

# **SUSTAINABLE DEVELOPMENT AND ECONOMIC INITIATIVES IN LEBANON**

**Marwan Iskandar**

## **Introduction**

In the past twenty years economic development as a social objective gained two conceptual dimensions that assess results. On the one hand, material wealth or accumulation of capital must be associated with social development, characterized by improving health, housing and educational standards, whereas the second dimension pertains to sustainable development. This concept is defined by the ability to improve living and working conditions with preservation of the environment and improvement of some if possible.

As these ideas evolved and took hold, particularly in the outlook and practices of U.N. agencies, the world was going through technological changes which are shaping the quality of life and international relations, exchange and modes of work and living in the 21<sup>st</sup> Century. Michio Kaku, in his book *Visions* (Anchor Books, Doubleday, New York 1997), summarized scientific breakthroughs as of the mid-eighties in the following manner.

“Human knowledge is doubling every ten years. In the past decade, more scientific knowledge has been created than in all of human history. Computer power is doubling every eighteen months. The internet is doubling every year. The number of DNA sequences we can analyze is doubling every two years..... In the wake of this technological upheaval, entire industries and lifestyles are being overturned, only to give rise to entirely new ones. But these rapid bewildering changes are not just quantitative. They mark the birth pangs of a new era.” (p. 4) Giving these changes an economic interpretation, Lester

Thurrow, former Dean of MIT's Sloan School of Management, says: "In the twenty first century brain power and imagination, invention, and the organization of new technologies are the key strategic ingredients .... Today, knowledge and skills now stand alone as the only source of comparative advantage." (p. 13)

Due to his perception and appreciation of the causes and objectives of development, Thurrow proclaimed, in Cairo during a conference held in September 1999, that he considered the portfolio of Minister of Education as the pillar of expectations in developing countries. I would add to that evaluation, a political system and leadership that endorse scientific progress and democracy as cornerstones of their societies.

Jeremy Rifkin, President – Foundation on Economic Trends USA, summarized the confluence of computing power and scientific developments in the following paragraph:

"After more than forty years of running on parallel tracks, information and life sciences are beginning to fuse into a single, powerful, technological and economic force that is laying the foundation for the Biotech Century. The computer is increasingly being used to decipher, manage and organize the vast amount of genetic information that is likely to become the raw resource of the global economy.:

Together with scientific evolutions, the late eighties and nineties witnessed expansion of free trade and the demolition of Communism as a viable form of an alternative economic system. The Maastricht Agreement introduced the final building blocs of the Common Market edifice and the world had radically changed by the end of 1993, when the expanded and refined GATT agreements transformed this trade liberalization initiative dating to 1947 into an international organization, the WTO, with a mechanism for resolving trade disputes.

Developing countries, such as Lebanon, at the dawn of the twenty first century have to rise up to the challenges of scientific developments and trends in

international exchange and governance. The longer developing countries remain shackled in outdated concepts of comparative advantage based on measurements of labor, capital and natural resources, the longer it will take them to achieve acceptable standards of living.

One particularly important aspect of recent times which should be given great attention by developing countries is the following image of opportunity for talent.

Well educated young people with energy and drive are becoming more and more a fluid potential. Computer experts, advanced physicists, capable medical doctors and biologists, and skilled management people have an international market. For this reason, financial rewards for skilled individuals do not vary anywhere nearly as much as do average per capita incomes between countries. A skilled computer expert in Egypt earns half as much, for example, as his counterpart in England, whereas the income per capita in the United Kingdom is twenty four times what it is in Egypt.

To prosper and advance, developing countries have to develop suitable systems of education and to strive for excellence and in particular make every effort to benefit from the fruits of knowledge of their young generation. One condition whose absence spells doom is a political climate that encourages free participation in the choice of peoples' representatives and viable laws for preserving rights and equal opportunity. As long as this condition is neglected or given little attention, developing countries cannot make it in the pervading environment of the 21<sup>st</sup> century.

