

Emerging Lebanon

Towards an Economic & Social Vision

Roger Nasnas

Economic and Social Council President
2000-2002

In cooperation with

Toufic Gaspard Kamal Hamdan
Roger Khayat Roger Melki

and the contribution of

Samir Abillamaa Lara Batlouni
Zouhair Berro Salim Edde
Marwan Iskandar Abdel-Fattah Khoder
Antoine Messarra Samir Nasr



ÉDITIONS DAR AN-NAHAR

Emerging Lebanon

Towards an Economic & Social Vision

Emerging Lebanon

Towards an Economic & Social Vision

Roger Nasnas

Economic and Social Council President
2000 - 2002

In cooperation with

Toufic Gaspard Kamal Hamdan
Roger Khayat Roger Melki

and the contribution of

Samir Abillamaa Lara Batlouni
Zouhair Berro Salim Edde
Marwan Iskandar Abdel-Fattah Khoder
Antoine Messarra Samir Nasr.



ÉDITIONS DAR AN-NAHAR

© **Roger Nasnas**, January 2007

DAR AN-NAHAR 1st Edition

Postal Code: 11-226 Beirut, Lebanon

Fax: +961 1 561693

E-mail: darannahar@darannahar.com

ISBN 9953-74-137-9

Acknowledgment

To the first Assembly
of the Economic and Social Council
(2000 - 2002)
whose works inspired our vision.

Roger Nasnas

" *What is missing the most in Lebanon, more than water, more than roads, more than electricity, are people totally dedicated to the 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, the development will be fragile and Lebanon won't have filled neither its internal cohesion task, nor its supranational task of civilizing pole. The reason for Lebanon to exist and to last is essentially of human order. To rely on the success due to an exceptional human quality will lose all its sense if this quality declines by the accentuation of a 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, of behavior, national solidarity renewed every day, persistent and tenacious effort will facilitate the implementation of the plan (...).*

" *It can appear abnormal, in a report for the development, to attach so much importance to the extra economic factors and among these to the factor of " human valorization (...).*

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

Louis-Joseph Lebret, *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)

<i>Authors</i>	17
<i>Preface: Tomorrow's Lebanon by Roger Nasnas</i>	21
PART 1 - The Turnaround	29
<i>Prosperity for Lebanon: an Action Plan</i>	31
<i>Introduction</i>	32
<i>Economic Performance: a Systemic Failure</i>	34
<i>What is wrong with the Lebanese economy?</i>	40
<i>An Economic Action Plan for Lebanon</i>	46
<i>Concluding Remarks</i>	54
<i>Six Measures for Recovery</i>	57
<i>Impediments hindering the market economy</i>	58
<i>Recovery program</i>	61
<i>Management of the Change in the Lebanese Political System</i>	69
<i>The problematic of the authority</i>	70
<i>Elitocracy and nepotism</i>	72
<i>Strategies</i>	73
<i>Rationalizing Consensual Practices</i>	74
<i>Public Dialogue Policies</i>	76
<i>Levers</i>	80
PART 2 - The Economic Challenge	85
<i>Paris II Meeting</i>	87
<i>The Government's Program</i>	89
<i>Progress made during 2001-2002</i>	89
<i>The program for 2003 and beyond</i>	93
<i>External Support</i>	96
<i>Agriculture Support</i>	103
<i>Subsidized agriculture in Lebanon</i>	105
<i>Administrative and commercial hurdles</i>	110

<i>Transformations in the traditional agricultural markets</i>	111
<i>Implementing a new vision</i>	113
<i>Subsidies and other economic sectors</i>	117
Industrial Policy	121
<i>Industrial decline during last years</i>	122
<i>A reasonable strategy for industrial recovery</i>	126
<i>Criteria for a feasible agenda</i>	128
Tourism	135
<i>Tourism Industry Analysis</i>	135
<i>Tourism development strategy</i>	151
<i>Tourism Spillovers</i>	160
Technology implementation	163
<i>With which types of investments can local wealth be produced?</i>	165
<i>The Irish case</i>	168
<i>What did Lebanon do?</i>	170
Competition in the Lebanese Economy	175
<i>The need for a competition law</i>	176
<i>Concentration in Lebanese markets</i>	178
<i>Barriers to entry</i>	184
<i>Pricing and restrictive practices</i>	188
<i>Findings and recommendations</i>	190
Foreign Trade Policy	195
<i>Conflicting Economic Policies</i>	197
<i>The institutional frame of Lebanon's external economic relations</i>	199
<i>Straightening the balance of foreign exchange</i>	205
<i>Strategic objectives</i>	209
<i>The choice of economic policies</i>	210
<i>Conclusion</i>	216
Support to the Small and Medium Enterprises	221
<i>Analysis of the situation leads to the following conclusion:</i>	228
<i>Deteriorating situation of the companies</i>	232
<i>Conference on Enabling Environment for SMEs in Lebanon</i>	238

<i>The Conference Recommendations</i>	239
<i>Small and Medium Industries' Merger Project</i>	243
<i>Proposed mechanism</i>	246
<i>A Proposition for the Implementation and the Management of the Fund</i>	249
<i>Annex: The critical need for an awareness program</i>	252
<i>Rescheduling Private Sector Debts</i>	257
<i>The Rescheduling Mechanism</i>	258
<i>Draft Constituents and Expected results</i>	259
<i>Milestones</i>	261
PART 3 – The Long Term Vision	267
<i>Five-Year Development Plan</i>	269
<i>The basis and components of the plan</i>	270
<i>Growth and competitiveness programme</i>	273
<i>Realizing the competitive advantage of lebanon</i>	276
<i>Millennium Development Goals</i>	279
<i>Goal 1: Eradicate extreme poverty and hunger</i>	282
<i>Goal 2: Achieve universal primary education</i>	284
<i>Goal 3: Promote Gender Equality and Empowerment of Women</i>	286
<i>Goal 4: Reduce child mortality</i>	288
<i>Goal 5: Improve maternal health</i>	290
<i>Goal 6: Combat HIV/AIDS, malaria and other diseases</i>	291
<i>Goal 7: Environmental sustainability</i>	293
<i>The Social Contract Foundations</i>	297
<i>Some theoretical and methodological ground</i>	298
<i>An approach to the social contract in the Lebanese context</i>	301
<i>Other basic grounds of the social contract</i>	313
<i>Reforming the Education System</i>	321
<i>The Problems as per the Pedagogic Upgrading Plan in 1994</i>	322
<i>The Prevailing Status: Loans and Projects and a Worsening of the Situation</i>	323
<i>The Major Issues: Chronic Problems That Were and Still Are</i>	324

<i>The National Work Plan Education for All</i>	325
Private University in Lebanon	333
<i>Academic presence and proliferation</i>	333
<i>The Teaching Staff</i>	338
<i>Students in Private Higher Education</i>	340
Health in Lebanon	345
<i>Demographic and Health Indicators</i>	346
<i>Health Problems</i>	351
<i>Health Expenditures and Financing</i>	353
<i>Health Services Provision</i>	373
<i>SWOT analysis</i>	387
<i>Recommendations</i>	389
Pension Fund	395
<i>General guidelines of the amendments suggested to the administrative system</i>	396
<i>The system suggested by the council</i>	398
<i>Criteria of the Project</i>	401
<i>Concluding remarks</i>	405
Environment policy	409
<i>Defining the fundamentals</i>	413
<i>Regional cooperation</i>	415
<i>Environment protection strategy</i>	417
<i>Realization program</i>	421
The European Neighborhood Policy – ENP	429
<i>Strategy of integration</i>	430
<i>Action plan</i>	431
<i>A new vision for Lebanon</i>	432
PART 4 – Supportive studies	435
Public Finance	437
<i>Fiscal results 2005</i>	439
<i>Public Debt</i>	447

<i>Fiscal and Structural Reform</i>	452
<i>Budget Law 2005</i>	454
<i>Principals of Judicial Reform</i>	457
<i>First: the concept of judiciary reform</i>	457
<i>Second: the reform of the judiciary in Arab and foreign constitutions</i>	464
<i>Third: the fundamental principles of the reform of the judiciary</i>	465
<i>Fourth: the role of lawyers in the reform of the judiciary</i>	467
<i>Fifth: a proposal to organize the Lebanese judiciary</i>	468
<i>Consumer Protection</i>	475
<i>The legal structure</i>	477
<i>The administrative structure</i>	478
<i>The social structure and consumer culture</i>	479

Roger Nasnas: Chairman of the Economic and Social Council 2000 – 2002, is the chairman and CEO of AXA – Middle East SAL and chairman of MEDNET SAL. He is one of the founders of the *Rassemblement des Chefs d'Entreprises Libanais* – RDCL – and its chairman in years 1991 – 1992 and 1995 – 2002; he was member of the board of the Beirut and Mount Lebanon Chamber of Commerce, Industry and Agriculture; and contributed to several studies among which “*Le Livre Blanc sur l'économie libanaise*”, “*Le Chantier de l'entreprise; retrouver la compétitive et la productivité*” social policies, and mainly the “Pension fund project”.

Toufic Gaspard: D.Phil. in Economics, is an economic consultant. He previously worked as an economist and advisor at the IMF in Washington, and as lecturer at The American University of Beirut and at Université St. Joseph. He also worked with Chemical Bank (now Chase Bank) in New York, Brussels and Beirut, and as Director of Economic Research at Banque du Liban. In 2004, he published “*A Political Economy of Lebanon, 1948-2002: The Limits of Laissez-faire*”, Leiden: Brill. The Arabic version was published in 2005 by Dar An-Nahar, Beirut.

Kamal Hamdan: head of the economic division at Consultation and Research Institute – CRI – since 1977, has supervised and coordinated a wide range of projects covering social and economic issues, for local and international entities in both private and public sectors. He contributed as consultant to many researches conducted by institutions related to the United Nations and the World Bank. He served as a consultant to several Lebanese ministerial committees for evaluation and reform purposes.

Roger Khayat: economic and business consultant, was chairman of the commission of economic policies at the Economic and Social Council, former treasurer of Beirut Chamber of Commerce and former chairman of the economic committee at the Association of Lebanese Industrialists. He is member of the Lebanese Political Science Association and of the Lebanese Association for Economics. He contributed to numerous studies and publications on economic policies, international trade and industrial development.

Roger Melki: economic consultant and head of the economic division at *Etudes et Consultations Economiques – ECE* – he contributed to several programs for sustainable growth, mainly with the UNDP, ESCWA, European Union programs and USAID. He is an advisor to the Minister of Finance and professor at the *Université Saint Joseph – USJ* –

Samir Abillamaa: Attorney at law since 1965, former President of the Beirut Bar Association (1991 – 1993), member of the Committee for the Modernization of Lebanese Law at the Ministry of Justice (1991 – 1993), President of the Lebanese Arbitration Association since 1995, permanent member of the High Arbitration Council (CCI-lebanon), elected member of the Bureau of the Economic and Social Council since year 2000.

Lara Batlouni: holds an MSc in finance and economics from London School of Economics – LSE – and a BSc in economics from American University of Beirut – AUB – She currently works as an economic and financial analyst at the Consultation and Research Institute – CRI – She has had diverse research experience in many fields including social, economic and financial, in addition to market studies and investment.

Zouhair Berro: physician, is the founder and president of the Consumer Association created in 2000; member of the National commission for education, studies and culture – UNESCO – 1984-1992: president of the federation of Arab students in France (1974 – 1976). Dr. Berro has many publications in social and consumer fields in Lebanon and abroad.

Salim Edde: MBA in Finance from the University of Chicago, MSC Engineering from Massachusetts Institute of Technology – MIT – and *Polytechnique* France, is co-founder and manager of MUREX SA (780 ICT staff in 2006), with offices in Paris, Beirut, Dublin, New York, Sydney, Tokyo, Singapore and Beijing.

Marwan Iskandar: D.Phil. in Economics, Oxford, UK and graduated in law, is the head of the bureau for economic studies since 1968; he has contributed with two commissions for the rehabilitation of the Lebanese economy in 1986 and 1992. He has established an Arab bank in Paris. Among his publications: *Lost opportunity, Lebanon*

and the 21st century challenges, Riad Al-Rayes publications, 2000; and *Rafic Al-Hariri and the Fate of Lebanon*, al-Sâqî, 2006.

Abdel-Fattah Khoder: *Doctorat d'Etat in Physics, Université Joseph Fourier, Grenoble*, worked as researcher at the commission for the atomic energy in France (1987 – 1998). He is currently professor at the faculty of sciences of the Lebanese University – member of the council of specialists, and head of educational research department at the Educational Center for Research and Development, since 2003.

Antoine Messarra: professor at the Lebanese University and the *Université Saint Joseph*, is coordinator of research at the Lebanese Institute for Civil Peace and President of the Lebanese Political Science Association. Among his publications: “Aggregate Theory of the Lebanese Constitutional System” (parallel studies in participatory systems), Beirut, Orient library, 2005, 464 pages; and “The Roots of the National Agreement Pact in Taef, Beirut, Orient Library, 2006, 640 pages.

Samir Nasr: Phd in economics, University professor managing director of the consulting firm ECE (1983 – 2000), economic advisor to the Qatari Government (2000 – 2004), representant of Fransabank in the Gulf Cooperation Council – GCC – since 2005. Member of several professional associations. Among his publications: *Le livre blanc sur l'économie libanaise* 1992; *Investor's Guide* 1994, 1995, 1997; *Le chantier de l'entreprise au Liban* 1999.

PREFACE

Tomorrow's Lebanon

Roger Nasnas

Reform is first of all the edification of a nation that meets the aspiration of its people. Administrative reform is at the root of economic and social development. Building a modern state on solid grounds restores confidence, a key factor for prosperity and sustainable growth.

In order to design a way out of the vicious circle of recession and debt, we have reviewed with a group of experienced professionals studies and reports that have been prepared by governmental and international institutions, the Economic and Social Council, economic and professional organizations, the Labor Federations, and other institutions of the civil society, and by experts and academic centers. We have analyzed and discussed the different reports, integrated the most important conclusions in our work and produced a draft document that aims to be, through a national dialogue, the corner stone of a socioeconomic vision for Lebanon.

The aim of our work was to outline the foundations of such a vision, emphasize the critical factors that determine the progress and get the dialogue underway. Unfortunately, at the time of publishing this document the war exploded.

Although Lebanon demonstrated by its resistance and its solidarity the inalienability of its sovereignty and its rights on all its territory, the war exacerbated the plight, causing the death of innocents, the displacement of one third of its population, the emigration of qualified workforce, the destruction of houses and schools, infrastructure, factories and communication networks; it stalled the productive activity of the country and dried the state income, leading the Prime Minister Fouad Siniora to declare Lebanon a disaster-stricken country.

The devastating war amplified Lebanon's burden. The immediate tasks at hand are to erase the aftermaths of the aggression and to recover the losses incurred in the 33 days of hostilities and more than two months of embargo; our view is that these tasks need to be carried out within a global economic and social vision, avoiding improvisation and the risk of incurring in much more than the cost of the damage.

Major challenges

We are facing three great challenges:

- 1- To build modern and productive public institutions, safe from corruption, excessive expenditure and administrative paralysis;
- 2- To support the private sector and couple this initiative with a recovery policy to put an end to the recession exacerbated by the war;
- 3- To implement sustainable growth, providing more job opportunities and social stability, while reducing the public debt, and putting an end to the exodus of the young and qualified workforce, the erosion of the middle class and the spread of poverty.

This vision aims at providing an equal opportunity to all citizens.

Reforming the public sector and promoting economic growth constitute remedies to widespread favouritism, a consequence of the insecurity and instability affecting the Lebanese. As the competence-driven state gets established, nepotism and political intervention are bound to subdue. Every time nepotism and political intervention prevail, the state weakens and drifts towards favouritism and moral hazard to the detriment of the citizens and the nation.

Sustained growth and citizenship

Everybody is convinced that rebuilding the state and the productive sector is a prerequisite to the return of confidence. Yes but how to achieve that?

Lebanon has been a democratic country since its inception. Democracy and liberty are two essential factors for internal edification, and the adherence to globalization. However democracy and liberty only take their full dimension when accompanied by the right social context.

The consolidation of democracy requires sustained economic development. For as much as it is necessary to elaborate an electoral law that ensures the true representation of all citizens, it is also necessary to elaborate a sustainable development plan that ensures the contribution of all to the reconstruction of the country. And as one faction alone can never govern Lebanon; also the economic and social development

cannot be achieved by one economic sector or one hegemonic group.

We tend to avert economic dirigisme for its hindrance of free enterprise. On the other hand, we seek a competitive environment away from monopolies that negate the equal opportunity principle. We therefore see a role for the state as the guardian of free enterprise and competition as well as social welfare. The choice of democracy and liberty can alone warn Lebanon of the skids of the market economy and protect it from the spread of political sectarianism.

In this respect, the project at hand confirms three realities that we evoked time and again:

- 1- There may not be an economic and social progress in the absence of a comprehensive national consensus;
- 2- There could not be economic stability without social harmony; conversely, there is no social harmony without economic stability;
- 3- There cannot be a complete reform without a global vision that addresses the two following questions:
 - a) What state are we going to build? Will it be an interventionist state? A police state – état gendarme²? Or a welfare state?
 - b) What is the mission of Lebanon in the coming future? Any internal achievement is of direct consequence to Lebanon's regional and international role.

Stability and sustainable growth

Politics alone cannot build a country. It needs an economic and social foundation, a comprehensive plan encompassing all regions that ensures the development of a nationally consolidated society. The Lebanese must feel partners in re-building their nation by capitalising on their common interests and complementarities.

To ensure a proper transition from the troubled past, civic behaviour and awareness of national interest must become deeply anchored feelings in each and every Lebanese. It is about time for the Lebanese to

1-2 L'Etat gendarme, in which the State's prerogatives are limited to controlling the police, the armed forces, the judiciary and the administration as opposed to the Etat providence [welfare].

live and appreciate their common destiny.

Our inclination to promote a state where stability and growth are ensured reflects three convictions:

- 1- The national consensus is essential; however the different parties should also agree on a scientific and pragmatic program that ensures the development of all regions and all layers of the population. The economic and social progress strengthens the stability; in the same way the national consensus enhances the economic and social progress.
- 2- Attracting foreign investment is necessary, but in itself insufficient to reverse the cycle of recession; we should make sure that these investments be directed towards productive sectors.
- 3- Increasing the employment opportunities for the young and qualified workforce is a fundamental support to growth and a key factor in containing emigration and rising unemployment. This requires a revision of the education system, in order for it to yield a new generation able to contribute to the development effort.

Internal stability, investment in productive sectors, increased employment opportunities, are all elements of a development plan that is consistent with the economic reality of the country and addresses Lebanon's future role as an area business center and economic pole, for which the martyr President Rafic El-Hariri worked relentlessly.

Lebanon prospered in the past when it was one of the rare liberal countries in the region among a great majority of states with planned economies. Prior to 1975, Lebanon was known to have attracted massive foreign capital, mainly from Arab neighbours. In the 1990's this situation recurred, however the question remained: how to let this capital fuel the growth of the economy?

During the last decade Lebanon integrated the "Great Arab Free Trade Area - GAFTA" that groups since 1997, 17 Arab countries. In 2002 it signed the Association Agreement with the European Union. Currently, Lebanon is negotiating its accession to the World Trade Organization - WTO. Lebanon has also signed a number of bilateral agreements with most countries with which it maintains a significant level of trade. In 2002 Lebanon dropped its custom duties on most imported goods, reducing the average protection from 12% to 6%. This

level is expected to decrease even further upon the implementation of the tariffs reduction included in the Association Agreement starting 2007. Is it judicious to ask whether we have devised a development plan that is able to capitalise at best on these liberalisation measures while limiting the negative impact on national production? Can one ensure that adequate measures are taken so that this plan promotes the economic and social development internally and positively contributes to Lebanon's role externally?

The vision of the socioeconomic growth plan rests on two interdependent pillars: strengthening the internal factors and achieving regional complementarities.

Based on previous experience, we can conclude that inter Arab, as well as Lebanese-Arab cooperation did not achieve its objectives. Why did cooperation agreements succeed under private initiatives (i.e. the experience of the Lebanese in the Gulf, and the investments of Gulf countries in Lebanon) much more than the commercial relations between Lebanon and the Arab countries in spite of the creation of the GAFTA.

It is in the interest of Lebanon to reinforce cooperation agreements with countries in the Gulf, the Middle-East, North Africa, the European Union and the rest of the world. It is also in the interest of Lebanon to develop Small and Medium Enterprises - SMEs - and to invest in productive sectors such as agriculture, industry and services, mainly the financial and tourist sectors. If the banks and the financial corporations proved during the difficult years that they were a support to the economy, to the state and to the reconstruction, it goes without saying that in the period of resumption they have a role to play in the development of the productive sectors and especially of the SMEs. Similarly, as one of the pillars of the national economy tourism should not be limited to business or leisure but it should also cover other aspects such as cultural, archaeological or health tourism. It is therefore imperative to complete the rehabilitation of highways and communication media that contribute to a large extent to the success of tourism, as well as to cater for improving all public utilities and establishing Lebanon as a regional technology hub.

A modern social contract

The proposed socioeconomic growth program aims at achieving sustainable growth. Such an objective necessitates the implementation of a social safety net that ensures a fair distribution of income to support the most fragile factions of the population. Moreover a great task for

Lebanon consists at the moment in restoring the middle class considering its key role in achieving sustainable growth and social balance. The critical elements of this strategy are the SMEs and the human and technical capital.

The social contract is a constituent of a global economic and social program. It is a confidence contract that guarantees equal job opportunities, access to education and health, and is essential in transforming free initiative into an institutional one.

This growth initiative might first target education and communications especially that in the knowledge economy, natural resources are less important than the technical capital and managerial skills. This priority consists in:

- Joining the regions, opening the markets and promoting competition, which is badly needed in a small market such as the Lebanese one;
- Rehabilitating the infrastructure of the knowledge economy - education, communication, information, culture, etc. - a foundation for the long-term economic growth of Lebanon.

The Economic and Social Council

A comprehensive socioeconomic growth program succeeds insofar as the government's project becomes the project of the nation; that is to say when all parties contribute to its elaboration and implementation. Privatizations, support to the SMEs, social benefits and other measures require a consensus of the public and private sectors as well as of the civil society as progress is everybody's concern.

It is clear that the economic and social vision is more than a question of procedure; it is the foundation of all social progress, and can only be achieved if the civil society assumes a common project. This is where the Economic and Social Council gets its legitimacy and importance from.

The Council is a constitutional institution created in Taef, in view of associating the civil society in the design of development projects by providing advice and consultancy to the government in the public policies that govern them. Accordingly, the Council has a triple function: a function of representation of the civil society, a function of consultancy and public information, and a function of relay between the authorities and the society.

During its first mandate between 2000 and 2003, the Council produced a consultative review of the project carrying modifications to the Social Security law, and in particular the project instituting the retirement insurance. The problems of health have been studied extensively in view to determine the basic criteria that should orient the organization of the health sector in Lebanon, drawing an accurate solution to its over cost and weak output. The Council has also addressed the issue of private higher education by undertaking an important survey, including a major field work and organized numerous conferences on the subject.

The Council also seized the matters of productivity and competitiveness of enterprises in the private sector, conducted an investigation and a report on the SME, and proposed a merger project of Small and Medium Industries to improve productivity. The project was voted by the assembly at a qualified majority. A study carrying on the rescheduling of the debts of the SMEs in difficulty could not be submitted to the assembly as the Council had reached the end of its mandate.

The general assembly tackled an ambitious project for the modernization of agriculture and referred it for a complement of study to the concerned commissions. The end of the mandate prevented the producing of the final report. In parallel, the Council had to set up its organization and to develop the relations with other economic and social councils in the world

In short, the Council is a privileged link between the authorities and the civil society. Its advices are the fruit of a comprehensive dialogue between all economic, professional and social organizations within a scientific and objective framework. Its actions enrich the exercise of the democracy.

The Council is at present waiting for the nomination of the new members of its plenary assembly in order to contribute to the economic and social recovery in a critical moment of the country's existence.

In order not to waste precious time, we attempted to present a project of economic and social vision for the relief of Lebanon. The question remains: How to take advantage of this project to face the endemic challenges and especially to alleviate the consequences of the war.

December 2006

PART 1

The Turnaround

CHAPTER ONE

Prosperity for Lebanon: an Action Plan

The first chapter of the Economic and Social Program was the last to be written. In a sense, it integrates 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 with 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, who have been left out since independence at the margins of economic, social and political life.

In today's Lebanon, 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 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.

Furthermore, the Action Plan essentially aims for sustained economic development in the long term. It is, however, imperative to reverse the contraction in the business cycle as soon as possible. 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 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 since it is in the context of industry rather than services that we find nowadays 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 adheres to international or regional programs that aim at the protection of earth and life.

Introduction

The last three 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 next fifteen years until 2005 were 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 in this paper, that if the Action Plan that is detailed below is successfully implemented in the next few years, it will of 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 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 indebtedness (see Table 1 below). Moreover, the nominal exchange rate was soon stabilized and continued on an appreciating trend since October 1992, while government spending expanded during 1993-2005 to an annual average in terms of GDP of 2.2 times its level prior to 1975.

We present an evaluation of Lebanon's post-war economic performance, overall and in all the major sectors of the economy during the period 1993-2005³. We show that weak economic

3 The war ended in October 1990. During the first nine months of 1992, the Lebanese Lira (LL) lost two thirds of its nominal value vis-à-vis the US Dollar (\$), its average rate dropping from LL879/\$ in December 1991 to LL2,528/\$ in September 1992. The exchange rate then continuously appreciated, reaching LL1,508/\$ in October 1999, a rate that is maintained to date in December 2005. So 1991-1992 may be considered as a period of accommodation following the end of the war.

performance was pervasive in all sectors of the economy, which points to a systemic rather than circumstantial economic failure.

Growth and employment

Table 1 below summarizes the evolution of the gross domestic product (GDP) during 1992-2005.

Table 1
GDP Level and Growth, 1992-2005

	<i>Unit</i>	1992	1996	2000	2005
GDP (current prices)	\$ billions	6.0	13.6	16.7	19.6
GDP p.c. (current prices)	\$	2,000	3,600	4,000	4,500
GDP (constant 1997 prices)	LL billions	18.0	23.1	24.7	28.1
GDP aver. annual growth	%	-----	3.5%	-----	-----
GDP p.c. aver. Annual growth	%	-----	-----	0.7%	-----
Exchange rate (average)	LL/\$	1,713	1,571	1,508	1,508

Sources: Compiled from Republic of Lebanon, 2005, 2003, and from Lebanon's Ministry of Finance and Banque du Liban publications.

Notes: Real GDP growth is assumed to be 3% in 2003 and 2004. In 2005, both the growth and inflation rates were close to zero. "GDP p.c." is GDP per capita. GDP growth is at constant 1997 prices. GDP p.c. in \$ is rounded to the nearest \$100.

GDP growth during the thirteen-year period was an annual average of 3.5% (compared to more than 6% during 1964-74), and only 0.7% on a per capita basis. Growth rates fall to 2.4% and 0.4%, respectively, if considered in the last ten-year period during 1995-2005. These are modest growth rates at best, especially when set against the favorable economic environment mentioned above.

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 2001⁴. However, these figures underestimate the true unemployment situation owing, in particular, to the reluctance of many respondents in manpower surveys to acknowledge their

⁴ See République Libanaise (1998) and Kasparian (2003), respectively. Kasparian's survey is based on Lebanese residents only.

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)⁵, underscoring the condition of large underemployment in Lebanon. The unemployment rate clearly would have 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 in 1975, and budget deficits were few in the preceding 30 years. As Table 2 below shows, government debt still was at a relatively low level at the end of 1992.

Table 2
Government Debt, 1992-2005
(At end period, in \$ billions and in %)

	1992	1996	2000	2004	2005
Government gross debt	3.0	13.0	25.2	35.9	38.5
o/w Debt to BDL	-0.2	-0.3	-1.9	-9.5	-10.0
o/w in FX ¹	12%	15%	29%	51%	50%
Government gross debt/GDP	50%	95%	151%	183%	196%
BDL FX reserves	4.6	9.5	8.3	13.5	14.6
Foreign currencies	1.5	5.9	5.7	9.5	9.8
Gold	3.2	3.6	2.6	4.0	4.7
Memo Account					
BDL debt to others ²	0.0	1.3	3.5	17.7	20.3
o/w in FX		100%	100%	63%	72%

Sources: Compiled from Ministry of Finance and Banque du Liban (BDL) publications.

⁵ See Gaspard (2004), Table 5.9.

Notes: Totals may not add up owing to rounding of numbers. 1- (FX) means foreign exchange or foreign reserve currencies. 2- BDL debt to others mostly consists of debt to domestic banks; it excludes the banks' LL-deposits as legal reserve requirements.

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 by way of simplification. In other words, to calculate 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 others⁶. The reason for focusing on BDL is that its debt has dramatically increased since end-2000, as Table 2 indicates, reaching more than \$20 billion by end-2005. 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.

The main problem with this debt situation, however, does not lie in the level of the debt but in its origin. Deficits and debt, of themselves, 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 Expenditures, 1993 - 2005¹
(In \$ billions and in %)

Expenditure category	Cumulative spending	In %
Interest	28.1	37%
Wages ²	22.5	30%
Investment	10.7	14%
Consumption, transfers	14.7	19%
Total expenditure	76.0	100%

Sources: Compiled from Ministry of Finance and Banque du Liban publications.

⁶ For methodological underpinnings of this calculation, see Blejer and Cheasty (1992), IMF (2001), and Mackenzie and Stella (1996).

Notes: 1- Figures are for consolidated general government, including Treasury operations and annex budgets, whose allocation among expenditure categories is estimated. Figures for 2005 are preliminary. 2- Wages include pensions and end-of-service payments.

In fact, total investment expenditure during 1993-2005 was merely 14% of total spending, with less than half the amount, namely about \$5 billion, spent on reconstruction projects⁷. 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 debt have been accompanied by an increasing fiscal burden on the Lebanese people. The fiscal burden, as illustrated by total government revenue, has more than doubled in terms of GDP, rising from 12% in 1992 to 26% of GDP in 2004 and 2005, a substantial increase at a time when economic activity has been stagnant or 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 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 increased 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.

The major borrowing instrument by government has been LL-denominated treasury bills (TBs), but borrowing in foreign currencies has constantly been rising to exceed half the amount of gross

⁷ Mr. Fadi Chalak, the current President of the Council for Development and Reconstruction (CDR), has recently advanced that figure of \$5 billion in a public statement.

government debt by the end of 2005. Considering the cost of government borrowing in LL, the weighted nominal yield on LL-TBs during 1993-2005 averaged 16.2%, which corresponds to an average real rate of 11.2%. These rates have strongly affected banking rates, with the result that borrowers from banks paid during the same period an average real interest rate of about 10%⁸.

To measure the negative impact on the economy of an average real interest rate of at least 10% over a 13-year period, it is sufficient to compare it to the average real growth rate of 3.5%, noting that real interest rates should be close to growth rate levels, particularly when considered over a relatively long time.

Interest rates also tell us about the cost of borrowing by government. The above-noted 16.2% as the cost of government borrowing in LL may be compared to the reference rate of the 12-month LIBOR on \$-funds, which averaged about 5% during the same period. The comparison indicates that Lebanese governments have been borrowing in LL at an average spread or margin of more than 11% over the international LIBOR reference rate! This spread truly is exceptionally high by any standard.

A remarkable feature of this high average spread paid by Lebanese governments is that its trend has been declining over the period although, at the same time, the financial condition of the government has been deteriorating. Clearly, this is contrary to the expected behavior of normal markets, which should have witnessed low borrowing margins in the early 1990s when the government's financial condition was relatively better, and an increase in the borrowing margins as the financial condition worsened. The implication then is that interest on government debt may not have been determined in auction markets, and that the government was paying an "excessive" interest rate on its LL-debt⁹. To illustrate, had the government paid instead of 16.2% an average interest rate of 8% (which is higher than the average rate of about 7.5% that was paid during 2003-2004 after Paris-II), then saving

⁸ Interest rates are weighted for loans in LL and \$. The year 1993 is excluded as an outlier year with an inflation rate of 25% and a real bank rate of -10%. The interest rate charged by banks is increased by about 1% a year in commissions.

⁹ In these so-called auction markets, interest rates remained completely unchanged during three years from October 1999 till October 2002, and during more than two years, from March 1997 until November 1999, only for 12 and 24-month TBs (which represented 90% of the total value of TBs).

on interest paid on government debt only in LL would have been a remarkable \$11 billion!

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 8% 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. During 1993-2004, the cumulative overall balance was a net surplus of \$7 billion. However, this satisfactory external performance is an illusion because the balance of payments, which was historically noted for being in almost continuous surplus with only a few scattered years of deficit, has recently witnessed a reversal in its historical trend. This trend reversal is mainly due to the new phenomenon of Lebanese governments becoming active at foreign borrowing.

Thus, if we exclude from the balance of payments foreign borrowing by government, and the associated debt amortization, the number of deficit years during 1993-2004 would significantly increase from three to eight. More important, the cumulative surplus of \$7 billion, according to official data, then turns into a cumulative deficit of more than \$3 billion. What this means is that, by excluding foreign borrowing and debt amortization from the balance of payments, and contrary to all past periods, more funds have in fact been leaving than entering Lebanon during the post-war period.

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 considering 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"¹⁰, 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 growth 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 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 at 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 abroad, particularly in the Arab Gulf countries.

Economic growth and development, which come with a sustained increase in productivity, are 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 strong increase since the

10 See Republic of Lebanon (1994).

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, 1950-2002
(In % of GDP)

	1950	1964	1973	1987	2002
Agriculture	20	12	9	9	6
Industry	14	15	16	16	13
Services	59	65	68	70	68
Public Admin.	7	8	7	5	13
Total	100	100	100	100	100

Sources: Gaspard, 2004; Republic of Lebanon, 2005.

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, fifteen years after the end of the war in 1990, it produces an output that is roughly equivalent to the volume produced in 1974, but with about twice the labor force¹¹. This means that average productivity per worker in Lebanon today is about half what it was in 1974. Notwithstanding errors of estimation and quality improvement in output, still the evidence is striking concerning the weak productivity of the Lebanese economy and of 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.

11 At constant 1997 prices, GDP in 2005 was LL28.1 billion versus LL27.5 billion in 1974, whereas employment was respectively estimated at 1.5 million and 760 thousand.

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

Low skill and education levels

Table 5 below shows the education level of Lebanese employed workers according to official national surveys conducted in 1970 and 1997.

Table 5
Employment Structure by Educational Attainment
and Work Status

(In % of total employment)

	1970	1997
Education level		
Primary	80.0	45.2
Complementary	9.4	21.1
Secondary	6.3	17.4
University	4.3	16.2
	100.0	100.0
Work status in priv. sec.		
Waged in private sector	53	52
o/w Regular waged	30	33

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

Work skills, and hence productivity, are largely determined by the level of education. By 1970, 80% of the workforce in Lebanon had at most a primary education. By 1997, education performance apparently improved, with about two thirds of the workforce having at most a complementary level of education, and a third at least a secondary level. In fact, the quality of 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 (see the study "Education for All"¹²). The fact that worker productivity today, illustrated by GDP at

constant prices divided by the number of the employed, is roughly at half its level prior to 1975 confirms this assessment.

The low skill and productivity levels are not only the product of an inadequate education level but also, and in a primary way, the result of an underdeveloped market economy and/or 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.

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 operational 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.

Public administration in Lebanon, moreover, is unduly costly. Its size has almost doubled, as Table 4 indicates, bearing in mind that the value added by public administration is mostly composed of wages and salaries. More important, the latest 1997 survey on household living conditions has indicated that the average pay of the worker in the public sector is higher than the corresponding pay in the private sector! Specifically, the average pay in the public sector is higher than in services, about the same as in industry, and lower

13 See Republic of Lebanon, 1998a, p.219.

than in commerce¹³. 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.

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

14 At the same time, the largest 5% of all beneficiaries of credit from banks obtained more than 80% of total bank credit. See Banque du Liban, Quarterly Bulletin, 4th Quarter 2004.

its suburbs, which include about 38% of the total population of Lebanon, had at end-2004 about 70% of all commercial bank deposits and benefited from more than 80% of total bank credit¹⁴.

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 10 to 15 years. Assuming that 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.

It is important to note, concerning these growth objectives, that a significantly higher growth rate than in the past is absolutely necessary for a tangible improvement in the standard of living but also, and crucially, 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, of itself, promote economic growth but also provide 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 complementary level.
- 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 low skill and education levels, 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 underestimated.

a - A good-quality public education to all

Providing a good-quality and low-cost public education to all, at least until the complementary level (Brevet), would start the process of enhancing labor skills and economic productivity in Lebanon. The emphasis here is on good quality, particularly in languages, maths and sciences. An important message that this action would also send 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 advanced 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 complementary 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 external economies, such as a better raising of children, better informed citizens, and better voting and system of political accountability¹⁵.

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, are often under-trained or do not possess adequate qualifications in the basic subjects of languages, maths and sciences. Fortunately, school buildings are not in shortage. Thus, experts estimate that providing professional training and upgrading the qualifications of about 14,000 to 20,000 teachers would cost at most \$200 million over a six-year period (see the details of "Education for All").

All in all, and notwithstanding estimation errors concerning the cost of educational reform, the required investment does not appear to be large and 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 in 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

15 See, for example, Baldacci et al., 2004, and Psacharopoulos, 1988.

physical foundation for fast growth.

The main purpose of this major action is not simply 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 of itself is a very important national objective.

It is difficult to underestimate 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 current very low levels, and overall stimulate investments in these regions. 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 budget (in a relatively minor way). The contribution of the private sector, 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 5 above shows, the size of the public sector, in terms of wages and salaries and in relation to GDP, has practically doubled compared to the pre-1975 period. The wage bill in the budget currently exceeds \$2 billion, 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.

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. These 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 196% of GDP, 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)

	1972-74	1992	1996	2000	2005
<i>Claims on Public Sector</i>	9	25	44	45	54
Claims on government	0	21	32	34	25
Claims on BDL	9	4	12	11	29
Claims on Private Sector	46	33	34	33	23
Foreign Assets	37	40	18	18	19
Other	8	2	4	4	4
Total Balance Sheet	100	100	100	100	100
in current \$ billions	3.9	8.0	24.0	45.0	70.3
in % of GDP	136%	142%	173%	270%	358%

Source: Compiled from Banque du Liban publications.

Note: Data for 1972-74 are averages of end-year data for stocks.

According to Table 6, more than half of bank assets are claims on the public sector whereas only 23% 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*,

16 At present, in early 2006, the current yield on the 12-month LL-TB is 7.8%, and the weighted interest rate on BDL's LL-CDs is close to 11%.

should be refinanced by banks at lower interest rates. Recently, these spreads have significantly fallen from a high of 11% in 2002 to 3.5% in 2005¹⁶. The impact of this refinancing will be significant on the fiscal situation, and on banks and the economy overall. We estimate the total savings in interest cost on the LL-debt alone to be at least \$250-300 million a year, with larger savings if the current trend in international and domestic interest rates continues to rise.

Additional savings in interest cost can be realized if the interest rate of about 11% on LL-CDs issued by BDL is reduced to the level charged on 1-year LL-TBs, noting that this interest cost does not appear in the budget. The additional savings would be approximately \$200 million¹⁷.

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

An unusual high fraction of banks' loans to the private sector are 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

17 The outstanding amount of LL-CDs currently is the equivalent of \$5.7 billion, and the yield on the 12-month LL-TB is 7.8%. The numbers refer to early 2006.

18 Chapter 13.

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*, along the lines described in the paper "Debt Rescheduling"¹⁸, 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 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 nature 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 do not ensure this outcome; governments can. 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 the government and the private sector.

These are times when drastic change is possible. The Action Plan has to be initiated by a genuinely reform-minded or developmental government. If the actions described above are implemented, then perhaps the ensuing economic change will drive the political reforms

References

Baldacci, Emanuele et al. (2004). *Social Spending, Human Capital, and Growth in Developing Countries: Implications for Achieving the MDGs*, International Monetary Fund, WP/04/217.

Banque du Liban. Various publications and Internet website <http://www.bdliban.com>.

Blejer, Mario and Cheasty, Adrienne (1992). "How to measure the fiscal deficit", International Monetary Fund, Finance and Development, September: 40-42.

Carstens, Agustín et al. (2004). "Avoiding banking crises in Latin America", International Monetary Fund, Finance and Development, September: 30-34.

Gaspard, Toufic (2004). *A Political Economy of Lebanon, 1948-2002: The Limits of Laissez-faire*, Leiden: Brill.

International Monetary Fund (2001). *Government Finance Manual 2001*, Washington: International Monetary Fund.

Kasparian, Choghig (2003). *L'Entrée des Jeunes Libanais dans la Vie Active et L'Émigration*, Beyrouth: Presses de L'Université Saint-Joseph.

Mackenzie, G.A. and Stella, Peter (1996). *Quasi-Fiscal Operations of Public Financial Institutions*, International Monetary Fund, Occasional Paper 142, Washington: International Monetary Fund.

Ministry of Finance, Republic of Lebanon. Various publications and Internet website <http://www.finance.gov.lb>.

Psacharopoulos, George (1988). "Education and development: A review", *The World Bank Research Observer*, vol. 3 (1), January: 99-116.

Republic of Lebanon (République Libanaise):

(2005). *Lebanon's Economic Accounts 1997-2002*, Beirut: Ministry of Economy and Trade.

(2003). *The Economic Accounts of 1997*, Beirut: Ministry of Economy and Trade.

(2002). *Lebanon: Paris II Meeting. Beyond Reconstruction and Recovery ... Towards Sustainable Growth*. Document presented by the Lebanese

Government at an international meeting of donors held in Paris in November 2002.

(1998a). *Conditions de Vie des Ménages en 1997*, Beyrouth: Administration Centrale de la Statistique.

(1998b). *La Population Active en 1997*, Beyrouth: Administration Centrale de la Statistique.

(1994). *Horizon 2000 for Reconstruction and Development*, Beirut: The Council for Development and Reconstruction.

(1972). *L'Enquête par Sondage sur la Population Active du Liban*, Novembre 1970, 2 vols. Beyrouth: Direction Centrale de la Statistique, Ministère du Plan.

(c.1962). IRFED (Institut international de recherche et de formation en vue du développement intégral et harmonisé). *Besoins et Possibilités de Développement du Liban*, 2 Vols., Beyrouth: Ministère du Plan.

CHAPTER TWO

Six Measures for Recovery

At the outset of year 2000, as soon as the Committees of the Economic and Social Council were nominated, the Committee for Economic Policy started to work on a recovery plan. The main reason was the expanding economic recession in the country. The topic was selected by consensus and it took the committee 17 consecutive sessions to achieve a large agreement on a proposition for a recovery plan. The proposition was voted by 8 members and 3 abstentions and submitted to the Bureau of the Economic and Social Council.

Being a sensitive subject, issued by self-commitment and not requested by the government, it has no chance to pass the qualified majority in such case at the general assembly, and therefore should embarrass the council for no result. It was decided in common agreement that the submission should be postponed.

By the end of year 2002, the committee decided to update the document prior to submit it to the general assembly and to the government. It was also decided that the committee would be open to several independent economists. By the time the update was ready, the mandate of the council was over, and it needed to wait the nomination of the new assembly to vote the proposition.

This paper aims at reaching a common understanding for a recovery plan in order to boost the Lebanese economy and provide for real economic growth. Improving public finance is certainly not enough to control recession and reverse the economic trend. Moreover, the persistence of recession may jeopardize any financial reform. In this context, we notice that Paris II, despite the positive expectations it provided, proved unable on its own to revive the economy due to the lack of mechanism allowing its benefits to spill over the private sector.

The economic situation endured since 1995 has turned into a deep recession, one with structural consequences. Growth rates have reached negative figures, and it has become compulsory to call for collective efforts to rescue the Lebanese economy from a potential crash, implementing adequate measures for growth and stability.

The major aspects of the Lebanese crisis range over the following issues:

1. Cumulative decrease of aggregate demand resulting from a

- sharp falls altogether in consumption and investment.
2. Decreasing supply resulting from a shrinking production base whether relating to companies' activity, employment or investment.
 3. Increase in public finance reaching high levels of debt and deficit, which reflected negatively on the economy, and provoked a large crowding out effect.
 4. Deteriorating social indicators, especially those relating to migration and poverty levels.

The various aspects of the crisis stretch to every company and every house while taking the form of shrinking commercial activity, mounting business closures and bankruptcies, and escalating unemployment rates. Moreover, there are intensified, yet justified fears from what future prospects might entail, especially when the driving economic multiplier starts being negatively amplified.

Several elements of the crisis are related to or even result from a long-lasting lack of money supply. The monetary constraint react unfavorably on supply and demand, it toughens the conditions of credit access, and leads to abnormally high interest rates. Foreign direct investment cannot be expected, as long as the opportunity cost of capital remains high in Lebanon, besides the country risk and the low productivity due to credit scarcity and production under capacity. Channeling the financing resources towards the productive sector is a key factor to curb recession.

The governmental measures that were lately taken, whether waiving customs duties, preparing to go ahead with privatization, or reducing the public debt, reflect the will to resolve the economic crisis. Yet, these measures won't be as effective as needed unless a comprehensive framework for recovery is devised.

Impediments hindering the market economy

Private enterprises face great pressures due to the lack of the necessary driving mechanism as well to company's inability to compete in such environment. Thriving companies and flourishing sectors become rare exceptions. "Success stories" need to be the general rule, rather than the exception.

Market's efficiency is very limited in Lebanon, since interest rates as well as the exchange rate have long been administered. Moreover,

special deposit and monetary tools that set the money supply and the interest rate levels haven't been modified for a longtime. Political decisions are not coherent with any normal economic equilibrium set by market forces, and it is amazing that money supply be that scarce while the financial system enjoys high liquidity ratio.

The Lebanese economy, especially the industrial sector, is unable to face the international competition. Lebanese markets were widely opened while local companies were not up to international standards.

Adequacy of money supply to needs and interest rates to market will not threaten the exchange rate, whereas the prevailing policy would really be of threatening nature to the value of the Lebanese pound on the long run.

Public finance and growth expectations

With reference to the official documents submitted by the government to the IMF and to the participants of Paris II, real growth rate is expected around 2% till year 2007. This is quite a low level considering the employment needs and the necessity to improve competitiveness of Lebanese companies. It's also feared that the effective growth rate would be less than projected given the government's commitment to achieve, in quite a short period, a balanced budget, despite the burdening weight of debt servicing.

The proceeds of privatization will fund the budget deficit; such financing is expected to erode the anticipated revenues in two or three years. This is why we fear that the government's commitment to reduce its budget deficit will be accompanied by increased taxation, which will definitely lead to a deepened economic recession, distorting thus the plan set to generate economic growth and prosperity.

Financing the private sector

The theory that advocates the necessity of providing financial means to boost the economy will not be complete if it doesn't take into consideration the existing low interbank rates, important evidence on the availability of funds even before the Paris II meeting. Yet we are facing a "financial trap" due to the rising credit risk of the private sector. Therefore, managing the risk faced by banks when lending to the private sector has become an issue they cannot face on their own and should be set as a priority.

It is commonly believed that the public administration has the tendency to ignore the private sector's interests. Hence, calling for serious reforms, putting an end to overspending and corruption, and adopting transparency in all public issues are important matters, but won't reverse the recessionary trend of the economy.

Margin of maneuver

Lebanon is still a third-world country. Hence putting an end to overspending and corruption, which are common and ongoing practices even in industrial countries, is going to be a tough task, and any improvement should be considered a major achievement. But neither corruption nor overspending can be thought as main factors in the economic slowdown.

As a matter of fact, if public debt was written off and interest rates fell by 200 or 300 basis points, while the budget was balanced, would the economic crisis cease and the cycle reverse? The answer is simply no.

Due to the low competitiveness of private corporations, the government's margin of maneuver has become very tight, whether for normalizing the use of the Lebanese pound or for floating the currency while preserving the exchange rate in accordance with market forces.

Hence, policymakers need to set modest and clear goals to better qualify the private sector for international competition and to improve its overall productivity. This task could be easily achieved since the needed funds and the necessary know-how are already available. In this realm, we need to note that the several occasions through which Lebanon got valuable international financial assistance are hard to emerge again in the near future.

Financial markets

The absence of capital markets is one of the major impediments to 1) channeling foreign funds into investment projects, and 2) building management and marketing capabilities through industrial mergers. The real problem facing investors is finding their way out of, rather than their way into an investment in Lebanon, a matter deemed to be almost insoluble without an active secondary market. One should bear in mind that the need for an active secondary stock market calls in the first place for the existence of an active secondary bond market.

The setting up of such a market is impeded by the fear the financial institutions will shift from subscribing to treasury bonds to competing in the stock market.

In addition, the financial market's current exit/entrance conditions are burdened by administrative practices driving away both national and foreign investments, and even inconveniencing the citizens in their daily life. Hence reforms stretching to amending administrative practices and to improving the general investment conditions have become a must.

The potential occurrence of a monetary or financial crisis during the reform period entails the serious search for necessary subsequent remedies.

Borrowing in foreign currencies

External debt has amounted to almost 40% of total public debt, a relatively high ratio considering the poor performance of the private sector and the high public deficit, and hence should not be increased to higher ratios. And if ever there is the intention to go for further external borrowing, it is advised to operate a depreciation of the Lebanese pound in order for the government to be able to meet its debt obligations.

Recovery program

Any recovery program should include the following issues:

1. Adequate money supply to market needs in order to mobilize the productive sector.
2. Sustain aggregate demand, altogether consumption and investment.
3. Normalize real interest rates.
4. Improve 'companies' competitiveness through decreasing costs of production.
5. Set financial systems designed to support operating companies in order to consolidate national production.
6. Support purchasing power not only for social considerations but also to boost aggregate demand and recover the economic activity.

Money Supply

It is just wise to increase the money supply when all measures to support the aggregate demand turn awry due to tight monetary policy and underused capacity. The anticipated administrative

reforms coupled with the slowdown in private sector's activities call for more liquidity, especially that unemployment rates are already high and are feared to be getting worse.

The believe that the authorities, besides applying a reform program, are nearly helpless facing these recession times, and that fighting inflation is their utmost urgent priority, are no more acceptable. Helping the private sector in its quest for financial outsourcing should be at the center of official attention at this level.

Many economic tools have proven their efficiency in containing inflation and in providing stability. The government's policy of wait-and-see along with its tight monetary policy are not the adequate measures to put control on price levels and do not provide enough insurance against the possible economic crash resulting from a long-standing recession.

To which extent and for how long should the government increase the money supply? The answer is, until the economic cycle is reversed and the country starts to reap the fruits of that measure, whether on boosting demand or reestablishing the competitiveness of the Lebanese companies.

The central bank has heavily subscribed to treasury bonds, yet this won't provide for the needed liquidity, due to the liquidity trap effects depicted by the banks' reluctance to lend to the private sector.

Once again the Lebanese experience has corroborated other international findings: bringing inflation to zero level not only harms production, but also results in a long-lasting period of high unemployment. It has been demonstrated that maintaining a moderate inflation helps keeping a better economic balance necessary to provide stability and growth.

It is only logical to try and bring down unemployment rate from its high level at approximately 20% to 10-12%. That might induce an inflation rate of 4-5%. Indeed, at low levels of inflation, the latter and unemployment rate are inversely related. And according to past experiences of countries with relative monetary stability, every increase in the inflation rate induces a corresponding decrease in the unemployment rate. Adopting such an alternative in Lebanon would bring down as well the rate of "hidden unemployment", hence increasing productivity and helping companies to start producing at optimum capacity.

On mid-term the government's objective should be to keep a low

rate of unemployment in accordance with an acceptable inflation rate, thus laying the grounds for sound economic growth and monetary stability.

Pegging the Lebanese pound to the US dollar since early 1993, the government has abolished all expectations for currency fluctuation, which reinforced the stability of the national currency despite a long history of high inflation resulting from several years of war and civil strife. The high interest rates that went along with the stabilization policy had serious impacts on both the social and the economic fields, as they paved as well the way for a considerable amount of funds that financed both the infrastructure spending and the budget deficit.

It is well known that attracting funds results in trade balance deficits. Lebanon's exports used to amount to almost half of its imports, while they currently stand at just 10% of imports. Note that the current balance, which includes trade services such as tourism, returns on investments abroad etc., registers a high deficit that entailed a decline in the local production and competitiveness accompanied by an increase in the unemployment rate.

The private sector's contribution to GDP is decreasing year after year, while the public sector's involvement is growing considerably. In order to prevent an inflationary wave, the central bank has adopted an extremely tight monetary policy based on controlling the size of the monetary base (though it couldn't keep the expansion of the money supply within growth limits).

In the past years, and due to the recession's impact on local enterprises and the size of "doubtful loans" portfolio held by commercial banks (amounting to nearly \$3 billion), the central bank adopted strict banking control measures resulting in a direct reduction of loans granted to the private sector.

The financial system has fallen in a liquidity trap; despite their reserves, banks have become diffident to grant loans to the private sector, always in fear of companies' financial failure and eventual default. It is expected that the needed additional liquidity will not help the financial system get out of the liquidity trap that easily, unless the law on debt restructuring, a key element in securing the survival of small and medium enterprises, is soon implemented.

Of course an increase of money supply, if not accompanied by an improvement in production and competitiveness, may create inflationary tensions. But since funds are "sterilized" in the banking

system and not channeled into productive investments, there are little fears of inflationary pressures while they make room for public investment and tax cut. When the private sector becomes able to access more credit, and economic recovery becomes certain, the central bank can thus keep the money supply in the limits of targeted unemployment and inflation rates.

Moreover, checking moderate inflation over time is a much easier task than trying to radically abolish inflation in the very short run. Surely, providing the liquidity for the needed economic recovery should be accompanied by several measures, which constitute a comprehensive recovery plan.

Supporting demand

Lebanon was granted a number of soft loans, including grants to be used for specific projects, always on condition of importing technology and material from donor countries. Such countries have forgone a part of their resources to help Lebanon but at the same time support their own production and employment. Lebanon has experienced the fact that these loans, in addition to their effect in increasing the public debt, have also fueled the balance of trade deficit, which entailed impairing effects on both production and employment in Lebanon.

It is important that all potential investments be directed, especially during recession period, towards local productive capacities, since Lebanon has a highly qualified, idle technical work force. Most of the productive sectors have been at risk since the major cuts in custom duties.

Protecting high value-added activities is not really a burden during recession times. On the contrary, such a measure would only preserve purchasing power and would give factories, especially exporting ones, the chance to recover their competitive edge - reason for which public expenditures need to give priority to local production.

On the other hand, supporting domestic demand needs to maintain households' purchasing power, while bringing price levels down through encouraging competition and banning monopolistic practices.

Decreasing real interest rates.

The general level of interest rates is amplified by the high rates

paid by the central bank on commercial banks' US dollar deposits, forcing the government to borrow at a higher rate in local currency. Such excessive rate is preventing private agents from borrowing in Lebanese pounds. Since a large chunk of commercial banks' deposits belongs to commercial firms for future settlement of their obligations, banks' reserves in LBP would automatically rise, had companies been able to borrow more in Lebanese pounds.

Bringing the loans in foreign currency down to the benefit of the Lebanese pound will reflect positively on economic growth, since economic activities are hampered when loans in foreign currency, rather than deposits, are high.

Theory and practice are in accordance that real interest rates are main elements in defining the volume of economic activity. In France, for example, the average real interest rate over a period of almost one-century was around 1%. In the United States, in the post world war II golden era, real interest rate settled around the level of 0.5%. While in Lebanon, during the period extending from independence date to the end of the civil war, real interest rate exceeded 3% only once during the year 1983, causing a major slowdown of the economy at that time. Since 1992, real interest rate has been oscillating between 8 and 12 %.

High interest rates lead to a "rent-based" economy, redirecting the purchasing power towards high-income owners, and thus, the whole domestic demand structure will be affected. As far as companies go, expectations of decreasing domestic demand along with high production costs discourage employment and investment, and lead to further decline in competitiveness, which would result in slow growth and recession. The scenario looks pretty much like the actual path of the Lebanese economy from 1992.

Reestablishing competitiveness

Reducing the costs of transport, electricity, communications, social security, in addition to other costs, is a subject that is frequently dealt with. But the reality is that many public institutions, in order to balance between their revenues and expenditures, which otherwise would bring about a deficit in the government's budget, need to keep the price of their services at high levels. Hence there is an urgent need to revise the whole public services' pricing strategy to reset the competitive edge in the private sector.

Competitiveness of Lebanese products, an important matter in the

light of deepening globalization, would be affected if Lebanese enterprises incur public services that cost higher than in neighboring countries. Improving management and enlarging market share are more effective ways for the government to try and reduce the cost of public goods, which would render the whole price level more competitive. Otherwise, Lebanon won't be able to face the challenges deriving from globalization, and its whole strategy of joining the new world-trading regime will need to be reconsidered.

Supporting production

Enterprises have already suffered great losses and are highly indebted, a fact corroborated by banks' large portfolio of doubtful loans, as well as by their reluctance to grant credit to the private sector. Hence, when officials call for an increase in companies' capitals, we cannot but wonder, and on the level of the whole economy, about the way that could help raise funds.

When increasing money supply and boosting domestic demand, we only assume that production will be able to satisfy the subsequent emerging needs, otherwise the mismatch between supply and demand would result in an inflationary situation. The availability of productive capacity is not enough. Necessary financial channels need also be available to fund the surge in production.

Many countries that already faced similar circumstances, especially during major economic crises and post war periods, were able to overcome them through different measures, according to the specificity of the situation and the availability of means and resources. Yet, all these experiences had in common a clear policy aimed at curbing recession and setting up a recovery plan. Assistance measures like soft loans to industry or tourism were only complementary measures unable to reactivate the economy by themselves.

Preserving the purchasing power of nominal incomes

Preserving purchase power of nominal income is not only a social issue, but is also necessary to boost domestic demand and recover real economic growth.

In this concern, there is a vital rule that public accounts need to take into consideration: the more the share of salaries and wages to GDP increases, the higher the rate of GDP growth is, and naturally the more it provides for real economic growth.

The general economic equilibrium depends on the interaction between the different production factors. Experience only proves that such equilibrium is not normally set to an optimum even in market economy. Governments have an imperative role in taking corrective measures when needed, especially when it concerns abolishing monopolistic practices and stabilizing the business cycle.

There are no renowned benchmarks for the efficiency of distribution compensating the contribution of each factor of production. This may change with time, according the specificity of each economy and its subsequent needs. However we may notice that the wages' share in the national income is much higher in advanced nations than in developing countries.

Real economic growth engineered, as by the above rules, is one that could allow for rational monetary and social policies.

It is also assumed that the recovery plan would bring about more employment opportunities, with fair wages, especially that human resources are the central axis for any real and sustainable GDP growth.

Finally, the program needs to set a positive framework in coherence with the political environment and with the administrative body, to ensure the independence of the judicial system, to preserve social peace, and to fight all forms of moral hazard.

CHAPTER THREE

Management of the Change in the Lebanese Political System¹⁹

Hurdles and Strategies

Inducing change means setting up a creative project with vision and imagination; however, if change is limited to ideology, it would draw momentary attention then lead to disappointment, disillusionment and bitterness. Another ideology would surge to try and draw attention once more in political competition as the population grows more and more indifferent.

Talk about change today is mostly limited to generalities and recommendations, such as the talk about 'the suppression of political sectarianism', not only from politicians but also from intellectuals. As I am quite often member of a jury to discuss a thesis or a memoir, and facing the student who wrote pages and pages on the topic, I ask him Lenin's question: what should be done? I seldom get an answer. Once even another academic member of the jury retorted that it was not up to the researcher to know (what ought to be done)!

Does Lebanon really need today vague, general programmes with recommendations for the record just to save appearances? Does Lebanon need a government programme that deals with almost everything without any pragmatic details to solve some vital problems and a study as to the political feasibility of the changes suggested? Intrinsic change is more about strategies with actors, agents and feasibility. It encounters hurdles and obstacles in terms of prospects, means, resistance, support, as well as human and material resources.

In the case of a consensus-based government or power sharing among eighteen communities, a system based on compromise and balance - a system that Speaker Hussein Husayni called 'the scales of a goldsmith' - change in terms of strategy in Lebanon addresses a number of problems.

19 by Antoine N. Messarra.

The obstacles

The problematic of the authority

First the authority. Is the state the one to decide or the one to fix things up? Ministerial consultations that last forever with vetoes and conditions that surge here and there supposedly for the sake of a Cabinet of national understanding are an example of a decaying system since the principle of legality is constantly eroded. The problem of legitimacy and authority is crucial in a system where the simple majority is not enough to reach a decision and where mutual vetoes block decisions; not to mention that in many cases, foreign intervention under the form of enemy occupation, or brotherly help, or pressure, fosters and manipulates internal cleavages or gives these cleavages artificial sectarian aspects (*tatyîf*).

We assume that this problem of authority was given a constitutional outlet in the national Agreement Accord known as the Ta'if Accord (November 5, 1989) namely through the amendment of article 49 of the Constitution on September 21, 1990 to make the Chief of State the guardian of the principle of legality whereas the risk was that the Chief of State become an *honorary president or the man of Baabda*.

The troika of the three presidencies is a *de facto perversion* of the new constitutional amendments. The slowing down of the formation of national agreement Cabinets is another perversion since a coalition Cabinet does not necessarily include *all* political forces. Otherwise, we risk undermining the principle of solidarity among ministers, or even the principle of an executive - which is not a miniature representation of the Chamber of Deputies - and the existence of any real political opposition.

The problem of authority in the Lebanese consensual system, by reference to its polyarchy - characterized by numerous centers of decision - is that it has been robbed of its originality, or twisted by slogans about 'sectarianism', or exploited and manipulated by the internal elite and foreign forces in a jungle where political men confront and fight. Georges Gorse, French envoy in the first years of the war, had called the latter men 'the demons of politics'.

Authority is also weakened or distraught by the strategic position of top elite (*aqtâb*), which in fact leads to a dictatorship of the elite in a rigid system of power sharing without efficient and counterbalancing powers. Authority is then paralyzed. Rashid Karame evoked this issue in 1976 in suggestive terms when he said: 'Between Camille (Chamoun) and Kamal

(Joumblatt), we reached this state' (*Bayna Camille wa Kamal Wasalna ila hazih al-hal*).

Animated by a change strategy, President Chehab was confronted with the problem of authority but at a more peaceful scale compared with previous presidents (1958-1964). He posed the issue in clear and poignant terms with alternatives he considers risky and inefficient in his famous August 4, 1970 speech, the content of which is due to Fouad Boutros. He underlines: 'My conviction is that the country is not ready yet to admit basic solutions, which I cannot envisage without the *respect of the principle of legality* and fundamental freedoms to which I have always been attached.'

To solve the chronic authority crisis in a multiple scale and in an Arab conflict-prone, anti-democratic regional context, the prospect of a settlement was historically under the grip of the Army Second Bureau during the presidential mandate against the will of President Chehab; with the Cairo Accord in 1969, it was impossible to conciliate between the State and its antonym; it was security through accommodation (*al-amm bil-taradi*) during the 1975-1990 wars; then it was the tutelage and hegemony of the Lebanese Syrian security services after the Ta'if Accord; there has persisted at all times the illusion that the Army is or might be 'the solution' (*wa yabqa al-jaysh huwa al-hal*) through a Chief of State from the Army, with the symbol of Fouad Chehab in everyone's mind.

Lebanon does not need an army turned into a taxi to ensure the politicians' transportation and security; nor does it need an army turned into a *spectator* as it stands powerless in front of the general state of insecurity; nor does it need an army outgrown by its *secret services*; nor a *praetorian* army at the service of those who govern so that they get more indemnities and benefits. What Lebanon needs is an Army that be a real counterweight in the balance of powers.

Wild Consensual Practices

No change can be envisaged in any field without rationalizing the Lebanese political system consensual practices. This system's nature is not unbridled in favor of a *za'im* who imposes his law in favor of his community; it does not mean that in order to reach agreement the law is violated; it does not mean either that the majority vote is excluded in the Cabinet of Ministers even about an administrative procedure such as appointing civil servants.

Every political system holds within it the seeds of its own corruption if there are no *limits*. Crossing these limits in the Lebanese consensual system has always been justified - if not blessed - by a political culture that can be summarized as follows: this is what a sectarian system is about! A politician supposed to defend the norms of good legislation asserts to justify nepotism is heard saying: 'Since the system is sectarian, we want our share!' In fact, neither those who govern nor those who defend the Constitution have set up norms in order to limit the unbridled sectarian quota rule, which is a major hurdle to efficiency and to public services.

Elitocracy and nepotism

The dictatorship of the top elite (*aqtab*), the tendency to pose and solve all problems through stakes of power and nepotism, and the growing social sectarian *pillarization* are major hurdles to public, general interest policies. Therefore, we need a new dynamics to modernize the traditional elite, most of who have a national heritage as they fought for independence and sovereignty and are aware of the *message* Lebanon carries contrary to an elite exclusively coming out from the war (*lumpens*). This also helps to strengthen the principle of the separation between the executive and the legislative and to better orient the administration to more efficiency and productivity for the sake of public service.

What favors elitocracy more than the prevailing political culture is the fostering of sectarian cleavages under the pretext of national security, sovereignty, independence, open relations with the Arab world. Fear, its manipulation and its fostering urge people to resort to sectarian leaders in to ensure self-defense. The Preamble of the amended Lebanese Constitution states: 'Lebanon, definite home country of all its sons' was concretized by the common and shared experience of 1975 to 1990 and by the Beirut spring on March 14, 2005. No real, in-depth, long-term change will occur unless Lebanon ceases to be a pavement in the French sense, i.e. a fighting ground where 'wars for others' are waged.

MP Naamtallah Abi Nasr submitted a proposal forcing MPs who are appointed ministers to give up their seat in the Chamber of Deputies, which brings in a new dynamic in the relations between the Legislative and the Executive and for the management of public policies. Ministers may be recruited among MPs but once they become ministers, they must give up their seat in the Chamber for considerations related to balance, representation, and harmony.

Ruptures

A change is limited to periodic and momentary innovation if it is not a long-term process. One should admit that evolution in Lebanon has been interrupted, not just because of the nature of the political system, but because of regional disruptions (Cairo Accord in 1969 and its consequences, the two-year war in 1975-1976, followed by the Camp David Agreement, the invasion and occupation by Israel, the Syrian tutelage, etc.). These circumstances that directly influence the situation in Lebanon as concerns security and the economy should not have had *repercussions on all fields*. The reasons of these generalized repercussions with basic legislative and judicial disruptions are in fact to be found in *high State magistracies* to whom six and four-year mandates were given so that they be guardians of continuity. The Economic and Social Council created by virtue of the 1990 constitutional amendment is an agent of continuous dialogue about public socio-economic policies.

Strategies

The Chief of State, Guardian of the Principle of Legality

The Constitutional amendments, by virtue of the National Agreement Accord - known as the Ta'if Accord - on November 5, 1989 and revisions on September 21, 1990, were not integrated in the Constitutional culture and more generally in the political culture in Lebanon. The September 21, 1990 amendment adds the following clause to this article:

'The President of the Republic is the *Chief* of State and the *symbol* of the country's *unity*. He sees (yashar) to it that the Constitution be respected, that the *Independence* of Lebanon be safeguarded, as well as its *unity*, territorial integrity in conformity with the terms of the Constitution(...).'

Is this literary style or a new constitutional clause introduced purposefully to have in exchange a concrete political practice? In fact, it is the new foundation of the functions of the Chief of State.

Proof is that the oath is limited to the first presidency only by virtue of Article 50; some proposals of political change had suggested that the Chief of Government and the Speaker of the Chamber also take an oath; in fact, it is only the Chief of State who does so.

Another proof is that by virtue of the September 21, 1990 amendment creating the Constitutional Council, the latter '*can be asked by the President of the Republic to control whether a law is in conformity with the Constitution (...).'*

Despite these clauses, the former debate about the functions of the Chief of State continues: whether he presides the Cabinet, the way ministerial consultations occur, the removal from office of ministers, the ratification of treaties, etc. There are certainly some important points about the balance of powers. However, the main function of the Chief of State is beyond the mere problem of how prerogatives (*salahiyyat*) are attributed, his is a function of moral magistracy for the defense of the state of law and to safeguard general interest.

Unless we consider the four new lines in Article 49 as literary style or judicial redundancy, including the exclusive obligation of an oath (art.50) and the new right to resort to the Constitutional Council (art. 19), we have to determine, in theory and in practice, the concrete basis of a function not as a referee (often assimilated to nepotism) but as a positive and active guardian of the principle of legality.

It is significant that in articles written about the Presidency of the Republic and television debates about the same subject talk is only about programmes (*barâmij*) and general politics not about the Chief of State as the ultimate guardian of legality against any pressure, personal interests and the dominant political culture based on nepotism and relations seen in terms of a power struggle.

The four new lines to Article 49 are ground for Lebanese Constitutional action-oriented research, namely as concerns the way the Presidency of the Republic is exercised. These four lines are a Programme as such, which does not encroach upon the attributions of the other presidents; they oblige all leaders to conform to the norms that govern these attributions. When because of unfavorable relations seen in terms of a power struggle, the Chief of State cannot make any changes, he can and must at least say so.

Rationalizing Consensual Practices

Constitutional analysis is bound to be sterile if it continues to follow the same patterns and criteria as the ones used since 1920. A stereotyped approach is no longer innocent: it justifies the sectarianization of the system by politicians who could not care less about public interest and participation - two inherent requirements of the consensual system's democratic aims. Fundamental and empirical reflection ought to follow other ways from now on.

Some *laws* set up the conditions to appoint civil servants, to promote and offer advancements according to norms of competence. Each time

the laws and norms of the State of law are broken or bypassed respecting only judicial form - which is a fraud of the law - it is not the sectarian system that ought to be blamed but the devious practices under the protection of jurists and constitutional experts. Working against sectarianism is being exploited by rulers to justify their actions without any *accountability* since the common saying is: so goes the system!

Change is to set *limits and frontiers* to communitarian realities as determined by judicial rules and the norms of the State of law. These are the new prospects of action-oriented research for university students, social and political actors.

Any political system that is not dictatorial or totalitarian includes *limits* to prevent abuse of power. When politicians respect or are obliged to respect the limits of the communitarian system related to balance and sharing as determined by laws and the norms of the State of law and of good governance, we will make sure that a more competitive and less consensual system will not lead to sectarian exclusions and hegemonies.

Among the problems of governance, there is that of conformity of the principle of legality with the requirements of *national agreement*. A system forced into compromise - who would have any doubts as to the fact that well run compromise is a democratic value?- may be situated in a conception of *flexible law*²⁰, in conformity with one of the essences of politics in all systems without any exception: national agreement. Otherwise, inter-elite agreements violate the principle of legality in a flagrant violation of the law.

Besides, submitting all issues in the Council of Ministers to global consensus - including the appointment of civil servants - is in contradiction with Article 65 of the amended Constitution.

Trying to include in all coalition Cabinets all party-related disagreements is to disregard the necessities of ministerial opposition and solidarity.

The practice of the Lebanese political system is hindered by more than thirty years of *decay*. The rehabilitation of the principle of legality in the case of Lebanon with its specificities is a vast building site whose only guarantor is the Chief of State with the new amended Article 40.

20 Jean Carbonnier, *Flexible droit (Pour une sociologie du droit sans rigueur*, Paris, LGDJ, 8e ed., 1995, 442p.

Overcoming some constraints of the Lebanese consensual system may be efficient when *the minimum conditions of the rule of law are restored and strengthened*; otherwise, the so-called consensual practice is even wilder with more unbridled sectarianism in a jungle without norms. The advantage of the Ta'if Agreement is to pave the way for this rational prospect of change.

Successive Approximations

No change is imposed from above by a *coup d'état*, not even in enlightened despotism. Partial change instigated by President Chehab was made through successive approximations- starting from a global vision and a strategy but with gradual changes in small doses. The reason is that change in a consensual system with a *multiple balance* does not only raise questions as concerns its technical nature and its efficiency but also as concerns balance related to institutions, personnel, regions and communities.

In a multi-communitarian society, changes that hamper balances are dreaded. The first dose of change ought to bring in psychological security thus making other doses possible without harming the general coherence and the actors' determination. This may not be the ideal strategy, yet it is a possible strategy.

Had President Chehab submitted in a block legislative decree about public administration, Social Security, regional development, etc., changes would not have been approved.

Public Dialogue Policies

Change occurs through successive approximations but it also occurs through a public policy based on dialogue. An excellent example is the adoption of the pedagogical renovation plan at the Center of Pedagogical Research and Development under the direction of Professor Mounir Abou Asly with two very controversial subjects, Civic Education and History (1997-2001). The operation was made possible through a dialogue policy with political forces and with decision-makers and actors in terms of Education. This is an example of ways to run a democratic public policy, which is most likely efficient with the participation and the support of decision-makers and actors.

A public policy is more likely to be applied without degenerating and at a lesser administrative cost if it mobilizes people and raises their concern.

Changing politics

If politics in Lebanon remains almost exclusively a struggle for power, competition between political men and conflict-based mobilization, then change is very unlikely to happen with the most sophisticated programmes set up by consultation offices and public administrations. Politics is also about the management of the *res publica*. No national change means no public management for lack of *public spirit*.

It is up to educators, professional organizations and unions, NGOs, municipal actors, etc. to promote a public spirit against nepotism and local ill-feelings. All problems without any exception ought to be posed in concrete terms of the quality of life, of consequences as to the daily life of the Lebanese and their families, their health, their children's material future, their formation, their security, etc. Is it possible that so many martyrs of all political allegiances - and without allegiances - were sacrificed to finally witness the Spring of Beirut on March 14, 2005? The example of Poland is quite significant: the first demonstrators of Solidarnosc asserted loud and clear that they were not dealing with politics, were not opposing the power in place, that they even supported this power - based on what they said- but they only wanted to eat and send their children to school!

A typical example of a non-operational strategy in Lebanon was that of an NGO endeavouring to have an optional civil personal status. Such a status is within the perspective of Decree 60, dated March 13, 1936 (still into effect but not applied), and of Article 9 of the Lebanese Constitution which stipulates that 'the freedom of creed is absolute'. Militants of all kind were mobilized: anti-sectarian, anti-clerical, atheists, former left wingers, etc. The problem became political and sectarian whereas it was about a fundamental right within the existing system. What ought to have been done was to follow the example of Solidarnosc in Poland, survey and show 15-20 cases of injustice in mixed marriages, the fate of the wife and children, the rights of children who are not baptized, etc. Justice should have been claimed in these cases concretely and practically.

Are ministers really minding their ministers instead of filling the population - blindly politicized - of so-called *national* words? We will trust more speeches about independence, sovereignty, the Lebanese and Arab message of Lebanon when the streets are asphalted, village schools of a certain educational level, and when each user of a public service feels equality and dignity in his relations with the

administration. Real change will occur in Lebanon when a Minister of Public Works will actually talk about streets, the Minister of Education about the village school, the Minister of Hydraulic Resources about lighting houses, etc.

After a thundering declaration by a minister, Ghassan Tueni wrote: 'If only the Minister of Hydraulic Resources, Minister Fneich, minded electricity (...) instead of specializing in the refusal of *colonial* expertise that is about to reveal crimes our experts worked on covering up (...). The ministers allergic to *colonialism* - in the mere fact of resorting to foreigners for real investigations on murder (...)- are perhaps placing themselves in the defense of criminals.'²¹

Why is it that in Israel, contrary to Arab countries, the 'regional circumstances' do not prevent the carrying out of educational reform plans, or the repairing of roads or the simplifying of relations between the administration and civilians, or the arrival of water and electricity to homes?²²

Contrary to the common belief, the reform of the electoral law is not the key to thorough and global political change. It is rather the electoral behaviour, that of citizens who do not rely on nepotism and are aware of their vital interests to bring in-depth change to politics.

Think Global Act Local

Change that aims at being global is not tangible, reassuring, and contagious unless it is reflected in the social sub-systems at a micro-level, in the street, neighborhood, school, small enterprise, municipality, etc. Any global plan or programme that does not include pragmatic details as to its application in local and sector micro-actions remains abstract and does not stir human and sustainable development. It does not bring any change in mentalities, behaviours, and political culture, which remains entangled in wordy speeches and sectarian perceptions. A paragon to induce change is the teams of regional development during the mandate of President Chehab in the 60s instigated by the Office of Social Development then headed by Joseph Donato.

21 Ghassan Tueni, *al-Muthallath al-amnî ... am muthallath al-tathwîr fa-l-irhâb* (The Security Trilogy ... or the Trilogy of Insurrection then of Terrorism), an-Nahar, Oct.3, 2005.

22 See art. by Henry Zogheib, *Na'rifu aduwwana wa natta'iz* (We get to know the enemy and we learn), an-Nahar, October 8, 2005.

In today's socio-political circumstances in Lebanon, it is at the local level that one finds the major hurdles to a general interest action. This is where family and political ill-feelings and rivalries develop and thrive. Most Arab sociologists and political analysts have disregarded research at the micro-level, giving priority to research about super-structures and macro-systems; in fact, it is at the micro-level that one develops the empowerment culture and truly sustainable human development.

Punctual, field actions at the level of social sub-systems have often been considered by political mentalities as a sort of *panem and circenses* (bread and games), a disdainful expression used by Juvenal (*Satires*, X, 81) to the Romans unable to be interested in anything else than free distributions of wheat and in circus games.

These *punctual, targeted, cumulative* actions can, in a *public* spirit, have a contagious effect especially in a small country such as Lebanon. They can prevent politics from becoming an exclusive power stake that is run by networks of corruption, nepotism and reproduction. A municipal worker who would use fraud for the sake of a user of the water office is just a link in the chain that goes from the municipal worker to the MP to the Minister and perhaps even further.

It is true that today unfortunately for both regional and internal reasons solutions will not come from the high political sphere nor from policies unless politicians and politics are harassed daily by actions that are set up by the living political society. Any policy that does not come from civilians as users and beneficiaries of public services is a public threat. A typical example of civilian and targeted change is the program of Offre-Joie Association, *biyitla' bi'idna* (we Can, if we want to)! In Baal Darawish and Bal-Daccour in Tripoli.

The nuclei

In a small country such as Lebanon, namely in situations where global achievements are likely to remain blocked by intestine struggles, power-related stakes, vetoes and counter-vetoes, allegiances related to nepotism, the strategy of the nuclei ensures maximum feasibility chances. This strategy counters what has unfortunately become a habit, i.e. to present long, very long lists of recommendations and claims to show a global vision! The vision may global, yet it needs a complementary strategic approach. The strategy of the nuclei consists in detecting poles where a budding change is emerging thanks to actors who have the will to change, start initiatives, ensure frames, and

mobilize people to set up paragon schools. The latter spread trust, induce participation and develop empowerment. If a plan is set up to improve the quality of public and official education in Lebanon, feasibility will mean to choose ten official schools or more every year, in all *muhafazats*, to serve as pilot schools where the aims of a larger, more global plan are implemented at a small scale to highlight and spread them.

Community organizations in a public spirit

The various multi-community organizations in Lebanon (religious, educational, cultural, charity, hospital-wise, social) can be *endogenous development* agents within every community, in a society that is cautious about diversity and autonomy, at times, and at others is wary as to public policies that are imposed by the central power. The history of Lebanon shows educational performances achieved by the Christian communities through teaching institutions around the country. More recently, Muslim communities have developed educational structures that favored equality in the socio-cultural level of communities.

Community organizations can be agents of endogenous change without any risks of sectarian division - provided they work in a *public spirit*.

A typical example is a Sunni charity organization that includes in its activities Lebanese people from other communities and who has formed a neighborhood committee to improve the quality of life in the neighborhood where Sunni and non-Sunni people live ... Such an Association actually contributes to *public* and *endogenous development*. Therefore, community organizations can instigate change provided they be non-sectarian and work for the public interest.

Levers

Change certainly needs vision and strategy, yet it encounters hurdles and obstacles. This is why it needs levers to carry it, support it, and help it to reach its final destination. Where are in today's Lebanon NGOs, professional organizations, unions, and other social organizations? If a minister takes courageous decisions, if MPs submit draft laws, if the judiciary is independent in its decisions - independence, courage, and equity - who supports them against a deep-rooted system of corruption and power-based stakes not social stakes? Are professional organizations, unions, major bank associations, associations of industrialists, traders, etc. an extension of

political forces in connivance with the latter forces, or do they have the autonomy necessary to defend professional interests that have repercussions on the population's quality of life? Civil society organizations have been trodden upon, infiltrated and often turned into subordinates.

Where is the Lebanese administration that is in charge of a whole public change programme? After thirty years of lamination and systematic nepotism in so-called public services, we can say that there is a contingent of good civil servants but *there is no administration in Lebanon* capable of assuming the change. The National School of Administration (ENA), in cooperation with ENA-France, should, through its Board, be a pillar of formation of the rising civil servants, with its methodology and training programme dated June 9, 2005 and approved by its Board.

The action of the Economic and Social Council is, despite hurdles, an example of a pole that can stir laminated structures as a result of thirty years of war, the aftermath of the war, enemy or 'brotherly' occupation.

Change in Lebanon over the next ten years requires - beside vision and methods - real and concrete *restructuring of institutions*, be they political, security related, administrative and social, laminated, infiltrated, or turned into subordinates by a terrorist security system. These institutions 'carried out orders' as said Premier Fouad Siniora at the session of the Chamber on October 5, 2005.²³ As a consequence, any change programme ought to be targeted on levers, i.e. *institutions* and a choice of *actors* ought to be made so that they can carry on and implement the change.

