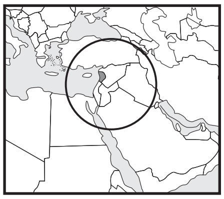
No dialogue on the crisis



The global economic and financial crisis is receiving increasing attention in official discourse as the Government has realized that, unless it is responsibly and seriously tackled, the impact will be severe. While the direct effects of the crisis have yet to be felt in the country, the nature of the economy renders it extremely vulnerable. However, although a national dialogue is needed, the Government has not held consultations with NGOs and other concerned parties.

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Positive indicators marked the end of 2008 in Lebanon despite the global financial crisis. In fact, according to the Lebanese Central Bank and the International Finance Corporation, the country witnessed 8% growth mainly fuelled by the real estate, construction, tourism and financial services (banking) sectors. The main contributing factor remained workers' remittances, which at close to USD 8 billion were equivalent to more than 10% of the total deposits in Lebanese commercial and investment banks. Furthermore, debt-to-GDP ratio dropped from 180% to 162%.[2]

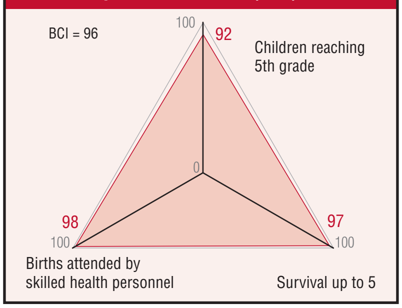
Other reasons why Lebanon has so far been only slightly affected by the crisis include the small size of its economy, financial sector and operations; the modest growth rates registered in previous years; the resilience of the banking sector, which enjoys solvency of USD 95 billion or 322% of GDP and is actively regulated by the Central Bank; and foreign aid, which helps the country overcome economic and financial challenges.

However, the economy presents multiple structural imbalances that render it vulnerable to the repercussions of the crisis, including a 30% budget deficit, a two-thirds balance of payments deficit, the 162% debt-to-GDP ratio mentioned above and an inflation rate that exceeds 10%. In the coming year, remittances are expected to drop, at the same time that reverse migration leads to higher demand for jobs. This has already started as the global crisis hits the Gulf countries, particularly the United Arab Emirates.

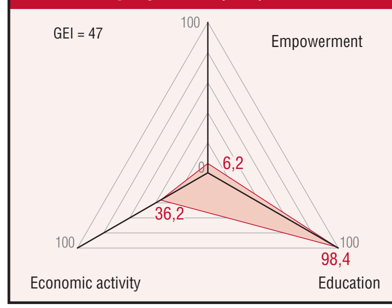
Given this context, the most optimistic predictions –by the International Monetary Fund and the Ministry of Finance– do not expect a growth of more than 5% for 2009. They also expect the debt-to-GDP ratio to increase due to the budget deficit and the need for borrowing to cover expenditures. The Ministry of Finance estimates an increase in public debt of USD 4 billion.

Furthermore, a deepening global crisis will bring about a decline in inter-Arab investments and foreign direct investment (FDI), as well as a reduction in the aid monies pledged at the Paris donors' conference of January 2007 (known as Paris III).[3] Although the banking sector is the main engine of the Lebanese economy, it may lose its resilience due to the crisis of confidence in financial markets and its relationships with international and regional banks.[4]

Basic Capabilities Index (BCI)



Gender Equity Index (GEI)



Economic and social setting

The UNDP report "Poverty Growth and Income Distribution in Lebanon" indicates that 28.5% of residents live below the upper poverty line and 8.1% live below the lower poverty line.[5] It also reveals major imbalances in the geographic distribution of poverty, which is concentrated in rural areas and clusters surrounding major cities. The 0.375 GINI coefficient registered by Lebanon further confirms this. The root causes are the economic policies adopted by successive governments, most significantly the search for growth through attracting FDI and creating a tax haven, while policies aimed at fairly redistributing growth returns through a balanced tax structure and the provision of basic services were overlooked.

