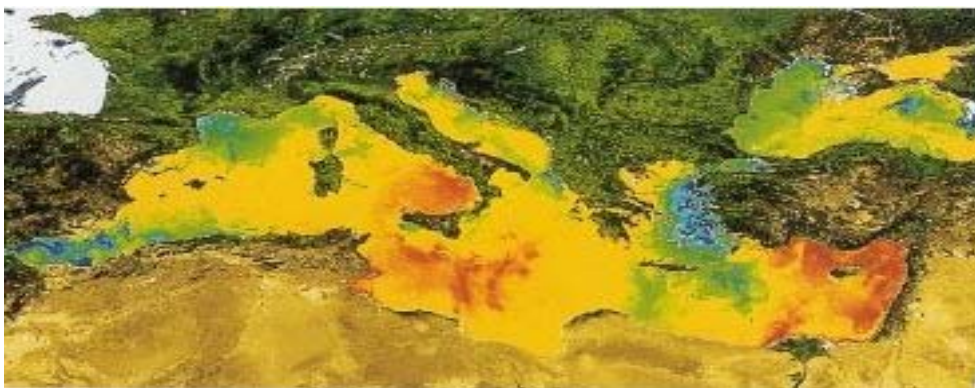




EURO-MED PARTNERSHIP

LEBANON

**National Indicative programme
2005-2006**



I. PRESENTATION

1. INTRODUCTION

Faced with its worst economic crisis since the end of the civil war in 1990, the government embarked on a number of reforms to help cope with the large budget deficit and a crippling public debt. Tax reforms included the introduction of VAT in January 2002, which after two years has been judged a success. The Lebanese government announced a series of measures to reduce the debt burden at the Paris II donor conference in November 2002, and these included further fiscal measures to bring the budget deficit down and the privatisation of telecommunications, electricity and other state assets. There has not yet been real progress on achieving these reforms: the 2004 budget deficit is higher than targeted, and privatisation has confronted a series of obstacles.

At Paris II, President Prodi urged Lebanon to proceed further with its reforms, and to seek IMF backing for its programmes. This was set out as a precondition before any consideration could be given to possible macro-financial assistance from the EU.

2. ORIENTATION CSP AND 2002 2004 NIP

A key challenge facing Lebanon for the Association Agreement is improving the competitiveness of the private sector. This has been signalled by the government as a priority, both through support for production as well as marketing. A more efficient private sector will better benefit from the provisions of the Association Agreement, and will transform Lebanon as a stronger player in the regional field.

At the Euro-Med Foreign Ministers meeting on 26-27 May 2003, the Commission presented a new framework for relations with Europe's Eastern and Southern Neighbours. This European Neighbourhood Policy opens new roads to strengthen the EU-Lebanon relationship under which Lebanon can fully benefit from the opportunities resulting from EU enlargement. The European Neighbourhood strategy offers Lebanon the path to fuller integration in the Union's internal markets and networks. Not all instruments may involve financial support, neither will they apply until at least 2007, but the 2005-2006 NIP takes account of the Union's evolving policy in this area. Lebanon is expected to become actively involved in the European Neighbourhood Policy initiative towards the end of 2004, and certainly during 2005, once the Association Agreement ratification process is completed.

The Country Strategy 2002-2006 implemented through the National Indicative Programme 2002-2004 focuses on economic reforms, principally in supporting the implementation of the Association Agreement, on social and poverty alleviation issues, environmental protection, human rights and civil society, and human resource development. A Memorandum on the National Indicative Programme (NIP) 2002-2004 was signed by the European Commission and Lebanon on 4 March 2002 for a 80 €M package of support for trade reforms/implementation of the Association Agreement; for social and rural integrated rural development, targeted principally at farmers and small scale agro-industry; for environmental programmes, and for higher education (Tempus).

In the framework of the Barcelona Process, the EIB has strengthened its financial partnership with the Mediterranean Partner Countries (MPC) through the creation of a specialized

instrument, the Facility for Euro-Mediterranean Investment and Partnership (FEMIP - October 2002). At the end of 2003, it was decided to reinforce the FEMIP, by adding new financial instruments and changing some organizational features in order to increase activities in favour of the private sector and cooperation with Partner Countries.

Under FEMIP, annual volume of EIB lending in all partner countries will gradually increase from € 1,4 to € 2 billion. These resources are to support a much-broadened activity range, with a priority for private sector development. Of particular importance are also those projects in the area of Environment, Human Capital and of mutual interest to the Union and Mediterranean Partner Countries or reinforcing "South-South" cooperation. Financing on own resources will be complemented with EU budgetary resources for technical assistance, both upstream and downstream. These will help with the preparation and implementation of investment projects. In addition, the EIB continues to make use of considerable amounts of risk capital resources for private sector development.

Amongst those priorities, the EIB and the Commission decided specific objectives regarding:

- The reduction of the negative impact of human activity on the environment.
- The alignment of environmental norms with international agreements and treaties (European directives, Kyoto, etc.).

In those areas, EIB loans on own resources will be supported by interest subsidies (financed through budgetary funds).

3. MID-TERM REVIEW (MTR)

3.1 Preamble

Country Strategy Papers (CSPs) are intended as an instrument for guiding, managing and reviewing EU assistance programmes. They are essential management tools to ensure that external assistance reflects EU's policy objectives and priorities. The completion of the "first generation" of CSPs/RSP for the MED region took place in December 2001.

