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Lebanon
Country Development Strategy
1996 - 1999

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Glossary of Acronyms

AA	Assistant Administrator
ANE	Bureau for Asia and the Near East
ASHA	American Schools and Hospitals Abroad
AUB	American University of Beirut
BHR	Bureau for Humanitarian Response
BSE	Beirut Stock Exchange
CDF	Community Development Fund
CIB	Central Inspection Board
CLD/SUNY/A	Center for Legislative Development State University of New York in Albany
CPS	Country Program Strategy
CSB	Civil Service Board
FY	U.S. Fiscal Year (October 1 - September 30)
GAO/L	Government Accounting Office/Lebanon
GOL	Government of Lebanon
HA	Hectare
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
IMF	International Monetary Fund
IWSAW	Institute for Women's Studies in the Arab World
LAU	Lebanese American University
NARP	National Administrative Rehabilitation Program
NGO	Non-Governmental Organization
PVO	Private Voluntary Organization
SEC	Securities and Exchange Commission
SPO	Special Objective
SVP	Small Value Procurement
UNDP	United Nations Development Programme
USAID	United States Agency for International Development

Preface

Customer Participation in the Preparation of this CPS

Managing the Lebanon program from Washington places severe limits on USAID's ability to involve customers in the planning process. To complete this strategy USAID relied on grantees, experienced Lebanese staff and other colleagues in Embassy/Beirut, along with collected studies, impressions and information from a two-week oversight visit in April 1995. USAID/W also met with grantees who have traveled to Lebanon. Talks were held with other donors (especially the World Bank and the United Nations Development Programme who have broad perspectives on Lebanon's needs and programs), with the groups and organizations who are currently managing USAID funds or benefiting from them, private sector firms, and with Lebanese academics and leaders interested in U.S. support for reconciliation and modernization of the country and its political and economic institutions.

During field visits USAID staff spoke with a limited number of direct beneficiaries of community reconstruction activities, human rehabilitation programs, democracy and governance activities, and university assistance. These conversations explored needs, progress, long-range objectives, and ways of measuring accomplishments.

With the PVOs, with the State University of New York's Center for Legislative Development (CLD/SUNY), and with the American University of Beirut (AUB) and the Lebanese American University (LAU), USAID has maintained a useful dialogue on how assistance should continue to evolve from open-ended or emergency support to more defined, results-oriented cooperation within specific time frames and how USAID can phase down activities. USAID has already begun to reduce commitments to certain grantees (like World Rehabilitation Fund and the American & Lebanese Red Cross), and to explore new directions, like microlending and savings for women in poverty through the competitive grants process. To have more customer-based planning would require more frequent and extended program management travel than is currently possible.

Executive Summary

Rationale - Why aid to Lebanon?

Civil conflict engulfed Lebanon from 1975 until 1991, resulting in destruction of much of the country's infrastructure and economy as well as marginalization of the government and public management systems. The strife caused massive suffering, flight, and impoverishment of the Lebanese people. Politically and economically, it is important to the United States that Lebanon rebuild into a stable, responsible, and prosperous partner who shares our goals of peace, democratic society, and market economies. USAID assistance is designed to assure that we contribute to these goals. The United States and other donors have pledged to support this process by "changing the realities on the ground" through well-targeted efforts to help Lebanon recover.

Since the signing of the Ta'if Agreement in 1991 that brought an end to the war, Lebanon has begun to rebuild itself, and living conditions have improved. Last year the inflation rate was down to 12% and the Gross Domestic Product grew by 8%. A massive redevelopment program for downtown Beirut was initiated. Loans have been secured from the World Bank and other creditors to fund construction and to revitalize industry and trade. Significant numbers of Lebanese expatriates are now returning to the country, and the government appears determined to push through legislation that will help Lebanon regain its position as a leading business and banking center in the Middle East.

Yet many challenges lie ahead. Although the end of the war provided an opportunity for many Lebanese to return to their homes and villages and start rebuilding their lives, this return has been complicated by the reality that thousands of homes, villages and businesses were destroyed or severely damaged during the war. Electricity, water and telecommunications networks were destroyed, directly affecting 1.5 million people and cutting off potable and irrigation water. Government health care and education also suffered.

United States expertise can provide the needed skills to assist Lebanon to reconstruct communities, reform government administration, improve capacity to carry out training and education, and restore financial markets. New sustainable development efforts in areas such as capital markets development are already being pursued by Lebanon and supported by USAID as Lebanon is able to shift from post-war emergency efforts to a more development-oriented strategy.

What is USAID's strategy?

USAID's proposed strategy springs directly from the current economic and political circumstances in Lebanon, and reflects the USG interest in helping the GOL and the Lebanese people to recover from the civil war and participate in the Middle East Peace Process. It emphasizes the importance of rebuilding rural communities, supporting nascent financial markets, strengthening educational institutions, and recognizing that an investment in Lebanon's

public sector contributes to Lebanon's overall recovery. Activities contribute to human resource development, encourage Lebanese stability, and strengthen the state's capacity to protect political and economic liberties which have been, until recently, ravaged by contending militias.

The proposed activities build upon efforts undertaken by USAID immediately following the war, and complement rather than duplicate those of other donors. The program demonstrates the United States' commitment to Lebanese stability and recovery, and to the friendly relations between the two countries which have been maintained for decades.

Program Evolution

Lebanon's rapid redevelopment and reconstruction, along with USAID's declining resources, are signals that it is time for USAID's program to change to one that is less resource-intensive and more reliant on Lebanese private and public institutions. This reduced level will not contribute significantly to USAID's global priorities or to achieve major development impact, but it will target technical assistance and training to achieve some important results in selected areas.

To reflect this reality, this strategy narrows USAID's focus to two special objectives that will continue to receive funding throughout the life of strategy: expanded economic opportunities, and support to universities. The program will gradually phase out of other specific objective areas. This means spending existing pipelines or mortgage commitments, with no new obligations and no unfunded time extensions beyond 6 months of present termination dates. Special Objective 3, university strengthening, will continue to receive ESF funding and be managed by USAID in the near term. However, as other components of USAID's program phase out, oversight of SPO 3 may shift to the State Department. USAID will continue discussions with other donors to determine what portions of this strategy can be assumed by others during the strategy period.

The strategy contains these objectives:

SPO 1: Sustained rural community reconstruction and rehabilitation

Through 1998, USAID will continue to support a range of community-level reconstruction and rehabilitation activities designed to rehabilitate health care facilities, reconstruct homes, roads, irrigation and potable water systems, and to enhance Lebanese NGO capacity to manage reconstruction efforts. Such activities are implemented by eight U.S. private and voluntary organizations and more than 30 Lebanese non-governmental organizations currently receiving USAID funding. Since reconstruction will be critical for families living in these areas for several years to come, USAID will encourage sustainable approaches to enable efforts to continue once USAID funding is complete. All activities grouped under this Special Objective (SPO) will be terminated by FY 1998, as Lebanon is progressively able to finance these costs and other donors are providing resources. Work associated with

microenterprise lending under this SPO will be shifted and incorporated under SPO 4 in 1996.

Over the remaining two years, the program will continue to strengthen the capacity of Lebanese NGOs to assess community needs, raise and manage funds to sustain programs, and to upgrade the quality of their services. In addition, USAID will support the following results:

- Community organizations strengthened;
- Community economic activity resumed; and,
- Families resettled in target communities.

SPO 2: Increased effectiveness of selected institutions which support democracy

USAID, along with the World Bank, UNDP and other donors, supports public administration activities aimed at strengthening the capacity of the Lebanese government to recover from years of civil war and introduce modern practices of management. USAID targets its public administration efforts at key Lebanese government agencies, and civil servants who formulate public policy and establish the type of quality government operations needed to support a democratic society. USAID will also direct its support to modernize and streamline the analytical, operating, and information systems of Parliament. The following results will be achieved:

- Parliamentary Committees on Budget and Finance and Administration and Justice exercise full authority, based on the number of bills revised before passage;
- GUL adopts new policies, standards and management structures for information technology; and
- Control agencies (GAO, CSB, and CIB) adopt and apply new technology and processes that result in operational improvements.

SPO 3: Enhanced Capability of institutions of higher education to contribute to Lebanon's development objectives

USAID has provided substantial assistance to American educational institutions in Lebanon, most notably the American University of Beirut (AUB) and the Lebanese American University (LAU). The American universities are still recovering from the war years. They play and will continue to play a key role in providing technical and managerial leaders for Lebanon's economic recovery. This strategy provides analytical and learning resources needed by universities to enable them to identify key development needs, propose solutions, and train managers and technicians. USAID will support the following results:

- LAU incorporates the research of the university's Institute for Women's Studies in the Arab World (IWSAW) into formal education and occupational

training curricula;

- LAU's Center for Research and Development opened and operating; and
- AUB's environmental program improved and expanded.