#### And now to Lebanon

In the last quarter of 1998, Lebanon had a change in government direction and policies. Instead of a strong drive for rehabilitation and development of infrastructure, the new attitude stressed prudence, control of deficits and probity in government. There was no explicit recognition by the new government of the challenges brought to our doorstep by the information revolution, biotechnological developments or dictates of lighter and more efficient government

administration, or for that matter, the challenges of possible peace with Israel and inevitable membership of the WTO and the proposed agreement with the European Community.

The objective of the new government has been the gradual reduction of budgetary deficits and the trade gap with a view to lower total accumulated public debt from 118 percent of the GDP to 96 percent at the end of five years. Clear symptoms of recession and antiquated administrative systems and practices received little attention. The only avenue for reducing debt and improving performance and reducing the insidious influence of sectarianism is privatization of a number of publicly owned and controlled agencies.

A five-year restructuring scenario for public finance and the economy was drafted before adoption of the 1999 budget last June. This scenario, although well laid out and eventually shredded, did not look at the question of privatization as a fulcrum of correction measures. Securitization of income flows from the Casino revenues and the income stream of telephones—land based or cellular—was the extent of mental endeavor in the five years scenario plus corporitization of management practices within public enterprises with a view to improve performance before privatizing.

In essence, non of the steps suggested has been implemented irrespective of their likelihood of success. Only a law for establishing a Privatization Board has been approved. It is to be composed of the Prime Minister, Minister of Justice, Minister of Finance, Minister of the Economy and the minister of the sector covering the public entity to be privatized. Moreover, each privatization decree has to be approved by Parliament. A more political recipe for this process cannot be conceived and it is probable that this process will be delayed specially because Lebanon is to have parliamentary elections in August and September 2000 thus introducing a new parliament that will have to discuss, as of October 2000 and until end January 2001, only the proposed budget.

All parliamentary discussions that followed completion of the five years scenario and debate of the 1999 budget and the proposed budget for 2000 did not touch

on fundamental existing problems, which constitute a threat to the future performance of the Lebanese economy and cohesion of the Lebanese society. It is imperative to enumerate these problems before assessing the consequences of the 1999 budget and the proposed budget for 2000 on the long term viability of the Lebanese economy.

Our enumeration of fundamental problems is selective and based on two assumptions. First, any country such as Lebanon, enjoying the rank of 66 on the scale of human development—i.e. a position in the top 35 percent of the international community—has to achieve high efficiency in its government and public services, particularly when 50 percent of the GDP is in public sector custody. Second, Lebanon must shape up to the challenges of the changing world economy and the requirements of WTO and the Euro-Med partnership agreements.

Total budget expenditures have come to account for 35 percent of GDP. If social security contributions were accounted for as part of the public sector, and it is well known that these payments on behalf of the employees are similar to taxes, the size of the economy under the guidance of the public sector would be enhanced. This is all the more true when account is taken of the revenues and expenditures of the telecommunications and postal services. The national lottery, Intra Investment Company, Middle East Airlines, Electricité du Liban, and even the central bank need to be viewed under the umbrella of the public sector. Once this is done, we end up with a public sector dominating 50 percent or more of GDP in an allegedly free bent economy.

In Lebanon, government administration has long been in need of drastic improvement. The political confessional system breeds senior government employees who report to their political religious leaders far more than to the citizens of the country. Successive attempts at administrative reform before the war of 1975, which extended to 1990, failed. Post war attempts faced even greater difficulties as militia nominees permeated senior government positions during the war years and immediately afterwards.

Questions before the new government are real and urgent. How can an economy grow when 50 percent of its GDP is in the hands of a corrupt and dilapidated government administration? How is a rapid growth rate to be achieved when salaries and benefits as well as interest payments account for 82-85 percent of budgetary allocations? The remaining 15-18 percent goes for maintenance and running of facilities and equipment as well as developmental projects. This rigidity has-to be broken if future growth is to be achieved at satisfactory rates. Current indicators suggest that the government has opted for slow change with promises of important steps related to privatization and administrative reform as of the year 2000. Initial steps on both counts have not been promising.

