regards to all projects and decisions of economic, financial and social implications. It will also constitute a strong support base for the projected development path, as the plan prescribes a "supervision, follow-up and monitoring" commission whose function will be to coordinate, identify gaps, propose solutions, and overcome obstacles for reaching the full execution of the "15 foundations", including putting into effect complementary and parallel procedures that will enable the whole work to run consistently and effectively. That's the best and least expensive frame of work. The

Taif Accord stipulated ESC's formation; so it enjoys legitimacy and the ability to represent the groups that are not represented in Parliament.

- The required funding will become possible, not only through foreign loans (and numerous they are), funding by the private sector (through the much needed partnership between the public and private sectors—PPP—, or privatization, or any type of loans), European aid programs (by virtue of the refugees), or investment funds (when the financial markets will be launched), or direct foreign investment, or resident and non-resident Lebanese investments. When the whole reform endeavor is put to work with all its components being active, solutions become easy as there would be flexibility in dealings, and a marked openness to all options. This is all the more true after the measures taken to cut the deficit would have kicked-in, thus opening the door to rationalizing public spending and making it effective. Developments abroad, particularly in our surrounding region, are candidate for improvement in the foreseeable future (two or three years). This will bring back opportunities to benefit from; but in the interim period, the hard work must be concentrated on the domestic front.

- The factor of speed (not of hurried rush) dictates making decisions in a phased way, and conducting intensive debates for concretizing them within a specified period of time. In the current *modus operandi*, the economic, financial and commercial laws linger on the official agenda for 10 years, which deprives them ultimately of their ability to be most effective.

Accordingly, time ceilings are necessary for launching the work in a forceful and serious way, which calls for the re-activation of the work of Parliament and its committees, so that all necessary action would be given the momentum to be undertaken within a set timetable.

Some decisions may need "urgent" laws, or legislative decrees, or giving the government exceptional powers while keeping oversight on its work. Whatever the means or the method, what is needed is an integrated accomplishment in an acceptable period of time.

This reform work site is not subject to any political consideration. It only answers to a comprehensive national will for reform, and for rebuilding the Lebanese economy within a comprehensive process of modernization and development, which is suitable to confront and overcome the difficulties of the transitional period we are presently going through.

These solutions may be easier than political solutions while being more difficult from another point of view, as their materialization assumes the presence of a homogeneous and efficient team which is capable of driving that process forward for the benefit of all Lebanese, whatever the outcome of the surrounding regional conflict. Steadfastness, then growth and prosperity cannot confuse any party to the equation, even if political conflicts continued on some issues.

- It, however, supposes that a “government of hard work” would take over that particular task, even if some of its prerogatives would be withdrawn in favor of the “National Dialogue Commission”. For the latter would in fact clear thorny issues away from the government’s path, thus allowing the latter to concentrate on bringing to fruition the kind of work which would enable the country to rise at an accelerated pace.

- Such a plan also assumes that the Parliament would assume control, legislation, and follow-up while instituting that an MP cannot be a government minister at the same time, so that the functions of both the legislative and the executive branches of the State remain duly separated and governed by checks and balances.

- This endeavor presumes, above all, a national consensus to approve the plan and give the green light to its implementation by the “government of hard work” with the concurrent establishment of the follow-up body, in addition to activating the Economic and Social Council, and defining the roles of both the National Dialogue Commission and the Parliament. This will be necessary for ushering in a recovery period which is needed for endowing the Lebanese model with the right structural reforms which will replenish its energy and make it rise from the deep sleep it had gone into for a good 10 years, sometimes 25, or even 40 years in some cases.

This work is now imperative by virtue of growth having dropped to near zero, the aggravation of the financial deficit to the tune of \$ 2.5 billion in 2015, the slowdown in the activity of key sectors from 20 to 40%, the rise in unemployment to the extent of 25% (37% for young people), the blocked expatriation possibilities to the oil-producing Gulf countries due to the ongoing economic crisis there due to lower oil prices, the growing social demands, the acute character of the Syrian crisis with its issues of migrants and refugees, the increased wear and tear in public services, and the worsening of the fiscal deficit and the Balance of Trade.

- Confronting the crisis is possible at all levels, because of the availability in Lebanon of creative human resources, a powerful banking sector, and the existence as well of sufficient international-experience references. Add to that the multiple demands emanating from neighboring countries which lost a part of their ability to produce, the general features of investment in Lebanon, the country’s important educational stature, and other features that sustain Lebanon’s ability to stay resilient, such as its extreme flexibility in dealing with, and adapting to, the requirements of young entrepreneurs. Accordingly, this is not an impossible task for a country which knew how to remain steadfast despite suffering from continued crisis times.

- To be hopeful of this “miracle” happening is not impossible in view of the high pragmatism prevalent in a country that managed to survive in spite of many pundits having often predicted its outright demise.

The Advantages of Decentralization for Lebanon*

In an era where excommunication (*takfir*) is prevailing over thinking, in an era of disbelief in everything, where the act of thinking is no more appropriate within the existing monotony, decentralization continues to impose itself as a reforming and an agreement label, should the Lebanon of tomorrow be allowed to resemble a bit the country Lebanese deserve to have, in a State that bears well, in turn, this name...

Since the thirties of the last century, decentralization was introduced into the Lebanese political vocabulary by President Emile Eddé. In the sixties, it became one of the main claims for a wider participation of the National Movement. Then in the eighties, decentralization was seen by the Lebanese Forces, as an alternative to federalism that failed to crystallize into an integrated project in the first place. Between a proposal and another, between a war and another, between a transient stability and repeating crisis, the Taif Agreement came to grant decentralization a new push and enforce it within the national unanimity. In doing so, the Taif Agreement (or Accord) has defined the decentralization it has stipulated and has eliminated the reservations that some took upon it¹. Dr. Khaled Kabbani, who has written frequently on decentralization and has accompanied the Taif works, says in this regard:

"The Taif Agreement made sure to put an end to the controversy about the form of requested decentralization and to remove any confusion or interpretation of its content by describing it as "administrative decentralization", shutting thereby the door definitely in the face of any discussion regarding the form or the political and administrative organization of the State. It sets as well the required reform as to the organization and structure of the State public services, on the administrative level and not the political one." (Dr. Khaled Kabbani, مؤشرات ودرجة المركزية واللامركزية، في: اللامركزية الإدارية (1996, p.125). في لبنان: الإشكالية والتطبيق، المركز اللبناني للدراسات، (1996, p.125).

(*) Ziad Baroud

(1) For example, chaos reigned within the Parliament upon discussing the Draft Law on Decentralization prepared by Selim El Hoss Government in 1999, because of the sentence "recognition of private interests of local groups" that was listed among the Draft law determining causes, and about which some had reservations. .

Decentralization in the Taif Agreement: Diversity within Unity

Referring to the Taif Agreement, the agreement has allocated a complete paragraph of many sections for administrative decentralization, stating the following:

1. The Lebanese State is one, unified, having a strong Central Authority.
2. Extend the competencies of the Governor (Mohafez) and District Officer (Qaemmaqam), and represent all Governmental administrations in administrative areas on the highest level possible, in order to deliver services to citizens and fulfill their needs locally more easily.
3. Reconsider the administrative partition in a way that ensures national fusion and guarantees coexistence as well as the unity of the land, the people and the institutions.
4. Adopt a broader administrative decentralization at the level of small administrative units (Districts and below) by way of electing a Council for each District headed by the Qaemmaqam in order to ensure local participation.
5. Adopt a comprehensive, unified and developmental plan for the country, capable of economically and socially developing the Lebanese regions, and reinforce municipality resources, as well as unified municipalities and Municipal Federations with the necessary financial means.

All that was mentioned in the Taif Agreement with regard to this paragraph is in fact a blend of expanded deconcentration and decentralization. There is a big and clear confusion between these two concepts (even in current Draft Laws), which requires us to briefly explain the main differences between them:

1. Deconcentration does not deviate from the concept of a proportional central organization, but constitutes a main part of it and is organically linked to it². This means that the Central Authority appoints representatives in the regions, working under its supervision, and assigns them with specific tasks and competencies to be exercised under its control and within the administrative organizational chart. This implies that deconcentrated authorities located in the regions are in reality only an extension of the Central Authority itself, and from this perspective, they have no legal personality (since they are considered as State subsidiaries, knowing that the State has a legal entity), and no economic autonomy (since their revenues and expenditures are part of the State Budget under the budget of the Ministry of Interior and Municipalities), with a slight administrative independence due to the hierarchical control.

(2) «Deconcentration is but a mere organization of decentralization, where everything starts from and returns to the center, but in a different way.» Dr. Joseph Chaoul, in *سلطة البلدية وسلطة الوصاية في القانون اللبناني*, thesis, Beirut, 1965, p. 17.

In fact, the deconcentrated administration in Lebanon is mainly expressed through the Mohafazat and Districts (affiliated to the Ministry of Interior and Municipalities) and, although in a limited way, through some of the Ministries' local offices or representatives in the regions (such as the Ministry of Health and the Ministry of Education). The Administrative Regulations in force in Lebanon are still subject to the provisions of Decree-Law No. 116 dated 12/06/1959 which has partitioned Lebanon into 5 Mohafazat (to which the Mohafazat of Nabatieh has been added in 1975, then the two Mohafazat of Akkar and Hermel in 2003) and 24 Districts. The Mohafazat³ constitute the main administrative unit in the State composition. Although it is affiliated to the Ministry of Interior and Municipalities at the structural level, the Law has granted the Mohafez the power to represent territorially the State Ministries within the Mohafazat jurisdiction, except for the Ministries of Justice and the Ministry of National Defense.

2. Whereas administrative decentralization, no matter its form, is characterized by the establishment of locally elected legal entities, having a legal personality, and an economic and administrative autonomy, however it is subject to the - limited in principle - Central Authority control, despite being administratively independent therefrom.

In Lebanon, administrative decentralization exists at one level: Municipalities. Otherwise, any kind of competencies delegation is deconcentration. For instance, although mayors are elected, they remain subject to the hierarchical authority under the supervision of the Qaemmaqam, therefore the Mayor is affiliated to the State's central apparatus⁴. Subsequently, the criteria to be taken into account for stating the existence of decentralization or not, may be summarized as following:

1. Establishment of a locally elected public authority, drawing its legitimacy from the Law that determines its competencies.
2. This authority has a legal personality, independent from the State's even though it is a part of the State.
3. This authority has financial autonomy, meaning a budget independent from the Public Budget, as well as its own revenue sources, with the possibility to spend within the budget. This autonomy is not absolute, since the Central Authority reserves its right to control these revenues, being public revenues, and therefore, control should be exercised upon the means of collection, administration and spending such revenues, but exclusively within the limit of the Law.

(3) To note that there is a "Mohafazat Council" affiliated to the Mohafez, but it has no decision-making or executive powers, and it plays only a token consultative role.

(4) Please refer to : فاضل حموية، تنظيم الإدارة المحلية في لبنان، سلسلة دراسات وأبحاث المركز الوطني للتطوير البلدي، المكتبة البلدية، Beirut, 1974, p. 12.

4. This decentralized authority has administrative autonomy, in other words, it has the ability to manage its finance and affairs without referring back to the Central Authority, unless in exceptional cases. Administrative autonomy shall be accomplished as much as the financial autonomy is accomplished, and it shall also be subject to the control of the Central Authority.

According to the abovementioned criteria, it is clear that the Lebanese administrative system has never known, since its beginnings, any form of administrative decentralization, except through the municipal work (municipalities and Municipal Federations).

So the current Lebanese administrative "scenario" is based on deconcentration exercised by Mohafazat and Districts, according to an administrative partition and competencies dating back to 1959, on one hand, and on decentralization exercised by Municipalities (and related federations) on another hand, by virtue of a relatively liberal Law (in the legal sense) dated to 1977.

What is proposed today as well as since 1989, i.e. since the approval of the National Conciliation Document, carries an obvious label of expanded administrative decentralization, an interesting, modern and "trendy" label. However, it carries as well a radical reconsideration of the administrative partition and the administrative decentralization. One should not forget that the Taif Agreement stipulated a new electoral Law. As a result, approaching all current Draft Laws on Administrative Decentralization since 1989 till this day must take into account all these interlocked and interconnected factors.

In the National Conciliation Document related to decentralization, we notice that among its five articles, only one article which is the fourth, refers to "the adoption of extended administrative decentralization at the level of small administrative units (District and below) through the election of a council for each District headed by the Qaemmaqam, in order to ensure local participation." As for the other articles, the first article confirms the unity of the State, the second stipulates the expanded competencies of the Mohafazat and Qaemmaqam and of deconcentration, while the third imposes the necessity to reconsider administrative partition, while the fifth stipulates the adoption of a comprehensive developmental plan for the country and the reinforcement of the revenues of municipalities. Only one article, out of five, mentions decentralization. It is obvious that this text can only be approached as a whole, with all its five articles, to

understand the intention of the participants in Taif. It seems clear though somehow that the phrasing of the article in such a way has promoted and still promotes scientific legal debate about the practical meaning of this text, because such phrasing raises many questions that we briefly expose hereunder:

- Should reconsidering the administrative partition be ahead of other "recommendations"? In other words, can the Mohafez and Qaemmaqam competencies be extended, and District Councils Elected, amidst the existing administrative partition of Mohafazat and Districts, as of 1959?⁵

- Is it possible to extend, at the same time, the competencies of the Mohafez and Qaemmaqam (meaning the competencies of the Central Authority in its deconcentration aspect) and the administrative decentralization at the District level? In other words, does this "extension" concern competencies, or is it just an extension in volume? If it concerns competencies, wouldn't this lead to a conflict of jurisdiction between a specific authority and another elected authority, on a relatively limited geographical surface area?

- How can a specific Officer (that is the Qaemmaqam) head an elected Council? How shall this Council be elected? Shall the District have a legal personality and an economic and administrative autonomy?⁶

The Ministry of Interior and Municipalities had gathered a group of experts, academicians, and concerned parties to discuss these questions as well other more detailed questions, and it issued in 2010, as a result of the discussions and deliberations, a reference book under the title of "Decentralization in 100 Questions", which contained all the various elements and controversial issues raised by decentralization, in preparation for decisive choices within a purposeful legal frame.

Today in 2016, 27 years have passed since the Taif Agreement in 1989 and decentralization has still not been recognized; it was never even seriously and purposefully debated within the Parliament. All attempts remained draft laws only, proposed legislations, and thoughts, the majority of which were more inclined towards

(5) The former Prime Minister Dr. Selim Hoss says regarding this matter: "What delays the implementation of the administrative project today is the administrative partition, due to the difficulty arising from partitioning the regions nowadays, because this shall affect in the future the parliamentary electoral law (...)" (Al-Diyar newspaper, 30/10/1998, p. 5).

(6) Concerning these questions and others, please refer to the book "The Administrative Decentralization in 100 Questions" issued by the Ministry of Interior and Municipalities, 2011.

deconcentration than decentralization. The most important draft laws and proposed legislations since 1989 to this day may be summarized as follows:

Different Draft Laws and Proposed Legislations

- Law Proposition of former Lebanese MP Auguste Bakhos

On 20/06/1995, former Lebanese MP Auguste Bakhos presented to the Parliament a law proposition that grants the District a legal personality, cancels the Mohafazat, and transfers the Mohafez competencies to the Qaemmaqam who becomes a first degree functionary⁷, which facilitates formalities and leads to a better exercise of deconcentration.

The District Council shall be formed by the deputies of the region de jure and ten Municipalities Presidents elected among the Presidents of the District municipalities, and a representative of each group of liberal professionals and influent personalities. The Council is to be chaired by an elected chairman, and its decisions shall be, according to the law proposal, submitted for the Cabinet's approval. Such a proposition beholds without doubt many positive aspects with regard to facilitating the administrative formalities and reducing the bureaucracy impact, but it maintains the conflict of competencies between a certain authority and the elected one. In addition to the fact that the formation of the District Council violates the principle of separation between authorities and it cannot be considered an elected council in the full meaning of the word: the deputies are, according to the Constitution, the deputies of the nation and their representation cannot be limited to a District; secondly, the deputies control the Government work, therefore decisions they partake in cannot be submitted to the control of the Cabinet. As for the Presidents of municipalities, they are elected by the members of the municipal Council and not by direct ballot, which diminishes their representative quality⁸.

- Draft Law of the Administration and Justice Commission (1997)

This draft law was discussed within the administration and justice commission in 1997 and, contrary to the proposition of former MP August Bakhos, it relies on the Mohafazat and eliminates the District. The proposition partitions once again the administrative departments, and adopts 24 Mohafazat in addition to the capital Beirut. It establishes a Mohafazat Council with legal personality, and financial and

(7) The consequences of the cancellation of one degree of the administrative organizational chart shall attain the municipalities and the bureaucratic control they suffer from.

(8) Regarding this matter, refer to: , Ziad Baroud ، المسترثسون ينتخبون من بينهم رئيساً ، بين الأصل والتعديل ، مخاض الديمقراطية في بنى المجتمعات المحلية ، المركز اللبناني للدراسات. (p. 559, 1999).

administrative autonomy, - which is a good thing -, and formed as follows:

- The Mohafez as Chairman, de jure;
- Three times the number of the deputies of each Mohafazat, a part of which is elected by secret ballot directly by the Mohafazat voters, while the second part is appointed by the Cabinet among the holders of university degrees in the Mohafazat.

This proposition consists as well of a deconcentration reform with many positive aspects for sure, but it fails to form a decentralization model: the appointed Mohafez chairs this Council, and some of the Council members are appointed!⁹ The Council competencies are in conflict with those of the central authorities. Furthermore, the text does not mention the reconsideration of the administrative partition, which turns the current Districts into Mohafazat, which the Ministry of State for Administrative Reform considered as an exaggeration, in a study it has conducted, "since the proportion of Lebanon's surface area and the population is not equivalent to the proportion of the surface area of a Mohafazat or a province and its population in other countries. The increase of the number of Mohafazat shall affect the structure of the Ministries represented in these Mohafazat, due to the inflation that will occur within its human capacities, knowing that this contradicts the Government policy and orientation towards cutting the administrative expenses."

- Draft Law of Selim Hoss Government (1999)

This draft law eliminates the terms of "Mohafez" and "Qaemmaqam" and replaces them with the expression "Head of region" who is a functionary appointed by the Central Authority, part of the deconcentration hierarchy, and receives its orders from this Central Authority, and has extensive powers, which are in fact the same competencies and powers exercised by the Mohafez in the current system. This draft law establishes a Council for the region, with legal personality and financial and administrative autonomy, headed by the Head of region, and constituted by:

- a) The Presidents of the elected Municipal Federations in the region.
- b) Five Presidents or Vice-presidents of municipalities, to be elected by an election committee constituted by the Presidents or Vice-presidents of elected municipalities in the region.
- c) Three mayors to be elected by an election committee constituted of the elected mayors in the region.
- d) Ten members who are holders of university degrees or representatives of key sectors in

(9) « Dans la décentralisation, le pouvoir de nomination est une anomalie » (CHAOUJ Joseph, Pouvoir municipal et pouvoir de tutelle en droit libanais, USJ, Beyrouth, 1965, p.18.

the region, to be elected by an election committee constituted of the Presidents or Vice-presidents of elected municipalities and the elected mayors in the region.

The Council shall consist of two authorities: a decision-making body and an executive body

- A decision-making body, with the Head of region as Chairman and all the Council members.

- An executive body, with the Head of region as Chairman also, and three members elected by the Council at the absolute majority of votes, as well as the Presidents of the Municipal Federations in the region.

Regarding the Council competencies, they are limited to studying projects and supervising their execution, giving opinion as to the independent municipal fund budget, setting plans for main projects in the region. It appears, after reviewing the municipalities law (that is not abrogated by the draft law), that the competencies and powers granted to the Council – which are mainly consultative – are clearly in conflict with some of the municipalities competencies, and even more clearly with the competencies of the Municipal Federations that are maintained in this draft law. Following the path set by the draft law of Selim Hoss Government may then lead to the following scenario:

- Parliamentary elections in which electoral divisions have no relation whatsoever with the administrative partition.

- Administrative regions with Mohafazat councils whose mandate ends with the end of the term of municipal councils, and formed by members elected by election committees which are, in turn, elected by indirect ballot¹⁰.

- Municipal Federations disputing larger competencies and powers with larger financial capabilities.

- Municipal councils settling for modest and unassertive developmental projects.

Moreover, the draft law stipulates the possibility to dissolve the Council by a decree issued by the Cabinet upon the proposition of the Minister of Interior, “should the Council commit significant and repeated violations that cause real damage to the region’s interests” (Article 40 of the Draft Law).

All that precedes surely does not express a decentralization trend, but a clear and

(10) Indeed, the council members are elected by an election committee constituted, for example, of Presidents of Municipalities who are elected by the members of their municipal council, which are elected by direct ballot. Subsequently, electing a member in the region council is made by a voting process of three phases, which weakens this member’s representation, and does not lead to a true and significant local participation.

firm confusion and mixture between deconcentration and decentralization. It expresses the wish of the political authority to keep the power management at the local level, in particular through the appointment of an administrative clerk affiliated to the Government as Head of a Council who is supposed to be an independent authority in the direct management of its affairs. The Hoss Government draft law “reinforces [apparently] deconcentration under the slogan of administrative decentralization, while in fact it removes many competencies from many institutions and hands them over to the minister of Interior.¹¹” This remark is valid for all three draft laws which failed to draw clear limit between the Central Authority and its deconcentration aspects from one side, and between the decentralized authority as an efficient, independent, and elected authority, on the other side.

It is worth saying that the Minister of Interior and Municipalities Elias El Murr has prepared in 2002 a new draft law on administrative decentralization, to-be submitted to the Cabinet, and then to the Parliament, after the new draft law on municipalities that he has prepared and has submitted to the Cabinet. However, since the mentioned new draft law on administrative decentralization was not announced and published it the media, we cannot therefore consider it as one of the currently discussed draft laws.

- Draft Law of MP Robert Ghanem (2007)

It is one of the most recent of law propositions and draft laws to this day, and it is the result of discussions led by MP Robert Ghanem while chairing the administration and justice parliamentary commission that failed to meet many times to discuss the decentralization issue, compared to the meetings held by the Defense and Municipalities parliamentary commission for the same purpose¹².

This draft law merges administrative organization (and related deconcentration) and administrative decentralization in one comprehensive legislation, with an annexed table (unpublished) about Mohafazat, Districts and relevant regions. We understand then that this draft law proposes a new administrative partition.

The draft law maintains the Mohafazat and Districts altogether, the first continuing to be what they are, in general, as per the current system¹³, whereas the District is

(11) Dr. Fadia Kiwan, المركز، مراجعة نقدية وطنية، هي: وثيقة الوفاق الوطني، اللامركزية الإدارية ودورها في تعزيز الديمقراطية والتنمية، (p 172, 200). اللبناني للدراسات.

(12) With the technical and scientific contribution of the UNDP project in the Parliament.

(13) Pursuant to Decree-Law No. 116/1959.

granted legal personality and financial and administrative autonomy (with “an independent budget in its preparation, adoption, ratification, execution, and supervision of its implementation”). The Mohafazat Councils appear as, with regard to the competencies granted to the District Councils, inefficient committees whose role is limited to expressing opinions and providing consultancy. As for the Mohafez, it is a concept inherited from the previous system, and therefore, there seems to be no obstacle to merge the Mohafez’s competencies with the Qaemmaqam’s, who is maintained by virtue of this draft law. It is then either the Mohafez or the Qaemmaqam at the deconcentration level that does not requires two degrees of functionaries in the regions.

According to the proposition, the District council is constituted of 6 Presidents of Municipalities in the District, 2 mayors, and 7 members representing the professional orders and economic sectors according to a certain distribution. As for the election of members, it is done in two steps (sometimes three), considering that the Presidents of Municipalities, for example, are elected as members in the municipal council, then as Presidents among the Municipal Council members, and finally, 6 of them are elected for the membership of the District Council! The proposition does not specify the number of members in proportion to the District size (maybe the annexed and unpublished table mentions Districts with homogenous sizes, otherwise, the number of members in the District Council must be reconsidered in proportion to the District size). The proposition overlooks the provision stipulated in the Taif Agreement as to the Qaemmaqam chairing the District Council. This is accepted, knowing that a public servant appointed by the Central Authority shall not chair an elected local Council.

The competencies granted to the District and Chairman of the District Council by the draft law submitted by MP Ghanem reminds us of those granted by the Municipalities Law to each of the Municipal Council and President of the Municipality. They were also listed therein without any limitation and referred to many topics of different directions, but they might indicate a conflict of competencies between the District Council and its Chairman (Articles 54 and 58) on one part, and the municipalities (Decree-Law No. 118/1977) on the other, especially that the proposition maintains Article 47 of the Municipalities Law in force that stipulates the following: “Any act of public aspect or public benefit, within the municipal scope, falls within the Municipal Council jurisdiction.” (Article 125 of the Draft Law). The proposition maintained all existing municipalities (knowing that their number exceeds 900, which is very high in view of the ability of small municipalities to achieve self-sufficiency from their resources), and it maintained the election of the President of the Municipality among the

Municipal Council members, whereas, it would have been better to elect the President of the Municipality by direct ballot, in order to ensure direct democracy, especially since his powers and tasks are independent from those of the Municipal Council.

MP Robert Ghanem's proposition annuls the possibility of constituting new Municipal Federations (maintaining the existing one until they finish their undergoing projects), and creates another form of municipalities regrouped within one district under the name of "municipal regroupings" which are closer to what the legislator wished to establish in 1977 through the Municipal Federations, turning them into federations of the whole District municipalities. The proposition sets the condition that the municipal regrouping members are no more than six neighboring municipalities. Hence, the proposition cancels the possibility of conflict in competencies between the District Council and the municipal regrouping, knowing that the latter is formed, according to the proposition, by virtue of a District Council decision.

In brief, MP Robert Ghanem proposition seems to form a whole and integrated proposition combining both deconcentration and decentralization, passing by administrative partition, in one text. It contains as well a clear distinction between deconcentration and decentralization, in theory and in practice. However, it may need to:

- Approach political options more clearly, especially with regard to maintaining one degree of the deconcentrated representation of the Central Authority in the regions (Mohafez or Qaemmaqam), for instance, and to the annexed table related to the partitioning of Mohafazat and Districts;
- look further into preventing municipalities and District Councils any possible form of conflict of competencies;
- Approach the funding issue to finance the District Council Fund (independent financially and in budget) in a way that guarantees its administrative autonomy and the implementation of its decisions more efficiently.

Based upon all this, the administrative decentralization status in Lebanon remains related to clear legislative choices which could:

- clearly separate between deconcentration and decentralization;
- set (necessary) harmony between the administrative partition, Municipalities Law, and administrative decentralization, and maybe, in a limited way, the - electoral Law¹⁴;
- annul any possibility of establishing two local councils within the same area having

(14) In the same perspective, Prime Minister Selim Hoss noticed in 1998: "What delays the implementation of the administrative project today is the administrative partition, due to the difficulty arising from partitioning the regions nowadays, because this shall affect in the future the parliamentary electoral law" (Al-Diyar newspaper, 30/10/1998, p. 5).

conflicting competencies and roles, in particular in view of the difficulty to ensure local financial resources to one council, let alone two;

- understand the technical and financial reality, benefitting from the experience of municipalities of vast competencies, as well as textually and not practically, so the choice is made appropriately with this reality.

All that preceded, without any doubt, points to the impossibility of establishing two decentralized authorities on the District level or even on the "District and below" level, which means that the lawmakers would choose to cancel the Municipal Federations in favor of the District Councils. This perspective, if adopted and enforced, may lead to the regrettable abortion of an experience that succeeded extremely and formed, with limited means, a true expression of "natural" and not artificial decentralization. Primarily since what is proposed in parallel does not promise any positive and decisive results that would promote decentralization to a higher place not provided by Municipal Federations, unless, if God pleases, a complete and harmonious draft law is submitted for public discussion, offering answers to legitimate concerns, and not for testing purposes, but as a conscious choice, aware of all details and consequences thereof.

Despite all this, there are still questions still not answered by the legislator, since 1989, and maybe before that year. Asking these questions may help start setting a legislative strategy that would approach decentralization as a development and reform tool with quasi-known results, and not as a superficial aesthetic one with unknown features.

Indeed,

1. How can conflict of competencies between deconcentrated Central Authority and new decentralized authorities, or between these and municipalities, be prevented?

2. Can Municipal Federations, being local, elected authorities with legal personality, be considered as a form of decentralization at the level of the "District and below", as stipulated in the Taif Agreement?

3. Would it be sufficient to draft a new municipalities Law, confirming the decentralization of these local authorities, limiting administrative control thereupon, and extending the Municipal Federations tasks, so these federations could become District Councils?

4. And in all these propositions, what would be the cost of setting a new system on the Treasury and local authorities?

All these questions and many more need scientific and legal answers that would take into account the country reality and needs. Any legislation that fails to answer in advance to these questions shall be failing its main purpose. Answering these questions shall require as well a sincere political approach that determines the legislative options at the political level, within the limits of the State unity. It would be really useful in this context to regroup between the administrative partition, in both its decentralized and deconcentrated aspects, and the electoral partition, especially that they have expressly associated as per Paragraph “c” of the National Conciliation Document.

The Committee’s Draft Law related to Administrative Decentralization

On 07/11/2012, Prime Minister Najib Mikati issued a decision by virtue of which he formed a committee¹⁵ entrusted with the task to “prepare a Draft Law on the enforcement of the administrative decentralization”.

The Committee accomplished its task and submitted the first draft of an integrated law with a detailed report explaining the strategic choices made by the Committee upon its draft.

This draft law, the most recent among the various propositions and draft laws, doesn’t pretend to be perfect and is open to additions and development, but it represents, without any doubt, an integrated whole and a scientific subject, a platform for discussing decentralization, that would allow a new approach to it, whenever its hour comes. Hereinafter the most important characteristics of the draft law (as listed literally in the report of the administrative decentralization Committee):

Main titles of the Draft Law

- The Draft Law adopts the District as a decentralized unit with legal personality and financial and administrative autonomy.
- The Draft Law establishes, in each district, a fully elected council with broad competencies and an independent finance supported by revenues that allow the District Council to perform the many tasks and functions entrusted to it. For this purpose, the

(15) The Committee was chaired by the former Minister of Interior and Municipalities Me. Ziad Baroud, and included former minister Sami Minkara, consultant to the Minister of Interior and Municipalities Me. Raymond Medlej, the former Director General of the Ministry of Interior Atallah Chacham, the President of Baakline Municipality and the Municipal Federation of Chouf-Swayjani Municipalities Dr. Noha Ghosseini, the Researcher in political sciences Dr. Karam Karam, the legal consultant at the Presidency of the Lebanese Republic Dr. Rayane Assaf, the Director of the Lebanese Center for Studies Sami Atallah, the General Director of local councils and administrations Khalil Hajal, the legal consultant at the Presidency of the Cabinet Dr. Othman Dalloul (who regrettably passed away during the Committee work, leaving his mark and impact), and Judge Ziad Ayoub who attended some of the Committee sessions.

draft law does not impose new taxes and fees (except for the tax on real-estate profit), it actually re-distributes collection thereof according to the transfer of functions (and subsequently a large part of developmental liability) from the center to the Districts.

- The draft Law abrogates the Qaemmaqamat and the function of Qaemmaqam, and transfers the competencies of the latter to the elected District Council, whereas it maintains the Mohafez function as a liaison agent between regions and the center (via deconcentration). It transfers however some of the executive competencies of the Mohafez to the elected District Council.

- The Draft Law reduces the prior control and increases at the same time the transparency rate through mandatory informative mechanisms, control by the people (via elected delegates), subsequent judicial control and executive rules and regulations.

- The Draft Law replaces the independent municipal fund with a decentralized fund taking into account the necessities of balanced development, which Board of Trustees shall be elected, and revenues distribution mechanism, submitted to previously set scientific indicators.

- In the draft law there are other reformative provisions, such as the constitution of an independent committee for the elections, the allocation of an entire month for private / public sectors partnership, reinforcement of women participation, participation of inhabitants residing in the District in the democratic process through the optional prior registration mechanism, as per the requirements detailed in the draft law.

- Amidst all this, the draft law promotes the reinforcement of deconcentration, where possible, and the Government shall endeavor to provide services in regions, except for what falls within the jurisdiction of the District Councils and Municipalities Councils. For this purpose, all state administrations shall be represented in the Districts, at the highest level possible, in order to facilitate citizens formalities and fulfill their needs which are outside the jurisdiction of the local administration, provided that the Government sets a plan to develop, mechanize, and modernize the service administrations, to enhance the staff skills and to adopt the e-Government systems, and provided as well that the Government executes and enforces aforesaid plans and tasks within three years at the most as of the date of issuance of the law.

Constitutional Premises and Principles

The Constitution did not stipulate special provisions regarding decentralization; it was referred to in the National conciliation document under the chapter of "Other reforms". The Committee made sure to maintain the National conciliation document spirit, since this document evoked decentralization under the reform label and recommended the necessity to adopt it in an extended way "on the small administrative

units' level (the District and below)". The Committee pointed out as well the nature of the Lebanese political system and its requirements, the particular Lebanese social, communitarian and regional composition, and the importance of preserving the diversity and plurality within the society and of the participation of its various components and individuals in the administration of their local affairs, without relinquishing or putting at risk the State's unity and Central Authority power. This approach compelled the Committee to adopt the spirit of the text related to decentralization in the national conciliation document, in a way that fulfills the era's requirements without any conflict or contradiction or intervention in the competencies and roles between the central and decentralized authorities.

Starting from this, the chairing by the Qaemmaqam (appointed by the Central Authority) of an elected Council was bypassed and his function abrogated and replaced by the District Council. Municipal Federations role was transformed as well into a limited collaboration between a number of municipalities whenever needed (inter-communal), so they do not form a decentralized level existing on its own.

On another hand, while brainstorming the draft law on administrative decentralization, the Committee relied upon the following constitutional premises:

- Paragraph (G) of the Constitution preamble that stipulates: "The even development among regions on the educational, social, and economic levels shall be a basic pillar of the unity of the state and the stability of the system."
- Paragraph (I) that stipulates: "Lebanese territory is one for all Lebanese. (...) There shall be no segregation of the people on the basis of any type of belonging, and no fragmentation, partition, or settlement of non-Lebanese in Lebanon."
- Paragraph (J) that lifted constitutional legitimacy from any authority which contradicts the Pact of Mutual Co-Existence.
- Article 1 of the Constitution that certifies that "Lebanon is an independent, indivisible, and sovereign state."

These premises, taking from the mandatory constitution the limits it imposes on diversity within unity, and from the Taif Agreement the directions it proposes, make of the extended decentralization, in the formula that the draft law proposes, an essential part of the constitutional composition of the Republic.

This formula is not in contradiction with the centralization of the State, and implementing it does not mean at all that the Central Authority is discarded, or that the State shall relinquish its role and political, socio-economic, and cultural obligations towards its citizens in all regions. The Central Authority exclusively preserves control and jurisdiction over matters of defense, finance, foreign affairs, justice and legislation (...), undertakes the organization, rationalization and fair distribution of its resources among society, and endeavors to mend any distortion and account for any diversion. As much as the State provides the needs and ambitions of its citizens in their country and regions, and the more its Laws grant them democratic participation and means of expression, as much as the loyalty of these citizens is reinforced towards their State and the more they abide by its constitutional principles and general laws, which increases its coherence and its ability to protect its own community against all risks and challenges, and to strengthen its internal stability. Therefore, decentralization does not seem like a purpose in itself and just an inflexible frame, but an organizing one that aims at reinforcing democracy, local participation and sustainable development.

Administrative Partitions and Levels

The Draft Law adopted the District as a decentralized unit with elected councils (while maintaining the municipalities, as well as competencies and revenues thereof). The following considerations have prompted towards this choice:

1. Taking into account the content of the National conciliation document regarding the adoption of an extended decentralization “at the level of small units (District and below)”, and subsequently, excluding the other larger administrative partitions, whether it’s the five “historical” or the eight currently existing Mohafazat (after the addition of Nabatieh, Akkar, and Baalbeck-Hermel).

2. The historical reality of the Districts in Lebanon, and the fact that the district is considered to be in general a geographical and demographic space enjoying unique dynamics. The District is in fact based upon social, cultural, political, and economic relationships and experiences historically anchored and forming altogether solid objective criteria. The District, as decentralized unit, is viable and apt for development based on the principle of historical interaction of its inhabitants, on their accumulated social capital, and their lived reality.

3. The potential of the District to constitute a dynamic developmental case, based on its own characteristics and the reality of its components.