Conclusion

Change in the Lebanese consensual system requires a good awareness of this system's possibilities and limits; awareness should be of Lebanon's opportunities since it is neither Australia nor the U.S. but rather a small country. Therefore, global change is possible in less than five years if conditions to operate the change are met.

Among all speeches about change, the puritan is the most utopian

²³ This declaration is a central document for operational and strategic reflection on change. See the press of October 6, 2005.

and the most worrying. Puritanism in politics is more dangerous than at a personal level since it disregards the complex nature of politics, presents others as evil and justifies the recourse to ways that are disproportionate compared with expected results, regardless of the costs and profits. Success in politics does not depend on enlarging the network of one's enemies; it is rather by reaching out- without shady deals - for maximum support neutralizing enemies and resistance, limiting their harm, taming them if necessary. Politics in its nobler meaning only occurs *with* politicians, actors and the society, as such, not against or even *without* them.

This requirement is more complex in a coalition and power sharing system. Fromagists, parasites, a major hurdle to the reform undertaken by President Chehab, cannot be excluded - supposing that their exclusion is a solution - but they can be neutralized or integrated in the process within reasonable limits respecting the principle of legality. The society will have to be more aware of its interests - not those of politicians - through various civil organizations. It will need to support general interest policies. If the elite system is working so well, and so uncontrollably, in Lebanon it is thanks to political relations based on nepotism.

One of the greatest change strategists, Laure Moghaizel describes her strategy in a struggle that lasted half a century in the following terms: 'We set up in 1949 an action plan that pursues pioneer effort starting off from an *assessment* of the Lebanese legislation in comparison with international conventions and Arab legislations. We divided our claims into stages. In each stage, we focused on one claim, chosen for reasons related to priority, and its feasibility. We set up a specific and detailed *proposal*. For each stage, we created a *committee* that organizes activities and makes necessary contact.²⁴

After years of persistent militia culture legitimized in the exercise of power, can we hope for global programmes, certainly, but ones that strategically include ten *measures* or more for concrete application of the envisaged change?

24 Laure Moghaizel, *huquq al-mar'a al-insan fi Lubnan* (The Rights of Women as a Human Being in Lebanon), Beirut, Joseph and Laure Moghaizel Foundation, 1997, 188 p.

- Antoine Messarra and Tony Atallah (dir.), *Nisf qarn difa'an 'an Huquq al-mar'a fi Lubnân*: Arshiv Laure Moghaizel, vol.1, 1999, and vol 2 to be published in 2006

For further reference

Details as to the argumentation are developed in our works :

- Antoine Messarra, *La gouvernance d'un système consensual*, Beirut Librairie Orientale, 2003, 600 p. namely the following chapters (in French): «The Chief of State, Guardian of the Principle of Legality» (pp. 159-164); «Pact, Constitution and Governance...» (pp. 189-204); «Violation of the Law and the Principle of Legality» (pp. 343-344); «Unions: Militancy of Protest or Participation to Development» (pp. 367-370) ; «Working for a Proximity Democracy» (pp. 581-592)...

- *al-Nathariyya al-'âma fi-l-nithâm al-dustûri al-lubnâni* (General Theory of the Lebanese Consensual System), Beirut, Librairie Orientale, 2005, 464 p., namely (in Arabic): «Introduction» (pp. 29-44); «The Rule of the Quota » (pp. 135-152); «Belonging to a Community» (pp. 203-210); «Presidencies and Attributions...» (pp. 237-246); «The Army in a Multi-community Society» (pp. 293-310); «Conclusion» (pp. 445-453)...

About current problems raised by change:

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

- *Pour changer le monde*, special edition of *Manière de voir*, no 83, Oct.-Nov. 2005, 98 p.

PART 2

The Economic Challenge

CHAPTER FOUR

Paris II Meeting

Beyond Reconstruction and Recovery ...
towards Sustainable Growth
A request for international support

In late 2000, with a new Lebanese Government in place and though Lebanon's war-damaged physical infrastructure had been substantially rehabilitated and reconstructed, fiscal deficits and debt reached unsustainable levels and the economy was stagnating. On the occasion of the Paris I meeting in February 2001, the Government of Lebanon had presented a strategy for addressing the situation. The strategy focused on fiscal adjustment in order to reduce the rate of accumulation of debt, privatization to reduce the stock of debt, and structural and institutional reforms to lay the basis for growth. The Government then requested support from the international community to complement its adjustment efforts and bring about a virtuous cycle of lower fiscal deficits, declining debt ratios, and lower interest rates that can unleash the potential of Lebanon's private sector.

The official document prepared for the Paris II Meeting presents the progress that has been made since the Paris I meeting and the program that the Lebanese Government has adopted for the next few years. On the basis of its program as presented in the document, the Government requested external support to change the composition, reduce the cost, and lengthen the maturity of its debt that would allow Lebanon to borrow at low interest rate spreads, using the proceeds solely to substitute such external debt for existing high-interest short-term debt. Such substitution would result in a sharp reduction in the level of domestic interest rates, with a consequent further reduction in the overall fiscal deficit and Government financing needs, and lay the basis for solid private sector-led growth and recovery.

Introduction

In early 2001, President Chirac of France convened a meeting in Paris (the so-called Paris I Meeting), with the presence of the Presidents of the European Union (EU) and the World Bank and the Vice-President of the European Investment Bank (EIB), in order to discuss support for the Lebanese Government's economic program at that time. The meeting indicated that support would be considered

once progress had been made on the implementation of the program. It was then agreed to convene a broader follow-up meeting to assess progress made and to agree on future external support to ensure successful implementation of the Government's program over the 2002-2004 period.

At that time, Lebanon had reached a difficult economic situation, with the overall deficit amounting close to 25% of GDP in 2000. Owing to incentives and structural measures taken by Government since early 2001, the period 2001-2002 witnessed some recovery of growth and strong export performance, and an improvement in the primary fiscal balance equivalent to about 10% points of GDP. Nonetheless, total net public debt continued to rise, reaching 173% of GDP. At the same time, interest payments on the public debt amounted to 18% of GDP and absorbed about 80% of total Government revenues in 2002.

The Lebanese Government has reached the conclusion that sustained growth will not be achieved unless Lebanon, with external support, is able to create a virtuous cycle of lower fiscal deficits, declining debt ratios, and lower interest rates that can unleash the potential of Lebanon's private sector. In this regard, the Government is committed to its program of continued fiscal adjustment, privatization and structural reform, failing which economic and social stability in Lebanon could be undermined.

The new Government that took office in late 1992 adopted exchange-rate based stabilization policies, which helped restore confidence, caused a rapid decline in the rate of inflation to single-digit levels by 1994, and encouraged private capital inflows. A reconstruction program was initiated in 1993, with the objective of repositioning Lebanon as an international economic and services center in the Arab region, and as a regional hub for trade and services and a link between the region and Europe. Unfortunately, the magnitude of financial external support for the reconstruction program, while important, fell far short of those expectations. That support was mainly in the form of soft loans from the countries and institutions of the Gulf Coordination Council (GCC) and Europe, and loans from international financial institutions. Moreover, the private sector proved reluctant to take on major infrastructure investments in Lebanon in the aftermath of the war, amidst continuing insecurity in the region, and the absence of an appropriate legal framework and of institutions or political consensus.

The Government had to undertake most of the task of restoring basic services to support private sector recovery, but at a high cost of borrowing. The rise in the overall fiscal deficit not only reflected the reconstruction outlays and the post-war social and security expenditures, and high interest rates on the budget's financing, but also the fiscal costs of the occasional sterilizations by the Central Bank (Banque du Liban - BdL) of short-term financial capital inflows as part of the stabilization policy, in order to avoid exchange rate volatility, in particular a sharp appreciation of the currency.

As Lebanon entered into a cycle of rising deficits and debt and lower growth, and with the increasing recourse to borrowing domestically in foreign currency, the Lebanese Government set out in late 2000 to develop a comprehensive strategy to resolve the debt dilemma through a sustained domestic effort with external support.

The Government's Program

Progress made during 2001-2002

Since late 2000, the Government implemented a number of fiscal stimulus measures to revive domestic production and exports, and initiated structural reforms aimed at further liberalization and deregulation of the economy. At the same time, it began to develop a program for medium-term fiscal adjustment and privatization so as to reverse the trend of rising public debt. These included a targeted reduction in import duty rates (to revive a stagnating economy), and strict control over non-interest expenditures and, most important, the introduction of the value added tax (VAT) at a rate of 10% on goods and services.

As a result, the *fiscal adjustment* during 2001 and the first three quarters of 2002, as measured by the primary fiscal balance, amounted to the equivalent of 9.8% points of GDP, with the primary balance moving from a deficit of 7.6% of GDP in 2000 to an estimated surplus of 2.6% for the year 2002. The improvements on the revenue side were a result of a range of revenue measures, but especially owing to the introduction of the VAT. In addition, gasoline taxes were raised three times during 2001-2002, yielding 50% more in 2002 than in 2001. The positive revenue performance also resulted from institutional strengthening in the area of tax administration, including the establishment of automated customs and land registration administrations, and a widening of the income tax base and a

strengthening of tax administration.

The efforts to reduce Government expenditures derived from the initial structural measures taken to rationalize public sector employment and redefine the role of the state. For instance, the Government's television station, Télé-Liban, and the national airline, Middle East Airlines (MEA), were restructured, with layoffs totaling about 2000 persons. Moreover, major improvements in the performance of the public power company (*Electricité du Liban* - EdL), which now covers its operating costs before debt service, contributed to the fiscal outcome for 2002 and facilitated the planned privatization.

Despite these measures, the overall fiscal deficit has remained at high levels, driven in large part by very high levels of interest payments, and the accumulation of debt continued, albeit at a somewhat slower rate. With the increasing difficulty to tap domestic financial savings during 2001 and the first half of 2002, the Central Bank increasingly provided resources to the Government for the financing of its deficit.

Table 1, as presented below, is a summary of the original Table 1.

**Table 1 – Fiscal Developments and Public Debt 2000-2002
and Budget 2003**

	2000	2001	2002 Jan-Sep	2002 Estimate	2003 Projected
Fiscal Developments					
<i>% of GDP</i>					
Revenues and grants	19.6	18.7	22.3	22.3	23.7
Expenditures	44.2	38.1	36.9	37.9	32.4
o/w Interest	17.0	17.2	16.8	18.2	12.6
Primary Balance	-7.6	-2.3	2.2	2.6	4.2
Overall Deficit	-24.6	-19.4	-14.6	-15.6	-8.4
Public Debt					
<i>US\$ billion</i>					
Domestic Currency Debt (net) ^a	15.7	16.8	17.3		
Domestic Currency Debt (gross)	17.4	18.1	18.6		
Foreign Currency Debt	7.5	10.3	12.3		
Total Public Debt (net), incl. accr. Interest	23.2	27.0	29.6	30.7	25.0
Total Public Debt (net) ^b				30.0	24.7
<i>% of GDP</i>					
Total Public Debt (net)	141.6	162.4	172.8	173.0	135.8

(a) *The net domestic debt equals gross domestic debt less Government deposits with the BdL and commercial banks. It includes accrued interest on discount Treasury bills.*

(b) *Excluding accrued interest on discount Treasury bills.*

Government then set out to undertake a major program of corporatization and *privatization* of public infrastructure to bring about a reduction in the stock of debt, as well as improvements in efficiency

of operations, that would also have a positive fiscal effect. Parliament had previously adopted a framework privatization law in 2000, which formed the basis for developing sector-specific laws to underpin specific privatization operations in various sectors. The law provided for the establishment of a Higher Privatization Council, in the Office of the Prime Minister, and the Council became operative in 2001.

Three specific laws were enacted in 2002 to set the stage for the privatization of two existing cellular phone systems, to corporatize and privatize the fixed line telecommunications, and to corporatize and privatize the power sector. The laws provide for the establishment of regulatory bodies for the respective sectors. Government had already implemented a program of restructuring of the national airline MEA, and legal and administrative preparations had been initiated for the privatization of water and waste water sectors, and of the ports and airport through concessions. Provision in the laws was also made allowing Government to establish special accounts for certain revenues to be used for securitization, and for the receipt of loans to be used solely for debt payment and servicing.

Privatization is part of the Government's broader program of *structural reforms*. These were initiated on several fronts. With the objective of becoming a member of the World Trade Organization (WTO), now expected to take place in late 2003, the first Working Party meeting was held in Geneva in October 2002. In this regard, legislation was updated, including a WTO-compatible customs law that came into effect in December 2000, and trade liberalization measures were implemented, including the introduction of an open skies policies in late 2000, the liberalization of oil products in early 2002, the planned liberalization of pharmaceutical imports, and the elimination of exclusive agencies for which draft laws are now in Parliament. Further liberalization measures include ongoing work on a consumer protection law and a competition law.

To promote private investment, an investment promotion law was adopted in 2001 that established a one-stop agency for investors and selective tax incentives, while another law eased limitations on the foreign ownership of land. Moreover, to reduce labor cost to employers and the cost of doing business in Lebanon, employers' contributions to the National Social Security Fund (NSSF) were reduced in 2001 from 38.5% to 23.5%. In addition, small and medium-size enterprises (SMEs) began to benefit from lower interest rates, complemented with a guarantee scheme to facilitate their access to bank financing.

These measures that were introduced in 2001 and 2002 did stimulate growth and exports. In this context, the Association Agreement with the EU that was concluded in early 2002 will greatly help Lebanon realize its export potential. But the greatest constraint to accelerated growth remain the crowding-out of the private sector by the high level of public sector borrowing, and the high level of interest rates.

The program for 2003 and beyond

In short, Government's strategic aim consisted in reducing the stock of debt through privatization, complemented with a change in the composition of debt in order to reduce interest rates, which would bring down the overall fiscal deficit. Structural reforms aimed at improving public sector performance and the utilization of external project support already committed. But external support is needed to ensure reductions in the cost of servicing the debt so as to bring the rate of growth of the stock of debt remaining after privatizations to levels that are lower than the rate of GDP growth.

In terms of *fiscal adjustment*, the budget for 2003 that was submitted to Parliament is an austerity budget that envisages a further 11% increase (from the estimated actual 2002 level) in Government total revenues, and a further reduction in the ratio of non-interest expenditures to GDP. The target for 2004 is to reduce the overall fiscal deficit by more than half from the 2003 level, and it is envisaged that the overall fiscal deficit would be eliminated by 2006.

In the domain of *privatization*, the sale of licenses for two existing mobile systems to provide GSM and GPRS services for a period of 20 years is now underway. Moreover, the ongoing fixed line operations of the Ministry of Telecommunications will be transferred to a new commercial corporation (Liban-Telecom) to be established in the second half of 2003, once the regulatory agency is operative. In the case of the power sector, Government will proceed to establish a commercial public corporation for power generation and distribution and one for transmission, transferring the assets of EdL, which currently owns and operates all of Lebanon's 2000 MW generating capacity and transmission, as well as most of the distribution.

The total privatization proceeds, including a combination of outright sales and securitization, are expected to reach about US\$ 5 billion in 2003, which would be applied in full to Government debt reduction. For 2004 and 2005, privatization proceeds in the order of

US\$1 billion per year are envisaged, primarily from the subsequent sales of shares in the telecommunications and power corporations.

The resulting reduction in the *cost of debt* would be significant. At present, the average interest rate on total debt is about 12%, which is equivalent to a spread of around 1000 basis points over US\$ and Euro-LIBOR rates. This corresponds to an interest burden that is equivalent to 18% of GDP.

With the implementation of the Government's plans for further fiscal adjustment, privatization, and the reduction of Government debt to BdL, debt reduction would take place in 2003 even in the absence of external support. But in the absence of external support, average interest rates on debt would remain high (above 10%) until after 2003. Thus, the reductions in the debt to GDP ratio and in the cost of servicing the debt as a result of the Government's plans for fiscal adjustment and privatization, while sizable, are not enough to create a virtuous cycle of debt reduction, lower interest rates, and growth.

Without external support, the debt to GDP ratio would decline in 2003 as a result of the privatizations. The ratio would barely decline further thereafter, however, as interest rates would not decline further. So further reductions in the overall fiscal deficit would be limited, and private investment and growth would remain constrained on account of the debt overhang and the high level of domestic interest rates. The resulting Government reliance on financing of part of its deficit by BdL could put further pressure on reserves and interest rates, which could undermine financial and economic, as well as social and political, stability.

Table 2 below shows the fiscal and macroeconomic developments under the alternative scenarios of "with external support" and "without external support".

Table 2 – Fiscal Developments and Public Debt, 2002-2007

	2002	2003	2004	2005	2006	2007
without external support ^a						
GDP (US\$ billion)	17.3	18.0	18.8	19.6	20.4	21.2
real GDP growth	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
fiscal deficit (% of GDP)	15.6	13.0	8.5	7.0	5.7	4.6
total net debt (US\$ billion) ^b	30.0	26.3	26.9	27.2	27.8	28.2
net debt to GDP ratio (%)	173	146	143	139	136	133
with external support ^c						
GDP (US\$ billion)	17.3	18.2	19.2	20.3	21.4	22.7
real GDP growth	2.0%	3.0%	3.0%	3.5%	3.5%	4.0%
nominal GDP growth	4.0%	5.1%	5.6%	5.6%	5.6%	6.1%
<i>as % of GDP</i>						
Primary fiscal surplus	2.6	4.2	6.1	7.4	8.3	9.1
Interest on public debt	18.2	12.6	9.5	8.2	7.4	6.4
fiscal deficit	15.6	8.4	3.4	0.8	-0.9	-2.7
budget deficit ^d	14.9	7.6	2.6	0.0	-1.6	-3.4
<i>US\$ billion</i>						
fiscal deficit	2.7	1.5	0.6	0.2	-0.2	-0.6
privatization	0.0	5.0	1.2	1.3	0.7	0.7
total net debt ^b	30.0	24.7	24.2	23.1	22.2	21.0
consolidated net debt	25.2	21.7	21.2	20.1	19.2	18.0
net debt to GDP ratio (%)	173	136	126	114	104	92
consolidated net debt (%)	138	113	104	94	85	74
Interest rate public debt % ^e	12.0%	8.0%	7.0%	6.5%	6.5%	6.5%
Interest savings (US\$ million)		1144	1286	1369	1316	1257
o/w from external support		704	729	803	741	673

(a) This scenario assumes the same improvement in the fiscal primary balance as the scenario with external support, but privatization proceeds at 15% less because investors are likely to reflect a greater country risk in their offers.

(b) Excluding accrued interest on discount Treasury Bills

I The scenario for 2003-2007 is basically the same as the scenario developed by the IMF Article IV Consultations mission based on the Government's program, except that: (i) privatization and securitization proceeds are US\$250 million higher in 2003, and include the further sale of all remaining shares in the telecommunications and power corporations during 2004-2007; (ii) the debt is US\$1.8 billion lower in 2003 on account of the agreement with the BdL; and (iii) most importantly, that overall fiscal adjustment is greater, as the average rate of interest on public debt is projected to decline more in 2003 and to continue to decline through 2004-2006, and hence, reductions in the debt are at a faster rate. (d) Equals fiscal deficit less foreign financed expenditures by the CDR (e) The 2002 rate is of end September.

With external support, on the other hand, Lebanon would be in a position to substitute for existing public debt US\$5 billion in external debt at terms (interest rates and maturities) that are usually available to prime sovereign borrowers. This substitution would have an immediate effect of savings in interest in the order of US\$400 million per annum (over 2% of GDP). Furthermore, the combination of continued fiscal adjustment and privatization, in 2003 and beyond, and the external support would bring about a steady reduction in the debt to GDP ratio and in interest rates on the public debt. Total interest savings would be in the order of US\$1.25 billion a year on average during 2003-2005, over half of which, or around \$725 million a year, is attributable to the external support.

External Support

Lebanon needs the support of the external community to complement its major domestic effort now underway. The domestic effort includes a 16% of GDP fiscal improvement during 2001-2003 and privatizations, to be applied to Government debt reduction, in an amount of about US\$5 billion in 2003. This reduction in debt is separate of Paris II proceeds.

The Lebanese Government requests external support for a total amount of US\$5 billion in 2003, to change the composition, reduce the cost, and lengthen the maturity of its debt. This would allow Lebanon to borrow in supporting countries' markets at low spreads, using the proceeds solely to substitute such external debt for existing high interest short-term debt. Such substitution would result in a sharp reduction in the level of domestic interest rates, with a consequent further reduction in the overall fiscal deficit and financing needs. The lower interest rates and increased availability of domestic financial

savings for the private sector would help trigger a revival of private investment to underpin a growth recovery.

The request for US\$5 billion is for long-term maturities, with a grace period of five years (for principal only), during which time the Government intends to eliminate the overall fiscal deficit, and a repayment period of 10 years, during which time Governments expects to generate fiscal surpluses. In this regard, Government has established by law a special Treasury account at BdL that is earmarked exclusively to service the interest and principal of outstanding debt obligations, including forthcoming resources from the Paris II process. The law also stipulates that all primary surpluses will be channeled to this special account for the purposes of meeting Lebanon's debt service obligation.

POSTSCRIPT**Lebanon 2005*****After Five Years of Adjustment, Reforms, and External Support-
A Vision***

By the time of the Paris II Meeting in late 2002, Lebanon faced the prospect that economic stability could be undermined, notwithstanding the adjustment and reforms that had been undertaken since late 2000, arising from a large debt overhang that had accumulated as the country had recovered during the 1990s from 15 years of war. Rising outlays for interest on public debt absorbed an increasing share of rising revenues and of Government expenditures. There was a possibility that, in the absence of a reversal of trends with external support, sustained social stability could be at risk. The Government's program for further fiscal adjustment, large privatizations, and reforms, despite its scope and depth, by itself was unlikely to result in a resolution of the debt dilemma and sustainable growth.

The external support that was provided in late 2002 and early 2003 (mainly in the form of financial instruments that enabled Lebanon to substitute debt at market terms of the supporting countries for part of its high interest short term, mainly domestic, debt), in conjunction with the implementation of the Government's program for further fiscal adjustment, privatization, and structural reforms, had led to a steady reduction in the cost of servicing the debt and declining debt ratios from 2003 onwards.

By 2005, the budget was in balance and the overall fiscal deficit had been nearly eliminated, and the debt to GDP ratio had fallen since 2002 by the equivalent of more than to half of total GDP. Most of the public infrastructure services were operated by the private sector, which owned large parts of them. Government no longer required access to concessional external loans or to the Central Bank, and did not need to absorb the bulk of savings in Lebanon's financial system, to meet its steadily declining financing needs. Interest rates had fallen sharply and, with the private sector no longer crowded out by public sector borrowing needs and structural reforms to liberalize the economy and support the private sector in place, private investment was booming. International trade and services blossomed in a liberal trade environment, with close ties to the EU, and regional investors had put their confidence in a modern version of the Lebanon they had known in the 1960s and early 1970s. GDP growth was accelerating and per capita incomes were steadily rising, and with Government focusing on its basic functions and essential social programs, sustainable broad based socio-economic progress was being made. There were good prospects that in real terms Lebanon's per capita income would by about 2010 recover to the pre-war level.

Note: The above Postscript is reproduced as it appears in the original document]

Annex - The Government's Program for 2003 and Beyond [Main elements]

Objectives	Background and Status	Key Targets
Reducing Public Debt and Interest Rates	<p>Further increases in primary surplus, particularly in 2003, on account of continued revenue effort (in particular VAT and income taxes) and reductions in expenditures (including reductions in public employment), facilitated by planned privatizations, so as to reduce the overall fiscal deficit to below EU norms by 2005 and eliminate it by 2006.</p> <p>Reduction is predicated on reducing interest rates on public debt with external support to complement the fiscal adjustment and privatization.</p>	<p>Overall fiscal deficit: -10% in 2003 -1% in 2005 -surplus in 2006</p>
Fiscal Adjustment		
Privatization	<p>Public sector had traditionally operated basic public services, and reconstructed infrastructure after the war. Level of services has remained substandard, cost recovery has been insufficient, and all sectors, except for telecommunications have been a significant drain on the budget. An outdated legal framework and lack of political support were not conducive to privatization.</p> <p>Telecommunications and power sectors are key to short-term debt reduction on account of privatization because of size of assets and investors' interest.</p> <ul style="list-style-type: none"> - Sale of two mobile system licenses is now underway - Corporatization of telecommunications company, and unbundling and corporatization of power company, and establishment of regulatory agencies is now being prepared prior to privatization 	<p>Parliament adopted legislation in 2002 to allow privatization in telecommunications and power sectors</p> <p>Target of US\$5 billion in privatization and securitization proceeds in 2003, and about US\$1 billion per year 2004-2005:</p> <ul style="list-style-type: none"> -Sell mobile licenses first quarter 2003 -Sell 40% of power corporation first half 2003 -Sell 40% of telecom corporation second half 2003 -Sell remainder 2004-2007

External Support	Privatization of water sector and ports and airports through concession arrangements are being planned for 2004-2005	Award concessions during 2004-2005 following establishment of legal framework in 2003
External Support	Substitution of US\$5 billion in external debt at prime market terms for existing high interest debt, through guarantees, Central Bank deposits, investments in Lebanese Government bonds and bills, and similar arrangements requested at Paris II meeting.	During first half 2003 Reduction in interest rate on public debt by about one-third in 2003 and 1% more in 2004
Promoting Growth Trade Liberalization	Lebanon's traditional liberal and open trade regime has not adapted to global developments in trade, and the legal framework has become outdated. This has limited the effort to reestablish Lebanon as a center for regional trade and provision of services and a link between the region and Europe.	
International Agreements	Lebanon became a member of the <i>Greater Arab Free Trade Area (GAFTA)</i> in 1997, which is now in its 6th year of tariff dismantling.	Increase in exports to GAFTA area
International Agreements	An <i>Association Agreement with the EU</i> was completed in January 2002 and signed in June 2002. An interim trade agreement is already in effect which provides for duty free access of all industrial exports, and most agricultural and agro-industrial exports from Lebanon. Lebanon has a five-year grace period for dismantling its tariffs.	Increase in exports to EU
International Agreements	Lebanon is seeking membership to the <i>World Trade Organization</i> . The first Working Party meeting was held in October 2002	WTO membership

Modernizing Legal Framework	A new, WTO-compatible Customs Law was enacted in June 2001 which, among others, simplifies procedures and introduces modern information technology for customs declarations, and international standards for clearance.	
	Imports of oil were liberalized in 2001 and legislation to liberalize imports pharmaceuticals was submitted to Parliament	Present to Parliament early 2003
	Legislation is under preparation to abolish exclusive agencies and commercial representation, and to streamline licensing requirements for trade. Competition law and consumer protection law being prepared.	Present draft legislation in conjunction with WTO membership to Parliament
Promote Private Investment	A new Investment Promotion Law was adopted in August 2001. The Investment Development Authority of Lebanon (IDAL) has been designated as a "one-stop shop" to support investors. The law provides financial and tax incentives	Increase investments in sectors other than real estate
	The laws for the telecommunications and power sectors that were adopted in 2002, and the laws that are being prepared for the water sector will increase private investment in basic infrastructure	Establish regulatory agencies in first half of 2003. Limit role of Government in public services to regulator only by 2005
	A Money Laundering Law was adopted in April 2002 to meet requirements of FATF, resulting in Lebanon being de-listed. Law on bank shares (April 2002) facilitates trading in shares of Lebanese banks. Private investment is limited by access to domestic credit and high interest rates. SMEs, which offer the largest	Increased financial investments, particularly from region Increase share of private sector in total banking system credit,

Improve Public Services and Reduce Cost of Business

potential for employment growth, are affected. In early 2001, Government raised loan limits in "Kafalat" guarantees and introduced interest subsidies for SMEs.

Large segments of the public coast around Beirut have been illegally developed during the war, leading to negative environmental effects and discouraging new investments in tourism. Government is preparing legislation for the settlement of violations, which will also result in additional Government revenues.

Privatization of basic public services will improve the quality of services, and through greater efficiency and improved cost recovery from non-business consumers, reduce the cost of provision of basic services to business

A new public accounting law, streamlining budgetary procedures and strengthening treasury controls, and a procurement law, incorporating best international practices, have been presented to Parliament.

Employers' contributions of 38.5% of wages to the NSSF were reduced in March 2001 to 23.5%.

Temporary subsidies are being provided under the "Export Plus" program adopted in June 2001 to exporters of fresh produce to reduce transportation costs. Subsidies to sugar beet production were abolished in early 2001.

with sharp increase in credit to SMEs

Government revenues from 2003, and new tourism investment in areas concerned from 2004.

No claims on budget for basic public services from 2004

CHAPTER FIVE

Agriculture Support

A number of agriculture specialists, responsible of associations or professional unions contributed to the works of the Economic and Social Council that aimed at supporting the agricultural sector, which was dangerously receding, threatening life in farming regions, and already witnessed a massive exodus toward the city.

Our goal was oriented toward efficient short-term policies that would help the sector to recover and limit the increasing disaffection of the farms. When the survey was submitted the first time to the plenary assembly, one raised that in spite of its quite rational viewpoints it lacked some convenient and functional measures that the sector most needed.

The mandate of the Economic and Social Council ended before the introducing the requested modifications and the general assembly couldn't vote it in time.

Why the agriculture needs to be subsidized

No country can actually meet its needs in terms of food through imports alone; it is also inconceivable that a country should not count on its agriculture to ensure a part of these needs. However, since no agricultural sector, in any country whatsoever can rely on itself alone, it has gained in most countries various forms of government support.

The reasons why this support is necessary are many, some are economic, other are social and some are strategic; the main reasons are the following:

- Relative weak productivity of the agricultural sector.
- A decrease in agricultural income and rural exodus.
- Policies that are meant to develop rural regions.
- Investments going to other economic sectors.
- Self-sufficiency policies and strategies of security in terms of food.
- Protection of internal markets from dumping imports.

Means of agricultural subsidies

There are various means through which support may be provided to agricultures as well as to the production and marketing processes. These means may target some agriculture or some processes such as prices and incomes, rehabilitation of the infrastructure, credit, distribution and marketing, machines, energy, etc. In some cases, the State does not hesitate to take part directly in the production processes despite its weak productivity in most countries in the world. The most common means of support remain:

- buying crops at higher prices than the real agricultural production cost on international markets.
- imposing special permits to importers.
- setting up agricultural calendars.
- the State's direct involvement in some sectors that finalize the production process such as transportation, packaging and distribution.
- giving subsidized credits to farmers.
- covering the export financial risks.
- providing financial support to exports: financial subsidies namely those oriented towards exports are not difficult to manage since the subsidy mechanism is not intricate and is relatively easy to decrease or even cancel when required, without engendering social pressure - as is the case when a specific agriculture or a given group of cultivators is subsidized.
- modernizing productivity and improving the production system by ensuring the necessary human and material resources to develop the agricultural sector.

These plans include: improving available data, the reclamation of land, irrigation, agricultural guidance, long-term financing, formation and training of man power, helping the setting up of laboratories, setting up norms and standards as concerns the sorting and packaging, supporting agricultural cooperatives.

Mechanisms and revisions

It is essential that any policy in any sector be based on a specific

mechanism, which may be used as basis for review. In all countries of the world, subsidies vary from one product to another and from region to another. What matters is to avoid chaotic and erratic subsidy; this can be done by establishing technical studies and specific support mechanisms to clearly define the products that ought to be subsidized and to determine the feasibility of the subsidy.

Subsidies must be developed to match internal and external requirements; they must mainly support productivity and marketing knowing that the tendency today is towards more indirect subsidies. As concerns subsidies made necessary by natural disasters or occasional problems (inundations, mad cow disease, etc.) they are compulsory without saying.

This is why any subsidy policy must take into account the following:

- foreign relations and liberalization
- constant attempts to reduce the number of subsidized products by providing the necessary factors to reduce cost and ensuring an adequate marketing.

We should note that if subsidies are maintained, they ought to be reviewed regularly: prices and policies ought to be revised and subsidy policies should be reassessed in order to avoid that they be restricted to some agricultures or some regions but rather include all types and be equally divided among all regions to preserve natural resources as well as the environment.

Subsidized agriculture and international trade agreements

Today countries around the world attempt to accommodate the terms of free trade agreements with the necessities of agricultural subsidies.

However, to this day, international and regional free trade agreements exclude numerous agricultural products from their clauses. There are grace periods for these products before subsidies are lifted. Lebanon remains in the top list of countries that bring little support to agriculture except basic products that are supported by the public sector.

In any case, stopping subsidies of exports - under pressure of international free trade agreements - will not be impossible for this will not entail high social costs.

Agricultural subsidies in Lebanon

Subsidies policies: weak planning and derailed Application.

One cannot deny that Lebanese governments have subsidized the agricultural sector; however, there are observations as to some procedures of this subsidy as they were neither coordinated nor based on a clear agricultural strategy or on a global plan.

Sure enough, subsidies included the Lebanese agricultural production through the reclamation of land (the Green project), setting up cooperatives, distributing seeds and seedlings as well as fertilizers and insecticides at low prices; some of the latter were even handed out for free. However agricultural guidance remained inefficient and mostly verbal; there is a need for guidance centres in every muhafazat and research and studies ought to be made. Research lacks a budget to cover expenses and experts' fees.

Subsidies were mainly brought to three main agricultures: Sugar beets, wheat, and tobacco. However, in 2001, the government decided to stop the subsidy of beets and allotted fifty billion Lebanese pounds to support exports (project known as Export Plus).

Subsidized agricultures

As indicated above, the Lebanese State was - before deciding to stop the subsidy of sugar beets - subsidizing three agricultural products considered as strategic: tobacco, wheat and red beets. Other products were subsidized as well; they included apples, olives, and potatoes some years.

Assessing the subsidy mechanisms and costs

The current subsidy policy and its mechanisms - the fact that only three products are subsidized - had a negative impact on agriculture since cultivators have focused on the subsidized products disregarding others, considering that the State was buying their crops at reasonable prices. It is no longer a secret that this policy has not helped build a national, highly productive and competitive agriculture as was the aim. Subsidizing wheat, tobacco, and sugar beets resulted in a shift from the traditional products to the subsidized ones because of marketing facilities provided by the State, facilities which proved to be costly to the State and to the consumer: the budget

expenditure for subsidized products amounted to 120 billion Lebanese pounds. In addition, the main negative effects or limits of the subsidy policy are as follows:

- trafficking that occurs at the border.
- an increase in the price of agricultural land and agricultural entrants.
- persistent cultivations that are not truly productive as cultivators are sure to get a given percentage of profits that will compensate any loss.
- an increase in the area of land allocated to subsidized products without any economic motive, which leads to an agricultural imbalance.
- a decrease in the quality of cultivated land since cultivators are not bound to abide by the agricultural cycle as a condition to profit from the subsidy.

A main issue resides in the pretext given by subsequent governments when asked about the weak budget of the ministry of agriculture: The pretext is that the resources allotted to agriculture are not restricted to its budget; one must add to them funds used for the 'Green project', as well as the subsidies of sugar beets, tobacco, and wheat. This leads to a decrease in the ability to care for other sectors, an inability to ensure human and financial resources that help an efficient agricultural strategy.

Lately, subsidies have increased considerably as there is no real planning; a political and administrative *de facto* situation was imposed without any revision strategy.

As a result of the government's decision to reduce expenses by stopping some subsidies, namely in the agricultural sector - more specifically stopping the subsidy on sugar beets - and replacing the subsidy by fixed sums paid to cultivators, alternatives are sought in order to alleviate the expenses of the other subsidized agricultural products.

Indirect Subsidies

Direct subsidy of some agricultural products is not enough or is hard to enforce in the current circumstances Lebanon is going through - especially as it is not possible to be sure of the source of the

agricultural product to be subsidized; it is also impossible to maintain direct subsidy for long periods of time. This is why the Lebanese State has taken some measures that are considered as indirect subsidy; however, these measures remained incomplete or defective for lack of a global and clear agricultural program. In addition to price subsidies, the Lebanese State has provided the agricultural sector with assistance in more than one domain:

* In infrastructure: Through the 'Green project' that helped with the reclamation of vast areas of land as well as the planning of numerous agricultural roads in various Lebanese regions. The agricultural plots were made bigger; the need is for the enforcement of irrigation projects so that all cultivators have water.

* In exploitation, through:

- Ensuring some agricultural entrants such as seeds, seedlings, insecticides, fertilizers, etc. at subsidized prices; rehabilitating some nurseries that were damaged in the past years.
- Ensuring some irrigation needs through the project that aims at rehabilitating and modernizing the irrigation sector - currently underway - and other projects to come and that are likely to increase income of small cultivators, who will benefit from the irrigation projects.

* In services, through:

- Ensuring some services as concerns veterinary services, laboratory equipments to analyze pesticides and fight off agricultural diseases.
- Fighting off agricultural diseases and plagues - but on a small scale.
- Setting up small training sessions for cultivators and staff working in the guidance field; undertaking field observations and workshops, in order to compensate the lack of effective guidance.
- Providing vegetarian laboratories with equipment to evaluate land acidity and land temperature, and help determine its components - for this equipment is formal and not available everywhere.
- Holding apiculture sessions as well as sessions about poultry and cattle breeding - these sessions are in fact held by private institutions not the State.

- Artificial breeding to improve the breed - but this step is also much limited.
 - Studies and research based on the assessment of economic reform programs and the development of guidance, marketing and finance services, as well as policies in terms of food security, development, etc. - however, there was no follow-up of the recommendations of the agricultural congresses.
 - Agricultural research for substitute agricultural programs namely for regional development and substitution of forbidden cultivations - unfortunately, the substitute were traditional, non-competitive cultivations.
- * In marketing, through:
- The setting up of some wholesale markets, rehabilitation of agricultural coops - which remained inefficient.
 - Approving and enforcing a subsidy of agricultural exports (Export plus project).
 - Buying some agricultural crops for some public administrations.
 - Exceptional subsidy of potatoes in 1999 and 2000 as a result of natural disasters.
- * In finance, through:
- some subsidized or guaranteed credits (Kafalat); though this institution did not succeed to provide many credits because the banks refrained from financing agricultural operations.
- * Through legislative modernization as some agricultural laws were brought up-to-date.

Tax protectionism policies

Lebanon imposed several taxes on some agricultural products to protect its local crops; its main protectionist measures were:

- Total ban on the import of some agricultural products that are produced locally and that have an over production such as lemon and olives, among others.
- Setting up an agricultural calendar that bans the import of some local products during their high season in order to protect them.

- Imposing high taxes on some imported products in order to allow Lebanese agricultural products to compete.
- Imposing special import permits to some imported products namely for the agro-food industry.

However, these State policies are partial and not pondered enough; they are defective inasmuch as they lack coordination and enforcement; and do not succeed to prevent such illegal practices as trafficking, fraud, forgery, bribes, etc.

Lebanon officially signed a number of free trade agreements namely the *Treaty to facilitate and develop free trade between Arab countries* tutored by the Economic and Social Council of the Arab League, and including to this date thirteen Arab states. This treaty liberated trade from administrative hindrance keeping taxes to be reduced by 10% every year as of January 1, 1998. The treaty was later accelerated and all taxes were set aside as from January 1st 2005, two years prior to its due date.

Lebanon is entirely committed to all these agreements.

Administrative and commercial hurdles

Lebanese products face numerous administrative and commercial hurdles on foreign markets. Some of these hurdles are related to government policies and some to international trade development. Administrative hindrance may be determined as follows:

Locally: difficult and expensive administrative, sanitary, and tax formalities; Lebanese exporters are forced to resort to Lebanese refrigerated trucks to transport their products even if foreign trucks are cheaper, which increases the export costs.

Regionally: high transit and crossing taxes and complicated administrative formalities, etc; extended agricultural calendars; some agricultural products are banned from import.

Internationally: 1. Tight measures to enforce standards and norms related to quality; Lebanese products are not allowed under the pretext that they do not abide by these norms.

2. A poor packing process; lack of machines and modern factories to sort, treat, and supply good products as required by

- international markets that are ready to pay a premium for quality.
3. Lack of data and studies about foreign markets and international trade movements.
 4. Lack of links with the modern distribution channels and the major marketing institutions; loss of some traditional relations with markets in the Gulf and namely the Palestinian relation network.
 5. Selling exports through consignment, this means that the Lebanese exporters only get paid after the exported goods have been sold on the Gulf markets. This is a main hurdle to Lebanese exporters because of the risk and the financial cost incurred. Such practice also prevents from contracting an insurance against commercial risks.

All these hurdles have caused the decrease in Lebanese agricultural exports and the decrease in the number of exporters from around 46 in the early 90s to fewer than 15 currently. Some packaging factories were closed, investments became scarce; many traders had to withdraw and close their factories in the Bekaa, the North and the South. Some became importers of agricultural products or exporters of foreign products to the markets in the gulf.

Transformations in the traditional agricultural markets

The main problem that is faced by the agricultural sector in Lebanon today is the fact that fewer markets welcome Lebanese exports. Whereas Lebanon used to export grapes, citrus, bananas, apples, summer fruits, vegetables, and eggs to the gulf States on top which was Saudi Arabia, in addition to Egypt, Jordan, Libya, Iran and east European countries, exports have waned namely to these countries that have developed their agriculture, so much that Lebanese exports to Syria, Iran and eastern Europe are practically inexistent. Our exports to the gulf, Egypt, and Libya have greatly decreased; thus, the agricultural trade became widely imbalanced.

Agriculture products exported from Lebanon still meet a number of hurdles such as high protectionism when it comes to products from Lebanon, in addition to the rapid growth in the agricultural field in neighbouring countries and fierce competition faced by the Lebanese

producers in their traditional markets; this is not to mention the markets of western Europe that Lebanon lost a long time ago.

Difficulties to export are increasing as markets are shrinking, namely the Arab and gulf markets; Lebanese agricultural products do not only face regional and international competition but they also have to endure the sanitary and administrative procedures that these countries may take against Lebanese products and Lebanese agents. It is true that the behaviours of some Lebanese middlemen have contributed to the bad reputation of the Lebanese agricultural products; however, Lebanese authorities in their turn also create hurdles and difficulties to protect their internal agricultural production. Often, import countries - such as Egypt and Jordan - do not respect the agreements signed with Lebanon as concerns trade and the reduction of restrictions and protectionist measures.

Lebanon exports fruits, namely apples, citrus, grapes, pears, as well as vegetables, namely potatoes. Despite some progress in the export of some products such as grapes and cherries, demand for our products is shrinking as a result of a number of factors namely:

- high packaging and transportation costs, administrative hurdles in Lebanon and the neighbouring countries.
- tough competition from neighbouring countries and from other exporting countries providing to their exporters high financial support while imposing various measures to protect their agricultural products. Many examples may be given in this concern:
 - * Syria used to import some agricultural products from Lebanon but then it turned to a strong competitor with more competitive prices than Lebanon namely as concerns traditionally exported products.
 - * Turkey came in forcefully on the Gulf market with products that have strong market qualities and subsidized exported agricultural products.
 - * Saudi Arabia has now a surplus in its agricultural balance with Lebanon, while it had practically no agricultural exports to Lebanon and used to import most of the Lebanese agricultural products.
- low quality Lebanese exports namely fruits because exports are

confined in traditional products, with few if any quality control, whereas world markets require sophisticated agriculture products. The image of the Lebanese agricultural products has regressed in the gulf markets especially that some exporters resorted to unfair practices in order to make quick money.

Implementing a new vision

Lebanon is not the only country to have a subsidized agriculture; this can be found in both rich and poor countries.

Agricultural subsidy does not only depend on mere economic factors but is justified by requirements related to society and development.

In any case, this subsidy may vary in form and not be limited to one process of the production chain. The government may provide assistance as concerns the agricultural necessities, distribution, marketing, reformation of land, finance, guidance, training.

Support mechanisms adopted by the Lebanese governments are not based on a rational plan but rather on accumulated and incomplete measures and steps resulting in an intricate program bounded to a weak political and administrative conjuncture. These measures are more and more leading to economic distortions.

An agricultural *vision* embodied in a global political plan should follow some conditions namely:

- moving on from subsidies to support.
- subsidies should include all sectors, all kinds, all products, and all regions equally.
- subsidies ought to be periodical and realistic to prevent the consumer from carrying the burden.
- subsidies ought to be flexible: they should be revised regularly as concerns their procedures and the policies followed so that subsidies remain in harmony with the requirements the market and the conjuncture.
- agricultural production costs ought to be reduced so that subsidies decrease progressively as a positive result of this economy.

- the environment and natural resources ought to be preserved by respecting the agricultural cycle and varying the crops on the same land - no more than four years with the same crop - to avoid bacteria and insects.
- there should be coordination between the ministry of agriculture, the concerned administrations, and other economic sectors to facilitate the tasks, rectify some subsidy mechanisms so that the public sector or consumers do not face additional costs.
- the private sector, professional bodies, unions, and coops should take part in setting up and enforcing subsidy mechanisms.
- linking subsidies with commitment to the agricultural cycle.
- making sure that subsidies be adequate and in harmony with the general internal socio-economic policy.
- ensuring agricultural infrastructure that may improve productivity, reduce costs, and provide a competition lead for export.
- taking into account regional inter trade agreements and respecting free trade which Lebanon is likely to reach soon.

Varied subsidies: crops and regions

Despite the means that Lebanon has of diversified crops, the latter remain restricted to some traditional sorts with low income, low quality, and do not correspond to the consumers' demand whether on the local or on the international market; they are not competitive. This has led to a surplus in some products and great lacks in some others; in the meantime, people got used to products that are not produced in Lebanon. Botanical production in Lebanon may be divided into three parts:

- a - Field crops, among which are alimentary such as wheat, barley, corn, legumes, etc. in addition to industrial crops such as sugar beets, tobacco, and olives.
- b - Orchard and tree crops namely fruits and nut fruits.
- c - Seasonal crops namely vegetables and flowers.

In fact, financial resources of the Lebanese budget have been used up for a restricted number of crops and some regions; what was done

was to buy directly some agricultural products; what is required is in fact more support or indirect subsidies to all the procedures of the production - the reformation of land, finance, marketing, guidance, irrigation, stopping the monopole of agricultural entrants, pesticides, insecticides, etc.. The aim of this indirect subsidy is to reduce the production cost and to facilitate marketing. If you vary subsidies, all regions and all crops may profit, which will rationalize agricultural exploitation.

About diversifying subsidies, new crops may be introduced; the quality of the ones that already exist may be improved; new agricultural regions may be habilitated, thus paving the way to modern agriculture.

Subsidies and the reduction of costs

One of the main problems of the agricultural sector is high production costs, which makes it hard for the agricultural products to reach foreign markets or even be competitive on the local market.

Lebanese agricultural products are expensive and cannot compete with foreign products; they also lack the necessary quality to compete with expensive foreign.

These high prices are due to numerous factors namely: the fact that pesticides and fertilizers are expensive so is electricity, fuel, manpower, irrigation means, land lease; lack of agricultural credit facilities; lack of agricultural guidance; traditional agricultural ways; weak productivity; and the use of old varieties.

Subsidies and agricultural credit

The weakness of the agricultural sector in Lebanon, which spill over the situation of cultivators, is often due to the lack of agricultural finance. The solution is to ensure low interest credit to cultivators based the right orientation of credit - funds used to be allotted to non exportable crops. Furthermore marketing companies should be favoured with long-term credit facilities with low interest and grace periods.

Since there are no special credit institutions, agriculture did not get long-term credits. Loans granted by commercial banks to agricultural sector remain marginal with no more than 1.5% of the global financing

of the private sector. Bank loans to agriculture were estimated at \$ 200 million by the end of year 2003.

In principle, the agricultural field is eligible to subsidized loans provided by the central bank through commercial banks. It is known that productive sectors namely agriculture can obtain loans with assisted interest rates between five and seven points. These loans should be given through commercial banks that must assume alone the credit risk.

Despite low interests, banks hesitate to give credit to cultivators because of the great risks that Lebanese agricultural products still face and because cultivators' exploitations are under capitalized. In fact, banks usually refuse to finance more than 30 or 40% of the production needs and ask the beneficiary to provide the balance, which the Lebanese cultivator cannot usually provide. On the other hand, agricultural and rural land is not included in any official land survey, which prevents the possibility to mortgage land since banks refuse to mortgage a land that is not registered near the official property registrar. In addition, commercial banks remain cautious as concerns rural credit since clients in rural regions are considered - for social reasons - less solvent than citizens in big cities.

Since there are practically no loans made by institutions, cultivators rely on loans from importers or middlemen or traders, or even from some usurers. These loans make production costs higher since the margins of the sellers' profit when buying by instalments are higher than those made when paying cash. The middleman or the warrantor will try to impose low buying prices to the cultivator when paying in advance.

Paradoxically, as a result of the current crisis, cultivators have to put up with additional costs and risks: because sales are difficult, cultivators are forced to finance the market themselves handing in their crops to middlemen to be paid only after the products are sold to consumers. Lately, there has been a lot of fraud, which harmed cultivators many of whom resort now to selling their products at very low prices to middlemen considered highly solvent.

The lack of coops increases the finance difficulties especially since cultivators cannot get advance money or credit unless they agree to reduce the selling prices, which is what cultivators do in times of need. Non institutional lenders are necessarily going to impose additional interests and charges to finance agricultural operations

especially when liquidity is lacking and risks of not selling the products at reasonable prices increase.

The agricultural sector finds itself in a stalemate: it has to pay high interests - be they direct or indirect - to importers and middlemen, while subsidized loans are available at banks but no sufficient guarantees can be provided.

Loan guarantees

'Kafalat' is a financial institution set up by monetary authorities and banks working in Lebanon in order to secure small and medium loans. Its task is to issue financial guarantees in order to finance the small and medium production enterprises. Its activity covers the small and medium enterprises in agriculture, industry, tourism, craftsmanship and information technology.

It goes without saying that financing enterprises in industry and craftsmanship in poor rural regions is likely to bring support to agricultural activities as the workers in this field work inasmuch in the industrial field and this would gradually reduce hidden unemployment in agriculture and increase the income of families who rely on this sector to live - by creating jobs outside seasonal agricultural activities.

The contribution of Kafalat to the financing of the agriculture sector does not exceed a trifle share of its portfolio since banks are still reluctant to give loans to agricultural projects even if 75% of the amount is guaranteed by Kafalat. A mechanism ought to be worked out to overcome these hurdles.

The agricultural finance needs do not always concern investment but also working capital, which is not covered by Kafalat.

Subsidies and other economic sectors

Subsidizing agricultural production and reducing its cost to reach competitive prices require cooperation and coordination between the ministry of agriculture and the administrations that are concerned with the agriculture on the one hand and on the other hand with other sectors such as transportation, insurance, industrialization, fuel, etc. This would allow agricultural products to be more competitive on the local and international markets.

Transportation

Reducing the cost of transportation is a necessary step to allow agricultural products to reach neighbouring countries such as Syria, Egypt and Jordan at the lowest cost possible - since these markets are considered as an extension of the local market and products are transported via land, using trucks.

Most traders and middlemen who work in agricultural trade have trucks for internal transportation the size of which varies according to distance and the type of the goods to be transported.

When it comes to transportation abroad, traders rent refrigerated trucks. Paradoxically, it is agriculture that supports nowadays the transportation sector since the Lebanese authorities impose that only national trucks be used to transport agricultural products abroad, which increases the transportation prices of Lebanese products especially during high season. For instance, the rent price of a refrigerated truck to Saudi Arabia would go up from \$1200 in low season to \$1600 in high season.

What is required is not to stop supporting the transportation sector; this support is possible upon the condition that it does not occur at the expense of another sector such as agriculture.

In addition to transportation costs, exporting agricultural products from Lebanon to importing countries encounters other hurdles such as security and administrative checks imposed by the Lebanese authorities or those that are in the neighbouring countries through which our products travel.

As concerns transportation by sea, there are hurdles resulting from unloading and loading products at the Beirut port and at the ports of the importing countries, and from the long distance to the traditional gulf markets. Sea transport is the best way when exporting to a Mediterranean country, or a country in western Europe, or Africa. In addition, ships are not regularly available and the maritime lines available in Lebanon still are limited compared with some neighbouring countries such as Egypt or Turkey, or Cyprus.

As concerns air transport - which is quite expensive - it is used exclusively for high end products, which is not the case of the exported Lebanese products.

Transportation costs and intricate administrative procedures

remain the main hurdles to Lebanese exporters of agricultural products especially that the value of exports is lowered and cannot withstand additional costs, which make it lose a lot of its competitive abilities.

Procedure

The measures that may be taken concerning transportation are as follows:

- setting up a mechanism that would allow to use in part non Lebanese refrigerated trucks to avoid sharp increases in the rent price of trucks during high season.
- helping coops to buy necessary equipment to transport agricultural products in order to improve the conditions in which products are kept, reduce costs, and avoid the risk of ruining the transported products.
- giving preferential prices to transportation by air through agreements with the two national transportation companies.
- reducing clearance costs at the ports and land borders.
- intensifying negotiation with commercial partners to reduce administrative hurdles and lift the artificial ones that face the Lebanese agricultural exportations.
- hastening the setting up of proper infrastructures, studying the possibility to build railways and linking them with storage and exportation points.
- reducing security checks at the border.
- broadening the securities offered by Kafalat to cover refrigerated trucks.

Conclusion

Despite liberal tendencies in the world today, the agricultural sector still needs the support and tutelage of the public sector.

The aim of the assistance given by the public sector to agriculture is not only based on economic grounds; its takes into consideration social necessities.

The State has adopted various policies of agricultural subsidies; however, these policies have remained ineffective and costly, as they were unable to meet a lot of the needs.

These policies ought to be revised in the light of a keen knowledge of the economic and social constraints, and an harmonized vision of the agricultural sector.

On the short term, we would like to point out to the following urgent procedures that may rectify the current situation of the agricultural sector:

1. Reconsidering protectionism and commercial agreements; slowing down globalization in order to ensure continuity and stability to the main agricultural products, and to allow the sector to regain its competitive edge and its ability to face globalization.
2. Reducing the cost of agricultural necessities namely fuel, electricity, agricultural industrialization; canceling fees on irrigation water.
3. Setting up water recycling stations and recycling factories to provide recycled water for irrigation and produce organic fertilizers that may be distributed to cultivators for free.
4. Generalizing biological pesticides.
5. Canceling exclusive agencies for agricultural entrants; encouraging competition.
6. Encouraging modern irrigation systems.
7. Creating a bank for agricultural credit with the contribution of the State, managed by the private sector, to ensure credit facilities to cultivators and reduce the load of debts resulting from accumulated losses that the sector has endured.

Early enforcement of these measures would spare the sector and those who work in it great losses and would allow it to regain its share of the GDP and national income, and would help to consolidate social stability in the country. These measures ought to be followed by other gradual ones which will restore the sector's vitality on the long term.

CHAPTER SIX

Industrial Policy

Support to employment

The governments in office since the end of the Lebanese civil war in 1990 marginalized industrial and agricultural sectors. The economic policy, or more specifically the lack of economic policy while a regime of real high interest rate was implemented to stabilize the currency and finance the reconstruction program, was greatly responsible for the economic slowdown that hit first industry and agriculture and resulted in high rate of unemployment and emigration. It is about time we set a new policy and take corrective measures in favor of productive sectors without discrimination, i.e. industry and agriculture as well as services, consolidating their stability and growth.

It is difficult to believe Lebanon had any growth in 2004; the “National Production”, which doesn’t take into account the contribution of the state to GDP, has considerably declined in the last years. This is clearly visible in the aggravating slump in the markets and the setback of the real production sectors. Such decrease of economic activity was highlighted in the survey made by the Economic and Social Council on Small and Medium Enterprises (SMEs) by the end of 2002. Firms then were not enduring the difficulties prevailing nowadays, however the survey revealed that the negative expectations of entrepreneurs reached threatening boundaries as for investments and even compromised the sustainability of a large number of firms.

The situation in the industrial sector is more or less similar to that of other sectors; however, industry was confronted with increasing difficulties due to contracting demand and sudden lack of protection in 2001, and was first to decline due to its intensive employment, low flexibility and difficult adaptation to the new circumstances. The agricultural sector witnessed the same developments almost at the same period, while most sectors devoted to services were apparently crossing a normal path of the economy. Even now, and despite the

general slowdown, some firms are maintaining a high profitability even in the industrial sector; although it seems quite singular and unlike to spread out to others.

The situation of industry by the end of the 90s, compared to the war and prewar figures, can be illustrated by the following table:

Manufacturing employment, output and wages

	1970	1985	1998
Manufacturing share in total employment	15%	15%	~ 13%
Manufacturing share in GDP	14%	15%	14%
Number of establishments	15,669	18,879	22,0025
Employment	94,620	120,000	141,923
Gross output (1972 - 74 = 100)	73%	107%	58%
Value added (1972 - 74 = 100)	73%	99%	64%
Wages (1972 - 74 = 100)	71%	79	53%

Source: Toufic Gaspard in "A Political Economy of Lebanon, 1948 - 2002"

Industrial decline during last years

The industrial setback started in 1994, before the crisis of the construction sector, when the economy seemed yet to be flourishing. The main reason was the contraction of aggregate demand due to the acute increase of interest rate that inhibited investment. The prolonged slowdown was responsible for diminishing prices and returns of manufactured goods despite the launch of reconstruction's program and rehabilitation of many private firms. Another reason was the decline of productivity that accompanied the fall of demand, the rise of energy costs, and the competition of public sector in the financial markets, which caused the crowding out of the private sector. The third reason was the abolition of custom duties protection in 2001 in order to "generate a positive shock" in the markets, and which unfortunately had a disastrous impact on manufacturing.

The results of applying high interest rates since early 1993 were already known to many officials, however, the government claimed then that agriculture and industry do not comply with the characteristics of the Lebanese economy, and was therefore indifferent

towards them, anchoring to the success of the financial sector and some service activities, mainly tourism, to prove that the government policies in force were correct. The decline of the production sector resulted in an increase of unemployment and immigration especially of young and qualified people. Banks and other services, although much productive, are far from being able to assimilate the industrial work force, but authorities were not, at that time, ready to consider the issue.

Further decline of industrial activity

During the following years, the situation of the industrial sector worsened and was ignored. Therefore, the slump quickly spilled over other sectors involving the trade sector, then all services. Unfortunately, the slump worsened during the two-year mandate of Prime Minister Selim El-Hoss 1998 - 2000 because of his conviction that good governance and restriction in spending are the essential measures to boost the economy.

When Prime Minister Hariri was back in office by the end of year 2000, the government took the decision to reduce or simply remove custom duties on almost all imported goods, including manufactured and semi-manufactured goods that were equal or similar to those produced in Lebanon. This decision faced strong criticism at that time for it was taken during a period of deep recession and severe unemployment and before any normal circumstances could allow industry to gain enough competitive edge. To make matters worse, Lebanon was on the even of signing the EU Association Agreement depriving it of the right to increase tariffs in case of necessity later on.

As expected, Lebanon witnessed a quasi-total absence of protection when signing the EU Association Agreement; losing its privilege to benefit from the five-year grace period and the capability to progressively reduce custom duties in order to preserve its industrial activity while improving its productivity with the European Union's assistance programs. It might be useful to point out that the negotiation of the agreement was conducted and even concluded before the removal of the custom duties, and the EU had agreed on the previous tariff.

Fighting recession and unemployment

The fact that unemployment has become the major problem of the Lebanese economy does not need proof anymore; it became quite an obvious fact. Whenever the trend of unemployment rises as a result of recession, it goes along with disguised unemployment and decline of productivity (this is the opposite of what happens during recovery periods when growth usually precedes the decrease of unemployment, revealing gain in productivity). It is commonly agreed by now that unemployment reaches 20% of the work force without considering young people who are emigrating before taking a first job and women who still did not succeed to have a first job in spite of their will to work.

Such high rate of unemployment could only lead to a massive economic emigration especially for lack of unemployment insurance in Lebanon. Note that traditional criteria of unemployment became economically and socially irrelevant, since the people willing and able to work and who do not look for a job, convinced that they have no chance to get one, could be much more significant than we imagine.

The number of young people who try unsuccessfully to enter the market yearly and after a while emigrate searching for a job, have become very important and cannot be ignored. In addition, the need for women to work has considerably increased. It is obvious that the deterioration of employment to this extreme is not only an unacceptable social catastrophe (because the right to work goes along with the right to live) but also a serious economic problem threatening the national production and hence GDP and growth. Lebanon is losing its young and most competent human resources.

Advanced nations generally consider that unemployment is severe when it reaches 9% and necessitate major incentives to provide jobs. In Europe most incentives are restrained by the Maastricht Agreement and the compulsory indicators limiting mainly the budget deficit and the necessity to preserve the unified currency. However, those countries compensate unemployment in order to protect their citizens from poverty, support consumption, and avoid emigration for economic reason that essentially attracts higher professionals and technicians.

Moreover, the rate of unemployment that would satisfy mobility of

workers and technical change does not exceed 4%²⁵; beyond that figure it cannot be economically justified unless inflation is high.

Young people who enter the market yearly in Lebanon are currently estimated at 35,000; and only industry is able to provide jobs to the largest number. Moreover, the setback of industry in the past years caused the emigration of 80% of them, which made the Lebanese population old and compelled to face the socio-economic consequences of such phenomenon²⁶.

Therefore, unemployment issue should be a priority for every strategy aiming at boosting the economy. It is also normal that those strategies focus on industrial activities for their high employment capacity and henceforth growth.

Workforce				
1998	Change	1994	Change	1985
114,108	- 20.85%	144,177	130,81%	62,464

Source: Center for Economic Research, CCIAB, in "Industry in Lebanon 2005"

Lost opportunities

In the mid 90s the industry enjoyed many comparative advantages: The Lebanese production gained a large preference in most Arab markets mainly Gulf markets; The way of life in Lebanon attracted Western corporations wishing to enter Middle East markets; that attraction increased for industry with the establishment of the Great Arab Free Trade Area (GAFTA). A huge number of European economic and industrial delegations headed to Lebanon during that period willing to invest mainly in the industrial sector and gain the statute of Lebanese company exempted of custom duties in all Arabic countries. The industrial sector enjoyed then a well-trained labour force and highly qualified technicians and was able to produce sophisticated goods that are required by the European firms. Wages were still moderate for the quality of production.

25 Cf. Humphrey Hawkins bill, USA 1978.

26 Cf. Economic and Social Council in "Private University in Lebanon" 2002.

Major impediments to access export markets

Price competition	44%
Administration's bureaucracy	28%
Protectionist measures	11%
Other factors	17%

Source: Center for Economic Research, CCIAB, in "Industry in Lebanon 2005"

A reasonable strategy for industrial recovery

Opportunities that were open ten years ago are not available anymore for the industrial sector after such a prolonged recession. The industrial sector lost most of its technicians. Arab countries headed dynamically towards manufacturing and started exporting to Lebanon. Moreover, European countries refrained from investing in Lebanon due to the excessive "opportunity cost" accusing the high interest rate and the country risk it generated. However, it is certain that industry is crucial to achieve major social and economic goals, starting from consolidating employment on the long run and preventing rising distortion in the pyramid of age.

The first necessary measure to be taken in order to achieve this goal is to adjust protection because its waving before rehabilitating the industrial sector was not an adequate measure. Bilateral and multilateral agreements forbid the increase of protection; which is a reason for taking safeguard measures; however, those measures should be negotiated with the other party.

Then the preliminary step to create jobs and restore employment is to take safeguard measures to protect the domestic industry hit by the sudden wave of custom duties in 2001. This can be done within the frame of the multilateral agreements binding Lebanon, mainly GAFTA and the EU Association Agreement, for a period of four years. During that time public policies should be adapted to the economic situation and productivity improved along the line of the industrial companies.

Of course, protection is not an acceptable solution on the long term, and Lebanon has entered globalization before many advanced countries. However, protection is necessary in order to fix a serious problem that destroyed a large part of the industry and might waste

the remaining part. On the other hand, the industrial sector will surely recover its competitive edge on the short term and will be able to face successfully the international markets.

- The first factor of competition is productivity, which can be achieved through three steps: the first and most efficient is for the firm to be able to produce at its optimum capacity; the second is the availability of modern production techniques; and the third is the possibility to renew on time the production equipment.
- The second factor is the cost of inputs, mainly energy. It is important for the government to apply a competitive tariff on goods and services that still are under its authority. In case the latter is not applied, globalization will certainly negatively reflect on the economy and it should have been better to postpone it. The current situation in Lebanon clearly highlights the consequences of waving protection before being well-prepared for such measure.
- The third factor lies in the affordable minimum efficiency scale of the firm, which allows facing the cost of marketing and management.

Significant factors limiting productivity

High cost of energy	56%
Sub-optimal production volume	14%
Corruption in public administration	11%
Other factors	19%

Source: Center for Economic Research, CCIAB, in "Industry in Lebanon 2005"

Strategic targets

In addition to its contribution to GDP, the proper of industry is to achieve specific targets that should be taken into consideration when designing an industrial policy and/or measures to support the industrial activity.

- It would not be possible, during the coming years, to provide jobs to 35,000 young people that enter the market yearly, without a large contribution of the industrial sector.

- Unless proper measures to consolidate industry are taken, economic recovery will certainly fail. How can an economy grow with the continuous emigration of the most qualified people? Not to mention the ever rising public debt that will, sooner or later, threaten the economy if the real economy does not recover.
- Moreover, during prolonged recessions the most dynamic and profitable firms may be hit first because of the deep involvement in the market and/or the high debt leverage.

Problems and Risks

In order to achieve such goals, we must be aware of some contingencies and risks that can make measures skid away from their objectives and fail to achieve the expected support or to correct the market distortion:

- A plan to improve industrial efficiency contributes to support a recovery plan but definitely cannot substitute it. Therefore, in case of lack of a recovery plan, the aggregate demand will remain low and industrial firms will never reach their optimum capacity of production. Most firms will remain consequently far from the minimum efficiency scale preventing industry from retrieving its competitive edge.
- Lebanon's trade partners bound by bilateral and/or multilateral agreements will not easily accept that Lebanon applies any eventual protection as part of an industrial consolidation program, unless the argument is supported by the stipulation of the said agreements.
- Unless a clear and compelling policy is set up, the Lebanese administration under the bureaucracy regime in force will be inhibited by an apparent conflict of interest and will oppose all protective measures.

Criteria for a feasible agenda

The suggested measures as those likely to be suggested later on to support industry go along with current and future needs, and achieve the above mentioned economic goals; i.e. limiting unemployment; supporting GDP; providing equal opportunity to all activities under the circumstances that threaten the very existence of dynamic firms

and most compatible with the economic and social development of the country. Moreover, protection is the “exception” to the rule, which is to let industry recover its competitive edge and widely open to the international market.

The measures that the industry is requiring in order to achieve this goal refer to three main issues: expanding the market, reducing costs, and improving productivity.

Measures targeting an acceptable share of the domestic market

Applying a specific custom duty to protect industries near to collapse

Domestic goods whose production has been interrupted since the removal of custom duty, as well as goods whose production has been significantly reduced should be identified. A specific custom duty as minimum perception could be required as “safeguard measure” to maintain and/or resume their production. The specific custom duty has the merit to limit double invoicing, unfortunately a common practice, to limit the damage caused by dumping goods, and to impose a moderate protection, the minimum required to maintain the national production without imposing more taxes on imported goods. Goods to be protected should also be accurately determined, as well as the minimum efficient duty necessary to compensate the handicap of the domestic industry from the additional costs imposed as consequence of the current circumstances; considered that these measures will be taken only for a short time.

This procedure is pertinent to WTO rules that GAFTA refers to for settling similar cases. Lebanon has contributed to the set up of the GAFTA since 1997 and signed the agreement in 1998, while it is still an observer to the WTO and prepares for signing the agreement.

Adjusting custom duties on locally produced goods

A negotiation should be held with the parties concerned through bilateral and multilateral agreements in order to re-apply part or total of the previous protection on goods that are covered by the domestic production. These negotiations should be based on the custom duty that was applied in year 2000, namely during negotiation with the E.U.; moreover, while Lebanon has not yet integrated the World Trade Organization (Lebanon has only the statute of observer), the

negotiation was based on the ex ante tariff. And whereas the E.U. Association Agreement bans the increase of custom duty, the E.U. is carrying out a comprehensive study about the impact of the Association Agreement on the participating Mediterranean countries, and this study will surely facilitate the adoption of safeguard measures²⁷.

Applying preference to national production in public tenders

It is important to confirm the preferential rate of 15% in favour of national industry, and never to exclude industry from public tenders and government purchases (when not submitted as tenders). We may also suggest promulgation of a law in this concern for it is not only important for domestic industry, but also for the current balance that Lebanon badly needs to improve. This law will lead the budget to take into consideration the domestic production when allocating ministries and public administrations budget. It is always in the interest of the national economy to grant a preference to domestic production within the limits of the added value locally produced.

Adopting applicable rules for the dumping law

The dumping law was set in Lebanon in 1967 and applied only once whereas there is a draft law inspired from more recent international regulations, which is still before the parliament. However, dumping practices are devastating, and it is possible to set practical rules for the current legislation, as an operational intermediate target, allowing the administration to swiftly prevent the damage of dumping without charging industrial firms expenses they are unable to support nowadays.

Applying E.U. harmonized standards on import.

Imported goods as well as goods listed in public tenders should be compatible with E.U. harmonized standards in order to encourage the Lebanese production to adopt these standards and therefore enter European markets, overcoming the major technical barriers to trade

27 Cf. "Sustainability impact assessment / Euro-Med. Free trade area".

(TBT), which are nowadays neutralizing export all over the world. Furthermore, import from the E.U. constitutes 50% of all Lebanese imports; and of course, the E.U. favours imports from Lebanon whenever they comply with the above-mentioned standards.

Easing the way for national production into airport free zone

Specific spaces may be granted to promote and sell domestic products in the free zone at the international airport of Beirut.

Reducing costs and improve industrial competitive edge

Applying a low tariff on electricity to industry

The tariff on electrical power should be reduced to the average tariff applied by countries competing with Lebanese industry. In addition, a study should be carried out on the impact of the cost of power on exports in general, in order to set an efficient policy in this vital field.

Exempting equipment and raw material from taxes

Exempt equipment and raw material and/or semi-manufactured still subject to custom duties that are used in industry and not locally manufactured.

Exempting industrial warehouses from VAT guarantee

Amend the dispositions of article 41 of the law on VAT, which, in its current text, imposes a guarantee for the tax on the goods to be transferred to industrial warehouses, in contradiction with what is applied everywhere else, because the tax is due only in case goods are destined to domestic consumption and the use of industrial warehouses does not correspond to that purpose at all.

Suspending VAT on raw material for textile and garments industry

Suspend VAT on raw material for the sector of textiles and garments (fibers, threads, fabrics) for a period of two years, as a part of a plan leading to stimulate this sector. The textile and garment

sector was until 1997 on top of exports, but it declined to the 8th position today after it lost more than half of its firms. Its capacity to export is certainly the best proof of the sector's feasibility. Any support to a sector that enjoys the capacity to export, gives in general the best results as to growth²⁸.

Measures aiming at increasing industrial productivity

Facilitating merger of Small and Medium Industries

Adopt the project of the Economic and Social Council, aiming at facilitating the merger of industrial firms in order to reach their minimum efficiency scale and face the international market with qualified management and marketing.

Creating a one-stop shop for custom formalities at the port of Beirut

Set a one-stop shop for custom and port formalities at the port of Beirut, grouping custom officials, port employees, and even shipping agencies in order to spare time and money.

This measure has been recently implemented.

General measures that impact as well on industry

Recovery plan

Industrial policy may greatly support a recovery plan to curb the prolonged recession. Conversely, adoption of a recovery plan will multiply the efficiency of an industrial policy.

Facing the problem of accumulated old debts in the private sector

A solution must be given to the problem of accumulated debts in the private sector resulting from years of high interest rate and accumulated losses due to the prolonged recession. A rescheduling debts program must restore the solvability of the firms and their capacity to access credit as long as they are still going concerns, and maintain feasible operations.

28 UNIDO conference held in New Delhi in 1995.

Finally, agents for the change, i.e. those who are supposed to claim and achieve the new industrial policy, are those for whom it is set, the industrial firms themselves and their representatives, mainly the Association of Lebanese Industrialists, professional syndicates representing production sectors, and production associations in the regions. If they agree on a common program and undertake the work to implement it, they would fulfill the major condition required to save the industry.

CHAPTER SEVEN

Tourism

Multiple assets, multiple opportunities

Tourism has always been an essential pillar of the Lebanese economy, partially because of Lebanon's historical glory in this domain, and partially because of its undeniable potential. Still it should be noted that the conventional understanding that tourism is limited to leisure and culture does not stand anymore in these times of constant evolutions and developments. Hence, tourism nowadays includes: leisure, business, cultural, medical, education, sport or rural eco-tourism.

Tourism Industry Analysis

1 - Tourism Trends

The return of peace and the reconstruction boom that took place in Lebanon contributed to attract an increasing number of visitors to the country. The number of tourist arrivals has been growing, on average, by 15% annually from 1996 to 2004.

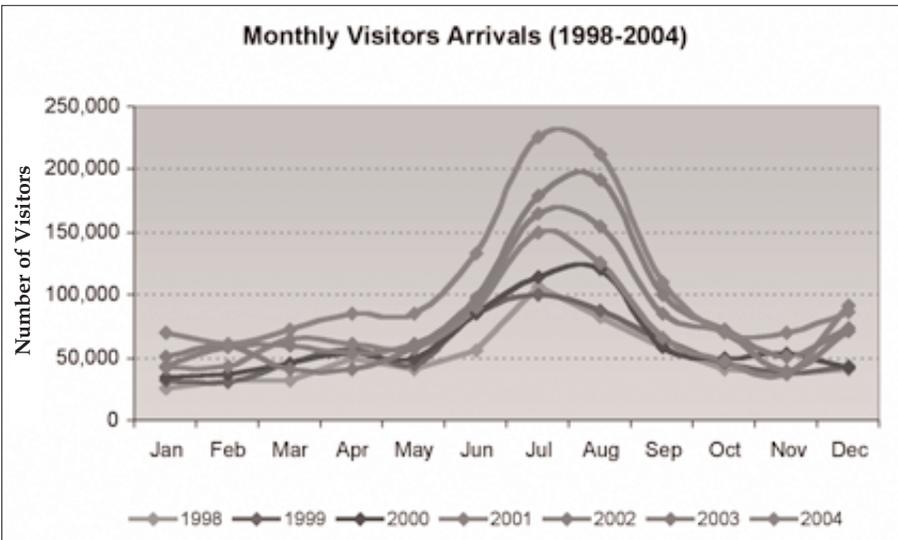
In 2003, Lebanon has received more than one million tourists (1,015,793) for the first time in nearly 20 years. This number increased by 26% to reach 1.28 million visitors by the end of 2004. According to statistics from the Ministry of Tourism, the only years the country had exceeded the one million mark was in 1972 (when 1,028,798 tourists arrived) and in 1974 (when there were 1,423,950 tourists).

Year	Number of Visitors	Growth over previous year
1995	417,142	24%
1996	424,000	2%
1997	557,568	32%
1998	599,765	8%
1999	673,261	12%
2000	741,648	10%
2001	873,745	18%
2002	956,464	9%
2003	1,015,793	6%
2004	1,278,469	26%

Source: Ministry of Tourism

This **growth rate** in tourist arrivals in **2004 was quite impressive at 26%** compared to the growth rates achieved in 2002 and 2003, respectively 9% and 6%. It shows that Lebanon has become a true tourist destination in the Middle East.

Despite the political instabilities in 2005, the Ministry of Tourism data indicates a relatively limited decline in the number of visitors of 13% as of the month of October.



The above chart shows the increasing trend in monthly arrivals over the years. This trend should continue to grow in the coming years. Additionally, the chart shows important increases in the number of visitors starting in June until end of September of each year.

The government has identified the tourism sector as one of the core areas in which it hopes there will be sustainable growth. The Ministry of Tourism has established 6 overseas offices to actively promote the destination at global trade fairs, stages its own annual Arab World Travel and Tourism Exchange (AWTTE) show, and runs the "Live Lebanon" shopping and tourism festival, with travel, accommodation and retail discounts aimed at the GCC markets.

In fact, Lebanon's significant move to boost Gulf inbound tourism, was to allow Gulf Co-operation Council (GCC) citizens (those of

Saudi Arabia, Bahrain, Kuwait, Qatar, Oman and the UAE) to enter the country without a visa. The "Sureté Générale", which is responsible for vetting all immigration procedures, allow the nationals of 33 countries to obtain visas on arrival. These include members of the GCC, the European Union, Canada, and the United States.

Moreover, the Ministry has been investing a \$10 million annual budget to promote Lebanon as a tourist destination, in the past years. Meanwhile, the small and uncoordinated efforts of parts of the private sector continue. Travel agencies and hotels have put together non-mass market package tours that they advertise on the Internet and international reservation systems.

Interestingly, Newsweek published in an October 2004 issue that Beirut is one of the top 12 "Capitals of the Sky", competing with cities such as Paris and Los Angeles. Another Newsweek issue named the capital along with Rio de Janeiro and Tokyo as the best place to be for the New Year.

Prior to the war, Lebanon's reputation as the 'Paris of the Middle East' based on Lebanon's eastern-western sophisticated culture, historical architecture, social outings, nightlife, mountains, ski lodges, and beach resorts. By the restoration of many of these sites as well as the future construction plans, Lebanon's reputation is back on track.

Nevertheless, due to its small size and underdeveloped infrastructure, Lebanon could not count on becoming a mass tourism destination. Lebanon is catering to the middle-range to upper-scale tourists and be know for specialties such as skiing in the winter, beaches and mountains in the summer, shopping in the spring, and business for the rest of the year. Moreover, peace in the middle -east would allow Lebanon to become a third stop of a three- or four- nation pilgrimage tour.

Lebanon enjoys a multi-faceted tourism, including Diaspora tourism, historical tourism, eco-tourism, leisure, sports, ski, cultural, health, educational, fairs and exhibitions, etc...

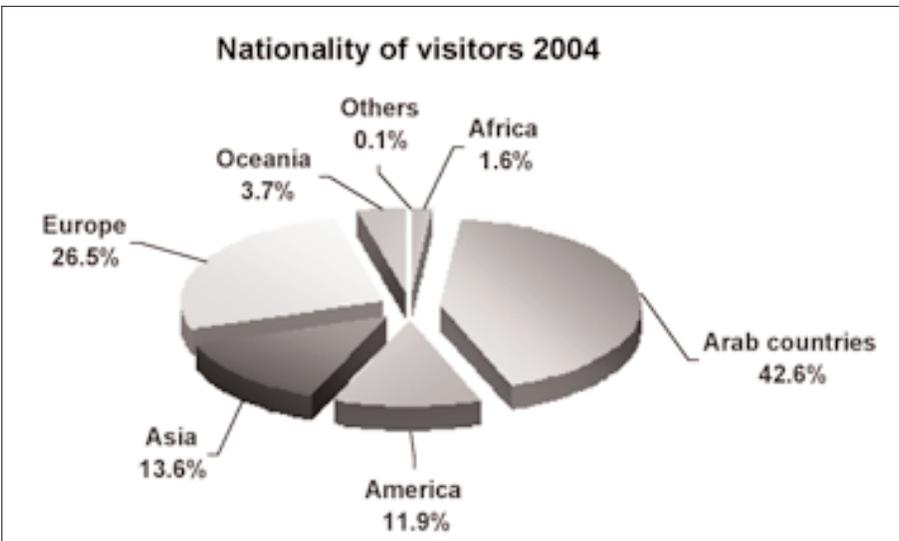
2 - Nationality of Tourists

Lebanon has a number of attributes that makes it an ideal destination, whether for business or pleasure. Its geographical

position places it close to Europe and the Gulf, and its landscape and beautiful terrain makes it the perfect get-away.

In addition, seminars, conferences and regional conventions have been rapidly growing in number and variety (political, banking, international organizations, NGOs, fashion shows, trade fairs, etc...), and brought many visitors mainly from Europe and the Arab world. Hotels largely benefited from this rise in activity.

According to the Ministry of Tourism, in 2004, in the origin of visitors, Arab countries came first with 42.6% visitors, followed by Europe with 26.5 %, Asia with 13.6 %, the Americas with 11.9 %, Oceania with 3.7 % and Africa with 1.6%. This is due to the fact that after Sept 11, many tourists from Arab countries prefer coming to Lebanon instead of going to European or American destinations.

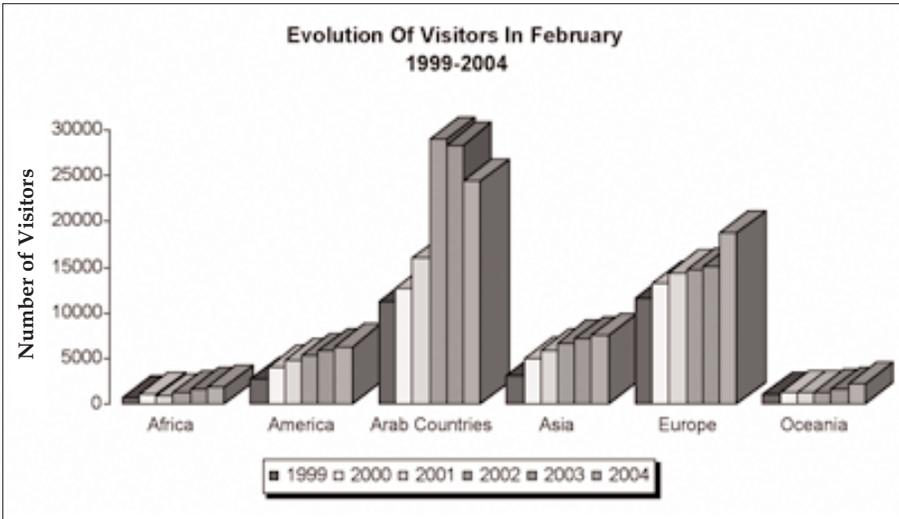


Source: Ministry of Tourism

The February festival, in which shopping discounts abound, has become an annual ritual that is attracting more visitors each year. In addition, many tourists also come to ski. Apart from the discounts offered by retail shops, MEA also offers discounted flights up to 50 percent and car rental companies offer the same.

