



EURO-MED PARTNERSHIP

LEBANON

COUNTRY STRATEGY PAPER

2002 - 2006

&

NATIONAL INDICATIVE PROGRAMME

2002 – 2004



TABLE OF CONTENTS

1. EXECUTIVE SUMMARY	2
2. EU POLICY OBJECTIVES.....	3
3. LEBANON'S POLICY AGENDA.....	4
4. COUNTRY ANALYSIS.....	6
4.1. Political dimension.....	6
4.2. Economic and social situation.....	7
4.3. Medium term challenges	10
5. OVERVIEW OF CO-OPERATION PROGRAMME.....	11
5.1. General aid situation.....	11
5.2. EC Co-operation.....	11
5.3. Co-operation of EU Member States and other donors	14
6. EU RESPONSE STRATEGY.....	15
6.1. General principles and objectives for co-operation.....	15
6.2. Priorities and specific objectives for co-operation	16
6.3. Support to Economic Reform.....	17
6.4. Support to sustainable development.....	19
6.5. Development of human resources	20
6.6. Securing adequate standards of individual and human rights.	20
6.7. Coherence with other EU policies.....	20
6.8. Complementarity with Member States and other donors.....	21
6.9. Risks	22
7. LEBANON: NATIONAL INDICATIVE PROGRAMME 2002-2004.....	23
7.1. Background	23
7.2. Contents of the National Indicative Programme 2002-2004.....	24
7.3. Phasing of the National Indicative Programme (2002-2004).....	29
ANNEX 1	
ANNEX 2	
ANNEX 3	
ANNEX 4	

1. EXECUTIVE SUMMARY

As provided for in the MEDA regulation (EC No 2698/2000 and EC No 1488/96), the Country Strategy Paper (CSP) establishes a strategic framework in which EC assistance will be made available over the period 2000-2006. It sets out EU co-operation objectives, policy response and priority fields of co-operation based on a thorough assessment of the partner country's policy agenda and political and socio-economic situation. The national indicative programme (NIP) attached to the strategy sets out the EU response in more detail, highlighting programme objectives, expected results and conditionality in the priority fields of co-operation for the period 2002-2004.

Lebanon is a full participant in the Barcelona process. It has emerged from civil war with a political system embracing the needs of 17 different ethnic or religious communities, and in which respect for democracy, rule of law, and human rights are guaranteed by the constitution. The democratisation process, despite its shortcomings and vulnerability to regional political tensions and the as yet unresolved Middle East Peace Process, remains one of the more advanced in the region.

Lebanon's remarkable decade of reconstruction following a devastating 15 year civil war saw strong economic growth gradually slide to a halt by 1999. The cost of rebuilding highways, schools, airports, seaports, housing, power stations, and government buildings pushed public debt to 160% of GDP and led to chronic budgetary problems: spending outstripped revenues by over 50%. GDP per person, estimated at €5,200, is below pre-war levels. The process of reforming economic policy, modernising manufacturing capacity, improving the investment climate and opening the internal market has begun, and form the basis for economic recovery in the decade to come.

The challenge for Lebanon is to carry through the reforms while reconstructing the economy. The tax system will need to replace revenues lost as customs tariffs fall (they traditionally contributed half of all budget revenues) with VAT, and with more coherent income and company taxes. Privatisation of state agencies, some loss-making, are essential for restructuring. Ways are needed to improve productivity levels suitable in industry, the services sector and in agriculture for an open trading economy, without which future growth will be jeopardised. The second challenge is to tackle poverty and income disparities. The UN estimates that one third of Lebanese lack basic needs. Weak agricultural productivity and a widening gap between rural and urban incomes have led to accelerated urbanisation, environmental degradation, and social imbalance. Policy needs to balance growth with social development, so that transition to a fully liberal economic regime is matched by good governance, the strengthening of democracy, respect for the rule of law and the guarantee of human and individual rights.

Within this context, and taking into account the objectives of the Barcelona process, the EC can most effectively assist Lebanon in meeting these challenges by concentrating on the following priority sectors: **support for economic reforms**, with particular emphasis on preparations for the effective implementation of the **Association Agreement**; the **promotion of social development and equilibrium** to reduce income disparities and alleviate poverty, and reduction of **environmental degradation**; development of **human resources** through retraining to offset privatisation redundancies; and the promotion of **human and individual rights** and cohesion between Lebanon's numerous sectarian and religious groups.

The contribution for EC co-operation from MEDA and other grant sources from the Community budget will be around €25 million a year over the period covered by this Strategy Paper.

2. EU POLICY OBJECTIVES

The EU's co-operation objectives with Lebanon are anchored in both the Barcelona Process and in EC development policy. The Barcelona Process is a proximity policy which reflects the political and strategic importance of the Mediterranean region to the EU. The main goals as set out in the Barcelona Declaration and in the Common strategy adopted by the European Council in Feira in June 2000 are

- creating an area of peace and stability based on fundamental principles, including respect for human rights and democracy;
- creating an area of shared prosperity through sustainable and balanced development and especially the progressive establishment of free trade between the EU and its partners and among the partners themselves with a view to the creation of the wider Euro-Mediterranean free trade area by 2010;
- the improvement of mutual understanding among the peoples of the region and the development of an active civil society.

This process is underpinned by a network of bilateral relations between each partner country and the EU, embodied in Association Agreements which provide for political dialogue, free trade, between each partner and the EU to be established over a transitional period, and various forms of co-operation.

The MEDA programme provides financial support for the objectives of the Association Agreements and the Barcelona Process. Taking into account the priority areas identified for Community Development Policy, the MEDA programme concentrates on a limited number of key objectives, supporting

- the development of pluralistic democratic society based on respect for human rights and the rule of law;
- the implementation of the Association Agreements, with a particular focus on development of the Euro-Med market;
- economic and social reform linked to the implementation of the Association Agreements;
- sub-regional co-operation, by encouraging South-South development and economic integration initiatives, helping existing Association Agreement signatories to move to free trade between themselves.

The Common Strategy of the European Union ¹ defines the policy goals of the EU towards the Mediterranean region. The Mediterranean region is a region of strategic importance to the EU. A prosperous, democratic, stable and secure region is in the best interests of the EU. The Euro-MED partnership provides the framework in which these policy objectives are pursued.

¹ Adopted by the European Council at Santa Maria da Feira (Portugal) of 19-20 June 2000.

Moreover, this country strategy takes into account the Principles and Objectives of Community Development Policy as elaborated in the Joint Council and Commission Declaration on Development Co-operation of November 2000. Indeed, the reduction and eventual eradication of poverty through providing support for sustainable development, the promotion of the gradual integration of partner countries into the world economy and a determination to combat inequality are fully compatible with and supportive to the goals of the Barcelona Process. Refocusing the Community activities in a more limited number of areas and the implementation of measures that ensure a more effective and efficient co-operation are equally objectives that are pursued in the context of this strategy.

3. LEBANON'S POLICY AGENDA

In November 2000, general elections led to the formation of the second Hariri government. Like its predecessors, it developed a vision for growth based on the liberalisation of trade and economy, and on continued public investment to create jobs, in the face of worsening debt.

The general thrust of the Five Year Development Plan (2000-2004) is to:

- improve social infrastructure and services
- achieve balanced development by concentrating on less developed regions
- improve the competitiveness of industry and agriculture.

Improving public facilities and services is seen as a way “to build a stronger competitive platform for Lebanese firms and people to compete in the world economy” (the Plan). The Plan presents several initiatives for improving business ability to compete: removal of barriers to trade and investment; elimination or reduction of business costs such as social security payments; review of farm subsidies; micro-credit programmes for rural enterprises; improving the SME loan guarantee scheme; and encouragement of a cluster approach for companies showing particular high growth potential (such as tourism, jewellery, agro-industry).

The cost of this development effort was estimated at €7 billion in the Five Year Plan to be invested as follows: 52% to social infrastructure and services (education, environment, health, water, waste treatment); 29% to physical infrastructure (electricity, telecommunications, roads, transport, government buildings); and 19% to the productive sectors (agriculture, irrigation, tourism, industry, research and development). Funding this investment drive would take place by floating eurobond issues under the control of Parliament at the rate of €2.2 billion a year. A complementary Five Year Fiscal Adjustment Plan was simultaneously launched.

The second Hariri government adopted a revised economic development strategy in November 2000, against the backdrop of imbalances and structural economic weaknesses inherited from the previous government. Lebanon was to opt for a pro-growth strategy, modernise the economic institutions and its rules, and induce the private sector to be the engine for the recovery from two years of recession, creating a liberal economic environment, integrating the country to the world economy, and opening up its markets and encouraging trade, while maintaining monetary and financial stability, in particular by addressing the fiscal challenges.

Lebanon embarked in late 2000 and 2001 on a number of follow-up actions:

- improving the legal, administrative and regulatory framework (customs law, commercial code, transit law, social security rules, competition law, public accounting law) and reducing red tape.
- opening up to trade through the Association Agreement (the EU is Lebanon's leading trade partner), accession to WTO and to the Arab Free Trade Area, export promotion, reducing tariffs and eliminating non-tariff barriers, and an open skies policy. Lebanon has clearly signalled its intention to conclude an Association Agreement with the EU before the end of 2001. A substantial cut in tariffs in December 2000 was made unilaterally by Lebanon to illustrate its determination to move towards free trade. Dismantlement of remaining customs duties on industrial goods will be gradually achieved over twelve years, but will only start after a five year grace period foreseen to begin in January 2002.
- privatisation of electricity, water, telephone and airline authorities.
- fiscal reform, which has concentrated on debt management, expenditure restraint and on alternative revenues such as VAT. A draft VAT law has been submitted to Parliament and is scheduled to enter into force in January 2002. Action is planned in the area of direct taxation and tax enforcement.
- monetary and exchange rate stability.
- the reconstruction of South Lebanon after Israeli withdrawal in May 2000. The government put forward a rehabilitation programme for the South valued at €1.5 billion for demining, infrastructure repairs, restoration of public services and economic growth. Much of this has yet to be realised.

The EU-Lebanon Association Agreement will result in the complete removal of Lebanese duties on EU industrial and processed agricultural products 12 years after the entry into force of the Agreement (estimated free trade by 2014); offers Lebanon substantial concessions for its agricultural and processed agricultural exports to EU immediately upon entry into force of the Agreement; offers concessions on EU agricultural exports five years from entry into force of the Agreement; obliges both parties to maintain high standards of intellectual property protection; for Lebanon to introduce competition rules five years after entry into force of the Agreement; instigates formally a political and economic dialogue between both parties; opens the way for greater reciprocal market access for services; and binds both parties to high levels of co-operation in drugs, crime, money-laundering, and migration.

Since 1999 Lebanon has been an observer to the WTO. In June 2001 it presented its Trade Policy Memorandum for accession with the support of technical assistance funded by USAID. The accession to the WTO agreements will have the effect of bringing Lebanese rules on trade in goods and services, as well as trade-related investment measures, into line with those of liberalised trading partners. This will facilitate its regional integration with the EU and with Arab nations.

