



**EUROPEAN NEIGHBOURHOOD AND PARTNERSHIP
INSTRUMENT**

LEBANESE REPUBLIC

COUNTRY STRATEGY PAPER 2007-2013

AND

**NATIONAL INDICATIVE PROGRAMME
2007 – 2010**

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SUMMARY

This country strategy paper (CSP) drawn up as part of the European Neighbourhood Partnership Instrument (ENPI) provides a framework in which EC assistance will be made available to Lebanon over the period 2007-2013. It sets out EU co-operation objectives, policy response and priority fields of co-operation based on a thorough assessment of the partner country's policy agenda and political and socio-economic situation. The National Indicative Programme (NIP) attached to the strategy presents the EU response in more detail, highlighting programme objectives, expected results and modalities in the priority fields of co-operation.

It forms an integral part of the European Neighbourhood Policy (Regulation (EC) No 1638/2006 adopted on the 24th October 2006) – an approach developed in the context of the EU's 2004 enlargement with the aim of avoiding the emergence of new dividing lines between the enlarged EU and its neighbours. The EU wants to offer to all its neighbours an intensified political dialogue and a deeper economic relationship, based on shared values and a common interest in tackling common problems.

This CSP aims at supporting Lebanon's own programme of democratic, social and economic reforms and assist it in the reconstruction process after the 2006 military conflict. The level of ambition of the EU-Lebanon relationship under the Neighbourhood Policy will depend on the degree of Lebanon's commitment to common values as well as its capacity to implement jointly agreed priorities. The government of Lebanon has been consulted during the preparation of this NIP. The priorities as described in the CSP and NIP should reflect the reform agenda being under preparation by the government of Lebanon for the International reconstruction conference (scheduled to take place in January 2007).

Lebanon and the European Community first established contractual relations in 1977 by signing a Co-operation Agreement, which entered into force in November 1978. Lebanon is also a long-standing partner in the Euro-Mediterranean Partnership inaugurated at the 1995 Barcelona Conference. The EU-Lebanon Association Agreement was signed in June 2002 and entered into force on 1 April 2006, opening the way to fully incorporating Lebanon into the European Neighbourhood Policy.

Following the assassination of former Prime Minister Hariri in February 2005, and the subsequent withdrawal of Syria after 29 years of presence, parliamentary elections were held in May/June 2005. In a Ministerial Declaration of July 2005 the Government outlined a broad agenda of political, social and economic reforms and undertook to prepare a multi-annual programme with more detailed, concrete reform measures. This process was halted by the 2006 military conflict. Yet the challenge for the Government is to set up and begin implementing a national agenda of priorities and objectives through appropriate programmes. These objectives should be met through a process led by the Lebanese and reflected in Lebanon's own reform programme and supported, where necessary, by the international community, including the European Union. The European Neighbourhood Policy offers through its strategic documents – namely the Action Plan and its practical translation into a Lebanon Country Strategy Paper and a National Indicative Plan - a tool to accompany Lebanon in its reform process.

Negotiations with Lebanon on an ENP Action Plan were concluded in May 2006, just before the start of hostilities. The Action Plan is a political document that is at the heart of ENP EU-Lebanon bilateral relations. It provides a general overview of strategic objectives for a timeframe of five years. Its implementation will help fulfil the provisions of the Association Agreement and will encourage and support Lebanon's national reform objectives and further integration into European economic and social structures. Implementation of the Action Plan will significantly advance the approximation of Lebanon's legislation, norms and standards to those of the European Union. It will also build solid foundations for further economic integration based on the adoption and implementation of economic and trade-related rules and regulations, with the potential to enhance trade and investment with the EU.

The cease-fire called for in UNSC resolution 1701 of 14 August ended a 34-day military confrontation between Israel and the Lebanese armed militia, Hezbollah. The country was confronted by severe damage in all areas, and called on the international community for emergency humanitarian aid. Lebanon is now in a situation where a decade of social, political and economic reconstruction following the 15-year civil war has been cancelled out. Its problems, as described and addressed in the EU-Lebanon Action Plan, will continue or become even greater as a result of the conflict with Israel.

In the short term, international assistance is required for immediate reconstruction, but in the longer perspective genuine reform and reconstruction plans will be necessary to improve the situation. The EU will seek to ensure the link between addressing the reconstruction needs, tackling the debt problem in a sustainable way and creating conditions for medium-term structural reforms. The assessment conducted recently by several EC services confirmed the relevance of the objectives of promoting economic and institutional reform, agreed between the EU and the Government of Lebanon in the framework of the European Neighbourhood Policy. Nevertheless, in the first years of the new programming period, EC assistance for reconstruction and recovery will be needed in areas such as the private sector, affected by the military conflict, and in the public sector mainly in the form of projects devoted to local infrastructure and community development as identified by EC needs assessment missions.

The Country Strategy Paper together with the National Indicative Plan present the EU's priorities and contribute to the reforms agenda needed to put the country on the path of sustainable political, economic and social development. The Country Strategy Paper stipulates clearly where EU action can be expected and how the EU can contribute to the reconstruction of the country in the medium and long term.

The EC can most effectively assist Lebanon by concentrating on three broad priority axes for this first Country Strategy Paper under the European Neighbourhood Policy:

- Support for political reform: supporting Lebanon's political reform in the areas of democracy, human rights, good governance, security and justice;
- Support for social and economic reform: supporting the implementation of the Action Plan, inter alia reform of the energy, improving social safety nets, improving conditions of Palestinian refugees, trade facilitation and customs reforms, environment protection, fiscal management and public finance reform.
- Support for reconstruction and recovery – supporting economic and social recovery and reconstruction, local development as well as demining and clearing unexploded ordnance.

A total amount of €187 million will be allocated for the first National Indicative Programme, covering the period 2007-2010, to support these three priorities with EU financial assistance from the European Neighbourhood and Partnership Instrument (ENPI).

1. EU CO-OPERATION OBJECTIVES

To share the benefits of the EU's 2004 enlargement with neighbouring countries in strengthening stability, security and well-being, the European Union developed the European Neighbourhood Policy (ENP). It is designed to prevent the emergence of new dividing lines between the enlarged EU and its neighbours and to offer them the chance to participate in various EU activities, through greater political, security, social, economic and cultural co-operation. The ENP will also help address one of the strategic objectives the EU has set in the European Security Strategy in December 2003, namely building security in our neighbourhood.

The European Neighbourhood Policy of the European Union sets ambitious objectives based on a commitment to shared values and effective implementation of political, economic, social and institutional reforms. Lebanon was invited to enter into intensified political, security, social, economic and cultural relations, and shared responsibility in conflict prevention and conflict resolution. Lebanon has engaged in negotiations with the European Union for the drafting of a joint Action Plan which were concluded in May 2006. The Action Plan constitutes the point of reference for the definition of a strategic approach, as the ENP can ensure consistency between the cooperation priorities and the other core EU policies.

The Country Strategy Paper aims to support Lebanon's own programme of democratic reform and to boost its economic prospects, inter alia through the possibility of accessing the European single market. The level of ambition of the EU-Lebanon relationship under the Neighbourhood Policy will depend on the degree of Lebanon's commitment to common values as well as its capacity to implement jointly agreed priorities, in compliance with international and European norms and principles. The pace of progress of the relationship will acknowledge fully Lebanon's efforts and concrete achievements in meeting those commitments.

Given the ambitious agenda of the ENP and the extent of Lebanon's challenges, the EU must strengthen its co-operation with other key actors in the country in order to succeed in achieving these objectives.

2. COUNTRY ANALYSIS

2.1. Political situation:

The kidnapping of two Israeli soldiers by Hezbollah armed militia triggered a 34-day conflict in July and August 2006. It proved that, despite the changes which occurred after the assassination of former Prime Minister, Rafik Hariri in February 2005, Lebanon had been unable to avoid the structural problems at the root of the instability of the country. The political situation is still strained. The assassination of Minister Pierre Gemayel in November 2006 intensified those tensions and called into question the willingness of all parties present in the government to cooperate on reforms needed.

Before the conflict erupted in summer 2006, the country had started on the long road of state building, reconstruction and reform. The withdrawal of Syrian forces under international pressure in 2005 and parliamentary elections held in May/June 2005 were first steps in a process that was intended to lead to a stable and democratic transition. The new government under Prime Minister Fouad Siniora was appointed in July 2005. The elections presented a good opportunity for consolidating a democratic system in Lebanon. For the first time the Lebanese authorities agreed to the presence of EU observers during the whole election process.

In a Ministerial Declaration of July, the Government outlined a broad agenda of essential political and economic reforms and presented it to the international community in September 2005. Although all of this effort was brought to a halt on 12 July 2006, it still remains valid and has now become even more crucial for the restoration of stability and peace in the region. UNSC Resolution 1701 called for full cessation of hostilities, to be followed by a sustainable cease-fire. It put forward a series of measures which need to be implemented in order to restore stability in the region. In the immediate aftermath of the conflict a huge effort is needed to tackle the physical destruction of the country. The government is working currently on a broad document which will be presented to the International Community before the conference scheduled to take place in the second half of January 2007 in Paris.

While Lebanese laws and the Constitution are in general conducive to protecting **human rights**, concerns about infringements of human rights remain. Several sources have emphasized the need to reform the functioning of the **judiciary**, among others, as regards respecting international standards for fair trials and conditions in Lebanese prisons. Regarding the **respect of human rights**, the new parliamentary human rights commission has embarked on the project of developing a National Action Plan (in line with the EU-Lebanon Action Plan) for the respect of Human Rights by end 2006. The objective of the Parliament is that the proposed strategy will be adopted by the government in 2007.

Corruption is still widespread in Lebanon, and combating corruption is high on the Government's work programme. An anti-corruption law was drafted in 2002, but is still waiting to be adopted. In recognition of the need for a new electoral system the Government set up a National Commission of independent experts in August 2005 in charge of drafting a new electoral law. In the framework of a UNDP project the EU contributed to supporting the work of that commission. The Government's intention was also to work on the abolition of confessionalism in politics. The new draft was presented in June 2006. The Government has undertaken to discuss the law with a view to presenting it to the Parliament.

On various occasions the Government has expressed concern at the fragile internal security situation and called on the EU for assistance to reform the **security sector**. A priority of reform is the development of the administrative capacity of core security actors, including law enforcement institutions, security management and oversight bodies, and justice institutions. Lebanon needs to ensure consistency in the management and operation of the security system, with respect for human rights and democratic norms.

In 2006, 404 170 **Palestinian refugees** were registered by UNRWA offices in Lebanon. According to NGOs' estimates 49% of the total Palestinian refugees live in 12 overcrowded camps. In addition, an estimated 45 000 non-UNRWA registered and 3 000 non-identified Palestinians live in Lebanon without any official means of identification, mostly in unofficial gatherings, in very poor hygiene conditions and without access to the services provided by UNRWA, such as basic education, health and relief and social services. Lebanese internal politics prevent these gatherings from gaining the official status of 'municipalities' that would entitle them to benefit from basic infrastructure such as water and sanitation services. The absence of an appropriate legal status and protection has put them in a situation of extreme vulnerability. Unemployment is around 40% and, in spite of their contributions to the fiscal system, those Palestinians who are employed do not have access to social security.

In its relations with the Lebanese Republic, the European Union has repeatedly drawn attention to the plight of Palestinian refugees, urging the government of Lebanon to take steps to improve their rights as well as the humanitarian conditions of those refugees housed in camps, underlining that poor social, economic and living conditions lead to despair and extremism. The EC approach to the problem of Palestinian refugees is presented in detail in annex 5.

2.2. Macro-economic situation

Recent economic developments and prospects

Prior to the outbreak of the military conflict in 2006, the government had aimed to bring down the debt from 175% of GDP (2005) to 138% of GDP and the budget deficit from 8% of GDP (2005) to 3% by 2010. The newly developed strategy was based on a five-year programme of reforms which simultaneously embraced fiscal, structural and social measures. It also addressed short-term threats to stability and long-term structural challenges. The comprehensiveness of the programme should allow synergies to develop between its different pillars and help ensure the success of the stabilisation plan, which targets i) an increase in the primary surplus; ii) a restructuring of the public debt through the proceeds of privatisation and international assistance; and iii) a reinforcement of the growth potential of the economy to reverse the dynamics of public debt growth. The government was preparing for an international donors' conference ("Beirut I") in support of its reform programme. The EU-Lebanon ENP Action Plan would lend support to the government reform programme tabled for the conference.

