LEBANON

Promotion of the private sector at the expense of obstructing sustainable development

Arab NGO Network for Development (ANND)

Throughout 2016, there was no progress in addressing the lack of a national development strategy and a national action plan for localization of the SDGs in Lebanon. Structural challenges on social, economic and political levels continued and the Syrian crisis kept adding an important burden on the country’s economy, increasing pressure on the already poor infrastructure.

The announcement of the creation of a national committee to lead the implementation of the 2030 Agenda and the Sustainable Development Goals in Lebanon¹ through a project entitled “SDGs in Lebanon: Analyzing Gaps and Reporting Progress”² is one promising step recently taken by the government. However, the Committee is yet to materialize and function. Once in place, the Committee should adopt a comprehensive approach to the implementation of the 2030 Agenda with its 17 Goals and 169 targets while avoiding sectoral fragmentation and should enhance national dialogue in order to achieve sustainable development in the country. The Committee should then enhance the accountability of all development actors. Nevertheless, monitoring and evaluating implementation and ensuring the mutual accountability of all development actors remains a key concern in Lebanon as the country continues to stand outside the Voluntary National Review (VNR) process at the High-Level Political Forum (both for 2017 and 2018). In this respect, the second component of the project is vital, as it includes support towards the VNR and foresees wide consultations at national level together with the engagement of the Lebanese Parliament and different sectors of government, as well as the involvement of UN agencies and stakeholders from civil society and the business sector.

However, monitoring and evaluating implementation and ensuring the mutual accountability of all development actors remains a key concern in Lebanon as the country continues to stand outside the Voluntary National Review (VNR) process at the High-Level Political Forum (both for 2017 and 2018). In this respect, the second component of the project is vital, as it includes support towards the VNR and foresees wide consultations at national level together with the engagement of the Lebanese Parliament and different sectors of government, as well as the involvement of UN agencies and stakeholders from civil society and the business sector.

Nevertheless, civil society actors continue to play a proactive role in raising awareness and mainstreaming the 2030 Agenda. In light of this situation, the Arab NGO Network for Development, and the Issam Fares Institute for Public Policy and International Affairs at the American University of Beirut, in collaboration with the Lebanese Observatory for the Rights of Workers and Employees, the Lebanese Trade Union Training Center, Mouvement Social, and the Lebanese Transparency Association organized a multi-stakeholder national dialogue³ on the Implementation of the 2030 Agenda for Sustainable Development in Lebanon. Although the lack of up-to-date national-level data persists as a crucial obstacle to the monitoring and implementation of the SDGs, national civil society groups continue to provide their policy-gaps analysis and present recommendations to address them. ANND within its project entitled “Mainstreaming the Sustainable Development Goals in the Arab Civil Society agenda”, funded by the United Nations Democracy Fund,⁴ produces national assessment reports on the Agenda’s implementation.

4 See more at http://www.annd.org/english/itemid.php?itemid=382
Last but not least, in relation to means of implementation for the SDGs, it is important to note that it faces serious challenges related to the continued failure, since 2005, to approve a national budget. During the first quarter of 2017 the government submitted a draft budget law to Parliament for approval. However, the draft still hasn’t been voted on as it spurred general discontent coupled with intra-parliamentary disagreement due to the proposed tax reforms meant to finance wage adjustment for public sector workers and teachers in both the private and public sectors. The government then withdrew the proposed budget in March 2017, and re-submitted it in April retracting the proposed tax reforms and presenting them in a separate law along with the wage adjustment law. The Parliament approved the tax and wage laws in July; nevertheless, the President might send them back for amendments. On the other hand, it remains unclear whether the Parliament will vote on the proposed budget or the issue will be relegated to after the parliamentary elections in May 2018. This being said, two issues remain problematic. First, the proposed taxes have contradictory effects: there are improvements in terms of taxing previously untaxed sectors (introduction of a tax on capital gains) as well as the use of direct taxes (increase of tax on profit and interest rates, etc.), which constitute a first step towards long due reforms. On the other hand, they introduced indirect taxes mostly affecting middle-income families. Nevertheless, the fact remains that these proposed taxes were only meant to increase revenue for the purpose of financing wage adjustment for the public sector as well as debt service. Second, the tax reforms as well as the wage adjustment were dissociated from the general budget. Therefore, they were not introduced in the context of a broader and holistic socio-economic vision, but rather on an ad-hoc basis.