Lebanon's policy agenda is less well defined when dealing with social justice and equity, where much has yet to be done to close income gaps and availability of services to rural and urban poor. A similar lack of policy exists to tackle environmental degradation.

During 2001, however, the unsustainable character of the budgetary and non-factor external current account deficits became acutely evident. The budget and external resource deficits are presently forecast to reach 25% and 40% respectively of GDP. Foreign exchange reserves have fallen significantly since 1999. The Hariri government has recently drafted a new Economic and Budgetary Adjustment Plan with ambitious targets: to reduce the budget deficit from 25% of GDP to 15% by 2003; to stabilise the

debt/GDP ratio at 175%, to bring down domestic real lending interest rates (which presently stand at between 18% and 20%); and to achieve 5% GDP growth by 2003.

This Plan is presently being debated in the National Assembly and assessed by the Bretton-Woods institutions. The government had turned to the EU (Commission and EIB) and the Bretton Woods institutions in early 2001 for help in coping with its financial problems, but did not receive any pledges of additional support. Since then the financial situation has continued to deteriorate. The government will certainly turn again to the international community to seek support for the new adjustment plan once it has been adopted. .

4. COUNTRY ANALYSIS

Lebanon Key Economic and Social Indicators	
Population	3.3 to 4 million (estimates vary)
Population growth rate	1.8 %
GDP	€ 17.4 billion
GDP per capita	€ 5,200
UN Human development index (1999)	65 th (of 174 countries)
UN Human poverty index (1997)	12.2 %
UN unsatisfied basic needs index (1990)	35.2 %

4.1. POLITICAL DIMENSION

Lebanon is a Republic with three branches of government: the Legislative, the Executive, and the Judiciary. Legislative power is held by a Parliament of 128 members with half of the seats reserved for Muslims and the half for Christians. The democratic process is sustained by consensus between the 17 different ethnic and religious communities. Within the two major groupings, seats are reserved for minorities: in the case of Christians, for the Maronites, Armenians, Greek Orthodox; for the Muslims, allocations are made for Sunni, Shi'ite and Druze groups. The Executive is structured according to the Arab-brokered Ta'if Accord ending the 1975-1991 civil war. It distributed power between a 'triumvirate' of the President of the Republic (Maronite Christian), the prime minister as Head of Government (a Sunni), and the Speaker of the Parliament (a Shi'ite). Similar distribution of posts according to religion and sectarian group is replicated throughout the administration.

The domestic political agenda is strongly influenced by Syria. Lebanon maintains a close relationship with Damascus, and consults the Syrian leadership on all major issues, particularly on the peace process. There is, however, growing dissatisfaction with the Syrian presence, led mainly by the Maronite Christians. The Ta'if Accord provided for Syrian troop redeployment in 1992, but this has yet to be completed. The presence of around 300,000 low paid Syrian workers, in farming and construction, causes resentment at a time when unemployment is high, particularly amongst the Shi'ite populations in the agriculturally-rich Beka'a valley. The 11 September 2001 attacks in New York and Washington drew a clear response of support from Lebanon for the international coalition against terrorism, but Lebanon rejected the US classification of Hizbullah as a terrorist organisation, and resisted calls for freezing of their accounts. Lebanon co-operated actively on investigations into other suspected terrorist organisations.

A milestone in Lebanon's recovery after the civil war was the withdrawal of Israeli forces from South Lebanon in May 2000, the surrender of the Israeli-backed South Lebanon Army, and the UN's ruling that UN SC Resolution 425 had been implemented. Lebanon rejects the UN's demarcation line as the international frontier with Israel. The reintegration of the former occupied zone is under way, with state services gradually returning after an absence of nearly 20 years. The government has resisted appeals to deploy its army to the border. The 5500-strong UNIFIL peace-monitoring troops are to be reduced in numbers, to 2,400 by 2002, by decision of the UN.

The Shia Muslim militant group Hizbullah remains armed, and is engaged in a simmering conflict with Israel. Hizbullah won twelve seats in the 2000 elections. Beirut officially supports 'the resistance' against Israel, which is largely confined to challenging Israel's continued occupation of several hundred hectares on the Golan foothills known as the Sheba'a farms.

A priority issue in Lebanon is the resettlement of two to three hundred thousand Palestinian (mainly Sunni) refugees, who are considered potentially destabilising in the delicate demographic balance. There is a national consensus on the right of return of Palestinians. Roughly half the Palestinian refugees are housed in several camps with poor living conditions and are barred from most forms of employment and economic activity. Only a few have been allowed to settle as legal residents. UNWRA, largely funded by the EU, runs schools, medical care and shelter rehabilitation in the camps. With regards to the protection of vulnerable groups of population, Lebanon has joined several international agreements on human and civil rights. It acceded in 1997 to the International Convention for the elimination of all forms of discrimination against women, but has refrained from signing the Convention against torture. Its record on human rights, in the regional context, shows progress. Freedom of association and expression allow human rights groups to be supportive of change in Lebanon on a number of issues: the arrest and detention of Lebanese by Lebanese and Syrian security forces, the treatment of illegal migrants, and conditions affecting Palestinian refugees. A free press operates in Lebanon, though self-censorship restrains criticism of government and the internal security apparatus. The death penalty exists, but sentences have not been carried out for some time. Two events in August 2001 sparked condemnation: the arrest by the army of some 200 anti-Syrian critics (nearly all soon released), and the almost unanimous decision by the Parliament to reverse its agreement two weeks earlier in adopting penal procedure reforms.

There have been improvements to the rights of women. In 1994 Parliament ruled to allow women to open up a business without their husband's approval. And in 1999 'honour killings' of women by male family members were no longer considered exempt from criminal proceedings. Education is open to girls on an equal basis, women participation in the economy is good by regional standards, but few women are involved in politics. The government has encouraged EC-funded human rights projects, and is committed to the human rights principles of Barcelona. Lebanon participates in Barcelona activities, though is politically sensitive to any regional activity which involves Israel.

4.2. ECONOMIC AND SOCIAL SITUATION.

Macro-economic situation. [see Annex I for indicators]. The 1975-1991 war severely damaged the Lebanese economy. The burden of post-war reconstruction on top of debt accumulated during the war, has led to a crippling public debt at €30 billion, or 160% of

GDP, which ranks amongst the highest in the world. PM Hariri has inherited a daunting challenge in addressing the debt problem. The government has set its sights on reinforcing the liberal economic market reforms slowly set in place by his predecessor. PM Hariri immediately announced a package of measures to invigorate growth, and lowered tariffs substantially. Recovery is expected, but during 2001 was not yet evident. A deterioration in the regional situation due to the Afghanistan war of 2001 and the international drive against terrorism may have repercussions for the timetable for recovery in Lebanon.

During the early 1990's, the reconstruction effort provided a strong boost to GDP growth. At the same time, the hoped-for spill-over effect on the private sector and foreign investment did not materialise due to economic as well as political factors, including the deeply damaging effect of the civil war on Lebanon's human capital, the impact of the 1989 political settlement on the size and economic effectiveness of the public sector, including the administration, and the progressive weakening of Lebanon's competitiveness.

Throughout the latter part of the 1990's, growth rates declined, reaching 2% in 1998, and between -1% and 0% in 1999 and 2000. Debt service payments alone account for some 88% of 2001 budget revenue, placing greater pressure on the government to achieve budget cuts. The 2000 budget deficit reached 25% of GDP, or about 3.5 billion US\$. The fiscal deficit target in the 2001 budget has been revised to 18% of GDP. Central Bank foreign currency reserves, net of foreign exchange deposits held by local banks, declined by an estimated 5 billion US\$ since the beginning of 2000, mainly to defend the exchange rate stability of the Lebanese pound, which has been under strong pressure in 2001. On the positive side, large-scale transfers by Lebanese expatriates, reaching 2.7 billion US\$ in 1999 and an estimated 3 billion US\$ in 2000, enabled Lebanon to be a major net-importer of real resources, reaching 40% of GDP in 1999.

The government has largely relied on selling local currency Treasury bills to Lebanese commercial banks to fund its budget spending programmes. These banks held 72% of the public debt (mid 2001). In recent years, it has turned to issuing eurobonds on international capital markets, though again local banks are thought to have been the principal buyers, at rates more favourable than other similar rated sovereigns (due to the Diaspora), and at more favourable rates than for local currency debt (though nonetheless rated at single B, or more than 500 basis points over US Treasuries). As these limited funding sources become depleted, the government will have to rely more than ever on the success of fiscal reforms (VAT in 2002, primarily) and privatisation revenues to address its acute public finance difficulties over the medium term. The budget deficit is to be cut to 15% of GDP by 2003 through these improvements in revenues (to rise from 19% to 25% of GDP in response to VAT, primarily) and reductions in spending (from 44% to 40% of GDP, mainly by eliminating the subsidy to Electricité du Liban, which accounts for 3.5% of GDP). The sustainability of economic policies will depend on government's achievements in this area.

The set of measures proposed to Parliament in mid-2001, including 65 draft laws, as well as a draft VAT law, will have to pass the legislative hurdle and then be put into practice. Only then can their impact be assessed. The fundamental question still unanswered is whether the government will be able to harness the necessary political consensus to firmly and successfully implement the programme of economic reforms, and indeed to win over the full support of numerous powerbrokers and interest groups.

The government turned to the EU and IMF/World Bank in 2001 for help in meeting its debt obligations. Recent IMF and World Bank missions have commended Lebanon for its measures to liberalise the economy and to regain investor confidence, but have noted the inadequacy of their critical mass to stimulate growth. The outlook is likely to remain fragile throughout the MEDA II period. Restructuring of debt from high interest domestic debt to lower interest external debt, privatisation, VAT, tax reform, and streamlining of the public administration are expected to lead to improvements in the overall economic situation over time. The appropriateness of providing any possible macro-economic support will depend on the existence of a suitable government adjustment programme endorsed by the IMF, and which is demonstrably capable of stabilising the fragile fiscal and debt situation. Through MEDA, the EU can provide targeted support to Lebanon in a limited number of sectors as described in this country strategy paper.

Social situation. There now prevails significant poverty and income disparities as society is increasingly dichotomised between the very rich and the poor. According to the World Bank's crude Living Condition Index which measures the degree of satisfaction of basic needs, 32% of Lebanese households are at the low end of the index, 42% at the intermediate level while 26% reach the high end of the index. A UN study calculates that 35% of the population lack basic needs, ie. live below a poverty line of minimum living standards. There are up to an estimated one million poor in Lebanon today, of whom 75% are urbanised. Economic growth and reconstruction have favoured some regions, notably parts of the Beirut region, to the detriment of large parts of the country. It has also favoured services sectors over typically labour-intensive employing activities in agriculture and industry. Illiteracy reaches 15% to 20% in the disadvantaged areas of the Beka'a valley, South Lebanon and the North, and is acute amongst women. Unemployment, officially given as 8%, is at least double this figure according to studies, and is highest amongst the young. Tight monetary policy, a narrow tax base, and economic recession has led to declining real incomes of many salary earners. The risk of unbalanced growth is social tension and the exploitation of poverty by political organisations which have proved particularly effective in supplying much-needed services to the margins of society. Without adequate social integration, the problem of poverty, particularly in cities, may prove destabilising. Public welfare programmes and social safety nets are largely non-existent in Lebanon, are narrowly based, and often subject to mismanagement. Remittances from expatriates go some way to alleviating the situation amongst underprivileged communities. There is no national health care policy. The system favours equipment, curative and tertiary services driven by the supply of an abundant private sector, rather than primary health care and prevention. There is a need to develop national poverty reduction programmes, to establish a comprehensive social development policy, and to tackle health care.