The conflict in summer 2006 was a significant exogenous shock to the Lebanese economy. It brought to a halt the on-going economic expansion of the first half of 2006, put additional pressure on the already vulnerable public finances and the current account, and postponed discussions on the implementation of reforms.

The main challenge of the current government is to build a strong administrative capacity to contain the crisis and rebuild the country in all areas destroyed by the conflict. The European Union made available a € 10 million *Reconstruction Assistance Facility* to assist Lebanon in the post-conflict recovery and reconstruction process and conducted an extensive damage assessment in key public sectors affected by the military conflict as well as a comprehensive identification of needs for the next years. Support has also been offered to the Lebanese authorities to undertake their own comprehensive damage assessment and reconstruction planning, to strengthen the coordination, identification and management capacities for reconstruction projects and to establish a Reconstruction Coordination Mechanism (RCM) which will include the Lebanese authorities, international institutions, EU institutions and other donors.

Monetary Policy

Owing to political instability, growth slowed down sharply in 2005, falling to 1% from 6% in 2004. The sluggishness of the economy affected almost all sectors, with a contraction of both private and public consumption and domestic investment. The exceptions were the banking sector, which increased its net profitability by 3.7%, and the external sector which, with sustained demand coming from Gulf countries, continued to support economic activity. A strong expansion of 6% was expected in 2006 before the hostilities broke out, driven by the booming real estate sector, an expanding tourism sector and impressive export growth showing limited sensitivity to the domestic political environment. Economic expansion was characteristic of all sectors.

The external current account deficit declined to around 12% of GDP in 2004 from 13% in 2003. Strong growth in exports, in particular towards Iraq, and tourism receipts are outweighing strong import growth, linked to high oil prices and increased domestic demand. After contracting in the first five months of 2005, the external sector recovered in 2006 when exports grew by up to 50% in the first half-year. In the first half of 2006, gross capital inflows, mainly from Arab states, grew by 171% reaching US\$ 6.3 billion (in the first quarter of 2005: US\$ 2.3 billion) leading to a record surplus in the balance of payments of US\$ 2.6 billion. In the direct aftermath of the military conflict, estimates point to a possible contraction in GDP of between 0% and 6% for 2006.

Despite the political turmoil in 2005, the central bank was able to maintain the stability of the currency and its peg to the dollar, as well as the liquidity necessary to meet the government's financing needs. Inflation has remained subdued in recent years (2005: 0.3%) thanks to the exchange rate peg against the US\$ and effective sterilization of capital inflows by the central bank. Subsidy payments are also offsetting the impact of high oil prices on consumer prices.

Fiscal developments

The serious imbalances in public finances are still the main source of economic vulnerability. In 2005, in the absence of a budget law (since it was approved only retroactively in February 2006), the government continued to apply the "provisional twelfths" rule, which reduced the deficit to about 8% of GDP (2004: 8.5%). On the expenditure side, debt servicing costs as a percentage of GDP fell to 10.3% (2004: 12%), offsetting a pick-up in non-debt spending and reflecting, among other things, below-market financing by the Central Bank and higher rates in previous years.

However, no fiscal reform was implemented and gross public debt increased to 175% of GDP (38.8 billion US\$) at the end of June 2006 - up by 7.7% from the end of June 2005. Its sustainability remains dependent on the willingness and capacity of the commercial banks to extend new finance and roll over the maturing foreign debt. Rapid adoption and implementation of structural reforms is needed in order to stabilise the debt dynamics.

Private sector development and business climate

Improving the competitiveness of Lebanese companies is an important challenge, even more so with the deterioration of the economic climate after the recent conflict. Next to lacking political stability, the low level of investment and technology, lacking cash payments and business support services, and high costs of inputs constitute a major challenge for the competitiveness of Lebanese companies. The level of investment is too low to upgrade existing production or to introduce new production/ marketing techniques. Moreover, high costs on inputs such as energy and telecommunications lead to high production costs. In addition, enterprises still face cumbersome registration procedures if they want to start or close a business, a tardy judicial system and a poor contract enforcement.

Private sector development is also restrained by limited access to finance, due to a low bank lending to the private sector (most of the available finance goes to the public sector, 54 % in 2006), high collateral requirements and a lack of alternative financing such as venture capital firms; seed capital; or funds for start up and innovative enterprises. This shortcoming is currently being addressed through the creation of the business development centres and the *Kafalat* co-guarantee fund with special financing for innovative start ups. However there is still no equity based financing for either start ups or existing enterprises. prohibitive interest-rate conditions and lack of capital market and related capital venture operations.

Lebanon is trying to intervene on the policy level through possible new legislation in the area of corporate law and mergers and acquisitions, through the creation of Business Development Centres, and through the introduction of non collateral based access to finance schemes. These steps should be strengthened to support a sustainable impact on SMEs. Lebanon also signed the Euro-Mediterranean Charter for Enterprise in October 2004 and committed itself to give priority to simple procedures for enterprises, easier access to finance, innovative capacity for SMEs and quality business support services.

Trade

Lebanon is a predominantly importing country characterized by substantial trade deficits, which are largely offset by net foreign income earnings, including capital inflows, remittances from the Lebanese diaspora and earnings from services, namely tourism, banking and insurance. The trade balance deficits neared €6 billion on average over the 2000-2005 period, with total trade with the world gradually increasing and nearing €9.5 billion in 2005. Bilateral trade with the enlarged EU, which was mostly industrial, exceeded €3.2 billion in 2005, overwhelmingly due to EU exports to Lebanon, mainly of machinery and transport equipment, mineral fuels, chemicals, manufactured products and foodstuffs. The EU is Lebanon's principal trading partner (with some 43% of Lebanese imports and 11% of total exports), followed by Syria and the US. In 2005, owing to the economic downturn following the killing of Rafik Hariri in February 2005 that affected tourism, trade, construction and the banking sector, bilateral trade with the EU fell slightly, contrasting with the expansion of Lebanon's overall trade with the world.

Trade relations with the enlarged EU are currently governed by the Association Agreement which has been in force since April 2006. Before that, trade relations were governed by an Interim Agreement on trade and trade-related provisions signed in July 2002 and in force since March 2003. The Association Agreement establishes the necessary conditions for progressive and reciprocal liberalisation of trade in goods with a view to establishing a bilateral FTA, and includes relevant provisions on customs cooperation, competition, protection of intellectual, industrial and commercial property, and services. As a result, since 1 March 2003, Lebanese industrial and most agricultural products (within the limits of tariff quotas) enjoy free access to the EU market, while tariffs on imports into Lebanon will gradually be abolished between 2007 and 2014. Under the Neighbourhood Policy Action Plan, a number of specific trade and trade-related actions have been agreed, moving towards a liberalisation and an upgrading of economic legislation.

2.3. Social situation

The striking features of the Lebanese employment situation include the high unemployment among youth, the low contribution of women to economic or productive life, the large size of the informal sector, the influx of foreign workers into the country's labour market as well as Palestinian refugees and the large number of skilled Lebanese people seeking and obtaining employment abroad.

The **social security system**, which is characterised by a dual nature (separate schemes for civil servants and the military on the one hand, and the private sector on the other), is a source of high costs and implicit liabilities for the budget, and restricts labour mobility. In addition, only 26% of the labour force is covered by a pension scheme (where 6% of the labour force are civil servants and military staff); this figure is below the regional average of 30%. Informal networks and NGOs continue to be the only complements to the existing welfare schemes, which are insufficient and badly targeted. Discussions on social security reform and the establishment of efficient and targeted social safety nets are on-going.

The scope and characteristics of the **labour market** as well as poverty in Lebanon remain difficult to analyse owing to poor statistics. The government is currently undertaking a survey of household income and expenditure. While reconstruction investments and the rapid growth of the economy will increase employment opportunities to a certain extent, unemployment is still estimated to be between 15 and 20%. The unemployment rates for first-time job seekers seem to be twice the national average.

Before the civil war, Lebanon had one of the best education systems in the region, with one of the highest levels of literacy being among Lebanese aged 15 and over. The civil war destroyed the education system – many schools were closed, international teachers and lecturers left. Lebanon saw the creation of an alternative, private education sector. Even with the end of hostilities with Israel the situation continued to deteriorate, as many schools were damaged or served as shelters for displaced persons. Access to education is also limited due to discrepancies in personal wealth. Enrolment in universities (both public and private) dropped significantly. Therefore, **education reform** is another major challenge, especially in terms of training graduates in those skills currently demanded by the labour market. Initial steps have been taken to prepare a strategic plan for the primary and secondary sectors, as well as for Vocational Education and Training (VET).

However, many significant challenges are still to be addressed, such as: developing institutional capacity at all levels (Ministry of education, Directorate General for Vocational Education and Training, VET institutions); enhancing the role of social partners in the steering, management and the delivery of VET system; creating a clear framework for lifelong learning.

2.4. Energy, Transport and Environment

Energy

Lebanon depends almost entirely on external energy sources, in particular for oil products. The growing energy needs may impact increasingly on the high energy import bill and thus on the country's economy. It can develop towards a transit country, including to the benefit of the EU's security of energy supply. Lebanon took the major decision to introduce natural gas in the economy, although Lebanon has no known gas reserves on its own. Gas pipelines are under development and will bring Egyptian and Syrian gas to the region and possibly to the EU. Lebanon participates in the Euro-Mashreq Gas Market project aiming at reforming and modernising the gas industry in Egypt, Jordan, Lebanon and Syria, and at achieving the progressive integration of their gas markets with a view to creating a regional market to be integrated with the EU internal gas market. These perspectives are important for Lebanon's and the EU's security of energy supply.

The trends in Lebanon's energy sector include diversification and development of own resources; enhancement of competition, including gradual coverage of tariff costs, more private participation, better efficiency and improvement of regional network interconnections. A long-term energy strategy is under development. Plans include the creation of an energy authority NERA, introduction of natural gas in the economy and the privatisation of the electricity provider, Electricité du Liban, which is a state-owned monopoly. Rehabilitation of energy infrastructure requires significant investments. Development of the oil sector, including the viability of the operation of a refinery, is under study. Lebanon aims to increase the share of renewable energy sources (hydro, solar and wind) in the country's energy balance to as high as 10% by 2015. However, a comprehensive energy efficiency and energy saving policy is still lacking.

Transport

The development of transport sector and the better interconnection of Lebanon with Europe as well as with its neighbours is a priority for the reinforcement of the external trade relations of the country with EU as well as with its neighbours. Maritime and aviation are the main transport sectors for the imports and exports between Lebanon and the EU, whereas land transport (mainly road) is used for the interconnection of the country with its neighbours.

Under the framework of the High Level Group on the extensions of the trans-European transport network to neighbouring countries and regions, Beirut port was proposed as Motorways of the Sea port for Lebanon. Also the connection between Beirut and Damascus was retained as the trans-national priority axis which enables the interconnection of Lebanon with Syria but also with the trans-Mashrek trans-national axis connecting Turkey to Syria and Jordan up to Egypt.

Lebanon should proceed with the transport priorities defined in the EU-Lebanon Action Plan and also agreed at the first Euro-Mediterranean Ministerial Conference on transport which took place on 15 December 2005 at Marrakech where the Ministers adopted the priorities for transport sector for the whole Mediterranean region for the coming years.

Environment

The main threat to Lebanon's environment is direct pressure from its population which is poorly managed and not yet mitigated by the requisite infrastructures; pollution from economic activities, i.e. industry and agriculture, poses less of a threat, although there are local examples of this. Sewage

remains the greatest threat to ground, surface and coastal waters. The inadequate disposal of solid waste of all kinds is a threat to both water and air, and to public health.

An in-depth study by the United Nations Environmental Programme is due to assess the impact of the civil war as well as the most recent military conflict on the environment, and propose concrete measures to tackle the existing problems (also related to the oil spill off the coast of Lebanon and the problem of unexploded ordnance). It should complement the specific strategy for South Lebanon adopted by the Government, which aims to repair war damage as well as protecting public health and promoting sustainable use of natural resources.