SPO 4: Expanded Economic Opportunities

USAID will adopt a two-pronged, mutually reinforcing approach to help Lebanon achieve its goals to develop its financial systems: first, the strategy targets the poor directly by developing sustainable microenterprise financing; and second, savings and investment are encouraged through such interventions as developing the Securities Commission legal and regulatory framework, and on assisting to provide more transparent and efficient clearing and settlement processes. The latter should contribute to a stable and growing economic environment which is essential to the success of enterprise development. The SPO will contribute to the agency's goal of encouraging broad-based economic growth and will support the following results:

- Sustainable microfinance and savings system in place in two self-financing implementing institutions; and,
- Stock Market operations and regulation improvement plan defined and at least one USAID key intervention implemented.

LEBANON

COUNTRY PROGRAM STRATEGY 1996 - 1999

Part I

Summary Analysis of Assistance Environment

Lebanon's Economic, Social and Political Development: 1970 - 1995

Today's Lebanon corresponds approximately to what was Phoenicia in ancient times, the birthplace of the alphabet, a world center for trading and seafaring, and one of the cradles of democracy. In recent history, Lebanon was the most developed country in the Middle East. Prior to 1975, it was common to describe Lebanon as "the Switzerland of the Middle East." Lebanon had earned this comparison because it was a small country with a strategic geographic location, beautiful mountainous topography, a pleasant climate, a well-developed banking and financial services sector, and a booming tourist industry. Many people from other Arab nations came to visit for vacation and business. Beirut also served as a principal point of trans-shipment of goods to and from Syria, Jordan, Iraq and other countries in the Middle East.

The Republic of Lebanon was founded in 1943, at the end of the French mandate. The country was governed by a political system called Confessionalism where

Population Distribution



Source: The Economist, February, 1998

all the major religious sects (Christians, Druze, Sunni and Shia) shared in the country's rule. This political structure, as conceived by the French, favored the demographically dominant Christian community. The Christian hold of the government continued even after the Muslims, particularly, the Shias became the largest population in the country. Rather than change the political system to reflect the Muslims' population increase, the government stopped taking censuses in 1932. It appears that the political dominance

of the Christians was not contested because of the economic development that the country experienced.

Over the period 1960-70, Lebanon's economy grew at an average annual rate of five percent. Economic growth increased to nine percent per year over the period 1970-76 and the country attained upper middle income economy status in the mid-70s. The main source of Lebanon's growth was the services sector particularly in the areas of banking, tourism, port services and insurance. Western businesses made headquarters in Lebanon and did their banking in the country. Many people from other Arab nations came to visit for vacation and

business. The Gulf monarchs also utilized the banking services of Lebanon. The country served an intermediary function between the developed countries of the West and the developing countries of the Middle East. Lebanon was considered the most developed and richest country in the region with a dynamic economy, characterized by low inflation, stable macroeconomic conditions and a functioning free market system.

However, a sixteen-year civil war disrupted Lebanon's development and caused untold human suffering and a drastic decline in the quality of life. A full-scale civil war broke out in April 1975. In the 1960s, several leftist groups tried to start an uprising against the ruling Christian elite, but the thriving economy prevented them from gaining any substantial support. Nevertheless, growing economic inequality became worse. In 1970, the richest 20 percent of households accounted for 55 percent of the country's total income while the poorest 20 percent of household accounted for only 4 percent. The Christian and Sunni communities were economically thriving while the Shias and the Druze communities fell behind. This is one of the major factors that contributed to the Lebanese civil war.

Fighting broke out between the Palestinians and Christians in Beirut and spread nationwide in 1975. The signing of the Ta'if Accord for National Reconciliation in 1989 served as a basis for the end of the civil war in Lebanon by 1990.

Lebanon - Basic Data	
Area	10,452 sq. km
Population (est. 1994)	3.43 M
Adult Literacy (1992)	91 %
Life expectancy at birth (1993)	69
Unemployment Rate (1994)	35 %
GDP per Capita (1992)	\$2,500
Inflation Rate (1994)	10 %
GDP Growth Rate (1994 to 1995)	8 %
Note: All data estimated by UNDP and others due to lack of current census and non-functioning statistical service in govt.	

During the civil war, approximately 200,000 people were killed, and nearly 600,000 Lebanese, mostly professionals, emigrated overseas. A million civilians were displaced internally during the war. In Beirut and other towns, there was massive

destruction of infrastructure and property. The United Nations estimated the damage to physical assets at \$25 billion. Investment ground to a halt and many business establishments closed.

Capital investments and flows were reduced and the banking system was weakened significantly. The absence of central government authority and the inability to collect revenues led to the deterioration of public finances and increased fiscal deficits. High inflation rates and lack of confidence in the Lebanese pound contributed to currency substitution or dollarization of the economy. Real per capita GDP declined by 67 percent from 1974 to 1990. Lebanon's 1990 real per capita GDP was one-third of the 1974 level. Social services and public utilities deteriorated significantly by the end of the civil war. Rural to urban migration increased, with 84 percent of the population residing in urban areas in 1990 compared to 59 percent in 1970. This intensified urban-related problems such as poverty, overcrowding, and inadequate housing.

Recent Economic Performance of Lebanon

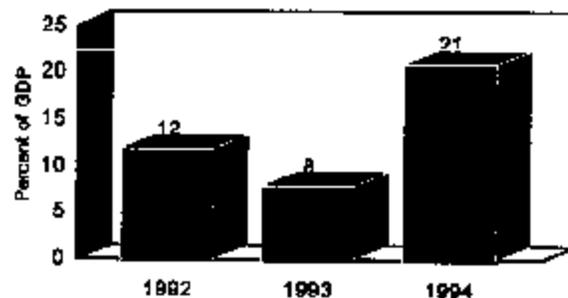
Favorable developments occurred after the signing of the Ta'if accord that led to the end of the civil war. In 1991, real GDP increased by about 38 percent with rapid growth in the manufacturing and construction sectors. Inflation declined from a rate of 84 percent in 1990 to 31 percent in 1991. The economic recovery resulted in a rapid increase in imports from \$2.4 billion in 1990 to \$3.7 billion in 1991. As a result, the trade deficit widened. Improved fiscal performance was accomplished as government revenues increased with better tax collection.

Government revenue was 12.6 percent of GDP in 1991 compared to 6.4 percent in 1990. At the same time government

expenditures as a share of GDP decreased by about 10 percent. The government also adopted an exchange rate stabilization policy to attain rapid price stabilization in 1991. The key component of the stabilization policy was the pegging of the exchange rate on a gradual appreciating path to the U.S. dollar. This policy led to a

switch from money to treasury bill financing of the fiscal deficit. The amount of outstanding treasury bills climbed by 128 percent from 1990 to 1991.

Fiscal Deficit as a % of GDP



Economic Crisis of 1992: Despite the promising economic results in 1991, the fiscal deficit problems of Lebanon and the 150-200 percent retroactive increase in public wages in 1992 resulted in the decline of public confidence in the ability of the government to sustain its macroeconomic stabilization policies. This was coupled with renewed disturbances in Southern Lebanon. The loss of confidence resulted in a rapid decline in outstanding treasury bills which led to monetary expansion to finance the fiscal deficit. This in turn led to the destabilization of the Lebanese pound and the government's

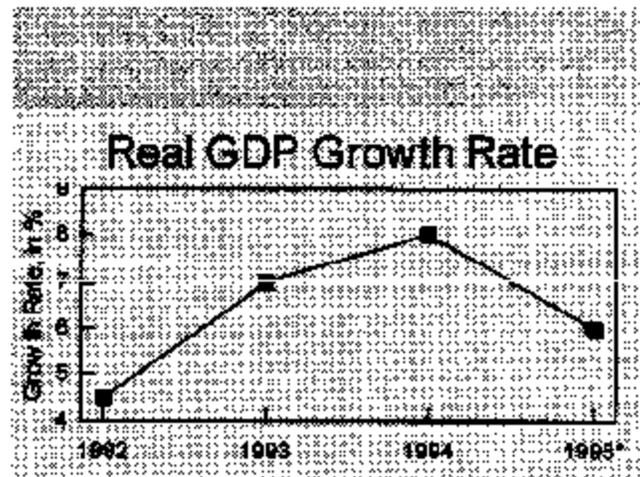
abandonment of its stabilization policies. As a result, the Lebanese pound rapidly depreciated and inflation increased to 131 percent in 1992. Real GDP growth slowed from 38 percent in 1991 to 4.5 percent in 1992. The economic crisis would have been worse but successful holding of parliamentary elections and the appointment of the new government in the last quarter of 1992 restored confidence in the ability of the government to manage the economy. The events demonstrated the vulnerability of Lebanon's economy to changes in expectations.

Economic Developments in 1993 and 1994: Figures released by the Ministry of Industry and Petroleum indicated that increases in the Gross Domestic Product of 7 percent (compared to a target of 5 percent) in 1993 and 8 percent in 1994 spurred many multinational and international investors to tender for Lebanese government projects and investments. A three-fold increase in foreign currency reserves at the Central Bank since 1992 and a 60 percent increase in private investments over 2 years have been reported. The Balance of Payments surplus for 1994 was reported at \$1.1 billion. Inflation was reduced from more than 131 percent in 1992 to 29 percent in 1993 and to 12 percent at the end of 1994, with an appreciation of the Lebanese pound during the same period.