**The role of the private sector in Lebanon**

The private sector plays a central role in the neoliberal economic model implemented in Lebanon, contributing to 80 percent of GDP; primarily in the services sector, particularly banking and finance as well as construction, trade and tourism. In the aftermath of the Israeli war, the recovery of the private sector has been a key concern, integrated within the government reform program adopted in 2007, namely the Paris III agreement. Accordingly, six pillars of the reform program promoted privatization for economic growth. As part of the government’s overall strategy, the private sector was brought in to play a greater role in infrastructural investments and in the provision of public services through various arrangements and through partnerships with the public sector. Henceforth, the draft law on public-private partnerships (PPPs) and the guidelines launched by the Higher Council on Privatization in 2013 foster the same approach while claiming that PPPs are the only available means to fund and develop Lebanese infrastructure.  

PPPs remain at the core of Lebanon’s development plans and are also promoted by international actors. For instance, the IMF continues to push the long-pending legislation on PPPs, in order to mobilize the private sector resources for the purpose of infrastructure investments, though noting possible fiscal risks. Similarly, the European Union, its financial institution, and the European Investment Bank promote Economic Resilience Initiatives in Lebanon and other Southern neighbouring countries and support the private sector as a panacea to create opportunities for employment and to improve the business environment.

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6 During a national workshop on development effectiveness, head of HCP announced the development of the plan within which 15 out of 17 SDGs are implemented by private sector. Lebanese Transparency Association, Arab NGO Network for Development, CPDE, UNDP. National Workshop on Development Effectiveness. Towards the Implementation of 2030 Agenda for Sustainable Development: Actors Accountability; April 11, 2016; Beirut, Lebanon. ; 2016
8 http://www.eib.org/projects/initiatives/resilience-initiative/index
However, PPPs without any safeguard mechanisms or an effective regulatory framework fail to improve public services and can rather result in price hikes and in violations to the full and inclusive enjoyment of rights especially in sectors that supply citizens with basic needs (e.g., water, education, etc.). An assessment conducted by ANND on the PPP legislative framework reveals several steps to be undertaken so as to ensure a proper functioning of the PPP formula, including the adoption of a national plan that determines the amount of PPP investments needed based on national needs assessments while applying transparency mechanisms on the private sector partners and ensuring a sufficient access to information accompanied by compensation mechanisms for victims and legislative administrative controls.

Representing an estimated 31 percent of the labour force, the private sector should be part of a comprehensive employment generation plan and aim at creating sustainable and decent job opportunities. This would help absorb Lebanon’s expanding labour force and ensure the integration of young graduates into the labour force. It is particularly important given the brain drain of Lebanese youth and in view of human resources’ potential for sustainable development.

The rentier state model prevailing in Lebanon, together with the continuous political instability and deadlock, the corruption at the political, institutional and administrative levels, and the growth of public debt (above 149% of GDP) push anyone to question the provision of ‘public services’ in Lebanon. Even though privatization and PPPs are considered as a remedy and put forward accordingly, they will not achieve an inclusive and sustainable development unless all these structural challenges are tackled. Therefore, a shift from the rentier state to the developmental rights-based state is a must as it builds an environment where the policy space is respected and the share of national wealth is not accumulated in the hands of the political elite but redistributed through fair taxation, social protection and employment policies. In such a context, a new social contract between the citizens and the state could be put in place and inclusive national dialogues that engage all development actors, including the private sector and the civil society, could help building genuine partnerships for the implementation of SDGs. In this development model, the push for PPPs should be revised, taking into consideration the trap of long-term financial commitments at higher costs. These higher costs are mainly due to the expansive private funding, the overcompensation of the private partner and the overpricing of the risks, all of which are concealed in the public budget.