A National Environmental Action Plan is in preparation. Lebanon has adopted some sector-specific legislation on air quality, water quality, waste management, quarries, land and soil, forests, hunting and pesticides. Concerning industrial pollution, there are some national standards on environmental quality and for risk management (for more information inter alia on the administrative capacity, structures responsible for environment and on regional and international cooperation please see annex 3).

2.5. Conclusion – Lebanon’s national agenda for reforms and implementation constraints

Lebanon faces the dual challenge of addressing a comprehensive programme of political, social and economic reforms as well as reforming a considerable number of sectors. Although the need for reform is widely recognised in Lebanon, the real difficulty for the Government is to achieve a national consensus on a reform programme. Only if the reform process is backed by a national pact, encompassing all political forces as well as religious and ethnic groups, and thereby overcoming political rivalry, vested interests and clientelism, will it have a chance of actually being implemented.

The undertaking of political reform in Lebanon is not only essential for the development of the domestic process of democratization, but is also likely to have a significant positive effect on the region at large, more specifically on the peace process and the position of refugees in the region. The democracy gap in the Arab region is bigger than in other geographical areas, as shown by the Arab Human Development Reports. It is becoming imperative to increasingly involve a larger share of population in this process of political reform, including by continuing to decentralize power to the local level.

In the aftermath of the summer 2006 conflict the government prepared a plan for the reconstruction of the country. The international community, wanting to ensure a coordinated plan of targeted support to Lebanon, held an International Conference of support for Lebanon on 31st August 2006 in Stockholm. A second conference is due to take place at the beginning of 2007, for which Lebanon should be prepared with a reform programme, including a timeline for implementation of reforms, modalities, and deliverables.

The democratization process will contribute to the strengthening of the economic and social development of the country. Increasingly, the private sector is playing the active role required by a modern economy. At the same time, the State should strengthen its capacity and efficiency as regards the regulatory aspects of the economy and to cushion the negative effects of the reforms through better targeting of subsidies at eligible groups of the population, using freed budgetary resources to upgrade the social safety nets and removing economic distortions.

3. OVERVIEW OF PAST AND ONGOING EC COOPERATION

3.1. EC assistance to Lebanon 2000 - 2006

Lebanon is one of the Mediterranean beneficiaries of community assistance through MEDA (bilateral and regional programmes). The EU (Community, Member States, European Investment Bank, EIB) is the leading donor to Lebanon. The total amount of funds committed under MEDA I (1995-1999) for bilateral assistance was €182 million, while under MEDA II (2000-2006) the total amount allocated is €235 million.

The Country Strategy Paper 2002-2006 adopted by the EU for Lebanon in December 2001 sets out EU perspectives for its objectives, policy response and the strategic framework for co-operation with Lebanon. The **National Indicative Programme (NIP)** 2002-2004 for Lebanon amounts to € 80 million. The NIP for 2005-2006 involves total funding of €50 million, focusing on four main priorities: 1) support for European Neighbourhood Policy initiatives and promotion of the implementation of the Association Agreement; 2) support for the knowledge economy (vocational training, Tempus, scientific co-operation); 3) strengthening the competitiveness of the private sector; and 4) water reform and environment.

In addition to the ongoing support to the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA), a special regional programme for Palestinian refugees was made available for an amount of €20 million for Lebanon, Syria and Jordan, of which large parts are to be used for support in Lebanon to tackle the problem of migration, poverty and poor social and living conditions faced by Palestinian refugees in Lebanon, and elsewhere in the region. In the absence of other longer-term development programs, **DG ECHO** supported the Palestinian refugees in Lebanon over the period 2000-2006 with an amount of €30 million allocated for the following sectors: shelter rehabilitation; health; water and sanitation; job opportunities and assistance to the most vulnerable groups (children, elderly, handicapped people).

Lebanon has actively participated in the regional (MEDA project on "New Approaches to Telecommunications Policy" (NATP1), but has not continued such a participation in the follow-up project NATP2 (2005-2007); a bilateral MEDA project has prepared all the organisational requirements for the establishment of an electronic communications regulatory authority. Lebanon participates also in a range of Euro-Med programmes promoting people-to-people contacts and co-operation between civil society associations and NGOs. Lebanon is eligible for participation in the Community programmes Euro-Med Youth and LIFE-Third Countries, as well as in regional programmes for energy and transport.

Grants under the MEDA programme are complemented by financing of venture capital and interest subsidies related to loans provided by the European Investment Bank (EIB). Since 1992 a total amount of €723 million in EIB loans has been signed for Lebanon. Priority sectors are infrastructure (roads, ports and electricity), the private sector (SMEs) and environment (water and waste water). Resources made available for private sector support, in the form of long-term loans and risk capital facilities, are managed by the EIB and play a key role in contributing to the financing of private and financial sector development.

In the framework of the Barcelona Process, the **EIB** has strengthened its financial partnership with the Mediterranean Partner countries through the creation of a specialised instrument, the **Facility for Euro-Mediterranean Investment and Partnership (FEMIP)**. The FEMIP umbrella enables the EIB

to support projects with a full range of financial products. Under FEMIP the annual volume of EIB lending to all partner countries will gradually increase. These resources are to support a much broader range of activities, with priority given to private sector development.

The **Tempus** programme has provided considerable support to the modernisation and the reform of the higher education system in Lebanon. Since 2002, Tempus has funded 17 cooperation projects with EU higher education institutions in the areas of curriculum development, university management and structural reform. Tempus involves both public and private higher education institutions in Lebanon on an equal footing. The **vocational training** (VT) project (Financing Plan 2005) is a pilot initiative designed to ensure that the VT sector becomes more responsive to labour market demand in the private sector, specifically in the agri-food sector.

3.2. EC response to the conflict

During this summer's hostilities between Hezbollah and Israel, the **European Commission provided emergency** aid for a total of EUR 20 million to immediately address the most urgent humanitarian needs identified right after the first attacks on Lebanon. The following sectors of intervention were included: shelter and non-food items, health, water and sanitation, food, psycho-social support, protection and coordination.

After the end of hostilities, the European Commission boosted its contribution to Lebanon to €107 million for the year 2006 at the international donor conference that took place in Stockholm on 31 August 2006. The Commission's package aims to address immediate reconstruction needs in 2006 and to lay the foundation for long-term recovery through support for crucial political, social and economic reforms. The Commission has been also actively engaged in relief activities. It has assisted not only with the evacuation of around 40 000 EU citizens in Lebanon, but also with the evacuation of some 10 000 third country nationals. The Commission responded to the requests of the Lebanese authorities for EU assistance in handling the oil spill which followed an Israeli attack on one of the major oil refineries by activating the Community Civil Protection Mechanism.

The European Commission has allocated a complementary €30 million humanitarian aid package for the populations affected by the conflict. Through its Humanitarian Aid Directorate General, DG ECHO, the Commission provides humanitarian and early recovery assistance to the returnee population and victims of the conflict still hosted in collective centres. Operations funded under this decision focus on demarcation, awareness and clearance of unexploded munitions, water and sanitation, shelter, and emergency health and food needs. The activities are implemented by UN agencies, NGOs and the Red Cross.

3.3. Key lessons learnt

The **Lebanese agenda of socio-economic reforms** has seen little progress in recent years. The majority of public sector reforms have stalled, with a number of legislative proposals still pending in Parliament. The Government's adoption and implementation of a reform agenda is essential to addressing the country's financial situation. Co-operation with a large number of civil society organisations has shown that they can - and must - play an important role in society and in the consolidation of the rule of law.

Over the past years, the lack of political commitment in the **social sector** has led to the EC limiting its intervention in this field. However, the creation of an Economic and Social Fund in 2002 has been an effective action undertaken in the social sector by the EC.

The Lebanese Government will present a comprehensive agenda for addressing the most appealing needs of the country in the short and medium perspective at the International Conference scheduled to take place at the beginning of 2007 in Paris. This document will constitute the basis for further developments of the EC assistance to Lebanon. Until then, the EC will show flexibility in order to be able to adapt the programmes to possible adjustments of the government agenda.

Building on the existing co-operation under the MEDA programme, on priorities chosen jointly by the Lebanese Government and the EU in the Action Plan, and on the European Union Consensus on Development, financial assistance in the future can be maximised by:

- Focusing on Lebanon's own reform agenda, to increase ownership;
- Focusing on a limited number of priorities and objectives where the EU added value is high.
- Increasing the consistency with EU policies;

4. THE EU STRATEGIC RESPONSE (2007-2013)

4.1. General principles of the EU strategic and priority objectives.

In view of the recent developments, the short-term agenda of the Action Plan is ambitious, and Lebanon faces substantial constraints and capacity limitations in implementing it. Therefore, the ENP will offer a number of incentives to encourage the Government to follow the agenda drawn up during the Action Plan negotiations – such as technical support direct budgetary support. The short-term reconstruction of the country involving the International Community will have less chance of success without genuine administrative and economic reforms. The ENP provides additional incentives such as trade openings, participation in Community programmes, the possibility of a better market access to the EU and targeted technical and financial assistance.

The European Union-Lebanon Action Plan identifies a number of reforms in the political, social and economic areas aimed at modifying the regulatory, legislative and administrative frameworks. The EC has adequate instruments to co-operate on institutional capacity building, legislative approximation and convergence towards EU norms and standards. This support will be targeted on the priorities identified in the ENP Action Plan through the work of the sub-committees.

In this context, the **main objectives** of the EC strategy with Lebanon for 2007-2013 are:

- Support for political reform: supporting Lebanon's political reform in the areas of democracy, human rights, good governance, security and justice;
- Support for social and economic reform: supporting the implementation of the Action Plan, inter alia reform of the energy, improving social safety nets, improving conditions of Palestinian refugees, trade facilitation and customs reforms, environment protection, fiscal management and public finance reform.
- Support for reconstruction and recovery – supporting economic and social recovery and reconstruction, local development as well as demining and clearing unexploded ordnance.

Interest rate subsidies and other ways of combining grants and loans can leverage investments by international financial institutions in the fields of the environment, energy and transport. Whenever interest rate subsidies are considered, their relevance will be assessed on a case-by-case basis, and care should be taken to avoid significant market distortions. As regards the environment, the relevant sectors include water management, waste management and industrial pollution. For energy, possible areas include renewable energy resources and energy efficiency. Energy infrastructure/network investments should in principle be commercial operations, given that they generate a financial return. In exceptional circumstances, however, where specific EU interests are involved (such as security of energy supply) and it appears difficult to get a project started, targeted interest rate subsidies or other ways of combining grants and loans might also be considered for particular investment projects. Regarding transport, interest rate subsidies or other combined schemes would focus on catalysing funds for critical infrastructures of strategic importance, such as cross-border measures on the priority axes or the missing links that are necessary for their completion.

4.2. Complementarity and consistency with the Regional Strategy Paper and other ENPI programmes

EU action in Lebanon should offer the right policy mix and be consistent with the actions scheduled in other sub-regional programmes or horizontal actions. The regional ENPI programme for the South neighbourhood will contribute to achieving objectives outlined in this strategy, since activities within regional or sub-regional programmes provide added value or complement bilateral operations.

On political development issues, bilateral assistance can support implementation of political reforms, while regional activities will include support for establishing regional networks and platforms of civil society organisations (to supplement the response by platforms at national level) and media networks. Dialogue between cultures can be better approached at regional level, for example in the context of the Anna Lindh Foundation.

Cooperation on justice and security issues is a shared priority for the EU and a number of South neighbourhood partners. Regional activities will include judicial cooperation on cross-border issues, networks of organised crime and trafficking of human beings and migration, plus exchanges of best practices. This will add to action undertaken at bilateral level with Lebanon, which will focus on strengthening institutions and implementing national strategies.

To usefully complement bilateral assistance on trade and private sector development, regional co-operation will contribute to developing south-south trade and regional co-operation initiatives, including support for the implementation of the Agadir Agreement.

Regional action on transport and energy will concentrate on trans-national activities (South-South and North-South connections), while bilateral assistance will target regulatory reform and national strategy. Regional cooperation on the environment will include collaboration with the European Environment Agency, with particular focus on the Horizon 2020 initiative. Sub-regional cooperation will also form part of the EU's regional strategy.