With a view to the continuous improvement of the quality of the CSPs, the Council in March 2003 adopted conclusions on the use of the Common Framework for CSPs¹. In these conclusions, the Council invites the Commission to undertake a Mid-Term Review (MTR) of each CSP in accordance with existing rules and lays down key orientations for the CSP review. Four parameters have been identified as basic reference points for the review process: (i) new developments in the country, (ii) new EC/EU policy objectives and commitments, (iii) results and performance, and (iv) lessons learnt and potential improvement.

As far as the MED region is concerned, the general conclusion is that there is no need for an extended review, given the rather general content of the CSP/RSP 2002-2006 and their recent adoption. Minor revisions in the CSPs/RSP relate to already identified sectors corresponding to new EU/EC policy objectives and commitments (*see infra*). Since the MTR coincides with the 2005-2006 programming exercise, it was decided to express the CSPs/RSP adjustments through the national/regional indicative programmes.

¹ Council Conclusions on the Progress Report on the Implementation of the Common Framework for Country Strategy Papers, adopted by the General Affairs and External Relations Council on 18 March 2003.

3.2 Summary of the MTR

a) Developments

Lebanon's **macro-economic situation** remains weakened by fiscal imbalances, expansion of public debt to € 30 Billion (180% of GDP), and high interest rates. Growth has been weak. The Paris II donor conference in November 2002 and the 2003 austerity budget were significant steps towards fiscal consolidation, but privatisation of state companies suffers delays. The introduction of VAT in early 2002 is a key achievement. Contacts with IMF have not advanced to programme acceptance, a condition for EU budget aid. Signature of the Association Agreement and entry into force of the Interim Agreement on 1 March 2003 reinforce existing CSP priority for implementation issues. Focus on social sector priority and poverty alleviation is relevant.

b) EU/EC new policy objectives and commitments

In the course of 2002-2003, a number of policy orientations have been adopted by the Commission, which will have an impact on our relations with the Mediterranean partners in the near future. Most significantly, the communication on "*Wider Europe and the New Framework for Relations with our Eastern and Southern Neighbours*" sets out a new framework for relations over the coming decade with the Southern Mediterranean. The communication notes the growing interdependence between the EU and its neighbouring partners in terms of stability, security and sustainable development. In the suggested **new neighbourhood policy**, the communication proposes that, over the coming decade, the EU should aim to work in partnership with its Southern neighbours to develop a zone of prosperity and a friendly neighbourhood - a "ring of friends" - with whom the EU enjoys close, peaceful and co-operative relations. In return for concrete progress reflecting the shared values, and effective implementation of political, economic and institutional reforms, all the neighbouring countries can be offered the prospect of a stake in the EU's internal market. This could pave the way for further integration and liberalisation to promote the free movement of persons, goods, services and capital (four freedoms). For the period up to 2006, the countries of the south Mediterranean are to be invited to participate actively in neighbourhood programmes under preparation, aimed at strengthening the impact of trans-border co-operation with the Mediterranean EU Member States.

Other relevant policy orientations include: trade related technical assistance and the Doha round, JAI related issues, better governance, human rights and democratisation in the MED region, and environmental initiatives agreed at the Johannesburg Summit on Sustainable Development.

The launch of the new WTO Round - **the Doha Development Agenda** - comprises both further market openings and additional rule making, underpinned by commitments to strengthen substantial assistance to build capacity in developing countries. The main objective of the new round is to assist developing countries' integration into the world trade system in a way that will help them combat poverty.

The Council conclusions of Tampere (1999), Santa Maria da Feira (2000) and Sevilla (2002) defined a common policy regarding the integration of **Justice and Home Affairs** issues in EU external policy. The Action Plan adopted in Valencia (2002), in addition to the Barcelona

Declaration, gave further orientations for reinforced co-operation in the MED region in three main sectors: migration, reform of the judiciary and the fight against criminality.

Better governance, promotion of **democracy** and respect for **human rights** constitute core objectives of the EU's external policies. In line with the conclusions drawn up in the 2002 UNDP Arab Human Development Report, the Commission recently adopted a Communication on "*Reinvigorating European Actions on Human Rights and Democratisation with Mediterranean Partners*" which aims at maximising the effectiveness of the instruments at the disposal of the EU and its Mediterranean partners in the field of human rights and democracy. The communication sets out working guidelines to promote Human Rights and fundamental freedoms in co-operation with the Mediterranean partners. It proposes 10 concrete recommendations to improve the political dialogue between the EU and its Mediterranean partners, as well as EU financial co-operation on Human Rights issues. Their implementation will be enhanced by three levels of complementarity: between the political dialogue and financial assistance, between the MEDA programme and assistance under the European Initiative for Democracy and Human Rights (EIDHR), and finally between the national and regional dimensions.

A global commitment to the cause of sustainable development was restated at the Johannesburg Summit, through an ambitious action-oriented programme with clear and measurable objectives, demonstrating the increasing importance of **environmental issues** in achieving the Millennium Development Goals. The key areas for EU action are water and energy. In Johannesburg, the EU launched two partnerships, one on water and sanitation and one on energy for the poor. The **EU Water initiative** ("Water for Life") will help coordinate existing financing mechanisms with a focus on three parameters: supply, sanitation and integrated resources management. At the moment, concrete follow-up is expected for the Mediterranean countries in the framework of the existing financing instrument (MEDA).

c) **Results and weaknesses/lessons learned/improvements**

The Iraq war represents a change of situation to be considered by an EU response strategy. (Similarly, any post-war resolution of MEPP based on Quartet Road Map, leading to peace treaties between Syria/Lebanon and Israel, would require change to response strategy - any deterioration is already covered under "risks".)