To be noted that the Committee proposed to divide the Mohafazat of Akkar (established in 2003) into three Districts (Halba, Bebnine, Kobayat) and the Mohafazat of Hermel-Baalbek (also established in 2003) into five districts (Baalbek, Chmestar, Laboueh, Hermel, Deir Al Ahmar), taking into account the easiness of communication between every District and its surrounds.

What precedes does not cancel the possibility to divide some districts later on into two districts, in view of their size and number of its inhabitants.

With the adoption of Districts as decentralized units, it was obvious that the draft law abrogated the Qaemmaqamat (and subsequently the Qaemmaqam function), and to transfer their competencies to the elected District Councils. Furthermore, in order to prevent a double administrative structure on one geographical spot, Municipal Federations were discarded in their current formula, and their competencies transferred to District Councils, while maintaining for the municipalities the freedom to work jointly within municipal regroupings based on joint projects, whether it be for geographical, technical or functional necessities, or for joint interests (inter-communal) or any other reason.

The Draft Law formed District Councils consisting of:

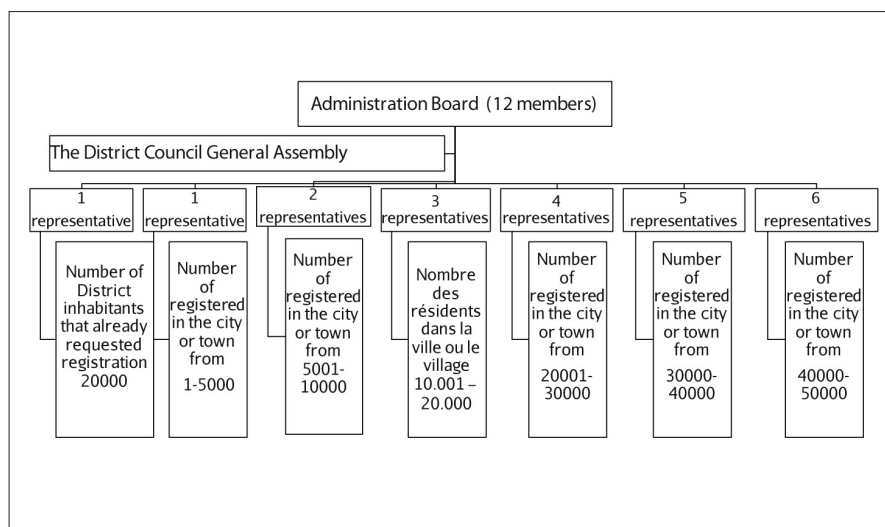
- a general assembly which members are elected by direct ballot in each town, - and are the representatives of this town in this assembly; and
- an administration board elected by and from the general assembly.

The number of the members of District Councils was fixed based on general and abstract objective criteria that achieve parity between all citizens with regard to their rights to vote and to being represented, pursuant to a percentage fixed based on the number of people registered in the registration rolls (Article 8 of the Draft Law) and in the rolls of inhabitants who previously requested to be registered (Article 11 of the Draft Law) in the towns, villages and cities within each District.

The voter

Any Lebanese woman or man having reached the legal age set in the Constitution may exercise his right to vote, provided that he is enlisted in the voters rolls within a specific electoral circle.

Moreover, and in conformity with the Lebanese Constitution principles based on equality between all citizens without any distinction, any Lebanese woman or man who



has reached the legal age set in the Constitution, but is not enlisted in the voters rolls within a specific electoral circle, and who submits evidence of his/her residency within a specific electoral circle for six consecutive years, while paying all due municipal taxes and fees, may exercise his/her right to vote to one or two candidates running for the inhabitants seats, provided that he requests to be registered previously pursuant to a mechanism to be set by Decree issued by the Cabinet upon proposition of the competent minister..

The Independent committee for election shall prepare electoral rolls related to all inhabitants that requested to be registered (called inhabitants rolls), after making sure they meet all requirements. Inhabitants' rolls are set on the district level, since the District forms one electoral circle for inhabitants - voters and candidates -, and on the neighborhood level in Beirut city, since the neighborhood forms one electoral circle, with regard to voting and candidacy for Beirut inhabitants (refer to page 27 of this report). District inhabitants are represented in the General Assembly according to a fixed percentage: one representative per 20000 registered people within the District, and an additional member for every 20000 additional registered inhabitants. Beirut inhabitants are represented by one member for each neighborhood, which is a fixed and unchanged rate.

The participation of all residents (registered in the civil status department and real residents electively registered), as candidates or voters, according to the mechanism stated here above, contributes to restore the existing unbalance in the distribution of inhabitant according to the civil status registers, and the actual residents' distribution in the regions. This mechanism grants everyone the right to partake in the management of the country affairs and to develop it through an effective and constructive contribution based on diversity and plurality. It maintains at the same time the local social particularities, as it separates between the candidacy and voting of registered people and the candidacy and voting of inhabitants for the District Councils General Assembly, in such a way that no electing group of these two falls under the influence of the other one.

In the context of the "voter" definition, the Committee suggests to reduce the voting age to 18 years old, which goes beyond this draft law and requires the amendment of Article 21 of the Constitution, provided that the age of candidacy is reduced as well following aforementioned constitutional amendment.

The candidate

Any Lebanese woman or man having completed 21 years of age may stand for election for District Council membership, provided that he/she is enlisted in the voters rolls within the electoral circle, at the towns, villages and cities level, or in the inhabitants rolls at the District level, that he/she enjoys all his/her civil and legal rights and meets all requirements.

Candidacy requirements

Based on the public interest criteria and taking into account the totality of the competencies and big responsibilities of the District Councils (any act of public benefit or nature, diversified nature of local activities, management of public funds, management of programs and projects...), it has been agreed that holding a university degree is a substantial requirement for running for **administration councils** in the District Councils.

Electoral system (system, circles, electing bodies)

In the process of electing the members of the District Councils, the Committee started from the principle of achieving equality and a valid representation between all citizens, and from the adoption of a democratic and fair electoral system. In order for it to put this principle into effective practice, a complex electoral system achieving desired

goals was adopted (the majority system to elect the general assembly, and the relative system to elect the administration board), knowing that these desired goals form, altogether, the underlying foundations and rules of administrative decentralization, based on the following criteria:

Electing the District General Assembly

The draft law gives each town and city, being electoral circles within a District, the right to elect its representatives in the District Council General Assembly (pursuant to the mechanism stated hereabove) based on a majority voting system and one session. The importance of this choice lies in the following:

- Running and voting for the district General Assembly membership in each town and city as electoral circles within one District (according to aforementioned percentages) provides, in addition to the criteria that have fixed the number of local Councils members, the right and fair geographic, social and political representation for all the District components. In such a way, no demographic (communitarian or religious or other) or geographic (big city with population density) or political (party having wide representation) majority shall dominate the representation of the other components and individuals in the District General Assembly. This choice ensures subsequently that every town and city is represented in the District General Assembly and the participation of everyone, individuals and groups, in determining the priorities, setting developmental plans and programs at the District level and working towards achieving them, because the direct geographical representation that expresses the real interests and needs of people as well as their future aspirations is the foundations of administrative decentralization. Should candidacy at the District level be adopted instead of the electoral circles within the District, this might lead to tyranny of a majority over a minority.

- The election of the District General Assembly according to the majority voting system in one session has been adopted by the Committee for many objective reasons and goals:

- **First:** According to figures-based data, it is clear that around 84% of towns and cities are represented by one representative in the District General Assembly, considering that the number of its inhabitant is less than five thousand, which is the limit of the first part (table hereabove). Therefore, there is no interest and no technical possibility to adopt the relative voting system in these "individual" circles, not even in the circles which have no more than three representatives;

- **Second:** Adopting the majority system as well in the multiple-seats electoral circles which have more than three representatives aims at providing the minimum limit of representation of majorities in the district General Assembly. These majorities shall contribute in turn in forming compatible groups within the District General Assembly, which will minimize the possibility of electing General Assemblies constituted by different and incompatible elements.

Administration Board Election

The President, Vice-president and members of the Administration Board are elected by the District General Assembly, through the relative voting system and closed list, whether complete or not. The Committee has referred to a group of main principles and criteria with regard to the Administration Board members' election system and mechanism, of which the most important are the following:

- **First: Regarding the electoral system:** the relative voting system has been elected because it ensures the representation of all orientations and groups within the General Assembly in the Administration Board. Subsequently, the relative system guarantees the election of an Administration Board that consists of a majority that governs and a minority that controls and follows-up, and it prevents as well any majority from taking over all the Board seats, power and decisions.

- **Second: Regarding the closed list:** The adoption of the closed list shall, contrary to the individual candidacies, encourage the candidates to reunite and move as one team with a common project. The adoption of the closed list in the voting process contributes to reduce the voters' choice on one team and one project, and limits the dissemination of votes that results usually from eliminating candidates and choosing names from many lists. In a later phase, it facilitates the control and accountability process, the control of the program control, the accountability of the team. The team and the program are essential conditions for the crystallization and success of local development projects.

- **Third: Regarding the adoption of the closed list, complete or not:** Accepting incomplete list aims at giving all currents and orientations, in particular those which do not form a majority within the General Assembly, the opportunity to run for the elections of the Administration Board even if not able to form a complete list.

- **Fourth: Regarding the reinforcement of the majority:** Amongst the most important negative aspects of adopting the relative voting system in electing committees characterized

by multiplicity and diversity of allegiances, lies the inability to produce majorities that can govern without the need to make alliances and compromises with other groups, which makes them fragile majorities whose coalition is threatened by collapse before any obstacle they encounter. In prevention of this, and in case any list fails to obtain the absolute majority of votes, the draft law stipulates that the list that obtained the largest number of votes shall be given 51% of the seats of the Administration Board, in order for the majority to be coherent and harmonious which will allow it to exercise the Board's multiple competencies. This choice helps producing a clearer and more coherent majority with regard to its allegiance and project, capable of exercising the powers granted to the Administration Board, having beside it, a clear minority as well, exercising control from within the Administration Board, in addition to the General Assembly control.

- Fifth: Regarding the election of the President and Vice-president of the Administration Board: The choice of electing the President and Vice-president of the Administration Board directly by the General Assembly and from the list that obtained the highest number of votes, as per the candidates order in the list, ensures, on one hand, that a complete majority team reaches the Administration Board, which is an essential condition for exercising authority, and on another hand, it ensures that the President and its Vice-president are chosen among the top first on the list that obtained the majority of votes. This shall clearly represent the decision of the electing majority, which gives a solid and undoubted legitimacy to the President and its Vice-president, and releases them subsequently from the compromises that occur during the indirect election process, which usually negatively impact the legitimacy and capability of the President and its Vice-president.

Gender Quota

Starting from the positive discrimination principle stipulated in the article 4 of CEDAW¹⁶, the draft law mentions the application of the gender quota in the distribution of the seats within the General Assembly, according to the following: in case the number of the General Assembly seats in concerned circle is one seat only, the quota shall not apply; in case the seats number is uneven, an equal number of seats shall be given to both genders plus one to either one of them; and if the seats number is even, the seats shall be equally distributed between both genders. The choice of applying the gender quota upon announcement of results, in view of available candidates of both genders, and for a period of time fixed to four electoral sessions, makes it a non-mandatory and

(16) Convention on the Elimination of all forms of Discrimination against Women (CEDAW) which Lebanon joined in 1996.

non-artificial quota, based on personal initiative. This quota leaves the decision to run for election to the individual, whether a male or female, as a voluntary act that expresses his/her wish, conviction and readiness to run for election for the General Assembly. The gender quota applies only in case there are candidates of both genders.

As for applying gender quota at the Administration Board level, the Committee made sure, in its draft law, that the Board is formed by both genders, provided that members of each gender are not less than thirty per cent of the overall legally set number of Board seats. The gender quota principle shall apply in the Administration Board upon announcement of results and in view of available candidates of both genders.

The District Councils Competencies

The District Councils Competencies were listed in the draft law, at the General Assembly and at the Administration Board levels, by way of example and without any limitation, which confirms these competencies and their consistency with the level of representative legitimacy they enjoy, being local councils directly elected by and accountable towards the citizens, according to democratic, fair and transparent mechanisms, and enjoying legal personality and administrative and financial autonomy.

The General Assembly Competencies

The General Assembly has been granted competencies that enable it to accomplish three major interrelated and integrated tasks: Representation, participation, and control.

- First: Representation: The importance of representation is shown through the General Assembly competency to elect the President, Vice-president, and members of the Administration Board which, subsequently, pulls its representative legitimacy and performs its competencies and tasks, by delegation of the General Assembly that is directly elected by the citizens.

- Second: Participation: The General Assembly participation in the District affairs is accomplished through its mandatory approval of the main decisions taken by the Administration Board, particularly those related to the annual budget and the developmental plans proposed for the District, in addition to its approval of a category of lease, sale, mortgage, and loan contracts and agreements, and of conditional donations, knowing the burdens and restrictions that such donations impose on the District. Along with these competencies, and in order to activate its participation, the District Council may form specialized consultative committees, from within and without

the Assembly, to provide advice and submit propositions and recommendations to both the General Assembly and the Administration Board. The goal is mainly to affirm that the District Council role is not limited only to ratify or vote upon the Administration Board decisions, but that it plays a role in strategic thinking and planning regarding the District growth and development of its abilities on the long term. This mechanism ensures a permanent interaction and an efficient participation between citizens and the District Council, within a stable, institutionalized and organized relationship.

- **Third: Control:** The General Assembly exercises its control competencies through multiple mechanisms, most importantly by withdrawing confidence from the Administration Board as a whole or from any of its members or President or Vice-president.

Administrative Board Competencies

The Administration Board is the executive authority within the District Council and any act of public nature or benefit falls within its jurisdiction. Competencies of the Administration Board have been listed in the Draft Law by way of example and without any limitation.

Although the draft law has redistributed the competencies between central authorities and District Councils, these competencies, being complementary and interactive, offer District Councils bigger incentives to develop their own resources and capabilities and enable them to achieve their goals. Hence, the Administration Board competencies cover a wide range, starting with the construction and development of infrastructure, passing by the production of energy and projects of economic nature, and the partnership between private and public sectors....

One of the Administration Board major competencies is to set a strategic plan for the development of the District, because the Administration Board is "bound" to achieve and translates its tasks through a general strategy for the development of the District and submit it to the General Assembly for approval. It is also bound to regularly amend it and develop it. This obligation for the Administration Board to set a developmental plan for the District development enshrines a clear methodology for local governance, with program and work plans as main pillars. On another hand, setting a developmental plan facilitates the participation, control and accountability process by the General Assembly and voters, and contributes therefore in the reinforcement of the Administration Board ability to plan, organize and execute, in other words, in the reinforcement of the local governance process.

In order for the Administration Board to perform its wide and specialized tasks, it has been granted as well the competence to create any specialized bodies it may need (such as: the “traffic safety body” which constitution is concomitant with the Board’s competency to organize public and private transportation, and the “partnership body,” in charge of managing partnerships projects between the Administration Board and the public and private sectors). Also, the Administration Board has been granted - for example – the right to file legal proceedings to remove and prevent transgressions and to institute the police apparatus at the District level, considered as part of the judicial police.

The Committee estimated that the Administration Board decisions should be enforceable as such, without any need for any ratification by any other authority, except for decisions related to national security, protection of archeological sites, and general orientation plans. As a reinforcement of the Administration Board role and competencies, being the main body that expresses the citizens’ needs at a local level, it has been granted the competency to submit its recommendations with regard to matters of public benefit for the District falling outside its field of jurisdiction. Competent authorities are bound as well to obtain the approval of the Administration Board in many matters falling within the central authorities and administrations but to be executed within the District, according to clear mechanisms.

The District Councils Finance

The Committee made sure to give special attention to the financial part in the decentralization process, starting from the importance of financing and resources in enabling elected councils to exercise the wide competencies granted to them in the draft law. Indeed, aforesaid competencies shall remain only ink on paper unless accompanied by sufficient resources rendering their application possible.

From the review of the draft law, it appears that a wide range of competencies and tasks have been transferred from the Central Authority and its deconcentrated structure (Ministries offices in the regions, Mohafez and Qaemmaqam, etc.) to the District Councils according to their geographic jurisdiction. This transfer of competencies and tasks will automatically be followed by the transfer of resources, in application of the principle “Transfer of competencies, transfer of resources”. This relation of principle between the distribution of competencies and tasks, on one hand, and the distribution of resources, on another hand, constitutes a real translation of the District Councils administrative and financial autonomy. The administrative autonomy grants Councils

the right to enforce the law and exercise their competencies without any deficiency (with at the top the competency to collect taxes directly from tax collectors), whereas the financial autonomy guarantees the Councils right to dispose of the financial resources (within the rules of the Law not arbitrarily) and to search for sufficient resources.

Naturally, the distribution of tasks, charges and resources does not mean that the Central Authority is exempted from its responsibilities in the regions, since it still has many obligations towards the Districts (such as: infrastructure, international roads, transportation at the national level, education, health, national security, etc.) that it is supposed to undertake on a central or deconcentrated level. Under this title comes the concept of balanced development which is likely not to be achieved by decentralization, should the Central Authority let certain incapable regions rely only upon their own revenues. This development is the responsibility of the Centre which should put a comprehensive developmental plan for all regions as stipulated in the Taif Agreement (the lands arrangement plan fits in this context as well). In brief, the decentralization process will necessitate the contribution of the Central Authority in different fields as much as it requires the financial independence element, either directly or through the revenues of a decentralized fund (see herebelow).

As for figures and revenues volume, we should stop, at first, at the local spending ratio from the general spending. The study of a sample of countries having had a successful experience with decentralization shows that the local (elected) administrations spending ratio from the Central Authority total spending, varies around an average of 27% in these countries, knowing that this average reaches 39% in Finland and 62% in Denmark, for example and measure purposes. In other countries, such as New Zealand, this average decreases to 11%. As for Lebanon, figures indicate that the average ratio of the municipalities and Municipal Federations spending (being the only decentralized units to the date of this report) ranges between 5% and 7% of the central Government spending, depending on the year.

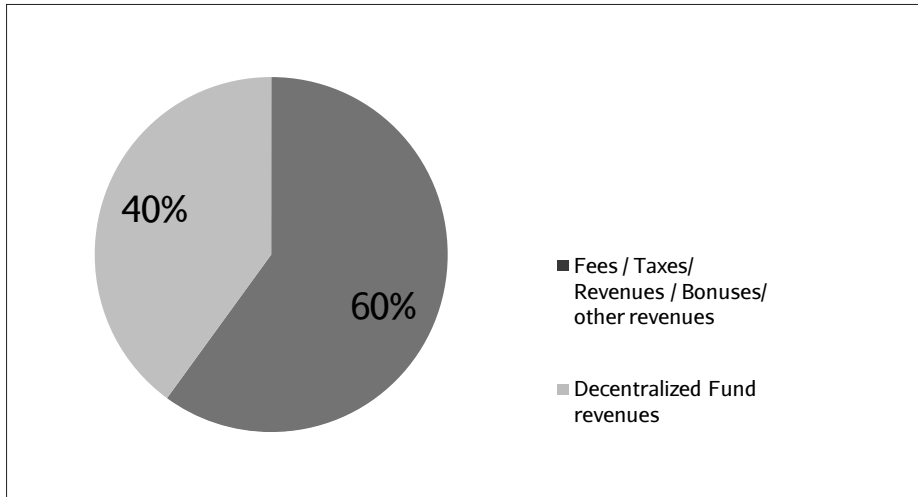
**Comparative table of countries expenditures as to the local spending
ratio from the central total spending**

Countries	Percentage of local Government expenditures from Government total spending
Czech Republic	27
Denmark	62
France	20,04
Finland	39,03
Hungary	25,07
Ireland	19,08
Italy	32
Luxembourg	12,05
Norway	30,07
Switzerland	25,09
Georgia	28
Slovenia	19
New Zealand	10,08
Average	27,016

Source: IMF-Data and Statistics-Government Finance Statistics (GFS)
<http://elibrary-data.imf.org/DataReport.aspx?c=24944917&d=33061&e=170809>

Based on these objective data, the Committee estimated that it is necessary to raise the ratio of local Government (Municipalities and Districts) spending from the central Government total spending to 25% at least. Knowing that the municipalities and Municipal Federations spending volume is initially 5% to 7% of the central spending, the District Councils spending ratio must represent 20% of the central Government spending ratio (without calculating the public debt service), or approximately 1,5 billion dollars (pursuant to current figures).

40% of this amount (or approximately 600 million dollars) is provided by the decentralized fund and 60% of it (or approximately 900 million dollars) through direct and indirect taxes, fees and other revenues. The aforesaid financing mechanism shall hence take into account the necessity not to excessively rely on transfers from the central Government.



Revenues

The Committee avoided creating new taxes and fees (except for the tax on real estate profit) in the draft law, and preferred instead that the District Councils directly collect some of the taxes and fees that the National Treasury currently collects, following the transfer of functions and competencies from the latter to the former, as mentioned hereabove.

The Decentralized Fund

The Draft Law replaces the independent municipal fund by a decentralized fund that totally differs from it in its constitution, competencies, management, and distribution criteria. The decentralized fund has legal personality and financial and administrative autonomy. A Board of Trustees elected by the District Councils and the municipalities shall supervise the fund activities.

With regard to its constitution process, management, revenues composition and distribution on the District Councils and municipalities, this fund represents the main mechanism to provide equal developmental circumstances between all regions and to progressively reduce the gap between rich and poor regions. It reflects as well the social solidarity, union and coherence principle between the State and various districts, and the fair distribution between the center and the regions, vertically, and between regions, horizontally.

The Board of Trustees appoints a general director for the decentralized fund, assisted by an administrative and technical apparatus. The fund is subject to the later control of the audit bureau, without any prior control.

The fund revenues

The draft law suggests the funds in the decentralized fund to be distributed 70% to the District Councils and 30% to the municipalities, based on the following data:

- **First:** The decentralized fund revenues preserve the municipalities' revenues at least in their current ratio.
- **Second:** The District Councils handling of main tasks at the District level alleviates, practically, the burden on municipalities and leads to a surplus in their budgets.
- **Third:** The collection, management and distribution by the decentralized fund of its revenues are completely different from the revenues of the independent municipal fund. The Treasury and Public Debt Directorate at the Ministry of Finance, private and public institutions, mixed institutions and independent (liberal) professions should transfer the revenues due to the fund **each semester**, and the Board of Trustees distributes the Districts and municipalities shares from the decentralized fund revenues once every six months, after deducting the operation charges.

Based on what preceded, it is expected that the annual fund budget reaches 2% approximately of the gross national product, in comparison with the independent municipal fund which budget forms 0.6% of the national product. Lebanon will then have entered the club of the decentralized states at the financing level (since the world average is 3%).

The decentralized fund financing sources are as follows:

1. 25% from the VAT total revenues.
2. 10% of the total cellular phone bills.
3. 25% of the customs total revenues.
4. 5% of the lottery companies' income from issuances.
5. 25% from the transfer rights on estates and wills.
6. 50% from the departure fees of travelers by way of land, air or sea.
7. 6% from the whole value of insurance contracts primes and annexes thereof.
8. Fees on the occupancy of public property.
9. Interest of the Fund bank accounts.
10. Donations and contributions in favor of the fund.

**Table of the main taxes and fees value
(for example, based on year 2011 figures)**

	2011 (per thousand LBP)	Decentralized Fund ratio	Decentralized Fund share (per thousand LBP)
VAT	3,300,000,000	25%	825,000,000
Customs revenues	777,000,000	25%	195,000,000
Transfer rights on estates and wills	160,500,000	25%	39,000,000
Insurance		10%	30,000,000
Cellular phone bills			225,000,000
Total			1,314,000,000

Figures source: Ministry of Finance

Distribution

The decentralized fund based the determination process of the districts shares from the total 70% on demographic, geographic, developmental, fiscal/financial indicators. Since the main aim is to encourage the local development and achieve social solidarity and unity, the high ratio of the total 70% is allocated to indicators that form the development process in its social and economic dimensions. As for adopted indicators, they are:

- The development reality indicator (4/10)
- The annual fees collection indicator (4/10/)

And the low ratio is allocated to the following two indicators:

- The registered residents number indicator (1/10)
- The District surface area indicator (1/10)

For example, the District that has a low developmental reality gets a high ratio of the amounts allocated to the developmental reality indicator, in order to help the District rise and give him the ability to undertake developmental projects in the fields of health, education, services, professions, living conditions, etc. In exchange, the District that has a high economic reality through its ability to collect fees and taxes, gets a high ratio of the amounts allocated to the fess collection indicator, to encourage it to continue its good performance and provide it with necessary revenues for its development. The central census department shall be in charge of a task of setting the developmental

reality indicator, in collaboration with the Director of the decentralized fund and the census bodies in the District Councils.

The decentralized fund mission towards the districts and municipalities shall not be restricted only to distributing shares, but the fund shall as well undertake main developmental and investment tasks such as granting districts and municipalities subsidized loans to execute productive projects, and cautioning their loans towards third parties. The decentralized fund may obtain subsidized loans as well for the purpose of achieving its goals.

Control on District Councils:

The draft law mentioned multiple types of control on District Councils:

Popular control

It is the control by citizens, since the District Councils are elected by direct ballot and enjoy representative legitimacy. Frames and mechanisms were set for this popular control that allow citizens to be informed of the activities, plans, and projects of their representatives in the District Councils, participate in them, supervise them, oppose to them in many diversified ways (as detailed herebelow under “governance”), hold accountable or award their representatives, whether in the elections of the District Councils elections or through the General Assembly tasks in each district.

Internal control

The general assembly exercises internal control on the Administration Board. It has the right to review the trust in the Administration Board as a whole or in its President, Vice-president or any of its members, or to refer any of its members to the disciplinary committee of the District Councils. This control is undertaken as well from within the Administration Board, and it is of two types: a disciplinary control, exercised by referring any member of the Administration Board to the disciplinary committee, and a control related to the Administration Board performance and regular meetings, knowing that it's considered automatically dissolved if the board fails to meet for two consecutive times (the Board must obligatorily meet twice per month at least, as stipulated by the draft law).

Central control

Regarding the Central Authority control and its ability to dissolve the District Administration Boards, the draft law wanted it to be exceptional in fact, when it

stipulated that the control is limited exclusively to the violation of the Constitution by the District Administration Board, reinforcing this exclusiveness by amending the dissolution Decree issued by the Cabinet and subject to appeal before the State Consultative Council.

The privileged status of Beirut

The Committee considered that applying administrative decentralization in Beirut is ruled by major principles and data that should be respected and form the foundation of a formula matching the capital's role, place and symbolism at the national level, on one hand, provided that it does not fundamentally contradict the decentralization principles, premises and criteria adopted in other regions, on another hand. The application of the administrative decentralization in Beirut should reinforce the capital's role in incarnating the national unity and representation of the Lebanese society diversity, while taking into account at the same time, the specificity of its place and relation to the Central Authority as a capital, and the resulting consequences of this relationship in terms of obligations and functions, and requirements in terms of privileges and exceptions, which render it mandatory to admit that the capital has a special status, alike many other capitals around the world.

Starting from these necessities, there are three issues that create essential controversies for the application of administrative decentralization in Beirut that should be approached:

- The capital's geographic unity and the compliance of the geographic frame with the municipality and Mohafazat (where there are no districts);
- Ensuring the effective participation of all the capital's inhabitants (registered and residents, according to the concept of Articles 10 and 11 of the Draft Law) at the representation level and in the decision-making process;
- The position and competencies of the Mohafez of Beirut.

1. The capital's geographic unity: The Committee estimated that the capital's unity is preserved by forming the Beirut City Council (equivalent to the District Council in other regions) without partitioning the capital. The Council shall express this unity in its composition, taking into account the variety in the city and the necessity for this diversity to be reflected at the representation level in the Council. For this purpose, the draft law sets a precise number of representatives to be elected in each of the 12 historical neighborhoods of Beirut, to form the Beirut City Council.

Therefore, all shall feel part of the equation, and the system would not be breaching the capital's unity, which shall lead to fortify the relations between all Beirut inhabitants, as well as the sense of tranquility and belonging to one city they all participate in its development through their elected Council.

2. Providing effective participation: The fixed and unified representation in each of the 12 neighborhoods of the city (which form each an electoral circle) include the registered (5 representatives) and inhabitants (one representative), in such a way that every neighborhood elects its representatives in the General Assembly by direct ballot. The Beirut City Council consists of 12 members, one representative for each neighborhood. The candidate who obtains the highest number of votes shall be automatically considered a member of the Administrative Board for each circle. This system should prevent the dominance of any majority, of whatever type, on the City Council members' election process, or on the decisions taken later on by the Council. It also gives a balanced and powerful value to the votes of each person within the general assembly and Administration Board.

3. Position and competencies of the Mohafez of Beirut: this issue has two dimensions; the first is related to the executive competencies of the Mohafez within the Municipal Council of the city, while the second is related to its role as a representative of the Central Authority, and of its policies and decisions in the capital.

In view of the large amount of controversies resulting from the duality of authority at municipality level, in addition to confessionalism, it became necessary to offer a new institutional architecture, where there is no duality in authority between two or more, but based on dividing tasks, roles and responsibilities, and clearly determining competencies. The executive competencies and responsibilities shall therefore be entirely handled by the elected decentralized authority, while the Mohafez, in his capacity as representative of central (deconcentrated) authority, preserves the right to attend the Administration Board meetings (without voting), have access to its activities, follow-up with its work, and request, by written and justified letter, to reconsider its decisions, and to submit items for discussion on the Administration Board agenda. The Mohafez of Beirut shall hence be granted, in view of the capital's privileged status, some of the competencies of the General Assembly in the District Councils, and competencies that other Mohafez did not receive.

The Independent Committee for the elections

The draft law stipulated the constitution of an independent committee for the elections of the District Councils and Beirut City Council. This committee enjoys large competencies to prepare for these elections and supervise them at all stages, including the convocation of electorates, organizing electoral rolls for residents that have chosen to register to participate in these elections (by way of choosing their exclusive representatives in these Councils pursuant to the rules stipulated in the draft law), till the announcement of the final results of the elections. The competencies of the committee involve as well receiving candidates' applications and lists, and studying it as well as deciding upon it.

Partnership between different sectors locally

Decentralization contributes in creating an active partnership between local authorities, and between private and public sectors, and in reinforcing the coordination and collaboration at all levels. This would expand the developmental skills of each of the District Councils, municipalities, organizations, and different institutions, in particular their ability to satisfy local requests, and enhance their transparency, and subsequently the ability to hold them accountable. Therefore, the draft law reserved a whole chapter for the partnership between the private and public sectors.

Governance and local participation

Decentralization intersects with the concepts of local governance and joint development, through the establishment of local representative authorities working directly at the frontline with the citizens:

- to efficiently satisfy their needs, at a lesser cost,
- through decisions taken as close as possible to citizens,
- in a way that aims at providing the widest participation to the local community sectors and different categories.

Starting from this, the draft law included the following:

- Constituting permanent specialized bodies working integrally and cumulatively on documenting, studying, analyzing data, figures, and dynamics related to local decentralization and governance, publishing and discussing the same for development purposes. The statistics body shall, mainly in direct collaboration with the central census department, decentralization fund and public and private institutions, collect, analyze, document, update periodically, and publish all related information, reinforcing the right to access information which is considered the gate to accountability.

- The statistics body is paired with the tasks of the local governance body which works, based on statistical results and conclusions, on studying the performance of decentralized authorities and deducing results in order to determine needs, prepare human resources, and develop their skills and abilities.

- This body submits an annual report on the results of its studies to the General Assembly which, in turn, enlists it on its agenda and refers to it to discuss and adopt the budget. These two bodies are directly linked by another permanent one, the informatics body, whose role is not only limited to the mechanization of the local administration in order to facilitate financial and administrative procedures, but goes beyond it to include the development of information technology at the District level, with necessary plans and resources.

- These bodies work closely with specialized and voluntary consultative committees formed by the General Assembly and the Administration Board in different fields at the District level.

Beside these bodies and committees, the draft law stipulated a series of procedures and mechanisms to ensure the implementation of democratic participation and enhance the citizens' role in controlling and holding local authorities accountable. For this purpose, the draft law stated the necessity to publish the financial report in the official gazette and in the District Council bulletin on its website, to give every person registered in the District and any person of interest the right to access the Administration Board decisions and obtain a legalized copy within maximum two working days. All these procedures and mechanisms aim at achieving a bigger transparency and more efficient control, and contribute to communication and follow-up between citizens and the District Council. The Administration Board ability to convene whenever necessary, and to convene at the request of the majority of its members, pursuant to clear and defined mechanisms (in addition to its meeting twice a month at least), puts the Board in a permanent active and ready state. This competency gives and incurs upon the responsibilities of the members of the Administration Board, in the management and follow-up of the affairs of the District, in addition to the power and responsibility of the Board's President, which minimizes the possibility of transforming the Board into a "Presidential Board" managed only by the President.

Transitory phase

Upon adoption of the draft law on administrative decentralization, and in order to prevent any void that might lead to delaying or obstructing the implementation of the law, the draft law stipulated the obligation for the Cabinet and competent Ministries to

immediately start the necessary preparations for this law application, within a fixed period, in preparation for the elections of the District Councils, simultaneously with the municipal and mayor elections.

- The draft law also establishes a “Ministry of Local Administration” in charge of assisting with the application of the provisions of the Law on decentralization, and a central institute in charge of the preparation and training of employees and police in the District Councils.

- The draft law refers to the obligation for the State Council to set a model for the District Councils administrative and financial systems.

- The draft law also refers to transient provisions regarding the Qaemmaqamat following their abrogation, which cover their employees, buildings and equipment.

- The draft law specified detailed provisions related to Municipal Federations, their employees and on-going projects.

Final remarks

1. All the above indicates how much researches decentralization in all its forms has taken; the subject has been thoroughly studied and approached in details. It is requested today to move to the legislative discussion in preparation for the law adoption.

2. It is obvious that administrative decentralization is a detailed technique considered as one of the local governance tool, but at the same time, it is politically – or maybe conciliatory - a very sensitive issue, in a country as Lebanon. Subsequently, all must approach it as a conciliatory proposal, but away from communitarianism, based on the participation principle in its widest dimension.

3. If central policies have failed to provide the minimum economic and social stability, decentralization shall provide alternatives worth stopping at.

4. Perhaps what Lebanon and the Lebanese went through during the garbage crisis and its centralization, has reinforced, with a clear example, the necessity to move fast to decentralized solutions for the country’s different problems. Should the center be shaken, the Lebanese regions may then be able to overcome the crisis with fewer damages possible.

5. Finally, decentralization is not a purpose in itself; it is a means and a tool to ensure a larger local participation and a more permanent democracy, as well as accountability

based on direct control, and measurement of performance and efficiency thereof. It is therefore the gate to reform the system from within its local structure... decentralization for Lebanon: because without it, Lebanon will be lacking structure, dismembered, and a stranger to its people, to their needs, aspirations, and expectations...

Principles of Judicial Reform*

A Proposal to Reorganize the Judiciary in Lebanon

The French author 'Condorsé' wrote¹: 'Man has gone through history from a phase where he would obtain his rights by forceful means to a period where this task was entrusted to the wealthy and powerful among the population, to finally reach a phase where he would resort to judicial authorities that are to be fair.'

He goes on to say: 'Rapid progress that the societies undergo and the resulting discrepancies on more than one level are likely to encounter a lack of evolution in the development of judicial institutions that do not correspond to the requirements of this progress; the reform of the judiciary ought to restore to humanity its humane side'.

As we present the reform of the judiciary through some of its basic phases, we would like to assert that the reorganization of the judiciary in Lebanon is the first step to retrieve world trust in its institutions.

The concept of judiciary reform

Throughout history people have taken interest in the reform of the judiciary. The Pharaohs in Egypt used to worship a god whom they called the 'God of Right', or 'God of Justice'; the Pharaoh Isis used to ask judges before they start their mandate to swear not to obey him should he ask one day to violate or defy justice. Drawings show judges at the time of pharaohs without hands as a sign of integrity and with eyes lowered to say that they will not take into account the parties of litigation whatever their position. One of the most famous recommendation of Thutmosis III is his saying: 'Do everything in accordance with the law and right; what makes Gods angry is that you should take sides with anyone ... Weigh your doings in the balance of equality; deal with those you know as though you did not and with those who are close to you as though they were not ... Whoever does so among my judges shall flourish in his position.'

(*) Samir Abillama

(1) In "Evolution of the Human Thought".

Islam used to be very restrictive in the choice of judges; many are the historical situations that embody the position of justice and its supreme authority. Ali Bin Abi Talib wrote to the ruler in Egypt a letter giving him the power to name a judge after indicating the necessary qualifications; he said: 'Choose among your people the best to be judge, someone who is patient, who does not take sides in conflict, who does not belittle people, does not fear to impose justice should he know it, is not cupid or greedy, has discernment, looks for conclusive evidence, listens to all conflicting parties untiringly, insists on unraveling the truth, does not care for praise, does not fall into temptation; should you find him, give him this position that no one who is close to you may aspire to; you will thus ensure the safeguard of right.'