Alongside the bilateral and regional envelope, Lebanon will also benefit from the ENPI Inter-regional Programme and the ENPI-CBC Mediterranean Sea Basin Programme. The ENPI-Inter-regional Programme will include activities which will be implemented in the same way for all the neighbouring countries. This programme will, in particular, finance TEMPUS and the new Scholarship Programme, as well as TAIEX activities. The ENPI-CBC Mediterranean Sea Basin Programme will allow

Lebanon's coastal regions to cooperate with coastal regions in EU Member States through joint projects. In addition, Lebanon may also benefit from the thematic programmes established under the Development Cooperation Instrument, in particular those on "migration and asylum", "investing in people" and on "environment and sustainable management of natural resources" which are relevant to Lebanon and could usefully reinforce bilateral cooperation. The new Instrument for Human Rights and Democracy (ex-EIDHR) will also be available to support thematic activities in that area.

4.3. Priorities Analysis

The ENP provides a general framework in which financial assistance is part of a coherent offer of opportunities. For the selected priorities, many different kinds of support can be offered and financial assistance is seen as a main tool to achieve common EU-Lebanon objectives.

4.3.1. *Strategic objective 1: support for political reforms;*

As far as the promotion and protection of **human rights are concerned**, EU assistance will be available for strengthening the culture of respect for human rights and fundamental freedoms and the capacity and effectiveness of all competent institutions, including in the security apparatus and the police, and for supporting the elaboration of a national human rights strategy. Cooperation will be provided to support the protection of rights of minorities, marginalised populations and non-citizens as well as of migrant workers. The adoption of the National Action Plan for the respect of Human Rights is fully in line with the EU – Lebanon Action Plan. Both its preparation and implementation deserve support. The participation of women in political, social and economic life is of utmost importance to ensure sustainable development. The EU assistance will support activities in line with the priorities highlighted in the Action Plan.

The government has shown interest in tackling the problem of **discrimination against migrant workers, asylum seekers and Palestinian refugees**. Cooperation and dialogue with the respective ministries and specialised NGOs will allow the situation to improve. Some interest was also shown in focusing EC assistance on security issues. The Action Plan also aims at strengthening co-operation between Lebanon and the EU with respect to the management of migration flows. Ongoing projects will be assessed and possibilities of future cooperation explored during the first years of the implementation of the NIP.

Civil society will have an enabling and awareness-raising role in these areas. The EU goal will be to enhance its role in the ongoing process of political dialogue and conflict prevention, and the pursuance of people-to people contacts. The modernization and development of **public services delivery**, including the improvement of good governance and measures to combat corruption and encourage transparency, especially of public finance, are major priorities for Lebanon.

Both individual citizens and the business and private sectors consider the **justice system** to be non-transparent. Efforts to increase impartiality and to ensure better access to the system and proper legal protection are to be supported, including by increasing the competence and efficiency of all judiciary staff. Modernisation of the penitentiary system by focusing on the improvement of detention conditions can be achieved through legislative and prison management support implemented in line with international standards. There is also a need to establish a dialogue with Lebanon on various migration-related issues, including asylum, the treatment of migrants and the fight against irregular flows and human trafficking.

Ensuring security and respect of the rule of law figure as one of the main priorities for the Lebanese Government. Enabling the reforms require calm security environment. The Lebanese government expressed a direct request for EU assistance in this sector. Trainings of ISF, police trainings, reform of the security sector, as well as border management projects could be envisaged in order to enhance cooperation in the security sector.

4.3.2. *Strategic objective 2: support for social and economic reform*

The aim of this programme of support to the implementation of the Action Plan is to provide capacity building and institutional strengthening in order to facilitate the enforcement of the reforms and commitments underpinning the Action Plan. It will focus on priority fields of intervention to be defined through the regular dialogue between Lebanon and the EC, particularly in the various sub-committees. The flexibility and demand-driven nature of this type of programme makes it a strategic instrument to support implementation of reforms, and to strengthen the capacity of Lebanese institutions.

The **energy sector** continues to suffer from a lack of strategy and planning and the electricity monopoly is in serious financial difficulties. The case for applying a sector-wide strategy and enhancing efficiency through increased competition and private participation is gaining ground. The Association Agreement (AA) provides a legal basis for Lebanon's commitment and the Action Plan provides the tools to implement reform. The EIB has already envisaged contributing to the rehabilitation of the energy sector. Complementarities with EC assistance will be essential. The World Bank has also pledged its support.

The EU action under this objective will be dedicated to enhancing the creation of **social safety nets**, including the reform of the social security system and healthcare. Recently the concept of a **poverty reduction** policy targeting the most vulnerable groups in Lebanese society was adopted by the Lebanese Government and formulated in a National Poverty Reduction Plan. The plan envisages the setting up or strengthening of social safety nets and the rationalisation of social expenditure in education, health and social affairs. EU support could also include the prevention and control of communicable and non-communicable diseases, in particular through facilitating the implementation of international health treaties of which Lebanon is a party.

The worsening state of **primary and secondary education** standards in public institutions and the consequences of the economic crises which are causing a sharp rise in enrolment in the public schools need specific attention. Human resources development is also a source of concern to ensure employability of workers. EC support for Government actions aimed at solving the problem of poor compatibility with labour market requirements can build on the outcome and results of a Vocational Training Programme currently being funded. That assistance can be reinforced as the ENP framework offers the possibility to develop people-to-people actions and exchanges. This includes reinforced participation in the Tempus and Youth in Action programmes and increased exchange opportunities for Lebanese nationals through participation in the Erasmus Mundus programme and introduction of a new ENP scholarship

To **facilitate trade** and to give Lebanon a real opportunity to have a stake in the internal market for industrial goods and services, it is important to facilitate connectivity between Lebanon and its neighbours and with the EU. EU financial assistance will be considered as a way of supporting the regulatory and legislative aspects of the transport sector reform and the opening of relevant Community programmes and support for the interconnections with the Trans-European network and the network of the region. Such assistance could also be considered for reform and reorganization of the electronic communications sector. A **trade needs assessment** could be launched in due course. This would help

assess the need for assistance in the field of trade and contribute to the identification of a relevant programme.

EU action could be dedicated to **improve the business environment and the competitiveness of companies**, in particular for SMEs, notably in the priority areas which have been identified by Lebanon in the framework of the Euro-Mediterranean Charter for Enterprise: access to finance, enhancing the innovative capacity for SMEs, simplifying procedures for enterprises, and improving business support services. On the other hand, emphasis should be put on removing obstacles to investment and private sector such as the lack of active export and investment strategies, lack of competitiveness, inadequate financial products and services for an expanding private sector economy.

Technical assistance to improve the regulatory framework of the **Financial services sector** (particularly banking) which is a basic condition for attracting much needed investment into the Lebanese economy will be explored. In view of the large reconstruction needs in the country, support towards the preparation of a new **procurement legislation** and the administrative capacity to implement such legislation can be also an area of interest for the EU

As regards the **environment**, it will be necessary to take into account balanced regional development, prevention of pollution and integration of environment considerations into other sectors. Cooperation in these fields will be explored, especially in the context of a National Environmental Action Plan that is under preparation.

Improving the delivery of public services and assessing public sector performance are also horizontal priorities of great interest to the EU. **Public sector reform** involves better resource allocation. The government will have to make strong and sustained efforts towards **fiscal adjustment** with the aim of reversing the debt dynamics and working towards a sustainable debt management. This will require both, strong revenue and expenditure measures, and an improved preparation of the budget, which needs to be more closely linked to properly defined macroeconomic objectives. A *sound macroeconomic framework* is a strategic interest shared by both the EU and Lebanon, and is also essential for an attractive business environment.

Also for the **transport sector**, the AA provides a legal basis for Lebanon's commitment and the Action Plan provides tools to implement reform. Complementarities with potential EIB assistance could be explored in this sector.

In addition, the EU-Lebanon Action Plan identifies a number of areas where regulatory approximation and convergence towards EU legislation and values can be relevant. This requires specific capacity building measures in Lebanese institutions. The EC has the appropriate instruments to co-operate on this areas as well as on institutional capacity building, including twinning arrangements and will provide financial assistance to support the building of human and social capital, legislative reform, assistance with strategy and policy making and implementation. This support can be provided in the various areas of co-operation of the Action Plan.

As appropriate, Lebanon will receive support for participation in Community programmes, agencies and networks, insofar as these will be open to the country. The clearer framework provided by the ENP Action Plan will contribute to ensuring the consistency of EU assistance within specific sectors.

4.3.3. *Strategic priority 3 – support for reconstruction and recovery*

The military conflict in summer 2006 was a significant exogenous shock to the Lebanese economy. It brought to a halt the on-going economic expansion in the first half of 2006, put additional pressure on the already vulnerable public finances and current account. Many private and public buildings were destroyed as well as basic needs infrastructure (e.g. energy, transport). Several small and medium-sized enterprises were affected. Their position on the market was harmed by the destruction of physical assets and by the loss of market share.

The Commission has developed successful experience of addressing municipalities (support for participative planning of local development and financing infrastructure projects), many of which are located in areas affected by the conflict. Cooperation between municipalities has shown that their elected representatives and their communities can work together even beyond political and confessional boundaries. Continued EC support to local communities in the field of participatory planning methodology has the potential to lay the basis for a more balanced regional development and possibly, in the medium term, provide the Government with a further incentive towards enhanced decentralisation. In the short term, it will enable the local communities to finance infrastructure reconstruction and municipal regeneration projects. The EC has identified geographic and thematic areas of interest where EC assistance can generate the greatest value added for the reconstruction of the country.

The 2006 military conflict affected several Lebanese companies, mainly in Southern Lebanon. The EU will contribute to the efforts of international financial institutions in **reconstructing the Lebanese private sector** damaged by the hostilities. Loan facilities with easiest access for SMEs will be one instrument used to enable Lebanese businessmen to rebuild their economic potential. The EIB has announced its readiness to cooperate with the EC to establish a loan facility targeting companies affected by the 2006 military conflict.

The needs assessments and environmental damage assessments have shown that substantial international assistance is needed to tackle such issues as land mines and unexploded ordnance that pose a threat both to people's lives and to the development of the economy, after the two conflicts that have occurred in the past decades.

4.4. Donor Coordination

Coordination with Member States

- Local coordination with Member States takes place in the framework of the annual work plans and is conducted through regular and thematic meetings. The Member States are kept regularly informed about the preparation of the Financing Plans at a very early stage. Formal specific coordination takes place before the submission of the Financing Plan to the MED Committee.

- Consultation also takes place during missions/visits from the DGs involved in programming – AIDCO, ECHO, RELEX and TRADE.

- A recent example of local coordination, which has been particularly frequent and fruitful, is the “Security and rule of law” project. A core group of Member States (France, United Kingdom, Germany and the Finnish Presidency) has followed every stage of the project's preparation and is expected to

remain operational during its implementation. Other Member States are regularly informed of the progress of the work. Coordination with key non-EU donors (US, Canada and Australia) was also organised.

- Specific coordination tools, such as Round Tables, can also be used as they lend themselves to the presentation of cooperation plans. With the agreement of the Member States, the Delegation introduced a scheme for further enhancing local coordination.

Coordination with other donors

- Regular coordination meetings are held with UNIDO on joint awareness and support initiatives in the field of conformity assessment and national accreditation systems.

- Coordination with the World Bank office takes the form of exchanges of information on ongoing activities, discussion of current strategies for assistance, identification and comparison of the difficulties faced, and participation in the presentation of the new Country Assistance Strategy (CAS).

- Coordination with UNRWA in relation to projects in support of Palestinian refugees (ongoing and in preparation) takes place on a regular basis. On aid to Palestinian refugees, regular exchanges are organised with Canada, Switzerland, Norway (NPA), and Member States.

- Coordination is frequently organised with UNDP, OECD and ILO on subjects within their competence.

- Participation in the coordination meetings of the “small grants scheme” is taking also place every 3 months (involving EC, EU MS, Canada, Japan, US, Australia, Korea).

- Moreover, general coordination of actions undertaken in Lebanon will be needed with all the donors, including donors from the Near and Middle East, especially in the initial phase of the post-conflict reconstruction.

- Needs assessment missions on the ground have been conducted in coordination with the World Bank, the International Monetary Fund and the European Investment Bank to ensure proper coverage and avoid any overlapping of future assistance.