More than 200,000 highly educated and technologically sophisticated Lebanese expatriates have returned to the country since the end of the war, bringing with them advanced skills in the scientific, technical, financial, and entrepreneurial areas. The fiscal deficit which decreased from about 12 percent of GDP in 1992 to 8 percent in 1993, increased to about 21 percent of GDP in 1994. The fiscal deficit in

1994 was larger than expected as the government faced increasing reconstruction and social services expenditures that put added pressure on its fiscal deficit problems. Thus the government's major task is to correct the fiscal imbalance by controlling expenditures and increasing revenues. The government also faces the challenge of inducing private investment to generate some of the much needed resources.

Developments in 1995: A recent IMF staff visit estimated GDP growth in 1995 to be 6.5% compared to last years estimate of 8%. This growth is lower than the target for the year but is promising. Nevertheless, despite favorable



economic developments, the increasing budget deficit, large domestic and foreign debt, and growing pressure on the Lebanese pound remain as the major constraints to economic growth in the country. The IMF estimates that the overall budget deficit (excluding grants) decreased from 20.5% of GDP in 1994 to 18.4% of GDP in 1995. The 1995 deficit to expenditures ratio was 52% compared to the 44 percent target for the year. The Lebanese 1996 budget, however, indicates the government's plan to seriously cut spending to lower and control the fiscal deficit. External public debt increased from 8% of GDP in 1994 to 11 percent of GDP in 1995. Consumer prices also increased ten percent in 1995.

Lebanon's Development Prospects

Having been plagued by civil war for nearly two decades, Lebanon is finally entering a period when the government and the private sector can take an active role in reestablishing a functional society. More than 200,000 highly educated and technologically sophisticated Lebanese expatriates have returned to the country since the end of the war, bringing with them advanced skills in the scientific, technical, financial, and entrepreneurial areas. Recent reports are upbeat about the potential for rebuilding Lebanon into an upper middle-income country which plays a significant role in the Middle East region despite a recent setback in April 1996, when tensions between the Lebanese Hizbollah and Israel resulted in a two-week period of active fighting. Until recently, donors focused on emergency humanitarian relief and rehabilitation to support a beleaguered people. However, since initial assistance efforts have successfully stabilized the country, the government has begun to solidify a more development-oriented strategic framework for Lebanon. Although the April 1996 conflict with Israel was intense, emergency rehabilitation was swift and effective in restoring basic services and in returning displaced persons to their communities.

Economic Growth Prospects

In order to sustain the 1995 annual growth rate in GDP of 6.5 percent, high levels of both public and private investment will be needed. The government is confronted with creating and sustaining political and macroeconomic stability while establishing a conducive enabling environment for domestic and foreign private investment. Political stability is currently being maintained, but is still fragile and in the long-run will depend largely on the outcome of the Middle East Peace Process. The main challenge in attaining macroeconomic stability is resolving the fiscal imbalance without impinging on vital reconstruction and social expenditures. For the latter, the private sector could play an important role since these expenditures will require substantial mobilization of savings and its efficient allocation. The establishment of a legal and regulatory framework conducive to the development of the private sector will be essential. For example, the Lebanese Stock Market, which reopened in October 1995, after thirteen years, is currently faced with problems of few stocks, no trading rules, and lack of up-to-date technology and information. Furthermore, the income distribution problem that

existed even prior to the civil war is an important economic and social issue to consider in the country's development prospects. The economic success of Lebanon prior to the civil war and its human capital resources are important elements for Lebanon as it faces these economic challenges.

Population and Health Prospects

Health and population statistics are relatively sparse. However, available figures indicate some improvements from the 1970s to the 1990s. Life expectancy at birth in 1993 is 69 years compared to 64 years in 1970. Total fertility rate was five births per woman in 1970 and is now three. Infant mortality rate per thousand live births was 50 in 1970 and 34 in 1992. The population per physician ratio was reported to be 1299 in 1970 compared to 741 in 1991.

Environment Prospects

To respond to some of Lebanon's environmental problems, Lebanon's Horizon 2000 plan includes allocations for waste water treatment (\$500 million); solid waste treatment (\$400 million); reforestation and soil conservation (\$90 million); regulation of the storage of petroleum products (\$30 million); establishment of industrial zones and strengthening the Industry Institute (\$250 million); and combined cycles power plants using natural gas (\$750 million). Environmentalists state, however, that Lebanon has not adequately coordinated or launched its environmental platform and that prospects for donor intervention are not well-defined. The World Bank is currently financing an assessment of the environmental issues facing Lebanon. The findings are expected to serve as the basis to elaborate a national strategy.

Special Objective 3 of USAID's strategy offers Lebanon the opportunity to develop the analytical and technical capability at the university level to train researchers and specialists in the field of environmental studies. The objective enables the American University of Beirut to create a semiautonomous environmental center that meets international standards, and that produces graduates who will continue to work to redress Lebanon's environmental problems.

Democracy, Governance and Civil Society Prospects

During the Lebanese civil war, the Syrian government became involved with government rule, and until now maintains military forces in the country and has considerable influence in the existing government of Lebanon. Several of the leftists groups in Lebanon were reportedly enticed by President Assad to relocate their headquarters to Damascus, giving the Syrian President significant bearing into their actions and decisions, including that of the Hizbollah organization. Revolutionary guards arrived in Lebanon in 1982 and founded Hizbollah (translated: Children of God) from the Shia community. Thus, Syria plays an important role in the political and democratic prospects

of Lebanon. These two Arab countries are also important players in the achievement of peace in the Middle East. Attainment of sustainable political stability in Lebanon will largely be influenced by Syria.

Lebanon has had a parliamentary system of government with an elected president since the 1920s. As a result of the Ta'if accords presidential power was reduced, so that the country is governed essentially by a troika of the President (Maronite Christian), the Prime Minister (Sunni) and his cabinet,

and the
Shiite
Speaker of
the
Parliament.

Religious Groups	Seats in Parliament
Maronite Christians	34
Sunni Muslims	27
Shia Muslims	27
Greek Orthodox Christians	14
Druze	8
Greek Melkite Catholics	6
Armenian Orthodox	6
Alawite Muslims	2
Armenian Orthodox	6
Protestant Christians	1
Others	3
TOTAL	128

Elias Harakl, President (Maronite)
 Rafiq Hariri, Prime Minister (Sunni)
 Nabih Berri, Speaker of Parliament and leader of Amal Militia (Shia)
 Walid Jumblatt, Minister for Displaced Persons and Druze Leader

Behind the
institutional
veneer of a
democratic
system is the
operating
reality of
centralization,
segregation
along
religious
lines
(confessional
ism), and a
political

elite that often mixes personal gain with government position. The Syrian presence plays an active role in Lebanese politics, and in resolving conflicts among the troika. The municipal system of Lebanon has been dormant since the 1960s, with aged mayors still in place in some communities since that time. Municipal elections are postponed each year due to concerns about reopening confessional conflict. Politicians represent their religious or ethnic group, or a region dominated by the group, rather than being primarily responsive to a political party with an ideological or program platform. Although there is a formal civil service system, more on the French than the American model, many government positions have been awarded due to loyalty to a confessional leader appointed or elected to high office.

The Parliament, with 128 members organized proportionally to represent confessional groups, has a committee system in which the chairs are chosen for their personal expertise in the matters under their purview. Staff is limited, and until recently, technology was primitive. The Parliament acts as a counterweight to the Prime Minister and Cabinet, and its leaders are attempting to modernize its operations as well as the jumbled legal code of the country.

Civil society in Lebanon is strong, with active labor unions and business organizations. There are hundreds of non-governmental organizations (NGOs), offering social services. These are largely (but not exclusively) organized along denominational, or confessional, lines. The press is free and can almost be described as voracious, with numerous newspapers, TV stations and radio stations reporting, speculating and investigating on all events, large and small.

A persistent social factor is that building a sustainable development process in Lebanon is constrained by war-induced lingering anger, revenge, violence and mistrust among groups who formerly coexisted in many areas. The Ta'if accords did not eradicate psychological barriers and suspicion. To some extent they simply papered them over. Genuine peace and development can only be built if there are new skills that can be applied to foster tolerance, cooperation, and shared problem-solving based on common interests, not confessional loyalties.

Not surprisingly, the war also brought about grave deterioration of the public administration. The division of the capital split key ministries and agencies; many top managers and administrators left their jobs, left the country, or were killed. The violence of the war damaged or destroyed many government buildings and allowed the theft of much valuable equipment. The ability of the central control agencies like the Central Inspections Board (CIB), the Civil Service Board (CSB) and the Government Accounting Office (GAO) to function declined sharply. The government went into a 20-year isolation from the changes in public administration such as automation, new ways of developing and rewarding public servants, and the changing roles of central government agencies. The rolls of the civil service were swelled with contract and day workers hired and deployed outside the civil service system. Thus the need in government is not only to restore basic functions, but to introduce major reforms so that the GOL can make its contribution to the national recovery effort.