Thereafter, history reminds us that after he had conquered Europe, Napoleon Bonaparte became aware of the supremacy of the law and he held judges in high esteem. He then forgot his military achievements to pride himself in the eyes of all humanity with legislations and laws that bore his name; he published an imperial decree on February 27, 1811 determining the means to reform the judiciary as a main guarantee to safeguard his political gains.

French author Balzac is said to have written in one of his works: 'There is no human in the world – be it a king or a prime minister or a minister – whose force may outweigh that of a judge; the latter is only governed and checked by his conscience and the law... France needs around six thousand judges; there isn't a single generation with six thousand great men.'

As time passed and through centuries, justice had this supremacy and was a focal point as its mission is of utmost importance to preserve the supremacy of the law, protect legitimacy and safeguard human Rights. This consideration went on throughout history embodied in international charters and national constitutions as they all included texts asserting that the judiciary is a power with fundamental bases, and that the reform of the judiciary as well as the immunity of the judicial body are two bases of the legitimacy of power and the citizens' security. Numerous studies and congresses on various international, regional, and national levels have dealt with the judiciary system and its role to protect human Rights since they are the essence of freedom, justice and peace in the world. Hence, the study of modern norms to reform the judiciary is worthwhile.

Today, the reform of the judiciary is an established principle in human conscience as almost every text, every declaration, and every international treaty about human

Rights mentions it. The preamble of the Human Rights Charter asserts 'people's determination to highlight conditions in which a reform of the judiciary may be carried out to achieve justice.' The status of the International Court of Justice underlined that 'The court authority should be made of independent judges.'

The eighth article of the Human Rights Declaration asserts the right of each one to resort to a national ad hoc court to obtain justice as to any actions that may violate basic rights endowed to him by the law. Article ten of the same Declaration stipulates the right of every one to be equal to others before the law; his case must be examined by an independent and neutral court fairly and publicly to determine his rights and obligations and examine any penal accusation made to him. Article fourteen of the International Treaty of Civic and Political Rights distinguished in its universal proclamation the right to a fair trial by a rightful judiciary which believes in equality and sees to it that the trial be public, neutral and independent based on the principle that one is innocent until proven guilty.

This issue was settled in the International Charter of Civic and Political Rights adopted by virtue of the U.N. General Assembly decision dated December 16, 1996 – enforced as of March 23, 1997 – as it called in its eighth article each member state to guarantee each plaintiff the right to see whether his rights have actually been violated, and asked each state to develop the possibilities to reform and reorganize the judiciary. The Charter defined in its fourth article limits and restraints to emergency measures as only to be taken should the life of the nation be threatened. The Charter dedicated article fourteen to the judicial body and its bases as indicated: 'All people are equal in front of the law; each individual has the right to a fair and public trial by a specialized, independent and neutral rightful court if a penal accusation is made to him as concerns his rights and duties in any civil case.' The Charter forbade the press and the public from attending the whole or some of the trial to preserve public morals or public order or national security in a democratic society, or to preserve the privacy of one of the parties of the trial or in any circumstances where publicness may disrupt the interest of justice. However, any sentence in a penal or civil case should be rendered publicly. Any accused of a crime may, while his case is being examined, like anyone else, have the minimal guarantees that he should be tried in his presence and that he should be able to defend himself directly or through a lawyer he chose or that the court appointed for him – when the interest of justice so requires – without any expenses, if he is unable to pay for a lawyer.

The Charter stipulated that any person convicted of a crime has, according to the law, the right to resort to a supreme court to reconsider his condemnation or his

sentence. The above mentioned international charter also shows that it has added to the foundations of the judiciary as brought out in the Universal Human Rights Declaration— independence, neutrality, and the protection of defense rights – the need for a specialized and lawful court, i.e. that the setting up of a court should not rely on the will of any other authority than the judiciary.

It should be pointed out that the African Human and People's Rights Charter approved at the Organization of African Unity summit of heads of state and governments held in Nairobi May 24-27, 1981 has underlined the need for the reform of the judiciary by establishing civil and political rights mentioned in international charters, namely that all are equal in the eyes of the law.

Here, we would like to point out that a number of Arab experts, intellectuals and jurists, who met in Syracuse in Italy on December 5-12, 1986 upon an invitation from the Higher International Institute of Penal Sciences, set up a draft charter to reform the judiciary in the Arab world with unified values, heritage, history, civilization, interests, and hopes; in its eleventh article it underlined the principle that all are equal in the eyes of the law and in front of justice. It made the state responsible of guaranteeing the independence and neutrality of the judiciary in addition to guaranteeing the independence of lawyers. In its fifth article it stipulated that all necessary guarantees ought to be provided so that the accused may defend himself in person or through a lawyer he chooses in a public trial. The court should appoint a lawyer to defend the accused without expenses if he is unable to pay.

International efforts have made great strides to determine in details specific norms to reform the judiciary, and guarantees to its neutrality and integrity; these efforts were made concrete in the Universal Declaration of the Independence of Justice published in 1983 at the Montreal-Canada congress. This Declaration defined the independence of the judiciary as the freedom of the judge to rule in a case without taking sides or being influenced or submitted to any pressure or temptations; judges are independent from their colleagues and their presidents; the judicial authorities are independent from the legislative and the executive; reconsidering a sentence is of the sole competence of the judicial authority itself; exceptional courts are forbidden; each one has the right to a fair trial at the regular courts; the competence of military courts is limited to crimes committed by members of the armed forces with the right to appeal to courts with excellent knowledge of legal matters; the executive cannot exert control or power over the judiciary; the judiciary has to rule in all conflicts; this

power should not be limited, and judges should not be removed from office; they are submitted to severe sanctions in case they are disciplined; the judge should not be troubled because of the nature of his job; judges cannot be members of political parties; other detailed guarantees ensure the reform of the judiciary and all its material and moral elements.

The United Nations have endeavored to reform the judiciary; the Organization enforced the principle of this reform and wrote out a detailed definition of all its aspects. In addition to the principles included in the statutes of the International Court of Justice that recognizes and stipulates the principle of the independence of judges, the organization published many international documents in this respect. Among these is the Resolution 3144 (28d) of the General Assembly indicating the draft of principles about equal justice to all; among these also the sub-committee report at the Economic and Social Council about establishing justice and ensuring human Rights including the draft Declaration about the independence and the reform of the judiciary (art.9 of the temporary agenda).

The most elaborate work of the United Nations as concerns the reform of the judiciary is the definition of the principles upon which this reform is based; it is the draft of fundamental principles issued by the seventh Conference of the U.N. to fight crime and sanction criminals (Milan-Italy 1985). This draft asserts the independence of the judiciary, the freedom of expression and of forming associations; it also determines the qualifications and the formation of judges.

The sub-committee of the U.N. for the fight against discrimination and the protection of minorities also took particular interest in the organization of the judiciary ... This was a crowning of what has become internationally recognized that rights and freedoms may be preserved in a society where the judiciary and the mission of justice are free from pressure and intervention ... This is why the Economic and Social Council authorized the sub-committee (34/1980) to put Mr. Singhvi in charge of writing a report as to the means of reforming the judiciary; he presented a series of preliminary reports and then his final one at the 38th Assembly. After several revisions and commentaries the 'Singhvi' report became a draft declaration submitted by the sub-committee in its fortieth assembly (25/1988) to the human Rights commission to examine it further. The Committee appealed in its forty-fifth assembly (32/1989) upon governments to take into consideration the principles included in the 'Singhvi' draft adopted by the General Assembly in its resolution (33/40 dated 29 October 1985).

The Committee welcomed the fact that the sub-committee set up an independent article on the agenda about the reform of the judiciary and the organization of the Bar association. The 'Singhvi' draft comprised all prior declarations and principles about the reform and independence of justice and about the organization of Bar associations; it added just what is necessary to fit the developments of human Rights international law.

The preamble of the draft clearly highlights this close link between the independence of the judiciary on the one hand and human Rights on the other; the former is the frame through which human Rights are respected and this respect is ensured.

The draft was a success inasmuch as it put down in writing a minimum number of principles that may be accepted by the various political regimes and the different legal mechanisms.

The most important in the said draft is that it starts off from a very crucial truth: that there exists a wide gap between the theory upon which the internationally recognized principles are based as concerns the reform of the judiciary and the status quo in many parts of the world. The draft actually tried to bridge this gap as much as possible.

What draws the attention in the draft as concerns the judges' aims and tasks is that it mentions among these latter tasks the strengthening of the respect of human Rights and their enforcement within the job of a judge. In the draft, it is said that this task comes after the enforcement of the law.

About the reform of the judiciary, the draft clearly distinguishes between two types of independence that, it says, should be asserted in all the national legislations of the states that will adopt this declaration: the independence of judges as individuals – since judges are free as individuals and their duty is to decide objectively on all matters submitted to them – and their independence in their decision from their colleagues, presidents in the judiciary; there should be no hierarchy system in the judiciary, or any difference in rank or degree, or any intervention in the judge's right to render his sentence. The draft then deals with the independence of the judiciary as a power: it has direct rule – or through revision – over all judicial matters; no specialized courts should be set up to take over proper courts as everyone has the

right to a quick trial in front of regular courts or judicial courts accordingly to the law.

The submitted draft adopted this principle and considered that the reform of the judiciary as a power is a basic guarantee of the impartiality of the judicial process.

To emphasize the importance of the reform of the judiciary, the draft determined quite specifically and in a detailed manner, the relation between the judiciary and the executive: it stipulated that no power ought to interfere in the judicial process (5g); the executive should not have any control of the courts' judicial tasks as concerns the establishment of justice (5h); the executive has no power to stop or delay or suspend courts (5i); the executive refrains from and avoids any action that may anticipate on the judicial resolution of any conflict, or may hamper the rightful execution of a court's decision (5j).

The draft authorized in times of emergency some exceptions to these principles upon the condition that this be linked with the need to face very dangerous situations that threaten the very existence of the state, and that these exceptions be governed by a law and do not take longer than the exact needed time.

The draft forbade that the legislative power have any arbitrary power over the judiciary; no legislation or decree can invalidate with retroactive effect judicial sentences nor can the former change the form of the court to influence its decisions.

In safeguard of all these principles, and in assertion of the reform of the judiciary as a power, the draft gave judges the right to take group procedures to protect the independence of the judiciary.

The reform of the judiciary in Arab and foreign constitutions

World constitutions include special texts; almost each constitution has these texts regardless of the political regime, the political ideology or the economic pattern chosen. What is noteworthy in this sense is that despite differences in political and legal orientations and regimes in the world, opinions coincide as to the basic norms and principles of the reform of modern judiciary.

For instance, article 8 of the Belgian constitution stipulates that 'No one is to be deprived of the judge who is appointed to him by law, unless he so wishes.' Article 94 of this same constitution stipulates that 'No court or judiciary body ought to be set up

unless by virtue of law; no exceptional commissions or courts are to be set up under any denomination whatsoever.' Article 91 of the Greek constitution stipulates that 'no exceptional commissions or courts may be set up under any denomination whatsoever.' Article 60 of the Finnish constitution stipulated in this same sense that 'no exceptional courts can be set up.'

The Italian constitution included a special part about the rights of citizens; article 25 stipulates that 'no one ought to be deprived of a judge who is appointed to him naturally by the law.' A chapter dealt specifically with the judiciary as it showed that judges only submit to the law (Article 101); article 104 stipulated that the judiciary is an autonomous system from any other power; article 105 dealt with judges' nominations, specializations, transfers, promotions, and disciplinary measures. The most important point included in this constitution is that it insisted the judiciary be remitted to regular judges as stipulated in article 102 that 'the judiciary is in the hands of regular judges chosen according to ad hoc regulations; no exceptional or special judges can be appointed.' This constitution gave military courts the competence to examine military crimes only, crimes perpetrated by military forces (article 103).

The fundamental law in Germany included a comprehensive system proper to the judiciary; it remitted this power to judges themselves, it linked them with the courts stipulated in it; article 96 (a) allowed the setting up of military courts for armed forces, to render sentences or impose sanctions only upon military forces sent abroad or on board military vessels and only in the cases of defense. According to the law, they depend of the minister of justice; judges are to have the required qualifications to become so; the Supreme Judiciary Council is the ultimate reference of judges. Article 97 of the fundamental law stipulates that judges are independent and do not submit to anything but the law; they may not be removed from office or suspended temporarily or permanently before the end of their office term or without their consent. Article 101 banned the setting up of exceptional courts; in addition, no one should be forbidden from resorting to the ad hoc judge.

The fundamental principles of the reform of the judiciary

We deduce from the above mentioned data and from international and regional treaties as well as foreign and Arab constitutions, from international and national congresses, from the declarations and recommendations published and approved, that there is almost unanimous agreement to say that the reform of the judiciary must be based on fundamental principles among which are the following:

1. The judiciary is considered as an autonomous power that carries out its mission without interference or supervision or control from the other two powers, the legislative and the executive.

2. The judiciary is independent and neutral as to the two above mentioned powers; these two characteristics are correlated – since there is no neutrality without independence and vice-versa – to guarantee that the judge may accomplish his mission without bonds or influence or temptations or pressure or interference – be it direct or indirect – from any party and for any reason.

3. The regular judiciary rules in all penal cases, be they civil or administrative; the specialized court must be determined by law before the case actually arises; after a case has been filed or a crime has occurred, the citizen or the accused cannot be switched to another court which is set for him, with fewer guarantees; the specialty of the court must be determined according to neutral norms which do not rely on the will of a given power; the regular judicial rules should be applied as concerns the procedures and evidence which guarantee full defense rights – namely the right to invalidate the decisions and sentences through the channels decided in these rules; courts must be entirely formed of qualified civil judges with full knowledge of the law, full independence, and who are not removable from office. We should note here that the supreme court in Egypt established that the judiciary is a fundamental power that is equal to the legislative and the executive; it derives its existence from the constitution itself not from legislation; the constitution entrusted it with justice, made it independent from the rest of powers; its authority cannot be reduced – either fully or in part – through legislation; the rule of justice ought to be distributed in full to the judiciary in a way that guarantees equality allowing individuals to file cases without harming the judiciary itself or restricting some cases from its authority; should the law overstep this constitutional stipulation, it is a flagrant violation of the constitution.

4. Exceptional courts in which guarantees are limited are forbidden, which necessitates that the courts of state security be annulled anywhere they may be. We should note here that the Egyptian court of appeal has endeavored to interpret the emergency law texts in Egypt in order to maintain the right of the accused to defend himself; it stipulated that the regular courts are fundamentally specialized to rule in all what concerns the courts of state security ... since legislators did not mention in the emergency law or in any other legislation a text giving the court of state security the right to decide on its own as to any kind of crime. In France, the courts of state

security were cancelled by virtue of a law published in 1981; it stipulated that 'in times of peace, any crime or offense against state security and any accused in this sense are examined or prosecuted through regular courts according to the rules stipulated in this law...'.

5. Military courts are cancelled in times of peace; their competence is limited to the prosecution of the military accused of military crimes only. In this sense, we mention the rule of the court of appeal in Tunisia as concerns the courts of state security: a recent decision stated that since military courts do not have general authority, the regular courts' competence should prevail over other parts of the judiciary.

6. The lawyers' independence should be preserved since they assist judges in their mission to enforce the law and guarantee the right of defense.

7. Justice should be free to ensure the principle that all are equal before it, which is a right stipulated in all international charters and constitutions.

8. Judges and their assistants should be trained and formed to perform their judicial task regularly. In this sense, we would like to point out the setting up of the Institute of Judicial Studies in Lebanon which stipulates in its statutes, article 2, that it forms and trains judges both as concerns theory and practice to perform their task and reach the required scientific level; its work may also include the training and formation of assistant judges in administrative work and judges' daily tasks.

9. Scientific development ought to be used in the service of the judiciary since the world is heading towards more and more electronic data banks used to serve justice as is the case in France and Italy. In France, the judicial data center was set up to serve the court of appeal and the Council of State; it records the sentences rendered by the civil sections of the court of appeal since 1970 and those of the penal section since 1973. In Italy, the electronic system was introduced in the Italian court of appeal in 1967; it is now called the electronic documentation center and has been fed with all province legislations, constitutional court sentences, and court of appeal decisions, in addition to legal publications, articles and commentaries on sentences. The Council of State in Lebanon introduced the electronic system in administrative courts in 1994, making an important step in the generalization of electronic advancement of the Lebanese judiciary.

10. The judges ought to have the right to express themselves freely and take part in public matters of their country through the Supreme Council of Justice which should not be submitted to any other power's control or supervision.

11. The judiciary should have its own budget through formed or elected councils; it determines the resources and expenditure of this budget.

The role of lawyers in the reform of the judiciary

The lawyer's mission is ultimately social in terms of law enforcement; yet this seems more difficult than that of the judge since he generally opposes the state power and public opinion, which necessitates guarantees and immunities that allow him to accomplish his mission, enforce the law and protect Human Rights.

A lawyer's guarantees and immunity stem from the ethics and sanctity of his job; the latter is not possible unless there is independence from all pressure and influence. Independence would allow him to do his job in a way that would make litigants comfortable with him; it would make him able to confront pressure and intervention from any source it may be (See in this sense – Zaki Jamil Hafiz – Setting up a Justice System – Justice Review, Year 19, issue no 1 and 2, 1988).

The Bar associations in Beirut and the North were pioneers in stressing the role of lawyers as to the reform of the judiciary through laws they endeavored to pass and statutes that they published in their history rich in legal and national stands.

A proposal to organize the Lebanese judiciary

After this historical presentation of the main phases that contributed to the reform and the organization of the judiciary, thoughts and opinions have recently abounded in Lebanon as to means to proceed in the reform of the Lebanese judiciary and to overcome hurdles that prevent this reform process.

Article 20 of the Lebanese constitution stipulates:

'The judiciary is a power assumed by courts that vary in degrees and specializations within a system stipulated by law ensuring to judges and litigants the necessary guarantees.

Judicial guarantees and limits are designated by the law. Judges are independent in the performance of their task; all decisions and sentences are rendered by all courts and enforced in the name of the Lebanese people.'

This article stipulated the principle of the independence of the judiciary since 1926; even if the Ta'if Agreement did not stipulate this independence, general constitutional principles stipulate it and no one ever denied the principle of the independence of the judiciary as a foundation of a free democratic system.

When the Lebanese constitution was amended on September 21, 1990, the preamble asserted that 'the judiciary is an independent power from all others.' This is what article 1 of the civil procedure law stipulated:

'The judiciary is an independent authority from all others in the examination of cases and rendering its rule in this sense; no limit is imposed to its independence other than what the constitution stipulates.'

This shows that the problem was never in the approval of the independence and reform of the judiciary as a principle. The main problem is the organization and the strengthening of the independence of the judiciary through a wider perspective, which is the reform of the judiciary.

Here, we would like to raise the two following questions:

1. What are the hurdles to judicial performance in Lebanon?
2. What are the solutions to overcome these hurdles in order to reach more efficient justice?

The main causes of complaint as to the performance of the judiciary in Lebanon are as follows:

Delays in rendering a decision as concerns cases; postponement of hearing sessions to as much as a year. This delay is mainly due to a lack in the number of acting judges. There are currently no more than 400 judges whereas they are supposed to be twice as many. This irregular situation was tackled in part by former Minister of Justice, Bahij Tabbara through a project aiming at choosing judges among lawyers; in 1992, 42 lawyers were chosen from the Bar association in Beirut and the North to fill the huge gap in the number of judges needed at the time.

- The intervention of some politicians and influential figures in judicial matters. This is how we see the great importance of strengthening the judges' immunity in any reform of the judiciary. Laws are insufficient to ensure this reform or independence; legislation

sets the bases likely to ensure the terms that would allow the proper choice of people who will assume power; it stops at this point, which means that a process of capacity building and orientation is necessary.

We should highlight the fact that the Lebanese judiciary includes some excellent judges as concerns qualification, integrity, and courage, qualities that all judges should have.

The judge's immunity resides in himself; personal immunity is stronger than any other that the law may introduce to protect him from exterior intervention or temptation. This is why particular importance should be given to the setting up of the Supreme Judicial Council, which will assume the judicial authority away from any material or moral intervention or pressure.

This is why we see that based on the above, the organization of the judiciary in Lebanon must stress on the following basic rules: Setting up the Supreme Judicial Council at the head of the judiciary, activating self-control mechanisms, continuous self-cleansing and putting an end to the term of incompetent judges, giving the judiciary financial independence.

1. The setting up of the Supreme Judicial Council which will take over the Supreme Council of Justice at the head of the judiciary: We see that the judiciary must appoint a Supreme Judicial Council; the executive would no longer have its say in the nomination of judges and judicial appointments.

The new council must be different from the current Supreme Council of Justice in its formation and its competence; it must take over from the latter and be entirely independent in accordance with the provisions of article 20 of the Lebanese constitution.

It is important that the Supreme Judicial Council be mixed, with twelve members including the president appointed for a six-year renewable mandate. They will be chosen from acting judges who will be exclusively devoted to their new task, and from retired judges, or former Bar association presidents who will also consecrate all their time to their new task; they may be university professors who have been teaching for thirty years and have already retired. The president and members of the Supreme Judicial Council remain in their position until they are seventy five and may not be removed from office except by Supreme Judicial Council itself with a majority of two thirds of the members.

The quorum of the Supreme Judicial Council is not legal except if eight members at least are present including the president. All decisions are taken by the majority of votes of those present. If there is a tie, the vote of the president is a casting vote. The decisions of the Supreme Judicial Council are not to be revised through any judicial or non-judicial channels.

The Supreme Judicial Council may be set up and appointed for the first time by the constitutional council; then the Supreme Judicial Council designates through consensus members in place of those whose mandate is over, or who have resigned, or have been removed from office, or have died; the autonomy of the Supreme Judicial Council members guarantees their independence and places them beyond the reach of politicians and influential people.

There is a great risk in adopting the principle of elections in the judiciary as mentioned in the Taif Agreement, which creates a precedent likely to cause divisions in the judiciary and may lead to the emergence of party or community conflicts leading this institution to destruction.

To preserve the judiciary, there should be a quick constitutional amendment as to what was mentioned in the Taif Agreement in this sense.

The competences of the Supreme Judicial Council must include mainly the proposal of draft laws and statutes concerning the judiciary and judges; they also include nominations, transfers, promotions and removal of judges from office; the supreme council also determines the salary and compensations of judges. We suggest that there be three bodies to be formed from the supreme council: one which will examine the judges' responsibility as concerns their behavior, the other which will constitute the disciplinary body, and the third which will deal with judicial inspection; all three depend of the supreme council.

The advantage of having judges and non-judges on the supreme council as is the case in French legislation is that it does not restrict the council to one category of people anymore, and members are no longer accused of not taking measures against their colleagues for the sake of solidarity.

We notice that to this day, no responsibility case has succeeded against a judge. This is why forming the Supreme Judicial Council differently can only be beneficial. It will

change the current situation especially that the judges' disciplinary body – which will replace the disciplinary council – and the body in charge of examining responsibility cases, as well as the body in charge of judicial inspection will all emanate from the Supreme Judicial Council.

The relation between the judiciary and the minister of justice is limited to the minister's right to ask for prosecution or stop one by the attorney general; the decisions of the Supreme Judicial Council are submitted to the minister for approval. Should he disapprove of the said decisions, they are returned to the supreme council which convenes again and studies them; should they get three quarters of the votes of all the council members, they become enforceable.

On the other hand, since the executive is accountable politically to the legislative, the latter is also accountable to the people. The president of the republic, the prime minister, and the ministers are all accountable to the supreme council in charge of taking legal action against presidents and ministers. This is why, the president and members of the Supreme Judicial Council should, if need arises, be submitted to the supreme council so that they be held accountable. This proposal necessitates an amendment of the constitution in this sense.

2. Self-control and judges' responsibility: Self-control should come from the judiciary itself through three bodies:

- a) The disciplinary body.
- b) The court in charge of examining cases as to the state's responsibility as concerns the doings of judges stipulated in article 741 and ensuing articles in civil procedure law.
- c) The judicial inspection body.

If the Supreme Judicial Council becomes mixed and not just limited to judges, if the disciplinary body, the court that examines responsibility cases against judges, and the judicial inspection body, all stem from it, then this change will lead judges not to take into account their being colleagues as is the case nowadays.

All these bodies will then be beyond any political influence since they are linked to the Supreme Judicial Council; judges are then liable personally to the above mentioned institutions with their qualifications as their only protection.

The president and members of the Supreme Judicial Council will be liable for their

failure to perform their tasks, and for great treason in front of the Supreme Judicial Council as previously mentioned.

3. Self-cleansing and putting an end to the term of incompetent judges:

Cleansing operations in the past have been polemical as to the way they were carried out and as to the norms adopted to carry them out. The removal from office of a judge is, in our viewpoint, submitted to special, strict and continuous norms since they differ from the norms followed as concerns other civil servants. Removing a judge from office cannot be restricted to the disciplinary body and should not be restricted at the proof of the crime perpetrated by a judge, or proof that he accepted bribery, or submitted to influence in rendering his sentence. These matters are hard to prove through concrete evidence; it is enough that a judge's reputation be shaken from different sources at various occasions for the litigants to lose trust and respect. Then, the Supreme Judicial Council has the right to end his mandate after listening to him. The removal from office of a judge is always of the council's competence since it alone represents the judiciary.

4. The judiciary's financial independence: In compliance with the principle of the independence of the judiciary, the budget of the judiciary should also be autonomous. This is why it is up to the Supreme Judicial Council to determine its budget, the salaries of judges and their compensations in a way that provides them with a good standard of living away from any needs. When real independence is given to the judiciary, and when their living conditions are improved consistently, the best figures become members of the judiciary and the latter will be strengthened as a result.

To conclude and confirm this study about the reform of the judiciary and the reorganization of the judicial power in Lebanon we bring forth an extract as to the judges' behavior and self-immunity since upon reading it you think it is very recent whereas it is from long gone days.

Omar said: '... Justice is a firm task and an acknowledged practice. Comprehend should you be addressed; act should you have proof, since an unenforceable sentence is useless. Assist people with your counsel, your wisdom and your justice; therefore, no honest man would regret your inequity, no oppressed would despair from your fairness. Reform your justice; deal equally with kings and common people.'

In this sense, the following story is told about Omar; as Jablah Bin-I-Ayham, one of the Ghassanid kings is circumambulating the Kaaba, one of the people around treads on his

garment. The king looked at him angrily and slapped him on the face. Omar sent for Jablah and asked: Is it true what the man says that you hit him on the face?

Jablah said: Yes, and had we not been before the house of God I would have cut off his nose with my own sword.

Omar asked: Why?

Jablah replied: He trod on my garment as I was circumambulating the Kaaba.

Omar then said: Choose one of two things for yourself, either you apologize and you ask for his forgiveness or I will ask him to slap you.

Jablah the Ghassanid king was stunned at Omar's sentence. He said: How can you put me on the level as him?! I am King and he is a plebeian!

Omar said: Islam considers you on an equal footing; there is no difference between a king and a common person.

Jablah then said: Give me some time to choose. So Omar gave him three days. Upon nightfall, he ran off with his collaterals to the country of Byzantium.

If we want for our judiciary to be reformed let us take the story of 'Jablah' as a lesson in reform.

The Public Private Partnership in Lebanon*

The world is going through a phase of massive shifts that could change the concepts of all social contracts currently in existence. Those shifts comprise first the technology factor which made the distances between individuals and societies closer, and put science and information within everybody's reach; second, the free movement of capital in search of the most feasible investments and the cheapest labor; third, the widespread use of a single language – English – all over the world and in all fields; and fourth, the digital revolution which developed all sectors of production and services. These are all agents of change the world has not seen anything like before, all of which are interwoven in such a way as to make competition an essential component of economic activity, regardless of the latter's type and place.

Lebanon is not immune to these changes; in fact, they have grown to limit its ability to compete. The country's trade relations, the culture of its multilingual people, its banking secrecy, and its evolved educational curricula, are under pressure from the information and globalization forces of the twenty first century. Proof of which is what we witness as the evolution of the economies and societies of other countries in the region which, until not long ago, the Lebanese used to look down upon but now resort to working there in order to earn their living.

Henceforth, the transformations the world is undergoing necessitate a new approach to our pattern of living and the management of our economy, in addition to a second look at our social contract, and a review of the way the country's political class will deal with the Lebanese citizens in the future. For indeed, the main obstacle to this necessary and urgent change is the political class which, in spite of the demonstrations held against it, remains completely oblivious to the seriousness of the state of affairs. Moreover, it still deals with the country and its people on the basis of 'quota sharing', a system of allocating the spoils of power among its players and components. The situation is reflective of mafia groups that wear sectarian camouflage, and they draw fanatics and immature minds under their influence for the latter to protect their interests and even sacrifice their lives at times in the process.

(*) Ziad El Hayek

Infrastructure

It is no secret to anyone, not even to the poorest in the country, let alone its wealthy politicians, that the salvation of Lebanon lies in the ability to create jobs in adequate number and quality, in order to secure a decent life for its citizens. It is also not a secret that the country lacks the infrastructure commensurate with the services demanded by the people, and that the development of electricity, education, health, transportation and other basic service sectors has been steadily deteriorating for years. In addition, major infrastructure projects, which would provide hundreds of thousands of job opportunities for the Lebanese with the aim of elevating our economy to the level of the major economies in the region, carry the capacity of contributing alone to the consolidation of firm grounds for our economy upon which it would grow and prosper.

The advantages of investing in new infrastructure are not just limited to consumers; this investment also plays a major role in raising the levels of economic growth, developing the economy, and promoting sustainable growth. Infrastructure projects also assist in setting suitable foundations for attracting investments and creating numerous jobs.

We cannot create jobs in large numbers by relying only on individual initiatives in opening shops and touristic facilities. For no matter how big the average size of these businesses, it remains small relative to the jobs that must be created in aggregate at the level of the economy. In addition, the quality of these enterprises' jobs is very low in terms of added value. As an added example, we need to secure to university graduates employment opportunities which are worthy of the long years they spent acquiring their education, and not leave them to take up jobs which any worker could do. For this leaves those qualified young men or women under the constant threat and instability of being dispensed of by the employer the minute the latter finds a worker willing to perform the job at less cost.

Major projects of structural installations are alone capable of creating jobs in the thousands rather than by the dozens (for each project), and of providing employment to university graduates and workers alike. For the people on the payroll of such projects would comprise engineers, administrators, information technicians, lawyers and many others from the skilled and unskilled spheres which are directly or indirectly related to a project. Let alone the positive impact of any such project on the community.

Of added consideration is the fact that infrastructure projects are an investment in the future, not an immediate expenditure as some believe. Wherever a road is paved,

new avenues for investment open up; and wherever a train travels, it eases the cost of fuel burned in vain in traffic jams on our roads and highways; and whenever a plant is established to produce electricity, and it actually does, it prevents people demands from boiling over in the streets, and facilitates ensuring stability.

How did we get here?

The current situation can be attributed to several factors, the most important of which are: 1) The chronic Treasury deficit, which did not allow (and the deficit still does not allow) to spend sufficient funds for the development of these sectors, 2) The absence of a culture of preservation and maintenance of public property, 3) The short life nature of Lebanese Governments, with their average duration in power not exceeding a year and a half.

But it is presently unrealistic to expect the State to fund these projects. Public debt is rising again, and the growth ratios are low. Therefore, any investment in new infrastructure would have to be financed by imposing extra taxes or increasing the public debt, both of which may hurt growth.

The partnership between the public and private sectors is one of the answers to building new infrastructure without causing any paralysis to the national economy. It involves inviting private companies to work together with the State in order to develop the infrastructure required. Such partnership projects have had a significant impact in countries which were as eager as Lebanon for change, but lacked short-term financing.

What is the partnership between the public and private (PPP) sectors?

Partnership between the public and private sectors is an agreement between one of the public sector bodies and one of the private sector companies, whereby the latter commits to investing in a particular project which aims to provide a certain public service to the State or to the citizen as per conditions stipulated in the contract. The partnership is distinguished by two main components:

- First, the partnership here is in the risks, not as some believe, for lack of knowledge, that it's merely a partnership in investment, revenues, or profits.

- Second, the method of awarding PPP projects relies on the identification and description of the output (Output Specification) and not on the identification and characterization of inputs (Input Specification) as is the case in normal or regular tenders.

Output Specification

In normal tenders the State calls for a bid, say, to build a power plant. In this case, the State is actually purchasing a power plant. The State describes its requirements (i.e. Input) and identifies all the variables (Variables), except for one variable which is the cost. Accordingly, the tender is conducted on the basis of this single variable, and the lowest bidder wins the contract.

Under the PPP model, the State moves to take advantage of the expertise of the private sector, not only operationally but also in design and financing. Here the State does not buy a power plant; it rather buys electricity. That is, the tender is conducted on the basis of who will sell the kilowatt-hour at the lowest cost to the State. The latter thus recognizes that its role is not power plant administration, but to provide electricity to the citizens. So if the State would be able to get this energy from private sources at a cost lower than what it incurs for the kilowatt-hour produced by its own plants, thus providing energy at a lower fare, why not?

The State must be aware, though, that holding tenders through Output Specification requires large financial and legal expertise which is not normally available in public administrations. For not specifying all the variables leads to the submittal of varying offers which are not easily comparable without the rules of the game being clear, and without recourse to technical, financial, and legal specialists.

Partnership in risks

PPP projects are not just involved in deferring debt; they involve long-term contracts between the public and private sectors aimed at providing public services and the creation of infrastructures by taking advantage of the efficiencies, and the financial potential and expertise, of the private sector. This partnership is not at the level of capital or profits; it is a partnership in risk rather, where the public sector passes some of the project risks to the private sector and retains others. For example, the private sector may bear the risks of development, design, construction, operation, exploration, finance, and inflation, while the public sector would bear the environment, regulation, policy and tariff risks.

The best approach to classify the modes of cooperation between the public and private sectors is the one that is based on looking at the risks of the project subject-matter of their cooperation, because risk is the basis of the general evaluation of projects. Are not interest rates that are used for feasibility studies and cash flow

analysis made of three basic components: The real interest rate, the inflation rate, and a percentage that reflects the project risks? Since the first two components are equal for each particular project in a particular time and at a particular place, it's the risks which make up the true criterion for evaluating a project's cost, and the feasibility of funding it either by the state or by letting it out to the private sector.

So if we use the risk analysis approach to classify the ways of cooperation between the public and private sectors, we find that these methods occupy a long list, as they stretch from management/operation contracts on the one hand to full privatization on the other hand.

In management/operation contracts (as in outsourcing) the State bears the full project risks while the private sector does not assume any. Take, for example, the administration contracts concluded by the Lebanese State with the operators of cellular networks after it nationalized them in 2001: If lightning strikes one of the cellular antennas of a mobile phone network (which are usually seen on building rooftops), the mobile operator fixes the damage then sends its repairs bill to the Ministry of Telecommunications claiming the cost of labor and replaced equipment. This is representative of the case where, for example, the State bears the risk of natural disasters, and the private company doesn't undertake any. On the contrary, the repair process adds to the company's income in the form of the mark-up which it applies on the cost of labor and equipment it charges to the State. Add to this that there is no realistic reason that prevents the State from building the capacities of the public administration to run projects instead of contracting with private companies; that is, in case the project was in fact at the core responsibilities of the State.

To many experts, the management/operation contracts constitute the worst mode of cooperation between the public and private sectors; definitely so for the State, and probably the best for the private sector. It is unfortunate that this type of contracts is the most prevalent in the Lebanese State, due to its preference by the political establishment, as it enables the companies which enjoy the backing of politicians to get such contracts on risk-free terms. Moreover, the repeated renewal of the contracts gives the "influentials" the opportunity to benefit frequently from the process, at least with regard to the pressure they tend to exert on private-sector service providers to hire some of their "clientele". For this reason, we rarely find critics to this type of contracts.

In contrast, the full privatization mode is altogether diametrically opposed to the management/operation contracts in terms of risk. Under full privatization, all risks are transferred from the public sector to the private sector. The private company bears the risks of the market, and those related to tariffs, operation, maintenance and labor, in addition to all other issues which normally pertain to private partnerships. The State's role becomes supervisory and regulatory, just as is the case for any regular sector such as commerce, manufacturing, restaurants, professional offices, etc.

Between administration/operation contracts on the one hand, and privatization contracts on the other hand, there is a space in-between for certain types of PPP contracts whereby the risks are spread onto the parties to the contract, each according to its bearing capacity. Here the contract defines exactly which risk is to be borne by which party, and how it will deal with it during the term of the contract. Some of the risks can be hedged against or mitigated via contracting insurance or through guarantees by foreign agencies, or in other ways possible.