The chart below shows that the month of February has attracted more Arabs over the years 2001 through 2004. In fact, the number of

Arab tourists increased by 25% from 2000 to 2001 and by 82% from 2001 to 2002 to reach 29,132 for the month of February. The USA's September 11 disaster is directly responsible for this impressive increase.



Source: Ministry of Tourism

In the summer season, Arabs represent the largest category of visitors, followed by Europeans. These past few years, the number of Arabs was equal to twice the number of Europeans, over the 3-month period of June, July and August. Over the summer seasons 2002, 2003 and 2004, the number of Arab tourists increased by 23%, 8% and 24%, respectively. Over the same period of time the number of Europeans increased by 1%, 20% and 17%, respectively.

The increase in visitors of European nationalities over the past few years shows that not only Gulf nationals are coming to Lebanon in increasing numbers.

Many Arab nationals, especially those from Saudi Arabia, Kuwait and Qatar, spend their summer vacations in mountain resorts such as Bhamdoun, Aley and Brummana, or in areas known for the nightlife attractions. They typically spend long stays, 30 days or more, and have high purchasing power.

Among Arab visitors, Saudi Arabians are the most important category of visitors. They represent, on average, 44% of the Arab visitors over the summers 2002 and 2003; with Kuwaitis coming second with an average rate of 17%. The rest of the Arab visitors are mainly from Jordan, Egypt, Bahrain and the UAE.

3 - Hotel Market Indicators

A new rating system was recently introduced by the Ministry of Tourism, which made hotels subject to an annual independent inspection for renewal of their rating based on quality and set criteria. In the past, size was a predominant factor in determining the number of stars of a hotel. Nowadays, existing hotels will have five years in which to meet the classification standards or face downgrading, however, new hotels will be required to meet the standards from the start. The new system abolished out-of-date criteria, and brought in new ones, for example, city hotels do not need a swimming pool nor do they need more than 100 rooms for a four-star designation.

Major New Hotel Classification Standards for 5 and 4 stars

	5-star Luxury	4-star First class
Front Office service	Multilingual reception service available 24/24 hrs for reception, information and door keeping services	Multilingual reception service available 18/24 hrs for reception, and door keeping services
Restaurants	2 restaurants in hotel, at least 1 high quality	1 restaurant
Leisure facilities	Guest access to high quality exercise facilities	Guest access to exercise facilities
Minim. Lobby size	60 m ²	50 m ²
Coffee shop near the lobby	Minimum size 60 m ²	Minimum size 50 m ²
Minimum number of Handicap Accessible rooms	Minimum 1 for every 35 rooms +1 for each additional 25 rooms. (For buildings constructed in 2001 and beyond)	Minimum 1 for every 35 rooms + 1 for each additional 25 rooms (For buildings after 2001)
Elevators	Hotels must have a service elevator for buildings with more than two levels.	Hotels must have a service elevator for buildings with more than three levels.
Parking	One parking space per three rooms	One parking space per four rooms
Number of rooms	Minimum of 15	Minimum of 15
Room dimension	- Double room 25m ² and bathroom 5m ² - Single room 20m ² and bathroom 5m ²	- Double room 20m ² , 5m ² bath - Single room 15m ² , 4m ² bath
Suites	5% of total number of rooms, consisting of two areas of at least 48 m ²	
Safes	Private Safe in the room	Private Safe in the room
Drinks services	24 hour room service and mini bar in all rooms	16/24 hour room service and mini bar in all rooms
Business center	Fax, Telephone, Internet, Computer, Printer, and Photocopy machine	
Lounge Bar	At least one	At least one
Conference room	At least 2	At least 1

Source: Ministry of Tourism

Distribution of hotels per region, 2004

Region	Number	Share
Beirut	72	21%
Mount Lebanon	182	54%
North	53	16%
Bekaa	20	6%
South	11	3%
Total	338	100%

Source: Ministry of Tourism

Beirut is the area with the most upper class hotels. The flourishing Beirut Market is even overshadowing upper-range hotels outside the city. In fact, most of the luxury hotels (locally rated as 5-star, 4-star A, and 4-star) are located within the square central district bordered by the long Avenue du General de Gaulle and Avenue de Paris coastal roads, and focused on the downtown Hamra district. The former road leads from the eastern Ramlet El Baida beach to the up-market Raouche and Manara districts overlooking the landmark twin Pigeon rocks. Avenue de Paris, which is Beirut's picturesque northern corniche, runs from Ras Beirut west past the American University to Ain El Mreisseh and the new BCD (Beirut Central District).

The hotel industry itself has seen well over \$ 1 billion spent, with a rush of five-star hotel openings in the past three years. From January 2000 to January 2004, there have been 20 new hotels in Beirut, and 60 new hotels in Mount Lebanon.

Between 1992 and 1999, the number of hotel rooms almost doubled to 10,000 and reached 16,171 by 2004. In fact, the number of rooms in Lebanon has been growing by 20% to 25% per year over the past few years overtaking the rise in tourist numbers, which was growing on average by 10%-15%. Despite the growing number of hotels and rooms, the demand has been continuously exceeding supply during the summer and holiday seasons.

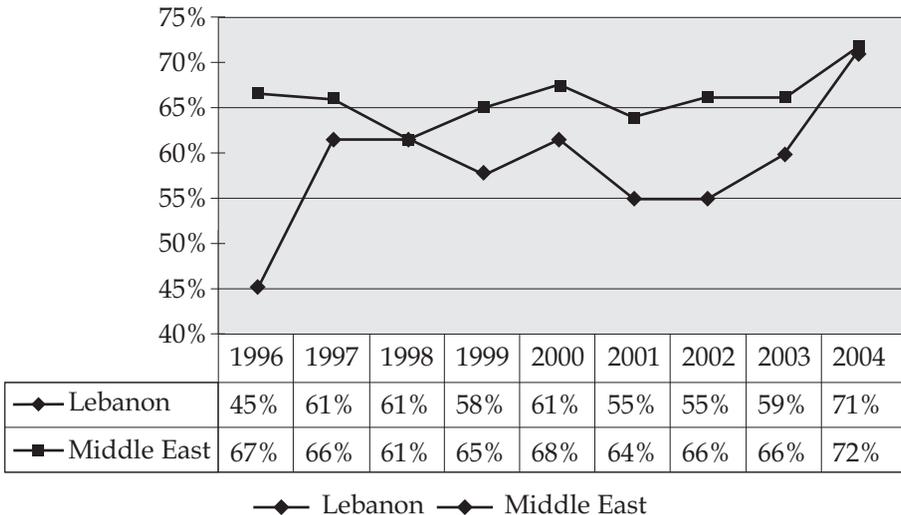
Moreover, it is interesting to note that GCC funds are financing part of or the total of these major hotels such as the Mövenpick and other new hotels completed or under planning,

Project	Nationality	Size
Metropolitan Hotel	UAE	US\$ 70 million
Metropolitan City Center	UAE	US \$ 80 million
Four Seasons	Saudi-Kuwaiti	US\$ 100 million
Summerland	Saudi-Lebanese	US\$ 70 million
Hilton	Saudi-Lebanese	US\$ 30 million
Rotana Rouche	UAE-Libyan	US\$ 46 million
Total		US\$ 396 million

Hotel occupancy rates and room rates

In the hotel sector, Lebanon is performing well in terms of annual average occupancy rates, compared to the Middle East region. Occupancy rates have increased from 45% in 1996 to 71% in 2004, thereby creating a construction boom in the tourism sector.

**Hotel Average Occupancy Rates
Lebanon compared to Middle East**



Source: HVS International

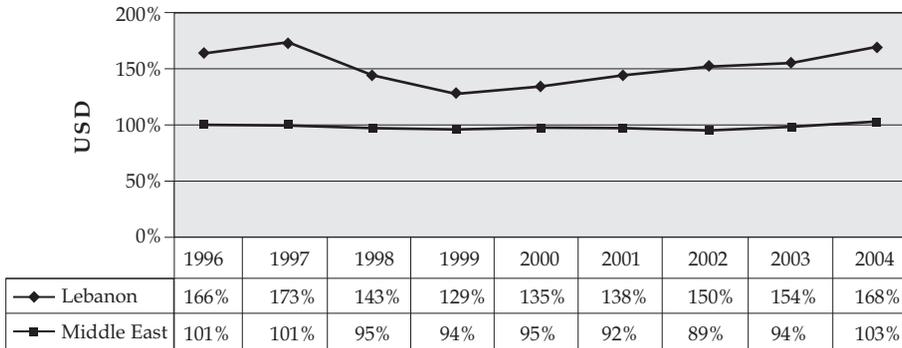
Average annual room occupancy 1004-2004

		1996	1997	1998	1999	2000	2001	2002	2003	2004
Bahrain	Manama	53%	63%	58%	56%	59%	62%	64%	64%	72%
Egypt	Cairo-City Center	73%	75%	69%	79%	78%	66%	68%	67%	78%
	Cairo-pyramids	66%	66%	47%	70%	76%	61%	62%	61%	73%
	Cairo-Heliopolis	79%	72%	70%	83%	83%	75%	75%	73%	75%
	Hurghada	70%	63%	50%	50%	77%	65%	66%	66%	86%
	Sharm el Sheikh	72%	66%	68%	79%	63%	61%	66%	64%	75%
Jordan	Amman	71%	61%	56%	56%	59%	44%	53%	84%	64%
Kuwait	Kuwait City	44%	46%	46%	47%	46%	49%	53%	84%	64%
Lebanon	Beirut	45%	61%	61%	58%	61%	55%	55%	59%	71%
Oman	Muscat	64%	71%	56%	57%	55%	62%	59%	57%	69%
Qatar	Doha	80%	78%	72%	61%	58%	56%	60%	72%	72%
Saudi Arabia	Jeddah	61%	58%	60%	59%	63%	59%	57%	53%	54%
	Riyadh	61%	62%	63%	62%	60%	61%	65%	64%	59%
Syria	Dmascus	68%	70%	69%	69%	66%	65%	67%	65%	69%
UAE	Abu Dhabi	66%	65%	66%	64%	67%	67%	68%	68%	82%
	Dubai	74%	73%	70%	70%	74%	71%	76%	79%	86%
	Average	67%	66%	61%	65%	68%	64%	66%	66%	72%

Source: HVS International

Average room rates declined from \$166 in 1996 to a low of \$129 in 1999, mainly due to the increase in the number of rooms over these years. Many hotels started practicing yield management, which drove prices down but helped to improve occupancy.

Average Room Rates
Lebanon compared to Middle East Average



Source: HVS International

Nevertheless, room rates started gradually increasing since 2000 to reach \$168 in 2004. According to HVS, this increase is the result of the opening of many five-star hotels in Beirut. In Lebanon, the general hotel room rate remains more expensive than the average price in the Middle East.

		Average annual room rates achieved 1994-2004 (US\$)											
												%change	
		1996	1997	1998	1999	2000	2001	2002	2003	2004	03/04		
Bahrain	Manama	92	90	93	102	105	103	119	122	132	132	8.2%	
Egypt	Cairo-City Center	72	78	78	80	86	85	77	75	75	75	0.0%	
	Cairo-pyramids	42	46	44	47	59	60	36	38	42	42	10.5%	
	Cairo-Heliopolis	62	61	62	62	68	65	59	60	63	63	5.0%	
	Hurghada	41	44	30	34	41	35	30	32	40	40	25.0%	
	Sharm el Sheikh ¹	53	52	35	44	45	41	37	39	42	42	7.7%	
Jordan	Amman	83	83	81	71	68	68	65	69	74	74	7.7%	
Kuwait	Kuwait City	213	201	204	203	214	218	216	233	230	230	-1.3%	
Lebanon	Beirut	166	173	143	129	135	138	150	154	168	168	9.1%	
Oman	Muscat	112	101	95	91	86	80	74	66	82	82	24.2%	
Qatar	Doha	77	101	116	112	115	105	100	101	146	146	44.6%	
Saudi Arabia	Jeddah	117	115	113	111	119	110	104	104	114	114	96.0%	
	Riyadh	106	110	113	116	115	110	107	104	105	105	1.0%	
Syria	Dmascus	124	118	111	104	97	94	94	102	100	100	-2.0%	
UAE	Abu Dhabi	129	111	101	99	88	89	89	87	91	91	4.6%	
	Dubai ²	120	126	107	104	105	100	110	113	144	144	27.4%	
	Average	101	101	95	94	95	92	89	94	103	103	9.9%	

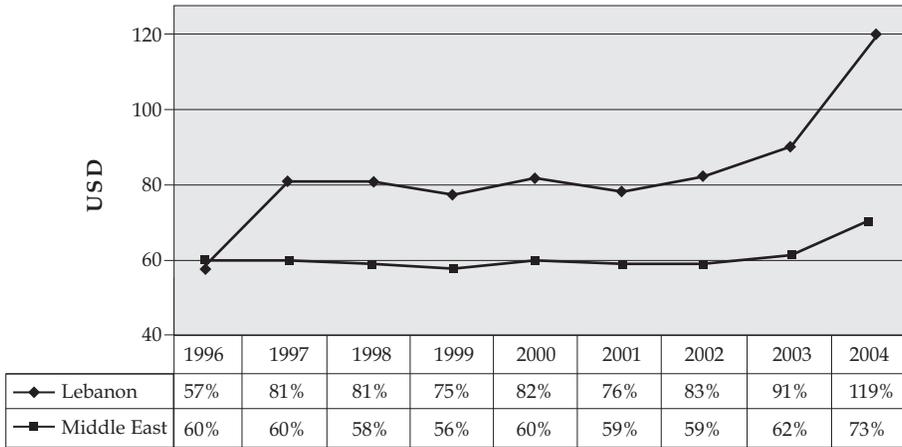
Source: HVS International

1. various five-star and five-star de luxe hotels were removed from the sample, 2. Excludes five-star luxury hotels

Concerning the average return by available room, it is generally higher in Lebanon than in the Middle East, averaging \$76 over the period 96-02 versus \$59 in the Middle East over the same period.

The revenues per available room in Lebanon has increased to high levels in 2003 and reached a peak of \$119 in 2004.

Revenue per available room



RevPAR Performance 1994-2004 (US\$)

		1996	1997	1998	1999	2000	2001	2002	2003	2004	%change
Bahrain	Manama	49	56	54	57	62	64	76	78	95	21.7%
Egypt	Cairo-City Center	53	58	60	62	67	56	52	50	59	16.4%
	Cairo-pyramids	37	29	31	35	50	40	23	23	30	30.6%
	Cairo-Heliopolis	49	44	52	52	57	49	44	44	47	7.9%
	Hurghada	29	28	24	27	31	23	20	21	34	62.9%
	Sharm el Sheikh ¹	46	41	36	43	35	31	24	25	32	26.2%
Jordan	Amman	59	50	46	40	40	30	29	39	53	35.5%
Kuwait	Kuwait City	78	77	79	79	82	89	114	196	147	-24.8%
Lebanon	Beirut	57	81	81	75	82	76	83	91	119	31.3%
Oman	Muscat	71	72	54	52	47	50	44	38	57	50.4%
Qatar	Doha	62	79	71	69	67	59	60	73	105	44.6%
Saudi Arabia	Jeddah	73	70	69	68	77	67	59	55	62	11.7%
	Riyadh	64	69	70	72	69	67	70	67	58	-13.2%
Syria	Dmascus	84	82	77	72	65	61	63	66	69	4.1%
UAE	Abu Dhabi	85	72	64	63	60	60	61	59	75	26.1%
	Dubai	89	92	75	73	78	73	84	89	124	38.7%
	Average	60	60	58	56	60	59	59	62	73	18.1%

Source: HVS International

Trends in the hotel sector

The area of greatest growth in the hotel industry is the luxury 4- and 5-star hotels, which provide high-tech modern conference space, banqueting facilities, entertainment, and quality dining. Leisure facilities that are needed to complement hotels have not increased at the same pace. Family oriented facilities such as malls for the GCC travellers or spas that open to the public instead of membership only are attractions that can entice out of season tourists.

It is also worth noting that a growing trend in hotels is the level of technology that is demanded by guests in their rooms. Increasingly, guests are demanding to have fax machines, easy access to long distance telecom, high speed internet, business equipment, etc...Such high tech equipment are applicable to both the business and leisure traveller.

Hotels are also competing for a share of the local market in terms of wedding planning, business conference facilities, and food and beverage outlets.

A noticeable trend is the burgeoning of franchising and management contract deals with international hotel chains, which seem to be a major key to success. Their main advantages being of higher quality and profile, transfer of management expertise, less costly international marketing, access to a central international reservation system, and economies of scale attained through increased purchasing power.

Future Hotel Projects

The following table shows the most important hotel projects underway:

Hotel	Keys	Management/develop	Remarks/ Status
Hilton	160	Hilton	Projected opening 2007
Grand Hyatt (Ex-Hilton, BCD)	375	Hyatt	Projected opening 2008; (\$150 millions including land)
Four Seasons (BCD)	241	Four Seasons	Projected opening 2008; (\$150 million including land)
Grand Theatre BCD to become a boutique hotel	23	Owner Operator	Long-term lease. Owner Solidere
El Patio boutique hotel, 1144 Uruguay Street, close to Foch Street, BCD area	48	Choice Hotel; Int'l operator, under Clarion million;	4-star (A) hotel (refurbished) \$6.5 Owner: Saudi Arabian Investors

Rotana hotel next to Grand Hyatt	250	Rotana	Emirati Group; \$65 million
Shangrilla Hotel next to the Vendôme Hotel		Shangrilla	Owned by Ghaith family
Park Avenue Suite Hotel next to Virgin	90	Developed by Serene	Projected opening 2007; (\$42 millions including land)
Suite Hotel at Wadi Abu Jmil	100	Promoter Al Mawarid	Projected opening October 2006; (7,700 m ² of built-up area & budget \$50 millions including land)
		Bank; To be managed by	
		Royal Hotel and Resorts	
5-star Rotana Raouche Hotel	170	Dubai-based; Rotana Group	Projected opening 2006; (\$46millions)
\$150 million 5-star hotel and residential commercial center on Beirut's seafont, facing Raouche grotto	270	Developers URE United Real Estate Kuwait & Lebanese Horizon	Projected opening 2008
Marina hotel development in Dbayeh Marina		Al-Futtaim Group	7-star luxurious hotel, residential apartments, mall (\$250 million cost on a 81.000m ² in Dbayeh)
Summerland hotel	132	International (not known)	Projected opening 2008: (\$104 million)
St. Charles (Ex-Holiday Inn)		Kuwaiti group	Not decided yet: (\$100 million project)
Ritz-Carlton Hotel in Raoucheh	300		Sold to a group of Saudi investors; planned opening 2009 (\$200 million project)
Bidnayel- Sannine project including three			Currently on hold or four top class hotels
A new hotel planned by the owners			The location, name and size of the of hotel still have to be determined
Mzaar 2000			

New hotels under construction should be operational in the near future including the Four Seasons, The Hilton Hotel, and Grand Hyatt.

The \$30-million Beirut Hilton Hotel project has become the second major investment project in the country to obtain an incentive package from the Investment Development Authority of Lebanon (IDAL). Al Habtoor Group received the first Package Deal Contract in June 2003 for its \$80 million Metropolitan City Centre project. More recently, The Landmark obtained the IDAL incentives package.

The incentives given include a 10-year corporate tax holiday and dividends waiver, up to 50 percent reduction on construction permits and a 50 percent reduction on work permits and residence visas for foreign employees.

Additionally, up to ten million US Dollar loans with subsidized rates are available to encourage tourism projects.

HVS considers that this increased supply will induce an increased demand, despite the important surge of five-star hotels in little time.

4 - Market segments

The Lebanese hotel sector today mainly relies on two types of clientele:

- * Tourists from Middle-eastern countries attracted by the proximity of Lebanon, its mild and pleasant weather, its beaches and nightlife, its cultural heritage, and the European fashion shopping facilities.
- * Executives from various countries attracted by the reconstruction projects

The major geographic source markets are the Arab countries and expatriate Lebanese living abroad. However, there are increasing numbers of Europeans, particularly from Germany, France, Italy, and the United Kingdom, visiting Beirut for business purposes, frequently connected with the reconstruction program. Domestic demand is important as well, mainly for the resort hotels in the summer.

Business demand

As the reconstruction process continues and Beirut re-establishes itself as a regional centre, business demand will continue to grow. The greater the business investment, the more it is expected to have international business people. Moreover, the business market segment will grow progressively in the coming years because of the efforts put forth by the government to promote Lebanon as a future business centre. The effect of such efforts is already showing results: the number of business people has been annually increasing by 10%-20% since the start of the reconstruction process.

It is important to note that the business people segment of the market, as opposed to the tourist segment, do not usually prioritize price in choosing their hotel destination.

Conference and Seminars demand

Although there is a lack of appropriate conference and seminar facilities in Beirut, there has been growth in conference demand. This trend will continue to grow significantly. As a result, of this significant demand investors will build new hotels with good standard facilities in mind to cater to this market. In fact, among the newer hotels, the conference market is fiercely competitive. The presence of representative offices of United Nations (ESCWA, UNDP, World Bank, etc...) and other multinationals, the organization of conferences such as the Francophone, Arab Summit, or Islamic Conference, create an increased demand for conference and seminar facilities. The general redevelopment of Beirut as a regional centre will increase the demand for effective marketing services destined for this segment.

According to the UN ESCWA, the number of foreigners who attend their conferences and summits is around 500 per year. The average stay of these participants is 3 days and their accommodation is in hotels. On the other hand, the ESCWA counts 300 employees, about half of them are locals, and the rest are foreigners who generally rent apartments, with a few of them renting serviced flats.

Events demand

The weddings, banqueting, parties and other ethnic or special events such as festivals, election of beauty pageants, Rotary International convention, etc...constitute an important market and provide important turnovers for hotels (room revenues and accompanying services).

Holiday tourism

Tourism within and to the Middle East region is increasing. Beirut will benefit from this growth, on condition that the Ministry of Tourism keeps enforcing its marketing and promotion efforts, such as the open skies policy, running the tourism festival, promoting the destination in global trade fairs, allowing for discounts, and facilitating visas for foreigners. In addition, there is the opportunity for Lebanon to be part of a multi-destination holiday in the area: the integration of Lebanon, Jordan and Syria will attract those who are interested in holiday packages.

Spending and length of stay of visitors

Visitors	Length of stay	\$/day
Arab Executives	7	497
Non-Arab Executives	6	234
Arabs visiting for leisure	16	189
Non-Arabs visiting for leisure	11	184
Lebanese returning to visit friends/family	26	175

Source: Infopro Research

This table shows that Arab executives spend the most amounts of dollars during their visits. The non-Arab executives, who spend about half the amount, follow them.

Seasonality

In contrast to the trend patterns in Mount Lebanon, the Beirut hotels demand does not fall under the category of highly seasonal. However, demand shows peak occupancies in the summer months especially in some beach hotels. The holiday seasons are particularly good for the hotel industry mainly around Christmas, Ramadan and school semester breaks. In general, hotels have experienced a significant increase in their occupancy of at least 20% during the holiday seasons.

Tourism development strategy

1 - Main tourism assets

Geographic and climate advantages.

Lebanon has always reaped the benefits of its proximity to most of the European cities, as well as to Arab capitals. Moreover, Lebanon's climate with its display of four distinct seasons, an average of 300 sunny days per year and a large skiable domain, qualifies it as the only country in the Middle East with such climate givens.

Archeological and natural resources.

In spite of the devastating irreversible effects of the Lebanese war

on its archaeological reserves, Lebanon's natural sceneries and historical ruins, spread over an easily crossable area of 10452 km², still attract the attention of many.

Human capital of unique nature.

The Lebanese human factor has always been of distinguished and special characteristics. The Lebanese is a multi-culture person with wide and liberal exposure to different civilizations. Lebanon is the only Arab country incorporating a mixture of religions and sects, without the predominance of one over the others. The services sector has always been.

2 - Capturing new opportunities

After almost two decades of a destructive civil war, several new issues have emerged, on the national and the international level, and hence should be well noted when considering the reform of the tourism sector.

- The tourism sector has lost a major part of its operative personnel through massive waves of emigration, especially towards the Gulf countries, Europe and the United States. These waves included the specialized staff who recently started to regain faith in this sector, and who could benefit from their international network of relations in case they return to Lebanon.
- The end of the war marked the launch of intensified internal tourism activities. The Lebanese young generation is strongly driven by the need to explore the Lebanese regions they never visited due to war reasons.
- This nostalgic aspect also concerns the Lebanese expatriates, who would normally wish to get acquainted with their home country.
- Regional competition in the field of tourism has greatly intensified in the last years. The decrease in the cost of air transport, the multiplicity of packages and services offered by new nearby zones of attraction, the emergence of "mass tourism", and the incumbency of large specialized organizations, are factors that add mounting pressure on the recovery of tourism in Lebanon.
- The modern economy doesn't cling anymore to the traditional notion of "comparative advantage" in order to assess the success

or failure of a sector; it has rather started to advocate the principle of “competitive advantage”. It entails, in the case of tourism, the capacity of this latter to provide the best quality at the best prices, and not merely at the lowest prices. It should be noted hence, that the flood of tourists from neighbouring Arab countries are more demanding nowadays, and keener on the price/quality relationship.

Monitoring an effective and sustainable tourism: Supervisory Board

The basic setback in the tourism industry is a derivative of the mismatch between international tourism standards and modest private efforts. To fill this gap, tourism experts are suggesting the establishment of an independent board to promote the private tourism industry. Such entity empowered to work fast and efficiently, will have to ensure the pressing reconciliation between the Lebanese potential in tourism and international practices.

The board will provide a complete and fair representation of the private sector (restaurants, hotels, beach and ski resorts, associations), the public sector (concerned ministries), and the academic sector (institutes and technical schools). Associating between good marketing strategies, the effective participation of involved groups and the satisfaction of the customer with the price/quality combination is an issue of vital nature.

In fact, the board will be working to promote specific tourism clusters with direct and important implications on various significant levels including organizing regional and international advertising and promotional campaigns in the concern of the Lebanese tourist activities (festivals, skiing activities,...).

- Promotion of environmental conservation by inducing the private sector to develop and apply environmental codes and guidelines and to apply Environmentally Sound Technologies (ESTs) practices.
- Endorsement of collaborative efforts by encouraging international and national partnerships, disseminating recommendations of organizations like the WTO and the UNESCO in this concern and supporting the involvement of all stakeholders (public like the Ministry of Tourism, private like restaurants and hotels, and academic like institutes and technical schools, and other parties like NGOs). These measures are to set

the grounds for creative innovations and to encourage pilot projects and capacity development programs.

- Monitoring of tourism standards by following carefully the impacts and results of corrective measures. This step is backed by the development of monitoring tools such as indicators and the enticement of the private sector to adopt public reporting. The private tourism industry would benefit greatly from such efforts that are in the realm of setting the basis of standardization and better quality service.
- Instigating the involvement of the banking and insurance sector by suggesting the incorporation of environmental and social criteria in their assessment procedures of loans, investments and insurance. These financial institutions should be encouraged to contribute in financing tourism projects that present promising prospects.
- Providing training for managers and other staff across all tourism sectors including accommodation, land, air and sea transportation, tour operators and travel agents. It is an established fact that Lebanon is endowed with highly qualified professionals who lack managerial talents in the fields of marketing, promotions, strategy development, and innovations. Such technical gaps should be filled through seminars, workshops held with the coordination of the regional and international big names in the tourism industry.

3 - Multi-tourism approach

Rural tourism

Most of the Lebanese families, usually residing in the larger cities, own a second residential place in the mountain area situated between the altitudes of 700 and 1200 meters. These people, in addition to Arab tourists, mainly from the Gulf, used to stay in regions like Bhamdoun, Aley and Sofar, during weekends, holidays and seasonal vacations for recreational purposes.

Leisure activities previously offered in these areas, other than the fact that they have ceased to exist, are of no appeal nowadays. Since most of these groups were driven during the war to destinations like Europe, the U.S.A and other Arab countries including Egypt, Syria

and Jordan, they started to appreciate new types of leisure.

Clustering for better rural tourism. Lebanon's "comeback" in this kind of tourism should be done while denoting the importance of central issues.

- To recognize the emergence of newer rural centres of attraction like Broummana, Jounieh and their surrounding villages, is a core issue at this stage. Next, there is the need to modernize and improve the offered services and activities, to meet with the evolved needs of the targeted Arab tourists.
- An important issue at this level is dedicating special attention to pricing strategies by restaurants, theatres, and other recreational sites to prevent excessive price increases. Serious attempts to work out promotional offers instead should be worked out, in order to compete with the regional low-priced entertainment services.
- Some of these tourists, usually high net worth people, possess yachts and small boats. Hence, providing the necessary accommodation for such special needs, should guarantee top quality service and competitive pricing.
- Since most of these tourists come to stay for a period of a month or more, several services should be made accessible. These include providing car rental agencies (drivers, luxurious limos and average sedans), furnished apartments with competitive standards, qualified janitorial agencies, and parking facilities.

To ensure the efficacy of the cluster, relevant parties ought to harmonize their efforts in a way to provide the best implementation mechanism of the proposed measures.

Winter and mountain tourism

Lebanon is the only country in the Middle East to offer skiing activities spread among 5 to 6 ski stations. These centres benefited from the crisis period and served as shelter areas for lots of families. Faraya and Faqra have benefited the most from this fact, and have developed notably to become the icons of skiing activities in the Middle East.

The Cedars station, naturally with higher snow levels, became a less important ski centre due to political instability in the region. It has

regained some of its past vitality, with lots of potential to become a strategic winter resort.

For the moment, the demand for such kind of tourism is mainly domestic. But it is foreseen that with additional local and regional stability, this winter activity will start to tap on the doors of the hinterland residents, especially the Syrians, Jordanians, and the Iraqis.

Clustering for better winter tourism. During the targeted winter period several improving actions could be instigated in this concern. As always, the main goal of such measures is to please the tourist and to improve the quality of the Lebanese winter tourism.

Consequently, strict actions need be taken in order to prevent the outrageous prices set by ski lodges, restaurants and pubs. Travel agencies should be also involved in order to produce the best deals on packages that preserve the price/quality relation.

Moreover, it is essential that skiing stations be managed according to international standards, with regular maintenance, and efficient transportation services to and from hotels. At this level, monitoring the services and rates of skiing schools in concerning qualified instructors and needed equipments, is of equal importance.

The authorities need also provide safety precautions and related gears required to cross the dangerously snow-covered roads. This entails constant and on the hour monitoring of mountain roads to prevent accidents and deal with emergencies.

Last but not least, cultural and other entertaining events (closed concerts, plays, movies, theme days, art exhibitions...) could be held in these, and other neighbouring regions to further expose foreigners to more of Lebanese treasures and culture.

Business tourism

This essential aspect of tourism should be well established and set up in a competent manner. It is of crucial importance for Beirut to recoup some of its role as an Arab business platform. It is also of an imperative necessity to try to follow up with the speedy train of advancements and progressions in the business field.

In this concern, several exhibition halls were set in Beirut and some

larger cities. These equipped centers witnessed the participation of numerous parties organizing fairs, exhibitions and conferences with diversified themes (medical, technological, engineering, financial products and services...). Such dynamic occurrences necessitated the amelioration of the quality of services offered by these specialized complexes, in order to meet international standards.

Other than the technical facilities such complexes provide through larger parking spaces and wider display areas, it is important to discern the active economic life they trigger in the surrounding locality. In fact, this kind of tourism was at the basis of activating the renovation and rehabilitation of hotels in Beirut and other larger Lebanese cities.

Consequently, if the main aim of such exhibitions is commercial promotion, this does not deny the fact that they will progressively help recapturing international businessmen. Such potentials smooth the way for promoting Beirut as a key business median between foreign investors and neighboring countries including Syria, Jordan, and Iraq.

Clustering for better business tourism. To better demonstrate the positive consequence of promoting such type of tourism, it is useful to look how the "shopping month" cluster could be of considerable value added to the economy as a whole. Such event would incite a large number of potential Arab shoppers to come to Lebanon, not only in the sole objective of shopping, but also for the purpose of general tourism.

Hence, ideal planning for this commercial event extends to shops, travel agencies, restaurants and nightclubs, hotels, movie-theaters, and even cultural and historical sites. The tourism board, being at the top of the pyramid, can make sure that the inter-collaboration of its members produces the most competitive blend of services, without stepping over the main purpose of pleasing the tourist.

Cultural tourism

Several cultural manifestations are considered under this appellation. Of the most important features of such tourism is the stream of foreign students who prefer seeking graduate education in Lebanese universities. This is simply because Lebanese graduate institutions are still considered to be more prestigious and better

accredited internationally, when compared to regional universities.

Most of the current Arab elite was academically formed in the Lebanese University, during the 50s and the 60s. Recently, the American University of Beirut has regained an important share of its Arab students, who started to come back vividly especially after the official end of the civil war in 1990. As for the Arab University, 60% of its students are of Arab origins, most of which are Palestinians residing in Jordan.

The Lebanese government has, in these last years, put more limitations on the movements of Palestinians, which naturally led to a substantial decrease in students' number.

In general, the Lebanese cultural paradigm is opulent and of international standards. Activities hosted in Lebanon, for many years now, are not limited to large traditional festivals (Baalbeck, Byblos), but also extend to organizing a multitude of events, taking place all through the year and on a regular basis. These include concerts animated by internationally renowned tenors, popular Arab plays, political conferences, religious seminars, theatre/movies weeks, and last and but not least, theme days (ecological, juridical).

Clustering for better cultural tourism. Promoting smart cultural clusters is advantageous and should be proficiently set up. As an example, during the Beitteddine, Baalbeck or Byblos festivals, efforts on several stages should be leashed.

- Establishing an efficient transport network (air-conditioned buses, and Pullmans) extending to outside Lebanese borders and covering all Lebanese regions, is imperative to facilitate getting to festival areas.
- Relevant authorities (tourism board and others) should benefit from such occasion to set economically priced, effectively packaged hotel-stay/air-ticket/planned-sightseeing combos.
- Since most of the expected outsiders will be from neighbouring Arab countries, special charters could be arranged with the help of pertinent native airlines.
- Infrastructure improvements, with minimal expenses, could be made to enhance the road structure by setting up direction signs, road lights, protective fences, and speed limit signs.

Leisure tourism

The buoyancy of leisure tourism is a natural derivative of the nature of the Lebanese, traditionally hospitable and exposed to different cultures and conventionally accepting of various "mode de vie". The active nightlife, the resonant gastronomic services and the various open-air sports activities, are all complementary of the cultural tourism. This close involvement between cultural and leisure tourism amplifies the uniqueness of Beirut in being the cosmopolitan Arab city in the Middle East region.

Clustering for better leisure tourism. The tourism board and other concerned authorities are invited to be as creative as they can be on the level of promoting such kind of tourism since it concerns all the 365 days of the year. These actions could include fairly constructed deals among the different accommodating tourism facilities, free descriptive brochures with detailed directive maps and basic information about important night-clubs, restaurants and pubs, better regulated car rental agencies, reasonably set entertainment prices, specialized & all purpose assistants for the period of visit, parking facilities for short stays in Lebanon, and last but not least contracting with renowned international performers and bands.

Health tourism

Traditional types include health tourism, while more modern ones concern issues like ecotourism. Lebanon has always been strongly present on the medical map of the Middle East. Lebanon's hospitals, equipped with the most qualified medical staff and the newest technologies, were and still are the most visited in the Middle East area. The recent comeback of several Lebanese specialized doctors from foreign countries, will further incite regional patients, especially those from nearer countries, to come for treatment in Lebanon.

Ecotourism activities started to emerge recently but with a clear trend towards more professionalism and deeper involvement of the tourism experts. Newly introduced activities in this concern include mountain hikes, mountain sports, rafting in Nahr el Kalb, trips to Kadisha valley or Nahr Ibrahim and exercising with the arch and bow in Afqa. On the other hand, old practices comprise traditional visits to Jeita, Baalbeck and Byblos.

Clustering for better health tourism. Several issues could be addressed

at this level, since these different kinds of tourism nurture each other. Hence promoting the one health tourism type boils down to promoting ecotourism at the same time.

- It is beneficial to encourage the different accommodating facilities to embrace “ecolabeling” in the aim of appealing to international tourists, always concerned with environmental issues.
- Collaboration with international tourism organizations (e.g. Club Med), usually with a wide base of loyal customers has a growing significance. A direct implication is the introduction of Lebanon’s SPAs, hotels, restaurants, recreational sites, and even hospitals, to the holidaying maps of thousands of tourists from the four corners of the world.
- Taking on B.O.T strategies could, besides preserving and maintaining natural treasures, help integrating such riches in international promotional tourism plans that increase their financial value.
- Enhancing transportation to and from the airport could be efficiently implemented through subcontracting, not one but several private parties. This gives room thus, for more competition, accurate service and better pricing.
- As a promotional step, professionally executed brochures with detailed maps and information on natural sites, SPAs, specialized hospitals, hotels, restaurants, recreational areas, car rental agencies, travel agencies, and other facilities, should be provided to all airlines operating in Lebanon.

Tourism Spillovers

Contribution to environment conservation

The necessary and inevitable involvement of tourism industry in environmental conservation, through lifting services standards and keeping the international codes of environmental preservation, is undeniably beneficial. The industry’s contributions could be through its financial support, setting provisions of environmental infrastructure, and improved management.

Raising awareness of the local population

The involvement of local communities in tourism development is mainly through their allying for the conservation of their heritage, of which they are naturally proud. This natural catalyst could help boosting the financial value of the natural and cultural sites.

CHAPTER EIGHT

Technology implementation²⁹

A major concern in any economic program is investment; easier access to technology is the way to productivity and development. Any recession means in principle a long-term decrease in demand; economic recovery entails first a recovery in terms of investments. The study carried out by Mr. Edde was of interest in this sense and many other. We have lengthily discussed his point of view. With his agreement, we decided not to make any changes in the original text, since any change may turn out to be rhetorical. In fact, the expectations of entrepreneurs are the fundamental mechanism of the investment decision; it is not necessarily rationality but rather the perception of the world of enterprises. The 'case' illustrated by Mr. Edde makes it very clear that there is in Lebanon factors that unmotivated investment, and consequently should be corrected and replaced by incentive measures.

Nonetheless, it would be useful to stop at the measures on the levels of investment and technology. One needs to see whether the indicated measures are sufficient to lead to a direct foreign investment flow. However, one should consider that foreign investment is normally back-up; first, it is national enterprises that must invest. In Lebanon, there is additional data, which are trans-national enterprises with Lebanese capital and/or run by Lebanese people and whose information - therefore its propensity to invest in Lebanon - is considerably more important.

The plea for high technology is quite justified, and a major asset is the international experience of Lebanese executives. Lebanon has greatly succeeded in such fields as information technology and communication - modern forms of the press and the publishing business - thanks to the Lebanese's education and pluralism in terms of culture.

The opportunity of high added value industries happens to be a big advantage, since it generally allows higher incomes and provide job opportunities more in line with the education and capacity of the young Lebanese massively emigrating from the homeland.

The major hurdle to exportation of intellectual production in Lebanon is the 'withholding tax' that penalizes any 'service' or 'intellectual product'

29 Salim M. Eddé, L'Orient-le-Jour, Friday August 12, 2005.

with a tax - often quite costly - upon arrival at the destination country. This is how Lebanese intellectual production is submitted to a 33% withholding tax whereas material goods are exempted by virtue of the Association Agreement with Europe. In principle, a mere agreement of 'the most favored nation' would have set aside that tax; the Association Accord omitted this aspect.

Similarity with Ireland is striking and shows that if Lebanon wants to overcome the crisis, it certainly can; it is easy for it to aspire to constant and long-term growth. Some of our economists are familiar with this thought and it deserves our greatest attention. Irish population is similar to the Lebanese. Ireland has gone through the same drama that is the long civil war, with ensuing destruction, unemployment and massive emigration. In 1988, Ireland adopted plan to revitalize the economy allowing it to become, a few years later, one of the countries with the best results in Europe. Oddly enough Ireland endeavored to reach the same achievements and in the same time span as Lebanon. 'Horizon 2000' may be applied to Lebanon as well as Ireland; infrastructure, road network, electricity, water, telecommunication, sharp decrease of income tax, and the creation of an Investment Development Agency (IDA vs. IDAL). However, Lebanon did not witness the same results.

Mr. Edde enumerates quite appropriately the remaining measures that must be taken to improve competitiveness namely privatization and free competition to have telecommunication and energy in the best conditions. He draws our attention to interest rates and the sharp deficit of the balance of trade. Failing an accurate monetary policy, recovery in Ireland would have been a wishful thinking.

Among the measures adopted in 1988, there was the separation from the Pound. Ireland sought its monetary autonomy to follow a job policy. As a result, its currency was depreciated at first but became strong enough subsequently to enforce the Maastricht treaties and stand as one of the first eleven European countries to be able to adopt the Euro.

In 1991, England too had to leave the 'European Monetary System' and the Pound suddenly lost 15% of its value as it was subject to a speculation wave led by American fund 'Quantum Fund'. The result was amazing economic recovery showing that a technical adjustment is necessary and that Ireland had not been mistaken - if further proof was necessary - to leave the Pound.

The recovery of the Lebanese economy - currently in decline - cannot be achieved through the traditional ways; it necessitates new means that generate locally produced wealth. It is through advanced technology and the computer industry that Lebanon will be able to recover economically and financially.

With which types of investments can local wealth be produced?

It has now become imperative and vital to generate local wealth since hesitations and prevarications are no longer admissible as the economic, financial and social conditions worsen. To reach this aim, Lebanon does not need any type of investment, but rather investments with the following characteristics:

- The amount of the investments made must be measured to make envisaged projects achievable;
- Investments ought to produce goods or services with a high added value and must be based on Lebanon's competitive advantages, which will reduce the production cost and increase profitability to its utmost.

Based on these criteria, investments will produce, through the projects that are carried out, resources that increase the country's wealth, ensure economic recovery and boost the economy. These investments will be quite appealing to highly qualified executives, ensure high salaries to bring back a part of the executives who were forced to leave and convince them to stay. Investments in the traditional sectors - agriculture and industry - can no longer engender the expected results in a small country such as Lebanon. Traditional investments in the industry or agriculture can not be stimulated by just any competitive advantage since the country does not have mining or natural resources, nor does it have large agricultural land or large capital or cheap labour. Since all these parameters are inexistent, locally produced goods can not be sufficiently competitive on the neighbouring or international markets.

The choice of advanced technology and the computer industry.

The resources to which we aspire and that are likely to increase our GDP, such as tourism, can only be found through the potential offered

by advanced technology namely the computer industry. This sector basically requires intellectual creativity not important capital. If we consider the case of the computer industry, we notice that this sector includes two categories of activities, if we simplify things:

- Carrying out a contract for a client. The company that is concerned is asked to create a special computer program for a given task and for a specific client. The company carries out the project in exchange of payment of the production cost in addition to a profit margin;
- Creating computer programs so that they are commercialized. Software that meets the needs of the market ought to be set up as it is perceived by the company to interest an undetermined number of clients throughout the world. The company's role is, in this case, to create programs that will, in its vision, met the needs or provide the necessary services for a given activity or sector, without carrying out the work for a specific client.

This second category of activities includes, quite obviously, higher risks linked with the way the company sees the needs of the market. On the other hand, profit is higher than that made in case a specific contract is carried out. This is due to the fact that the production cost remains the same whereas income may increase according to the number of customers who consider that the conceived program actually corresponds to their needs.

These two types of activities currently exist in Lebanon but their volume and their productivity have not reached the required level. Lebanon is far from having exploited all the potential of the computer industry. This lack is due to several factors, the most important of which is the current state of the infrastructure that this computer industry necessitates as well as the current fiscal policy.

The case of the Murex Company

The way I see problems that exist at this level is based on objective data in relation with the case of the Murex computer company and on my personal experience since we set up this company in 1986 abroad, more exactly in France as a first stage. The way I see things in this respect - as concerns the analysis and the conclusions - is also based on the case of Ireland - that has had tremendous success in this field - and on the current situation in Lebanon as concerns its approach in

terms of the computer industry.

The founders and shareholders of the Murex Company are mostly Lebanese. The Lebanese engineers that work for the Company are a quarter of the global staff - today more than 550 highly qualified engineers with impressive experience. Clients come from the entire world. The Company produces its software mainly in France and sells to most industrialized countries in all five continents. Murex targets banks, international financial institutions, economic consortiums, major industrial enterprises so that they interact - with the required rigor and speed - with the different aspects of the banking and financial activities: quotation of financial instruments, assessment of risks related to market fluctuations, back-office and posting. After having extended the circle of its clients and activities, the Murex Company realized that the production cost of its products in France was becoming prohibitive due to the level of taxes and social expenses imposed by this country. These factors led to considerable extra charges for the Company and for the clients - who in 1986, when the Company was founded, were all in France, whereas they no longer represent today but 5% of our clients as a result of market globalization.

In the light of such data, it was only natural that the Company considered settling in a country with the best conditions likely to improve our competitiveness. After a market analysis, the Company decided to set up a subsidiary in Dublin, Ireland, in the late 1990s. The same data made us set up other subsidiaries in Beirut and major capitals in the world such as New York, Tokyo, Singapore, and Sydney. We are also starting to settle in India, China, Korea, and Latin America.

The Company set up in Beirut in 1996 pursues its activities in a satisfactory way and has had fairly considerable results. However, this Company could have made far quicker and more considerable progress with more job opportunities to the young qualified people in terms of computer sciences. The hurdles we face are first related to the work circumstances and conditions that are, to this day in Lebanon, very unfavourable. This major hurdle hinders the Company's dynamism and inhibits its development or any such like activity. For example, there are nowadays 40 engineers in the Company in Beirut but could have been more than 100, which would have increased the Company's contribution to the Lebanese economic expansion. Such unfavourable conjuncture - which we will detail further on - does not

encourage the new computer industries to settle in Lebanon.

The Irish case

I would like to bring up the Irish case at this level, especially that this small country is in a number of points similar to Lebanon namely as concerns its social, economic, financial situation, its living conditions, as well as its crises and its wars. This country has managed to overcome the crisis and solve its chronic problems, namely its economic and financial problems as a result of the attention it gave to the most advanced technology. The case of Ireland in this regard is blatant proof that Lebanon can - and must - follow the same path due mainly to the similarities in the problems it has to face.

The number of the Irish population is 3.9 million. Just like Lebanon, the country does not have any mining or natural or agricultural resources or wealth. Ireland does not have either any major industry in the traditional sense. Around the nineteenth century, it witnessed the great 'potato famine', which caused massive emigration. Before this crisis, the number of inhabitants was 6.6 million, i.e. almost 70% more than today, 150 years later! We should note that 43 million American citizens consider that they are Irish descendants. Here, one cannot help remembering the famine that struck Lebanon in 1915 at the tie of WWI and killed one third of the Lebanese population and caused a significant increase in emigration.

Just like Lebanon, Ireland has witnessed internecine wars and conflicts with all the ensuing damage socially and economically. This country has long suffered from unemployment and the lack of job opportunities for young people. Until 1980, Ireland also suffered from archaic infrastructure, an inhibiting fiscal system and almost-deadly emigration.

Measures taken by Ireland

What did Ireland do to get back on its feet and check the economic slump?

It decided to adopt a new economic policy based on the most advanced industries namely in the fields of computers and electronics. It made the strategic decision to create adequate conditions to enterprises that produce the most advanced technology and motivate their settlement in Ireland.

Consequently, the following measures were taken:

- A new, more adequate infrastructure was built as concerns roads, airports, public transportation, water and electricity networks;
- A modern infrastructure was set up at the level of telecommunications and computers, which made the country the leader in Europe in terms of digital technology. Considerable investments were made for this purpose in the field of fibre optics.
- The State made over a considerable part of state privileges in the telecommunication field, which allowed competition in the latter. Ireland did not only resort to privatization to end the monopoly by giving the sector to one or two companies only; in fact, it opened the way to a great number of competitive enterprises whose number amounts today to around twenty. This certainly ended the monopoly, on the one hand, and on the other it allowed a long-term and consistent decrease in the price of communications. In addition, the State made over to the private sector some services that it controlled such as electricity and the telephone in a way to avoid any monopoly in these fields;
- Ireland underwent a radical revision of its fiscal policy and reduced to 12.5% company income tax;
- The Irish state also took an important initiative as it signed agreements with all industrialized countries canceling the withholding tax that these countries perceived on computer programs produced in Ireland. We will discuss this vital issue in details when we discuss the case of Lebanon;
- Ireland undertook to radically curb budget deficit in order to be able to reduce interest rates on the long term. Consequently, the rate of the real national debt to the GDP became one of the lowest in Europe - the country holds in fact the second rank at this level in the continent;
- Particular attention was paid to information and campaigns showing the facilities provided by Ireland namely as concerns special conditions offered to the companies that work in the field of advanced technologies. These campaigns were led by a specialized agency, IDA, which endeavoured to highlight the advantages likely to draw the concerned companies and encourage them to settle in Ireland. For example, it is this agency that convinced our Company, Murex to have a subsidiary in

Dublin and facilitated the required formalities.

The achievements of the policy adopted by Ireland

What were the results of this systematic and coherent policy followed by Ireland?

- The annual growth rate in this country reached 7.3% for 14 years, since 1991 to this day; this means that Ireland increased its GDP by 300% in the last fourteen years compared with the previous period.
- GDP per inhabitant in Ireland reached 31900 dollars in 2004, i.e. 20% more than the European average.
- The unemployment rate, which was at 16.3% in 1988, decreased to 4.3% in 2004.
- Ireland also succeeded since then in drawing more than 1200 international enterprises that chose this country as a stepping-stone for their activities towards European countries and international markets, namely in the fields of the computer industry, electronics, pharmacy, health, financial services, information technologies and engineering.
- Ireland now produces 40% of the computer programs conceived by the E.U., whereas its population represents only 1% of the European population.

All this data made the British magazine 'The Economist' consider Ireland as 'Europe's rising star' in 1998, whereas it had called it as 'the poorest country among the richest' in Europe, in 1987.

It is particularly noteworthy to say that the spectacular economic success achieved by the Republic of Ireland (the South) was a major factor that convinced the Irish in the North to end their internecine war; this led them to sign, back in 1998, an agreement that ended the war. It was crowned last July by the IRA's decision to lay down its arms.

What did Lebanon do?

Whereas Ireland achieved such great success, Lebanon has not managed yet to overcome its chronic crisis at the economic, financial and social levels. However, as we have already indicated previously, the two countries have several points in common: the same number of

inhabitants; the lack of natural resources; the hardships as a result of the war and famine; a hostile environment; emigration, which - in the case of Lebanon - might sap the very foundations of the country if it is not checked. The cause of this chronic crisis is to be found in the policy that is followed and the measures adopted by Lebanon. These measures are incomplete, sometimes even truncated, or are in contradiction with those that ought to have been adopted. What did Lebanon do at this level?

It is true that some positive measures have been taken at the level of telecommunications and the computer industry. However, investments in this field have not been sufficient, which hinders competition, a fundamental factor in this sector. The lack of competition and of sufficient investments has considerably increased the expenses paid by companies. It is inconceivable that the internet connection - which is vital for the modern computer industry - be in our country 1100% more expensive than in France or in Ireland for instance. It is also inconceivable that an internet connection at home - which became other countries' daily bread - be in our country 5000% more expensive than in the two aforementioned countries.

These unjustified expensive prices are even more inconceivable as we take into consideration the extreme slowness of our local network in comparison with the very fast Internet network in the US or in European countries. One instance of this sad reality is the lack, to this day in Lebanon, of an ADSL network, which ensures a fast connection at a low price. Such network is deemed as the very basis of communication means in most countries in the world.

The cost of international communications is 200% and 500% more expensive in Lebanon than in European countries not to mention that the Lebanese network is less effective than in industrialized countries. This causes considerable additional expenses for companies in comparison with other countries.

The Lebanese financial authorities have simply lowered taxes on company incomes. However, the withholding tax perceived by all the countries with whom Lebanon deals - namely as concerns intellectual production in general and the computer industry in particular - have remained unchanged. To highlight the negative aspect of this situation we give as an example a software that is sold in France and produced in Lebanon and in Ireland, with the same production conditions:

Net profit resulting from the sales in France of software produced in Lebanon is twice less than the one that would have been made in Ireland, no matter what income tax may be - even if the producing company had an off-shore status, which means was completely exempted from income tax in Lebanon. This is due to the fact that Ireland signed agreements exempting its products, in this field, from the withholding tax, whereas France and other countries impose this tax on the same products from Lebanon. In other words, Lebanon ought to endeavour to re-negotiate agreements as to double taxation in such a way as to abolish all withholding taxes upon intellectual production in Lebanon. This is true not just for software but also for books, publications, musical production, cinema and television. We should underline in this respect that the Hariri governments had started such negotiations with France. These talks had been carried out by President Fu'ad Siniora, at the time Minister of Finance. It is necessary if not imperative that these negotiations lead to agreements that will allow Lebanon to be treated in the same way as Ireland. Industrialized countries repeatedly claim their will to help Lebanon. This help may be made concrete at a lesser cost for those countries allowing Lebanon to profit from the necessary tax exemptions as was the case with Ireland since the 80s. Everyone knows that fiscal policy in Lebanon is changing and precarious. Income tax reached 40% in the 80s and even 50% in the early 90s. This tax was lowered to 10% per year in 1993 in the beginning of the mandate of the first Hariri government. This rate was not made stable. The government that followed the Hariri government in 1999 decided to have income tax at 15% per year, i.e. an increase by 50%. At the same time, a decision was taken in 1999 to increase tax on dividends by 100% so that it became 10% instead of 5%. Real fiscal expenses increased on the one hand to 15% on profit as a result of income tax; and on the other hand to 10% on the remaining 85% of the profit as a result of tax on dividends, i.e. 8.5%. As a result, global fiscal charges are $15+8.5=23.5\%$.

We are forced to acknowledge that no one is able to confirm whether income tax will remain stable at this level and will not be increased in the future. Such instability does not allow investors to plan their long-term investments due to what they consider close to piracy. In addition, political instability, which seems to be Lebanon's unfortunate destiny, is an inhibitor of investments in the computer industry. The most striking example in this sense is the experience I have had when I took part in the process of convincing Intel, which is

the leader in micro processing in the world, to choose Lebanon as its headquarter for its laboratory and activities in the Middle-East. This centre would have ensured jobs to many highly qualified local executives. The Company was hesitating between Turkey, Egypt and Lebanon. After having put aside Turkey, there remained Egypt and Lebanon. In December 2004, a group of Lebanese working in this field- among whom Beirut MP Ghinwa Jalloul, representatives of Lebanese computer companies and myself - were about to convince delegates of Intel to choose Lebanon. This is when Rafic Hariri and his companions were killed in a blast that shook the world. Intel decided to settle in Egypt. We must add the gaps in the marketing policy aimed at drawing investors to Lebanon. Until now, IDAL - Investment Development Authority in Lebanon - is far from the efficiency that the Irish agency IDA has as it played a primordial role in the success of Irish policy in this field as I have already explained. One the main and very rare initiatives in Lebanon is that of the University of Saint Joseph that set up a techno pole, a true 'nursery' to computer companies and advanced ones. The techno pole ensures important services on the technical and administrative levels as well as for research, which are a factor stimulating creativity and the computer companies' activities. This techno pole also allows new enterprises to avoid the numerous launching expenses. But the main weakness at this level is the absence of the State or its indifference as to the strengthening of such experiences that can play a primordial role in the development of the infrastructure destined to very advanced industries. In addition, private initiatives in this field remain limited.

The computer industry is the pillar of the new avant-garde role that Lebanon is likely to have

The conclusion that we can draw from the Lebanese aforementioned data is that the current conditions are not yet favourable to draw to Lebanon companies that work in very advanced technologies. The - bitter - lesson that one may draw is that Lebanon's real advantages have not yet been sufficiently exploited. What are these advantages?

Lebanon is known for its secular tradition in terms of teaching, university and academic formation. Its graduates from good universities are reputed to have very good formation. Thanks to these young people and their skills, Lebanon is able to resolutely engage in

the computer industry. However, these young people are leaving the country in greater and greater numbers in search of jobs abroad, in this field as they cannot find them locally.

Multilingualism characterizes Lebanon and is a factor that helps draw to Lebanon computer companies that are extremely interested in its skills, as well as in the programs conceived and produced in Lebanon that are sold in various countries. Besides, one should not forget the rich tradition in Lebanon as concerns the press, publishing, literary and musical production, publicity and marketing. The computer industry is but the continuation of this tradition of creativity using the XXI century technical means. I would go even further in this respect so as to say that new technologies in general and the computer industry in particular are for Lebanon the modern expression of its new avant-garde role that our country must play for the rapid development of the Arab world - just like Lebanese literary, linguistic, and journalistic creativity was at the lead of the Arab renaissance in the nineteenth and early twentieth century. To conclude I hope that the data I have just put forth may contribute to highlighting a number of objective potentials allowing Lebanon to break the vicious circle. These factors ought to be taken into account in a coherent way, in their entirety not in an isolated and selective way. The new and encouraging factor is the passage in the ministerial statement recently submitted by President Fu'ad Siniora: it underlined that the government ought to adopt an economic policy based in priority on industries and investments that are likely to produce a high added value. The ministerial declaration states:

'The government will give importance to the sectors of the 'new economy' that are likely to generate a high growth rate and create jobs; intellectual property is to be adopted as a source of income and national wealth.'

These were merely my personal thoughts; my aim was to start a debate as to the best way for Lebanon to check its current downward slump. The fact that I personally and directly lived the Irish experience and having faced the hurdles we encountered in Lebanon strengthened my conviction that it is possible to count on the computer industry and advanced technologies in order to break the vicious circle the country is in.

CHAPTER NINE

Competition in the Lebanese Economy

A Background Report for a Competition Law for Lebanon

Introduction

The report on competition in the Lebanese economy has been prepared at the request of Lebanon's Ministry of Economy and Trade to serve as a background study for a draft Competition Law. The Law aims at enhancing competitive conditions in the economy in order to improve efficiency and productivity, thus providing a stronger basis than currently prevailing for sustained growth in output and employment.

The main objective of the report is the evaluation of the degree of competition in the Lebanese economy, which should constitute a starting point for the drafting of the Competition Law. However, the report can also serve more general purposes of informing macroeconomic and sector policies for enhancing the productivity and growth of the Lebanese economy.

Since 1975, the structure of the Lebanese economy has undergone significant changes following 15 years of warring conditions, followed by more than a decade of reconstruction. Although economic recovery has been relatively quick, growth has not been as strong as expected, averaging less than 4% since 1993 despite the stimulus of a strong increase in government expenditures. This modest performance constitutes *prima facie* evidence that the Lebanese economy is constrained by structural rigidities, among which the weakness of market competitive forces may be a major element.

Data sources and outline

The data used in the report are mostly from official sources. Above all, the data pertaining to the Value Added Tax (VAT) for the year 2002, provided by the Ministry of Finance, represent the primary source of information for the analysis of market structure, and concentration in particular. In addition, the report uses data that have

been derived from recent official surveys on the national accounts for 1997, household living conditions in 1997, manpower resources in 1997, and on industry in 1998-1999.

The report first discusses the basis for a Competition Law and its objectives, particularly in a developing-country context such as that of Lebanon. It then evaluates the degree of competition in the economy from a market structure perspective, with emphasis on the degree of concentration in various markets as the main competition indicator. The following part takes up the issue of barriers to entry and exit, a central structural characteristic of the degree of competition. Competition from a business conduct perspective is later analyzed, with focus on the extent of restrictive practices in markets.

The findings of the report and its recommendations are summarized in the last part of the report. Based on these findings, recommendations are presented regarding the Competition Law, in particular with respect to principles and elements that would need to be adopted in (or excluded from) the Law. This part also addresses the issue of the need for a regulatory institution, e.g. a Competition Authority, its main functions and prerogatives. Finally, recommendations are made in relation to competition policies in general – as opposed to laws – that could benefit economic performance, with emphasis on those that would be relatively easy to implement.

The need for a competition law

Competition laws are the products of a fundamental view in economic analysis that competition is good for economic efficiency and growth. This view occupies a central place in economic analysis, and in almost all growth and economic development strategies.

Competition can be viewed as either a structure or a conduct characteristic in a specific market. As a structural characteristic, it denotes a market situation with a large number of sellers, large enough so that no one seller, or a group of sellers, can have a significant influence over price. From this perspective, competition is the absence of market concentration in the hands of the few, and hence the absence of power, or so-called “monopoly power”, over price determination in particular. The size of each seller would have to be small, not in absolute terms but relative to the total size of the market.

As a conduct or behavior characteristic, competitive conduct means, above all, the absence of restrictive practices and collusion among sellers, such as price fixing and market-sharing arrangements that limit rivalry among sellers.

Whichever concept is used, competitive forces produce market pressures that are expected to drive sellers, by necessity rather than choice, to productive efficiency. More generally, competition should be viewed more as a dynamic and complex process that involves a continuous allocation and reallocation of resources in the face of changing market conditions, creating new products and/or processes of production.

On the other hand, the absence of competitive structures and conduct, i.e. the existence of monopolistic power, is expected to produce an inefficient performance and an inequitable distribution of income. Laws, such as a Competition Law, and economic policy should then strive to contain the harmful effects of imperfectly competitive markets, or monopoly power in general, with their restrictive practices that inhibit competition. Constant vigilance is also required because markets are essentially dynamic, and competitive markets can turn monopolistic over time. A regulatory agency or authority would fulfill such a role.

Theoretical notes

The concept of competition is well developed, particularly in its empirical aspect, in the economics branch Industrial Organization (IO). IO analysis uses the following standard paradigm:

Structure → Conduct → Performance

The paradigm refers to a market for a specific product. The structure of a given market comprises various parameters, chief among which are the number of sellers and buyers, the height of barriers to entry and exit, and the extent of product differentiation. Conduct, or firm behavior, mostly refers to pricing and investment policies. Performance is the focus of the paradigm in that it shows the outcome of a specific market structure and conduct, particularly in terms of economic growth, or productive and allocative efficiency, employment, and equity regarding income distribution.

Purely or totally competitive market structures are very difficult to

obtain in reality. This has led to the creation of the concept of “workable competition”, which is an operational norm that can be used in the empirical studies of markets to assess their degree of competition. Workable competition is said to operate when the following conditions hold with respect to structure, conduct and performance. In structure, two main conditions are required: the number of suppliers should be as large as permitted by scale economies and there should be no artificial barriers to entry. Artificial barriers to entry usually exist in the regulatory environment, e.g. difficult-to-obtain or expensive licenses to operate. Natural barriers to entry are the ones associated, for example, with large capital requirements and/or a relatively large minimum efficient scale of operation that is necessitated by technological considerations, such as in electricity generation.

The benefits of competition and the need to promote competitive structures and behavior may appear to be self-evident, but the issue is not a straightforward one in developing countries.

Indeed, in small developing countries, the number of small establishments is usually very large. In Lebanon, establishments with at most 10 workers represent more than 90 percent of all establishments, which points to the existence significant economies of scale that can arise if there were more “large” rather than “small” establishments. Moreover, increased competition in small developing countries may lead to a dilution of profits, which could adversely affect investment. In other words, the issue in Lebanon may be more one of a need to increase the size of enterprises rather than increase competition, so that a resulting increase in concentration would perhaps be more than compensated by taking advantage of scale economies and increased profits for investment.

Competition laws may therefore have to address conflicting objectives. To justify the choice of greater market concentration, it is necessary to provide prior evidence of the existence of significant economies of scale, and that these economies appear only at relatively large levels of output that are not compatible with a competitive structure.

Concentration in Lebanese markets

The principal measure of market or monopoly power is market

concentration. Market concentration is a structural characteristic that usually refers to the sales share of the largest one, three or five, or any small number of sellers in a specific product market. Concentration ratios (CR) have also been used for the largest four, five, and even eight sellers in the US. These ratios are denoted, respectively, by CR4, CR5 and CR8. Sales are the most widely used variable in concentration measures, and it is also the only feasible one in the case of Lebanon, following the availability of Value Added Tax (VAT) data.

A measure that is similar to CR is the Herfindahl-Hirschman Index (HHI = $\sum S_i^2$, where S_i is the market share of the i^{th} seller). This measure has the advantage of combining information on both the number of sellers and their total distribution.

The most important issue in the measurement of concentration, or market power in general, is the delineation of the boundary of the market for which concentration is to be measured. In defining a market, substitution possibilities on the demand side are the critical determinant. Sellers are competitors, and hence their products belong to the same market, if their products are "good" substitutes in the eyes of buyers.

The process of defining market boundaries starts with the United Nations International Standard Industrial Classification of All Economic Activities (ISIC, Revision 3). The VAT Department at the Ministry of Finance has adopted this Standard, and adapted it to domestic conditions by adding a number of 4-digit activities and extending some to the 6-digit level. The report adopts this classification, and uses the VAT and merchandise import data in 2002.

Concentration measures are usually estimated for specific product markets. Aggregate concentration measures for a group of activities or for the whole economy can also be estimated using, for instance, data on interlocking directorates or control by family groups throughout the economy at large. These measures are, however, outside the scope of this report and would be, in any event, severely hampered by the absence of reliable data. The concentration measures that are calculated in this report are therefore for single product markets in industry and services. For agriculture, where no recent data on sales, or other relevant variable, are available for single products or markets, concentration is measured for the whole activity.

1 - Concentration in agriculture

Table 1
Farm Distribution by Farm Area, 1997-98
 (Cumulative distribution)

	Number of farmers	Farm area
Top	1%	25%
	5%	47%
	10%	58%
	20%	73%
Bottom	10%	0.4%
	50	8%
	75%	22%

Source: Republic of Lebanon and FAO, 2000

The figures in the table clearly show quite a skewed distribution: 5 per cent of all farmers exploit 47 percent of the total farm area whereas, on the other end of the distribution, the smaller half of the farmers operating in Lebanon exploit only about 8 per cent of the total farm area. The corresponding Gini coefficient, which provides a summary measure of the degree of inequality of the distribution, is 0.69, which is quite high.

2 - Concentration in manufacturing and services

The report has used the VAT data for the last three quarters of 2002, relating to the domestic sales and exports of 7,402 establishments that are subject to VAT reporting. These are the establishments with annual sales of at least LL 500 million (about \$332,000) and that have submitted the required information to the Ministry of Finance.

Nonetheless, the reported data include establishments with annual sales below the LL 500 million threshold.

The total number of identified markets is 288, excluding all markets in activity sections 8 (education, health and social work) and 9 (other community, social and personal service activities) that mostly include non-profit activities. Also omitted are activities 75 (public administration and defense, and compulsory social security) and a few commercial banks, which reported data though they are in principle excluded from reporting. These 288 markets, which consist of 7,029 establishments, are the subject of the analysis in the report.

The CR3 and CR5 indicators refer to the concentration ratios of the largest 3 and 5 establishments, respectively, in given markets. The concentration ratios are cumulative in that each of the concentration indicators covers all the markets. For example, CR3 for the concentration range 40-60% also includes all the markets that have less than 3 establishments, say 1 or 2, but where the concentration ratio of these markets falls in the relevant range 40-60%. Similarly, CR5 also includes all the markets with less than 5 establishments that fall in the relevant concentration range. The turnover in each market consists of domestic sales, exports, and the imports of merchandise that correspond to the market in question.

Table 2
Market Distribution
by 3-Firm Concentration Ratios (CR3)

CR3 Range	Number of		Number of		Turnover	
	Markets	%	of establ.	%	(\$ millions)	%
80 - 100%	83	28.8	653	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	100.0	7,029	100.0	20,374	100.0

Source: Compiled from data supplied by the VAT Department, Ministry of Finance.

Table 6 shows the distribution of markets according to CR3 values, i.e. the concentration ratio values of the largest 3 establishments. This CR3 distribution may be the most telling of the state of oligopolistic or monopolistic structures in Lebanese markets.

In 2002, about 58 percent of Lebanese markets, representing a little less than the third (31 percent) of the establishments had a concentration ratio of at least 40 percent for the largest 3 establishments. Of course, these markets include those with less than 3 establishments and a concentration ratio of at least 40 percent. The corresponding share of the total turnover for these “oligopolistic” markets is 40 percent (about \$8 billion).

Table 3
Market Distribution
by 5-Firm Concentration Ratios (CR5)

CR5 Range	Number of Markets	%	Number of of establ.	%	Turnover (\$ millions)	%
80 – 100%	110	38.2	939	13.4	3,989	19.6
60 – 80%	40	13.9	915	13.0	3,246	15.9
40 – 60%	40	13.9	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	100.0	7,029	100.0	20,374	100.0

Source: Compiled from data supplied by the VAT Department, Ministry of Finance.

Table 7 shows the distribution of markets according to CR5 values, i.e. the concentration ratio values of the largest 5 establishments. If the threshold concentration value is raised in this case to 60 percent, the result would still be one of a relatively large number of oligopolistic markets. In fact, about 52 percent of markets, representing a little more than the quarter of establishments and about 36 percent of turnover value, have a concentration ratio for the largest 5 establishments of at least 60 percent.

The summary results concerning concentration in Lebanese markets can be stated as follows: at least half the markets in Lebanon, which account for at least 40 percent of the total market turnover value, may be considered to have monopolistic or oligopolistic structures. These markets are likely to exhibit a corresponding behavior in terms of pricing and restrictive practices.

Table 4 below shows a selection of markets that are characterized by high concentration ratios. The criteria of selection are either a CR1 of at least 40 percent or a CR3 of at least 60 percent, and a relatively large market size of at least \$25 million.

Table 4
High-concentration Markets

ISIC Code	Economic activity	CR1	CR3	HHI ¹	Number of establishments	Market turnover (\$ millions)
<i>Manufacturing products</i>						
1554	Soft drinks	45%	69%	26%	10	172
1555	Mineral waters	52%	88%	34%	5	27
2103	Hygienic paper and diapers	41%	59%	20%	16	109
2421	Pesticides and other agro-chemical products	59%	64%	35%	5	95
2424	Soap	57%	77%	35%	19	89
2425	Detergents and house cleaning products	49%		24%	2	61
2694	Cement, lime and plaster	46%	65%	25%	16	75
2695	Articles of concrete, cement and plaster	40%	57%	18%	88	225
2892	Treatment and coating of metals; general mechanical engineering	48%	100%	37%	3	249
3130	Insulated wire and cable	67%	85%	47%	5	61
453901	Repair of electrical elevators	43%	79%	27%	13	21
<i>Wholesale trade</i>						
5050	Liquid fuel	95%	96%	90%	218	169
512103	Live birds and other animals	86%	99%	75%	4	43
514100	Solid, liquid, gaseous					

	fuels, related products	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
<i>Services</i>						
7123	Renting of electronic equipment (computers)	42%	83%	28%	19	38
9000	Sewage and refuse disposal, sanitation and similar activitie	58%	94%	45%	9	115

Source: Compiled from data supplied by the VAT Department, Ministry of Finance.

Note: 1- HHI is the Herfindahl-Hirschman Index.

Regarding Table 4, the reader needs to be reminded that the numbers are based on the VAT data as reported by the various establishments. This means that the actual concentration and market size conditions may actually be significantly different from the numbers shown for a specific market. The main sources of error would be inadequate reporting by establishments in the first year of operation of the VAT system, and problems of classification of both domestic establishments and imports with the appropriate ISIC codes. Nonetheless, the estimates in their totality do provide a fair reflection of the degree, if not of the minimum degree, of concentration in Lebanese markets.

High concentration implies monopolistic and oligopolistic behavior, with the expectation of collusion among enterprises, and other restrictive practices that lead to prices being greater, and investment lower, than they would be under conditions that are more competitive. A critical element in the understanding of enterprise behavior is the height of barriers to entry, which may be independent of the state of concentration in the market.

Barriers to entry

The measurement of concentration in various markets in Lebanon has provided a preliminary but not sufficient assessment of market power. A more comprehensive picture of market power is offered after a consideration of the barriers to entry, which perhaps constitutes the principal characteristic of market structure and

determinant of competition in markets.

Traditionally, barriers to entry refer to the cost and time it takes a new firm to enter a market. This useful definition gives an indication about the absolute cost that a potential or new firm would have to incur to enter a market. However, it is too general a definition and does not distinguish between the cost conditions faced by a new entrant and those incurred by an incumbent or already operating firm. Strictly speaking, barriers to entry are defined as a cost that must be incurred by a new entrant that an incumbent firm did not have to bear.

Barriers to entry can be divided into two general groups, natural and artificial. Natural barriers to entry usually are technical in character (e.g. production technology) or derive from some market structure parameter (e.g. market size) to such an extent that they lead to prohibitive cost conditions in a given market environment. Artificial barriers are mainly related to rules, regulations and norms that are imposed and that practically restrict entry at least to some enterprises.

The more prevalent types of natural barriers are classified into four types:

- Economies of scale
- Capital requirement
- Absolute cost advantage
- Product differentiation

1 - Natural barriers to entry: Economies of scale and capital requirement

Economies of scale can present the policy maker, especially in small economies, with the dilemma of choosing between either more efficiency or more competition, but not both. Economies of scale can be an important source of efficiency by affording enterprises lower unit costs of production, which can be an important incentive for investment and a source of growth. However, they also are a major determinant of market concentration.

A way of resolving the above-mentioned dilemma is to aim for obtaining the largest number of enterprises or establishments that can be afforded by existing economies of scale. A useful concept in this regard is that of "minimum efficient scale of production" (MES). In a

given market, MES is the smallest level of output at which the average unit cost of production is minimized.

Given a market size, e.g. total annual production or sales, a specific MES level entails a maximum number of efficient enterprises that the market can accommodate, with each enterprise producing at the minimum unit cost possible afforded by available technology. For instance, if the MES is about equal to the market size, the optimal market structure would consist of only one enterprise, making the market a “natural” monopoly; if the MES is about 20 percent of the market size, then the optimal number of enterprises would be five, and so on. This measurement of the optimal or maximum number of enterprises that is entailed by a given market size and an MES level can serve as a benchmark for estimating whether a market is naturally or artificially concentrated.

The above-mentioned study estimated the MES associated with existing scale economies by major grouping of manufacturing activity. The results are shown in Table 5.

Table 5
Economies of Scale and Barriers to Entry -
Selected Markets

ISIC Code	Economic activity	MES ¹ (\$millions)	Market size (\$millions)	Max. no. of establ.	Current no. of establ.2
<i>Manufacturing products</i>					
1533	Prepared animal feeds	4.0	51	13	5
1542	Sugar	4.0	51	13	1
2101	Pulp, paper and paperboard	5.5	157	29	6
2421	Pesticides, other agro-chemical products	4.0	95	24	5
2425	Detergents, other house-cleaning products	4.0	61	15	2
2892	Treatment and coating of metals; general mechanical engineering	2.7	249	92	3
3130	Insulated wire and cable	5.0	61	12	5

Sources: Gaspard, 2004; and estimated from data supplied by VAT Department, Ministry of Finance and in Republic of Lebanon, 2000.

Notes: 1- The minimum efficient scale of production (MES) has been estimated at the 2-digit ISIC level, which was then applied to the corresponding markets at the 4-digit level (see text below).

2 - Number of establishments that reported to the VAT Department in 2002.

Financing requirements can be an important barrier to entry facing entrepreneurs. The difficulty may be associated with either the amount of investment required to enter the market and/or the financing terms of the new investment such as the high cost of and difficult access to bank capital. Indeed, the average weighted bank loan rate during the last three years 2000-2002 was 11.6%. This rate corresponds to a real rate of about 11%, which becomes particularly prohibitive in periods of slow economic activity.

2 - Artificial barriers to entry

The report considers three such barriers that are deemed artificial in that they can be directly addressed by the authorities. These barriers relate to the legal and administrative processes, exclusive agencies and protection in general.

Lebanese courts are understaffed, and the legal process is long. Many enterprises involved in legal cases often have to wait many years before a ruling is passed, and additional years are further required at every stage if the case is appealed and then taken to the equivalent of the Supreme Court (Cour de Cassation). Even simple small cases, say rent disputes between tenant and landlord may take a few years to settle. The lengthy legal process translates itself into unnecessary costs to enterprises and represents, as such, a disincentive to invest or to enter a market.

Although most administrative procedures equally apply to all parties concerned, these can actually be discriminatory. Indeed, one expects that the larger the enterprise the more easily it can meet its administrative requirements. Generally speaking, the traditional Lebanese way of dealing with the administration through the so-called "wasta", or preferential treatment, implies a differential administrative burden and expense on individuals and enterprises, depending on the importance of one's "wasta". This means that the barriers to entry are discriminatory in their implementation on both incumbent and prospective enterprises.

Finally, exclusive agents enjoy effective legal and administrative protection in Lebanon. Imports that are covered by an exclusive agency cannot be legally imported into Lebanon except through the legally entitled exclusive agent. Following an extensive debate of the issue, a draft law has recently been sent to Parliament proposing that government protection be gradually abolished over a 5-year period. The draft law effectively places questions relating to exclusive agencies in the legal domain, without any direct official protection or interference at the point of entry into Lebanon. The law, if passed, should favor market entry, stimulate competition, reduce prices and benefit the consumer.

Pricing and restrictive practices

Restrictive practices are the facts of non-competitive conduct. In the Industrial Organization paradigm, they arise from or are facilitated by non-competitive market structures, i.e. markets that have a relatively high degree of concentration and/or high barriers to entry. However, restrictive practices may also be assessed on their own, i.e. independently of any consideration of market structure.

Restrictive practices are deliberate behaviors that aim to exclude potential entrants in the market, prevent the expansion of incumbents and/or force their exit. The ultimate purpose of restrictive practices is to limit competition in order to increase market power and profits.

Available information on restrictive practices in Lebanese markets is clearly limited in the case of behavioral variables such as business conduct, and more severely so if the variable relates to illegal practices such as restrictive agreements among enterprises.

Lebanese law prohibits restrictive agreements (Law 73/83). Article 14 specifically prohibits cartels or agreements that "limit competition ... resulting in an artificial increase in prices or in preventing prices from falling". This is a weak legal prohibition in that the burden of the proof is on showing that the agreements would lead to an "artificial" increase in prices, which is difficult to define or determine, or would prevent prices from falling, which is a counterfactual event that is difficult to establish.

Lebanese law regarding restrictive agreements also is not sufficiently dissuasive since the maximum penalty amount is LL 100 million (equivalent to about \$67,000) and/or 10 days to 3 months in

jail³⁰. To be dissuasive, the penalty would have to be significantly higher than the benefits expected to be derived from the agreement in question.

Although agreements between sellers are difficult to detect, indirect evidence can point to their existence. Cellular phone services in Lebanon are currently provided by a duopoly, Cellis and LibanCell. The fact that call rates charged by these two enterprises have been practically identical since their inception a few years ago constitutes strong *prima facie* evidence of collusion regarding prices. In fact, cellular phone rates are quite high in Lebanon: 13 cents per minute for dedicated lines, plus an upfront fee, and 35 cents for prepaid phone cards, versus 3 to 8 cents in other Arab countries.

Excess profits are the most important signal to potential entrants to join a market, where excess profits may be defined as profits that are above an average rate in other activities in the Lebanese market. The best policy in terms of competition is to allow free entry in this cell phone profitable market. This should benefit the consumer through lower prices and better quality of service. However, this is a case where Government priority has been to generate more revenues rather than seek to reduce prices to consumers.

Restrictive practices apply horizontally and vertically. Vertical restrictions or restraints operate between sellers and are imposed by an original seller on another seller downstream. Horizontal restraints operate between sellers at the same level of the production chain; they may also operate between a seller and the ultimate consumer.

In Lebanese markets, formal agreements may be few but not necessarily informal ones. A manifestation of the existence of agreements among sellers is the absence of price competition and a unison movement of prices charged by sellers in the market. Agreements, however, do not exclude competition in other domains such as advertising and selling terms.

Vertical restrictions are an important consideration in the analysis of competition in markets because seemingly competitive markets may turn out to be restricted in their competitive structure by vertical constraints. Illustrations abound in the retail consumer market, e.g.

30 Law 73/83, Articles 34 and 26, amended by Laws 72/91 and 490/96.

soft drinks, cosmetics, where numerous sellers are constrained by wholesaler-imposed RPM.

Product discrimination is also exercised in Lebanese markets. It involves charging different prices for the same product that is packaged and sold under different brand names. Examples are canned foods, so-called white goods such as refrigerators, gas cookers, etc.

Findings and recommendations

1 - Competition in the Lebanese economy

The 2002 VAT data point to a relatively high degree of concentration in Lebanese markets.

Using the conservative norm of a concentration ratio for the largest three establishments (CR3) of at least 40 percent (a standard norm is at least 40 percent for CR4), the VAT data indicate that 58 percent of the markets, with a little less than the third of the establishments, fall in this category. These markets have a total turnover value of \$8 billion, which is about 40 percent of the total estimated turnover in all the relevant markets.

These concentration numbers, by themselves, indicate that Lebanese markets are not very competitive, and that monopolistic and oligopolistic behavior may be prevalent. The absence of widespread competition is due to a number of factors, of which a major one may be the small size of markets in association with relatively large economies of scale. This condition is illustrated by a minimum efficient scale of production (MES) that is large relative to the size of the market. However, analysis also has shown that, in some markets (see Table 5), MES can be small relative to the size of the market and yet concentration has remained high.

This state of affairs usually implies the presence of high barriers to entry that prevent markets from becoming more competitive than they currently are. Capital requirements, as dictated by MES, in addition to the cost of capital and low labor productivity, also can be important barriers to entry.

These barriers to entry are mostly “natural” in that they are mostly determined by technological considerations and the general performance of the economy rather than that of a given market. The

report views the administrative and legal institutions and processes in Lebanon as important “artificial” barriers to entry and exit that policy needs to focus on.

