

**USAID/Lebanon**

**Lebanon Revisited: A Transition Strategy**

**2003 – 2005**

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**USAID/Lebanon**  
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**2003-2005**

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## List of Acronyms

AEI	American Educational Institution
AUB	American University of Beirut
CBJ	Congressional Budget Justification
CDP	Community Development Project
CDR	Council for Development and Reconstruction
CLD	Center for Legislative Development
CN	Congressional Notification
CoDeL	Combating Desertification in Lebanon
DA	Development Assistance
EIB	European Investment Bank
ESF	Economic Support Funds
FSN	Foreign Service National
GDA	Global Development Alliance
GDP	Gross Domestic Product
GOL	Government of Lebanon
IBRD	International Bank for Reconstruction and Development
ICT	Information and Communication Technology
IFAD	International Fund for Agricultural Development
IMF	International Monetary Fund
IR	Intermediate Result
ISG	International Support Group for Mine Action
JICA	Japanese International Cooperation Agency
LAU	Lebanese American University
LMRC	Landmine Resource Center
MERDF	Middle East Regional Democracy Fund
MFTR	Memorandum of the Foreign Trade Regime
MIS	Management Information System
MPP	Mission Performance Plan
NISC	National Integrity Steering Committee
NGO	Non-Governmental Organization
OE	Operating Expenses
OTI	Office of Transition Initiatives
OYB	Operating Year Budget
PSC	Personal Services Contract
PVO	Private Voluntary Organization
RCDC	Rural Community Development Cluster Program
SF	Social Fund
SO	Strategic Objective
SUNY	State University of New York
SWEMP	Solid Waste Environmental Management Project
TA	Technical Assistance
TAG	Transparency and Accountability Grants
UNDP	United Nations Development Program
UNIFIL	United Nations Interim Forces in Lebanon

## **List of Acronyms, Cont'd.**

USDH	U.S. Direct Hire
USG	United States Government
WB/G	West Bank and Gaza
WTO	World Trade Organization

# Lebanon Revisited

## A 2003-2005 Strategy

*“The most open, tolerant places in the Muslim world today are all trading centers: Dubai, Istanbul, Bahrain, Amman, Beirut, and Jakarta.”*

*Thomas L. Friedman. March 2002.*

Lebanon, perhaps the oldest trading center in the world, is facing enormous challenges to its economy, society, and security, brought on by a host of domestic, regional, and global developments. Over the past five years USAID has been effective in addressing rural poverty, local governance, and the environment, making inroads in advancing economic policy reform and building the capacity of Lebanon’s American schools and universities. Over the next three years USAID will build on these gains, implementing a new strategy that fuses expansion with integration, targets value-added sectors and reforms, and promotes the governance, growth, stability, and sustainability that will enhance Lebanon’s stature as a nation, and as a regional and global player.

Key to success will be (1) creating economic opportunities in areas with high growth potential; accelerating reform and global competitiveness; strengthening economic and democratic governance; promoting sustainable environmental and water management practices; increasing safety and security; and helping victims in landmine-affected areas; (2) establishing partnerships that meld the interests, expertise, and resources of the business, government, university, NGO, and donor communities; and, (3) developing mechanisms that enable a micro-mission with a macro-mandate to manage its substantial investments efficiently and achieve significant results.

## Part I: The Assistance Environment

### A. The Challenge

Lebanon, like its neighbors, lives in challenging times. Just two years ago, in May 2000, the country was celebrating the withdrawal of Israeli forces from South Lebanon after 22 years of occupation and a devastating civil war. People were excited about resettling, reviving, and reintegrating the south, and bringing stability, security, and sovereignty to the entire country. These goals, however, proved short-lived when Lebanon and Syria disputed the U.N.’s “Blue Line” border with Israel, reviving the “resistance movement” and putting recovery on hold. The September tragedies -- Jerusalem in 2000 and New York and Washington in 2001 -- saw the respective launching of the *intifada* and the War on Terrorism. Both affected Lebanon profoundly – the former engendering considerable support for the Palestinian cause, the latter focusing attention on Hizballah as an organization on America’s list of global terrorists, and both putting considerable strain on Lebanon’s relationship with the United States. Today, in the midst of continued violence, instability, and heated emotions across the region; and in the wake of the Arab world’s proposals for a comprehensive Middle East peace advanced at the “Beirut Summit” in March, and President Bush’s June framework for the same, our hope is that the region, and the world, will finally witness the implementation of a viable and

comprehensive plan for peace, and that Lebanon will, above all, become a positive force in moving it forward.

### **The Glass Half-Empty...**

Even with the chance for peace, stability, and recovery on the horizon, the current situation could dampen the prospects for effective development assistance to Lebanon. South Lebanon, for example, which two years ago was to be the showcase for Lebanon's revival, remains volatile and not fully integrated with the rest of the country. It remains an area characterized by sporadic and at times fatal cross-border confrontations between Hizballah and Israeli Defense Forces. Unsafe habitats riddled with up to a half-million mines, minimal government presence, UNIFIL forces double the size of Lebanon's southern military and security forces,<sup>1</sup> and virtually no economy beyond small shops, a few dozen olive presses, and subsidized low-grade tobacco characterize the south. New investment is confined mostly to rebuilding houses destroyed during the occupation, with help from Kuwait and other Gulf states. Population levels have plummeted from over 300,000 prior to the occupation to around 50,000 today, with many residents, mainly those from the former security zone, working and commuting, and often residing, in the nearby coastal cities of Tyre and Sidon, or further north in Beirut and Byblos – only an hour away by car.<sup>2</sup>

Nationally, the economy is stagnant, with an alarming level of public debt – now at \$29 billion or 178 percent of GDP -- whose servicing, along with government operations, consumes all tax revenues and more.<sup>3</sup> Huge budget and fiscal deficits are slowing growth to nearly zero and severely constraining investments in infrastructure, services, and productive sectors. To help fill the gap the government is borrowing heavily on international markets and relying increasingly on donors, many of whom are cautious. Administrative reform, targeted at a bloated and inefficient civil service, is slow, as is economic reform and the privatization of publicly-owned assets that could give an immediate and significant cash infusion to government coffers. Minimal foreign investment, un- and under-employment approaching 30 percent in the under-30 cohort, and widespread rent-seeking behavior of public officials, are eroding confidence, widening the gulf between the rich and poor, narrowing the range of the middle class, and forcing many young people to leave Lebanon for work in the region and abroad.<sup>4</sup> Beirut, the focus of decision-makers, receives the lion's share of the public budget; Constitutionally-mandated "balanced development" has yet to be implemented. Many rural areas have lost their youth, elites and investors, minimizing the capacity needed for economic take-off. Disparities between rural and urban areas have increased migration to the coasts, creating new urban and peri-urban pockets of poverty.

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<sup>1</sup> United Nations Interim Forces in Lebanon, positioned in the southern border area since the Israeli invasion in 1978. They currently number 3000+ troops, but their number is expected to shrink to 2000 by the end of 2002.

<sup>2</sup> There are no accurate census figures in Lebanon, the last official census dating to 1932. 50,000 is a "consensus" figure, noting that movement between inland and coastal settlements in the south is very fluid.

<sup>3</sup> See Annex 3, "Background Notes on Lebanon," for other core information.

<sup>4</sup> Information International's Nov. 2001 survey "Lebanese Emigration: Characteristics of Emigrants" indicates that the causes of emigration are primarily economic, not political or sectarian. The estimated 20,000 annual emigrants are increasingly "brain drain" university graduates and specialized workers.

Many of Lebanon's economic woes can be linked to its political machinery, all too often mired in sectarian and personal issues that undermine nation-building and collective action for the common good. Regional administrative structures – governorates and districts – are weak; municipalities – only recently rejuvenated – are still too weak to be a uniform force. “Political will” of the national government is difficult to define, slowing critical reforms and actions needed to put Lebanon on a sound financial footing. One indicator: from October 2000 to the end of 2001, Parliament, in eight legislative sessions, ratified a total of ten laws, of which three to four could be characterized as reform-oriented. Another factor influencing the political landscape is external influence and oversight, primarily Syrian, which affects all major political, economic, and security decisions in Lebanon.

### **... and the Glass Half-Full**

Despite these shortcomings, there is cause for optimism and no reason to jettison a future anchored in sustainable development. The reform-minded government of Prime Minister Hariri, in place since November 2000, is making the right moves – advocating economic growth and investment nationwide; promoting competitiveness and globalization with a new Euro-Med Partnership Agreement and planned WTO accession; branding 2002 the “Year of Privatization;” introducing key revenue-enhancing reforms and a value-added tax that will hopefully add \$500-800 million of revenues this year. The government is also advocating sound budget management, promoting good governance, and advancing municipal and administrative reform. Plans are under discussion to downsize the government and redeploy thousands of civil servants to priority jobs and areas; many municipalities, including Beirut, now have accurate tax registers and are starting to collect more revenues.

Anchoring these moves is a diverse Christian-Muslim-Druze population comprising one of the most educated, talented, entrepreneurial workforces in the Arab world, in a capital that has long been the regional hub for business and banking. Indeed, the private banking sector, while still conservative in lending, remains resilient and highly liquid, with assets of \$40 billion – prompting the Bankers Association to state that if need be, they could weather a currency devaluation or default by the state – their largest customer – with limited and manageable adverse consequences to the public. There is renewed awareness of the importance of exports, with efforts on many fronts to increase exports and reverse an untenable trade balance. The post-September 11 hope for renewed Arab interest in doing business in Lebanon is slowly materializing, with new projects underway, mostly in the hospitality, retail, and tourism sectors. In a country that has long been a haven for travel and tourism, “Summer 2002” promises to be the strongest in more than 25 years.

Equally significant are the estimated 16 million Lebanese, roughly five times the resident population, living outside Lebanon, who have migrated and settled around the globe for generations. Over time many have maintained close ties with Lebanon, creating vibrant social and economic networks, vital safety nets, and a pool of wealth that has kept the country afloat, especially during difficult times.<sup>5</sup> This “second” or “shadow” economy, which will likely be fueled by today's emigrants, is a primary ingredient in Lebanon's

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<sup>5</sup> While there are no official figures on remittances and capital flows from abroad, economists estimate that it accounts for \$3-7 billion of Lebanon's \$16+ billion annual GDP.

economic resilience. Side-by-side with these external family ties are internal ones that play an equally -- but different -- central and significant role in the Lebanese society and economy. These are the first/second/third generation urban settlers who maintain a *pied-a-terre* in their natal villages, returning on weekends to refurbish homes, run small businesses, plant fruits and vegetables, and enjoy the extended family contact. The village, in many respects, represents constancy, core values and key relationships for the Lebanese -- solid anchors that help shape fundamental elements of Lebanese identities and lifestyles. The urban dwellers, in turn, are the *pied-en-ville* for their rural families and friends. This rural-urban symbiosis is a dynamic, vital and vibrant part of Lebanon's social and economic fabric; it needs to be nurtured and perpetuated. As will be discussed below, it is a key part of the "growth-pole" focus of this strategy.

Regarding the security situation in South Lebanon, "Operation Emirates Solidarity," the multi-million dollar landmine action effort led by \$50 million of United Arab Emirate contributions, is a positive force for change -- awarding two demining contracts in May 2002 with the goal of neutralizing the most heavily-mined areas over the next two to three years. This pace would indeed bring renewed hope for resettlement, recovery, and reintegration of the south.