For instance, when the State awards a contract for building a power plant through the traditional tendering process, it assumes all the risks of the project. If the price of iron rods or concrete rises during the construction period, the contractor adds this price differential onto the invoice it raises to the State for payment. Similarly, if the construction works are delayed, the contractor brings up excuses such as weather conditions or another pretext, which results in the State bearing the cost of the delay. This comes in the form of the interest rates the State pays on the funding it gets through the sale of treasury bonds or the like.

However, in case the State envisaged tendering the power plant through the PPP mechanism, the construction risks usually are the responsibility of the private company. In PPP projects, the State does not buy the power plant (i.e. it does not build it at its own expense). The State rather buys electricity from the plant which gets built by a private company at the latter's expense. If the price of iron or concrete rises, or any delay is incurred, the State does not assume any of the associated extra costs, because its obligations in the partnership contract are limited to the purchase of kilowatt-hours of electricity when they are transferred to its network, no more, no less. The whole plant's risks become the responsibility of the contracted company. The state, though, retains some of the risks which the private company cannot afford to carry around, such as the level of the tariff to the consumer (especially if the state wants to subsidize this tariff) or the availability of fuel imported by the State through international agreements with oil-producing countries for the running of the plant.

PPP, therefore, is at its core an approach based on the private sector partner bearing the cost of financing the investment in the public sector's project while carrying some of the project's risks, which all in all poses an incentive for the private company to have interest in the project as if it was its own.

This does not mean that PPP is the best financing tool in all cases. Projects must be examined on a case by case basis, in order to determine whether the execution of an individual project would be viable through PPP or through financing it from the public treasury directly.

Misconceptions about PPP

This pragmatic and operational approach unfortunately faces a rowdy and demagogic approach that emanates from some circles which either believe that PPP is detrimental to their personal interests, or do not understand what is meant by it and how it can be applied in complete transparency and professionalism.

In Lebanon there are often misconceptions about PPP, not only among the general public, but even among some leaders and decision makers in the economic and public policy domains. So we should clarify some of the matters that cause confusion to some people:

"Project finance by the State is less costly"

As it goes, the State is able to borrow at a lower cost than the cost which the private sector incurs, since the State's cost is the sovereign debt rate, while the cost of money to the private sector is the 'Weighted Average Cost of Capital – WACC', which includes the cost of debt and the cost of capital. This argument is incorrect because: 1) It assumes that the project cost is the same in both cases, 2) It does not take into account the cost of the project risks, 3) It gives weight to the importance of not awaiting the availability of the necessary funds in the State's budget for commissioning the implementation of infrastructure projects.

"PPP will lead to public sector employees losing their jobs"

Of the misconceptions about the partnership is to say that it affects social safety by replacing public sector employees by people from the private sector. Under PPP contracts, the responsibility for providing the service remains the province of the public sector; therefore, it's the partnership agreement which determines the outcome of the current staff positions, if any, e.g. transferring to work under the private partner, or any other solution. Add to that the fact

that the majority of partnership projects will rather consist of undertaking new constructions, thus attracting new employees or increasing employment opportunities, and just a few of the projects would involve the rehabilitation of installations which have employees already.

“The private partner just wants to make a profit at the State’s expense”

All forms of partnership have one common denominator, which is the belief by both parties that each one of them stands to gain from the partnership. In a successful partnership, both parties benefit, and the advantages are clear from the beginning; they also share in the risks and benefits. The logic of partnership is based on the principle that each party has unique characteristics and fortes which it brings to the partnership, so that through their cooperation, they build on their respective strengths and their two teams complement each other as one.

“PPP is the mixed ownership of the project’s company”

The concept of PPP is basically about a partnership in risks between the public and private sectors. Usually a company for the project is incorporated by the private partner, which it funds entirely with the object being to build and / or develop, maintain and operate the assets subject-matter for the contract duration. Should the public sector like to contribute to the funding, it would have a stake in the project’s company, which then becomes a mixed enterprise.

“The state loses control over cost and quality”

Projects implemented by the public sector are rarely subject to performance requirements similar to those in PPP contracts. PPP contracts keep the responsibility of providing the service as resting with the State, and the latter specifies the production criteria upon which the private partner is selected. Also, the public sector is the party that follows up on the execution of the contract to ensure compliance with its terms. So it can be said that PPP contracts strengthen the control of the public sector through setting contractual solutions which it wouldn’t by itself be able to apply.

Other PPP benefits

The upcoming PPP benefits are huge. Ensuring the speedy execution of projects comes first, especially in a country where the completion of public projects invariably undergoes a delay of several years at an incremental cost beyond the original budget by the millions. The introduction of the mentality of the private sector (through transferring it the design and construction functions, and linking payments to the provision of the service) is capable of changing the current situation.

In the same context, the State may be able to implement several projects simultaneously, rather than waiting for the availability of funding for capital expenditure. It goes without saying that Lebanon is in a dire need for investment in infrastructure, and PPP would enable it to launch a comprehensive series of reforms.

From a broader perspective, PPP promotes decentralization, as local authorities can implement projects in their regions independently from central authority. The redistribution of power away from the central political classes can only be a useful development.

PPP's requirements

The benefits explained do not preclude the presence of some issues as regards the partnership, to which due attention must be paid. In return for the domestic and foreign willingness to invest in PPP projects, there are some pillars to be put in place to ensure the success of these projects.

- First, the existence of a modern legislative and regulatory framework for the partnership; it provides clarity in the tendering procedures and in the relationship between the contracting parties of the public and private sectors. This is reflected in the currently stuck project of a law about PPP, pending approval by the Lebanese Parliament.

Second, it is important that all stakeholders be represented in the tendering/award procedures of partnership projects, which helps to avoid surprises or obstacles at the later stages, which may result from a lack of cooperation between the parties concerned. Such a representation would also help to avert the incidence of corruption which may take place, as when a Cabinet Minister would award contracts unilaterally, thus ensuring that high level of transparency which is called for by investors, the foreign in particular. There is concern about this issue with respect to Lebanon, especially in light of the ambiguity surrounding the award of a number of public deals.

Finally, it is important to create an independent central unit comprising specialists in the PPP subject, and empower them to design and draft partnership contracts which would guarantee the public interest and take into due account the rights of investors. This is in fact the kind of work we dwelled on at the Higher Council for Privatization (HCP).

Lebanon's experience in PPP

PPP is not new to Lebanon. The first mixed project, although it was labeled a 'Concession'¹ at that time, was implemented in 1870. It concerned a contract by the Ottoman Empire with a former engineer of the "Company for the road between Beirut and Damascus" to ensure a supply line of fresh water to the city of Beirut for a period of 40 years. With respect to contracts of partnership in the modern era, we can mention the contracts for the cellular networks in the nineties of the last century with France Telecom Group and Sonera, as well as the contracts concluded with IBC company for waste treatment in Sidon, with Liban Post in relation to mail services, with Mapas company for the operation of the Jeita Grotto, with FAL company over vehicles inspection centers, and with Karadeniz company for the supply of power generation ships.

It is interesting that all the contracts mentioned above, and others, suffered and / or are suffering from several problems, beginning with one or both parties not committing to the terms of the contract, up to reaching a raised litigation level between them and resorting to international courts. The repeat feature of this situation, and its ongoing frequency, makes of Lebanon an undesirable country on the target list of international companies which stand to be the source of Foreign Direct Investment and play a crucial role in the growth of the economies of all other countries where they are present. For long years, Lebanon did not attract any significant foreign investment from international companies, and the companies that had investments deserted Lebanon throughout as well. Lebanon has thus become totally dependent on national investments, with what characterizes them as weak competitiveness due to their high financing cost, their limited scope of business, and their inability to take advantage of economies of scale.

The abstinence of foreign capital from the Lebanese scene is not the only effect on the Lebanese economy produced by the abnormal pattern with which the Lebanese public sector deals with the private sector. There are several other consequences there-resulting, including depriving the country from conducting large-scale projects which would otherwise create jobs in large numbers.

Why is there such a situation in Lebanon? There are two basic reasons: The first is corruption, whereby deals are done intentionally the wrong way for the benefit of a highly placed decision-maker; and the second is the absence of the necessary expertise on the part of the concerned parties in the public sector to engage in complex long-

(1) All projects let out to the private sector for execution at that time used to be called 'Concessions'.

term contracts with the private sector. In both cases, the result is the same: Bad contracts riddled with loopholes, this leading to several complications and problems in the years which follow contract conclusion.

We may find corruption in the contracts award process between the public and private sectors at any level in the public administration. But what's more impactful, and often bears not just moral responsibility but also direct responsibility, is at the Ministerial level. In the system conventionally used since the Taif Accord, the Minister is the *de facto* ruler of his Ministry, not its Director General. The Minister intervenes in all the affairs of the Ministry and in the minute details of contracts. It's not surprising to find the Minister entering in direct negotiations with aspiring contractors, even without inviting the Director General to the meeting, albeit in form. Nor does it surprise anyone that the Cabinet authorizes a Minister to award a contract by mutual consent without calling for any tender, this phenomenon being caused by the absence of any serious opposition camp within the political class, as all camps are more concerned with sharing the spoils than holding their respective political opponent accountable. An example of this is what was done at the Ministry of Telecommunications as contract awards under the argument that the Ministry can use the revenues from telecommunications services to cover its expenditures before channeling these revenues to the State's treasury, and that it was eligible to enter into contracts without the approval of the Cabinet and without recourse to the official Tenders Authority.

The absence of the necessary expertise among the concerned authorities is often found at the level below the Minister, a stratum that reports directly to the Minister who nevertheless insists it's given the leading role in the design and conduct of the PPP projects associated with the Ministry, so as to ensure that the trump card of final decision remains in the hands of His Excellency. This level of the Minister's advisers or direct reports usually consists of people who do not have a career history in the Ministry nor do they carry loyalty to the State as an institution; their loyalty is solely to the person of the Minister or his party. Even when they have a certain expertise in the Ministry's sector, it rarely measures up to the level of responsibilities assigned to them, for the simple reason that high experts do not leave their jobs to join a Minister for an interim period. Add to this that even when those advisers dispose of a general experience in the Ministry's scope of works, they do not have the necessary expertise in the design of the structures of the partnership between the public and private sectors, nor in establishing the tender documents and conducting the bidding process. They are nonetheless asked to be responsible for these processes at the highest level. Lack of experience in PPP is not

limited to the advisers, as the ministries do not have in their organization specialists in this field. It is not strange then, and of no surprise whatsoever, that the design of these processes, the tender documents, and the mechanisms implemented would exude many lacunas and problems. Many examples can be given in this regard: The first relates to how the contract award process for the electricity generation ships was conducted without tender documents, without a bid closing date, and without a priorly-approved contract draft; the second to how the Ministry of Energy and Water under the Najib Mikati Government awarded a wind energy project without determining the location of the wind farm; and the third to how the Ministry of Environment in the Government of PM Tammam Salam held a tender for waste management without specifying the locations of landfills, nor the processing methods for non-recyclable waste.

The PPP Law

The PPP Act proposed by the Higher Council for Privatization (HCP) aims to fix a legal framework for the design and tendering/award of partnership projects which rests on best practice that is based on expertise and international experiences in this domain. The most important elements of these best practices are transparency, experience and expertise, and fairness in the relationship between the parties.

Transparency

Transparency is not only important in reducing corruption and the additional cost to the community that derives from this corruption, but also in encouraging companies that take bid operations seriously to actually participate in public tenders. While the cost of participation in regular tenders amounts to a few thousand dollars (to explore the project's cost as determined by the public sector, and maximize the profit margin over and above those costs), it may cost up to a few million dollars to partake in PPP tenders (for the design of the project, raising capital, negotiating with banks, and calculating the cost of the associated risks). Therefore, the companies that we aspire to attract are of the nature which does not get involved in tendering operations if the integrity of the process would be doubtful. For professional companies avoid incurring high bidding costs in case they don't have confidence in the transparency of the tendering process and the credibility of the party that stands behind it.

Hence the insistence of the PPP Law Project on involving all stakeholders in project design, study, and in making recommendations about it, so that no such prerogatives are confined to one administration – which would facilitate the possibility of bribing it or influencing its decisions. The bill has reached a formula adequate enough so as not to give a project's concerned authorities the ability to disrupt or delay it.

Experience and Expertise

Experience is almost the most important element in the success of tenders and PPP projects. We are not talking here about the technological and technical expertise. This experience is usually found at the Ministries and Government departments, and is deemed essential and primordial for a project, regardless of whether the tender is of a regular nature or let out on PPP basis. The expertise required in PPP projects go beyond the technical realm to encompass financial and legal expertise that are not usually found at the Ministries and Government departments as they do not require these competencies in the conduct of their normal business.

The PPP project design rests on the following experiences: Identifying and assessing the project risks, identifying the project finance options, negotiating with all stakeholders to assign the risks, the responsibilities and prerogatives, and drafting the contracts to be concluded among all concerned parties.

Hence the importance of establishing a specialized central unit for the administration of the design and award operations of the Lebanese State's PPP projects, to be specifically set under the jurisdiction of the Higher Council for Privatization (HCP) from being the Government agency entrusted with this responsibility in the privatization law, and having the necessary expertise in this area as well.

Fairness in the relationship between the PPP parties

It is our belief that upholding the public right is one of the axioms of any official relationship with the private sector; therefore we limit ourselves to just making this reference to it. But upholding the private right is often absent in the management/operation contracts. It is necessary in PPP contracts for the State power not to get overwhelming by virtue of its sovereignty over the land of the project, nor for its prerogatives and discriminatory privileges which it enjoys over the private sector partner in management/operation contracts to extend to influencing the judiciary and the courts. In the event, the relationship becomes unhealthy, and it affects the public services that the project is supposed to provide; it may also end up putting the relationship between the parties through legal tussles and law suits. Understandably, neither of these prospects is agreeable.

Hence the need for the legislative and legal framework to stipulate explicitly the right of the private sector partner to resort to international arbitration.

History of the PPP Law Project, and the current situation

The Higher Council for Privatization (HCP) completed the first draft of the PPP Law in June 2007. The first Government of Prime Minister Fouad Siniora approved the bill and sent it to Parliament on October 20, 2007. Speaker Nabih Berri refused to receive the bill, deeming the Government as lacking legitimacy at the time. In April 2010, Speaker Berri asked MP Ali Hassan Khalil to submit this draft law directly to Parliament. The Chairman of the Parliamentary Economic Committee at the time declined to discuss the draft law, considering it a circumvention of the bill which was sent to Parliament by the Government in 2007. Prime Minister Saad al-Hariri then asked the Higher Council for Privatization (HCP) to form a committee of specialists tasked with developing a new formulation of this proposed law. The committee came to include the President of the State Council, Council judges, the economic advisor to the President of the Republic, professionals at law, academics, experts, and staff of the Higher Council for Privatization (HCP). It met and completed a new PPP draft law which PM al-Hariri submitted to the Council of Ministers. This council formed a committee to study the project, but the Cabinet resigned soon after, and work stopped on this initiative. In May 2012, PM Najib Mikati put the draft law before the Cabinet, but some Ministers objected to it and a Ministerial committee was formed to study the draft. The committee later entrusted a miniature working group with the responsibility of revising the proposed draft law. It consisted of the Ministers of Justice and Information, in addition to the Secretary General of the Higher Council for Privatization (HCP). This subcommittee issued a new draft, but the Council was not able to discuss it because the Cabinet resigned. In the meantime, MP Yassine Jaber succeeded to transfer the bill from the Parliamentary Economic Committee to the Parliamentary Finance Committee, which in turn passed the responsibility of the study of the bill to a subcommittee which did not pursue it because the politicians lacked enthusiasm to approve the law. To date, the current Government of PM Tammam Salam did not place the draft law on the Cabinet's agenda.

As it pans out, the most important economic law in Lebanon, the law which would create more than 200,000 jobs, including 80,000 jobs for college graduates, has been kept in the drawer since eight years!

The Environment Consideration within Comprehensive Growth*

Sustainable development

The relationship between environment and development has always been controversial concerning the priority to present development at the expense of environmental impact or vice versa. The environmental awareness did not develop globally until the fifties and sixties of this century, and that after the occurrence of many environmental disasters in Europe and the United States of America as a result of the air, water and soil pollution. Many lobbies were established to claim the protection of the environment and culminated in the Environment Conference for the United Nations in June 1972 in Sweden's Capital Stockholm, which resulted in the establishment of the UNEP – United Nations Environment Program.

The concept of sustainable development has attracted the attention of researchers and scientists for a long time; however, its terms and principles were first initiated in the report of the Global Committee for Environment and Development in 1987 and was defined as “the development that meets the present needs without compromising the ability of future generations to meet their needs”. Later on, it developed during the Earth Summit in Rio de Janeiro in 1992. Since then, we have observed an increase in the awareness for the need to change the traditional view of elements that determine the economic development.

Since the Earth Summit, the economic, financial, global and regional collaboration began to adapt the new sustainable development principles and its foundations. In the last twenty years, major new economic and social trends have emerged and became nowadays a model of sustainable development which can be summarized as follows:

- Eradicating poverty by encouraging poor classes to benefit from the assets and production facilities (land, loans, technical and professional training, effective techniques).
- Participation of the concerned parties in decision-making (local bodies, non-governmental organizations, private sector and professional organizations).

(*) Haytham Omar

- Changing the consumption and productive patterns in order to avoid wasting resources and the depletion of non-renewable resources.
- Vigilant management of scarce resources (energy, water, forests, fisheries).
- Efficiency of industrial production, in order to avoid the dangerous effects of pollution and environmental disasters.
- Protection of cultural identities.

NOWADAYS, several countries have a growing interest in trying to create a balance between the environment and development, to connect them in a rational, balanced and not conflicting manner, to consider the environmental dimension one of the sustainable development dimensions as well as economic and social dimensions. The use of natural resources must be rational in which this use does not exceed the renewal average of resources in nature, particularly renewable resources. As for non-renewable resources, they must be used with rationalization in addition to attempt to look for alternatives for these resources to be used as reserve in order to keep them for as long as possible, because natural resources are not only entitled to present generations, but also to future generations (Geis D. KUTZMART, T. 1998 – as formulated by Dr. Mtanios MAKHOUL and Dr. Adnan GHANEM in the magazine of Damascus University for Economic and Legal Sciences – Volume 25 – Edition II – Year 2009).

The environmental reality in Lebanon within the economic and social system

The environment in Lebanon constitutes in itself a national treasure and an essential source of economic activity, from which and because of various key sectors of production originate, and around which revolves a part of Lebanon's global fame. The environment in Lebanon is considered the core strength of the national economy.

However, the long years of war (1975-1990) and the subsequent quota looting system had the worst impact on natural resources which were dealt with as factional and regional properties in the absence of comprehensive development plan which takes into account the interests of the country, the citizen and future generations.

Many cases related to rock crushers, garbage, pollution of ground and river water, the waste, water contamination, random urbanism, destruction of green areas and other related issues still haunt the Lebanese people and keep them in constant fear for their livelihoods, their health and the future of their children. The Global Bank has estimated the cost of environmental deterioration in Lebanon to an average of 3.4% of the gross domestic product i.e. around 565 million dollars in the year 2000 which is one and a half times more than the percentage in countries with high-income.

As well, the numerous Israeli wars on Lebanon led to the large destruction of national and natural resources and negatively affected Lebanon's internal capacity to face the developmental and environmental challenges. These wars have led to the destruction of thousands of residential units and a large part of Lebanon's main infrastructure and the displacement of hundreds of thousands from their regions. In 2006 the Israeli attack caused the worst environmental contamination due to the leakage of fuel oil in its waters. The Lebanese government estimated the magnitude of damage resulting from same to 200 million American dollars. In addition to booby-trapping the Lebanese agricultural lands with thousands of deadly cluster bombs as well as the mines which were left by the Israeli occupation before their retreat from Lebanon. There is no doubt that these adversities have hampered the management of developmental and environmental priorities.

a) Water

Water is considered the first natural resource in Lebanon. In 2010, i.e. before the Syrian crisis, the Ministry of Energy and Water estimated Lebanon's need for water for 1500 million square meters annually (the national report of the United Nations for sustainable development (Rio + 20 – June 2012). According to the same report, the individual's share for available water in Lebanon from the regenerated water resources pursuant to the international referential point around 1000 cubic meters annually. Several factors affect the quantity and quality of water resources on the one hand and the quantity of national demand of water on the other hand. The issues of population growth, the Syrian Refugee crisis as well as the urban expansion, the change of climate and agricultural development represents the biggest national challenges that Lebanon faces for the water issue.

The number of Lebanon's population has increased from 739,000 inhabitants in 1931 to around 4.2 million inhabitants as estimated by the administration of Central Statistics in 2007.

It is expected to reach more than five million people in 2030, according to the estimations of the Master Plan Report for configuration of the Lebanese territories issued by the Board of Development and Reconstruction in 2005. It is centralized mostly in the major residential communities.

Nowadays, most of Lebanon's population resides in the cities, half of them in Greater Beirut which creates successive crisis resulting from the geographical imbalance in the demand on water resources on the one hand and the availability of these resources on the other hand.

This has led to the dependence on drilling wells in coastal areas to pump groundwater to an extent of being exposed to leakage of salt water into some strata.

However, it is estimated that the demographic growth on the one hand and the Syrian refugee crisis on the other hand have increased the demand for water by 100% (the evaluation of the impact of the Syrian crisis on the environment in Lebanon and priorities for intervention – September 2014), represent the most important challenge to the water sector. It is expected that the increase of residential needs for water will reach 420 million cubic meters until 2030 (the Master Plan for the configuration of Lebanese territories issued by the Council of Development and Reconstruction in 2005), a scary number if we look at the levels of water currently distributed to an amount of 150 cubic meters maximum.

As well, the expectations on global warming also point to the seriousness of low precipitation rates and their overturn from year to year and the increase of water losses due to evaporation; the effect of climate change on snowfall will be the most threatening since it is considered the basic nutrient for groundwater and rivers. Despite the absence of reliable sources to measure this decline, it is certain that the surface area and duration of snow cover on the mountains of Lebanon constituting around 70% of the total area of Lebanon, will remain in continuous decline.

The water resources in the majority of Lebanon's surface area are being subject to pollution caused by sewage from the houses and estimated to be 249 million cubic meters per year (Global Bank - 2011) and those resulting from the industrial plants which were estimated for 60 million cubic meters per year (Ministry of Energy and Water – 2010). The sewage floods and leaked supplies as well as thousands of sewage pits and flow of sewage water in several rivers, represent a great problem for the pollution and destruction of agriculture, tourism and sanitary development in Lebanon. There are hundreds and perhaps thousands of cases substituting groundwater wells to sewage pits when dry and leaks directly into the groundwater.

The problem of the Litani River pollution still exists despite the tireless efforts of the Council for Development and Reconstruction as well as the Ministry of Energy and Water, to fight the pollution and reduce its devastating effects.

b) Random urban expansion

Lebanon is considered a highly and heavily populated country; in general, these countries face challenges related to environment and quality of life. These challenges have become higher in Lebanon since the average of births in rural areas exceeds that

in the cities. The displacement to the cities represents the accumulation of poverty around the major cities, which lacks basic services and filled with diseases in a contaminated environment, unsanitary housing which is clearly demonstrated in the suburbs of Beirut, Tripoli, Saida, Tyr and Nabatieh.

The Lebanese constitution exaggerates in the protection of private property, the land owners invest their real estates in the construction business without any control or planning in order to have abundant and fast profit at the expense of caring for the environment as well as the beautiful resources and forests. The urban expansion has increased in forested, mountain or beach areas at the expense of nature. In addition to the high environmental cost of this random expansion, the government suffers a lot in terms of securing electricity, water, roads, etc., where many of these urban communities are in mountain areas or deep valleys. This was passed under the laws and regulations of Urban Planning which are not protective of nature and makes all the territories in general available for construction. Even if we take into account the established reserves and the implemented forestation programs, the continued decline of forest areas remains scary since Lebanon's areas was reduced from 20% in the late 70s to less than 7% nowadays due to the random urban expansion, quarries and fire incidents.

The government policies which are not considered encouraging to rural and agriculture development have led to the neglect of about half of the area spaces valid for agriculture. The report of "the National Plan for fighting desertification" released in June 2003 indicates that 60% of the overall Lebanese lands are prone to desertification.

Of course, the effects of this randomness are not limited to the environment and material cost of basic services but exceeds them to adversely affect the cost of production in the industrial and agricultural sectors, where the land prices are rising which hinders the industrial and agricultural investments.

c) Legislation

The government in Lebanon was late in organizing environmental issues; the Ministry of Environment was established in 1993 and considered a recent Ministry.

In 1997 the National Council for the environment was established. In 2002 the Law to protect the Environment was issued which is considered a comprehensive legal instrument for the protection and management of the environment in Lebanon, establishing the legal framework and dedicating the principles and concepts in

national legislation and stating that the right to obtain a healthy environment is a basic right to man as well as protecting the environment is a matter of public interest, which constituted a balance for the environmental awareness on both public and general levels.

Gradually, the awareness on the importance of the role of the Ministry of Environment evolved to reconsider its functions and powers, while implementation decrees were issued stating its restructuration and determining the functions and responsibilities of each unit in particular the personnel and qualifications as well as setting the powers and authorities and a new central and regional organization.

It should be noted that Lebanon has made substantial progress in the past two decades in terms of complying with the international legislations related to the environment.

The Ministry of Environment, despite its limited capacity, provided serious attempts and efforts for developing environmental plans and issuing with the funding from the European Union, the National Environmental Action Plan made during 2005 – 2006, however it has not been formally implemented by the Lebanese government.

The Ministry of Environment has also issued in January 2010 a work schedule for 2010 – 2012 consistent with what was stated in the ministerial government statement at the time. This program focuses on the multilateral environmental agreements concluded by the Lebanese government.

This program is considered an introduction to renovating the National Plan of environmental work mentioned above, including the major ten themes for the intervention of the ministry.

These themes formed the basis for the funding of the European Union pursuant to the treaty signed with the Lebanese government on 31/05/2012 entitled “Reforms Support – environmental management” treaty No. ENPI/2011/022-757 and a grant amounting to 8 million Euros presented in full by the European Union.

Lebanon’s location in the indicators of development linked to the environment

The United Nations Development Program issues annual reports related to human development assessing the status of development in several regions in the

world. It annually cites with comparative statement for different years and countries, a large group of quantitative indicators used to measure human development. These indicators include the sectors of health, education, basic services, etc... among these indicators we find the indicator of human development, the indicator of number of inhabitants under poverty and the development indicator related to social classes. For example, the indicator of human development reflects the extent of improvements carried out by the countries in the fields of long and healthy life, education and appropriate living standards.

As we have indicated earlier, the concepts of social development (human) have evolved in the last recent decades to become more comprehensive, in addition to basic services such as education and health, dealing with several cases such as eradication of poverty, well-being of communities, the good benefit from the natural resources, economic and social enablement as well as appropriate governance, equality and sovereignty of ethical standards and other.

The real progress in human development is not solely measured by the expansion of individuals choices and their capability to complete their education and their health condition, as well as living in acceptable standards and feeling safe, but rather to fortify the achievements and provide supporting circumstances for the continuation of human development.

This development was reflected in the approach to the concept of human development during the Millennium Development Goals adopted by 189 nations at the Summit of the United Nations in 2000, where it included in its 7th goal to “ensure environmental sustainability” as a means to achieve these goals in 2015.

In 2012, the United Nations Conference on Sustainable Development held in Rio de Janeiro adopted an expanded vision for sustainable development, for it considered that this vision must cover the economic, social and environmental dimensions.

Lebanon occupies a median position from the human development and social development aspects among MENA countries. However, it suffers from some issues in some health indicators as well as the GDP per capita. The post-war period did not witness a significant growth rate in the human development indicator, since priority was given to the financial build-up. This means that Lebanon is not capable until today, and since the end of the civil war, of reaching the development achieved in similar societies from the human development aspect.

a) Lebanon in the indicator of “sustainable development”

The successive reports on human development reflected the evolvement in the concept of sustainable human development, for it was acknowledged in parallel with the progress of human development in most countries that there is a danger threatening the world concerning livelihoods and safety environment and global politics. The great achievements made in crucial aspects of human development such as health and nutrition can quickly dissipate by of a natural disaster or economic setback.

One of the most important risks intensifying and threatening the course of human development is the environmental risks. For example, due to global warming, the exposure to risks has increased because of the instability of the climate, in particular the fluctuations in weather conditions and the increase of frequency of natural disasters and intensity.

The Human Development Report in 2011 pointed out that these growing threats affect the poor and poor communities more than anyone else: around 98% of those who die due to natural disasters or damaged from same are the developing countries. By 2025, more than half of the population in developing countries will be subject to floods and storms.

Hence, the environment was included on the list of “indicator of human development” beside health, education, controlling resources and allocating them, social competencies, absence of personal security, International integration and population movement, in addition to supplementary indicators such as sense of well-being.

The environment indicator, in each country, is based on calculating the ratio of fossil fuels and renewable energy resources from primary energy installations, the individual's participation in the emission of carbon dioxide and the annual growth in emission levels. As well, it includes some of the important measurements for the preservation of ecosystems and natural resources by calculating the percentage of the depletion of natural resources from the gross national income, forested area, change in these areas and dragging fresh water. As well, the indicator shows the mortality of children under the age of five due to the unsecure air and water pollution and the unimproved and unclean sanitary services.

Based on the calculation of the above mentioned factors, the environment indicator in Lebanon ranks 65 in the world and is considered in the category of “high human development” according to the arrangement of the Human Development Guide.

b) How far is Lebanon from achieving the seventh goal of the Millenium Development Goals?

The seventh MDG goal “ensure environmental sustainability” determined the below mentioned results which was achieved accordingly in the year 2015.

The MDG report in Lebanon 2013-2014 summarized the results and indicators which are expected to be carried out as such:

- To list the principles of the sustainable environmental development in programs and general policies, to stop the process of losing environmental resources and minimizing the process of losing the biological diversity through the following indicators:

- Percentage of forests in the total area space of the country.
- Percentage of emission of carbon dioxide per capita and for each dollar from the total of the local product.
- Extent of consumption for depleting ozone materials.
- Percentage of fish stock within the safe biological boundaries.
- Gross Percentage of the used water resources.
- Percentage of reserve land and marine regions
- Percentage of endangered species.

- Reducing in half, the percentage of people lacking the ability to obtain safe drinking water through the following indicators:

- Percentage of people obtaining safe drinking water
- Percentage of people with access to sewage networks.
- To achieve a significant improvement in living conditions for not less than 100 million persons located in destitute regions pursuant to the percentage indicator of people residing in destitute regions.

(Reference: Report of the Millennium Development Goals in Lebanon – 2013/2014).

Here is a brief evaluation for Lebanon’s reality in achieving these goals:

1) Percentage of forest from Lebanon’s overall area

In 2010, the forests constituted around 13% of the lands in Lebanon. No change was noticed at the time from this percentage however the forests density declined significantly.

According to the World Bank Statistics, the cost of environmental degradation on the use of land and forested resources in Lebanon is close to one hundred million American dollars per year.

2) Land and maritime reserve regions

Lebanon was subject to many trespasses on maritime areas by establishing multiple facilities such as roads and sewage refinery plants as well as the discharge of muddy water in the sea and the illegal use of the sand.

3) Emission of Carbon Dioxide

The Carbon dioxide emissions in Lebanon have been estimated for 18.5 million tons since 1994 and until 2000, taking into account that the main sources of these emissions are power production and means of transportation. On the other hand, it is noted that successive governments have worked to expand the construction of roads instead of working to improve public transportation.

In addition to the pollution caused by the private generators, a sector that produces around 20% of the public sector production and makes profits estimated for a billion dollars annually.

4) Consumption of Ozone depleting substances

As for the consumption of ozone depleting substances, the Ministry of Environment established in 1998 the ozone unit in an attempt to achieve its obligations resulting from the Montreal Protocol to reduce ozone depleting substances. In this regard, the ministry has provided technical assistance to about 100 industrial enterprises in Lebanon to convert their production techniques using harmless materials to the ozone layer.

As a result, a remarkable decline in use of Chlorofluorocarbons CFCs was noticed from 923 tons in 1993 to 0 in 2010. However, this transition did not solve the problem, for the establishments later on resorted to the use of alternative substances that included ozone depleting substances such as Hydro chlorofluorocarbons HCFCs.

The percentage of population with access to safe drinking water

The drinking water networks cover around 78% of the residential units. However the problem does not lie solely in the coverage but the coverage differences existing in the regions and in the process of cutting off water supply to residential units, in addition to the citizens' confidence in the quality. In this context, it is noted that the percentage of coverage to residential units is 93% in Beirut and Mount Lebanon whereas it reaches 65% in the North.

In addition, it should be noted that around 70% of households' expenses on water belong to private companies. As well, statistics indicate that 98% of the families get safe drinking water however only 35% have access to same from the public water networks.

The percentage of population with access to sewage and drainage systems

About two thirds of the residential units are connected to sewage and drainage networks and about 28% resorting to the use of sewage pits. However the problem also lies in accessing the sewers and the quality of the services. Lebanon does not have sewage treatment plants. The currently existing stations either do not work or are not capable of accommodating this size.

The cost of environmental degradation resulting from poor sewage management costs Lebanon about 1% of the GDP.

In summary of the MDGs, Lebanon has achieved some progress in the course of Sustainable Development as the records of the Ministry of the Environment indicate that some actions were taken, for example:

- Starting a measurement and monitoring program for air pollution which will help in crystallizing the strategy to control the air pollution.
- Some universities and municipalities have obtained and used measurement tools for the measuring quality and air pollution.
- Prohibition for using leaded gasoline.
- Guidelines issued by the Ministry of Environment for industrial plants (especially aggregate plants) that would mitigate the emission of carbon dioxide.
- Redevelopment of the national plan for forests.

As for the attempts carried out by other government institutions:

- Issuing a national strategy for the water sector by the Ministry of Power and the approval of the Council of Ministers in 2012.
- Launching a national strategy for the wastewater sector in 2012.
- Attempts of the Council of Development and Reconstruction to complete drinking water networks and executing several sewage treatment plants.

However, the main challenge remains in the need for a political will to implement these plans and providing them with funding.

Future forecasting

Any future plans for social and human development in Lebanon must be based on a diverse and balanced natural environment, as well as on the unity of the Lebanese society and national solidarity.

Nowadays, Lebanon lacks a minimum level of consensus to agree on a national strategy for setting priorities and based on justice and unity of the lands as well as guidance for the rational use of resources. Some of the topics which must be addressed in the future plan include:

a) The role of the Ministry of Environment

We cannot consider a possibility in implementing effective environmental policies without activating the role of the Ministry of Environment and support it with advanced skills and sufficient annual budgets to be able to manage the environmental administration in all cases related to the environment such as cases of garbage and water and air pollution, quarries, rock crushers, power, industry, agriculture, tourism and hospital wastes and other.

Despite the efforts and significant progress on both institutional and legal level during the recent years, serious legal and institutional challenges still exist and need a fast intervention and processing to develop concepts and principles, mechanisms and powers that have been developed to regulate the environment in Lebanon into effect.

The renovation of the environmental administration and legislation of its laws do not meet the societal and economic need to stop the collapse based on the environment level and what it represents of national treasure in Lebanon. It is required to achieve efficiency in planning, directing, monitoring and suppressing irregularities and without the availability of this practical process the Ministry of Environment in Lebanon cannot be an essential Ministry overlapping with a lot of other ministries, with the capacity to protect the environment and environmental wealth in Lebanon. It is necessary to start with the following steps:

1. Reinforcement of human resources at the Ministry of Environment, as stipulated in Decree No. 2275/2009 (182 full time employees) is in part vacant due to lack of employment. The Ministry of Environment has received support from donating parties years ago to appoint outsourcing temporary consultants in order to prepare the above mentioned programs and studies.

2. Reinforcement of the Ministry of Environment's budget to enable it to practice its legal role and execute its programs.

3. The application of environmental governance at the level of political administration represented in the Council of Ministers to implement the legal provisions

of the Ministry of environment imposing the obligation to cooperate between them and the various ministries and to participate in policy-making and issuing decisions.

4. Reinforcement of the legal framework for environmental legislations by issuing implementation decrees complementing basic laws, which have witnessed many years without the possibility of application, (for example: Law 444/2002 for the protection of the environment requires the issuance of 36 implementation decrees to be executed in total, only a very small number has been issued until the present date).

5. Issuing special decrees on environmental control in Lebanon, similar to the judicial control, and the development of an environmental judicial system.