The structural considerations of concentrated markets and high barriers to entry and exit would largely explain restrictive practices in Lebanese markets. In view of the nature of the variable, it is difficult to document the report with evidence on the extent of restrictive practices.

2 - Recommendations regarding the Competition Law

It is suggested that the following principles guide the drafting of the new Competition Law for Lebanon.

- *Reduction of barriers to entry and exit*

“Freedom of entry is the sine qua non of the competitive process”. Indeed, aiming at the reduction of barriers to entry and exit, rather than concentration per se, should be the focus of the Competition Law and the overriding principle of competition policy in general.

In practice, the focus on reducing barriers to entry and exit entails a serious effort at implementing administrative and legal reforms in order to streamline procedures and reduce the time and costs associated with the administrative and legal process. Both consumers and sellers, i.e. the economy overall, would significantly benefit from these reforms.

- *Reporting of seller agreements*

Competition laws usually deal with matters of conduct or behavior rather than structure. They brand as illegal the restrictive practices that constrain competition. Lebanese laws, on the other hand and as noted above, are ambiguous and, when specific, only refer to “fraud” and “false information”.

The new Competition Law should directly address the question of restrictive practices. Clearly, on both grounds of principle and feasibility, the Law cannot make all restrictive practices illegal. However, it can require the reporting by sellers to a Competition Authority (see below) of all their restrictive agreements, explicit or implicit, or it can restrict charges of illegality to a few practices, such as agreements to fix prices and to share markets or sources of supply.

It is recommended that a Competition Authority, with autonomous

powers of decision, enforce the Competition Law at a first level of ruling, which can then be appealed, if necessary, in a standard Court of Law.

At present, Decree No. 6821, of December 1973, entrusts the MOE with the fight against "*Ihtikar*", and with the promotion of competition for the good of the economy in general and the protection of the consumer in particular. The new Competition Authority can operate under the auspices of the Ministry of economy and Trade, with general oversight by the Minister.

It is important to stress, particularly in the Lebanese context, that the establishment of an official Competition Authority, though desirable in itself, nonetheless carries the risk of an added bureaucracy that can be subject to political and interest group interference, especially in view of the economic stakes involved. These considerations lead to the following recommendations regarding the attributes of the Competition Authority:

- *The Authority should be independent, small and professional.*

The Authority can be set up as an administratively and financially independent entity, with a budget that is financed by the Chambers of Commerce & Industry and the Bankers' Association and/or through a fee levied on registered capital at the MOE. Professional staff would include a magistrate, a senior civil servant and professional economists, in addition to research and support staff. The total number of staff should be kept to a minimum manageable number.

- *The Authority's mandate would be mainly to review notified agreements and adjudicate cases of restrictive practices. Appealed cases would be taken up by the Courts of Law.*

The Authority's mandate should also be an advisory one regarding, for instance, new relevant legislation and economic policy. It can also be an informative one, through the public dissemination of an Annual Report that would review the Authority's work during the year, together with a review of economic, technological and other developments and trends that can significantly affect competition in the Lebanese markets and the competitiveness of exports.

3 - Recommendations regarding competition policies

A Competition Law is one element, though an important one, in a package of competition policies. The report proposes below policies

that can contribute to enhancing the degree of competition in Lebanese markets.

- Reforms that bring about streamlined legal and administrative processes are of critical importance in reducing barriers to and costs of entry and exit. Economic activity and exchange in general, take place in an institutional (legal and administrative) setting. Efficient institutions thus become a basis for reducing transaction costs and, consequently, for efficiency in transactions.
- The merger of small and medium enterprises, especially in manufacturing, should be encouraged, for instance through tax incentives and other appropriate measures. The objective is to take advantage of potential economies of scale, which would require specific market studies to guide policy.
- The upgrading and expansion of the road transportation network would reduce transportation costs and prices. More important, it would facilitate the expansion of individual markets to their national dimension and beyond, and increase competition while taking advantage of scale economies.
- The authorities need to carry out the pro-competition policies that have already been initiated. Of particular mention in this regard is the draft law on commercial representation and exclusive agencies. By abolishing state protection of exclusive agencies, the law would place the issue where it belongs, namely between the company and the exclusive agent, while creating the opportunity for more competition and lower prices to consumers.

These policies would create an environment that is positively responsive to business initiative. They would make official institutions accommodating rather than prohibitive, reduce the cost of market entry and exit, and foster investment and competition.

Many of the report's recommendations are of a general order. This is not necessarily a drawback because the recommended policies cut across many activities, and their implementation would have a widespread rather than localized impact. On the other hand, policies regarding specific markets would need to be informed by the detailed conditions of operation of the individual markets themselves.

CHAPTER TEN

Foreign Trade Policy

What is striking about Lebanon's foreign economic relations is a large deficit of the trade balance³¹, and most of the years a surplus of the balance of payments. This situation was prevailing during 1990-2005 as well as in the pre-1975 years, though with smaller deficits. The balance of payments records the flow of capital in search of placement or investment; its surplus or its deficit will affect the country's foreign currency reserves, or simply the amount of its foreign debt.

Lebanon has always witnessed a positive capital inflow. As it has been a country of emigration for a long time, it has benefited from transfers made by workers to their families staying at home, from aid given by emigrants to their parents, from capital brought back by some for their retirement at home, or when they return at the end of their career. More important were the capitals that found refuge in Lebanon at the time of the two nationalization waves in Egypt around the end of the 50s and in Syria in the early 60s.

Arab nationals have always been interested in acquiring a second home in Lebanon. This movement stopped during the war and started again in the mid 90s. All the seafront was rebuilt with tall buildings attracting rich Arab clients. The registration fees were normalized in order to encourage the purchase of real estate by foreigners. The differential interest rates served in Lebanon in favor of revenue given by the state on treasury bonds have motivated a continuous flow of placements in Lebanese banks allowing deposits to grow far beyond the economic needs; in fact, deposits were indexed to the needs of the state.

Attracting capitals actually may increase the deficit in the current balance. In fact, whether they be income in foreign currency, real estate transactions, or bank deposits, surplus liquidity is likely to finance import without requiring a counterpart in production. This is why the unemployment rate is high and economic emigration has always existed in Lebanon. Emigration has become a problem since it is draining the qualified part of the working population, namely young people who have not yet been integrated in the labor market.

31 Goods and services to which is added net transfer of income.

The impact of these capitals could have been positive and could have contributed to the stability of the labor market had they found the use of investing in production, and therefore would have offered greater job opportunities. In fact this was the case in the pre-1975 years. In that period, capitals migrated to the country with entrepreneurs who wanted to set up in Lebanon the nationalized enterprise of their native country; recently, there have been few foreign investments comparing to the inflows of capital attracted by the high interest rates paid on deposits.

Available figures as to the foreign account give a coherent idea about the current evolution:

**Table 1 - Evolution of the various balances
from the balance of payments**

USD Mn

Balance	1997	1998	1999	2000	2001	2002
Trade balance	5,443	4,892	4,117	3,924	4,423	3,743
+ income and transfers (net)	(3,129)	(2,934)	(2,697)	(2,249)	(1,949)	(1,875)
= Current balance	2,315	1,958	1,420	1,676	2,474	1,868
+ capital transfers (net)	(1,140)	(1,077)	(532)	(189)	(305)	(231)
= Lending / borrowing	1,175	881	888	1,436	2,169	1,637
+ net financing	(1,601)	(392)	(1,147)	(1,196)	(997)	(3,199)
= Balance of payments	(427)	489	(259)	290	1,173	(1,562)

Note: A positive balance in the foreign account represents a deficit for the country, while a negative balance represents a surplus. Thus the balance of payments was in surplus in 1997, 1999 and 2002 and in deficit the other years

Source: Lebanon's Economic Accounts, 1997 - 2002, Ministry of Economy and Trade, July 2005.

The distinction between commercial balance and current balance dates back to the time when foreign trade was practically centered on product exchange. By nature, the production and the acquisition of services are concomitant; that is why they did not lend themselves easily to international exchange. One could not possibly imagine the boom in information and communication technologies, which placed the world within reach and carried services beyond the third of

itemized exchanges; knowing that part of transnational services still escape custom control since they do not cross any visible frontier. This is the case of intellectual property or of invoicing in the country of intellectual work effected in an overseas subsidiary. To this effect, a number of authors now tend to eliminate distinction and identify commercial balance with the current balance. For this study, we will use the balance of exchange' as the balance that includes imports and exports of goods and services³².

Conflicting Economic Policies

Nowadays, the standard of living in advanced countries cannot be maintained without opening up to the international market. This standard depends more and more on the economy of knowledge, on available energy and resources as well as on the limits of the market - which is the case of huge carriers. Work division and scale economies are greatly compensated by information and communication technologies. The benefit of opening up to foreign markets lies on reciprocity and strict rules to implement it. The World Trade Organization (WTO) ensures this function; and the almost permanent negotiations under its auspices tend towards new frontiers while trying to overcome hurdles and regulate conflicts.

The benefit at the level of the developing world is not as clear. As emerging countries face up to international competition, developing countries find it extremely hard to do so. The WTO tries to prevent the competition's destabilizing effect through a progressive opening up of frontiers while maintaining a number of barriers such as 'safeguard measures'³³ and 'anti-dumping' measures. But this is mainly done through regional organizations such as the Association Agreement to the E.U. - A.A. - that provide appropriate assistance as concerns the upgrading of the administration and of enterprises in developing countries. If it were not for this support, the opening up of markets would cause the collapse of a major part of the national production apparatus. The cost of opening up would be higher than that of isolation.

32 The distinction with the current balance is in the transfer of income.

33 Exceptional protection of threatened industries over a maximum of four years.

The opening up principle

In a recent book about the Japanese economy³⁴, it is showed that parallel to major enterprises on the international market whether in cars, electronics, or advanced technologies, there are vast conventional sectors in regions far from industrial poles whose technological backwardness and weak productivity can barely be explained in a country as advanced as Japan, more so because these sectors employ an important part of the work force. How could such sectors resist local and international competition with the country's economic opening up? Well, they could not. Japan's opening up was hindered by an impressive number of measures unrelated to tariffs destined to make these sectors evolve or turn to activities that are more adapted to the Japanese standard of living. Memorable conflicts have opposed Japan to its commercial partners because of unjustified specific norms that limited the entry of foreign products in the most vulnerable sectors. This policy allowed Japan to prevent the collapse of many peripheral sectors with the impact that this may have had on jobs and on national production. Today, norms related to quality or hygiene have increased in the rest of the world without justification and represent a real hurdle to international trade. Developing countries are the only ones to misuse them.

The flexibility principle

The progress of the economy necessitates that backward sectors evolve or close down, but for sustainable sectors this movement needs to come from within, through the competition of enterprises in the national environment, which should eliminate ineffective enterprises. However, a deterioration of productivity may also be managed within the opening up process and should not necessarily lead to the collapse of less evolved sectors. From a situation of equilibrium, compensation is possible through stabilization or the reduction of the cost of factors or currency depreciation. When productivity between two nations diverges, prices in the most effective nation tend to decrease, which gives it a competitive advantage.. Salaries in the less performing

34 *'Can Japan Compete'* Michael Porter and al.

35 The Mundell-Flemming model.

nation will stagnate or there will be a depreciation of currency, which will bring balance back to the trade³⁵ between them.

In fact, developing countries are reluctant to allow floating exchange rates for fear of inflation and especially to conceal social, fiscal, or financial deviations. This results in an even more serious deterioration in the exchange balance³⁶. The impact is bound to affect investment and jobs.

The principle of efficiency

The two pillars of a nation's productive efficiency - jobs and productivity - are interdependent. Unemployment limits production and also destabilizes networks built in relation with a given production rhythm. This is why an increase in unemployment is always underlined by concealed unemployment. This is not to be mistaken with the restructuring of enterprises where layoffs of redundant personnel lead to a better rationalization of production.

Job stability around some optimum that takes into account the need for enterprises and workers to turn over seems to be the ideal aim towards which the economy must tend. In the U.S. this optimum was fixed at 4% of the work force³⁷; it has not changed since and still is the administration's target. In 1968, an American economist pleaded in favor of 3% unemployment to get fragile minority groups 'out of the vicious circle of poverty'³⁸. This did not lead anywhere since the reduction of unemployment this much may trigger inflation and lose the benefits of full employment.

The institutional frame of Lebanon's external economic relations

Lebanon, which has an observer status at the WTO, has practically

36 See the definition above: Goods and services.

37 Humphrey-Hawkins Bill, voted by the Congress in 1978.

38 Lester Thurow, MIT, '3% unemployment, getting minority groups out of the vicious circle of poverty.'

gone through all the negotiations and intends to become a full-fledged member before the end of this year. Since 1997, economic relations with Arab countries are governed by the agreement signed within the Great Arab Free Trade Area³⁹ and since 2002 the Association Agreement with the E.U. - A.A. - formalizes cooperation with Europe until there comes the time to implement the European Neighborhood Policy⁴⁰. Within this global environment, other bilateral agreements are to be taken into account namely the current cooperation agreement with Syria.

The Great Arab Free Trade Area

Since the early 50s the common Arab market was the dream of all the Arab nations'. Many hurdles prevented this dream for half a century, namely: disparity in regimes, allegiance to differing international political currents, regional instability due mainly to the Israeli conflict, different standards of living, the inextricable mingling of politics with economics. The only progress that occurred was GAFTA, signed in 1997 by seventeen countries⁴¹ on the initiative of the Arab League Social and Economic Council⁴², exempting the products of the signing countries from customs duties within the coming ten years. Whereas a common market allows the free circulation in all the member countries of produced or imported goods, a free trade exchange agreement limits circulation within duties to produced goods that justify a value added of at least 40% in the country of origin.

In 2002, as the agreement was seen as successful, it was decided that the deadlines would be shortened; since January 1st, 2005, customs duties and similar charges were completely cancelled between all participants in the zone. When the agreement was signed, countries were allowed to subtract vulnerable industries from the reduction of tariffs for six years, at the end of 2003. An agricultural calendar was set up for each country during which concurrent

39 GAFTA.

40 See chapter 22.

41 Algeria, Djibouti, and the Comoro Islands remained outside the zone.

42 Decree no. 1317, February 18, 1917.

products were forbidden from import; other than this time, tariff reduction would be applied. This practice was to stop on January 1st, 2005 when the integral franchise has been applied. However, agricultural calendars are still maintained to this day, though this is in contradiction with the terms of the agreement⁴³.

The General Secretary of the Arab League Social and Economic Council is the institutional body in charge of implementing GAFTA; yet, no special procedure was foreseen to settle conflicts. When a country infringes the agreement, reciprocity measures are applied by the concerned countries. GAFTA often refers to the WTO and admits its directives in all cases that have not been foreseen in the terms of the agreement.

GAFTA is definitely a step ahead in the region, but it still has a long way to go before it becomes a tool that may encompass markets and make them an efficient entity. The region still relies to a great extent on imports from outside the zone. Lebanon suffers from industries that use energy extensively and its agriculture is regressing without being able to improve its exports or even defend its domestic market.

The Association Agreement with the E.U.

Exports of most industrial products originating from Lebanon are admitted in franchise since the late 70s in the E.U.⁴⁴. The A.A. confirmed this benefit and gave the European partner reciprocity. Negotiation was mainly about a number of facilities the E.U. wanted to give to Lebanon to upgrade its administration and its production apparatus. The interim agreement was signed in Luxemburg on June 17, 2002 and ratified by the Lebanese Chamber in December 2002. It was enforced as of March 1st, 2003.

By virtue of this agreement, products originating from the E.U. would enter Lebanon in franchise. A five-year period of grace was

43 Article no. 2.2.

44 This benefit was obtained by the late Kesrouan Labaki, Ambassador to Brussels while war was at its peak in Lebanon.

45 Art. 9 of the A.A.

given to Lebanon until 2007. As of 2008, duties and charges having an equivalent effect would be progressively reduced according to the following schedule⁴⁵:

Table 2: Schedule	Applicable duties and expenses
March 1st, 2008	88% of the initial duties
March 1st, 2009	76% of the initial duties
March 1st, 2010	64% of the initial duties
March 1st, 2011	52% of the initial duties
March 1st, 2012	40% of the initial duties
March 1st, 2013	28% of the initial duties
March 1st, 2014	16% of the initial duties
March 1st, 2015	Total Exemption

Agricultural products and prepared foodstuffs as well as fishing products should be subject to specific terms and/or minima duties and/or quotas. Lebanon's agricultural exports are allowed to enter without taxes or restrictions related to quantity at the exception of a succinct negative list of selected products submitted to limited restrictions. As concerns agro-industrial products, Lebanon has managed to separate agricultural components from industrial ones, and Lebanese exports managed to get 0% tariff on industrial components whereas other countries had to settle for an average rate of 30%⁴⁶.

When the agreement is enforced, all quotas and measures with similar effects will need to be abolished and no similar measure will be taken later on.

The definition of dumping is reputed to be in conformity with the dispositions of the WTO and the measures to be taken are those dictated by this organization as well as the country's internal laws; the same goes for grants.

Safeguard measures are allowed to preserve a threatened industry. The criteria and procedures of the WTO are applicable. If need be, Lebanon can ask the association committee to revise the scheduled reduction scale on a product in difficulties within the transition period. If the committee does not take a decision in thirty days

46 'The Association Agreement with the E.U.', Ministry of the Economy and Trade, November 2002.

Lebanon has the right to freeze reduction for a year.

Origin rules giving right to an exemption benefit are very specific and generally cover a complex transformation operation with more than one stage each corresponding to a distinct category of the list of harmonized tariffs, justifying in any case a minimum of 50% of value added. Concurrent origin is allowed as long as the raw or intermediary material is from the E.U. The Agadir agreement, which Lebanon considers signing, extends the benefit of allowed origin under certain conditions to Egypt, Jordan, Morocco, and Tunisia, all of which have signed the A.A.

The institutional frame that governs the A.A. is formed of an association council and an association committee, each formed of representatives of both parties. The association council is habilitated to formulate recommendations and in some cases to decide in litigation cases submitted by one of the parties. The association committee, which comes under the council's authority, is in charge of implementing the A.A. Its decisions are binding for both parties.

Conflicts that arise from the application of the agreement or its interpretation fall within the association council's competence; the latter's decision applies to both parties. If the conflict cannot be resolved by the council, we must resort to arbitration to which both parties must submit.

If one of the parties deems that the other failed an obligation of the current agreement, it may take appropriate measures in terms of international law and proportionately to the failure recorded. The association council must be immediately notified of these measures and consultation occurs within the council if the other party so wishes.

The A.A. is Lebanon's most important trade space given the fact that exchanges with the E.U. cover around 50% of its foreign trade. The E.U. carried out a large study as to the impact of the A.A. on Mediterranean countries⁴⁷ among which Lebanon. The results of this

47 'Sustainability Impact Assessment of the Euro-Med Free Trade Area'; committed to: University of Manchester, Bocconi University, the International Center for Advanced Agronomic Studies, Centre International des Technologies de l'Environnement de Tunis, Overseas Development Institute, ESCWA, Deloitte & Touche.

study are awaited eagerly. In fact, despite continuous assistance from the E.U. to Lebanon, there is no progress until now in the balance of exchanges and as a result, no progress was made concerning the struggle against unemployment and recession.

The Ministry of the Economy and Trade has already undertaken an analysis of the first results⁴⁸ emphasizing achievements, which are certainly considerable as concerns administrative reform, infrastructure and the environment; but the social and economic effect especially concerning economic recovery is inexistent till date.

The World Trade Organization

Lebanon submitted an application to the WTO in January 1999; a work group was assigned to it in April of the same year. It started negotiations officially in October 2002. In December 2003 bilateral negotiation started with the E.U., the U.S., Japan and Australia, giving way to an initial tariff offer corresponding to the structure of customs duties as applied before the tariff reduction of 2001, an initial offer of services - around 50 branches of services - and the study of grants given to the agricultural sector.

A meeting held in July 2004 with the same partners led to a new proposal about tariffs - closer to those applied as of 2001 -, around 100 services, and grants given to agriculture. A summary of the facts was written out in a report in December 2005.

A new meeting was held in March 2006. Some industrial and especially agricultural tariffs were considered as excessive especially 80 agricultural products whose tariff exceeds 70%.

Lebanon is to commit to a reduction plan over a maximum of five years. It must also cancel barriers not related to tariffs and grants to exports, ensure the opening up of services, public enterprises transparency, and apply legislation that protects intellectual property.

In brief, Lebanon should commit itself based on a specific agenda to the legislative and administrative measures as well as the application of laws agreed upon namely to facilitate the business environment - openness, limiting the bureaucracy, transparency - and

48 'The Association Agreement: Integrated Assessment and Planning for Sustainable Development'; MoET, Rana Samaha.

to struggle against counterfeiting and the illegal use of products protected by intellectual property.

Lebanon hopes that access to the WTO will help to⁴⁹:

- Trigger a modernization movement of laws and institutions;
- Draw foreign investments, protect intellectual property, encourage investment in information and communication technology;
- Use Lebanon's membership to promote Lebanon; full-fledged membership to the WTO means that the country has the openness and transparency standards necessary; it is a certificate of excellence;
- Participate in ministerial negotiations at the Doha conference and manage to get that Lebanon's partners agree upon a reduction of tariffs on goods and services that interest Lebanese exports;
- Have access to the mechanisms of conflict settlement;
- Improve the quality of Lebanese goods and services as a result of foreign competition and opportunities;
- Liberalize the services sector, eliminate private monopolies - and hopefully public ones as well;
- Develop exports;
- End the myth of the negative impact of the WTO concerning access to the Lebanese market.

This is to be proved if, and only if, the balance of exchanges - of goods and services - at the time of the extension of market openness is not in deficit.

Straightening the balance of foreign exchange

This balance includes the balance of imported and exported goods, services namely tourism, services rendered from Lebanon to other foreign countries - or from foreign countries to Lebanon - such as financial or commercial services - triangular trade or regional representation - professional - judicial, technical, studies and projects. Education and health care to foreigners are included in statistics about

49 Fadi Makki, DG Ministry of the Economy and Trade, 2005.

tourism. Transfers from Lebanese workers and employees to their families are not included in this balance - though they are an element of the National Income - since the analysis aims at studying GDP growth.

The balance of exchange including solely tourism provides interesting results and supports the assumption that real deficit is not as deep as one may suppose according to the trade balance.

Table 3 - Development of Imports and Exports

USD Mn	1997	1998	1999	2000	2001	2002
Imports						
Imports of goods	7,475.78	6,910.42	6,109.49	5,990.05	6,802.26	6,433.97
Expenses abroad	176.51	189.12	272.06	196.42	201.06	236.89
Total	7,652.29	7,099.54	6,381.55	6,186.46	7,003.32	6,670.87
Exports						
Exports of goods	1,799.60	1,775.05	1,751.82	1,707.37	1,972.79	2,202.39
Expenditure of tourists	409.42	432.65	512.94	554.74	606.50	725.95
Total	2,209.02	2,207.70	2,264.76	2,262.11	2,579.30	2,928.33
Export/ Import	29%	31%	35%	37%	37%	44%

Source: Lebanon's Economic Accounts, 1997 - 2002, Ministry of Economy and Trade, July 2005

Coverage of imports by exports has progressed between 1997 and 2002 to reach that year 44% without taking into account other services than tourism. Unfortunately there are no figures more recent than those available.

Besides, imports of goods do not seem reducible; the share of consumption is limited to 49% of the total. On the other hand, expansion of exports may produce a clear improvement of the balance of exchange; the dynamic of export driven production has at least an equal impact on the national market and may reduce on its own the consumption of imported goods.

Table 4 - Imports of goods according to their use

USD Mn	1997	1998	1999	2000	2001	2002
Intermediate uses by						
agriculture	197.0803	170.54	160.58	153.28	155.94	169.21
energy and water	1,997.35	1,760.45	1,630.39	1,702.72	1,959.52	1,872.59
construction	434.64	429.99	315.20	285.34	287.33	272.73
<i>other activities</i>	360.32	329.79	319.84	380.89	353.68	337.76
Total of intermediate use	2,989.38	2,690.78	2,426.01	2,522.23	2,756.47	2,652.29
Consumption	3,505.64	3,371.60	3,002.65	2,884.54	3,242.20	3,132.71
GFCF	980.76	847.38	680.82	582.61	803.58	648.97
Total general	7,475.78	6,909.75	6,109.49	5,989.38	6,802.26	6,433.97
Consumption/ Import	47%	49%	49%	48%	48%	49%

Source: Lebanon's Economic Accounts, 1997 - 2002, Ministry of Economy and Trade, July 2005

Straightening the balance of exchange therefore depends on an improvement of the production conditions of goods and services. This necessitates:

- economic recovery;
- moderate internal inflation;
- flexible exchange rate;
- parity of electricity cost;
- membership of the WTO.

a - Economic recovery.

Applying the economic recovery program⁵⁰ would restore the productivity of the Lebanese economy allowing all enterprises, in all sectors, to tend once more to a level of efficacy. By nature, recession - namely a prolonged one - eats up the enterprises' efficacy; it deteriorates the repartition of charges and causes restructuring, which reduces skills.

50 See Chapter 2 .

Recovery requires a number of measures that are interlinked to restore global demand and improve costs and competitiveness.

b - Targeting a moderate internal inflation

Lebanon should avoid a deflation policy whose impact is uncontrollable in times of recession. Targeting a moderate internal inflation - different from imported inflation and limited to three or four percent - shall give way to a dynamic equilibrium favorable to production.

Inflation that occurred at the time of the euro appreciation between 2004 and 2005 was partially compensated by a deflation of internal prices and produced a recessive impact on the country's economic activity.

c - Flexible exchange rate.

We do not envisage a floating of the lira; however, rigid indexation to the dollar - or any other currency - is a hurdle to an autonomous monetary policy which should contribute to the straightening of the balance of exchange.

d - Parity of electricity cost.

The problem of *Electricité du Liban* had negative repercussions on the industry namely on sectors that extensively use energy - 10% of value added or 5% of the final sale price.

The opening up of the market has become an additional burden to this sector since Lebanon's commercial partners have a much inferior cost - average cost 4.5 cents per kWh in GAFTA countries - whereas the applied tariff to the national industry - in addition to the cost of the generator in case of power failure - is up to 13 cents per kWh⁵¹.

A solution would be to give progressive reduction for higher consumption, part of which will be compensated by the economies of scale obtained by EDL thus reducing the bill of high consumption industries and major tourist and hospital complexes.

e - Membership of the WTO.

In these conditions, advantages expected from membership of the WTO are very likely to materialize. Adopted measures in this context

51 According to figures of the Association of Industries: average tariff 9 cents per kWh and 4 cents of additional expenses.

would have a positive effect on the market making it attractive for foreign investment and would strengthen global demand and facilitate economic recovery.

Strategic objectives

Measures to straighten the foreign trade have three objectives: productivity, equilibrium of exchange and jobs. These three elements are interlinked and the performance of one reflects on the two others. Any improvement of productivity contributes to the reduction of foreign imbalance; progress in foreign exchanges increases job opportunities; a decrease in unemployment in the current circumstances is the most efficient source of productivity. This circular reasoning, which identifies most often economic phenomena, means very simply that these three factors ought to be strengthened, that it would be useless trying to ensure one without the other, that this interdependence may have positive as well as negative consequences.

Productivity

What is strange is that total factor productivity (TFP) nowadays is much inferior to what it was before the war, in 1975. An approximation, as this may be possible, shows that the actual level does not exceed 70% of TFP in 1975. The GDP at that time was estimated at a little more than 8 billion lira, i.e., in present currency 16.7 billion dollars⁵² for a working force of 780.000. The GDP in 2005 is estimated at 20.5 billion dollars⁵³ for a working force of 1,380,000⁵⁴.

Only the time during which recession lasts can explain this phenomenon. This means that recovery would allow a rapid improvement of productivity by 30% and later, beyond this figure, according to the technical progress achieved since 1975.

52 Using the deflator calculated by Consulting & Research Institute - 3 130.

53 See 2005 Budget.

54 The active population is estimated at 1.363.000 in 2002 by 'Lebanon's Economic Accounts 1997-2002' p. 116 - MOET - when about total productivity the assessment is about the total active population.

Balance of Exchange

The equilibrium of the “balance of exchange”⁵⁵ is neither an impossible target nor a superfluous one. It is not impossible since coverage already reached 44% in 2002 not taking into account other service sectors than tourism whereas TFP is artificially reduced by the current conjuncture. The equilibrium of the “balance of exchange” is indispensable since it is directly linked with employment. The more this balance tends towards equilibrium, the more there would be job opportunities for qualified Lebanese and young people looking for a first job, and the more unemployment and emigration would decrease.

The country welcomes and will go on welcoming non-qualified workers as long as this is at its advantage; but it is normal that the Lebanese whose education and experience allow better paying jobs should emigrate since such jobs are not available in Lebanon. Only if a greater number of goods and services that the country imports are produced locally will adequate job conditions be available. A bigger part of the population will then contribute to Lebanon’s development.

Employment

Having established the close relation between productivity, the balance of exchange and employment, one can say that the most operational objective of the three is certainly employment. Public policies should therefore tend to encourage this intermediate growth objective. In other words, conflicting policies should all converge in favor of employment especially when we are in conditions of low inflation - all the more so in case of deflation - and as domestic price increases are restrained by the existence of a lot of excess capacity.

The choice of economic policies

The current level of public debt does not allow budget or fiscal latitude; no matter how austerity measures scheduled in the ‘Beirut I’ are perceived, the production sector shall endure the crowding out effect.

55 In this context we define the balance of exchange as the balance of goods and services; it differs from the current balance which includes the transfer of the income of workers, generated abroad.

The present fiscal pressure estimated at 23% of the GDP⁵⁶ will increase significantly as a result of the VAT increase from 10% to 12% in 2006 to 15% in 2007, in addition to other measures which are supposed to increase the primary surplus of the budget. The inescapable effect would be to reduce available income of households and therefore global demand. The multiplier, as often proven, reacts just as much to decrease as to increase and hinders GDP growth. Yet, imports may decrease putting less weight on the current balance deficit. In parallel, the supposed decrease in the state's financing needs may reduce interest rates.

We are faced with two possible patterns: either authorities respect the market balance - and the decrease in rates will discourage capital transfer, provoke a deficit in the balance of payments, increase real interest and finally cause a financial crowding out effect; or 'administered' rates remain as they currently are and continue their crowding out effect.

Restoring the solvency of the private sector and financing production enterprises seems to be the only rational way to improve employment, intermediate growth and development objective. Such a policy is supposed to admit a reasonable rate of controlled internal inflation. To which level? It depends on job performance. There is a choice to be made between the price index level and the unemployment rate.

Factual analysis of imports

Imports have started on their ascending curve these last three years; this is due to the increase in hydrocarbons in 2004 and especially in 2005 - see HS⁵⁷ 5 mineral products⁵⁸ - and even more to the capital flow generated at the time of Paris II.

Analyzing major items on the import list⁵⁹ supports the idea that it is not where we should be looking for a way to straighten up the balance of exchange but rather in the rationalization of production and exchange conditions, which will improve production and have a positive effect on local market, thus limiting imports.

56 Total revenues - USD 4.7 Billion - over GDP - USD 20.5 Billion.

57 Harmonized System of References.

58 See Table - 7.

59 Table - 5.

Table - 5

IMPORTS		In Millions US Dollars					
		2002	2003	2004	2005	Average	Pct.
1 - 4	Live animals, vegetables, agro-alimentary product	1,238	1,332	1,495	1,425	1373	16.97%
5 - 8	Mineral products, chemicals, plastics, leather and similar products	1,880	2,199	3,285	3,445	2702	33.41%
9 - 10	Wood, articles in wood, pulp of wood, paper, craft	290	342	411	400	361	4.46%
11-14	Textiles, garments, footwear, pearls, precious and semi precious stones	927	943	1286	1206	1091	13.48%
15-17	Base metal, articles of base metal, machinery, electrical instruments	1815	2040	2548	2521	2231	27.58%
18-21	Optic instruments, photo, medical arms, parts, accessories	296	314	372	344	332	4.10%
	Total	6,446	7,170	9,397	9,341	8,089	100.00%

Source: *Lebanese Customs Authority.*

A growing part of imports are raw material or intermediate products - 51% - whose importation is expressed in the enrichment in the measure of the country's VAT.

A part represents products that Lebanon cannot be at an advantage if it produces them because of the production scale they require - vehicles or transport - or their insufficient economic profitability on the national level, or the fact they require technological advance that goes beyond the country's means.

A great part would be compensated by the local production as productivity is gradually restored. This same part of products may be exportable.

The movement is similar on the level of services.

A normalized economy - with equilibrium at the level of the balance of exchange - or on its way to be normalized - straightening of the balance - needs to be supported by a realistic exchange rate without running unconsidered risks of speculation or inflation.

In the case of Lebanon, the disequilibrium of the balance of exchange - being an abnormality - is not justified by the transfer of income or capital. It merely reveals the decline of productivity. The exchange rate then appears inappropriate given the circumstances. On the basis of the coverage of imports by exports- less serious than we may think at first glance - and the profound deterioration of productivity likely to be restored by more jobs, we can deduce that the parity of the lira and/or the general level of salaries may be appraised if only productivity was normalized. This cannot be without some flexibility of the exchange rate that must help in reducing the trade gap.

In fact, looking closely at the trade balance we can notice, paradoxically, an improvement of coverage over the last four years pursuant to a sharp reduction of customs duties. Since the reduction of 2001, the coverage of imports by exports went from 12% to 20%. In the meantime, the average taxation tariff at the entry of merchandise in the country went down from 20% in 2000 to 10% in 2005.

**Table - 6 -
External TRADE 1993 - 2005**

Year	Import in Mn. USD	Export in Mn. USD	Export Import ratio	Customs Receipts Mn.USD	Average Custom Duty
2005	9,346	1,881	20%	905	10%
2004	9,403	1,748	19%	1,121	12%
2003	7,173	1,525	21%	1,131	16%
2002	6,449	1,046	16%	1,128	17%
2001	7,296	890	12%	1,153	16%
2000	6,232	715	11%	1,249	20%
1999	6,211	677	11%	1,405	23%
1998	7,113	666	9%	1,396	20%
1997	7,628	657	9%	1,157	15%
1996	7,899	1,064	13%	1,083	14%
1995	5,881	887	15%	877	15%
1994	3,150	606	19%	525	17%
1993	2,559	521	20%	440	17%

Source: Bank of Lebanon.

Obviously, the deficit of exchange is essentially compensated by services, namely tourism; but due to the deterioration of productivity, the coverage of imports by exports - products - should be improved. A first objective of 33% may be suggested in the next 18 months.

An instrument of correction and balance

In order for a straightening strategy to have fair chances of succeeding and reaching its goals, the exchange rate - an essential mechanism of foreign trade - must prepare and consolidate its objectives.

The fact that the exchange rate in Lebanon is fixed - since it has been indexed to the dollar for about 15 years - has caused endless controversy without leading to a useful solution. The country is not prepared to the floating of its currency. This is made even more hazardous as the economic conjuncture is undermined by recession. Yet, maintaining absolute fixedness would allow neither a straightening of exchange nor economic recovery.

By favoring flexible exchange rate we were referring to a system capable of adapting to current productivity conditions and to reflect, along the way, any progress made in it.

Such a system could be the 'BBC'⁶⁰ set forth by John Williamson, and used by a majority of emerging countries. An adaptation to MENA countries was recently the subject of a conference by the author of this system⁶¹.

This system is mainly based on the choice of currencies which are to be in the basket of reserves. The distribution ought to reflect as much as possible the related exchange weight with the corresponding countries. The countries that index their currency to a unique foreign currency must inevitably undergo any instability that the latter is submitted to. Indexed to the dollar - whereas exchange essentially occurs with the E.U. - the lira has undergone an imported inflation with the increase in the euro, which caused authorities to practice a deflation policy with negative impact on the production sectors.

60 'Basket of currencies, Broadband and Crawling', by John Williamson, Senior Fellow, Institute for International Economics.

61 Annual conference of the Economic and Social Forum, Cairo, December 2005.

The second characteristic of this system is a large band around a central market price allowing exchange rate to fluctuate according to the evolution of foreign trade. The current system foresees a scale of 10% fluctuation above and/or below the reference rate. When a country decides to defend the exchange rate at a given level, it is rare that the fixed level be the rational level likely to favor macroeconomic balance. By defining a larger band, defense is much more likely to support an adequate market price.

The third characteristic is that it modifies the market price very progressively. When the latter is called to evolve under market pressure or in reaction to an inflation differential or a gap related to productivity, small consecutive movements are less destabilizing than a profound variation, especially that any favorable effect on transfers may be straightened through interest rate.

This system is not in contradiction with inflation control when the choice of the reference market price is in accordance with the inflation target defined in the initial policy. This is all the more important as 'targeting inflation' has become the most spread system in emerging countries to better control macroeconomic factors.

According to the pattern developed by Krugman -Figure 9 - the existence of a margin where the rate can evolve facilitates its stabilization. In fact, when the rate reaches the extremity of the band, speculation anticipates the state's action and brings it back to its reference level.

The elements that influence the determination of the reference rate are the national income - calculated in a situation of full employment - and the real exchange rate. Williamson recommends the determination of a rate likely to ensure the equilibrium of the balance of exchange. In fact, for developing countries, the major objective is to maximize the growth rate in order to accelerate development. A competitive exchange rate favors investment. Others prefer to adopt a reference rate which reflects as much as possible the real purchase power parity of the currency⁶².

Conclusion

The 'balance of exchange' as defined is to be distinguished from the trade balance by taking into account the services rendered and/or received from abroad, and from the balance of accounts omitting transfer of income. Thus defined, the balance of exchange is consistent with job opportunities in the country.

As to the years that preceded troubles, the country witnessed a considerable setback in its productivity due mainly to the long recession it went through. Improvement in employment is then likely to normalize productivity and to improve the Lebanese economy's competitiveness to a large extent.

From the three interdependent strategic objectives - the equilibrium of the balance of exchange, employment, and productivity- employment is the most operational and ought to serve as a criterion in terms of measures to be taken in order to revitalize growth.

The level of public debt does not allow a budget or a fiscal latitude; improving the balance of exchange would then be an important factor of economic recovery. The situation is far from being desperate; the coverage of imports by exports is already at 44% if tourism is included⁶³, and obviously quite better taking into account all the services.

It is highly presumable that an improvement in the trade balance has immediate repercussions on the services, if only through better control of costs. Thus, one of the specific characteristics of foreign trade is that - with the exception of natural resources, or products related to a large economy of scale, or to technologies beyond the nation's means - countries export best, paradoxically, products that they import most. Eventually, it is easier to increase the export of products that are easily exportable rather than those that do not meet foreign demand. In 2005, the figures of foreign trade⁶⁴ indicate the products that are most likely to expand.

Considered according to their weight in terms of exports, we underline by order: electrical machines and equipment, articles of base metal, prepared foodstuffs, products of the chemical or allied industries. Export of these products represent around 20% to 45% of their import;

63 See Table - 3.

64 See Table - 8.

which means that an improvement of competitiveness is likely to increase these exports figures but also answer the needs of the local market, reduce imports, and contribute to the equilibrium of the foreign trade balance.

The performance of these products may as well serve as a success indicator of the straightening strategy of the balance of exchange. This strategy, indexed on employment, is based on economic revitalization, improvement of productivity, and a rationalization of costs. It requires a flexible exchange rate. The recommended system allows a margin of 10% above or below the reference rate. Experience shows that this margin has a stabilizing effect since, once the limit is reached, speculation anticipates the intervention of the monetary authorities and brings it back to the reference rate.

Finally, the most efficient reference rate - taking into account employment as a target - is the one that helps achieve equilibrium of the balance of exchange.

**Table - 7 -
4 Years IMPORT by section, in Mn. USD**

HS	Description	2002	2003	2004	2005	Average	Pct.
1	Live animals; animal products	382	419	453	428	421	5.20%
2	Vegetable products	336	383	441	384	386	4.77%
3	Animal or vegetable fats and oils	45	53	74	83	64	0.79%
4	Prepared foodstuffs; beverages, tobacco	475	477	527	530	502	6.21%
5	Mineral products	974	1,190	2,068	2,226	1615	19.96%
6	Products of the chemical or allied industries	633	716	828	820	749	9.26%
7	Plastics and articles thereof, rubber	239	259	349	357	301	3.72%
8	Raw hides and skins, leather, furskins	34	34	40	42	38	0.46%
9	Wood and articles of wood; wood charcoal; cork	100	109	139	136	121	1.50%
10	Pulp of wood; paper and paperboard	190	233	272	264	240	2.96%
11	Textiles and textile articles	424	434	508	486	463	5.72%
12	Footwear, umbrellas, artificial flowers	73	72	83	66	74	0.91%
13	Articles of stone, plaster, cement, glass	130	135	168	163	149	1.84%
14	Pearls, precious stones and metals	300	302	527	491	405	5.01%
15	Base metals and articles of base metal	380	471	596	651	525	6.48%
16	Machinery, electrical instruments	863	873	1,109	1,061	977	12.07%
17	Vehicles, aircraft, vessels, transport equipment	572	696	843	809	730	9.03%

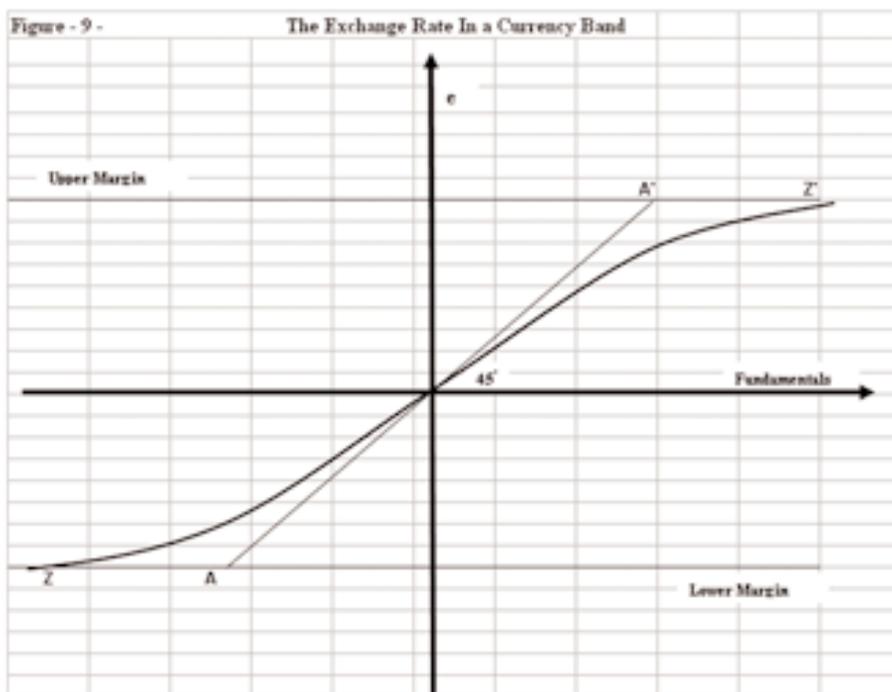
18	Optical, photo, medical, musical instruments	132	157	175	160	156	1.93%
19	Arms and ammunition; parts and accessories	9	8	7	6	8	0.09%
20	Miscellaneous manufactured articles	153	146	185	171	164	2.02%
21	Works of art, collectors' pieces and antiques	2	3	5	7	4	0.05%
	Total	6,446	7,170	9,397	9,341	8,089	100.00%

Source: *Lebanese Customs' Authority*

**Table - 8 -
TRADE 2005 in Mn.USD**

HS	Description	IM-		EX-		Exp/Imp.
		PORT	%	PORT	%	
5	Mineral products	2,226	24%	126	7%	5.66%
15	Base metals and articles of base metal	651	7%	276	15%	42.40%
6	Products of the chemical or allied industries	820	9%	163	9%	19.88%
2	Vegetable products	384	4%	77	4%	20.05%
4	Prepared foodstuffs; beverages, tobacco	530	6%	191	10%	36.04%
10	Pulp of wood; paper and paperboard	264	3%	116	6%	43.94%
13	Articles of stone, plaster, cement, glass	163	2%	52	3%	31.90%
16	Machinery; electrical instruments	1,061	11%	314	17%	29.59%
9	Wood and articles of wood; wood charcoal; cork	136	1%	22	1%	16.18%
7	Plastics and articles thereof; rubber	357	4%	78	4%	21.85%
20	Miscellaneous manufactured articles	171	2%	58	3%	33.92%
11	Textiles and textile articles	486	5%	82	4%	16.87%
3	Animal or vegetable fats and oils	83	1%	14	1%	16.87%
8	Raw hides and skins, leather, furskins	42	0%	14	1%	33.33%
17	Vehicles, aircraft, vessels, transport equipment	809	9%	22	1%	2.72%
1	Live animals; animal products	428	5%	9	0%	2.10%
21	Works of art, collectors' pieces and antiques	7	0%	9	0%	128.57%
12	Footwear, umbrellas, artificial flowers	66	1%	18	1%	27.27%
14	Pearls, precious stones and metals	491	5%	224	12%	45.62%
18	Optical, photographic, medical, musical instruments	160	2%	17	1%	10.63%
19	Arms and ammunition; parts and accessories	6	0%	0	0%	0.00%
	Total	9,341	100%	1,882	100%	20.15%

Source: *Lebanese Customs' Authority*



Source: Krugman (1992, Fig., 2.I)

CHAPTER ELEVEN

Support to the Small and Medium Enterprises

The present paper is a report established by the Committee for Economic Policy of the Economic and Social Council after several weekly debates organized with representatives of the business community in all of its components, over three months, during summer 2002.

It all started when the Association of Merchants contacted the Economic and Social Council with a short notice drawing its attention to the increasing failures of businesses hit by the recession and its consequences on the national production and unemployment.

The committee estimated that the issue cannot be studied unless it has firsthand information about the market situation that only people working in the different business fields can provide so soon. Consequently the committee requested the contribution of representatives of the different production sectors and associated them to its work.

The situation described in the report and the suggestions raised are mainly based on personal experience of the business managers involved. Of course only issues that obtained consensus were dealt with. Other were left for further analysis in due course.

The report gave way to two projects considered critical: one to enhance the productivity of the industrial sector through merger of small and medium enterprises; the other relative to the alleviation of the debts of companies weighed by losses and high interest rates.

The report was largely defused among the members of the general assembly and other stakeholders in the study; however, by being a mere report it didn't need a vote of the assembly.

Analyzing the situation of companies in the private sector results in the following findings:

- Deterioration of the aggregate demand due to the decline of the purchasing power and the increase of unemployment.
- Opening to the world trade before the companies could qualify for the international competition, and before the government could take the proper measures to protect the economy from

dumping and/or unfair competition.

- Tight monetary supply and limited loans even to still much profitable sectors.
- Increase of costs due to the regress of production and the high cost of entrants, mainly energy and public services.
- Accumulation of losses and debts, which compelled an increasing number of companies unable to face their obligations to wind up and/or liquidate their business.

Policies aiming at economic recovery and growth shall certainly be hindered by the permanent shrinking of the national production capacity; incentive measures shall turn inflationary for lack of supply, and henceforth ineffective toward the recession.

Therefore, it is necessary to preserve the ongoing investments, especially that the most feasible companies are also the most vulnerable to the crisis because of their dynamism. New investments can never compensate the large collapse in the production capacity. And besides all efforts to attract new investments, they remain very shy due to the high opportunity cost drawn by the structural high interest rate in the country.

The two most important factors to the survival of the small and medium enterprises seem to be:

- Separating old liabilities, which paralyze enterprises' activity, from the new facilities necessary to carry on the business.
- Facilitating merger in the industrial sector first to benefit from economy of scale and achieve the necessary management and marketing skills to break through the international market. This program can be expanded to consolidate several sectors later on.

These two first steps shall limit the decline of the economic capacity of the country. Other positive measures could be taken in order to stimulate the SMEs, support productive sectors and enable them to face globalization; they necessitate comprehensive and appropriate research in several economic fields.

Preliminary

The Committee for Economic Policies of the Economic and Social Council, conducted a comprehensive study in fall 2002 on the small

and medium enterprises in Lebanon, in order to assess the situation, and work out measures aiming at supporting the survival of the companies threatened by the long-lasting recession that started almost with the reconstruction of Lebanon after the civil war. Many representatives of the private sector were associated to that work. At our/their best estimate the small and medium enterprises in Lebanon were contributing to 80% of the national production. For the purpose of the study, the small enterprises were identified as those employing less than 10 people including the owner of the business with two subgroups: from 1 to 4 and 5 to 9; the medium enterprises from 10 to 49, with also two subgroups: from 10 to 19 and 20 to 49.

These criteria were maintained for they covered more than 80% of the private sector activity; knowing that since Lebanon has opened widely to globalization it has to adopt the same criteria used by its major trade associates, for an equilibrated and dynamic market shall set up sooner or later companies and/or sectors with similar competitive advantages, that is among else, within the same economic scale. Therefore one might take into consideration that the competitive structures could reasonably be up to 50 workers for the small enterprise and up to 250 for the medium one, as per the current European criteria.

Macroeconomic approach

Whatever the reasons are, stagnation reflects usually a decrease of aggregate demand. That was the case for Lebanon for years in spite of an ambitious reconstruction program. The main reason was the high real interest rate imposed to the economy apparently to finance the deficit of the budget and maintain the exchange rate of the lira. The direct effect was to shrink the private consumption and to evaporate investment, trapping the economy into a permanent recessive cycle. Notwithstanding the fact that modern economies are not supposed to suffer prolonged periods of inadequate demand; monetary measures and if necessary fiscal measures may always reestablish growth, especially when starting from a position of low inflation and when domestic price increases are restrained by the existence of a lot of excess capacity. This is what is commonly observed through practices aiming at limiting fluctuations of the business cycle and/or correcting defects resulting from wrong practices affecting the economy.

**BASIC REAL INTEREST RATE & OPPORTUNITY
COST OF CAPITAL,
Lebanon 1992-2004**

	Leb. Eurobonds/years				LBP TBs/ months			Bank Deposits		Bank Loans		Internal Inflation	Interest Rate	Opport Cost	
	5	7	10	15	3	6	12	24	LBP	USD	LBP				USD
	%	%	%	%	%	%	%	%	%	%	%	%	%	%	
2004	6.5	7.8	8.6	9.5	5.2	6.3	6.3	7.8	7.5	3.7	11.3	8.5	(2.0)	11.2	18.0
2003	6.5	7.3	8.1	9.0	6.8	7.9	8.4	9.2	9.0	4.0	15.0	9.0	(1.0)	12.1	19.4
2002	6.5	8.6	9.5	10.5	10.9	11.4	11.8	14.1	11.3	4.7	16.5	10.5	-	13.7	22.0
2001	6.5	9.0	9.8	10.8	10.9	11.4	11.8	14.1	10.8	5.3	17.5	11.3	0.8	13.5	21.8
2000	6.5	8.6	9.5	10.5	10.9	11.4	11.8	14.1	11.8	5.3	18.5	11.0	1.5	13.0	21.0
1999	8.0	9.0	10.0	10.5	11.4	11.8	12.0	16.0	12.3	6.0	19.8	11.0	2.3	13.3	21.4
1998	7.5	8.0	10.9	12.0	12.0	12.5	13.0	16.1	13.3	6.3	20.5	11.5	3.0	13.0	20.9
1997	8.5	9.9	10.9	12.0	12.7	12.5	13.0	16.1	12.8	6.5	19.5	11.8	8.0	7.8	12.5
1996	9.8	11.0	12.2	13.5	14.0	14.5	15.0	21.7	15.3	6.0	25.0	12.0	10.0	9.6	15.3
1995	9.8	11.0	12.2	13.5	14.7	15.5	16.0	22.0	14.5	6.0	21.0	12.0	5.0	13.3	21.4
1994	9.5	10.2	11.3	12.5	14.0	15.0	16.0	20.0	16.0	6.0	25.0	12.0	6.0	13.0	20.9
1993	9.5	10.2	11.3	12.5	17.0	17.5	18.0	23.6	15.8	6.0	30.0	12.0	8.0	13.9	22.3
1992					22.5	24.0	25.0	28.0	17.0	6.5	40.0	12.0	12.0	14.7	23.6
							Months		1	2	6	12			
							Libor	USD	1.35	1.58	1.84	2.25			
							Euribor	EUR	2.07	2.12	2.17	2.33			
							Years		2	5	10	30			
							US Treasury		2.56	3.65	4.49	5.23			
							Euro Govs		2.65	3.50	4.27	4.90			

Source: BoL. June 2004

(1) Basic Interest rate: Simple average TBs 24m. Loans LBP and USD

(2) Opportunity cost of capital, base Telecom sector, year 2000 HSBC report

When recession lasts for a long time, it leads to the decline of the national capacity of production due to the immigration of the working force and the collapse of an increasing number of enterprises, and the loss of their investment. Thus, a new equilibrium settles within the limits of the production capacity that is still available. Boosting demand then may not lead to recovery but may risk creating inflation.

Therefore, it was necessary to assess the reality of the private sector. In the "survey" conducted in parallel to the study, it appeared

that most companies were producing much under their capacity and a large number was idle; and the situation was expected to deteriorate on account of the gloomy expectations of the entrepreneurs. Promoting new investments to compensate the failure of such large number of firms can only be wishful thinking. It was no more a matter of public policies encouraging specific sectors and/or specific activities. Measures had to and/or should be taken to preserve the productive capacity until the implementation of a recovery plan.

**Expectation of the firms' managers,
according to workforce category**

	Increase Production	Stable	Decrease Product.	Closing for lack of sales	Closing for debts	Other	No answer	Total
1 - 4	16,640	21,760	76,160	25,600	4,480		1,920	146,560
5 - 9	1,975	948	8,058	1,027	474	158	237	12877
10 - 19	624	720	1,776	480	96	48	192	3936
20 - 49	420	210	700	140			105	1,575
50 +	434	62	124	124			93	837
	20,093	23,700	86,818	27,371	5,050	206	2,547	165,785

Source: Economic and Social Council "Small and Medium Enterprises"

However, focusing on SMEs derives not only from their major contribution to the GDP, but also because most of the measures designed to support SMEs, benefit as well to the large enterprises.

Major criteria for support measures

The committee did not expand on the macroeconomic reality in order to focus the research on the situation of the enterprises. However, it is necessary to mention the concerns of the participants in order to stress on some evidences that have a tight relation to the situation.

According to the private sector representatives, the economy suffers from structural imbalance resulting from administrated high interest rates over years, set to finance the budget deficit and maintain

the currency pegged to the US dollar. The result was a continuous decline of the aggregate demand and its negative impact on the production, accelerating unemployment and emigration for years. The frail economic situation combined to the heavy public debt threatens the economic and social stability.

The enterprises are hindered by the following obstacles:

- The decrease of the purchasing power of individuals and families and henceforth the decline of the aggregate demand. One of the major reasons for the deterioration of demand is the rise of indirect taxes, mainly VAT; as well as the sudden waiving of custom duties for the protection of industry, which highly affected the wages and other revenues of the sector.
- The decrease of the competitive edge as a result to the fall of turnover in most sectors, in addition to the increase of the cost of public goods and cost of living in the country.
- The tight monetary policy maintained in order to preserve the exchange rate of the lira, which compels even most feasible sectors to reduce their activity within the limits of available loans. Furthermore it is quite revealing that loans to the private sector decreased, in 2001, by around 13.7% despite the interests paid, and since at least five years, the aggregate financing to the private sector did not increase, not even for the amount of the cumulated interests, while the deposits raised by an average of 10% yearly. Moreover the treasury failing to pay the amounts due to the local creditors, mainly hospitals, entrepreneurs, expropriations, social security etc has made the financial crisis spill over the private sector, boosting deficits and failures.
- The administrated interest rates, and the risk they reflect on the economy determined an opportunity cost of capital over 20%. The return on investment became henceforth prohibitive, even for projects at very low risk, including state-owned companies that could not therefore be privatized.

Costs increase between 1997 and 2002

	< 10%	10-20%	20-30%	30-40%	40-50%	50-60%	> 60%	No ans	Total
1 - 4	16,000	35,200	23,040	7,680	7,040	2,520	7,040	48,000	146,560
5 - 9	1,185	2,923	1,896	869	474	632	632	4,266	12,877
10 - 19	816	432	573	336	240	144	48	1,344	3,936
20 - 49	210	420	210	70	35		70	560	1575
50 +	62	217	93		62		31	372	837
	18,273	39,192	25,815	8,955	7,851	3,336	7,821	54,542	165,785

Source: Economic and Social Council "Small and Medium Enterprises"

According to governmental sources in 2002, the main reason for the lasting recession was the lack of trust resulting from delayed reforms. They argued that financial and administrative reforms would lead to a decrease of the public debt and reduce the general rate of interest. This might have lead, as well, to enhancing investments, supporting demand, and recovery. Moreover, they claimed that the GDP has currently reached 20 billion USD instead of 16 billion, the commonly accepted figure. Finally the supporters of this theory consider that the measures taken by the government are correct but lack vision.

On the opposite side, many experts consider that administrative and financial reform, despite all their advantages, are not of the nature of measures that are expected to reflate the economy, and may lead from recession to depression. The only method for recovery is to release the systematic pressure on money supply and release without further delays the interest rates so that the real interest rate could depart from the level preventing investment, and therefore allow the economy to recover. On the other hand, the stability of the exchange rate remains dependent of the success of administrative and financial reforms.

It is clear that, in case of recovery, and regardless of the effectiveness of public policies targeting that recovery, this will not materialize as long as the productive sector is not able to fulfill the conditions for increasing production, i.e., becomes able to outreach the obstacles that limit the use of the available productive capacity.

The private sector approach to the crisis

It is important to acknowledge the opinion of the representatives of the production sector and other specialists of the business community. As a matter of fact, entrepreneurs run the economic activities after their own expectations. According to sectors' representatives, we must privilege the following approach:

First, "it is imperative to recognize the very existence of the crisis and to be transparent concerning the real economic situation". Those who back that view consider that most obstacles faced by companies and even the whole economy result from ignoring the problems and thus not dealing with them.. They persist in hiding the reality in order to avoid further unfavorable expectations.

Second, "Have it clear that economic associations are also holding a responsibility toward the whole economy"; the behavior of any syndicate, professional association or business structure, is directly related to public interest and not limited to technical aspects of the profession or particular benefits. Thus, the activity of these organizations should be considered within the frame of general welfare, and a dynamic balance between different sectors must be maintained namely on the short run; and of course if past misjudgments have given rise to measures prejudicial to one or another sectors, the role of policy is to restore the balance among them.

Third: "Only modest measures, within the capacities of the nation, have a chance to be implemented". Problems and suggestions may be numerous, but tight conditions and threatening dangers require immediate measures in favor of the firms and preferably at low if any cost. The representatives of the private sector understand that, even effective, costly propositions shall not be considered by any government taking into account the public debt. Therefore, realism leads to find solutions that are more of financial engineering than investment to bail out the production sector before it is too late.

Analysis of the situation leads to the following conclusion:

1 - Consumption: Decrease of aggregate demand

- In the first part of the macroeconomic equilibrium, we observe a noticeable decrease of aggregate demand, which calls for

studying the performance of all the components of demand mainly (1) consumption, (2) household's purchasing power, (3) investments, (4) public spending, and (5) balance of payments.

- On the consumption level, the first indicator for aggregate demand, we notice a large shrinkage of sales since early February of 2002, despite the relatively high tourist activity, the facilities granted for the acquisition of durable goods, and the housing ownership programs in favor of low-income earners.
- Waving the protection of industrial sector has caused a part of incomes to vanish without being compensated in other fields and demand has consequently been affected. Moreover, VAT weighed heavily on citizens' purchasing power.

Entrepreneurs know that the salvation of their companies is their own responsibility first. They do not expect much from the government and they ask in priority to reduce the pressure of public policies on the private sector. One of them summarized the whole issue with "get your hands off the businesses", considering that the production sector shall be in a better position to face the crisis if administrative, financial, and monetary obstacles are reduced.

Expectations are much more influenced by fear of depression than the hope for a recovery.

Output Expectations in 2003	Decrease of Production	Increase of Production	Stable	No answer	Total
Building & Real estate	1,710 44.17%	1,473 38.05%	48 1.24%	640 16.53%	3,871 100%
Trading	73263 72.75%	16004 15.89%	3906 3.88%	7535 7.48%	100708 100%
Agriculture	6,483 95.35%	189 2.78%	79 1.16%	48 0.71%	6,799 100%
Tourism & hotel & Restaurant	4,926 63.82%	1,837 23.80%	206 2.67%	750 9.72%	7,719 100%
Health & Insurance	1,394 31.94%	1,514 34.69%	640 14.17%	816 18.70%	4,364 100%
Industry	18,647 74.31%	4,634 18.47%	1,503 5.99%	311 1.24%	25,095 100%
Personal Services	11,258	754	114	79	12,205

	92.24%	6.18%	0.93%	0.65%	100%
Other sectors	3,599	1,425			5,024
	71.64%	28.36%			100%
Total number of firms	121,280	27,830	6,496	10,179	165,785
	73.15%	16.79%	3.92%	6.14%	100%

Source: Economic and Social Council "Small and Medium Enterprises"

2 - Confidence: Increase of production risk

- Apart from the banking sector, the common impression is that benefit prospects are almost nonexistent in the Lebanese economy, which will ipso facto limit investments.
- Some consider that growth will be impossible with the collapse of most industrial and agricultural activities, for these sectors are not only a source of income enhancing aggregate demand, but also spill over numerous complementary services in the market.
- The financial problem will be more acute in the near future due to the requisite of new conditions for risk management under "Basel 2". Already and in addition to the high rate of special reserve in LBP and foreign currencies, the central bank attracts through high interest rates a large part of banks' deposits exacerbating the crowding out of the private sector.
- The development of the banking sector through merger leads to an improvement in assets management not in corporate financing. Moreover, disaffection of corporate loans is constantly increasing, and banks specialize in retail banking in addition to systematic investment in treasury bonds.
- Total loans to the private sector do not reach 80% of GDP in spite of the non existence of capital markets in Lebanon. The companies can hardly survive along with such problems regarding the lack of financing and prohibitive interest rate.
- The past years witnessed a large stability in wages and prices. However, companies in many sectors started to delay payment of salaries and obligations, and most of them gave up the social allowances, such as transportation and scholarship. Moreover, the allowances that constitute a high fraction of the salary in the

public sector have been frozen in most administrations.

- There are no accurate statistics for unemployment. It is commonly estimated to be between 20% and 30%. This figure covers all willing and able people between the age of 18 and/or after graduation and the age of 64 for men and 60 for women, who cannot find a job. Young people seeking their first job are not included. People emigrating are deducted from that number.
- The Lebanese economy endures abnormal high costs due to its lack of productivity and the high price of public goods. In fact the long-lasting recession moved most of the businesses far below their optimum production capacity, and henceforth regularly increased the cost of production.
- The technological gap is worsening because of the emigration of qualified people and the decline of investments.

3 - Financial constraint

- Provision for bad debts reached record figures, (almost 20% of total loans to the private sector) and corporate loans did not increase in 2001 despite a 13.7% interest rate paid.
- The deterioration of the financial situation of an increasing number of companies along with the quasi unlimited opportunity to invest in treasury bonds caused the withdrawal of banks from the production sector.
- Lack of financing encouraged the illegal practice of deferred checks that circulate in the market for periods exceeding 6months.
- Financial costs are very high and banks place treasury bonds in USD at 10.5%, while US federal bonds were offered at 1.5% that time and for the same period.
- Deposit costs became high in Lebanon and banking volume quite small, which resulted in an unusual high spread in the banking industry.
- The recent increase in goods and services prices due to the VAT, and the rise of some taxes raised the cost of living and reduced the purchase power of real wages, which led to unexpected problems between surviving enterprises and their employees.

4 - International trade

- Lebanon has lost most of its competitive edge, which is clear not only in the trade balance but also in the current balance that traces the movement of invisibles like tourist and other service activities.
- Any progress in export figures remains quite short compared to the effort and industrial investment in this field, in addition to the support of agricultural exports through IDAL. Moreover, the aggregate volume of exports covers a maximum of 10% of imports.
- Trade agreements that were signed with a number of states constitute a real threat in the lack of competitive edge of Lebanese production.
- It is clear that expanding exchange with Syria grace to the agreement in force and the neighboring relationship imposes an homogenization of costs, mainly for public goods, in order to benefit from markets expansion, otherwise it will reflect negatively on Lebanon.
- The Association Agreement with the European Union was homologated without any build up of our agricultural and/or industrial capacities.
- All markets that are in competition with Lebanon, mainly Syria, Egypt, the United Arab Emirates and Turkey shows competitive advantages over Lebanon in most production areas.

Deteriorating situation of the companies

In this section, we consider the performance of companies within the economic environment described. Several issues could be necessarily duplicated but with a different perspective. Macroeconomics generally aim to facilitate growth and to ensure as much as possible a more egalitarian distribution of income; while enterprises aim at developing their competitive edge, increasing their share of the market and maximizing their profit. Public policies may impact on the macro-economics trend, but private initiatives alone decide the production of goods and services. The market economy in spite of the waste it generates proved to be the most efficient system for creating wealth and growth.

The know-how and capital built up along years constitute the economic potential of the nation and its way to realize growth and development. Efficient enterprises flourish while non profitable firms disappear. On the top, the profit corresponds to the performance of the most efficient firm, and at the bottom to the less efficient one still necessary to satisfy the demand. In normal times the high productivity of efficient enterprises and new investments more adapted to the economic change largely compensate the loss generated by failing enterprises. In recession times, the shrinking of demand drive away much more companies than the economic change requires, raising unemployment, and threatening the national production and growth.

Under normal circumstances, the market leads to prosperity by eliminating obsolete activities and contributing to the prosperity of the more feasible firms. Technical unemployment and the collapse of marginal companies is the normal cost of growth. In periods of crisis, the most dynamic enterprises become the most vulnerable, mainly due to the high leverage of their capital resulting from their strong demand and high financing ratios. Moreover, high qualified technicians and professionals in almost all areas are the most prone to emigration.

Then it becomes difficult to determine what are the most feasible activities, while comparison with other economies is of little help since every economy has its own specificities. For this reason, selective support provided to specific sectors and/or companies during a time of crisis has always failed to attain its target and rehabilitate the beneficiaries. The only reasonable strategy in crisis period is to provide equal opportunities to all sectors and companies until the situation normalize and the market recovers its ability to operate the adequate selection according to the new structures of the economy.

No doubt, with expansion of the crisis, that the difficulties reached many if not all productive sectors, and the most dynamic companies are probably the most hindered by the prevailing conditions of the market:

- a - The tourist sector enjoyed a limited improvement but only in pioneering enterprises, with no spill over into the rest of the sector. It does not, for sure, register any noticeable impact on other sectors and/or markets. This is due to the fact that

activities are apparently limited to businessmen congresses, jet set trips, tourism of very fortunate people, and aestivation in some regions with very little contact with the local economic network other than five stars hotels and restaurants.

- b - Lebanese industries, mainly companies wishing to develop export markets, benefited from industrial soft loans granted through the central bank (around USD 288 million between 1997 and end 2002) in order to renovate their equipment, however, results were not up to their expectations. They failed to reach any significant export target because of the high costs of the Lebanese industry and its lack of working capital to finance an increasing turnover, in addition to costly administrative complications.
- c - According to some representatives of the private sector, the roots of the problem are mainly the conditions deriving from the hurry to adhere to the European Association Agreement and to the WTO. Moreover, in a positive way, they call for adapting to current circumstances, improving competitiveness of the firm and defining market niches for its products. However, they recognize that such issue does not remove all obstacles and that companies will still endure in the domestic market almost the same difficulties as for export.
- d - Demand for Lebanese goods is still high in the Gulf markets, especially when it benefits from the same marketing efforts that used to be provided, and is steadily supplied at competitive prices, given that consumers there appreciate the Lebanese label and distinguish it from Far East goods.
- e - SMEs are subject to several obstacles and they lack the resistance of large enterprises, which are able to face their losses and provide alternative financing when needed to carry on their operation. Protection was suddenly waived without consolidating the industrial sector, and without setting up any regulation to defend the domestic market against some aberrations of the international trade, leading to an unfair competition namely of goods that are rejected in almost all other markets. In addition, the sector bears relatively high fiscal and social charges, like social security premiums, that exceed the charges any competitor in the region support.
- f - Over and above their losses, the Lebanese enterprises suffered

from the accumulation of debts at high interest rates over the past ten years. Consequently, most enterprises became unable to pay without winding-up and liquidating. According to some representative of the private sector, the current situation is quite peculiar and might be recognized as “force majeure” and requests first to address the old debt in order to enable the companies to carry on their business in safe and sound conditions. In short, SMEs are becoming more and more unable to survive without taking measures aiming at settling their old debt.

- g - The vanishing of working capital in most SMEs deprives them from surviving if liquidity will not, in a way or another, be provided again. Consequently, old accumulated debts should be segregated from new financing required to carry on business according to the needs of the market. Public policies aiming to fight recession cannot substitute to such a measure; on the contrary such policies need make a prior solution to old debts compulsory to reactivate the firms and avoid inflationary tensions. However, this issue might need a financial policy with defined goals and means.
- h - Industries were not able to restructure according to the requirements of globalization until now, and were thus far marginalized with the adhesion to the EU Association Agreement, as well as to the Great Arab Free Trade Area. The Lebanese industry is currently limited to fulfilling the needs of less than 20% of the domestic market.
- i - In addition, the productivity of the sector is considerably hampered by the high cost of public services, mainly energy, and the cost of industrial products in Lebanon largely exceeds the costs of competitors in the regional markets.
- j - Lebanon has lost one of its major competitive advantages: “flexibility and initiative” because of the lack of cooperation between the administration and the companies. Each measure aiming at achieving any progress in the economic environment becomes very complicated in the Lebanese bureaucracy; and miscommunication between the administration and the private sector seems to neutralize the will and initiative that the economy needs.
- k - Coercive or voluntary liquidation reached record-breaking

numbers that will multiply in the near future by the implementation of seizures and adjudications of bankruptcy before the courts. This issue might motivate voluntary liquidation, for enterprise owners fear juridical liquidations leading to the collapse of their assets.

- l - Any shift in activity during the stagnation period is rarely beneficial, yet it is more likely to lead to a more difficult position toward the crisis; and calls for restructuring can only be heard on an individual basis and in a normal economic environment. Also, such orientation attempts generally assorted to incentives of misguided authorities have never reached valuable economic goals in recessive environment.
- m - Initiatives are indispensable, but on condition they consist only of supporting the surviving companies giving equal opportunities to all, especially by eliminating the burden of the debt incurred under the exceptional economic situation, and to allow them to carry on their operations, contributing to the GDP, and creating more job opportunities.
- n - Furthermore, the remarkable development in the economic trend is highly related to globalization and open markets with new trade rules they brought along. Also, it is obvious that the new conditions require economical entities justifying enough competitive advantages to play the game. Mergers between small enterprises are the way to reach the minimum scale imposed by the new environment. Along with the basic economy of scale it shall give the opportunity to improve the management as well as a marketing more adapted to the new conditions. Encouraging mergers under such framework will open the way to initiatives in various sectors that will naturally polarizes the sectors and later the country toward a better understanding and benefit of the new economy.

Major findings concerning the Production sector	Units	Original Figures	Revised Figures
Number of firms		181,298	165,785
Total workforce		716,211	880,000
Number of employees		449,927	704,000
Wages	USD 1000	2,062,318	4,480,000
Output	USD 1000	21,115,297	24,266,667
Added Value	USD 1000		14,560,000
Bank loans	USD 1000	4,297,447	14,000,000
Suppliers' credit	USD 1000	2,407,213	7,842,094
Due to the Administration	USD 1000	1,166,687	3,800,772
Debtors	USD 1000	2,688,760	8,759,303
Net Assets per unit	USD 1000	157,261	
Average employees per unit	USD	3.95	4.25
Employed % total workforce		63%	80%
Average charges per employee	USD	4,584	6,364
Average output per unit	USD	116,467	146,374

Source: Economic and Social Council "Small and Medium Enterprises"

Conference on Enabling Environment for SMEs in Lebanon (2005)

Background

The Lebanese economy is dominated by small businesses (micro enterprises and SMEs). Small and medium enterprises represent more than 95% of the enterprises in the Lebanese market and contribute to approximately 90% of employment. Therefore, SMEs should be regarded by policy makers as the main engine of growth in Lebanon. Their well being is crucial for generating new jobs, income, foreign money reserves and tax revenues, all pouring into the aim of development. SMEs in Lebanon are facing a large amount of difficulties which block their development. This sector is not benefiting from the support and assistance it deserves. The improvement of the enabling environment for SMEs in Lebanon is an urgent issue. Various stakeholders (the Economic and Social Council, the Ministry of Economy and Trade, the Central Bank and others) share with the ESFD the concern of improving, as rapidly as possible, the institutional regulatory framework for SMEs.

Based on the above mentioned items, the Economic and Social Fund for Development (ESFD), in collaboration with the Ministry of Economy and Trade (MOET) and the Economic and Social Council (ECOSOC) decided to organise a conference on SMEs to bring key national decision makers, stakeholders and opinion leaders together and initiate a systematic joined reflection on legal and other action to improve development perspectives for SMEs in Lebanon. For this purpose, the ESFD has invited all stakeholders for an open discussion conference on 28 and 29 September 2005.

Conference Objectives

The objectives of this conference were to launch group discussions between stakeholders to expose the issues of SMEs and the actions that need to be taken and to wrap up the valuable recommendations of the conference following five main topics:

Plenary 1 - Financing of SMEs

- Credit guarantee Funds and Credit Bureaus
- Debt vs. Equity: role and benefits of equity and venture capital financing
- Access to Finance

Plenary 2 - Business development

- Business development: Capacity building through business incubators
- Business development: Capacity building through the development of management abilities, marketing and promotion techniques, productivity, corporate culture.

Plenary 3 - Internationalisation of the firm and Gender issues

- Export Norms, Quality control , Competitiveness
- Gender issues

Plenary 4 - Institutional and Legal Environment of SMEs

- Legislative and Regulatory Requirements: procedures for starting/closing a business, labour issues
- Legislative and Regulatory Requirements: Contract enforcement.

Plenary 5 - Public Policies

- Monetary Policy and the Role of the Central Bank on Promoting SMEs
- Fiscal Policy

The Conference Recommendations*Financing of SMEs*

- o Reassess the legal requirements on SME lending reducing the overall creditor's obligations vis à vis collateral requirements and related rights and develop loan guarantee schemes further to reach target beneficiaries while ensuring balanced risk sharing and avoiding moral hazard;
- o Encourage banks to develop their financial services and provide new financial products to suit SMEs;
- o Help SMEs in adopting transparent and user friendly accounting systems;
- o Seek to develop Beirut Stock Exchange (BSE) and encourage companies to be listed at BSE.

Business Development

- o Encourage coordination between both the public and the private sectors to define effective procedures for SME development and request from the government and concerned authorities/parties to adopt them;
- o Encourage clustering for sectors which benefit from competitive advantages, export potential, and direct the incubators' activities towards these economic sectors;
- o Coordinate between the Lebanese government and technical associations, to establish training and vocational centres and programs which enable the use of developed and new technologies and promote transparency and responsibility.

Internationalisation of the Firm

- o Adopt the European Harmonised Standards as Lebanese standards to facilitate exports to the priority markets with which Lebanon is currently dealing and with which activities exceed 50% of the foreign trade activities;
- o Put more emphasis on the role of laboratories and establish up to date laboratories accredited by all parties; implement qualified centres for the issuance of certifications in agreement with the European Harmonised Standards;
- o Establish export bureaus. One of its tasks would be to study foreign markets and provide the local enterprises with the necessary information to export services, agricultural and industrial production. On the other hand it would encourage the participation of SMEs in international fairs and establish a database of information specialised in the export procedures and criteria.

Gender Issues

- o Work on establishing infrastructure which encourages women to work i.e. establish day care centres, nursery for after school hours...
- o Establish and support business women's associations and decision makers in both the public and private sector and encourage their integration in international networks.

Institutional and Legal Environment

- o Set a legal definition and categorisation of SMEs;
- o Create additional independent courts of justice to look at and deal with small law suits in a rapid and efficient way and at reasonable costs and simplify the procedures concerning the legal notifications;
- o Re-study the labour law which would encourage employment and would allow employees to benefit from social coverage;
- o Adopt the one stop shop system to finalise all legal procedures and formalities in establishing a business;
- o Insure tax incentives in the first stage of establishing a business (SME);
- o Facilitate the procedures of establishing and liquidating an SME;
- o Launch awareness campaigns about laws and regulations and facilitate access to information;
- o Exempt from income tax on profits resulting from improvement of fixed assets and goodwill upon transforming sole proprietorship and partnership companies into Joint stock companies (co-partnery, simple partnership and limited liability company);

Public Policies

- o The conference suggests to the government the development of a comprehensive long term industrial policy which encourages Lebanese companies to produce a higher added value and contributes to the improvement of the deficit in the current balance;
- o Review the monetary and fiscal policies which allow the growth of SMEs and the reduction of their costs;
- o Emphasize human development through the introduction of personal initiative and human resource management components in the education curriculum, especially at the secondary level;
- o Issue a decree encouraging the merge of small and medium industrial firms and encourage clustering and networking.

Suggestions to be followed up

- o Request from ECOSOC and ESFD the organisation of round table discussions between concerned parties in the government and the Association of Banks in Lebanon to study and apply the financial recommendations, come up with other ways of financing and suggest necessary adjustments regarding laws and regulations to obtain the results expected;
- o Request from ESFD the preparation of advertising programs targeted towards SMEs to inform them about the banks available financial instruments which will allow the development of their projects.

Conclusion

- o With regards to the importance of the role of SMEs and the importance of the recommendations issued by the conference, the participants have requested from the Economic and Social Council, the Economic and Social Fund for Development and the Ministry of Economy and Trade the follow up on the delivery and application of these recommendations which for them represented one step forward to break the vicious circle in which the national economy is falling.

CHAPTER TWELVE

Small and Medium Industries' Merger Project

The Project voted by the Economic and Social Council in December 2002 aims to rehabilitate and strengthen the industrial sector hit by the sharp decrease and/or the elimination of custom duties on manufactured goods two years before. The wide opening to foreign trade was seen then as an irreversible policy to plug to the global economy. The SMIs' Merger Project is part of a comprehensive intermediate policy, elaborating measures to support the very existence of firms threatened by the new situation and ensure the continuance of their production. The Report on Small and Medium Enterprises accomplished just before launching the present project with the contribution of leaders and representatives of the business community highlighted the fact that, due to the long-lasting recession and failing to support the still running firms and improve their competitiveness, i.e., their capacity to produce goods that meet the standards and prices of international markets, any policy set up to stimulate the economy will be sufficient as to curb the recessive trend.

Designing a solution, a major constraint had to be addressed, the government was not ready to put any money on whatsoever project destined to support industry. Burdened by a heavy public debt, the government was reluctant to consider any support program that would involve any charge to the budget; mainly, industry was not considered a priority for the future of the Lebanese economy. The government provided assisted credit to rehabilitate production sectors with the support of the European Investment Bank; but it was, and still is, a shy attempt far beneath the real needs of the economy.

Furthermore, and as it seems often to be the case, selective measures find hardly a rational way to the market. What we can say is that the assisted financial .program initiated in 97 did not rehabilitate any significant part of the Lebanese industry. And most of the companies that profited from the financial scheme and renewed their equipment, were left with an idle production potential often due to the lack of working capital and always to the ever slumping demand.

In the future, such program should be extended to other sectors where enterprises are still much beyond their economic efficiency scale.

Rationale

The manufacturing sector was most affected by the civil war. And to this day, its rehabilitation remains slow, hampered mainly by limited funding sources together with constraining financing conditions (high interest rates, limited means, short-term credit). The problem is further exacerbated in the light of the insufficiently available private equity, continuously eroded by heavy losses due to the long-lasting recession.

As a result, the manufacturing sector was forcedly led to a vicious cycle of low investments, low productivity and high costs of production. This situation becomes further alarming, especially within the context of increased globalization and the resulting market openness and thus, the upcoming foreign competition.

Nevertheless, industrialists remain perseverant and inspired by a strong belief in the huge potential of the sector, especially concerning job creation, high added value, not to mention the expected synergies with other productive sectors. Last but not least, many of them argue that the officially stated share of the sector to the GDP undervalues its real contribution to the economy; much of the services' income, mainly transport and distribution, is due to the uphill industrial activity.

It may be necessary to point out that when the contribution of industry and/or agriculture to GDP are low, it does not necessary show the weakness of the sector, it may as well illustrate the strength of the economy. The development of product sectors should be only assessed in reference to their absolute figures.

For the purpose of this project, it was considered that small industries are those employing less than 20 workers and medium industries less than 50.

Policy orientation

In light of the current economic conditions and information base, it will be difficult to design an optimum industrial policy, and hence to select those sectors that have higher potential than others. According to the UNIDO studies (New Delhi 1995), sector selection should be based upon the current and potential export capacity of the sector. A winning policy should be to enhance the efficiency of

the already exporting firms. Furthermore the "Cobden Report" prepared by the UNIDO upon the request of IDAL in 1995 suggested that the best way to implement high technology in Lebanon should be to enhance marketing and managerial capacities within traditional manufacturing sectors that accumulate experience and technical know-how. For policy orientation, much can be learned from the Japanese, Turkish and Korean experiences. In Japan, for example, the conventional industry is still much spread out next to the most advanced technologies and the latter did not replace it over the past decades. Moreover it might be useful to look at the Korean example in the 90's and the role assumed by the government in the economic take off through industrial investment. In Turkey, the industrial sector succeeded in providing labour opportunities, expanding export and attracting investments in spite of the economic depression and the aggravation of the inflationary trend. In all cases, supporting the manufacturing sector is crucial, especially at the outset of full liberalization.