## **B. Key Planning Assumptions**

In trying to determine whether Lebanon is filling or emptying the glass, it is evident that with all its strengths and advantages, the country is nonetheless confronted with three powerful, ever-present, and potentially destabilizing forces: conflict in the region, and both political gridlock and deteriorating economic performance at home. These and related factors could, in the worst case, precipitate economic collapse, political crisis, widespread conflict, and pervasive insecurity. They also could further compromise living standards, particularly among the rural poor. Such factors include the following:

**External Political and Security Status.** Political and security conditions in the Middle East have become more volatile. The perspectives and approaches of key actors seem to have hardened; terrorist incidents have increased. All these have had a negative impact on Lebanon's economic, political, and security situation.

**Internal Political Situation.** Lebanon's political system is designed to maintain stability among different religious-based sects or "confessions," even at the expense of efficiency and excellence. The structure and processes of government are tied closely to that system. This over-riding desire for political balance, which was last made explicit in the 1989 Taif Accord ending the civil war, has stymied efforts to implement major institutional or electoral reforms. This will not likely change anytime soon.

**Domestic Economic Performance.** Lebanon's anemic GDP growth will continue for at least another year. WTO accession will progress moderately and support the Euro-Med Agreement. Mounting debt, high deficits, and cost-cutting austerity budgets will constrain investment and service delivery, particularly in rural areas.

**International Economic Performance.** Lebanon's trade deficit widened considerably in 2001, with higher imports spurred by lower tariffs. Public debt increased significantly and sovereign credit ratings plummeted. Reversing this will depend on a comprehensive reform program that includes aggressive privatization measures, administrative and fiscal reform, and removal of subsidies.

**South Lebanon.** The initial jubilation surrounding the May 2000 Israeli withdrawal has not translated into resettlement, revival, or reintegration of South Lebanon. USAID's and other donors' investments, while making a difference in infrastructure and demining, are not able to stimulate economic activity on any significant scale.

**Rural Development.** The Council for Development and Reconstruction (CDR), the GOL's version of a National Planning Commission, is pursuing regional development beyond infrastructure and working with a core group of donors – the World Bank, EU, UNDP, and USAID -- to define a vision and strategy. Since significant public investment may not be forthcoming, we expect the GOL to request donors to channel progressively more assistance to productive sectors and poverty-stricken areas.

**Donor Funding:** While aggregate donor funding is approximately 10 percent of GDP, GOL expenditures of donor funding were 1.1 percent of GDP in 2000. This low disbursement rate is most often linked to bureaucratic inefficiencies and program performance issues. This has created some "donor fatigue" and less willingness to bail Lebanon out until a reform agenda is adopted. There is ample funding and consensus for non-controversial projects, such as mine action. USAID funding will remain at \$35 million annually barring any "breakdown" that could trigger additional assistance (see Part 3 below).

**Life Beyond Beirut.** Lebanon is often compared to a "City-State" with all economic, social and political roads leading to Beirut. Out-migration from rural to urban areas increased during the civil war and occupation, creating a band of heavily-populated communities around Beirut and along the coast. Revitalizing rural areas will depend on developing competitive economic advantages in secondary towns and cities, with strong links to the urban coastal centers.

**Lebanese Initiative and Outlook.** Whatever growth Lebanon can muster will be driven by the private sector. Commercial banks, while holding considerable government debt, are liquid and may gradually increase lending in growth sectors. The Lebanese have extensive family, business and educational ties worldwide, and especially in the U.S. They look to the U.S. and its presence in Lebanon for technical leadership, business connections, and economic opportunities. Their overall view of America and the west is, and will remain, favorable.<sup>6</sup>

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<sup>6</sup> A March 2002 Gallup Poll in nine Islamic countries showed that Lebanon has the highest favorable opinion of the U.S. at 41 percent, followed by Turkey at 40 percent; Kuwait at 28 percent; Indonesia at 27 percent; Morocco and Jordan at 22 percent; Saudi Arabia at 16 percent; Iran at 14 percent; and Pakistan at nine percent.

## Part II: Looking to the Future

Understanding and appreciating the strategic choices for the future is intimately linked to the priorities and programs pursued, and progress made, under the current strategy.

### USAID's Programs and Investments: 1997-2002

Nearly five years ago, following a near termination of U.S. development assistance to Lebanon, the USG decided to revive its bilateral assistance program. Much of it was a reaction to the Israeli occupation and continued conflict in South Lebanon, as well as the widening and very apparent social and economic disparities, especially in rural areas. There was also growing recognition of Lebanon's role in building regional economic cooperation and achieving Middle East peace. The outcome: USAID put in place a five-year \$60 million strategy aimed at

- revitalizing and expanding economic opportunities in rural areas, through small-scale infrastructure and income-generating activities;
- promoting democracy and good governance, building capacity of local municipalities to plan and manage resources efficiently and transparently; and
- improving environmental practices, particularly community-based approaches that promote sustainable agriculture and environmental health.

Over time four other activities were added: a WTO accession program to encourage trade and investment, globalization, and broad-based policy and legislative reform; an "industry cluster" program, to identify and promote productive sectors for investment; a water resource management program, to make agriculture more productive and ensure that water pricing is efficient and equitable; and a landmine action program, to make all Lebanese aware of hazardous areas and assist survivors in productive enterprises. From FY 2000-2002 USAID also benefited from an extra \$20 million annually in development assistance and \$30 million in proceeds of USDA surplus commodity sales, bringing total resources for this period to over \$150 million.

Nearly five years later, having operated in an increasingly difficult development context, we can say, with conviction, that this strategy was sound and tailor-made to USAID's strengths. Indeed, USAID has built a reputation as one of the top donor programs in Lebanon, viewed by many as one of the most responsive, expansive, resilient, targeted, high-performing, and quick-disbursing – though far from the largest. We attribute this to our *purpose* -- promoting equitable, sustainable development in Lebanon over the long-term; our *products* -- demand-driven, people-focused, affordable, effective, appropriate, visible and accomplishable in the short-term; our *partners* -- PVOs, NGOs, foundations, universities, business associations, and corporations -- who together, often in partnership with the public sector, form a multi-faceted, highly talented, experienced group capable of navigating effectively at the highest governmental, corporate, and diplomatic levels, as well as at the community level; and our *procedures* -- user-friendly, promoting extensive collaboration with all relevant public and

private entities and, in contrast to most donor programs, channeling resources directly to implementing partners.

Most important are the significant achievements produced by these “4 Ps,” which include improving living standards among the rural poor; stimulating economic policy reform and growth-oriented industry clusters; supporting Lebanon’s accession to the WTO; strengthening municipal governance; promoting advocacy among NGOs and civil society organizations; improving environmental practices and technologies for environmental health; raising awareness of landmines and helping mine survivors and their families rebuild productive lives; and strengthening Lebanon’s American educational institutions.<sup>7</sup> The program has also created important spread effects with other donors and USAID programs. With a budget averaging \$15 million a year for the first three years, the Mission leveraged \$60 million of World Bank and European Union funding for rural development activities modeled on its Rural Community Development Cluster (RCDC) program, bringing economic opportunities and services to disadvantaged communities often in conflict or post-conflict settings. The RCDC has been adopted and adapted by USAID Missions in the former Republic of Yugoslavia, the West Bank/Gaza, and Jordan.

### **Programs and Investments for the Future: 2003-2005**

USAID’s intention over the next three years -- the time we believe it will take to put Lebanon on a sound path toward sustainable growth and stability -- is to build on its current success, melding elements of the existing strategy into one that: fuses expansion with integration; targets value-added and growth-oriented sectors, geographic areas, and reforms; and promotes economic and political governance, environmental health, and safety and security in ways that enhance Lebanon’s overall well-being, as well as its competitiveness as a regional and global economic force.

To meet this challenge, the Mission, in close collaboration with USAID/W, Embassy and State Department colleagues, and with extensive input from a host of local experts and partners, selected **six strategic areas** for this next phase...

1. Expanding economic opportunities -- in productive sectors and “growth poles”
2. Accelerating economic reform -- through World Trade Organization membership
3. Strengthening foundations for governance -- with municipalities and civil society
4. Improving environment policies and practices -- for water management and sanitation
5. Promoting mine awareness and victims assistance -- for residents in South Lebanon
6. Strengthening American Educational Institutions -- as key development partners

... grounded in **six anchors**:

1. A transition -- from alleviating poverty to creating economic opportunity
2. A focus -- on strengthening growth areas, both geographic and productive

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<sup>7</sup> For details of these and other accomplishments, see the following section and discussions of “USAID’s Initial Response: 1997/2002” for each Strategic Objective; and the “Performance Narrative” and Congressional Budget Justification Sections of USAID/Lebanon’s *FY 2002 Annual Report*.

3. A link – between the rural and urban, inland and coastal
4. An emphasis – on governance, reform, and sustainability
5. An added-value – from synergies within the program
6. A reliance -- on new partnerships and models for economic growth

As shown in the framework on p. 9, these six areas and anchors comprise a strategy based on one long-term development goal, three strategic objectives (SO) and their intermediate results (IR), and three cross-cutting themes. Collectively, the SOs build on, and advance further, USAID’s involvement in economic growth, democratic governance, environmental preservation, and humanitarian assistance. Together they support four Agency Strategic Goals:

- Encourage Economic Growth and Agriculture Development (SOs 1 and 3; strategic areas 1, 2, and 4)
- Strengthen Democracy and Good Governance (SO 2, strategic area 3)
- Protect the Environment for Long-Term Sustainability (SO 3, strategic area 4)
- Promote Humanitarian Assistance (SO 1, strategic area 5)

