



C O U N T R Y B R I E F



Middle East & North Africa Region (MENA) - Lebanon

Revitalizing Historic Cities In Lebanon

The Lebanese Parliament recently ratified a US\$31.5 million World Bank loan to the Government of Lebanon to create the conditions for increased local economic development and enhanced quality of life in the historic centers of five main secondary cities, and improve the conservation and management of Lebanon's built cultural heritage. The proposed Cultural Heritage and Urban Development project (CHUD) will extend technical assistance and targeted investments in the cities of Baalbeck, Byblos, Saida, Tripoli and Tyre where signs of damage, decay, poverty and economic stagnation from the civil war are still visible.

Lebanon enjoys a rich cultural legacy inherited from past civilizations with five World Heritage Sites designated by UNESCO. However, most of its internationally renowned historic sites are situated in densely populated urban areas which are typically exposed to the pressures of modern development and postwar reconstruction. The development pressure is compounded by the fact that local governments lack the resources and mechanisms to preserve and manage these sites. As a result, the historic and archaeological sites are suffering from physical and environmental degradation, with local municipalities and residents reaping little economic benefits that come with a thriving tourism industry.

After independence in 1943, Lebanon became a model for social and economic development in the Middle East, with impressive growth, high investment, and unmatched social indicators. In 1975, a 15-year civil war began ravaging the country, destroying physical infrastructure and housing, displacing large portions of the population, and weakening institutions. During this period, the average income per person contracted by two-thirds while the provision of health, education, and social services plummeted.

Since the signing of the Ta'if Accord, which ended the civil war in 1989, and its implementation that began in 1991, Lebanon recorded a strong recovery. Gross Domestic Product (GDP) grew rapidly during the reconstruction phase (1991–1997) yet decelerated thereafter, with a recession in 2000. Before the recent hostilities, per capita income was almost five times higher (\$5,510 against \$1,200) than at the end of the civil war. Stabilization brought inflation from 15 percent in 1990 down to 0.3 percent in 2005, which helped replenish foreign exchange reserves and maintain macroeconomic stability.

Social indicators had been gradually returning to pre-1975 levels for Lebanon's population of over 4 million. From 1990 to 2005, primary school enrolment increased from 73 to 93 percent and the youth literacy rate increased from 92 to 96 percent. During the same period, life expectancy increased from 68 to 72 years, while the infant mortality before age one fell from 32 per 1,000 live births to 27, and infant immunization increased from 61 to 96 percent. The ratio of girls to boys enrolled in primary and secondary education reached 102 percent in 2005.

These efforts suffered a severe setback with the recent hostilities in July-August 2006. A preliminary assessment by the Government of Lebanon indicates the partial or complete destruction of approximately 30,000 housing units, almost 110 bridges, close to 140 roads, around 350 schools and over 30 vital infrastructure facilities (airports, ports, sewage treatment plants, power plants, etc.). Health facilities also suffered extensive damage, as did over 700 industrial enterprises. Furthermore, the hostilities caused a major oil spill off the coast of Jiyeh south of Beirut following the destruction of a power plant.

The recovery after the civil war amid continued regional uncertainty underlined the resilience of the Lebanese economy, which relies on large amounts of short-term capital transfers from abroad. The country's strong entrepreneurial culture is another valuable asset. The Government intends to provide the necessary infrastructure—as well as continue funding human resources development—for the private sector to lead the recovery of the Lebanon's economy and its re-emergence as a regional hub for trade and services.

Current Challenges

Poverty increased significantly during the civil war. Its destructive impact was especially felt in living conditions as about a quarter of the housing stock was destroyed. The scope and characteristics of poverty today are not clearly known because of the absence of data, particularly on household consumption. The government finalized a household income and expenditure survey just before the recent hostilities. Nonetheless, the survey is

expected to provide the basis for drawing a more accurate post-conflict poverty profile. Preliminary results indicate high poverty rates in the northern districts of Akkar, Tripoli and Hermel, a very low participation rate of women in economic activity, and an unemployment rate of over 20 percent for the 20-24 age group.

In the course of the recovery in the 1990s, income inequality was generally believed to have increased. The slow growth in job creation, especially for lower-income groups, continued to restrict purchasing power, while the ample supply of labor from low-wage countries kept a lid on unskilled wage levels. In addition, the non-resident transfers and investments from both the Lebanese Diaspora and Arab nationals pushed up prices for land, housing, and medical services, making them all but unaffordable for lower-income groups and for much of the middle class.

As it rebuilds again, Lebanon needs to strike a balance between maintaining fiscal stability and continuing to spend on development. Education reform poses a particular challenge, especially in terms of training graduates with the skills that the labor market currently demands. A greater emphasis needs to be placed on technical and vocational training opportunities that could help bridge the gap between labor supply and demand.

Sustaining a healthy macroeconomic environment is critical and is contingent upon the reduction of the fiscal deficit. By the end of December 2005, the fiscal deficit reached approximately 8 percent of GDP, a ratio which is not sustainable. At that time, gross public debt, including arrears, stood at approximately 173 percent of GDP. The devastating economic and fiscal impact of the recent hostilities is expected to lead to a significant deterioration in these indicators over the next 1-2 years.

World Bank Assistance

Over the past fourteen years, the World Bank has supported Lebanon in a wide range of sectors, including in emergency reconstruction and rehabilitation; municipal development and infrastructure; revenue enhancement; and administrative rehabilitation; agriculture and irrigation; solid waste and environmental reform; vocational and technical education; education and health; roads; power; community development; water and wastewater; urban transport; and protection of cultural heritage.

In December 2005, the World Bank Group discussed a Country Assistance Strategy (CAS) for the four-year period 2006-9. The CAS, which is the Bank's framework for analytical work, lending operations, and general development assistance, focuses on three pillars:

- Governance, Economic Management, and Growth Support
- Developing Human Capital and Mitigating the Poverty Effects of Transition
- Natural Resource and Environmental Management.

The impact of the recent hostilities on the content and implementation of the CAS is under review. In the meantime, the World Bank continues to implement its six ongoing projects: Ba'albeck Water and Wastewater Project, Community Development Project, Cultural Heritage and Urban Development Project, Education Development Project, First Municipal Infrastructure Project, and Urban Transport Development Project.

All dollar figures are in US dollar equivalents.

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