All that points to two issues: first that support for the industrial sector is critical due to its leverage on the whole structure of the economy; second because successful measures in the actual circumstances advocate for equal opportunities to the various activities, regardless of any peculiar situation induced by the crisis and that could vanish at the first stir of recovery.

Besides, it seems clear that the conditions prevailing since the opening of the economy require specific abilities to improve the competitive edge of the firm. This could be achieved through complementarities of skills and means; the merger is expected to provide better management skills and marketing abilities to the new entity. It is in the interest of the parties to entrust the management to the most efficient group among the merging entities; while the scale of the emerging firm and its larger turnover will allow a more consistent budget to the marketing needs.

Hence the need today for a project that targets the very core of the manufacturing sector, and which provides them with clear incentives for reorganization and strengthening the way they operate. The following project aims to fulfil this objective by encouraging the mergers of industrial enterprises.

Merger Incentives to Small and Medium Industries.

Mergers in Lebanon face two sets of problems: the existing financing system, and the current legal framework.

Firstly, any merger requires additional working capital to back up the resulting increases in production capacity (and exports), and hence mergers create additional demand for financing. However, as previously argued, industrial enterprises are very much constrained in their access to financing.

Secondly, Lebanon's legal and regulatory framework hinders merger operations: Despite the fact that a new legal entity is established and automatically replaces the merging entities and assume all their obligations, industrial enterprises, before engaging in mergers, are required to obtain a discharge from the Ministry of Finance and the National Fund for Social Security, which results in paying huge amounts of premiums and taxes much before maturity.

Consequently, we propose the set up of a fund to facilitate mergers through financing their working capital needs at international interest rates. Merged enterprises shall be eligible to profit from other measures designed and undertaken within the context of restructuring old debts.

Proposed mechanism

1. Set up a fund to encourage mergers.
2. Both domestic and foreign banks may issue loans in LBP or in € that are guaranteed by the fund.
3. The loans guaranteed by the fund must be used for financing working capital needs, as to attain full production capacity.
4. The fund guarantees the loans to approved mergers, over a period of 7 years (i.e., two years in addition to the average period required for the project to reach optimum capacity).
5. The fund may pledge the industrial enterprise, along with its tangible and non-tangible assets as a collateral, in exchange for its guarantee (this however, excludes real estate, because in most cases the latter is already used as collateral for previous financing geared toward upgrading equipments or simply supporting earlier needs);

6. Interest rates on bank loans guaranteed by the fund are calculated as follows: LIBOR rate in favour of the lending Bank + 0.5% Premium to the fund (to be deposited in the fund's account at the central bank).
7. The commercial banks engaged in corporate financing as per the terms of the present project shall benefit from a reduction of special deposit requirements (in LBP or the currency of their choice regardless the currency of the loan) up to the limits of the credits granted in conformity with the law.
8. Application forms, including a feasibility study and a projected cash flow statement, must be submitted directly to the fund by the industrial enterprises interested in this support mechanism.

Evaluation process

- A technical structure is needed to assess, encourage and control the merger projects complying with an advanced industrial policy able to face the challenge of globalization.
- Encouraging mergers will automatically improve competitiveness, marketing and managerial techniques. Consequently, additional demand will be geared to EU financing schemes actually available for equipment near the Central Bank of Lebanon. Therefore the financing provided under the merger project should be confined to the working capital.
- Financing the working capital through the guarantee of the fund shall wave the major obstacle to the use of optimal production capacity allowed by domestic and foreign markets.
- The fund will be guaranteed by the industrial enterprises' assets, which will ultimately increase as a result of the merger. At the same time, collateral (real estate) used for old loans shall not be reused. In fact, the new financing scheme will help restructure the industrial enterprise and improve its financial standing in order to better meet its previous financial obligations. This ultimately shall be to the benefit of commercial banks.
- Industrial growth in the global economy requires equal financial conditions with international competitors. The improved competitiveness due to the economy of scale obtained through the merger compensates somehow the high cost of public goods

and services in Lebanon, but a competitive interest rate is compulsory to industrial competitiveness. Cheap interest rate was the major factor in the Korean industrial take off.

- Liquidity is not a problem for commercial banks since they can use a portion of their reserve requirements.
- It is estimated that injecting around \$400 million working capital in the private sector will enhance Lebanese exports and reduce imports in relevance with the turnover expected from the additional financing and hence improve the balance of trade by an amount estimated at USD 1.2 billion.

SMIs' MERGER PROJECT

Economic and Financial Assumptions

1 INDUSTRIAL MERGERS

- Consolidation of feasibility of ongoing concerns, securing "management" skills and "marketing" capacity, through the cooptation of the managers and expansion of the firm.
- Access to competitive production and financing.
- Opportunity to raise funds against equity.
- Opportunity to obtain guarantees against mortgage on intangible and current assets.

2 INDUSTRIAL COMPANIES' BANKERS

- Opportunity to invest frozen funds.
- Improve the solvability of debtors.
- Recovery of old debts.

3 MERGER FUND

- Capacity to attract foreign aid.
- Enhance the efficiency of rehabilitation programs.
- Contribute to the improvement of the industry's competitiveness at no financial cost and calculated risk.

A Proposition for the Implementation and the Management of the Fund

- To consider a joint fund between a EU institution and Lebanon public and private sectors, within the framework of the European Neighborhood Policy.
- Set up a holding company that incorporates IDAL and/or the Central Bank of Lebanon, the Federation of Lebanese Chambers and the Association of Lebanese Industrialists. It is advisable to include Arab development institutions along with the EU.
- The board of directors of the holding company representing the "fund" should include representatives of the above-mentioned institutions.
- The holding company shall benefit from all funds earmarked to rehabilitate the manufacturing sector.
- The holding company can participate in 20% to 40% of the approved mergers, and/or guarantee the loans of the merged firms, stipulated for working capital needs.
- The holding company can give back its shares in merged firm to the initial shareholders, once it recovers its guarantee, in return for the nominal capital + a 5% annual interest (charged on the total period during which the participation lasted).
- The holding company can guarantee as well the working capital needs of the merged firms as well, even if it does not participate in the capital, and given that it keeps as guarantee the industrial enterprise's assets.

SMIs' MERGER PROJECT**Business Plan outline****1.1 MAIN TARGETS**

- Sustain the activity of industrial SMEs threatened by globalization.
- Increase competitiveness of industrial firms to meet international standards. The new scale of the firm shall give a better access to quality programs and various technical support.

1.2 MAJOR CONSTRAINTS

- Lack of production financing.

- Burden of accumulated losses and debts.
- Productivity affected by decreasing activity.
- High cost of energy and production factors.
- Waste due to bureaucratic complexity.

1.3 CRITICAL FACTORS

- Management skills.
- Marketing abilities.
- Economy of scale.
- Dimension consistent with rational management and marketing functions.

1.4 SYNERGY WITH EXISTING PROGRAMS

- Subsidized interest rate for acquisition of new equipment through BDL.
- Industrial Modernization Program ELCIM.
- Soft loans to SMEs, Kafalat.
- Agency for the Promotion of Productive Activities. (Project)
- Industrial Clusters. (Project)

2.1 STRATEGY

- Improve management and marketing;
- Correct a fundamental market distortion "high real interest rate"
- Facilitate access to production and export financing.

2.2 OBJECTIVES

- Adaptation to global economy.
- Improve capacity to take profit of existing and projected rehabilitation programs.

2.3 OBSTACLES

- Incapacity to abide by financial criteria due to accumulated old debts.
- Administrative complexity.

3.1 IMPLEMENTATION

- Entrust application to a "Fund" able to evaluate the feasibility of merger projects and to take responsibility for the allocation of funds.
- Submit merger projects feasibility and cash flow needs.
- Statute on equity and/or non-equity contribution including guarantees usable in the financial market.

- Obtain security unaffffecting solvency toward old creditors, viz. mortgage of intangible and current assets.
- Target a competitive interest rate with a moderate allocation to service the fund.

3.2 PROJECT FUNDING

- National contribution through use of special deposit.
- EU contribution through FEMIP to promote private sector activity and set the production sector to a competitive level.
- Arab funds aiming to enhance production and inter Arab countries trade.

3.3 PROJECT TOOL

Participation of public and private sector with donors entities

- IDAL. Mergers feasibility. Coordination with investment policy. Opportunity of merger with Arab and European industries.
- BOL. Special deposit availability. Coordination with monetary policy.
- Federation of Lebanese Chambers of Commerce. Main representative of private sector.
- Association of Lebanese Industrialists.
- EIB or EBRD. The EU participation will help to outrun a long history of low capacity in using EU aid, and give confidence as to adequate utilization of funds in conformity with objectives.

Annex: The critical need for an awareness program

A survey conducted by the end of 2002 for the Economic and Social Council by Messrs Bechara Hanna and Roger Melki proved indisputably, among other major findings, that small and medium enterprise owners, including industries, are unaware of the importance of mergers as a way to improve marketing and management. Such indifference is particularly acute among the very small businesses. In the category of 10 to 19 workers the interest rise to almost 15% and fall again to 11% for the category between 19 and 49.

It shows somehow that the firms of the 10/19 category are aware that size deprives them of some essential marketing tools due to their heavy impact on a small turnover. The favorable tendency can be seen in the category of 50 and more, where the activity is much more linked to export.

Table N° 29

Establishment ready to be merged according to Workforce Category

Workforce Category		Establishment ready to be merged			
		Yes	No	No answer	Total
1-4	Number	9600	135040	1920	146560
	% Workforce Category	6.55	92.14	1.31	100.00
5-9	Number	1343	11139	395	12877
	% Workforce Category	10.43	86.50	3.07	100.00
10-19	Number	576	3072	288	3936
	% Workforce Category	14.63	78.05	7.32	100.00
20-49	Number	175	1330	70	1575
	% Workforce Category	11.11	84.44	4.44	100.00
50 & more	Number	155	589	93	837
	% Workforce Category	18.52	70.37	11.11	100.00
Total	Number	11849	151170	2766	165785
	% Workforce Category	7.15	91.18	1.67	100.00

It is worth noticing that the industrial sector is not more sensible to marketing and management and therefore to merger than other sectors. On the contrary, the industrial favorable average is 7%, far behind the tourist sector's 13%.

Table N° 30
Establishment ready to be merged according to Output Sectors

Output Sectors		Establishment ready to be merged			Total
		Yes	No	No answer	
Building & Real estate	Number		3871		3871
	% Output Sectors		100.00		100.00
Trading	Number	6430	92148	2130	100708
	% Output Sectors	6.38	91.50	2.12	100.00
Agriculture	Number	368	6383	48	6799
	% Output Sectors	5.41	93.88	0.71	100.00
Tourism & hotel & Restaurant	Number	973	6619	127	7719
	% Output Sectors	12.61	85.75	1.65	100.00
Health & Insurance	Number	158	4065	141	4364
	% Output Sectors	3.62	93.15	3.23	100.00
Industry	Number	1859	22995	241	25095
	% Output Sectors	7.41	91.63	0.96	100.00
Personal Services	Number	702	11472	31	12205
	% Output Sectors	5.75	93.99	0.25	100.00
Other sectors	Number	1359	3617	48	5024
	% Output Sectors	27.05	71.99	0.96	100.00
Total	Number	11849	151170	2766	165785
	% Output Sectors	7.15	91.18	1.67	100.00

Furthermore and notwithstanding size or sector of activity, small and medium enterprises cannot express any criteria for mergers and do not either impose conditions.

Table N° 31
Conditions for merger according to Workforce Category

Workforce Category		Condition for merger						total
		Without condition	Co-Management	Stock company	Financial Compensation	Other	No answer	
1-4	Number	2560	1920	1280	2560	640	137600	146560
	% Workforce Category	1.75	1.31	0.87	1.75	0.44	93.89	100.00
5-9	Number	79	237	237	474	79	11771	12877
	% Workforce Category	0.61	1.84	1.84	3.68	0.61	91.41	100.00
10-19	Number	144	192	48	96	144	3312	3936
	% Workforce Category	3.66	4.88	1.22	2.44	3.66	84.15	100.00
20-49	Number	35		35	35	35	1435	1575
	% Workforce Category	2.22		2.22	2.22	2.22	91.11	100.00
50 +	Number		31	62		62	682	837
	% Workforce Category		3.70	7.41		7.41	81.48	100.00
Total	Number	2818	2380	1662	3165	960	154800	165785
	% Workforce Category	1.70	1.44	1.00	1.91	0.58	93.37	100.00

Table N° 32
Expectation of Firms according to Production sector

Output Sectors	Condition for merger							total
	Without condition	Co-Management	Stock company	Financial Compensation	Other	No answer		
Building & Real estate	Number						3871	3871
	% Output Sectors						100.00	100.00
Trading	Number	2051	863	1359	2157	640	93638	100708
	% Output Sectors	2.04	0.86	1.35	2.14	0.64	92.98	100.00
Agriculture	Number		158	48		127	6466	6799
	% Output Sectors		2.32	0.71		1.87	95.10	100.00
Tourism & hotel & Restaurant	Number	127	48		48	79	7417	7719
	% Output Sectors	1.65	0.62		0.62	1.02	96.09	100.00
Health & Insurance	Number				79		4285	4364
	% Output Sectors				1.81		98.19	100.00
Industry	Number		671	193	881	114	23236	25095
	% Output Sectors		2.67	0.77	3.51	0.45	92.59	100.00
Personal Services	Number	640		62			11503	12205
	% Output Sectors	5.24		0.51			94.25	100.00
Other sectors	Number		640				4384	5024
	% Output Sectors		12.74				87.26	100.00
Total		2818	2380	1662	3165	960	154800	165785
			1.70	1.44	1.00	1.91	0.58	93.37

All small and medium enterprises regardless of their size and sector of activity develop quite pessimistic expectations.

Among the small and medium industries, 51% foresee a decrease of their output and turnover;. 19% think that this will force them to close within the next two years.

Table N° 18
Expectation of Firms according to Production Sector

Output Sectors		Stable	Stable	May	May	May	Other	No	Total
		with production increase	without any changes	Expecting production decrease	close to sales collapse	close due to heavy debts			
Building & Real estate Sectors	Number	1438	723	1710					3871
	%Output	37.15	18.68	44.17					100.00
Trading Sectors	Number	11.928	15311	50031	18542	2687		2209	100708
	%Output	11.84	15.20	49.68	18.41	2.67		2.19	100.00
Agriculture Sectors	Number	110	754	3616	754	1438		127	6799
	%Output	1.62	11.09	53.18	11.09	21.15		1.87	100.00
Tourism, hotel & Restaurant Sectors	Number	478	925	3279	2222	767	48		7719
	% Output	6.19	11.98	42.48	28.79	9.94	0.62		100.00
Health & Insurance Sectors	Number	843	1311	1999	114			97	4364
	% Output	19.32	30.04	45.81	2.61			2.22	100.00
Industry Sectors	Number	3183	3856	12826	4879	158	158	35	25095
	% Output	12.68	15.37	51.11	19.44	0.63	0.63	0.14	100.00
Personal Services Sectors	Number	719	789	9789	829			79	12205
	% Output	5.89	6.46	80.20	6.79			0.65	100.00
Other Sectors	Number	1394	31	3568	31				5024
	% Output	27.75	0.62	71.02	0.62				100.00
Total	Number	20093	23700	86818	27371	5050	206	2547	165785
	% Output	12.12	14.30	52.37	16.51	3.05	0.12	1.54	100.00

The success of the Merger Project necessitates a strong awareness campaign, which emphasizes how the project may give way to feasible entities, through better management skills and marketing abilities.

CHAPTER THIRTEEN

Rescheduling Private Sector Debts

and Supporting Investments

The following project was elaborated by the “Commission of Economic Policies” of the Economic and Social Council, with the contribution of representatives of the private sector, during fall 2002. One has declared that there shall be no way to recovery if the ancient debts were not segregated from new financing needed by the firms to carry on production. That view was commonly agreed.

Following participation of the private sector in that work, many executives in different public and private institutions became aware of the project and of the priority to reflate the production sector. Different projects aiming at rescheduling the bad debts were set up, each reflecting the interest of the party elaborating the project. The Economic and Social Council preferred to delay the proposition and coming to the end of the mandate, to let the next general assembly take care of it.

Introduction

Debts resulting from losses suffered by private sector institutions as a result of exceptional economic circumstances are the major hurdle to an operational capital, a hurdle that almost stopped many from their work. Therefore, general policies that aim at stimulating economic activity against the tendency to recession will turn out as inflation if the production sector is not able to meet new demands.

It should be noted that the economic crisis that occurred in the country in the aftermath of the war is an exceptional circumstance from which several sectors suffered consecutively with more and more economic institutions (the domino effect). Subsequent legal actions only worsened the situation and paralyzed institutions that had less liquidity and fewer finance sources thus often leading to a deficit.

In addition, bank credits became inaccessible because of strict measures implemented by the central bank and tight policy followed by banks in conformity with “Basle II”; there was also pressure on

liquidity and the fact that the state was polarizing funds by means of high interests, which inevitably put a growing number of production institutions out of the finance ring.

Based on a large scope survey carried out by experts in the production sector, it is clear that the only way to check the slowing of the production wheel and to maintain the productivity of all sectors is to first separate previous debts from necessary finance to keep the same natural movement of investments. In case general policies helped to overcome recession and revive total demand, this would still need more production to achieve growth.

It is obvious that the problem of all economic sectors should not be transferred onto the banking sector and the state cannot bear any more burdens. What we actually need is a financial engineering system that makes all parties share in the burden; if each party bears part of the burden, compensation will be in the expected short-term recovery benefits, especially if a policy to fight off unemployment is followed. One of the advantages of helping the movement of investments is the guarantee of debts owed by the private sector to banks, which amount nowadays to around 14 billion dollars and require provisions to dubious debts with various sections estimated at around three billion dollars. The advantages to the treasury from additional tax transfers resulting from growing investments are also certain and compensate any burden the state may face as it supports investment.

The Rescheduling Mechanism

1. Beneficiaries are small and medium enterprises that are in dire straits or that have suffered great losses in the last few years and those that are still functioning or are functional when this draft is approved.
2. This draft stipulates the rescheduling of debts for which a reserve has been formed at banks or that represent accumulated losses for institutions with a maximum of \$500,000 for each institution and for a period of ten years with a three-year grace period, in Lebanese pound and without interests.
3. In case a bank has an agreement with clients who are insolvent, the rescheduling is based on the amounts for which a reserve has been formed, within the limits of this reserve.

4. Upon their wish, taxpayers on the basis of real profit, duly registered at the Income Tax Administration, can reschedule their debts upon the percentage of their accumulated losses in the last ten years and that have been duly declared at the Ministry of Finance.
5. The Income Tax Administration gives - upon a request from the beneficiary - a notice showing the volume of accumulated losses over the last ten years and the volume of debts due to banks as shown in the last budget.
6. Banks reschedule debts based upon percentages showed in the notice given by the Income Tax Administration, or within the reserve formed in banks in case of agreement with the debtor; all legal actions, if any, are stopped, and the reserve formed in banks is reconsidered so are guarantees or securities given in exchange of this debt, according to the new situation.
7. Banks may settle these debts at the Lebanese Central Bank with the interest determined for this purpose, with a minimal due date of three years without the right to draw back. A settlement of 9% for ten years only gives half this amount and allows the central bank to form a reserve of about 50% of the settled amounts.

Draft Constituents and Expected results

1. Separating accumulated debts from investment needs has become an urgent necessity to ensure the continuity of economic institutions especially small and medium enterprises. This procedure is imposed by the requirements of macroeconomics namely the need to preserve the country's production energy and to ensure success to policies aiming at economic recovery. This is why it must be a general procedure that is easy to implement and covers as many sections of enterprises as possible, as otherwise they are or would be unable to continue. Since it is hard to ensure that enterprises having ceased to function should continue to invest - namely those that have been liquidated, and whose debts have been paid in full or in part. This is why I limited the draft to enterprises that are still functioning or are functional as long as their situation is dealt with according to this draft.

2. Interest exemption is necessary to support the ability of enterprises to pay their debts especially that such payment is based on expected profits; the rescheduled debt is only accumulated losses in exceptional circumstances.

Converting the rescheduled debt into Lebanese pounds is a necessity since it makes it possible to later dissolve the debt at the central bank. This procedure is highly important to maintain the banks' liquidity.

3. Accounts for which a reserve has been formed are generally blocked deposits; if the bank reaches an agreement with the debtor upon a specific and clear mechanism, the aim is reached since the enterprise is able to invest its operational capital again and go on being operational. When this procedure is global enough, it automatically leads to an increase of investments and demand, and it strengthens the enterprise's ability to settle its debts, therefore to finance itself.
4. The procedure that is based on the declaration of enterprises subject to real profit includes more than 90% of enterprises whose losses have become debts stopping them from being functional. In case there is no automatic agreement between the different parties, a special measure is necessary, to make a consensus possible - taking into account that any debt representing accumulated losses is not payable unless the enterprise is liquidated, which must be avoided at any cost in the current circumstances.
5. The adoption of a declaration submitted to the Income Tax Administration in the previous years is a basis that can be used without resorting to intricate procedures which deprive the draft of its efficiency. In fact, it is not in the enterprises' interest to declare additional losses.
6. In order to estimate the volume of debts that may be rescheduled, it would be appropriate to start off from the volume of provisions at the banks as concerns insolvent debts and that are around three billion dollars. If we take into account the strict rules upon which reserves have been formed in the last few years, we see that they often occur when liquidity decreases, without any losses to the work of the enterprise. Therefore, it is only logical to estimate the debts to be rescheduled upon a given percentage of this reserve that is unlikely to go beyond the half.

Since this draft is limited to small and medium enterprises, debts to be rescheduled may be estimated at around 500 million dollars. Their rescheduling by virtue of this draft will revive part of the insolvent debts since insolvent enterprises will recover.

7. The Lebanese Central Bank faces a risk by settling these debts without reversion; however, it can be compensated by the interests it gets from the settlement. Risks will fade with the movement of investment.
8. There remains one question, which is the impact of the draft on the exchange rate. Supporting productivity is a medium-term support to the revenues' purchasing power, therefore to the exchange rate. Positive results that are expected to go along with economic recovery are an essential factor to help regain confidence until feasibility becomes stable in production sectors and growth occurs in macroeconomics.

On the financial level, when settling amounts that are rescheduled, banks set off from a balance between the currencies of deposits and credits; net amounts are not to be used in the speculation especially that most debts likely to be settled are originally blocked and do not need to be converted into foreign currencies unless the rate of dollarization increases in the country, whereas economic recovery goes against this trend.

Milestones

1 - The draft's political dimension:

- a - Supporting small and medium enterprises that are insolvent because of the economic crisis; these enterprises have proved their feasibility since they have been functional so far despite events, and growing stagnation.
- b - Safeguarding enterprises is part of safeguarding the national production energy; any squandering of this energy cannot be compensated in the future through new financial investments in cases of recovery. Recovery conditions are not met easily in case the productivity energy is lacking.
- c - The main hurdle to the existing enterprises is in the accumulated debts that resulted from various factors, namely

recession, high costs and losses over consecutive years, whereas the ability to continue reflects the enterprise's ability to adapt its work or develop it accordingly. If they are given the opportunity to dissociate the burdens of the past from the challenges of the future, most will be able to go on until recovery is achieved.

2 - Strategic aims:

- a - It seems that dealing with the burdens of the past regardless of the causes is a strategic measure to ensure continuity and preserve the country's production energy; in fact, it is hard to imagine any change in monetary, financial and tax policies in the light of the volume of the national debt and the policy of fixed exchange rates. As a result of these policies, and since the private sector is what it is, the banking sector refrains further from financing the production sector.
- b - The fact that the problem is global requires large-scale treatment in order to first ensure continuity to insolvent enterprises; then, to ensure better investment conditions so that these enterprises can regain their ability to meet its commitments and overcome accumulated burdens. It is therefore clear that there is no substitute for the enterprise itself to face its burdens; so, either the insolvent enterprise collapses and is liquidated and this has negative repercussions on the banking sector and on the national economy, or all parties assume the immediate burden to ensure renewed productivity and thus the payment of debts.
- c - The main danger one must pay heed to is the fact that the current situation may go on or that it may worsen; what would become of insolvent enterprises then?
 - First: the ability for enterprises to be functional reduces the impact of recession by reducing unemployment and helping economic recovery if the right conditions are available.
 - Second: preserving the production energy is a sine qua non condition for recovery in the future.
 - Third: existing enterprises have overcome the hardest circumstances and improving their situation certainly improves their ability to withstand other tests.

- Fourth: the project of financial engineering to ensure the enterprises' continuity does not include any new burdens to any of the parties who contribute to a change in the situation.

3 - Implementation mechanism:

- a - The council has set up economic and statistical studies showing the current situation of enterprises, the volume of reserves, their nature, the difference in the volume of current assets and liabilities, the number of insolvent enterprises and their effect on labor and productivity.
- b - One solution is in rescheduling debts according to the volume of losses borne by feasible enterprises that are able to go on if it was not for the burden of their accumulated debts, which necessarily freeze their activities. The studies also determined the duration and terms of useful rescheduling. If the bank and its concerned clients agree to the suggested objective terms, they can profit from the draft's benefits, namely as concerns settling rescheduled amounts to ensure liquidity or corresponding the currencies of deposits and credits. The rescheduled amount is supposed to be converted into Lebanese pounds and in this case, the central bank can settle bonds when necessary. If the debtor can show his losses officially - namely debtors who are registered at the Income Tax Administration - he can reschedule his debts within the limits of accumulated losses even if his account is not insolvent at the bank and has a reserve.
- c - As concerns small and medium enterprises, this draft allows them the chance to adapt to the current economic circumstances namely to reduce expenses; it gives them the possibility to eliminate fixed expenses caused by past frozen debts namely those that represent assured losses in the years to come; this draft also gives them the chance to progress if need be.
- d - As concerns banks, insolvent debts have reserves and are no longer a burden to their budgets. Getting back only a small amount of these debts is as such a benefit to banks and a way to improve the clients' situation and their ability to pay their debts.
- e - The draft supposes two things: (1) that it is easily implemented

due to the generality of circumstances, (2) that all parties cooperate, so the draft has a national dimension on the level of macroeconomics.

4 - The draft's financial estimate:

- a - On the level of macroeconomics, the fact that the central bank settles rescheduled bonds only in Lebanese pounds is not a financial burden to the state and may be limited to debts and/or losses not exceeding \$500,000. In case a settlement interest of 9% is adopted for rescheduled bonds for ten years with a grace period of three years, the current value of deduced bonds is only 55% of the nominal value. This debt automatically has a reserve of 45%.
- b - The amount of debts that are likely to be rescheduled has reserves and no longer influences the banks' budget and profitability. Cashing in 55% of their value immediately exceeds the expected amount to be cashed in should the civil enterprise collapse.
- c - Rescheduling previous debts on the long or medium term gives way to the debtor to pursue his activities and meet his commitments, especially if guarantees are adapted to fit the current circumstances thus empowering enterprises to get an operational capital needed to go on producing.

5 - Economic assessment of the project:

- a - This draft helps maintain, on the level of macroeconomics, the country's current production energy. It thus provides essential conditions to overcome recession when recovery is set off.
- b - New liquidity through the discount of scheduled bonds is translated by productivity that goes beyond its cost; not all rescheduled debts are discounted (monetary flow) whereas all allow productivity to continue (real flow); thus, the increase in real demand remains below the increase in productivity, which helps maintain prices at what they are (repressing inflation) and makes it unnecessary to resort to procedures that may increase deflation to ensure the stability of exchange rates. It is preferable that the terms of resettlement of the rescheduled

debts be flexible; this way, they can be used to increase liquidity in exchange for an increase in productivity to help recovery and support gross product.

- c - Productivity is expected to progress in numerous enterprises, since the volume of their productivity is drawing closer to optimal productivity, and as some hurdles that cause an increase in hidden unemployment are fading away.

PART 3

The Long Term Vision

CHAPTER FOURTEEN

Comments on **Five-Year Development Plan** Monitor 2000 - 2004

Introduction

1 - In February 1999, the Prime Minister of Lebanon addressed a letter to the Council for Reconstruction and Development (CDR) requesting the preparation of a development plan that would satisfy the following objectives:

- Addressing social issues in Lebanon
- Achieving balanced development through concentration on less developed regions
- Upgrading productive sectors, especially industry and agriculture
- Commitment to completion of ongoing projects

2 - A year later, in February 2000, CDR submitted to a Ministerial Economic Committee a Five-Year Development Plan 2000-2004 (FYDP) that was drafted with the assistance of the US firm Monitor Company and the local firm ACE. After deliberations between a ministerial working team and a CDR Steering Committee for the Plan, the FYDP in its final form was approved by the CDR Board in April 2000, and by the Council of Ministers (Decision no. 32) on May 17, 2000.

3 - Before presenting some of the major elements and recommendations of the FYDP, one should start by making the following comment. The published document does not refer to the standard macroeconomic variables: GDP value and growth, GDP structure by economic activity and its evolution, inflation, manpower characteristics, employment and unemployment, fiscal deficit or public sector debt, monetary or banking situation, balance of payments and external debt.. It does not reveal as well the socio-demographic statistics, including regional economic and social development conditions, and any statistics on agriculture and industry.

4 - However since 1995 and until 1998, the detailed results of a series of very informative official surveys, mostly published by the *administration centrale de la statistique*, were disseminated to the public at large: on

industry (Report on industrial census, 1995), national accounts (*l'état des comptes économiques 1994-1995, Octobre 1997*), family budgets and living conditions (*Conditions de Vie des Ménages en 1997, Février 1998*), and on manpower employment and unemployment and other manpower characteristics (*La Population Active en 1997, Août 1998*). The detailed data in these official publications were based on extensive and well-conducted surveys, and contain a wealth of information for any economic study on Lebanon, let alone for a comprehensive development plan.

5 - The actual data on Lebanon that are used in the FYDP are the following:

- Merchandise exports in 1996 and 1998, particularly for the year 1996. These are detailed and documented data in the study, though the quality of available trade data is considered by the study to be "often low"⁶⁵.
- Some infrastructure indicators are summarized in table 1: "the level of public facilities and services as compared to countries with similar socio-economic structure". The table lists percentages on the condition of infrastructure in Lebanon relative to some norm based on a group of countries. There are no details concerning the data sources or the "countries with similar socio-economic structure". In fact, the table is the only quantitative indicator on all the socio-economic condition in Lebanon.

6 - A "leadership survey" has been conducted among "senior government and private sector leaders in the economy" regarding their opinion on the state of the economy and government policy. However, missing are details on the size of the sample (probably 26) and its characteristics, though it is noted that "there are too few respondents"⁶⁶.

The basis and components of the plan

7 - The objectives of the FYDP are stated as essentially twofold:

- To promote economic growth and competitiveness through the promotion of the competitive advantage and competitiveness of the private sector, and
- To improve living conditions through upgrading the current level of the provision of public facilities and services throughout the Lebanese regions.

65 Part IV on "The Growth and Competitiveness Programme", p. 40.

66 Part VI on "Public Policy Analysis: Impact on productive sectors", p. 13.

These are the standard and worthy general objectives of economic growth and economic development, with the growth objective focusing on the promotion of the competitiveness of the private sector, and the development objective focusing on improving the standard of living in the regions outside the center through a better provision of public infrastructure services.

8 - Neither data nor analysis are offered concerning the state of economic or social development in Lebanon. The study does not refer to population, income, income distribution, education, health or to other socioeconomic variables in Lebanon as a whole or in Lebanese regions. The following table includes the information given in the study concerning the developmental or socioeconomic situation in Lebanon:

Table 1
Level of public facilities and services as compared to
countries with similar socio-economic structure

Waste Water:	
- Treatment	0%
- Collection	55%
Road Traffic	10%
Water Supply	31%
Environment	59%
Solid Waste	92%
Education	98%
Public Health	101%
Electricity	122%
Telecommunications	123%
Housing	146%

Source: Executive Summary, Appendix 4, p. 14.

9 - The introductory section entitled "general framework" does not present the theoretical or analytical framework of the FYDP. For instance, an analysis of the competitiveness or productivity condition of the Lebanese economy, and of its determining factors, particularly at the level of general economic activity such as agriculture and industry, would be necessary to explain and justify the programme for the promotion of competitiveness. A table of expenditures on various infrastructure elements is presented, however with no explanation of the logic that governs the allocation of expenditures.

Table 2
The Five-year development plan
budget allocation and expenditure
(In US\$ 1,000)

Sector	Allocation	Expenditure plan 2000-2004
Electricity	80,000	80,000
Telecommunication	55,086	55,086
Roads & Highways	1,736,500	1,436,500
Transport & Government Buildings	162,154	122,154
Education, Youth & Sports	176,691	157,441
Culture & Higher Education	185,981	167,151
Vocational & Technical Education	185,602	154,729
Environment	28,990	28,990
Public Health	74,884	74,884
Water, Dams & Lakes	881,855	881,607
Storm Water & River Courses	396,333	396,333
Waste Water	1,139,250	1,139,250
Solid Waste	100,000	99,963
Agriculture	199,700	199,700
Irrigation	130,689	106,189
Tourism	120,973	113,173
Industry	196,889	196,889
Economy & Commerce	98,168	91,783
High Technology	400,000	400,000
Networking with Expatriates	6,750	6,750
Scientific Research	3,250	3,150
Total	6,359,745	5,911,722

Source: Executive Summary, Appendix 1, p. 9.

10 - Total expenditures of the FYDP amount to \$6.4 billion, of which \$5.9 billion would have been spent during 2000-2004. The financing structure is as follows:

Table 3
Financing of the Five-year development plan
(In millions of US Dollars)

		FYDP total expenditure	Five-year expenditure 2000-2004
A -	Total Expenditure	6,360	5,912
	Available foreign financing	1,444	1,383
	Required local financing	4,916	4,528
B -	Foreign Financing	1,444	1,383
	Loans	1,333	1,278
	Grants	111	105
C -	Local Financing	4,916	4,528
	Municipalities Fund	525	525
	General Budget	4,391	4,003

Source: The FYDP, Executive Summary, p. 7.

The FYDP spending, which would be mostly financed from local sources, is judged to be within the financial constraints of approximately \$ 1 billion annually, which are set by the government's Fiscal Adjustment Plan.

Growth and competitiveness programme

11 - Following numerous tables that detail the cash flow spending of the FYDP by economic activity, cash source and year of spending, the study goes into the heart of the plan that seeks to enhance the growth and competitiveness of the Lebanese economy. Four challenges are listed:

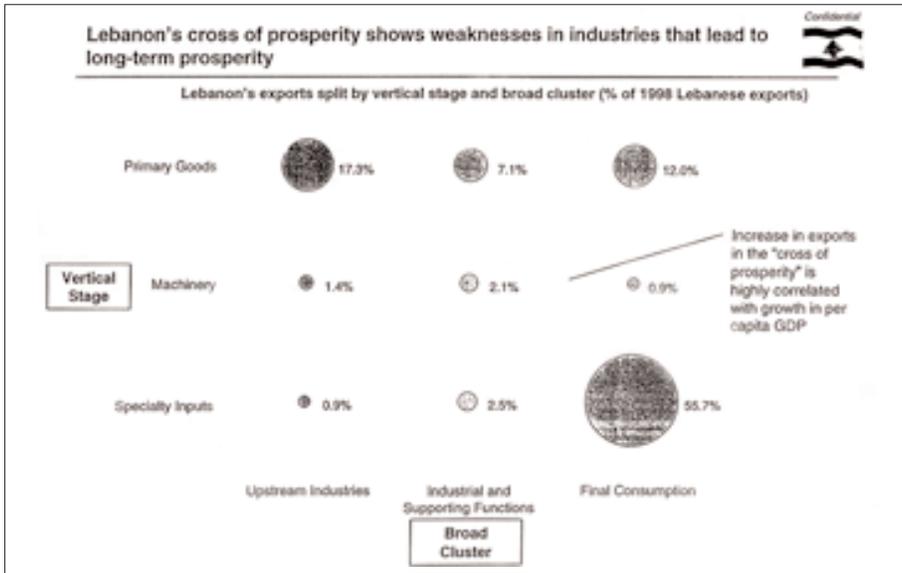
- Restore strength to historically competitive sectors, e.g. tourism, trade, transport and banking;
- Nurture those industries that provide employment and income;
- Move some sectors from relying on cheap labor or other advantages to higher value creation;
- Grow new industries that will be the engines of future growth.

Among the cited strengths are a well-educated and competent

workforce and the low cost of high-skilled labor. Among weaknesses are the small size of the country, and the high cost of low skills. Thus, it is advocated to focus on high-end rather than mass-market tourism, and on fashion textile products that bring higher value added. The study, however, advances no evidence to support the claims on the strengths and weaknesses of the Lebanese economy. Moreover, the question of costs that is central to the whole issue of competitiveness is intimately related to the question of productivity. The study is silent on the productivity of labor in the Lebanese economy, or on sectoral productivity in absolute terms or in relation to other countries.

12 - A summary of Michael Porter’s book The Competitive Advantage

Diagram 1
Lebanon’s “Cross of prosperity”



Source: Part V on Realizing the competitive advantage of Lebanon, p. 9.

of Nations⁶⁷ is developed. The book’s methodology is a modern version of the standard Industrial Organization model that focuses on the enterprise or the single market for a commodity. Within the model, demand and supply conditions are usually analyzed, together with market structure in terms of rivalry and competition. The new approach in the model is the emphasis on exports. In fact, a systematic analysis is

67 MacMillan Press, 1990.

presented in the study of exports for the years 1996 and 1998.

13 - The central idea of the study is that a "nation's international trading performance can be considered a good indicator of its international competitiveness", hence the emphasis on exports. In this regard, a diagram that is called the "cross of prosperity" or "cross of productivity" is introduced to assess a country's competitiveness. The elements of the cross are composed as follows. A nation's exports are grouped in two ways. The first is into broad clusters of Upstream Industries, Industrial and Supporting Functions, and Final Consumption Goods and Services. Upstream Industries are heavily natural-resource dependent; Industrial and Supporting Functions tend to be more sophisticated and the most dependent on knowledge capital; Final Consumption commodities tend to be more labor or low-wage intensive. The second way of classification is according to the vertical stages of production of each of the broad clusters: Primary Goods, Machinery, and Specialty Inputs.

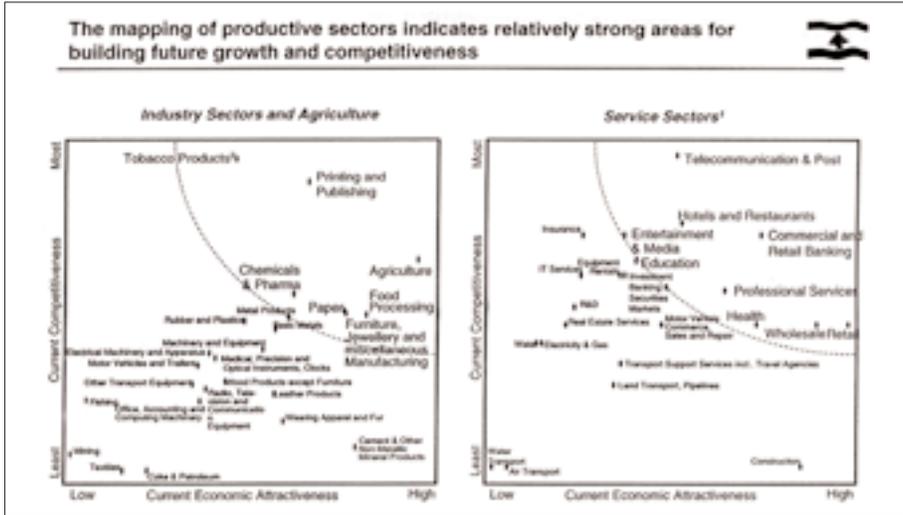
14 - Once exports are classified according to the broad clusters and the vertical stages of production, the cross of prosperity then consists of the middle bands of broad clusters and vertical stages, i.e. of the Industrial and Supporting Functions cluster and of Machinery production, which tend to be more sophisticated and wealth creating than for other combinations. The cross of prosperity for Lebanon looks as follows:

The study's assessment is that Lebanon's cross of prosperity is very weak because its middle bands are very weak: 1998 exports include a total of only 11.7% in terms of Industrial and Supporting Functions, and a total of only 4.4% as machinery. Of course, two single observations, namely exports during 1996 and 1998, are not sufficient for such an assessment, especially since the years are not far enough from the end of the war. A more detailed and historical analysis of exports, and of demand and supply conditions in industry since most exports are manufactures, would have much enlightened the analysis. Moreover, in this context, a suggestion of the study is to bring factor costs in Lebanon in line with neighboring countries. But no information or data are given on costs and productivity in Lebanon and in neighboring countries.

15 - A complementary analysis to the cross of prosperity is then introduced. It deals with the "competitiveness" and "attractiveness" of economic activities or sectors. The indicators on competitiveness are revenue growth and the share in world trade. The indicators on economic attractiveness are several, including in particular employment generation,

profitability and contribution to regional development balance. The economic activities in agriculture, industry and services in Lebanon are then classified as follows:

Diagram 2
The competitiveness and economic attractiveness of productif sectors



Source: Part V on Realizing the competitive advantage of Lebanon, p. 12.

16 - There are activities that are competitive but not very attractive (e.g. insurance), and attractive but not competitive (construction, cement). The activities that are both competitive and attractive are, for instance, printing and publishing, hotels and restaurants, entertainment and media, and commercial banking. The crucial indicator in the study’s assessment is the one on competitiveness, which is the share in world exports. It is computed as follows. First, Lebanon’s share in world exports in 1996 is calculated; it is 0.02%. Then, every industry with a higher world export share than 0.02% is classified as competitive, and industries with a lower share are classified as non-competitive. This is the fundamental competitiveness approach that is used by the study and applied in the FYDP for Lebanon, using merchandise exports in 1996!

Realizing the competitive advantage of lebanon

17 - In this part of the study, a series of core questions are asked, and answers summarize the findings of the study on the economic competitiveness of Lebanon.

a - How competitive is Lebanon?

Lebanon's strengths mostly are its educated population, a strategic location in the Middle East, and a large emigrant network. Weaknesses mostly are high input costs, a small local market with small businesses and weak linkages. The strategy should then be to develop competitive business clusters that are based on specialized factor inputs, and on unique technologies and strategies rather than on cheap labor or abundant natural resources.

b - Where can Lebanese firms compete?

Based on Diagram 2 above, Lebanese firms can compete in Arabic-content material (media, fashion, e-commerce), non-transportable commodities catering of Arab tastes (tourist resorts), and products enjoyed by the emigrant community (Lebanese food and music).

c - How will Lebanese firms reach sustainable competitive advantage?

Competitive advantage can be reached by focusing on several distinct areas, in particular: continuous improvement of management, improved access to capital and specialized skills, heightened competition and improved access to markets, continuous upgrade of technology and product sophistication, etc. Some specific measures are proposed (see item (e) below) in order to achieve competitive advantage.

d - What obstacles are there in upgrading Lebanese firms' competitiveness?

Several obstacles are listed as constraining competitiveness in all economic activities. Main obstacles are high customs duties, high labor costs, especially for social security, high land rental prices and high electricity costs, lack of marketing capability and market information, and cumbersome administrative procedures. In sum, the study finds that the biggest hurdles facing competitiveness are two: government controlled barriers to competitiveness and on the part of firms the lack of cluster organization and of strategy.

e - What means can government use in supporting the upgrade of competitiveness?

The study believes that government can play a vital role in supporting the private sector, except impeding competition. The government should focus on three policy areas. First, it should address the key barriers to private sector effectiveness by removing administrative and regulatory hurdles, and by aligning factor costs with international benchmarks. Second, it should facilitate the development of a competitive

environment. Last, it should reinforce the process of cluster development.

f - What are the opportunities with the highest-yield to upgrade competitiveness?

Some measures are proposed in order to enhance the competitiveness of the Lebanese economy. These measures are related to the distinct areas that are listed under item (c) above. For instance, the government should enforce “smart” quality norms and standards, and upgrade government procurement standards. Vocational and technical education should be enhanced to improve specialized skills. The Beirut Stock Exchange should be upgraded and IDAL’s one-stop-shop activated to improve access to capital. Access to markets can be improved through the establishment of an Export promotion Board, etc.

Final comments

18 - The study includes three other sections, one on Lebanon’s Trade Analysis, the second on Realizing the Competitive Advantage of the Lebanese Tourism Sector, and the third on Building the Competitive Advantage of the Lebanese Jewelry Industry. The section on Trade Analysis amplifies the same analysis of the “cross of prosperity” mentioned above by providing additional breakdowns of Lebanon’s merchandise exports in 1996 and 1998. The last two sections provide a detailed analysis of the “competitive” tourism and jewelry activities, based on exports details.

19- It was noted in the Introduction above, in the first paragraph, that the first two objectives of the FYDP were set by the Prime Minister as being: Addressing social issues in Lebanon, and achieving balanced development through concentration on less developed regions. The second objective of the FYDP has to do with the achievement of balanced development, which would entail an assessment of the regional development conditions (in all their dimensions of income, education, health, etc.). However the plan specifies the measures to be implemented in order to reduce the inequalities associated with regional development in Lebanon.

20 - The third, and strictly “economic”, objective of the FYDP is the upgrading of productive sectors, especially industry and agriculture. The study focuses on the competitiveness of exports per se, based on the data of merchandise exports in 1996 and 1998, as reference in the analysis of productivity..

CHAPTER FIFTEEN

Millennium Development Goals

Lebanon Report

The Millennium Development Goals deserves a particular attention. The supportive and rational report of the Lebanese Government is as much creditable. The main issue remains implementation over the period. We wished through analyzing and promoting the report to contribute to its diffusion and give it an additional chance of realization.

Introduction

In context of promoting social progress and better standards of life in larger freedom, the Member States of the United Nations have adopted the Millennium Declaration in September 2000. It contains eight Millennium Development Goals (MDGs), introduced as part of a wider attempt to encourage the international community to join forces and make a difference in the developing world. Nearly 190 countries have subsequently signed up to them. Alongside the Goals, a series of 18 targets were also drawn up to give the international community a number of tangible improvements to aim for. Each of these targets has a target figure, a time frame, and indicators designed to monitor the extent to which the target has been achieved. The intention is that almost all of these targets will be achieved by 2015.

The eight Millennium Development Goals are:

1 - Eradicate extreme poverty and hunger

Target for 2015: Halve the proportion of people living on less than a dollar a day and those who suffer from hunger.

2 - Achieve universal primary education

Target for 2015: Ensure that all boys and girls complete primary school.

3 - Promote gender equality and empower women

Targets for 2005 and 2015: Eliminate gender disparities in primary and secondary education preferably by 2005, and at all levels by 2015.

4 - Reduce child mortality

Target for 2015: Reduce by two thirds the mortality rate among children under five

5 - Improve maternal health

Target for 2015: Reduce by three-quarters the ratio of women dying in childbirth.

6 - Combat HIV and AIDS, malaria and other diseases

Target for 2015: Halt and begin to reverse the spread of HIV/AIDS and the incidence of malaria and other major diseases.

7 - Ensure environmental sustainability

Targets for 2015:

- *Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources.*
- *By 2015, reduce by half the proportion of people without access to safe drinking water.*
- *By 2020 achieve significant improvement in the lives of at least 100 million slum dwellers.*

8 - Develop a global partnership for development

Targets for 2015:

- *Develop further an open trading and financial system that includes a commitment to good governance, development and poverty reduction - nationally and internationally*
- *Address the least developed countries' special needs, and the special needs of landlocked and small island developing States*
- *Deal comprehensively with developing countries' debt problems*
- *Develop decent and productive work for youth*
- *In cooperation with pharmaceutical companies, provide access to affordable essential drugs in developing countries*

- In cooperation with the private sector, make available the benefits of new technologies - especially information and communications technologies.

The Millennium Development Goals (MDG) report for Lebanon was prepared through the active participation of both the Lebanese government and the UN Country Team, making use of national planning reports prepared by the government, UN agencies and the civil society. Due to the break of the civil war that extended for more than fifteen years, Lebanon has experienced a scarcity in surveys and thus in statistics. The first major post-war sample survey was conducted in 1996 by the Ministry of Social Affairs (MOSA) and UNFPA. The MDG report incorporates the results of MOSA and UNFPA survey, in addition to many others including those of Central Administration of Statistics, the National Employment Office, and the Ministry of Public Health, which were carried out between 1996 and 2001. Thus, the unavailability of continually updated data, dictated that it is 1996 that will act as the base year for the report in most of the cases.

The objectives of the report lie in establishing a baseline situation, monitoring the progress achieved over the years and providing indications on what should be done. The first seven sections of the report assess Lebanon's progress against the baseline situation and challenges and prospects of achieving the outlined goals, as well as provide recommendations for action. The last section presents an overview of national efforts to strengthen the basis and improve the environment for developing strong partnerships to achieve macroeconomic and other important international objectives.

As mentioned before, the MDG effort is channeled towards the developing countries, among which Lebanon is classified. However, the quite assuring fact is that Lebanon enjoys a relatively acceptable situation, when compared to other developing countries, in terms of the indicators adopted in the MDG Lebanon report. Despite this, it is indispensable to take on measures that would improve the current situation and maybe upgrade Lebanon in the world development classification in the long-run. This is where the value of this report lies; it represents a long-term plan which Lebanon is to follow in order to achieve a situation almost comparable to that of developed countries.

The MDGs, being of an economic and social nature, represent the

grounds for economic and social reform programs, especially that they present not only the current situation, but also a vision of how the situation is to evolve. Poverty, covered in Goal 1, is the main indicator to be addressed when developing economic reform programs. Alongside, other issues are covered in the remaining goals, such as health and education, which relate directly to social reform programs.

It should be noted that efforts towards achieving the goals have started to materialize, where the first, the determination of modes and costs of achieving the MDG's, has been undertaken. The exercise proposes a specified detailed set of interventions for each of the goals, along with their corresponding costs. In fact, determining each of the interventions was not done in an isolated context, which means that projects currently being planned and/or implemented have been taken into consideration. The exercise also includes impact analysis, in addition to cost overlapping, if any.

This document is in fact a summary of the MDG report for Lebanon; it comprises a concise presentation of the goals in the Lebanese context. Each section addresses one of the afore-mentioned eight different goals, presenting, whenever applicable, base year figures, current situation analysis, progress achieved over the years, target figures in a target year, as well as a set of recommendations and orientations that will allow the achievement of these targets and eventually goals.

Goal 1: Eradicate extreme poverty and hunger

Indicators	Base year	Value	2015 Target
Population living below 1.3\$ per day (current prices)	1995	6.30%	3.1
Share of the lower income population (17% of total) in national consumption	1996	4%	-
Unsatisfied Basic Needs (living conditions index):			
- Population living in very poor conditions	1995	6.8	3.4
- Population living in poor and very poor conditions	1995	35.2	17.6
Prevalence of underweight children under five years of age	1995	3	1.5
Proportion of population below minimum level of dietary energy consumption	1995	<2.5	<1.25

Poverty in Lebanon has been defined and measured according to different approaches, depending on the availability of data.

- i - One approach is the **income level**, where two poverty lines are defined: lower and upper. The former is the minimum level of income/expenditure necessary to sustain the needs for food alone; while the latter is the level of income/expenditure that, in addition to food, considers additional needs including shelter, clothing and transportation. A relatively low percentage of the population, 6.3% in 1995, lived in extreme poverty, i.e. below the lower poverty, which is measured against US\$ 1.3 per person per day. As for the percentage of the population that lived below the upper poverty line of US\$ 2.2, it reached 18%.
- ii - The other approach is that pertaining to the **unsatisfied basic needs (UBN)**, in terms of health, education and other public goods and services. It revealed that 35% of the resident population lived in "poor and very poor conditions" in 1995 (6.8% of the resident population live in "very poor conditions"). According to this approach, the highest percentage of the resident population lived at an intermediate level of satisfaction (42.2%), and only 22.6% lived at a high satisfaction level.

Poverty in Lebanon is a phenomenon that is directly related to family size and dependency ratios. The average household with low satisfaction had 5.1 members, where the average household size was 4.7 on a national level. Poverty is inversely related to age structure, access to basic services, educational attainment, activity rates and access to employment. 70% of households headed by an illiterate member and 59.5% of households headed by an unemployed member had a low degree of satisfaction in 1995.

The income/expenditure structure of poor families is similar. Income in general is derived from wages and self-employment profits; and expenditure, more often than not, pertains to food-related items.

Poverty in Lebanon could be thought of as rural phenomenon, with poverty pockets found within and around cities. Poverty in these regions is accompanied with absence of public infrastructure, low employment rates, high school drop-out rates and high population densities. In fact, this finding is confirmed by the two approaches mentioned above.

Disparities in workers' wages among different economic sectors add to the poverty phenomenon. In 1997, the poorest workers were found in the agricultural sector. In addition, vulnerable groups, such as the elderly, the disabled, and the unemployed, tend to suffer from high poverty levels, especially that which is related to access to social welfare services and social safety nets.

Policy orientation

First, it is important to address the question of the limited availability of data pertaining to poverty. Thus, it is deemed essential to conduct new studies that would not only update currently available data, but also help adopt a national definition for poverty and poverty lines, in addition to a poverty profile that includes the identification of the geographic distribution of the poor, their characteristics and gender.

Second, a national strategy for poverty reduction, social integration and balanced regional development should be formulated. This strategy should come within the framework of a comprehensive development vision that emphasises equitable distribution of, and access to, resources, in addition to generation of employment opportunities.

Third, a national social safety net is to be formulated and implemented. This net would assure fair access to quality health and education services, in addition to development of social welfare interventions for vulnerable groups.

Fourth, in order to ensure more efficient implementation of poverty reduction strategies and plans, it would seem necessary to strengthen the coordination between the government and civil society organisations, which will develop interaction among different social funds.

Goal 2: Achieve universal primary education

Indicators	Base year	Value	2000	2015 Target
Net enrolment in primary education	1996	97.6%	98.3%	100%
Proportion of students who have completed grade 5	1997	91.1%	95.3%	100%
Literacy rate of the 15-24 years age group	1996	98.9%	97.5%	100%

The current educational status in Lebanon is quite assuring. Net enrolment has been significant in 1996; it reached 98.3% in 2000. Likewise, the percentage of students who have completed primary education increased from 91.1% in 1997 to 95.3% in 2000. Besides, illiteracy rates for those aged 15-24 was as low as 2.5%. Besides, gender disparities in access to primary education are almost negligible.

Expenditure on education was estimated to be 11% of GDP in 1999, paid by both the government and parents, which is relatively high according to international and regional comparisons. Expenditure on primary education reached 65% in 1998, as a percentage of the total government expenditures on education. This figure was 56% in 1993.

Despite its positive aspects, the educational status in the country is still concerned about the quality of the taught programs, namely those in public schools, which have experienced a downturn during and after the war. This has caused a redistribution of students from public to private schools in the 1980's. Although this trend has been reversed in recent years as a result of the tough economic situation, private schools still bear the highest percentage of students of 56.1%, compared to 30.6% in public schools and only 13.3% in private not-for-profit schools in 1999-2000.

Although access to education is almost the same for both boys and girls, gender disparities do arise when it comes to drop-out rates and completion of the elementary level of education. In 2000, the drop-out rate reached 7.8% for boys, as compared to 5.5% for girls, and 79.6% of boys have completed grade 5, as compared to 87.7% of girls. This finding could be attributed to the fact that boys enter into the labour market at an earlier age due to economic needs.

Disparities in access to education exist at a regional level. To start with, illiteracy rate increases substantially in deprived regions. Akkar, for example, has an illiteracy rate as high as 30.5% in 1995, whereas Aley, a well-off city, has only 7.7% illiterate residents. Gross total enrolment rates also vary from one region to the other, with the highest being in Mount Lebanon at 82.5%, and the lowest in the North at 74.1% for the academic year 1998-1999. In 1995-1996, Beirut had the highest percentage of private schools out of the total schools in the city (58.7%), followed by Mount Lebanon (51.7%). Other regions, on the other hand, have a higher percentage of public schools; 66.5% in North Lebanon, which is the highest among all Governorates.

Policy orientation

Based on the above situation presentation and analysis, it is essential to develop and finalize a national plan of action that ensures better quality of primary education, namely:

- Implementing compulsory education for children up to 15 years of age
- Ensuring enrolment of all children, including those with special needs
- Reducing drop-out rates
- Allocating adequate school facilities
- Updating and re-evaluating curricula
- Training teachers and upgrading their skills to meet the newly set curricula
- Building the capacity of public education capacities of public educational administration, especially in terms of planning, implementation and evaluation.

It is also necessary to rationalize expenditure and resource allocation. One application of the current inefficiency is the especially high teacher-to-student ratio (estimated at 1-to-9), which is not being accompanied by a good quality of education.

Goal 3: Promote Gender Equality and Empowerment of Women

Indicators	Base year	Value	1999/2000	2005 Target	2015 Target
Ratio of girls to boys in primary education	1995	93%	100%	100%	
Ratio of literate females to males 15-24 years old	1995	96.5%	-		100%
Share of women in wage employment in the non-agricultural sector	1995	14.2%	-		-
Proportion of seats held by women in national parliament	1995	2.3%	2.3%		-

Although Lebanon has achieved remarkable improvement and position in issues relating to gender equality, some fields still experience high levels of unfair status.

Education

As mentioned above, Lebanon has achieved a significant progress regarding gender equality in educational attainment. In 1996, the ratio of girls to boys reached 93% in primary (same rate in 1995), 104% in intermediate and 103% in secondary. The ratio rose between primary and intermediate level as the boys' drop-out rates from grade 5 and below reached a higher percentage than that of girls. As for the intermediate and secondary ratio of girls to boys, it did not undergo a noteworthy change as the drop-out rates increase after grade 5 for girls and boys alike.

In 1995, the enrolment rate for females was 95.6%, 94.8%, and 67.6% in the primary, intermediate and secondary levels of education respectively. Similar percentages were recorded among males; 95.3% in primary, 93.2% in intermediate, 61.2% in secondary levels.

Despite the general improvement in enrolment rates, illiteracy among females remains higher than among men; 17.8% for the former and 9.3% for the latter, with a national average of 13.6%.

Employment

Despite the gender equality in educational attainment, women are not being able to translate this into concrete equality in the labor market, where females constitute only 21.7% of the labor force. The global rate of economic activity is estimated at 34% of total population and 49.3% of the total economically active population, i.e. those aged between 15 and 64. Economic activity rate at a gender level is only 14.7 among females, and 53% among males.

Like in the cases of both poverty and education, employment characteristics vary regionally as well as sectorally. The majority of women work in the services sector (64.7% of the female labor force), as compared to only 33% of men labor force. As for the percentages of males and females working in the agricultural sector, the former reaches 10.6% of the male labor force and the latter only 5% of the female labor force.

Female employment is still characterized by low access to positions of responsibility, decision making, and high levels of income. In 1996, women constitute only 8.5% of employees in high managerial positions, which is considered a low figure compared to international

averages. As for wages, the average monthly wage for females was 76.9% of that of men in 1997 (L.L. 466,000 for females and L.L. 606,000 for males).

Political Participation

Participation of Lebanese women in the political life is still weak, where only three and six parliamentary seats held by women in 2000-2005 and 2005-2009 respectively, and only two women held ministerial posts in 2004. As for the rate of women's participation in election campaigns and in the voting process, it was very close to that of men.

Policy Orientation

Many law changes have to take place in order to ensure equal opportunities for men and women. These laws address many fields, including, but not confined to, access to employment in general, and high-paying jobs in particular, and participation in the political life.

Goal 4: Reduce child mortality

Indicators	Base year	Value	2000	2015 Target
Under-five mortality rate (per 1000)	1996	32	35	12
Infant mortality (per 1000)	1996	28	27	10
Proportion of children under one year immunized against DPT (%)	1996	94.2%	93.6%	-
Proportion of children under two years immunized against MMR (%)	1996	88%	79.2%	-

Lebanon gives great importance to children's rights. Since the beginning of the nineties, national efforts for the enhancement of children's rights and the improvement of their living conditions have been intensified.

Since the beginning of the nineties, the condition of children in Lebanon has witnessed tangible improvement, with a decline in infant and under-five mortality rates from 35 per thousand in 1990 to 28 per thousand in 1996 for the former and from 43 per thousand in

1990 to 32 per thousand in 1996 for the latter.

A considerable improvement has occurred at the levels of many diseases. In 2000, immunization coverage against DPT has increased to more than 90% for infants under one, and against measles increased to 88% for children aged 12-23 months. Newborn tetanus was eradicated in 1995. Besides, incidents of diarrhea for children under five fell by 28% between 1996 and 2000. Vitamin A deficiency has completely disappeared since 1994, especially with the introduction of iodized salt in 1995.

As in the case of other indicators, such as education, health figures vary across regions. Infant and child mortality rates are higher in the under-served areas of the country. In 2000, for example, these rates were much higher in North Lebanon, as compared to Beirut and Mount Lebanon.

Despite the fact that Lebanon health results are quite acceptable, and have to some extent improved over the past years, it is believed that Lebanon should and can be achieving better results especially with the considerable public and private expenditures allocated for this sector, estimated at around 12% of GDP (2002).

Policy orientation

Efforts to reform the health sector are to be increased. These efforts should aim at making the sector more efficient, equitable, and cost effective, in addition to special focus on the following points:

- health care services provided to children and pregnant women
- children immunisation, especially in underserved regions
- promote breast-feeding in order to improve infant nutrition
- provide all pregnant women with vitamins and minerals
- strengthen protection and rehabilitation services to children suffering from chronic diseases and disabilities

Goal 5: Improve maternal health

Indicators	Base year	Value	2015 Target
Maternal mortality rate for every 100'000 live-births	1996	104	26
Proportion of births attended by skilled health personnel (%)	1996	96%	98%

In 1996, the maternal mortality rate was estimated at 104 for every 100,000 live births. As this rate is a 12-year accumulated one, it includes the mortality cases that have taken place during a phase of the civil war, and thus can be viewed as high.

One of the factors that maternal mortality is most sensitive to is medical care during the pre, post-natal and delivery period. In fact, the result achieved in 2000 was quite promising, where 93.9% of pregnant women had access to health care during pregnancy. This figure has shown an increase of 6.8% from 1990, where it was 87.1%. This indicator also shows disparities from one region to the other, where in 2000 in Bekaa, 89.1% of pregnant women had access to health care, as compared to 98.4% in Mount Lebanon. In fact this improvement in the number of women receiving health care services is mainly due to the integration of quality reproduction health services.

Cases of delivery by traditional birth attendants are decreasing over time in underserved area. Although Akkar has the highest proportion of deliveries by traditional birth attendants, this trend is currently being narrowed down (24% in 1990 to 9% in 2000). According to the Ministry of Public Health, 96% of women access birth services that are attended by a skilled labour attendant, such as an obstetrician or midwife.

Family planning is among the important factors that conserve reproductive health. It is directly related to age, literacy and level of awareness. The contraceptive prevalence rate increased from 53% in 19987-1994 to 63% in 2000. Again, this indicator, the contraceptive prevalence rate, varies across regions, where statistics show that the lowest is in 58% in Mount Lebanon and the highest in Beirut at 70%. It is worth mentioning that 99% of married women know of at least one modern contraceptive method and 96% know of at least one traditional method.

Policy orientation

Reproductive health measures are to be integrated in the primary health care system, as a part of the overall health sector reform. This would eventually lead to a more efficient, better quality, less expensive and equitable (coverage wise) system.

In addition to enhancing quality control on services offered by hospitals and health care centres (and their dispensaries), emergency obstetric care is to be improved, especially this provided by the public sector and NGOs, particularly in underserved regions.

It should be ensured that all pregnant and breast-feeding mothers are provided with adequate amounts of vitamins and minerals, so as to avoid malnutrition and mineral deficiency.

Since observations have shown that the majority of women have some knowledge of contraceptive methods, effort should be directed towards broadening the range of modern methods available.

In addition, it is necessary to carry out awareness programs that focus on health education and reproductive health rights for both men and women. Besides, regular collection of data is a must in order to conduct updated analyses.

Goal 6: Combat HIV/AIDS, malaria and other diseases

HIV/AIDS

Indicators	Base year	Value	2015 Target
HIV prevalence among pregnant women aged 15-24 (per 100'000)	1996	24	-

Although the number of reported HIV/AIDS cases is limited in Lebanon (700 in 2003), the WHO estimated around 2,500 unreported cases. The age-group distribution of the reported cases shows that for 0-14 age group, the incidence is only 2.1 per 100,000. The incidence is higher for the older age group of 15-24, where it reached 2.9 per 100,000. Most cases are found among those ages between 31 and 50. As for the gender distribution, it is noteworthy that out of every 10 HIV/AIDS cases, there are 9 men and only 1 woman.

Nearly half of the cases (48%) were contracted during travel.

The National HIV/AIDS Program (NAP) has conducted studies that focus on disease awareness, including modes of its transmission. Thus, the next step to take place is to translate these studies into increased precautionary measures.

Policy orientation

Achievements made by the NAP and other programs are to be evaluated, in order to form and more comprehensive plans that focus and cover most vulnerable groups, including HIV/AIDS patients. Besides, it is necessary to cooperate with drug manufacturing companies in order to provide the necessary treatment at a reduced cost, especially to the poor and needy persons.

Awareness of and information about the disease should be spread through awareness programs and campaigns that could be conducted in cooperation with local NGOs. This could be done on more than one level; a level that targets the population in general and another that targets the youth in particular, through integrating sexual education as part of the intermediate and secondary school programs.

Tuberculosis

Indicators	Base year	Value	2015 Target
Prevalence of tuberculosis (per 100'000)	2001	13	-
Proportion of TB cases detected and cured under DOTS	2001	100%	-

According to the statistics of the Ministry of Public Health, the number of Tuberculosis cases has dropped from 983 in 1995 to 516 in 2001, owing to the introduction of the DOTS (directly observed treatment short) method. It should be noted that between 80 and 85% of the detected cases are pulmonary tuberculosis, which frequently attacks children and the elderly.

The main danger of the disease is that it spreads widely: an infected individual, not (or improperly) treated, can transmit the disease to 15 other people. This fact has raised the rate of tuberculosis registered cases in Beirut and Mount Lebanon due to the high population density.

Policy orientation

To prove more efficient, national programs are to be consolidated and coordination expanded. Besides, it is necessary to upgrade the skills connected with early detection, protection and treatment of tuberculosis and other contagious diseases.

Like in the case of AIDS, syllabus courses should be introduced in the educational curricula to help raise awareness.

Goal 7: Environmental sustainability

Indicators	Base year	Value	2000	2015 Target
Proportion of land covered by forests (%)	1996	13%		-
Land area protected to maintain biological diversity (%)	1992	0.20%	2%	-
Annual energy consumption	2000	GDP/9712 gigawatt		-
Consumption of agents that deplete the ozone layer	1999	CFC=527.3 tons and MeBR=202 tons		-
Emission of green house gases	1994	15,874.82 gigagram CO ₂		-
Energy generated from renewable sources	1997	1.60%		-
Proportion of dwellings with sustainable access to water	1996	79.30%		90%
Proportion of buildings with access to waste water networks	1996	37%		-
Disposal of solid waste	2000	Landfill=82.8%; Conversion=5.1%; Recycling=5.3%		-

Environmental sustainability is a utopian goal that refers to the ability of nations to protect their environment in the long-run. This includes issues such as wasteful power generation and transmission, faulty agricultural policies, deficient air and water quality monitoring systems, and enforcement.

The ministry of environment has been only recently introduced into the Lebanese government; it was established in 1993 to address environmental challenges. A framework law for the protection of the environment was publicised in 2002 to ensure the sustainability of the environment as a basic national entitlement and public goal. Several progress areas, relating to environmental sustainability (including biodiversity, greenhouse gases, ozone-depleting substances, wastewater and solid waste) have been identified and described.

Following is a brief on each of the mentioned areas:

- *Biodiversity*: The number of protected areas increased over the past decade to reach 33 in 1999. Forests account for 13.3% of total land area and protected coastal areas were estimated at 888 hectares.
- *Green house gases and other emissions*: Carbon dioxide is one of the most commonly emitted gases, according to the first green house gas inventory in Lebanon. This gas is the main source of pollution in the transport sector, followed by the energy sector and the industrial sector. In an attempt to reduce emissions from the transport sector, a law was issued in 2001 that addressed control measures on fuel utilization. The law prohibited the use of leaded gasoline in all vehicles and diesel in small-size vehicles. In addition, the law prohibited the import of diesel-engine vehicles.
- *Ozone depleting substances*: The use of ozone depleting substances was the highest in 1993. Since then, this figure began to decrease as a result of the prohibition of halons (fire extinguishing agents), the use of alternative materials and the use of methyl bromide alternatives in agriculture.
- *Water resources*: The government exerts efforts to ensure sustained access to safe water through installation of networks in rural areas and plans for constructing dams. The pollution of water resources, especially as a result of waste-water infiltration to underground water resources, is a national problem that is to be seriously tackled.
- *Wastewater management*: Only 37% of dwelling units has access to wastewater networks in 1996. The remainder, which was mainly located in rural areas, depended on septic tanks. In terms of households, in 1997, 58.5% of households had access to public sewage networks. Regional disparities are very notable in this case, where only 23.8% of households in Nabatieh have access to public sewage systems, compared to 98.3% in Beirut.
- *Solid waste management*: Domestic solid waste continues to be a major environmental problem, with more than 80% being dumped in landfills. The Ministry of Environment has prepared a national strategy for solid waste management.

Policy Orientation

A national strategy that integrates the principles of environmental sustainable development into principles and guidelines is to be formulated. This strategy would act as an institutional framework for coordination among relevant public administrations, private organizations and NGOs. This could be achieved through the implementation of the provisions of international conferences on sustainable development and the environment.

In addition, policies should be established to address agricultural practices, the industrial and transport sector, urban planning, infringements on coastal areas, biodiversity, energy consumption, renewable energy resources, accessibility to water and sewage networks and treatment facilities, in addition to integrated solid waste management.

It is necessary to adopt a national policy to manage wastewater resources and monitor usage, as well as rehabilitate infrastructure and adopt treatment technologies.

CHAPTER SIXTEEN

The Social Contract Foundations

It is only natural that people should aspire to a good standard of living, that they should long for social security networks and fundamental rights that guarantee their personal and public freedoms. Throughout history, especially since the Greek Age, human societies have sought, by various means, to achieve this rightful goal, which is based on a sort of contract otherwise known as the social contract. However, this endeavor has gone through sinuous and varied processes from one period to another and from one country to another; it often encountered various difficulties and hurdles. The first form of the social contract as we know it in modern times, is due to philosophers such as Locke, Rousseau, and others who have witnessed the rise and apogee of the industrial revolution in the West; they have tried to bring an answer to intricate political, social, and economic issues thus quickening the change in Western societies from the feudal system to the new-born capitalist system. These forms were particularly global and were concerned with political and legislative aspects that relate to governance, political representation, the protection of the rights of individuals, and the relation between groups and the power.

However, as the Western societies evolved as concerns the tasks related to these political and legislative aspects, the social and economic aspects gradually acquired more importance in the formulation of the social contract. This evolution occurred mainly after the Second World War as the fundamental elements of the welfare state were set up. The social contract then became the expression of an agreement between the main social parties as to basic issues related to the guarantee of social securities, and a good standard of living; these guarantees were defined, so were the ways to produce and finance them, as well as the range of social categories that are targeted, in order to reduce risks, and hesitations among these categories, which may influence negatively the social balance.

In Lebanon, several parties have, in turn, and at various periods, set out to launch a 'social contract' in the country. The issue was, and still is, very intricate and complex for two reasons: first, Lebanon has

not achieved - because of its internal structure and communitarian system and because of the continuous civil crises and conflicts -the awaited evolution towards the building of a welfare state - so as not to talk about a state of affluence - which occurred in developed countries. The second reason is that the networks of social guarantee and protection remained, as time went by, weak and unbalanced. However, this conclusion does not mean that the Lebanese contract, and the Ta'if accord, as well as various legislations that regulate the production and usage of basic public services, do not include some texts that have dealt with the bases of the social contract. Yet these texts have remained either too general - making them closer to a declaration of one's intentions - or have remained unorganized and improvised without being in a global or coherent frame to embody a modern vision of the basic human social and economic rights.

Some theoretical and methodological ground

The aim of this primary paper is to shed light upon some of the basic components of the social contract in the case of Lebanon. These components will be analyzed thoroughly and we will show the current limits of the commitments and benefits of the social parties concerned; we will also try to determine the possibilities of agreement between these parties to redistribute these commitments and benefits in order to reach more social and economic balance in the country - thus more political balance. Before going into these components, we should first reassert the general principles that govern any attempt to set up this contract. The main principles are:

First: the principle of solidarity is a basic and fundamental cornerstone of any social contract. This principle should not be regarded as charity but rather as the country's highest interest; it derives its strength from the objective need to face with liability the intertwined long-term interests of the various social parties. This solidarity - which is supposed to be based on a tripartite equation between the state, the employers, and the rest of the social categories namely the civil sector and employees- is necessary since any imbalance in favor of one of the parties as concerns the economic surplus means national political and economic imbalance and means that this imbalance may be exploited indefinitely. If social solidarity is lacking, then the risks of imbalance on more than one level increase whenever the market mechanisms are biased in favor of a minority at

the expense of the majority of the people. The principle of solidarity should not reduce the importance of charity - which may develop through family and religious associations- but should be aimed at establishing the bases of a social contract with a global civil aspect to ensure protection to citizens. It should also strengthen the relation between the people and the state to overcome the other 'sub national' allegiances, which have not succeeded in building the fundamental principles of the state and the society in Lebanon.

Second: The principle of solidarity may be embodied by building a basis of social guarantees available to all the people - as is the case in developed countries - in a way to use this basis as a main lever to reproduce the state, the society and to ensure their stability and perpetuity. It is vital that the society define voluntarily the panel of these guarantees, the sources to finance them, the norms that guide them, and the categories that ought to benefit from them. These guarantees are not "concessions" or a "tax" imposed on the capital without compensation; in fact, the expenses of these guarantees have often been regarded in many countries that have already set them up, either as a part of the redistribution policies, or an integral part of the cost of the salary - i.e. an indirect salary; this is the case especially in countries where waged workers constitute the greater part of the labor force. The essential issue then becomes to increase the benefit of what is spent to produce such guarantees, instead of perpetuating the equivocal slogan that says that social expenditure ought to be increased in an absolute and at any rate, while 'drains' continue to cause the misuse of an essential part of this expenditure for purposes other than its original ones.

Third: Abiding by the principle of solidarity and enlarging the basis of social guarantees coincide to a great extent - contrary to what globalization may suggest nowadays - with all the aims set out in the last two decades at the United Nations summits and its organizations as concerns sustained human development - a substitute for the concept of economic growth - the fight against poverty, the strengthening of security networks, social equality, the increase of job opportunities for young people, the reduction of child labor and of human trade as well as other forms of discrimination. These aims coincide with the commitment of humanity to achieve the goals of the third millennium by the year 2015, a commitment already approved of by most countries of the world. These goals have made the human being - man as an individual - the axis of the development process, its

aim and its main basis. They have defined rigorously - at least theoretically - the concrete norms to give concrete expression to human Rights in health, education, sustained environment, and political participation. They have also defined the norms of good governance, transparency in the management of public affairs, as well as the conditions of accountability and censure. These norms have become a reference to measure how advanced a country is in terms of development. The current globalization trend has caused the relative regression of the principle of solidarity in some industrial developed countries - at different degrees from one country to another; however, this does not mean that one should disregard or belittle the "social maturity" that these countries have achieved as concerns the building of the "welfare state". This is what has enabled these societies to encompass - at various extents - the effects resulting from the partial regression of some aspects of social solidarity in times of globalization whereas developing countries - some of which have witnessed fierce internecine or external wars as is the case of Lebanon - are still immature in terms of "social maturity" and their process of building a "welfare state" is still backward and very much improvised in comparison with what the other societies have achieved.

Fourth: The social contract and the related relative social affluence is not simply achieved if this or that party in the contract actually call for it; nor is it achieved if it remains a slogan in international social and economic forums. This contract is not simply about personal wishes; it is much more complicated and needs a number of fundamental conditions namely the close relation between social affluence and the enlargement of the national economy and the increase in its growth rates. Growth in turn is related to the mobilization of resources, their optimum allocation, competitiveness on more than one level, and broader contact with the world of technology and its profound transformations, as well as with knowledge economy. Another condition of this contract is more generally and more globally to delve into the positive aspects of globalization and to minimize its drawbacks. This means also that any draft of a social contract must be exceptionally creative to prevent any imbalance as concerns the components of growth and the competitiveness of the economy. The main challenge is to find the exact balance between these two aspects: the social contract on the one hand and the competitiveness of the economy on the other - just like what has been achieved in developed countries whether during the

phase of the building of a “welfare state” or in the current phase of adaptation with the difficult time of globalization. This equation requires - based on what experience has showed in other countries - to count less on an economic growth pattern based on investment in cheap labor, one that does not have any guarantees. This pattern ought to be replaced with another that invests in the human being who has become the axis of the development process. The replacement should focus, among other things on the development of the level of education, the level of expertise; it should provide protection in terms of health and employment, increase the opportunities of productive work in better conditions. The progressive transmutation into this pattern - which is supposed to be framed essentially in the social contract - is relatively costly in the short term but it is the best way to provide the country, in the mid and long term, with more freedom, more social affluence, and more competitiveness, on equal grounds.

An approach to the social contract in the Lebanese context

The most important paradox that characterizes the Lebanese case is that the state and the society generally have a lot of expenses as concerns social matters. These expenses are according to the World Bank report published in 2005⁶⁸ around 21% of the total GDP, inclusive of the health and education systems in addition to a part spent on social welfare. This percentage, which is considered high in regional and international comparative figures, is distributed according to the financing sources as follows: 15% is financed through the private sector, and 6% through the public sector; this means that more than 70% of the total expenditure of the society on social matters is financed through families, the private and civil sector. The share of the state (around 6% of the total GDP) is very much less than what it is in the other countries of the region; in fact, the state contribution is 9% in Morocco, 10% in Egypt, and more than 14% in Tunisia, Jordan, and Algeria. Despite the amount of expenses paid by the society for social matters in Lebanon, detailed indicators as to the return of these expenses show how weak the returns are and how they do not reflect the fact that Lebanon belongs - according to international norms - to the group of countries with average incomes. These indicators include

68 World Bank: ‘Regaining Fiscal Sustainability in Lebanon: A Public Expenditure Review’ - MNSD - June 2005.

the rate of infant and child mortality, life expectancy, illiteracy, primary education and failure, as well as other indicators. The above mentioned conclusion applies to global national indicators that include both the public and the private sector, and it applies even more to indicators of the public sector showing a clear or sometimes even blatant gap as concerns the rate of return of social expenses.

The fundamental grounds of any 'social contract' in the Lebanese context must set off from a close diagnosis of the fields to be included in this contract; 'understandings' must be established between the concerned parties in each of these fields as to the distribution of the benefits and the costs that will result from suggested solutions. This primary paper will simply shed the light on the most important of these matters, namely health and education, in addition to a few other more succinct subjects that deal with the struggle against poverty, unemployment, and the approval of a retirement fund system.

The right to health as one of the cornerstones of the social contract

1 - The characteristics of the sector and elements to set up a diagnosis of the crisis:

a - The huge expenditure of the society in the health sector, mainly financed by private sources:

The Lebanese society spends, in both the private and public sectors, around 10 to 12% of the actual GDP on health-related matters as shown by the numerous studies that have been published and that are available in this field. This level of expenditure is very high compared with international figures, since it does not exceed 6 or 7% in most countries of the Middle-East and North Africa and it does not exceed as well 10% except in a limited number of industrialized countries. The contribution of the state to the health bill in Lebanon is relatively weak - between 20 and 30% of this bill - depending on whether we include the expenditure of the sickness and maternity sector in the National Social Security Fund. In parallel the contribution of the state to the health bill amounts to 46% and 50% in Jordan and Tunisia and generally exceeds 75% or even 80% in the European Union.

b - Weak revenue of health expenditure increases inequality as concerns health services:

What characterizes health expenditure in Lebanon is that it has extremely weak return. The Lebanese society spends on the health of the individual an average of four times more than what is spent in Tunisia and Jordan (in current dollars). Yet, the mortality rate among children is almost the same and life expectancy is barely higher, though there is a different trend as concerns the rate of mortality among pregnant women, which is slightly higher in Lebanon than in the Tunisia and Jordan. Since most of this expenditure is out of pocket money, it is only natural that this financing mode should reflect a blatant inequality since people have different means the social category they belong to, and according also to whether they are members of one of the established systems of social security, be they official, semi-official or private. It should be noted that the systems of security only cover half the residents and suffer from vast discrepancies as to the categories they cover, the extent and type of this coverage, as well as the extent and type of funding provided by the members; also in these systems, the norms, tariffs, and terms of contracts do not have any acknowledged or harmonized norms.

c - The surplus in health supply as a major reason why health services are expensive:

One of the major problems of the health sector - as diagnosed by the sector report about health in Lebanon, cf. Chapter 19 - is the fact that there is a surplus in health supply as concerns the number of doctors, pharmacists, hospital beds, pharmacies, types of medicine, for every one thousand inhabitants. This surplus also includes excess in health equipment namely costly hospital and other health equipment that degenerates rapidly. This surplus was supposed to strengthen competitiveness, owing to economic theory; it was supposed to reduce costs and the prices of health services in Lebanon. Yet this reduction did not occur for various reasons namely: the current structure and mechanisms of financing; an oligopoly in some markets, such as that of medicine; and weak control policies and programs in this sector where 95% of the country's available health services are provided by the importers of the private sector.

d - Faked demand ... makes it possible to reproduce the surplus of health supply.