The Association Agreement marks a crucial advance in Lebanon's relations with the EU. Signed in Luxembourg on 17 June 2002, the Agreement is going through the process of ratification. It was approved by the Lebanese Parliament (2 December 2002), the European Parliament on 16 January 2003, and to date, Germany, Ireland, France and Sweden.

An Interim Agreement on trade and trade-related measures took effect on 1 March 2003, beginning the 12 year transition to free trade. A Co-operation Council of foreign ministers is to be held with Lebanon on 24 February 2004 to give political impetus to the accord.

A Commission Proposal to the Council has been drafted for creating institutional arrangements to monitor implementation jointly with Lebanon, and to act as a forum for discussion and advice in key policy areas. Three "dialogues" are required under the Agreement: economic, customs and social affairs. Once the Association Agreement is in force, sub-committees will be established for internal market; industry, trade and services; transport, environment and energy; research and innovation; agriculture and fisheries; justice

and security (i.e. JAI) - to be chaired by the Commission and set in motion as circumstances and interests require.

As regards co-operation, the Memorandum for NIP 2002-2004 was signed in Beirut on 4 March 2002 for an indicative amount of 80 €M. The Memorandum indicates the following priorities; support for economic reform, promotion of social development and reduction of environmental degradation, human resources and the promotion of human and individual rights. Implementation of some of the programmes in these areas have commenced while identification of others is progressing.

d) Conclusion

The final conclusion of the MTR is that the CSP is considered adequate. It remains a good basis for further co-operation under the National Indicative Programme.

The CSP does not need major changes. However, within the EU response strategy, to be fine-tuned in the strategy for the NIP 2005-2006, funding should reflect these supplementary priorities, with particular attention to strengthening the judicial system. Mention should also be made along the lines that the EIDHR instrument should be made available to Lebanon where possible, complementary to MEDA. It is also recommended to assure coherence between the CSP's of other countries in the region possibly affected by the Iraq war.

4. ASSOCIATION AGREEMENT

Lebanon opted for a rapid start to the association process by endorsing an interim accord on the trade components of the Association Agreement, thus avoiding the 3-4 years it normally takes for Member States to conclude ratification. The Interim Agreement for the EU took effect on 1 March 2003.

Furthermore Lebanon's fuller integration into South-South style trade arrangements with its neighbours is encouraged as a policy by the Commission. There are positive signs of progress, with the Minister of Economy and Trade Marwan Hamadeh announcing at the Economic Dialogue with the Commission in November 2003 that his government was actively looking at joining the Agadir free trade group.

5. PRIORITIES

The Lebanon National Indicative Programme for 2005 and 2006 builds on the achievements of the ongoing co-operation taking into account the result of the Country Strategy mid-term review. It also responds to recommendations of the UNDP Arab Human Development Report and anticipates the implementation of the European Neighbourhood Policy

- *Human Rights and Democratisation in the MED region*

The EC Communication on "*Reinvigorating European Actions on Human Rights and Democratisation with Mediterranean Partners*" proposes key practical measures which aim at facilitating a deeper and more operational focus for political dialogue on Human Rights and democratisation at all levels with MEDA partners. These include the development of National Action Plans and Regional Action Plans on Human Rights and Democracy issues with those MEDA partners willing to engage in such an exercise. According to the Communication

(recommendation 7), an allocation is envisaged for those countries which adopt National Action Plans in 2004. Such allocations will allow partners who progress this work to benefit from extra funds, not necessarily related to human rights objectives. This special additional facility will be allocated in 2005, in the framework of the revision of the 2006 programming exercise.

The 2005 - 2006 NIP includes the following priorities.

5.1 Priority 1: support for European Neighbourhood Policy initiatives

Building on and maintaining continuity with the existing programme "Implementation of the Association Agreement" and extending it to the European Neighbourhood Policy, the following areas have been selected for particular focus. The principle area of focus will be economic reforms and preparedness of Lebanon to implement trade components of the Agreement, though broad support for all aspects of the Association Agreement and the European Neighbourhood Policy initiative will be provided.

a) Support for implementation of the Association Agreement, including economic reforms and trade aspects

To cover all areas of implementation of the Agreement.

b) Implementation of Association Agreement - rule of law, judicial co-operation, and justice and home affairs issues

The objective of co-operating in this sector is to help secure the modernisation and reform of the judiciary in line with the commitments of the Association Agreement, in the area of commercial and criminal procedure and practice, and to promote good governance, including the fight against corruption. Support will be harmonised with European Neighbourhood Policy programmes agreed for this sector. EU assistance is to be provided to further Association Agreement objectives and commitments for co-operation on: migration and immigration questions, border management, combating illegal drugs, organised crime, terrorism, and money laundering. EU/Lebanon twinning arrangements and exchanges of personnel will be used as far as possible.

c) Support for implementation of Association Agreement: European Neighbourhood Policy

Provision is to be made for additional actions which will allow Lebanon to benefit from the neighbourhood instruments and participate in EU networks identified within the European Neighbourhood Policy Action Plan. Support here is to be targeted at assisting Lebanon in preparing for full association with networks, for example in the case of the EU's scientific and research programmes, by improving the capability of the Lebanese research establishment to play a full role in participating in research consortia.

d) Support for human rights, civil society and democracy

Support to be given in line with the CSP, with the European Initiative for Democracy and Human Rights, the Communication for reinvigorating human rights and democracy issues in the Mediterranean, and eventual European Neighbourhood Policy strategies for the sector.