**SDGs implementation and the private sector**

Concerning implementation of the SDGs, the private sector is considered as a key development partner in Lebanon. The UNDP Lebanon project entitled “Together towards Sustainable Development” considers that the private sector has the ability to compensate for the shortcomings of the public sector in terms of implementing development initiatives and helps speed up the process of achieving the targets and goals set in the SDGs. The project capitalizes SDGs as an opportunity for business-led solutions and technologies and envisages private sector to place their business strategies in line with national priorities. A Corporate Social Responsibility framework is the main reference point to ensure that the companies operate in an economic, social and environmentally sustainable manner.

Similarly, within the UN Global Compact framework, the Global Compact Network-Lebanon lists initiatives demonstrating collaborations for the SDGs from the private sector. This includes for instance a programme launched at Bank Audi for sorting, recycling and monitoring waste and carbon emissions, energy efficiency projects financed by the IFC and implemented through Fransabank, the donation of free meals for needy people, and awareness sessions about healthy eating habits at schools by Diet Center.

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10 ibid.

11 http://globalcompact-lebanon.co-collaboration-for-the-sdgs/
All of these initiatives correspond to one or more SDG goals and targets and none of them can create harm to sustainable development.

However, their scope and impact for responding to the development needs of Lebanon remain only symbolic, without any direct impact on the structural and systemic problems of the country. Thus, the private sector plays a role within the SDGs framework but without any concrete achievements for those who are most in need. Moreover both the Corporate Social Responsibility and Global Compact frameworks remain restricted from actually holding the private sector accountable. In short, addressing the root causes of inequalities and the development challenges necessitates adopting a broader and a more comprehensive approach to the role attributed to the private sector in Lebanon. A legally binding framework regulating the private sector in order to ensure that interest on profits do not undermine human rights is a must in this regard.

Moreover, private sector growth through support to SMEs is a continual policy recommendation directed to Lebanon but is limited in results. SMEs could be a drive for employment generation and economic growth. However to ensure this, SMEs support should be part of a comprehensive and sustainable development approach and be towards ensuring structural transformation in industry, aiming at moving them away from low value-added manufacturing tasks towards the productive sectors with higher added values, thus contributing to economic diversification and reviving the productive capacity of Lebanon. Instead of aiming principally to engaging SMEs in the global value chains organized by transnational corporations and bearing higher costs, lower returns and exacerbation of uncontrolled economic informality that puts a higher burden on women and marginalized groups, PPPs should be tailored to support SMEs in developing national and regional production chains.

**Brief assessment: The role of private sector in Lebanon and the SDGs**

**SDG 6: Water and sanitation**

Lebanon is expected to face chronic water shortages by 2020 while public expenditures on related infrastructural reforms are predicted to have low returns. In 2010, a public expenditure review of the water sector in the country showed that the level of expenditure on water, averaging 0.5 percent of GDP, is still below the investment requirements due to limited fiscal capacity. This causes a reliance on private water supply (tankers and bottled water) whereby connected customers pay as much as 65 percent of their total expenditures on water to private suppliers. This represents a high cost for poorer households, raising social justice concerns. Moreover, given the lack of a comprehensive sustainable strategy for water resources and water management, the high reliance on private sector on water creates further pressure on national water resources. Negative environmental effects of the private sector solutions on water scarcity (i.e., constructing dams) exacerbates Lebanon’s water scarcity problem. For instance, in the capital Beirut, 22 percent of the residents are not connected to the public water network. Northern Lebanon is among the most deprived regions suffering the poorest quality of shelter, education, water and sanitation, healthcare, and so on. According to the UNDP, the national poverty lines have been identified in the 2004-2005 income survey to be US$2.40 (lower line) and US$4 (upper line) and 28 percent of the population is estimated to be below the US$4 upper poverty line while 8 percent are below the US$2.40 lower line.

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12 Taken from “Critical Analysis of Public-Private Partnerships from an Economic and Human Rights-Based Perspective: The Case of Lebanon”, Farah Al Shami, Arab NGO Network for Development, Beirut, Lebanon, June, 2017.


