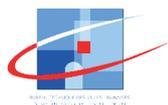


# UNIONS OF MUNICIPALITIES AS ENABLERS OF LOCAL ECONOMIC DEVELOPMENT

*Federation of the Northern Coastal and Central Matn Municipalities*



**UN HABITAT**  
FOR A BETTER URBAN FUTURE



REPUBLIC OF LEBANON  
MINISTRY OF  
INTERIOR AND  
MUNICIPALITIES



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# UNIONS OF MUNICIPALITIES AS ENABLERS OF LOCAL ECONOMIC DEVELOPMENT

## *Federation of the Northern Coastal and Central Matn Municipalities*

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This project is a component of the Municipal Empowerment and Resilience Project (MERP), a joint initiative of the United Nations Development Programme (UNDP) and the United Nations Human Settlements Programme (UN-Habitat) funded by the European Union through its regional trust fund mobilized in response to the Syrian crisis, the European Madad Fund. Implementing partner of this project is United Cities Lebanon.

### **Assessment Report**

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# LIST OF ACRONYMS

<b>AFD</b>	French Agency for Development
<b>AFSDS</b>	Al-Fayhaa Sustainable Development Strategy
<b>ANMI</b>	Industrialists Assembly in North Matn
<b>AoC</b>	Agreement of Cooperation
<b>AVITEM</b>	Agency for Sustainable Mediterranean Cities and Territories.
<b>BAU</b>	Beirut Arab University
<b>BDL</b>	Central Bank of Lebanon
<b>BIAT</b>	Business Incubation Association in Tripoli
<b>BTVL</b>	Technical Office of Lebanese Municipalities
<b>CAS</b>	Central Administration of Statistics
<b>CBO</b>	Community Based Organization
<b>CCIAT</b>	Chamber of Commerce, Industry, Agriculture of Tripoli and North Lebanon
<b>CDR</b>	Council for Development and Reconstruction
<b>CEO</b>	Chief Executive Officer
<b>CHUD</b>	Cultural Heritage and Urban Development
<b>COA</b>	Closing of Account
<b>COM</b>	Council of Ministers
<b>COVID</b>	Coronavirus Disease
<b>CRDP</b>	The Center for Education, Research and Development
<b>CSO</b>	Civil Society Organization
<b>DGA</b>	Directorate General of Antiquities
<b>DGLAC</b>	Directorate General for Local Administrations and Councils
<b>DGUP</b>	Directorate General for Urban Planning
<b>DRI</b>	Democracy Reporting International
<b>ECOSOC</b>	United Nations Economic and Social Council
<b>EDL</b>	Electricité du Liban
<b>EIA</b>	Environmental Impact Assessment
<b>ESC</b>	Economic and Social Council
<b>ESCWA</b>	United Nations Economic and Social Commission for Western Asia
<b>ESFD</b>	Economic and Social Fund for Development
<b>EU</b>	European Union
<b>FGD</b>	Focus Group Discussion
<b>GDF</b>	Growth Diagnostics Framework
<b>GDP</b>	Gross Domestic Product
<b>GIS</b>	Geographic Information System
<b>HCUP</b>	Higher Council for Urban Planning
<b>IDAL</b>	Investment Development Authority of Lebanon
<b>ILO</b>	International Labour Organization
<b>IMF</b>	Independent Municipal Fund
<b>INGO</b>	International Non-Governmental Organization
<b>IO</b>	International Organization
<b>IRC</b>	International Rescue Committee
<b>IRI</b>	Industrial Research Institute

<b>IUL</b>	Islamic University of Lebanon
<b>KII</b>	Key Informant interview
<b>LBP</b>	Lebanese Pound
<b>LCPS</b>	Lebanese Center for Policy Studies
<b>LCRP</b>	Lebanon Crisis Response Plan
<b>LED</b>	Local Economic Development
<b>LEDA</b>	Local Economic Development Agency
<b>LFHLCS</b>	Labor Force and House Living Conditions Survey
<b>Linord</b>	North Littoral Development Project
<b>LIU</b>	Lebanese International University
<b>MDI</b>	Multi-Deprivation Index
<b>MERP</b>	Municipal Empowerment and Resilience Project
<b>MoE</b>	Ministry of Environment
<b>MoET</b>	Ministry Of Economy and Trade
<b>MOEW</b>	Ministry of Energy and Water
<b>MoI</b>	Ministry of Interior
<b>MoIM</b>	Ministry Of Interior and Municipalities
<b>MoL</b>	Ministry of Labor
<b>MoPWT</b>	Ministry of Public Works and Transportation
<b>MoSA</b>	Ministry of Social Affairs
<b>MSPG</b>	Multi-stakeholder Partnership Group
<b>N/A</b>	Not Available
<b>NGO</b>	Non-Governmental Organization
<b>NPMPLT</b>	National Physical Master Plan of Lebanese Territory
<b>NPTP</b>	National Poverty Targeting Program
<b>NSSF</b>	National Social Security Fund
<b>O&amp;M</b>	Operation & Maintenance
<b>OEA</b>	Order of Engineers and Architects
<b>OECD</b>	Organisation for Economic Co-operation and Development
<b>PCH</b>	Public Corporation for Housing
<b>PPP</b>	Public Private Partnership
<b>PNA</b>	Participative Needs Assessment
<b>RTOs</b>	Regional Technical Offices
<b>SDC</b>	Social Development Center
<b>SDPs</b>	Sustainable Development Plan
<b>SLAT</b>	Special LED assessment Taskforce
<b>SSRDP</b>	Strategic Sustainable Regional Development Plan
<b>SWM</b>	Solid Waste Management
<b>SWOT</b>	Strengths, Weaknesses, Opportunities, and Threats
<b>TBD</b>	To Be Determined
<b>TEDO</b>	Tripoli Environment and Development Observatory
<b>UCF</b>	Urban Community of Al-Fayhaa
<b>UCL</b>	United Cities Lebanon
<b>UN</b>	United Nations
<b>UNDP</b>	United Nations Development Programme
<b>UN-Habitat</b>	United Nations Human Settlements Programme
<b>UNHCR</b>	United Nations High Commissioner for Refugees
<b>UoM</b>	Union of Municipalities
<b>UoTM</b>	Union of Tyre Municipalities
<b>US</b>	United States
<b>USJ</b>	Université Saint Joseph
<b>WB</b>	World Bank
<b>WHO</b>	World Health Organization
<b>WWT</b>	Wastewater Treatment



# TEAM

## TEAM MEMBERS

(Alphabetical Order)

## POSITION

Armen Balian	Conflict Resolution and Peacebuilding Specialist
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Georgia Dagher	Data Analyst
Houda Odeimi	Financial Monitor and Coordinator
Hussein Cheaito	Researcher
Lea Ghanem	Finance and Administration Officer
Leon Televizian	Governance Expert
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Mounir Mahmalat	Public Finance Management Specialist
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Nada Mora	Private Sector Specialist
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Sami Zoughaib	Researcher
Zeina Helou	Capacity Development Specialist

# BACKGROUND

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The impact of the Syrian Crisis on Lebanon is reaching an unprecedented scale in the history of complex, displacement-driven emergencies. In April 2012, thirty-two thousand eight hundred (32,800) Syrian displaced were registered or awaiting registration with the United Nations High Commissioner for Refugees (UNHCR) in Lebanon. By December 2021, the Government of Lebanon estimated that the country was host to an estimated one and half (1.5) million displaced, a quarter of the total Lebanese population.<sup>1</sup>

The crisis places tremendous pressure on Lebanon's services and resources, particularly at the decentralized level. Municipalities face challenges in providing adequate housing, ensuring quality public services, and creating jobs for both host communities and displaced/refugee populations. Furthermore, localities with the highest concentration of displaced people from Syria, which include all large cities of Lebanon and their suburbs, consistently suffer from heightened insecurity, higher levels of tensions, and increased exposure to violence compared to other areas in Lebanon.<sup>2</sup>

The above situation is further exacerbated by the current economic, political and health crises. Indeed, Lebanon is facing one of the gravest economic downturns since the end of the civil war in the early nineties.

The World Bank estimates that, in 2021, the real gross domestic product (GDP) contracted by 10.5 percent, on the back of a 21.4 percent contraction in 2020. In fact, Lebanon's GDP plummeted from close to USD 52 billion in 2019 to an estimated USD 21.8 billion in 2021 marking a 58.1 percent contraction, the highest among one hundred ninety-three (193) countries. In parallel, the GDP per capita valued in USD is estimated to have fallen by around 42.6 percent in the 2017-2021 period.<sup>3</sup> Public debt is expected to stand at 183.0 percent of the gross domestic product.<sup>4</sup> The latest unemployment assessment targeted at disadvantaged groups in Lebanon by the International Labor Organization (ILO) found that unemployment stood at 33 percent.<sup>5</sup> According to the United Nations Economic & Social Commission for Western Asia (ESCWA), in 2021 more than three quarters of the Lebanese population lived in multi-dimensional poverty (82.0 percent), up from 42.0 percent in 2019 and 34 percent of the population that was affected by extreme multi-dimensional poverty.<sup>6</sup> Amid economic uncertainty and an extremely protracting crisis, challenges continue to deepen for many displaced, refugees and Lebanese nationals who face long-term poverty. Both nationals and refugees perceive that those long-standing inequalities are deepening. As such, competition for shrinking job opportunities and dwindling resources and services remain drivers of tension at the local level.

On March 11, 2020, the World Health Organization (WHO) classified the coronavirus disease 2019 (COVID-19) as a pandemic, and on March 15 of the same year, the government of Lebanon issued the resolution on General Mobilization. The first case of COVID-19 in Lebanon was confirmed on February 21, 2020. As of March 7, 2022, the total number of cases in Lebanon has exceeded the one million threshold and reached one million seventy-nine thousand three hundred seventy-five (1,079,375) cumulative cases of Covid-19, with ten thousand one hundred sixty-one (10,161)

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<sup>1</sup> Government of Lebanon and the United Nations, Lebanese crisis response plan 2017-2020 (2019 Update), Beirut, (<https://www.unhcr.org/lb/wp-content/uploads/sites/16/2019/04/LCRP-EN-2019.pdf>), Accessed December 2019.

<sup>2</sup> The 251-vulnerability map identifies the most vulnerable localities in Lebanon. They host 87 per cent of the displaced from Syria and 67 per cent deprived Lebanese. Lebanese crisis response plan 2017-2020 (2019 Update).

<sup>3</sup> Lebanon Economic Monitor, World Bank, Fall 2021.

<sup>4</sup> Lebanon Economic Monitor, Spring 2021, World Bank.

<sup>5</sup> Assessing Informality and Vulnerability among Disadvantaged Groups in Lebanon, ILO Technical Report, June 2021.

<sup>6</sup> Multidimensional Poverty in Lebanon 2019-2021, UNESCWA Policy Brief No 2/2021.

deaths reported.<sup>7</sup> This complex situation puts additional pressure on the subnational authorities to deliver quality services and to create income generating opportunities for their communities.