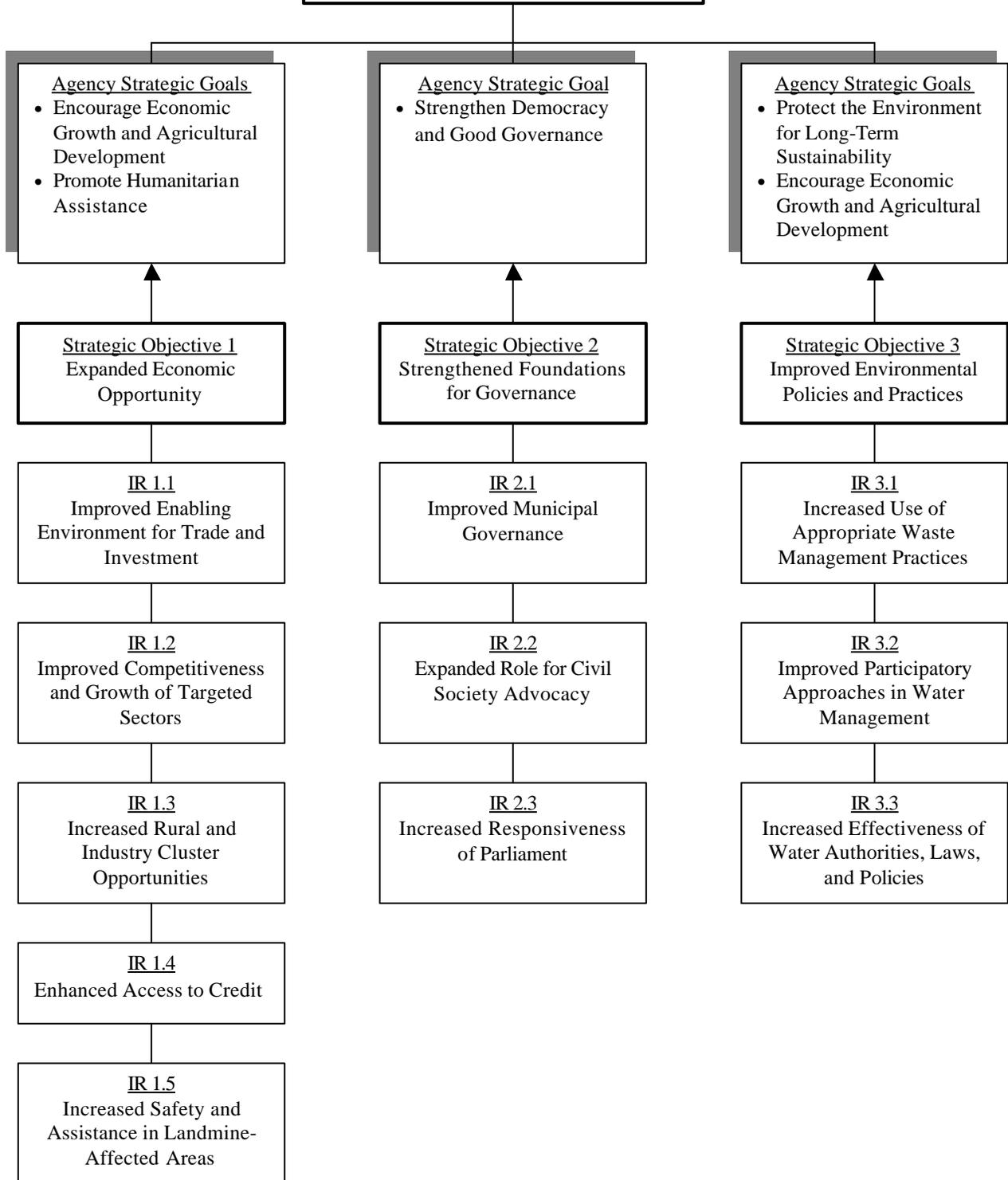
Strategic area 6, “Strengthening American Educational Institutions,” supports all three SOs and is a key element of the Mission’s partnership strategy, which will be discussed under “cross-cutting themes.”

The strategy also fully supports the Mission Performance Plan (MPP) and its goals:

- Global Economic Growth – promoting Lebanon’s accession to the World Trade Organization (WTO), along with policy, legal, and regulatory reforms that promote U.S. commercial interests; expanding economic opportunities, key productive sectors, and “growth poles” that promote balanced development; and encouraging economic development and reform through various information technologies.
- Regional Stability – expanding USAID’s rural development and economic growth, municipal, environmental, and landmine action programs to help reintegrate residents in the former Israeli security zone into national economic and political life.
- Combating Terrorism – expanding USAID’s development programs to provide a counterweight to Hizballah’s social and economic activities in South Lebanon and the Bekaa Valley.

The new strategy also dovetails nicely with the Secretary's "Middle East Partnership for the Future," targeted at reducing social and economic inequities, improving the economic and business climate, and building human capacity across the region; as well as the Agency's Global Development Alliance, a business model that is especially relevant as the Mission strengthens and expands its network of public-private partnerships.

**USAID Lebanon Goal  
Improved Foundations for  
Lebanese Growth and Stability**



- Cross-Cutting Themes
- Gender
  - Capacity-Building
  - Partnerships

## The Strategic Objectives

The following presents the strategy's three Strategic Objectives. Each SO discusses (1) the development challenge in the sector and the rationale for USAID's engagement; (2) USAID's involvement during the 1997-2002 period; (3) new opportunities for the 2003-2005 period, focusing on intermediate results and the activities/indicators that are most relevant;<sup>8</sup> (4) anticipated results and impact, both for the proposed 3-year phase and over the longer-term, to answer the question "What difference will this SO make in the lives of the Lebanese people?;" and, (5) USAID's involvement and collaboration with other key donors in the sector.

### Strategic Objective 1: Expanded Economic Opportunities

#### A. The Challenge

Of the many challenges outlined above that affect expanding economic opportunities in Lebanon, there are three where USAID has made significant contributions and has a solid comparative advantage for continuing assistance in this next phase. They are:

**Making Lebanon Competitive.** Lebanon, with its long history of entrepreneurship and trade regionally and globally, still does not have an internationally recognized status, i.e., membership in the World Trade Organization, that would enable it to be fully integrated into the world economy and the multilateral trading system. Many trade and investment-related laws are either antiquated or too general to take advantage of current realities in the world's marketplace; others often undermine key factors, specifically the rule of law, good governance, effective enforcement and predictability, which are crucial to attracting foreign investment and maximizing Lebanon's competitive strengths. Complicating this is a public that is not well-informed about, and at times fearful of, "globalization;" and a corps of elites who perceive WTO membership -- and all the legal, policy, and regulatory changes it entails -- as a threat to personal interests, as well as those of the State.

**Making Lebanon Productive.** Lebanon's productive sectors were all adversely affected by the civil war and occupation; only limited progress has been achieved in restoring their competitiveness. The agricultural sector, which employs or affects nearly 40 percent of Lebanon's workforce, is in disarray -- fraught with costly subsidies, protectionism, land-labor-crop distortions, and porous borders that together hamstring farmers, processors, and marketers. The light industry, tourism, and services sectors are similarly deterred by poor policies, a lack of confidence, an absence of economies of scale, and investments in non-productive areas, e.g., real estate and government securities. Limited income-earning opportunities in rural areas, coupled with a lack of any coherent rural development vision or

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<sup>8</sup> The Agency requires that strategies only present "illustrative activities," on the assumption that actual activities will be determined during implementation. This strategy merges the two into "illustrative," recognizing that some activities are ongoing and may continue in this next phase.

set of investments by the government, exacerbates rural-urban migration and undermines the productive capacity of Lebanon's natural, cultural, historical, and human resources.

**Making Lebanon Safe.** Lebanon's civil war and the Israeli occupation left a trail and legacy of "silent killers" -- landmines and other unexploded ordnance -- that rendered a large portion of South Lebanon and the West Bekaa unsafe for habitation and cultivation. An estimated 500,000+ mines, most of which are strewn along the Blue Line and within the former Security Zone, have dampened the goals of immediate resettlement, recovery, revitalization, and reintegration of the south, especially when current capacity to disable them does not exceed 200 per day. What was a permanent residence to 300,000 people before the conflicts now numbers less than 50,000, of whom an average of six are killed or injured every month from mine accidents. While there are no reliable data quantifying the devastating impact of landmines on Lebanon's economic growth, there is no question that it is significant.

Given these challenges, the rationale for expanding economic opportunities in Lebanon is that an innovative, revitalizing strategy -- which fuses legal and policy reforms with productive sector initiatives -- is fundamental to creating and expanding new economic opportunities, competitiveness, and growth. To succeed it must reflect a balanced approach to rural-urban dynamics and capacities, with linkages and networks, public and private, that can work together effectively. It must also recognize the critical importance of human safety and security in fostering development, and that no major segment of the population or region of the country can be "off-limits" or "closed for business" and hope to prosper.

## **B. USAID's Initial Response: 1997-2002**

USAID began addressing several of these challenges under the current strategy, making progress in a number of areas. For example:

- On global trade and investment, technical assistance for WTO accession enabled Lebanon to hit a key milestone in May 2001 with the submission of its Foreign Trade Regime Memorandum (MFTR), launching the accession process and setting the stage for initial negotiations in September 2002. This also stimulated work on copyright, trademark, foreign investment, competition and intellectual property laws, scheduled for passage in late 2002. USAID assistance also helped create awareness of the WTO and its implications for Lebanon, holding seminars for the public and private sectors, NGOs, the media, and universities; and a National Forum on WTO accession.
- On rural economic development, approximately 150,000 families, representing about 70 percent of rural Lebanon and 30 percent of South Lebanon, benefited from over 1,300 small-scale infrastructure, income-generating, and environmental activities in over 400 villages representing 40 geographic and economic "clusters," with communities and municipalities contributing 40 percent of the \$35 million cost. This was carried out under USAID's pioneering Rural Community Development Cluster (RCDC) program, which focuses on improving living standards among the rural poor. On the growth side, good progress was made in expanding high-value agriculture crops, agricultural

infrastructure, dairy production, and marketing facilities; with policy inroads and several pilot activities in tourism and “internet for development.”

- On access to credit, USAID’s microfinance partners, one of which has partnered with and leveraged \$2 million of capital from two commercial banks, have provided over 38,000 clients operating 3,000 businesses nationwide with nearly \$20 million of microenterprise loans and financial services. Repayment averages 97 percent, providing a boost to economic activity among Lebanon’s vibrant class of small entrepreneurs – many of whom are located in the RCDC clusters.
- On productive sector development, USAID identified and promoted three “industry clusters” which have high growth potential nationwide and together comprise 25 percent of Lebanon’s GDP: agribusiness and light agro-industry (12 percent), tourism (seven percent), and information and communication technology (ICT) (six percent). This effort, which dovetailed nicely and nascently with the RCDC program, expanded active collaboration among the industry stakeholders and launched a series of “growth and competitiveness” initiatives for the marketplace. The investment climate for these sectors will benefit from reforms carried out under the WTO accession program.
- On safety and security, USAID, with over \$20 million of “rural cluster” investments in the South, leads the GOL/Donor/NGO “International Support Group (ISG) for Mine Action” in focusing attention on socio-economic constraints in mine-affected areas. With additional support from the Leahy War Victims Fund, USAID has played a lead role promoting landmine awareness activities to over a million Lebanese, helping some 2,000 landmine survivors and their families rebuild productive lives through a Victims Assistance Center; and strengthening the capacity of Lebanon’s Landmine Resource Center (LMRC) to conduct surveys on affected families.

### **C. New Opportunities: 2003-2005**

The new strategy will continue and complete “unfinished business” under the WTO and landmine action components; and begin an innovative, growth-oriented program that merges the two cluster components (rural and industry) with microfinance activities. The Intermediate Results, along with some illustrative activities and indicators, are as follows:

#### **Intermediate Result 1.1: Improved Enabling Environment for Trade & Investment**

USAID is Lebanon’s principal source of technical assistance for WTO accession. TA to the multi-ministerial WTO National Committee will focus on gaining WTO membership for Lebanon by mid-2004. This will consist of helping the Government bring its foreign trade regime into conformity by drafting remaining laws on agricultural standards and safeguards, trade and customs remedies, foreign investment, competition policy, goods and services, technical regulations, and intellectual property; possibly providing assistance for working party meetings bilateral negotiations; building understanding of and support for WTO accession among public and private stakeholders, particularly Parliamentarians and advocacy groups engaged in enacting all required legislation; and building institutional capacity to

enforce and implement WTO commitments and related laws. While accession is anticipated in the first 18-24 months of the new strategy, USAID assistance in implementing the reform agenda will likely extend the full strategy period.