14 Statistics retrieved from: UNDP’s current Lebanon country page (About Lebanon) [http://www.lb.undp.org/content/lebanon/en/home/countryinfo.html]
Almost half of the latter category lives in the North.

For this reason we choose to elaborate on the case of the Tripoli Water Authority (TWA) which happens to be in a vulnerable zone and one of the biggest, most influential and earliest PPP projects in Lebanon. As part of the ongoing reform process in the water sector, the Council for Development and Reconstruction (CDR) awarded management contracts of several water authorities to private companies. In June 2003 law # 401 was enacted to enable the privatization of the service through management contracts between the TWA and the French Development Authority (AFD), particularly the French company ONDEO that is branch of the Suez Environment Group. This deal involved two concessionary loans valuing US$20 million. The multinational company Suez-Environment was contracted as a subsidiary to manage the drinking water services in the TWA area between 2003 and 2007 at a cost of 8.9 million Euros financed by the private partner. The objective behind this was announced as “enhancing efficiency in the area of operation costs (energy, maintenance and personnel) and providing all residents with access to cheap and clean drinking water”. The CDR claimed that the purpose was also to positively impact the quality of the water and wastewater service provision by repairing leakages along the 150 kilometers of the water network and securing a 24-hour continuous supply.

The contract was planned to be extended to other surrounding authorities and to include the operation, maintenance and installation of equipment, the organization of the billing system and collection of water tariffs, the management of human and financial resources, and the supervision of the construction of a tertiary water supply network as well as the expansion of a water treatment plant. ONDEO was assigned the responsibility of piping water from intake points to storage reservoirs, and then on to households via their water gauges. It was asked to enhance the satisfaction of the subscribers, although this was vaguely defined, and was authorized to suspend the service to consumers refusing to subscribe and taking water illicitly. However, a recent study on poverty and deprivation in the city of Tripoli confirmed that the situation has not improved over the past 10 years. Some 57 percent of households in the surveyed districts of Tripoli are still deprived, of which 26 percent are severely deprived in terms of the availability of sufficient and continuous water, the accessibility to water and water facilities and services, adequate quality of water, affordability of water, non-discrimination, and information disclosure on water issues. It is estimated that about 260 children die every year in Tripoli (10% of total child deaths in Lebanon) from diarrhea-related diseases, the majority associated with inadequate potable water, sanitation and hygiene. A comparison of the drinking water rates for 1m3/d in the city at the moment the contract is signed and once it was terminated unveils a jump from 132,000 to 187,000 Lebanese pounds. It is not possible then to ignore the heavy toll this has imposed on the consumer’s purchasing power, even after adjusting for inflation.

Although ONDEO has managed to introduce a financial system conforming to national accounting norms and international standards, has trained its financial personnel, and has referred to capacity building in order to upgrade the technical, financial and managerial skills of its staff while keeping a well-defined remuneration policy, the downside of the


17 ibid.


19 Makdisi, “Towards a Human Rights Approach to Water in Lebanon”.

20 Makdisi, “Towards a Human Rights Approach to Water in Lebanon.”
Lebanon

partnership is believed by many experts to be the application of the cost recovery schemes. On the other hand, ONDEO was victim of the problem of overlapping mandates given the large assortment of involved public bodies (i.e., the ministries of energy and water (MEW), public health, environment, interior and municipalities and public works). This made it difficult to discern a clear authoritative system conveying the promulgated decrees to the executive entity as it should be. At the same time, this has mixed the monitoring and data-collection roles of the concerned public institutions, which has aggravated the problem and made it hard for them or any other independent entities to assess the progress and the socio-economic impact of the project as a result of weak data and information dissemination. This is good evidence that the government is even not ready to host management-contract types of PPPs, leading to the failure of this agreement after four years.