The 'Municipal Empowerment and Resilience Project' (MERP) is a joint initiative by the United Nations Development Programme (UNDP) and the United Nations Human Settlement Programme (UN-Habitat). The Project is implemented in partnership with the Ministry of Interior and Municipalities (MoIM) and is funded by the European Union (EU) through the EU Regional Trust Fund in Response to the Syrian Crisis, the 'Madad Fund'.

The Project aims to strengthen the long-term resilience of subnational authorities in Lebanon as well as host communities, refugees and displaced persons affected by the Syrian Crisis. To achieve this, the Project engages in a three-pronged approach: MERP aims to "1. strengthen processes, procedures and practices to enable Unions of Municipalities (UoMs) and municipalities to deliver effective and efficient services in a transparent and accountable manner; 2. empower UoMs and municipalities to facilitate local economic development (LED) and to deliver basic services that address the needs of both host and refugee populations, and; 3. support communities to engage in municipal processes and procedures to ensure that UoMs and municipalities are responsive to their needs."

The project's geographic areas of intervention are the Urban Community Al Fayhaa, the Federation of Municipalities of the Northern, Coastal, and Central Matn, and the Union of Municipalities of Tyre with a total of ninety-two (92) partner municipalities.

**TABLE 1** Name, location, and number of municipal members in each UoM

District	# Of Municipalities in the district	Targeted UoM	# Of municipalities in the UoM
Tripoli	Four (4)	Urban Community Al Fayhaa	Four (4)
Matn <sup>8</sup>	Fifty-four (54)	Federation of Municipalities of the Northern, Coastal, and Central Matn	Thirty-three (33)
Tyre	Sixty-two (62)	Union of Tyre Municipalities	Fifty-five (55)

Under its second component, "empower municipalities and UoMs to facilitate local economic development (LED) and to deliver basic services that address the needs of both host and refugee populations", MERP has been working since 2019 with the three (3) Union of municipalities mentioned above and their member municipalities to identify basic service and LED projects the immediate needs of the host, displaced, and refugee communities in a context of deep crisis. To the extent possible, these projects were selected, keeping in mind the long-term economic development objectives of the Unions and member municipalities as set in their union level strategic plans (if any), municipal planning documents (whenever available), union/municipal decisions (if already taken), or following surgical local consultations in the absence of such documents.

This experience confirmed the need for an intervention that would support three (3) targeted UoMs leaders on local economic development efforts within their respective union areas. Such leadership would require their mobilization around a LED process that would allow them ultimately to conduct an active LED policy building on a robust knowledge of the national and local governance systems, urban and territorial constraints and potential, existing economic and market structures, and available human and social capital.

<sup>7</sup> WHO Lebanon COVID-19 Daily Brief for March 7, 2022.

<sup>8</sup> For simplicity, we will be referring to the Federation of Municipalities of the Northern, Coastal, and Central Matn as "Matn UoM" throughout the report. The district will also be referred to as "Matn".

The acquisition of such comprehensive LED knowledge through the implementation of union specific LED assessment was deemed an essential pre-requisite to enable UoMs to envision a consistent role as an enabler of local economic development. Such a role in the future could potentially include pro-active LED planning, partnerships building for LED, institutionalization of LED practices within the structures and capacities of the union, and engagement of potential donors and resources mobilization among others. UoMs' capacity to implement autonomously sustainable local interventions generating employment and livelihoods would be significantly strengthened.

# RATIONALE FOR LED WORK WITH UOMs

Municipalities as per the municipal legislation<sup>9</sup> are expected to play a key role in promoting local development. The law grants them prerogatives to get involved in different types of development projects including large-scale ones. It also allows for economic development projects such as the establishment and direct or indirect management of markets, buildings for commercial purposes and public transportation and for municipalities to engage in social development by setting up schools, hospitals and primary health care centers, and public housing. Under the same law, municipalities can also promote youth-related and cultural development projects such as the establishment and management of public libraries, museums, sports, cultural and artistic institutions. Municipalities can also contribute or help in the execution of other projects as identified by the law.

From a planning perspective, municipalities are in charge of executing designs related to municipalities including the "Master Plan" that should be done in collaboration with the Directorate General of Urban Planning for land-use planning. The law also specifies that unions of municipalities should undertake the setting of plans, preparation of technical studies and consultancies through their engineering units.<sup>10</sup> Furthermore, it clearly identifies the unions' councils as the stakeholders in charge of the endorsement of the development plans that have been prepared.<sup>11</sup> In line with these responsibilities, many municipalities and Unions, including the Urban Community of Al Fayhaa and the Union of Tyre Municipalities have developed sustainable development plans (SDPs) such as the Al-Fayhaa Sustainable Development Strategy Plan 2020 (AFSDS 2020) published in 2011<sup>12</sup> and the Strategic Sustainable Regional Development Plan (SSRDP) for the Union of Tyre Municipalities in 2015. In Northern Matn, major municipalities like Bourj Hamoud have also developed important documents that could serve area-based planning such as the Industrial Zone Study in 2010<sup>13</sup> which was preceded by the Bourj Hammoud Brief City Profile in 2009.<sup>14</sup> The Municipality of Bourj Hammoud is also currently preparing a ten (10) year strategic plan for the 2021-2031 period with the support of the Agency for Sustainable Mediterranean Cities and Territories (AVITEM).

<sup>9</sup> Article 50 of Legislative Decree Number 118 dated 30 June 1977.

<sup>10</sup> Article 122 of Legislative Decree Number 118/1977.

<sup>11</sup> Article 126 of Legislative Decree 118/1977.

<sup>12</sup> A review of the Plan was conducted in 2015 by Al Fayhaa Knowledge Transfer.

<sup>13</sup> Please refer to: <https://www.bourjhammoud.gov.lb/sites/default/files/public/BHI0910REPORT.pdf>.

<sup>14</sup> Please refer to: <https://www.bourjhammoud.gov.lb/sites/default/files/public/SBH-REPORT-F-shrunked.pdf>.

In the absence of decentralization, the Administrative Districts known as “Cazas” or effective Councils at Governorate or “Muhafazah” level to guide the planning and economic development process, Unions and their SDPs provide strategic institutional and planning entry points for basic services/local economic development interventions planned by UNDP and UN-HABITAT in the three (3) targeted Unions of Municipalities and ensure that they are aligned with national and local priorities.

SDPs, therefore, provide a policy framework under which local economic development assessments should be conducted to expand and update the economic pillar or section of Sustainable Development Plans. However, the plans do not contain an in-depth analysis of the governance architecture supporting LED and investment by the private sector. They also exclude any analysis of the local private sector structure, its strengths, weaknesses, opportunities, and challenges, which would otherwise enable the strategic planning for local economic development and systematic prioritization and selection of projects that could be supported by UNDP and UN-HABITAT or other development partners.

If strategically identified, such projects could bring together the Unions, the local private sector, and communities including refugees, displaced, and host communities, to generate sustainable jobs, income opportunities and additional rental income (if municipal assets are used) and, in the long-term, additional municipal revenues to the treasuries of the municipalities.

# PURPOSE OF LED ASSESSMENTS

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The overall goal of a LED assessment is to support UoMs and member municipalities build a robust understanding and knowledge of their local economic development potential and needs in the current context of combined macroeconomic, fiscal, monetary, and financial crisis exacerbated by the exogenous shock represented by the Covid-19 pandemic. This is done through an in-depth analysis of the resilience of their local economic structures and governance systems in close dialogue and partnership with the local private sector and communities including host, displaced, and refugee communities.

Building LED knowledge and understanding that takes into account the current multi-vector crisis context is an essential prerequisite for UoMs and member municipalities to actively engage in planning for LED that is responsive to the conditions brought by the multi-factor crisis, to implement LED strategies effectively through the prioritization, selection and implementation of projects that fit the evolving LED context, and develop gradually a LED culture within the local but also regional and national institutions.

Implementing the LED assessment in the three (3) Unions of Municipalities is the first step of the MERP strategic approach to LED which aims to initiate, develop, and implement a comprehensive **four-stage LED process** with the UoMs, member municipalities, the private sector, and the local communities including refugees, displaced, and host communities of each target areas as follows:

- The implementation of participatory and inclusive local economic development assessments which capture the impact of the multi-faceted crisis on local economic structures and associated governance systems and responsible institutions.
- The design of roadmaps for local economic development informed by the LED assessments and existing SDPs whenever available.
- The implementation of the developed roadmaps for LED through the prioritization and selection of projects of various scales in each Union grounded in area-based planning. These projects should generate local employment and sustainable growth through a positive local economy multiplier,<sup>15</sup> reduce and offset the impacts of the current multi-faceted crises, and meet sustainable development criteria by contributing to poverty reduction, gender responsiveness, environmental sustainability, and social inclusiveness towards host, displaced, and refugee communities.
- The economic and social appraising, business development planning, implementation and operation and maintenance (O&M) planning of selected LED project(s) in each Union with possible technical support and co-funding from development partners involved in local economic development.

The initiation of the LED process with unions (in this instance, the three (3) Unions of Al Fayhaa, Northern, Coastal, and Central Matn and Tyre) also provides the opportunity to engage with national LED stakeholders. These include both regulatory/oversight central agencies such as the MoIM, the Ministry of Economy and Trade (MoET), the Directorate General of Urbanism and Planning (DGUP), national agencies and programs that provide incentives such as the Investment Development Authority of Lebanon (IDAL), or councils who can provide platforms for dialogue and/or technical assistance such as the Economic and Social Council (ESC) and the Higher Council for Privatization and Partnerships (HCPP). They should be targeted for inclusion in policy advocacy efforts to highlight the potential for LED at the local level and explore how they could more actively support LED implementation efforts.

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<sup>15</sup> A multiplier refers to an economic factor that, when applied, amplifies the effect of some other outcome. For example, an economic multiplier of 2 means that each USD 1 invested will impact positively the local economy by USD 2.

# PARTNERSHIP BETWEEN UN-HABITAT, UNDP (THROUGH MERP) AND UCL FOR THE IMPLEMENTATION OF THE LED ASSESSMENT PHASE

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On 24<sup>th</sup> February 2021, UN-Habitat and UNDP signed an Agreement of Cooperation (AoC) with United Cities of Lebanon. For this assignment, UCL mobilized significant, multi-disciplinary expertise in local economic development, urban planning, and local governance to design a participatory, multi-stakeholder process to deliver three (3) local economic development assessments (one (1) per partnering Union) which will constitute the foundation on which planning for LED could be developed in a subsequent stage. Moreover, the AoC required the initiation of a policy dialogue process through the drafting of a policy advocacy paper and a relevant platform to discuss and debate it on the national level.

UCL and its expert team worked closely with municipalities and UoMs in the three (3) targeted geographic areas to identify how the systems and institutions governing LED could be strengthened both at sub-national and national levels for better LED outcomes. UCL also engaged local private sector, communities, and civil society organizations to identify the economic sectors and/or areas of interventions that present significant opportunities for joint LED partnerships.



# EXECUTIVE SUMMARY

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This report presents the findings of the LED assessment for the Matn UoM<sup>16</sup> under the ‘Municipal Empowerment and Resilience Project’ (MERP). What follows is a summary of the assessment’s main objective, conceptual framework, methodology, findings, and key policy recommendations.

