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A proposal to tackle Lebanon's ills

By Sami Atallah

The socio-economic challenges that any new Lebanese government will need to tackle are almost unprecedented. The Syrian refugee crisis and the economic slowdown compounded by political instability are putting tremendous pressure on the country's assets. For the government to address the socio-economic challenges effectively, it must realize, first, that the socio-economic ills of the country – a chronic budget deficit, unemployment, oligopolistic market structures and poor infrastructure – preceded the Syrian crisis and were masked by deceptively high growth rates between 2006 and 2010.

And second, it must accept that the refugee problem is a medium- to long-term challenge, and hence must be dealt with as such. Studies of other war-torn countries have shown that it takes five to seven years from the date when the guns fall silent for refugees to return. The countdown for Lebanon has not yet begun. Ignoring this will make any attempt to solve the country's ills at best temporary if not futile. That's why, if it is serious, any new government must develop a three-pronged strategy to deal with the socio-economic ills of the country.

First, it must provide assistance to both Lebanese and Syrians. Given the unprecedented size of the crisis – more than 1 million Syrian refugees and another 1 million poor Lebanese, the government must directly target them with assistance. According to a recent World Bank study, another 170,000 Lebanese will fall under the poverty line in the next two years. Although it is obvious that Syrian refugees are in desperate need of support, the government must expand its poverty-targeting programs for the Lebanese in order to mitigate the simmering socio-economic tensions between Syrians and Lebanese.

Several challenges await the government. It must deal with urban refugees who, unlike those in camps, are harder to locate. And it must put in place a transparent mechanism to ensure that money goes to the right beneficiaries. This could convince more donors to provide financial assistance to Lebanon.

Second, the government must engage in regional development in the peripheries. For poverty targeting to succeed, this must be complemented by investments in infrastructure, water, waste treatment, electricity and garbage collection to salvage the precarious situation in regions that were already vulnerable prior to the Syrian crisis.

Key actors in leading and implementing these projects, along with the Council for Development and Reconstruction and the relevant ministries, are municipalities, which are currently shouldering a disproportionate share of the burden. Although 80 percent of the almost 1,000 municipalities are administratively weak and have few resources, there are 50 to 80 strong municipalities in Lebanon that can take the lead when it comes to developmental issues.

The government should enhance these municipalities' fiscal capabilities in at least four ways. It can release their share of the Independent Municipal Fund on time (the ninth month of every year), and make the disbursement in one installment as stated in Decree 1917. The last decree that distributed the IMF to municipalities was six months behind schedule, and payments are often made in two to four installments, which prevents municipalities from planning or undertaking long-term developmental projects.

The central government can also boost the resources of the IMF by simply stopping all illegal withdrawals and deductions from the fund that do not benefit municipalities. A previous study financed by the World Bank and

executed by ICMA for the Interior and Municipalities Ministry has shown that the government has withdrawn and deducted \$1.26 billion from the IMF over a 10-year period to pay for solid waste collection (in other words Sukleen and five other companies), civil defense, the CDR, villages without municipalities and other expenses. Such spending is considered illegal since it does not benefit all municipalities in Lebanon as stated in Decree 1917.

The government also ought to release the money currently stacked at the Telecommunications Ministry. This is probably worth between \$1.5 billion and \$2 billion but has been withheld from municipalities.

And finally, another way to handle this is to create a framework where the private sector, including banks, can partner or loan the creditworthy municipalities funds to undertake developmental projects.

A third prong to deal with Lebanon's socio-economic ills is for the government to develop policies and coordinate initiatives to ensure effective development. The central government ought to lead the development initiative by setting a framework that brings donors on the one hand, and local administrations and non-governmental organizations on the other, to effectively coordinate their efforts in dealing with the crisis.

Given the precarious situation on the ground, the government must use all the country's resources to get a grip on the situation. First and foremost, it must make its ministries and institutions work together coherently and avoid duplication and political bickering over scant resources.

In addition to leading the coordination effort, the government must think outside the box and figure out ways to attract capital and private investment to Lebanon in order to create jobs. Instead of only seeking financial aid for humanitarian assistance, it must provide generous tax incentives to set up new businesses in the Bekaa Valley and the north. The current capital flow out of Syria could be an important source for investment and job creation for both Lebanese and Syrians.

This needs to be supported by the appropriate infrastructure such as a proper road network and uninterrupted and cheap energy. The effects of these initiatives will be long lasting and may even outlive the current crisis. The government should also seek to open up markets for Lebanese exports that would provide a further boost for economic activities. Despite the odds, Lebanese industrialists have managed to export highly sophisticated goods in the absence of an effective industrial policy.

These three prongs are complementary in the sense that they provide support to the poorest, develop Lebanon's peripheries that have long been neglected and implement policies that create direly needed jobs. The plan is not without risks, but it calls for a government willing to take initiatives, test policies, be experimental and evaluate quickly what works and what does not.

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