Most importantly, water is identified as one of the most basic human rights and should not be assigned to any party besides the government itself as its provision should be free of all types of jeopardies. Assuming our government is incapable of taking the necessary measures to satisfy this condition, it is mandatory for it to maintain its regulatory oversight, to monitor water quality standards, prices and service levels, and ultimately to ensure that an independent regulatory system and a legal framework is put in place before private sector participation in any form of agreements is formally introduced in the Lebanese water sector. It is not radical to state that water must not be considered as an economic and a public/social good but must be uniquely a public/social good since it would be hard to balance between returns generated to private shareholders and protection of human rights. Despite that, a ten-year action plan was promulgated by MEW without mentioning anything about water rights. Even many social activists proved willing to ignore the danger behind privatizing water services when they campaigned for the Blue Gold project requiring US$5 billion from the private sector in 2014.

A similar management contract has also been repeatedly awarded in the Bekaa and South Lebanon regions whereas a planned network of 17 water retention dams has been delayed for decades. In short, the TWA experience did not serve as a model for the participation of private firms in water management as it should have done. Instead, the Awali-Beirut Project (ABP), which was intended to alleviate water shortages by the transfer of water from the South (dam of Bisri) to the Greater Beirut Area (GBA) and which was launched in 2004 with no final agreement reached despite the completed project concepts and performance specifications, is now in the course of implementation again and is funded by the World Bank to ensure an additional daily potable water supply of 250,000 m³. The 15-20 year build-operate-transfer (BOT) arrangement consists of installing pipes and building a two-way, 24-kilometer, US$200-million conveyor tunnel and capitalizes on the involvement of a diversity of stakeholders, including among others, the CDR, the Beirut and Ain El Delbe Water Authorities (BAEWA) and the Litani River Authority (LRA). The user fees will be delivered to CDR which will be responsible for paying the BOT contractor (the Italian Cooperaativa Muratori and Cementisti di Ravenna). This only indicates that no lesson was learned from the issues encountered with the TWA experience.

**SDG 4: quality education for all**

SDG 4 is a stand-alone goal for education within the 2030 Agenda. It calls for a global agenda ensuring inclusive and equitable quality education and promoting lifelong learning opportunities for all. The goal’s underlying principles derive from an international human rights framework, recognizing that education is a public good and the state is the main duty-bearer in protecting, respecting and fulfilling the right to education.
The 2015 National Assessment on the Sustainable Development Framework in Lebanon demonstrates that “education services are generally considered to be of a relatively good standard, inequalities in accessing these services and disparities in terms of quality need to be addressed”.\(^2\)

There are various aspects to be considered when monitoring the implementation of SDG4 in Lebanon. First of all, resources for the education sector remain limited. Expenditure on education stands at 8.5 percent of total government expenditure,\(^2\) whereas the average in the world is 14.5 percent.\(^2\) It is also important to note the structure of education, which encompasses public and private schools as well as private subsidized schools. With regard to the quality—a key component in SDG4—the disparities in quality between the public system and private education are sharp in Lebanon, creating further inequalities in the enjoyment of the right to education.

There is a continuing mistrust in public education that puts the burden of the primary education costs on Lebanese families, the majority of whom enroll their children in private sector schools. According to statistics from the Center for Educational Research and Development published in 2014 and 2015, private and UNRWA schools in Lebanon accommodate more than 70 percent of Lebanese students, and only 28 percent go to public schools.\(^2\) Furthermore, the huge influx of Syrian refugees in the country has worsened the situation; in 2011, the Ministry of Education and Higher Education issued a decision offering free and open access to public schools for Syrian refugees. The public schools where the majority of Syrian refugees are enrolled are in Lebanon’s most underprivileged and remote areas, where the quality of education is already low.

The civil society’s analysis in Lebanon highlights the lack of quality of public education and calls for reforms in the education sector through developing a new unified curriculum, introducing a dropout prevention programme, establishing and implementing quality oriented strategies especially for public schools in rural areas, and adapting the school environment to the basic needs of the children and people with disabilities, while working towards banning double shifts in schools. The Lebanese experience reveals the domination of private education over public education. It could be considered as a ‘choice’ of people within the national context, but one should not forget the state’s main responsibility in fulfilling the right to education and the provision of public services that are accessible, affordable, available and acceptable to all. Accordingly, economic accessibility is one of the key components. Otherwise, the situation is fundamentally incompatible with the conception of education as a public service and a human right for which the state is primarily responsible; currently “it perceives education as a good to be purchased upon demand, with parents and children casting as consumers who supposedly enjoy ‘choice’ and the benefits of market efficiency”.\(^2\)

On the other hand, since education in Lebanon is for many a scarce commodity instead of an entitlement, poorer families tend to put their limited funds towards the investment they consider most likely to yield the best returns: the education of boys rather than girls, which hinders gender equality as well.\(^2\) This illustrates some of the specific social justice implications (gender, income, citizenship, etc.) that emanate from the private sector’s control over education services, especially primary education.