## I. BACKGROUND AND OBJECTIVE

Under the ‘Municipal Empowerment and Resilience Project’ (MERP), UN-Habitat and UNDP commissioned United Cities of Lebanon to design a participatory, multi-stakeholder process to deliver three (3) local economic development assessments for the Unions of Municipalities (UoMs) of Al-Fayhaa, Matn, and Tyre.

The overall goal of this LED assessment is to support UoMs and member municipalities to build a robust knowledge of the national and local governance systems, urban and territorial constraints and potential, existing economic and market structures, and the available human capital.

## II. CONCEPTUAL FRAMEWORK

The analysis in this report emanates from a conceptual understanding of local economic development. This was based on a scaled down version of the growth diagnostics framework adopted by Hausmann, Rodrik, and Velasco (2005).

The initial framework allowed the team to assess the extent to which poor geography or territory, unreliable infrastructure, weak human capital accumulation, government and market failure all constrained local economic growth. However, it was amended to serve our local economic development assessment. Given the fact that the agency expected to take a leading role is the UoM, many of the potential binding constraints are beyond its control. For this reason, we fine-tuned the framework in such a way that local authorities can address the constraints. The scaled-down framework aims to explain weak LED through two (2) main lenses: low social returns and low appropriability.

Low social returns are the result of two (2) main constraints. First, poor territorial planning, which defines a poor interaction between the local territory and the economic and social landscape, leads to a mismanagement of physical assets. Second, weak human capital accumulation, which results from poor healthcare, education, and public services, leads to frictions in the labor market, namely low skills, unemployment, and underemployment.

On the other hand, low appropriability is the result of two (2) main constraints. First, inadequate

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<sup>16</sup> For simplicity, we will be referring to the Federation of Municipalities of the Northern, Coastal, and Central Metn as “Matn UoM” throughout the report. The district will also be referred to as “Matn”.

governance, caused by weaknesses in the capacity of the local authorities and flaws in the national policy and regulatory structures, leads to major adverse economic and social effects, as essential functions such as planning, resource management, coordination, and public service provision are compromised. Second, a constraining market structure, caused by shortages in key primary products, restricted access to credit and financing facilities, and low competition, leads to anemic production, a lower local aggregate demand, and low job creation.

### III. METHODOLOGY

We analyze these components through a mixed methods and participatory approach that spanned over three (3) phases. The aim of phase 1 is to identify and validate through participatory research the key issues and challenges facing the region through desk reviews, focus groups, key informant interviews, and consultations with the stakeholders. Building on this, phase 2 quantitatively assesses these challenges through human capital and firm level surveys as well as qualitatively through key informant interviews. Phase 3 aims to validate the findings through meeting with local officials, workshops with key stakeholders, focus groups, and a land assessment.

Phase 1	Phase 2	Phase 3
<b>Informing the assessment instruments</b>	<b>Field Assessment</b>	<b>Validating the assessment</b>
<p>One (1) MSPG workshop with local stakeholders involved in LED.</p> <p>One (1) SLAT workshop with local officials.</p>	<p>Human capital survey (six hundred (600) households).</p> <p>Firm-level survey (One hundred twenty-six (126) firms).</p>	<p>One (1) MSPG workshop with local stakeholders involved in LED to validate assessment.</p> <p>One (1) SLAT workshop with local officials to validate assessment.</p>
<p>Desk review research based on online literature and evidence.</p> <p>Five (5) focus group discussions.</p> <p>Four (4) key informant interviews.</p>	<p>Thirty-four (34) key informant interviews in total (of which thirteen (13) were conducted with national and sub-national actors, nine (9) with INGOs, international organizations, and local NGOs, and twelve (12) with local actors across the UoMs under study (Five (5) were strictly held at the level of the Matn UoM).</p>	<p>Five (5) focus group discussions.</p> <p>The final assessment report.</p> <p>The policy paper.</p> <p>One (1) KII on land assessment (One (1) municipal staff member).</p> <p>A land assessment questionnaire administered to a sample of member municipalities (Three (3) respondents).</p>

### IV. MAIN FINDINGS

Our analysis reveals a sombre LED reality as we found major constraining elements in each of the four (4) components. The diagnosis of weak LED in the Matn UoM confirms very low social returns due to a broken territorial planning process as well as poor and worsening human capital exacerbated by the major exogenous shocks at the national level. Moreover, it reveals low appropriability as governance systems seem to suffer from weak capacity and fragmentation, while market constraints, which significantly increased due to the national economic shocks, are weakening the local private sector.

*More specifically we identify the following constraints for each of the four (4) analyzed components:*

## **Territorial Planning Constraints**

1. Poor territorial planning stemming from institutional fragmentation at the national level, outdated urban and territorial planning framework (or lack of), and economic and political aspects of land use regulations that serve private interests rather than the public good.
2. There is an acute absence of comprehensive land-use planning at the national, sub-national and local scales to guide development projects, protect significant natural sites, and deal with pollution, particularly marine pollution.
3. Lack of unified territorial development plans at the local and subnational levels is leading to landscape fragmentation and dramatic land cover/land-use changes.
4. Rapid and unguided urban expansion over the last two (2) decades has led to a significant reduction in the agricultural and natural areas of Matn UoM and overall district.
5. The area's public and communal lands and productive, cultural, and natural landscapes which constitute a main pillar of the local economy—including sites recognized by the National Physical Master Plan of the Lebanese Territory (NPMPLT) as significant natural sites of national importance (e.g., Nahr Beirut area, the waterfront, rural area with tourism potential, the archaeological site of Deir el-Qalaa in Beit Meri)—are threatened by encroaching urbanization, speculative development, and illegal transgressions.
6. The area's UoM and municipalities are challenged to leverage state and municipal owned lands for vital local development projects (e.g., infrastructure and public services, affordable housing, open markets, municipal gardens) that can potentially enhance the livability of urban and rural areas and stimulate private sector economic activities.

## **Human Capital Constraints**

*The findings below are mostly based on a human capital survey conducted with six hundred (600) households in the region.*

1. Deteriorating human capital as a result of poorly managed healthcare and education sectors at national-level and the absence of robust social protection systems to address the explosion in vulnerabilities.
2. The unemployment rate has slightly increased since 2019, from 3 percent to 5 percent in 2021.
3. Unemployment is primarily attributed to the lack of available jobs, which indicates weak local job creation.
4. Although the unemployment rate is similar between genders, women have a lower labor force participation rate (76 percent) than men who are heads of households (96 percent).
5. Incomes have sharply decreased and are increasingly volatile, which may hinder future investments in education and healthcare. Only a quarter have a stable income, compared to a third in 2019.
6. The quality of and access to healthcare that households receive has decreased since 2019, which can be mostly attributed to shortages in medication and financial difficulties.
7. There is a significant rise in malnutrition, as the majority of households have had to compromise their nutritional needs in order to cope with the deteriorating financial situation, and lower-income households have changed their nutrition habits at significantly higher rates.
8. Brain drain is quite evident in Matn UoM region, compared to other regions, especially among

the youth. More so, figures/rates appear to be equal across genders. Employed people are more likely to have plans to emigrate.

9. Those who rent their house are at increased risk of insecurity and worsening housing conditions. Lower-income households have comparatively worse housing conditions, compared to higher-income households.
10. Infrastructure quality and public services are assessed as mostly moderate, if not poor, for the majority of households in Matn Union. Electricity is the most poorly ranked service. Other services that rank low are the quality of hospitals and healthcare centers, water provision, solid waste management, education services, public transport regulations, road maintenance, and street lighting.

## Market Constraints

*The findings below are mostly based on a firm-level survey conducted with one hundred twenty-six (126) companies in the region.*

1. Sporadic and severely inadequate macroeconomic response to the financial crisis is inhibiting credit and dramatically decreasing aggregate production, while increasing business costs.
2. There is anaemic business creation in the Matn UoM. The youngest firms were established two (2) years ago in 2019 (i.e., prior to the crisis).
3. The UoM and municipalities in the UoM region are unable to make good use for municipal owned lands for vital local development projects, which include open markets, which can stimulate private sector economic activities.
4. Across sampled firms, the share of female employment in the Matn UoM sample decreased since 2019. It dropped from 18 percent in 2019 to approximately 16 percent in 2021.
5. Firms in Matn UoM region have been severely constrained by high lira volatility, high input prices, restricted access to credit and subsidized raw material. This effect was even acute for firms across-the-board for all sectors except wholesale/trade.
6. Our analysis of balance sheets reveals how many firms had to lay off up to 50 percent of their employees to put a brake on their losses amid high costs and shrinking sales. This effect was most visible amongst firms who saw high increases in costs during the first half of the crisis.
7. Similarly, revenues from sales have also significantly dropped during the crisis period. 78 percent of sampled firms witnessed a 10 percent drop in sales during either 2019-20 or 2020-21 periods. We posit that this is symptomatic of weak demand. These effects were most pronounced in the wholesale, real estate, and manufacturing industries.
8. Faced with inflation and reduced demand, some touristic companies had to reduce their services/products or lay off workers. One touristic resort we spoke with had to reduce the number of operating All-terrain vehicles (ATVs) following the crisis to remain in business.
9. Firms appear to be highly constrained by weak local infrastructure such as electricity, wastewater networks, and roads. Some have also been constrained by poor health services in the area.
10. Business recovery in Matn Union area is tenuous. Surviving firms are pessimistic about their future growth prospects despite having survived so far without business networks, financing, or support (including from the local government). Less than 30 percent of the firms assess their growth prospects over the next three (3) years as being good. Moreover, 36 percent of all firms perceive their likelihood of closure over the next six (6) months as being high, which indicates limited liquidity, including among firms that believe they have good long-term growth prospects.

11. There is a strong risk of a jobless recovery because firms in Matn UoM are operating significantly below full capacity and therefore can expand output without increasing labor. Even in a hypothetical scenario where firms were given a substantial grant and decided on how best to use it, only a minority chose to hire more workers (25 percent).
12. The relationship between local authorities and the private sector is deficient. The interaction of the Matn Union area private sector with various levels of their government is weak. The main “interaction” is a transactional one: the payment of taxes. There is little to no collaboration on infrastructure or development projects.