Women in Development Prospects

Rural women in Lebanon bear all of the difficulties side by side with the men. Yet, women suffer from another obstacle to their development: socio-cultural isolation. Rural women, especially Muslims, are not expected to make key decisions at home. They are not encouraged to acquire skills that have the potential of increasing household incomes (especially if they require employment outside the home) and do not have access to credit needed to support their businesses. They are not expected to study beyond basic elementary education. As a matter of fact, few girls from rural areas went to school until a few years ago. Girls often marry when they are adolescents or teenagers, and go on to bear an average of seven children during their child-bearing lives. This situation is currently perpetuated in the more remote villages (for example in the far north on the Syrian border) by the absence of a public transport system and the lack of telephones and television relay stations. With its small land area, Lebanon can no longer sustain large

families and an annual growth rate of more than 3% in its rural population. Rural women must be allowed to develop along with more urbanized women.

These problems are recognized by the GOL and by many political and intellectual leaders. There is increased awareness that to maintain economic and political stability, socio-economic recovery must be shared by all segments of society.

Pressing Problems and Constraints

Again, in spite of its recent positive economic performance, Lebanon faces enormous problems to reestablish its economy and society. Infrastructure is being rebuilt from top to bottom in many areas of the country. The war catalyzed an unequal development of different economic sectors, excessive urban concentration and polarization around Beirut, and destroyed regional structures; this imbalance must be redressed in order to guarantee balanced growth. Unemployment and resultant social tensions and social ills are at a critical level. Economic recovery has been uneven and there are wide differences in living standards and income disparities among the population. The public administration is weak and social and education services are running far below par.

U.S.-based universities have emerged from the war years to face needs for restoration of plant, equipment, and faculty, and lacking a sense of how they fit into today's Lebanon and Middle East region.

Environment and the degradation of land, water, air, coastal and natural resources are also of major concern in Lebanon.

Lebanon's Development Framework

Lebanon's National Recovery Plan, Horizon 2000, provides the framework for rehabilitation and redevelopment in Lebanon. It is a two-fold economic restructuring plan that combines a macroeconomic financial recovery program with a rehabilitation plan aimed at securing \$18 billion in public investment between 1995 and 2007, and that envisions an average annual growth rate of 8 percent. This strategy is based upon the premise that the private sector will take a lead role in stimulating economic activity while the public sector will rehabilitate basic infrastructure.

Horizon 2000 has three major objectives: (1) comprehensive reestablishment of basic infrastructure, including social infrastructure; (2) balanced regional distribution of public investment; and (3) promotion of private sector development through incentives to savings. Within these three areas are a variety of activities which are under way with support of domestic and international entities. These are shown in the table on the following page.

**Lebanon's National Recovery Plan
(Horizon 2000) and Sources of Support**

Activity	Sources of Support			
	Lebanese Pvt Sector	Govt. of Lebanon	Other Donors	USAID
Rehabilitate Public Sector		X	X	X
Reconstruct infrastructure	X	X	X	X
Housing for displaced	X	X	X	X
Support services for relocated families	NGOs	X	X	X
Fiscal reform - increased revenues		X	X	
Stable tax base		X	X	
Retrain the labor force	X	X	X	Civil Servants
Rebuild Beirut	X	X	X	
Term finance for productive enterprise	X			Microent.
Solve environmental degradation	Univs.	X	X	
Reform economic policies		X	X	
Control drug trade		X	X	
Improve education/social services	NGOs	X	X	
Revitalize agriculture	X	X	X	X
Revitalize industry	X	X	X	

Donor Programs

The Government of Lebanon has adopted a comprehensive stabilization program with technical assistance from the International Monetary Fund (IMF) and the World Bank. Since 1992, the IMF has provided the government with fiscal and monetary policy analysis and advice, while the World Bank has supported the stabilization program through an extensive loan portfolio that addresses needs in several sectors. Loan-funded projects have been developed to support revenue enhancement, the environment, administrative reform, health, and agricultural infrastructure. USAID closely tracks what the Bank is doing with the GOL, and has complementary activities in areas such as administrative reform, while leaving to the Bank the more capital-intensive efforts in

sectors such as environment and agriculture. Additionally, the World Bank is developing a community development fund that will eventually support many of the community-level reconstruction activities implemented by USAID-funded PVOs. The World Bank also assisted in the preparation of Lebanon's Emergency Reconstruction and Rehabilitation Program (NERP). The \$175 million NERP loan, approved in March, 1993, finances high priority items and is designed to restore infrastructure services, improve private sector confidence, and create an environment in which institutional and financial reform is feasible. The Bank will also assist the government to create a business climate that is favorable to private sector investment. Finally, the World Bank has made a \$35.7 million loan for the Health Sector Rehabilitation project to strengthen the capability of the Ministry of Health, rehabilitate health facilities, and improve the availability of basic health services to underserved segments of the population.

As described earlier in the section on Lebanon's environmental prospects, an assessment of the environment in Lebanon is currently being undertaken with World Bank support. It is anticipated that this assessment will serve as the basis to elaborate a national strategy. At a January 19, 1995 meeting of the committee on donor coordination, members discussed several options for working in the environment, although individual donors have not yet pledged resources. These included legislation for environmental protection; deforestation, and approaches and conditions for ensuring successful reforestation; natural resources monitoring and control; environment and tourism development; role and capacity of the Ministry of Environment; environmental impact assessment; popular participation in environmental activities; environmental information; and education. The effective role of NGOs at the national and local levels was also strongly emphasized, as was the need for supporting action towards environmental awareness.

The United Nations Development Program (UNDP) portfolio complements that of the Bank, and includes some antipoverty efforts, such as the drug eradication and crop replacement effort in the Baalbek-Hermal area. Additionally, the International Fund for Agricultural Development (IFAD) is involved in the agricultural sector by promoting small-scale irrigation efforts. This work differs in scale from the village-level projects that USAID-funded PVOs are restoring and extending. Additionally, the UNDP is providing assistance to the Ministry of Finance to improve tax administration and to the Ministry of State to enhance administrative reform.

In the banking sector, the International Finance Corporation (IFC) plans to provide five of Lebanon's leading banks with a \$454 million long-term credit line for lending to small businesses.

In 1995, the United States provided 5% of all development assistance to Lebanon and was the sixth largest donor. The United Nations Relief Works Agency (UNRWA) is the largest donor at 31%, and France is the second largest, providing 22% of donor assistance. USAID grantees work closely with World-Bank-supported projects and United Nations Development Program-coordinated

activities. PVO grantees also mobilize and match funds with European NGOs.

A number of donors provided humanitarian assistance to bolster the Lebanese during the brutal years of conflict and again during the April 1996 conflict between Lebanon and Israel. In recent years, donors have begun to channel funds to the more developmentally oriented plans of the Lebanese government to rehabilitate and redevelop the country.

LEBANON

COUNTRY PROGRAM STRATEGY 1996 -- 1999

Part II

Proposed Strategy, Rationale, and Key Assumptions

Introduction

- If political and economic stability can survive the immediate post civil war years, Lebanon will be able to recover, and to contribute to the evolving Middle East peace process and resolution of the Arab-Israeli conflict. USAID programs in Lebanon support this effort to secure and maintain a comprehensive peace.
- Lebanon's efforts to rebuild itself have implications that go far beyond the borders of a small country. As the former Ambassador of Lebanon to the United States wrote:

"The collapse of the Lebanese nation-state in the mid-seventies was in a sense an early warning to the world. I hope the rebirth of Lebanon in the mid-nineties from the ashes of war as a reconciled society and a viable state, will send a message of hope for societies embattled along the same issues, as humanity starts to contemplate the rise of the twenty-first century."

With the end of the conflict, Lebanon is showing signs of political stability and economic recovery. The country is finally entering into a period when the government and the private sector are both taking an active role in reestablishing a functional society. Recent reports, spanning the U.S. press, are positive about the potential for rebuilding Lebanon into an upper middle-income country which will play a significant role in the economy and political stability of the region. The USAID/Lebanon program is evolving with national interests and has adopted a strategic framework to support Lebanon's own changing set of objectives in 1996 and beyond.

Real GDP has increased, inflation has decelerated sharply, foreign exchange rates have stabilized, and foreign exchange reserves have been built up to a comfortable level. The Government of Lebanon (GOL) is attempting to achieve a real economic growth rate of about 8 percent per annum during the 1996-98 period, a gradual decline in inflation, and maintenance of international reserves to enhance confidence in the domestic economy. However, the lack of adequate infrastructure, weakening of the institutional and legal framework, and shortages of human and physical capital continue to constrain overall economic activity.

Lebanon itself has begun to consolidate its national resources for rehabilitation in rural as well as urban areas, and is moving toward what is viewed as a more developmental agenda. To respond to Lebanon's development plans, USAID's strategy has also evolved. Over the last two decades, the primary purpose of the Lebanon program was to demonstrate U.S. concern and support for the people of Lebanon during the period of civil strife. The support was channeled through USPVOs to community level reconstruction and rehabilitation, public administration improvements, and to strengthening U.S.-based educational institutions in Lebanon. The basis for the 1996-1999 strategy is no longer strictly a humanitarian assistance program aimed at

helping the Lebanese populace survive the civil war. It now includes elements that will assist the Lebanese public sector to reestablish and strengthen public administration, to bring about the formation of capital and microenterprise development, and prepare universities to produce graduates who will be the engineers of Lebanon's future.

USAID's Program in Lebanon

Currently, the program is implemented under a single project, the Lebanon Relief and Redevelopment Project (268-0360), which has two components, one targeted at reconstruction in the rural areas and the other for public administration. A third element of the program provides support to U.S. educational institutions in Lebanon. This project expires in 1999.