It is important to have a comprehensive approach to the 2030 Agenda and SDG4 implementation, as key for addressing related inequalities (i.e., graduation from


\(^2\)Ibid.

\(^2\)http://www.al-monitor.com/pulse/originals/2017/01/lebanon-syrian-displaced-students-public-private-education.html#ixzz4moKIkbxs

\(^2\)Dr. Kishore Singh, the UN Special Rapporteur on the right to education, featured in Open Society Foundation- Oxfam Human Rights Hub’s report on “The Challenges of PPPs in Realizing the Right to Education”, 2015.

\(^2\)Ibid.
private and public schools and integration into the labour market in Lebanon). Opportunities would vary for each and thus would deepen inequalities so long as private sector engagement in the education sector continues without any regulation and at the expense of public education.

Conclusion

Achieving sustainable development requires addressing root causes of Lebanon’s structural problems at political, economic and social levels. To be sure, additional development challenges given the huge influx of Syrian refugees in the country should be taken into consideration. Yet it is important to note that Syrian refugee crisis simply shed light on the structural and systemic problems of Lebanon and aggravated them. In this context, the private sector, as in many other countries, must play an active role in achieving SDGs in Lebanon, along with other development actors. At the same time, they all should remain accountable for their contribution to sustainable development. In this regard, the implementation of the 2030 Agenda in Lebanon requires:

1. A shift from the rentier state model within which privatization and the promotion of PPPs are put forward as a panacea towards enhancing productive economy and ensuring inclusive growth that generates jobs.

2. A comprehensive national development plan integrating SDGs made available for all development actors, including the private sector, to ensure coherence among diverse actors’ contribution to SDG achievements. The plan should be adopted following an inclusive, participatory and transparent national dialogue mechanism to ensure the localization of the goals.

3. An independent and inclusive national mechanism to ensure policy coherence, coordination and monitoring which also covers the private sector, recalling that all development actors remain mutually accountable for the 2030 Agenda implementation. Investment councils and platforms should be set up for dialogue between businesses and the authorities on the needed policy and legal reforms.

4. A revised programme to promote PPPs, and the adoption of a legal framework to organize their implementation, monitoring and evaluation. Lack of transparency, lack of data and access to information should be addressed before continuous support to private sector-led growth. PPPs should be merely used for public utility purposes when the government is totally incapable of providing the service in question, so long that the setting, responsibilities and conditions that protect the public interest over the private one are defined and guaranteed. PPPs should not be considered as an option for constitutional and vital sectors that are interrelated with basic human rights (water, education, health, etc.)

5. The process of establishing a PPP project is decentralized in an effort to depoliticize the coordination efforts. The common political-economic threats are crosscutting among most issues in the county, such as corruption, power sharing, nepotism, and so on, the immediate tackling of which is also part of implementing the SDGs. This could be done through the employment of ombudspersons, regular reporting, naming and shaming, and other methods.

6. The assessment of IFI and EU policy recommendations using a rights-based approach. Accordingly, shrinking policy space should be addressed; given that even including the MDGs implementation similar recipes on privatization and PPPs were promoted by these actors to ensure ‘economic growth’, ‘job creation’, and so on.

7. The promotion at national and international levels of a legally binding human rights framework for private sector engagement, in order to ensure full enjoyment of human rights by all rather than focusing primarily on investors’ rights.

This report provides an update to the 2016 Lebanon National Report and focuses mainly on the role of the private sector in implementing the SDGs in Lebanon.