**Illustrative Activities:**

- Training Lebanese negotiators on working party procedures and formalities
- Training enforcement institutions on new laws and regulations
- Organizing public awareness seminars for private and public sector officials
- Completing a public education CD on WTO membership and disseminating it to the private sector, academia, municipalities, media, NGOs, libraries, and diplomatic missions

**Illustrative Indicators:**

- Progress on WTO negotiations
- Number of WTO-related laws and regulations passed and enacted
- Number of WTO-related policy constraints identified and addressed
- Trade and investment benefits from new laws and policies

**Intermediate Result 1.2: Improved Competitiveness & Growth of Targeted Sectors**

**Intermediate Result 1.3: Increased Rural and Industry Cluster Opportunities**

**Intermediate Result 1.4: Enhanced Access to Credit**

The Lebanese need good jobs and incomes, not just in Beirut but in other cities, towns, and communities. Melding the two “cluster components” of the current program -- rural development clusters and industry clusters -- and ensuring that beneficiaries have access to credit, can help make this happen by integrating and promoting productive sectors and regions with the greatest potential for growth -- creating economies of scale and more robust impact. These sectors are:

- **Agribusiness and Light Agro-Industry** -- from cultivation to processed foods, catering to “niche markets” for high-value fresh and processed foodstuffs, including dairy, to replace imports and expand exports. Lebanon’s soil, water resources, and topography can support a wide range of crops not cultivable in neighboring countries; food processing plants exist in many regions. Also, growth in domestic supply for local and export markets can reduce Lebanon’s large food deficit, currently \$1.27 billion annually in imports and only \$165 million in exports. This in turn will help stabilize and encourage the re-population of (or discourage out-migration from) rural areas, and create valuable rural-urban linkages.
- **Tourism** -- the best prospect for near-term growth. Lebanon’s tourism sector is making steady gains, with tourist arrivals -- mainly from Arab countries -- 13 percent higher this past year, notably for cultural and historical tourism, ecotourism, and business travel. While the number of visitors remains one-third of pre-civil war levels and half the number visiting Jordan and Syria, there is steady growth. Hotels and other tourist establishments are continually coming on-stream, with \$2 billion of investment over the

past decade. Growth in tourism will spur substantial employment opportunities for women and disadvantaged groups, as well as foreign exchange receipts.<sup>9</sup> There are also excellent new prospects to extend tourism activities to areas outside Beirut.

- **Information and Communication Technology (ICT)** – a relatively new industry, but one in which Lebanon is well-positioned for expansion, both domestically and regionally. Lebanon’s IT industry is relatively advanced technologically and competitive by regional standards; it can take advantage of the natural spread of ICT throughout the Middle East. ICT can also serve as a catalyst for linkages among different regions in Lebanon, as “value-added” for a wide range of economic activities. Overcoming the digital divide and providing relevant business and market information to rural areas can reduce their isolation and foster new income-generating activities in agribusiness, tourism, and other industries.

While merging these rural and industry cluster programs can, in theory, encompass any rural region in Lebanon that can support new economic opportunities in the three targeted sectors, USAID will place particular emphasis on those areas with a high potential for growth. These will include, but are not limited to, some or all of the existing rural clusters. What is key will be identifying, developing, and expanding “growth poles,” i.e., those geographic areas that have the economic foundation (natural and human resources, technology, capital, infrastructure) to capitalize on these productive sectors, and that can serve as centers of growth for industry activities.

Beirut, for example, has always represented the core growth pole for Lebanon in its role as a regional center of finance, commerce and tourism. Before the civil war and Israeli occupation, certain economic activities -- agricultural production and food processing, but also tourism and trading -- were carried out in outlying regions. Beirut served as the Lebanese “hub,” with other areas acting as “spokes.” Two decades of internal conflict broke down this system, isolating Beirut from other regions whose infrastructure and factories were destroyed and business activity disrupted. Many firms relocated to greater Beirut, leaving the city congested and rural areas lacking human and capital resources. Just as some growth poles emerge naturally over time, others are established or expanded through concerted efforts of public and private sector stakeholders.

While in many ways Beirut remains Lebanon’s “City-State,” there is no question that growth potential exists in Lebanon beyond Beirut’s borders. One could envision a secondary city or town, or even a “primary rural cluster,” being a “hub” for a certain industries or activities, with other communities or clusters integrated as “spokes” in a production, processing, marketing, exporting, or service network. These growth poles would in turn be linked to key Beirut-based industries through collaborative initiatives engaging key partners. The objective is to achieve the absorption of labor in productive economic activities carried out by private sector firms. Firms and cooperatives of all sizes (micro, small, medium, and large scale) could participate in various initiatives.

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<sup>9</sup> The World Tourism Organization estimates that Lebanon will need over 70,000 workers in the tourism industry by 2010, which will generate twice as many additional jobs across the economy.

It is likely that certain initiatives will encompass more than one region. This model -- regional hubs-with-spokes linked to key Beirut-based industries -- will stimulate rural-urban linkages and networks that promote balanced, equitable, sustainable development. In time, boundaries currently defining rural clusters will blur and disappear, replaced by initiatives driven by functional activities and market forces rather than by locale.

In addition to clusters, targeted sectors and geographic locales, stimulating economic growth in rural areas cannot happen without access to credit. USAID will support microfinance activities in particular, as well as linkages to small and medium credit facilities, working with local lending institutions and financial intermediaries to enable small entrepreneurs and businesses in “growth poles” to invest in enterprises that support, directly or indirectly, these industries.

While growth poles could be uni-dimensional in terms of productive sectors, crops, processing and marketing facilities, historical attractions, internet services, or numerous other activities, maximizing their economic potential, particularly their capacity to create economies of scale, might warrant a multi-dimensional, integrated set of activities. Thus, the following illustrative activities, while relevant to particular sectors, should not be viewed as a prescription or vision for creating growth poles.

#### **Illustrative Activities:**

##### **Agribusiness and agro-industry activities could include:**

- Establishing effective “rules of engagement” between growers and cooperatives, and traders, retailers and processors
- Revitalizing/creating cooperatives as supply sources for food processors and markets
- Introducing high-value food crops and forage varieties
- Providing market information systems and linkages to export facilities
- Creating awareness of WTO-related agricultural laws, policies, and regulations
- Conducting training on food standards and processing technologies
- Revitalizing central markets and market outlets
- Developing private institutions (associations, universities) for extension services
- Promoting low-cost technologies and renewable energy sources for food production and processing

##### **Tourism activities could include:**

- Identifying and developing historical, cultural, and ecotourism attractions
- Extending tourism to remote areas
- Engaging municipal governments in regional tourism development
- Developing day trips and overnight packages with tour agencies
- Promoting nontraditional lodging facilities (e.g., bed and breakfast establishments, campsites)
- Identifying crafts and food products that can be sold to domestic and foreign tourists
- Establishing tourism information centers and promoting tourism marketing

- Expanding domestic supply of goods and services to major hotel facilities
- Nurturing strategic alliances to extend tourist stayovers

**Information and Communication Technology activities could include**

- Using ICT services to promote agro-industry and tourism
- Establishing ICT hookups in rural areas, with education and training activities
- Expanding industry-university ties to improve the quantity/quality of ICT graduates
- Developing incubators for ICT start-ups
- Expanding strategic alliances between Lebanese and U.S. ICT firms
- Promoting Lebanon as a source of ICT services within the region
- Providing assistance on ICT-related policy, legal, and regulatory reform

**Microfinance activities could include:**

- Providing loans and business services for agribusiness, tourism, and ICT activities
- Establishing strategic partnerships between NGOs and commercial banks
- Training commercial bank loan officers in microfinance lending
- Expanding access of farmers, cooperatives, and artisans to microfinance

**Illustrative Indicators:**

- Growth in output, income and employment in each of the three sectors
- Number of new public/private partners actively cooperating
- Municipalities engaged in growth pole initiatives and investing in support services
- Number of enterprises/individuals using microfinance and other credit facilities
- Trends in rural-urban dynamics and migration

**Intermediate Result 1.5: Increased Safety and Victims Assistance in Landmine Affected Areas**

Lebanon's Humanitarian Demining program has four prongs: Mine Awareness, Victims Assistance, Social and Economic Recovery, and Demining Operations. USAID plays a leadership role in the first three and coordinates closely with the Lebanese military on the fourth. To improve safety and prevent further mine accidents, mine awareness activities (i.e., recognizing landmines, mine fields, clearance operations) will continue outreach, through gatherings and the media, to communities, schools, and other key groups, with special focus on South Lebanon and the Bekaa. To help landmine survivors and their families become active and productive members of their communities, USAID will assist members of the newly-created Victims Assistance Center in Jezzine -- the northernmost point of the formerly occupied Security Zone, home of largest number of landmine deaths and injuries in Lebanon, and a potential "growth pole" for the South. This Center, which is the first of its kind worldwide, is an income-generating cooperative specialized in agri-based products. Finally, continued socio-economic analyses by the Landmines Resource Center will help the

Government and donors identify priority areas for future assistance and investment. This component will be implemented in collaboration with cluster and credit activities in the South.

**Illustrative Activities:**

- Conducting mine awareness campaigns all over Lebanon focusing on the South and West Bekaa
- Training Jezzine Co-op members in new agri-based technologies
- Organizing workshops to identify mine-affected areas for priority clearance
- Conducting regional development seminars to identify investment opportunities

**Illustrative Indicators:**

- Average number of mine victims (civilian) per year
- Number of individuals accessing landmine information and awareness activities
- Jobs and incomes generated from the Victims Assistance Center
- Communities transformed from mine-affected to mine-free

**D. Anticipated Results and Impact**

Besides the broad economic and political assumptions discussed in Part I, there are three additional ones that will influence the performance and overall success of this SO:

- On improving the enabling environment for trade and investment, we assume that Lebanese leadership has the political will to enact all WTO-related measures within the next two years. One boost may be the recently-signed Euro-Med Partnership Agreement, which requires many of the same reforms.
- On enhancing competitiveness and growth in targeted sectors and locales, we assume that the Government, with its limited resources, will not make significant investments outside urban areas; nor will it perpetuate current or create any new disincentives for private sector investment in selected growth poles.
- On increasing safety and assistance to landmine-affected areas, we assume that the Government, with continued donor support, will make mine clearance a top priority for revitalizing and reintegrating South Lebanon; and that targeted areas will reflect the greatest population concentrations and potential for growth.

**How will Lebanon be different as a result of this SO? Results over the strategy period**

will show renewed confidence in Lebanon's economy from WTO accession, with enforcement of laws in key growth sectors; a business environment increasingly in conformity with best international practices; and gains in predictability, transparency, and accountability. Stakeholders in the targeted industries will be implementing integrated action plans and growth-oriented initiatives. Regional cluster and industry cluster stakeholders will be collaborating in developing rural-based income generating activities in targeted growth

poles. Economic benefits (e.g., increased jobs, incomes, output, exports, investment, services) derived from these efforts will be relatively substantial, indicating that the transition from economic deterioration to growth is indeed viable.