This will include underpinning of local democracy through strengthening of institutional aspects of local government and municipalities.

5.2 Priority 2: support for knowledge economy

a) Vocational and professional training - pilot exercise

To launch preparatory steps in order to define the precise scope of reforms under consideration, or planned, in vocational and professional training in Lebanon from 2007. An important issue in the preparatory stage is ensuring that the vocational training sector becomes more responsive to labour market demand in the private sector. EU support will seek to put in place the government's reform strategy, to provide for linkages to labour market needs, and to ensure the right of women to this form of education. EU assistance to take particular account of support from Member States and the World Bank in this sector.

b) Tempus

To extend the Tempus programme as a means to improving the exchange of knowledge and skills in higher education between Lebanese and EU universities, promoting the mobility of doctoral students, researchers and teachers.

c) Scientific co-operation

Assistance is to be provided to allow Lebanon to effectively participate in the EU's Sixth Framework Programme of scientific and research co-operation.

5.3 Priority 3: strengthening competitiveness of the private sector

Helping the private sector to improve its competitiveness in a liberal trade regime is a critical requirement for the success of the Association Agreement. EU support continues from that provided under the existing NIP, and will be focused on:

- Extending the network of decentralised business service centres to assist entrepreneurs in developing business plans, marketing, product identification.
- Assisting agricultural co-operatives in production and marketing, in particular, in targeting export markets.
- Assisting in the establishment of an export promotions agency, with appropriate co-funding from chambers of commerce and other business and industrialists organisations.

5.4 Priority 4: water reform and environment

The objective of the programme is to launch preparatory actions to define and review steps towards the reform process in terms of overall national water planning, reform of the administration and management of the water sector. It will take account of active support in this sector provided by Member States and the World Bank. Providing clean water for local populations is a key consideration. EU support will have as an objective the improvement of water quality and health through better environmental facilities. This will focus on both the national and local level, and will take the form of strengthening the capacity of local authorities and municipalities to plan and manage small-sized solid and water treatment stations, and of national and regional bodies to provide water and waste treatment services.

Where EIB own-resource lending is to be provided for water and environmental projects, an interest subsidy can be considered in order to maximise the leverage of Community funding.

II. PRIORITY 1. SUPPORT OF EUROPEAN NEIGHBOURHOOD POLICY INITIATIVES

1. JUSTIFICATION

The negotiations for the EU-Lebanon Association agreement were successfully concluded with the initialling of the Agreement on 10 January 2002, in Brussels, and its signature, along with the Interim Agreement, on 17 June 2002. The Interim Agreement has been in force from 1st March 2002.

The challenge for Lebanon remains in the setting up and developing of the administrative, legal and institutional foundation needed to put the Agreement into effect. To that end the National Indicative Programme indicated as the first priority for co-operation during that period the development of the trade sector and implementation of the Association Agreement. The programme to achieve the objective of effective application of the Association Agreement was further refined after the Lebanon Country Review of 4th June 2002. It was agreed to engage in several actions among which is a specific support programme for the implementation of the Association Agreement focussing on trade related issues. It also includes a small programme in support of civil society which will also serve as a pilot programme for possible future activities in support of civil society.

The Association Agreement in its economic and sector co-operation provisions is quite specific in supporting co-operation in reinforcement of institutions and the rule of law, prevention and fight against organised crime as well as migration issues. These areas deserve full attention under the National Indicative Programme.

Building on and maintaining continuity with the existing programme "Implementation of the Association Agreement" and extending it to European Neighbourhood Policy, the following areas have been selected for particular focus. They form a single, integrated package of actions for 2005-6, and will be reflected in the European Neighbourhood Policy Action Plan to be agreed jointly between the EU and Lebanon. They take account of the fact that under the existing NIP 2002-4 the support programme for the Agreement is focused in the trade area. The new NIP will both extend this trade support, as well as provide similar assistance to Lebanon in the political and JHA areas of the Agreement, employing the same type of instrument (twinning, etc.).

2. GENERAL OBJECTIVE

Modernising the Lebanese Administration and increasing its capacity effectiveness and accountability to meet its obligations under the Association Agreement.

3. SPECIFIC OBJECTIVES

This will involve assisting the Lebanese administration in both preparing and executing the wider range of new legislation needed for meeting its responsibilities under the Interim and Association Agreements, in such areas as legal reforms (training of judges, twinning of institutions), customs procedure, competition laws, trade law, protection of intellectual

property (for instance, establishing a Patents Office or Copyright agency, capable of taking legal action and executing its decisions), strengthening Lebanon's services administration (banking, insurance and environment) to cope with the obligations of an agreement on services once negotiated, sectorial co-operation (statistics, industry, fisheries, audio-visual, etc. as set out in the Agreement), and justice and home affairs issues. These specific objectives are consistent with the obligations anticipated under the European Neighbourhood Policy Action Plan to be negotiated with Lebanon. For the energy sector, reform of the electricity sector is of particular importance, as well as the promotion of a more efficient energy demand management and a harmonisation of the energy sector rules and standards with those of the EU. For the transport sector, reforms will need to cover all transportation modes as well and the harmonisation of standards as well as safety and security measures.