Ranging from \$20 to \$30 million annually for the past decade, the program was reduced to \$8 million for FY 1994 and \$8 million for FY 1995, largely due to the elimination of the large PL 480 food program. Support for U.S. educational institutions derives both from the ANE Bureau account as well as from American Support for Schools and Hospitals Abroad (ASHA). Additionally, the Global Bureau financed a number of limited efforts in that have supported women-in-development activities, provided the appropriate fora for economic policy discussions, and conducted a municipal development assessment.

From the 1980s until 1992, the Lebanon program provided humanitarian assistance aimed at helping the Lebanese populace survive the civil war. In 1992, the program added an element to provide assistance to the Lebanese public sector. This decision was based upon a report completed by AMIDEAST which pointed out that recovery and redevelopment of Lebanon would be virtually impossible without a reestablished and strengthened public administration. Also, at about this time the PVO-managed humanitarian relief program began a trend toward reconstruction and community rehabilitation, reflecting the return to more normal life in the country and the reduced need for basic relief supplies. In 1995, in a third round of competitive grants for PVO-run development work, the program added a microenterprise credit component to assist rural level reconstruction efforts. Grantees are just getting underway to implement the lending programs.

USAID has focused on these areas as a means to aid individuals to rebuild their own lives and their communities; to assist in the reconstruction of infrastructure and public institutions; to strengthen the capacity of the government to effectively manage its resources; and to help build Lebanon's technical and managerial work force through restoring the quality of education in U.S. educational institutions that operate in Lebanon. The following section summarizes USAID's four special objectives.

Special Objective 1: Sustained Rural Community Reconstruction and Rehabilitation

USAID funded activities at the community level will continue to focus on reconstruction and rehabilitation through 1998. USAID currently supports six U.S. private voluntary organizations (USPVOs) and more than 30 Lebanese non-governmental organizations (NGOs). Activities over the next two years will include community-level reconstruction of health facilities and strengthening of local capacity to deliver emergency and basic health services; reconstruction of homes, villages, roads and irrigation and potable water systems; technical assistance and training to enhance the capacity of Lebanese NGOs to deliver services; and procurement of critical medical supplies and equipment needed in Lebanese schools, hospitals, and other institutions. A key outcome of this reconstruction and rehabilitation effort will be to support the reconciliation of various confessional groups and communities through the resettlement of displaced persons. This resettlement will help to resolve conflicts over property rights and to rebuild communities devastated by the civil strife.

USAID-supported community reconstruction/rehabilitation in Lebanon has changed in recent years. Three years ago USAID stopped providing pure humanitarian relief such as food and emergency relief supplies. Today the PVOs USAID supports are transitioning out of housing rehabilitation as Lebanese banking/agency programs take over, and in FY 1996 USAID support will phase out of physical rehabilitation and services to the disabled, orphans, and other human victims of war. In the villages, PVOs are also phasing out of some infrastructure rebuilding, like electricity, schools, clinics and community buildings. There is now increasing emphasis on support for economic activities (restoring/expanding village irrigation, feeder roads, rebuilding terraces and other land reclamation, starting or expanding microlending, providing agricultural skills training). The PVOs are building and training community organizations to construct, operate and maintain economic infrastructure, deal with central government agencies, and provide the foundation for restored local government.

The next stage of evolution will involve a sharper focus on economic development (credit, marketing) outcomes, and more emphasis on strengthening the means of attaining sustainability of all programs. (e.g. institution-building and civil society), problem-solving and conflict management skills, as well as project planning and management processes that use those skills. Efforts will be made to enhance participation of women.

The restoration of agriculture and derived enterprises in the rural areas requires technology, credit, and reliable infrastructure (roads, water, power). Marketing and planning decisions need to be more sophisticated to compete for both domestic and foreign markets with farmers in Syria and Jordan. The PVOs who submitted credit activities in their proposals in 1995, provided a number of models, from microlending aimed at women, to more

ambitious credit schemes for farmers and other businesses. The roles of the PVOs, banks, and community organizations or cooperatives varied with each model. Some provided business feasibility analysis and management training, while others did not. The financial analyses of most of the models other than the microlending schemes were not thorough or viable looking to USAID reviewers. It was concluded that there is a need and an opportunity for credit activities, but that the models and linkages to the financial system need further discussion on the ground, bringing together USAID experts with the PVOs and persons from the Lebanese financial community.

To have sustainable community development, PVOs' roles must change. PVOs have played crucial roles in assessing community needs, planning projects and mobilizing local resources (often as much as \$3 in local funds for each USAID dollar), and brokering with the GOL for technical assistance, permits, approvals, and materials. They have also trained community leaders in a variety of skills, and provided hands-on engineering services. Sustainability requires that they focus on transferring these skills to local leaders.

The PVOs have found in many areas that building sustainable communities is hampered by war-induced lingering anger, revenge, violence and mistrust among groups who formerly coexisted in many rural areas. The Ta'if accords did not eradicate psychological barriers and suspicion. Genuine peace can only be built if there are new skills that can be applied to foster tolerance, cooperation, and shared problem-solving based on interests, not confessional loyalties. Such skills include mediation, negotiation, effective communication, facilitation, joint problem-solving, team-building, conflict analysis and interest-based collaboration.

The need for village development continues, and the GOL is only slowly mounting programs to reach out to these areas. In some cases, like agriculture, they are looking to NGOs to extend their reach to more rural areas.

USAID will also continue to fund a local grants program to indigenous NGOs. Titled the Small Value Procurement (SVP) activity, this program is the Mission's mechanism for rapid implementation of small-scale relief activities. The objective of this program is to help affected institutions restore what they lost during the years of civil strife and to enable them to meet the increasing demands of the needy Lebanese. In recent years, the grants provided to a total of about seventy health and welfare institutions have totalled \$194,000 (FY 90); \$300,000 (FY 91); \$401,000 (FY 92); and \$400,000 (FY 93). In FY 94 and FY 95, \$500,000 was programmed for thirty institutions selected in order to meet geographical and confessional balance in the country. All of the current grants are for equipment and rehabilitation, with two thirds for medical equipment. Finally, USAID is funding a microenterprise lending program directed at rural women entrepreneurs.

Results and Assumptions

Overall key assumptions:

- Models for community rehabilitation are being demonstrated by US-assisted PVOs, and can be replicated without open-ended USAID support.
- Lebanon's people and government value the rehabilitation and repopulation of rural communities and will take increasing responsibility (including funds and human resources) for guiding and enabling this process on a sustained basis.

Result 1.1 Community organizations strengthened

Key Assumption: Communities can regroup around pre-war leaders or new ones to restore communities and operate/maintain restored infrastructure, and have an interest in reconciliation across confessional lines.

Result 1.2 Community economic activity resumed

Key Assumption: There is a valid economic role for rural communities, individuals willing to invest and operate agricultural or other enterprises in the areas, and capital to be mobilized that will offer stable employment to a resident population.

Result 1.3 Families resettled in target communities

Key Assumption: If families are offered housing, basic social services and infrastructure, and they have not sunk new roots too deeply in the magnet cities of Beirut, Sidon and Tripoli, they will return to their rural communities.

Special Objective 2:

Increased Effectiveness of Selected Institutions which Support Democracy

Rehabilitation of public administration is an essential element in restoring a fully functioning and effective government that can contribute more effectively to Lebanese recovery. An improved public service is considered critical to strengthening the confidence of the Lebanese private sector in the credibility of the Government. USAID considers an investment in Lebanon's governance to be a key contribution to Lebanon's overall recovery. This component of USAID's strategy currently funds the Government Institutions Strengthening component of the Lebanon Relief and Redevelopment Project through the Center for Legislative Development at the State University of New York at Albany (CLD/SUNY/A). This five-year project installs information systems and provides training for staff at the Parliament and the four control

agencies of the government. USAID recently approved Phase II, extending the component to 1998, focusing it less on technology, and more on institutional and policy changes, in close coordination with the Minister for Administrative Reform. As these changes occur, USAID will consider targeted training of key public sector managers to complement the technical assistance and capital inputs of other donors like the World Bank, UNDP and the European donors.

Results and Assumptions

Overall key assumptions:

- Focused inputs of technology and varied learning activities will help to open up selected Lebanese political institutions, resulting in policies, laws, and government oversight that are more responsive and accountable to public concerns, and employ modern concepts of public administration and policy analysis.
- The administrative reform thrust of the present government will continue after the June 1996 Parliamentary elections, propelled by press and other civil society pressures.

Result 2.1 Parliamentary Committees on Budget and Finance and Administration and Justice exercise full authority, based on the number of bills revised before passage

Key Assumption: Training, policy dialogue, and improved information systems focused on key leaders. Budget and Administration Committees and staffs within Parliament will produce more open, accountable and transparent legislation and better oversight.

Result 2.2 GOL adopts new policies, standards and management structures for information technology

Key Assumption: Policies, guidelines and laws are needed on data standardization, security, and procurement in order to minimize the duplication and optimize investment in information technology in all areas of the GOL.