On a sector basis, recognizing that the selection of growth poles and their activities is still in process, we expect conservatively that this component can achieve the following:

**In agribusiness and agro-industry:**

- Fulltime employment will increase from roughly 200,000 in 2000 to 230,000 by 2005
- Imports will decrease from \$1.27B in 2001 to \$900M in 2005
- Exports will increase from \$165M in 2001 to \$250M in 2005
- The trade balance will decrease from \$1.1B in 2001 to \$650M in 2005
- Contribution to GDP will increase from 12 percent in 2001 to 14 percent in 2005
- Growth in Value-Added will increase from one percent (96-01) to three percent (02-05)

**In tourism:**

- Fulltime employment will increase from 24,000 in 2000 to 35,000 in 2005
- Tourist arrivals will increase from 741,000 in 2000 to 1.2M in 2005
- Average expenditure per visitor will increase from \$1,050 in 2001 to \$1,700 in 2005
- Contribution to GDP will increase from seven percent in 2001 to 10 percent in 2005

**In Information and Communication Technology:**

- Fulltime employment will increase from 5,000 professionals in 2000 to 7,000 in 2005
- Internet users will increase from 262,500 in 2000 to 400,000 in 2005
- Personal computers will increase from 250,000 in 2000 to 375,000 in 2005
- Contribution to GDP will increase from six percent in 2000 to nine percent in 2005
- Growth in value-added will increase from six percent (96-01) to eight percent (02-05)

Mine clearance will be completed in and around key towns in South Lebanon and the West Bekaa, re-opening tracts of agricultural land and laying the foundations for growth-oriented industries. The Jezzine Victims Assistance Center will be profitable, with shareholders increasing from 350 to 2,000. Mine accidents will be reduced to an average of three per month.

**Long-Term Impact**, i.e., ten years ahead, based on the above assumptions and an economy set in a growth mode, will be seen in four areas.

- From a globalization perspective, Lebanon will be fully integrated into the world economy, with increased levels of trade and investment that will rejuvenate public coffers and catalyze productive sectors.
- From an industry perspective, the three targeted industries, along with their up-stream suppliers and downstream customers, will be dynamic, internationally competitive, and

expanding on a sustainable basis. These sectors, along with other clusters such as financial/business services and high-end manufacturing, will be engines of growth for employment, income, tax revenues and foreign exchange earnings -- providing export earnings sufficient to decrease aggregate trade deficits, and tax revenues sufficient to reduce fiscal deficits and levels of national public debt. There will also be a marked increase in higher-impact, growth-oriented investments in South Lebanon and the West Bekaa.

- From a geographic standpoint, all rural “growth pole” regions in Lebanon will be integrated economically with Beirut and hopefully other coastal towns and cities. This will help maximize national economic potential, establish income-earning opportunities throughout the country, and reduce the imbalance of opportunities between Beirut and outlying rural areas. Spillover impacts will include increased fiscal stabilization from higher tax revenues; and decreased economically-induced sources of political instability. Excessive urbanization of the Beirut metropolitan area will slow; rural-urban linkages that favor balanced, equitable, and sustainable development will solidify.
- From a safety and security standpoint, all priority population and growth areas in South Lebanon and the West Bekaa will be safe from landmines and re-populated to pre-occupation levels. Mine accidents will be negligible.

#### **E. Other Donors**

USAID has coordinated closely with other donors in targeting areas for expanding economic opportunities. The key donor partners as follows:

- The European Union, through its 2002 Euro-Med Partnership Agreement, provides assistance on regional trade and investment reforms, notably agriculture and services, that support WTO accession. The UNDP is providing three advisors to the Ministry of Economy for trade and investment matters.
- The \$20 million World Bank “Community Development Project,” and the EU’s \$30 million “Social Fund,” both coming on-stream in 2002, are modeled on USAID’s RCDC program. The CDP will focus on small-scale infrastructure, and the SF on microfinance and income-generating activities. IFAD is engaging in agri-based regional development programs, with a substantial microcredit component. The EU is considering assisting farmers (i.e., “rural poor”) and agro-industry in developing export crops for the European market, along with marketing, storage, and handling methods. The World Bank has just approved a \$56 million tourism project targeted at restoring Lebanon’s principal historical sites.
- The International Support Group for Mine Action (ISG), a 20+ multi-donor group led by a \$50 million contribution from the United Arab Emirates, is involved in all four prongs of mine action. USAID’s principal partners are UNICEF for mine awareness and the UNDP for socio-economic recovery.

## Strategic Objective 2: Strengthened Foundations for Governance

### A. The Challenge

The above foundations for economic governance go hand-in-glove with democratic governance, especially as the benefits of a performing economy spread through society, with people and structures empowered to make decisions about capturing and investing resources for the common good. However, as Lebanon's U.N. agencies have recently pointed out, "weaknesses in the development performance of the nineties can be ascribed largely to governance issues" -- limited democracy in action, insufficient transparency and accountability, and marginal participation of women and other disenfranchised groups at the political decision-making level.<sup>10</sup> Of the many challenges involving governance writ large, there are three critical ones where USAID is having a positive impact that warrants increased involvement. They are:

**Making Municipalities Effective:** Lebanon's 712 municipalities -- the most basic level of interaction between citizens and government -- were rejuvenated between 1998 and 2000 after 35 years of dormancy.<sup>11</sup> While municipalities have legal responsibility for providing citizens with the lion's share of services, e.g., public health, education and safety, planning and investment, infrastructure and waste management, environmental protection, and cultural activities, they currently have neither the wherewithal nor the political mandate to fulfill their role. Excessive centralization; ineffective Municipal and Decentralization Laws; lack of human and financial resources; chaotic planning, budget and revenue-generation systems; rampant corruption and unequal treatment of citizens have thus far impeded the vast majority of municipalities from being all they should be.

**Making Civil Society Proactive:** With respect to transparency and accountability -- key elements of good governance -- the Government established a National Integrity Steering Committee in 2000 to help devise a strategy and action plan for fighting corruption. Two years later the NISC has proved ineffective, unfunded and unrecognized, with no clear mandate. While such creations, coupled with administrative reform, may someday be useful in promoting good governance, the real pressure-point for advocacy and change lies in a vibrant civil society. With one reliable poll estimating that corruption is adding nearly ten percent to the cost of today's goods and services in Lebanon, there is a critical unmet need to address this problem through both public and private channels.

**Making Parliament Responsive:** Lebanon's 128-member Parliament, while not yet an independent legislative force and counterbalance to the Administration, nonetheless has a key role in representing the interests of constituents and overseeing GOL operations. A major challenge to responsiveness is strengthening parliament's structures and processes; creating

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<sup>10</sup> From "United Nations Development Assistance Framework for Lebanon: A Platform for Collaborative Action 2002-2006," Beirut, January 2002.

<sup>11</sup> 647 municipalities, including 97 in South Lebanon, held municipal council elections in 1998, the first since 1963. The remaining 65, located in the previously occupied security zone, held their elections in September 2001, sixteen months after the Israeli withdrawal.

or amending laws that promote economic investment and growth, decentralized government and sustainable development; and enhancing the relationship between the public and parliament. This last point reflects the need to create an active dialogue and exchange of information between legislators and civil society groups, communities and municipalities on all matters relating to Lebanon's development.

Given these challenges, the rationale for strengthening foundations for governance is two-fold. First, the pragmatic benefits gained from municipal councils, civil society groups and Parliamentarians being actively engaged in promoting USAID's economic growth and environmental objectives; and second, the less tangible but no less important benefits of citizens having confidence that their public institutions and officials are indeed working for them with their interests in mind; and that there exists a viable, productive partnership between the Lebanese people and their government.

## **B. USAID's Initial Response: 1997-2002**

Under the current strategy approximately 90 percent of USAID's governance funds were used to promote legislation and built capacity for effective, decentralized local government, recognizing the renewed role municipalities were to play in Lebanon's development. Having gone through a three-year period of testing, installing, and tracking computerized management information systems (MIS) in three urban and 79 rural cluster (RCDC) municipalities, USAID received a major boost in August 2001 with a landmark agreement with the Ministry of Interior and Municipal Affairs that gave the Mission a mandate to expand its pioneering program nationwide to all 712 municipalities.

New leadership in the Ministry recognized that newly-reactivated municipalities must play major planning and decision-making roles if economic revival and growth were to occur. That USAID had already made strides in promoting this vision, and had helped numerous municipalities design and implement modern management systems and e-government procedures that fit their needs, catapulted the Mission's activities from relatively low-key back-stage "pilots" to a highly visible center-stage program. Indeed, USAID, working with SUNY's Center for Legislative Development (CLD), has emerged as the leader in strengthening municipal government and governance nationwide -- the lynchpin for local development in Lebanon. Some examples of progress:

- Municipal revenue and budget systems have increased revenues in 40 municipalities from \$26 million in 2000 to \$39 million in 2001, resulting in more local investment and constituent services.
- Customized, automated management information systems now help elected officials and civil servants in over 100 municipalities plan and manage their resources more efficiently, with effective oversight of funds and staff, and reliable information they can share electronically with other local, regional and central government units.
- Tax records can now be accessed in ten minutes, not six weeks; tax refunds can be processed in three steps, not 13. Licenses and permits that once required several desk-to-

desk stops and multiple bribes can now be acquired at one-stop Customer Service Counters in minutes, with set fees published on websites and in *Citizen Guides*.

- Dozens of municipalities have taken over the operation and maintenance costs of hundreds of infrastructure projects built under USAID's rural cluster program.

On promoting a politically active civil society, USAID, in 1999, was the first donor agency to raise the issue of corruption with the GOL, prompting an initial nationwide campaign. With assistance from the Office of Transition Initiatives (OTI), the Mission initiated a "Transparency and Accountability Grants" (TAG) program in mid-2001 aimed at strengthening anti-corruption advocacy at a grass-roots level. Grants to AMIDEAST totaling \$500,000, coupled with \$242,000 of leveraged funds, enabled 29 local organizations across Lebanon to produce innovative products that are gaining considerable local and national recognition. A "Corruption" board game developed under the program is presently being distributed to 1,500 schools as part of a new civics curriculum; codes of ethics for NGOs led by the Lebanese Transparency International affiliate; standardized business practices for members of the American-Lebanese Chamber of Commerce; a financial procedures manual for NGOs; booklets explaining citizens rights, government transactions, and public budgets -- all in user-friendly Arabic -- to name just a few. In March 2002 USAID awarded AMIDEAST a follow-on grant to expand this program through 2004.

On Parliamentary responsiveness, USAID has provided technical assistance to a number of Committees to help them pass rational budgets and craft progressive legislation; and to work with NGO leaders under the "NGO Parliamentary Forum" on public policy issues. SUNY/CLD was instrumental in helping the Judicial Committee draft the Municipal Law, which will reduce administrative and financial controls of the central government; and the Decentralization Law, which will devolve many central-level decisions to districts and municipalities. Both should come to a vote in 2002.

### **C. New Opportunities: 2003-2005**

The new strategy will expand the municipal-capacity building activities nationwide and add a new "Think Entrepreneurial" component to encourage municipalities to seek out new investments in USAID's three targeted productive sectors, as well as others with growth potential. It will also expand the TAG and Parliamentary programs, the latter focusing on enabling legislation for economic, municipal, and environmental activities. Intermediate Results, along with some illustrative activities and indicators, are as follows:

#### **Intermediate Result 2.1: Improved Municipal Governance**

Municipalities, to be relevant, need to raise revenues, attract investment, and provide services to their constituents. With few revenues coming from the GOL's Municipal Fund, most municipalities, as a first step, must regularize and computerize taxpayer lists for efficient tax collection.<sup>12</sup> USAID, through its e-government program, will extend its municipal revenue

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<sup>12</sup> In 2000 the funds collected by the central government on behalf of municipalities totaled \$60 million. This "Municipal Fund" represents anywhere from 20-80 percent of a municipality's total revenues. To date

and other management systems to all municipalities by the end of 2005, enabling them to expand the taxpayer base, improve municipal administration, enhance the role of municipal councils, and improve the relationship between citizens and their municipalities.<sup>13</sup> The program will also forge links with district, regional and central authorities, particularly those oversight agencies (General Accounting Office, Civil Inspection Board, Civil Service Board) that have financial and administrative responsibilities at the municipal level. USAID will also assist municipalities in their planning, budgeting, and service-delivery activities, with an eye toward building the infrastructure, capacity, and incentives needed for “growth poles” and value-added investments. In the long-term, all municipalities must create more opportunities for private sector investment to meet the ever-growing demands for basic services. By doing so, good governance will help create a positive environment for economic expansion.