Wasteful subsidies and hemorrhage of public enterprises are practices that have to be stopped if Lebanon is to be competitive. These practices, moreover, encourage by example and unmerited rewards emulation by groups, which concentrate on gaining advantages and avoiding obligations. Possibly terminating subsidies and stopping hemorrhage of resources is the second most important—after administrative reform and modernization—positive initiative for improving economic performance and giving Lebanon a better chance at meeting competition. Examples are clear and brief mention is sufficient.

Subsidies to tobacco, sugar beat and wheat eat up over \$100 million a year. In respect of sugar and wheat, the absurdity of the subsidy is so manifest that it exceeds the cost of importing the quantities produced in Lebanon. Any other use of the lands consecrated for these activities would be of better benefit let alone proper choices of high value agricultural products.

Electricity is subsidized as supplies are continued for consumers—including government ministries—that do not pay their dues. Practically 50 percent of deliveries continue unpaid for and drain the budget—in the form of nominal but unretreivable loans of \$120-150 million a year.

In addition to this profligate waste the newest two power plants in Bsalim and Ghazieh of a 900 Megawatt capacity ready since eighteen months at a cost of \$900 million are only utilized at 30 percent of their capacity due to lack of allocation of funds for tying up these plants with the national grid.

Lebanon bears in interest, depreciation and maintenance \$180 million a year of which 70 percent (\$126 million) are wasted.

Had there been proper integration of these plants with the national grid and proper utilization electricity supplies would be abundant and available at a cheaper cost, which could allow reduction of inordinately high tariffs while achieving higher collection.

A similar but even more sinister scenario is evident in respect of Lebanon's two refineries. These are ancient structures, both supplemented by loading terminals which are not operating, have been sustained with their staff of over 500 employees since stopping any operations over 18 years ago. The running costs of salaries and indemnities and minimal maintenance to avoid severe environmental damage cost the government at least \$25 million a year.

Continuity of this situation is irrational, unacceptable and a bad example to all public enterprises. Either these two refineries are to be modernized and expanded with foreign participation or they should be closed with settlement of termination of employment dues, which are enormous but continue growing year in year out without any corresponding contribution to production.

Middle East Airlines, the so-called national airline which was wrongly dumped in the hands of the Central Bank, faces losses in the order of \$80 million per year. Over the past four years the Central Bank has pumped into this company over \$400 million. It operates 9 Airbuses, employs 4400 staff with an average age of 56 and carries the liability of total workmen compensation in the order of \$90 million. Cyprus Airways utilizes 12 Airbuses, carries 80 percent more passengers than MEA with a staff of 2700.

If the government were courageous enough to face up to stopping waste in the cases noted above, the budget would improve on a current account basis by:

\$100 million for tobacco, sugar beat and wheat

\$240 million for electricity

\$25 million from refineries

\$80 million from MEA

\$445 million of savings a year are within our grasp if rationality was to prevail and awareness of future challenges was to take hold. This figure represents over 7 percent of total budget figures and to that extent the deficit could fall by 15-16 percent.

Whereas the above two areas of concern indicate waste and inefficiency and bad habits which perpetuate sectarian partition of government functions, the following four areas of concern could prove the downfall of Lebanon as a civilized and coherent society in the future.

Educational standards and services have deteriorated at a fast rate without implementation of corrective measures. Elementary and high schools of the public sector, while numerous (approximately 1300), and well distributed as between the most underprivileged regions suffer from skewed distribution of teachers with good training, primitive programs and inadequate facilities.