5. NATIONAL INDICATIVE PROGRAMME

5.1. Main priorities and indicative budget

The principal objective of EC assistance to Lebanon over the period covered by this programme is to support the development of an increasingly close relationship between the EU and Lebanon in the context of the European Neighbourhood Policy (ENP) and based on the policy objectives defined in the Association Agreement and the EU-Lebanon ENP Action Plan.

The new political context after the events of 2005 and 2006 imposed a need for policy changes in the way cooperation between Lebanon and the EU is carried out. An important element in future cooperation is the new policy context that the EC introduced through the ENP. The forthcoming adoption by the Lebanese authorities of the Action Plan points to the opportunities of realizing that potential.

The assessments and analysis conducted by several EC services in Lebanon between September and November 2006 showed up the need to give a new impetus to the Lebanese economy and State in the immediate aftermath of the military conflict. It is worth emphasising that the reform process needs a national consensus on the priorities and only if backed by a pact encompassing all political forces, it will have a chance of being successfully implemented.

This National Indicative Programme 2007-2010 defines in greater detail the focus of operations under the national envelope of the new European Neighbourhood and Partnership Instrument (ENPI). It is intended to guide planning and project identification by defining a limited number of priority areas, together with the objectives and results to be achieved. It has two main aims –to pursue the support for reforms and democratization of the country along the lines of the EU – Lebanon Action Plan and to support the reconstruction and recovery of the Lebanese State and society in the aftermath of the conflict that occurred in summer 2006.

An allocation of € 187 million is planned for the period 2007-2010 for Lebanon. The indicative breakdown of resources should be as follows:

NATIONAL INDICATIVE PROGRAMME 2007-2010		
Priority area	€m	% of total allocation
Support for political reform	22	11.76%
Support for social and economic reform	86	45.99%
Support to reconstruction and recovery	79	42.25%
total	187	100%

In the initial years, a strong emphasis will be put on reconstruction and recovery needs. 80% of the total annual allocations for 2007 and almost two thirds of the annual allocation for 2008 will be directed to securing the recovery reconstruction of the country. Hence, more than 40% of the total allocation for Lebanon will be spent on reconstruction and recovery in areas and sectors affected by the conflict, identified in the reports, and damage assessments conducted by EC services. Starting in 2009, the effort will be concentrated on support to the implementation of the Action Plan. All priorities for cooperation will have to be consistent with a National Reform Plan once it is defined and approved by the Lebanese Government. The pace and level of implementation of the joint commitments under the ENP AP will provide the framework for further determining and fine tuning the specific cooperation priorities.

An important component of financial assistance will be allocated as a variable ‘reform’ premium to reward progress on reform, especially political reform. The EU’s “governance facility” will deliver increased financial assistance to better-performing partners. For countries that qualify for this additional support, further co-operation can be considered. In the case of Lebanon, this would be in support of the key strategic priorities, in line with the Action Plan and a National Reform Plan.

5.2. Support for political reform

5.2.1. sub-priority 1 - Promotion of democracy and Human Rights

a) Justification and objectives

According to the ENP Action Plan, emphasis is put on promoting "the shared values of democracy and the rule of law including good governance and transparent, stable and effective institutions". Building on comprehensive analyses of the 2005 Lebanese election process undertaken by the EU Election Observation Mission (EOM), the need to prepare and implement a new electoral law should be addressed in the first years of the new programming exercise.

The creation of a human rights strategy in Lebanon should receive sustained support from the EC in order to guarantee the promotion of human rights, consolidating freedom of the media and freedom of expression, as well as the rights of women and children. That work should be conducted at all levels, through close cooperation with civil society on one hand and with the Lebanese government on the other.

Within the European Neighbourhood Policy and the Action Plan, civil society organisations have already shown a strong interest in following the process and playing their "watchdog" role for all chapters. They wish to be closely associated with the sub-committees' work and to be consulted on a regular basis. This programme aims to support these efforts.

Fighting corruption is high up on the Government's work programme presented in July 2005. An anti-corruption law was drafted in 2002. EC assistance in Lebanon needs to strengthen measures against corruption through the effective implementation of a national anti-corruption strategy, including the institutional framework and enforcement capacity, and public awareness and advocacy.

b) Programme description

- Reform the electoral law and electoral framework,
- Support the preparation and/or the implementation process of the National Action Plan on respect for Human Rights, reform the administrative framework to promote freedom of expression, association and assembly and independence of the media,
- Support the enhancement of women's participation in political, economic and social life as well as their role in the political decision-making process; reinforce the fight against discrimination and gender-based violence,
- Support the development of a child welfare strategy and related national action plans and the formulation of a child protection policy targeting neglected and abused children, as well as child labour.
- Strengthen measures against corruption through the effective implementation of a national anti-corruption strategy, promote cooperation on anti-corruption matters between the Lebanese law enforcement agencies and other international actors,
- Strengthen the capacity of civil society organizations to play an active role in the implementation of the political, economic and social reforms of the country and in particular in supporting initiatives that promote national identity and social inclusion.

c) Expected results

- Work towards the adoption of relevant new legislation and administrative procedures in the electoral field;
- Increased respect for civil, political, social and economic rights;
- Promotion of the adoption and implementation of the National Action Plan for Human Rights
- Increased compliance with ratified international conventions;
- Support of the review of legislation on personal status, nationality and penal code;
- Contribution to the adoption and implementation of a national anti-corruption strategy;
- Improved performance of civil society organisations and their active participation in the ENP AP process;
- Contribution to the process of reconciliation and dialogue.

d) Indicative budget

The total budget allocation is €12 million

5.2.2. sub-priority 2 – Justice, Liberty and Security. Support efficiency and independence of the judiciary.

a) Justification and objectives

Support of the judiciary will be mainly institutional in nature, and as such it necessitates a strong political commitment and actual investment in resources on the part of the Lebanese Government. The aim is to enhance the effectiveness and independence of the judiciary and build up its administrative capacity. Regarding the penitentiary system, reform is needed and EC funding might help in meeting international detention standards, in particular as regards overpopulation and health conditions in Lebanese prisons. Security Sector Agenda remain high on the list of priorities of the government. EU support to the SSR in different areas could be of great importance for the stability and security of Lebanon.

b) Programme description

- Improvement of transparency and the effectiveness of the judiciary by ensuring adequate competencies of all judiciary staff (judges, prosecutors, administrative, and technical staff, clerks) and lawyers, in particular in relation to international law (UN Conventions, economic law); and modernised functioning of the courts and the internal organisation of the judiciary system;
- Improvement of prison detention conditions, with observance of international standards;
- Review of legislation and practices concerning increased accessibility of the justice system and adequate legal protection for all citizens;
- Potential cooperation with the Lebanese Government on security related issues.

c) Expected results

- A judicial system that is more professional, more reliable, less costly and faster (number of trained judges and clerks, average duration of judicial proceedings, simplification of procedures).
- Improvement in prison management and detention conditions, in particular for juveniles (reduced percentage of detainees in pre-trial prison population, enhanced health and hygiene facilities);

d) Indicative budget

The budget allocation is €10 million

5.3. Support for social and economic reform

a) Justification and objectives

Areas for EU intervention in this priority will be defined with the Lebanese authorities to address obstacles to and constraints on the implementation of the reforms in the different chapters of the Action Plan. In particular, the programme to support the implementation of the Action Plan (SAPP) can respond to the needs jointly identified by the EU and the Lebanese authorities in the various sub-committees.

The EC and EU Member States can offer added value through experience in areas covered by the Action Plan. Technical assistance, twinning operations and targeted support for reforms in various sectors will be financed through this programme to enhance capacity building and reforms. The Technical Assistance will be a flexible channel for supporting the priorities of the Action Plan, but will be targeted on areas of intervention to be defined in the light of the work of the EU-Lebanon subcommittees.

The support for sector reforms will be defined in the light of further developments. In particular, the outcome of the International Conference on Lebanon as well as the results of EU damage assessment and the needs identification report and the consultations with the Lebanese government and other international donors will enable to choose a limited selection of priorities to be supported. The identification of appropriate programmes will be done at a later stage, but will be selected from the following areas:

Attention will be given to the restructuring and progressive opening up of the **energy** sector, as well as supporting the creation of a regulatory authority. The EIB has already expressed its readiness to contribute to the rehabilitation of the energy sector. Complementarity with EC assistance will be essential for a comprehensive action towards the restructuring of the energy sector, including in particular electricity.

In this context, interest rate subsidies can leverage investments by international financing institutions in the areas of the environment, energy and transport. Promotion of energy efficiency and renewable energy sources, environment (legislative reform, administrative capacity building at central and local level), information society (strengthening of regulatory bodies, capacity building of public bodies) and innovation, science as well as technology (participation in EU programmes) are potential areas of close cooperation with the Lebanese Government and stakeholders. The scope for supporting the

implementation of the Euro-Mediterranean Charter for Enterprise and of the Horizon 2020 Initiative will also be explored.

The policy agenda of the government includes the concept of a poverty reduction policy targeting the most vulnerable groups and actions aimed at setting up of **social safety nets**, as well as reforming the current social coverage systems; plus the rationalization of social expenditure in education, health or social affairs. Strengthening of the social safety nets by widening the coverage of the social and health security system, rationalizing expenditures and better targeting of public service provision is in line with the ENP AP.

The support could also cover human resources development objectives to ensure a better match between qualitative skills of job seekers and workers and the labour market needs. The interventions supported in the areas of education and training will be implemented in close coordination with the Tempus programme, which will be funded out of the ENPI inter-regional programme. The dissemination and exchange of best practice in these areas will be further enhanced. .

Given the specific conditions of the **Palestinian refugees** in Lebanon, a more detailed account is provided in annex 5. Actions described in Annex 5 may be financed if resources become available through unspent allocations.

Building on existing achievements, the SAPP priority will provide assistance for **trade facilitation**. This could include actions to modernise the customs administration, legislation and procedures, as well as convergence of trade-related economic legislation with international and EU standards. A trade needs assessment could be launched to help identify more specific needs for assistance. Technical assistance to improve the regulatory framework of the financial services sector and towards the preparation of a new procurement legislation could assist the large reconstruction needs.

The **environment** should be actively promoted as a cross-cutting theme, so that it becomes effectively mainstreamed in other priorities. This concept is included in a National Environment Action Plan.

The measures on energy restructuring, social safety nets and economic legislation will help in addressing the issue of **fiscal management** and restructuring of public finances. These can be accomplished by measures to strengthen public internal financial control.

Technical assistance could be provided through the SAPP to address on a selective and targeted way certain sectoral priorities such as agriculture, SPS, information society and science/innovation.

As appropriate, Lebanon will also be supported by participation in Community programmes, agencies and networks, insofar as these will be open to the country.

b) Programme description

The support for the implementation of the Action Plan through strengthening institutional capacity in a number of areas selected as priorities in the subcommittees will be possible in areas clearly defined by both parties, from among actions such as:

- Support for reforms of the regulatory framework towards approximation to EU standards in areas covered by the Action Plan,
- Reorganisation of the electricity sector (addressing debts, corporatisation and unbundling of EDL) with a view to private participation, legal and regulatory support, support to the creation of energy-saving and efficiency policies and development of renewable sources;

- Preparation and implementation of a comprehensive strategy, involving social partners, for social development and poverty reduction, strengthening of social safety nets and reform of the social security and healthcare system (improvement of efficiency, targeting and coverage), development and implementation of market-driven strategies, to address unemployment and increase the participation of women and young people in the labour force; modernisation of the National Employment Office.
- Support to reform and strategic plans aimed at improving the quality of education and vocational training and their relevance to the labour market, with a specific focus on lower income groups and women.
- Support to reforms in the environment sector, notably regarding capacity building and waste management and water management.
- Assistance in the pursuit of fiscal consolidation and enhancement of fiscal discipline towards macro-economic stability,
- Administrative co-operation with Lebanese counterparts with a view to their drafting and adoption of an agreed PIFC Policy Paper and Action Plan for the implementation of the PIFC model, as well as giving guidance on strengthening the administrative and procedural capacity of the Court of Accounts.
- Reorganisation of the electronic communications sector (corporatisation of OGERO) in view of further market opening and private participation and improvement of infrastructures and services.

c) Expected results

Expected results will depend on priorities finally selected in implementing the Action Plan and may include:

- Strengthening of institutional capacity of the different Lebanese institutions to create and enforce a legislative environment supportive of socio-economic development,
- Modernisation and alignment of the Lebanese legislative and regulatory framework, including through transfer of EU know-how,
- Improving the delivery of public services, particularly in education, healthcare and other social services with access for all; viable regulation of the social services provided by the private sector,
- Reduced mortality from communicable and non-communicable diseases,
- Modernisation of the procedures and organisational methods in the public sector,
- Sustained progress towards a viable macroeconomic and fiscal framework, modernization of the tax system and rationalization and reduction of expenditure, implementation of a transparent and accountable budgeting system,
- Reorganisation of the electricity sector (including addressing the debts of Electricité du Liban), development of policy and legal framework and creation of a regulatory authority, reduction of network losses , reliability and efficiency of electricity supply, increase in energy generated by renewable sources.
- Reorganisation of the electronic communications sector, creation of a regulatory authority, grant of licences for operators, broadband access to Internet and online services.
- Strengthening of environmental institutions and improved waste management and water management.

d) Indicative budget

The budget allocation is €86 million out of which around €24m is indicatively allocated to Technical Assistance targeting the priorities of the Action Plan. €62 million is indicatively allocated to support for sector reforms in the light of the reconstruction and reform process. The specific areas of intervention will be discussed with the Lebanese government.