#### **Illustrative Activities:**

- Strengthening core management information systems and e-government services
- Sensitizing municipal councils to growth and investment opportunities
- Creating inter-municipal councils focused on “growth pole” activities
- Expanding ICT to provide services and information to constituents

#### **Illustrative Indicators:**

- Amount of resources raised by municipalities through various taxes and fees
- Number of municipalities benefiting from modern management information systems
- Number of municipalities issuing annual financial statements
- Number of municipalities acting as partners in industry cluster activities
- Public confidence in municipalities<sup>14</sup>

### **Intermediate Result 2.2: Expanded Role for Civil Society Advocacy**

The current success of the TAG program, coupled with an expansive follow-on grant, are setting the stage for expansion of activities that will build capacity of NGOs, civil society organizations, the media, and private groups to promote transparency and accountability and combat all forms of corruption. The government, at all levels, is neither uniformly capable nor willing to address corruption, nor is the corporate sector -- often reliant on government services and goodwill -- in a strong position to protest various forms of rent-seeking

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municipalities have received only 15-20 percent of this amount, with no funds paid from 2001 or 2002 receipts. Put simply, the GOL is broke and is using funds owed to municipalities for other purposes.

<sup>13</sup> The MIS package also includes budget preparation, budget execution, document tracking, personnel management, payroll, and citizen complaint systems, with options for Citizen Services Counters, Citizen Forums, and Municipal Websites.

<sup>14</sup> A recent before-and-after poll of residents in Choueifat, one of three urban municipalities installing the MIS package and new customer services, showed the “Effectiveness of the Municipality” ratings jump from 10 percent to 60 percent on efficiency of municipal procedures, responsiveness to citizen requests, provision of information on projects, speed in completing transactions, and improvements in municipal infrastructure.

behavior. Numerous civil society groups and a growing segment of the media are poised to “make noise” in a responsible, professional manner.<sup>15</sup>

**Illustrative Activities:**

- Strengthening public-private partnerships in improving government services
- Expanding local civic organization participation in public policy issues
- Improving investigative journalism on topics of high citizen interest
- Increasing the number of public forums showcasing TAG accomplishments

**Illustrative Indicators:**

- Number of corrupt and unethical practices exposed
- Improvements in government services resulting from TAG-related activities
- Public awareness and support of anti-corruption activities
- Public confidence in government

**Intermediate Result 2.3: Increased Responsiveness of Parliament**

Whether putting in place a legal framework for WTO accession, municipal operations, or environmental reforms, Parliament plays a key role in creating the enabling environment for much of what USAID and other donors do “on the ground.” USAID, which through SUNY/CLD assistance has maintained a solid working relationship with Parliament since 1993, will continue strengthening parliamentary structures and processes, including the administrative and research skills of parliamentary committees and staff; and their ability to (1) update and amend outdated legislation through the Lebanese Parliamentary Forum; (2) rationally analyze and modify budget proposals submitted by the Finance Ministry; (3) enhance cooperation between various governmental institutions; and (4) enhance the relationship between Parliament and the public.

**Illustrative Activities:**

- Strengthening committee procedures for annual budget reviews
- Improving systematic reviews of legislation key to economic and municipal reforms
- Regularizing meetings with civil society groups via the Parliamentary Forum
- Facilitating internet connections between parliamentarians and constituents

**Illustrative Indicators:**

- Quality, quantity, and speed of laws passed or amended
- Number of parliamentary committee meetings producing tangible results
- Useful information disseminated among committees and to the public

**D. Anticipated Results and Impact**

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<sup>15</sup> Note that there is interest among State/AID decision-makers for the “Middle East Regional Democracy Fund” to expand the TAG concept to other countries with an AMIDEAST presence (see Annex 4).

USAID is optimistic, but sober, on achieving quick results under this SO, recognizing that key elements of the “enabling environment” -- many of which are beyond USAID’s sphere of influence -- are not yet in place. As with other components of this strategy and “Lebanon’s Development” in general, GOL financial difficulties have created a double-whammy for municipalities: little or no operational resources from the Municipal Fund, and a prohibition from hiring permanent staff until the GOL, in their effort to reform the bureaucracy, decides how to redeploy, reduce, or release excess government staff. While municipal councils are exerting formidable pressure on both fronts, these two constraints -- limited finances and staff -- could lead to a bottleneck in nationwide expansion of the program if not resolved in the coming six to 12 months.

On Parliamentary responsiveness, it is certainly in the interest of central government to pass the draft municipal and decentralization legislation as a means to transfer authority (and financial responsibilities) to the local level, thus reducing pressure on the central budget. We assume both internal and external pressures for economic reform, prior to any cataclysmic event, will accelerate new and improved legislation, and eliminate some of the current gridlock within the government and among legislators. We see no barriers to a vibrant, responsible, and politically active civil society.

**How will Lebanon be different as a result of this SO? Results over the strategy period**

will indicate that at least 80 percent of municipalities have effective, transparent, and accountable planning and management systems, responsive to citizen needs and capable of sustaining development projects. Municipal councils will have increased revenues (personal taxes, rental and service fees) by at least 40 percent, and started to collaborate with industries and investors in growth pole regions. Coordination with GOL institutions on centrally-planned projects will also have improved. Parliament will have the analytic capacity to pass rational budgets and craft progressive legislation, with increased input from advocacy groups. Citizens will be more informed about corruption and other controversial issues by a responsible press and respectable websites; opportunities for corruption and tax evasion will be reduced. Watchdog organizations, anchored in civil society, will have identified improvements in government services, and will have targeted corrupt practices openly, without fear of reprisal or concern for judicial indifference.

**Over the longer-term**, i.e., ten years ahead, municipal governments nationwide will be fully functional following modern systems and practices, with democratic milestones (transparency, accountability, citizen participation) met. Municipalities will be the engines of local and regional development, with inter-municipal councils, public-private commissions, and other institutionalized planning and investment bodies bringing jobs, investments, and prosperity to increasingly viable growth poles. Municipal revenue increases will permit substantial investments in economic development initiatives; citizen confidence in local government will be at the 80 percent level nationwide. Civil society groups will be widespread and supported primarily through foundations and private benefactors, focusing attention on public policy and progressively less on public waste, fraud and abuse. Parliament, whose members will be accountable to constituents, will take an

active interest in crafting rational budgets and passing timely legislation for the public good, ensuring that both are fully implemented and enforced.

## **E. Other Donors**

USAID coordinates closely with the European Union (EU), the World Bank, and the United Nations Development Program (UNDP) on several aspects of governance and administrative reform:

- The EU, with \$6 million of grants to the Ministry of Administrative Development, is helping to create a “Union of Municipalities” as both an implementing and lobbying block; and a link with district and regional authorities. The EU has also provided 59 computers and basic computer training to 50 municipalities in South Lebanon who are about to install and be trained in USAID’s management information systems.
- The World Bank has initiated an \$80 million Municipal Loan Fund whereby each municipality can access funds annually for small-scale infrastructure projects, mainly electricity, potable water, and roads. Designed as a complementary source of funds to the GOL Municipal Fund, it has become a “lifesaver” that has largely taken its place.
- The UNDP is investing \$400,000 to assist select municipalities in North and South Lebanon with planning small-scale development projects; and Parliament with developing a code of ethics and strengthening policy debates at the national level.

## **Strategic Objective 3: Improved Environmental Policies and Practices**

### **A. The Challenge**

Lebanon’s environment is in peril. Decades of neglect and misuse, fueled by rural-urban migration, population increases, chaotic urbanization, insufficient land use planning, and inefficient management of natural resources, has resulted in the depletion and degradation of land, water, air, coastal, and natural resources. USAID’s current involvement in the environmental sector falls into three challenging niches:

**Making Water Manageable:** Lebanon, compared to its neighbors, has abundant water resources, blessed by the highest level of precipitation in the region.<sup>16</sup> Yet an estimated 70 percent of its water is lost to evaporation and runoff. Of the remaining 30 percent, about 30 percent goes to domestic use, currently at excessive levels, i.e., 160 liters/day per capita; 60 percent to agriculture, which is currently low in productivity yet expected to double in hectareage over the next 25 years; and about ten percent to industry, which could increase in the next 5-10 years in the agro-industrial sector. Current GOL investments are concentrated more on expanding large-scale infrastructure for water supply (dams, diversions, stations)

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<sup>16</sup> Recent estimates of per capita water availability show 1,600 m<sup>3</sup> per year for Lebanon; 610 m<sup>3</sup> for Syria; 470 m<sup>3</sup> for Israel; and 260 m<sup>3</sup> for Jordan. Annual rainfall in Lebanon is 8.6 billion m<sup>3</sup>, charging 40 major rivers and streams (17 perennial, 23 seasonal) and more than 2000 springs.

and less on water demand management that would entail long-range planning, conservation, trade-offs, and efficiencies. As a result, water experts forecast conservatively that Lebanon will be in severe water deficit within the next 10-15 years, which could not only jeopardize its own citizens, economic prospects, and security, but also those of its neighbors.

**Making Water Valuable:** Linked to water usage is water pricing, which today provides every incentive for excess use and waste. Ninety percent of total water consumption is subsidized, 31 percent for agriculture and 39 percent for domestic use. Inefficient water authorities charge prices considerably below the cost of supply – flat fees not exceeding four cents/m<sup>3</sup>.<sup>17</sup> Residents take advantage of illegal connections and wells -- both of which can be obtained (or ignored) through rent-seeking behavior. Potable water losses are now reaching 60 percent due to faulty distribution systems. There are no laws governing domestic use and distribution of water; agricultural water distribution relies on outdated and inappropriate codes dating from Ottoman rule, or force. On the positive side, the Ministry of Water and Energy has just issued a 10-year management plan addressing projected water shortages. Also, the southern coastal city of Sidon recently installed individual water meters, enabling its water authority to recover 80 percent of its costs during the first year.

**Making the Environment Healthful:** Wastewater and solid waste management threaten health and environmental quality. Water quality is rapidly deteriorating from inadequate residential and industrial treatment facilities, misuse of pesticides, and rapid urbanization. Water pollution is adding millions of dollars to health care and clean-up costs annually, reducing real estate values and affecting tourism, fishing, and recreation. Similarly, poor collection and disposal of solid waste, particularly in rural areas, has led to open dumping in 80 percent of villages and open burning in 20 percent. The GOL's wastewater management master plan theoretically covers 75 percent of Lebanon's population -- Beirut and 35 secondary cities -- only seven of which have facilities under construction, with the remainder under study and under-financed. The master plan for solid waste management, basically landfills contracted to a company with a modern fleet of waste disposal trucks and equipment, covers 40 percent of the population living in greater Beirut and large coastal cities. Both plans, in a nutshell, represent costly, time-consuming solutions for the urban elite, neglecting 25-60 percent of the population living in non-urban areas. Making the environment healthful also requires that efforts be directed towards forest conservation and ecosystem restoration. Data on forest resources in Lebanon is old and outdated dating back to 1966. However, all experts agree that abusive felling, over-grazing, urban development, fires and pests threaten Lebanese forests. Overgrazing is threatening Juniper forests and endangering its regeneration. Urban development and forest fires are affecting the pine forests. Between 1998 and 2000, approximately 35 square kilometers of forests were recorded as affected by fires. Forest management is the responsibility of the Ministry of Agriculture (MoA). It manages 31 forest monitoring stations and is planning for the construction of 14 monitoring towers to provide early warnings of forest fires and allow quick intervention. Many reforestation efforts are at the grass roots and government level; however, they are scattered, do not follow any plan, and their overall sustainability and environmental impact remain questionable. The survival rate for transplanted trees is believed to oscillate between 10 and 40 percent. In 2001 responsibility for national

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<sup>17</sup> This is in contrast to Morocco at \$1.35/m<sup>3</sup>; and Israel at \$1.00/m<sup>3</sup>.

reforestation campaigns was transferred to the Ministry of Environment (MoE), which developed a \$3.3 million annual project implementation plan for the next five years.