Lebanese officials, including the Prime Minister, promote the market system without mentioning the role of Government in monitoring market mechanisms and encouraging investments in productive or employment-generating sectors.[6] Investors focused on construction, real estate and finance while industry and agriculture were neglected.

It should be mentioned that the late Lebanese Minister of Industry, Pierre El Gemayel,[7] submitted a proposal to the Cabinet in 2006 on "Industry for the Youth 2010". This 10-year plan was intended to encourage and strengthen the sector, focusing on its important role in promoting economic growth and job creation.[8] It stressed the necessity of a national commitment to developing industry and highlighted the lack of coherence in national policies. The Government, however, did not implement the plan. As a result, the economy became increasingly oriented towards financial and banking services and a rentier economy, while investments in the productive sectors were lacking.

The Government's plan

Several months after the financial crisis began – and with many voices warning of its impacts globally, regionally and nationally – the Lebanese Government finally realized the magnitude of the problem and presented a preventive two-year plan to cushion the

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2 Ministry of Finance. *Debt And Debt Markets.* Issue No. 7, Quarter IV, 2008.

3 Paris III is the third of the "Friends of Lebanon Conferences for Investment and Finance" held in Paris in February 2001, November 2002 and January 2007. The last one took place a few months after the Israeli war against Lebanon of 2006; its programme was articulated around three main objectives: (1) to respond to the results of the Israeli war in terms of rehabilitation and reconstruction, (2) to respond to the economic and financial crisis that Lebanon was facing, (3) to adopt the Social Action Plan presented by the Lebanese Government. ANND discussed the Paris III document in the national report included in *Social Watch 2007*.

4 Hamdan, K. "Primary Reading in the Implications of the Financial and Economic Crisis". *Al-Safir,* No. 11146, 10 November, 2008.

5 Laithy, H., Abu-Ismail, K. and Hamdan, K. *Poverty Growth and Income Distribution in Lebanon.* IPC Country Study No. 13. Brasilia: International Poverty Centre (IPC) and United Nations Development Programme (UNDP), 2008.

6 Most recently, in his opening speech during the 17th Arab economic forum held in Beirut in 2 and 3 April 2009, Prime Minister Fouad Siniora underlined the absence of alternatives to the market economy.

7 Gemayel was assassinated in November 2006 in Beirut.

8 See: <www.industry.gov.lb/>.

national economy from its effects. The plan revolves around three main points: (1) injecting liquidity into the markets through increasing wages in the public and private sectors and launching construction and infrastructure projects through the Council for Development and Reconstruction (CDR)[9] and other government agencies; (2) activating the projects needed to obtain the funds pledged at the Paris III conference; and (3) encouraging investments and stimulating the private sector through cuts in taxes and fees and the establishment of three free zones in different regions of the country.

However, this set of measures fails to make up a comprehensive national plan that a challenge of this magnitude requires. The Government's plans to inject liquidity into the economy amount to 10% of GDP, on par with what industrial countries adopted to address the crisis,[10] but the accumulated budget deficit limits its ability to spend. Accordingly, it will have to resort to borrowing, thus increasing public debt and debt service.

Furthermore, although the Government's plans include an increase in wages and the waiving of social security charges for new investors as an incentive, these measures do not indicate that it is willing to play a role in stimulating the economy. The increase merely removes a more than decade-long wage freeze. The plan also relies on a drop in oil prices, which would result in reduced costs in electricity production and public transportation. Furthermore, the waiving of social security charges comes at the expense of workers' rights to social protection, especially as the budget deficit of the National Social Security Fund threatens its ability to meet beneficiaries' needs. The injected liquidity, the increased public debt and the reduction in remittances will all lead to greater pressure on the economy and on public finances.[11]

Moreover, while the Government relies on the Paris III Agenda as a basis to its work plan, this was initially formulated as a series of measures to reduce debt through curbing expenditures and increasing revenues on the one hand, and reducing debt service through privatization in the telecom and energy sectors on the other. In order to increase revenues, the plan seeks to increase VAT and taxes on other consumable commodities. At the level of basic services, Paris III was the first of the "Friends of Lebanon" conferences to address social aspects; however, the proposed remedies are confined to a few programmes that are based on social safety nets and not on a national strategy for social development. It is worth noting that Paris III did mention the need for administrative reforms in public administrations and ministries.