An additional characteristic of the Lebanese health system is that the reproduction of the surplus of supply would not have persisted and taken a rather permanent character if it did not coincide with

faked demand, which sometimes reaches a point of swelling as is the case for a number of fundamental health indicators namely the hospitalization rate, which measures the yearly number of cases that are hospitalized - almost a record in comparative to international figures - and the average individual consumption of medicine, several times higher than that in countries of the region. The World Bank study shows that Lebanon spends an average of 27% more on the production of the same health services as those produced by a sample of developing countries that implement the best practices in terms of health expenditure - known as "best practices countries".

As these imbalances persist, Lebanon still lacks a future perspective of the health sector despite the improvement of some health indicators, and despite the numerous programs and initiatives undertaken by the health ministry in the last years, some of which have been very successful but have not occurred within a clearly scheduled strategy with clearly defined targets, goals and mechanisms. If these programs and initiatives were originally meant to increase the efficiency of the social and, especially, state expenditure, in the health sector - which is something positive as such - this was not enough to bring radical solutions to the situation of this sector for various reasons namely two: first, the state's ability to continue spending on social matters, namely health matters, is regressing under the pressure of increasing imbalances on the macro-economic level - the continuous budget deficit, and increasing public debt; the second reason is that the current reform programs - on the eve of the Beirut I congress - have, as most official and international parties concerned agree, social repercussions that are likely to exert pressure on some social categories and may have consequences on the labor market, so on the incomes, which will in turn influence people's ability to go on financing their health bill.

2 - The health bases of the social contract

Let us take as a starting point the fact that the essence of the social contract is to free people on the mid and long term from dangers and hesitations by resorting to the principle of social solidarity. Then, one of the fundamental bases of this contract is to ensure the terms and requirements that guarantee the right to health care. In order to make this right concrete, we need a future prospect of the health sector that may tackle imbalances and injustice; a prospect that lays the ground

for a number of reforms namely the following:

a - Making primary health one of the people's rights through such centers in all Lebanese regions giving priority to cities and suburbs where poverty is mostly spread. These centers that ought to be fully equipped have two essential roles, one of which is preventive and the other curative. Each center is a pole of attraction to government and civil dispensaries that are active in its geographic area. Each beneficiary of these centers ought to register his name to have a personal health card in exchange of a symbolic yearly fee. This card allows its holder to have basic health services, other than hospitalization, within fees that correspond to the level of his income - namely the income of the average and underprivileged categories. This card allows its holder to be hospitalized directly when required based on specific health norms, which frees beneficiaries from the need to beg prior consent from the ministry of health.

b - Completing the construction and rehabilitation of government hospitals, to be carried out by the council for reconstruction and development, in order to increase the number of hospital beds to around 20 to 25% of the total hospital beds in Lebanon in the next two years. In parallel, the statistics norms ought to be unified, so should the codes of surgical and medical operations, the procedural terms of the contract and the tariffs of these operations; there should be a gradual mutation towards the system of fixed fees in all the hospitalization sector starting with the public hospitals up to the private hospitals under contract with the ministry of health. When hospitals work is unified and when they are submitted to classification and accreditation and respect the terms, a greater harmony occurs between hospitalization supply and demand; then random supply gradually fades, competitiveness is strengthened, and the hospitalization map better expresses the country's true needs as concerns this sector. This will have positive results as to the costs and expenses in the health sector in general. These reforms will enable public hospitals to play a greater role in the hospitalization sector, and reduce the number of contracts between the ministry of health and private hospitals, especially if: the relation between public hospitals and primary health centers becoming more regular, these centers becoming more competitive, they benefit from incentives - construction, hospital equipment - provided by the ministry of health, and acquire financial and administrative autonomy. To allow public hospitals to have this role, we need to develop human resources

employed there, draw fine expertise and competences to them taking into account market mechanisms concerning compensations, salaries and insurance.

c - Health rights do not become effective unless medicine is made available to all, which means a restructuring or a rationalization of the medicine market within guidelines that might be progressive or synchronized according to the disposition of the concerned parties and the society to bear the results. These guidelines are:

First: ensuring follow-up of measures undertaken by the ministry of health in order to have more coordination between the prices of medicine in Lebanon and prices in specific neighboring countries.

Second: adopting the “middle price” of imported medicine that complies with the norms of chemical composition, as a maximum price covered by the various health insurance systems.

Third: setting up a list of medicines - in cooperation with ad hoc international organizations - with which all public and semi-public insurance associations should comply, leaving some room for beneficiaries who want to have medicines that are not on the list, while these medicines will be priced in accordance with one of the two above mentioned articles.

Fourth: adopting the strategic option - in conformity with what many countries of the world, including developed countries have done - which consists in favoring the progressive turn to the production and consumption of generic medicine instead of producing and consuming registered medicine; this will considerably reduce the prices of medicine; it will also encourage the local medicine industry to interact with the requirements of this option and strengthen relations with strategic partners in this sector.

Fifth: encouraging and motivating the medical body to make these structural changes in the medicine market a success; this will guarantee long-term regularity in the performance of the market and strengthen commitment to medical ethics and to the values and norms of social justice.

d - The restructuring of these three axes - primary health centers, hospitals, and medicine - is a sine qua non prerequisite to ensure health rights. However, this condition remains insufficient should it not go along with larger institutional and finance reform.

About the institutional frame, we should underline the role of the ministry of health as a guide and general organizer of the health sector, namely as concerns: primary health, the unification of the data system, accountability, the codes of surgical and medical operations, tariffs and fixed fees, accreditation norms, control, implementation of the scientific implications of the medical ethics code, the management of partnership and integration between the various parties of the sector. Any progress achieved in the application of these systems increases the odds of achieving two basic goals: that the ministry should gradually give up the current pattern of contract with private hospitals especially with the construction of public hospitals and their functioning at utmost potential; and that public and semi-public security institutions be gradually integrated, after having detailed and developed cooperation and coordination mechanisms between them. Here too, beneficiaries of these institutions are able to ask for further offers that they will fund on their own. The fusion of security institutions should ultimately lead to a global health system that covers everyone's basic needs.

These guidelines raise the issue of health funding in a country like Lebanon that bears the burden of macro-economic imbalances, the regression in the state's ability to spend, and the regression of an increasing number of people's ability to fund their health expenses from their own money. This issue of funding may be approached from various angles, which are quite intricate and entangled. First, we need to consider with high hopes the expected results of the development and unification of systems, the fusion of security institutions, the restructuring of the medicine market - as explained in the guidelines: an increase in the efficiency of public and private spending in the health sector, a reduction of squandering in order to reach a more global health coverage based on the volume of spending on the health sector itself. Lebanon can, in fact, reach a surplus from the same amount of spending on the same quantity and quality of health services provided in countries that have succeeded in managing their health sector, a surplus that may be as high as 30% of the total bill of spending in the health sector. If the surplus recorded by the state alone is used to enlarge the scope of coverage and the number of people covered, then what the state currently spends - including what all public and semi-public security institutions spend - will reach 45 to 50% of the total health bill, instead of the current figure estimated at just 30% approximately. Should the state increase benefits from its

health expenditure - based on the suggested reform guidelines - this will constitute an incentive to allot additional public financial resources to help set up a global national health security system through an array of funding sources.

Education as a fundamental cornerstone in the social contract

1 -The main characteristics of the sector and elements to diagnose the crisis

The education system in Lebanon is based on two fundamental components, public education and private education. The latter has a predominant role as to the volume and quality of educational services provided whereas the former - which recorded great successes both in quality and quantity back in the sixties and seventies - has presently a secondary role. This classification is related to the greater number of students in the private sector (60% of the total number of students) than that in the public sector (40%); it is also related to the better quality of education in the private sector than that in the public - but we note that there are sharp discrepancies within each sector.

a - Few students go to primary public schools:

The numbers of students in **public education** show that the higher the level, the more there are students: 24% of the total number of students in pre-primary (school year 2003-2004), 35% in primary, 46% in complementary classes, and 54% in secondary classes. As to higher public education (the Lebanese University), there were more than 60% of the total students on a constant basis in the aftermath of the war; but in the past few years, this number decreased to 50% of the total number of university students due to the increasing number of private universities that have been allowed in this period. This structure does not change if we add the students in free private schools to the schools of public education, since this effect is only limited to primary education only. This structure is totally different than the one in developed countries where the involvement of the state is at its peak in primary and pre-primary stages, and decreases as the stages advance. We should note that public education does not start before the second year of pre-primary education (at four years of age), which makes a great number of families not send their children to school until the state starts to provide education for these children.

b - Great differences in the quality of the education provided

Vast discrepancies in the **quality of education** are noticed. This is confirmed by the sharp difference in success, failure, and drop-out indicators according to the education sector (public/private), the regions (urban/rural), and people's economic, social, and cultural situation. From every 1000 students that are admitted in first primary, only 75 reach the last year of general education (2nd part of the baccalaureate) without failing. Discrepancy is at its peak in this field as there are only nine students who make it in the public sector against 225 students in the private sector. This rate also differs widely according to regions: 161 students in Beirut schools, 24 in the Bekaa. The difference is even more blatant according to the parents' social standard: 224 students in middle-class and well-to-do families, 27 students in underprivileged families.

The core of the problem resides in the fact that the sharp discrepancy in the quality of education corresponds to almost similar costs of one student in both sectors: on average, around L.L. two million in the private sector in 2001, and around L.L. 1.725 million in the public sector.

c - Imbalance in education spending

The global **education spending** in Lebanon is around 11.4% of the GDP; families - and the private sector in general - assume 7% of it against 4.4% by the public sector (figures that date back to 2001). The contribution of families as a percentage of the GDP is among the highest in international comparative terms (0.4% in France, 2.2% in the US, 2.8% in Korea). state contribution in education spending increased from around 29% in 1973 to 39% in 2001; however this increase was not accompanied by any increase in the number of students in public education or by an improvement in the quality of education provided during this period. As the share of public funding increased, the amount of money spent by families on education relatively to its general expenses also increased from 8% in 1966 to 13% in 2001.

d - Professional education

As a tool to empower the young and prepare them to fit productively in the labor market, professional education and vocational training suffer from various problems. It is true that it has developed considerably in the nineties as concerns the number of students, schools, teachers, and number of graduates. However, this development was mainly quantitative not qualitative; it did not allow

graduates to have high yielding job opportunities nor did it allow to increase the wages or income of those involved in the sector. This type of education faces a number of complicated issues on more than one level. As concerns supply, these problems appear in the quality of the programs and the extent at which the programs and curricula are global as well as the number and quality of equipment and material available in professional schools; the problems also appear in the number of teachers and the adequacy of their specializations to the requirements of technical teaching; all of which have repercussions that show in the weak level of this system's graduates. As concerns demand, the problems arise in the characteristics of the market, the structure of the existing institutions - often family owned and small or medium-sized firms with a traditional labor output, one with a limited added value, with the exception of few enterprises that try to fit modern production and the knowledge economy. The results of the imbalance between supply and demand are eloquent since they show - as revealed by available data - that the number of graduates in the official professional education system (submitted to official exams and diplomas), and in the non-official system (vocational training sessions that last less than a year) is higher than the number of graduates of the higher education system in the number of yearly new-comers to the labor market.

e - Higher education

Higher education in Lebanon is characterized by the variety of institutions available especially lately since many new universities and institutes have been licensed. In parallel with this variety, one finds a sharp difference in the quality of education provided by the different universities and institutes, and sometimes even by the faculties of one same university. The Lebanese University (public) includes around half of those who registered for higher studies in the country, yet it is widely acknowledged that this university suffers from several problems on more than one level: the ambiguous relation between the university and the political body and the struggle for power with negative repercussions on the autonomy of the university and the general norms of academic work; the continuous erratic growth of university branches and buildings; the fact that the move to the unified university building in the suburbs of the capital is continuously blocked; the predominance of literary and law specialties as well as other specialties that do not correspond well to the requirements of the market; the unorganized repetition of the

same faculties in most branches; outmoded curricula; vast discrepancies in the abilities of professors, human and administrative resources spread around tens of faculties; etc. All these aspects that determine the characteristics of the public higher education graduates - i.e. the characteristics of supply - do not correspond generally to the requirements of the labor market except for the diplomas and professions that do not have any outlet save in the teaching field, which is originally saturated, in the traditional law, and in the administrative and social departments. The characteristics of these diplomas and professions do not provide job offers with high incomes nor do they offer any evolution or promotion processes; all of which means more young people emigrating.

We have already pointed to the fact that public education - general, professional, and university - has a secondary role compared with that of private education in a society where inequality prevails on the social level. Public education is being promoted as the right "solution" to large categories of the middle and underprivileged classes; yet, reality shows that this "solution" remains precarious with regard to the imbalances, weaknesses, and deficiencies of the public education system, which limits the latter's ability to provide job offers, evolution and promotion to most young students. Giving concrete expression to education and human development rights namely for the middle and underprivileged classes needs in-depth reform of the public education system, in pre-university, professional and higher education:

2 - Future prospects for pre-university public education

The restructuring and rationalization of public spending in this sector, as well the increase of the benefit from the funds that are invested in it - be they human resources or buildings or equipment - need the following fundamental reform orientations:

- Developing the role of the public sector in the pre-primary stage by broadening the base of this education either in the existing public schools or in new independent buildings, depending on the needs in each case. Pre-primary years would be extended to three instead of two as is the case currently.

- Achieving the execution of **the compulsory education law** until the end of primary education, a law that will later be developed to include all complementary stages, which helps later to eradicate illiteracy in the categories ranging between 15-24 years of age.

- The restructuring of the teaching body that should be submitted to continuous training based on modern ways open to the development in sciences, technology and the world of knowledge; there is a need also to match the specializations of the teaching body with the teaching fields.

- Adopting and up-dating a **school map** that reflects field educational needs according to regions and various educational stages; the need is to move, even if this should be gradual, to a grouping of schools, a modernization of school buildings and equipments. There is a need to **cancel the system of two schedules** currently applied in some public schools namely in major cities and overcrowded suburbs, by setting up new school buildings as is the need in each case.

- Completing the replacement of free private education by public education, which reasserts the need for the state to interfere in pre-primary and primary levels and in the restructuring of the admission system to public education.

3 - Future prospects for professional education

Based on the existing problems on the levels of supply and demand, the **fundamental guidelines** of future prospects are defined as follows:

- Introducing professional education in secondary and higher education to bridge the gap between the various education sorts, strengthen the opportunities of **professional mobility** and ensure more flexibility as to the ever changing labor market.

- Strengthening a **relation and bond** network, both in quantity and quality, **between students** in professional education on the one hand and **the business world and institutions** on the other, especially that official professional education graduates constitute 25 to 30% of the yearly new comers to the labor market.

- **Rationalizing investment** in this sector by restructuring its distribution on the various investment items - construction, equipment and material, investment in human resources, etc.; investment in equipment and material ought to be given more importance especially with the development of labor division and production techniques.

- Shifting progressively to the **panel of new specializations** with a

high added value instead of the traditional, out-dated specializations; this transmutation needs a number of financial, administrative, and human terms to succeed, which will strengthen the true value of the professional education system graduates.

4 - Future prospects for higher education

- Transforming the university from a backward factory that produces groups of graduates with no competences or skills to allow them efficient, productive and promising positions in the labor market, to a **scientific research attraction pole** that is interactive with the requirements of the economy and the society.

- Asserting the orientation towards a **central university building**, by achieving to set up the unified building in the suburbs of Beirut; setting up unified buildings in the North, the South, and the Bekaa taking into consideration the repetition of some faculties with all what this entails - waste of resources and deterioration of the teaching body.

- **Rationalizing yearly floods of students to the Lebanese University** by gradually introducing entrance exams in all faculties; setting up a ceiling to the number of years the student can repeat - in the same university year - namely in the first university year, which will maintain the level of education and strengthen the abilities and "image" of this system's graduates in the labor market.

- Reconsidering the **mechanisms of choosing teachers and attributing their posts**; their work conditions should be linked with strict and clearly defined academic and pedagogic norms, which will help turn the university into a real scientific research attraction pole.

- Asserting the **autonomy of the university** and the role of its representative councils elected on purely professional grounds.

Other basic grounds of the social contract

In addition to health and education, there are other basic grounds of the social contract namely: the ratification of a retirement pension system, the fight against poverty and provision of an unemployment indemnity

The retirement pension

The right to a retirement pension is established in legislations and

constitutions as well as international treaties within the International Labor Organization. Translating this right into reality varies from one country to another as concerns its mechanisms, its efficiency, and ways to fund it. Even in its history, Lebanon lacks a law about a retirement fund for the private sector; however, a draft has been set up in this sense two years ago and still awaits the Chamber's approval. Lebanon is almost the only country in the Middle-East and North Africa as concerns the variety of retirement pensions that exist in it: in the public sector, there are two retirement systems, one for the military and the other for civil service employees; both are funded by the "pay-as-you-go" basis. Private sector employees are submitted to the end of services indemnities system, which is funded by the capitalization system. The two public retirement systems managed by the ministry of Finance include around 6% of the labor force and their yearly cost is 2.7% of the GDP; they lack any independent reserve. On the other hand, the end of services indemnities system covers around 20% of the total labor force and its yearly costs are on average less than one percent of the GDP; it is managed by the National Social Security Fund and has a cash reserve of around 10% of the GDP. The beneficiaries of this system are mostly in the private sector's regular civil activities, in addition to employees, wage earners with contracts in the public sector. We may conclude from this data that the three retirement systems only cover around a fourth of the global labor forces whereas the number of waged employees in the country amounts to 60% of the labor forces according to national statistical surveys carried out in the last few years about employment and recruitment, which confirms the weakness of these systems in terms of people they include; in addition, these systems suffer from a number of deficiencies.

a - The end of services indemnities does not provide the beneficiaries with sufficient coverage; this insufficiency is obvious through the following:

- A weak fixed amount of compensation that the retired person gets. This amount includes two things: a monthly salary for every year he worked at the last employer on the one hand, and the accumulated contributions during the period the salaried person worked for the previous employers - including the interests on these contributions - on the other hand. This raises the issue of insolvent amounts since some employers do not have any provisions for these settlements and the National Social Security Fund evades paying

them. In the best of cases, the fixed amount currently only produces a retirement pension that varies between 30 and 35% of the salary.

- When the retired person gets his lump amount of indemnities, he has to put up with a great number of risks since he has the entire responsibility of investing this amount or using it; any wrong maneuver or any fluctuation in the rate exchange or the stock market leaves the retired without any protection. The risks of this system concern in particular the young who tend to settle their indemnities as soon as they are unemployed because of the penal articles included in the system in case of early settlement. This phenomenon is widely spread since there is no dole system.

- The end of service system also has many other negative repercussions such as the high cost that the employer has to put up with - namely as concerns the settlement amounts that vary on average between the third and half of the compensation amount. This urges employers to evade declaring employees and decreases the demand of institutions as concerns labor or the demand is restricted to short-term or seasonal irregular labor contracts. The negative repercussions of this system also show in the reduction of labor mobility whereas this mobility is a main feature of the labor market in countries that have reached an advanced level of sustained development.

b - The two public retirement systems applied for the military and civil service employees are different than the end of services system. They are relatively more "generous" since they provide for those who fulfilled their work time a retirement pension that varies between 80 and 85% of the last salary, given the fact that they do not impose a ceiling as to salary coverage. However, these two systems - as shown by the available data - are not viable financially speaking. This is due to a blatant difference and lack of harmony between the bases and the factors upon which these two systems are based: the "twofold factor" - i.e. two times the number of years for every year of contribution - and the retirement age, life expectancy, and the contribution average. Lack of harmony in the system applied to the military shows more than in the system applied to employees in the civil service. As mentioned, there is no monetary reserve for any of these two systems that are financed essentially through the government and the ministry of finance, i.e. by the money provided by the taxpayers. It is obvious that the persistence of macro-economic imbalances in the country namely the uncontrolled budget deficit and increasing public debt

make the ability to maintain the financing of these two systems dubious based on the current levels of compensation.

Reconsidering these insurance systems is a cornerstone of the social contract we aspire to. In this respect, we should resort to the great efforts exerted by various parties to set up the substitutes of these systems based on clear, transparent, fair and efficient norms. These efforts have resulted in a draft law as to the retirement fund - which was submitted some time ago to the Chamber - to ensure the transfer of the new comers to the labor market after the publication of this law to the new system, which will include the public and private sectors, maintaining the acquired rights of the employees and workers members of the current systems. However, if the suggested retirement system is positive in many aspects and is more viable, it is necessary to assert the following basic principles:

- The transfer to the new system should not in any way be a cover to evade the amounts due by employers as settlement funds to those that are insured. The payment of these amounts - even if through installments, with moderate interest rates - and making sure that they retain their true value are a sine qua non condition to make this transfer a success.

- Greater distribution of the new system is a basis of the capitalization system. This is possible by ensuring a minimum of the retirement pension taking into account the cost of living in the country. This retirement pension should not be a fixed amount but determined as a percentage of the minimum wages, which ought to be revised since the last time this occurred was ten years ago. The redistribution is funded by subtracting a bigger amount from higher salaries, and perhaps through a limited participation of the state in the funding.

- The new system should cover all waged workers in the country not as is the case in the current systems be limited to less than half the salaried workers in the country. A major ground of the social contract is to widen the coverage basis and include hidden categories that suffer more than others from exposure to dangers.

The fight against poverty

The fight against poverty has been, either directly or indirectly, on top of the agenda in most world summits held in the past two decades

and that have dealt with various aspects of development such as social development, health, education, housing, social standard, environment, desertification, child labor, water, etc. The aspects of poverty differ from one country to another depending on social policies and their coverage of people's needs. As these policies are matured and their goals and effects are enforced, the fight against poverty becomes less of a priority. In countries that lack such policies or suffer from structural lack in them, the extent of dangers resulting from the absence of social protection and security networks make the struggle against poverty a top priority. In all cases, policies to fight off poverty should not be considered as a substitute of larger social policies, but rather as an integral part of the latter. Insisting on this point is necessary to make sure that the setting up of policies to fight off poverty is not used as a pretext to avoid setting up social policies.

Despite great lack in resolutions concerning poverty in Lebanon, great efforts were exerted in the early nineties - officially through the ministry of social affairs and unofficially through private universities and research centers - in an attempt to fathom the extent and characteristics of this phenomenon. These efforts were lately completed by a field statistical survey carried out by the ministry of social affairs in cooperation with the UNDP entitled "A guide to living conditions in Lebanon, 2004". Its results are meant to be published before the end of 2006. Previous estimates - established on various research methods between 1993 and 1998 - showed that people who are terribly poor are between 6 and 7%, and those who are below the poverty line are around the third of the country's inhabitants.

Whatever the extent of extreme poverty, fighting against it is a cornerstone of the social contract given the fact that it goes against basic social and economic human rights and it endangers social and political stability in a country that already suffers from various divisions. If we take the previous estimates of extreme poverty, i.e. 6 to 7% of the population based on the poverty gap, we would find out that the total cost necessary to bridge the gap is no more than sixty to seventy million dollars a year, which is the amount necessary to increase the average income of extremely poor families to reach the poverty line.

The challenge in making the policy against poverty a success is in making all the parties to the social contract agree to provide specific answers to a number of questions namely the following:

- Defining poor families or the poor in a specific way based on scientific norms, regardless of sectarian or family considerations or nepotism.

- Based on this definition of poor families or the poor, determining “geographic pockets” of poverty or the socio-professional groups where there is the greatest number of poor families through a global methodological and national survey allowing poor families and the poor an equal chance to be included.

- Setting up programs and interventions in those pockets and groups to fight off poverty. These programs and interventions can take two forms: either an intervention on the level of the group or the pocket altogether if this type of intervention cannot be fragmented - health centers, agricultural roads, etc. - or through individual interventions in particular cases within the pocket or the group - or perhaps even outside - if this intervention is conditioned by the need for clear and specific conditions to allow the beneficiaries direct support - direct financial support, scholarships, help to the disabled, assistance to widows that take care of their family, etc.

Fighting off poverty concretely will not be a success unless its programs and interventions are based on transparency, accountability and the respect of the adopted norms, and unless their efficiency is assessed regularly through the results of help provided to the defined beneficiaries. These programs should be managed in coordination with the civil society associations and institutions namely municipalities.

Unemployment insurance

Unemployment insurance is a major axis in many forms of the social contract approved by developed countries; though coverage and terms of the guarantees provided differ, they all stem from fundamental principles: the right to work, solidarity facing dangers and hazards, maintaining social, economic and political stability.

In Lebanon, rarely has there been mention of an unemployment insurance system; yet, when the law setting up the National Social Security Fund was passed in the mid-sixties, there was talk about the possibility to broaden the effects of the law so that it covers the unemployed in a later stage. The war and the ensuing general state of poverty in addition to the imbalances in the performance and

priorities of the political class - including the successive administrations that determined and managed the policies of the National Social Security Fund - all prevented the approval of unemployment insurance in the country.

The current available data about the extent and characteristics of unemployment show - according to official and unofficial figures - that between 9 and 11% of the total labor force is unemployed, and that around 15% of those who are between 18 and 35 years of age are unemployed - around 50% of this age category. Unemployment increases more in urban regions (Beirut and its suburbs as well as Mount Lebanon) than in rural and fringe regions according to the age pyramid, since this pyramid is younger in urban regions than in the regions outside the city and in Mount Lebanon. Though many unofficial sources show that effective unemployment rates exceed official figures, i.e. between 12 and 15%, there is however unanimity to say that unemployment expressed either in official or unofficial figures was and is likely to increase were it not for the emigration flow that checks the constant increase in unemployment rates.

The link between poverty and rural and especially urban poverty, the inefficient social protection and social guarantees system, the lack of security networks for the most vulnerable categories are all reasons to set up unemployment insurance in Lebanon just like developed countries namely those where the social contract experience is strong. We would like to reassert that this system is not one of "charity"; it is a mechanism that allows the economic cycle to be regular and allows social stability that is a prerequisite of economic stability and growth.

It is obvious that the fight against poverty needs fundamentally macro-economic solutions namely: providing investment incentives, rectifying monetary and financial policies, setting up and developing sector policies, rectifying internal and external prices, setting up strategies to develop cities to turn them into development poles in the local context, which increases demand on labor in the regions, etc. While we wait for these solutions, we need to set off an unemployment insurance system.

Reaching such a system requires close political and social agreement between the parties in the social contract. It also necessitates statistical bases, institutional frames, and human resources that will manage the system, follow-up the work and control it to make sure the goals set are achieved. It requires a specific

definition of the terms and norms to benefit from the system, a clear definition of the financial expenses and the funding sources, as well the share of each party concerned - employers, employees, the state, etc. - in these expenses. The main norms and terms are: that the beneficiary should be the salaried person who worked for more than a year and is still able to work and is willing to start work immediately; that his prior interruption from work not be premeditated or resulting from misbehavior. The amount of the monthly dole paid to the salaried person who meets these requirements is determined as a percentage of the minimum wage or the average wage or the previous wage, according to what the financial figures of the project sees best and according to the concerned parties' ability to provide proper funding. The duration of the monthly dole while one is unemployed may be determined as one year or one year and a half according to what the project figures determine, knowing that previous statistical figures have showed the average unemployment period to be around thirteen months.

From all these proposals, we can have an approximate idea as to the cost of such an unemployment insurance system. Current statistical data show that the total unemployed waged persons, except those that are looking for a job for the first time, who meet the abovementioned requirements, i.e. who worked for more than one year before becoming unemployed, are estimated to around 55000 unemployed. Supposing that the duration of payment of a dole does not exceed twelve months, and that the dole goes up to 60% of the minimum wage that is \$200, or 60% of the average wage that is around \$600, the total cost of the unemployment insurance system is - without calculating the management cost of this system - around \$80 million to \$250 million per year. These figures are likely to increase or decrease according to the increase or decrease of unemployment rates. The management of this system may be entrusted to the national employment institution - and to the regional recruitment offices - after a reform and a strengthening of its human resources and a computerization of its activities, with what this entails as an increase in its budget to cover the expenses of managing the suggested unemployment insurance system.

CHAPTER SEVENTEEN

Reforming the Education System⁶⁹

Education for All and Solving the Major Chronic Issues

Education and Communication are the two pillars of sustainable growth, and on term the way to achieve a developed country. The Action Plan in chapter 1 has built on the following study to affirm that a high level education can be realized with accessible means.

There is a large consensus among educators and intellectuals on that reform and we are proud to back it. It is a first priority for Lebanon and it should be carried out at any rate.

About general education, the pedagogic upgrading plan and the new curricula that were adopted in 1997 were a major qualitative step in the field of education despite the sector's weak output.

Educational material was up-dated and new curricula were introduced in order to keep the pace with major developments in the world of technology, social, economic and computer sciences. These changes also aimed at broadening the array of specialties students chose at the end of their secondary studies. The new curricula also included modern educational approaches to teaching and evaluation; dictation and instruction would be avoided in favor of ways that foster children's participation. This way they would gather the required knowledge, develop skills, and especially be autonomous - as the major requirement in a student.

Yet, these achievements as concerns the up-dating and adjustment of the new curricula and the modern educational background that they were based on necessitated major structural changes in the educational field. They also required human resources, expertise and professional skills at all levels - the administrative frame and the teachers.

Preliminary studies gave a prognosis of the pedagogic upgrading plan and other studies followed about the status of the field of

education in order to determine loans necessary for the development of technical and general teaching; they determined the weak spots in the educational system that ought to be dealt with. However, there was no qualitative development as concerns human resources despite numerous projects financed through loans and despite the efforts of the Center for Pedagogic Research and Development in terms of formation of educators - teachers, professors, principals - within the center's limited income and under the pressure of time and with huge numbers to train in an insufficient period of time.

In addition, the requirements of development as concerns material resources - schools, classrooms, equipment that fit the norms of the new curricula - are still unavailable, which hinders the practical application of the curricula and empties them from the renewal elements that were their very *raison d'être*.

What happened in the last ten years is a necessary attempt to modernize the education system; but it did not reach all the system's components, which limited the attempt to the curricula whereas the problems in the rest of the components remained unsolved.

The Problems as per the Pedagogic Upgrading Plan in 1994

In the introduction of the document about "pedagogic upgrading in Lebanon" set up by the Center for Pedagogic Research and Development and published on May 8, 1994, the Minister of National Education at the time, Mr. Mikhail Daher, mentioned the major problems of education for which the plan was set up namely:

- 1 - The lack of general educational policy, the aims of the educational curricula that remain unclear, the fact that they are not linked with real life and the needs of the labor market, which led to the deterioration of the general level of academic teaching.
- 2 - The fact that the curricula are frozen since 1968, which means they are not up-to-date with scientific and technological progress.
- 3 - The weak educational administration and educational body for the following reasons:
 - a - The lack of qualified human resources in school administrations - and this problem increased with the war.

- b - The excessive number of teachers whereas there are not enough specialized or qualified teachers for there is no continuous on-the-job training.
- c - The geographic imbalance in the distribution of teachers, which led to an overpopulation of teachers in the cities and their suburbs whereas the countryside and remote villages lack teachers.
- 4 - The fact that schools and their equipment are not in conformity with the educational, engineering and hygienic norms.
- 5 - The obvious imbalance between academic teaching and technical and professional teaching for lack of pedagogic guidance and professional orientation.
- 6 - The lack of link between teaching in universities and what comes before it on the one hand and between education and the society on the other.

One can add to these problems namely as concerns human resources the irrational distribution of public schools, which was and still is submitted to political influence more than anything else.

Ten years later, the above-mentioned problems still await a solution at the exception of the curricula that have been modernized and developed without ensuring the necessary requirements of their application - as this necessitates a solution of the other problems namely those that concern the habilitation of human resources on the professional and academic levels.

The Prevailing Status: Loans and Projects and a Worsening of the Situation

The lack of general educational policy still prevails despite the recourse to foreign loans to launch development projects in the professional and general teaching fields in order to draw reform and development plans in these two fields and embark upon reform.

The introduction of these projects enumerated the problems that need to be tackled - very much like what was mentioned above - namely the weak professional competence of major staff in the field, the lack of strategy to develop the educational field, and the

incapacity to face the prevailing problems. They all stopped and admitted to failure or went on with less ambitious aims; they only succeeded in creating parallel structures to the existing administrations with conflicting tasks and competences not in order to do the job of the latter but rather to get the reform of the educational system onto the market of local and international consultations. They turned this issue into consecutive concessions - whether about pedagogical choices or development strategies. This worsened the situation that existed when the pedagogic upgrading plan was set up ten years ago; the problems worsened as concerns:

- 1 - the professional competences of educational administrations.
- 2 - the competences of teachers, who needed training more than ever with the new curricula.
- 3 - the administrations who are marginalized in favor of projects that increase the public debt.
- 4 - the weak education administrations and the imbalance in the rules of work in favor of consultants and advisors who change when the minister changes.

The Major Issues: Chronic Problems That Were and Still Are

What can be called major issues in the field of education are chronic ones that ought to be tackled in order to allow a real upgrading of the field in Lebanon. This is the only way to have the necessary requirements and environment as well as the competent human resources to apply the curricula currently being reviewed and developed.

These issues can be summed up in the following intertwined matters:

- 1 - the weak professional and academic competence of those who work in the field of education, and the problem of contracts in basic general and secondary education as well as professional education.
- 2 - mismanagement and misuse of human resources: a surplus of teachers in some places and blatant lack in others.
- 3 - imbalance as to public schools admission capacity: some

schools can admit a large number of students in regions where the demand is limited whereas others where the demand is bigger can only admit a limited number of students (lack of school map or a study to determine the needs when deciding of the places of school building).

- 4 - weak input of the educational system and low results as shown by: the worrying levels of failure, the numbers who repeat their year in basic education, the number of drop-outs before the end of the latter education, the low levels of education in terms of reading and writing, which represents a waste of resources - children drop out before having acquired the basics and a solid level of education namely to be able to read and write, which makes them potential illiterates. This means failure to any procedures or plans to eradicate reading illiteracy, without mentioning other types.

The National Work Plan Education for All: International Commitments and the Need to Face Chronic Problems

Though the problems of the education system in Lebanon are countless in the field of general basic education, the way to a solution is to give priority to the needs of the current phase and to tackle the problems of the latter as it is the basis of secondary and higher education, whether academic or technical or professional.

International guidelines are to make basic education available to all as a development goal and a prerequisite of sustained development in all countries.

This is why the Minister of Education and Higher Education - Center for Pedagogic Research and Development set up in 2004 a draft national work plan **education for all** as part of Lebanon's international commitments in terms of education and teaching. They were formulated as goals of the national work plan aiming at ensuring good basic education to all children and teenagers as well as marginalized categories without any discrimination and at solving illiteracy.

These goals were detailed in six recommendations, known as the Dakar 2000 recommendations and they are:

- 1 - to provide better and larger care and education in **early**

childhood namely for the most indigent and those children who are most at risk .

- 2 - to make **good and free primary education** available to all children by the year 2015 and ensure follow-up of this education with particular focus on the children in ethnic minorities and underprivileged regions or those who live in difficult circumstances.
- 3 - to ensure all educational needs to the **young and adults (out of school)** through equal access to appropriate programs of learning and skills necessary in everyday life.
- 4 - to ensure 50% progress in levels of **adult literacy** by the year 2015 namely as concerns women and equal access to basic education and continuous learning for adults.
- 5 - to fight sex differences in terms of primary and secondary education by the year 2005 and work for **equality between sexes** as concerns education by the year 2015 focusing on equal opportunities for girls to benefit from good basic education.
- 6 - to improve **all qualitative aspects of education** and ensure excellence to all so that concrete and clear educational progress is made namely as concerns reading, writing, arithmetic, and the basic everyday life skills.

The suggested plan aims at achieving the above-mentioned goals especially those that concern early childhood and ensuring equal opportunities to all children in underprivileged and weak categories; qualitative aspects of learning should be improved. This implies that procedural programs of the plan focus on solving chronic problems of education in Lebanon namely: rationalizing the use of human and material resources; adopting a school map to determine the needs in various regions as a tool to plan and foresee needs, distribute available resources, ensure professional and academic habilitation of educational workers, tackle the consequences of the poor performance of the educational system - as tens of thousands of children need school tutelage and special programs to avoid dropping out and become marginalized outside school.

The programs of the national plan education for all can provide the necessary bases to improve the entire education system by focusing on basic education whose quality and efficiency are the foundation of the entire education system and its strategic goals to develop

Lebanon's human resources. If these procedural programs focus on the public sector, the private sector and civil institutions can still participate in them. The private sector should continue to meet education needs and hopefully, the improvement in public education may be an incentive so that the private sector improves its services within the approved norms and reduce the tuitions.

Having studied the draft plan, the Economic and Social Council supports the guidelines that have been adopted and calls for their approval. The required procedural plans ought to be set up as one of the priorities of the necessary educational reform and development strategy.

Addendum: Summary of the Plan Axes, Guidelines, Goals, And Programs

Axis	Guidelines & goals	Programs & activities	Parties concerned	Observations
<i>1. Early childhood: kindergarten from three to six years</i>	1. Broadening this stage to include nursery as of three years. 2. Increasing the contribution of the public sector to the first class (36.5%) for children between three and six. 3. Giving priority to the creation of nurseries in crowded neighborhoods to increase the chances for children between three and six to be admitted. 4. Adopting a specialized educational administrative structure within primary education and an administration for nurseries.	1. A map of the neighborhood nurseries: program to study the needs, priorities and requirements. 2. Program to train nursery specialists. 3. Program to set up the nursery methodology. 4. Program to build independent and attached nurseries and equip them.	1. Pedagogic Centre/ Office of Primary Education. 2. Pedagogic Centre/ Faculty of Education/ Office of Primary Education. 3. Pedagogic Centre/ Faculty of Education/ Office of Primary Education. 4. Office of Primary Education/ Pedagogic Centre/ Development and Reconstruction Council.	1. Legislation to create a specialized office for the affairs of nurseries within the new structure of the Ministry of education and Higher Education. 2. Legislation to ensure attendance in nurseries.
<i>2. Basic education, first stage (primary) from 6 to 12 years.</i>	1. Applying compulsory education. 2. Complete upgrading in the first stage (half the plan) 3. Complete upgrading in the second phase (end of the plan). 4. More chances of admission of	1. Studying the factors why some repeat their class namely in fourth class. 2. Program of school tutelage. 3. Program of school support. 4. Program of school make-up. 5. Creating typical make-up centers	1. Office of Primary Education/ Pedagogic Center/Academic control/ Guidance and Orientation. 2. Office of Primary Education/ Pedagogic Center/ Academic	1. Legislation for the role of municipalities in making sure children attend schools (children's rights). 2. Partnerships with associations, volunteers, and municipalities. 3. Legislation for the program of

<p>children 6-12 years of age through the generalization of neighborhood schools.</p>	<p>in schools. 6. Map of neighborhood schools: program to study needs, priorities, and requirements.</p>	<p>control/ Guidance and orientation. 3. Office of Primary Education/ Pedagogic Center/ Academic control/Guidance and orientation. 4. Office of Primary Education/ Pedagogic Center/ Academic control/Guidance and orientation. 6. The Ministry/ Pedagogic Center.</p>	<p>societal service within higher education and the possibility for university students to take part in the programs 3-4-5. 4. Ensuring teachers for programs 3-4-5, through rational distribution of teachers. Solving the problem of reference as to intermediate administration.</p>
---	--	--	---

3. Basic education, the second phase (intermediate), from 12-15 years.

<p>1. Making this phase compulsory as well in the end of the plan. 2. Making admission to school compounds that include secondary classes possible.</p>	<p>1. Studying the reasons why so many repeat seventh class. 2. Setting up a map of intermediate school compounds to envisage possible fusion with the secondary.</p>	<p>1. Pedagogic Center/ Office of Education/ Academic control/ Guidance and orientation. 2. The Ministry/ Pedagogic Center.</p>
---	---	---

4. Illiteracy (teenagers and adults)

<p>1. Increasing the participation of bodies and parties involved in illiteracy programs. 2. Limiting the drop-out rate from compulsory education (programs of basic education).</p>	<p>1. Writing out the teaching material. 2. Setting up the system to adopt literacy programs. 3. Dual preparation.</p>	<p>1. Ministry of Social Affairs. 2. Education Directorate in the Lebanese Army. 3. The National Literacy Commission. 4. The Ministry of Education/ The General Directorate of Professional Education/ Pedagogic Center.</p>	<p>1. Existing programs that need educational and financial support. 2. The need for those who follow literacy programs to get special certificates that help them get a job or improve their professional situation.</p>
--	--	--	---

5. <i>Those with special needs.</i>	<ol style="list-style-type: none"> 1. Increasing the possibilities of access to basic education and integration in schools. 2. Supporting educational bodies for students with special needs. 	<ol style="list-style-type: none"> 1. Surveying and sorting those who likely to be integrated. 2. Preparing appropriate educational material, means, and equipment. 3. Creating a specialized educational institution. 4. Adapting the evaluation and exam system. 5. Making all school buildings fit to welcome those unable to move. 	<ol style="list-style-type: none"> 1. The Ministry of Social Affairs. 2. The National Body for the Handicapped. 3. The Ministry/ Pedagogic Center. 4. Civil and international organizations and associations who work in this field. 	
6. <i>Teachers</i>	<ol style="list-style-type: none"> 1. Increasing the level of professionalism. 2. Continuous on-the-job training. 3. Better job conditions and performance of the teachers. 4. Rationalizing the distribution of teachers. 	<ol style="list-style-type: none"> 1. Continuous training teachers on the staff or working upon contract. 2. Teacher formation programs in higher education programs. 	<ol style="list-style-type: none"> 1. The Ministry/ the Center? The Project of General Education (PEG) 2. The Center/ the Faculty of Education/ private universities that have teacher training programs. 	<p>The Program of continuous training currently under way within the Pedagogic Center, the Project of General Education, and with a French contribution.</p>
7. <i>Curricula</i>	<ol style="list-style-type: none"> 1. Developing and modernizing the curricula. 2. Assessment and follow-up. 	<ol style="list-style-type: none"> 1. Evaluating what has been learned. 2. Qualitative pedagogic indicators. 	<p>The Ministry/ the Pedagogic Center/ academic and educational bodies.</p>	<p>Workshop currently under way within the Pedagogic Center and to be continued within the competences of the center.</p>
8. <i>School environment</i>	<ol style="list-style-type: none"> 1. Rationalizing the usage of school buildings. 2. Modernizing school buildings. 3. Developing partnership with the civil society. 	<ol style="list-style-type: none"> 1. National map of school buildings. 2. Map of school neighborhoods. 3. Map of intermediate and secondary school compounds. 	<p>The Ministry/ the Pedagogic Center/ the Development and Reconstruction Council.</p>	<p>Program 4 currently under way by the ministry with the support of the Project of General</p>

	4. Providing schools with the necessary teaching technical and computerized equipment.	4. Providing schools with the necessary technical and computerized equipment.	Education, and the Islamic Bank. Role of municipalities in improving school environment and contributing to its development.
9. <i>Pedagogic administration</i>	Developing the pedagogic administration on the central level.	1. System of Management of Educational Data (EMIS).	The Ministry/the Center/ the Project of General Education (PEG).
10. <i>School administration</i>	1. Increasing the competence of school administration. 2. Increasing the competences and responsibilities of the administration: administrative empowerment.	2. Setting up a frame for strategic planning. 1. Continuous training of the school administrative body. 2. Programs to form school principals in higher education institutions.	The Ministry/the Center/ the Project of General Education (PEG)/ universities that have training programs for educational institutions.

CHAPTER EIGHTEEN

Private University in Lebanon

This report was established under the supervision of the Committee for Human Development at the Economic and Social Council and brings a global vision of the education in Lebanon. We hope that the next Committee will take advantage of this report to elaborate a worthwhile opinion on how to develop the higher education and the education system in general.

The Committee chose to concentrate on the higher private education as a revealing aspect of the situation of the education in Lebanon. Before giving an opinion, it was necessary to examine the situation minutely, even though many estimate that the problems of the education in Lebanon are quite known, and produced a comprehensive report that was largely diffused through conferences and workshops held at the Economic and Social Council

In the absence of a sufficient and recent analysis of the education levels, the Committee estimated better to stress on the higher education that constitutes the final indicator, in order to be able to determine the context of the reform and to fix some priorities.

The Committee held several meetings with the presidents and professors of universities and listened to their opinion; it organized a set of conferences to widen the dialogue to which participated many professors and students.

Academic presence and proliferation

This study has showed a number of results that help a “rational” approach to the great increase in the number of higher education institutions in the last few years.

The most important of these results are those related to the academic scene itself as it clearly appears that:

- Major private universities still provide most higher education programs and specialties; the new institutions are only partly present in a restricted number of specialties that do not require sophisticated or costly equipment .

- Most new universities and academic institutions still do not draw too many students since students in seven universities (Saint Joseph,

Arab University, AUB, Kaslik, LAU, Louayzi, and Balamand) represent 64% of the total of higher education students in the private sector and 85% of higher education graduates are from these seven institutions.

- If we add the next five institutions in rank as to the number of admitted students, and they are: AUST, HAWAI (Business and Computer University College), Imam Uza'i College of Islamic Studies, the Arab Open University, and AUT, the number of students amounts to 82.5% of the total number of students in the private sector; the rest of the institutions or institutes only hold 17.5% - i.e. around 9% of the total number of higher education students in Lebanon.

Communitarians and the need to review stereotypes: stated neutrality and the students' position

As concerns the **communitarian aspect of institutions**, the "religious/ missionary" trait of old institutions did not hinder their academic work or their openness and the new institutions created by religious bodies or references do not set for them a "missionary" goal. It can be considered that **the "spiritual" or "political" neutrality is the basic stand stated** by the institutions in their answers to the survey or their media publications.

This stand is reflected in the representation of all communities among students admitted to these institutions despite the predominance of some communities in some institutions, which can be explained by the institution's location and/or the nature of their educational programs.

The high percentage of students who did not state their communitarian allegiance (45%) proves that most are not concerned with communitarian or religious aspects although most (47%) declared that they now have a more positive way of looking at other communities through the institution they belong to.

These elements refute the prevailing stereotypes as to the communitarian nature of these institutions and as to their role in perpetuating sectarian and communitarian division.

In fact, social and economic division is what ought to be given more importance as shown by the categories of those who become students in the private education sector.

Tuitions and admission opportunities: the role of tuitions in admission and the choice of specialty

Higher education institutions in the private sector may be divided into three categories based on tuitions: high tuitions (more than LL10 million a year), moderate tuitions (between LL6 million and 10 million), and low tuitions (less than LL6 million a year).

The study showed that the array of tuitions in each institution is around one clear crucial centre and is characterized by a limited and narrow distribution of tuitions, which can be explained by the limited number of the specializations - often homogenous - it provides. Comparing tuitions with one specialty reveals more difference between institutions, which gives students more leeway to match their choice with their financial means.

The study also showed that 45% of the students included in the survey pay more than LL8 million a year in tuitions and that there is a clear link between: the tuition to be paid, the parents and the student's economic situation, the type of studies or the specialty, which shows the importance of the economic factor in the choice of new universities and institutes, as well as the choice of studies and specialties.

It can be concluded that apart from medicine, pharmacy, and information available only in universities sorted in "high" or "moderate" tuitions, the rest of the fields are open to all economic categories since there are many institutions that provide studies for them based on the policy of tuitions particular to each.

If the quality of teaching and training is guaranteed, "moderate" or "low" tuition institutions can be considered as a great service to the less privileged who pursue higher studies and who for some reason - whatever it may be - do not go to the Lebanese University or the statutes of the latter did not allow them to be admitted to the specialty of their choice.

Covering tuitions: the contribution and role of the children of civil servants

As concerns the coverage of tuitions, the details of the statistics bring out the following:

- Total coverage of tuitions by parents is low in most new institutes

and universities whose tuitions are generally “moderate”, and is less than 40% in: *Jinan University* (37.5%), *Haigazian University* (22%), *University Center of Technology* (33%), *University Center of Business and Sciences* (24%), *Higher Institute of Business and Computer* (25%), *American University of Technology* (40%), *C&E American University* (40%).

- Where parents do not cover but a small part of tuitions, there appears the role of (partial) scholarships for 40% of students in the private higher education sector.

- The children of civil servants represent 20% of the students in the private higher education sector, this percentage goes to 40% in some institutions, which shows the role of scholarships provided by the state in facilitating, and perhaps encouraging, admission to the private higher education sector; this constitutes a logical continuation of pre-academic learning and the scholarships provided by the state.

Lebanon, university of Arabs: a slogan not a policy

Answers show that the goal of all institutions is to draw students from abroad (except the *Hariri Canadian Academy of Science and Technology*) by providing a “high qualification educational environment”, “special appropriate services”, and “special educational programs”.

Based on available data, non-Lebanese students represent 9% of the total number of students and this percentage is higher in the private sector (13.5%) than in the *Lebanese University* (5%).

The highest percentages are in the *Islamic Faculty of Imam Uza’i* (43%), the *Open Arab University* (29%), *HAWAI (Computer and Management Institute)* (21%), and *AUB* (15.6%).

The answers provided by the institutions and the answers of students show the following:

- A high percentage of Palestinian and Syrian students among non-Lebanese students.

- A low percentage of residents among them as shown by their representation in the questionnaires put to students.

Although the number of academic institutions has increased, the ability to draw Arab students is not what it was in the beginning of

the seventies. The wish for Lebanon to play the role of university of the Arabs as a substitute for Western - and more specifically American - universities seems beyond reach for the time being.

The reasons why Arab students do not choose Lebanese universities and institutes must be studied in order to find out if they are linked with the development of the sector of higher education in their own country or for reasons related to preferences and life patterns.

In all cases, a serious policy must be set up to acquire and guarantee the necessary academic reliability on the national level not only as concerns some institutions.

Academic performance: the institutions' position as to control, assessment, and the guarantee of quality

Most institutions that have answered the questionnaire considered that the Council of Higher Education is practically incapable of controlling whether institutions are committed to the conditions of their permit; it is incapable of assessing and guaranteeing quality. This is explained by the council's components and mechanism, the misrepresentation within it and its unclear role and task.

In addition, it seems that legislations and the Council of Higher Education do not arouse the institutions' necessary interest as though real business occurred elsewhere beyond legislations and beyond the Council of Higher Education!

Yet, most answers show the following:

- 1 - The openness of institutions that long to see a new Council of Higher Education with more prerogatives as concerns control and assessment.
- 2 - Institutions do not want the general administration - i.e. the Ministry of Education and Higher Education - to carry out alone control and assessment.
- 3 - Institutions do not want for this to be carried out by an independent local body.
- 4 - The need for an international reference in this matter to ensure the credibility of any assessment beyond the local dimension.

About the publication of the results of this assessment with

international participation, institutions have expressed fear as to the public's reaction; results may be misinterpreted without taking into account the bases, norms, and circumstances of these results as is the case in countries where such bodies are adopted.

Unanimity as to the declaration of a charter of higher education in Lebanon

Most institutions agreed upon the need for a charter of higher education in Lebanon; they were almost unanimous about following clauses:

- 1- Providing ways to meet development needs
- 2- Guaranteeing good quality education
- 3- Guaranteeing communitarian neutrality
- 4- Contributing to the progress in knowledge

The clause that got the fewer number of choices was "the guarantee of transparency in programs and curricula"!

The Teaching Staff

General characteristics: age groups and origin of diplomas

Direct reading of the data about the teaching staff shows that these institutions rely on young mature executives: 45% are within the 35-45 age group. 35% hold a diploma from Lebanon, 27% from North America and 23% from West Europe.

A comparison with former studies shows an increase in the number of diplomas from North America among the teaching staff and a decrease in the number of diplomas from Lebanon.

This change seems to correspond to the fact that most new institutions follow the American system as concerns the language - English - and the system of credits; this may cause profound short-term cultural changes that ought to be looked into very closely.

Nature of contracts: reality and regulations

The questionnaires put to institutions show that 12.5% of the teachers in those institutions are part of the staff; 29.86% are full-

timers; and 57.6% are hired upon contract.

Detailed results of each institution show that more than half of the teaching staff work upon hour-based contracts in half of the institutions whose staff answered our questionnaires.

A large number of institutions does not seem to apply regulations as concerns the percentage of contracts based on full-time or staff members; this deduction is confirmed by the numbers made public by these institutions.*

1 - Ways of concluding contracts and choosing candidates: about ways to choose candidates to conclude contracts with them we notice the following:

a - The fact that institutions and perhaps teachers are not ready to go through competition and to announce by ways of the media - or even modern networks of communication - jobs that are available within the academic field.

b - Personal relations still play an important role in the hiring process as well as personal contact with the institution.

2 - Rights of the teaching staff; the need for organized contract regulations: There are no special legislations that govern the affairs of the educational staff in private educational institutions as concerns rights, job guarantees, types of contracts and obligations as is the case in pre-academic teaching in the private sector.

The answers of educational staff members about their rights and duties brought out a number of points that show fogginess in this field so much that the answers from teachers who have the same type of contract (full-timers for instance) and in the same institution, sorted rights and duties in an unexpected way, which gives the impression that there is a lack of detailed referential texts placed by the institution at the disposal of teachers upon the signing of their contract.**

* See paragraph 6 in the second chapter.

** See the law about private higher education and decrees no 9274 dated 7/10/1996 and no 8864 dated 26/7/1996.

Why do institutions not favor the publication of legislations as to the members of the teaching staff; justifications

Most institutions are not in favor of the publication of legislations as to the members of the teaching staff. The reasons stated to justify this refusal came as follows:

- a - There is no need to bind institutions with legislations.
- b - The best is to respect the freedom of concluding contracts.
- c - The need to preserve flexibility in relations.
- d - Avoiding legal problems (!).
- e - Not obstructing the need of each institution to determine the educational staff.

Students in Private Higher Education**Social and economic characteristics of students in private higher education: who gets private higher education and where, sorting factors**

The study endeavored to determine the social and economic characteristics of students in various institutions in order to bring out sorting factors that govern access to private higher education or a given institution. Each factor was weighed in every institution based on the students characterized by this factor.

The study took into account four factors:

- a - The field in which parents work: This is not a sorting factor that determines access to private higher education at least not from the sectors adopted by the study; the parents of students were represented as follows: liberal professions (37%), employees in the public sector (21%), employees in the private sector (20%).
- b - The parents' level of education: Results show that the parents' level of education is an extremely influential factor in the student's choice of a given institution, added to other influential factors the study tried to determine.
- c - The number of children in the family: The study showed a factor based on whether students belong to a large family or to a smaller one; this factor seems unusual and needs more study to

determine its link with other data such as the parents' level of education and their economic situation as well as the cultural and professional environment.

- d - The schools students went to prior to university: The study showed a great influence and a big impact of this factor as five types of schools were determined: public schools, foreign missionary schools (religious and non religious), Christian schools with a stated Lebanese Christian identity, Islamic schools with a stated Lebanese Islamic identity, and national schools that do not have any stated link with any religious association or group.

The most remarkable result was the emergence of two sorting ways based on the orientation of most students of missionary schools to given institutions, whereas most students of public schools went to the same institutions.

The economic factor is the one that governs more than any other the choice of students coming from public schools; the tuition policy of some universities and institutes seems appropriate to attract an important category of students from public secondary schools to these institutions of higher education.

A more analytical study of these students' financial and environmental - social and cultural - capacities compared with other students may be necessary to determine the orientations of this category, if possible. In fact, these students used to head to the Lebanese University before being given the chance to pursue studies in the mostly new institutes and universities.

The sorting factors appearing here show specific social and economic elements that govern the choice of given institutions namely major universities, which means the latter will not be influenced by the increase in the number of new institutions; the choice of major universities is a (foreseen) continuation of a prior learning process and is linked with social and economic elements; these universities have their own regular public and do not need to compete for them.

If this deduction is agreed upon, then competition is limited among the new institution whose tuitions are moderate or low and between these institutions and the Lebanese University.

Students' assessment of institutions; satisfaction indicators

The study dealt with the students' assessment of each institution as to the relation with the administrative and teaching body, the performance of each, the components of the educational environment - buildings, equipment, and playgrounds - by trying to find out how satisfied students were and come up with "satisfaction indicators" after giving each answer a grade, zero or one.

This approach made it possible to get "self-evaluation" lists particular to each institution through their students, but these lists cannot serve as a basis to sort out institutions.

Satisfaction indicators of most institutions seem far enough from the danger line (0.5%), except satisfaction about playgrounds, sports equipment, restaurants and cafeterias.

When each institution is considered apart, satisfaction indicators show similar levels as to the relation with the administrative and teaching body and their performance, which does not make it possible to sort institutions according to the traditional stereotype; they are sometimes in favor of the "new" institutions, which expresses conviction and satisfaction of the students in these institutions as concerns this aspect.

Because of their nature, the components of the educational environment are easy to assess "objectively" by students. The quality of each component is a legitimate requirement of students in each institution and can be expressed without undermining the institution's academic image - which may cause harm to the students' professional future. This may explain the levels of satisfaction indicators concerning services within the educational environment - playgrounds, sports equipment, restaurants, cafeterias, etc. - where students seem less convinced and express this through low satisfaction indicators.

The students' choice of the institution and the specialty

Despite what was showed that the choice of a university is submitted to specific prior elements - namely as concerns major institutions with high tuitions - students give priority to the reputation of the institution in their choice, followed by fame and old origin, the language used in teaching, the link with other universities

abroad; this result coincides with the results of satisfaction indicators showing the importance of academic elements.

As to the choice of the specialty, personal preference comes first, followed by conviction that there are more job opportunities in this specialty or that other, then the wish to have a university diploma; the parents' will or the cost or guidance do not appear as highly influential factors.

The fact that personal preference comes in before job opportunities as shown by most answers seems to contradict the theory of "investment" that justifies the trend towards private higher education and its cost. At least, one can consider that students do not think first of this investment aspect - after all tuitions are the parents and the donors' responsibility!

The image of the Lebanese University for students in the private higher education: not choosing the L.U. and the stereotype

The questionnaire suggested eleven answers one or several of which may be a reason for not choosing the L.U. The answers came as follows:

- 1 - I did not think of it originally.
- 2 - My family and social environment disagreed.
- 3 - My knowing of the low academic level.
- 4 - The huge number of students in first year.
- 5 - The lack of appropriate university buildings.
- 6 - I attended (the L.U.) and was not able to continue.
- 7 - The difficulties of succeeding.
- 8 - Few job opportunities to the graduates of the L.U.
- 9 - I did not pass the entrance exam (restricted faculties).
- 10 - The reputation of the L.U.
- 11- The language.

Answers showed that 56% initially do not go the L.U. for one or several reasons related to the image and reputation of the university regardless of the reality and facts.

The quick, expected deduction that needs more detailed study, can be formulated as follows:

- The existence of a large public of students of private institutions outside the competition ground between these institutions and the L.U. for social, economic, and perhaps cultural reasons.

- Competition lies between the L.U. and these institutions that are closest to it as to the social, economic, and perhaps cultural environment of the students; then the inability of the L.U. to admit all turns students to these other institutions.

CHAPTER NINETEEN

Policy Paper on Health in Lebanon

Introduction

The health sector in Lebanon suffers from many distortions that have been accumulating for years. These distortions come at many levels and affect especially the quality and pricing of the services and the financing schemes.

This report essentially aims at analysing the health situation in Lebanon, through presenting health indicators, financing and provision pointing out the strengths and the weaknesses of the health care system, from which general future orientations for a policy would be developed. It should be however noted that it is essential to provide a suitable economic and political environment for these orientations to succeed.

Despite the different inefficiencies in the health sector, Lebanon has somewhat achieved acceptable health indicators, as it would be discussed in the following chapter. The main inefficiency issues can be summarised as follows:

(i) Unrestrained upward pressure on health expenditures due to weakness in system design and lack of control, translating into high expenditures on health (with no real value for quality), in terms of both value and percentage of GDP. The health expenditures vary between 11.5% and 12.5% of GDP, according to different sources; a figure that is high according to international comparisons, especially when assessing the value of services being provided.

(ii) Although the public sector participates in financing and, to a lesser extent, in providing direct health services, its involvement is still weak, especially when compared to other countries or when comparing the productivity and outcomes of the public sector to those of the private sector for the same amount of expenditures.

(iii) Unequal resource allocation across insurance funds, resulting in the provision of different health care benefits to beneficiaries of different health insurance funds. In addition, there are substantial disparities in financial access to health services by income levels and

region, which again affect mostly the poorer segments of the society.

(iv) High out-of-pocket spending; it reaches more than half of total health care expenditures and affects mostly the poor segments of the society.

This report is divided into six main sections, as follows:

- 1- Demographic and health indicators
- 2- Health problems
- 3- Health expenditures and financing
- 4- Health services provision
- 5- SWOT analysis
- 6- Recommendations

Demographic and Health Indicators

The health status of the Lebanese population is a major issue to be taken into consideration when developing health policies. In general, health outcomes in Lebanon are acceptable with relatively low infant and under-five mortality rates, and high life expectancy. The relative favourable indicators of child and maternal health conceal important geographical differences. Not only do these disparities point out differences in health status, but also in social, economic and living conditions in different geographical areas of Lebanon.

Despite the acceptable health situation, there are still areas where improvement can be done and preventive actions can be also conducted to reduce the prevalence of unhealthy lifestyles and thus health problems. Furthermore, over the next decades, Lebanon will be still witnessing significant increases in the burden of injuries and non-communicable diseases with an aging population. As the non-communicable diseases are more expensive to treat and harder to prevent, this will continue to drive up the cost of patient care and will have implications on future health need patterns and on health financing and delivery.

More research should be conducted in order to update data on indicators, as in many cases the available figures are not up-to-date. This section summarises demographic and health indicators in Lebanon based on the available sources.

Population size and spatial distribution

The population was estimated at about 3.1 million from the Population and Housing Survey (PHS) in 1996 and at about 4 million (including 200,000 Palestinians) from the Study of Living Conditions of households (LCS) in 1997. According to the human development report, the population of Lebanon has grown about 2.4 times in fifty years; this is a relatively low rate when compared to growth rates of other countries in the region, such as Saudi Arabia, where the population has multiplied 36 times⁷⁰ in the same period of time.

Between 1970 and 1996 many changes have occurred in the population distribution by Mohafaza; where a decrease in the population of the capital city of Beirut and a rise in the peripheral areas in the east, north and south have occurred. However, the city of Beirut with its suburbs still covers over one-third of the Lebanese population⁷¹.

Age structure

The population distribution by age is a useful health status indicator since it helps reveal the more vulnerable groups, such as those at the extremes of age.

The age structure of the Lebanese population has experienced changes over the years with a decrease in the younger population and a significant increase in the older one. About 30% of the population was less than 15 years of age in 1996⁷², a figure less than that witnessed in Arab countries (38%)⁷³. This percentage has declined from about 42% in 1970 to 28.4% in 2000⁷⁴. About 7% of the population was aged 65 and above in 1996⁷⁵, a relatively high figure

70 *Arab Human Development Report 2002*, UNDP.

71 Faour et al. *Analytical Studies of Population and Housing Survey. The population of Lebanon*, 2000.

72 Faour et al. *Analytical Studies of Population and Housing Survey. The population of Lebanon*, 2000

73 *Arab Human Development Report 2002*, UNDP.

74 Central Administration of Statistics, UNICEF. *The State of the Children in Lebanon*. 2000.

75 Faour et al. *Analytical Studies of Population and Housing Survey. The population of Lebanon*, 2000.

when compared to other Arab countries. In fact, the Arab Human Development Report shows that both Lebanon and Tunisia have the highest percentage of elderly, aged 60 and above, among Arab countries. In comparison, only 3% of the population in Qatar was aged 60 and above in 2002⁷⁶.

It is important to note that regional differences with respect to distribution of population by age exist, where a high percentage of young population is found in the poorest regions of Lebanon⁷⁷.

Fertility

The total fertility rate (TFR) declined substantially from 4.6 in 1971 to around 2.9 in 1996, as estimated by Faour et al. This is reflected by a decline in the Crude Birth Rate (CBR) from around 34 per thousand in 1970 (a low figure when compared to countries in the pre-transition level) to around 24 per thousands in 1996⁷⁸. The pap-child survey estimates total fertility rate at 2.4, five years preceding the survey in 1996. Lebanon witnesses variations in the TFR among regions (3.4 in North Lebanon and 1.7 in Beirut).

A delay in age at first marriage, an increase in female celibacy, and a decline in total marital fertility rate can explain the observed fertility decline. All these factors are influenced by economic and social conditions such as high rate of unemployment, low levels of income, and improvement of female educational attainment.

Crude Death Rate

Crude Death Rate (CDR) also declined from 1970 to 1996, from 9 per thousand to 7 per thousand. In view of the decline in fertility and mortality, Lebanon, along with Bahrain, Kuwait and Tunisia⁷⁹, has been classified as a country at an advanced stage of demographic transition.

76 Arab Human Development Report 2002, UNDP.

77 Central Administration of Statistics, UNICEF. *The State of the Children in Lebanon*. 2000.

78 Faour et al. *Analytical Studies of Population and Housing Survey. The population of Lebanon*, 2000.

79 Arab Human Development Report 2002, UNDP.

Population Growth

Attributed to the low fertility rate, the Lebanese population grew annually at a 1.5% between 1970 and 1996⁸⁰. This figure is relatively low compared to other countries in the region, such as Yemen, where population growth reaches as high as 4.1%⁸¹.

Life expectancy

Life expectancy (LE) was estimated in 1996 at around 71 years (69 for males and 72 for females), a figure about 7.3 years higher than that of 1970⁸². It is worth mentioning that this estimate is higher than the world average estimated at 69 years⁸³.

It is interesting to note that the three-year difference for LE between females and males is low when compared to the global average of around 4 years.

Morbidity statistics

Infant and child mortality

Infant and under-five mortality rates in Lebanon were relatively low at 28 and 32 per thousand respectively in 1996, and 27 and 35 respectively in 2000⁸⁴. Large regional disparities exist; low rates are registered in Mount Lebanon (19 and 23 respectively), while high rates in Bekaa (40 and 58 respectively)⁸⁵. The majority of deaths, 63.7%, occur in the first month of life.

80 Faour et al. *Analytical Studies of Population and Housing Survey. The population of Lebanon*, 2000.

81 *Arab Human Development Report 2002*, UNDP.

82 Faour et al. *Analytical Studies of Population and Housing Survey. The population of Lebanon*, 2000.

83 *Arab Human Development Report 2002*, UNDP.

84 PAPCHILD. 1996. *Lebanon Maternal and Child Health Survey and Central Administration of Statistics, UNICEF. The State of the Children in Lebanon*. 2000.

85 Central Administration of Statistics, UNICEF. *The State of the Children in Lebanon*. 2000.

Maternal mortality

The maternal mortality ratio has been estimated by the PAPCHILD survey at 104/100,000 live births and by Faour et al at 130-155/100,000. These figures are quite high when compared to other Arab countries, where Kuwait and the United Arab Emirates levels reach less than five per 100.000⁸⁶.

This high rate of maternal mortality, despite the fact that the majority of women deliver in hospitals, suggests poor organisation of services and poor quality of health care⁸⁷.

Maternal health care Indicators

The following indicators derive exclusively from the PAPCHILD survey.

Ante-natal care

Around 87% percent of the births received antenatal care at least once during the five years preceding the PAPCHILD survey. The causes of not receiving ante-natal care were mainly:

- absence of health problems (59%)
- high cost of health services (24%)
- previous experience with antenatal care (10%)
- unavailability of services (1%).

Delivery care

Most of the births during the five years preceding the PAPCHILD survey were delivered in hospital (88%) and few at home (12%). Among births delivered, 77% were delivered normally and 23% with complications. Caesarean section deliveries represent a relatively high rate with 17% of births.

⁸⁶ Arab Human Development Report 2002, UNDP.

⁸⁷ Faour et al. *Analytical Studies of Population and Housing Survey. The population of Lebanon*, 2000.

Health Problems

With all the demographic changes occurring, Lebanon is at present in a state of epidemiological transition with a shift from infectious diseases to non-communicable diseases. Although there are still some important health problems related to infectious, chronic and generative diseases (such as cardiovascular diseases, hypertension, diabetes, and cancer) have become more prevalent in Lebanon. Unhealthy dietary habits and lifestyles have also become more prevalent.

The burden of poor health is not easy to assess in Lebanon, due to the limited data available. Below are summarized the main health problems in Lebanon from the available data.

Infants

Perinatal and neonatal mortality

Perinatal and neonatal mortality constitute major causes of burden of diseases of infants in Lebanon. In a study, by the American University of Beirut in 1998, on a review of 3,367 consecutive births, perinatal mortality was estimated at a rate of 22.4 per 1,000 (early neonatal mortality at 6.6 and stillbirth at 15.8).

High neonatal mortality has also been shown in the PAPCHILD and the State of the Children surveys. Mortality occurring during the first month of life represented 74% and 63.7% of infant mortality rate in 1996 and 2000 respectively⁸⁸.

Children

Childhood diseases

Around 3.5% of children less than 5 years of age suffered from acute respiratory infections in 2000⁸⁹ and 20% of children less than 5 years of age were infected with acute diarrhea in 2000⁹⁰.

88 PAPCHILD.1996. *Lebanon Maternal and Child Health Survey* and Central Administration of Statistics, UNICEF. *The State of the Children in Lebanon*. 2000.

89 Central Administration of Statistics, UNICEF. *The State of the Children in Lebanon*. 2000.

90 Central Administration of Statistics, UNICEF. *The State of the Children in Lebanon*. 2000.

Stunting

The PAPCHILD survey revealed that 12% of children under-five are severely or moderately stunted. High disparities of stunting were observed among different governorates. Low levels of stunting were observed in Beirut and Mount Lebanon (5%) and high rates in the Bekaa (31%). The governorates of the South and Nabatieh show also serious nutritional problems with level of stunting of 15% and 18% respectively.

Non-intentional injuries

As observed in developed countries, injuries are the leading causes of deaths in children after their first birthday⁹¹. We note that in the present study only domestic injuries were analyzed.

Youth and Adults

Lifestyle and health risk behaviours

Health risk behaviours among youth are prevalent as shown in a study conducted among entering students at the American University of Beirut in 1998. Around 89% of students reported two or more risk behaviours. The most common reported health risk behaviours were unhealthy dietary patterns, smoking and alcohol consumption.

Obesity

A cross-sectional survey conducted in 1997 on a representative sample in Lebanon, revealed high prevalence rates of overweight and obesity. About 53% of Lebanese adults, above 20 years of age, were overweight and 17% were obese, results comparable to those in developed countries.

Smoking

Smoking, one of the leading causes of preventable illnesses and premature death in the world, is a very prevalent habit in Lebanon. One national household study reported a prevalence of 54% of smoking among adults aged 18 years and above in 1998 (Chidiac et al.), 61% of males and 47% of females. According to the same study, smoking was also high among youth with a prevalence of 16.4%. Another study conducted in Beirut in 1999, revealed that 36% (42% males, 31% females) of adults were current cigarette-smokers and 31% were hubble-bubble smokers (27% males, 34% females).

91 Central Administration of Statistics, UNICEF. *The State of the Children in Lebanon*. 2000.

Chronic diseases

Cardiovascular diseases, diabetes and cancer are also prevalent in Lebanon. Cancer was estimated at about 3,500 cases (per year) in 1996 with an incidence of 106/100,000.

Diabetes, a risk factor for cardiovascular diseases, is among the common diseases in Lebanon with 13.1% of Lebanese aged 30 years and above having non-insulin-dependent diabetes mellitus in 1995 and sometimes 29% among elderly above 65 year of age in 1998.

Traffic and road accidents

Traffic and road accidents are a growing public health problem in Lebanon. Around 337 deaths and 3,222 casualties resulting from traffic and road accidents were reported by the Directorate General of International Security Forces in 1996. These figures rose to 389 deaths and about 4,060 casualties in 1999. Excessive speed and not using safety measures were the main causes of road accidents.

HIV-AIDS

HIV/AIDS in Lebanon constitutes an emerging health problem. However, according to available data, it does not constitute a major threat. The first case of AIDS in Lebanon was diagnosed in 1984, and by 2004 about 700 cases, persons either having AIDS or being infected with the virus, were reported. It should be noted that these estimates may be far from real figures because of lack of reliable data and under-reporting. Although Lebanon is still one of the low prevalent countries in HIV/AIDS, vigilance to this emerging problem is required given the high spread of the disease, the conservative culture of the Lebanese society with its religious beliefs, the mass tourism, and high migration in the labour sector.

Health Expenditures and Financing

General Health Expenditures

In Lebanon, 1998 figures point out that the per capita expenditure was US\$ 499⁹² and the health care expenditures as a percentage of GDP

⁹² Based on a population figure of 4,000,000, as per Lebanon National Health Accounts, December 2000.

were 12.3%⁹³, as a result of a total health expenditures figure of L.L. 2,994,119 million (equivalent to US\$ 1.996 billion) in 1998⁹⁴. Data also shows that health expenditures have risen between 1997 and 1998 at a rate of 10.9 points higher than the GDP nominal growth⁹⁵. In 2002, per capita expenditure on health⁹⁶ was US\$ 568⁹⁷, a figure coming third after only Qatar (US\$ 935) and United Arab Emirates (US\$ 802) in the World Health Organization Eastern Mediterranean Region. Based on a total population figure of 3,653,000 according to WHO, the total expenditures on health care in Lebanon reached US\$ 2.075 in 2002.

The health expenditures figures as percent of GDP exceed that of most of the developing countries, where it reaches 4% to 6%⁹⁸. This share of GDP is comparable to many developed countries, as shown in table 1 below. However, it is important to note that the quality of care and coverage is far inferior in Lebanon than in those countries. Health expenditures in Lebanon registered 11.5% of GDP in 2002 according to WHO statistics, where GDP was taken at US\$ 18.1 billion⁹⁹.

Table 1: Health care expenditures as percentage of GDP in selected countries

Year	Germany	Spain	France	Sweden	Italy	United States
1980	8.7	5.4	7.3	8.8	-	8.7
1990	8.5	6.7	8.6	8.2	8.0	11.9
2000	10.6	7.5	9.3	8.4	8.2	13.1

Source: *Problèmes économiques*, # 2862, 10 Novembre 2004

93 Based on a GDP of US\$ 16.2 billion in 1998 as per Lebanon National Health Accounts, December 2000.

94 *Lebanon National Health Accounts, December 2000.*

95 Ammar W. *Health system and reform in Lebanon.* World Health Organization, 2003.

96 Definition: total health expenditures per capita is the per capita amount of the sum of public expenditure on health and private expenditures on health, World Health Organisation.

97 World Health Organisation statistics.

98 The Lebanese Health Care System 2000.

99 The GDP figure of the US\$ 18.1 billion was calculated by CRI based on 2002 figures published by the WHO: GDP per capita of US\$ 4,956 (at average exchange rate, i.e. not adjusted for Purchasing Power Parity-PPP), and total population of 3,653,000.

In comparison with other Middle East and North Africa (MENA) countries, the Lebanese figures of health expenditures are much higher than the MENA average (table 2). The Lebanese per capita expenditure is about four times higher than that of Jordan or Tunisia, whereas its health indicators are not very superior. Infant mortality in Jordan and Tunisia for example, is the same as that in Lebanon, and life expectancy only slightly better.

Although these high expenditures do not translate into exceptional health indicators, it should be mentioned, that Lebanon has witnessed significant improvement over the years.

In Lebanon, the private sector constitutes a quite significant share of the total health expenditures as a percentage of GDP; it constitutes 9.9% of GDP according to 1998 data¹⁰⁰. This figure is in fact confirmed by table 2 below, which is based on another source (World Development Indicators, World Bank). This private percentage is the highest among all upper middle income countries in the region as shown in table 2 below.

**Table 2: International comparison of:
health expenditures per capita & as % of GDP**

Country or Region	GDP per Capita (USD)	Health Expenditure (per capita USD)	Health Expenditures as percentage of GDP		
			Total	Public Sources	Private Sources
Yemen (1997)	449	19	5.0	1.5	3.5
Egypt (1998)	1,016	38	3.7	1.6	2.1
Morocco	1,241	49	4.0	1.3	2.7
Jordan	1,475	136	9.1	5.2	3.8
Iran	1,776	101	5.7	2.4	3.3
Tunisia	2,001	105	5.9	3.0	2.9
Lebanon (1998)	4,045	499	12.4	2.3	9.9
MENA (1994)	5,608	116	4.8	2.6	2.2
E. Asia & Pacific	970	28	3.5	1.5	2.0
OECD (1994)	24,930	1,827	8.3	6.5	1.8

Source: World Development Indicators, World Bank

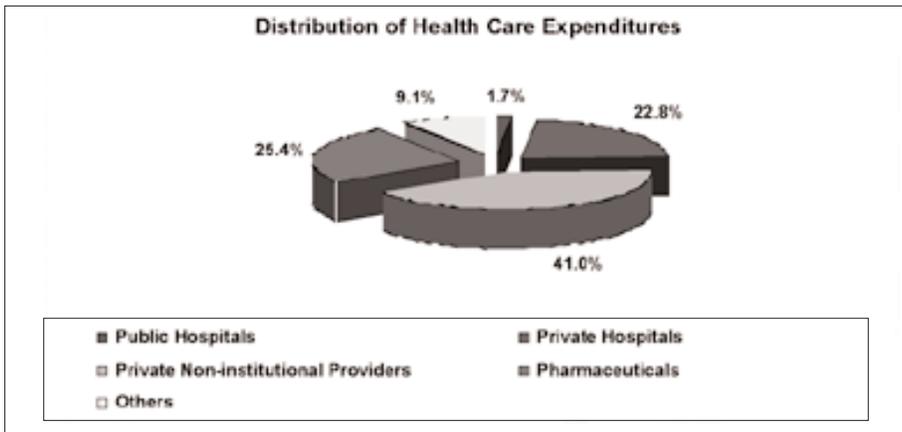
Shiber G, Maida A, Health Affairs Vol (3)

100 *Lebanon National Health Accounts 1998, December 2000.*

Sources of Health Financing

In Lebanon, private sources account for the most significant sources of funds for health, amounting to about 80% of total available funds. Household out-of-pocket expenditures contribute to a large proportion of 69.74% of private health care financing, the public sources account for only 17.98%, and international donors for the remaining 1.96%¹⁰¹ (figure1). According to two other sources, the Lebanese Health Care System¹⁰² and ESCWA "Impact of Economic Variables on the Social Dimension of Development: Education and Health"¹⁰³, the public sector would contribute to a higher amount (about 28%) of health financing. An explanation for these observed differences might be that the Lebanon National Health Accounts may not be taking into account the government's coverage of its employees for the calculation of the figure. According to more updated data provided by the WHO, the general government expenditures on health¹⁰⁴ reached 30.1% in 2002 of the total expenditures figure with the remaining balance (69.9%) being covered by private sources.

Figure 1: Health Expenditures by sources of funds



Source: Lebanon National Health Accounts 1998: main findings

101 Lebanon National Health Accounts 1998, December 2000.

102 The Lebanese Health care System 2000.

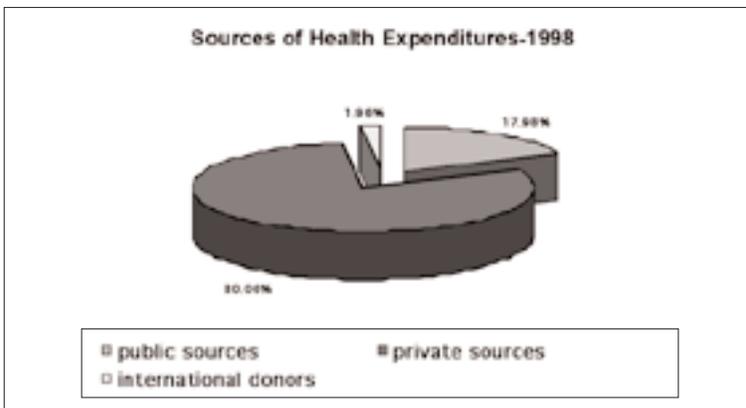
103 The Impact of Economic Variables on the Social Dimension of Development: Education and Health, 2005.

104 Definition: public health expenditures is the sum of outlays on health paid for by taxes, social security contributions and external sources (without double-counting the government transfers to social security and extra-budgetary funds), World Health Organisation.

Overall, a great burden is being placed on the private sector when it comes to health care financing and the contribution of the public sector is relatively weak. Not only is financing by the public sector weak, but also it can be considered the sole role of the government in the health sector.

In terms of providing health care, the public sector accounted for less than 2%, the private sector bears the largest share of 89%, and other sources for the remaining balance¹⁰⁵ (figure 2).

Figure 2: Distribution of Health Care Expenditures



Source: *Lebanon National Health Accounts 1998: main findings*

Expenditures on health care are in general financed through either direct contributions from beneficiaries, or their employers, or through taxes, or both. In the case of Lebanon, four major types of financing agents, and their corresponding programs, are distinguished as follows:

- **Government:** Ministry of Health (MOH) and Ministry of Social Affairs (MOSA).

- **Social Insurance:**

- a- National Social Security Fund (NSSF).

- b- Civil Service Cooperative (CSC).

- c- Security Forces (uniformed staff members) includes Army,

¹⁰⁵ *Lebanon National Health Accounts 1998*, December 2000.

Internal Security Forces (ISF), General Security (GS), and State Security (SS).

- **Private firms**
- **Households**

Public Expenditures

As mentioned above, public participation in financing of health expenditures reached about 30% of total health expenditures in 2002, according to WHO. This figure is quite low in comparison to other countries. Table 3 below shows the government participation in financing health care in selected developed countries.