## **B. USAID's Initial Response: 1997-2002**

In 1997 USAID, through its rural cluster program (RCDC), began its environmental activities by helping villages put in place environmental management plans and adopt technologies for protection, reforestation, land terracing and reclamation, and drainage. PVO partners created awareness of environmental problems facing rural areas, offering solutions through a number of demonstration activities at local and national levels. To date some 400 small-scale projects have helped over 250 villages renew and reclaim over 14,000 hectares of forest and agricultural land, much of which has already resulted in increased crop production and incomes.

By 1999 the single largest quality-of-life demand in rural areas centered on wastewater and solid waste disposal. Communities had no services or technologies appropriate for their needs and lifestyles; municipalities had neither the expertise nor means to engage in costly treatment and disposal facilities. Recognizing that GOL master plans omitted the word "rural" from their near-term priorities, USAID, working through its PVO partners and with assistance from AUB's nascent Core Environmental Lab and Water Resources Center, began experimenting with cost-effective, environmentally-sound, appropriate solutions for wastewater and solid waste disposal. In the past two years this team has developed pioneering technologies that currently serve the needs of 14 rural cluster communities of 3-5 villages each, with 30 additional projects scheduled for completion this year. These small-scale solutions have already begun improving health and sanitation conditions in rural areas, as well as the quality of streams and certain rivers. There is currently a back-log of demand that will take at least three years to fill. In addition, USAID allocated significant resources under the community development program for reforestation that were integrated within the objective of introducing improved environmental management plans in rural communities.

Why such a demand? At \$50,000-\$200,000 a system, whether wastewater treatment or solid waste recycling and composting, these technologies represent a quick, affordable, maintainable solution. Costs range from 2-5 times cheaper than government systems and contracting; a ton of solid waste, for example, costs \$35 to dispose of in the most remote area of the North's Akkar region, compared to \$119/ton in Beirut and \$66/ton in Tripoli. Skeptical at first, the Ministry of Environment has now endorsed and even inaugurated these RCDC technologies, and is exploring financing to disseminate them to all regions.

On water issues, in late 2000 USAID requested a FORWARD team to assess whether AID assistance could be valuable in areas of water management and water valuation.<sup>18</sup> This was prompted, first and foremost, by a recognition that USAID's nascent irrigated agricultural activities in South Lebanon had adequate infrastructure but no management, with both surface and groundwater being tapped at will; and second, that there existed no rational

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<sup>18</sup> Fostering Resolution of Water Disputes (FORWARD) was an innovative effort by USAID to raise awareness of trans-national water issues in the Middle East and to develop water conflict resolution mechanisms as part of the Middle East Peace process.

system for water pricing, let alone cost recovery. Working with RCDC and AUB partners, and in close collaboration with the Ministry of Water and Energy, FORWARD recommended, and USAID endorsed, two areas of involvement: (1) developing on-farm water management and “collaborative planning” methodologies for water users and providers, to maximize the use of scarce water resources, particularly in South Lebanon; and (2) broadening private sector participation among Lebanon’s four water authorities and developing water pricing policies for improved cost recovery. Both activities formally started in June 2002.

### **C. New Opportunities: 2003-2005**

The new strategy will capitalize on the initial success of and heightened demand for environmental conservation and health activities, and institutionalize collaborative water management and water pricing policies. Focusing on these three areas, USAID is filling critical gaps that neither the GOL nor other donors are addressing, working on “balanced development” at a national level through an inter-related set of policies and programs. Intermediate results, along with illustrative activities and indicators, are as follows:

#### **Intermediate Result 3.1: Increased Use of Appropriate Environmental Management Practices**

USAID’s innovative environmental activities, now benefiting some 70,000 families in rural Lebanon, have emerged in many rural municipalities and the Environment Ministry as a viable alternative to large-scale infrastructure and costly service-delivery schemes. One goal over the strategy periods is to integrate these appropriate technologies into GOL master plans as *bona fide* solutions rather than stop-gap alternatives. Increasing local participation and ownership in environmental health and water management activities, coupled with PVO-AUB “technical excellence” partnerships, will ultimately enhance the capability of communities and municipalities to manage their environmental resources effectively. We estimate that waste management facilities are still needed in about 600 rural communities. Available USAID/Municipal resources will cover about 100, with World Bank and EU funds hopefully financing another 200.<sup>19</sup> USAID possible intervention in reforestation and ecosystem restoration would focus on testing and refining policy issues and options through implementing pilot activities in target areas. Programs would emphasize the need to strengthen municipal and local community capabilities by promoting best management practices and introducing appropriate techniques. This initiative builds on USAID’s previous investments under the rural community development cluster program in reforestation projects.

#### **Illustrative Activities:**

- Expanding appropriate waste water and solid waste treatment facilities
- Testing and improving the efficiency and effectiveness of pilot technologies

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<sup>19</sup> Funds would be accessed through the World Bank’s \$80 million Municipal Fund and \$30 million Community Development Project; and the EU’s \$30 million Social Fund. The latter two are dedicated to assisting impoverished rural areas.

- Linking environmental enhancements to tourism “growth poles”
- Demonstrating new, cost effective techniques through implementing pilot reforestation and ecosystem restoration activities in target areas
- Strengthening municipal and local communities capabilities in implementing environmental management activities

**Illustrative Indicators:**

- Number of waste management facilities operating effectively
- Number of municipalities implementing sound environmental practices
- Number of hectares benefiting from environmental enhancements

**Intermediate Result 3.2: Improved Participatory Approaches in Water Management**

Collaborative planning activities will focus on domestic water management issues in communities where two decades of turmoil and migration have made water resource management – and agricultural productivity -- increasingly challenging. Initial activities will focus on working with diverse stakeholders by introducing collaborative planning techniques and developing mechanisms for resolving disputes over water. Success could yield positive benefits and spread-effects for other integrated systems, recognizing that the more sensitive and contentious transboundary issues, for which there is little accurate data, will likely remain off limits during the strategy period.

**Illustrative Activities:**

- Build skills of various stakeholders over water management issues
- Linking irrigated agricultural production to agribusiness “growth poles”
- Exploring of data needs, concerns, and opportunities in the water sector

**Illustrative Indicators:**

- Number of communities/systems implementing effective water management activities
- Number of water management issues resolved
- Increased productivity and agricultural sales from irrigated systems

**Intermediate Result 3.3: Increased Effectiveness of Water Authorities, Laws and Policies**

The GOL’s restructuring and consolidation of 22 water authorities into four, with the expected reliance on experienced private companies for operations and management, opens the door for broadening private sector participation in water management activities, and increased harmonization of water distribution and pricing policies. New water legislation would enable the newly established water authorities to recoup their costs (estimated in the tens of millions of dollars), upgrade service delivery, and operate independently at a profit.

While pricing policy and cost recovery are still at the drawing-board stage, the GOL is interested in exploring the Jordan experience as a point of departure.

**Illustrative Activities:**

- Developing best approaches for water authority restructuring and private sector participation
- Developing options for pricing water services and restructuring tariffs
- Visits to or delegations from other countries with relevant experience in private sector participation, and pricing policies.

**Illustrative Indicators:**

- Progress achieved in implementing private sector participation policies
- Progress achieved in implementing water pricing policies and regulations
- Ability of water authorities to raise revenues and cover costs
- Number of consumers served by privately operating water systems

**D. Anticipated Results and Impact**

Expanding appropriate waste disposal technologies to rural areas -- as legitimate technical solutions reflecting the will of local-level decision-makers -- assumes the backing of both the Environment and the Interior/Municipal Affairs Ministries. This is under discussion, noting that the Interior Ministry prefers diffusing nationwide what they believe are “economies of scale” of the central/urban waste collection model. Our analyses indicate this will not be cost-effective or sustainable in rural areas, given that this type of waste collection is already a severe drain on urban municipal budgets. Our hope is that the impending passage of the Municipal and Decentralization Laws will place such decisions at the municipal level.

On water management and pricing, we assume that the current will of the Water and Energy Ministry to dismantle vested interests in maintaining water subsidies, low prices, ineffective water authorities, illegal outlets and wells; and to promote private sector participation in the new authorities, will prevail in the Council of Ministers and Parliament when politically difficult policies and unpopular reforms come to a vote. We also assume with irrigated agriculture that the collective financial benefits derived from collaborative planning and water-sharing will outweigh any individualistic management approaches.

**How will Lebanon be different as a result of this SO? Results over the strategy period** will show around 100 to 150 new rural communities, at least 75 of which are integrated into growth poles, implementing sound environmental management plans by using appropriate waste/water disposal technologies, benefiting from access to clean water and waste-controlled environments, and demonstrating sustainable reforestation and ecosystem restoration programs. Four newly-created water authorities will have prepared and are implementing integrated water management plans that reflect the rational use and distribution of domestic, industrial, and agricultural water. New water pricing policies will be in effect in at least one authority, with appropriate infrastructure, billing, and other safeguards to encourage increased water use efficiency and

improved collection performance. Ten irrigated agricultural systems, at least half located in South Lebanon, will be producing marketable, value-added crops generating an average of 10 - 15 percent additional income, based on collaborative planning methods using either extensive (field) and/or intensive (greenhouse) technologies.

**Over the longer-term**, i.e., ten years ahead, sustainable reforestation and appropriate waste/water disposal technologies will have expanded nationwide, providing healthful and environmentally-sound solutions to rural communities and municipalities. Modern water pricing and collection policies will be in effect in all water districts. Water distribution networks will be at 70 percent efficiency; water revenues will cover water distribution costs and water authorities will be operating profitably. Rural and peri-urban municipalities in growth-pole areas will be fully engaged in environmental planning and management, focusing on increasing benefits from tourism and other sources of investment and revenue. Water use efficiency, the subject of intense awareness campaigns, will have increased at least 20 percent above 2002 levels. Regional talks and negotiations on trans-national water sharing will be in progress.