Both the Prime Minister and the Minister of Finance have acknowledged the negative impacts expected from the global crisis and the need to protect the national economy.[12] However, as their answer, they restate their commitment to implementing the Paris III Agenda without addressing any revision or reconsideration of the measures it promoted. Although theoretically designed to meet Lebanese financial and economic challenges, in practice the Agenda speeds up the procedures needed for the country to join the World Trade Organization (WTO), especially as it reaches the final stages of the bilateral and multilateral round of negotiations on non-agricultural and agricultural goods as well as services.

The Government will need to reassess the Paris III Agenda, including the scope of deregulatory measures it is undertaking and the requirements related to the WTO. It should consider revising and expanding the social considerations in its plan and the mechanisms for supporting the economy, investing in productive sectors and addressing the level of monopolization of the national market that hinders the emergence of new entrepreneurs and small and medium businesses.[13]

The role of civil society

The High Level Forum III on Aid Effectiveness, held in Accra in 2008, stressed the principle of "democratic ownership". This should be reflected in national consultation processes that include civil society representatives in the formulation of national strategies and in the definition of priorities to meet national economic and financial challenges and social needs.

Moreover, the Financing for Development conference held in Doha in November 2008 stressed the need for input from civil society during the formulation and adoption of national policies for economic and social development. It underscored the important link between democracy, social development and civil society's active participation. It also concluded that developing countries would be especially vulnerable to the global crisis without a reassessment of current policies, the setting of goals and the launching of collective and responsible action to reach them.

Civil society organizations (CSOs) play an important role in formulating sound development strategies that answer to the priorities and rights of local communities. Their advocacy efforts bring added value to the process of adopting adequate economic, financial and social policies and monitoring their impact. They advocate for laws that preserve citizens' economic, social and cultural rights. Their continued struggle, for instance, to monitor the implementation of the Convention on the Elimination of All Forms of Discrimination against Women (CEDAW) and the Convention on the Rights of the Child (CRC) has scored successes. In addition, and among many other successful examples, CSOs have provided important inputs in reforming parliamentary and municipal electoral laws and in formulating many anti-corruption laws.

In Lebanon, the mechanisms for consultation in policy formulation between the Government and CSOs are not effective. However, CSOs represent solid partners in social service delivery, either by individually providing services through centres spread across the country or in partnership with public sector institutions. Regarding lobbying activities for economic and financial reforms, however, CSOs are not very active mainly because of their lack of experience in this field. Since this is becoming a very important process, CSO have to engage more and develop clear strategies and objectives for successful advocacy.

At a time when meeting the challenges requires the convergence of efforts to establish national and regional partnerships, some CSOs have attempted to start a dialogue on the crisis, its roots, its consequences and ways to address it. However, the Government persists in ignoring these efforts and in making decisions without effective consultation with concerned parties. ■

9 CDR is an autonomous structure responsible for the planning and implementation of master infrastructure projects all around the country. It functions under the direct supervision of the Prime Minister.

10 Iskandar, M. "Mr. Prime Minister, Your Plan 2009–2010 is Not Convincing". *Al-Nahar*, No 23612, 15 February, 2009.

11 The Ministry of Finance estimates the cost of this policy will be an increase in public debts of USD 4 billion.

12 The current Prime Minister was Minister of Finance in 1992–1998 and 2000–2004. The current Minister of Finance worked at the IMF before he became the Prime Minister's main advisor in 2005; he was appointed as Minister in June 2008.

13 Hamdan, K. "Primary Reading in the Implications of the Financial and Economic Crisis". *Al-Safir,* No. 11146, 10 November, 2008.