## Governance Constraints

1. Weak performance of local authorities due to sporadic, unpredictable, and unequal distribution of the Independent Municipal Fund (IMF).
2. The high exposure of the UoM processes (such as employment) to national and regional level bureaucracy hurts its independence and planning ability.
3. The UoM suffers from weak administrative and financial capacity hampering the optimal use of existing resources or the acquisition of new ones.
4. The poor collection effort, and the unpredictability of the IMF instalments and municipality membership fees, are taking a toll on the UoM’s balance sheet.
5. The Union has at its disposal tools to address LED (such as the existing regional technical office in Bourj Hammoud and a social development unit in Jdaidet el Matn.). However, such tools need to be empowered by expertise.
6. LED should be reviewed as a process in which partnerships between local governments, community and civic groups and the private sector are established to manage existing resources to create jobs and stimulate the economy of a well-defined area by using the potentials of human, institutional, and physical and area natural resources

*Considering the constraints in more detail, we can identify the binding constraints. These are those that affect two (2) or more of the four (4) components highlighted in the framework. We highlight these binding constraints below:*

1. Governance is seen as the area’s most binding constraint, thus negatively affecting LED at large. That said, understanding of the LED concept in Matn UoM is limited, leading to planning failures and weak implementation of existing strategic plans:
  - LED understanding is constrained to minor infrastructure and facilities development and lacks an integrated and comprehensive approach that brings together the territorial, economic/business, and social aspects.
2. Low interaction and partnership between UoM and local stakeholders:
  - Private sector and local community report low to no interaction with the UoM, hurting the ability of the latter to produce relevant solutions to the emerging economic and social priorities.
3. Matn UoM’s governance system fails to properly integrate the local private sector in its overall development vision due to:
  - Non-existent collaboration with firms (of all sizes and industries) on development or infrastructure projects.
  - Businesses seek support from municipalities to promote their products/services as well as to expand their consumer base. Often, municipalities find themselves not capable of

- playing a “market-specific” role (like organizing open public markets to stimulate private investment) as also reiterated by local officials in the area.
- Municipalities and municipal unions have not been able to implement proper infrastructure, such as electricity and roads, that could ease business in the area.
4. Absence of comprehensive planning and lack of clarity over the area’s future economic identity in view of growing crises and shifting priorities:
    - Unbalanced growth and a blurred vision of the future identity of the region and how to develop its main economic pillars.
    - Politics, territorial governance, security and growing social tension have been barriers to effective economic development.
    - Lebanon’s worsening economic situation and inefficient investments in infrastructure and public services is leading to the widespread deterioration of the built environment and the growth of poverty, inequalities, and informality.
  5. Frail human capital accumulation in the face of market shocks, seen through loss in income, unemployment, skill atrophy, and poor health:
    - Substantive job destruction mostly concentrated in services, followed by agriculture, and manufacturing.
    - Some demand for better health services in the area amongst sampled firms. This is especially true for firms working in the manufacturing and agriculture sectors.
    - Businesses do not perceive workers’ educational skills to be a crucial or necessary requirement for hiring. This implies higher likelihood of skills atrophy following crisis, which is concerning given that Matn’s education sector has been considerably resilient in the past.
  6. The current market shock has led to property abandonment, side-lining agriculture, and privatization:
    - Amid lira volatility and soaring input prices, growing risk of property abandonment and increased rent gap.
    - Possible privatization of Lebanon’s public assets (including land) to remediate banks’ financial losses would not only lead to the eventual disappearance of productive land.
    - Matn is highly urbanized, and the main node of activity lies in the commercial and industrial sectors, but there is potential to restore agricultural activity today.
  7. The future of the workforce is threatened due to decreasing access and quality of healthcare and food insecurity:
    - While healthcare coverage in the union is higher than that in other regions, less than half of surveyed heads of households, or their children, have health insurance (46 percent of heads of households, 49 percent of children, and 42 percent of other adults in the households).
    - A regression analysis highlights factors that significantly affected the drop in the quality of healthcare households are receiving. Although income is not a significant factor, those who have an illness are more likely to have experienced a drop in the quality of healthcare compared to the healthcare quality they received in 2019.
    - Poorly managed, and limited capacity and lack of equipment in public hospitals, forcing residents—those who can afford it—to seek treatment in private facilities.
    - Food insecurity and malnutrition on the rise. While the majority of households assess

their food consumption as adequate (as opposed to the Tyre and Al-Fayhaa UoM regions), lowest income groups have a much higher share of those who see it as less than adequate (42 percent), while the highest income group have a higher share of those who see it as more than adequate (26 percent). The relationship between income and considering the food consumption as less than adequate is highly significant.

- 8.** Decreasing pool of workers as the youth plans to emigrate to find job opportunities abroad:
  - Matn UoM region is suffering from a serious brain drain, particularly among the youth. The main reason behind intentions to emigrate is finding job opportunities. Employed individuals are more likely to have plans to emigrate, which implies that there are concerns over loss in skills in the country.
  - Having a social network is also a driver of emigration.
  
- 9.** While the level of education was good pre-crisis in Matn relative to other regions, educational outcomes became significantly worse between 2019 and 2021. Poorer quality of education, and negative perceived returns to education, has led to lower human capital accumulation. However, this negative effect is even more visible in the Tyre and Al-Fayhaa UoM regions:
  - High tuition fees, teacher absenteeism, strikes, poor quality of teaching, and lack of enough teachers are common concerns among households.
  - 69 percent of households reported that a main challenge faced during children's education has been high tuition fees. This was followed by teacher absenteeism or frequent strikes (37 percent) and a poor quality of teaching (14 percent). Overall, 61 percent of households reported challenges related to teaching (absenteeism, poor quality of teaching, and lack of sufficient teachers).
  - Lack of information on which skills are in demand in the market, leading to a mismatch between demanded and supplied skills.
  
- 10.** Housing insecurity on the rise, though at a rate lower than that of Tyre and Al-Fayhaa UoM regions, leading to increased vulnerabilities:
  - Poor housing quality, lack of affordable housing, and tenants (including commercial ones) are growing unable to pay their rent.
  - Standards of housing are comparatively better among those who own their house (20 percent consider them as more than adequate), but much worse among those who rent (24 percent consider them as less than adequate).
  - Standards of housing also tend to be slightly less adequate in vulnerable municipalities, where the share of households renting their house is also higher than the share in non-vulnerable municipalities (38 percent rent their house compared to 23 percent).
  
- 11.** Union unable to provide public services, leading to deprivation:
  - Electricity, health, wastewater networks, road maintenance, and street lighting are particularly poor.

## V. BROAD LEVEL POLICY RECOMMENDATIONS

The assessment clearly reveals that Lebanon's national level endowments, in particular, the major governance failures and the severe economic shocks, have been the primary factors responsible for a decrease in its capacity and potential for development. However, the report also indicates that the margin of improvement that can be spearheaded by the Matn UoM at local level is wide. It is recommended that this margin be properly exploited through a local LED effort geared towards achieving better outcomes for the resident society and market. In what follows, we outline key guiding broad level policy recommendations that can inform local level interventions in the short term. We do not categorize these by theme as broad-based policy recommendations are meant to reveal a clear nexus between the different sub-themes, namely territorial planning, human capital, market conditions, and governance. A total of eight (8) policy measures are proposed next:

- Considering governance as the area's main binding constraint, the concept of LED should thus be expanded within the UoM governance apparatus with the interaction between markets, society, governance, and the territory well established and understood. The salience of LED interventions should gain traction on the agenda of the local authority, with proper allocation of resources towards a dedicated unit that can inform these interventions. Furthermore, the UoM should better audit its finances (revenues and expenditures) to ensure that available funds are put into proper use (i.e., by way of internal control). Lastly, technical offices and local development units at the UoM level can bolster the development capacity of the UoM, if complemented with the necessary expertise.
- The UoM should play an active "entrepreneurial" role in securing better public services at the local level. A mission-oriented approach that brings together public and private stakeholders can achieve better outcomes through a sustainable business model for electricity, wastewater, road and transportation issues. Novel and innovative ideas, using renewable and sustainable primary products, some examples of which are already implemented at the local level in Lebanon, can go a long way in preserving the local economy and human capital.
- The Matn UoM has seen a decline in social services, especially health and education, for the first time in years. Officials should collaborate with the local civil society as well as international organizations to improve funding for public health and education facilities while increasing the capacity of their staff. Such urgent intervention can avert a social calamity in the short and long term. By supporting health and education facilities, businesses and market actors will also enjoy a higher level of productivity.
- The dangerous trend of compromising nutritional needs to cope with the destruction of income, found in most families in the region, requires an immediate intervention by the Matn UoM. The Union, in cooperation with member municipalities, should work towards providing food aid directly or in collaboration with local charity organizations to ensure that the nutritional needs of the struggling population are met.
- The UoM should prioritize investments in agricultural reclamation and the support of small farmers. Land abandonment is a main factor behind land degradation and loss of health and productivity. Particularly in the context of Lebanon's looming food crisis, this kind of investment becomes even more crucial. However, the UoM should lead on the design of detailed studies and plans that could better guide the location of agricultural investments.
- The UoM, in collaboration with international donors and agencies, should ease the transition of the private sector out of crisis. While sales turnover has been quite encouraging in the region, many firms appear to be currently experiencing liquidity shortages. In order to preserve business and maintain a satisfactory level of production, urgent intervention is needed. The UoM can play an indirect role by acting as a platform that connects private sector actors with a class of investors and international organizations. This would increase

firms' production capacity, hiring margin, and access to local and foreign markets. This is the primary way through which the UoM can help generate fresh income streams in the area as well as re-establish local economic cycles that are essential for proper local economic development in a post-crisis environment.

- Even though firms did not classify it as a major need, road traffic directly affects consumption which then impacts business outcomes. So, the UoM should better regulate road traffic to ensure strong business by working closely with the central government (MoPWT) and the municipal police. This is especially relevant for agriculture, manufacturing, and service firms. Similar efforts should be taken up by the union when it comes to electricity generation, health support, and establishing better wastewater networks.
- Furthermore, the UoM should conduct regular needs assessments of local firms' and communities' infrastructural needs to inform more adequate project planning that could have a direct positive effect in the area.

# INTRODUCTION

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The overlapping financial, economic, social, and health crises have had a tremendous impact on Lebanon, deeply threatening the country's economic and social fabric. They are the result of three (3) major aggregate shocks that occurred since late 2019: the collapse of the domestic financial sector, the COVID-19 pandemic, and the devastating explosion of the Beirut port on August 4, 2020. Lebanese infrastructure and fragile economic conditions were already under strain prior to these events as more than one (1) million displaced Syrians arrived in Lebanon - almost a quarter of the country's population - exacerbating further the already poor conditions of the country's infrastructure and economic structure.<sup>17</sup>

The effects of these multi-layered crises have been colossal on the wellbeing of Lebanon's residents and its private sector. The multidimensional poverty rate in Lebanon has nearly doubled from 42 percent in 2019 to 82 percent in 2021.<sup>18,19</sup> In fact, the poverty rate doubled in 2020, reaching 55 percent up from 28 percent in 2019, while extreme poverty tripled from 8 percent to 23 percent during the same period. In addition, the port explosion also caused losses estimated at about USD 7 to USD 10 billion in both physical and economic damage.<sup>20</sup> Moreover, the country's vulnerable private sector is struggling to survive amid worsening business conditions, driving unemployment upward.

A main driver of growth, or relative economic stability in times of crisis, is the capacity of local governments to provide sustainable and equitable development to their communities. To this end, an assessment of the Matn Union of Municipalities that integrates the key factors that shape its development including territorial planning, market activity, human and social capital, and governance is undertaken. Bearing in mind the effect of shocks that occurred at the national level, the team resorts to multiple methods for the assessment including key informant interviews with national and local actors, focus group interviews with segments of the population, and surveys with residents and firms. Throughout the process, the team regularly consulted the UoM presidents, mayors, and local officials as well as key stakeholders representing the different sectors in the region.