5.4. Support to reconstruction and recovery

Socio-economic studies and needs assessments show that the main challenge for the current government will be to build a strong administrative capacity to deal with the crisis and rebuild the country in all the areas destroyed by the conflict. The Lebanese government is finalising a comprehensive document with the analysis of the current situation and of the reforms needed. The EU will seek to adapt its strategy to the needs presented by the government during the International Conference (scheduled for the second half of January 2007). Close cooperation between the Lebanese government and all donors will be needed to establish an effective structure of coordination and to prioritise the needs of the country.

Building upon previous experience, the EC will focus its assistance on two channels for reinvigorating the economy. The first sub-priority will aim at financing infrastructure projects in communities and municipalities affected by the military conflict. The second sub-priority will focus on reinvigorating the Small and Medium Enterprises sector through various initiatives and projects. The third priority will be devoted to the demining of the country.

5.4.1. sub-priority 1 – Support to Local development

a) Justification and objectives

Action in this field will be consistent with the priorities defined within the ENP AP regarding local governance, and relevant to « social development, employment and poverty reduction and regional development » in the context of the Priority Economic and Social Reforms and Sustainable Development. Actions in these areas have the potential not only to rebuild the assets lost during the conflict, but also to formulate long-term development strategies that might attract investors in the future.

b) Programme description

- Support local public infrastructure projects in areas affected by the military conflict,
- Support local development,
- Support the creation and development of municipality clusters and the coordination of development strategies at regional level.

c) Expected results

- Reconstruction of public local infrastructure,
- More development projects implemented outside the Greater Beirut area,

- Enhanced citizens' confidence and dialogue, and increased number of municipalities taking part in EC- funded programmes;
- Increased awareness by the Lebanese government of the need to consider decentralisation issues.

d) Indicative budget

The indicative budget allocation is €36 million

5.4.2. sub-priority 2 – support to the reinvigoration of small and medium-sized enterprises affected by the conflict

a) Justification and objectives

The competitive position of the Lebanese private sector, both in terms of efficiency, quality and modernization of production processes, and of export-oriented support, should be given particular attention, especially in the aftermath of the military conflict. Upgrading of the competitive position of SMEs would need to be accompanied by improvements in the business environment and increased entrepreneurship.

The needs assessment analysis conducted by several EC services and international financial institutions has shown the need for a medium-term reconstruction facility targeting businesses (mainly in the Southern part of Lebanon) affected by the military conflict. Possible synergies with the actions of the EIB through a loan facility will be explored.

b) Programme description

- Increase direct assistance in the reconstruction of the private sector affected by the military conflict, including through interest rate subsidies,
- Provide SMEs with targeted support for reconstruction,
- Facilitate access to funding,
- Support to improve **the business environment and the competitiveness of companies**, in particular SMEs, notably in the priority areas which have been identified by Lebanon in the framework of the Euro-Mediterranean Charter for Enterprise: access to finance, enhancing the innovative capacity for SMEs, simplifying procedures for enterprises, and improving business support services

c) Expected results

- Stabilised situation of SMEs,
- Enhancement of job creation,
- Easier access for SMEs to financing, expansion of projects funded by the EC and increased number of SMEs benefiting from assistance schemes created by those projects.

d) Indicative budget

The total budget allocation is €29 million

5.4.3. sub-priority 3 – demining and unexploded ordnance

a) Justification and objectives

Lebanon faces a general problem of pollution by landmines and unexploded ordnance throughout the country, but especially in the south. This dates as far back as the French occupation, but grew worse during the civil war, and the significance of the problem in terms not only of Lebanon's security but also of its economy has become even greater since the military conflict of summer 2006. The National Demining Office, created after the civil war, is facing constraints due to lack of capacity. EC is financing demining operations and continuation of that support will be needed in the years to come.

b) Programme description

- Support to the National Demining Office to increase its demining activities in the whole country

c) Expected results

- Continuation of EC-funded demining action,
- Contribution to the clearing of unexploded ordnance and cluster bomblets from Lebanon.

d) Indicative budget

The total budget allocation is €14 million

6. RISKS AND CONDITIONS OF IMPLEMENTATION

For the implementation of EC cooperation, the involvement of a wide range of actors, as recipients, contributors and watchdogs, will be invaluable. Broad consultative platforms and participation in monitoring exercises and possibly in sub-committees will allow better participation and thus greater ownership of EC cooperation.

Among the stakeholders that can be singled out *a priori* are:

- Central Administrations (Ministries, Independent Authorities, Regulatory bodies, Parliamentary committees);
- Local actors and social partners (Municipalities and Groupings of Municipalities, trade unions, representatives of workers);
- Civil Society Groups (NGOs (both single-issue and socially oriented, Universities, Media, Associations);
- Private Sector (Chambers of Commerce, Federations/Syndicates of Industrialists).

The implementation of the proposed strategies and interventions involves certain risks, including risks linked to regional political and economic developments. Lebanon is facing the major challenge of reconstructing physically the infrastructure damaged during the military conflict and rebuilding the state's administration and government, in other words imposing a national administration in the south of Lebanon. Moreover, the stability of the country now relies even more directly on progress in the Middle East Peace process and the implementation of several United Nation Security Council resolutions.

Lebanon is facing political, economic, financial and social challenges. The country is working on a complex reform and reconstruction plan. Progress in implementing reforms is very dependent on the existence of a national dialogue and on the degree of consensus on the reforms. Strong divergences between different actors in the confessional political system may slow down or even have a detrimental effect on the scope and pace of the reforms.

As underlined above, the capacity to implement reforms should be strengthened if their benefits are to be fully realised. Lebanon is in a position to change radically the way the country is governed. It is therefore important that the Lebanese authorities give a high priority to reforming the state. The International conference (to take place in January 2007) will show the level of commitment of the government to reforming of the country.

Lastly, the strategic approach and selection of priorities are in line with the EU-Lebanon Action Plan. The reform agenda of the government (being under preparation for the conference) should reflect those priorities and will therefore facilitate the plan's implementation. This presupposes that the Lebanese government will give its own backing to this ambitious initiative. It is therefore very important that this national reform agenda provides the framework for the country's modernisation process.

6.1. Budget and Phasing of the Programme

NATIONAL INDICATIVE PROGRAMME FOR LEBANON 2007-2010¹						
Priorities	2007	2008	2009	2010	Total NIP	% Budget
<i>Support to Political Reform</i>						
Support to promotion of democracy and Human Rights,	2		10		12	11,76%
Support to the efficiency and independence of judiciary		10			10	
<i>Support to Social and Economic Reform</i>						
Support to the implementation of the Action Plan programme (SAPP), including: - reform of the energy sector, - improving social conditions, access to education and building social safety nets, - trade facilitation and customs reforms, - environment protection, - fiscal reform and Public finances management, Of which:						45,99%
Technical support	8	8	8		24	
Targeted support for sector reforms			18	44	62	
<i>out of which up to €8m of Technical support in 2008 for EdL corporatization</i>						
<i>Support to reconstruction and recovery</i>						
Support to local development	18	18			36	42,25%
Support to the reinvigoration of SMEs affected by the conflict	15	14			29	
<i>Up to €15m in 2007 for SMEs affected by the conflict through a joint project with the EIB</i>						
demining and Unexploded Ordnance	7		7		14	
TOTAL	50	50	43	44	187	100,00 %

¹ N.B.: The figures in this table have to be considered as provisional estimates, subject to potential modifications that may result from ongoing assessments on the ground and from the Paris Conference.

ANNEXES

ANNEX 1 – LEBANON MAP



ANNEX 2 – ECONOMIC AND SOCIAL INDICATORS

LEBANON DATA PROFILE – SOCIAL AND ECONOMIC INDICATORS	2000	2004	2005
People			
Population, total	3.4 million	3.5 million	3.6 million
Population growth (annual %)	1.0	1.0	1.0
Life expectancy at birth, total (years)	71.3	72.3	..
Fertility rate, total (births per woman)	2.5	2.3	..
Mortality rate, infant (per 1,000 live births)	28.0	26.5	..
Mortality rate, under-5 (per 1,000)	32.0	30.5	..
Births attended by skilled health staff (% of total)	..	..	..
Malnutrition prevalence, weight for age (% of children under 5)	..	..	..
Immunization, measles (% of children ages 12-23 months)	90.0	96.0	..
Prevalence of HIV, total (% of population ages 15-49)	..	..	0.1
Primary completion rate, total (% of relevant age group)	99.2	94.1	..
School enrollment, primary (% gross)	110.9	106.8	..
School enrollment, secondary (% gross)	82.1	88.7	..
School enrollment, tertiary (% gross)	37.0	47.6	..
Ratio of girls to boys in primary and secondary education (%)	101.9	101.8	..
Literacy rate, adult total (% of people ages 15 and above)	..	..	..
Environment			
Surface area (sq. km)	10,400.0	10,400.0	10,400.0
Forest area (sq. km)	1,310.0	..	1,360.0
Agricultural land (% of land area)	34.0	..	..
CO2 emissions (metric tons per capita)	4.5	..	..
Improved water source (% of population with access)	..	100.0	..
Improved sanitation facilities, urban (% of urban population with access)	..	100.0	..
Energy use (kg of oil equivalent per capita)	1,488.6	..	..
Energy imports, net (% of energy use)	96.6	..	..
Electric power consumption (kWh per capita)	2,310.6	..	..
Economy			
GNI, Atlas method (current US\$)	17.2 billion	21.4 billion	22.1 billion
GNI per capita, Atlas method (current US\$)	5,060.0	6,040.0	6,180.0
GDP (current US\$)	16.7 billion	21.9 billion	22.2 billion
GDP growth (annual %)	0.9	6.3	1.0
Inflation, GDP deflator (annual %)	-2.8	2.9	0.6
Agriculture, value added (% of GDP)	7.4	7.4	7.3
Industry, value added (% of GDP)	23.9	21.9	21.0
Services, etc., value added (% of GDP)	68.7	70.7	71.7
Exports of goods and services (% of GDP)	13.6	20.5	20.8
Imports of goods and services (% of GDP)	37.1	44.0	43.2
Gross capital formation (% of GDP)	20.3	21.3	20.1
Revenue, excluding grants (% of GDP)	16.6	21.2	..
Cash surplus/deficit (% of GDP)	-19.0	-8.3	..
States and markets			
Time required to start a business (days)	..	46.0	46.0
Market capitalization of listed companies (% of GDP)	9.5	10.6	22.2
Military expenditure (% of GDP)	5.3	3.7	..
Fixed line and mobile phone subscribers (per 1,000 people)	388.2	428.8	..
Internet users (per 1,000 people)	88.3	169.5	..
Roads, paved (% of total roads)	..	..	..
High-technology exports (% of manufactured exports)	2.3	..	..
Global links			
Merchandise trade (% of GDP)	41.6	51.0	50.5
Foreign direct investment, net inflows (BoP, current US\$)	297.8 million	288.0 million	..
Long-term debt (DOD, current US\$)	7.3 billion	18.2 billion	..
Present value of debt (% of GNI)	..	120.8	..
Official development assistance and official aid (current US\$)	199.7 million	264.8 million	..
Workers' remittances and compensation of employees, received (US\$)	1.6 billion	5.7 billion	..