4. EXPECTED RESULTS

4.1 Rule of law

- Improved commercial procedures and practices, greater transparency, more rapid and effective treatment of commercial cases.
- Creation of competition council or agency to ensure that EU and Lebanese companies and state agencies are subject to agreed rules on competition in the market place.
- Creation of an intellectual property court, or equivalent, capable of ruling on IP cases, and of enforcing its decisions (in co-operation with police).
- Improved judicial procedure and practice for treatment of criminal cases.
- Good governance practiced widely in the Lebanese administration and the judiciary.
- Better protection of fundamental rights and civil liberties.
- Improved training for judges and prosecutors in insolvency procedures.
- Exchange of good practices.
- Review current state of legislation in criminal and civil law.

4.2 Trade policy

Strengthening the Ministry of Economy and Trade, Customs Authority, and other relevant bodies in executing technical aspects of trade policy and law, and in the practical management of customs procedures and movement of goods. Customs co-operation to include implementation of the Euro-Med rules of origin.

4.3 Justice and Home Affairs

- Improved co-operation in migration questions, through active liaison between EU and Lebanese government agencies and police and security forces.
- Illegal immigration to EU from and via Lebanon to be reduced.
- Improved border management.
- Effective co-operation in combating drugs, organised crime, trafficking in human beings, terrorism.
- Improved measures for controlling money laundering through implementation of financial and banking regulations.
- Improved co-operation in criminal matters through active exchanges between EU and Lebanese government on extradition.
- Strengthening the judiciary and judicial procedures to support the fight against corruption.

- Establish a dialogue on asylum policy and refugees; improved administrative co-operation on asylum issues, including follow-up of asylum requests, training of personnel, improvements to reception facilities for asylum-seekers.
- Encourage the adoption of relevant international conventions and protocols on refugees.
- Prevent and combat illegal migration by exchanging information concerning illegal migration, including monitoring of migratory movements and supporting practical action to prevent and combat illegal migration.

4.4 European Neighbourhood Policy

European Neighbourhood Policy programmes implemented in Lebanon.

5. Performance indicators

5.1 Rule of law

Increase in access of EU businessmen to Lebanese courts where contractual or other commercial issues are involved; establishment of a competition law, and an effective agency to carry out its decisions (growth in number of cases handled, and properly executed); establishment of an intellectual property protection agency, with an effective enforcement agency; increase in number of judges trained for commercial and criminal courts; frequency with which trial durations are reduced and suspects are held in detention.

5.2 Trade policy

Reduction in procedures and delays in clearing goods on arrival and departure; computerisation of customs procedures and tariff classification and duty assessment; rise in number of trade officials trained for the Ministry of Economy and Trade and in hire of trade experts.

6. Description of the programme

6.1 General support for implementation of the Association Agreement

To cover broad areas of implementation of the Agreement, particularly fulfilment of Lebanon's commitments in political and justice and home affairs areas of the Agreement, as well as continued support for economic and trade legislative and regulatory commitments, as a follow-up to the work begun under the existing programme for implementation of the Association Agreement in NIP 2002-2004.

6.2 General network actions for European Neighbourhood Policy

Provision is to be made for additional actions which will allow Lebanon to benefit from the neighbourhood instruments and participate in EU networks identified within the European Neighbourhood Policy Action Plan, such as transport, energy, telecommunications, science and research.

6.3 Support for human rights, civil society and democracy

Support to be given in line with the CSP, with the European Initiative for Democracy and Human Rights, the Communication for reinvigorating human rights and democracy issues in the Mediterranean, and eventual European Neighbourhood Policy strategies for the sector. The approach will be to co-operate in areas where EU support is most needed, i.e. in improving penal and prison systems, strengthening the role and capacity of civil society, and the promotion of advocacy, education and awareness-raising on human rights issues amongst the population. Actions which improve inter-communal understanding and tolerance will be supported. Twinning between EU and Lebanese civil society groups and associations will be encouraged.

6.4 Implementation of Association Agreement through strengthening rule of law and judicial co-operation

The objective of co-operating in this sector is to help secure the modernisation and reform of the judiciary in line with the commitments of the Association Agreement, in the area of commercial and criminal procedure and practice, and to promote good governance. Support will be harmonised with European Neighbourhood Policy programmes agreed for this sector. Special attention to be given to institutional development, using flexible instruments such as administrative twinning and exchanges of senior civil servants and legal officials, and law-enforcement co-operation. Sectorial adjustment facilities could be considered in certain areas of good governance and rule of law. EU support in this area will build on judicial co-operation in commercial legal areas begun under MEDA 1, and is conditional on effective progress in this programme (including training of judges).

6.5 Implementation of Association Agreement through support for justice and home affairs issues

EU assistance is to be provided to further Association Agreement objectives and commitments for co-operation on migration questions and the combating of illegal immigration, on issues related to border management (to include maritime safety, environmental questions), co-operation in combating illegal drugs, organised crime, counter-terrorism, and measures for controlling money laundering. EU/Lebanon twinning arrangements and exchanges of personnel will be used as far as possible.

7. Conditions

Entry into force of a competition law, and positive steps to set up a competition agency, or equivalent; nomination of a suitable number of judges and legal officials for training and twinning programmes in commercial and criminal law; creation of a centralised senior level inter-government co-ordination group for overseeing European Neighbourhood Policy and Association Agreement implementation.

8. Budget

10 €million in 2005.