6. The need to take measures and decisions synchronized with the Master Plan for the land arrangement adopted by the Lebanese government by virtue of the Decree No. 2366/2009 dated 20/06/2009.

Plus other steps that lead to the direct aggravation of the environmental threat and the increase of environmental crimes.

b) Integrated Development

The Master Plan of the arrangement of Lebanese territories issued by the Council of Development and Reconstruction in 2005 raises the principle of integrated development for the Lebanese territories, an option which promotes the economy and does not conflict, in its meaning, with the principle of decentralization which will be hopefully adopted in Lebanon, nor with the priority of reinforcing the economy in the regions.

In the unified development, all public ports and infrastructures are integrated such as airports, ports and primary transportation networks; priority is also granted to the reservation of natural and touristic resources and the organization of the beaches. The distribution of public facilities is made according to scientific standards and criteria for effectiveness. It is necessary to stop the setting of regulations for regional development projects and name them Master Plans, when in fact they are similar to purchase lists in supermarkets contributing to the expansion of social differences and weakening the regional solidarity, which has a high cost.

The integrated development requires giving the secondary major cities great importance to point out the concept of the local economy and place it on the economic map as basic components with special characteristics and privileges provided to the

macro-economy and become the engine of the nearby local economies. The participation process of all the cities facilitates its economic development each according to its characteristics and privileges in the industrial, commercial, services and tourism sectors.

The unified integrated development, which boosts the development in cities, suburbs and different sectors, is based on the structure of developed transportations linking the Lebanese regions to each other and provides facility and reduction of the transportation cost for merchandise and services between the economic centers, thus enlarging the size of the Lebanese economy. As well, it contributes in facing the pressure of displacement from the rural areas to the cities consequently improving Lebanon's capability to face the environmental pressure and the level of services.

In fact the expansion of economic activity in the secondary cities and regions contributes in the increase of the local regional production in different sectors, and in case decentralization was implemented, it contributes in the prosperity of all Lebanese regions by activating the private sector and increasing the collection revenues from the local authorities.

There is no doubt that the participation of all Lebanese regions in the development on the one hand and the establishment of equality between the regions in the presence of basic services on the other hand, are considered the foundation in building a government capable of facing future demographic, environmental and economic challenges in a region marred by territorial disputes. Among the issues that must be addressed by the integrated development are:

1. Water Issues

Working to achieve the following targets:

- First: The immediate establishment of new dams in particular those that have been studied.

- Second: To give priority to repair water networks that cause a big waste of 50% of the distributed water.

- Third: To supply water institutions of human competencies, processing equipping and financial resources, in order to complete its role which includes the drinking and irrigation water and sewage.

- Fourth: To give priority to the establishment of sewage plants, especially in the areas with contaminated groundwater and rivers.

2. Air and soil pollution

Lebanon is not an industrial country, but suffers from industrial pollution in its soil, waters and air. Most factories in Lebanon are traditional, old and a lot of them do not comply with the environmental standards, taking advantage of the officials' corruption and the absence of "Pay as you pollute" principle.

The percentage of air pollution in Lebanon has increased in the city regions for several reasons and the most important is the density in private power generators. This is a crisis that will not be solved before fixing the power issue in Lebanon and increasing the hours of power supply.

As well, the concentration of the number of vehicles leads to majorly polluting the air in particular in major cities and populated regions. This problem can be stopped in many ways such as placing a fine for the emission of carbon dioxide from SUV cars which consume a lot of fuel; as well as granting incentives to the owners of old taxis to renew their cars and also setting customs reductions for vehicles that are environment friendly such as hybrids and new cars.

It is necessary, of course, to make plans for the development and modernization of public transportation and first of all establishing an underground subway in Beirut and major cities and a railway to link coastal towns to each other.

3. Solid Wastes

Lebanon is facing a very dangerous environmental and social challenge due to wastes. This problem became complicated due to the intervention of political and regional corruption in its approaches. Since the political disputes expose the high level of corruption in this grave issue and the impact of the movement of the civil society, as well as the pressure of youth movement in the streets, the Lebanese Government produced in late 2015 a plan for the wastes based on decentralization of collection, processing and landfill thus granting the local authorities the right to plan and execute.

However this plan for waste management collides with a social and cultural barrier represented in the refusal of communities and municipalities to establish processing plants for the waste and landfills in its lands to prevent the assimilation of the wastes

from other regions. This unusual attitude has resulted due to the accumulation of the state's mistakes which has lost the public's trust and as a result of political and sectarian division.

Therefore, this plan must be accompanied by a plan to establish a regulatory committee for the management of solid wastes and placing environmental and health standards as well as adopting scientific standards and securing technical support to municipalities in this field. In addition to the government's commitment to provide funds for the municipality, this committee must impose on local authorities to adopt the best scientific, appropriate and integrated methods for each region according to its geographical circumstance and types of waste. The burning must be after the assortment, fermentation and recycling which will be more useful in major cities, whereas in other regions simpler utilities can be adopted. This committee must also set regulations to process the industrial and hospital wastes as well as the slaughterhouse wastes and impose their implementation.

4. Power

The Lebanese government must solve the power issue that exhausting a large part of the country's capacities and ask the Parliamentary Council to end the monopolization of the Electricity of Lebanon in the production sector and distribution of electric power.

Also, the government should expand its investment in renewable energy and develop a national plan specifying the regions and areas that can benefit from solar power and wind power as well as updating the water power plants.

It is also necessary to develop stimulating policies for green buildings and importing insulation construction materials as well as electrical devices that contain energy-saving technology.

5. Environmental Awareness

The environmental awareness begins at home and at school. It is important to reinforce the academic educational curricula in all its stages and then continue with the audiovisual media coverage written for the developmental and environmental issues. The media must be an environmentally effective source to shed light on living and environmental problems and exposing the ones responsible for the environmental damages in the public and private sectors.

It is also important to find and support student and youth groups that care about the environment as well as environmental associations and encourage them to hold

seminars and participate in reforestation initiatives on the ground, and issue releases for the environment in which they live. In the West for example, the educated youth understand environment issues and participate in demonstrations when nature or the environment they live in become polluted.

The Environment Management needs the participation of all citizens and officials alike. A sound environment cannot exist if the behavior of the individual or group is not proper. As well the sustainable development cannot succeed with immediate plans excluding the participation of those who represent the society and all the political, economic, cultural and youth sections and other. Sustainable environment remains a benchmark for the progress, prosperity and civilization of the societies.

In conclusion, when will Lebanon realize the danger of what is happening and try to salvage what remains of its lost environmental wealth?

We say Lebanon because the environment and development crisis in Lebanon is not only a political crisis and a looting system, but has become an educational, cultural and ideological crisis. A large number of people in the Lebanese community are unwilling to defend public interest in their living and environment.

To achieve the development goals in a balanced, clean and sustainable environment, it is necessary to involve everyone in the environmental work, for only then will the government collaborate with the public sector and civil society to establish proper environmental governance.

The increase in the participation produces transparency and accountability and the existence of an effective environmental legislation is the guarantee for the balance of all of nature, environment and development components.

The Electricity Problem and Achieving Self-Sufficiency*

First we must point out to the obvious fact known to any observer who is concerned with the availability of conditions of a modern life in societies.

The availability of electricity is a prerequisite in the life of communities. Electricity is necessary for lighting, heating and cooling, etc. The use of electrical power permeates the various means of industrial and financial production, and the provision of education services, hospitalization, communications and even traffic control.

As for water, there is no healthy human life without the availability of sufficient quantities of it, be that for drinking or food preparation, in addition to securing the agricultural seasons, the activity of some industries, and the cleanliness of the environment surrounding every society.

Our topic is limited to the electricity problem. But before we delve into it, we would like to cover the problem of water albeit in passing, by pointing out that water pollution, the wear-out of distribution networks, bad water management, are all factors that damage the lives of the Lebanese people and their future to a greater extent. Worst of all is the fact that among all Middle Eastern countries, we are the only one which is blessed with a lot of rainfall. If only we recognize and implement policies to benefit from the rainfall and prevent the wastage of a large portion of it right into the sea, as well as not continue to allow the contamination of a high percentage of the water available above- and underground, we would be better off.

Realistic indicators for electricity

- Lebanon requires the availability of 3000 MW (MW) of power to meet all the needs of households, offices, banks, financial markets, schools, hospitals, etc.

- We can say that the output of the functioning power plants, even if it falls below their theoretical capacities, does not exceed 1200 MW. In addition, the energy available from two ships contracted to generate electricity until 2017 at a cost of 22-25 cents per kilowatt/hour, is equivalent to 270 MW.

(*) Marwan Iskandar

- Despite the said facts pertaining to the power plants, and the additional supply from both ships, Lebanon's shortage of electricity needs became dependent on being filled by private generators. These range from the small operating generators for apartments and homes to generators with high power to provide electricity to factories, schools, and hospitals, when the supply of the national institution Electricité du Liban (EDL) intermittently goes off. By virtue of their nature and power, these generators need quantities of fuel oil to produce each kilowatt per hour which exceed by 20% the required quantity in production plants, thus participating in pollution to a great extent, and leading to the import of fuel oil, which increases the pressure on the Balance of Payments.

- Electricity is rarely interrupted because the power of private generators has become closer to, or greater than, energy production plants. However, providing electricity from private generators casts a burden on the family budget estimated at the following costs:

550 thousand families in Lebanon, of which 300 thousand families with limited income and which expenditure on electricity from private generators is equivalent to 100 American dollars monthly, i.e.	\$ 360 million annually
150 thousand well-off families spend on electricity purchases from generators around 200 American dollars monthly, i.e.	\$ 300 million annually
Relatively wealthy families estimated at 50,000 families spend on these purchases a sum equivalent to 300 American dollars, i.e.	\$ 150 million annually
Destitute families take electricity illegally and use firewood for lighting and coal for heating and do not need electricity from EDL	-
20 thousand industrial, service, educational, recreational enterprises with monthly costs between 1000/USD and 2000/USD. Their expenditure is obligatory, in order to run their businesses	Between \$ 50 and 100 Million annually
As a result: The compensatory spending by 90 percent of Lebanese families and 90 percent of institutions to obtain electricity from	Around \$ 900 million annually

- We estimate private generators to be providing 1200 MW, and this number is increasing. This required so far the operators and owners of these generators to spend two billion dollars for their purchase, for equipping them to be linked to the set distribution networks, and for ensuring protection from their noises and harmful emissions (in rare cases).

Suffice it to say (knowing that it is too late), that if such an expenditure level, in addition to the rent of the two ships for three years, would have been invested in proper power generation, it would have provided power equivalent to 3000 MW operating on gas, and made \$ 600-800 million savings for Lebanon annually, even after the fall in oil prices. It would have also saved the country a large percentage of the pollution resulting from the presently aging power plants and thousands of private generators.

- It has become known that the production of the outdated factories and the rented ships is being technically wasted, due to the outdated distribution network and failure to equip the power transportation network fully with the 220 Volt such as the case of the Mansourieh extension. Thus 15-17 percent is wasted due to the network's deficiency, and another 40 percent due to theft along its way. Consequently, collection of half of the issued electricity bills is not possible. It should be noted that the bills paid by the subscriber in January 2016 are for the consumption of that month for the year 2015, and the subscriber might have passed away.

- Since 1996, the need to establish new production plants using natural gas in the first place became evident. Prime Minister Hariri conducted several meetings with the State of Qatar to establish an installation to receive liquid natural gas and then gasify it (to transform it again to natural gas) in order to operate the Al Zahrani and Deir Ammar power plants. The Lebanese Government agreed with the manufacturing company of the two plants to produce 450 MW each, provided that they would be capable of using natural gas or diesel in their power generation operations.

At that time, the Qataris were prepared to agree with Lebanon on deliveries sufficient to both power plants, for a price equivalent to 2 dollars per each 1000 square foot. Each 6000 square feet are thermally equivalent to the power of one oil barrel; in other words, the cost on us was equivalent to 12 dollars per oil barrel, whereas we had been paying since 1998 (the year the gas reception facility would have been established) more than 20, 30 and 50 dollars for each oil barrel that would be refined as diesel. Further, that cost was liable to increase by 20 percent due to the costs of refining and shipping to Lebanon, as the two available oil refineries in Lebanon had ceased operations since the late 1970s.

The consumption of both plants, if they had been operated at their full capacity (which could not be achieved due to the high cost of diesel) would have been at 1-1.2 million tons annually i.e. 7.25 million or 9 million oil barrels. The annual savings since 1999 to date would have been equivalent to an average of \$ 40-60 per barrel, i.e. \$ 300-540 million. If we calculate this savings over the span of the past sixteen years, it would be equivalent to \$ 8.64 billion. Thus, after accounting for the debt interests, we would have been able to restrict the electricity's deficit to \$ 10 billion, instead of the actual \$ 20-21 billion which make for 30% of the public debt.

If the electricity had been available from power plants using gas, and had we amended the electricity bill's tariff and concluded the deal, especially since the proposals to amend the bill were presented, we could have overcome any electricity deficit, and we could most importantly have curtailed the phenomenon of electricity theft that had proliferated since the civil war years.

The question is why were we not able to agree with Qatar at that time? The answer, of course, is clear.

Importation of diesel, at the highest cost, was made from Syria. The Syrians were in control of Lebanese affairs, both in terms of the decisions in the Parliament and in the award of contracts for projects, etc...

Those who were in office, and were empowered by the Syrian authorities, completely opposed the transition to the gas phase. The picture further becomes clear when we examine the four-way agreement in 2005 to import our needs of gas from Egypt through a line extended to Jordan and on to Syria, then connected between Homs and Lebanon. At that time Syria possessed the allocated share for Lebanon and provided us with a paralleled share. In 2005, after the tension between Lebanon and Syria in the wake of the assassination of Prime Minister Rafic Hariri, it became apparent that Syria's needs could be barely covered from its internal production. That's why the said arrangement came about, guaranteeing transit rights on the quantities to Syria, and effectively putting all deliveries to Lebanon under the control and will of the Syrian regime.

The decision to treat the deteriorating conditions of electricity production and distribution was embodied in Program 1993 to repair the damages inflicted on the power plants and distribution networks during the war years. Most works were

completed fast, and the level of electrical supply was improved. The contracting agreements relative to the Deir Ammar and Al Zahrani plants were made on the basis of each plant providing an output of 450 MW.

In 1996 the project to restore and develop the production facilities and distribution of electricity in Lebanon was impeded by the Israeli aggression which had as an objective to stem Hezbollah's ability to confront Israel. The Israeli bombardment raids damaged main transfer stations, and caused the destruction of the fuel tanks used to feed the Jieh power plant.

In 1998, Lebanon witnessed a 24/7 availability of electricity in most of its regions. The Deir Ammar and Al Zahrani power plants had started production. But the works to operate the Baalbeck and Nabatieh plants for a power of 180 MW each were halted due to poor maintenance and the use of inferior-specs diesel.

Since 2001, the interruption of electricity disabled national production and development. Since then, the reliance on small generators for apartments and shops, and bigger generators for schools, hospitals, movie theaters, factories, etc... started to take hold. The process to import these generators and install them became a very lucrative business, through which the Lebanese gained a big experience which enabled them import big power generators for export to Iraq for lighting the American army camps and the official governmental departments.

The generators business resulted in establishing companies with remarkable financial and technical abilities to provide generators quickly. This acquired ability to fill the gap of electricity shortage resulting from rationing, may secure these companies a role in the rebuilding of Syria, in case hopes for its five-year conflict to end in 2016 materialize.

Power from private generators in Lebanon follows a three-category model. The first category comprises individuals who provide electricity to a neighborhood or a number of buildings. They impose subscriptions tailored on the customer's power need, whether the owner of an apartment or a simple store. The charge varies between \$ 75 and \$ 100 monthly.

The second category is made of companies that provide electric power to hospitals, schools, factories, clubs, as well as provide maintenance. The subscription charges vary between \$ 1000 and \$ 20,000 monthly for a factory or a shopping mall, etc...

The third category deals with providing electricity at cost price to villages or small towns whose mayors want to participate in improving the living conditions and cleanliness levels of their localities. Cases in point are the summer town of Dhour Choueir and small villages like Ghalboun in the area of Jbeil, or municipalities like Marjeyoun and its suburbs. The people in those locations and other places were thus able to obtain electric power for reasonable costs, and in a continuous manner that does not lead to the damage of electrical appliances such as refrigerators, washing machines, dishwashers or heaters, etc.

Several projects were suggested: Improving the network, the use of gas, flexible bill tariffs along the input prices, involving the private sector in the fields of production, distribution, and collection, even the use of remote electronic meters to gauge consumption, thus dispensing of hundreds of collectors. The collection is made in the bank instead, and if it's not done, power supply is cut off automatically.

Several important developmental and administrative projects were proposed, such as establishing a regulatory authority for electricity affairs. The establishment of this authority was initiated by the second Cabinet of Prime Minister Fouad Siniora. I conducted several interviews with candidates who got aware of the possibility of becoming members of the authority through local and international advertisements. The interviews were conducted without knowing the name and confession of the applicant. A board constituted of 6 members including myself, was notified by PM Siniora of the necessity of selection on non-confessional/non-sectarian grounds. Consequently, the members of the selection committee invited for interviews those candidates whose knowledge and experience, as presented in their résumés, showed them to be the best.

The committee recommended the selection of a number of applicants; they were interviewed at length by the committee members. The committee had to recommend three names for each position, with the Council of Ministers being entitled to decide on the chosen one for each. But the charged political climate at that time, and the closing of Parliament for 18 months, prevented from establishing this authority. It remains non-existent until the present time, and the decisions must be made by the Minister in the first place.

On the administrative level, the foreign experts who were consulted, particularly those ones from Electricité de France which is considered one of the major and most

successful companies in this field, opined that the best idea was to establish an electronic control center through which the administration can see minute by minute the availability of power on any line, and assess the possibility of transferring quantities/loads from one line to another in order to achieve the best use of available energy.

Part of the work to equip this center was carried out; however the overall conditions were not available. But even if they had been available, the network remained incomplete and unequipped to transfer electricity at a high pace. All those factors were indicative of the failure of this attempt.

In addition to what we have mentioned as reasons to discourage the attempts to repair the electricity sector, it is necessary to point out the current positive expectations for the availability of oil and gas in the Lebanese regional waters. It is known that the Lebanese have a tendency towards optimism for the future, and forgetting the past and its disappointments.

The estimations for the availability of oil and gas reserves in the Lebanese regional waters, within the waters that extend from Egypt/South to Gaza, Israel, Syria, Cyprus and Turkey, were made by an U.S. Government institute. Its task was to identify areas of availability of oil and gas fields since 2010.

After encouraging estimates, Israel achieved rewarding discoveries, as Cyprus did when its pursuits succeeded in digging the first testing well. Further, the Italian energy company ENI discovered a huge gas field in the Egyptian regional waters after September 2015.

Compared with the successes of Israel, Cyprus, and Egypt, it is possible for us to succeed in Lebanon. However, the decision to launch the process has not been made yet, due to the disparity in political views for identifying the exploration areas (blocks) for each of the interested parties, and the terms of the exploration contracts, production and future marketing having so far remained pending since at least two years.

A public entity, the Lebanese Petroleum Administration (LPA) was established more than two years ago to supervise the oil and gas affairs. It completed important tasks; however the administrative team of the administration, which is constituted of six persons, was appointed on sectarian grounds. This does not deny the fact that distinctly

capable people sit on its board; however its presidency rotates yearly among its six members, which does not contribute to the acceleration of its productivity.

In fact, the most important matter is that the Council of Ministers was late in deciding the terms of executing the subcontracts for exploration, digging, and sharing of benefits, and the delay has been continuous since 18 months. During that period, the oil prices plummeted from \$ 100 dollars to \$ 30 per barrel, and the expected benefit from finding oil and gas fields became less than it was calculated to be two years ago. Even though the gas price will not collapse by the same percentage, it will most probably lose 30-40% of its previous level, and the excavation works in the regional waters at 3000-5000 depth entail high costs. In any case, we must await 7-8 years post-contract awards before we make any production, while our electricity and financial problems would still be more persistent. Any delay in reinforcing the production of power from plants using gas can subject the Lebanese economy to various threats. There follows a clarification with figures concerning the current deteriorating situation of the electricity sector.

Today, all plans are in place, even if they came from different technical and pricing assumptions due to technological developments and changes in feedstock prices, to the extent that old plans that date back to two or three years ago have been made invalid.

Three years ago, the allocation of \$ 1.2 billion was approved to increase the capacity of electricity production by 700 MW, relying on gas as feedstock. Since 2013, the process for establishing a new plant in Deir Ammar with a 500 MW capacity met with trouble for reasons related to the VAT rate and which party shall bear it. If it would be shouldered by the Ministry of Energy and Water, it would eventually be channeled to the revenues of the Ministry of Finance, i.e. the money would move from one pocket to another, with both pockets being the State's.

Such a problem prevents the completion of a 500 MW power plant and hinders the completion of necessary works to upgrade the production capacity of the Zouk and Jieh Plants, as well as impedes the upgrading of their deteriorating facilities and the control of pollution resulting from their operations. There is hope that additional energy will be available from both power plants in June and July 2016 by 250 MW which is supposed to be added to the Deir Ammar power plant's output to achieve a noticeable total increase close to 750 MW. The sad truth is that we will raise the power output in

5-6 months with contracts which have been concluded since two years to get an increase of 250 MW. And there's no thought still about the gas which is supposed to be available for the power plants, and other matters as well.

A law was issued authorizing the licensing of private companies to provide electricity within the jurisdiction of their concessions, for a period of two years and not less than 10 MW as production capacity. The operations of these companies would complement EDL's electricity supply levels.

We saw and witnessed the success of Zahlé Electricity in providing power for 24 hours a day and reducing the power charges borne by its beneficiary citizen by 30 percent (Charge from subscription to EDL power supply, plus subscription charge to private generators). The franchisee company in Jbeil is asking for similar privileges. The fact is that the latter was already in the business of compensating for EDL's power shortage, but charging high prices for providing electricity 24 hours a day. Today, the company offers to carry out a role similar to the one carried out in Zahle and its vicinity.

Former Prime Minister Najib Mikati, in collaboration with ex-minister Mohamad Safadi, presented an offer to provide electricity based on private contracting in Tripoli and its vicinity; the offer included the possibility (or not) to own Kadisha Company. It is known that PM Mikati and Minister Safadi are directly concerned with Northern Lebanon and with Tripoli in particular, and in case their project is approved, they plan to establish a facility to receive liquid gas and transform it to gas usable in electricity production plants, and in fertilizer production plants.

After this extended review for the availability or non-availability of electricity, and the numerous interests and increase in activities to provide power, we return to what has been accomplished or is being progressed, before moving on to present what is needed in summary.

The case of availability of electricity at a reasonable and stable cost has become a dilemma, not only a problem. Lebanon has not had power supply all day long or all night long since 1998. The cost to cover the purchases of fuel derivatives to feed the electricity production plants represents 51% of the budget's deficit; as well, the technical waste, thefts from the power lines, and refusing to pay the electricity bills constitute 52% of the revenues. If a solution is not found, it will lead to a financial and production disaster. Here below we refer to the presented projects, their strengths, and their deficiencies.

1. Existing Projects, contracted for a short range plan 2010-2012 but which has been delayed for two years due to the political and security conditions in Lebanon and the region

In Production

- The establishment of a thermal plant in Beddawi with 450 MW output at a cost of \$ 470 million. Date of contracting: April 2013.

The contracting company: A Cyprian-Greek group, with turbines made by GE. Delivering the land to begin the works was delayed for nine months; first two due payments were not paid.

- To establish two thermal plants in Jieh and Zouk with 194 MW power for Zouk and 80 MW for Jieh. The cost of the project: \$ 348 million. Date of contracting: February 2014. Contracting company: A German-Danish group. The aim from both expansions is to be able to dispense with the existing contract with a Turkish company which has been securing this amount of production from two floating vessels.

- Total of the expected produced power from establishing the above mentioned plants: 750 MW during the years 2015/2016 where it is expected that production would equal consumption at that time.

- Rehabilitation of Zouk and Jieh power Plants in order for the production of Zouk Plant to reach 500 MW funded by the Kuwaiti Fund.

The contracting company for Zouk: ANSALDO/METCO. The contracting company for the Jieh power Plant: Al Kharafi-Nacional.

- Recruitment of two Turkish ships and mooring in Zouk power Plant (4 April 2013) and Jieh power Plant (August 2014) for 188 MW in Zouk and 82 MW in Jieh for a period of three years.

In Transmission

- To start in 2013 to establish power transmission stations in several Lebanese regions.

- Working on commissioning into service (2013) the 220 KVA Beirut link.

In Distribution

Outsourcing distribution services in April 2012 to three companies known as service providers for a period of four years which are: BUS for the North, KVA for Beirut and Bekaa, NEUS for the South, Chouf and Beirut's southern suburb. During their contractual periods, these companies must upgrade, maintain distribution networks,

collect bills, install electronic meters, upgrade prepaid cards, and limit the waste and theft from the network, etc... To date, the operating companies have not achieved any expected improvement, and all the companies complain from the difficulties with the workers, and the insufficiency of the distribution networks, etc.

2. Medium term (2012-2014)

- Establishing a second thermal plant in Beddawi with 450 MW power, and another one in Jieh with 450 MW as well. The contracts for both power plants are not concluded; and if that happens, it will be at the end of the year, which means we will not have any additional power before three years i.e. 2018 at best.

- Rehabilitation of the power plants that work on hydraulic power to raise their capacities from 190 MW to 245 MW. We do not know how we will achieve this, when rain fall has been decreasing.

- Establishing wind turbine farms in Klayaat, Marjeyoun and Hraisheh for 40-60 MW each.

3. Long-term (2015- and beyond)

To establish a second power plant in Jieh and a third one in Beddawi with the collaboration of the private sector, and for 1500 MW. A feasibility study is being prepared.

In Transmission

- To complete the Mansourieh power line. 102 kilometers are missing for the plan to be completed.

- To establish a new high-tension line to transfer the newly produced power.

- To establish new power transfers in Beirut's southern suburb, Achrafieh, Bohsas, Marina Dbayeh. These contracts were concluded with Matelec Company on January 2014.

- Upgrade and reinforce the existing power transfer stations.

- A feasibility study is under preparation to extend a pipeline to transport natural gas under the railway line along the Lebanese coast with a sea link to avoid Beirut. There is also a project under study for the establishment of stations to receive ships carrying liquid gas in Beddawi and Jieh, and then feed the production plants in the South and the North with natural gas to produce electricity with less cost, and reduce pollution.

After the details, what next?

There is no doubt that the road map looks clear, even if three years in delay from the specified objectives. There are many remaining unmentioned and big challenges such as:

- How to solve the issue of the high-tension line in Mansourieh-Beit Mery, and can the transfer be made efficiently without completing this link?

- In case of achieving savings in production costs through the use of imported gas, and in 7-10 years the use of gas produced from our regional waters' reserves: How do we deal with the issue of private generators whose aggregate capacity has become nowadays equivalent to the operating production capacity?

- How do we stop the waste, achievable through reducing the proportion of technical waste and collecting dues from subscribers, and through exercising ideal control between the production and distribution regions?

- After 2017, and in case we achieved self-sufficiency in terms of production and transmission, how can we prepare ourselves for the future, and what are the foundations upon which a partnership between the public and private sectors (PPP) would be set for joint collaboration on projects?

Important questions must be addressed in any research related to the dilemma of electricity which we hope will turn out to be a problem that can be treated.

ANNEX I

(Related to the temporary authorization to grant production permits from the Council of Ministers)

REPUBLIC OF LEBANON

PARLIAMENT

Law No. 288 dated 30/04/2014

(C.R. No. 20 dated 08/05/2014)

LAW

Addition of a paragraph to Article 7 of law No. 462 dated 02/09/2002 (regulation of the electricity sector)

Single Article:

1. Added to Article VII of Law No. 462 dated 02/09/2002 (regulation of the electricity sector) the following paragraph: "On a temporary basis, for a period of two years, and until the appointment of commission members is made, as well as assigning their tasks, permits and production licenses will be granted by the Council of Ministers pursuant to the suggestion of the Minister of Energy and Water and the Minister of Finance".

2. This law is considered effective immediately after being published in the gazette.

ANNEX II

(Accelerated program for electrical works for the production, transmission and distribution of electrical power)

REPUBLIC OF LEBANON

PARLIAMENT

Law No. 181 dated 05/10/2011

(C.R. No. 47 dated 13/10/2011)

LAW

Accelerated program for electrical works for the production, transmission and distribution of electrical power

Article I:

1. Allocation of a total contractual sum of /1,772,000,000,000/L.L. (Lebanese Liras One Thousand Seven Hundred Seventy Two billion Only) for electrical works to produce, transmit and distribute 700 MW of electrical power.

2. It is authorized to the Government to contract this entire appropriation and to start implementation before the availability of the payment credits in the budget.

3. The designated credits for each year shall be distributed in subsequent proportionality as mentioned in Article 18 of the budget.

4. The proportion of payment credits for the year 2011 is determined as such:

PART II – B – Year 2011 (thousands of liras)

Chapter XVIII: The ministry of energy and water

Chapter	110	Electrical works for producing 700 MW
Occupation	324	Electrical power affairs
Clause	227	Construction in progress
Paragraph	5	Electric installations
Brief	1	Electric installations for production plants /385,000,000/
Brief	3	Electric installations for transmission lines
Brief	4	Electric installations for distribution lines /19,000,000 /
Clause	229	Other expenses related to fixed material assets
Paragraph	1	Study, consultancy, and control expenses
Brief	9	Various Study, consultancy, and control expenses /10,000,000/

5. Distribution of payment credits as such: (thousands of liras)

Chap	Function	Works definition	2011	2012	2013	2014	TOTAL
110	324	Electric installations for production plants	385,000,000	368,000,000	303,000,000	226,000,000	1,282,000
	Electrical power affairs	Electric installations for transmission lines	-	41,000,000	185,000,000	146,000,000	372,000,000
		Electric installations for distribution lines	19,000,000	21,000,000	18,000,000	-	85,000,000
		Various Study, consultancy, and control expenses	10,000,000	30,000,000	12,000,000	8,000,000	60,000,000
TOTAL			414,000,000	460,000,000	518,000,000	380,000,000	1,772,000,000

6. The open credit is covered as per Paragraph 1 of the present article with exceptional revenues. The government is authorized to find financing sources through loans and/or issuing treasury bonds in Lebanese currency or foreign currencies. The prime Minister must seek to provide the necessary financing from various funds, regional or international organizations and other.

7. A ministerial committee is established, presided by the Prime Minister and the membership of the Deputy Prime Minister and the Ministers of: Public Health, Finance, Minister of State for Administrative Development Affairs, Social Affairs, Energy and Water, Labor, Justice, and Economy and Trade, to examine the amendments on Law No. 462 dated 02/09/2002 (regulating the electricity sector) within a maximum period of three months, to abide by the law and form a commission to organize the electricity sector during that period based on the proposal of the Minister of Energy and Water.

8. An administrative board for EDL must be appointed within two months.

9. Tenders are conducted by the administration of tenders in accordance with the proper regulations.

10. The Minister of Energy and Water is requested to inform the Council of Ministers at all stages of application of this law.

Article II:

This law is immediately published in the Official Gazette.

Facing the Water Crisis in Lebanon*

An Urgent Need for Sustainable Development

Introduction

Water has become the subject of an urgent need for the planet's sustainable development in light of the overall changes which we've been witnessing since four decades. Those changes are predominantly man's responsibility, resulting from mismanagement, and abusive exploitation of natural resources through a consumption loop that multiplies year by year. This poses the threat of depleting such resources, and a gradual inability to meet human demand in light of the global population growth which will reach 9 billion people in the near future.

Water is the most important, and the largest renewable resource on Earth. It is fundamental to the sustainability of human life. Hence it has become the most alarming problem to citizens and officials alike in all countries, given the big challenges, present and future, to meet a growing demand. This is all the more true in view of its close interlinks with food security and social stability on the one hand, and with different energy types on the other hand, in what regards production and investment.

Lebanon, like Turkey, is a real reservoir of water in the Middle East, compared to its geographical neighbors. Over the past twenty years, water resources have become a limiting factor for the future development of our country, and the subject of a fierce competition among users, public authorities, and local authorities, let alone the conflicts over international rivers (Jordan River Basin: Al-Hasbani and Al-Wazzani; Southern Al-Kabir River: Assi river...). This situation is attributed to the global changes that hit the Mediterranean region, moving it from a tempered to a semi-desert climate, in addition to the "peculiarities of the Middle East" in terms of unsustainable management of natural resources, and crumbling infrastructure in a degraded environment. The coastal states on the South Eastern Mediterranean, including Lebanon, have peculiarities which resulted in forming a barrier to the development of infrastructure and its management. However, Lebanon has been a pioneer since 1998 in adopting integrated water

(*) Fadi Georges Comair

resources management (GIRE- Gestion Intégrée des Ressources en Eau) so as to bring radical solutions to the water sector. Unfortunately, it remained ink on paper because of the unwillingness of public authorities, a proof of their inability to solve technical and developmental problems. This failure to take in a timely way the appropriate decisions that benefit public good, is allowing the emergence of new players on the national scene, while we do not know for whose benefit they are working!? This phenomenon increases and exudes an array of interests which have impaired the ability of the executive decision-making process to solve fundamental problems (for example, the waste problem). Other countries such as Jordan, which has less water resources, Tunisia, and others, were inspired by Lebanon to apply the concept of integrated water resources management and achieved success in that area.

It is certain, that meeting the demand of water resources is closely linked to two basic factors that affect the sustainability of their exploitation, namely:

a- Natural phenomena resulting from global changes that generally affect the climate

This factor is represented by the amount of precipitation (rain and snow) which varies from year to year. We have noted its low rate in recent years, which is what we will further present as the 'Water Balance'.

b- A man-made factor:

This relates to pollution, deterioration of the environment, excessive groundwater depletion, encroachment on the watercourses' surface, logging, fires, and thus desertification and soil erosion, etc. In addition, there are the following considerations:

- Water distribution poses everyday problems: Cuts, leaks in the networks, etc.
- Large loss of water flowing into the Mediterranean each year; lack of dams and lakes for surface water storage; aquifer recharge does not exist...
- Water pollution is on the rise by accidental or intentional contamination.
- Responsibilities are distributed among several parties: There are more than ten public bodies (ministries, councils and public institutions, etc.) for water that share the responsibility of its management.
- Knowledge is fragmented, and capacity not enough: There is a lack of integrated information systems to allow for the identification of resources and their uses.
- Poor management of water demand and lack of effective networks in all sectors of investment in this vital resource: Public authorities suffer from structural weaknesses and from a lack of human, organizational, and financial resources as well.

- Unused non-conventional water: Re-use of wastewater (REU) is virtually non-existent; marine springs and gray water.
- Unjustifiable excesses in over-pumping from aquifers, and in energy consumption as well, resulting in ground water overuse, pollution, seawater intrusion, and salinity.
- Incompetent management of subscribers: Inability to improve the level of service, unfair tariff system, non-payment by citizens of their water subscription bills and other utility services in many areas, water shortage compensated by supply from tanker trucks, which are not subject to minimum public health standards.
- Budget deficit: Problem of network coverage, irregularities of all kinds, in addition to incomplete and outdated case files.
- The transformation of rivers into garbage dumps; and man-made embankments of all kinds hinder the natural flow of water.

Moreover, the Lebanese have become in recent years aware of the climate change actually happening in the Mediterranean region, and its effects on the availability and use of water, energy, and food. This change plays a big role in the provision of resources, and it affects food prices. This is due to the increasing demand of water connections due to population growth, as well as to the Syrian refugees who have been estimated at about 1.5 million scattered throughout the Lebanese territory since the outbreak of the conflict in Syria.

Water in Lebanon and its close relation with climate change

a) Water Balance in Lebanon: The global climate changes:

We can assert that Lebanon has a Mediterranean climate characterized by abundant rainfall in winter (January to April), and by drought that continues through the final months of the year. The average rainfall is 800mm approx. between 600 mm and 900 mm on the coast, 1,400mm on the highlands, down to 400 mm in the east, and below 200 mm in the northeast. Rainfall at 2,000m and above contributes in maintaining the continuous flow of water sources during drought, and their increasing abundance in the period from January to May (75% of the annual flow), before getting to a lower than normal level of 16 % during June/July, and 9% in the last five months from August to December. However, the rainfall rate regresses as the winter season become shorter with the impact of global warming, whose signs have been experienced in the Mediterranean basin for some time.

Water issues have recently become of great importance in Lebanon due to water being a limited resource, and to the fact that the dry period extends for more than seven

months a year. Lack of water, and wastage thereof in the Mediterranean Sea, have become key elements that lead to the impairment of the country's development and of its economic growth. The total renewable water reserves inside Lebanese territory can be summed up at about 2.7 billion m³.