Source: World Development Indicators database, April 2006

ANNEX 3 – LEBANON'S COUNTRY ENVIRONMENTAL PROFILE

1) State of the environment

The key environment issues in Lebanon relate to air quality, water quality, waste management, nature protection, coastal and marine pollution, as well as land use. These were further aggravated in the areas which were affected by the conflict of summer 2006.

Air quality is a concern, even if monitoring does not take place systematically. The main emission sources are transport, power plants and industrial activities.

Regarding **water quality**, Lebanon is relatively rich in groundwater aquifers. There are also 17 permanent rivers and 23 seasonal rivers. However, important pressures in terms of quantity and quality stem from agriculture, domestic sewage, agro-chemicals and industrial effluents. Ground water is locally affected. Sea water intrusion occurs in the coastal aquifers. While many households are connected to sewage, there is very little waste water treatment capacity in operation, which in some cases is due to lack of maintenance, as well as because of the 2006 conflict. Certain initiatives to improve the situation are taking place.

Waste management constitutes a challenge, including prevention, collection, treatment, recovery and final disposal. Collection rates of municipal waste are however high in Greater Beirut, but very little recycling activities take place and therefore collected waste is landfilled in most cases. Furthermore, landfill capacities are scarce. Illegal dumpsites are also a serious problem, in particular outside Beirut. There are no effective solutions in place for industrial, hospital or slaughterhouse waste. The recent conflict resulted in important amounts of demolition waste as well as solid wastes mixed with oil.

As regards **nature protection**, Lebanon has seven designated nature reserves. However, the country's biodiversity is threatened by uncontrolled urban and coastal development, impacts of the 2006 conflict on some of the nature reserves, as well as forest fires, use of pesticides and chemicals in agriculture, and also because of uncontrolled harvesting.

The Lebanese coastal strip extends over 210 km along which approximately 55 % of the Lebanese population is concentrated. **Coastal and marine environment** is therefore subject to pressures from municipal and industrial development as well as from shipping. Explosions at the Jiyeh power station during the 2006 conflict resulted in an extensive oil slick affecting coastal areas.

Land use issues are a particularly important challenge for Lebanon. A series of factors are involved: soil erosion, landslides, urbanization, mines, and many pressures related to migration and displaced population.

As regards **industrial pollution**, the main industries in Lebanon are agro-food industry, textiles, metal and wood products. 82% of the industrial activity is located outside the official industrial zones, within residential, agricultural and natural areas.

Key **trans-boundary environment issues**, which affect Lebanon, include the pollution of the Mediterranean as well as water supply issues within Kebir, Hassi and Hasbani river catchment areas.

As regards **global environment issues** and climate change in particular, Lebanon signed and ratified the Kyoto Protocol in May 2006 and therefore needs to implement the relevant provisions and, where

appropriate, implement concrete policies and measures to reduce greenhouse gas emissions, in particular in the energy and heavy industry sectors.

2) Environment policy

Lebanon has drawn up an overall environment strategy at the ministerial level. This strategy is included in the introduction to the law 690/2005 voted by the Parliament in August 2005 defining the structure of the Ministry of Environment and its tasks. It is based on the principles of balanced regional development, prevention of pollution, polluter pays and integration of environment considerations into other sectors. It aims at drawing up environment legislation as well as plans and programmes, strengthening and decentralising administrative capacities, establishing of partnerships, providing information as well as public awareness-raising. In addition, the Government has adopted a specific strategy for South Lebanon which aims at repairing war damage as well as protecting public health and promoting sustainable use of natural resources. A draft of National Environmental Action Plan (NEAP) was prepared in 2005 on the basis of the environment strategy but has not yet been submitted to the Council of Ministers for approval. It would cover the period of ten years and address key environment problems of the country, including the identification of necessary methods and responsibilities, including cost assessments.

A state of the environment report was last published in 2001.

3) Environment Legislation and implementation

In 1988 an Environment Protection Law was adopted, followed in 2002 by a National Code of the Environment which defines the basis and norms for environment protection – notably for water, soil, use of chemicals and resource management – as well as institutional, administrative and technical aspects.

However, implementation of the Code requires several implementing decrees which have not yet been adopted, for example to operationalise the establishment of a National Environment Council or on environmental impact assessment.

A decree on strategic environmental assessment has nevertheless been approved by the Council of State, but is awaiting final sign off by the Council of Ministers.

As regards sector-specific legislation, Lebanon has adopted a certain number of laws, decrees and ministerial decisions on air quality, water quality, waste management, quarries, land and soil, forests, hunting and pesticides. Concerning industrial pollution, there are some national standards on environmental quality and for risk management.

Certain sector specific master plans have been prepared, e.g. for the management of solid waste, waste water and quarries. Different ministries together with the Council for Development and Reconstruction have taken actions to implement projects covering priorities as identified in these master plans.

Overall, environment legislation is therefore in place as regards framework legislation, but still needs further development, in particular with regard to adopting the necessary implementing legislation. Lebanon faces difficulties with implementation and enforcement of environment legislation, also due to limited administrative capacities and financial resources, especially at regional and local levels.

4) Administrative capacity

The Ministry of Environment is the main body for environment protection and policy, established in 1993. The Law 690/2005 allows for an organizational restructuring of the Ministry, which is however still ongoing. According to the Law, the Ministry's role is to set general policies, projects and plans on issues related to environmental safety and sustainability of natural resources. Furthermore, the Ministry can also suggest actions for implementation and monitoring.

Industrial permits are issued by Mohafaza under the jurisdiction of the Ministry of Interior. Major infrastructure projects are managed by the Council for Development and Reconstruction.

Ministry of Environment also supervises the functions of each Mohafaza's MoE regional office. The municipalities have a statutory responsibility for building and maintaining certain infrastructure and for providing basic services, notably wastewater treatment, solid waste management and issuing for construction permits.

A number of other Ministries and organisations are also involved in environment matters, such as the Ministries of Public Health, Energy and Water, Public Works and Transport, Agriculture, the Higher Council for Urban Planning and the National Council for Scientific Research. A National Council for quarries was created in 2002. It is headed by the Ministry of Environment and includes members from 9 different public administrations dealing with approving quarry operations and setting standards.

In order to ensure strategic planning and implementation and enforcement of environment legislation, strengthening of administrative capacities at national, regional and local levels constitutes an important challenge, including with regard to co-ordination between the relevant authorities.

5) Participation in regional and international processes

Lebanon has ratified the relevant **international and regional conventions** to which it is signatory, with the exception of amendments to Barcelona Convention and its Land-Based Sources and Dumping Protocols. Lebanon has not signed the new Emergency Protocol or the Specially Protected Areas and Biodiversity Protocol.

On the regional level, Lebanon participates in the **Council of Arab Ministers for the Environment and the Mediterranean Action Plan**.

In November 2005, the Euro-Mediterranean partners, including Lebanon, collectively committed to "endorse a feasible timetable to de-pollute the Mediterranean Sea by 2020". Successful achievement of the goal to reduce pollution levels will require a combination of both regional and national actions with the support of all actors in the Mediterranean. The key goals of **the Horizon 2020 initiative** are to tackle major sources of pollution including industrial emissions, municipal waste and urban waste water.

Lebanon is also participating in the **Mediterranean component of the EU Water Initiative**, a regional component of the EU Water Initiative as announced at the 2002 World Summit on Sustainable Development. The initiative aims to promote better water governance and coordination between stakeholders.

On the **bilateral level**, cooperation agreements on environment issues exist between Lebanon and Syria. Three memoranda of understanding are currently under preparation with Morocco, Jordan and Egypt..

6) Key areas where action is required

Lebanon faces significant challenges in order to promote environment protection, which were furthermore aggravated as a result of the recent conflict. The key environment issues include air quality, water quality, waste management, nature protection, coastal and marine pollution, as well as land use.

With regard to climate change, Lebanon needs to implement the relevant provisions of the Kyoto Protocol to the UN Framework Convention on Climate Change. Lebanon has significant possibilities to use flexible mechanisms under this Protocol.

The institutional and administrative capacity requires strengthening, in particular as regards, co-ordination, implementation and enforcement. Promotion of public awareness is important for the implementation of environment policy.

The key environment areas where action is required are identified in the environment section of the EU - Lebanon Action Plan², established in the framework of the European Neighbourhood Policy. It defines a set of priorities for action with regard to environmental governance, issue-specific activities as well as on international and regional cooperation on environment issues. Progress towards implementing the Action Plan will also contribute to fulfilling the objectives of the Association Agreement.

² The EU Lebanon Action Plan was adopted by the European Council on the 17th of October. It still needs to be adopted by the Lebanese partners.

ANNEX 4 – EU MEMBER STATES AND EC PROGRAMMES BY SECTOR³

Sectors	EC	B	DK	D	EL	E	F	CZ	I	NL	A	FI	SP	SU	UK	Total
Education		0,2		2			4		0,5				0,1		0,2	7
Health					0,7		0,2		0,8				0,07			2,47
Water Supply and sanitation	1,8						6,5	1,9					0,2			10,4
Government & Civil Society	4,6															4,6
Social Infrast & Services																
Transport & Storage	1,4															
Communications																
Banking & financial services																
Economic & social develop	10,6						0,22		0,8	0,04			0,7		0,3	12,66
Business / Private sector	1,7			10									4			15,7
Energy	0,2															
Agriculture, forestry, fishing	0,4			1,7			1,8		0,8							4,7
Industry, Mining & Construction				0,2												0,2
Trade & Tourism													0,2			0,2
Environmental Protection	0,4			16	0,06						0,1		0,04			16,6
Gender																
Commodity aid																
Budget support / SAP																
Food aid																
Debt relief																
Emergency and Humanitarian Assistance	53,7															53,7
Support to NGO's	2												0,1		0,1	2
Other	3,96				1		24			0,2	0,4		0,3	0,2	0,06	30,12
Total	27	0,2		30	1,76		36	1,9	2,9	0,2	0,5		5,71	0,2	0,66	

³ Data provided by Member States Embassies in Beirut (in million of €). Data might not reflect the evolution of the situation after the 31st of August Stockholm conference.

ANNEX 5 - EC SUPPORT TO PALESTINIAN REFUGEES IN LEBANON

Indicative programming 2007-2010

Context and link with Action Plan

In 2006, 404 170⁴ Palestine refugees are registered by UNRWA offices in Lebanon⁵. According to NGO estimates 49% of them live in 12 overcrowded camps. In addition, an estimated 45 000 non-UNRWA registered⁶ and 3 000 non-identified⁷ Palestinians live in Lebanon without any official means of identification, mostly in unofficial gatherings, in very poor hygiene conditions and without access to the services provided by UNRWA, such as basic education, health, and relief and social services. Lebanese internal politics prevents these gatherings from gaining the official status of 'municipalities' that would entitle them to benefit from basic infrastructure such as water and sanitation services. The absence of an appropriate legal status and protection has put them in a situation of extreme vulnerability. Unemployment stands at about 40% and, in spite of their contributions to the fiscal system, those among the Palestinians who are employed do not have access to social security. A Lebanese Ministerial Decree of 1995 that prevents them from working in 72 trades and professions is under review, but with no clear outcome yet. Their freedom to exit and enter Lebanon, and hence their opportunities for temporary work outside their country of residence, is restricted. For many of them, working in Lebanon as daily labourers remains the only alternative. Most of the families have an irregular daily income of not more than EUR 1.5 per person.

In its relations with the Lebanese Republic, the European Union has repeatedly drawn attention to the plight of Palestinian refugees, urging the government of Lebanon to take steps to improve their rights as well as the humanitarian conditions of those refugees housed in camps, underlining that poor social, economic and living conditions lead to despair and extremism. In the Action Plan (Chapter 2.4 "Cooperation in the field of justice, freedom and security"), a reference is made to the improvement of their "social and economic situation".