III. PRIORITY 2. SUPPORT FOR KNOWLEDGE ECONOMY

1. VOCATIONAL AND PROFESSIONAL TRAINING

1.1 Justification

The CSP has indicated development of human resources as one of the priority areas for co-operation. This priority has not yet been translated into concrete programmes except for the Tempus programme which was included in the 2002-2004 National Indicative Programme, and focuses on strengthening co-operation in higher education between eligible countries in the region and Europe thus improving the higher education system. The programme has received a good response and the quantity and quality of proposals justify the continuation of the Tempus programme in the second programming phase.

The EU response strategy to the economic and social challenges and difficulties facing Lebanon calls for the creation of better links between the education system and market needs with specific focus on the lower income groups of the population. The UNDP Arab Human Development report is very articulate in this respect. Although the education system in the country is considered among the most advanced in the region, both in terms of quality and gender equality, it still faces the problem of poor compatibility with the requirements of the labour market. Reforming of curricula was indicated as one of the possible steps towards improvement of the vocational education and training system (VET). Considerable work in the field of vocational education and training is undertaken by the World Bank and further activities with regard to development of existing curricula are planned for the period 2004-2005.

Other donors are also active in this field and close co-operation with them and exchange of experience is essential.

1.2 General Objective

To improve the quality and quantity of skilled workers and professionals in the Lebanese market place.

1.3 Specific Objective

To strengthen the educational establishments responsible for providing technical and professional training to Lebanese students, workers and professionals, by improving training facilities and curricula, and by ensuring coherence between the demands for skilled labour from manufacturing and services, and the training provided.

1.4 Expected Results

- Reinforced capacity of VET related institutions, and growth in the number of VET graduates per annum.
- Analyses of vocational training needs in relation to market requirements, with a rise in the matching of skills to job demand.
- New specialisations developed.
- Image of VET improved.

1.5 Performance indicators

Number of trained graduates; number of trained graduates successful in finding appropriate work; number of training places offered by technical schools; rate at which UNDP Human Development Report indicators are achieved; rise in rate of training, employment of women.

1.6 Description of the programme

Intervention in this area is justified on the grounds of 1) the CSP, which lists the development of human resources, specifically in vocational training, as a priority objective for EU co-operation during 2002-6; 2) support for a domain in which Lebanon has demonstrated a distinct comparative advantage - its main resource is its skilled labour force, the product of quality secondary, tertiary and technical education facilities; 3) the need to better match vocational and professional training programmes to the needs of the labour market. Intervention will take close account of the recommendations in the UN Arab Human Development Report with regard to gender issues, and education. Lebanon, in this context, is to be encouraged and supported to participate in extending its research and scientific capability, through participation in the EU's Sixth Framework Programme (a potential instrument of the European Neighbourhood Policy initiative). This priority area will be addressed in close co-ordination with the World Bank and other Member States working in vocational training in Lebanon. The initiative could take the form of a pilot action in support of specific VET institutions at local level, geared to transition from current organisational systems to ones which can better meet the skills needs of individuals and enterprises.

The programme intends to support reforms under way, or planned, in vocational and professional training in Lebanon, and to enable the sector to become more responsive to labour market demand in the private sector. EU support is conditional on progress on the reform strategy, to linkages to the labour market, and to measures ensuring the right of women to this form of education.

1.7 Conditions

Adoption of necessary VET reforms (curricula, staff, management of state training schools).

1.8 Budget

2 €million in 2005.

2. TEMPUS

2.1 Background and justification

Out of recognition of the important role of higher education in developing human resources and occupational skills and of exchange in promoting understanding between cultures, there is a need for closer EU-Lebanon co-operation in the field of higher education. EU support will continue to contribute to the social and political stability in the region it covers and encourage a mutual understanding of the common goals in the education sector.

The current 2003-2004 programme is now fully operational and the number, as well as quality, of the proposals introduced indicate that the Lebanese target group is well informed about the Programme and eager to benefit from it.

2.2 Specific objectives

The continuation 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 further contribute to the social and cultural goals of the Barcelona Process and will feed into the economic and social development of Lebanon.

2.3 Programme description

The extension of TEMPUS will allow Lebanese access to the Tempus IV programme. This covers participation in 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; higher education staff and student mobility).

Teachers, researchers, trainers, university administrators, senior ministerial officials, educational planners and other experts may use study grants to finance visits that promote the quality, development and restructuring of higher education and training.

2.4 Expected results

- Continuation of the support to the reform and development of higher education structures and establishments and their management.
- Development of training leading to qualifications needed in the context of economic reform.
- Improvement in the links between the higher educational system and industry.
- Enhancing collaboration between the EU-Lebanese academic communities and between the higher education sector and the wider world.
- The joint development of common curricula and qualifications in priority areas.

2.5 Indicative budget

The TEMPUS programme will continue under the 2005-2006 National Indicative Programme with a budget of **2 €million in 2005 and 2€million in 2006.**

3. SCIENTIFIC CO-OPERATION

Lebanon is relatively well developed in its university and research facilities. Assistance is to be provided to allow Lebanon exploit this potential, to build up the structures and know-how needed for entry into, and effective participation in, the EU's Sixth Framework Programme of scientific and research co-operation. Guidance and technical assistance will help familiarise Lebanon with entry to the systems of consortia in R&D on which the Programme is based. This could be considered either as a priority in Knowledge Economy, or as a priority under European Neighbourhood Policy.

IV. PRIORITY 3. STRENGTHENING COMPETITIVENESS OF THE PRIVATE SECTOR

1. JUSTIFICATION

The development of the private sector and its successful integration in the Euro Mediterranean and international trade system is a predominant theme in the Association Agreement. While the Interim Agreement largely addresses this issue, it is however a longer term objective.