Water issues in Lebanon are closely related to the climate issue. The impact of climate change in recent years has not been strong enough to make the officials feel concerned of its threats. In addition, water management is closely related to both the precipitation period and the drought season. If precipitation is not stored in the winter period and during the snowmelt, it'll not be possible to meet the growing demand for water in the drought period. The table below clarifies the picture.

The third report of the Expert Group of the Intergovernmental Panel on Climate Change, which was published in 2008, predicted a trend of temperature rise in the region (or what is known as global warming) in the range of 2° C - 4° C. This case reflects negatively on Lebanon, especially in terms of precipitation and snow inventory. The duration of the rainy season, which was between 80 and 90 days, will be reduced to 40-50 days at most. The disastrous consequences for our country would relate to ensuring underground water storage, which depends heavily on snowmelt.

The Lebanese situation was transposed into a model termed "Lebanon's Case" within a cooperation project between the Mediterranean Network of Basin Organizations and Professor Jean Jouzel, Vice-Chair of the Intergovernmental Panel on Climate Change. The results are described below:

	Basic conditions	Global warming 2°C	Global warming 4°C
Snowmelt Water	1,200 million m3	700 million m3	350 million m3
Total amount of renewable water	2,700 million m3	2,200 million m3	1,850 million m3

Results associated with usage problems (sectorial use of drinking water / irrigation / cross-border water)

In addition, the snow front, which touched an altitude of 800 meters above sea level in the 1970s, is now located between 1,200-1,300 m. With regard to the weather in the Lebanese coastal cities, the semi-desert climate which, for example, is experienced in the

city of Beirut has become similar to that of the city of Alexandria in Egypt. This means that a southward lowering of the climate axis had gradually begun to consolidate at our end.

This sad situation shows that water scarcity now threatens citizens in Lebanon. As experts and technocrats, we wanted to put Lebanon on a Year 2030 orbit by applying a proactive plan focused on integrated water management along what was done by the developed countries such as France, while taking into account both the vertical axis and the horizontal axis. Unfortunately, in Lebanon a water culture and a policy of sustainable development have not been adopted or supported in practice, due to lack of political will to do so. If nothing is done in the short or medium term then human, economic, and social development in our country will be in great danger.

This phenomenon generates consequences in relation to the sectoral use of resources, e.g for drinking, irrigation and transboundary uses.

Hence it is necessary to look at the Water Balance in Lebanon.

b) Some of the basic data for formulating a water demand policy:

The number of Lebanon's resident population in the official statistics for 2005 was estimated at about 4.8 million people, with an annual population growth rate estimated at 2.7%. With these estimates, a population growth of about 8 million is foreseen by 2030, including tourists. As for the total demand for water for drinking and industrial purposes, the criteria adopted by the Lebanese authorities and World Bank reports estimate it at 300 liters per person per day. With regard to the demand for irrigation water, the irrigated area in the year 2010 is estimated at about 110,000 hectares (ha) as per FAO and Ministry of Agriculture statistics. In addition, the area expected to be irrigated until the year 2030 is 280,000 hectares, with a view to ensuring food security.

Unfortunately, the irrigated area in Lebanon depends on surface irrigation at a rate of 75%, and the remaining area which relies on drip irrigation does not exceed 10%, while the rest depends on sprinklers especially in the Bekaa Valley (10%). Therefore, irrigation depletes about 80% of Lebanese renewable resources. Accordingly, the priority in the plan that has been developed is to extend the drip irrigation concept to cover the total irrigated area in Lebanon.

The usage rate will be 6,000 m³/ha/year by 2020, instead of 10,000 m³/ha/year for 2015, therefore reducing the waste of renewable resources similarly to what is experienced by developed nations.

Based on these data, authorities have calculated the Water Balance in Lebanon for all the sectors, which continues to be non-sustainable; and they have also set a demand management scenarios for 2015 and 2030 as shown below:

Year 2015

Irrigation: 1,100 million m³ (existing irrigation of 10,000 m³ / ha ratios)

Industry: 150 million m³

Drinking water: 501 million m³ (waste of about 48% in water networks)

Total: 1.75 billion m³ / year

If we managed in **2030** to improve irrigation systems through drip irrigation in the framework of a sustainable management, the Water Balance becomes as follows:

Irrigation: 1,680 million m³

Industry: 300 million m³

Drinking water: 1,000 million m³ (waste of about 48% within water networks)

Total: 3,000 billion m³ / year

This total would result from not improving the quality of drinking water networks and would have as a consequence a big water deficit in Lebanon, because it exceeds the total renewable water resources (2.7 billion m³ per year). We conclude that improving the quality of drinking water networks, in addition to surface storage, are part of the priorities of the plan to reduce the wastage of water. Despite the multiplicity of water sources and surface storage, a water deficit is actually the case, due to the loss of around 1.2 billion m³ / year in the sea. This is accentuated by a multifaceted crisis with shortages and rationing prevailing throughout the year, leading to increased demand for water (namely drinking water, domestic water use, and irrigation, as a result of social development and the doubling of the population, in addition to changed habits and social traditions, and the presence of refugees).

If the Lebanon's Water Balance were to be projected for a period of 30 years starting from the year 2010, the calculation would look as follows:

Annual aggregate demand (2015) of all usage sectors is around 1.7 billion m³ / year. This demand would exceed the threshold of 2 billion m³ / year in 2020, and would reach 3 billion m³ / year in 2030.

c) As regards the general and global changes, the constraints affecting water resources include:

- Population growth in Lebanon: 4.5 million in 2010, plus the growth rate of the Lebanese, put the population figure at about 8 million in 2040, in addition to the presence of Syrian refugees whose number was estimated at 1.5 million in 2014. Moreover, it is not known how long this new situation will persist together with its impact on the Water Balance in terms of deficit. The additional consumption pressure was not there when the plan was developed, let alone that greenhouse effect implications are on the rise.

- The limited renewable resources, which are estimated at 2.7 million m³ / year, will be further reduced by global warming as indicated above, in view of the cycle of draught years having moved from one every ten years on average to one every two years.

- Water wastage: 1.2 billion m³ / year that flow into the Mediterranean.

- Lack of surface water storage facilities: Dams, mountain lakes, and basins, in addition to the lack of quality water systems.

- Since Lebanon's independence, groundwater formed the main source of water storage and investment (excessive pumping, seawater seepage, declining water table ...) instead of being a strategic reserve for use during periods of drought. Random drilling away from security forces' eyes adds to the problem... As for food security, it is currently provided, as Lebanon imports fruit and vegetables from water-poor countries, which manage that resource rather well, such as Jordan and Saudi Arabia.

- Mediterranean climate: Semi-dry climate.

- Average temperature rise (2°C - 4°C).

- Increased intensity of rainfall, but in small amounts (80 to 90 days: 50 to 60 days).

- Extreme and exceptional events (drought, desertification and floods): They became more frequent and more intense.

- Not to mention the political, financial, and bureaucratic obstacles, especially that the expropriation of lands takes a long time to complete and authorities do not take the issue of water seriously enough. The question asked by the citizen is: If plans by experts and technocrats, as well as the comprehensive program, have not been taken in consideration, then how the water deficit would be overcome, and how a sustained demand management would be achieved? (drinking and irrigation water networks). In light of Lebanon suffering until today from the decline in the efficiency of transport infrastructure and from an insufficiency in surface water storage (dams,

mountain lakes, basins ...), and from a lack of projects to feed the aquifers (natural and artificial) and low use (or non-use) of traditional water.

In view of this situation, the administration sought to adopt a national and modern plan in order to take advantage of renewable water in Lebanon, as part of the integrated management concept, by associating the public, private, civil, and municipal sectors with the State institutions, the objective being to ensure water management in Lebanon for the year 2050 that achieves social and food safety for the Lebanese people. It was the first time in Lebanon that a comprehensive vision of the "Water Resources Situation in Lebanon" was done on the basis of integrated water resources management for reservoirs, rivers, lakes and aquifers. The Cabinet approved the plan and Parliament ratified it in 2003. It has been updated since 2008 by the Mediterranean Component of the EU Water Initiative, then in 2010 where it became known as "The National Water Sector Strategy." From this point on, this strategy was to form one of the big leverages of the work meant to achieve the food and social security of citizens.

We can summarize the headlines of the 10-year Strategy plan and the National Strategy for the water sector as follows:

- Providing additional water resources through dams and lake projects and aquifer recharge
- Drinking water projects (supply lines, reservoirs, networks, dams and mountain lakes)
- Irrigation water projects (including new irrigation projects and modernization of existing projects)
- Wastewater projects (sewers and treatment plant projects)
- Riverbeds adjustment projects (for protection from the dangers of flooding)
- Seawater springs and graywater exploitation
- Electrical and energy-related projects.

This plan won the approval of major international institutions like the World Bank, the European Union, the European Bank, the Mediterranean Network of Basin Organizations (MENBO), and the Global Water Partnership-Mediterranean (GWP-med). It was the first time in Lebanon that an integrated and comprehensive plan for water projects across the whole Lebanese territory was set, in accordance with the needs and demand, and under the organization of a totally new institution for water management.

The challenges of water demand management: irrigation, management, drinking water and industry

The demand for irrigation water:

Since the year 2000, two scenarios were presented to the country's policymakers. The first is based on the case of "pressure on water resources", that is, to maintain the status quo and its implications on Lebanon and its people. The other on "sustainable water management" through the promotion and consolidation of the concept of integrated water resources management to meet the country's demand in case its politicians will have the will to adopt it.

The achievement of sustainable water resources management in Lebanon also requires greater attention to improving water efficiency; it should take initial actions in the agricultural sector, being the main consumer of water in Lebanon. It should be noted that about 1 billion cubic meters of water have been allocated to the agricultural sector in 2015, representing 80% of the total renewable water in Lebanon.

This requires rationalizing the use of irrigation water by applying modern irrigation techniques (drip or sprinkle), as well as using new water bodies (conventional and non-conventional water) such as recycling the used water, extracting water from springs, and refining gray water in order to meet the demand for water.

Pressure on water resources from the irrigation sector: 10,000 m³ / ha

	2010	2040
Irrigated areas	100,000 hectares	280,000 hectares
Total consumption / year	1,000 million m ³	1,000 million m ³

Scenario of sustainable management of water resources: 6,000 m³ / ha

	2010	2040
Irrigated areas	100,000 hectares	280,000 hectares
Total consumption / year	600 million m ³	1,680 million m ³
Provide water / year	400 million m ³	1,120 million m ³

Scenario of pressure on water resources from the drinking water sector: year 2010

Population	5 million	
The efficiency of water networks	50%	70%
Total demand for water / year	650 million m ³	520 million m ³

Water savings: 130 million m³ / year: year 2040

Population	8 million	
The efficiency of water networks	50%	90%
Total demand for water / year	1,200 million m ³	720 million m ³

Water savings: 480 million m³ / year

A road map for officials to meet the water challenges

There is no doubt that there are a number of water challenges for the public authorities.. These challenges serve as general principles that should be taken into consideration. They are represented by:

1. "Integrated water resources management":

This challenge to move towards integrated water management requires work to achieve a balance between water supply and demand in order to meet the growing needs for this resource in all aspects of its use, with the need to preserve the natural aquatic environment systems. This allows for the development of regions and contributes to the achievement of sustainable development. The basic principles of integrated water resources management are:

- Fresh water is essential to life.
- Water management requires concerted efforts and cooperation among consumers, planners and policy makers; namely water policies.
- Women's role in water conservation and management is essential.
- The role of schools, universities, civil society and the media in the publication and dissemination of awareness of the water culture.
- Water is an economic commodity that has strategic value, due to its economic importance.
- Water management requires the use of modern technologies in all their operating aspects to control leakage and reduce waste by using non-conventional water wherever possible.

Lebanon made a qualitative step by moving from the introduction of the concept of integrated water resources management within its recognized borders to the level of integrated basin-wide water resources management. The latter is defined as: "A process of coordination to preserve, manage, and develop land, water and related resources in various sectors within a given river basin, in order to maximize the economic and social benefits derived from water resources in an equitable manner while preserving and, where appropriate, restoring freshwater ecosystems".

Integrated water management at the basin level is:

- Change, so that the perspective of basin level becomes of increased importance in resolving local and global changes, especially that climate change happens through the hydraulic cycle. This affects water availability and quality, with direct impacts on the basin, which include an increase in the number and severity of floods and droughts, environmental flows, sewerage and drainage, hydropower, and navigation.

- Therefore, climate change is the key challenge for water management. This makes the integrated management at the basin level the best approach. It even gets more important from an all-sectors coordination viewpoint because it is consistent with the goals of sustainable development. The study and the implementation of climate change adaptation strategies need be done on this basis.

- Easier management of water-related disasters, and environmental impacts mitigation.

- Actual fulfillment of the three pillars for achieving sustainable development, namely economic efficiency, social justice, and environmental sustainability.

- Easier set-up of an information system at the basin-wide level, connected to all water monitoring devices to collect and update the necessary information, to be used as a means to support decision-making for proper planning in order to develop reliable water strategies and policies which are to be monitored periodically and updated when necessary, while taking climate change into account.

- Decentralization in decision-making and involvement of stakeholders at the basin-wide level in the formulation of policies and strategies.

- Planning at this level facilitates the assessment of the situation and the

implementation of projects, resulting in a more successful achievement of desired benefits that reflects on all sectors (drinking water, irrigation, agriculture, generation of hydropower, industry, tourism, shipping, transport, fish farming and other ... etc.).

This is the first challenge that will be put forth by responsible public authorities. It is primarily an affirmation of exercising good governance, enacting the Water Law, setting up the Information and Training Center on Water, and defining an action plan for integrated water management in our country. It is a fundamental condition for the effective management of water in Lebanon. Improving the management of water resources for sustainable development is reflected by:

- Political will: The willingness to apply the appropriate reforms in the field of water management, in terms of institutional reform and the application of integrated water management practices.

- Securing financial support from donor funds: The partnership between the public and private sectors (PPP).

- Governance: Issuance of the Water Law, Administrative Reform, Information and Training Center on Water.

2. "The protection and management of water resources":

It is the second challenge and is about developing strong and sustainable coordination mechanisms for the establishment of water infrastructure in order to reduce, in a first stage, the waste of water that goes into the Mediterranean Sea which is estimated at nearly 1.2 billion m³ / year. In parallel to this initiative, there is work to be done on increasing the effectiveness of supply systems of drinking water, and on reducing the leakage rate within the water networks which is estimated at about 48%, so as to improve efficiency. That's why surface storage, estimated at 850 million m³ per year (dams, mountain lakes ...), has been duly noted in addition to replenishing the natural and artificial aquifers to meet the need for drinking water management in Lebanon for the next 50 years.

3. "Encourage the use of New Water Mass":

This concerns conventional and non-conventional water resources. It entails the water reuse, marine water springs, and greywater re-use. This is the third challenge facing the public authorities in order to ensure better management of demand in the coming years.

In addition, the option of exploiting marine water springs must be taken into consideration. For Lebanon, the exploitation of non-conventional resources allows for compensating part of the projected water deficit for the year 2040 through the mobilization of 565 million m³ of new water mass. With respect to seawater desalination, the project requires investment in high energy cost as of 2040; and this process must be conducted at a low energy cost of carbon in order to become a real option for sustainable development.

4. “Ensure Quality Management of water resources”:

It is the fourth key challenge for public authorities. The growing water demand combined to the effects of pollution are a threat to public health. The protection of available water resources, quality control, as well as the application of the “Polluter Pays” principle are key components of the legislation and implementation of laws in this area.

5. “Encourage the establishment of a database”:

It is the fifth challenge for the public authorities. This initiative could lead to the creation of an information/data base about the quality and quantity of water that is still to this day scattered among various ministries and bodies. We managed only this year to advance with this purpose through the establishment of the Information and Training Center for Water Sciences, a regional project deriving from Lebanon’s initiative, which was approved by the Union for the Mediterranean within the “Regional project Towards a Mediterranean Water Knowledge Platform” (April 7 2014). The French Development Agency funded the feasibility study carried out by the International Office for Water (Office International de l’Eau); it is more urgently needed than ever. For this, the Mediterranean Network of Basin Organizations (MENBO), the Euro-Mediterranean system of information on water sciences, in addition to the Global Water Partnership-Mediterranean (GWP-Med), can leverage efforts in order to secure the necessary follow-up. This Center aims to increase knowledge on the water sector and control of the water transmission lines from the source to the beneficiaries, in addition to quality control, the exchange of information and experiences, and the promotion and training for workers in this sector. The creation and operation of the Center will be an important step for our country because it will enhance the data and know-how necessary to assess, control, and take decisions on water management. Other benefits will be in the training of all our managers, engineers, and technicians, and at all levels, so that they acquire the latest state-of-the-art knowledge and science skills needed to address the water problems of both the public and private sectors, at the national and sub-regional Mediterranean levels.

6. “Cleaning the Mediterranean”:

It is the sixth challenge for the public authorities. It is to be pointed out that access to sewage treatment in Lebanon is suffering a significant decline compared with drinking water.

In spite of our country currently having six wastewater treatment plants (treatment at the secondary level), they are not yet in operation because not connected to sewage networks. The majority of this water is collected and discharged at the municipal level without treatment, and is left to pour into the rivers and streams, and to seep down to groundwater level (through bottomless or open wells); the same goes for the waters of coastal swimming facilities. It should be noted that much of the wastewater flowing into rivers is unfortunately used in irrigation. Communicable diseases spread through water as a result, such as typhoid, dysentery, and diarrhea. There are municipalities and municipal federations that have taken several measures to improve the operation of wastewater collection and treatment, thanks to assistance from international donors and NGOs. A number of sewage treatment plants varying between large and small were built in different regions; they have been able to reduce their pollution levels and allowed to re-use refined wastewater for irrigation purposes.

Neglect and chaos that characterized the design of stations without the necessary equipment, in addition to the lack of responsibilities distributed among the various responsible public bodies, are the most prominent reason for this situation. These matters should be emphasized in the Wastewater Master Plan of the country. This non-conventional water can secure a large quantity for use in irrigation, and thus reduce the use of surface and ground water resources. We offer this challenge as a priority plan of action that could be achieved in cooperation with international organizations. It's also beneficial to contract with local authorities of the areas along the coast to take over the tasks of cleaning, monitoring, and protecting their respective coast, along the successful French experience in this regard. Thus, they could revive the coastal tourism sector to its past dynamism. In this context, it is important to strengthen cooperation among all the basin countries for the transfer and exchange of technology and institutions.

7. “Strengthening the partnership between the public and private sectors (PPP)”:

It is the seventh challenge. In fact, it is a lever for development in the field of water management, and represents a tool for solidarity between users and administrators. It also requires a strong and sustained political will to launch projects (that otherwise

linger in drawers of governmental departments) on BOT (Build-Operate-Transfer), DBOT (Design-Build-Operate-Transfer), or on franchising/concessions, leasing, and other basis. It should be noted that those responsible for the management of the water sector have completed a draft law on the partnership between the public and private sectors in 2003 for the management of docks, storage facilities of all types, treatment plants and power generation. It was passed to the Cabinet for approval and follow-up for ultimately enacting it. Then they conducted workshops at the Presidency of the Council of Ministers with the participation of several responsible parties, Ministries, councils and public institutions to inform them about the draft law. However, the draft law remained in the drawers and has not been issued to this day.

8. “Shared and transboundary water resources”:

It’s the eighth challenge for the public authorities. The problem cannot be solved in isolation from other states because it shows in a very sharp and particular way in the countries of the region where water resources are naturally limited. This is the reason why these resources can be a means to promote peace in the Middle East on the basis of the United Nations Convention through the application of the concept of equitable and fair sharing, and acceptable usage between states. We must give a serious chance for cooperation and water diplomacy to do their work, in order to maintain the available water (i.e. existing) in a good quality for future generations. This can also be the case by learning how to share water, which in turn should be taught to people, for them to know how to live together in an atmosphere of trust and respect and shared prosperity. Lebanon has positive achievements in sharing common waters according to the United Nations Convention of 1997, those relating to the Southern Al-Kabir River and the Assi River through the establishment of two dams with a hydroelectric power generating station on the latter. The project of constructing a dam on the southern Al-Kabir River is currently stalled due to the situation on the Lebanese-Syrian border. As for the Ibl al-Saqi dam project on the basin of the Hasbani River, and the Jordan River, Lebanon has been able to confirm its national right in international forums. It aims primarily to maintain Lebanon’s share of the Hasbani River water and the use of these Lebanese water resources to meet the growing water needs brought about by population growth and the economic development of the project area from the present up to the year 2050.

9. “Reforming the water sector legislation”:

The ninth challenge is the development of the legislation and systems pertinent to the water sector in Lebanon, which must be subject to an updating work in line with

the present status and modern developments. Law 221, issued in the year 2000, stipulated the reorganization of the water sector. In accordance to it, water affairs were attached to the Ministry of Energy and Water, besides the water institutions already under its supervision from the earlier merger of the independent twenty-one water companies. However, this move needs to be complemented by issuing regulatory decrees relative to the application of these laws, in order for it to proceed to execution.

10. "Achieving sustainable development is related to the integrated management of water resources":

This is the tenth challenge for public authorities. There is no doubt that the issue of sustainable development is closely related to integrated water management. For the latter's application leads to the achievement of sustainable development through working on the implementation of vital projects which have implications and dimensions at the economic, social, and environmental levels. This would be achieved if the right balance is set among those projects, and work to develop other relevant sectors would be determined by the national strategy in line with available capacities and the current circumstances. This would drive progress in the water sector, and therefore in the energy sector, thus reflecting positively on production in many domains. It should also be accompanied by the development of national legislation relevant to regional and international cooperation on transboundary water resources, for the purpose of environmental and natural resource protection, and to establish a culture of peace.

11. "The use of modern technology": Innovation to adapt to modern requirements:

That's the eleventh challenge for public authorities. The determination of international basins with precision requires the use of geographic information systems and the use of tools to support decision-making on a priority stage of project planning for the transboundary basins.

Reliance must be made on models such as Modflow, Arc Hydro, and WEAP (modeling) and integrated information systems, so that experts strengthen the amount of information and data belonging to the river basins, in order to be informed of resources and their usages for the purpose of identifying shared basins, and reducing the possibility of conflicts arising between states in matters of exploitation rights.

12. “The application of Pact of Paris (Cop21)”:

The twelfth and final challenge came to being after Lebanon signed the pact of Paris during Cop21 at the end of 2015, which was a very important event. Lebanon participated through an official delegation and signed the pact, which led to drawing a roadmap for Lebanon to move forward in the implementation of the concept of integrated water management at the basin level. This pact emphasizes the importance of adaptation at the basin level through a joint, participatory, integrated and sustainable management of water resources, to reduce the effects of climate change on the health and safety of the population, in addition to economic development and environmental preservation. The importance of this pact lies in the attention given to the protection of ecosystems related to water, in addition to cooperation, coordination, exchange of information, dialogue, consultation, prevention of conflicts among stakeholders, and promoting the implementation of adaptation and benefit-sharing measures taken at the basin level.

It should be noted that Lebanon, through its presidency of the Mediterranean Network of Basin Organizations almost two years ago, played a major role in the drafting of this pact.

The essence of these challenges is that integrated water management is a comprehensive and holistic view of the water sector, where the water quantity, quality, and distribution method ought to be balanced. Attention should also be paid to water resources planning and management in the long run for both urban and rural development, and reaching sustainable development.

It can be said that there are two components for the integrated management of water, one vertical and one horizontal:

a) The vertical one is represented by technical projects highlighted by the ten-year plan and the national strategy for the water sector.

b) The horizontal one is represented by:

- The role of women, the role of education by schools and universities, the role of the media, the role of civil society, the role of research centers.

- The legislative process: Here, the administration played its role in drafting a modern law for water with the support of the French State. Moreover, a law of partnership between the public and private sectors was prepared and filed before the Presidency of the Council of Ministers in 2005, but it has not been issued yet.

- Stimulating awareness and motivating officials through the organisation of scientific seminars, conferences, and workshops at home and abroad.
- Water impact on the environment and public health.

However, these two components depend on the approval of the country's political authorities. Although the administrative authorities performed their role, the non-adoption of these legislations and the lack of securing funds for executing the projects was the biggest impediment to the implementation of the national plan which is based on modern concepts.

Conclusion

The implementation of the ten-year plan and the national strategy for the water sector in the context of the integrated water management concept could lead to a state of stability on the water level in terms of food security and the needs for drinking water. The Water Balance in Lebanon will achieve positive values until the year 2025. As of that year (2025), there will be a need to include preliminary work procedures to update the strategic plan.

In addition to that, the exploitation of available and renewable water, starting from the source, is no more sufficient to meet the needs of the population during the dry seasons. In addition, the excessive consumption of underground water by the public and private sectors can cause many problems.

This new practice by the administration bore first fruit in the emerging countries. Moreover, it will inevitably be successful in our country as well. Is there in Lebanon a plan for cooperation in infrastructure development between local communities and the State? What are its different facets? Who are the officials who are calling for playing down the partnership between the public and private sectors in Lebanon? The cooperation between the public and private sectors, with the support of the local community as well as the Government, may form a new mechanism that could be followed in order to improve service and performance. It is an experience that has known successes in several countries; so let us work and act together at this level.

As for all the leaders in Lebanon, the most prominent challenge is to engage in a holistic process based on strong will to establish a water policy aimed to achieve, together, a coordinated progress in order to protect water resources. Promoting the

integrated management of basins is essential to achieve the goals of the national plan and secure the financial means needed to support the implementation of sustainable infrastructure projects. Further, it'll be up to investors and donors to judge the targeted benefit of this strategic plan, which aims to strengthen the bonds of solidarity among citizens around the slogan: "Together for a better case for water in Lebanon."

In conclusion, "Water Culture" relies much on the role of national education, whether in schools or at universities, to spread out. Further, it would be a way to promote peace in the Middle East. We must give cooperation a serious chance in order to ensure and maintain water security.

That can also be through learning how to share water, which in turn we need to teach to people so that they acquire the awareness of how to live together in an atmosphere of trust, respect and shared prosperity.

We conclude with the words of Danton:

"After bread, education is the first need of people" ("Après le pain, l'éducation est le premier besoin d'un peuple."), and this is what we aspire to in Lebanon.

Lebanon Sustainable Governance and Accountability... It is the Challenge!*

Introduction

Sustainability is viewed by many as a “buzz” word. Globally, everyone attaches various meanings to the words “sustainability” and “sustainable development”. In Lebanon, the practice of coining new concepts to “sustainability” from the perspective of a balanced development has overused not just the concept, but also the word that has become loaded, inaccurate and challenging. It turned out to be a meaningful word that we might understand but cannot easily communicate or formulate. When applying this concept in its international standards to issues related to the complex socio-economic issues in Lebanon, the term “sustainable development” loses its connotation because it is weighed down by political baggage. Thus, we find ourselves defeating the purpose of sustainability and preventing balanced development, policy planning, and effective implementation of democratic governance- all integral to the way of improving transparency and accountability. Once a word loses momentum, it’s difficult to get it back.

Despite the efforts of the Lebanese, as individuals, to develop economic and social policy choices to their country, to the Arab region and even to the world, we are still struggling with a structural deleterious dilemma that is compelling the country to live in a situation of **non-governance and non-accountability**. Most documents fall short in the provision of implementable measures to address the issues of sustainable democratic governance and accountability, according to international standards. Hence, we find that what is most needed is the development of a solid framework of constituents, priority objectives, and interventions along with detailed action plans to transcend the narrow understanding of social welfare and government productivity towards a national social initiative or pact seeking citizens’ rights.

Background

Today’s world is facing economic crises, social challenges, environmental problems, and severe political issues. Despite the “Arab Spring” movement aiming to achieve a

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sustainable future, countries of the region are increasingly in danger. Sustainability, in terms of what we enjoy today, is about living our lives in ways that leave the same, or better, options for future generations. **Good governance** is essential to improve peoples' lives; but the Arab region falls short on many governance indicators (Salem, 2010). Although there is an emergent dynamism in civil society and among opposition parties, drawbacks in governance have impeded sustainable development in the region and have limited the achievement of the Sustainable Development Goals.

Improving governance requires reinforcing civil society, building effective institutions, strengthening electoral progress, supporting parliaments and judicial systems, enhancing local government, ensuring broader participation in the decision-making political process as well as empowering women. Strengthening governance and accountability is becoming a growing component of sustainable development. However, it takes a lengthy process to facilitate building effective institutions that are able to provide services and respond satisfactorily to citizens' needs. *Accountability is the "relationship between the state and society at large in providing – and demanding – better governance"* (OECD, 2013). Essentially, accountability involves both the rulers and the ruled; thus, it is fundamentally about politics and power. Accountability encompasses three intertwined concepts: transparency, answerability and enforceability. Consequently, citizens have access to information about promises that the government has made and whether it has met them; they are able to inquire whether the government justifies its actions; and they are also able to sanction the government if it turns out to be unsuccessful in meeting the standards it committed to.

Defining governance

Different sources have various definitions of **"governance"**. In this paper, we will focus on the World Bank and the United Nations Economic and Social Commission for Asia and the Pacific definitions.

According to the **World Bank**, "Governance consists of the traditions and institutions by which authority in a country is exercised. This includes the process by which governments are selected, monitored and replaced; the capacity of the government to effectively formulate and implement sound policies; and the respect of citizens and the state for the institutions that govern economic and social interactions among them"¹. According to the **Worldwide Governance Indicators** (2007), the political, economic, and institutional dimensions of governance are captured by six aggregate indicators:

(1) Worldwide Governance Indicators Homepage. Available at: <http://www.govindicators.org>

1. Voice and accountability: the extent to which citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media;

2. Political stability and absence of violence: perceptions of the likelihood that the government will be destabilized or overthrown by unconstitutional or violent means, including domestic violence and terrorism;

3. Government effectiveness: the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies;

4. Regulatory quality: the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development;

5. Rule of law: the extent to which agents have confidence in, and abide by, societal rules, and in particular the quality of contract enforcement, the police, and the courts, as well as the likelihood of crime and violence;

6. Control of corruption: the extent to which public power is exercised for private gain, including any form of corruption.

According to the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP), "**Governance** is the process of decision-making and the process by which decisions are implemented (or not implemented)"². Accordingly, an analysis of governance focuses on the actors involved in the decision-making process, the implementation of the decisions made, as well as the structures set in place to attain those decisions. Government is only one of the actors in governance; other actors vary depending on the level of government. These may possibly include influential landlords, associations, cooperatives, NGOs, research institutions, religious leaders, finance institutions, political parties, the military, the media, lobbyists, international donors, multi-national corporations, etc. All these actors might play key roles in the decision-making process. All actors other than government and the military are grouped together as part of the "Civil Society".

(2) United Nations Economic and Social Commission for Asia and the Pacific. What is Good Governance? Available at: <http://www.unescap.org/sites/default/files/good-governance.pdf>

Good governance should respond to the societal needs of the present and future generations, ensuring that corruption is minimized, the views of minorities are accounted for and the voices of the vulnerable communities are perceived in the decision-making process. Eight characteristics of **good governance** are summarized below: participation, consensus oriented, accountability, transparency, responsiveness, effectiveness and efficiency, equity and inclusiveness, and the rule of law.

1. Participation: This is a foundation of good governance. Representative democracy does not necessarily mean that the concerns of the most vulnerable in society would be considered in the decision making process. Participation needs to be informed and organized. This entails freedom of association and expression as well as an organized civil society.

2. Consensus oriented: In any society, there are numerous actors and many perspectives. Good governance requires conciliation of the various societal interests to attain a comprehensive agreement on the best interest of the whole community. This necessitates an inclusive and long-term perspective on achieving sustainable human development.

3. Accountability: This is a key prerequisite of **good governance**. Government institutions, the private sector and the civil society organizations must be accountable to the public and to their institutional stakeholders. Generally, an institution is accountable to those who will be affected by its decisions. Hence, accountability cannot be implemented if there is lack of transparency and the rule of law.

4. Transparency: Transparency requires that the process of decision-making and implementation obey rules and regulations. This dictates free access to available information to all those who will be affected by such decisions. It also entails that information is provided in understandable forms and media.

5. Responsiveness: **Good governance** entails that institutions and courses of actions serve stakeholders within a realistic timetable.

6. Effectiveness and efficiency: **Good governance** requires that processes and institutions generate results that sustain societal needs while ensuring the sustainable use of natural resources as well as environmental protection.

7. Equity and inclusiveness: The well-being of any society depends on guaranteeing that all its members, especially the most vulnerable, are not excluded and that they have opportunities to upgrade or sustain their welfare.

8. Rule of law: Fair legal structures that are enforced impartially are indispensable to **good governance**. This entails human rights protection, particularly those of minorities. Impartial law enforcement requires an unprejudiced judiciary and principled police force.

Good Governance Matters For Sustainable Development

At the United Nations Sustainable Development Summit on 25 September 2015, world leaders adopted the 2030 Agenda for Sustainable Development, which includes a set of 17 Sustainable Development Goals (SDGs). SDGs are connected to UNDP's Strategic Plan focus areas: sustainable development, democratic governance and peacebuilding, and climate and disaster resilience. These goals provide a road map for the successful progress towards sustainable development. They provide a goal-oriented human development process towards a responsible economic growth that embraces both environmental sustainability and social development. In terms of strategies to achieve these goals, two points should be emphasized: **(1)** The goals should be viewed as interconnected, interdependent and mutually reinforcing; and **(2)** Though these goals are global targets, solutions must be worked out at the local levels.

The SDGs constitute an expanded vision that promotes human well-being. To achieve them, decision-makers must recognize that a balance among *environmental conservation*, *economic growth* and *social development* is needed. This balance is facilitated through good governance via the integration of the principles of sustainable development into national policies. Policy makers and academics agree that good governance matters for sustainable development and they argue that it is crucial to address the following: constitutional reforms, credible elections, strengthening parliaments, adopting policy and institutional options for peace, risk-reduction and development through reconciliation, empowerment and inclusion.

High-quality institutions have the power, over the long run, to raise per capita incomes and promote socio-economic development. To ensure economic growth, developing nations must commit to effective strategies by strengthening fiscal management, governance and economic infrastructure. Interventions to reinforce local and accountable democracies should focus on promoting development and

mainstreaming gender concerns into policy instruments. Mobilization begins when the locals recognize that they are the key change agents for a sustainable future. This is achieved through improving institutional capacities, scaling up human development services, and facilitating multi-stakeholder dialogues and public participation.

By developing a robust approach to good governance, it will be conceivable to have objective indicators that serve as proxies for the decision-making process in order to inspire public trust for improving the governance of 'public / collective goods'. All stakeholders - including government decision makers, service providers, and civil society should participate effectively in the governance process to improve management practices. Those stakeholders need to cooperate and to collaborate, under a governance structure that provides the necessary accountability.

That said, sustainable development is not only about incomes and wealth. It is about the broader quality of life: better educational opportunities, access to quality healthcare and clean water, equality of treatment and the freedom to participate in the decision-making process. Good governance is fundamental for securing these values; thus ensuring that government authority is exercised in ways that respect the integrity, rights and needs of every citizen. Therefore, good governance is tightly linked to anti-corruption (including political economy dynamics, and designing/implementing reform programs to improve check and balance institutions such as parliaments, media, and civil society organizations).

Good governance rests on two core values: inclusiveness and accountability. (1) Inclusiveness is based on equality. It protects people's basic rights, treating everyone uniformly before the law, allowing all to participate in governance, and assuring equal opportunities to access public services. (2) Accountability depends on public transparency, which requires knowledge and readily accessible information on what the government does. Accountability also rests on mechanisms such as contestability and a strong ethic of public service, which encourage government officials to act in the public's interest.

Governance in Lebanon

1. UNDP Democratic Governance Program

The UNDP Democratic Governance Program aims to provide technical support for the development of public institutions, formulation and implementation of economic,

social, administrative and financial reform policies and legislations in Lebanon. By addressing anti-corruption, human rights, and promoting equal opportunities to all citizens, the program intends to support the formulation of policies related to governance, participation and empowerment. It concentrates on creating opportunities to participate in political decisions, thus making democratic institutions more accountable and responsive to their citizens.