Particular attention will be paid to the role of women in Lebanon. Rights of women are affected by forms of sectarianism (there is no civil marriage law), incidence of 'honour' killings, low participation rate in public and political life (only 2% of the 128 parliamentary deputies are women; only three of the 300 municipal councils are headed by women), when measured against university graduation rates (50% women), and contribution to employed labour force (27%).

Environment. Natural resources in Lebanon are scarce, and the rural environment is an asset under threat due to insufficient investment in water conservation and waste treatment, and poor planning. Except for the town of Tripoli, there is virtually no air and water pollution monitoring. Much of the 220 km coastline suffers from unregulated

sewage outlets, dumpsites and factory emissions, often near urban centres. The coastal town of Sidon has seven raw sewage outlets. Byblos is affected by underground water pollution. The former occupied South has been relatively unaffected by unregulated residential coastal development: it is an opportune time to design an appropriate strategy for coastline management and for the enforcement of legislation, when adopted. Land use planning is absent, as is a strategy for reducing solid waste levels, reducing air pollution from vehicle emissions, and protection of coastlines. There is a growing awareness of the economic value of clean beaches, healthy air and protected forests.

Human resources and education. Skilled labour is Lebanon's main asset. Yet education and training suffers from weak public institutional and management capacity, low efficiency and quality. The situation is aggravated by steady emigration, particularly amongst youth and middle-class, by high unemployment and low confidence in equal access to economic opportunities. The structure of the economy is particularly skewed towards the (public sector dominated) services sector, characterised by low economic productivity particularly in its public sector component, as well as by high labour costs and competition from other countries in the region (and cheap Syrian labour within the country).

The private sector is an effective force in Lebanese education, and has absorbed the best skills in teaching and administration. Total national spending on education is high (9% of GDP), with 60% of this from private sources. Adult literacy reached 85% in 1997 (65% in 1972), primary schooling is almost universal, and net enrolments in secondary education are around 50%. Post-secondary enrolments are around 25%. Gender differences are not particularly significant. Government recognises the shortcomings in the education system, and has launched a number of reforms, though not all these are in place. These include developing an information system in support of the national education strategy, reforming the administrative capacity of education strategic planning, rationalisation of teaching staff management, improving teacher training/inspection and counselling/examination and evaluation.

At the post-school level, there is a well identified need for vocational training schools (this is based on a European Training Foundation study). Particular sectors targeted for increased manpower skills are agriculture, 'métiers d'arts', and textiles. This form of training, based on close linkage with market needs and linkages with industry and services, benefit the overall employment situation.

4.3. MEDIUM TERM CHALLENGES

Lebanon faces the medium term challenge of carrying through its reform programme in order to:

- turn round a large budget deficit through advancing on fiscal reforms, on privatisation and on improvements in competitiveness
- finance needed social sector investments and to provide investment in human resource development and education.

Success in improving social services is dependent on the ability to put in place the fiscal reform package, including VAT, a modernised income and company tax, and more efficient tax collection, plus effective privatisation which either raise earnings or save on expenditure.

The real test of determination is the pace and depth of privatisation. Four sectors will be offered to strategic investors: electricity, where there is substantial non-collection of bills, fixed line telecommunications (and re-tendering of mobile phone licences), water authorities, and Middle East Airlines. Fundamental to privatisation is the establishment of adequate regulatory mechanisms, which are transparent, fair, independent and clearly defined in legal and economic terms.

Lebanon has to reverse this labour flow through new investments in services, high tech industry, and manufacturing. Lebanon will need to invest in teachers and schools to satisfy demand.

Policy reforms are urgently needed to improve emergency and health services in poorer areas, rehabilitation of public hospitals, medical insurance (only half the population is on public or private schemes), training of nurses and para-medics.

5. OVERVIEW OF CO-OPERATION PROGRAMME

5.1. GENERAL AID SITUATION

The EU and its Member States remain Lebanon's leading donor. During MEDA I, the total yearly EU aid flows to Lebanon averaged € 260 million (1995-1999). This represents nearly 0.5 per cent of GDP. Roughly fifty per cent is disbursed as grant aid, the rest as soft loans.

Principal donors (1992-2000) are the EU (Member States, EIB, Commission : 31% of all foreign aid), World Bank (17%), Arab funds (31%). At end-2000, the World Bank loan portfolio for Lebanon stood at € 840 million. Lebanon's ability to absorb and disburse aid funds, grant or loan, is structurally weak. Aid disbursements average € 57 million a year, a relatively low rate for a country considered in the middle income level of developing countries. The average income (GDP) per person is €5,200 placing Lebanon beyond the intervention thresholds of some donor aid programmes.

5.2. EC CO-OPERATION

Since the signing of the 1977 Co-operation Agreement, Lebanon has received almost €1.8 billion in EC assistance:

- € 553 million in EIB loans (as well as €7 million Commission special loans, €3 mill risk capital managed by EIB);
- € 332 million in EC grants (four Protocols, MEDA I, other budget lines);
- more than €900 million from Member States (Italy 50%, France 32%, Germany 14%).

There has been a conscious strategic shift in the emphasis of EC assistance away from post-war reconstruction and rehabilitation in the early 1990's, with its focus on infrastructure and rural development, to the Barcelona priorities of economic transition and reform, and to social programmes in support of poverty alleviation and income balance.

EC funding to Lebanon since 1977 has been provided through four Protocols. The fourth, and last, was signed in 1992. Total EC financial support for Lebanon provided by the

Protocols and MEDA amounted to € 330 million up to 2000 [see Annexes II and III for further details]:

- Four Protocols (1977-1995) , other budget lines €163.7 million
- MEDA I (1995-2000) €166 million.

MEDA I (1995-2000)

With Lebanon signed up in 1995 to the Barcelona Declaration and Euro-Med Partnership, aid allocations expanded to meet the challenges of economic transition and reform, the rehabilitation of public institutions, industrial modernisation and balanced social development.

Six main actions have been financed under MEDA I :

- ***Assistance for rehabilitation of the Lebanese administration (€38 million)***. ARLA is designed to strengthen Lebanon's planning and operational capacity of ministries, state agencies and institutions in carrying out social sector activities, signed 4/08/1998.
- An ***Investment Planning Programme (€21 million, plus €4 million Protocol funds)*** provides management support to state institutions responsible for infrastructure and utilities, viz. energy, water, transport, waste, environment, industry, and planning. Signed 28/06/1999.
- The ***Industrial Modernisation Project (€11 million)*** was signed on 2/06/2000 to help private sector manufacturing at SME level to compete more effectively in local and export markets.
- A ***Structural Adjustment Facility (€50 million)*** was signed on 7/05/2000 to assist with Lebanon's economic transition and stabilisation, including the introduction of VAT. The first tranche of €30 million has been paid; the second and final payment is under consideration.
- A ***Social and Economic Development Fund (€25 million)*** was signed in December 2000 to establish a social development mechanism to service Lebanon's more vulnerable communities at risk in economic transition. This provides micro-credit and assistance to NGOs, municipalities and other agencies concerned with rural and urban social welfare and economic needs.
- ***EIB interest subsidy (€21 million)*** for the Tripoli waste-water environment sector loan.

Evaluating EU programmes in Lebanon is crucial for shaping new actions. Though the majority of MEDA I projects are only in early stages of implementation (at end 2001), continual assessment and monitoring will be carried out in order to learn, during MEDA II, from the experiences and evaluation of actions funded under MEDA I. The first results of a comprehensive evaluation are anticipated before the end of 2002, and these will be used in annual reviews of the National Indicative Programme.

In addition to MEDA I, Lebanon has benefited from €80 million in grants to NGOs from budget lines for rehabilitation, co-financing of NGOs, ECHO humanitarian/emergency assistance, in combating illicit drugs, and for environmental issues. In 2000, five rehabilitation project were agreed for Lebanon (total €9.2 million), largely in response to the needs of South Lebanon after Israeli withdrawal in May that year. The rehabilitation projects were:

- 'Programme for the rehabilitation of South Lebanon : Restoration of housing and micro-credits', with Misereor (Germany) and Caritas (Lebanon)
- 'Economic and social rehabilitation of South Lebanon', with Première Urgence (France) and Association d'Aide au Développement Rural (Lebanon)

- 'Agricultural rehabilitation of South Lebanon', with Istituto per la Cooperazione Universitaria (ICU, Italy) and the Ministry of Agriculture
- 'Capacity building and support for ex-prisoners and families in South Lebanon', with the Centre for Study of Ethnic Conflict, Queens University (Ireland)
- 'Income-generating activities in four Palestinian camps in Lebanon', with Ricerche e Cooperazione (Italy) and UNRWA.

ECHO made a significant contribution in 2000 to alleviate the humanitarian consequences of the Israeli withdrawal. It provided a grant of €4.2 million for 12 NGO actions in health, physiological support for former prisoners, farming, basic household support, schooling for children, handicap support (Palestinian refugee camps), and humanitarian demining. Demining remains a priority for EC assistance to South Lebanon, at present through non-MEDA funding. A Level One Mine Impact Survey and a humanitarian demining programme are planned for 2001 (total €3.1 million) from the **rehabilitation** budget line.

EIB lending in Lebanon up to 2000 stood at € 553 million, with an additional €3 million in risk capital and €7 million as special loans from the Community budget. The Bank has focused on infrastructure, such as electricity distribution, Beirut airport, Beirut port, water/sewage (notably, at Tripoli), hotels and industrial modernisation. The Tripoli waste-water loan carries an environment-linked interest subsidy grant of €21 million from MEDA. EIB has faced difficulties in loan disbursements in Lebanon, and was obliged to cancel two loans in 2000: the coastal pollution project (€50 million), and a €11 million loan for 'the National Centre for technical control', citing poor implementation capacity and delays. Disbursement rates for EIB loans are low.

The use of the risk capital facility – managed by the Bank – presents a useful tool for helping to finance private and financial sectors. Interest subsidies on environment projects will help Lebanon address very serious problems faced in such areas as waste-water collection and management.

5.3. CO-OPERATION OF EU MEMBER STATES AND OTHER DONORS

Several of the Member States have bilateral aid programmes. These account for just under half of the total combined EU assistance to Lebanon since 1992. The leading Member States contributors have been Italy (28.4% of total EU aid), France (14.5% EU aid), Germany (7.4%).

The three principal EU donors are:

- **France** provides technical assistance and training in education, scientific research and in public administration. It has provided funding for reconstruction in water, electricity, civil aviation, education and health.
- **Germany's** aid is targeted at vocational training and the environment.
- **Italy.** The leading Member State donor, it concentrates its assistance on the water sector (supply, waste-water), environment, agro-technologies, health and technical assistance. Italy has launched an initiative for the rehabilitation of South Lebanon.