In light of the unprecedented crisis the country is facing, this report provides an integrated and updated assessment of the Matn UoM across four (4) key factors: namely territorial planning, human and social capital, market activity, and governance. Such an approach allows us to investigate and identify the main weaknesses and obstacles for local development which could pave the way forward for a sustainable and equitable outcome.

This report is organized as follows: Section 1 presents the conceptual framework employed to identify the weaknesses and obstacles for local economic development, Section 2 highlights the different methodological tools that were employed throughout the project, Sections 3, 4, and 5 delve into each of the key factors that affect local economic development, namely territorial planning, human and social capital, and market activity, respectively. In section 6, the report examines the governance of local development. Acknowledging that many obstacles across these four (4) factors are affected by national policies and actors, the team attempted to highlight the challenges that the UoM can address in light of its legal mandate and responsibilities.

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<sup>17</sup> UNHCR. 2020. "Lebanon Overview." <https://bit.ly/33D89CC>.

<sup>18</sup> ESCWA Lebanon. 2020. "ESCWA Warns: More than Half of Lebanon's Population Trapped in Poverty." <https://www.unescwa.org/news/lebanon-population-trapped-poverty>.

<sup>19</sup> ESCWA Lebanon. 2021. "ESCWA warns: Three-quarters of Lebanon's residents plunge into poverty." <https://www.unescwa.org/news/escwa-warns-three-quarters-lebanon%E2%80%99s-residents-plunge-poverty>.

<sup>20</sup> European Union, United Nations, and World Bank. August 2020. "Beirut Rapid Damage and Needs Assessment." <https://documents1.worldbank.org/curated/en/650091598854062180/pdf/Beirut-Rapid-Damage-and-Needs-Assessment.pdf>.

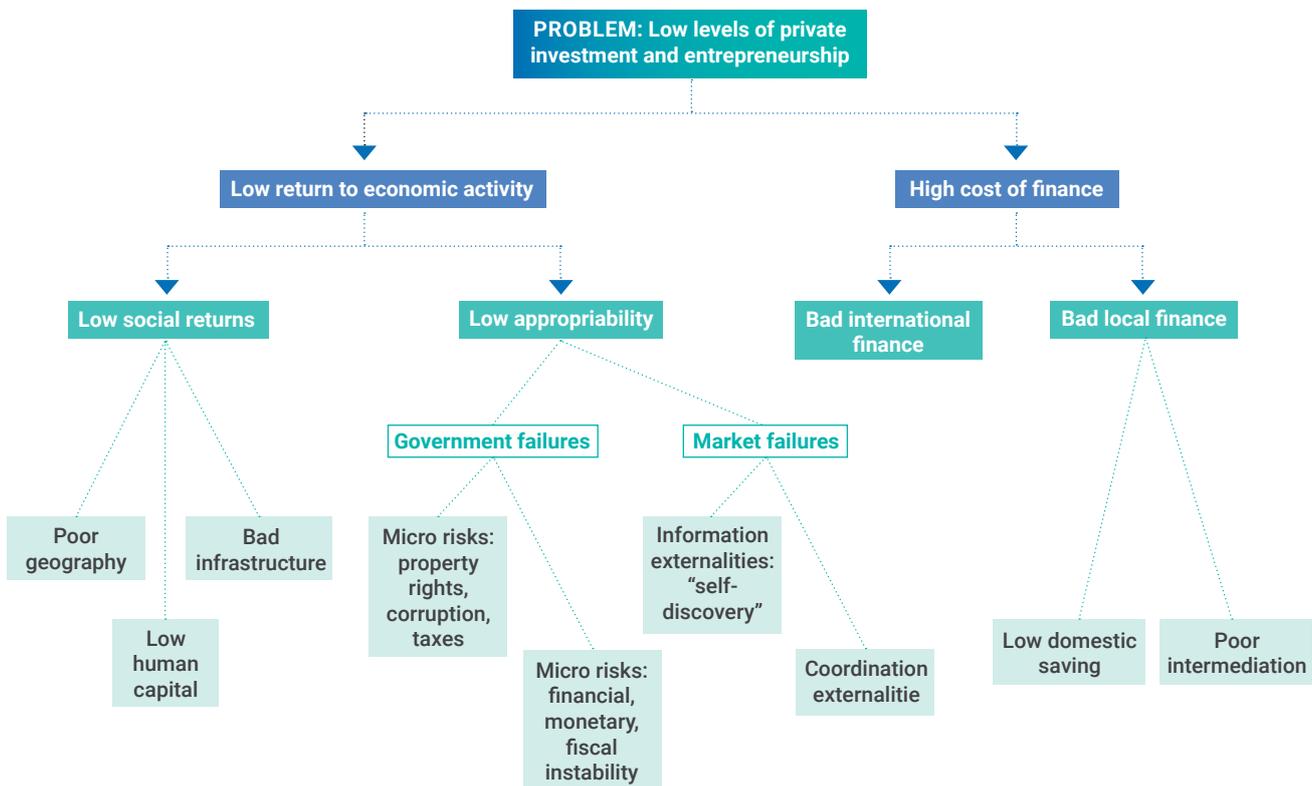
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# CONCEPTUAL FRAMEWORK

To assess the existing constraints that are inhibiting growth both at the local and national levels, the team adopted the growth diagnostics framework (GDF) of Hausmann, Rodrik, and Velasco (2005). This framework argues that low growth is largely due to low investment and entrepreneurship which in their turn are influenced by two (2) other factors: Low return to economic activity and / or high cost of finance. The former is consequently affected by low social returns such as poor geography, low human capital or bad infrastructure or low appropriability which could be the result of government failures such as micro risks or macro risks or market failure such as information or coordination externalities. Growth could be also affected by the high cost of finance which could be the result of bad international finance or bad domestic finance due to poor saving levels or bad intermediation by banks. By laying out the different mechanisms through which growth is affected with the intention to identify the most binding constraints to growth, this framework provides insights on how to prioritize reform measures that lead to growth.

More specifically, the framework allowed the team to assess the extent to which poor geography or territory, unreliable infrastructure, weak human capital accumulation, government and market failure can constrain local economic development or growth.

**FIGURE 1** Growth diagnostics framework



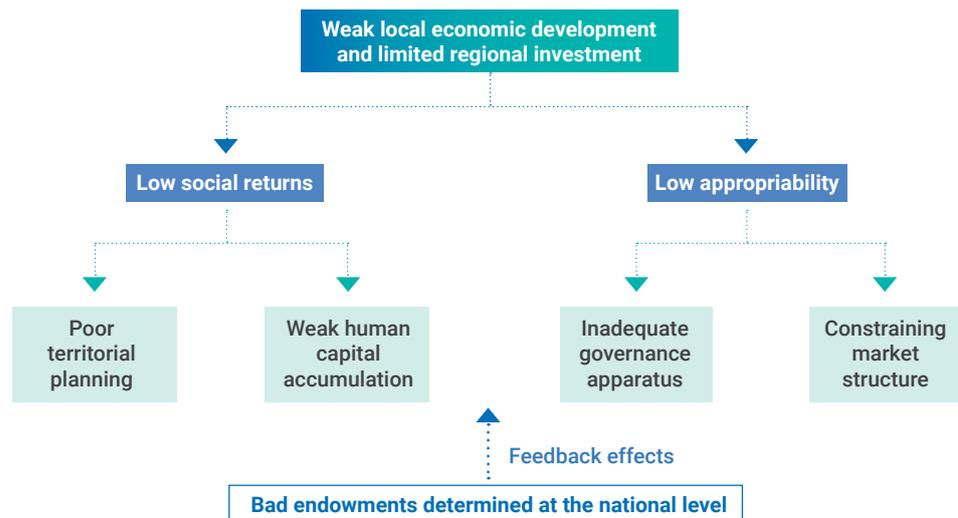
The tree diagram is employed following a bottom-up approach. For example, the private sector's inability to appropriate any available aggregate social returns (in other words, to absorb society-wide surplus) could possibly be explained by the state of investment in inputs such as human capital and infrastructure. Alternatively, low appropriation could perhaps be triggered by lower-tier constraints such as government failure—weak rule of law, sufficiently high corporate tax, and/or anti-export trade policy—or market failure. Investment decisions, and consequently growth prospects, might otherwise be constrained by micro-risks such as corruption and a lack of competition driven by oligopolistic market structures. Finally, we also consider the issue of access to finance. The latter is tied to debtor interest rates and volume of transfers from abroad, such as foreign capital inflows.

While this diagnostic in identifying the binding constraints that are hindering growth is particularly useful at the national level, it was amended to serve our local economic development assessment in the following way: Considering that the UoM is the agency that should take the lead, many of the potential binding constraints are outside of its competence. We, therefore, refined the framework to allow local authorities to address the constraints. The alignment of the UoM's responsibilities to the constraints was necessary. Thus, the framework did not address finance explicitly, as the GDF did, being a national policy with no role for local governments.

Second, while the GDF highlighted the importance of geography in affecting growth, we chose to expand the concept of geography to include territorial planning. This can ensure sustainable and equitable growth. Third, although the GDF states the importance of government failure, we chose to zoom in on the governance of local authorities to include its administrative and fiscal capacities as well as their collaborative ability to work with national government and local communities. Fourth, while the GDF focuses on growth, our interest is local economic development which is more sensitive to equity.

To this end, the team developed a diagnostic framework that is more in sync with local authorities and their mandate to launch and implement local economic development.

**FIGURE 2** Scaled-Down Growth Diagnostics Framework



The scaled down framework elaborated in figure 2 is centered around poor local economic development and limited regional investments. Inspired by the GDF, this framework argues that poor local development is a function of two (2) major constraints (1) low social returns and (2) low appropriability.

**(1) We stipulate that those low social returns are the direct result of (i) poor territorial planning and (ii) weak human capital accumulation.**

(i) Territorial planning is the main geographical constraint that leads to low social returns at the local level. Since it falls within the direct remit of local authorities, territorial planning defines ways to optimize the use of the geography and the territorial characteristics of the area and their relationship with the economic and social landscape. When this use is not optimized, usually due to bad governance, poor planning leads to adverse effects on the local economy and society, to the mismanagement of land and land-use, higher environmental threats, diminishing public spaces, the lack of economic specialization, etc. Territorial planning is affected by national level endowments, particularly on the level of the existing policy and regulatory frameworks of planning and suffers significantly as a result of their failure.

(ii) Human capital is a main contributor of local economic development, as its accumulation increases the levels of skill and productivity of the resident population, which has a direct positive outcome on economic output. Human capital is defined by healthcare and education, and access to vital public services and infrastructure, which are all directly or indirectly affected by local authorities. When these two (2) determinants are weakened, mainly due to governance failures, they lead to immediate and protracted effects on the local economy as they affect the ability of the local population to work in the immediate term and deteriorates the pool of skills and knowledge in the long term. Moreover, human capital's interaction with the market can be deeply altered due to market failures (national or local), leading to poor labor dynamics and employment outcomes, and by extension lower aggregate demand at the local level.