UNDP provided advisory support and consultation to the Office of the Minister of State for Administrative Reform (OMSAR), which resulted in the drafting and adoption of a new administrative reform strategy for Lebanon in 2011. In the area of improving the effectiveness and accountability of the public administration, UNDP works with the Parliament, parliamentary committees and administration, as well as ministries and institutions on legislative reforms (such as child custody, women nationality, personal status law, street children regulations, anti-corruption legislation, investment law, etc.). The Parliamentary Human Right Committee coordinated with UNDP the draft National Human Rights Action Plan launched in December 2012. Parliamentary oversight is enhanced through workshops with various stakeholders (government representatives, NGOs, private sector, civil society, academic sector, etc.). Further, the program works with the Ministry of Justice to promote a transparent and efficient judiciary system. A help desk was established in 2011 at the Beirut Court Palace to respond to citizens' inquiries. The program supports capacity development of the government institutions. In terms of formulation and implementation of economic and financial policies, UNDP assists the government in preparing comprehensive socio-economic agendas in various sectors. Key reforms were attained at the Ministry of Finance through integrating the revenue and VAT directorates and introducing risk management at the tax administration. With the Investment Development Authority for Lebanon (IDAL), UNDP provided technical support to develop an investment strategy addressing key sectors. A national ICT (Information and Communications Technology - or technologies) strategy was developed as well.

UNDP has also been playing a key role in supporting Lebanon in conducting free, fair and transparent elections since 2005. The Minister of Interior and Municipalities (MoIM) was granted the UN Public Service Award for his ministry's efforts in improving transparency, accountability and responsiveness in public service—all in recognition of the 2009 elections. More recently, UNDP launched the “**Lebanese Electoral Assistance Project** for the 2013 Parliamentary Elections” to provide a strengthened capacity for the management and administration of elections, the supervision of election campaigns

and accreditation of observers, the provision of voter education initiatives, the resolution of electoral disputes, and for initiatives to improve election opportunities for women. The portfolio contributes to the development and knowledge sharing in the field of governance (2008-2009, the fourth National Human Development Report (NHDR), "Toward a Citizen's State"³).

2. Other Governance Initiatives

There exist different initiatives to develop governance in different sectors and / or institutions in Lebanon. Below are few examples:

In the *State of the Environment Report* (MoE/UNDP/ECODIT (2011), its first chapter of was dedicated to environmental governance. It "refers to the processes of decision-making involved in controlling and managing the environment and natural resources. Principles such as inclusivity, representation, accountability, efficiency, and effectiveness, as well as social equity and justice, are the foundations of good governance"⁴.

As part of the *New England Association of Schools and Colleges (NEAS) Accreditation* requirements of *institutions of higher education* in Lebanon, standard #2 deals with governance. The standard indicates that **"the school has an appropriate system of governance that assures that the school remains true to its mission and that it has the necessary resources to support its present and prospective operations"**⁵ (refer to the link in the footnote to examine the suggested indicators for governance). Thus, many institutions of higher education in Lebanon have committed to conduct periodic reviews of their governance structure in order to meet the fundamentals of the growth and development of the university. In this context, they address shared governance within faculties and throughout the university. Also, they aim to facilitate transparency and communication among all university constituencies. Thus, faculty members, students and staff will be empowered to participate in the governance of the institution by their involvement in most of the university's deliberative and planning processes.

In 2006, at an event held at the Lebanese Federation of Chambers of Commerce, Industry and Agriculture, Lebanon witnessed the release of the first *Lebanese Code of Corporate Governance* (CG). The Code, which was written under the sponsorship of the

(3) http://www.lb.undp.org/content/lebanon/en/home/library/democratic_governance/the-national-human-development-report-2008-2009--toward-a-citizen0.html

(4) <http://www.moe.gov.lb/getattachment/The-Ministry/Reports/State-Of-the-Environment-Report-2010/2-Environmental-Governance.pdf.aspx>

(5) <https://cis.neasc.org/standards-policies/standards-indicators/standard-2-governance>

Lebanese Transparency Association (LTA), was the first CG Code in the region in terms of its comprehensiveness and practical applications. It formalizes a set of international “**best practice**” standards for how Lebanese companies should function. The corporate governance reform is essential to any innovative company that has prospects of local and regional growth⁶.

NGOs in Lebanon are frontrunners in issues related to sustainable human development. In most cases, their aim is to promote democratic participation, empower civil society, and safeguard rights, freedoms, and good governance. Nevertheless, some NGOs have deficiencies in their internal governance, such as the absence of democracy, the lack of mechanisms for rotation of power, and the need for clear regulations, transparency, and accountability. Baroud et al. (2004) published the “*Internal Governance for NGOs in Lebanon*”, which aims to empower NGOs to coordinate, develop, and share their activities at the local, national, and international levels; all in response to societal needs⁷.

3. Poor Governance: The Root of Deficiencies

Despite the above selected initiatives, Lebanon still exhibits a pattern of poor governance that translates into deficiencies in many issues related to sustainability. There is limited transparency and inclusiveness. There is no empirical published data that pertain to sustainable development related issues. In most cases, citizens are not assured the right to government information. Media activities are generally controlled by different political parties, which manipulate public debate and national dialogue. Accountability mechanisms continue to be weak due to excessive concentration of power in the executive authority and restrained channels for citizen participation. Poor governance has adverse impacts on sustainable development, including economic performance. The absence of a sound governance system hinders the government’s ability to meet the growing demands for employment and better social services. Poor governance policies are inefficient, ineffective, and biased by bureaucratic structures that are uncertain and costly.

One example that illustrates poor governance is the “hot” crisis Lebanon is facing: the issue of waste management. This dilemma is a very significant problem with implications for sustainable development in a rapidly urbanizing country undergoing a

(6) <http://www.lacpa.org.lb/Includes/Images/Docs/TC/newsletter29/14.Governance.pdf>

(7) http://daleel-madani.org/sites/default/files/IntGov_en.pdf

huge flow of refugees. This is a problem with elements of risk and uncertainty and is a classic “commons dilemma”. Environmental problems are considered the most daunting pressing social issues in our days. The Agenda 21 report that resulted of the UN Conference on Environment and Development (held in Rio in 1992) emphasized the issue of waste generation. Chapter 17 of Agenda 21 sets out waste as a major issue in the search for sustainable development, and highlights household waste as a key barrier to achieving environmental sustainability in the 21st Century (UNCED 1992). The waste problem has recently leapt onto the political agenda in Lebanon, as the reality emerges that there are fewer sites suitable and available for landfills. This reality is accentuated by the rise of NIMBYism (Not In My Back Yard) syndrome among residents who protest at landfill sites being placed close to their homes. Thus, while everyone generates wastes, public opposition emerges as a social movement especially after the consecutive failures of developing a national strategy for solid waste management.

The management of the waste problem remains at a major crossroads. The widespread open-dumping of wastes in all regions of Lebanon is a typical illustration of the “Tragedy of the Commons” (Hardin, 1968). Institutional performance to resolve such a tragedy should revolve around good governance. The government needs to develop a concerted national strategy, supported by public consensus. The strategy should define critical policy dimensions such as land acquisition, environmental regulations, involvement of municipalities, and cost recovery. Social analysis and assessment is necessary to avoid public resistance. The proactive commitment of all stakeholders- including the government, the Council for Development and Reconstruction, the Ministry of Environment, municipalities, NGOs and local communities- is a key challenge. Deliberation and stakeholder involvement helps to ensure inclusiveness of the potential risks and benefits in people’s values. The challenge resides in involving everyone in the decision-making through a democratic process. A national framework, a strong political will, a participatory process, and an integrated approach are needed to help re-build public confidence and implement successful waste management policies. Transparency and accountability are required in this process.

Devising better ways of governance systems remains a major issue to help avoid similar tragedies in other “common” problems in Lebanon. There is a strong rationale to embrace good governance in different sectors (water management, energy generation, gas and oil exploration, transportation, etc.) in order to ensure sustainable development. The quality of governance helps shape the formulation and implementation of effective national policies, which in turn regulates successful delivery

of public services and an attractive business environment. The governance challenge does not lie only in the capacity of the administrators; it also lies in the institutions that ensure public accountability. Good governance is central to the solution of “common goods”, it holds the promise of growth and social improvement; it is a fundamental dimension of human development.

Towards Good Governance

A structured plan of reform that leads to good governance in Lebanon may include the following:

- Expanding inclusiveness
- Sharing knowledge (transparency)
- Strengthening national actions to foster accountability
- Reinforcing local actions to improve administrative measures
- Establishing effective institutions
- Developing a functional decision-making process
- Implementing policy development strategies
- Mediating dialogue among citizens, government institutions, NGOs and the private sector
- Ensuring citizen participation in the decision-making process
- Coordinating consensus based on experts' opinions rather than on political and religious considerations
- Enforcing laws and monitoring mechanisms
- Acquiring automation through e-government (to reduce bureaucracy and ensure efficiency).

Meeting the governance challenge is not a simple goal, neither technically nor institutionally. Moving towards greater inclusiveness and accountability requires time, citizen participation, credibility and trust in the policy-making process. The people, the institutions and the government agencies must commit to raise the quality of their governance and to formulate and implement their programs in a participatory approach that guarantees inclusiveness and accountability.

Towards Good Governance⁸

Following the increasing regional and global challenges, alarming levels are being raised at the constitutional, political, economic, social and environmental levels in

(8) http://www.sgi-network.org/2014/Mission_Statement

Lebanon. With the current deadlock, a dynamic for change to create equal opportunities in labor markets, education and health care as well as ensure an efficient use of natural resources for long-term sustainability is needed. In order to improve the quality of life for present and future generations, most governments struggle with implementing sustainable policies. Realizing this requires more novelty and innovation in promoting good governance. Active public participation in incorporating shared values and collective interests into decision-making is essential to resolve conflicts and restore trust in public institutions as a framework for reform.

Studies indicate that key questions that investigate the degree to which a country's institutional arrangements improve the public sector's capacity to act ("executive capacity") as well as the extent to which citizens, NGOs and other organizations are capable -through the participatory process- to hold the government accountable to its actions in an assertive way ("executive accountability") are essential. Such questions can be considered, as stated below.

Executive capacity: Does the government have strong steering capabilities?

Strategic capacity: Is the government's decision-making supported by strategic planning and the guidance of scholars and experts?

Inter-ministerial coordination: Is the government decision-making harmonized across institutional lines?

Evidence-based instruments: Does the government apply Regulatory Impact Assessments (RIAs)? Does it guarantee the quality and sustainability of the RIA process?

Societal consultation: Does the government consult with economic and social actors to prepare policies?

Policy communication: Does the government coordinate policy communication to ensure alignment with government strategy?

Implementation: Does the government implement policies in an effective way?

Adaptability: Does the government join forces with other actors, while adapting to new developments?

Organizational reform: Does the government monitor its institutional arrangements, restructuring them if necessary?

Executive accountability: Are non-governmental actors involved in policy-making?

Citizens' Participatory Competence: Do citizens have access to needed information and knowledge for assessing government policies?

Legislative Actors' Resources: Does the legislature have the needed organizations and resources to monitor the executive?

Media: Does the media deliver essential information that enables the public to evaluate government decisions?

Parties and Interest Associations: Is the internal decision-making of various parties inclusive and unrestricted? Do interest associations propose sound and comprehensive policies?

Proposed Guidelines for Initiatives

- Selecting key laws to follow up their implementation with liability through creating a watchdog entity. This will lead to transparency and accountability.
- Launching a pilot project for restructuring an institution of the Public Sector (core purpose, structure, services). This will lead to provide an example of Government effectiveness.
- Adopting a participatory approach in preparing and implementing policies (Public / Private / Civil Society). This will lead to an oriented consensus.
- Reformulating and unifying the standards of inspection (Food Security as an example). This will lead to efficient Inter-Ministerial coordination.
- Implementing E-Government to ensure more efficiency, less time and more economic growth. This will lead to defeating corruption.

Concluding remarks

Weak governance and inadequate institutions at the national level as well as the lack of proper regulatory, compliance and monitoring mechanisms, the need for mainstreaming environmental protection, social equity and economic growth in national and sectoral policies, in addition to knowledge sharing aimed at encouraging institutional reforms, are key challenges in Lebanon.

Clearly, this paper reveals that good governance is an ideal which may be very difficult to achieve in its entirety. Very few countries have come close to achieving good governance in its totality. However, to ensure sustainable human development, actions must be taken to work towards this ideal with the aspiration of making it a reality. Sustainable democratic governance is anchored in leaders adopting a long-term view of

public policies that respect the well-being of the future generations. It is important to explore the mechanisms through which a country's institutions enhance the public sector's executive capacity as well as the extent to which the civil society groups are able to implement executive accountability.

Efforts to promote sustainable development are most effective when they are coupled with a good grasp of the socio-economic, environmental, and the governance contexts in which they are implemented, as well as when they sustainful relationships between communities and the government, and among different communities. In Lebanon, such efforts call for the citizens, local organizations and accountability institutions to participate in the decision-making process associated with complex sustainable development issues. They also build on durable initiatives to support democracy.

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The Entrepreneurial Journey in the Lebanese Ecosystem*

Lebanon's history brings together a myriad of cultures, religions, innovations, and wars. Years of conflict have shattered the country, and its economy hasn't fully recovered. Yet, throughout all of this, history has not failed to capture and propagate the resilient spirit of the Lebanese, who have transformed the challenges of their environment into innovative strides in business. This strong entrepreneurship spirit has been essential to survive repeated economic crises, helping in limiting its brain drain, creating jobs and contributing to the development and rise of various sectors particularly in technology.

In an era of knowledge-based economy and innovation, technology and entrepreneurship remain the key elements that drive socio-economic development and foster fast economic growth. Lebanon's richness lies in the pool of qualified human capital, thus offering a unique experimental platform for enterprise creation and a key starting point to develop in the EMEA region while remaining a distinctive outsourcing hub with highly skilled experts and talents.

A startup is defined as an organization formed to search for a repeatable and scalable business, delivering a new product or service under the conditions of extreme uncertainty. Startups have ecosystems of their own, operating within a web of interconnected players. They are founded by entrepreneurs, accelerated by accelerators, funded by venture capital firms and angels; they sell their products to customers and possibly get acquired by larger corporations. This is an oversimplification of the very interconnected and complex systems within which startups operate. The players are plentiful and the possibilities for their interactions are limitless.

In response to the innate entrepreneurial drive of the Lebanese people, support structures started rising since year 2000 to strengthen the entrepreneurial scene and build an adequate ecosystem in Lebanon for the support of startup creation.

(*) Maroun Chammas

This started with the founding of Berytech, the leading incubator and business development center, developed by visionaries at the Saint-Joseph University, to be the first technology pole in Lebanon and the region that provides an environment conducive to the creation and development of startups and SMEs, introducing the “incubation” concept for small enterprises.

This includes a whole ecosystem of support for entrepreneurs ranging from incubation to business development, networking, mentoring, funding, access to markets and company hosting. Member of the European Business Network (EBN) and having the BIC certification (business innovation center), Berytech currently manages 3 Business Development & Innovation Centers, 3 venture capital Funds and several support programs, opening up financial and business opportunities for aspiring entrepreneurs.

Since its inception in 2002, Berytech housed a repertoire of more than 200 entities, assisted more than 3,000 entrepreneurs in several outreach programs, created more than 1500 job opportunities, disbursed more than \$500k in grants to startups, and is currently investing more than \$70M in Lebanese technology companies.

Several activities, initiatives and capacity building programs were developed in that context, taking part in the economic revival of the country along with other partners and collaborators, stimulating entrepreneurship and innovation in Lebanon.

With the rise of entrepreneurial success stories, international donors were mobilized, contributing to the growth of the ecosystem through key initiatives, access to networks, grants and capacity building programs.

In the past 5 years, the central bank of Lebanon, known to be the main keystone of the Lebanese economy and the banking sector, issued Intermediate circular 331 to encourage banks to invest in the equity capital of startups and entrepreneurship support structures in the knowledge economy sector in Lebanon. With this initiative, the central bank gave a major boost to the Lebanese entrepreneurship and innovation ecosystem and a key driver to develop the knowledge economy sector. This led to the rise of new partners, structures, funds and networks, supporting the journey of Lebanese entrepreneurs.

Currently, with the development of technology, and referring to a study organized by Life and Idal for ICT sectors status in 2015, the major subsectors in Lebanon with a high

development potential to thrive in are ad tech, consumer Internet, e-commerce, e-government, e-learning, financial and e-payment solutions, enterprise software, gaming, healthcare and biotech, infrastructure, media streaming, semiconductors, small hardware products, telecom services, telemarketing and call centers, and value-added services.

The support ecosystem for company creation and growth

Pre-Startup

A typical startup journey begins at ideation. The idea stage is the process of solidifying a business idea into an executable business plan.

The focus at this stage is market research and data collection that will allow the startup founders to steer the new business startup into a differentiated market niche where resistance to market entry will be the lowest and sales can be achieved most easily. At this stage, a team needs to be formed, having a two or three core-founding people with balanced ownership preparing for a legal entity setup.

The ecosystem stakeholders essential at this first phase are education, bootcamps and hackathons programs, training and mentoring bodies that will assist the entrepreneur in having a clear and meaningful target with well-defined direction. These include but are not restricted to:

- Amideast Entrepreneur Institute, which since its launch in 2010, has trained over 300 aspiring entrepreneurs, business owners, and professionals on how to start a business, grow it, develop a sales team, and spur business growth using ICT.

- University entrepreneurship centers including:

- BAU Center for Entrepreneurship, which aims to identify the individuals with entrepreneurial potential and assist them in an integrated manner with information, knowledge, skills and project implementation support.

- LAU Institute for Family and Entrepreneurial Business, which develops educational programs that support individuals and families in the growth and continuity of successful family enterprises.

- Samih Darwazeh Center for Innovation Management & Entrepreneurship at AUB which aims to document and enhance innovative practices in the business community through research, field studies, benchmarking, seminars and workshops as well as conferences.

- Other university centers and clubs including Smart ESA, NDU and USEK.

- Le Wagon coding bootcamp, teaching coding in an intensive 9 week program.
- The Mowgli Foundation providing mentoring that inspires, connects and guides entrepreneurs and leaders to overcome life's personal and business challenges.

The ecosystem has benefited from the rise of co-working concepts and community spaces that have soon augmented into support systems providing both smart location and networking facilities to entrepreneurs. These organizations have grown to integrate a well-rounded support system for entrepreneurs beyond physical space:

- Berytech the hub of the entrepreneurial ecosystem with its three sites Berytech Technology Pole in Mar Roukoz, Berytech Digital Park in Beshara El Khoury and Berytech Technology and Health in Mathaf.
- Beirut Digital District providing a state-of-the-art infrastructure, community spaces, offices and superior support services for businesses.
- AltCity, offering the community beyond a co-working space, a Bootcamp Startup Program, workshops and mentoring programs.
- Business Incubation Association in Tripoli, offering hosting, business support and incubation.

Startup

The startup stage begins the transition of the company into a legal entity with product development, patent development and/or, as soon as possible thereafter, a real customer.

A different management style and focus must be implemented. This first shift in style is needed to begin following a plan, and dealing with other complexities that start to build with the entrepreneur's product development efforts. The entrepreneur is still experimenting with what the market and customers want, how much they will pay for it and how to get to the customer for an efficient sales and marketing plan and process that can generate a profit.

Business incubators offer startups the business support, mentoring and training needed at this phase. Bootcamps, acceleration & incubation are offered by previously mentioned AltCity, Berytech, BIAT and Le Wagon. They additionally include:

- Speed @ BDD, an accelerator program targeting startups at the idea and early stage, which is tasked with producing the region's next high-growth businesses, particularly in the software, digital, and Web/mobile industries.

- SE factory, Advanced coding bootcamp with 12 weeks training on best practices of full-stack web development.

- The UK Tech Hub, an international accelerator supporting the growth of startups and access to foreign countries, opening the doors to new markets.

- The South Business Innovation Centre (SouthBIC) which is geared towards assisting entrepreneurs and businesses in the South achieve their goals and enhance their competitiveness through enhanced innovation within existing business practice.

Startups at this stage benefit from access to multiple local and regional competitions for the chance of getting financial rewards, increasing their visibility and receiving additional business support. Competitions organized in Beirut include and are not limited to:

- Bader Startup Cup: The StartUp Cup is Bader's flagship business model competition. The competition is open to ideas and early stage startups, with over 100,000,000 LBP worth of cash and in-kind prizes to the top 3 winners.

- The Global Social Venture Competition (GSVC), organized by Berytech and USJ, with the support of Diane Foundation, which provides aspiring entrepreneurs with mentoring, exposure, and \$55,000 in prizes to transform their ideas into businesses that will have positive real world impact.

- Femme Francophone Entrepreneur is a competition aimed at French speaking women with an innovative business idea. The participants receive training and business support to well-round their business model and receive up to 20,000 euros as financial prize.

- Intel Challenge Me Lot: Competition launched by Intel for internet-of-things innovators. Winners receive a cash prize and access to international networks.

Additional competitions that Lebanese startups have access to include Cartier Women's Initiative Awards, Hyundai startup competition, Startup Campus and MIT Enterprise Forum Arab Startup.

The startup gets to the funding stage when it is clear that there is an established revenue and/or customer base. At this point the business is arguably sustainable with a proven value proposition to customers, pricing and both sales and operations processes that work, albeit not necessarily very efficiently.

The business is likely unprofitable yet, but there is a clear path to profitability with far fewer unknowns and big risks. There is still a lot to learn and many processes to optimize, and the management is usually still stretched too far executing, instead of managing.

Growth

The GROWTH Stage is where the business is scaled - This is achieved when the company really has defined a business model that works, and expands this model to address the large opportunity, outside the local geography, nationally or globally.

At this stage the entrepreneur has proven that \$X invested in sales and marketing will generate \$Y in revenue and profit. So expansion can be done with little risk. With well-documented proof of this, the startup can usually attract large amounts of capital easily. It also becomes relatively easy to see exactly what is needed to reach a large size company and how large it can get.

During this Stage the management style and focus must once again change. Often “professional management” is brought in to replace founders who can’t adjust to this needed transition from an entrepreneurial high speed and risk style, to one of planning, management and fine-tuning of operations.

Entrepreneurs at this stage invest heavily in customer acquisition, improving product, and releasing new features in addition to accessing new markets.

Several support platforms, media structures, networking events and tech conferences exist to give a boost for all aspiring and current entrepreneurs, adding inspiration, learning opportunities, expertise sharing and professional connections. Some of those structures include the following:

- ArabNet summit, the hub for Arab digital professionals and entrepreneurs, creating online and offline platforms for them to connect and learn.
- BDL Accelerate forum, an international startup conference organized by the Central Bank of Lebanon (BDL).
- Entrepreneurgy Summit that connects Entrepreneurs and Wantrepreneurs to inspiring and successful Arab Entrepreneurs.
- Stepfeed, a news source for media, business, technology, lifestyle and design from the Middle East.
- Wamda, a platform of media, programs and networks that aims to accelerate entrepreneurship ecosystems across MENA.

- GEW, Global Entrepreneurship Week, celebrating entrepreneurship across the globe with exciting events and initiatives.

In parallel, governmental institutions including the Ministry of Economy, the Ministry of Trade and the Investment Development Authority of Lebanon have greatly impacted the entrepreneurial ecosystem with policies and national agendas.

Moreover, several venture capital funds were formed to fund several stages of companies, ranging from seed to growth level, including and not limited to: Abraaj Group, Beirut Angels, Berytech Fund II, IM Capital, Leap Ventures, Lucid Investments, MEVP, Saned Partners, Y Ventures, B&Y Venture Partners and Venture Capital.

Finally, the past five years have witnessed a growth of new innovative businesses in Lebanon turning the local entrepreneurial ecosystem into a regional hub. For investors, this ecosystem is where they will establish their funds and offices to access the rest of the region. For entrepreneurs, it is the country in which they will base their headquarters to reach the international market. Despite all the factors working against Lebanon's progress, the entrepreneurial ecosystem is remolding the Lebanese economy. Lebanon is becoming a hub of talent, funding and high profile networking.

Preventing and Fighting Corruption in Lebanon: Towards a Strategy and an Action Plan to Develop the National Integrity System*

Corruption continues unabated in various forms in Lebanon and causes substantial damage in the different political, economic and social aspects. In the process of facing this scourge, public debate intensifies, while speeches, promises and intimidation amplifies, whereas the systematic and productive work remains minimal, which is not commensurate with the gravity of the situation as well as the necessary plans and serious initiatives to build and develop the National Integrity System, in light of the weakness, or lack of political will, and its failure to assume its responsibilities.

This article tackles the bad status and its challenges, warns of the consequences of neglecting the issue of corruption in any reform and development in Lebanon, and offers practical suggestions for the development of the National Integrity System which is hoped to provide effective tools to fight corruption and prevent it.

1. The Definition of Corruption

Transparency International defined corruption very briefly as “the abuse of power for private gain.” This definition is manifested in the public and private sectors, centralized or decentralized; most especially, bribery, embezzlement, abuse of power as well as abuse of public offices, illicit enrichment, appointment of the wrong people in administrative positions, and manipulation of assets as well as the manipulation of public transactions results.

Personal gains achieved by corruption does not necessarily benefit only benefit the corrupt the party itself only; a large number of individuals, institutions and companies benefit from these returns too, including partisans of political parties and people close to corrupt officials in the broadest sense of the term official¹, which establishes a Lebanese political clientelistic system based on this structural corruption.

(*) Ghassan Moukheiber

(1) The term 'official' includes, as defined in the Lebanese Penal Code and various Laws including the Law I Illicit Enrichment Law, a broad number of individuals holding public offices by appointment or election. This includes: The President of the Republic, the Prime Minister, Ministers, the Speaker of Parliament, MPs, the Judges, Directors Generals, and all other public officials and civil servants in different civil or military sectors, as well as the presidents and members of Municipality Councils and Mayors.

2. The Effects of Corruption

Local institutions and specialized international organizations agreed that corruption causes extensive damage to various aspects of the political, economic and social life. Corruption is costly and burdens the State as well as society; it hinders, and impacts the principle of equality among citizens, undermines trust between citizens and the state's political and administrative institutions, causes environmental pollution, harms public health and hampers the performance of public services such as electricity and water. It also constitutes a major obstacle for the establishment of the rule of law and good governance².

Sectarianism as well as confessionalism aggravate corruption in Lebanon, where sectarian groups and their leaders compete for the sharing of the State's resources and set up clientelistic networks that allows to promote the interests of their communities at the expense of the public interest.

3. The Reality of Corruption in Lebanon

Corruption in Lebanon is no longer in doubts. Everybody recognizes today that it is grand corruption, i.e. it goes beyond mere bribing during daily administrative transactions.

Through Indicators: An annual study published by Transparency International on Corruption indicators for 2016 reveals that Lebanon ranks as one of the most corrupt countries in the world. It ranks 123 of 167 at the international level and 13 out of 19 among Arab countries. The deteriorating situation is also clearly shows in the indicators issued by the World Bank and the World Economic Forum and other organizations.

Through Political Statements: Political statements concerned with the widespread of corruption have become uncountable issued from all directions and from the highest positions of the State. Some parties and political authorities have also introduced the fight against corruption as one of its political objectives. Interestingly, a number of political parties accuses their opponents with the most heinous practices while protecting their members and partisans from being accused of any kind of corruption.

(2) The preamble of the UN Convention Against Corruption states the following: "Corruption is an insidious plague that has a wide range of corrosive effects on societies. It undermines democracy and the rule of law, leads to violations of human rights, distorts markets, erodes the quality of life and allows organized crime, terrorism and other threats to human security to flourish."

Through the actions of Citizens and the Civil Society: More civil society movements occurred in 2016. After being rather elitist in the past, they have now become popular. The demonstrations that filled Beirut and various regions were demanding to fight corruption. These demands were accompanied by TV programs that approached political facts in a way to expose the rampant corruption. In addition, an active number of specialized associations contributed in the fight against corruption, including “The Lebanese Transparency Association - No Corruption,” a Lebanese branch of Transparency International and new associations were founded such as “Sakker Ad-Dikkeneh”.

4. The General Framework of the Fight against Corruption

The fight against corruption, such as the fight against any other serious crime, is based on two pillars:

First – Prevention: It is supposed to be based primarily on a system of transparency, to shed light on all transactions and behaviors in which corruption can take place (corruption develops and flourishes in secret and in non-transparent transactions). In addition, prevention from corruption is based on simplifying transactions and achieving public services with a minimum contact between the requester and the official (especially after the development of e-government services).

Second – Fighting of Corruption: It is the penal pillar supposed to be based mainly on an effective and integrated oversight and accountability system, which should make the cost of corruption for its beneficiaries much greater than its benefits. In other words, criminal as well as civil and disciplinary trials should be able to impose severe sanctions, such as prison, fines and compensations, recover funds resulting from corruption and dismiss corrupt administrative or political officials from office.

The development of this integrated system to prevent and fight corruption is no longer a political goal only, but has also become an international legal obligation by the adherence of Lebanon on 22/4/2009 along with 177 other countries worldwide, to the United Nations Convention against Corruption. By virtue of this convention, the Lebanese government committed to the introduction of a series of structural reforms into the Lebanese laws, and has retained an option to take another series of measures contributing to the fight against corruption. The convention also establishes a sophisticated mechanism which obliges Lebanon to submit international reports about the measures taken in the implementation of its obligations, attached to a special review system as well as the international evaluation of these reports and efforts.

The Main Challenges for the Prevention and Fight against Corruption in Lebanon

Lebanon and whoever in Lebanon is seeking to prevent and fight against corruption, faces significant challenges which should be tackled with practical suggested actions. They can be summed-as follows:

- Develop a national strategy as well as action plans, and engage effectively in regional and international mechanisms.
- Develop effective laws to combat corruption in accordance with international standards.
- Develop the independence and effectiveness of oversight and accountability institutions.
- Develop the political will to combat corruption through an “Integrity coalition” and implementing the required joint actions.

First – Develop a national strategy as well as action plans and engage effectively in regional and international mechanisms:

Given the scale of corruption and the lack of decisive political will, comparative experiences have shown that any effort or work to combat corruption will not be effective or successful, if it continues to be as such, incomplete and uncertain in the absence of a clear strategy and without coordination among the various bodies and authorities involved in the fight against corruption, and without benefiting from compared experiences (including failed and successful ones), and without engaging regional and international associations to fight against corruption.

1. The national strategy and action plans for the fight against corruption:

The challenge for the Lebanese government is to plan for the fight against corruption through the development of a national strategy against corruption accompanied by one or more action plans. All of this must be preceded by a detailed and clear assessment of the gaps between the status of laws and Lebanese institutions and the goals as provided by the Convention. The latter provides a framework which practically stimulates Member States such as Lebanon towards appropriate strategic planning.

After many years of lack of planning and coordination between authorities and organizations involved in the fight against corruption, we note some positive steps taken by Lebanon that must be monitored and encouraged.

a) The formation of a Ministerial committee in 2011 headed by the Prime Minister, consisting of the Minister of Finance, the Minister of Interior and the Minister of Justice as well as the Office of the Minister of State for Administrative Reform, supported by a technical committee including ministries, judicial and regulatory bodies concerned in the fight against corruption. This Committee collaborated with the organization of the “Arab Region

Parliamentarians against Corruption” (ArPAC) and with the support of the United Nations Development Program project for the fight against corruption in the Arab region from 2012 to 2014. It has achieved a number of good fundamental results; nonetheless, its work pace slowed down over the past two years.

b) A sub-committee has emerged from these two committees in 2016 chaired by the Minister of State for Administrative Development. This committee is working on the formulation of a Lebanese National Strategy to combat corruption. The challenge for Lebanon lies in starting from the Lebanese status-quo and benefit from the best international practices that have managed to effectively combat corruption.

Talking about strategies and action plans, it is necessary to make two main observations:

- **“What is not completely understood is never completely abandoned (an Arabic proverb)” the sectorial step-by-step approach:** While setting the overall strategy for the whole State, a sectorial approach must be adopted, especially when it comes to prevention (such as the simplification of transactions) and oversight (such as holding corrupt individuals to account). Then, the focus can be shifted to a number of sectors where corruption is more prevalent than others, such as the Customs and Real Estate Offices.

- **The “puzzle” rather than the “pyramid” approach (the issue of priorities):** The discussion in setting a strategy and action plans usually tend to identify reform priorities, such as identifying which law or other measure must be implemented before the others due to its importance and added value in the fight against corruption (this is like building a pyramid, starting from the most important at the base to the least important at the top). However, the approach we consider as best, is to work on implementing actions irrespective of priority setting, provided that they constitute a recognized part of the comprehensive strategy (this is like placing the pieces of a puzzle whenever they are available, the other pieces will fall in place whenever available in order to complete the picture).

2. Engage in regional and international mechanisms:

In addition to being an incentive to develop an appropriate strategic planning, the United Nations Convention Against Corruption constitutes a monitoring and evaluation tool for Member States through the periodic review mechanism.

We cannot underestimate the growing importance of international mechanisms that have become a pressure factor on Member States. Suffice it to remind the impact of international

financial institutions in 2016 on the Lebanese Parliament regarding the issue of financial and fiscal legislations that the Parliament was forced to pass hastily.

After years of failure to seriously engage with UN mechanisms to monitor the implementation of the UN Convention against Corruption, Lebanon is recording a new approach that must be monitored and followed up and encouraged until it materializes into an integral concept. This new approach is represented by the following main steps:

a) Lebanon participated in the first phase of the periodic review of the United Nations Convention³ on the implementation of the provisions of the Third Chapter, "Criminalization and Law Enforcement" and the Fourth "International Cooperation". Lebanon has published the self-assessment report to become the first Arab country to do so on a voluntary basis; it also agreed to publish the full report, and though the initiative of the Minister of Justice, it signed Transparency International pledge which calls for the promotion of the participation of civil society in the review mechanisms.

b) In June 2016, the second phase of the review of the implementation of the Second Chapter "Preventive Measures" and the Fifth "Asset Recovery" of the Convention was launched, where Lebanon has been chosen to perform the examination of the third year of this session, knowing that Lebanon had finished conducting the self-assessment of the implementation of the first 2 chapters voluntarily and proactively.

c) The engagement of Lebanon, its Ministries and various bodies responsible for the fight against corruption in the Arab network to promote transparency and fight corruption founded in 2008. The network currently includes 47 ministries and bodies from 18 Arab countries, observer members from partner countries and NGOs. Its work is supported by the UNDP as well as by other regional and international organizations. Lebanon's membership in the network has played a positive role in supporting the regional orientation towards building specialized competencies within the administration and the judiciary, and it is hoped that this orientation be broadened to benefit from compared experiences to develop a greater capacity, especially that the government has not yet sufficiently reaped the results of this membership.

(3) A periodic review mechanism for the implementation of the Convention has been recognized by Member States. It will be conducted periodically in order to specify the gaps between what the Convention stipulates and national legislations as well as to crystalize the technical requirements needed to ensure the compliance to the Convention. Review occurs by preparing a self-assessment report and submitting it to experts from two reviewer countries picked by a draw, provided that the results of the final report must be published.

Second – The development of effective laws in accordance with international standards:

We have assessed the Lebanese legal system regarding the standards of integrity, transparency as well as preventing and fighting corruption. We found it incomplete (there are laws stipulated in the UN Convention that have not been yet enacted) or inefficient (they contain loopholes which limit their effectiveness or prevent the performance of objectives).

Therefore, there is a need to work on drafting new laws or amending applicable laws to complete the legislative system in compliance with the UN Convention and the best practices.

However, before reviewing the list of these necessary laws, we should review a number of observations that are often brought up in any discussion about legislative development.

1. Issues related to the development of the legal framework for the fight against corruption

a) Law and practice:

Many consider the laws in Lebanon appropriate while the entire problem lies in their enforcement, either because of negligence or dysfunction. Some consider this as a protection for corruption and corruptors and a sign for the lack of political will and seriousness in the fight against corruption. These doubts are often true and the issue is indeed in the improper enforcement of laws. Examples include criminal laws that criminalize acts of corruption properly (such as bribing, abuse of power and abuse of influence) while we notice that prosecutions as well as criminal and disciplinary proceedings concerned with corruption are very few.

However, once must point out that often the reasons behind the failure in combatting corruption is the absence of the necessary laws (especially regarding laws on the prevention of corruption) or its inefficiency for various reasons (including intentional or unintentional gaps in the formulation of its provisions or the absence or the weakness of authorities and bodies for monitoring and accountability), where laws become empty and inefficient headlines and forms. Here applies the idiom "To no avail, useless, as in All our work was in vain."

b) Adopting the scandalous or institutional approach:

Combating corruption often takes a scandalous dimension, which means disclosing and exposing corruption in statements and political activities or various media programs (especially investigative media). This scandalous and media approach is necessary and useful, but it remains insufficient, because it quickly becomes evident that the weakness or lack of

effectiveness of the authorities and responsible bodies for monitoring and accountability thwarts any effective and meaningful accountability for corrupt practices. Corruptors or those accused of corruption remain free of sanctions, so “crimes increase as criminals decrease.” This also applies to the harsh and cruel saying, “the dogs bark and the caravan keeps moving.”