Other Member States contribute directly through non-governmental organisations : **Austria** – education, health care, support to NGOs; **Belgium** – primary health care, vocational training; **Finland** – health care, education; **Greece** – health care, environment; **Netherlands** - support to UN agencies, small grants to orphanages, legal issues;; **Spain** –

agriculture, vocational training, disabled, micro-credits; **Sweden** – health care, disabled, environment, education, technical co-operation, democracy and human rights; **United Kingdom** – environment, vocational training, education, health care, human rights, support to NGOs.

It is worth noting that upon the Israeli withdrawal from South Lebanon, EC and Member States have contributed to the special effort in demining. The main contributors are : EC, Denmark, France, Germany, , Finland, Italy, Sweden and the United Kingdom.

Other donors support. The **World Bank** has provided an average of €120 million a year in new lending to Lebanon, since 1992. It has a total of €840 million in its loan portfolio, of which 42% is disbursed (mid-2000). Bank lending covers a broad range of development activities: post-war emergency recovery, irrigation, health, solid waste treatment, education, administrative rehabilitation, roads, agriculture, power sector, and vocational and technical training. The World Bank, like other donors, faces problems of delays in project design, contract conditions and delivery mechanisms.

Two new loans were signed in 2000 for education (€62 million) and municipal infrastructure (€88 million); and in 2001 for community development (€22 million).

The **Arab Gulf states** are significant donors. The **Arab Fund for Economic and Social Development** committed €240 million from 1995-1999, mainly in infrastructure, as well as in human resources development. **Saudi Arabia** has provided €165 million over the same period, similarly channelled to infrastructure (hospitals, roads, water, in recent years). This is managed through the Saudi Development Fund. **Kuwait** (€137 million) focuses its investments in transport infrastructure, services, and social development.

The **United States** operates a non-governmental programme directed at NGOs working in rural areas, including the South, and – as of 2000 – to support WTO accession. Annual allocations range between €12 and €15 million in grants. This is likely to rise to €45 million a year in line with trade liberalisation improvements. The **UN system** allocates around €16 million a year in technical assistance for health, refugees, rural development, education, social development and agriculture, via its family of agencies.

Overall, EC aid disbursement rates are low (23% of MEDA I has been paid at mid-2001, excluding the interest subsidy). Assistance delivery has suffered delays. The national aid co-ordinator, the Council for Reconstruction and Development (CDR), will need to examine how it can cut through some of the management delays associated with approving tender documents, selection of experts, co-ordinating with line Ministries. The strategy for co-operation will take particular account of the need to improve Lebanese capability to implement aid programmes (deconcentration starting in 2002 ought to go some way to improving the situation). The resources of the MEDA I ARAL project will be considered for this purpose. Emphasis will be given to sector adjustment facilities where appropriate. An effort will need to be made to ensure consistency between EC and other donor programmes.

6. EU RESPONSE STRATEGY

6.1. GENERAL PRINCIPLES AND OBJECTIVES FOR CO-OPERATION

The Union's relationship with Lebanon has evolved from the 1977 Co-operation Agreement, which emphasised trade and financial and technical arrangements, to the three pillar objectives of the Euro-Mediterranean Partnership and Barcelona Declaration:

political dialogue, economic co-operation with eventual free trade, and development of civil society, with considerations for human rights and democracy placed firmly on the agenda. Lebanon is committed to Barcelona, to signing an Association Agreement, and to embedding this Agreement as part of its strategy of economic liberalisation and deregulation.

The EU approach to providing technical and financial co-operation needs to take account of the medium term challenges facing Lebanon, which are to be addressed through: the government's economic adjustment strategy (while also taking account of the fact that MEDA cannot provide macro financial assistance), for which implementation of the Association Agreement is an important component; of the need to boost Lebanon's competitiveness in trading markets; and of the social agenda (including poverty alleviation through investment in social sector actions, and in human resource development).

The EC co-operation effort will concentrate on the areas where it has the highest value added in comparison to other donor assistance.

With this in mind, the EU strategy for 2000-2006 will focus on support to

- institutional, legal and regulatory reforms;
- structural adjustment, including human resources development, market opening, stimulation of employment-creation, poverty alleviation through carefully targeted social programmes, environment;
- consolidation of the rule of law, good governance and human rights.

The strategy will assist Lebanon to pursue its reform programmes in these areas. EU support will be conditional on implementation of appropriate reform measures. This strategy will be implemented in compliance with the general policy objectives as anchored in the Barcelona Process and taking into account the general and specific guidelines contained in the Joint Council and Commission Declaration on Development Co-operation (November 2000), and the Communications on Conflict Prevention (April 2001), on Human Rights (May 2001), Mainstreaming Gender Issues (June 2001), and on the Strategy for the integration of environmental considerations into development policy (May 2001)

The response strategy in this CSP will be coherent with Lebanon's national strategy for sustainable development prepared in other international contexts, such as the UN Commission for Sustainable Development and the Mediterranean Action Plan. The NIP has been designed to ensure complementarity with the activities of other major donors in the country.

Particular attention will be paid to opportunities for including environmental considerations in all development sectors and activities proposed in the NIP 2002-2004. Environmental Impact Assessments (EIA) should be provided prior to the funding of any large infrastructure projects.

6.2. PRIORITIES AND SPECIFIC OBJECTIVES FOR CO-OPERATION

The Commission's overall strategy towards Lebanon, based on the experience of MEDA 1, should focus on four specific priorities:

- ◆ Support for the economic reform process to ensure viable sustainable growth and development. This will focus on effective implementation of the Association Agreement.
- ◆ Support for sustainable development and poverty alleviation, including support for environmental protection.
- ◆ Support for human resource development.
- ◆ Improving human rights.

These objectives have clear cross-sectoral implications. Environment protection, poverty alleviation, education and human rights go hand-in-hand. EC co-operation will respond to particular internal regional needs in Lebanon, both in the South of the country which has yet to be integrated with the national economy, the Bekaa Valley, Aka, and the North.

Through the TEMPUS III programme the EU seeks to assist Mediterranean partner countries to adapt their higher education systems to new socio-economic and cultural needs. The objectives of TEMPUS III will be extended to also cover enhanced understanding between and rapprochement of cultures and development of free and flourishing civil societies.

6.3. SUPPORT TO ECONOMIC REFORM

In support of Lebanon's implementation of the Association Agreement, EC strategy will focus on policy measures to rebuild the decision-making capacity of institutions, improve regulatory frameworks, encourage best practices of good governance, and on structural adjustment and fiscal reform to ensure that improvements in the trade sector are complemented by economic stability.

Trade reform and the Association Agreement. Lebanon has already begun to identify the process of reform related to joining WTO and to concluding and implementing the Association Agreement. Measures taken, such as a new customs law to simplify and speed up cumbersome and outdated clearance procedures, cuts in customs duties, on the abolition of tariffs on raw materials and semi-finished goods, an open skies policy on flights into and out of Beirut, and an increase in subsidised loans to small enterprises, will help to boost demand.

To support and secure policy reforms which equip Lebanon to implement a modern and sustainable trade policy, with appropriate aid mechanisms, and to ensure they are carried through, strategy to accompany the implementation of the Association Agreement will be achieved by a number of actions, including:

- helping the customs authorities to modernise to permit them to adopt international tariff classification standards, to allow for electronic declaration of goods, eliminating unnecessary and costly clearance costs, and introducing a fair disputes settlement system.
- creating an effectiveness standardisation body. The national agency is LIBNOR. It delivers services to industry, regulates technical standards and assesses conformity of products available on the Lebanese market. There is no accredited testing laboratory. A significant effort to upgrade the publication and application of standards and technical regulations will assist Lebanese trade and reduce the incidence of non-trade barriers. A move towards harmonisation with European standards and EU practice

will eventually allow Lebanon to gain improved access to EU markets. EC strategy should be to encourage a strengthening of links between European standardisation bodies at national and EU-level, and LIBNOR. The private sector can actively participate in drafting standards. The EC could help reinforce this institution, and through the MEDA I Industrial Modernisation Programme provide manufacturers and service providers in Lebanon with reliable, systematic data on EU and global markets, import requirements, standards, and business partners.

- developing technical advice given to farmers on what to produce for the export market, how to comply with phyto-sanitary requirements, on ensuring rapid delivery from field to market, by investing in support services in cold stores, transport and marketing information. This will cross-cut with social or rural development programmes, and provides a practical means of supporting Lebanese trade opportunities with its Euro-Med and Arab partners.

In view of the far-reaching implications over time of the Association Agreement, the authorities should be supported in a targeted awareness campaign directed at businesses, chambers of commerce, professional institutions, and other appropriate bodies. This will enhance the sense of shared partnership between the Union and Lebanon, and between Lebanon and its Euro-Mediterranean neighbours. Support will include actions to improve the overall investment/legal environment so as to improve Lebanon's global attractiveness to foreign capital.

Fiscal and financial reforms. Lebanon is faced with the challenge of rebuilding its revenue base and system, and bringing public expenditure under control. High domestic interest rates needed to sustain monetary stability put the brakes on business activity. Fiscal reform is needed, and EC strategy should encourage the authorities to reform the tax system, manage debt more efficiently, and press ahead with privatisation both to reap one-off revenues from sales of state assets, and from reducing their drain on the public exchequer. Fundamental to fiscal reform is the introduction of VAT in 2002. This is under way, with the support of €50 million MEDA structural adjustment facility. The Ministry of Finance's tax administration requires institutional modernisation and computerisation, linking all revenue units (customs, large tax-payers, income tax, professional tax, VAT), and registration of all tax-payers. Steps are being taken to improve the monitoring of tax avoidance and collection, and to introduce a general income tax. This will lead to a better spread of the tax burden, and will give confidence that the system is fair and just. Any budget assistance that might be provided to Lebanon will be dependent on a sustainable macro-economic programme supported by the IMF.

Privatisation is a key policy for government. State agencies to be sold are the MEA airline, Electricité du Liban, the fixed line telephone company, and water authorities. The energy sector requires substantial restructuring, particularly in electricity supply and distribution, for which rehabilitation of power plants and networks is needed. The restructuring will need to ensure the sustainability of energy systems, and their conformity with correct environmental considerations. The development of regional (MED/EU) energy interconnection systems is important. EC co-operation will be directed at assisting government to handle the process (legally and administratively), and to avoid delays over restructuring or worker redundancy negotiations. Privatisation receipts are crucial for overcoming the medium term debt problem.

While Lebanon has a relatively open financial sector, there is room to improve the regulatory environment and prudential control over banks (whose capitalisation levels need to be increased), and over insurance companies and securities companies. In view of

future market access arrangements for the services sectors under the Association Agreement, preparatory steps to raise the regulatory framework to EU standards will assist the later application of the Agreement. Attention will be given to assisting the application of Lebanon's new law on money laundering, in line with standards set by the international Financial Action Task Force.