**(2) Moreover, we stipulate that low appropriability is the result of (i) inadequate governance systems and (ii) a constraining market structure.**

(i) Governance systems, both nationally and locally, are essential components of effective local economic development and their failure leads to major negative effects on the local development. While UoMs carry the responsibility of economic development in the areas under their jurisdiction, the national government provides the overall policy environment and regulatory structure for their work. To that end, weaknesses in the capacity of the local authorities and flaws in the national policy and regulatory structures, lead to major adverse economic and social effects, as essential functions such as planning, resource management, coordination, and public service provision are compromised. Moreover, the performance of UoMs is also related to the social capital and good ties that the UoM has with the local residing communities and the national authorities, where fallouts and relationship breakdowns lead to major hurdles and gaps in the concerted economic development effort.

(ii) Market constraints such as shortages in key primary products, restricted access to credit and financing facilities, low competition, among others have a major effect on the economic performance of the local sectors. These constraints that are directly or indirectly related to the UoMs' remit, lead to anemic production, a lower local aggregate demand, and low job creation. The market conditions are deeply affected by the national level endowments, particularly major infrastructure and financial/economic policies (and any resulting shocks). They are also affected by the local level governance, planning, and the quality of human capital, which all reflect on the economic outcomes of key sectors.

While this framework gives agency to local actors, in this case the UoM, it is important to highlight that national policies and factors influence all four (4) components. Hence, the team will reflect and integrate national factors into the analysis.

# 02 METHODOLOGY

The aim of this section is to present the methodology used throughout the project. The team employed several tools to leverage the conceptual framework and gain key insight into the challenges, and priorities for the UoM of Matn. Overall, the team resorted to key informant interviews, focus groups, and surveys to assess qualitatively and quantitatively the challenges in the region. In addition to these research tools, the team regularly consulted and informed locally elected officials and key stakeholders at the different phases of the project with the aim to explore, identify and validate the key findings. In this way, the participatory process is embedded in the local development outcome.

The methodology is composed of three (3) phases. The aim of phase 1 is to identify and validate through participatory research the key issues and challenges facing the region through desk review, focus groups, key informant interviews, and consultation with the stakeholders. Building on this, phase 2 quantitatively assesses these challenges through human capital and firm level surveys as well as qualitatively through key informant interviews. Phase 3 aims to validate the findings through meetings with local officials, workshops with key stakeholders, and focus groups

**TABLE 2** Assessment Methodology

<b>Phase 1</b> <b>Informing the assessment instruments</b>	<b>Phase 2</b> <b>Field Assessment</b>	<b>Phase 3</b> <b>Validating the assessment</b>
<p>One (1) MSPG workshop with local stakeholders involved in LED.</p> <p>One (1) SLAT workshop with local officials.</p>	<p>Human capital survey (six hundred (600) households).</p> <p>Firm-level survey (One hundred twenty-six (126) firms).</p>	<p>One (1) MSPG workshop with local stakeholders involved in LED to validate assessment.</p> <p>One (1) SLAT workshop with local officials to validate assessment.</p>
<p>Desk review research based on online literature and evidence.</p> <p>Five (5) focus group discussions.</p> <p>Four (4) key informant interviews.</p>	<p>Thirty-four (34) key informant interviews in total (of which thirteen (13) were conducted with national and sub-national actors, nine (9) with INGOs, international organizations, and local NGOs, and twelve (12) with local actors across the UoMs under study (Five (5) were strictly held at the level of the Matn UoM).</p>	<p>Five (5) focus group discussions.</p> <p>The final assessment report.</p> <p>The policy paper.</p> <p>One (1) KII on land assessment (One (1) municipal staff member).</p> <p>A land assessment questionnaire administered to a sample of member municipalities (Three (3) respondents).</p>

## PHASE 1: Informing the Assessment Instruments

The overall objective of the first phase is to explore and validate the preliminary factors that are impeding local development largely based on the desk review, consultation with locally elected officials and key stakeholders, focus groups, and key informant interviews.

To this end, the team conducted a desk review which provided a preliminary assessment of the determinants of LED, namely the governance structure, territorial planning and infrastructure, the private sector dynamics, and human capital (as labor supply) in the UoM. This review was based on available literature and data at both national and regional levels. While the study focuses on the latter, the team acknowledged the need to assess national factors and their impact on regional and local outcomes. The literature included more than twenty-five (25) reports that include the following:

- A legal review of municipal laws, municipal finance, and local governance.
- Government data from the various Ministries (such as health, finance), CAS (Labour Force and Household Living Conditions Survey), CDR (including projects under the CEDRE conference<sup>21</sup>), NPMPLT.
- Local government finance including budgets and closing of accounts over several years
- International organization reports and studies including the UN, WB, ILO, WHO, DRI, and others.
- World Bank enterprise surveys (2013-2019).

Once the literature review was completed, the team presented the preliminary findings first to local stakeholders, local officials and actors in what is known as the Special LED Assessment Taskforce (SLAT) on July 23, 2021. Its main objective is to formally engage local officials, in the LED process, present to them the preliminary findings, and identify any gaps. Besides the UN team and the experts who led the discussion, the meeting was attended by thirteen (13) local leaders from the UoM.

Complementing the SLAT meeting, the team adopted a participatory approach and inclusive dialogue with the local community as well. To this end, a Multi-stakeholder Partnership Group (MSPG) meeting was held on August 11, 2021, with the aim to engage and introduce the local community to the LED process, present the initial findings of the assessment, and identify the gaps. Beside the UN team and the experts, the workshop was attended by a total of eleven (11) participants: eight (8) members representing the private sector, educational/social sector, professional association, and NGOs as well as one (1) elected local officials, and two (2) municipal staff members.

Based on the desk review and the discussions that took place in the SLAT and MSPG meetings, the team embarked on a qualitative research to gain better insight into the challenges and obstacles facing the region. To this end, the team conducted four (4) key informant interviews with experts and municipal staff on issues related to strategic planning, socio-economic conditions, and municipal governance. The KIIs, which were held in September 2021, were conducted with the following informants:

- Antoine Gebara (Vice-president of the Matn Union of Municipalities and Mayor of Jdaidet El Matn).
- Charles Muller (President of the North Matn Industrialists Gathering).
- George Krikorian (Council member at the Bourj Hammoud Municipality).
- Habib Debs (Urbanist Architect).

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<sup>21</sup> CEDRE is an international economic conference hosted by France in Paris in 2018 to mobilize the international community to support the development of Lebanon and the reform process.

In addition, the team conducted five (5) focus groups discussions between September and October 2021 to validate the findings and identify the gaps with other actors. The aim of the FGD is to understand challenges and opportunities for local economic development in the Matn UoM. We focused on three (3) thematic areas, namely governance, market, and human and social capital. Annex 1.5 provides the FGD protocol.

The FGDs were held with the following profile of actors:

- Owners of businesses in operation (three (3) participants were men, two (2) were women, none were non-Lebanese).
- Informal businesses still in operation (three (3) participants were men, one (1) was a woman, none were non-Lebanese).
- New business entrepreneurs (five (5) participants were men; none were non-Lebanese).
- Closed businesses (four (4) participants were men, one (1) was a woman, none were non-Lebanese).
- Unemployed youth (four (4) participants were man, three (3) were women, none were non-Lebanese).

The FGDs had a total of twenty-six (26) participants, seven (7) of whom were women.

## Phase 2: Field Assessment

While the first phase aimed to preliminary identify the obstacles and challenges facing the region, the second phase of the project sought to assess these constraints quantitatively and qualitatively and deep dive into their causes and impacts. Thus, the team conducted two (2) closed-ended surveys of households and firms and held a series of key informant interviews.

**The firm-level survey** was administered to one hundred twenty-seven (127) firms in the area to gauge the effect of the crisis on the private sector. The questionnaire was structured as follows:

1. Profiling of firms.
2. Balance sheet changes during the crisis period with a focus on expenses and sales.
3. Supports mechanisms that were set up to facilitate business operations.
4. Coping mechanisms.
5. Financing channels.
6. Future business outlook.
7. Binding constraints.
8. Interaction with local government and perception of union/municipality's role.

**Annex 1.1 highlights the detailed themes covered in the survey. Through this questionnaire, we aimed to:**

- a) Examine the impact of Lebanon's multiple crises on the regional economy by exploiting both a binding-constraint approach and balance-sheet one.
- b) Identify the main constraints that have restricted the private sector's contribution to development.
- c) Identify the coping strategies adopted by the different firms and enterprises.

- d) Identify the main priorities or developmental needs set by the different firms/enterprises; and
- e) Examine the extent of collaboration and consultation with key local stakeholders.

The above survey structure and analysis are grounded in economic literature and empirical evidence. Table 3 demonstrates the reasoning behind the use of binding constraint and balance sheet analyses as part of this LED assessment.

**TABLE 3** Conceptual approach followed for firm-level survey

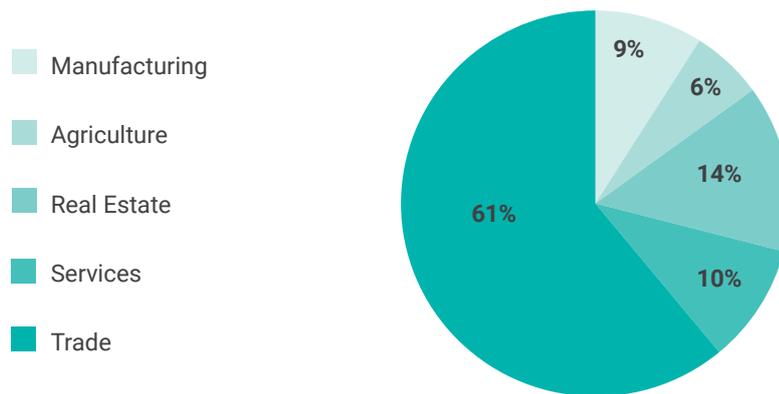
APPROACH	PURPOSE	LITERARY EVIDENCE
<p><b>Binding constraint analysis</b></p>	<ul style="list-style-type: none"> <li>• We asked firms to rate the extent to which a certain business obstacle constrained their ability to conduct work from 1 to 4 (4 indicating “significant constraint”).</li> <li>• This approach accurately captures firms’ perception of the local economy and ongoing market conditions. It also allows us to measure non-market obstacles such as governance, infrastructure, or even environment/ land use.</li> <li>• Often, “binding” constraints are empirically tested for. It allows the researcher to examine the effect of a certain business obstacle on employment growth or sales growth using binary or ordered regression models. Constraints with significant and sizable effects on employment or sales growth would be categorized as binding. However, due to sample size limitations (see Annex 1.2), we relied on a more descriptive approach.</li> <li>• We constructed a variable denoted by “major obstacle” that takes the value of “1” if a certain business obstacle was rated 3 (“Moderate obstacle”) or 4 (“Significant obstacle”). A business obstacle was categorized as binding if it was rated as “major” by at least a fifth of the firms in the sample.</li> </ul>	<ul style="list-style-type: none"> <li>• The starting point is Rodrik et al.’s growth diagnostics framework (2005) which recommends the use of firm-level surveys with a representative sample, along with aggregate macroeconomic data. This was complemented by urban economic development and LED literature that scales down said growth diagnostics framework and localizes it such as Bhatt, J. (2021).</li> <li>• Economic literature and empirical work include: <ul style="list-style-type: none"> <li>(1) <i>Binding constraint analysis of Egypt’s economy by Enders (2007).</i></li> <li>(2) <i>Bolivian case by Calvo (2006).</i></li> <li>(3) <i>Mongolia’s binding constraint analysis by Ianchovichina and Gooptu (2007).</i></li> <li>(4) <i>Cross-country binding constraint analysis that builds on World Bank enterprise survey (WBES) data for a group of developing countries between 2006 and 2010 by Dinh, Mavridis, and Nguyen (2010).</i></li> </ul> </li> </ul>