Result 2.3 Control agencies (GAO, CSB, and CIB) adopt and apply new technology and processes

Key Assumption: Interventions with these agencies to encourage reforms, decentralization and efficiency enable agencies to successfully pursue their own missions.

Special Objective 3:
***Enhanced Capability of Institutions of Higher Education to contribute to
 Lebanon's development objectives***

USAID has provided a significant amount of assistance to the American University Beirut (AUB) and the Lebanese American University (LAU) over a number of years.

During the war years, this assistance, largely through ASHA but also from the geographic bureau, was given as general support to keep the colleges open and operating. Funds were used for new and rebuilt structures, scholarship programs, and a variety of operating costs. Now, USAID is seeking a more direct development-related outcomes from its investments in these institutions. The first grants were made in late FY 1995. Therefore, time will be required before initial results are achieved.

Results and Assumptions

Overall key assumptions:

- Targeted support for specific activities or units of the universities will not only strengthen their ability to participate in national and even regional development, but will also have backward linkages to the quality of and relevance of the schools' curricula, research, and instruction.
- By meeting the requirements of USAID program-related grants, their management, accounting and administrative systems will be improved.

Result 3.1 LAU incorporates the Institute of Women's Studies in the Arab World (IWSAW) research into formal educational programs for women

Key Assumption: The Institute's study of the future role of women in the Lebanese economy will be effective, and will influence the academic leadership of LAU to adapt the curriculum to prepare women for the rapidly modernizing Lebanese economy.

Result 3.2 LAU's Center for Research and Development is operational with two client-oriented, fully funded activities in business

Key Assumption: University leadership and faculty will participate in strategic planning to find real demand and to supply the talent needed for studies, consulting, and research in areas of development.

Result 3.3 *AUB's environmental program improved and expanded*

Key Assumption: AUB's interdisciplinary masters program in environmental studies and its involvement with water quality and other environmental issues will create demand for work with broader environmental perspectives, better cross-faculty cooperation, and administrative autonomy. These in turn will gain additional grant funding and other donor agency support.

Special Objective 4:
Expanded Economic Opportunities

One major constraint to continued economic growth is the economic instability caused by the GOL's fiscal imbalance. Several World Bank and IMF documents have identified the need for macroeconomic stabilization, particularly the correction of the budget deficit, as essential to Lebanon's recovery and development. Thus, the main challenge for the GOL is to resolve the fiscal deficit without unduly impinging on vital reconstruction and social expenditures. The private sector can play a vital role by mobilizing domestic savings and attracting foreign savings needed for infrastructure investment and expansion of private businesses.

The Beirut Stock Exchange (BSE) recently reopened after 13 years. It is expected to play a major role in attracting local and international investors to participate in reconstruction projects and in channeling savings into productive investments. Its reopening reflects the GOL's determination to regain Lebanon's regional financial leadership role. The BSE currently has four companies listed and trading. A new computer-based trading system is in place, and a clearing house has been established. Operating under the supervision of the Ministry of Finance, the BSE is not presently formally regulated. A bill to establish a body similar to the U.S. Securities and Exchange Commission is pending in Parliament. The BSE Chairman and his colleagues face several challenges, including increasing the number of registered firms, refinement of clearance, settlement and depository functions, putting the regulatory mechanism in place, and eventually privatizing the exchange. USAID has institutional expertise and has helped in the development of capital markets in Tunisia, Egypt, Morocco and in many Asian countries. The Administrator views equitable market development in developing countries as a critical priority in the Agency's economic growth portfolio.

Lebanon is in the initial, critical stage of stock market development. USAID's support for Lebanese capital markets will complement assistance provided by other donors. It is quite possible that Lebanon will become a future center of capital markets activity for the entire Middle East.

Donors also need to address the income inequality issues which plagued the country before the civil war, and which may worsen in post-war Lebanon. USAID's comparative expertise in providing microenterprise finance assistance

can contribute to Lebanon's overall response to this concern. To be sustainable, however, microenterprise finance must be tied to the country's formal financial markets, so that microenterprise finance institutions have access to sufficient funds to meet the expanding demand for credit. Financial institutions supported by USAID will be encouraged to become financially sustainable entities that can become more integrated in the country's formal financial sector.

This strategy proposes a special objective to expand economic opportunities. This special objective will provide targeted technical assistance (TA) and training in an area where there is reason to believe that USAID can make a modest but important contribution to financing economic opportunities through microfinance institutions and capital markets. This is an area where there is American expertise and experience on the ground. The TA will likely be provided a USAID financial markets development contractor able to work in Beirut. It is anticipated that the TA will focus on improving the BSE. USAID will also train 3-4 Lebanese and exchange officials at the U.S. Securities and Exchange Commission (SEC). Whereas France has provided computer equipment to the BSE and has maintained its previously strong French-style operations, USAID TA may be used to move the BSE toward a more flexible and less centralized U.S.-style approach to regulatory and operational behaviors. The ANE Bureau's recent sub-optimization exercise (eg. looking at the Lebanon strategy in isolation of other ANE missions) showed that a modest but important result can be achieved in Lebanon's dynamic capital markets sector with a one-time DA support of \$1-2 million.

This assistance will provide a targeted contribution to the revival of Lebanon's financial sector. It will also support U.S. foreign policy objectives to maintain stability in the Middle East by helping jump-start a stock exchange that was the most active in the Middle East prior to the Lebanese civil war. It is expected that this stock exchange will eventually become a major conduit for large sums of money flowing into Lebanon to finance reconstruction, new construction, tourism and other job-creating enterprises.

Results and Assumptions

Result 4.1: Sustainable microfinance and savings system in place in two self-financing implementing institutions

Key Assumption

- The poor in rural areas will benefit from a sustainable microfinance delivery system.

Result 4.2: Stock Market Operations and Regulation Improvement Plan Defined and in Implementation

Key Assumptions

- Political stability will be sufficient to allow more investors to view Lebanon as a favorable environment for private sector investment.
- Private capital markets development will help Lebanon attract needed capital for reconstruction and business expansion.
- Existing human capital base of well-trained Lebanese in the financial and economic fields will facilitate capacity-building efforts in assisting the recently reopened stock exchange in Lebanon.

Constraints to USAID Program Implementation

In analyzing what possible options USAID has in the design of a country strategy, it is important to identify the constraints the ANE Bureau has in operating a program in Lebanon. These include, but are not limited to:

Staff: Continuing security concerns have not permitted USAID to station USDH staff in-country to manage the program. Management capacity is limited. The program is monitored by two FSN direct hires located in the U.S. Embassy/Beirut. Personnel management of the FSN staff as well as daily supervision of the staff is done through the U.S. Embassy there. The program is now managed from USAID/W.

Access: One aspect of the war situation has not changed. Due to its assessment of direct threats to our nationals, the U.S. Department of State continues to enjoin U.S. citizens from visiting Lebanon on U.S. passports. U.S. technical assistance can only be provided by U.S. nationals who have dual citizenship. Therefore, it is difficult for U.S. citizens to assume a large distinct role in the program. The Lebanon travel ban impacts on all aspects of USAID and U.S. NGO and PVO project development and implementation. Although USDH staff can now visit the American Embassy in Beirut, a travel ban remains for all other U.S. citizens and USDH's are rarely permitted to venture outside the Embassy compound. As a result, USAID/W personnel devoted to the management of the portfolio is below the norm for the level and type (PVO) of grants in the portfolio. Project implementation and monitoring are difficult.

Phasing down the Lebanon program - Factors for Consideration

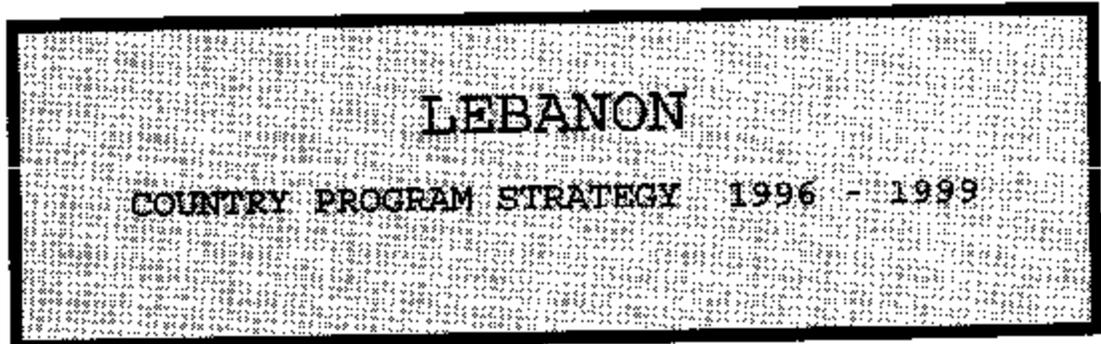
This strategy envisions that USAID will gradually phase down its involvement in Lebanon as Lebanon's economy and social structures normalize. The factors listed below will be analyzed annually by USAID and the Department of State to examine USAID's rationale for continuing support, if required, and to determine appropriate funding levels.

From a political perspective, the implications of reducing USAID's involvement would have both domestic and overseas dimensions.