#### **E. Other Donors**

- ***Solid Waste Management:*** A three year solid waste management project -- Solid Waste Environmental Management Project (SWEMP) -- was launched in 1998 to cover the Greater Beirut Area. Supported by a \$55 million loan from the International Bank for Reconstruction and Development (IBRD), SWEMP supported the construction of 15 sanitary landfills, the closure of waste dumps, and the construction of two composting plants and one incinerator. However, SWEMP was reduced drastically as a result of political turmoil and public dissent. It resulted in one landfill built in the Bekaa valley (Zahle). Under the LIFE program UNDP funded four community-based solid waste management projects worth \$100,000.00.
- ***Waste Water Management:*** The government waste-water master plan divides Lebanon into two regions: Greater Beirut and outside Greater Beirut. Within Greater Beirut, two main collectors have been built (Southern and Northern side) but remain idle because no funding has been secured for the treatment plants. Outside Greater Beirut, large-scale waste-water plants have been identified in 35 secondary cities of which 25 have secured funding and seven are under execution. Sources of funding vary from French Protocol (five under execution, one under preparation), Italian Protocol (12 under preparation), European Investment Bank, Japan (one under execution), Islamic Development Bank (two under preparation), and the International Bank for Reconstruction and Development (one under execution, one under preparation).
- ***Water Management:*** At the policy level, requests to privately operate the Northern Water Authority through a management contract have been launched. Three bidders have shown interest. In addition, the Lebanese Higher Council for Privatization has requested a private bank “Societe Generale” to assess private sector participation and privatization of Beirut and Mount Lebanon Water Authority operations, and the World Bank is exploring a management contract for private sector participation for the Bekaa Water Authority. The Japanese International Cooperation Agency (JICA) is conducting a

study aimed at establishing a Water Resources Management Master Plan. The work consists in collaboration on data collection and analysis.

- **Reforestation:** The German Agency for Technical Cooperation (GTZ) is funding vast reforestation campaigns as part of the project for Combating Desertification in Lebanon (CoDeL).

## **Program Integration and Partnerships**

This strategy, if it is to produce significant results, cannot be conceived or implemented as three separate objectives linked to an overarching goal. A major part of its vitality and sustainability stems from relationships and themes that cut across the program, along with the partnerships that will ultimately make it succeed.

### **A. Relationships Among Strategic Objectives**

This is an integrated strategy in which the success of each SO is linked, in varying degrees, to the success of the other SOs. Relationships among them -- some of which have developed over time, others of which are in gestation -- are designed to produce results that are greater than the sum of the individual IRs or activities. While there is a risk in relying on this kind of synergy, USAID's experience in Lebanon indicates it is a risk well worth taking. Some of the key linkages are the following:

- Expanded economic opportunities (SO 1) will strengthen the foundations for governance (SO 2) by expanding the tax base and raising revenue streams to both municipal governments and the national government.
- Strengthened foundations for governance (SO 2) will enhance the potential for expanded economic opportunities (SO 1) by reducing constraints to productive activities and stimulating initiatives for government organizations to encourage new, income-generating activities.
- Expanded economic opportunities (SO 1) will expand the capacity of municipalities and communities to improve environmental policies and practices (SO 3) through increases in the revenue base, and recognition that sustainable agricultural and tourism activities require sound environmental practices.
- Improved environmental policies and practices (SO 3) support sustainable tourism and agricultural activities (SO 1), as noted above, and also improve the quality of life in targeted regions, which in turn will promote resettlement and deter out-migration.
- Strengthened foundations for governance (SO 2) will enhance the capability of both the national government and municipalities to improve environmental policies and practices (SO 3). Modern management information systems will help in land use licensing and permitting, monitoring effluents, and adopting common standards.

- Improved environmental policies and practices (SO 3) represent a key function at all levels of government, and hence serve as a litmus test for strengthened foundations for governance (SO 2). Also, assuming that improved environmental practices will stimulate local economic opportunities, notably agribusiness and tourism (SO 1), municipalities will access additional tax revenues to support further investment and good governance.

## **B. Gender Considerations**

The status of women in Lebanese society, while certainly not homogeneous or easily pegged, is another study in contrasts -- one that melds a modern-day appreciation for the role women play in the society and economy, along with an inherent conservatism on their upward mobility and political empowerment.

On education, for example, the Lebanese place high value on educating their children irrespective of sex. Aggregate school enrollment and adult literacy rates reveal less than an eight percent gap among the sexes; both rates are the highest in the Arab world.<sup>20</sup> The UNDAF 2000 Report also notes that over the past five years girls are enrolling in schools and universities in greater numbers than boys, and are entering new fields and specialties. The two major areas of gender disparity are first, the growing gap in both primary and secondary enrollment in the urban and more remote rural areas; and second, the percent of non-agricultural jobs nationwide occupied by women, roughly estimated at 20 percent.

The glass ceiling still exists within government service and politics. Participation of women at the political decision-making level is marginal – three of 128 Parliamentarians, and less than 15 percent of municipal council members. Women continue to occupy low- and to some extent mid-level civil service jobs, but only two of over 30 Directors General positions in ministries. Nor does the GOL unconditionally support ratified international human rights conventions affecting women, the most noticeable being the government’s reservations on nationality, marriage and family life, and domestic arbitration in the Convention for the Elimination of all forms of Discrimination Against Women (CEDAW).

USAID tracks these and other gender equity issues and has taken numerous steps to address them over the past five years. The rural cluster (RCDC) program for example, has not only promoted women’s economic opportunities and raised women’s incomes in hundreds of villages nationwide, but has ensured that women’s economic empowerment translates into political voices on village decision-making committees and newly-elected municipal councils. Similarly, the municipal capacity-building and civil society advocacy programs have sought out women for leadership roles, many of whom are making a real difference in their municipalities and organizations, and serving as role models for the next generation.

The new strategy, which will continue many of these activities, will also branch out more extensively into agri-business, tourism, and the ICT/service industries, where women are

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<sup>20</sup> Various sources note a Gender ratio of 97.7 girls to boys at the primary and secondary levels; and literacy rates of 92.3 percent for men and 84.6 percent for women, which vary regionally and socially (see Annex 3).

already active. The challenge is to make these programs more responsive to their skills, ensuring that they have the training and knowledge, means of production and marketing, and access to credit that will enable them to compete in specific economic niches. We will also continue forging links between economic and political leadership, with a view toward “masking” the differences so that women can have more active involvement in the economic development of their communities. Finally, at the policy level, we will continue monitoring potential adverse affects of globalization and WTO accession on the rural poor and other disadvantaged groups.

On the issue of trafficking in persons, the State Department’s Tier 3 rating for Lebanon, characterized as a destination country for trafficked persons, focuses mainly on the status of commercial sex workers and domestic help. While we do not minimize concerns about their sexual and economic exploitation, they comprise a very narrow spectrum of urban life and as such have no direct bearing on this strategy. If this Tier 3 status extends into 2003 and triggers sanctions for Lebanon, it is still unlikely that USAID’s program would be adversely affected, given the legislation’s focus on terminating “non-humanitarian and non-trade-related assistance.”

### **C. Strategic Partnerships and Alliances**

The impact of this strategy rises and falls on the quality of our partnerships. USAID’s current partners -- PVOs and NGOs, private companies, business associations, donors and government agencies, and American Educational Institutions, are fully engaged in our program and instrumental in helping achieve results. Each has spheres of influence and competitive advantages that are critical to success. These partners -- many of whom are already part of a web of alliances, others who will become so -- are all an integral part of conceptualizing and implementing this strategy. The chart on the following page points out their major roles and responsibilities with respect to USAID’s six strategic priorities.

One of these partners is worth singling out in terms of their contributions to the USAID program, as well as their future importance to U.S. national interests and foreign policy goals. Lebanon’s American Educational Institutions (AEIs), specifically the American University of Beirut (AUB) and the Lebanese American University (LAU), are two of the premier institutions of higher learning in the region. Over the past three years USAID has cultivated an excellent partnership with them, based on common development priorities that span the entire USAID program. Faculty are fully integrated into WTO, ICT, tourism, rural development, governance and environmental initiatives; and increasingly engaged in public policy debates that support our development assistance. Indeed, they give considerable added-value to various partners and projects.

Equally important, these AEIs, along with two primary/secondary schools -- the American Community School (ACS) and the International College (IC), are showcases, in Lebanon and the Middle East, for tolerance, openness, free inquiry, and critical thinking -- values which the USG obviously wants to promote in the wake of September 11<sup>th</sup>. USAID’s core support to these four institutions enables them to offer scholarships to needy students who reflect Lebanon’s diversity, often from areas dominated by anti-western/anti-American sentiment. The State Department, as

part of their FY 2002 Supplemental Budget request, is proposing increased support for the AEIs -- targeting youth, education and training as priorities. This is an opportunity to promote student body diversity, focusing on disadvantaged communities in Lebanon's rural areas, as well as students from the other countries in the region. USAID and the Embassy firmly believe these AEIs are well-positioned to take on this important role.

A second key partnership is represented in the Agency's Global Development Alliance, a business model that is especially relevant as the Mission strengthens and expands its network of public-private partnerships. We currently have one GDA activity under our belt -- a "Mobile Education Center" for South Lebanon which was developed under our rural cluster program and co-financed with Microsoft and AUB. This multi-purpose "internet for development" activity holds great promise for expanding community-based information technology activities in priority areas, i.e., those where rural and industrial cluster activities come together. We view the GDA as an integral, value-added part of our program, and will seek to tap into the Bureau's "Mission Incentive Fund" this year and throughout the strategy period.

Finally is The Secretary's Middle East Partnership for the Future which, with its focus on building human capacity, reducing social and economic inequities, and improving the business climate, plays to the strengths and priorities of our development assistance program in Lebanon. Two sectors in particular -- Information/Communication Technology (ICT) and Microfinance -- have enormous potential to expand economic opportunities to a broad spectrum of Lebanon's population. Both are an integral and high-performing part of USAID's strategy; over-subscribed for available ESF funding; and models for leveraging additional resources in the business, banking, and university communities, as well as private foundations. While funding decisions for FYs 2002-03 are still pending, additional funds would stimulate business activity and create much-needed jobs and incomes in high-priority areas, both rural and urban.

## USAID Lebanon's Strategic Partnership

USAID Strategic Areas®	Expand Economic Opportunities	Accelerate Economic Reform	Strengthen Foundations for Governance	Improve Environmental Policies and Practices	Promote Mine Awareness and Victims Assistance	Strengthen American Educational Institutions
<b>USAID Strategic Partners</b>						
Lebanese Government	Participate in industry and regional cluster programs	Prepare, enact and implement national policy reforms	Improve national policies and procedures	Set national policy, legal and regulatory frameworks	Set mine action priorities and coordinate programs	Promote sound enabling environment for AEIs
Municipal Governments	Assist local implementation of integrated programs	Prepare, enact and implement local policy reforms	Improve local policies and procedures	Set local policy, legal and regulatory frameworks	Assist in priority setting and local implementation	Support local outreach and recruitment programs
NGOs	Organize local stakeholders; assist in program activities	Provide feedback on economic policy and WTO reforms	Coordinate regional rural cluster participation	Coordinate regional rural cluster participation	Coordinate local mine action responses	Coordinate local-level development assistance
Industry Groups	Lead industry cluster programs	Develop private sector positions	Promote municipal entrepreneurial activities	Adopt environmentally-sound technologies	Assist victims in income-generating activities	Support applied research and training activities
U.S. Educational Institutions (AEIs)	Provide technical assistance and training	Conduct policy analyses and corporate training	Provide training and policy analysis support	Conduct policy analyses and sector assessments	Conduct social/economic surveys in mine areas	Gain accreditation; achieve excellence
Contractors	Coordinate integrated cluster growth strategies	Assist GOL in drafting policy and legal reforms	Administer governance improvement programs	Administer water and other environmental programs	Assist in demining activities	Collaborate on training and outreach programs