6.4. SUPPORT TO SUSTAINABLE DEVELOPMENT

The EC will support the development of a national poverty reduction programme, and the establishment of a comprehensive social development policy to make social sector services available to all. EC strategy will help to channel resources to help people create small artisan and agricultural businesses, in their communities, using small credits and benefiting from service centres which can provide technical advice on their business, throughout the loan repayment period. Highly vulnerable groups who are too regularly by-passed by social programmes will be especially targeted, such as street children and very low income households headed by women. Support will be provided to farmers and for small/medium scale agro-businesses through the establishment of rural agricultural support centres, which will provide practical advice and technical assistance needed for the start-up of new small businesses, crop diversification, crop production, marketing and packaging. These will be spread throughout the country (four to five regional centres). The impact will be a rise in employment, and in incomes of the rural and urban poor, and of farmers.

An EC initiative on social programmes was launched under MEDA I with the creation of a Social and Economic Development Fund (€25 million) within the CDR. This new institution will provide funds for aid projects, including loans and grants and technical assistance for job creation or revenue generating projects in priority development zones affected by severe poverty. This Fund, under implementation during 2001, will become effective at the end of 2001. The activities to be supported in the social sector will be complemented by those of the Social Fund. The MEDA I programme 'Assistance for rehabilitation of the Lebanese administration' (€38 million) is an additional instrument for developing capacity-building in public agencies dealing with social programmes and poverty alleviation. Alleviating poverty will continue as a priority in MEDA II, with an initial contribution of €15 million for a 'Social and Rural Integrated Rural Development Programme' over the period 2002-2004. Where appropriate, EU assistance for social issues and poverty alleviation (including Palestinian refugees) will be provided by specific budget instruments dealing with rehabilitation and demining (to include support for capacity-building in developing a national demining strategy in Lebanon).

On environmental issues, some progress has been achieved through major lending donors (EIB, World Bank) on infrastructure projects, usually for waste disposal, as well as through the EU-financed LIFE programme. Lebanon is also participating in three on-going regional SMAP projects and benefits from funding under the METAP Programme (grants from EIB, World Bank, EC, UNDP) covering mostly solid and liquid waste, as well as coastal zone management. But high priority actions needed include proper urban air quality management systems, disposal of urban and factory waste, unregulated sewage disposal along the coast, urban traffic management, land use planning, especially for coastal areas, and control of soil erosion. The weakness in environmental management extends to the preservation of cultural heritage areas, and the development of sustainable and environmentally sound tourism. Additionally, it affects water supplies. While the

country receives adequate rainfall, there are areas of shortages, and some shortages are exacerbated by poor standard (or the absence of) water treatment plants. EC strategy should seek to co-operate on the policy planning level, using the MEDA I investment planning programme to prepare a pipeline of aid projects, such as Urban Traffic Master Plans, and regional land use plans.

6.5. DEVELOPMENT OF HUMAN RESOURCES

Complementing EC support for poverty alleviation and social development strategies, it will be necessary to prepare for accompanying measures to provide education services where judged most required, principally amongst lower income groups, to cover re-education as well as vocational training to offset the effects of regulation and privatisation. The EU has developed and implemented various mechanisms to re-integrate redundant work-forces into economic life following restructuring and privatisation of industries. This will require a strengthening of vocational training facilities. This will be done in co-ordination with the World Bank and UNDP, both active in this field.

In addition, in recognition of the important role of higher education in the field of human resource development and of educational exchange in promoting understanding between cultures in the Euro-Mediterranean region, the reform of the higher education system is a priority area. In 2002 the Commission intends to propose the extension of the TEMPUS programme to the non-candidate countries of the Mediterranean region. This programme which is already operating in the Western Balkans and NIS regions, and funded by the national envelopes of the CARDS and TACIS programmes, entails co-operation between eligible countries and EU institutions. The programme aims at the development of the higher education system with a view to better responding to the socio-economic needs of the partner country and to promoting understanding between cultures.

6.6. SECURING ADEQUATE STANDARDS OF INDIVIDUAL AND HUMAN RIGHTS.

There are substantial needs for the improvement of law-enforcement authorities as well as of the functioning of the judiciary, including improved conditions for prisoners, and support to NGOs working in this field. The EC attaches priority to the rule of law, to fair play and justice, and to individual human rights, and its strategy should be to extend its own experiences in this area to Lebanon, to support the development of such rights, and to encourage Lebanon to accede to international conventions where necessary. The EC should help to improve the understanding of law and legal processes.

Lebanon's human rights image is affected by the conditions in Palestinian refugees camps, and by the detention of citizens by security forces without regard to legal procedure.

6.7. COHERENCE WITH OTHER EU POLICIES.

The strategy proposed for EC co-operation, its objectives and areas of intervention, are coherent with EU policy on trade, development, civic society and with the Euro-Mediterranean principles set out in the Barcelona Declaration and reconfirmed in the Marseilles Conclusions.

Support for trade and economic reforms take full account of EU policy and interests in Lebanon harmonising its legislation with the EU acquis on the internal market in its bid to join the WTO, and ultimately in achieving free trade with the EU and its other free trade partners. This coherence extends to the application of the rule of law regarding investment and commerce, where EU businesses and investors will be drawn by a more transparent and stable legal and regulatory climate.

Support for social balance, poverty alleviation, environmental protection and the promotion of human rights are compatible with EU policy towards its Mediterranean partners, and with its development policy in general towards third countries. The strategy will take full account of the Euro-Med Regional MEDA Programme and its implications for regional integration. The strategy, and programmes to be supported, will be coherent with conflict prevention measures and approaches. Support for economic reforms will be co-ordinated with such regional programmes in the industrial sector as 'EURO-MED Market', and the 'Innovation/Technology/Quality' programmes, and the future programme on SME development.

6.8. COMPLEMENTARITY WITH MEMBER STATES AND OTHER DONORS

Member States. The proposed strategy complements Member States bilateral co-operation activities in Lebanon (Italy, France, Germany, Spain account for 20% of total aid, outside of EC support from the Community budget). Member States assistance covers a variety of instruments (grants, soft loans, commercial credits tied to grants) and take the form of technical assistance, training, studies and infrastructure construction. The bulk of assistance goes to environment, health, education and training, and agrotechnologies. Funding of infrastructure in water and waste will benefit from EC-backed policy actions both in economic reform (privatisation of water authorities) and in environmental protection (such as strengthening of standards on industrial pollution levels, and on waste treatment). Education sector strategies will equally complement those of Member States.

Complementarity of actions will be effectively ensured through co-ordination with the Member States in Beirut. Embassies are regularly informed in advance and debriefed after programming and project missions from the Commission, as well as political and economic co-ordination meetings chaired by the Presidency. As required under the amended MEDA Regulation these contacts and exchanges of information will be intensified as EC strategy is defined and carried out. Contacts with Member States is similarly provided for in Brussels, through the various management committees. The purpose will be to involve the Member States at all stages in the preparation of the EC strategy for Lebanon. Equally, every effort will be made to ensure co-ordination and complementarity between activities financed under this NIP and projects funded by Member States and other donors in the country.

Other donors. The proposed strategy is in line with other key players such as the World Bank. In view of the prominent role of the Arab Gulf States it is proposed to ensure fuller co-ordination with the individual Arab Funds. Co-ordination with the World Bank is comprehensive and exchanges of information take place in Washington, Brussels and Beirut. Bank loans in support of poverty alleviation (through its community development

project), for infrastructure and for industrial modernisation will have specific interest in reinforced policy measures in trade, fiscal reform, education, social and environmental actions proposed in the EC strategy.

The analysis which give rise to this strategy fit well with UN findings in the UNDP 2000 external aid report for Lebanon. Co-ordination with other donors will be strengthened, namely via the UN agencies and through direct contacts with other donors to establish a coherent complementary approach to EC co-operation.

The National Indicative Programme for 2002-2004 includes the leading priorities for EC assistance, leaving other priorities for subsequent phases during the period covered by the Strategy Paper. With the Association Agreement expected to be concluded by 2002, the consequent trade reforms are to be supported from the outset. Early implementation of fiscal and financial reforms are important for securing necessary economic reforms as part of Lebanon's economic restructuring. In view of the urgency of securing better social equilibrium and poverty alleviation, a social programme will form part of the 2002-2004 NIP. Issues related to human rights, democracy, and to vocational training, will be dealt with as a matter of priority in the second phase of assistance (2005-2006).

6.9. RISKS

The implementation of the proposed strategy is subject to varying degrees of risk and uncertainty, associated either with the regional and internal political and economic situation. An assessment of the risk, and of possible consequences to the strategy and the NIP programmes already identified, is set out below:

Deterioration of the Arab-Israeli conflict, with spillover effects on Hizbullah, Palestinian refugees, and more radical Palestinian groups in Lebanon. This could draw resistance movements into more open conflict with Israel, provoke retaliation, and destabilise the already fragile security of Lebanon. Timely and effective launching of economic and fiscal reforms, social programmes, and human rights actions will help strengthen Lebanon's ability to withstand this scenario.

Deterioration in public debt, economic recession, and a possible financial collapse. Failure of the Bank of Lebanon to maintain support for the Lebanese pound, loss of confidence in monetary strategy, and a 'calling in' of the debt held mainly by Lebanese banks, could see a substantial devaluation, economic destabilisation, and worsening of the recession. This would jeopardise undertakings of the government on VAT, other tax measures, and would affect the timetable for comprehensive macro-economic adjustment necessary to restructure the economy. The proposed strategy for economic reforms should consistently be maintained, since their rationale remain valid even when faced with the shock of severe devaluation.

Assertive action taken against targets in Lebanon in response to 11 September 2001 attacks in US. By selecting certain groups, principally Hizbullah, for retaliatory measures, there is the risk of compounding internal political instability, and the collapse of the government. This would negatively affect the pace and direction of economic progress, and of implementation of the Association Agreement.

Deteriorating income and social disparity. A widening gap in wealth and access to services between rich and poor, or one political class over another, would run the risk of

social unrest and political instability. This would enhance the case for pressing ahead with economic and social programmes envisaged in the strategy.

Implementation capacity of the Lebanese authorities. While the strategy seeks to select instruments which are better suited to the limitations of Lebanon's absorptive capacity, and despite the investment of such programmes as the Rehabilitation of the Lebanese Administration under MEDA I, there is the risk that the timetable of actions proposed in the strategy will slip. This is most likely to affect, in the NIP, the rural development programme most, the environment programme moderately (due to the interest subsidy content, which will depend on EIB loan arrangements, and on the trade reform measures least, which is envisaged as a sectoral adjustment facility, a form of budget aid with tight conditions attached).

7. LEBANON: NATIONAL INDICATIVE PROGRAMME 2002-2004

7.1. BACKGROUND

Lebanon is in the final stages of concluding an Association Agreement. An Interim Agreement applying the trade provisions is expected to enter into force following signature of the Agreement. The start of accession arrangements with the WTO have begun, and membership is envisaged in 2004. The challenge facing Lebanon is to build the administrative, legal and institutional foundation needed to put the Agreement into effect.