Internally, the sensitivity of the private sector is recognised in the UNDP report "Globalisation: towards a Lebanese Agenda". The report states that private sector employment in Lebanon amounts to 1.3 €M. More than one third of the labour force already suffers from unemployment. The report also says that this situation results from increased competition caused by tariff dismantlement undertaken in Lebanon.

Lebanon has entered the 12 year transition phase to free trade with the EU at a difficult moment, with its economy facing slow growth, the destabilising effects of the Iraq war, tensions with Israel and uncertain economic policy in relation to budget and debt management. A major obstacle facing the business community is the high cost of manufacturing and services in Lebanon, particularly in relation to its lower-cost neighbours such as Syria and Jordan. Full and successful exploitation of the Association Agreement will only be effective when its competitive situation is improved, i.e. through more efficient production techniques, lower labour costs, lower energy costs, improved transport and port arrangements, and better marketing. The purpose of EU support here is to meet an urgent demand from industry to help it meet the challenge of free trade through restructuring, greater efficiency, and without fundamental disturbance to the sector, on which significant employment and GDP is dependent. Similar calls are made by agriculture, where cropping techniques, marketing, and animal husbandry methods are well behind the needs of the modern market.

There are of course a large number of problems in the different areas of the productive sector adding to the general business environment deficiencies. Certain common issues dominate the Lebanese economy and its success: the high production cost and the low pace of modernisation of the productive sector and the blockage of reforms in the area of public services. The question of access of Lebanese products to international markets needs the full attention of the economic operators as well as an innovative approach.

Other issues, outside the control of the private sector, also put the brakes on economic reform and development in Lebanon. These include monetary policies and the high interest rate. However, recent experience with the Lebanese Central Bank has shown that innovative mechanisms related to the mobilisation of credits can have a quick and positive impact on the performance of numerous private operators. In terms of technical support and access to credit, the programme will benefit from the complementary resources of FEMIP, for which Lebanon is eligible. The programme could also include a human resources development component, particularly in support of meeting skills needs for upgraded enterprises.

Government priorities for the private sector in the national five year plan (2000-2004) seek to improve competitiveness and sustainable restructuring of the private sector. Measures envisaged are:

- Simplify and adapt the working environment of the productive sector focussing on commerce and investment, strengthening of the competitiveness by improving managerial capacity, creation and development of support mechanisms for agricultural and industrial operators, to promote clusters of enterprises to increase access to decision makers as well as joint efforts to increase knowledge within the sector concerned.
- Priorities described in the five year plan include improvement and modernisation of the judiciary system and "arbitrage" systems to increase the planning possibilities and legal security of economic operators.

2. GENERAL OBJECTIVE

To contribute to the economic reforms in Lebanon with a view to balanced growth and the creation of employment.

3. SPECIFIC OBJECTIVE

To improve the capability of the manufacturing, services and agricultural sectors to compete more efficiently on domestic, regional, EU and global markets, and thus to expand its share of trade, to bring about improvements to the competitiveness of Lebanese industry and agriculture, and to increase employment through the resulting stimulation of production.

4. EXPECTED RESULTS

Improved trading and economic growth through the adoption of better technology; rise in sales, and in exports; increase in employment; increased ability for Lebanese companies to compete on regional and EU markets.

5. PERFORMANCE INDICATORS

Rate of growth of exports, creation of new companies, contribution of industry, agriculture and services to overall economic wealth (as expressed in GDP), growth in employment.

6. DESCRIPTION OF THE PROGRAMME

The ability of Lebanese manufacturing to compete will be important for the effective operation and public perception of the Association Agreement. The priority themes identified envisage close co-operation with the chambers of industry, commerce and agriculture.

- Extend network of decentralised business service centres to assist entrepreneurs in developing business plans, marketing, product identification.
- Assist agricultural co-operatives in production and marketing, in particular, in targeting export markets.
- Assist in the establishment of an export promotions agency, with appropriate co-funding from chambers of commerce and other business and industrialists organisations.

Commitment of programme funds is foreseen in 2005, however, phasing of this commitment over the programming period 2005-2006 may be considered if necessary. The sector will also be able to draw on support from FEMIP.

7. CONDITIONS

Conditions for engagement are measures to be taken by government to address the internal factors which give rise to high production costs, such as port charges, electricity usage, certain taxes, without which EU support would not be effective.

8. INDICATIVE BUDGET

12 €million in 2005.

V. PRIORITY 4. WATER REFORM AND ENVIRONMENT

1. JUSTIFICATION

Lebanon has a water surplus thanks to winter rains, and its mountain and river system, but is unable to deliver it where it counts. It is unable to meet national demand, its storage and distribution is in bad repair (due partly to the civil war), water administration and planning is in similar poor condition, metering is almost non-existent, use of underground water is uncontrolled, and water data is unreliable and inaccurate. The country's 22 water authorities have been reduced to five offices.

Water and sea pollution is to be addressed through strengthening the capacity of municipality clusters to provide and manage solid and water waste treatment facilities serving villages and towns. Environmental degradation has been identified by the government as a serious problem.

2. GENERAL OBJECTIVE

The objective of EU support is to encourage and underpin the reform process in terms of overall national water planning and in solid waste and waste water treatment.

3. SPECIFIC OBJECTIVE

Reform of the administration and management of the water sector (from national to local level), to include the planning and preparation of water storage systems and distribution. Reform the local administrations' capacity to plan and manage small-sized solid waste and waste water treatment stations. A further objective is to improve water quality and health through better environmental facilities.