- Dialogue will be important in order to assure Lebanon that a reduction in USAID's activities is not a symbol of reduced commitment to Lebanon's sovereignty, independence or territorial integrity, but rather a move back to a more mature relationship between trading partners and friendly nations.
- Assistance to the U.S.-based universities has U.S. domestic political support and would likely be the area that would phase out last. There are a number of Lebanese graduates in the U.S. and those institutions are perceived of as important in spreading Western thought and culture in the Middle East.

From a developmental perspective, as USAID considers reductions in program support, USAID will seek the following:

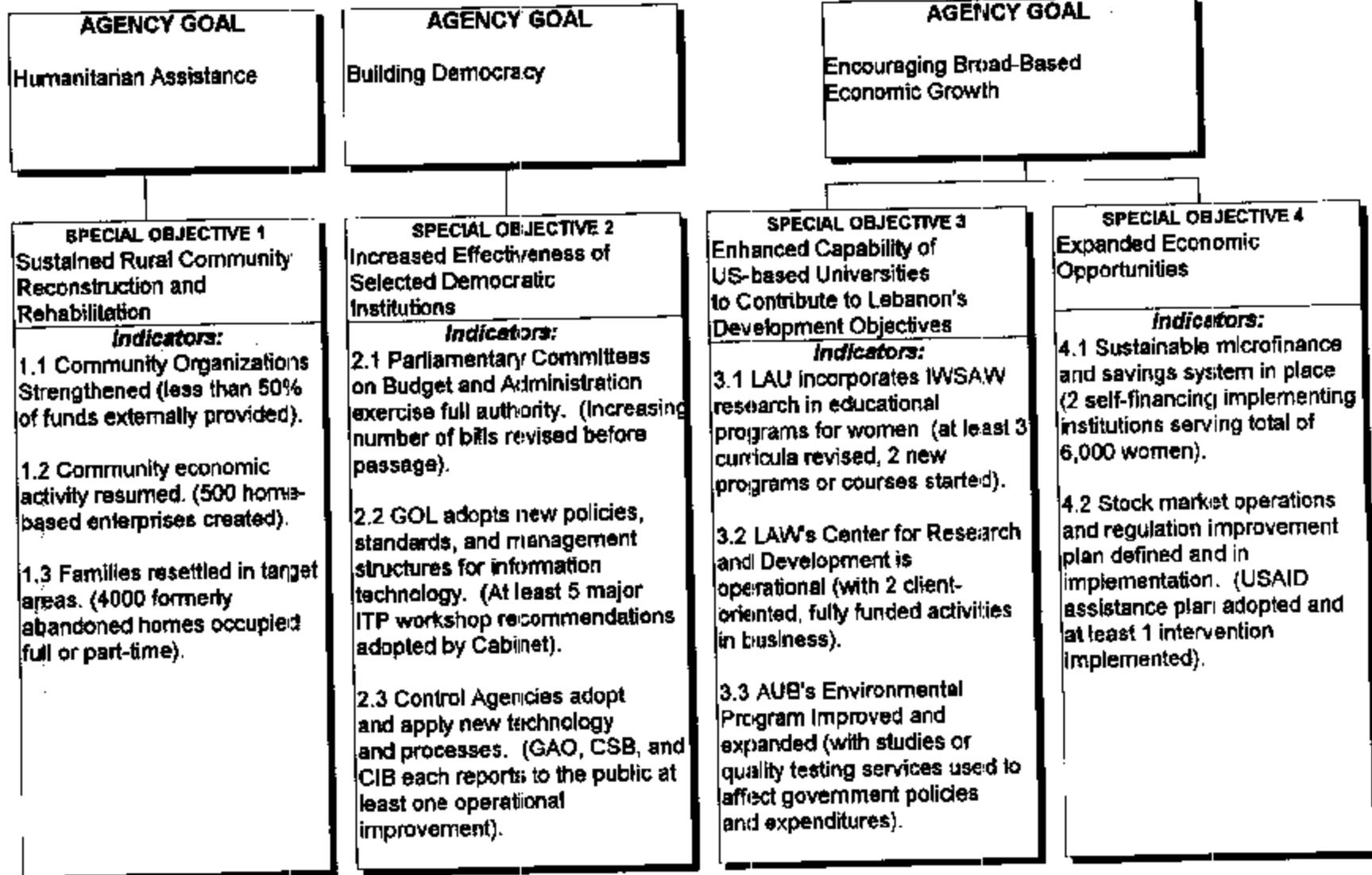
- Evidence that the GOL and other donors are meeting needs identified in the preceding assessment, especially regarding equity and pockets of poverty in the country;
- Evidence that solutions to key economic problems cited above are being appropriately developed;
- Evidence of a continuing commitment to a more democratic approach to governance; and
- Consideration of other appropriate forms of U.S. government support for Lebanon's recovery, i.e. via other USG agencies' international programs or by transferring USAID funds to the Department of State for management by State.

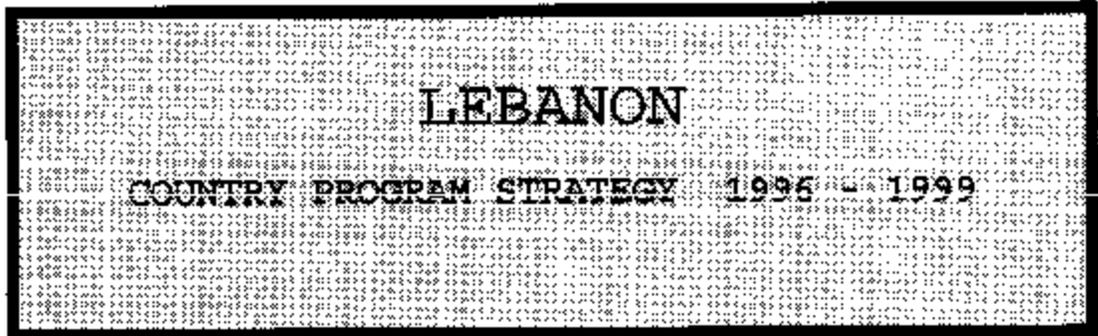


Annex A

USAID/Lebanon Results Framework

USAID/Lebanon Strategic Objective Tree





Annex B

Performance Monitoring Plan

Performance Monitoring Plan

The performance monitoring plan for the Lebanon program is a work in progress. This section of the strategy discusses the current state of that work, and describes the steps that are needed to develop an operational plan. Illustrative Performance Data Tables are attached, with the understanding that they may be revised following work with partners in the field.

In Lebanon, unlike other countries where USAID maintains a USDH presence, USAID must rely heavily on partner organizations (PVOs, CLD/SUNY/A, and the U.S.-based universities in Lebanon) to establish indicators and data collection methods. A certain amount of this can be done by USAID/W members of the Lebanon Program team interacting with headquarters offices of the organizations, and by dialogue at the field level between the partners' Beirut project managers and USAID staff in the Embassy.

Using these methods of communication, ANE has made considerable progress during the past year toward agreeing with USAID partners on a set of shared measures that begin to reflect results at various levels. The PVOs have begun to look beyond measures of physical accomplishment (i.e., houses made habitable, irrigation systems restored) toward assessment of broader quality-of-life measures such as economic activity and community organization in the communities where reconstruction has been carried out. The CLD/SUNY team is looking beyond information systems at ways of assessing change in the assisted organizations (Parliament and the Control agencies) in how they serve the public and achieve their mandates. The universities (LAU and AUB) have begun to look at downstream measures of the activities that receive USAID funding.

However, this does not substitute for on-site workshops and direct contact with partners and customers to build a performance monitoring system. The various indicators proposed in this paper and the performance data tables read well and may be plausible measures for which data is easily collected. However, ANE cannot accurately evaluate the quality of the monitoring plan before working in-country with partners and customers.

The ANE Lebanon team has attempted to identify intermediate results that are at the same time special objective achievement indicators. For example, a key indicator of increased effectiveness of one of the selected democratic institutions will be achieved when it is demonstrated that the Parliament's processes are improved and modernized. Similarly, when proven that community organizations within the assisted villages have been strengthened, that achievement will be a desired result in itself, as well as a measure of sustained community rehabilitation.

Under SPD 1, the PVOs collect data as they perform needs assessments required for planning purposes. It is not clear whether PVOs collect the same data in each community, or whether different PVO's collect similar data. It is not known what PVOs do with the information after planning exercises with the communities are complete. Therefore, baseline data are likely to be uneven.

Performance targets have been established in each PVO grant, primarily as immediate outputs (i.e., numbers of communities assisted, quantities of houses or water systems repaired, numbers of training sessions conducted). These targets always appear to be met, and frequently exceeded, according to quarterly reports and field verification by colleagues in Lebanon. The challenge is to develop a reliable method to periodically measure factors in the assisted communities that go beyond outputs, and to ensure that the same factors are tested, regardless of which PVO (or combination of PVOs) worked in the community. Gender-disaggregated analysis will also be performed where feasible. Each grant contains funds budgeted for monitoring and evaluation. Once the measures, frequency, and reporting systems have been established, local consultants and universities will be able to perform the required monitoring.