Market liberalisation, reducing the role of the administration in economic activity, and deregulation are essential components of the official strategy to reinvigorate growth, for which the private sector will be the engine. A complement to this approach is fiscal reform. Reducing tariffs requires alternative tax sources. VAT is to be introduced in 2002; other reforms in income and company tax are planned in the near future. Privatisation revenues will help alleviate pressure on the budget deficit.

Economic reform has social consequences. To tackle regional income disparities and poverty, and to provide the means for low income groups, and women in particular, to develop income-generation opportunities, a rural integrated development programme will be proposed in order to match the productive and business skills of the rural and urban poor to market demands and opportunities;

The Programme for 2002-2004, aiming at sustainable development, will build on the work begun on economic transition, modernisation and social support begun under MEDA I.

To meet each of these challenges, the following priorities are identified for the period 2002 to 2004:

- ◆ **Priority 1:** Development of the trade sector/implementation of the Association Agreement. This will involve modernisation of the legislative, institutional and regulatory framework necessary for launching the trade-related aspects of the Association Agreement, and means to improve export competitiveness and capability of manufacturers, especially agro-industry.
- ◆ **Priority 2:** integrated rural development programme for alleviating poverty. This will take the form of a national-based programme to assist farmers and agro-industry to develop appropriate crops for export, including to the EU (following Association Agreement), to develop marketing, storage and handling methods; this will assist the

rural poor, many of whom are in agriculture, and small and medium scale agribusinesses.

- ◆ **Priority 3:** support for environmental protection, to enhance the capability of national environmental agencies to prepare and enforce legislation to protect the coast, to carry out coastal zones management, to protect natural sites, and possible interest subsidies on EIB loans for wastewater facilities.
- ◆ **Priority 4:** TEMPUS programme – for support for exchanges and co-operation in higher education, aimed at responding to the socio-economic needs of Lebanon, and to a better understanding between cultures.

The total resources indicatively available to Lebanon under the NIP 2002-2004 amount to €80 million .

7.2. CONTENTS OF THE NATIONAL INDICATIVE PROGRAMME 2002-2004

DEVELOPMENT OF THE TRADE SECTOR.

1. Justification. Lebanon will prepare to implement the trade provisions of the Interim (Association) Agreement expected to enter into force during 2002. This will need a substantial effort in modernising trade legislation and the rules affecting business, and the creation of institutions to carry through trade reforms and Association Agreement obligations (in competition, standards and technical regulations, intellectual property protection, anti-dumping). These laws, and institutions, do not yet exist, or are embryonic, and require strengthening. To benefit from the Agreement, and improve the trade balance, exporters will need to have better access to information concerning market arrangements and import rules for EU and other markets, particularly for agricultural and processed agricultural products. In view of the present problems over customs classification and clearance at ports, a significant streamlining of customs laws, procedures, and the entire customs administration is considered fundamental to application of the Agreement, and to fulfilling Lebanon's trade liberalisation strategy.

2. Specific objectives. Full preparation for effective application of the Association Agreement is the purpose of this support. This overall objective will have several components:

- ◆ Support for modernisation and harmonisation of legislative and regulatory framework of Lebanon's internal market with that of the EU; to create an appropriate environment for business to meet the challenge of free trade; and support for a targeted awareness campaign explaining the Agreement to the business community.
- ◆ To establish suitable investment protection and promotion, through a modernised and streamlined investment code, and its application, thus overcoming obstacles to foreign capital wishing to enter or leave Lebanon.
- ◆ To provide support to exporters seeking precise information on markets in the EU and elsewhere, and to assist in improving competitiveness, especially in agro-industry, so that the Agreement is seen to yield opportunities in all aspects of trade.

3. Expected results. On the trade front: progress towards arrangements on anti-dumping, removal of non-tariff barriers, drafting of competition law, preparation of mechanisms for intellectual property protection (preventing counterfeit in patent, copyright, trade marks, industrial design), progress towards harmonisation with European standards and EU technical regulations, strengthening of accredited testing laboratories to

facilitate trade in goods. Improvements to food industry standards regarding phyto-sanitary requirements for Lebanese exports, and technical help in addressing niche markets. Improvements in business sector competitiveness will result. A modernised customs administration will be developed. A trade information system will be created, to increase awareness of export and import markets. A reformed investment code will benefit foreign capital access to Lebanese markets, to privatisation sales, and to joint venture business partnerships, on a fair and transparent basis, back by proper rule of law.

4. Performance indicators. Relevant new trade laws adopted; number of complaints over customs delays and tariff classification; harmonisation/approximation of technical regulations, conformity assessment procedures, and standards; number of trade enquiries received, and followed up, at the trade information centre; qualitative improvement of testing laboratories and conformity assessment bodies in order to obtain their accreditation by international accreditation bodies.

5. Brief description. Technical assistance and training, and equipment, are required for:

- ◆ **Modernisation of legislative and regulatory framework.** Updating laws regarding international trade (some dating from 1950s), streamlining of procedures for issuing licences and validations.
- ◆ **Reform of customs procedures and administration** in light of the AA and WTO accession: reform of customs tariff structure, codes classifications and valuation, clearance systems at ports, adoption of rules of origin; computerisation of exchange of trade data.
- ◆ LIBNOR , or the introduction of a comprehensive body of **standards**, and encourage the international accreditation of private Lebanese certification agencies, and the set-up of testing laboratories, to serve importers and exporters.
- ◆ Carrying through **incentives for investors**, such as removing administrative and procedural obstacles facing foreign investors, providing legal guarantees and protection, and arbitration, ‘one stop shop’ approach in issuing investment licences and permits.
- ◆ Creating a **trade information centre** to serve the private sector, importers and exporters, in finding markets internally and abroad. Support for a **public awareness campaign** for businesses and the public.
- ◆ Preparations of laws and institutions required for carrying out rules on **competition and intellectual property rights** (preparatory work on a Competition Council, Patent Office, and legal means to enforce IP protection, when Association Agreement obligations become effective).
- ◆ **Lebanon’s agro/agro-industry** to adjust to modern market demands for food products, to meet health and phyto-sanitary requirements.

6. Timetable. Project to begin during 2002.

7. Conditions. Lebanese government to adopt new trade legislation in line with AA requirements; to proceed with Association Agreement; to proceed with WTO accession; good governance and budget transparency.

8. Indicative budget. €45 million; a sectoral adjustment facility is judged the most effective mechanism, linked to a clear set of conditions.

SOCIAL AND RURAL INTEGRATED DEVELOPMENT PROGRAMME.

1. Justification. With around one third of the population lacking basic services, there is evident need to bridge income gaps, alleviate poverty, and structure growth and development in a balanced way. Agriculture is the main way of life for the majority of Lebanese in rural areas. By providing technical assistance to farmers and to agro-industry for crop diversification, improved crop storage and marketing, a large segment of the community will benefit from greater incomes, and Lebanon will be better placed to exploit export markets for special types of crops, and will make use of opportunities provided by the Association Agreement. The project will cover all agricultural areas, including the North, the Hermel area, Bekaa valley, and the South.

2. Specific objectives. To improve income levels in disadvantaged areas through a network of regional agricultural support centres, managed by the Ministry of Agriculture, in collaboration with NGOs, to deliver technical know-how on relevant agricultural and agro-industrial techniques so that appropriate fruit, cereals and vegetables are grown and marketed for export. This will include practical training for small agro-businesses and for farmers. Emphasis to be given where appropriate to income-generating initiatives of women head of households, as well as unemployed and under-educated youth.

3. Expected results. A network of support centres will be established, under the supervision of the Ministry of Agriculture, to help with training and technical assistance for farmers, and for agro-industry. The target population will be the rural farming community and families, many of whom lack basic needs. These will benefit from improved economic activity, jobs and higher incomes. The programme will improve Lebanon's export capability, and trade balance. Rural populations will become more stabilised. In South Lebanon and in areas where illicit drugs are cultivated, economic improvements will boost the sense of stability and reduce discord amongst different sectarian groups, and will reduce illicit crop growing.

4. Performance indicators. Establishment of regional agricultural support centres; number of applicants for support services from regional centres; number of new agro-industries established; rate of growth of marketed crops, domestic and for export.

5. Brief description. The project will be managed by the Ministry of Agriculture, and will be decentralised to the regional centres, in association with suitable NGOs, where technical assistance, trainers, and some equipment will be provided. The regional centres will serve rural farmers, with emphasis on disadvantaged communities to provide practical training and guidance in business plans and practice, in technical aspects of farming and production, processed food, crop handling, storage and marketing, including small and medium scale agro-industry.

6. Timetable. Project to begin in 2003, to run for 36 months.

7. Conditions. Full participation of Ministry of Agriculture, provision of sites and facilities for regional centres.

8. Indicative budget. €10 million, to cover a mix of technical assistance, equipment.

SUPPORT FOR ENVIRONMENTAL PROTECTION

1. Justification. Lebanon faces several challenges in improving environmental infrastructure, legislation and institutions to cope with the degradation in air, land, water and sea pollution, much of which has come about through unregulated activities during

the civil war, and in the post-war reconstruction. A major problem is the incidence coastal sewage and industrial waste outlets and coastal dumpsites, generally close to urban centres, burning of waste, air pollution from vehicle traffic, and deforestation. The recovery of occupied land in South Lebanon after Israeli withdrawal in 2000 places added urgency on ensuring proper protection of the environment, and its proper management while State services gradually take hold in the South.

2. Specific objectives. To improve the quality of the environment in Lebanon, to strengthen the policy framework and national institutions concerned with environmental legislation and enforcement; to strengthen capability in coastal zones management in order to reduce river, air and sea pollution; to assist with protection of natural sites.

3. Expected results. Support for wastewater treatment systems will help control an important source of pollution. The coastal zones management programme will allow improved planning and zoning of industrial, tourist and residential facilities along Lebanon's 220 km coast, especially in the South, where there remains good scope for land development. The programme for the protection of natural sites will enhance tourism potential, and restore areas for use by the general population. Lebanon's environmental agencies will benefit from expertise in environmental protection and management, as well as enforcement

4. Performance indicators. Drafting of appropriate environmental legislation covering all forms of pollution; improved quality and quantity of natural resources (level of air pollution, burnt area, forest area); reduced outflows of untreated sewage and waste in urban centres; number of national parks and natural sites restored for public use; creation of a coastal zones management master plan.

5. Brief description. The programme will include technical assistance and a possible interest rate subsidy on all or part of an EIB loan for wastewater facilities. It will be managed by the Ministry of the Environment, as well as – in the case of the interest subsidy – the Water Authority, and agency responsible for waste treatment. It will involve technical support to the relevant agencies to prepare and enforce environmental strategies and legislation. It will involve the collaboration of municipalities, town councils, environmental NGOs and private sector (such as tourism) operators as stakeholders.

6. Timetable. Project to begin in 2004, to run for 36 months.

7. Conditions. Implementation of EIB loan; adoption of environmental legislation, and effective enforcement; adoption of coastal zones management master plan. The institution/capacity-building component (coastal zones management, protection of natural sites) will start as a first phase; possible interest subsidies will be considered once the institution building component is underway.