A three-year intensive research effort to improve programs conducted with international assistance yielded a satisfactory blueprint, which was adopted by Parliament in 1998. Funds for training teachers in disciplines intended to receive more attention (mathematics, physics, computers and cultural studies) were denied in the budget of 1999, thus setting back the program at least two years.

On the university level, the Lebanese University, which accommodates 55 percent of all high level students in Lebanon is in great need of improving the quality of its professors, imposing discipline on the teaching staff and students

and developing advanced studies and research. This university which was intended to become a cultural and scientific melting pot for young Lebanese failed to achieve this result. Accounts of the Lebanese University are neither transparent nor clear. A new and costly campus is to be ready before end 2000 and it is imperative to overhaul educational, teaching and reporting standards. It cannot compete on the level of quality with certain private universities in Lebanon and the region.

Many of the private universities suffer from limited specialization and manifest religious control. The few private universities with broad curricula that are not affiliated to religious groups are far too expensive as compared even with European universities. This situation is breeding a certain form of exclusivity for the well to do who are not always or necessarily the best students.

In my considered opinion, universities in Lebanon suffer most of all from lack of attention to serious research. This is particularly true in basic sciences such as botany, biology, physics, pharmacology and other agricultural sciences. The luster of good instruction in medicine, engineering, computer sciences and business studies shields perception of serious gaps and defects, which will show frighteningly in comparison with Israel's endowment and programs.

Environmental deterioration has been given little attention. The budget of the Ministry is very limited and it has no powers to implement policies, which contribute to rectification of deteriorating environmental conditions.

Pollution is prevalent in all important domains; in the air with 1.5 million vehicles spewing 32,000 tons of sulfur dioxide a year accentuated by the burning of fuel oil of 2 percent sulfur or more by power plants in congested areas. Underground water resources are polluted to a large degree (85%) by UNDP estimates, and seawater has a toll of pollution increasing on a yearly basis. Matters are exacerbated by the lack of solid waste treatment facilities and temporary treatment of 60 percent of garbage collected every day.

In addition to these alarming facts, green areas have shrunk considerably due to neglect, widespread construction, quarrying and recent fires which are still controlled by primitive means. Of all the fundamental requirements of a civilized life, and the requirements of sustainable development, Lebanon's environment has suffered the greatest neglect and chaos.

It can be asserted that Lebanon is in need of an urgent plan for limiting environmental deterioration and restoring good conditions on this vital score. Constituents of the program must include:

- Rigorous demand management of traffic
- Gradual transformation of power stations to the use of gas, rationalization of electricity consumption and possible importation of electricity on the proposed Middle Eastern grid conceived by the World Bank.
- Treatment of underground water resources, better preservation of surface water flows and implementation of a national plan for water uses.
- Treatment of garbage and solid waste according to most modern methods.
- Regulation of construction along the Lebanese coast that has not been spoiled yet.
- Encouragement of and implementation of a forestation program for Lebanon.

The legal system in Lebanon, which shapes up the conditions for initiating businesses and the conduct of economic activity, is in great need of improvement. Procedures are cumbersome, costly and time consuming. Moreover, there are areas of business activity for which the proper legal framework has not been developed. In our fast changing world, new business activities and products are constantly hitting markets and legal regulations have to be flexible enough to absorb such changes.

In Lebanon, the legal system, as defined by existing laws and procedures of going to court, is still a deterrent to enterprise. Development of laws, such as the law protecting intellectual property rights, or laws relating to consumer protection or investors' rights is a time consuming process. Approbation by Parliament of proposed new laws and changes is in itself a slow process but ultimately it will be speeded up by international competition and example. Treaties supersede national laws and these could bring to economic life extremely important changes. Two examples would suffice. Adoption of the protection of intellectual property rights law became an issue with the international community that accused Lebanon of taking advantage of piracy practices. The international pressure felt served to speed up adoption of the proposed text.