Under SPO 2, ANE has worked with CLD/SUNY/A to link their work to outcomes of increased transparency, accountability and integrity of performance by the Parliament and the Control Agencies. These factors do not lend themselves to quantitative measurement, so proxies with plausible links must be found and tracked. It is anticipated that better technical performance of the staff and members of the Parliament will lead to the desired result. It will take some hours of discussion with key personnel in the Parliament to identify what to track, how to track it, and how often to collect information. In the control agencies, the approach will be to identify with the staff one or two key functions that each performs, and assess how that function(s) improves, whether fairer, more open, faster, etc.

Under SPO 3, AUB has made a significant step toward setting measures of progress for its environmental program. The proposed measures cover levels from the immediate outputs (equipment purchased and installed by X date) to such downstream results as production of water quality testing manuals for various GOL ministries. There are also institutional measures to show that the program is becoming more integrated across faculties. On-site discussions will be needed to ascertain whether all these measures are of equal value to the university and whether there is commitment to tracking them for their own purposes.

LAU's new Center for Research and Development is still at the conceptual stage, working on mission, vision and strategy. Progress cannot be measured until CY 1997 when the center will be operational. Having a focus on one or two areas of institutional strength is an important measure of the business-like approach that the CRD needs to have as it begins operations.

Regarding IWSAW, immediate measures are related to the completion of research on women in the labor market, while downstream measures concern multiple applications of that research in areas of university curriculum, non-formal training programs, and enhancement of the publication and fund-raising efforts of Al-Raida, IWSAW's main publication.

Under the new SPO 4, there will be two sets of measures and results. For the microfinance side, the grantees have measures they have established for the program models they have proposed to carry out, and USAID has informed them of standard measures encouraged by USAID. Here, the challenge will be to integrate their measures with USAID's, and to agree on a limited number of key indicators. Both grantees are still in the early stages of their activities. Save the Children has an operating program, but no solid local counterpart. The CRS/Caritas partnership has not started, and the CRS field manager has just arrived. This provides an opportunity to set up performance monitoring without having to retrofit an ongoing reporting system.

In the area of capital markets development final indicators must yet be established with the Beirut Stock Exchange (BSE) and the regulatory authority when USAID defines more clearly the objectives and content of USAID assistance in this area.

Annex B

PERFORMANCE DATA TABLE

Lebanon		SPO Approved:		
SPECIAL OBJECTIVE #1: Sustained Rural Community Reconstruction		INTERMEDIATE		
RESULT # 1.1				
Indicator: Community Organizations Strengthened				
Unit of Measure: Percent of funds externally provided		Year	Planned	Actual
Source: Community organization budgets/expenditures	Baseline			
Comments:		1994		
Methods, timing and frequency of surveys of community organizations need to be agreed on with PVD partners.	90 (To be determined)	1995		
Alternative methods of measurement of "strengthening" -- such as level of services offered -- also need to be explored with COs.		1996		
		1997		
	Target	1998	50	
		1999		
		2000		
		2001		
		2002		

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Annex B

PERFORMANCE DATA TABLE

Lebanon		SO Approved:		
Special Objective # 1 INTERMEDIATE RESULT # 1.2				
Indicator: Community economic activity resumed				
Unit of Measure: Number of home-based enterprises		Year	Planned	Actual
Source: Community surveys	Baseline			
Comments:		1994		
Methods, timing and frequency of surveys of community organizations need to be agreed on with PVD partners	To be determined	1995		
		1996		
		1997		
	Target	1998	500	
		1999		
		2000		
		2001		
		2002		

Annex B

PERFORMANCE DATA TABLE

Lebanon		SO Approved:		
Special Objective # 1 INTERMEDIATE RESULT #1.3				
Indicator: Families resettled in target communities				
Unit of Measure: Number of formerly abandoned homes occupied		Year	Planned	Actual
Source: Community surveys	Baseline			
Comments:		1994		
Methods, timing and frequency of surveys of communities need to be agreed on with PVO partners.		1995	2,200	3,100 (cum)
		1996	765	
		1997	135	
	Target	1998	4,000	
		1999		
		2000		
		2001		
		2002		

Annex B

PERFORMANCE DATA TABLE

Lebanon		SO Approved:		
Special Objective #2: Increased Effectiveness of Selected Democratic Institutions				
INTERMEDIATE RESULT # 2.1				
Indicator: Parliamentary Committees on Budget & Finance, and Administration & Justice, exercise full authority.				
Unit of Measure: Number of bills revised before passage		Year	Planned	Actual
Source: Parliament staff records	Baseline			
Comments:		1994		
Includes bills initiated by Cabinet and by Parliament	To be determined	1995		
		1996		
		1997	Number increases	
	Target	1998	Trend continues	
		1999		
		2000		
		2001		
		2002		

Annex B

PERFORMANCE DATA TABLE

Lebanon		SO Approved:		
Special Objective # 2		INTERMEDIATE RESULT # 2.2		
Indicator: GOL adopts new policies, standards and management structures for information technology				
Unit of Measure: Number of ITP workshop major recommendations adopted by Cabinet		Year	Planned	Actual
Source: Cabinet staff records	Baseline			
Comments:		1994		
		1995		
		1996	2	
		1997	3	
	Target	1998	5 (Cum)	
		1999		
		2000		
		2001		
		2002		

Annex B

PERFORMANCE DATA TABLE

Lebanon		SO Approved:		
Special Objective #2		INTERMEDIATE RESULT # 2.3		
Indicator: Control Agencies adopt and apply new technology and processes				
Unit of Measure: GAO, CSB, and CIB each report to the public on operational improvement		Year	Planned	Actual
Source: Agency records, press reports		Baseline		
Comments:		1994		
		1995		
		1996		
		Target	1997	Each agency reports at least 1
			1998	
			1999	
			2000	
			2001	
			2002	

Annex B

PERFORMANCE DATA TABLE

Lebanon		<i>SO Approved:</i>		
Special Objective # 3: Enhanced Capability of US-Based Universities RESULT # 3.1		INTERMEDIATE		
Indicator: LAU incorporates IWSAW research in educational programs for women				
Unit of Measure: Number of curricula revised, new programs or courses started		Year	Planned	Actual
Source: IWSAW/LAU Records	Baseline			
Comments:		1994		
		1995		
		1996		
It will take most of this year to complete the research and share the findings with LAU faculty		1997		
	Target	1998	3 revisions & 2 new courses	
		1999		
		2000		
		2001		
		2002		

Annex B

PERFORMANCE DATA TABLE

Lebanon		<i>SO Approved:</i>		
Special Objective #3		INTERMEDIATE RESULT # 3.2		
Indicator: LAU's Center for Research and Development is operational				
Unit of Measure: Number of client-oriented, fully funded activities		Year	Planned	Actual
Source: LAU business plan and billings	Baseline			
Comments:		1994		
		1995		
		1996		
		1997	1 in operation	
	Target	1998	1 more in operation	
		1999		
		2000		
		2001		
		2002		

Annex B

PERFORMANCE DATA TABLE

Lebanon		<i>SO Approved:</i>		
Special Objective # 3		INTERMEDIATE RESULT # 3.3		
Indicator: 3.3 AUB's Environmental Program Improved and Expanded				
Unit of Measure: Number of studies or quality testing services that affect government policies and expenditures		Year	Planned	Actual
Source:	Baseline			
Comments:		1994		
Methods and frequency of measurement of this will depend on cooperation between AUB and client agencies		1995		
		1996		
		1997		
	Target	1998	To be determined	
		1999		
		2000		
		2001		
		2002		

Annex B

PERFORMANCE DATA TABLE

Lebanon		<i>SO Approved:</i>		
Special Objective #4 Expanded Economic Opportunities		INTERMEDIATE RESULT # 4.1		
Indicator: Sustainable microfinance and savings system in place				
Unit of Measure: Number of self-financing implementing institutions serving number of women		Year	Planned	Actual
Source: PVO and local NGO records	Baseline			
Comments:		1994		
Alternative measures, such as number of loans or delinquency rates, will be explored with partners.	1 PVO 1,500 women	1995		
		1996		
		1997		
	Target	1998	2 PVOs 6,000 women	
		1999		
		2000		
		2001		
		2002		

Annex B

PERFORMANCE DATA TABLE

Lebanon		SO Approved:		
Special Objective # 4		INTERMEDIATE RESULT # 4.2		
Indicator: 4.2 Stock Exchange operations and regulation improvement plan defined and in implementation				
Unit of Measure: Adoption and implementation of USAID assistance plan		Year	Planned	Actual
Source: BSE and USAID records	Baseline			
Comments:		1994		
		1995		
		1996		
		1997	1 intervention in progress	
	Target	1998	2 interventions complete	
		1999		
		2000		
		2001		
		2002		

LEBANON

COUNTRY PROGRAM STRATEGY 1996 - 1999

Annex C

Life-of-Strategy Resource Requirements Table

Life-of-Strategy Resource Requirements (\$000)

Special Objective		FY 1996	FY 1997	FY 1998	FY 1999	TOTAL
SPO1	Sustainable Rural Community Reconstruction and Rehabilitation	0	0	0	0	0
SPO2	Increased Effectiveness of Selected Democratic Institutions	569	0	0	0	569
SPO3	Enhanced Capability of US-based Universities to Lebanon's Development Objectives	1400	2000	2000	2000	7400
SPO4	Integrated Financial Market Development	445	2000	2000	2000	6445