8. Indicative budget. Up to €22 million, to cover technical assistance, some equipment, and support for exchange schemes for Lebanese personnel for institution-building and possible interest subsidy .

TEMPUS PROGRAMME

1. Justification. In recognition of the important role of higher education in developing human resources and occupation skills and of exchange in promoting understanding between cultures, there is a need for close EU-Lebanon co-operation in the field of higher education. It has already made a significant contribute to social and political stability in

the regions it covers and encourages an ever-greater mutual understanding of the common goals of the education sector.

2. Specific objective. The extension of the TEMPUS programme aims to strengthen and deepen the whole fabric of relations between eligible countries through its emphasis on co-operation in higher education. This will contribute significantly to the achievement of the social and cultural goals of Barcelona and to assisting the Lebanese higher education system, and their staff and students, to profit from the globalisation of higher education.

3. Expected results and performance indicators. Development and reshaping the curricula in priority areas; reform and development of higher education structures and establishments and their management; the development of training leading to qualifications needed in the context of economic reform (improvement in the links between industry and the educational system).

4. Brief description. Participation in the Tempus III programme involving Joint European Projects (joint education and training actions, measures for the reform and development of higher education, the promotion of co-operation between universities, industry and institutions, the development of mobility for teachers, administrative staff of universities and students); structural or complementary measures, individual grants to teachers, researchers, trainers, university administrators, senior ministerial officials, education planners and other experts for visits to promote the quality, development and restructuring of higher education and training.

5. Timetable. The programme will run from 2003 to 2004.

6. Indicative budget. €3 million, to cover the activities outlined above.

PHASING OF THE NATIONAL INDICATIVE PROGRAMME (2002-2004)

Million euro's

	2002	2003	2004
<u>Trade reform/Support for Association Agreement</u>	30.0	15.0	
<u>Integrated Social and Rural Development</u>		8.5	1.5
<u>TEMPUS</u>		1.5	1.5
<u>Environmental Protection</u>			22.0
<u>TOTAL</u>	30.0	25.0	25.0

Background economic and social data**1. General**

	Unit	Year / Period	
Population	Mln	1999	3.3 to 4.0 (estimates vary)
Average annual population growth	%	1990-1999	1.8
Average labour force growth	%	1990-1999	3.1
Female economic activity as percentage of male rate	%	1998	37.5
Unemployment rate	%	1998	In excess of 20%

2. Living standards

	Unit	Year / Period		
GDP	Bln US\$	1999	15.8	
GDP per capita	US\$	1999	4,700	
Real GDP growth per annum	%	1995-1999	3.5	
Human development index rank among 174 countries	Rank	1999	65	
			Male	Female
Life expectancy at birth	Number of years	1999	68	72
Expected schooling	Number of years	1998	-	-
Adult illiteracy	% of population age 15+	1999	9	10

3. Macro-economic trends

	Unit	1990	2000
GDP structure (1995)			
Share agriculture	%	-	13.6
Share industry	%	-	17.4
Share services	%	-	22.5
Share trade	%		32.9
Share construction	%		10.1
Domestic savings / GDP	%		-13
Of which : public sector	%		-15
Domestic investment / GDP	%		28
Of which : public sector	%		6
Exports of goods and services	%		11
Imports of goods and services	%		51
External resource balance / GDP	%		-40
PM: External resource balance / GDP lower middle income developing countries	%	-1	3
Inflation (average annual increase in consumer price index)	%	1995 - 1999	
		7	

4. Balance of payments

		1990	2000
Merchandise exports	Mln US\$	494	714
of which : to EU	%	--	25
Merchandise imports	Mln US\$	2,529	6,228
of which : from EU	%	--	44
Trade balance	Mln US\$		-5,514
Capital inflows	Mln US\$		5,225
Current account balance	Mln US\$		289
Share foreign direct investment in domestic investment	%	--	5.9 (1999)
External debt	Mln US\$	1,800	6,982
External debt/GDP	%	64.3	42.4
External debt service : interest plus principal / exports goods and non-factor services	%	--	10

5. Government finance

		1990	2000
Current revenues / GDP	%	--	17
International trade taxes / current revenue	%	--	44
International trade taxes / imports of goods	%		20
Current expenditure / GDP	%	--	8
of which: social expenditure/GDP	%	--	6
of which: interest payments/GDP	%	--	17
Capital expenditures / GDP	%	--	4.5
Overall budget balance / GDP	%	--	-23.7
PM: overall budget balance Middle East and North Africa region	%	--	-2.8
Public sector debt / GDP	%	--	152 160 end 2000

Sources. Banque du Liban, Banque Audi, Ministry of Finance, National Centre for Educational Research and Development, UNESCO and IMF.

N.B. These statistics should be used with caution. For instance, GDP and population figures are at best estimates and vary from source to source.

EU programmes by intervention sector

Budget line, date signature & date expiration CdF	Title programme incl. description areas of intervention	Amount (M €)	Status (under preparation / ongoing) Implementation period	Observations / co- ordination
III. Sector :				
<i>PUBLIC SECTOR: Modernisation; Public finance; tax system; state enterprises reform/ privatisation; local government reform</i>				
B7-4050 CF signed: 14/08/93; expiry date: 31/12/00	Technical Assistance to Lebanese Administration (TALA) (SEM 04/604/001A SEM03/604/8)	30,00	En voie de clôture	Audit final en cours pour clôture
B7-4100 CF signed: 28/06/99; expiry date:31/12/05 (extension in process of signature by the Lebanese authorities)	Investment Planning Project (IPP) (SEM/04/604/010/A)	25,00	En cours	
B7-4100 CF signed 4/08/98 expiry date 31/12/05 (extension in process of signature by Lebanese authorities)	NARP/ARAL (LBN/B74100/IB/97/687)	38,00	En cours	difficultés de mise en oeuvre
VI. Secteur :				
<i>TRANSPORTS, INFRASTRUCTURES, EAU, ENERGIE</i>				
	Ecoles primaires et secondaires	16,00	en cours	
IV. Sector :				
<i>PRIVATE SECTOR DEVELOPMENT : SMEs, economic cooperation</i>				
B7-4100 02/06/2000	Industrial Modernisation Programme	11,00	ongoing 3.5 years duration until 2003	Call for tender for PMU in its final stage
VII. Sector :				
<i>SOCIAL DEVELOPMENT : education, health, social policy/social safety net, community development</i>				
B7-4100 21/11/2000 31/12/2007	Economic and Social Fund for Development (ESFD) (LBN/B7-4100/IB/99/0225)	25,00	Ongoing July 2001 (estimation) - 21/11/2006	- Appel d'offres pour UGP en préparation. - Avis de marché pour UGP publié le 10/05/2001.
XI. Sector :				
<i>RURAL DEVELOPMENT</i>				

Budget line, date signature & date expiration CdF	Title programme incl. description areas of intervention	Amount (M €)	Status (under preparation / ongoing) Implementation period	Observations / co- ordination
B7-4051 23/09/94 31/12/2002	War Damage Assessment Agriculture Sector Agriculture (rehabilitation/extension); Technical Assistance	1,50	Ongoing	Project implementation started with excessive delays, TA contract now under signature
<i>XIII. Section</i> <i>FACILITES D'AJUSTEMENT STRUCTUIREL</i>				
LIB/B7-4100/IB/1999/0280 MEDA/LIB/604/008/A 04/2000 04/2002	Facilité d'Ajustement Structurel	50,00	En cours depuis avril 2000 Première tranche déboursée en 2000.	Mission de suivi prévue au cours du deuxième semestre 2001.
TOTAL		196,50		

Donor Matrix by intervention sector

Donor	Title programme incl description areas of intervention	Amount (€)	Status (under preparation/ ongoing) implementation period	Observations / co-ordination
III. Sector:	Public sector: modernisation: public finance; tax system; state enterprises reform/privatisation; local government reform			
FRANCE				
Modernisation	Modernisation study of the Lebanese Civil Aviation	761,466	Completed in 2000	
Modernisation	Automation of the air traffic control management	2,230,024	Completed in 2000	
IV. Sector:	Private sector development/investment (SMEs, competition, economic cooperation			
GERMANY				
SMEs	Partnership programme with Lebanese Chambers of Commerce and Industry	511,353	On-going 2000-2003	
FRANCE				
SMEs	Credit line to Byblos Bank	10,000,000	On-going	
ITALY				
	Integrated programme to enhance competitiveness of the Lebanese industry and its integration in the global market	340,862	On-going	
V. Sector:	Financial sector			
FRANCE				
Financial Sector	Cooperation SBF/Bourse de Paris-Beirut Stock Exchange	503,203	On-going	
VI. Sector:	Physical Infrastructure			
FRANCE				
Physical Infrastructure	Drinking water supply to the city of Tripoli	20,000,000	On-going	

Donor	Title programme incl description areas of intervention	Amount (€)	Status (under preparation/ ongoing) implementation period	Observations / co-ordination
Physical Infrastructure	Rehabilitation and extension of the drinking water network	807,970	Completed in 2000	
Physical Infrastructure	Rehabilitation and construction of pumping and chlorinating stations	4,928,153	On-going	
Physical Infrastructure	Supervision of the repair and construction of the electrical distribution network	171,283	Completed in 2000	
Physical Infrastructure	Technical assistance to “Electricité du Liban” (rehabilitation of the electricity network and upgrading of the Lebanese operator)	2,743,520	Completed in 2000	
Physical Infrastructure	Detailed study of three irrigation parameters in the Baalbeck-Hermel region	159,690	Completed in 2000	
ITALY				
Physical Infrastructure	Fouar Antelias water catchment and treatment	12,484,829	On-going	
Physical Infrastructure/ Environment	Wastewater treatment plant for Zahle and surrounding areas	22,786,078	On-going	
Physical Infrastructure	Rehabilitation and upgrading of the water supply system in Jbeil Region	17,886,319	On-going	
Physical Infrastructure	Dbayeh water treatment plant: Phase II	2,897,323	On-going	
Physical Infrastructure	Construction of a power line cable connection (66 kV) between the Zouk power plant and Dbayeh pumping station	2,194,942	On-going	
Physical Infrastructure	Technical assistance for the Shabrouh Dam	1,549,371	On-going	
Physical Infrastructure	Construction of inland wastewater treatment plants and networks in selected areas of Lebanon	52,678,604	On-going	
SWEDEN				

Donor	Title programme incl description areas of intervention	Amount (€)	Status (under preparation/ ongoing) implementation period	Observations / co-ordination
Physical Infrastructure	Feasibility study for optimised gas extraction and rehabilitation of Bourj Hammoud waste deposit	99,000		
VII. Sector:	Social development : education, health, social policy/social safety net; community development			
BELGIUM				
Health	Support to the primary health care structures in rural zones and urban areas (Belgium)	356,432 disbursed in 2000	On-going 1997-2002	
Community Development	<i>Training and community building for women and youth</i>	42,142 disbursed in 2000	1998-2000	
GERMANY				
Education	University of Applied Sciences	1,022,584	On-going	
Education	<i>Regional training of foremen at Amlieh Higher Technical School</i>	1,278,230	On-going	
Education and Training	<i>Introduction of cooperative (dual) vocational training system in South Lebanon</i>	1,533,876	Under preparation	
Education and Training	<i>Introduction of cooperative (dual) vocational training system in Lebanon (Phase II)</i>	613,550 disbursed in 2000	On-going	
Humanitarian Demining	<i>Equipment for humanitarian demining</i>	61,355	On going	
Humanitarian Demining	<i>Contribution to UNMAS</i>	107,412 disbursed in 2000	On-going	
Education	<i>Renovation of the vocational training department at Johann-Ludwig-Schneller-School</i>	112,484 disbursed in 2000	Completed in 2000	