Since mid-2005, the Siniora government has adopted a new attitude towards the Palestine refugees in Lebanon. The Ministry of Labour issued a decree in July 2005 opening the labour market to Palestinians for a number of jobs. The Ministry of Social Affairs has started a dialogue with Palestinian NGOs in order to identify the needs and the scope for future collaboration. For the first time, ministerial delegations visited several camps in 2006. In May 2006, the Prime Minister organised a donors' meeting calling for formal support to improve the living conditions in the camps, mainly through UNRWA ("Camp improvement initiative"). A PLO Ambassador for Lebanon was appointed.

⁴ United Nations Relief and Works Agency for Palestine Refugees in the Near East. Figure as of December 2005. The number of registered Palestinian refugees in Lebanon has tripled over the last 55 years. However, accurate figures concerning the number of registered Palestinians who actually live in Lebanon are not available.

⁵ Under UNRWA's definition, Palestine refugees are persons whose normal place of residence was Palestine between June 1946 and May 1948, who lost both their homes and means of livelihood as a result of the 1948 Arab-Israeli conflict.

⁶ Refugees of three different origins: 1) those who arrived as a consequence of the 1948 conflict but do not meet UNRWA definition; 2) those who arrived as a consequence of the 1956 Arab-Israeli conflict; 3) those who arrived as a consequence of the Israeli occupation of the Syrian Golan Heights in 1967. These three categories of non-UNRWA registered refugees are registered with the Lebanese authorities.

⁷ These are Palestinians who reside illegally in Lebanon. They include those who have lost their identity papers, those who arrived from Jordan in 1970-1971 after the expulsions of the Organisation for the Liberation of Palestine (OLP) following the events of "Black September", and those who were registered with the OLP in Lebanon but whose papers were not renewed following the expulsion of the OLP from Lebanon in 1982.

Lessons learnt from past and ongoing EC funded projects

Since 2002, the EU has funded projects for a total amount of more than € 60 million, targeting Palestine refugees living in Lebanon through thematic budget lines (co-financing, rehabilitation, food security, ECHO) and more recently through MEDA (€ 19 million). The sectors covered are water, sanitation, economic development, vocational training, education, health, shelter rehabilitation, food aid, protection and youth activities. The main beneficiaries are European and Palestinian NGOs as well as UNRWA for specific projects. The European Commission also contributes annually to UNRWA's general fund. In 2006, an amount of €64 million was granted to UNRWA's General Fund.

The projects funded by thematic budget lines and implemented by European NGO's have proved to be relevant and to produce results, even if these are limited compared to the needs. In recent years, partnerships with Palestinian NGO's have been strengthened by implementation and contribute to their professionalism. These projects have a longer time-frame (24 or 36 months) than ECHO projects (12 months) and allow a longer-term and in-depth approach.

Since 1949, UNRWA has a mandate to provide education, health and social services to Palestine refugees in the region. UNRWA launched an internal reform process in 2004 in order to improve its efficiency. The dialogue between the Commission and UNRWA on the implementation of specific projects is now more focused on results-based indicators. The € 15 million Education project in Lebanon is one such pilot project. Implementation only began in January 2006, so it is too early to assess the performance. However, in the management of the EU scholarship fund (€1.1 million, MEDA – contribution agreement, July 2005), UNRWA has made efforts to improve the transparency of the selection process, by also involving civil society representatives in the evaluation committee. The willingness is there, but actual changes in work and attitudes on the ground might take time.

Complementarity between NGOs' work and UNRWA's services is essential. UNRWA's mandate does not allow intervention in a number of sectors, nor for certain sectors in gatherings (such as shelter or water and sanitation). The European Commission has encouraged closer consultation and collaboration between these actors, who should see each other not as competitors but as actors with a common goal. Sharing information and working together will surely contribute to the well-being of the populations. Confidence and trust need to be reinforced.

The coordination between ECHO and the EC Delegation in Lebanon has been excellent and ensures total complementarity of action. The technical expertise and the flexibility of ECHO services have allowed targeted and highly relevant interventions, sometimes in a difficult and sensitive political, humanitarian and security context.

Donor coordination

Donor coordination for support to Palestine refugees has mainly taken place within the overall discussions on a future Palestinian State. At the regional level, UNRWA organises annual donor coordination meetings, including field visits, with representatives of the donor countries. In Lebanon, an informal coordination between main donors began in May 2006 with a view to exchanging information on different projects and on partners (NGO's and UNRWA).

Description of needs

Human rights

Palestinian refugees in Lebanon are denied civil rights - most significantly, the right to work and the right to private property. They do not have access to the Lebanese school system or to health care and social services (basic services are provided by UNWRA). The refugees are also denied political rights, such as the right to establish NGOs. Even if the issue is very sensitive for reasons of community balance and the need to insist on the right to return, since mid-2005 the Government has shown some interest towards Palestinian refugees in Lebanon (Prime Minister, Ministry of Labour, Ministry of Social Affairs), but few practical legal measures have been taken since then. Several Palestinian Human Rights NGO's are working on campaigns and dialogue with the Lebanese authorities in order to improve their legal status (campaign to work, legal aid for Palestinian prisoners, monitoring abuses at Lebanese army check points at the entrance of the camps, etc.).

Education

The overall quality of the learning environment that children (age group 6-15) are exposed to in the 83 UNRWA primary schools does not fully meet UNRWA standards. Owing to difficulties in improving existing facilities and services, the situation has worsened over the last decade, as is evident in the current level of double-shifting in primary schools (shorter and fewer lessons), overcrowding of classes (up to 50-plus students per class), less than satisfactory teacher skills (and motivation), poor and inadequate school infrastructure (premises/classrooms, utilities, playgrounds, furniture, space for cultural activities etc.), violence in schools and too little attention given to children with special needs or learning difficulties. The consequences of this situation are twofold : (i) a substantial percentage of children, estimated as high as 20% of each intake, drop out and do not complete the 9 years of compulsory primary education; (ii) out of those who complete primary school, only 53% succeed in the official Brevet exam, which is well below the Lebanese average (63% in 2004).

Lebanon is the only country in which UNRWA provides secondary education. Currently, the major concern in the secondary cycle is to meet an increase in demand and to maintain the quality of the education by building additional classrooms and other facilities. Opportunities for tertiary education are very limited. UNRWA offers a limited number of scholarships, although the demand is very high. Furthermore, Lebanese universities are very expensive (attendance costs an average of 4000\$/year).

NGO's are very active in providing education and cultural activities to young people (catch-up classes, literacy, summer camps, artistic groups, libraries, sports, etc.).

Health and psycho-social care

In Lebanon, UNRWA provides full primary health care at its 25 Health Centres, as well as full or partial cover of hospitalization through contract agreements with the Palestinian Red Crescent Society (PRCS) and Lebanese private hospitals. The hospitals run by the Palestinian Red Crescent Society (PRCS/L) remain the main provider of secondary health services to Palestinians and a major partner for UNRWA to refer its patients to. The PRCS/L is dependent on financial support from donors unless the political situation and the socio-economic conditions change for the better. Furthermore, the organization has suffered from managerial and operational weaknesses. In response, some NGOs - financially supported by the Commission - have started to review and address these weaknesses. This process needs to be continued and reinforced in order to guarantee that quality services are being provided by the PRCS/L hospitals to their patients. Recent surveys have confirmed that quality of

patient care and infection control policies pose a serious health risk within the five PRCS/L hospitals and demand proper action.

Children, the elderly and the disabled are considered as particularly vulnerable groups among the Palestinian population in Lebanon. Their mobility is limited and, given their specific health needs, they require adapted health services such as the provision of appropriate social and psychological assistance, as well as the possibility for referral to specialized institutions for treatment.

Palestinians living in poor conditions in overcrowded camps, in particular the adolescents, are a source of concern as they lack future prospects in or outside Lebanon. They represent a potential “lost generation”, and might be an easy target for being drawn into radical and fundamentalist groups. This lack of future prospects is resulting in behaviour disorders, school drop-out, low secondary school enrolment (6%) and increased consumption of medicines and drugs. According to a FAFO study, some 22% of the adults regularly take antidepressants or other medicines to alleviate psychological symptoms.⁸

Water and Sanitation

In 2004, with Community funds (Rehabilitation budget line, €8.75 million), rehabilitation of water and sanitation networks started in the official refugee camps of Bourj el Shemali, Rashidieh, Wavel, Mieh Mieh in the South of Lebanon and in Beddawi refugee camps in the North of Lebanon.⁹ Thanks to ECHO's contribution, additional funds were made available to include Nahr el-Bared camp, and in previous years ECHO has supported interventions to provide water and sanitation for various unofficial gatherings near Tyre and Saida in the south of Lebanon, which have enabled them to regain access to potable water, to rehabilitate and repair existing water networks and sewerage systems. For the time being, UNWRA is evaluating the remaining water and sanitation needs, mainly in the Beirut camps and in Ein el Helweh (Saida).

Household income

For Palestinian refugees denied to the right to work, access to the labour market is extremely difficult; proper job opportunities are scarce and access to micro-credit is limited. Furthermore, as their freedom to exit and enter Lebanon is restricted, their opportunities for temporary work abroad are also severely restricted. Most of the families rely on irregular income, depending mostly on occasional daily labour. This is confirmed by the high proportion of those who are classified by UNRWA as ‘Special Hardship Cases’.¹⁰

Objectives and proposed fields of intervention

The general objective is the improvement of the living conditions of Palestinian refugees in Lebanon.

EC funding - being complementary to ECHO funds and interventions under other thematic budget lines, - should contribute to the following objectives, taking into consideration that aid will never be able to fully cover the needs:

⁸ FAFO study 2003, Difficult Past Uncertain Future, Living conditions among Palestinian refugees in camps and gatherings in Lebanon, p 81.

⁹ Under rehabilitation budget line 6410 with a budget of 8,750,000€ for five camps : Bourj el Shemali, Rashidieh, Wavel, Mieh Mieh, Beddawi.

¹⁰ UNRWA figures June 2005: 11.5% of Palestine refugees in Lebanon are special hardship cases (2.6% in Jordan; 7.3% in Syria; 6% in the West Bank; and 8.7% in the Gaza Strip).

- improve access to tertiary education through the existing EU scholarship fund (managed by UNRWA)
- improve access to and quality of education (pre-school, primary, secondary, vocational training) and youth activities in the camps
- improve employment opportunities
- improve access to and quality of health facilities, including psychosocial support
- improve the environment of the camps and gatherings, mainly in respect of water and sanitation networks
- improve the legal framework to ensure better protection, in particular the right to work and the right to own property

Implementation

The actions described above may be financed through allocations of the socio-economic priority

Each humanitarian actor has comparative advantages:

- UNRWA is mandated for a certain number of sectors, within a well defined scope;
- NGO's (international and Palestinian) have developed a wide range of services to respond to the needs of the community. Over the years they have developed their professionalism and their expertise. Their impact on people's lives is considerable.

Taking into account the comparative advantages and given the essential role that the NGO community plays within the Palestinian community and the effective results achieved by their actions, the EU allocation should make adequate financial provision for the services provided by NGOs. It should also be noted that UNRWA has limited absorption capacity and that the EU is already contributing significantly each year to the General Fund.

ANNEX 6 - EU ASSISTANCE AFTER THE CONFLICT (ON 18.01.2006)

EU assistance to Lebanon (in million Euros) after the 2006 conflict (18.01.2007)		
	2006	
	Pledged in Stockholm	Actually committed*
Austria	0,40	0,90
Belgium	3,02	5,00
Bulgaria	0,10	0,10
Cyprus	0,08	3,20
Czech Republic	0,22	1,05
Denmark	2,28	5,39
Estonia	0,02	0,05
Finland	4,50	4,50
France	40,00	32,79
Germany	22,00	59,30
Greece	2,50	5,00
Hungary	0,00	0,12
Ireland	1,74	1,74
Italy	30,00	30,00
Latvia	0,00	0,06
Lithuania	0,00	0,10
Luxembourg	0,00	0,85
Malta	0,02	0,02
Netherlands	6,30	11,10
Poland	1,00	0,90
Portugal	0,00	0,20
Romania	0,50	0,50
Slovakia	0,00	0,00
Slovenia	0,02	0,02
Spain	9,24	10,59
Sweden	15,59	14,47
United Kingdom	17,46	14,78
MS TOTAL	157,00	202,73
EC TOTAL	42,00	107,00
EU TOTAL	199,00	309,73
* including assistance not pledged in Stockholm		
Version 18/01/07		