The second example relates to Arab boycott regulations. Laws based on this initiative approved in 1951 provide for boycotting products of Western companies, which invest or manufacture in Israel. Coca-Cola and jeep cars were famous examples of boycotting that was reversed by decisions taken on the level of the Arab league, which had originally imposed the boycott. Recently, a customs officer stopped imports of computers utilizing Pentium chips produced by Intel, which is a big investor in Israel. As most new generation computers use these chips, the singular enthusiasm of this customs officer could have stopped importation of computers and eventually cellular phones into Lebanon.

It is not our intention to exaggerate the consequences of gaps within our laws or practices, which could prove costly for businesses. Government is aware of these challenges and the Central Bank and currently the Minister of Economy have dedicated serious efforts to bring about formulation and adoption of more modern business laws which speed up formation and activation of businesses, provide protection against unjustified public interference and guarantee investors' rights.

Even if the proper set of laws were somehow endorsed, Lebanon's courts have to be infused with knowledge and interpretation of same by well trained judges

supported with processing, documentation and cross reference facilities which do not exist at present.

The process of developing laws, procedures of going to court and receiving appropriate protection are in urgent need of attention. Arbitration could be a useful alternative and it is being chosen more and more in business agreements.

### Emigration:

Emigration has been for decades an important facet of Lebanese economic and political survival. In the late 19<sup>th</sup> and early 20<sup>th</sup> centuries, Lebanese emigrated to far off countries particularly North and south America and Australia. These waves were driven by political repression and famine.

After World War II, oil rich Arab countries became the destination of Lebanese seeking opportunities and in the sixties some African countries became poles of attraction for tens of thousands of Lebanese. The flow from Lebanon to Arab oil rich countries and African countries was always of a temporary nature as host countries were and still are very strict about naturalization of immigrants. During the war years extending from 1975-1990, Lebanese emigrated to Arab countries, as well as European countries, Canada and Australia. This wave carried a substantial number of university graduates who were more or less lost to the national economy.

Traditionally, emigrants have been the mainstays of transfers and capital flows. This trait would continue as long as emigrants regard returning to Lebanon in easy circumstances as a life objective. Naturally, this outlook is essentially shaped by the extent of modernism the country achieves, general security, the tax system and the rule of law.

Emigration of young Lebanese in large numbers has been observed in recent years and the trend is intensifying. Targets of destination are essentially distant, developed and prosperous countries such as Australia and Canada. The five-year scenario guidelines prepared for the Lebanese Government in

April 1999 noted with alarm emigration of 16,000 relatively young Lebanese every month as opposed to net births of 8,000 Lebanese per month. Continuity of such outflows for five years for example would diminish the potential Lebanese population by 15 percent. As most of these emigrants are educated and situated age-wise between 25 and 50, their expatriate substitutes would necessarily impact the composition of the fiber of the society.

The National Human Development report (1998) entitled Youth and development, published by UNDP and supervised by Dr. Riad Tabbara, Director of the Center for Development Studies and Projects (MADMA) had this to say about the emigration drive. "The desire to emigrate has remained strong-after the war years-especially among youth in view of the unduly high unemployment rate among them. Emigration affects more the skilled and better educated segment of the population".

A survey conducted by our organization of 200 executives born in Lebanon and largely educated in it but now employed in senior positions in Canada, the US, Australia, France, England and Dubai indicates the following major conclusion. Reluctance to return for work in Lebanon is based on perception of limited opportunities, but more importantly the notion of sectarian choices and political pull. Most of those interviewed considered qualitative attributes such as equal opportunity and the rule of law as weak or absent in Lebanon.

### Conclusions

The decade of the nineties introduced a momentous change in the understanding of the process of growth and perception of values. Salient characteristics of successful economies can be summarized in the following manner.

- Economies with liberal economic, trade and financial systems.
- Economies where services account for a high proportion of the national income, i.e. 70 percent or more.