Donor	Title programme incl description areas of intervention	Amount (€)	Status (under preparation/ ongoing) implementation period	Observations / co-ordination
GREECE				
Health	Humanitarian assistance to the St. Georges Greek-Orthodox Hospital of Beirut	58,000 disbursed in 2000	Completed in 2000	
Health	The Marjeyoun paediatric and maternity clinic	366,000	On-going	
Social/Education	The Marjeyoun secondary school and youth centre	130,000	On-going	
Health	Humanitarian assistance to the Dar al Ajaza al Islamiya Hospital of Beirut	73,000	2000-2001	
Health	The Kfarsaroun-Koura medical and social centre	150,000	On-going	
SPAIN				
Social Rehabilitation	Rehabilitation work in the S.O.S. Children's Village of Bhersaf-Metn	22,839 disbursed in 2000	Completed in 2000	
Education/ Training	Construction and start-up of the Arc-en-Ciel training school for the disabled	751,649	On-going	
Community Development	Micro-credits programme for women in Tyre	249,332	On-going	
FRANCE				
	Water analysis Mobile laboratory	273,792	Completed in 2000	
ITALY				
Health	Establishment of the Health Policy and Research Unit (HPRU)	1,525,604	On-going	
Health	Development of the Public Health Central Laboratory	847,506	On-going	
Community Development	Productive activities in support to the population of Jezzine	763,889	On-going	
Health	Pilot project in Akkar for the establishment of a medical emergency service	774,685	On-going	

Donor	Title programme incl description areas of intervention	Amount (€)	Status (under preparation/ ongoing) implementation period	Observations / co-ordination
Social Policy/Health	Poverty reduction programme in Lebanon	10,329,138	On-going	
Culture/Tourism	Cultural heritage and tourism development. Preparation of project proposals	568,103	On-going	
Humanitarian Demining	Italian support to mine action assistance	258,228	On-going	
Education	National Nursing Education Programme	240,669	On-going	
Culture/Tourism	Cultural heritage and tourism development	10,329,138	On-going	
Health	Rehabilitation of the health services in North Lebanon and rehabilitation of the Quarantine Hospital	774,685	On-going	
Humanitarian	Supply of food aid for the population of South Lebanon	1,032,914	Completed in 2000	
Health/Social Development	Reproductive health, social development and promotion of income generating activities in rural environment	51,646	On-going	
Health	Strengthening of the Palestinian Red Crescent Society (PRCS) Hospitals	334,612	On-going	
Social policy	Working conference of non-governmental organisations in support of the development of South Lebanon	118,785	Completed in 2000	
Demining	Supply of 5 mine detectors	25,823	Completed in 2000	
Rehabilitation	Post emergency rehabilitation in South Lebanon	596,508	On-going	
Health	Assistance to UNRWA for improving Palestinian refugee access to hospital care in Lebanon	1,136,205	On-going	
Health	Bone marrow and organ transplant interventions in Italy	351,191	Completed in 2000	
Education	University and post-university fellowships	361,830	Completed in 2000	
NETHERLANDS				

Donor	Title programme incl description areas of intervention	Amount (€)	Status (under preparation/ ongoing) implementation period	Observations / co-ordination
Social Development	Small Projects Programme	32,000		
AUSTRIA				
Education	University and post-University fellowships	86,446	Completed in 2000	
Health	Grant for support of social medical centres in Saida and Tyre	61,046	Completed in 2000	
Social Policy	Grant for support of refugees	14,730	Completed in 2000	
Social Development	Grant to Caritas Lebanon	367,774	On-going	
FINLAND				
Humanitarian	Humanitarian aid to the International Committee of the Red Cross	67,283	Completed in 2000	
Health	Family guidance centre for mental health care	63,246	Completed in 2000	
Education	Beddawi kindergarten	16,820	Completed in 2000	
SWEDEN				
Education/ Training	National Nurses' Training Authority	400,000	To start	
Social Development	Support to NGOs based in Lebanon	520,000	On-going	
Health	Development of the National Drug Laboratory	300,000	On-going	
Social Development	STR – Swedish Team of Rehabilitation: Rehabilitation in Beddawi and Nahr al Bared refugee camps – Northern Lebanon	157,000	On-going	
Humanitarian	International Committee of the Red Cross appeal for 2000	209,600		
Education	UNICEF: Education/Protection for working children and to enhance the development of youth	53,400	On-going	
UNITED KINGDOM				

Donor	Title programme incl description areas of intervention	Amount (€)	Status (under preparation/ ongoing) implementation period	Observations / co-ordination
Education/Social	Economic literacy for rural women	10,800	Completed in 2000	
Education/Social	Mobile vocational training trailer	49,325	On-going	
Education/Social	Family planning and reproductive health	50,000	On-going	
Education/Social	Revolving textbook project	40,000	On-going	
Education	Association of English teachers in Lebanon	35,382	On-going	
Education/Social	Images and testimonies project	28,216	Completed in 2000	
Education/Social	Management training for PRCS staff	24,881	Completed in 2000	
Social/Health	Mobile clinic	13,592	Completed in 2000	
Demining/Emergency Relief	Support to UNMAS	550,000	On-going	
Education/Training	Regional media training	114,818		
Various	Sponsored visits	65,897	Completed in 2000	
	Support to social development	24,373		
Education	Chevening scholarships	90,609		
VIII. Sector:	Human resources development (training, capacity building)			
BELGIUM				
Vocational Training	Hotel management training centre at the Al Kafaat Institute	265,946 disbursed in 2000	On-going (1998-2001)	
Vocational Training	<i>Nissa'a fi Ain Saade</i>	140,533 disbursed in 2000	2001-2002	
Capacity Building	<i>Capacity building for Palestinian women in refugee camps</i>	67,934 disbursed in 2000	1998-2000	
GERMANY				

Donor	Title programme incl description areas of intervention	Amount (€)	Status (under preparation/ ongoing) implementation period	Observations / co-ordination
Institutional Building	<i>Donation of equipment to the Internal Security Forces</i>	324,670	2000	
Capacity building	Pre-service and in-service teacher training at Ecole Technique Supérieure d'Amlieh	130,000 disbursed in 2000	On-going	
SPAIN				
Training	Vocational training workshops for youth	16,210	Completed in 2000	
Training	Improving and equipping professional training courses for young Palestinians in refugee camps in Lebanon	106,218	On-going	
Training/Capacity Building	Setting up a computer science centre for the deaf and blind	58,599 disbursed in 2000	Completed in 2000	
Training/Capacity Building	Professional training programme for the integration of women	313,656	On-going	
Training/Capacity Building	Support to professional training for young Palestinians in the Al Bass refugee camp (Tyre)	18,000 disbursed in 2000		
FRANCE				
Training/Capacity Building	Training Civil Aviation staff	1,981,837	Completed in 2000	
Training	Technical assistance to technical and vocational schools	247,302	Completed in 2000	
Capacity Building	Management assistance to Télé-Liban	609,796	On-going	
ITALY				
Vocational training	Support to the socio-economic development of Cana through technical assistance and vocational training	713,170	On-going	
Institutional	Strengthening of the Lebanese Ministry of Public	154,937	On-going	

Donor	Title programme incl description areas of intervention	Amount (€)	Status (under preparation/ ongoing/ implementation period)	Observations / co-ordination
Building	Health			
UNITED KINGDOM				
Vocational training	Vocational training	70,000		
Vocational training	Vocational training for staff of the Lebanese Union for the Protection of Juvenile Offenders	27,900 disbursed in 2000	On-going	
IX. Sector :	Human rights /civil society/ gender issues and equality			
NETHERLANDS				
Human Rights	Information, documentation and training on children's rights	30,000		
UNITED KINGDOM				
Human Rights	Hurryiat human rights magazine	41,186 disbursed in 2000	On-going	
X. Sector:	Environment; water			
GERMANY				
Environment	Combat of Desertification	511,292	On-going	
Environment	Expansion of Al Ghadir pre-treatment plant	5,112,910	On-going	
GREECE				
Environment/ Agriculture	Reforestation and alternative cultures in Akkar, Tyre and the Bekaa	280,000	On-going	
Environment	Promotion of sustainable coastal management in Lebanon	118,000	On-going	
FRANCE				
Environment	Forest fire-fighting equipment	814,977	Completed in 2000	
Environment	Protection of the ozone layer: Rehabilitation and	92,893	Completed in 2000	

Donor	Title programme incl description areas of intervention	Amount (€)	Status (under preparation/ ongoing) implementation period	Observations / co-ordination
	transformation of industries using CFC gas in the private sector			
Environment	Protection of the ozone layer: Rehabilitation and transformation of industries using CFC gas in the private sector (MERZA FOAM)	37,408	Completed in 2000	
Environment	Protection of the ozone layer: Training of refrigeration technicians	400,114	Completed in 2000	
Environment	Reducing the greenhouse effect: Improving the energy efficiency in construction	198,862	Completed in 2000	
ITALY				
Environment	Consultants services for hazardous waste management	204,517	On-going	
SWEDEN				
Environment	Environmental plan for the Litani River and Qaraoun Lake catchment area, phase II	260,700	Completed in 2000	
UNITED KINGDOM				
Environment	Entomological survey of Horsh Ehdén	29,654	On-going	
	Coastal vegetation survey and conservation		On-going	
XI. Sector:	Rural development			
SPAIN				
Rural Development/ Agriculture	Improving the returns of the agricultural exploitation in the region of Tyre	561,453	On-going	
Rural Development/ Agriculture	Extension of the refrigerating equipment of the Northern Agricultural Centre	570,961	On-going	
Rural	Increasing and improving sales services at the	360,607	On-going	

Donor	Title programme incl description areas of intervention	Amount (€)	Status (under preparation/ ongoing) implementation period	Observations / co-ordination
Development/ Agriculture	Northern Agricultural Centre			
Rural Development/ Agriculture	Building and equipping an agricultural training centre in Joume	294,000	On-going	
Rural Development/ Agriculture	Integrated agricultural development in the Bekaa valley, Baalbeck-Hermel Region	1,642,333	On-going	
Rural Development/ Agriculture	Programme for agricultural development in Kfar Matta and Aley district	77,469	On-going	
UNITED KINGDOM				
Agriculture/ Environment	Organic farming	17,875	Completed in 2000	
Agriculture	Donation of a tractor to the municipality of Fakha	22,000	Completed in 2000	
Rural Development	Support to the bee-keeping sector in South Lebanon	35,000	On-going	