Table 3: Percentage of government financing of health care expenditures in selected countries

Year	Germany	Spain	France	Sweden	Italy	United States
1980	78.7	79.9	-	89.4	92.5	41.5
1990	76.2	78.7	76.6	83.6	89.9	39.6
2000	75.0	71.7	75.8	80.9	85.0	44.2

Source: Problèmes économiques, # 2862, 10 Novembre 2004.

Overall, the involvement of the government in the health sector, in terms of financing and providing health services, is weak, especially when compared to other countries. However, the rate of increase in public health expenditures is higher than average real GDP growth¹⁰⁶. Nevertheless, this does not result in significant impact on quality of health services and on the health status of the population.

Expenditures on health are in general financed through either direct contributions from beneficiaries (or their employers) or through taxes, or both. In the case of Lebanon, four major types of financing agents, and their corresponding programs, are distinguished, as follows (table 4): two on the public side and two on the private one.

106 Ammar W., Jokhadar A., Awar M. Economie de sante/health economics. Health sector reform in Lebanon. *Lebanese Medical Journal*. Volume 46(6).

Table 4: Insurance programs and their corresponding supervising ministries

On the public(or para-public) side

I. Social Insurance

National Social Security Fund (NSSF)

Service Cooperative (CSC)

Security Forces (uniformed staff members): Army, Internal Security Forces (ISF), General Security (GS), & State Security (SS)

II. Government

Ministry of Health (MOH)

Ministry of Social Affairs (MOSA)

On the private side

III. Private firms

IV. Households

Source: The Impact of Health Cost on the Right to Health Care in Lebanon, 1999

Based on the above table, there are five sources of health insurance on the public side. These programs in fact operate under the supervision of different ministries or public institutions, which employ these programs in order to mainly finance health services, and in some rare cases to produce these services (table 5). Each of these programs addresses a different group of the society, in terms of demographic and social characteristics, and has its own mode of functioning. This disjointed structure pertaining to each of the schemes translates into non-uniform quality of health services provided and their corresponding costs.

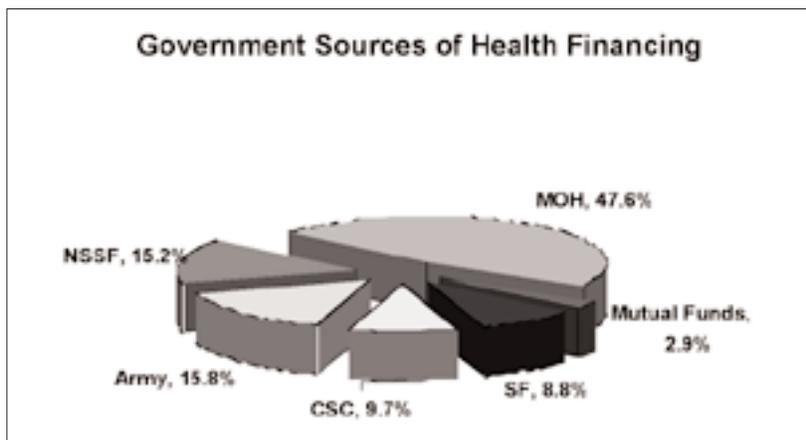
Table 5: Public Insurance programs and their corresponding supervising ministries

Program	Ministry
National Social Security Fund (NSSF)	Ministry of Labour
Civil Servants Cooperative (CSC) & State Security (SS)	Presidency of Council of Ministers
Internal Security Forces (ISF) & General Security (GS)	Ministry of Interior
Army	Ministry of Defence
Ministry of Health	Ministry of Health
Ministry of Social Affairs	Ministry of Social Affairs

Source: Lebanon National Health Accounts 1998 and Size of the Public Sector 2002

The Government's health budget is allocated to various public agencies as follows: MOH 47.6%, NSSF 15.2%, Army 15.8%, CSC 9.7%, Security Forces 8.8% and Mutual Funds 2.9%¹⁰⁷ (figure 3).

Figure 3: Government sources of health financing



source: Ammar W. *Health system and reform in Lebanon*. World Health Organization, 2003

Funds Coverage

Social Insurance

Insurance Coverage

Approximately half (45.9%) of the Lebanese households enjoy some form of health insurance, either social or private¹⁰⁸. This figure undergoes regional disparities; it varies from one Governorate to the other. Beirut enjoys the highest percentage of insured households (53.2%) and Bekaa the lowest (36.4%).

107 Ammar W. *Health system and reform in Lebanon*. World Health Organization, 2003.

108 National Household Health Expenditures and Utilization Survey 1999.

Table 6: Types of health insurance schemes & percentage of population covered by each

Type of Insurance	Percentage of Households Covered ¹⁰⁹
National Social Security Fund (NSSF)	17.8%
Civil Servants Cooperative (CSC)	4.5%
Uniformed	8.1%
Private Insurance	8.3%
Other Types ¹¹⁰	10.7%
Total Insured	45.9%
Missing	1.8%
Total Non-Insured	52.3%
Total	100%

Source: National Household Health Expenditures and Utilisation Survey 1999

NSSF covers the highest proportion of the Lebanese households, 17.8% (table 6), which is still low (of which 3.2% hold complementary insurance)¹¹¹. In fact, this figure, 17.8%, is significantly different from the often quoted assertion that the NSSF covers around one-third of the Lebanese population. The coverage of this scheme also varies from one region to the other; it is higher in Beirut and Mount Lebanon (23.8% and 23.9% respectively) and lower in Nabatieh (10.2%). This finding is typical, as cities hold a greater concentration of companies and firms.

The civil servants cooperative covers 4.5% of all Lebanese households. Unlike NSSF, CSC coverage is more concentrated in Mohafazats other than the capital Beirut (8.5% in Nabatieh vs. only 3.2% in Beirut). The same applies to the coverage of uniformed insurance

109 The percentage of insured population of 45.9% was in fact arrived at by deducting the percentage of uninsured population and missing answers from 100%, rather than adding up the percentages of insured individuals according to the specified schemes.

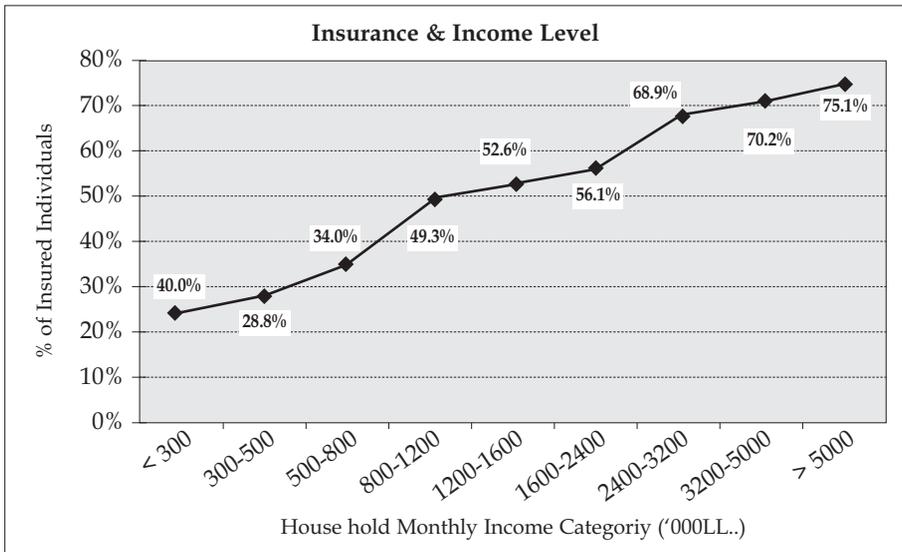
110 This category includes all types of insurance other than the personal (individual or household) ones, i.e. those provided at work or university.

111 National Household Health Expenditures and Utilisation Survey 1999.

(security forces) scheme; 3.8% of households in Beirut vs. 12.7% of that of Bekaa. As for the private insurance, table 6 indicates that 8.3% of the households participated in this scheme. However, this figure includes people holding other insurance, NSSF for example. Thus, removing the effect of other types of insurances, private insurance alone covers only 7.6% of the Lebanese households, with the highest proportion being in Beirut (15.2%) and the lowest in Nabatieh (1%).

As a matter of fact, the National household expenditures and utilization survey shows a positive correlation between income level and insurance coverage. Figure 4 below shows that, for example, 28.8% of the population whose monthly household income is between L.L. 300,000 and L.L. 500,000 are insured. This figure rises to 75.1% for individuals with monthly household income more than L.L. 5,000,000.

Figure 4: Insurance vs. Income level



Source: National Household Health Expenditures and Utilisation Survey 1999

NSSF

NSSF, operating under the supervision of the ministry of labor, addresses Lebanese citizens who are workers and employees in the private non-agricultural sector; permanent employees in agriculture, employees in public institutions and independent offices who are not

subject to civil service, teachers in public schools, taxi drivers, newspaper sellers and university students¹¹².

Health coverage of the NSSF includes sickness and maternity allowances amounting to 90% of hospitalization costs, and 80% of medical consultation fees, excluding dental care. Workplace injuries and occupational health are not covered by NSSF, but by MOH instead. The NSSF fund thrives on contributions of three individual sources: employers, employees, and the Government. The employer pays 21.5%¹¹³ of the salary of each employee (7% for health, 8.5% for the end-of-service and 6% for family allowances); the employee pays 2%¹¹⁴ of his/her salary and the Government pump in another 25%¹¹⁵ of each employee's salary as a contribution to the fund. Based on these figures, it can be inferred that the NSSF, although a public institution, is mainly financed from private sources.

The number of beneficiaries of the NSSF witnessed a steady increase over the past 10 years, to reach around 489 thousand¹¹⁶ contributors at the end of 2004, against only 240 thousand¹¹⁷ in 1995. This increase was partially driven by the increase in the number of declarations reported by private sector firms; however, it was in major part attributed to the increase in some special socio-economic categories, whose contribution rates are subsidized by the government budget, such as taxi-drivers, fishermen, and mayors. Besides, a new category was added in 2003; it consists of voluntary contributors whose number reached around 33 thousand beneficiaries at the end of 2004. Despite this rapid increase in the number of the NSSF contributors, the working population is still under-represented, where contributors (489 thousand at the end of 2004) constitute less than 50% of the working population, estimated at about one-third of the total population.

112 *This scope of coverage of the NSSF was based on the "Lebanese Health Care System 2000".*

113 Antoine Wakim, *Le Système de Retraite Libanais*, June 2004.

114 Antoine Wakim, *Le Système de Retraite Libanais*, June 2004.

115 *The Lebanese Health Care System 2000.*

116 *National Social Security Fund- A brief review*, August 2005.

117 *National Social Security Fund- A brief review*, August 2005.

It should be noted that the NSSF scheme allows also for benefiting individuals other than the enrollers themselves, such as the spouse and the children (under 16 years of age)¹¹⁸, leading to a dependency ratio (beneficiaries/enrollee) of 3.5¹¹⁹ in 1998. The number of NSSF beneficiaries reached 1,200,000 in 1999¹²⁰. However, when analysing table 7 above, which states that the number of NSSF beneficiaries is 17.8% of the population, it can be inferred that the number of people covered by this scheme is a bit more than 700,000. This finding significantly contradicts the 1,200,000 figure mentioned in the “The Size of the Public Sector”.

The NSSF covers a fairly young population as the retired individuals are excluded from the NSSF coverage plan. This shifts the burden of the cost to the MOH welfare, which finances the coverage of new beneficiaries who are older (with more costly health problems) and in general poorer¹²¹.

The Cooperative of Civil Servants (CSC)

The CSC insures all permanent employees of the public sector who are subject to the law of Civil Service. CSC covers 90% of hospitalization fees, but only 75% of medical consultations, medication and dental treatment fees. In addition, it covers 75% of hospitalization costs of the employee’s family members and 50% of their medical consultations fees and medication bills. The CSC is financed by a 3%¹²² deduction of the employee’s payroll, with the remaining balance being provided by the Government. The CSC uses the multiplier of 6¹²³ to estimate the numbers of beneficiaries. In 1998, the number of enrollees reached 65,000 and that of beneficiaries 325,000, as per The Lebanese Health Care System.

118 This identification of beneficiaries was based on The Lebanese Health Care System 2000.

119 *The Lebanese Health Care System 2000*.

120 “*The Size of the Public Sector*”, Consultation and Research Institute, 2002.

121 Ammar W. *Health system and reform in Lebanon*. World Health Organization. 2003.

122 As per League of Secondary School Teachers.

123 *The Lebanese Health Care System 2000*.

This figure applies in 1995, where the number of enrollees reached 50,000 and that of beneficiaries reached 300,000. However, this multiplier figure dropped to 5 in 1998, as per the figures of this year.

Security Forces

The coverage of the security forces is channeled through several funds: army, internal security forces, general security and state security. It covers all uniformed staff members with their dependants. This scheme is the most generous; it pays the full fees for hospitalization and medical expenses for the enrollee himself, 75% of the fees for the spouse and children and 50% for dependant parents. Besides, the scheme covers treatment abroad. As for the financing, a monthly L.L. 1,000 per beneficiary¹²⁴ is paid as a subscription fee, and the remaining balance is paid by the government. According to "The Lebanese Health Care System 2000", the total number of beneficiaries from the security forces funds reached 533,340 in 1998, among which there were 113,363 enrollees. However, "The Size of the Public Sector" estimates this figure at 394,000.

Ministry of health

The Ministry of Health acts as the safety net that makes available coverage to the uninsured population. The purpose is to provide universal access to health services. Its budget is spent essentially on private health care reimbursements, mostly to private hospitals and other providers which, roughly speaking, captures seventy-five to eighty-five percent of the budget¹²⁵.

It funds/covers a major part of the hospitalization costs and prescribed therapies in the private health sector *for any citizen who is not covered by any form of insurance, social or private*. It is theoretically responsible for providing health services to 52.3% of the households in Lebanon¹²⁶.

This coverage is independent of the income and asset status of the individual. Before 1992, the MOH used to cover 100% of the health care bill, afterwards, this percentage dropped to 85% of the bill¹²⁷, where the beneficiary of the health services covers the remaining

124 Size of the Public Sector, Consultation and Research Institute, 2002.

125 *Lebanon National Health Accounts 1998*, December 2000.

126 National Household Health Expenditures and Utilization Survey 1999.

127 *Size of the Public Sector*, 2002 and *Lebanon National Health Accounts 1998*, December 2000.

proportion. However, it should be noted that patients very often pay more than the agreed upon 15% due to the non-stated exclusion of certain services from the scope of coverage or inclusion of extra fees, such as doctor fees. These practices are very clearly the result of lack of control and lack of clear unified set standards by which all medical providers are to abide.

The MOH has been the major financier of the health services for resolving equity issues and making available health care to everyone in Lebanon. The MOH's expenditures are classified into three main categories: hospitalization, salaries and pharmaceuticals, in addition to other miscellaneous expenses such as MOH wages and salaries (6%-7%). The largest proportion of MOH expenditures, as mentioned earlier, is allocated to hospitalization. This percentage seems high as the MOH is theoretically responsible for covering all the uninsured individuals. The hospitalization category includes all curative care services such as surgeries, nursing care, and laboratory services. This category also incorporates very costly health services, including treatment of acute and prolonged diseases such as open-heart surgery, kidney dialysis, cancer treatment and drugs for chronic diseases and high-technology ambulatory services such as MRI and CT scanner.

Overall the budget of the MOH rose from LL 274,000 million in 2000 to 360,250 million in 2005 as shown in table 7. In terms of percentage of GDP¹²⁸, it rose from 1.1% in 2000 to 1.2% in 2005. The state budget has been the main source of financing of the Ministry of Health. The growth in the state's budget allocation to MOH has increased steadily and slightly from year to year over the period 2000-2005 as shown in table 7 below. The Ministry also receives grants from international organizations; however, those donations are irregular and represent only a small fraction of the Ministry's expenditures.

It should be noted that if the debt service was excluded from the state's budget, the proportion of the MOH budget would rise to 5.6% in 2001 and 6.8% in 2004.

Table 7: State's and MOH allocated budgets

Year	State's Budget (million L.L.)	MOH Budget (million L.L.)	Percentage
2000	8,590,000	274,000	3.2%
2001	9,900,000	315,274	3.2%
2002	9,375,000	289,526	3.1%
2003	8,600,000	285,130	3.3%
2004	9,380,000	344,613	3.7%
2005	9,575,000	360,250	3.8%

Source: Government Budgets (2000, 2001, 2002, 2003, 2004, 2005).

According to "Lebanon National Health Accounts", the MOH ran an excess in 1995, but incurred successive dearth from 1996 till 1998, as effective/actual expenditures exceeded the budgeted ones. This is due to the fact that the budget allocated to the MOH by the Government is usually not enough to cover the ministry's actual expenditures.

Between 1995 and 1998, the dearth was worst in 1997, where it registered 60.6% of the allocated budget, according to "Lebanon National Health Accounts". In 1998, the situation improved to some extent, to reach 10.1% of the allocated budget. In fact, these deficits affect mostly the health providers (hospitals), as the MOH responds to these deficits by delaying due payments and thus its obligations accumulate over the years. After 2000, the gap between budgeted and actual expenditures tended to decrease.

Different factors could be used to explain the incurred deficits, as follows:

- The ministry's increasing commitments towards covering costly health services for more than 50% of the population.

- The increased awareness of people of the ministry's significant coverage of hospitalization fees in private hospitals. This encourages providers and consumers to provide and seek high-cost care. The consumer has little incentive to seek care early through primary care visits.

- The inability of the MOH to curb hospital costs. In fact, the MOH deficits affect mostly the health providers (hospitals), as the ministry

responds to the deficits by delaying due payments and thus its obligations accumulate over the years.

- Lack of control on actual costing of health services, coupled with the limited coverage of social insurances, results in shifting of cost burden on MOH for expensive interventions¹²⁹. To illustrate this, suppose that a patient seeks a medical consultation upon which he pays the fees pertaining to doctor, drugs and medical tests. If these paid fees are equivalent to those set by NSSF for the sought services, he/she will receive 80% of the total amount paid, however not before five or six months later. In practice, this is a rare case, where patients pay for the medical services received far more than the NSSF set prices, leading to a total compensation received much less than the set 80%.

Inefficiency of the financing of the MOH could be in fact attributed to more than one factor, as follows:

- As shown in table 8 below, hospitalization and same-day surgery constitute the bulk, about 70% of the MOH expenditures on curative care.

- About one-fifth of MOH's expenditures on curative care go to limited specific health problems, such as open-heart surgery, kidney dialysis and transplant, chemotherapy, and burns (table 8). Although these items consume a considerable portion of the MOH health care budget, they affect very few people. Moreover, it has been estimated in 1998 that 0.2% of the population benefit from 23% of the MOH budget for only three specific health problems (kidney dialysis and transplant, cancer treatment and open-heart surgery). These striking figures would raise the issue of the priority of coverage of patients according to the severity of their cases. Although patients with fatal diseases, such as cancer, have little chances of survival, they ought to be given special care and proper financial coverage, despite the fact that their treatments are quite expensive and might sometimes extend for long periods of time.

129 Ammar W., *Health system and reform in Lebanon*, World Health Organization, 2003.

Table 8: Categories of MOH curative care expenditures

Category	1996	1997	1998
Hospitalisation	69%	70%	67%
Same-day Surgery	0%	0%	3%
Nursing Care Facilities	10%	10%	11%
Physiotherapy	0%	0%	0%
Prosthesis	0%	0%	0%
Lab Rad, CTS & MRI	2%	2%	1%
Open-heart surgery, kidney dialysis, kidney transplantation, burns & chemotherapy	20%	18%	17%
Total	100%	100%	100%
Share of curative care expenses as a percentage of total MOH expenditures	77%	78%	75%

Source: Lebanon National Health Accounts 1998, December 2000 (adjusted by CRI)

Private Expenditures

Private Insurance

Compared to other countries, Lebanon has a fairly well-developed private insurance sector. The Ministry of Economy registered 91 private insurance companies, according to "The Lebanese Health Care System", out of which 67 are Lebanese. Beneficiaries subscribe in private insurance to get either a comprehensive or complementary health insurance policies. The former refers to stand-alone health insurance policies that cover a wide range of benefits including in- and out-patient care and pharmaceutical expenses. As for complementary policies, they are more often than not acquired to fill gaps in the benefits provided by social insurance.

A certain proportion of the health bill is covered by the private insurance, which is in most of the cases acquired by the individual rather than private employers. The percentage of people completely covered by private insurance is around 8%¹³⁰ and by gap insurance is 4.6%¹³¹. In 1998, the Central Statistics Agency estimated that 464,000

130 Lebanon National Health Accounts 1998, December 2000, The Lebanese Health Care System 2000, National Household Health Expenditures and Utilisation Survey, October 2001.

131 Lebanon National Health Accounts 1998, December 2000.

(116,000 of which is co-insurance) persons had taken up a private insurance; however this figure was 473,000 (173,000 of which are co-insurance) according to MedNet's estimates¹³².

It is generally believed that lack of transparency is practiced by private insurance companies. They generally ask their beneficiaries to seek MOH's coverage for serious cases, such as cardiac surgeries and chemotherapy, and even for ordinary cases. The MOH does not have access to data for verifying whether the applicant has insurance or not. The lack of MOH regulation capabilities, added to the multiplicity of public funds and of reporting ministries and the lack of coherent framework for the operation of the different financiers (i.e. public, quasi-public, and private financiers) lead to system of fragmentation between financiers.

The insurance market is highly fragmented with 9% of companies reporting premium income between US\$ 5 and 50 million, 49% between US\$ 1 and 4 million and other less than US\$ 1 million. Two approaches were undertaken by the Lebanon National Health Accounts 1998 in order to estimate insurance company premiums, as these companies do not usually share this kind of info.

- **Approach 1** (bottom - up approach): includes what employers spend directly on health care of their employees, and uses combined data from MedNet Liban and the household survey. This approach estimated the premiums at L.L. 362 billion (1998, based on Lebanon National Health Accounts).

- **Approach 2** (top - down approach): uses the household survey to estimate total household payments for all insurance premium schemes less what they pay for NSSF and other social funds, plus what employers pay for private insurance. This method led to an estimate of L.L. 334 billion. Adding the L.L. 44 billion that employers pay directly on health services for their employees, this approach yields a comparable number to that arrived at under the first approach (1998, based on Lebanon National Health Accounts).

As for the costs associated with and related to private insurance companies, administrative costs are high, reaching up to 50% of the premium. Insurance companies also pay 11% of the premium as tax to the Ministry of Economy, and must lodge 40% of its premium as guarantee to the Ministry of Economy¹³³.

Out-of-pocket

Household out-of-pocket expenditures amounted to a total of L.L. 2,088 billion, representing 69.74%¹³⁴ of total health expenditures in 1998. According to more updated figures provided by the WHO statistics, the out-of-pocket expenditures on health reached, in 2002, 80% of private expenditures on health. This translates into 55.92%¹³⁵ of the total health expenditures of the same year. However, no details are available on the split of this latter figure, thus the following analysis will be based on the Lebanese National Health Accounts. In any case, both sources show a very high household out-of-pocket contribution.

On average, a Lebanese household spent L.L. 2,609 million¹³⁶ per year on health care. This figure translates into 14.1% of the total household yearly expenditures, ranking second after food¹³⁷. Households spend a large share of their budget on health. However, this share is not equitably distributed, where poorer families spend a larger fraction of their expenditures on health care services than higher-income families. The very poor (monthly income of less than L.L.300, 000LL), spend as high as about one-fifth of their expenditures on health services, in contrast to the rich (monthly income of more than 5,000,000LL) who spend less than one-tenth, as shown in table 9 below.

133 *The Lebanese Health Care System* 2000.

134 *Lebanon National Health Accounts 1998*, December 2000.

135 As per WHO statistics, private expenditures on health constituted 69.9% of total health care expenditures in 2002 (refer to p. 5). As the out-of-pocket expenditures make up 80% of private health expenditures, this amount represents 55.92% of the total health expenditures.

136 National Household Health Expenditures and Utilisation Survey, October 2001.

137 National Household Health Expenditures and Utilisation Survey, October 2001.

Table 9: Proportion of Household Expenditures Spent on Health

Income Category('000LL)	Percent
Less than 300	19.86%
300-500	17.96%
500-800	16.07%
800-1200	14.78%
1200-1600	14.02%
1600-2400	14.14%
2400-3200	11.36%
3200-3500	10.68%
5000 and over	8.05%
All households	14.06%

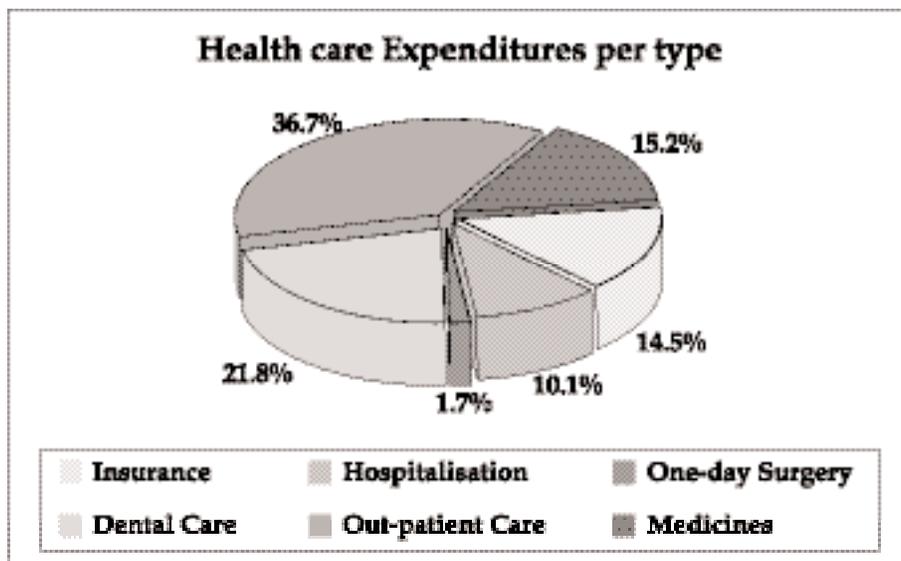
Source: National Household Health Expenditures and Utilisation Survey, October 1999

There is also correlation between household income and amount of health expenditures. This also shows unequal out-of pocket spending as per Governorate. In fact, households in Mount Lebanon spend about twice as much on health as households in North Lebanon (L.L. 3,518,000 vs. L.L. 1,870,000).

Household health care expenditures are divided among six different categories, the largest portion of which concerns out-patient care (36.7%¹³⁸) (figure 5). Based on the classification presented in the "National Household Health Expenditures and Utilisation Survey", the category out-patient care includes drugs. If drugs were to be excluded from this category and added to the medicines category, the total share of "drugs" in the household health care expenditures would rise to 26.8%¹³⁹. This noticeably high figure brings up the issue of the pharmaceuticals in Lebanon, which as part of the total health sector, is to be addressed seriously when developing a reform program of the whole sector.

138 National Household Health Expenditures and Utilisation Survey, October 2001.

139 National Household Health Expenditures and Utilisation Survey, October 2001.



Source: National Household Health Expenditures and Utilisation Survey, October 2001

It is important to add that of the 69.74% spent on health expenditures by households, 97% is being spent on private sector, 2% in the NGO sector, and just 1% in the public sector¹⁴⁰.

Health Services Provision

This section provides information on provision of health services in Lebanon tackling essentially the availability, organization and performance of the services. In Lebanon, health services are largely dominated by the private sector.

Hospitals

Over supply

The number of hospitals in Lebanon is estimated at around 180 with more than 14,000 beds, leading to a ratio of 3.6 beds per 1,000 populations (table 10). This is considered to be relatively high in

140 National Household Health Expenditures and Utilisation Survey, October 2001.

comparison to other middle-income countries as well as countries in the Middle East region.

Public vs. private

The hospital sector is largely dominated by the private sector, where around 88% (table 10) of the hospitals are private. This is a result of a significant decline of the provision of health services by the government during the period of war, where the MOH was essentially contracting with private hospitals for emergency care. The share of the government in the public hospitals and bed capacity has fallen considerably since the war, to represent today only a small percentage, as indicated in table 10 (around 12% of the total number of hospitals and 8% of hospital beds). However, most of the hospitals delivering care are heavily dependent on public funding (this point will be discussed further in the next section).

Table 10: Number of hospitals (and beds) in public and private sectors per Mohafaza

Mohafaza	Private (2002)		Public (2001)		Total	
	# Hospitals	# Beds	# Hospitals	# <u>Operational</u> Beds	# Hospitals	# Beds
Beirut	34	3,672	2	14	36	3,686
Mount Lebanon	56	5,044	4	310	60	5,354
North	23	1,561	5	229	28	1,790
South	24	1,784	6	411	30	2,195
Bekaa	24	1,454	4	171	28	1,625
Total	161	13,515	21	1,135	182	14,650

Source: "The Social & Economic Situation in Lebanon: Facts and Perspectives", MOSA, FAFO & UNDP, 2004

Hospital ownership

Private hospitals in general are linked either to the not-for-profit non-governmental organizations (NFP-NGO) sector or to private-for-profit (PFP) organizations; they are owned by individuals, groups of doctors, or groups that include doctors.

Equity Issues

Equity problems are created by the unequal distribution of public and private hospital beds by region as shown in table 10 above; private hospitals are essentially concentrated in the regions of Beirut and Mount Lebanon. On the other hand, the public hospitals are concentrated in needy areas, such as the Bekaa and the South, which have been neglected by the private sector. The North is relatively underserved by both sectors, private and public. This would lead to questioning the availability and accessibility of good-quality of health care services in peripheral and poorer regions. Furthermore, different quality of services is thought to be delivered to the rich and the poor patients by private hospitals¹⁴¹.

Quality of Care Issues

As table 11 below indicates, hospitals in Lebanon are generally small (less than 70 beds), which impedes both the appropriate management of quality of acute care and the benefit from economies of scale. Although the figures presented in this table date back to 1998, and many changes have occurred since then, the results could be indicative of the presence of a problem in the hospital sector at the level of size. About 67% of hospitals have 70 beds or less, 30% have between 71 and 200 beds, and only less than 3% have more than 200 beds.

According to a survey of hospital capacity, around one-third of hospital beds are in facilities of substandard quality¹⁴². Moreover, the services provided by the public hospitals are limited, and these hospitals lack qualified personnel and equipment¹⁴³, which has caused many hospitals to fail the accreditation process undertaken in 2005. This accreditation assessment has resulted in a total of 85 successful hospitals. This implies that the MOH, along with all the insurance schemes as per the Lebanese law, would collaborate only with these hospitals. Needless to say, this would leave the failed hospitals with only two choices, either to upgrade their qualifications

141 Ammar W., Jokhadar A., Awar M. Economie de sante/health economics. Health sector reform in Lebanon. *Lebanese Medical Journal*. Volume 46(6).

142 Centre d'etudes hospitalières (CEH). Carte Sanitaire, 1997.

143 Ammar W., Jokhadar A., Awar M. Economie de sante/health economics. Health sector reform in Lebanon. *Lebanese Medical Journal*. Volume 46(6).

in order to pass the next accreditation assessment or exit the market. It should be mentioned, however, that among the 57 failed hospitals, many have acceptable standards, in terms of technology and expertise, but not competent enough to allow passing the accreditation.

Table 11: Number of hospitals according to bed capacity of private hospitals in Lebanon

Beds	# of Public Hospitals	# of Private Hospitals	Total Hospitals
Less than 70 beds	14	98	112
71 to 200 beds	6	45	51
More than 200 beds	0	4	4
Total	20	147	167

Source: Lebanon National Health Accounts 1998, December 2000

More updated figures on the public sector hospitals could be inferred from different articles published lately. Table 12 presents these results and indicates that about 72% of hospitals in 2005 had 70 beds or less, 22% have between 71 and 200 beds, with only 6% having more than 200 beds.

Table 12: Distribution of PUBLIC hospitals per size

Beds	2005		2006		2007	
	#	%	#	%	#	%
Less than 70 beds	13	72%	15	56%	16	55%
71 to 200 beds	4	22%	10	37%	11	38%
More than 200 beds	1	6%	2	7%	2	7%
Total	18	100%	27	100%	29	100%

Source: "MOH presents to Mr. Seniora a report on the projects since 1999" Al-Mustaqbal Newspaper, 21/11/2005

Efficiency Issues

Several factors point out towards the weakness of the hospital sector, as follows:

- The relatively small size of hospitals in Lebanon is a critical factor for the inefficiency of the hospital sector. In addition, these small hospitals tend to provide multi-specialty facilities and carry out sophisticated tasks, such as open-heart surgeries and bone marrow transplants. This leads to high costs, and thus diverts away from economies of scale.

- The health system in Lebanon abides by a supply-induced demand, where the availability of sophisticated services and heavy equipment in private services continue to grow. Inefficiency lies in relatively high levels of public expenditures on hospital-based curative care versus more basic out-patient care. The MOH, for example, spends more than 70% of its budget on inpatient care¹⁴⁴. A discrepancy is observed between an oversupply of curative-oriented hospitals and high-technology equipment and scarce health services such as for example mental health and geriatric services which are virtually inexistent in public and private hospitals.

- Another reason for inefficiency and resulting largely from over-supply is a low occupancy rate that did not exceed 59% in 1998¹⁴⁵. This is below the OECD norm of 80%-85% needed to ensure economies of scale. The reason lies essentially in the expansion of the hospital set-up in an inefficient way and thus giving up on sustainability of the system. This can be illustrated by the following:

- i) Huge investments have been engaged in public hospitals pertaining to building and equipping, and yet these hospitals have not been operational due to administrative reasons. Nothing is being done to cover these costs which are associated to debt services extending for many years after the completion of the project.
- ii) Several private or religious groups decide to construct new hospitals rather than run existing ones.

- A further reason for inefficiency is the growing government debt to hospitals which amounted to L.L. 292 billion (US\$ 195 millions) in 1999 according to the Syndicate of Private Hospitals. The government has

144 Regaining Fiscal Sustainability in Lebanon: A Public Expenditure Review, MNSD, 2005.

145 *The Lebanese Health Care System*.

been financing expensive interventions and drugs to the non-insured population in absence of a beneficiary's database and thus accruing this debt. This creates less available cash to hospitals and consequently causes hospitals to cut down expenses by reducing quantity (in terms of human resources and investment in technology) or quality (in terms of medical services).

The main end result of the above-mentioned hospital sector inefficiency factors is reflected in a high cost of providing health services, which adds to all the previously discussed factors of other sectors. High cost of medical care signifies a problem in Lebanon especially when compared to the minimum and the average wages; it indicates a significant mismatch between the two.

However, the hospital capacity will still expand as the Council for Development and Reconstruction (CDR) is building and rehabilitating new hospitals. According to the CDR progress report¹⁴⁶, several new contracts have been awarded (from January 1992 to December 2004) for the construction of new hospitals and health care centers. The report also mentions that following its efforts in the construction of new hospitals and health care centers, the future policy of the government in this sector aims at establishing a strategy for planning a health policy that provides appropriate health services to its citizens in all regions. The total value of these contracts amounted to US\$ 256.5 million¹⁴⁷.

The report shows that of these US\$ 256.5 million contracts, US\$ 229.6¹⁴⁸ million have been completed (up to December 2004), equivalent to around 89%, showing the significance of the efforts placed in this respect. Around 27 new health care centers and eight new public hospitals of various capacities covering different regions of the country have been completed.

In an attempt to quantify or value the available public stock, related to health care, the standard comparable approach can be undertaken. However, a main limitation is faced here: unavailability of precise data pertaining to areas that are built, to be built and equipment of this public stock. The approach evaluates the total cost of investing/ establishing a new hospital, based on the average total cost per bed. The average cost per bed, does not include the cost of land acquisition according to CDR,

146 Council for Development and Reconstruction, Progress Report, July 2005.

147 Council for Development and Reconstruction, Progress Report, July 2005.

148 Council for Development and Reconstruction, Progress Report, July 2005.

as land is usually a grant from the municipality; it only includes the cost of construction and equipment (general and medical). This average cost is known to vary between US\$ 140,000 and US\$ 200,000. According to CDR figures, the average cost for a 75-bed hospital is around US\$ 12 M¹⁴⁹, translating into an average cost per bed of US\$ 160,000. Adopting this figure and the updated figure of 2,175¹⁵⁰ public beds in 2007, the total value of the available public hospitals is US\$ 348 million. Table 13 demonstrates different hospital investment costs, based on three investment cost per bed scenarios.

Table 13: Total investment cost of available public hospitals according to 3 scenarios

Scenarios	Scenario 1	Scenario 2	Scenario 3
Investment Cost per Bed (US\$)	140,000	160,000	180,000
	2005		
Number of Beds	1,034	1,034	1,034
Total Investment Cost (US\$)	144,760,000	165,440,000	186,120,000
	2006		
Number of Beds	2,035	2,035	2,035
Total Investment Cost (US\$)	284,900,000	325,600,000	366,300,000
	2007		
Number of Beds	2,175	2,175	2,175
Total Investment Cost (US\$)	304,500,000	348,000,000	391,500,000

Source: "MOH presents to Mr. Seniora a report on the projects since 1999" *Al-Mustaqbal Newspaper*, 21/11/2005 and CDR figures

The operating costs associated with running hospitals are divided among the following categories¹⁵¹:

- Salaries: make up between 40% and 45% of the running costs
- Maintenance (general & medical equipment): 10%-12%
- Water and electricity: 10%-12%
- Purchases: 35%

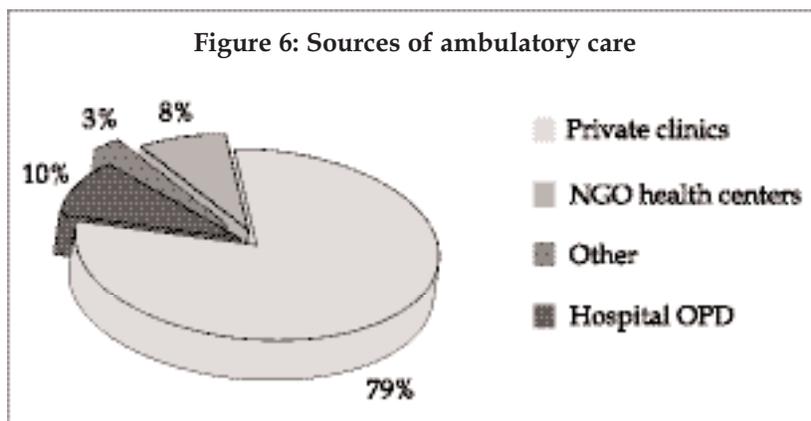
149 About two-thirds of this figure is paid for construction, and the remaining balance is allocated for equipment.

150 "MOH presents to Mr. Seniora a report on the projects since 1999", *Al-Mustaqbal Newspaper*, 21/11/2005.

151 As per Dr. Chafic Badr, general manager of Taanayel Hospital.

Ambulatory Care

As in the case of tertiary care, ambulatory care is mostly provided through the private sector, i.e. doctors in private practices, and hospital outpatient clinics. The health centres provide about 10% of the ambulatory services. The following figure (figure 6) shows the sources of ambulatory care and the corresponding share of each.



Source: Lerberghe WV. *Et al. Reform follows failure I: Unregulated private care in Lebanon. Health policy and planning*; 1997 12(4):296-311

Currently, there are 849¹⁵² health care, dispensaries and social services centres in Lebanon, most of which are owned by NFP-NGOs. From these, 87¹⁵³ are primary health care centres, i.e. designated by MOH. They offer specialist consultations, diagnostic facilities, and ambulatory treatment. The remaining 760 centres are dispensaries or small health centres, which are typically staffed by two or three doctors, a pharmacy technician, and nurse aides¹⁵⁴.

Health programs

Different health programs, supported by donors, and run through a network composed of MOH, MOSA, NGO's and PHC centres, are

152 MDG Costing-Lebanon, Consultation and Research Institute, 2005.

153 MDG Costing-Lebanon, Consultation and Research Institute, 2005.

154 Centre d'études hospitalières (CEH). Carte Sanitaire, 1997.

conducted throughout the whole country. These include immunisation, tuberculosis control, reproductive health, and AIDS control programs, which are provided through mainly the health centers. These programs have been somewhat effective in prevention care and NGO's have been participating actively. However, data on the evaluation of these programs are scarce.

Equity and Quality of Care Issues

These health centers offer services at a lower price for the patient than the average private practitioner and often represent the only option accessible for the poor. In Greater Beirut, these services account for a small percentage of doctor visits. On the other hand, they account for a large share of consultations in rural areas. These centers offer generally weak services and the quality of care of services varies from poor to better quality level¹⁵⁵.

Efficiency Issues

- Inefficiency is reinforced by a specialist-centered culture among providers and consumers¹⁵⁶. Wide disparities exist between the public and private sectors in terms of remuneration. Doctors working part-time in public hospitals or health centers, often refer their public-sector patients to their private practices for treatment. In fact, the NFP-NGO health centers are witnessing changes with doctors who are using the health centers infrastructure to build up a private clientele.

- Consumers in general seek primary and ambulatory care from private doctors and outpatients clinics, which consist of higher-priced options instead of seeking health centers. The primary health care system fails to perform its gatekeeper function and this is essentially caused by lack of regulation of private providers.

- Primary prevention and health promotion are relatively absent. Curative care is privileged instead, and priority is given to highly specialized and costly services. There is a strong tendency of medicalization of services. Around US\$ 80 per eligible person per

155 Lerberghe WV, Ammar W., El Rashidi R., Sales A., And Mechbal A. Reform follows failure I: *Unregulated private care in Lebanon. Health policy and planning*; 1997 12(4): 296-311.

156 Lerberghe WV, Ammar W., El Rashidi R., Sales A., And Mechbal A. Reform follows failure I: *Unregulated private care in Lebanon. Health policy and planning*; 1997 12(4): 296-311.

year is spent by the MOH on curative care, compared to US\$ 6 per citizen per year for all public health programs and preventive care¹⁵⁷.

- Supplier-induced demand and under-utilization of care applies also to ambulatory care, where continuity of care is relatively absent. All these facts are dependent on the absence of clear guidelines and regulations stated by the government and lead to the fragmented health system¹⁵⁸.

Ownership

About 200 health centers are managed by the Government. The MOH, the MOSA, and the Army own 60-70, 89, and 35 health centers respectively. The rest of the health centers are run by NGOs. The health centers managed by the MOH serve a limited number of the population because they are only partially staffed and under-utilized.

Pharmaceutical Sector

The pharmaceutical sector in Lebanon constitutes a considerable part of the health services bill; pharmaceuticals accounted for 26.8% of total household health care expenditures¹⁵⁹, with about 94% of the drugs being imported¹⁶⁰. There is a fixed price set up by the MOH for imported drugs and this price is 1.69¹⁶¹ times the manufacture price (a multiplier of 1.69 the original price), as different margins are added to the original price at the following four different levels:

- Freight (7.5%)
- Clearance (10%)
- Agent's Margin (10%)
- Pharmacist's Margin (30%)

157 Ammar W. *Health system and reform in Lebanon*. World Health Organization. 2003.

158 Lerberghe WV, Ammar W., El Rashidi R., Sales A., And Mechbal A. Reform follows failure I: *Unregulated private care in Lebanon. Health policy and planning*; 1997 12(4):296-311.

159 *National Household Health Expenditures and Utilisation Survey*, October 2001.

160 *Lebanon National Health Accounts 1998*, December 2000.

161 *Lebanon National Health Accounts 1998*, December 2000.

More recent figures provided by the Minister of Health¹⁶² more or less reinforce these margins, and state a total multiplier of 1.71. It should be mentioned however, that efforts are being currently exerted by MOH to reduce the drugs prices, by moderating the margins received at the levels listed above. This measure, more specifically, applies different lower margins to different categories of drugs depending on their selling prices. "A" lies in the least expensive category of less than US\$ 10, and "D" in the most expensive one of more than US\$ 100. The largest reduction in the multipliers applies to the most expensive category of drugs, i.e. "D". The new multipliers pertaining to each of the four categories are as follows:

- * A: 1.7
- * B: 1.65
- * C: 1.5 and
- * D: 1.3

According to Dr. Khalifeh, this measure would reduce the medications bill by 5% to 6%¹⁶³ and the total health bill between 1.34% and 1.61%¹⁶⁴, as medications make-up 26.8% of household health care expenditures.

However, in real life, the differentiation applied to the reduction of the profit margins as per price category has resulted in more than the reduction in certain drug prices. Some drugs were withdrawn from the market; others have stopped being imported, mainly those of category "D", to which the highest reduction in the multipliers applies, as it is no longer as profitable to import them. Thus, the end result was either the unavailability of essential drugs or the active arousal of black markets¹⁶⁵. This latter point shows the importance of undertaking either a complementary measure to ensure the availability of substitute drugs at all times or to replace the current measure by another more comprehensive one.

162 As per an interview with the Minister of Health, Dr. Mohammed Jawad Khalifeh in *Al-E'mar wal Iktissad journal*, September 2005.

163 As per an interview with the Minister of Health, Dr. Mohammed Jawad Khalifeh in *Al-E'mar wal Iktissad journal*, September 2005.

164 CRI calculations based on: (a) National Household Health Expenditures and Utilisation Survey, (b) Multi-Purpose Survey (CAS 2004) and (c) *the Al-E'mar wal Iktissad* interview with the Minister of Health (September 2005).

165 The idea of black markets has been discussed by Dr. Ismail Sukariyyeh, in an interview published in *Annahar newspaper*, 2/12/2005.

Prices of drugs and drug expenditures in Lebanon are relatively high and the reasons for that are the following:

1 - Only 6% of drugs are manufactured locally with 94%¹⁶⁶ of drug consumption being imported. This drives health expenditures up, as the prices of imported drugs are significantly higher than that of the local.

2 - The use of generic drugs is very limited. 98%¹⁶⁷ of the pharmaceuticals sold in Lebanon are highly priced brand-name drugs, rather than generic drugs which account for only 2%.

3 - The number of pharmacies in the Lebanese market is high. This implies that each pharmacy has a narrow catchments area and thus limited coverage. In order to be able to survive, these pharmacies have no choice but to raise their selling prices in such a way as to compensate for the low number of customers.

4 - Lebanon has a fairly easy access to prescription medicine, and patients can even purchase drugs without any prescriptions. This deregulation leads in many cases to over-consumption of drugs and substance abuse.

5 - There is also a lack of an operational policy that encourages people to consume generic and local drugs as substitutes for trade names and imported products. Imported drugs market is controlled by a cluster of importers and distributors who work interdependently, dominate the market, and operate in a manner comparable to an oligopoly. Aggressive marketing is among the measures of the strategy followed by these clusters, leading to increased consumption of imported drugs, and disregard of locally produced ones, especially with the inexistence of awareness campaigns that encourage people to use local drugs. In fact it is mentioned in "Lebanon National Health Accounts" that the number of pharmaceutical items sold in Lebanon reached 5,521 according to one source and 5,968 according to another. These figures are very high according to international standards.

6 - It should be also mentioned, that doctors are becoming more and more integrated in this pharmaceutical oligopoly, seeking extra profits through accepting special deals provided by the distributors. Of course, this conflicts with their humane role as mere health providers.

166 *Lebanon National Health Accounts 1998*, December 2000.

167 *Lebanon National Health Accounts 1998*, December 2000.

Health Manpower

Physicians

Another characteristic of the distorted health care system in Lebanon is the oversupply of physicians, which relates to the oversupply of health services. The estimated number of registered physicians was approximately 8,934 in 1999¹⁶⁸ and a number exceeding 10,000 in 2002¹⁶⁹. Moreover, this number has grown by 8.3% per year in the nineties, in comparison with a population growth rate of 1.6%¹⁷⁰. More than 70% of physicians are in specialist professions and the ratio of specialists to generalists has been increasing over the years. Not only are there disparities in the geographical distribution of physicians (the highest physician to population ratio being in Beirut), but also in the incomes.

The rapid significant rise in the number of doctors, with the absence of strict regulatory measures, has paved the way for different malpractices to take place. Some physicians, as mentioned earlier, engage in deals with drug distributors; others demand extra post-service charges from patients for certain hospital services, above those agreed upon pre-service.

Pharmacists and pharmacies

The rapid growth in the pharmaceutical sector was accompanied by a significant increase in the number of pharmacies 1995 till 1999; the total expansion rate was 59% for the whole of Lebanon¹⁷¹. Regional disparities have occurred with North Lebanon having the highest growth rate of 93% (i.e. the number of pharmacies has nearly doubled) and Beirut the lowest of 28%. There is no clear regional discrepancy in the distribution of pharmacies, and this is partly due to the 1994 Pharmacy Practice Law which stipulates a minimum distance to be respected between new licensed pharmacies¹⁷².

168 Tabbarah R. *The health sector in Lebanon 2000*. MADMA.

169 Ammar W. *Health system and reform in Lebanon*. World Health Organization, 2003.

170 Ammar W., Jokhadar A., Awar M. *Economie de sante/health economics. Health sector reform in Lebanon, Lebanese Medical Journal*, Volume 46(6).

171 *The Lebanese Health Care System 2000*.

172 Ammar W. *Health system and reform in Lebanon*. World Health Organization, 2003.

The number of pharmacists has also undergone a significant increase, as 805 new entries were made between 1995 and 2000, representing a 35% rise¹⁷³. In Lebanon the number of registered pharmacists exceeds the number of pharmacies; however, a large number of pharmacies are not run or supervised by registered pharmacists¹⁷⁴.

Nurses and paramedical personnel

In contrast to a huge number of physicians, there is a shortage of nurses and other paramedical personnel in Lebanon. The ratio of qualified nurses to population is 1:1600 persons. This ratio is one of the lowest in the world and creates a discrepancy with the huge number of doctors. As a result of this shortage, non registered nurse aids are taken as a replacement in hospitals and this has an impact on quality of care.

The reason for the observed shortage of nurses is partly due to the unattractive professional status of nurses (from the financial and social status point of views). Moreover, many single nurses quit the job to get married¹⁷⁵.

Utilization of care patterns

The consumers' choice in Lebanon points out clearly towards the private sector. According to the National Household Health Expenditures and Utilization Survey, hospitalizations and out-patient visits took place mainly in the private sector. Around 78% of out-patient visits have been conducted in the private sector, followed by the NGO sector at 12% and the public sector for 9%. Private hospitals account for about 86% of all admissions¹⁷⁶.

Consumers usually seek services from highly specialized doctors even for routine consultations that should be treated by the family doctor or even paramedical personnel. On the other hand, utilization of health centers is generally low¹⁷⁷. This inflates the cost of health or

173 *The Lebanese Health Care System.*

174 Tabbarah R. *The health sector in Lebanon 2000.* MADMA.

175 Ammar W. *Health system and reform in Lebanon.* World Health Organization. 2003. Tabbarah R. *The health sector in Lebanon 2000.* MADMA.

176 *National Household Health Expenditures and Utilisation Survey,* October 1999.

177 *National Household Health Expenditures and Utilisation Survey,* October 1999.

increases unmet needs. Furthermore, consumers confound often quality of services with high technology and expensive pharmaceutical¹⁷⁸.

Overall, no inequity is observed in access of health services either hospital or ambulatory care, as measured by use rates, by income level or by region. However, as it has been developed above, inequities lie in the burden of out-of pocket payments.

Consumers' satisfaction

While quality indicator measures for health services are lacking in Lebanon, the consumer satisfaction can be a proxy for overall quality of care. Data from the National Household Health Expenditures and Utilization Survey reveals that consumers' satisfaction for ambulatory care and hospital care is generally adequate. This includes satisfaction with providers, facilities, and in hospitals admission. However, the same survey revealed that in general consumers were unsatisfied with services provided by funding agencies¹⁷⁹.

SWOT analysis

This section summarizes the strengths and the weaknesses of the Lebanese health care system, at different levels, as follows.

Health Indicators

In general, health outcomes in Lebanon are acceptable with relatively low crude, infant and under-five mortality rates, and high life expectancy. These indicators, however, conceal important geographical disparities, pointing out differences in health status, social, economic and living conditions in different geographical areas in Lebanon. Maternal mortality is however still quite high in general.

178 Ammar W. *Health system and reform in Lebanon*. World Health Organization. 2003.

179 *National Household Health Expenditures and Utilisation Survey*, October 1999.

Expenditures

- High health expenditures in terms of amount, be it total (US\$ 2.075 billion in 2002) or per capita (US\$ 568 in 2002), and percentage of GDP (11.5% in 2002).

- The high health expenditures are not being translated in exceptional health indicators.

- High expenditures by MOH due to the coverage of expensive long-term treatments and responsibility to cover the uninsured individuals, that comprise more than half of the population.

- High expenditures also arise from the long-term increasing trend in hospitalisation cases, mainly due to the rise of in-hospital medication.

- High drugs bill, due to the nature of the market, characterized by oligopoly, malpractices undertaken by many players including doctors, low consumption of generic drugs and the exceptionally high percentage of imported ones.

Financing

- Low public participation in financing: public sources cover about 30% of the expenditures compared to more than 70% in many European countries.

- As a result of the weak public participation in financing, a high burden is placed on private sources, which accounted for the remaining 70% of total care expenditures in 2002.

- Out-of-pocket expenditures account for 80% of the private sources, which represents about 56% of total health expenditures. The bulk of these out-of-pocket expenditures is paid for out-patient care.

Insurance Coverage

- Less than half (45.9%) of the population enjoy some kind of insurance coverage, be it public or private.

- MOH is theoretically responsible for covering the remaining uninsured population.

- Although the insurance coverage is quite limited, it undergoes

regional disparities, affecting mostly the poorer and peripheral regions.

- Provision.
- Provision of health services: weak involvement of public sector.
- Different insurance schemes lead to different health services provision.
- The health sector in Lebanon is characterized by oversupply of hospitals, pharmaceuticals, and doctors, all accompanied by lack of sound regulation.
- Hospital sector dominated by the private sector; it is characterized by small-size, low and occupancy rates, growing government debt to hospitals.
- Pharmaceuticals account for more than a quarter of a household's health care expenditures. This is due to: (a) lack of control of the drugs market, (b) high reliance on imported and brand-name drugs and (c) high profit margins set at different levels.

Equity

- The health care market ceased, to a large extent, to be a social right for citizens. It is currently being driven by the forces of supply and demand, mainly in terms of pricing health services.
- Inequitable access to both preventive and curative health care services in different regions.
- Different health care services of different qualities are provided under different insurance schemes.

Recommendations

Based on the above analysis, Lebanon suffers from different structural problems at many levels, which is directly affecting the cost of and accessibility to health services by citizens. As the current situation is no longer sustainable, immediate action is required to hold down inefficiency, in terms of the expensive health care bill, non-comprehensive coverage, and non-uniform service quality.

In this respect, the reform policy to be developed should be of a

comprehensive nature ensuring accessibility of quality services to all individuals at acceptable prices. It is also essential to clearly define the role and responsibilities of each of the involved groups in the health care system. Thus, the reform program should:

- Revise the current public interventions in the health sector in order to optimize their impact with respect to production, control, monitoring and pricing activities.
- Promote and increase competitiveness and productivity gain and enhance coordination between the private and the public sectors, keeping in mind that health sector services will remain essentially provided by the private sector.
- Complement the provision by the public sector of health services provided mainly by the private sector.

Following are some concepts of the vision that is believed to eventually improve the health system in Lebanon. The overall policy could be developed through any combination of the proposed concepts. It should be noted that despite the notable problems that this sector faces, the orientations do not implicate extra significant investments. The priority is to address a better management of existing resources and a more equitable distribution of health care services.

Role of the government

- Redefine the role of the ministry of health to become the reference which not only sets standards, but also ensures that all stakeholders adhere to these standards, through regulating, licensing and monitoring the health care market in general and the private sector in particular.

- Complete the unification process of the systems, under which the various current schemes operate. This implies (i) introduction of standardization of reporting and health concepts among the different players of the sector, (ii) reconsideration of administrative procedures, (iii) development of a unified database (already been accomplished by the MOH), which identifies the beneficiaries of each scheme and displays their medical history; (iv) flat rate arrangement: MOH would first specify a list of all the surgical and medical procedures to be covered and second details the corresponding costs of each

procedure. It should be noted that the amount to be covered by the MOH for each case is the same within each hospital, but would vary across hospitals based on the hospital accreditation results.

- Enhance preventive health care to reduce the pressures accompanied with the costly curative care services.

Health expenditures and financing

- Develop a consistent strategy for health financing reform to resolve the issue of inefficiency.

- Develop and implement a rational strategy that determines the ideal mix of public and private participation in financing health care, and thus enhances the currently weak role of the government.

- Convert the hospital fees into flat basis (fixed charges for every medical and surgical service) in order to curb the billing procedure, provided that the quality of medical services is maintained.

- In the long run, and as a first step, merge public sector insurance schemes into one unified scheme in order to standardize costs, prices and quality of health services provided.

Equity

- Ensure the provision of comparable health service quality to all individuals.

- Respect the hospitalisation map if new hospitals are to be developed; this would ensure the equitable spread of hospitals in different regions.

- In the long run, the second step after merging the insurance schemes would be to expand the scope of its coverage to eventually cover all residents.

- Once the current WTO negotiations are concluded, and Lebanon starts to benefit from exchange of services, including health, some segments of this sector would be affected. Supply of health services would rise, allowing for competition to take place, thus enhancing quality.

Hospitals

As Lebanon enjoys a somewhat sufficient number of hospitals and an acceptable bed/1,000 population ratio, while hospital occupancy rate is still low, it would be necessary to ultimately avoid the horizontal expansion of hospitals. In this respect, the medium and long term focuses should address the following points:

- Rationally re-evaluate investment plans for public hospitals, based on a national hospitalization map, which takes into consideration needs assessment, location, optimum size and linkages with the health system as a whole.
- Subject the process of developing new hospitals to strict terms and conditions, in a way that respects the hospitalization map.
- Command that newly developed hospitals, if any, are of a specified optimum size, to ensure economies of scales and limit waste of resources.
- Contract with private sector to manage existing non-operational public hospitals, instead of building new ones.
- Promote operating larger hospitals to ensure achieving economies of scale by limiting the role of small-size hospitals to primary health care service provision.
- Carry on the hospital accreditation process and adopt it as a continuous practice, a step towards achieving sustained efficiency, through driving out inefficiently operating hospitals.

Primary Health Care Centres

Although Lebanon enjoys a large number of health care centers (and dispensaries), this is not being translated into effective benefits. Utilization of these centers is still low, as patients prefer to seek specialists' health consultations from private doctors' clinics and hospitals. In this respect, the following points should be focused on:

- Expanding the network of primary health care centers by reallocating dispensaries according to national standards adopted by the MOH, in order to eventually: (a) reduce the pressure on costly private medical consultations, (b) provide accessible health care service to all individuals, especially those residing in peripheral areas and (c) contribute to increased preventive care

awareness, thus reducing the pressure on and demand for the more costly curative care.

- Well-positioning the patient referral system between primary health care centers and hospitals.
- Establishing partnership between primary health care centers and health centers, dispensaries and social services centers operating in the same geographical area, where the primary care centre coordinates all health services available.

Pharmaceuticals

- Demote the oligopolistic character of the market, thus promoting competition. This measure would eventually improve the quality and reduce the prices of imported drugs.

- The MOH can, with the help of WHO and the Order of Physicians, prepare a certain specified list of essential drugs to be covered by MOH, and other schemes.

- The MOH could alternatively cover all the currently available drugs; however, the coverage would be up to a to-be-determined benchmark price.

- Establish a semi-public institution that will help in strengthening the local drug industry, as well as developing its coordination with the international pharmaceutical industry, especially that involved in generic drugs production.

- Once generic drugs are introduced into the market, the MOH could adopt the following in order to promote their usage: cover all available drugs, labels and generic; however, the percentage coverage of labels is quite low when compared to that of generic.

- Carry out awareness campaigns that encourage people to use generic drugs as substitutes for the costly trade names.

CHAPTER TWENTY

Pension Fund

Amendment draft of some articles in the Social Security act;
and the creation of a Pension Fund and a Social Protection System

The Economic and Social Council - ESC - has voted and submitted to the Government in 2002 a proposal implementing the Pension Fund rules, as well as some amendment to the National Social Security Fund - NSSF - law that seemed necessary to stay in line with the projected reform.

The Council of Ministers had requested the advice of the ESC on the above matter; and the ESC has set up the foundations of a broad understanding among the stakeholders represented by the following project proposal.

The ESC proposal report includes two parts:

Part one is about the amendments to some articles mentioned in the referred draft concerning the administrative organization of the National Social Security Fund. Amendments were suggested based on two starting points:

- The first starting point: is general principles in administrative organization that aim at ensuring coordinated performance within the Fund, between its various departments and sections, and efficient performance in the service of members.
- The second starting point: is to benefit from the Fund's previous forty-year long experience and from the current administrative procedures used in it to improve the law and not amend it radically in order to avoid a new social stalemate.

Part two is about the articles in the "referred draft law" about moving on from the retirement system - *in which one gets the amount of his pension in a lump sum upon one's retirement - (NDT)* to a system of pensions and social protection. This is why the Council set off from several suggested drafts handed out to its members through a broad analytical and documented study. The Council deduced general concepts and the main guidelines of a draft system based on a clear "solidarity concept", which the Council believes is fit with the Lebanese social and economic reality. This system requires a detailed

statutory and legal formulation based on an integrated financial and economic actuarial study.

General guidelines of the amendments suggested to the administrative system

1 - Determining the Fund's tasks clearly in a way that the administration of the Fund is responsible of implementing the text of the Social Security law; it also should have direct supervision of its resources in the service of members in order to ensure social justice and development.

2 - Reducing the number of members on the Fund's board of directors in an equation that sees to balance the different parties' representation.

3 - Canceling the Fund's board bureau since by reducing the number of members in the board, the latter can hold regular sessions in which all members participate to the meetings and decisions.

4 - Canceling voting by sector since it is useless and does not have the veto right over decisions, and since it is only a way of dialogue. In case the board does not reach a decision in the first session, a vote is held in the next session about the same decision so that it may be taken by the majority without being tied up by sector voting.

5 - Amending some of the tasks and competences of the board of directors, the general directorate, the technical committee- which was called henceforth "auditing and financial control body" - to increase efficiency and to allow every authority and body to assume its responsibilities.

6 - Maintaining the authority of the Ministry of Labor alone; if the fund has too many tutors, its work becomes more intricate.

7 - Maintaining a posteriori control by the "Cour des Comptes".

8 - Determining the number of meetings the board of directors can hold in conformity with the rules implemented in such administrative boards.

Hereafter is a comparative report of the textual articles as mentioned in the current law and in the draft of the "referred draft law" and the "proposal of the Council".

As regards the pension system and social protection

The Council agrees with all those who consider that the current retirement system in the National Social Security Fund no longer meets social demands. The Council considers that the insufficiency of the current system shows in it being a financial and social burden to companies and beneficiaries; while it does not provide medical benefits after one has retired, nor does it provide a pension, nor does it ensure a decent living especially for workers and employees having reached retirement age. It does not provide either minimal protection in case of unemployment.

The current system that started off as temporary when the Social Security law was set up in 1963 became permanent with all its drawbacks. This necessitates a radical revision and a new system that maintains financial security and takes into consideration the need for permanent social stability, namely for those who reach retirement age.

The “referred draft law” attempts to solve the problem of indemnity at the end of one’s years in employment by introducing a new system based on pensions with the following components:

1- Financing pensions through the contributions one pays throughout one’s career to help one get such a pension. This is why the “referred draft law” determines beforehand the system of contributions without determining the regulations and the extent at neither which individual benefit can occur nor future content.

2- Depending on what is called in social retirement systems “system of total capitalization”: members get, upon reaching retirement age, the total of the accumulated amounts in their personal account. These amounts are given to them with interests either in a lump sum or in installments through monthly pensions, or in a mixture of both. The system does not include any solidarity concept, which may be more appropriate to countries and societies similar to Lebanon.

3- Omitting the need for medical treatment and hospitalization after retirement; omitting any provisions about the creation of an unemployment fund, which is considered extremely important, while all social classes have to adhere to the pension fund so that the system may truly succeed.

4- Covering only members who paid their contributions for no less than fifteen years. It therefore leaves out of coverage large sections that are near retirement age.

Insufficiency of the referred draft law

Based on all the above matters,
and in the light of the social and economic prevailing situation,
the Council considers that the “referred draft law” is insufficient.

The Council considers the need to complete the “referred draft law” with a system more compatible with the Lebanese social and economic reality; this system should combine the distributive system - which guarantees minimum security to all social categories after retirement age - the capitalization system, that of permanent social welfare, and the creation of a fund for the unemployed - the dole system (N.D.T.).

The Council considers that achieving the above mentioned goals requires that “the suggested status” be based on the principle of “the three pillars” recognized worldwide, one which is used more and more in countries that adopt new social security systems. This principle has proved, based on the experience of countries that follow it, its ability to achieve financial stability, therefore continuity within a context that ensures basic social needs - a pension, medical benefits, and an unemployment dole.

The system suggested by the council

The system suggested by the Council may be summarized by the following pillars:

First pillar distributive and obligatory

1- *The first pillar*: is an obligatory pillar guaranteed by the State relying on the distributive concept and focusing on real minimal wages. It should be said that the success of this system requires a redefinition of minimal wages taking into account social, economic, and financial transformations, on the one hand, and art. 44 of the labor law on the other hand. This art. stipulates: “*Minimal wages must be*

sufficient to meet the employee's basic needs and those of his household all the while taking into account the nature of his work. His wages should not be below the official minimal wages."

In this pillar, contributions paid by employers and workers as well as the entire member categories should be within a percentage that is preferably "one out of six" - i.e. if the participation fee due by the employer is eight and a half percent, the fee due by the worker or the member is 1.42%

The ceiling of contributions - on the basis of which this percentage is calculated - is fixed at a given multiple of the minimal above mentioned wages. We would like to point out that the rule in the world is between three and six times the minimum wage.

The second pillar, complementary and guaranteed by the State

2- *The second pillar:* is just like the first, compulsory and guaranteed by the State. Employers, workers and other members assume the charges of this pillar within the above mentioned percentages - one out of six. It includes higher salary sections than those in the first pillar. The rule followed in the world is between three and six times the minimum wage. The sections subject to the first and second pillar should both not go beyond six to twelve times (the minimum wage). The management of all contributions in the second pillar entrusted to special funds specialized in retirement pensions; their work will be governed by rules and regulations applied to all their investments, thus providing effective control over these funds by the authorities, namely financial control, to protect funds and ensure better yield.

The third pillar, optional

3 - *The third pillar:* is optional. It covers the section of wages above the ones mentioned in the two prior pillars. The people whose wages are included in this part may cut out a percentage out of their wages - one which is determined by the law - that does not exceed a given percentage and a given ceiling of the wages. Experience worldwide shows that this percentage does not exceed ten percent of the wages. This percentage is entirely covered by the employee.

In order for this pillar to succeed, we need first to subject the funds that are created to manage the money to permits, accountability, and control by monetary authorities. Second, the sections of wages included in this part ought to benefit from tax exemptions and fees

determined by the law in order to encourage high incomes to contribute to additional national savings, which may be used to increase the economy's and the society's ability to invest.

The benefits of the three pillars

When a member reaches retirement age, he benefits from the three pillars as follows:

- a - A compulsory pension calculated according to agreed minimal wages as mentioned in paragraph one concerning the first pillar.
- b - Adding up the sum of pillars two and three recorded individually in the member's personal accounts (no matter how much they amount to) to the basic compulsory pension. It should be noted that each member has the right to request, upon reaching retirement age, a given amount of the sum piled up in pillars two and three. The balance is redistributed into monthly pensions added, as we mentioned, to the minimum constituted in the first pillar.

The regulation mentioned in the Council's "proposal" does not set aside any of the rights of the present members of the NSSF.

The proposed system guarantees to the members the following:

- a - The right not to join the pension fund system, and to remain within the old system for those who have still less than fifteen years before retirement.
- b - The ability to join the new system and to have the difference calculated on the basis of the old system.
- c - The ability to fully join the new system in specific cases.

The Council indicates that:

- a - in order to determine the detailed norms as to how the new system works and to determine the final percentages to be adopted in all its accounts, or in any figure to be used or implemented, the following has to first and foremost be done;
 - i. Adopting the principle of medical benefits for members after retirement age, and setting up a fund system against unemployment.

- ii. Carrying out a financial, economic, and actuarial study based on comprehensive and accurate data that represent reality. Without such a study, any action remains incomplete and distorted, unable to achieve its objectives, and put the experience at very high risk.
- b - Reschedule the amounts due from employers -in accordance with the current system - into long-term instalments and without interests.

Criteria of the Project

Pursuant to the draft of the social security law referred by the Council of Ministers to the Economic and Social Council, the latter reviewed it lengthily through the attached study; in fact, the systems of social security have proved to be necessary in modern society despite difficulties and challenges that result from the pressure of social needs and change, and acute social crises that have hindered the process of economic recovery.

Economic circumstances namely periods of crises are a main incentive to develop nations when they are carefully studied and when practical measures are taken in accordance with the society's needs. Social security has been at the core of heated debate for a long time as showed by the amount of books, reports and studies put forth by the International Labor Office and the Arab Labor Office. If we are to deduce lessons as to the repercussions of economic circumstances on social security, we say that globally there is a general vision to which the society is committed to ensure its social needs and its economic and financial growth; on a more particular level, there are procedures that ought to prevent any negative repercussions on security funds. Based on these facts, the Economic and Social Council has set up an extensive study as to the state of social security in the world and in Lebanon. The Council pinpointed the challenges to be met, i.e. demographic pressure, social needs and financial requirements. It emphasized the need to take specific procedures as concerns hospitalization, administrative organization, and the implementation of a pension and a social care system compatible with the society's means.

The attached study determined the requirements of such a policy to guarantee a qualitative step as concerns social security. The

attached study showed the repercussion of social security policies on the structure of society as concerns demographic, economic, judicial and sociological aspects highlighting the effects of each element on the performance of social security systems. The study also brought out the structure of current social security systems as regards social benefits and the sources of funding them, contribution rates, the extent of coverage provided, regulations and mechanisms that strengthen the security's efficiency.

The study focused on the reality of social security in Lebanon and its requirements as concerns benefits; it emphasized the qualitative step needed by moving on from a retirement indemnity system to a system based on pensions and social care, enlarging the basis of medical and hospitalization benefits, taking into account unemployment issues, as well as other social benefits.

After studying the reality of social security stressing on the necessary guidelines in terms of hospitalization, social care and administrative organization, the Economic and Social Council states the following:

1 - As concerns administrative and institutional organization: the attached draft to the "proposal" based its grounds on general principles that aim at ensuring the Fund's efficient and coordinated services to the members with experience that lasted around forty years. The draft attempted to benefit from this experience and deduced administrative amendments from the current administrative organization aiming at developing the current law not at amending it in a way to create new social issues. As concerns moving on from a retirement's indemnity system to one based on pensions and social care, and since there is a number of proposals in this sense, the need is to debate consistently and decisively these proposals to come up with the most appropriate system with regards to the Lebanese political and social situation based on a clear vision of social security.

The suggested amendments from the administrative point only in this draft are:

- Determining the Fund's tasks clearly so that it is up to the Fund's administration to implement the dispositions of the Social security law and to supervise directly the use of the Fund's sources to serve the insured for the sake of social justice and development.

- Reducing the number of the Fund's board of directors members to have more productivity taking into account all parties representation.
- Canceling the Fund's board's bureau since the number of members on the board has been reduced and it is possible to hold regular meetings with all the board's members and reach decisions.
- Canceling voting by sector since it is useless and does not have the veto right over decisions, and since it is only a way of dialogue. In case the board does not reach a decision in the first session, a vote is held in the next session about the same decision so that it may be taken by the majority without being tied up by sector voting.
- Amending some of the tasks and competences of the board of directors, the general directorate, the technical committee- which shall be called henceforth 'auditing and financial control body' - to increase efficiency and to allow every authority and body to assume its responsibilities.
- Maintaining the authority of the Ministry of Labor and a posteriori control by the "Cour des comptes"; if the fund has too many tutors, such as the Ministry of Health and Finance its work becomes more intricate.
- Determining the number of meetings the board of directors can hold in conformity with the rules implemented in such boards.

These proposals concerning the management of the fund are likely to help improve the fund's efficiency in terms of social services it is required to provide currently.

2 - As concerns the pension system and social care: there is a need to study unemployment to ensure social stability and economic development. The current retirement system in the fund no longer meets social needs and is a financial and social burden on institutions and employees since there are no medical benefits after one reaches retirement age and there is no pension that provides a decent living namely to workers and employees after they have reached retirement age.

This system, which started when the social security law was set up in 1962 as temporary, has become permanent with all the above

mentioned drawbacks. This calls for a radical revision of the system that ought to be replaced by a new system to guarantee financial security, in conformity with the people's social and financial needs namely people and members who reach retirement age.

From this stand point, proposals were made to implement a social retirement system with medical benefits. These drafts have particular advantages as they endeavor to meet social needs and to take into account the financial and economic situation.

The draft that was referred by the Council of Ministers to the Economic and Social Council actually tries to end the problem of the retirement by introducing a new pension system based on the following components:

- Depending on individual contributions paid during one's years of employment to finance pensions. The system determines beforehand the system of contributions without determining the regulations, extent of personal benefits and their guarantees.
- The suggested system is based on what is known in social security systems as a full capitalization system, i.e. that the beneficiary gets upon reaching retirement age the total amount that he has accumulated in his individual account with interests in a lump sum or in installments through monthly pensions, or a mixture of both. This system does not include any solidarity concept, which might be more appropriate for States and societies similar to Lebanon.

In all cases, regardless of the great advantages these systems offer worldwide to some economic and social systems, and since this system is based on personal savings, then why is it not run by the private sector without the Social Security Fund; in such systems, the State can simply set up the rules and regulations of the pension funds run by the private sector. This system is the third pillar of the system we suggest and that is based on three pillars.

- The suggested system does not cover medical costs or hospitalization after retirement; it does not guarantee any provisions to set up unemployment's indemnity system, which is considered extremely important as concerns compulsory membership of all social sections in a pension system, thus ensuring ways for the system to succeed.
- This program's scope is limited to workers who have paid their

contributions for a minimum of fifteen years; it thus leaves out of coverage a large number of sections of workers and of people near retirement age.

Concluding remarks

Based on all of the above, the Economic and Social Council considers that, in the light of the current economic and social situation, the suggested system is insufficient; it is necessary to complete it with one that has more appropriate pillars to fit the economic and social situation, to be a mixed system: taking from the distributive system a guarantee of minimal security to all social sections upon retirement, and benefiting from the advantages of the capitalization system in the world. We see the system as follows:

The system we suggest relies on the three pillars acknowledged around the world; more and more countries introducing new systems of social security use it as it proved, based on the experience of countries who have implemented it, its ability to maintain financial stability all the while guaranteeing and ensuring basic social needs such as a pension, medical benefits.

The system may be summarized as follows:

1 - *The first pillar*: is an obligatory pillar guaranteed by the State relying on the distributive concept and focusing on real minimum wage (not necessarily the current minimum wage in Lebanon). As to contributions in this pillar, they ought to be taken over by employers and employees on a 1/6 basis, i.e. if the contributions due by the employer are eight percent, the employee's share is 1.33% upon retirement.

The ceiling of contributions - on the basis of which this percentage is calculated - is fixed at a given multiple of the above mentioned minimum wage. We would like to point out that the rule in the world is between three and six times the minimum wage.

2 - *The second pillar*: it is just like the first, compulsory and guaranteed by the State. Employers, workers and other members assume the charges of this pillar within the above mentioned percentages - one out of six. It includes higher salary sections than those in the first pillar. The total contributions in this pillar are managed by special pension funds; the latter are controlled and

governed by rules and regulations that are set up by monetary authorities since these funds are usually run by specialized financial companies whose license, control and accountability are linked with the country's monetary authorities. Contributions in this pillar should not exceed three to six times the minimal wages, i.e. contributions within the first and second section cover 6 to 12 times the suggested minimal wage.

3 - *The third pillar*: is optional. It covers the section of wages above the ones mentioned in the two prior pillars, i.e. between three and six million L.L. per month. The people whose wages are included in this part may, if they so wish, cut out a percentage of their wages - one which is determined by the law - not exceeding ten percent of the wages, for instance. This percentage is entirely covered by the employee.

In order for this pillar to succeed, we need to first subject it to permits, accountability, and control by monetary authorities. Second, the sections of wages included in this part ought to benefit from tax exemptions and fees determined by the law in order to encourage high incomes to contribute to additional national savings, which may be used to increase the economy's and the society's ability to invest.

When a member reaches retirement age, he benefits from the three pillars as follows:

- A compulsory pension calculated according to a double of the official minimum wage. Based on the experience of this system in the world, a worker who has forty years in the service, gets twice as much as the minimal wage (for instance, $LL500.000 \times 2 = LL1.000.000$) taking into account the fact that wages are increased yearly based on the high cost of living. A worker who has fifteen years in the service benefits from a given percentage of the minimum wage (i.e. $LL500.000 \times 0.5 = LL250.000$), which is a minimum for any member no matter what the total amount of his contributions is. Comparatively, this minimum remains much higher than what a worker gets today upon reaching retirement and getting a lump sum divided upon the number of years and months he is expected to live after 64.
- Adding up the sum of pillars two and three recorded individually and in the member's personal accounts (no matter how much they amount to) to a compulsory pension. It should be noted that each member has the right to request, upon reaching retirement

age, a given amount of the sum piled up in pillars two and three. The balance is redistributed into monthly pensions added, as we mentioned, to the minimum constituted in the first pillar.

During the transitory period, the proposed system does not harm the current workers' rights. This system gives three choices- after adopting technical and actuarial mechanisms - and they are:

- a - Not becoming a member of it and remaining in the old system for those who counts already more than fifteen years in employment.
- b - Becoming a member of the new system and counting the difference based on the old system.
- c - Becoming a full member of the new system in particular cases.

It should be noted that dialogue ought to be pursued in order to determine the future features of social security in the light of actuarial studies about the current situation and about ways to extend this system to all the Lebanese.

CHAPTER TWENTY ONE

Environment policy

Environmental problems are the main challenge our century will have to face; they are the global wars humanity will have to fight, against itself first; from their issue will depend the quality and even the future of life on earth. Environment conservation is already the root of sustainable growth.

Most of the environmental issues spill over the national context and request a regional attention. Major challenges, namely depletion of the ozone layer, climate change, biodiversity and international waters necessitate a global approach. Even the local infrastructure meeting healthy standards and an effective environmental protection needs financing often over the budget possibilities. Nowadays an environmental policy is compulsory regional and may succeed only through the commitment of all Arab countries.

As result of the international trend toward privatization, the environmental issue is becoming more and more the responsibility of the private sector. The private sector is concerned with all environmental interventions through consulting services, technical solutions, projects' management, etc. The scope covers various domestic programs fighting desertification, improving irrigation and water supply, implementing suitable solutions for water sewage and solid waste, and building environmental infrastructure.

The Abu Dhabi Declaration¹⁸⁰ in 2003 stigmatized the environmental shortcoming in the Arab world. While no country by itself can prevail with any sufficient competence in that field, the cooperation between the Arab countries will result no doubt in raising the regional capacity to face the environmental challenge, to the international level.

The Arab Council of Ministers responsible for environment has widened the task to cover poverty and unemployment; however it may be wise at start to narrow the environment action to keep it within the available capacities and means.

180 Cf. Para 2.1 infra.

Any efficient environmental program should target three goals: (i) a strong cooperation between public and private sector, (ii) transparent procedures for public tendering and contracting, and (iii) implementation of a wide market for environmental services and equipments.

The main issue is to attract available funds in the region and to direct them toward environmental projects through local firms and consultants. This may rather require first accurate information on projects opportunities in the whole region, and information on new technologies and environmental friendly practices.

The Council of Arab Ministers responsible for environment is actually working on the creation of a “facility” in charge of building national and regional capacities in order to face the environmental challenge with Arab countries’ own resources and means.

The project was launched in Beirut in September 2005 during the Arab environment conference [if that is the name of conference, capitalize] organized by the Lebanese Ministry of Environment and attended by Arab Ministers and officials, economic institutions, NGOs and international Arab experts.

Overview

In the middle of the 70’s the world was suddenly aware of the risk run by the degradation of the ozone layer and its consequences on life. The widespread chemical industries were threatening the ozone layer, a shield protecting the surface of the earth from 20 to 40 km of the atmosphere; protecting life from harmful ultraviolet radiation, which is a major cause of skin cancer, eye disease, and that reduces natural immunity, destroys the crop and destabilizes the ecosystems.

The discovery of a large hole in the ozone layer in 1985 above the South Pole was a much convincing element prompting environmental measures and led the same year to the “Vienna Convention for the Protection of the Ozone Layer” and to the “Montreal Protocol on Substances that Deplete the Ozone Layer” in 1987¹⁸¹. A multilateral fund was set up in 1990 to implement the Montreal protocol.

181 Amended in: London 1990, Copenhagen 1992, Vienna 1995, Montreal 1997, Beijing 1999 .

For decades the economic thought considered growth as the increase of products and services; however the environment pollution revealed that often the progress occurred at the detriment of human health and most probably human future on earth. This brought economic thinking toward more responsible constraints like an exigency of a healthy growth based on clean production and environment protection.

On the regional scale, the UNEP's Environment assessment report (2004/5 GEO Yearbook) points out that water scarcity, political conflicts and security shall constitute the priority challenges for the region.

In fact the scarcity in water resources threatens the stability of the region and constitutes a major source of dispute; mainly that 60% of available water in the region has its source out of the region itself.

International indicators are linking economy and environment through a particular indicator named "Adjusted Net Savings¹⁸²". That index reached record figures in much of the Arab countries and namely Lebanon (- 18.1¹⁸³).