APPROACH	PURPOSE	LITERARY EVIDENCE
<p><b>Balance sheet analysis</b></p>	<ul style="list-style-type: none"> <li>Using this approach, we conducted empirical analysis to understand how the crisis affected firms' employment growth between 2019 and 2021. To do so, we investigated the variation in three (3) main variables across time:               <ol style="list-style-type: none"> <li><b>Overall costs</b></li> <li><b>Sales turnover</b></li> <li><b>Production</b></li> </ol> </li> <li>The importance of this approach is two-fold: First, we could quantify the exact effect of cost increases or negative sales turnover on job creation within the local economy, controlling for firm size and sector. Second, it helps validate much of the findings reached at using the binding constraint approach (pertaining to market-specific business obstacles).</li> </ul> <p>For example, we can quantify the extent to which high input prices or limited subsidized raw materials have constrained the average firm in the region. This can be done by measuring the effect of cost increases or production shocks on employment.</p> <ul style="list-style-type: none"> <li>We are also able to test for firms' survival strategies during the crisis period such as voluntary closure, remote work policy, salary cuts etc. More so, we could examine how these policies were altered by economic sector, all while considering balance sheet changes.</li> <li>Finally, this approach also hits at the issue of "finance access" expressed in our conceptual framework. We examine firms' growth prospects or closure likelihood, which serve as good proxies for firms' liquidity during the crisis.</li> </ul>	<ul style="list-style-type: none"> <li>Much of this section builds World Bank enterprise survey data especially in regard to employment growth, sales growth, and cost changes.</li> <li>Our analysis of credit conditions and future growth prospects are inspired by empirical literature such as ones by Harvey et al. (2010).</li> </ul> <p>We also followed economic literature based on which our empirical models were built. Some of these include:</p> <ol style="list-style-type: none"> <li><i>Firm-level survey in Spain with a focus on the COVID-19 pandemic/ economic crisis contexts by Fernández-Cerezo, González, Izquierdo and Moral-Benito (2021).</i></li> <li><i>World Bank COVID-19 firm-level surveys.</i></li> <li><i>Firm-level survey with a focus on Africa, capturing coping mechanisms and credit conditions by Aga and Maemir (2021).</i></li> <li><i>Lebanon's World Bank enterprise surveys (2013 -2019).</i></li> <li><i>Other.</i></li> </ol>

The proportion to size method for sampling was used. Based on the population of firms in the region (according to CAS census of buildings dwelling and establishments in 2004), we stratified companies by sector. Subsequently, we identified the number of firms that will be interviewed depending on the size of the sector. Slight variations did, however, arise as the sample structure was contingent on the responsiveness of the enterprises.<sup>22</sup>

The majority of sampled firms (61 percent) belonged to the trade sector (wholesale & retail). Another 10 percent belonged to services, 14 percent to real estate, 9 percent to manufacturing, and less than 6 percent to agriculture (Figure 3).<sup>23</sup>

**FIGURE 3** Sectoral composition of firms in the Matn region



<sup>22</sup> Take the agriculture sector as an example. The sampling was done as follows: The number of firms in the agriculture sector was divided by the total number of firms in the area, which then yielded a certain percentage. Using a multiplicative formula (percentage x sample size of 126), we computed the number of firms to be selected in the sampled agriculture sector.

<sup>23</sup> While the weight of industrial manufacturing firms in the sample appears less than their population weight, other surveys such as the World Bank Enterprise Survey (WBES) intentionally overweight the manufacturing sector (more than half of surveyed enterprises in recent rounds) and also sample from larger firms with five (5) or more employees.

<sup>24</sup> We use a median measure here to ensure numbers are not skewed by outliers.

<sup>25</sup> This refers to the year of establishment.

<sup>26</sup> Details on the sampling distribution of each survey are presented in later sections.

More than 65 percent of the firms in Matn employed five (5) or fewer workers (full-time). The average firm size in Matn in 2019 (pre-crisis) was twelve (12) workers and the median firm size was three (3) workers.<sup>24</sup> Furthermore, 55 percent of the firms were fifteen (15) years or older.<sup>25</sup>

The team used descriptive and inferential statistics to measure the effect of different business environment factors (such as balance sheet changes, access to credit, human capital, or bad infrastructure, among other things) on the performance of the firms by zooming in on employment growth, a key LED indicator. The analysis allowed the identification of constraints across different firm characteristics such as the firm's age, size, and sector of work.

**The human capital survey** was administered to six hundred (600) households in the region to gauge the effect of the crisis on households and communities.<sup>26</sup> Particularly, it shed light on:

1. Employment and labor dynamics.
2. Education and skills.
3. Health status and access.
4. Housing needs.
5. Infrastructure and public service access.
6. Income, expenditure, and socioeconomic conditions.
7. Social capital.
8. Interaction with local government and perceptions towards UoM.

**Annex 1.1 highlights the key themes in the questionnaire.** The aim of the survey was to analyze the changes in the socio-economic conditions and state of human capital since the onset of the economic crisis. Such changes directly affect the supply of labor, and therefore can inhibit local economic development. Our analysis enables us to identify key interventions that can be done by the Union in order to sustain, support, or build, its workforce.

This survey's design and analysis were informed by existing literature and household surveys from developing countries. The main guides for our analysis of survey data were produced by the World Bank<sup>27</sup> and the United Nations.<sup>28</sup> Surveys that inspired our questionnaire include official Government-conducted household surveys in Malawi and South Africa,<sup>29</sup> in addition to a municipal-level survey conducted in Australia, as this questionnaire adapted to a specific locality provided additional variables relevant to studying local economic development.<sup>30</sup>

Six hundred (600) Lebanese households were surveyed across thirty-one (31) municipalities. The total number of individuals was one thousand eight hundred sixty-one (1,861) individuals, of which 87 percent are male-headed households and 13 percent female-headed households. Most heads of households are aged between thirty (30) and seventy (70) years old.

Statistics Lebanon which was commissioned to implement the survey applied a stratification method on households according to the vulnerability of the cadaster, using the UN Inter-Agency Coordination "Most Vulnerable Localities in Lebanon" document as a reference. The most vulnerable localities are mostly determined by the multi-deprivation index (MDI), which is a composite index based on deprivation in access to healthcare, income levels, access to education services, access to water and sanitation services, and housing conditions.<sup>31</sup> This stratification was used in order to ensure that information is collected for deprived and non-deprived areas in a representative manner. Furthermore, such a stratification enables us to highlight whether priorities and needs are significantly different across different areas in light of the crisis.

The number of households from each cadaster was selected based on the distribution of the population in the Matn UoM. Cadasters with a larger/smaller population were represented in higher/lower proportion in the sample. The following table shows the number of households surveyed by cadaster in the union.

**TABLE 4** Number of surveyed households by cadaster in Matn UoM

AREA	VULNERABLE	NOT VULNERABLE
Aayroun		10
Ain Saadeh		9
Al-Fanar	20	
Antelias		16
Baabdat		10
Beit Chaar		10
Beit Chabab		10
Bhersaf		10
Biaqout		20
Bickfaya		10
Bourj Hammoud	100	
Broumana		10
Bsalim		10
Cornet Chahwan		10
Dahr El Sawan		10
Dbayeh - Aoukar		8
Dekwaneh	38	
Jal El Dib		20
Jdeidet El Matn		20

<sup>27</sup> Deaton, A. 2018. "The Analysis of Household Surveys: A Microeconomic Approach to Development Policy." World Bank Group.

<sup>28</sup> United Nations Department of Economic and Social Affairs. 2005. "Household Sample Surveys in Developing and Transition Countries."

<sup>29</sup> These are: The Malawi Integrated Household Survey from the Malawi Government's National Statistical Office; the General Household Survey from the Republic of South Africa's Statistics Department.

<sup>30</sup> City of Whittlesea Household Survey.

<sup>31</sup> Inter-Agency Coordination. 2015. "Most Vulnerable Localities in Lebanon."

AREA	VULNERABLE	NOT VULNERABLE
Mansourieh		20
Mar Chaaya		10
Mar Moussa – El Douar		10
Mazraat Yachouh		9
Nabay		10
Naccache		20
Rabieh		10
Roumieh		9
Sad El Baouchrieh	91	
Sin El Fil	40	
Zalka	20	
<b>Total</b>	<b>309</b>	<b>291</b>

The questionnaire was answered by heads of households, who were asked different questions about all household members—although these questions varied, and most of the collected information was on the section dedicated to heads of households. The average household size was 3.1 individuals. One large limitation of the sample is the lack of representativeness across nationalities, as all of the selected households were Lebanese.

**TABLE 5** Distribution of individuals information was collected on according to gender

		MEN	WOMEN
<b>Heads of households</b>	Number	520	80
	Percentage	87%	13%
<b>Other adults in the household</b>	Number	90	525
	Percentage	15%	85%
<b>Children</b>	Number	347	299
	Percentage	54%	46%
<b>Total</b>	<b>Number</b>	<b>957</b>	<b>904</b>
	<b>Percentage</b>	<b>51%</b>	<b>49%</b>

The survey questionnaire was focused on determinants of human capital, as well as public services in respondents' area. The different sections of the questionnaire were:

1. Employment.
2. Education and skills.
3. Health.
4. Housing.
5. Nutrition.
6. Socio-economic situation and income.
7. Shocks and coping strategies.
8. Public and social services quality and provision.

The expert team then complemented survey analysis with thirty-four (34) key informant interviews in total (of which thirteen (13) were conducted with national and sub-national actors, nine (9) with INGOs, international organizations, and local NGOs, and twelve (12) with local actors across the UoMs under study. Particularly, five (5) KIIs were implemented in Matn UoM region. These interviews were also useful to assess governance structure nationally, sub-nationally and locally.

To this end, the KII covered topics related to territorial planning, governance, and socio-economic factors at both national, regional, and local levels. Those that were strictly held at the level of the Matn UoM are highlighted (in bold) in the list below.

