

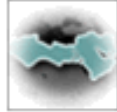


### Revitalizing Historic Cities In Lebanon

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.

## C O U N T R Y   B R I E F



### Middle East & North Africa Region (MENA) - Lebanon

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.

With 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 hostilities with Israel in the summer of 2006, 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 2006, primary school enrolment increased from 73 to 94 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 1 fell from 32 per 1,000 live births to 26, and infant immunization increased from 61 to 96 percent. The ratio of girls to boys enrolled in primary and secondary education reached 103 percent in 2006.

These efforts suffered a significant setback with the hostilities in July-August 2006, followed by a prolonged political impasse, which lasted through May 2008. The physical damage of the hostilities assessed by the Government of Lebanon suggested partial or complete destruction of approximately 100,000 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. Though estimates vary, it is likely that total damages ranged between US\$530 million and US\$930 million with an average of US\$730 million. Furthermore, approximately 30,000 jobs have been permanently lost, adding 3 percent to the unemployment rate. Economic performance deteriorated in 2006 as a whole despite a strong first half with a loss of output from the hostilities estimated at about US\$1.3 billion. The economy showed some signs of recovery in 2007, but this was not sufficient to offset the flat growth experienced in 2006.

The resilience of the Lebanese economy has been demonstrated by its ability to recover following the civil war, the recent hostilities and the prolonged political crisis amid continued regional uncertainty. The economy relies on large amounts of short-term capital transfers from abroad. The country's strong entrepreneurial culture is another valuable asset. Policy makers intend to provide the necessary infrastructure—as well as continue funding human resources development—for the private sector to lead the recovery of Lebanon's economy and its re-emergence as a regional hub for trade and services.

At the time of the outbreak of the hostilities, the Government was at an advanced stage of preparing a reform program around these objectives. The urgency of implementing the program was amplified by the hostilities, which put further strain on the public finances and the management of the large public debt. In the months following the hostilities, the Government worked to adapt the program to the new circumstances and presented it at the Paris III donor conference in January 2007. The program makes an effort to balance fiscal measures needed for stabilization with structural measures needed for higher growth. Participants in Paris III pledged US\$7.6 billion—mostly in the form of soft loans—to support the implementation of this program. Despite the politically charged environment since the introduction of the program, reform momentum has been maintained with initial steps focusing on power, social sector and public financial management reforms that do not require legislative process. Overall implementation of the program has been supported by a monitoring and coordination mechanism.

### **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 government finalized a household income and expenditure survey just before the 2006 hostilities, which provided the basis for drawing a more accurate post-hostilities poverty profile. Results from the survey indicated that around 8 percent of the Lebanese population lived in extreme poverty conditions under the adopted poverty line of US\$2.4 per capita per day. This is equivalent to approximately 300,000 individuals. The poverty rates are highest in the northern districts of Akkar, Tripoli and Hermel. Among the areas that suffered the most damage from the bombing that took place during the summer-2006 hostilities were also some of the poorest areas (South Lebanon, southern suburbs of Beirut, and the Bekaa Valley).

In the course of the recovery in the 1990s, income inequality was generally believed to have increased. The figures from the most recent expenditure survey suggest that inequality is comparable to middle income countries with a Gini coefficient of 0.36 for real consumption. 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 2007, the fiscal deficit reached approximately 11.6 percent of GDP, a ratio which is not sustainable. At that time, gross public debt stood at approximately 174.2 percent of GDP. The slow economic and fiscal recovery from the 2006 hostilities and the recent wave of external shocks from high international oil and food prices pose challenges in the medium term macroeconomic outlook. However, the normalization of the political environment (since Doha agreement among political leaders in May 2008) provides policy makers with a much more conducive environment to address these challenges.

### **World Bank Assistance**

Over the past fifteen 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 July 2007, the World Bank Board of Directors discussed an Interim Strategy Note (ISN) which reframed its assistance strategy in light of the new realities in the post-hostilities period. The ISN is anchored in the Government's medium-term reform program presented at a donor conference in Paris (Paris III) in January 2007. The Paris III program builds on the Government's efforts to launch a reform program prior to the July-2006 hostilities, and takes into account the unforeseen economic and fiscal impacts that resulted. It is a comprehensive and feasible program that covers areas critical for Lebanon's growth and the country's fiscal and social welfare prospects. Key pillars of the program are: (i) fiscal adjustment to reverse Lebanon's presently unfavorable debt dynamics and reduce the debt-to-GDP ratio through rationalization of expenditures, improved efficiency and enhancement of revenues; (ii) growth-enhancing structural reforms to strengthen the business environment; and (iii) social sector reform to strengthen social safety nets to reduce poverty and vulnerability and increase efficiency and effectiveness of social spending including in health and education.

The World Bank has been supporting the implementation of the program through technical and financial assistance (including development policy-based lending assistance). The emphasis of the Bank assistance is currently on the medium-term public expenditure and social reform agenda, with a particular focus on energy, water and social protection reforms. In the meantime, the World Bank also continues to implement its 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. **September 2008**

For more information, please contact:

*In Washington:* Dina El Naggar, Phone: 1 (202) 473-3245; Fax: 1 (202) 522-0003;

Email: [delnagg@worldbank.org](mailto:delnagg@worldbank.org)