The solution is through the development of a “National Transparency System”, which needs effective legislation working on the prevention of corruption and punishment of all corrupt practices without gaps, as well as the development of the independence and effectiveness of the authorities and bodies concerned with monitoring and accountability.

c) Together with its Ministries and its various bodies involved in combating corruption Lebanon engaged in the Arab Anti-Corruption and Integrity Network (ACINET) whose work is coordinated by UNDP’s Regional Project on Anti-Corruption and Integrity in the Arab Countries (ACIAC). A parallel network of civil society organizations from various Arab countries follows ACINET’s work. Lebanon’s membership in the Network has played the chief role in the building of specialized capacities within the public administration and the judiciary. It is hoped that this outcome would be broadened to benefit from compared experiences and thus develop greater competencies.

2. The most important new necessary laws

The new laws needed to complete the National Transparency System are listed in a framework of corruption prevention tools on one hand, and in legislative standards for the behavior of officials of penal or disciplinary character on the other hand. The most important ones are listed as follows:

a) Guarantee the right of access to information:

There is no more need to show the extent of the impact of transparency on the effectiveness of preventing corruption first and combatting it second. We note that the Lebanese legal system lacks an effective law which gives the right to every person to have access to information related to their affairs, in particular contracts and information on transactions made by the State and municipalities.

There is a proposed law entitled “the right of access to information” submitted before the Parliamentary General Committee. This law has been duly discussed and passed in the Administrative and Law Committee. This proposal was submitted by a number of MPs from different parliamentary blocks gathered under the framework of the group “Lebanese Parliamentarians against Corruption”, dated April 9, 2009, after being formulated in

collaboration with a large group of civil society organizations, Ministries as well as Lebanese and international experts in the framework of the “national network to promote the right of access to information.”

The most prominent matter stipulated by this law is: to enable everyone to exercise their right of access to information and documents within the administration (defined broadly by the law to include the judiciary, Municipalities, independent bodies and privatized companies), and to consider the right to know as a general principle. As for prohibition and confidentiality constitute an exception in cases listed exclusively. The proposed law also obliges the administration to a compulsory publishing of reports on administration activities and all transactions in which public funds above 10,000,000 Lebanese liras are paid is required under estoppel to publish reports on the activities of the ministries and all the processes of payment of public funds within a month of its completion or the completion of one of its payments. The proposed law also obliges the administration to explain its decisions and regulates the assets and procedures for the request of information as well as complaint mechanisms in case of rejection.

b) Protect Corruption Whistleblowers:

What hinders investigations and prosecution of corruption crimes the most is the scarcity of evidence and the difficulty to seek witnesses “corruption whistleblowers” who are afraid to appear and provide information due to the fear for their lives or their jobs. Or simply because nothing encourages corruption whistleblowers to flush out dangerous information to the public based on “stay away from evil.” Moreover, many of the journalists who uncovered corruption were exposed to libel and slander as well as defamation. This raises the need to protect corruption whistleblowers by the appropriate provisions absent from the Lebanese law.

Today, there exists a proposed law “to protect corruption whistleblowers” has been submitted before the Parliamentary General Committee for approval, after being duly discussed and passed in the Administration and Judicial Commission. It is important to note that this proposal, same as the “right of access to information,” was submitted by a number of MPs from different parliamentary blocks gathered under the framework of the group in the framework of the “Lebanese Parliamentarians against Corruption”, dated April 9, 2009, after it became formulated in the framework of the “national network to promote the right to access to information.”

The most prominent stipulation in the law: to encourage corruption whistleblowers by offering them financial incentives representing a portion of the funds provided or recovered by

the State, and by ensuring the protection of the personal safety of corruption whistleblowers as well as ensuring the stability of their jobs, and protecting their confidentiality when corruption is exposed through publishing.

c) Function Ethics Systems:

In addition to the general laws, compared experience has proved that personal moral norms are needed to guide and control the behavior of politicians (MPs, Ministers and others) as well as other officials and holders of public authority positions (including judges, contractors and municipal bodies).

A set of ethical norms or “codes of conduct” were developed by the Office of the Minister of State for Administrative Development Affairs for public functions and other more visible functions for the judiciary inspired by international principles entitled “Bangalore Principle of Judicial Conduct”, as well as other behaviors related to political behavior issued by the Christian churches in Lebanon. Also, the organization “Parliamentarians against Corruption” has launched a guide for the formulation of ethical systems for MPs and Ministers.

The challenge remains that these various provisions need integrated drafting and the keenness of having a mandatory value that can be applied by an effective and integrated system of discipline.

3. The most important laws that must be developed

Many are the laws in effect that include loopholes which hamper their effectiveness. The most important are the following:

a) The Law on Illicit Enrichment:

Despite the fact that more than 60 years have elapsed since the issuance of the Law on Illicit Enrichment, it should be noted that it did not provide any worthy added value to anti-corruption efforts in Lebanon, especially that no complaints for illicit enrichment were filed. This goes in spite of all what gets circulated in the media, and in political and social circles, about the spread of corruption and the clear and unjustified wealth of a number of employees, including politicians. This warrants doubling the effort to amend the current law in order to increase the level of its quality and efficiency.

The strangest thing in the Illicit Enrichment Law is that it does not stipulate the offense subject-matter of illicit enrichment! It makes reference to other corruption crimes cited in the Penal Code, and which are difficult to prove to begin with. Moreover, the Law also cites other

criminal in a mysterious way and devoid of any penalty!! What worsens the situation is that the fundamentals of trials are very complex, as if the plaintiff is required to pay for a bond of exorbitant value.

The Illicit Enrichment Law is supposed to be a very useful tool to fight against grand corruption. Therefore, it's imperative to work on evolving it. That's what the Parliamentary Administration and Justice Committee is currently working on; and its sub-committee has finished rewriting the law in full. The main amendments are the inclusion of the proper and precise definition of the offense of illicit enrichment, as defined by Article 20 of the UN Convention against Corruption, which literally reads as follows: "[Illicit enrichment consists of] any significant increase in the assets of [a civil servant] in such a way that he cannot justify it in a reasonable way in relation to his legitimate income." The new wording of the law equipped it with appropriate punitive verdicts in addition to the fundamentals of effective trials.

b) Provisions for financial disclosure statement:

Despite the great importance that is supposed to be enjoyed by financial disclosure systems for the prevention of corruption and to help in fighting it, the Lebanese law on financial disclosure is one of the worst in the world and is not at all effective, although it was enacted as early as 1954 (and was later merged with the Illicit Enrichment Law). It suffices to note that none of the tens of thousands of declarations filed with the Central Bank has been opened since the enactment of the law.

The Lebanese system is characterized by completely confidential statements with no means available for review or audit. Further, they are not periodic and are not required but at entry to, and exit from, public office. Also, they just concern movable and immovable assets.

This is one of the most important legal loopholes and flaws which the Parliamentary Administration and Justice Committee is currently working on corrections thereof, in cooperation with the United Nations Development Program (UNDP). Moreover, the proposal for the amended law has already been drafted by a sub-committee.

c) Implementation of the various sectoral reforms and the streamlining of administrative procedures, and the development of "e-government":

The Lebanese administration faces a series of problems, notably its weak organization, the low salaries and wages of its employees and functionaries, the complexity of its procedures and services to the people. Each one of these problems opens the door wide to bribery, corruption, and abuse of power, under the cover of facilitating the work, speeding up transactions, and bypassing red tape.

There have been many plans and projects for the development of the administration, including the restructuring of departments and clarifying the functional requirements and job descriptions of their posts, the automation of administrative processes, salary and wage rises by means of a new Scale of Grades and Salaries, building capacity of the administration's staff whose selection would be carried out according to due process and a competition (not through direct commissioning, services contracting, and other means of circumventing the fundamental rules of staffing).

The reform measures that are being talked about are for each department to look into simplifying its relations with citizens, reducing as much as possible the direct and personal communication between public staff and the seekers of services and procedures. This can notably be achieved through the institution of development of a "one-stop service counter" and processing transactions electronically via the Internet in what's widely termed "e-government". All these actions require a diligently detailed work and appropriate funding. This was prepared through more than one project already (in particular by the Ministry of State for Administrative Development), but has not yet been implemented.

d) Development of provisions concerning functional mutual-exclusivity and conflict of interest:

Laws that prohibit the duplication of some functions, in addition to functional mutual-exclusivity and conflict of interest constitute the most effective means for the prevention of corruption. The Lebanese Law contains some of those, such as the mutual-exclusivity of holding Parliamentary and Ministerial functions and heading public institutions, and the prevention of MPs from contracting with the State in various fields.

These provisions are distributed over different laws and contain many loopholes which have created many problems. Therefore, the Ministry of State for Administrative Development put forth the project of a draft law relative to conflict of interest, where work on developing and approving it would be useful, but it hasn't yet been submitted to the Chamber.

e) Evolving the law of public procurement:

Public transactions by the State, municipalities and their federations, and other public right figures, constitute the largest domain for the spread of corruption, and for baffling transparency and citizen equality as well. The rules governing this important subject, situated primarily in the law of public accounting, were not capable of halting reprehensible practices in bids and public tenders, the most important of which are: The excessive practice of awarding contracts by mutual consent contrary to law; slicing up public procurement contract values to escape the various administrative and judicial reviews; the collusion of bidders among each other to

increase the value of contracts that on one of them ultimately wins; low-quality implementation of the works required, not in accordance with contract specifications; in addition to other irregularities and trickery around the law that ultimately lead to ramped-up costs, lower quality, and therefore diminishes services to citizens.

For all these reasons, it has become necessary to reconsider the law of public contracts (known as Public Tenders) for the purpose of evolving it and plug its loopholes, in particular through the following measures, for example: Reactivation of tendering on the basis of an estimated contract value (labeled “The secret price”); setting frameworks that limit the slicing-up practice; evolving the audit and control system to an independent and effective level (We’ll address this later). In this context, we point out that the government drafted a bill which has not yet been placed on the agenda of the Joint Parliamentary Committees, where it was referred.

Third – Evolving authorities, and effective bodies for oversight, control, and holding to account:

Legal or ethical standards are of no value if not accompanied by effective implementation, i.e. by monitoring their proper application and prosecuting offenders on the part by authorities and commissions that are sufficiently independent to block any interference in their work, and dispose of appropriate powers to enforce the law effectively, in addition to having financial and functional capabilities that enable them to fulfill their mandates to the full. These authorities and bodies are referred to in different terms: Law enforcement or “regulatory” or accountability agencies. We will refer to them in this paper as the “Accountability Bodies” from the term reflecting their ultimate function.

Caution need be exercised so that the Accountability Bodies do not fall prey to corruption. As is the case with any human activity, they may get subject to error or fatigue, including covering corruption and protecting the corruptor and corrupted, thus inviting the ages old question “Who protects us from our protector?”⁴. Therefore, we should develop frameworks for transparency and internal and external controls on these bodies to protect them in turn from corruption, and to prevent them from drifting towards assuming the powers conferred on them.

As for the authorities and governmental agencies that need incessant legislative, administrative, and funding reforms, they are primarily those already in existence but need to be evolved; then there are others which need to be created in order to complement the national integrity system.

(4) The expression is for the old Roman poet Juvenal who used to ask this question in the 1st Century AD, “Who protects us from our protector?” – *Quis custodiet ipsos custodiet*.

1. Evolving the standing authorities and bodies

a) The Parliament:

The Parliament is the prime regulatory and monitoring authority. It assumes what's commonly described as "The political censorship". In this it is the first authority that is supposed to be the most effective in the control and accountability of large-scale corruption in various state authorities. Unfortunately, since 1992, the Parliament does not effectively carry out this constitutional function at the level of its General Assembly; and some audit work gets confined to several parliamentary committees without sufficient efficacy (because committees rarely, and nearly never, report on their monitoring to the General Assembly in order to take appropriate measures). Two figures serve as reminders here: The first – The Parliament did not ratify any general State Budget, nor did it approve a cut-off budget account since 2005. The second figure – Since 1992, Parliament only held 18 sessions of questions and queries (i.e. less than a session per year), while the average pace of convening such meetings in the parliaments of the world is once a week!

Reviewing all the facts and analyzing causes might take long. It's rather enough in this area to draw the main requirements for the development of the work of the Parliament as one of the anti-corruption authorities:

- Fighting corruption in the legislative (and municipal) elections, in particular through the development of an independent body to oversee the elections and the provisions governing the financing of election campaigns, and the organization of electoral propaganda and the media.

- Reviewing and approving State budgets and the final cut-off budget accounts of the State with no delay.

- Developing the Parliament's effectiveness and quality of financial legislation, in addition to building the capacities of its MPs, and the Finance and Budget Committee's in keeping tabs on financial and fiscal affairs through the creation of a specialty house in these subjects, as well as amending the Public Accounting Act for the development of the financial control/audit function, namely through the adoption of the system and mechanisms of "Performance Budgets."

- Development the parliamentary control tools, in particular in what regards questions and queries, petitions and complaints from citizens, public hearings and discussions, specialized sectoral discussions, standards of good reporting, cancelling the secrecy of parliamentary committee meetings (especially when they carry out monitoring functions). All these of reforms and others are the subject of a draft law prepared by MP Ghassan Moukheiber and entered in the Parliament's register since 2004, but it has not been discussed since.

- Considering that the bills on fighting corruption and the establishment of the National Integrity System has priority over other projects; and working on passing those draft law projects in the best standard without delay, while taking on board available talents and the best comparative practices.

b) Independent, impartial and effective judiciary:

Whereas the judiciary is an independent authority, its matters are handled by courts of different levels and specialties. It is also characterized as being the first authority in holding corruption accountable, as one of the serious crimes. The judiciary holding corruption accountable is waning because of the very weakness of its independence, efficiency and integrity, in particular, and so in spite of a number of bold and advanced decisions which were ruled by a number of judges and courts.

The development of an effective, independent, and impartial judicial system is an essential act of the development of the National Integrity System. We won't elaborate more on it in this article, since the topic is the subject of a special article in this book.

c) Development of the independence, authority, and effectiveness of independent regulators:

The function of administrative monitoring, answerability, and accountability is the first building block in preventing and combating corruption in the various public services. This function is exercised hierarchically by the Ministers, Directors General, and other staff on their employees. Other controls that are liable to be developed are those run by independent monitoring bodies, which are many and varied. Those worth of mention are:

- Audit Bureau.
- Central Inspection Commission which includes the Public Tenders Administration.
- Supreme Disciplinary Commission.
- Civil Service Council (Public Service Board).

If we reflect upon their laws and performance (as the Parliamentary Administration and Justice Committee is currently doing, from working to develop the laws of each of the Audit Bureau, the Central Inspection, and the Supreme Disciplinary Commission), we find that many loopholes, intended or not, affect their independence and powers (namely as to the number of agencies which these bodies monitor), their organization and financial and human resources (Most of these bodies lack an adequate cadre of judges and employees), and their ability to communicate and coordinate with each other, including appropriate interaction with the Parliament.

The anti-corruption and the National Integrity System strategy cannot evolve without a detailed work that addresses all the aforementioned loopholes, and without giving these organs independence and the necessary powers and resources.

2. Creating new monitoring bodies

a) Ombudsman:

A law establishing and organizing the “Ombudsman” (or public advocate) function was issued in the year 2004, but the appointment hasn’t been made yet, despite the fact that this ubiquitous institution in comparative law (adopted by the majority of Arab countries under different labels) is relied upon to perform important roles and functions at the service of combating corruption both directly and indirectly, as it facilitates conflict resolution between citizens and the administration through mediation. It also publishes annual and special reports comprising recommendations by the mediator for the development of the administration and the reduction of the differences that riddle it, including corruption.

What’s required is bestowing on the Ombudsman law the importance that it deserves, by means of the Council of Ministers appointing the public advocate as soon as possible, in accordance with the law in effect so that the latter would draft the different decrees organizing his institution, and the ensure sufficient financial and human resources to perform his duties.

b) An independent national anti-corruption body:

The United Nations Convention stipulated the need to establish a body or anti-corruption specialized agencies. In addition, the international comparative experience is full with successful examples of these bodies. Some countries, such as Morocco and Tunisia, went to the extent of incrusting the texts relative to their creation and extensive powers in their constitutions.

No such body has been established in Lebanon yet. Two draft laws have been submitted so far. The first one, by MP Robert Ghanem, was prepared in the context of the “Laws Renovation Commission”, while the other consisted of amendments to the first proposal by a group of MPs from different parliamentary blocks but joined by being part of the “Lebanese Parliamentarians Against Corruption”. This took place in 2009, following its formulation as part of the “National Network to Promote the Right of Access to Information.” The deliberations about this proposal are at their final stages within the Parliamentary Administration and Justice Committee, for later submission to the Chamber’s General Assembly.

Fourth – The development of political will to fight corruption

via the “People of Integrity Coalition” and the implementation of the required joint actions:

The biggest challenge remains to develop the political will to implement all of the above based on the basis of the national strategy and action plan. That is, the Parliament, the Council of Ministers, the relevant judiciary, and the various authorities and monitoring bodies to issue the laws, decrees, and the appropriate decisions for the construction and development of an effective National Integrity System, and to use this system’s tools to prosecute corrupt and corruptor and hold them accountable for their actions.

This challenge faces major and intuitive obstacles, the most important of which are:

- The issue of “Hamiha Haramiha” (Who protects it steals it). How can one expect from corrupt beneficiaries who are the custodians of politics and its capabilities, to implement reforms that would lead, even if at a later while, to the cancellation of their benefits?
- The question of prosecuting petty corruption and letting the bigger corruption slip through the net: How can credibility be given to anti-corruption efforts if they do not succeed but in stopping petty corruption while the influential administrative and political reservations would protect themselves? Corruption is like fish “It rots from the head!” his head,” while the fight against corruption goes as “Flushing the stairs ... starts from the head.”

While acknowledging the difficulty of overcoming the political obstacles, it is necessary to note that the political will is not as rigid as a statue in terms of time, tools, and actors. Consequently, one could benefit from any changes that may happen on both the national and international levels, in order to gradually implement the National Integrity System and use any of his tools, even if not all of them are available.

The road to success in the development of political will to combat corruption is based on determination without frustration, and by taking a long breath. This determination would be on building a and executing the necessary joint actions.

- **Strengthening the coalition of people of integrity:** Within the Lebanese State’s apparatus, and in all the authorities and departments at all levels (Parliament, Council of Ministers, Judiciary, Security forces, administration, municipalities, monitoring bodies) there exist honest people who are eager to do right, in addition to political parties and groups which aren’t yet contaminated by corruption (or aspire to shed it away), or adopted a public program which includes fighting corruption.

• **Politics is too dangerous to be left to politicians alone:** This expression means that evolving the National Integrity System, which is political action par excellence, is not limited to politicians alone, but transcends them firstly to citizens as individuals, and to various other community organizations secondly, including:

- Media organizations (in particular through the development of programs related to the disclosure of corruption).
- Specialized anti-corruption associations (such as the “Lebanese Transparency Organization – No Corruption”, “Sakker Ad-Dikkeneh” and others).
- Political and quasi-political associations which were recently formed with a publicly declared objective of fighting corruption, such as the groups “Tel’et Rihitkum” (You stink) and “Badna N-hassib” (We want to hold accountable).
- Unions and associations of the liberal professions (such as the Bar Association).

The joint work required: It’s unquestionable to establish the “People of Integrity Coalition” for success in joint actions, such as:

- Unmask corruption and expose it through all available means, and before all authorities and accountancy bodies.
- Formulate texts of draft laws and decrees (similar to the successful experience of the “Lebanese Network for the Right of Access to Information” mentioned above).
- Promote permanent cooperation frameworks such as the framework which grouped legislators from various political blocks in the “Group of Lebanese Parliamentarians against Corruption.”
- File complaints and lawsuits before various relevant accountability bodies, chasing them through legally, and at the level of media and people as well.
- Organize grassroots movements necessary to lobby for any desired action, and incite to pass the necessary laws and decrees for holding corruption parties accountable in an effective manner.
- Following up the Lebanese State’s reports to the relevant international bodies in the framework of the implementation of the UN Convention against Corruption, and the use of international pressure to help develop the local laws and policies.

Towards a National Sustainable Development Strategy*

The Background and Conceptual Framework

Lebanon has consistently been prone to wide and rapid shifts in economic growth rates almost always caused by exogenous, often non-economic factors such as political events, both at domestic and regional levels, or instability which gives rise to security considerations. Wide swings in GDP growth have been registered such as a fall from 8% in 2010 to 1% in 2015 and, most probably, a neutral to negative level this year.

This extreme volatility has affected economic predictability and rendered the reliability of any investment planning and forecasting doubtful at best. A problem compounded by the incapacity of the successive Governments to produce the necessary reforms and tools that aim at mitigating this unpredictability, such as a medium to long-term, coherent and clear economic policy, a tax environment that allows for visibility and continuity and eliminates opportunistic *ad hoc* tax rulings, and a streamlined, investment-friendly set of regulations that eliminates plethoric administrative requirements and red tape.

Our initiative, in the President of the Council of Ministers Office, was launched in July of 2014. We started from the premise that if Lebanon was prone to so many gyrations of its growth trends, it was because its economic model did not support stability in the kind of political environment the country is in. Accordingly, it was important to imagine and build an alternative model that would introduce an element of sustainability to the economic equation, that would mitigate – if not eliminate – the negative impacts of political shocks. Furthermore, we ambitiously, believe that some of Lebanon's past lustre as an economic hub in the region could be regained in this way. Such a model would need to be implemented through a series

(*) Shadi A. Karam

of reforms embodied by a new legal arsenal of laws and decrees.

We started by doing an inventory of existing studies and plans in the various sectors. This was an essential and intensive effort since many such studies exist and have often been realized with the help of international partners such as the World Bank. Many plans and programs of reform were of high quality which made it imperative to take them into account, benefit from their findings and capitalize on the knowledge acquired from the failure to bring them to reality. The analyses of the failures inspired solutions and new approaches.

Accordingly, we then embarked on the drafting of what would become the National Development Plan which has now become the National Sustainable Development Strategy (NSDS) in follow-up to the various UN initiatives on Sustainable Development (we will refer in this article, alternatively to the “Plan” or to “NSDS” to mean the same document).

The Plan is divided according to sectors ranging from public services (electricity, water, water treatment, renewable energy, transportation and transport, etc.) to main economic sectors (industry, agriculture, finance and banking, capital markets, tourism, special economic zones, transit, education, capacity development and human resources development, etc.). In each chapter we have tried to take stock of the existing planned reforms, plans and programs, analyse their shortcomings or inefficiencies, and present complete alternatives.

The consequences of the presence of a massive number of displaced Syrians in Lebanon, and of the Syrian crisis on the national economy, are addressed in a separate chapter. Strategies and specific programs to contain and mitigate such consequences are also proposed in that chapter.

The exploration of decentralization as a possible tool for reform, and as a vehicle to implement the strategies presented in the Plan, was also the subject of a separate chapter due to the importance of this obligation mentioned in part III of the National Reconciliation Agreement signed in Ta’if, Saudi Arabia, in September 1989 and approved by the Lebanese parliament on 4th November 1989. Our task was facilitated by the fact that a Draft Decentralization Law was elaborated at the initiative of President Michel Sleiman in the last months of his mandate, but was never sent to the Council of Ministers for study and further transmission to Parliament for promulgation for lack of time before the end of President Sleiman’s term in office.

While we were completing the Plan's draft, the Sustainable Development Goals (SDG) initiative was adopted at the United Nations. The Goals are contained in paragraph 54 of United Nations Resolution A/RES/70/1 of 25th September 2015. They aim at ending poverty, protecting the environment, and promoting prosperity for all as part of a new **sustainable development** agenda. Each of the 17 **goals** has specific targets (169 in total) to be achieved over the next 15 years. By voting favorably on the Resolution, Lebanon has committed to take all necessary steps to achieve those goals. It became therefore essential for us to harmonize the Plan with this international Agenda. We have, therefore, with the help of the United Nations Economic and Social Commission for Western Asia (ESCWA), and building on a matrix ESCWA had developed, unstitched the initial draft text to align, whenever possible, each and every one of our plans/programs/reforms with each and every one of the 17 Sustainable Development Goals.

This work is in progress. Once completed, we will address the last part of the NSDS, which is drafting the set of Draft Laws and Decrees that ought to be passed by the Cabinet and by Parliament in order to put each of the required reforms into effect.

Our plan at the onset was to present the complete document first to all public sector stakeholders for comment. The resulting text would then be the subject of a national forum with which the private sector and the civil society will be closely associated. We believe this should be done to ensure that all parties claim ownership of this Plan and actively support its implementation. Such an initiative would have found its natural place before the Economic and Social Council. Alternatively, the author of this section has been invited by the President of the ESC to contribute through this chapter to the extensive work that he has produced on the Lebanese economy.

Finally, the Plan needs to be approved by the Council of Ministers to ensure that it will be considered as the official strategic vision for the country.

Concerning the time span needed for implementation, there will be suggested time frames depending on the nature of required reforms/plans/programs, but 2030 should be a guiding deadline for finalizing implementation in conformity with the SDG horizon.

As for financing, our preliminary assessment showed that it will not constitute an obstacle, provided the necessary transparency and governance measures closely

accompany the process. It will require a creative web of structures involving Public Private Partnership (PPP), Privatization, concessional financing, private sector investment from domestic and international sources, multi-national finance institutions, involvement of the Lebanese expatriates, etc. Managed adequately, this initiative will entail little direct budgetary outlay from the public Treasury. In fact, a recommendation that as little public funds as possible be engaged in the process has gathered increasing support among the drafting team, partly because common sense dictates that a country with a public debt which is equivalent to 139% of its GDP, and is expected to rise significantly in coming years, cannot envision ambitious development plans, but also because the Lebanese State's apparatus is plagued by inefficiencies that could risk derailing the process.

The widely accepted notion is that all that is required from the State is coherent planning, governance, and dynamic reform legislation. If that is achieved in a consistent manner, then funding wouldn't be an issue.

The objective of the strategy, as mentioned earlier, is to position our economy in a way that allows it to maintain a sufficient internal base for growth and ring-fence it away from political uncertainties, and to allow Lebanon to become and remain a significant player in the Levant and MENA business environment.

Given the difficulty in achieving political efficiency and steady policy making focused on national interest, we concentrated on actions that would gradually build a form of macroeconomic sustainability and that could be achievable despite the fact that institutions operate, and are likely to continue operating, at very low efficiency levels.

For the strategy to have a chance of being approved, and to have a possibility to succeed, it had to be realistic and take into account the difficulties of the business environment in the country, as well as the presence of a strong shadow economy.

The NSDS Outline

We will briefly present in what follows a selection of the main components of the NSDS and, for every heading, we shall present in a very abridged form, sometimes in just bullet points, the key elements of the related strategy. Clearly, from the onset, the need for a strategy, in and by itself, stems from the fact that what has been, and is being done at the level of the State is insufficient or inadequate; but it is not our

intention to explore in this chapter the reasons of the failures of successive administrations. This is done at length in the document itself, because learning from experience constitutes an essential guiding line on what should be done and what policies ought to be avoided. Nor is it our intention in this chapter to provide details of the recommended strategy and related policies, as this is extensively covered in the NSDS document itself.

Electricity

Electricity is one of the key issues in Lebanon because of the disproportionate burden it puts on public finances (8% of total government expenditures, and is expected to reach \$1.6 billion in 2016) and the unacceptable low levels of supply which have serious negative consequences on the economy and have caused the quality of life of the residing population to deteriorate continuously in the past 25 years. Reversing the process is in conformity with SDG 7 and 11.

Whichever way it is considered, the reform of the electricity sector appears impossible without either taking on a considerable financial burden in the form of additional long-term debt, or resorting to PPP or IPP. Since the former option does not necessarily guarantee results given the inefficiencies mentioned above and the poor track record of the State in that area*, it becomes evident that an involvement of the private sector is a key factor for increasing the likelihood of success in improving supply and distribution.

Other fundamental measures to be taken include:

- Rapidly switching to gas and phasing out fuel which decreases the cost of operation, preserves the quality of the turbines and lowers pollution levels;
- Approving the long overdue Floating Ship Regasification Unit project, and doubling it with a unit in the north and another in the south;
- Approving the 2 new IPP plant projects in each of Selhata and Zahrani and multiplying the number of power generating facilities to reach the levels of supply mentioned in Law 181;

(*) According to the Policy Paper for the Energy Sector published in June 2010 by H.E. Mr. Gebran Bassil, then Minister of Energy and Water, which served as a basis for Law 181 promulgated in October 2011, it was expected that 4000 MW generation capacity would be reached in 2014 and 5000 MW after 2015, while we are in mid-2016 and it's still below 1800 MW. The paper also states that "The full implementation of all the strategic initiatives in this policy will reduce the total losses (of EDL) from 4.4 Billion \$ in 2010 to zero in 2014 where 24/24 hours of service is provided and the possibility of profit making as of 2015 (...)"

- Improving pollution control on existing plants and imposing strict emission limits on all new installations;
- Improving collection, and finalizing the smart meters installation;
- Phasing out subsidies, and scheduling a well-balanced increase in tariffs to avoid penalizing productive sectors like industries and the lower income brackets of the population. This increase should be timed to be introduced after a significant increase in the number of hours of electricity supplied to the public has been realized effectively;
- Finalizing the completion of the power network without which it will remain difficult to manage supply adequately;
- Creating real incentives for investments in renewable energy.

Water

The study of needed reforms in the various water sectors showed that in the present state of affairs, it is not possible for the Government, which displays a budget deficit of close to 8% of GDP, to embark on the launching of the massive works that the improvement of water facilities and distribution requires. Accordingly, it is towards PPP that the Government should orient its action, starting by the approval of the Water Code which is a pre-condition by multi-national financing institutions such as the Agence Française de Développement (AFD) to start financing water projects.

Any progress in the water sector, which is in agreement with SDG 6, will require time. Typically, PPP agreements in this area extend over 30 to 35 years allowing enough time for companies to recover the large amounts of capital investments the water sector entails.

Despite very large water reserves and natural supply, Lebanon suffers from critical shortages, high levels of wastage and seepage and increasingly alarming pollution of rivers, lakes, and aquifers due in part to the unregulated proliferation of artesian wells.

Improving the situation along the lines of the SDGs calls for fundamental reforms and action in the areas of irrigation (in support of expanding the areas to be cultivated), sewage, water treatment, and drinking water, which should be conceived to correct the serious degraded state of the sector, reverse the imbalances, and have a lasting effect on quality, supply, and the environment. The only and most cost-effective route seems to be PPP.

Rebuilding Industry and Agriculture

Lebanese industry and agriculture have suffered for decades from the inability of the State to conceive and implement a set of supportive policies aimed at decreasing costs of production, creating incentives, opening new markets (locally and abroad), improving transportation of output, and supporting efficient Marketing especially in foreign markets. The impact of the world crisis and the war in Syria has taken a serious toll as industrial exports have decreased by close to 20% from \$3.1 billion in 2013 to \$2.5 billion in 2015, driving the deficit of the trade balance in industrial products to \$13.2 billion for 2015.

Corrective measures to comply with SDG 8 and 15 include:

- Ensuring the application of existing trade agreements, and expanding actively the number of such agreements;
- Creating a special unit within the Ministry of Foreign Affairs to supervise, in coordination with the Ministry of Economy and Trade, the application of trade agreements, and to fend-off non-tariff trade barriers;
- Rapidly appointing in Lebanese embassies in countries that are already the destination of Lebanese products, adequately trained commercial attachés to provide local support for Lebanese exporters, facilitate market penetration, and help with the organization of marketing drives;
- Accelerating the conclusion of on-going talks with the European Union an expansion of quotas, and targeting, in a sustained way, a greater opening of European and other markets for Lebanese products;
- Shoring up, in the Ministry of Economy and Trade, the unit in charge of monitoring the quality of exports to safeguard Lebanese products' reputation;
- Supporting through incentives the move to high value-added products;
- Streamlining administrative red tape in order to help diminish production costs and maximize efficiency;
- Stabilizing the fiscal environment to allow for long-term planning and investment visibility;
- Resisting calls for increased protectionism and accelerating the procedure for joining WTO.

A separate chapter of the NSDS document is devoted to Information and Communications Technology (ICT), and to the ways in which the Knowledge Economy could be supported in conformity with SDG 9.

Rethinking Tourism

Tourism acts as a barometer for the economic gyrations we mentioned earlier. In effect, it is particularly sensitive to instability everywhere in the world. Tourism in Lebanon, however, displays a lower elasticity than elsewhere because of the large numbers of expatriates who visit the country on the occasion of holidays, sometimes despite security turbulences and political uncertainties. Nevertheless, the flow of tourist has fallen by 30% since 2010 but improved slightly since 2013, which was the worst year in the period (2010-2015), to reach 1.5 million in 2015.

Realistically, little can be done, given the state of public finances, to help the sector ride through this long period of low revenues. Efforts should be exercised, however, to diversify the reasons for foreign nationals to visit Lebanon. Initiatives in religious tourism, medical tourism, and other “off-the-beaten-path” kinds of attraction should be buttressed with fiscal incentives, low social security contributions and low-cost financing, as is now the case with the Central Bank’s soft loans program. Furthermore, packages aiming at the diversification of the business mix and of the nationalities could be supported by Lebanese embassies in the framework of systematic prospection campaigns.

Preserving the Banking Sector

The banking sector has traditionally been the backbone of the economy, as its large pool of deposits has consistently served to finance public debt which stands today at \$63 billion, as well as the private sector to the tune of \$54 billion, for a GDP that stood at \$50.8 billion at the end of 2015.

This crucial role played by the banks in the general economic equilibrium calls for constant support by State institutions, especially in situations where legislation is required to reinforce the standing of domestic banks vis-à-vis their international correspondents, as in matters of fighting money laundering and terrorism financing.

Redefining the regulatory framework of the insurance business, privatizing the Beirut Stock Exchange, and taking the necessary encouraging measures to deepen and broaden capital markets, are all areas in which new policies should be coined and rapidly implemented.

The role of the Lebanese abroad

A special section of the NSDS is devoted to the manner in which the State can motivate Lebanese expatriates to play a role in the effective development of their community or their region by investing in infrastructure, education, transport, renewable energy, or in other investment vectors that promote sustainable development.

Enhancing the Human Capital Stock

Much effort has been devoted recently to expand the capacities of the primary and secondary public schooling system. Additional policies should be focused on adapting training and education curricula to the needs of the economy. A more intensive reliance on vocational training through a decentralized network of institutions that dispense technical training could be one of the answers. Legislation that motivates the private sector and civil society to play a role in this effort will accelerate Lebanon's compliance with SDGs 4 and 8.

Data Gathering

No adequate analysis or planning could be achieved without extensive data farming, let alone developing focused policies and pushing reforms.

Lebanon has suffered, and continues to suffer from certain weaknesses in the area of gathering statistics, so one of the essential and urgent efforts that should be exerted is the creation of a Central Institute for Statistics that will become the repository of all national data. It is an indispensable measure that could be taken rapidly and that will provide the basis for reliable analysis without which it would be difficult to pursue efficient policy making.

Conclusion

We have tried to give the reader of this chapter a glimpse of the NSDS conceptual framework, and a limited selection of what it includes. For lack of space we have omitted many other important sections involving transportation, telecommunications, special economic zones, oil and gas, and the impact of the massive presence of displaced Syrians which has cost the Lebanese economy over \$15 billion between 2011 and 2015.

Particular attention has been devoted in the NSDS to infrastructure development (SDG 9) as there is consensus that it has the potential to promote growth, increase

equity, and reduce poverty (SDG 1). A World Bank 2011 study on the productivity of infrastructure capital (by Calderon, Moral-Benito and Serven) shows that a 1 percent increase in the network leads to around 0.5 percentage point increase in productivity.

However, focus has also been placed on health policies (SDG 3), the role of women in the production equation as they constitute half of the labor force (SDG 5), and a constant underlying concern for the environment and policies affecting climate change.



Roger Nasnas

Economic and Social Council President

The Lebanese amenity is his initiative to overcome the challenges besieging him.

The crises that hinder economic and social development gave us, along with a group of specialists and experts, an incentive to discuss interrelated topics and to address them by developing an integrated economic and social project, even if some of them cannot be fully in line with our expectations.

We are aware that studies, researches, and analyses cannot achieve any progress before they are actually enforced.

Therefore, "Emerging Lebanon, towards economic growth and social welfare" calls to shift from debate to solutions, from complaint to accomplishment, and calls for a rise from dreaming to reality.

In this context, this project calls officials, economic organizations, employers and unions, liberal professions, seasoned professionals, civil society, as well as every citizen, especially the youth, in order to proceed altogether to elaborating solutions in order to achieve progress at home, and to restore Lebanon's mission and position in the XXI century.

Let's move forward to progress.