4. EXPECTED RESULTS

Improved institutional arrangements for the management and use of water, and for the treatment of water, so that the consumers - industry, agriculture and domestic users - have a more secure, lower cost supply; improvements to health from cleaner water will result. Improved management of solid waste and waste water treatment facilities serving villages and towns.

5. PERFORMANCE INDICATORS

Rate of improvement and upkeep of water pumping, storage and piping infrastructure; number of new water and/or solid waste treatment plants operated by various municipalities; level of quality of treated water and solid waste.

6. DESCRIPTION OF THE PROGRAMME

In water planning and management, the instruments could be a mix of technical assistance and related equipment, with training, twinning and exchange of experts, or a sectorial adjustment facility. Project to be carried out in close co-operation with the World Bank and Member State donors active in the water sector.

As regards the environmental actions, the vehicle is the system of local administration, which under the government's decentralisation strategy (and in view of the weak central administration) is to be the principal motor of local economic and social development. Municipality clusters will be strengthened in their capacity to plan and manage small-sized solid and water treatment stations, whose construction will generate local employment. The impact will be the stimulation of local employment, improved institutional capability of municipalities, better health, improved waste and water infrastructure, and a better quality of environment.

7. CONDITIONS

Implementation of key reforms as part of its overall water sector strategy.

8. BUDGET

16 €million in 2006.

VI. CROSS-CUTTING ISSUES

Sustainable development, good environmental governance and preventing the deterioration of the environment will need to be taken into account in all EC-funded programmes and projects as cross-cutting issues.

Budget and Phasing of National Indicative Programme 2005-6 for Lebanon

PRIORITY	INDICATIVE ALLOCATIONS (in € Million)	
	2005	2006
European Neighbourhood Policy /support to Association Agreement	10	
Support for Knowledge Economy	6	
Strengthening competitiveness of private sector	18	
Water reform and environment		16
TOTAL	34	16
Support to Palestinian refugees to be provided outside of national allocation		

Internal Explanatory Note: 20 €M is set aside for Palestinian refugees, mainly in Lebanon, but also in Syria and Jordan, as part of a new sub-regional fund, to be committed from MEDA15 €M in 2005 and 5 €M in 2006.

Indicators related to the Millennium Declaration

Indicators	1995	1999	2000
1. Proportion of population on less than \$1 per day	na	na	na
2. Prevalence of underweight children (under-five years of age)	3,0	na	na
3. Under-five mortality rate (per 1000)	32,0	na	30,0
4. Net enrolment ratio in primary education	76,1	70,9	na
5. Primary Completion Rate	na	91,3	na
6. Ratio of girls to boys in primary, secondary and tertiary education	99,0	99,7	na
7. Proportion of births attended by skilled health personnel	89,0	na	na
8. Proportion of 1 year old children immunised against measles	85,0	88,0	na
9. HIV prevalence among 15-24 year old pregnant women	na	na	na
10. Proportion of population with sustainable access to an improved water source	na	na	100,0

Economic situation

Lebanon - Selected Economic Indicators, 1997-2002

	1997	1998	1999	2000	2001	2002
Real GDP growth (in %)	4,0	3,0	1,0	-0,5	2,0	2,0
Unemployment rate	---	---	---	---	---	---
CPI inflation (avg; in %)	7,7	4,5	0,2	-0,4	-0,4	1,8
Broad money (M3, end of year; % change)	19,3	16,1	11,1	9,6	7,4	7,6
Consolidated government balance (% of GDP)	-27,4	-18,2	-16,2	-25,0	-19,6	-14,5
Current account balance (% of GDP)	-29,4	-27,1	-20,0	-18,7	-20,7	-14,5
Official net international reserves (end of year)						
In billions of US dollars	---	---	---	---	---	---
in months of imports	12,7	13,8	13,1	9,8	6,5	8,0
External debt (% of GDP) (end of year)	18,0	15,7	24,2	29,0	24,4	32,2
Debt service (in % of exports of GNFS)	19,0	12,0	11,4	12,7	13,3	12,8
Exchange rate (dinar/euro) (end of year)	1685	1773	1521	1402	1341	1580
Real effective exchange rate (1995=100) 1/	190,3	193,2	201,8	211,5	213,9	215,9
Population (million)	3,3	3,4	3,4	3,5	3,6	3,6
GDP per capita, in USD	4493	4940	4990	4810	4660	4930

Source : IMF, various national sources.

1/ A negative sign implies a real depreciation and, therefore, a gain in international competitiveness.

EC and Member States with cooperation with Lebanon - Planned disbursements for 2003 (millions €)

Sectors	EC	B	DK	D	EL	E	F	IR	I	L	NL	A	P	FI	S	UK	Total
Education																	
Health																	
Water supply and sanitation	0,3																
Government and Civil Society	7,8																
Social Infrast and services	2,1																
Transport and storage																	
Communications																	
Banking and financial services																	
Economic and Social develop	5,3																
Business/Private sector	4,8																
Energy	0,35																
Agriculture, forestry, fishing																	
Industry, Mining and Construction																	
Trade and tourism																	
Environmental Protection	0,2																
Gender																	
Commodity aid																	
Budget support /SAP																	
Food aid																	
Debt relief																	
Emergency assistance																	
Support to NGOs	4,9																
Other	0,4																
Total	26,2																

Since it is not always obvious what the DAC categories include an interested reader need to consult the DAC statistical reporting directives found at the OECD/DAC web page for further information.

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