As result of the international trend toward privatization and the domestic program to transfer to the private sector most if not all economic institutions held by the State, the environmental issue will become more and more the responsibility of the private sector and/or independent companies.

Furthermore the scope is widening to cover poverty and mainly extreme poverty. The Johannesburg conference¹⁸⁴ recommended "facilitating the cooperation between the public and the private sectors, as well as all form of cooperation that considers poverty as one of the priorities of the legal framework of the governments". The same year, the "UN International Conference on Financing for Development", Monterrey, stressed on the necessity of the partnership with the private sector.

182 Adjusted net savings measure the true rate of savings in an economy after taking into account investments in human capital, depletion of natural resources and damage caused by pollution.

183 Syria (- 13.9), Saudi Arabia (- 18. 8), Kuwait - 30.9, Algeria (- 2.9).

184 World Summit on Sustainable Development, Johannesburg 2002 .

The private sector is concerned with all environmental interventions through consulting services, technical solutions, management of various domestic programs fighting desertification, improving irrigation and water supply, implementing suitable solutions for water sewage and solid waste, and building environmental infrastructure.

The private sector should be considered a major partner for sustainable growth; therefore it must contribute in the most efficient way to the protection of the environment, which after all is a common responsibility for the public and the private sectors, on domestic as well as on regional levels.

Lebanon as well as the Arab governments that enhanced for the last two decades infrastructure and economic growth should enforce now environmental laws and regulations, and of course if previous misjudgments have caused the economy and mainly industry to harm the environment, policy should first take steps to repair such harm.

Most important, the environment conservation needs cooperation and financial means: "Conservation without finance is simply conversation"¹⁸⁵.

The Arab world has created several funds for economic and social development; no one targets mainly the environment or has the necessary expertise for that purpose. On the other hand the international funds for environment protection do not include the regional priorities among their own preoccupation.

A reasonable strategy is to create an Arab Environment Facility - AEF¹⁸⁶, which would gather technical competences able to face the environmental challenge as to (i) tackle with the local and/or regional conditions (ii) create a regional market for technology exchange. The Arab private sector will be the back bone of such a competent structure.

Such orientation is perfectly consistent with the recommendations of the "Monterrey Conference"¹⁸⁷

185 Dr. Swaminathan, the father of India's Green Revolution.

186 Beirut Conference, 6 - 8 Sept. 2005.

187 United Nations International Conference on Financing for Development, Monterrey 2002.

- Channel domestic private investments toward development;
- Attract foreign direct investments toward development;
- Abide by modern global trade rules and best practices;
- Enhance international financial cooperation.

It remains a great issue while considering such cooperation. Should it be limited to physical environment or should it be concerned as well with poverty, namely extreme poverty? Johannesburg Conference supports “all forms of cooperation that consider poverty among their priorities”.

Defining the fundamentals

The Abu Dhabi Declaration¹⁸⁸ on future of the environmental work in the region evidenced the following issues:

- Shortage in water resources and general degradation of quality;
- Limitation of arable surfaces and deterioration of the quality of land;
- Expansion of cities and towns and consequences on life and nature;
- Degradation of the seafront and most of the littoral.

The capacity to fulfill the global obligations relating to sustainable growth necessitates abiding by complementarity's principle and a global approach. No one of the Arab countries has the technology and competence to face the rising social and ecological problems; while all together, they may gather sufficient know-how to meet successfully the challenge.

Build up of institutional and technical capacity for selection, applying and adapting suitable technologies for energy, transport, industry and agriculture may be much better achieved through a wide cooperation between Arab countries.

Particularly, industries should be urged and supported to choose the techniques of clean production, using avant-garde technologies for recycling used material and waste.

188 Environment and Energy Exhibition and Conference, Abu Dhabi 2003.

“Sustainable energy, sustainable forestry, sustainable fisheries, sustainable trans-boundary water management are the means for capturing global benefits related to climate change, biodiversity, and international waters¹⁸⁹”

Namely Lebanon needs a comprehensive plan for water management. The Ministry of Energy and Water raised the issue several times. Correspondingly, other Arab countries may have a critical issue in managing their littoral, and/or in energy saving and/or fighting air pollution. The research invested by each and the technology acquired might benefit to all within a rational regional cooperation.

The cooperation should involve the following measures¹⁹⁰:

- Propose the opportune legislation to implement a favorable climate to the environmentally friendly investments;
- Encourage the contribution of the private sector in implementing environmental policies and strategies;
- Harmonize environmental standards and criteria to protect environmental friendly products from price competition;
- Encourage technical and managerial know-how to introduce environmental priorities in all production sectors, and enhance clean production technologies;
- Diffuse awareness and provide environmental information.

Promote joint ventures between the public and private sectors and/or support all forms of cooperation between them, giving way to more responsibility to the private sector through: management contracts, service contracts, licenses, BOT, DBOT, BOO¹⁹¹ etc.

Furthermore the Johannesburg Conference emphasized the necessity to create a global cooperation fund to erase poverty and spur social development in emerging countries; stressing on the necessity of voluntary contribution, avoiding previous experiments of the United Nations; enhancing the role of the private sector and the

189 Mohamed T. El-Ashry, former Chairman of the “Global Environment Facility”.

190 Private Sector Environmental Committee “Arab Environment Facility Conference” - AEF - Beirut 6,7,8 September 2005.

191 Build Operate and Transfer; Design Build Operate and Transfer; Build Operate and Own.

civil society in cooperation with local governments.

The executive bureau of the Arab ministers in charge of environment has launched a regional debate in order to raise new techniques able to involve the private sector in the environmental issues, namely:

- Exchange information to identify new incentives set to enhance the cooperation between the public and the private sectors; and in view of that, expand communication and share experience between Arab countries;
- Create a regional market trading in environmental technologies and services.

Regional cooperation

The Council of Arab Ministers in charge of environment was created in 1987. Before, cooperation existed in the realm of the maritime environment since the 70's. The council gave priority to three programs¹⁹²:

- The program to thwart desertification, enlarge the green zone and sustain the fauna and flora in the Arab region;
- The program to contain industrial pollution; and
- The program for education and awareness toward environmental constraints.

Since then, the representatives of the civil society have always shown concern toward environmental issues, contributing to awareness through seminars, conferences, workshops, and a better understanding of the protection rules and measures. Arab international experts, chambers of commerce, professional associations, investors' groups, as well as trade unions are defenders of the environment cause.

The global scope of environmental work is still bounded to the agreements relating to specific issues, like the preservation of the ozone layer or the climatic changes. However the Arab Council of Ministers concerned with environment has implemented a modern approach of

192 Dr. Mustapha Kamal Tolba, former Executive Director of United Nations Environmental Program, in AEF Conference, Beirut, Sept. 05.

environmental matters oriented toward sustainable growth. Such approach would cover the social and economic development, and therefore is concerned with energy and water problems as well as agriculture and poverty.

The size and specificity of regional environmental problems require a suitable response in conformance to set priorities and the involvement of a large number of operators highly qualified and able to communicate in Arabic, the common language of the region. The task will involve a wide scope of work involving local authorities and private sector¹⁹³:

- Assessment of environmental legislation and actual needs; enforcement of existing laws; control of administrative application;
- Lack of scientific and technical infrastructure needed to improve environment;
- The necessity to build the capacity of municipalities and other local authorities and to support them financially to enable them to fulfill their obligation relating to environmental development and management of land;
- To conform the environmental local practices with international standards and accords;

To extend to the private sector the opportunity to invest and manage environmental infrastructure.

The private sector should be concerned with all environmental interventions except the vote and implementation of laws, namely the private sector is expected to:

- Provide consulting services, engineering solutions, technical skills and competence in managing various activities and projects;
- Enhance the regional offers for environmental services and products whenever it has the chance to breakthrough to the regional market;
- Provide a priority access to regional consultants, manufacturers and entrepreneurs toward regional consultancy and/or procurement contracts and tenders.

193 Lebanese Minister of Environment - AEF - Sept 05.

The cooperation between the Arab countries will result no doubt in raising the regional capacity to face the environmental challenge to the international level, while no country by itself can prevail in that field. Therefore manufacturing within the Great Arab Free Trading Area - GAFTA - must be given the chance to supply the contracts financed by the local budgets, in order to attract enough investment in order to enhance the technology and henceforth the productivity of the region.

The Arab region's overall wealth of financial and intellectual resources can offset the unequal distribution of natural resources¹⁹⁴.

The fulfillment of the GAFTA agreement in 2005 is a major incentive for industrial investment, namely in the field of environmental material. On the other hand, the negotiation in progress for the liberalization of services will provide a great opportunity and a wide market for services exchange. Cooperation, team work, services' trade and know-how transfer are compulsory for the success of an environmental strategy and resources management, and henceforth for the future of the Arab economies.

There are many Arab funds concerned with environment but no one is devoted to environment only and/or possesses the necessary skills and competence in that field. We refer namely to: Kuwait Fund for Arab Economic Development, Saudi Fund for Development, Abu Dhabi Fund for Development, Arab Fund for Economic and Social Development, Islamic Development Bank, OPEC Fund for International Development.

An Arab Environment Organization may facilitate at large the dialogue and the cooperation between public and private sectors; it may as well assist the existing Arab funds in their development strategies and direct investment toward environmental protection and sustainable growth.

Environment protection strategy

An environment strategy lays fundamentally on regional and international cooperation. All states member of the United Nations except six have signed the Montreal protocol. Among them, 150

194 Mohamed T. El-Ashry.

developing countries. It is about time for Arab countries to join efforts in order to fight the causes of deterioration of natural resources and the obstacles to sustainable growth. Enhancing Arab cooperation in the environmental field must become a priority.

Sustainable growth cannot be achieved without a strong involvement of the private sector; the protection of the environment as well, which after all is an essential part of development. It will be useful to institutionalize the cooperation between the public and the private sectors through opportune legislation and means. The private sector should be associated to environmental policies and strategies, as much as it should play a major role in the execution of projects financed by the Arab budgets and/or Arab financial resources. A coordination unit between the public and the private sector could be set to achieve the following goals:

- Propagate awareness and disseminate information on contracting opportunities regarding consulting and executing of environmental projects in all Arab countries.
- Introduce new technologies and environment-friendly practices.
- Inform on ways and means to improve the feasibility of environmental projects in order to attract investments;

However, it is important at start to narrow the field of environmental care to stay within the scope of capacities and means. Mostly because the Arab Council of Ministers in charge of environment has widened it to cover poverty and unemployment. Of course on the long run such issue seems compulsory, but for the beginning it seems beyond the capacity of any instrument to be set among the Arab countries. Conservation of natural resources and curbing pollution are by themselves great achievements. One of the most efficient ways to restrict the domain is to define clearly the environment field. The World Summit on Sustainable Development¹⁹⁵ defined the regional scope by raising the necessity of a permanent control on natural resources in west Asia, namely:

- An aggregate control on water;
- Programs for fighting desertification;
- A comprehensive care of arable lands; and
- Curtail the pollution of land and water.

195 Johannesburg, 2002.

The strategy of regional cooperation and strong contribution of the private sector can be cemented by a serial of harmonized measures:

- Develop an aggregate market for environmental services in order to capitalize on domestic skills and competences all over the region;
- Elaborate legislation aiming to create the suitable climate enhancing environmentally favorable investments in the Arab countries;
- Harmonize the criteria and standards relating to environment, within the Great Arab Free Trade Area, in order to protect the Arab “clean” production from unfair competition, and take full advantage of the expertise available in the region;
- Support the technical and managerial know-how in order to introduce environment priorities in all manufacturing and/or services sectors, encouraging everywhere the “clean” production.
- Bring out the environmental culture and enhance cooperation between the different national administrations, universities, and different regional and international bodies concerned.
- The financial strategy might target channeling financing from Arab and international funds, including the international capital markets to provide Arab governments and private investors with the necessary capital to build the environmental infrastructure in the region and henceforth achieve¹⁹⁶:
 - A rock-bottom cost of funds;
 - Capacity to improve the projects;
 - Develop local expertise;
 - Secure a “clean” production with few if any over-cost.

Environmental achievable targets

The Protocol of Montreal determines the procedure and steps to restrict the production and use of chemicals that are deteriorating the ozone layer. Consumption must definitely stop at specific dates [?].

196 AEF Conference recommandations, Beirut, Sept 05.

Developing countries have been given a grace period of 10 years to start the application of the protocol.

The projects that the Declaration of Abu Dhabi has retained as priorities for the Arab world are:

- The careful use of natural resources (sources of energy and clean production);
- Protection of the seafront from pollution mainly due to non treated sewage and industrial waste (This clearly concerns all countries sharing the same sea);
- Better control of the technology for water desalinization;
- Proper use of genetics to grow crops able to support water and lands with higher grades of salt, and semi-desert climate that characterizes most of the area;
- Create the Arab regional bank for genetic roots;
- Execute an expanded program to control desertification and limit its expansion;
- Spread use of solar energy in a region that coincides with solar energy production belt, as much as with oil and gas belt. Develop as well the hydro energy.

Such exposure requires again stating the priorities among the programs and projects to be financed; the beneficiaries. Should revenue be the criterion of decision? Should the programs beyond region be considered as well, particularly those implying water and desertification?

One might well expect that only private sector entrepreneurship can create smart solutions for the different challenges facing the region and each country within; therefore cooperation spirit and incentives are compulsory to boost competence and talents.

The Great Arab Free Trade Area, in which custom duties have been totally abrogated since the beginning of 2005, on products manufactured in the area, might play a role of primary importance encouraging the local trade in environmental equipment and product; and will hopefully expand very soon to services. One of the major targets might be to develop domestic qualification and expertise to solve the environmental problems, (i) taking into consideration the specificities of the region, and (ii) promoting a regional market for environmental services.

Risk and drawbacks

The major risk facing the world is actually a deterioration of the ozone layer that may eradicate life on earth - a risk no one can take, and for our generation an unforgivable guilt. Conservation of the ozone layer is a world problem, worrying all nations and requiring a global discipline.

Thereupon on the regional plan we are suffering a serious environmental degradation, particularly with regard to water scarcity¹⁹⁷, pollution and health problems; as well as weak environmental institutions and legal frameworks. All that impacts unfavorably on productivity and endanger sustainable growth. As a matter of fact the annual costs of environmental damages in Lebanon are estimated around 6% of GDP¹⁹⁸.

OECD countries have constantly resisted funding regional facilities or establishing regional environment funds; they have always been, and still are, inclined to concentrate funds in favor of the "Global Environment Facility" - GEF

The fundamental problem to be addressed is the common trend of Arab governments and corporations to look for environmental solutions out of the Arab zone, although consulting and executing through regional firms would surely be more economical. Activation of trade in environmental goods and services within the Arab countries will contribute at large to cut cost and improve quality of service. GAFTA might get down to that task. The lack of domestic production of anti-pollution equipment as well as of pollution measuring devices, besides the difficulty to use the high-tech treating material imported from abroad, could be one of the major causes hampering the efforts of local industry in fighting pollution.

Realization program

Any efficient environmental program should target three goals: (i) a strong cooperation between public and private sector, (ii) transparent procedures for public tendering and contracting, and (iii)

197 Cf. 2.1 supra - Abu Dhabi declaration, 2001.

198 The norm for OECD countries is actually 2 - 3 % .

implementation of a wide market for environmental services and equipments. Encouraging cooperation between the public and private sectors may be a good initiative to improve the management of the administration and enlarge the contribution of the private sector. Use of local expertise on regional level will consolidate the Arab market and develop required skills and competences. Many opportunities could be created to attract the private sector: management contracts, BOT contracts, long-term leasing, privatization. This goes along with a seriously funded research and development program.

Maybe such programs can be implemented without creating a new institution. The main issue is to attract available funds in the region and to direct them toward environmental programs through local firms and consultants. This may rather require establishment of a regional data bank present in each Arab country, providing accurate information on projects opportunities in the whole region, and giving information on new technologies and environmental friendly practices. Such knowledge process might lead to an annual regional forum including: (i) an environment trade fair promoting technical products and services manufactured in the region and/or imported, and (ii) an environmental congress illustrating technology development and sharing information and knowledge. It may as well create a website promoting regional work and business opportunities

Arab countries may achieve together major common interests:

- Take profit of the skills and competences available in the Arab countries and increase their efficiency through opening the markets for the projects aiming at the environmental conservation of the Arab world;
- Take advantage of a common language, Arabic;
- Involve the private sector initiatives in the protection of the environment through adequate incentives.
- Collect information on all Arab countries and propagate them to all;
- Create an environmental network to share information and knowledge among all Arab countries.

Arab countries have convened to create in Lebanon an interim secretariat ruled by an advisory council chaired by the minister of environment, in order to design and implement a suitable facility to

coordinate the Arab efforts toward the conservation of the regional environment and natural resources¹⁹⁹.

Projected facility

The Council of Arab Ministers responsible for environment is actually working on the creation of a "facility" in charge of building national and regional capacities in order to face the environmental challenge with their own resources and means. That organization could compare with the Global Environment Facility - GEF - which defines itself as an independent financial organization providing grants to developing countries in order to execute environmental projects that permanently improve life conditions and support local fragile communities.

The Arab Environment Facility - AEF - should dispose following the priority [?] of the moment of environmental experts in different disciplines, i.e. (i) environmental engineering and sciences, (ii) natural resources, land and water management, (iii) energy.

The technical bureau should be limited to a small number of highly qualified technicians, not more than five or six during the inception period. It should endeavor to list all specialties in the different environmental fields among Arab experts and firms as well as regional organizations devoted to environment issues. Representatives would be appointed in all Arab countries.

A website would be created, first to list projects' opportunities for consultancy and execution in the entire Arab region, then to promote the Arab companies specialized in environmental services against a reasonable fee.

The structure and management of the AEF is yet under discussion by the stakeholders²⁰⁰:

- How the decision process should be settled? Is there some preferential vote system? Should it be related to contribution and/or capital share?
- Under which criteria projects will be financed by the facility?
- Settlement of contributions?

199 Arab Countries Round Table on Environment, Beirut 6 - 8 September 2005.
200 Dr. Mustapha Kamal Tolba.

- If the contributions are voluntary, what is the guarantee that the facility will obtain enough funds?
- Who will control the facility? And how the top management would be appointed?
- Who will be in charge of the execution of common projects between Arab countries and/or the Arab region and abroad and/or the public and private sectors?

The facility should be as well the major organization in charge of cooperation with its international counterparts, mainly in the problems created in the ozone layer and the climate change. The international multilateral fund in charge of controlling the depletion of the ozone layer compensates for the lack of revenues in developing countries necessary to obtain new technologies and replace the production threatening the ozone layer. Four agencies are actually in charge of executing the projects funded by the multilateral organization: United Nations Development Program - UNDP - United Nations Environmental Program - UNEP - United Nations Industrial Development Organization - UNIDO - and the World Bank.

Environment funding

The main issue remains being the budget that the facility will manage, channeling grants and loans to environmental projects. Loans are generally the most efficient basis for quality and feasibility control. At the same time, well-managed loans help in obtaining financial grants via soft loans and/or guarantees and/or grace periods, etc that usually constitute a gratification of most of the debt amount. The second option is naturally the financial markets where the facility should be eligible to obtain the best conditions. The main objective of funds allocation, may we remind, is to promote a technical and social regional approach to environmental problems, and consolidate the efficiency and quality of domestic consulting and contracting. Opec Fund for Development as well as Arab funds for development should contribute to finance the available projects through the Arab Environmental Facility²⁰¹.

In this concern, the Islamic Development Bank offers:

- Loans against management fees not exceeding 2.5% per year to

201 Cf. 3.9 supra.

- cover administrative cost;
- A rental fee about 6% to finance the acquisition of equipment and material;
 - Sale by installment to finance the constitution of capital;
 - Industrial fees to provide mid-term financing. Sub-contracting instrument to produce and/or own goods, in which the supplier (seller) accepts to supply the buyer with the products;
 - It may finance civil works and equipments;
 - The fund provides financing for technical assistance, mainly opportunity studies, feasibility studies, training and capacity building, in terms of grants or loans free of interest rate, against management fees not exceeding 1.5% per annum.

Dr. Mustapha Tolba proposed the criteria under which the facility should be created as follows:

- The Arab Environmental Facility should be financed exclusively by the Arab countries; and
- the contribution should be voluntary;
- A minimum contribution should be declared from every Arab country to the Council of Arab Ministers responsible for environment;
- Promote the role of private sector and civil society; direct the private sector funds toward feasible projects;
- Avoid copying United Nations previous experiences.

Even if the structure and the scope of the Arab Environment Facility is yet to be finalized, already strategy and rational action plans are defined and could be implemented quite soon. It is for sure a good move in the right direction; and what is more important is the awareness developed to the environmental cause.

Milestones²⁰²

- 1972 - UN Conference on the Human Environment recommends creation of UN Environmental Organization

202 United Nations Environment Programme.

- 1972 - UNEP created by UN General Assembly
- 1973 - Convention on International Trade in Endangered Species (CITES)
- 1975 - Mediterranean Action Plan first UNEP-brokered Regional Seas Agreement
- 1985 - Vienna Convention for the Protection of the Ozone Layer
- 1987 - Montreal Protocol on Substances that Deplete the Ozone Layer
- 1988 - Intergovernmental Panel on Climate Change (IPCC)
- 1989- Basel Convention on the Transboundary Movement of Hazardous Wastes
- 1992 - UN Conference on Environment and Development (Earth Summit)
- 1992 - Convention on Biological Diversity
- 1995 - Global Programme of Action (GPA) launched to protect marine environment from land-based sources of pollution
- 1997 - Nairobi Declaration redefines and strengthens UNEP's role and mandate
- 1998 - Rotterdam Convention on Prior Informed Consent
- 2000 - Cartagena Protocol on Biosafety adopted to address issue of genetically modified organisms
- 2000 - Malmo Declaration - first Global Ministerial Forum on the Environment calls for strengthened international environmental governance
- 2000 - Millennium Declaration - Environmental Sustainability included as one of eight Millennium Development Goals
- 2001 - Stockholm convention on Persistent Organic Pollutants (POPs)
- * 2002 - World Summit on Sustainable Development
- 2004 - Bali Strategic Plan for Technology Support and Capacity Building
- 2005 - World Summit outcome document highlights key role of environment in Sustainable Development

Global and Regional Surface Temperature Anomalies 1960 - 1998 ²⁰³

Year	Global	North Hemispheric	South Hemispheric	Tropical	South Polar	South Temperate	S.Sub-tropical	Equator	N. Sub-tropical	North Temperate	North Polar
degrees Centigrade											
1960	0.00	-0.11	0.11	0.05	-0.85	0.52	0.23	0.02	-0.09	-0.15	-0.19
1961	0.24	0.24	0.28	0.00	0.24	0.57	0.10	0.11	-0.22	0.55	0.67
1962	0.12	0.13	0.13	-0.05	-0.66	0.68	0.09	-0.11	-0.11	0.23	0.60
1963	0.09	0.16	0.01	0.04	-0.23	0.27	-0.10	-0.04	0.26	0.29	-0.09
1964	-0.24	-0.31	-0.18	-0.23	-0.52	-0.09	-0.08	-0.21	-0.40	-0.27	-0.30
1965	-0.17	-0.24	-0.10	-0.20	-0.43	0.20	-0.18	-0.22	-0.20	-0.40	0.20
1966	-0.05	-0.22	0.11	-0.06	0.60	0.20	-0.19	0.05	-0.03	0.09	-1.45
1967	0.04	0.06	0.01	-0.13	0.39	-0.11	0.03	-0.15	-0.26	0.38	0.30
1968	-0.10	-0.07	-0.13	-0.18	-0.28	0.11	-0.34	-0.04	-0.16	0.05	-0.15
1969	-0.14	-0.14	-0.14	0.23	0.12	-0.68	0.10	0.21	0.37	-0.83	-0.15
1970	-0.05	0.09	-0.19	0.05	0.06	-0.47	-0.11	0.01	0.26	-0.08	0.17
1971	-0.22	-0.16	-0.28	-0.21	0.10	-0.55	-0.20	-0.29	-0.15	-0.16	-0.05
1972	-0.19	-0.20	-0.19	-0.01	0.20	-0.62	-0.05	0.02	0.02	-0.45	-0.34
1973	0.19	0.25	0.13	0.40	0.53	-0.48	0.40	0.37	0.43	-0.13	0.50
1974	-0.03	-0.06	0.01	0.03	1.01	-0.37	-0.13	0.03	0.01	-0.26	0.15
1975	0.07	0.16	-0.02	0.00	1.09	-0.52	-0.07	-0.01	0.08	0.40	0.01
1976	-0.24	-0.15	-0.33	-0.11	-0.27	-0.49	-0.34	-0.09	0.10	-0.41	-0.20
1977	0.16	0.12	0.20	0.31	0.70	-0.14	0.23	0.28	0.41	-0.09	-0.24
1978	0.10	0.16	0.06	0.24	-0.14	0.03	0.01	0.37	0.34	-0.14	0.15
1979	0.18	0.12	0.23	0.29	0.43	0.16	0.01	0.57	0.29	-0.01	-0.45
1980	0.38	0.31	0.46	0.53	0.97	0.12	0.61	0.32	0.67	0.02	0.15
1981	0.42	0.58	0.26	0.30	0.96	0.07	0.13	0.20	0.57	0.71	0.75
1982	0.20	0.16	0.25	0.43	-0.07	0.07	0.54	0.37	0.37	0.06	-0.29
1983	0.43	0.53	0.34	0.43	0.97	-0.36	0.65	0.46	0.18	1.11	0.12
1984	0.29	0.25	0.34	0.33	0.93	-0.21	0.69	0.11	0.19	0.28	0.44
1985	0.02	-0.21	0.25	0.18	0.53	0.16	0.21	0.24	0.10	-0.69	-0.31
1986	0.14	0.13	0.16	0.26	0.45	-0.17	0.26	0.31	0.21	-0.05	0.13
1987	0.46	0.30	0.61	0.92	0.42	0.10	0.96	1.12	0.68	-0.01	-0.63
1988	0.37	0.41	0.33	0.45	1.37	-0.46	0.44	0.65	0.26	0.45	0.40
1989	0.24	0.48	-0.01	0.15	-0.29	-0.14	0.11	0.28	0.07	0.73	1.02
1990	0.56	0.76	0.36	0.50	0.57	0.01	0.38	0.79	0.33	1.04	1.04
1991	0.48	0.46	0.51	0.55	1.25	-0.03	0.62	0.59	0.44	0.33	0.64
1992	0.14	0.08	0.20	0.40	0.76	-0.69	0.84	0.15	0.22	0.05	-0.23
1993	0.16	0.30	0.02	0.33	-0.09	-0.42	0.35	0.32	0.32	-0.14	1.10
1994	0.35	0.54	0.15	0.55	-0.42	-0.10	0.42	0.65	0.59	0.54	0.36
1995	0.64	0.98	0.28	0.76	0.17	-0.40	0.85	0.64	0.78	1.13	1.45
1996	0.46	0.49	0.42	0.67	1.54	-0.32	0.62	0.35	1.05	-0.16	0.84
1997	0.63	0.82	0.43	0.70	0.79	0.07	0.53	0.61	0.97	0.68	1.04
1998	0.71	1.04	0.38	0.98	-0.07	-0.16	0.86	0.96	1.12	1.08	0.86

203 Angell, J.K. NOAA Air Resources Laboratory, Global, Hemispheric, and Zonal Temperature Deviations, derived from Radiosonde Records, In: Trends: A Compendium of Data on Global Change.

World Population, Energy Consumption, and Energy-Related Carbon Dioxide Emissions By Region, 1986 - 1995 ²⁰⁴

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
North America										
Population	346	350	354	358	363	369	374	379	383	388
Energy consumption	89	92	96	98	98	98	99	101	103	106
CO2 emissions	1,385	1,436	1,515	1,541	1,474	1,494	1,527	1,527	1,663	1,694
Cen. & So. America										
Population	327	333	339	346	352	358	364	370	376	383
Energy consumption	13	13	14	14	14	15	15	16	17	17
CO2 emissions	163	175	178	179	177	186	194	204	224	234
Western Europe										
Population	446	448	451	454	457	460	463	466	468	471
Energy consumption	61	62	63	64	64	65	64	64	64	66
CO2 emissions	909	912	883	912	920	900	885	872	859	890
Eastern Europe										
Population	379	382	383	385	390	392	392	392	392	393
Energy consumption	70	72	74	73	71	67	63	59	53	51
CO2 emissions	1,298	1,347	1,368	1,335	1,223	1,173	1,060	1,009	880	934
Middle East										
Population	116	119	123	126	130	134	137	141	145	149
Energy consumption	9	10	10	11	11	11	12	13	13	14
CO2 emissions	147	146	157	163	167	312	200	208	235	243
Africa										
Population	574	591	608	624	641	661	682	703	724	746
Energy consumption	10	10	10	10	10	11	11	11	12	12
CO2 emissions	169	168	178	180	182	186	194	195	198	196
Far East & Oceania										
Population	2,740	2,785	2,836	2,887	2,934	2,982	3,030	3,078	3,145	3,195
Energy consumption	61	64	69	72	74	77	80	86	91	96
CO2 emissions	1,199	1,256	1,356	1,383	1,449	1,534	1,611	1,659	1,785	1,875
WORLD										
Population	4,927	5,009	5,094	5,180	5,266	5,356	5,442	5,528	5,634	5,724
Energy consumption	313	323	335	341	343	343	345	351	354	362
CO2 emissions	5,270	5,440	5,635	5,693	5,593	5,785	5,671	5,674	5,844	6,066

Notes: Population is expressed in millions, energy consumption in quadrillion Btu, and CO2 emissions in million metric tons of carbon (to convert the latter to carbon dioxide gas emitted, multiply times 3.664). Energy-related carbon dioxide emissions refers to emissions from fossil fuel burning and gas flaring; excludes emissions from cement production. Regional grouping of countries in sources have been reconciled as follows: North America includes Mexico; Western Europe includes Germany and Turkey; Eastern Europe includes the former USSR, and Far East and Oceania Centrally Planned Asia.

CHAPTER TWENTY TWO

The European Neighborhood Policy - ENP

Integration to the Euromed space

Henceforth the relations with the European Union will be guided by the principles and objectives of the European Neighborhood Policy, which designs a new framework for the relations between the European Union and its neighbors to the east and south. A good knowledge of the philosophy sustained by that policy is essential to pursuing and developing an harmonious relation with the E.U., which shall be much rewarding for Lebanon.

The neighborhood policy is a European “policy”, whereas the Conference of Barcelona had created a “partnership” between the E.U. and the southern countries of the Mediterranean Sea. The conditions of a partnership are usually negotiated by the parties, while a policy could only be adopted. However, the offer is most attractive; it is about nothing less than integration without other limits than “vote”. That represents for developing countries a promise of permanent growth, and the opportunity to raise their economies according to the European standard.

Another particularity, the Neighborhood policy doesn't renew the Meda program launched in Barcelona in 1995 to finance the development of the countries of the south of the Mediterranean sea; it foresees very few “grants” and only in very selective fields; on the other hand the financing of sustainable growth is almost without limit, and serves on the long run the common interest of all parties.

In return the European Union does only require what every nation should require from itself, the adherence to human and social values, recognized besides by the charter of the United Nations and approved in principle by all its members.

Wider Europe

Since the 1st of May 2004 the EU has a population of 450 million and a GDP of nearly 10 billions euros. At its borders live 385 million of inhabitants [?], Russia, the western new independent states and the South Mediterranean countries. The European Union wishes to

promote the social cohesion and economic dynamism of its neighbors offering them a perspective of integration to the home market and therefore encourages them to pursue the liberalization of their markets in order to promote the free circulation of people, goods, services and capital (the four liberties).

This opening is conditioned by the adherence to shared values of democracy and pluralism, the respect of human rights and civil liberties, the reign of the rule of law and the application of fundamental norms of labor. These values are precisely the roots of political stability and sustainable socio-economic growth. The Mediterranean partners are encouraged to align their legislation along that of the EU, and to join efforts for a greater respect of human rights, a wider cultural cooperation and common understanding.

Strategy of integration

All the policies of the Union EU [foreign, security, commercial, cooperation to the development, environmental] must be carried to the height of the event. The economic integration is offered as reward for the effective progress in the application of shared values and the undertaking of political, economic and institutional reforms.

This strategy is entrusted to achieve the following objectives:

- An open and integrated Pan-European market, founded on either compatible or harmonized rules, and on the pursuit of the liberalization of the economies and their integration to the “big” market;
- Legal immigration and the free circulation of people ;
- The promotion of foreign direct investment;
- The prevention and the struggle against the threats to shared security;
- The struggle against organized crime, namely corruption and fraud, the ecological and nuclear risks, and transmissible diseases;

On the long run, these countries are invited to share the narrow political and economic ties that characterize the EU space. That is to say to share all except the political integration.

Action plan

- 1- Engage proximity policies in all domains of shared interest, or for the support of neighboring countries:
 - To give all care to the economic vulnerability problem, poverty, exclusion;
 - To start concrete actions for social inclusion;
 - To support public policies whose effect is to reduce the possible gaps among income groups;
- 2- The EU shall participate more thoroughly in the prevention of regional conflicts and the management of crises, notably the Palestinian conflict;
- 3- In the domain of the infrastructures, integration of the transport networks, energy and telecommunication;
- 4- The European space for research shall be progressively open to the neighboring countries;
- 5- A joint management of the immigration flow;
- 6- A differentiation and progressiveness of action programs will be considered in respect to specificities of every country.
- 7- Some instruments of this policy are already in use, others shall be ready in due course:
- 8- The emergence of the euro as a significant international currency has created new opportunities for intensified economic relations;
- 9- As the agreements of free trade get in place, the Process of Barcelona foresees to expand them to the services;
- 10- The countries of the zone are invited to set up an efficient legal system, powerful judicial authorities and an effective judicial system;
- 11- The projects of interconnection and infrastructure will be financed by the Facility for Euro Mediterranean Investment and Partnership - FEMIP;
- 12- Later on, the FEMIP shall be possibly integrated in a Euro-Mediterranean bank;

A new vision for Lebanon

Soon after its independence in the middle of the 20th century, Lebanon adopted free trade and convertible currency, while all European countries were experiencing exchange control and some Mediterranean countries engaged in autarky. And when the trend toward globalization started due to the effort of the GATT, Lebanon was already much ahead. The four liberties have always been an integral part of the Lebanese way of life. Beyond the free circulation of goods, services and capital, Lebanon systematically hosted refugees and immigrants from neighboring countries, while Lebanese youth spread over the Gulf and the world seeking better opportunities.

Being a multi-confessional country, Lebanon learned to be a land of tolerance; therefore it genuinely adheres to human rights and shares humanitarian values. The local and regional turmoil for the past three decades could not but leave severe stigmas but it will be only a parenthesis in the national life.

Country of freedom and tolerance, of education and progress, Lebanon is perfectly integrated in the new dimension offered to the Mediterranean countries. Furthermore, Lebanon is likely to recover part of its old mission, to be a link between Europe and the Arab world.

Economic space

It is truer than ever that modern economy can no more be confined within the national frontiers even for large countries. The high standards of life most people enjoy nowadays rely mostly on trade benefits. Bilateral and even multilateral agreements cannot replace common markets, for countries still segregate foreign production from their own and use extensively exceptions and technical trade barriers to protect their own industry.

Lebanon, which is a very small market forcibly subject to monopolistic behaviors and oligopolies' influences, cannot grow if not linked to a greater entity; the EU market is a unique opportunity for the development of the region and particularly Lebanon.

In the two last decades it became clear that globalization is an ultimate target that could even prove unnecessary, and that the road to globalization is regionalization, building coherent entities

benefiting the maximum of economies of scale and developing at large trade advantages.

Social issue

At the same time the neighborhood policy will prone integration in the diversity, sharing economic and social life and the broader range of common values, while the citizens of the Mediterranean countries shall keep their own nationalities. In fact, as much as the economic tendency to globalization or regionalization is clear in the whole world, as much as people are in search of a narrow identification with land, culture, habits, language, etc, the ENP has the appreciable merit to recognize the conflict between the economic constraints and the cultural needs.

Nevertheless the economical open space that shall evolve from that policy will lead to a better allocation of resources and more harmonization in the standard of life of population helping to eradicate poverty and exclusion. One might well expect that people migration will increase, namely northbound; in fact, for the great majority emigration is only a last resort, and people will accept much lesser income if they can find a job in their home country. Therefore the economic integration with the job creation it will necessarily provide in the cheaper countries will maintain the population at home and henceforth shall limit noticeably the emigration to the North.

Promoting Regional and Intra-Regional Cooperation

The Euro-Mediterranean partnership offers a strong policy framework for the EU's relations with the Mediterranean countries. Since the Barcelona declaration was adopted in 1995 it has formed the basis for a continuing dialogue and cooperation in spite of the political turmoil in the region.

As far as the bilateral dimension of EU relations is concerned, the basic framework is similar for both groups of countries: association agreements or partnership and cooperation agreements, including political dialogue, are accompanied by national Meda programs and agreements on specific issues. The most important difference is that, in the Mediterranean, an explicit regional dimension encouraging the development of intra-regional initiatives and cooperation in a broad

range of sectors is included. This policy of promoting intra-regional cooperation consists of three chapters defined in the Barcelona Declaration supplementing the bilateral framework: the Political and Security Chapter, Economic and Financial Chapter and Social, Cultural and Human Chapter. Since 1995, seven meetings of the foreign ministers of the 15 + 12 have taken place, together with 16 meetings of sectoral ministers. These meetings have launched a number of cooperation initiatives, financed through the Meda regional program.

PART 4

Supportive Studies

Public Finance ²⁰⁵

The tragic assassination of former Prime Minister Rafiq Hariri was a watershed event for Lebanon weighing heavily on the economic performance in 2005. Last year was one of the most critical years in more than a decade in light of a rapidly evolving political environment which is likely to continue along 2006. In this respect, these events would cast their shadow on the Lebanese economy for the coming period.

As projected in our public finance report last year, the Lebanese economy witnessed virtually no growth in 2005. Several indicators support this outcome. Aggregate demand declined significantly, reflected by a drop of 0.6 percent in imports, which accounts for around 40 percent of Lebanon's GDP. Also, construction permits declined by 10.5 percent year-on-year, and the number of tourists contracted by 10.9 percent over the same period.

On the monetary side, the quantity theory of money ($MV=PY$) points to a regression of the economy during 2005. Based on our calculations, real output grew by only 0.6 percent (virtually no growth). This figure was the result of a 5.2 percent growth in money supply, which was offset by a drop of 4.7 percent in the velocity of money. On the other side of the equation, inflation dropped by 0.11 percentage point according to the "Bulletin des Indices" calculations $(m+v=p+y)$ ²⁰⁶.

Despite the sluggish economic performance last year, capital inflows increased by 5 percent, moving from US\$ 7,818 million in 2004 to US\$ 8,206 million in 2005, while the trade deficit declined by 2.5 percent. This resulted in balance of payments surplus of US\$ 747 million, against a surplus of US\$ 169 million in 2004. This was due to the regaining of confidence in Lebanon, supplemented by the immense oil money surpluses in Gulf countries. Improvements in

205 by *Marwan Iskandar & Associates*.

206 The small letters denote the yearly growth rate of each item in the original equation.

external liquidity have provided the central bank an estimated US\$11.7 billion in gross foreign reserves at year-end 2005, which is equivalent to 71.7 percent of LL money supply. It should be noted that the assassination of Prime Minister Hariri triggered a strong wave of LL to US conversions, estimated at around US\$6 billion, and a rise in interest rates together with a deficit in the balance of payments of around US \$ 1 billion. However, this trend was completely reversed in the second half of last year due to a favorable political situation and a successful management of the crisis by the monetary authorities.

Fiscal imbalances are still substantial. Despite the temporary fall of debt/GDP ratio witnessed in 2004, last year's ratio reverted to its previous upward trend. A sustained period of fiscal consolidation - encompassing privatization, and the reform of public institutions, and social security payments - is essential to decrease Lebanon's debt dynamics. The government is aiming to a fall in the debt/GDP ratio to 138 percent in a five-year horizon. Standard and Poor's, a rating agency, estimated that assuming real economic growth 3.5 percent annually, and real interest rates of 7.3 percent, primary surpluses equivalent to 5.1 percent are required to stabilize the debt/GDP ratio.

Significant political changes might secure promising economic growth in the years ahead, provided that political stability is maintained and a structural reform plan implemented.

The late approval of budget law 2005 led to a contraction in expenditures while revenues were negatively affected by the no growth economic environment. So far, budget law 2006 was not prepared yet. Given this situation, it is expected that spending would continue for the foreseeable future on a 12-month basis according to the approved budget of 2005. Whether the government and the Parliament end up approving a new budget, the criteria for its success will be its ability to limit actual expenditures and put time and resources into achieving structural reforms.

Economic Indicators

	1998	1999	2000	2001	2002	2003	2004	2005
Public Debt								
(US\$ billion)	17	19.7	25.2	28.3	30.4	33.6	35.9	38.5
Debt/GDP (%)	105	120	153.3	169.9	177.7	185	183	173.4
Inflation (%)	3.8	1.5	0.9	2.9	2	4	3	-0.11
Growth (%)	3	-1	0.4	1.9	2	2	5	0

Fiscal results 2005

From 2001 to 2004, the fiscal authorities achieved an impressive degree of fiscal adjustment, with the primary fiscal balance improving by about 7 percentage points of GDP. However, in 2005 this trend slowed down with the primary surplus declining by LL 259 billion or 26 percent year-on-year due to the adverse political and economic conditions as well as the late approval of the budget law for 2005.

Despite this, the total fiscal deficit declined by 7.5 percent reaching 27.4 percent of total expenditure or 8.4 percent of GDP. This improvement resulted mainly from a 3.2 percent decrease in total payments which compensated for the 1.4 percent decline in total revenues. Fiscal authorities managed to reduce debt service by 12.1 percent due to supportive market conditions reflected mainly by a drop in international interest rates and a stability of interest rates on the Lebanese pound.

In this respect, Actual budgetary figures in 2005 showed a clear improvement over projected ones. The Actual budget deficit totaled LL 2,798 billion in 2005, whereas projected figure amounted to LL 3,083 billion.

Expenditures

Total budget and Treasury expenditures reached LL10, 203 billion, compared with LL 10,541 billion in 2004, registering a decline of 3.2 percent. Total primary expenditures for 2005 increased by LL 150 billion compared with 2004, despite the decrease of almost 35 percent in capital expenditures. This 2.3 percent increase is due to two major factors:

Higher transfers to the NSSF, amounting to LL 290 billion in 2005 compared with LL 89 billion in 2004.

Increase in the Electricite du Liban (EDL) spending by 69 percent, amounting to LL 974 billion in 2005 compared with LL 577 billion in 2004. In 2005, EDL spending comprised the following components:

Direct treasury transfers to EDL amounting to LL 833 billion.

Treasury advances to water authorities for their accrued electricity bills, amounting to LL 48 billion.

Budget transfers under the line item "Materials and Supplies", amount to LL 93 billion.

It should be noted that EDL's deficit amounted to LL 1,212 billion (excluding the company's delayed payments to suppliers and others), of which LL 974 billion was paid from Treasury accounts. The rest (LL 238 billion) was spent through the agreements signed with Algeria and Kuwait.

Other non-interest budgetary expenditures have also been well contained, although contingent liabilities related to EDL and NSSF losses have risen considerably.

The gains on the budget front in 2005 are, however, being eroded by the heavy losses of EDL and NSSF. M.I Associates estimates that the total loss by EDL to be more than US\$ 1 billion a year (Including depreciation, interests on debt). For the first time, the operating losses which ultimately accrue to the state, they are now recorded as budgetary support and not disguised as Central Bank loans.

A core element of the adjustment strategy should be to restore the financial viability of the electricity sector. The dramatic jump in fuel prices has compounded existing problems of weak governance and production inefficiencies, as well as widespread theft and non-payment of electricity, part of which works *de facto* as a social redistribution system. The government's support for electricity (including servicing the debt of *Electricité du Liban*) which is estimated at a staggering 4.5 percent of GDP this year, equivalent to education and health spending combined. Operating losses alone stand at around 2.5 percent of GDP.

Various options are being considered to address the structural problems of *Electricité du Liban*, at the level of its governance and fuel procurement, as well as improvements in production, transmission and distribution. We believe that determined and early action on this front would provide a strong signal of the government's willingness to tackle difficult issues. However, such structural reforms will at best cover a fraction of EdL's losses, the large part of which reflects today the high cost of fuel. The reform of the sector should aim at shifting, over time, the portion of EdL's losses that can be attributed to the high cost of fuel to the users and away from taxpayers, with adequate compensation for the most vulnerable sections of society.

**Transfers to EDL
(LL billion)**

	2004	2005	Change
EDL, of which:	577	974	68,8%
Debt service of which:	341	245	- 28.15%
Loans and Eurobonds	205	196	- 4.2%
Loans for fuel payment	33	49	46.27%
BDL guaranteed loan payment	103	0	- 100%
Treasury advance for fuel purchase	150	130	- 13.33%
Treasury advance for EDI's losses purchase	-	458	100%
Material and supplies	-	93	100%
Treasury advance to water authorities	85	48	- 43.5%
Expropriations	2	-	- 100%

Actuarial imbalances in the social security system constitute another potential contingent liability for the government, which could destabilize public finances over the medium term. Transfers to the NSSF increased by 226 percent in 2005. It is important in this regard to resist the temptation to shift the cost of unfunded mandates and future liabilities to the state. In the reform of the pension system now under consideration, any expansion of benefits for pensioners should be fully financed by adjustments in contributions.

Revenues

Total revenues were adversely affected by the decline in economic activity in 2005, registering a decline of 1.45 percent to LL 7,405 billion. This has mainly resulted from a decrease in overall tax revenues of 5.8 percent (or LL 302 billion) which was larger in magnitude than the 11 percent increase in non-tax revenues, therefore leading to an overall decline of 1.3 percent in budget revenues.

Tax revenues totaled LL 4,867 billion over 2005, compared to LL 5,169 billion during 2004. Although revenues from taxes on income, profits, and capital gains increased by 15 percent compared to 2004, this increase did not offset the near 22 percent (or LL 349 billion) drop in revenues from taxes on international trade (customs and excise),

owing mainly to the loss in fuel excise revenues resulting from the cap imposed on gasoline prices since May 2004, and the weaker performance of imports (those subject to customs duties) compared to last year.

The cap on rising gasoline prices was motivated by valid social concerns, even though this is not a very efficient instrument to reach the most vulnerable segments of the population. Still, it would be important to recover the associated tax losses, and to restore the link to international prices, when conditions permit.

Furthermore, revenues from fiscal stamps also dropped by 10 percent (or LL 27 billion) in 2005 compared to the previous year. VAT revenues, which make up more than one third of tax revenues, fell by 4 percent in 2005.

The improvement in non-tax revenues is mainly due to 15 percent higher transfers from government properties and public institutions, primarily from the Telecom Budget surplus and the Port of Beirut, by LL 146 billion and LL 58 billion respectively.

The bulk of treasury revenues consist of VAT, Telecoms, customs and petroleum tax that altogether make up about LL 4,000 billion or 54 percent of total revenues. These incomes are very vulnerable to the political and economic conditions of the country. For instance, the cap on gasoline prices has resulted in a 44 percent drop in the intake from taxes on petroleum products. Telecom revenues, which are in the vicinity of US \$1 billion, are set to be lost once the Telecom sector is privatized. However, the proceeds of the privatization will be used to lower the debt burden. VAT and customs revenues are highly elastic to any shocks that affect aggregate demand, such as an increase in tax rates.

Main Revenues

(LL Billion)

	2004	2005	% change
VAT	1,763	1,693	-4
Telecom	1,310	1,456	11.12
Petroleum tax	644	362	-44
Customs	530	481	-9
Total	4,247	3,992	-6
Total revenues	7,515	7,405	-1.45

The VAT system remains the most effective tax instrument available to the authorities, and the taxation of gasoline could be revisited, as the state is not in a position to absorb future oil price shocks. In line with actions taken by other oil-importing countries, the cost to the economy of high energy prices can only be contained if its impact is passed on to consumers. At the same time, in order to spread more evenly and fairly the tax burden, the fiscal authorities are considering the introduction of a broader, more effective and more progressive income tax system by 2007. They are also considering a harmonization of the taxation of investment income, as part of the reform paper in the forthcoming Beirut 1 Conference. Also, an increase in VAT rate is seriously under discussion in view of the current stalemate in political arena.

We believe that the proposal to increase taxes of any sort, if adopted, would ultimately increase the financial burden on middle and low income groups, leading to unfavorable economic conditions. Last year's experience showed that a slow down in aggregate demand had an adverse effect on revenues from these tax sources. This view is supported by a study carried out by the ministry of finance in August 2003. The main findings of this study are as follows:

New Tax Proposal (1)

- Increase in the VAT rate from 10 percent to 16 percent.
- Increase the corporate tax rate from 15 percent to 20 percent.
- Decrease the tax on dividends from 10 percent to 5 percent.

In addition, and to offset the impact of these measures, the cancellation of the following has been proposed:

Income tax:

- a- Income tax on wages and salaries.
- b- Income tax based on estimated profits (namely on small and medium enterprises).
- c- Income tax based on lump-sum profits (namely on liberal professions).

Property tax

Inheritance tax

Professional tax

Domestic taxes on Goods and services:

- a- Excise taxes on alcoholic and non alcoholic beverages.
- b- Entertainment tax.
- c- Five percent sales tax on hotels and restaurants

Fees:

- a- Registration fees for public schools
- b- Registration fees for Lebanese University
- c- Public examination fees

The section below reproduces the fiscal impact, the economic incidence analysis and the case studies of the original proposal based however on the revised tax measures.

Change in Total Tax Burden induced by Tax Reform Proposal

	Case 1	Case 2	Case 3	Case 4	Case 5
	Low-income bracket	Lower middle-income bracket	Upper middle-income bracket	Upper income bracket	High income bracket
<i>(in thousands of LL)</i>					
<i>Average annual household income</i>	9,000	19,200	33,600	75,500	126,588
	Current tax system				
Income tax (Tax on salaries)	0	96	522	2,068	6,795
Tax on interest (5%)	81	130	272	1,046	1,766
Property tax (rental income and dwellings)	7	12	264	453	1,047
Public school / university tuition	220	220	220	220	220
VAT (10%)	583	1,103	2,039	3,772	6,366
Total tax burden	891	1,560	3,318	7,559	16,194
Tax burden in % of income	9.9%	8.1%	9.9%	10.0%	12.8%
	New Tax proposal				
Income tax (Tax on salaries)	0	0	0	0	0
Tax on interest (5%)	81	130	272	1,046	1,766
Property tax (rental income and dwellings)	0	0	0	0	0
Public school / university tuition	0	0	0	0	0
VAT (16%)	941	1,765	3,263	6,035	10,186
Total tax burden	1,022	1,894	3,535	7,081	11,952
Tax burden in % of income	11.4%	9.9%	10.5%	9.4%	9.4%
Net effect of new tax proposal on overall tax burden	1.5%	1.7%	0.6%	-0.6%	-3.4%

New Tax Proposal (2)

- Increase in the VAT rate from **10 percent to 12 percent**
- Increase the corporate tax rate from 15 percent to 20 percent
- Decrease the tax on dividends from 10 percent to 5 percent

In addition, and to offset these measures, the cancellation of the following has been proposed:

Property tax

Inheritance tax

Professional tax

Domestic taxes on Goods and services:

- Excise taxes on alcoholic and non alcoholic beverages.
- Entertainment tax.
- Five percent sales tax on hotels and restaurants.

Fees:

- Registration fees for public schools
- Registration fees for Lebanese University
- Public examination fees

Induced by Revised Tax Reform Proposal

	Case 1	Case 2	Case 3	Case 4	Case 5
	Low- income bracket	Lower middle- income bracket	Upper middle- income bracket	Upper income bracket	High income bracket
<i>(in thousands of LL)</i>					
<i>Average annual household income</i>	9,000	19,200	33,600	75,500	126,588
	Current tax system				
Income tax (Tax on salaries)	0	96	522	2,068	6,795
Tax on interest (5%)	81	130	272	1,046	1,766
Property tax (rental income and dwellings)	7	12	264	453	1,047
Public school / university tuition	220	220	220	220	220

VAT (10%)	583	1,103	2,039	3,772	6,366
Total tax burden	891	1,560	3,318	7,559	16,194
Tax burden in % of income	9.9%	8.1%	9.9%	10.0%	12.8%
New Tax proposal					
Income tax (Tax on salaries)	0	96	522	2,068	6,795
Tax on interest (5%)	81	130	272	1,046	1,766
Property tax (rental income and dwellings)	0	0	0	0	0
Public school / university tuition	0	0	0	0	0
VAT (12%)	699	1,324	2,447	4,526	7,639
Total tax burden	780	1,550	3,241	7,640	16,201
Tax burden in % of income	8.7%	8.1%	9.6%	10.1%	12.8%
Net effect of new tax proposal on overall tax burden	-1.2%	-0.1%	-0.2%	0.1%	0.0%

New Tax Proposal Revenue effect

	Original Tax Reform	Revised Tax Reform
	Proposal (1) VAT 16%	Proposal (2) VAT 12%
<i>(LL billion)</i>		
Revenue gain	750	350
Increase in Vat rate	600	200
Increase in the corporate profit tax rate from 15% to 20%	150	150
Revenue Loss	(364)	(109)
Decrease in dividends distribution tax rate 10% to 5%	(5)	(5)
Built Property tax	(58)	(58)
Inheritance tax	(33)	(33)
Income tax on salaries & wages	(175)	--
Income tax on small enterprises	(10)	--
Income tax on liberal professions	(15)	--
Professional tax	(40)	--
Excise tax on alcoholic beverages	(2)	--
Excise tax on non-alcoholic beverages	(2)	--
Entertainment tax	(3)	--
5% sales tax on hotels and restaurants	(8)	--
Registration Fees (public schools, Lebanese University, public exams)	(13)	(13)
Total Estimated Revenue Gain	386	241

Please note that a 2% increase in the rate of the VAT is expected to generate approximately 20% additional revenues to the Treasury. Elasticity considerations were not accounted for in this calculation. However, an extra 2% increase in VAT rate is not expected to induce major changes in consumption behavior.

In summary, whereas the two versions of the tax reform proposal resulted in an increased individual tax burden (taxing consumption is, after all, more burdensome than taxing earnings which are usually under declared and subject to deductions); however, the impact of the revised draft proposal (a 12% VAT) is less severe in magnitude, with an average increase in tax burden equivalent to 0.6 percent of average annual income, compared to 1.7 percent under the 16 percent VAT proposal.

More importantly, the revised tax reform proposal is less regressive in nature than the original draft: although the distribution of the tax burden falls more heavily on low and middle income groups under both scenarios, for lower income groups the distribution around the mean is less severe under the revised scenario. This is particularly true as the original draft proposes the cancellation of individual income taxes that are highly progressive in nature.

Public Debt

By the end of December 2005, gross public debt reached LL 58,048 billion (equivalent to US\$ 39 billion), increasing by LL 3,987 billion (or 7.4 percent) from a year earlier.

Domestic debt amounted to LL 29,140 billion (equivalent to US\$ 19 billion), registering an increase of LL 2,768 billion or 10.5 percent. This increase is largely attributed to a rise in treasury bills holdings by commercial banks, reflecting a strong market demand for these instruments.

Foreign currency debt at the end of December 2005 amounted to LL 28,909 billion (equivalent to US\$ 19 billion), increasing by LL 1,219 billion (or 4.5 percent). Part of this increase reflects the issuance of USD 278 million (equivalent to LL 419 billion) for the settlement of expropriations pursuant to Law No.450 dated July 29, 2002 and according to the Council of Ministers Resolution No.24 dated August, 18, 2002.

The Central Bank's (BDL) portfolio continued to decline, as appetite for Lebanese pound-denominated Treasury bills during December continued to be strong, especially by commercial banks and public institutions. Domestic debt held by BDL decreased from a peak of LL 15,236 billion in March 2005 to LL 11,686 billion in December 2005 (a 23 percent decrease), owing to the resumption of interest by commercial banks in Lebanese pound-denominated Treasury bills, starting April 2005. Domestic debt held by commercial banks increased from a trough of LL 7,387 billion in March 2005 to 14,128 billion in December 2005 (a 91 percent increase).

Public sector deposits reached LL 5,418 billion, up by LL 1,059 billion from the December 2004 level. This large surplus resulted mainly from the strong appetite for Treasury bills.

A number of facts illustrate the fragile state of the public finances and overall vulnerabilities. The government's debt ratio (\$38.5 billion or 190 percent of GDP) remains on an upward path and, in the absence of fiscal adjustment, it would snowball, reaching 210 percent of GDP by 2010. On a per capita basis, government debt stands today at around US\$10,000 and rising, while the annual interest bill on this debt comes to nearly US\$600 per person and absorbs almost half of government revenues. Meanwhile, about 40 percent of non-interest expenditures have to be covered by new borrowing. The fiscal situation has been further weakened by the growing gap between domestic energy prices (gasoline and electricity) faced by consumers and international oil prices. Additional fiscal risks arise from the adverse effect of rising international interest rates and, possibly, from large contingent liabilities, notably from EDL and the social security system. In a broader sense, the country's financial situation has also been affected by the costs borne by the central bank related to the carrying costs of international reserves, financial support to the government, and the exceptional measures taken to contain financial pressures earlier in 2005.

The banking sector has provided the financing needed to cover the fiscal deficit over the years, and continues to be Lebanon's main access channel to market financing. In this context, debt sustainability concerns are compounded by the very high exposure of the banking sector to the government and the central bank (together, 53 percent of assets), reliance on short term capital inflows for financing (essentially one-month deposits), and high dollarization (73 percent of the US\$55

billion deposit base). A gradual unwinding of sovereign exposure is likely to require both consolidation within the banking sector and a strategic shift by the stronger banks toward private sector lending.

A sustained strategy of deficit and debt reduction requires that efforts be based on durable reforms resulting in steady increases in the primary (non-interest) government surplus. In order to create a positive confidence effect, it is important to reverse immediately the debt snowball effect and alter the explosive debt dynamics through a significant upfront fiscal adjustment. To that end, the IMF considers that fiscal measures equivalent to about 2.5 percent of GDP are required in 2006, followed by another 2 percentage points of GDP of adjustment each year in 2007 and 2008. In combination with privatization, such an ambitious adjustment would place the debt/GDP ratio on a downward path, although it would not be sufficient to reach sustainable debt levels. Considerable financial assistance from abroad and a contribution from domestic creditors would be needed to bring the debt ratio closer to a sustainable level.

Projected versus Actual Public Expenditures

(LL billion)

	2000	2001	2002	2003	2004	2005
Projected	8590	9900	9375	8600	9250	10000
Actual	10621	8878	10138	10592	10540	10203
Actual/Projected (%)	123	89	108	123	114	102

Actual Public Expenditures and Revenues (excluding public debt service)

(LL billion)

	2000	2001	2002	2003	2004	2005	Change 04-05
Revenues	4749	4649	5714	6219	7514	7405	-1.45%
Of which VAT			992	1200	1763	1693	-3.96
Expenditures	6424	4567	5400	5283	6519	6669	2.3%
Primary surplus/deficit	-1675	82	314	936	995	737	-26%

The Evolution of Projected Public Debt (Paris II Reform Paper)

Percent of GDP	2002	2003	2004	2005	2006	2007
Primary surplus	2.6	4.2	6.1	7.4	8.3	9.1
Interest on debt	18.2	12.6	9.5	8.2	7.4	6.4
Budget deficit	14.9	7.6	2.6	5	-1.6	-3.4

Actual versus Projected Public Debt Service

(LL billion)

	2000	2001	2002	2003	2004	2005	04/05
Projected	4000	4300	4500	4000	4300	3900	
Actual	4197	4311	4622	4875	4021	3534	-12.1%
Actual/Projected (%)	105	102	103	122	93.5	90.6	

Actual Revenues and Debt Service

(LL billion)

	2000	2001	2002	2003	2004	2005
Revenues	4552	4650	5398	6219	7514	7405
Debt service	4197	4311	4622	4875	4021	3534
Debt service/revenues (%)	92	92	85	78	53.5	47.7

Fiscal Overview

(LL billion)

	2004	2005	Change	Change
Budget revenues	7,075	6,984	-91	-1.3%
Budget expenditures, of which:	8,306	7,802	-504	-6.1%
Debt service	4,021	3,534	-487	-12.1%
Budget deficit/surplus	-1,231	-818	413	-33.5%
In % budget expenditures	-14.8%	-10.5%		
Budget primary deficit/surplus	2,791	2,716	-75	-2.7%
In % budget expenditures	33.6%	34.8%		
Treasury receipts	439	421	-18	-4.1%
Treasury payments	2,235	2,401	166	7.4%
Total budget and Treasury receipts	7,514	7,405	-109	-1.5%
Total budget and Treasury payments	10,540	10,203	-337	-3.2%
Total cash deficit/surplus	-3,026	-2,798	228	-7.5%

In % of total expenditures	-28.7%	-27.4%		
Primary deficit/surplus	995	737	-259	-26%
In % of total expenditures	9.44%	7.2%		

Total Revenue
(LL billion)

	2004	2005	Change
Budget revenues, of which:	7,075	6,984	-1.29%
Tax revenues	5,169	4,867	-5.84%
Non-tax revenues	1,907	2,117	11.06%
Treasury receipts	439	421	-4.13%
Total revenues	7,514	7,405	-1.45%

Public Debt Developments

(LL billion)

	2004	2005	Change	%Change
Total debt	54,048	58,048	3,987	7.4%
Domestic debt	26,371	29,140	2,769	-10.5%
1-Central bank	10,652	11,686	1,034	9.7%
o/w Zero interest T-bills	3,508	-	-	-
o/w special T-bills issued at 4%	4,299	-	-	-
2- Banks	12,220	14,128	1,909	15.6%
o/w Zero coupon T-bills	880	-	-	-
3- Others	3,500	3,325	-175	-5%
o/w public entities	2,187	2,446	259	11.8%
Foreign debt	27,677	28,909	1,219	4.4%
1-Bilateral and multilateral	2,983	2,855	-128	-4.3%
2-Paris II related debt	3,814	3,681	-134	-3.5%
3-BDL Eurobond	2,819	2,819	0	0%
4-Market Eurobonds	17,686	18,729	1,043	5.9%
5-Other foreign debt	388	406	18	4.7%
Public sector deposits	4,360	5,418	1,059	24.3%
Net debt	49,688	52,630	2,929	5.9%
Gross market debt	31,875	34,759	2,898	9.1%
% of total debt	59%	60%		

Evolution of Weighted Average Cost of Public Debt
(In percentage)

Date	Total Debt	Domestic Debt	Foreign Debt
Nov-2002	11.97	13.82	9.21
Dec-2003	8.34	9.18	7.39
Dec-2004	6.56	6.04	7.05
Decline 03-04	1.78	3.13	0.34
Decline since Nov-02	5.41	7.77	2.13

Fiscal and Structural Reform

The government's reform paper to the long-awaited Beirut 1 conference envisages the following targets over the period 2005-2010.

- Reduction of public debt to GDP ratio from the present 173 percent to around 138 percent.

- Reduction of budget deficit from 8 percent of GDP to 3 percent.

- Raising the average per capita income to US\$ 7,200 from the present level of US\$ 3,500 by achieving an annual growth rate of 6 percent.

- Broadening the social safety net by extending the coverage and services of NSSF and adopting a universal medical insurance scheme.

In contrast, the paper includes a number of fiscal measures that are currently under broad discussion. The main points of these measures are as follows:

- Raising the tax rate on deposits from 5 percent to 8 percent.

- Raising the VAT from 10 percent to 12 percent in 2006 and then to 15 percent in 2007.

- Lifting the cap on gasoline prices.

We believe that lifting the cap on gasoline prices is in line with sound economic purposes. However, raising taxes (as discussed earlier in this chapter) is in stark contrast to the targets of the reform paper. The purpose of the reform program is not only to restore the financial viability of the state, but also, in the process, to improve the economy's growth and employment prospects. In this regard, the new taxes would

have a negative effect on low and middle income groups. This eventually will lead to low levels of growth, employment and standard of living.

The alternative for the government should be directed towards growth oriented measures, privatization, securitization, debt restructuring, improving resource mobilization and rationalizing public expenditures. These steps, in our view, are more effective in their impact on vulnerable indicators than any other measure. Empirical evidence shows that output growth has the most significant effect on debt to GDP.

In addition to that, the inevitable costs of adjustment should be counterbalanced by structural, administrative and institutional reforms aimed at improving the quality of government services, strengthening social safety nets and the targeting of social spending, and raising the productivity of capital spending. To that end, the fiscal authorities should adopt institutional reforms to improve budgetary planning and execution, as well as transparency and accountability.

While restoring the financial health of the state is a precondition to sustain growth over the medium term, structural reforms have a key role to play in enhancing productivity and the economy's competitiveness. In a context where (i) extensive dollarization constrains the effectiveness of the exchange rate as an instrument of competitiveness adjustment, and (ii) fiscal adjustment will reduce the state's ability to contribute to aggregate demand, productivity growth becomes the key instrument to stimulate investment, create jobs and raise standards of living.

A reactivation of the privatization program should be a priority for a more dynamic and competitive private sector. The authorities' strategy is, rightly, to see privatization as much as a structural reform measure as a financial operation. In the telecom sector, liberalization and the establishment of independent regulatory oversight are, in this regard, preconditions to the lowering of input costs for the economy, the creation of new services, and the generation of productivity gains in the enterprise sector more generally.

Although Lebanon's economy has a long tradition of private sector orientation, the public sector has increasingly encroached into private sector activities through direct control of enterprises and subsidies. The business climate is further hampered by the high cost of entry and exit and uneven enforcement of contracts, and the lack of a proper competition policy. All business surveys also point to widespread

corruption as a main impediment to investment. Actions to address these problems would greatly enhance the overall effectiveness of the authorities' reform strategy.

Budget Law 2005

Due the absence of a budget law in 2005 all spending were subject to the 12-month basis according to the approved 2004 budget. This helped to contain public expenditures within projected figures. Budget law 2006 will suffer a similar fate if left unapproved in the coming period. Accordingly, expenditures would be disbursed under the approved 2005 budget.

According to the budget law of 2005 which was approved lately, total budget expenditures are estimated at LL 10,000 billion. Without debt servicing, this amount would become LL 6,100 billion. Public sector salaries and wages account for around 70 percent of total.

Debt servicing decreased by LL 400 billion, to reach LL 3,900 billion. This would constitute 39 percent of total expenditures against 46 percent in 2004, 53 percent of total revenues, and yielding a net deficit of LL 3,083 billion, or 30 percent.

In short, wages and salaries and other current expenditures, in addition to debt servicing costs amounted to around LL 8,398 billion, or 84 percent of total expenditures. The bulk of these expenditures, according to government officials, is non-discretionary and cannot be significantly reduced, and members of the government and Parliament also refuse to do so. If anything, the opposite is to be expected.

The remaining 16 percent of expenditures, or LL 1,062 billion (the bulk being facilities to EDL amounting to LL 1,100), are allocated to investment expenditures.

2005 Draft Budget versus 2002, 2003 and 2004 Budget Laws

(LL billion)

	2002	2003	2004	2005
Total expenditures	9375	8600	9400	10000
Expenditures (excl. debt servicing)	4875	4600	4950	6100
Debt servicing	4500	4000	4300	3900
Revenues	5500	6475	6400	6917
Deficit	3875	2125	3000	3083
Deficit percent of expenditures	42.3	27	32	30

**Budget Allocations of Main Ministries
(LL billion)**

Prime Ministry	497
Ministry of Works and Transport	167
Ministry of Health	360
Ministry of Higher Education	877
Ministry of Defense	852
Ministry of Interior	444
Ministry of Energy and Water	61
Ministry of Information	29
Ministry of Social affairs	87
Ministry of Finance*	1,197
Ministry of Foreign Affairs	106
Ministry of Youth	9
Ministry of Agriculture	41

* This includes loans to EDL amounting to LL 1,100 billion.

It should be noted that the 2005 budget law maintained the same level of social expenditures (46.28 percent, excluding debt service) as a percentage of total budget expenditures as past years. This was based on the principle of providing a basic social network to the marginalized segment of society, in view of the economic and social distress prevailing in the country. Slight increases are targeted mainly at the ministries of defense, interior (for security reasons), education, labor and some others, while the budget of the ministry of health increased slightly.

On the revenues side, total proceeds were estimated at LL 6,917 billion as opposed to LL 6,400 billion in the 2004 budget law, yielding a primary surplus of LL 517 billion.

**Estimated Revenues in the 2005 Draft Budget
(LL billion)**

Budget Law	2004	2005	Change
A-Tax Revenues	4645	4961	316
VAT	1200	1650	450
Income Tax	1045	1027	-
Internal Tariffs	2499	3775	276
Customs	550	510	-40
B-Non-Tax Revenues	1755	1956	201
Administration Proceeds	376	327	-1
Miscellaneous	77	88	11
Total	6400	6,917	517

Principals of Judicial Reform

A Proposal to reorganize the Judiciary in Lebanon ²⁰⁷

The French author “Condorsé” wrote²⁰⁸: “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.

First: 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

²⁰⁷ by Samir Abillamaa.

²⁰⁸ In “Evolution of the human thought”.

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."

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 who 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 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 appoints 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 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 in 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 no 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.

Second: 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.

Third: 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 the following:

a- 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.

b- 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.

c- 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.

d- 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...'

e- 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.

f- The lawyers' independence should be preserved since they assist judges in their mission to enforce the law and guarantee the right of defense.

g- 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.

h- Judges and their assistants should be trained and formed to perform their judicial task regularly. In this sense, we would like to point out to 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.

i- Scientific development ought to be used in the service of the judiciary since the world is heading towards more and more electronic 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 recorded 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.

j- 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.

k- The judiciary should have its own budget through formed or elected councils; it determines the resources and expenditure of this budget.

Fourth: 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 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 it endeavored to pass and statutes that it published in its history rich in legal and national stands.

Fifth: 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 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 in the following:

- 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 there 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 habilitation 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 purification and putting an end to the term of incompetent judges.
- Giving the judiciary financial independence.

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 people of influence.

There is great risk at adopting the principle of elections in the judiciary as mentioned in the Ta'if 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 Ta'if 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 from office of judges; 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 the behavior of judges, 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 because 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 who 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.

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 with the Supreme Judicial Council; judges are then liable personally to the above mentioned institutions with as only protection their qualifications.

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.

Self-purification and putting an end to the term of incompetent judges

Purification 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.

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.

Conclusion

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-l-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.

Consumer Protection ²⁰⁹

Concern about matters related to consumers started more than a century ago in the United States of America as confrontation increased with private companies; this concern then spread to other parts of the world. It became since 1985 a part of the UN recommendations that called upon world governments to commit to the eight rights of consumers. The endeavor of Ralph Nader may be considered, as of the fifties, the first effective organization of the movement in favor of consumers. Today, there are hundreds of associations around the world and an international consumer association includes around 235 member associations; around ninety have full membership among which the Consumer Association in Lebanon.

In the Arab world, concern in consumer-related matters came late and is still weak whether from associations or from governments. There are around thirteen Arab states that have associations, the oldest of which was set up in 1996 in Jordan. Only three have laws that protect consumers - Lebanon, Algeria and Tunisia; Palestine and the UAE are on the way.

The Lebanese consumer association was set up in 1998; it became official on July 20, 2000. The Lebanese Parliament ratified the consumer protection law no 659 on February 10, 2005; it became effective on May 11, 2005.

But why is consumer protection necessary? Is this concern a need or a mere reproduction of international movements, basically Western ones?

After the collapse of the socialist regimes, the market economy became the only economic engine. Major intercontinental companies were set up; borders were opened to the World Trade Organization - 150 members so far - and to the fastest and strongest. Social, economic, security, and military repercussions of the new economy started to be felt in the Middle-East, Asia, Africa, Latin America and the Arab

World for reasons that are known: Oil, Israel, terrorism, etc. These changes make our societies and individuals - especially those with limited income and namely the poor - subject to worry and alienation; and economic depression is not far despite the current boom in oil prices.

We are undoubtedly facing the globalization process that is completing its historical and "natural" process; no "romantic" stand can modify it. Our societies are marginalized in this process; they are mere consumption grounds without any influence or participation; they are submitted to scientific, cultural, military, and economic balances of power, which are imposed in a definite manner.

Faced with this indisputable and difficult reality, consumer protection through ad hoc laws, institutions and associations becomes a necessity to reach some balance between the professional manufacturer, trader, or service provider, who impose their specifications, their terms, and their prices on consumers leaving to the latter the choice as to quality and price. Things are apparently economically free: supply and demand, free choice, market economy, and it is the consumer's fault should he make the wrong choice! Is this the right equation? Most certainly not since consumers do not have all the required information about goods and services to make up their mind. They do not have a mobile laboratory to test this given brand of cheese or this type of flour, etc. This is why there is a need for laws, norms and specifications for local and imported products, goods and services in order to prevent the production or import of damaged goods. Official institutions are to control and analyze goods; should this lack - as is the case in Lebanon and many other poor countries - consumers may resort to the saying that "What is most expensive is best" - which is actually wrong - to protect themselves and their families. This is why consumers resort to famous brands and pay 35% more than consumers in developed countries for the same goods and services since in developed countries there are laws and policies to protect them.

Therefore, the protection and defense of the consumers' health, social and economic interests, their environment, is a must for social balance; it is a concrete expression of human Rights in education, health, work, etc.

In fact, what is the meaning of an "excessive freedom of expression" in Lebanon when people live in swamps of

unemployment, poverty, emigration, lack of education and health services, acute economic crises, and they cannot change anything?

Consumer protection has also a major effect on the economy since it leads to the setting up of appropriate norms and specifications in terms of import, production and export, which improves the performance of the economy in all fields. It is known that industrialists in Europe were the first to ask for legislations that protect consumers.

However, the weak State institutions, community-based divisions, corruption and nepotism, make civil society forces responsible of creating organizations that defend citizens' rights and urge the State to assume its natural responsibilities; this process is, in fact, arduous and painstaking. It is somewhat cumulative and is bound to bear fruit as is the case in other parts of the world.

Consumer organizations in countries that resemble Lebanon start off from almost zero level; they need to help build a legal, administrative, and social structure that ensures consumer rights. Compared with consumer associations in developed countries, their tasks are a lot harder since in developed countries, laws and bases were set up tens of years ago and all consumer associations have to do is follow-up and suggest necessary improvements. The International Consumer Organization - based in London - paid heed to these differences.

The legal structure

When the consumer association started its activities in Lebanon, it proposed, as of the first days it was legal in 2000, to the minister of the economy and the parliamentary justice committee a draft law for consumer protection. The minister's answer to the delegation of the association at the time was: "What's the use of a law? Who is going to enforce it?" Yet, the requirements of the European partnership led Lebanon to start, as of 2002, a modernization of its laws as required by the partnership; these laws include that of consumer protection, dumping, competition, and food safety.

The only law to be ratified is that of consumer protection in February 2005; however, its executive procedures have, to this day, not been published yet since consumer protection was not a priority of consecutive Lebanese governments.

The main articles of this law are:

- Setting up a national council for consumer protection; it was actually set up in August 2005 by virtue of a council of ministers decision and held its first meeting on May 17, 2006.
- Ratifying the law with the representation of public and private consumer associations that have the right to publish data, the results of analyses and law suits. These are extremely important and developed rights that lay the foundation of active and efficient civil action that contributes for the first time in Lebanon to the defense of consumer rights.
- Setting up a consumer court under the name of Conflict resolution committee to be presided by a judge with the membership of chambers of commerce and the consumer association enforces the rendered sentences.
- Appointing a sworn mediator at the Ministry of Economy & Trade to solve conflicts between consumers and professionals, namely conflicts that involve less than three million Lebanese pounds.
- Applying prison sanctions and fines for those that break the law, in a way to prevent from further violations.

The association now works for the publication of the executive procedures through the national council for consumer protection; it has been working for the past four years for the ratification of a food security law that ensures proper food production and food import mechanisms. The association cooperates closely in this sense with the UNIDO and the FAO; it is determined to reach a law that may overcome the current chaos that prevails currently in this field.

The administrative structure

What is meant by administrative structure for consumer protection is the frame that needs to be set up and developed otherwise the concept remains related to ethical theories without concrete application.

We mentioned in the first paragraph the national council for consumer protection, which is a consultative frame including nine ministries, the association of weights and measures, the chamber of commerce, the advertisement union, the association of industrialists,

and two members from the association for consumer protection.

This structure is the proper place to interact with state administrations as far as work is well carried on. The association has set out a new pattern of relation with the administrations as it appointed a representative who follows-up on its behalf consumer-related matters in every ministry.

The directorate of consumer protection stipulated by law is to be enforced by 120 new specialized observers to fulfill its role as concerns control and accountability, overcoming favoritism and corruption.

The association started since October 2005 to hold a weekly meeting with directorate officials in order to examine complaints and what to do with them.

Municipalities: in Lebanon, more than 3500 municipalities live close to people as a local power and have a lot of potential, which ought to be developed. The association started to contact municipalities and train their health observers - who have full power as a judicial police force. It is preparing ways to supervise food sectors - butcheries, bakeries, food factories - and to strengthen guidance through field work with municipalities, association specialists and volunteers, as well as students. The role of municipalities is essential as central administration remains weak; they not only fill the gap but also strengthen the role of local authorities.

The social structure and consumer culture

Universities: the association is undertaking work in universities through consumer clubs for various reasons, academic and research topics, youth issues, and to make universities aware of consumer reality.

In 2004, the first consumer club was formed in Saint Joseph University (department of economy). It carried out several activities related to the university such as reducing the parking fee, economic conferences, a study about addiction and smoking in the university; it took part in national activities: first as to the price of cell phone communication with signatures from the university as backup; second as to a study about the reduction of the cost of medicines in Lebanon after an intervention from the health ministry in September 2005.

In 2005, a club was formed in the AUB, another at the AUST, a fourth one in al-Manar University in Tripoli, and a fifth in the Lebanese University with the professorial corps. These clubs work on many issues and studies related to food security, communication, electricity, internet, bakeries and butcheries, etc. The association considers strengthening research and cooperation between itself and universities as one of its priorities.

The consumer as an individual: the spread of modern consumer culture leads citizens to participate in social life and not be mere passive spectators but rather act responsibly to defend and follow up their interests and opinions.

This is particularly important as the consumer protection law ensures the right to be informed, to file a law suit, to join consumer associations et al.. . Consumers should not wait - as the state is weak and its institutions are corrupt and unorganized - for their rights to get to them; it is their duty to be informed of their rights, follow them up and defend them untiringly.

The reputation of Lebanese consumers - who look for "brands", who are "snobs" and who disregard their basic rights, namely to oppose at least some bad goods or services - has started to change. More and more complaints and questions have reached the association through its hot line namely in the last two years, which shows a considerable improvement as concerns public opinion. Several issues raised by the association namely concerning food security, prices, quality, and communication, have found positive response from consumers as shown clearly with the bird flu crisis and the large movement to boycott cell communications, among other issues. This shows the existence of independent and serious organizations that are perseverant as concerns the interests of people and have managed to win their trust and represent their hopes.

The monthly consumer bulletin and the hot line have played an essential role in interaction with consumers; however, the association's weak means led it to stop the publication sometimes after the interruption of support provided by AMIDEAST in 2003 and by the E.U. in 2005-2006. The association has always considered that real progress in its situation and that of consumers in Lebanon will occur when the Lebanese private and public sectors as well as Lebanese individuals ensure the association's funding and when they start considering it as a necessity. It has become widely known that the association cannot advertise any of its supporters.

One last word

We cannot expect achievement of reforms that Lebanon needs from a regime set up since independence and which constitutes in itself the core of the problem. Deep crises and divisions from which the Lebanese society suffers, weak state institutions, nepotism and corruption, all require that there be a strong and organized civil sector that shows solidarity and endeavors to build a modern state based on citizenship. Thousands of Lebanese, from all social sectors feel this need and long to work on these reforms. Everyday we feel light wind that gives us confidence and determination to continue. The setting up of the framework structure is a matter of time, perseverance and resolve. We strongly believe that the Social and Economic Council can - once it is "released" by authorities and when its general assembly is reconstituted on safe grounds beyond the all-too-well known political and community influence - be one of these important frameworks.

We are facing three major challenges:

- *To build modern and efficient public institutions, free from corruption, waste and administrative paralysis;*
- *To support the private sector, launching a recovery plan, putting an end to the recession exacerbated by the war;*
- *To implement a sustainable growth program providing more job opportunities and social stability, while reducing the public debt, and putting an end to the exodus of the young and qualified workforce.*

In order to design a way out of the vicious circle of recession and debt, we have reviewed with a group of experienced professionals studies and reports that have been prepared by governmental and international institutions, the Economic and Social Council, economic and professional organizations, the labor federations, and other institutions of the civil society, and by experts and academic centers. We have discussed these studies, derived the most important conclusions, and integrated them in our work in order to establish a dialogue intended to elicit a socioeconomic vision for Lebanon.

•••

Democracy and liberty cannot be separated from their social dimension. Consolidation of democracy needs sustained growth and development. Politics cannot alone build a nation; it needs economic and social foundations as well. This implies the development of all regions, the upgrading of social conditions and the strengthening of the sense of citizenship. The Lebanese should feel partners in the progress of their nation.

Sustained development might target education and communication infrastructure in the first place.

However an economic and social vision is more than a procedure. It is the foundation of all social progress, and can only be achieved insofar the civil society assumes a common project.

•••

The Economic and Social Council derives from these principles its legitimacy and importance. The Council is one of the major institutions linking the civil society to the government. Its advice is the fruit of a continuous dialogue with the various economic and social sectors, and with the government, which intensifies the practice of democracy in addressing economic and social issues.

Roger Nasnas