- Knowledge based economies with active and widespread networking through broad band based communications systems, proliferation of computing facilities and widespread use of the internet.
- Evolving systems of education which stress mathematics, physics, computing systems, genetics and cultural evolution as principal fulcrums.
- Economies that accept fast change as a means of adjustment to improve competitive capability and face challenges.
- Societies which endorse fundamentally and inherently the rule of law, well developed and broadly recognized principals of justice, and a judiciary independent of political influences.

In addition to these general traits associated with advancement, developed industrial societies are stabilizing in terms of numbers but ageing in so far as the old (over 60) have come to represent higher proportions of total population.

By contrast, developing countries have come to face opportunities that could become fruitful in case they adopt enlightened policies. This assertion can be elucidated by the following example.

Whereas in the sixties development seemed to hinge on acquiring manufacturing skills and higher prices for commodities, in the first decade of the third millenium computer skills, financial services and touristic attractions will count for more. Good systems of education and preservation of nature and culture would do more to bridge the widening gap between developed and developing.

The new Lebanese government, installed since well over a year, has been concentrating on narrowing the budget deficit at any cost. They have come to the end of 1999 without achieving this result whilst contributing to a severe recession whose manifestation is clear in the following indisputable facts.

- Checks for compensation, which reflect to a large extent monetized exchanges, have shrunk by 13 percent in value.

- Expenditures on development projects targeted at LL 900 billion for 1999 have not exceeded LL 150 billion.
- Total imports, which cover as much as 60 percent of consumption requirements and 80 percent of investments, dropped by 13 percent in 1999 after dropping by 5.7 percent in 1998. Customs revenues projected to increase over 1998 revenues by 19 percent increased, in spite of higher rates of customs charges, by 2.2 percent only.
- Cement production, real estate transfers (encouraged by a lowering of duties from 7 percent to 6 percent) and licenses for new construction were all lower than last year (1998) by 8-10 percent.
- Allocations for training teachers to implement the new programs approved by Parliament in 1998 for improving skills and learning, particularly in computing, mathematics and physics, were abolished thus delaying educational reform by at least two years.
- A shift of students from the elementary and primary private schools to public schools by no less than 10 percent attested to hardship as Lebanese by and large perceive public schools to be of lower standards. Delay of application of reformed programs referred to above served to deepen the crisis.
- Urgent needs for administrative reform and implementation of environmental projects were either badly handled, as is the case in respect of administrative matters, or neglected as is the case in respect of environmental projects such as water purification and delivery.
- Privatization moves have been delayed with scant attention for preparatory steps. The proposed law for setting up a Privatization Board composed of the Prime Minister, Minister of Justice, ministers of finance and economy as well as the minister of the sector to which the organization to be privatized belongs is a blue print for politicizing the process. This is in stark contradiction of requirements of efficiency and continuity.

Due to lack of anticipated funds from privatization or outright disposal of marketable assets such as Intra Investment Company shares, public debt will have increased by the equivalent of LL 4500 billion at least by the end of the year to nearly the equivalent of \$22.5 billion. Reducing this debt is becoming harder every day with further delays of privatization and continued recession.

Funds available from international institutions (World Bank and European Bank) for administrative reform and wider computerization are under threat of withdrawal because of delays by the government in taking appropriate steps. Loans for environmental projects from France and Japan are also to be withdrawn in the face of government lethargy.

The banner carried by the new government has been that of decency and efficiency. Possibly public decency has been served by the attitude of the President and Prime Minister particularly in respect of settling past dues to the private sector and pushing for implementation of the Taef Accord requirements.

By contrast, however, economic, educational, administrative and environmental policies have been imbedded in naive concepts current in the decade of the sixties. The government seems to have been looking back so much that it failed to see changes sweeping the world. Most Lebanese doubt that the government is aware of any change in the international climate and practices as the world plunges into the year 2000.

Marwan Iskandar

January 5, 2000

## LEBANESE BANKING DEVELOPMENTS 1996-1998

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