1. Ninette Fadel, Head of Unit at Directorate General for Urban Planning (DGUP).
2. Sami Feghali, Head of Land Use Planning Department at the Council for Development and Reconstruction (CDR).
3. Ibrahim Chahrour, Director of the Planning and Programming at the Council for Development and Reconstruction (CDR).
4. Youssef Naddaf, Head of Department of Environmental Observation at the Ministry of Environment (MoE).
5. Faten Abou Hassan, Director General of the Directorate General for Local Administrations and Councils (DGLAC) at the Ministry of Interior and Municipalities (MoIM).
6. Abdallah Ahmad, Director General of the Ministry of Social Affairs (MoSA).
7. Suzy Hoyek, Lebanon Response Crises Plan Coordinator at the Ministry of Energy and Water (MoEW).
8. Rony Lahoud, Director General of the Public Corporation for Housing (PCH).
9. Petra Obeid, Head of Youth and Local Bodies at the Ministry of Tourism (MoT).
10. Dany Geadeon, Director General of the Ministry of Industry (Mol).
11. Charles Arbid, President of the Economic and Social Council (CES).
12. Amira Mrad, Director of Small and Medium Enterprises Programs at the Investment Development Authority of Lebanon (IDAL).
13. Rayane Dandache, Economic Policy Coordinator at the Ministry of Economy and Trade (MoET).
14. Daoud Raad, Head of Irrigation and Rural Project Department at the Ministry of Agriculture and Cooperatives (MoAC).
15. Fawaz Hamidi, President of the Business Incubation Association in Tripoli (BIAT).
16. Hassan Dennawi, President of the Tripoli Special Economic Zone (TSEZ).
17. Tarek Osseiran, Deputy Head of Country Programme at UN-Habitat.
18. Faten Adada, Focal Point for Local Development Projects at Agence Française de Développement (AFD).
19. Sarah Sannouh, Regional Partnership Advisor at the International Rescue Committee (IRC).
20. Andre Sleiman, Country Representative at Democracy Reporting International (DRI).
21. Natasha Marshalian Saadeh, Head of Project Development at Rene Mouawad Foundation (RMF).
22. Bechir Odeimi, President of United Cities Lebanon (UCL).
23. Sami Minkara, Former President of City University Tripoli and Former Mayor of Tripoli.
24. Iman Al Rafii, Qaemaqam (Head of Administrative District "Caza") of Zgharta. In charge of Al Mina Municipality.
25. Amer Haddad, Head of Engineering Department at Al Mina Municipality.

26. Khaled Hannouf, Municipal Council Member at the Beddawi Municipality.
27. Elie Helou, Director of Project Development Transportation at Council for Development and Reconstruction (CDR).
28. Marlene Haddad, Qaemaqam of the Matn District.
29. Antoine Gebara, Vice-president of the Matn Union of Municipalities and Mayor of Jdaidet El Matn.
30. Arpine Mangassarian, Former Director of the Technical Office of Bourj Hammoud Municipality.
31. Mohamad Makkawi, Governor “Muhafiz” of Mount Lebanon Governorate.
32. Ali Ezzedine, Mayor of Al-Abbassieh in Tyre District.
33. Hassan Hamzeh, Manager of Tyre’s Archaeological Site.
34. Abbas Khalil Awada, Mayor of Naqoura in Tyre District.

Out of the thirty-four (34) KII implemented, thirteen (13) were conducted with national and sub-national actors, nine (9) with INGOs, international organizations, and local NGOs, and twelve (12) with local actors across the UoMs (five (5) KIIs were specifically implemented at the level of the Matn UoM).

### Phase 3: Validating the Assessment

The aim of phase 3 is to validate the findings of the assessments based on the research work and consultations that were conducted in phases 1 and 2. To this end, the team embarked on two (2) tracks. Building on the findings of the surveys and the key informant interviews, the team conducted FGDs with segments of the population that were either not represented in the survey or invited participants to discuss specific challenges. Table 5 identifies the profile and characteristics of the FGD participants. Out of the twenty-three (23) participants, six (6) were women. None were non-Lebanese. Annex 1.5 provides the protocol of the FGD.

**TABLE 6** FGDs in Matn UoM region

Event	Date	Profile	Number of attendees	Number of men	Number of women	Number of Syrians displaced	Number of Palestinian refugees
1	18 February 2022	Manufacturers inside the industrial zone	3	2	1	0	0
2	17 February 2022	Manufacturers outside the industrial zone	5	5	0	0	0
3	16 February 2022	Tenants (commercial, industrial and residential)	4	4	0	0	0
4	18 February 2022	Cultural heritage and tourism sector	6	5	1	0	0
5	16 February 2022	Education sector (schools)	5	1	4	0	0
	<b>Total</b>		<b>23</b>	<b>17</b>	<b>6</b>	<b>0</b>	<b>0</b>

The second track aimed to present the findings to both the MSPG and SLAT working group. On February 15, 2022 the team presented the findings to the local community (MSPGs) with the intention to inform them and get their input. The meeting was attended by twenty-three (23) participants.

Following the MSPG workshop, the team presented the findings to local officials in the SLAT workshop. The meeting, which was held on February 21, 2022, was attended by forty-three (43) participants.

The team also organized a workshop with European experts to share and discuss alternative models of local economic development. The meeting, which was held on February 24, 2022, was attended by forty-five (45) participants.

In both workshops, the team also consulted the participants on major policy changes that could facilitate and encourage local development. To this end, the team has developed a policy paper to be addressed to relevant central government agencies, namely the Ministry of Interior and Municipalities and its Directorate General for Local Administrations and Councils (DGLAC). The paper includes a set of strategic recommendations regarding the role of these agencies in supporting strategic development planning at the local level.

Additionally, a land assessment questionnaire was administered to a sample of member (SLAT) municipalities (three (3) municipalities in Matn UoM responded) to gain a wider understanding of territorial planning in the area and its key constraints. One (1) additional KII was held in March 2022 with a municipal staff member at the level of the Matn UoM.

In light of all the above, the team now presents the assessment's detailed findings according to the main factors of analysis presented in the tree diagram earlier (Figure 2), starting with territorial planning.

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# TERRITORIAL PLANNING AS A KEY VECTOR OF LOCAL ECONOMIC DEVELOPMENT



# 03

## TERRITORIAL PLANNING AS A KEY VECTOR OF LOCAL ECONOMIC DEVELOPMENT

Territorial planning in Lebanon suffers from critical flaws that hinder local economic development. Many areas have grown without a guiding direction. Territorial development visions, when they exist, have mostly privileged visible and spectacular projects that often tend to ignore existing economic activities and social practices. Today, Lebanon's multiple crises are shifting the attention of local authorities towards immediate responses to emerging needs. At the same time, there is a general awareness among municipal actors of the need for medium-term territorial development strategies that can guide economic investments in their areas in balanced and sustainable ways. The pursuit of a dual response (i.e., the immediate and the strategic) seems to be particularly challenging in the Matn region in view of its high population density, rapid and unguided urbanization, polluting industries, traffic congestion, and growing landfill sites all of which have taken a heavy toll on nature and the environment.

As local level territorial planning obstacles cannot be separated from their national institutional and regulatory context, the first part of this section presents an overview of existing territorial planning dynamics in Lebanon. Its second part focuses on the state of territorial planning and development in the Matn UoM and the impacts of existing planning visions and strategies (or lack of) on local economic development. The last part presents key conclusions and recommendations to be considered by concerned local, national, and international actors in policy dialogues on local economic development, and municipal empowerment and resilience.

### 3.1 TERRITORIAL PLANNING AND DEVELOPMENT IN LEBANON

Based on literature review this sub-section provides a brief background of the key responsible institutions for territorial planning in Lebanon, existing regulatory instruments, strategic spatial planning approaches and the principles and guiding directions of the National Physical Master Plan of the Lebanese Territory (NPMPLT)—a key document in ushering territorial planning in Lebanon. Following that it presents a synthesis on the critical national-level territorial challenges impeding local economic development. In addition to relevant reports and publications, this synthesis is informed by the findings of Key Informants Interviews (KIIs) with national and local actors and the SLAT and MSPG workshops in the three (3) UoMs in which the LED process was initiated (UCF, Tyre, and Northern, Coastal, and Central Matn).

### 3.1.1 Key Responsible National Institutions

While urban and territorial planning has a key role in guiding investments, it has been largely minimal in Lebanon. Several ministries and public administrations are involved in the planning process with overlapping mandates and no clear umbrella under which their efforts can be coordinated and unified. The Council for Development and Reconstruction (CDR) has a central role in coordinating major infrastructure projects and defining urban policy at the national scale.<sup>32</sup> Otherwise, the Directorate General for Urban Planning (DGUP) is the main official entity responsible for urban and land-use planning in Lebanon.

According to Decree 10490 of 1997, DGUP responsibilities, include: 1) Elaborating master plans for Lebanese villages and cities in collaboration with municipalities; 2) providing necessary studies for road networks to be implemented by the Ministry of Public Works and Transportation (MoPWT) and/or by CDR; 3) monitoring the implementation of local plans in collaboration with different tiers governments; and 4) supporting municipalities in project studies as well as in supervising the planning and implementation of these projects. DGUP has regional technical offices and units in the administrative districts “cazas” and governorates “muhafazas”. These offices are mandated with the role of assisting local municipalities within their jurisdictions and administrative perimeters on legal, planning, and technical issues.

In practice, however, the role of DGUP’s central administration is limited to technical matters and the role of its regional technical offices and units is limited to reviewing construction permits and documents before these are formally approved by the concerned local municipalities.<sup>33</sup> Instead, the Higher Council for Urban Planning (HCUP), headed by DGUP’s director,<sup>34</sup> “is the authority that holds a discretionary decision-making margin regarding many aspects of spatial planning in Lebanon, [including] master plans and large infrastructure projects.”<sup>35</sup>

### 3.1.2 Regulatory Instruments

Legislations related to urban and territorial planning also exhibit ambiguities and lack of clarity over institutional responsibilities.<sup>36</sup> As well known among urban planning practitioners, the Lebanese urban planning code (Decree-Law 69 of 1983), the main legal instrument concerning urban and territorial planning in Lebanon, has gaps and inconsistencies that contribute to institutional confusion and inertia.<sup>37</sup> This code has identified three (3) different scales of planning: the territorial land use plan, the master plan, and the detailed master plan.

Although the code does not elaborate on the territorial land use plan, it is generally understood that the National Physical Master Plan of the Lebanese Territory (NPMPLT)— published in 2005 and endorsed in 2009 by a decree issued by the Council of Ministers (Decree 2366)— corresponds to this level of planning and supports it. The issuance of this national plan was however not followed by an implementation decree that clarifies institutional responsibilities.<sup>38</sup> This explains why DGUP has been inconsistent in implementing it—especially that this plan was developed under the purview of CDR rather than DGUP—and why many municipalities overlook its recommendations and/or are not even aware of its existence.<sup>39</sup>

On the contrary, master plans and detailed master plans are legally binding documents for public authorities. In principle, master plans define and guide land use planning and direct urban expansion in ways that ensure public interest and respect to the existing natural and cultural features of a certain area. In conformity with existing master plans, detailed plans define land use and zoning regulations of a certain area at the scale of the plot. The detailed

<sup>32</sup> The Ministry of Planning was abolished in 1977 and was replaced by the Council for Development and Reconstruction (CDR), which was established through Decree No. 5 dated 31st January 1977. This decree gave CDR quite flexible planning and implementation mandates (UN-Habitat, 2013), and allowed it to gain “a central role in defining urban policy in Lebanon during the post-war reconstruction period” (UN-Habitat, 2018: 24)..

<sup>33</sup> UN-Habitat. 2018. “National Urban Policies Programme in Lebanon: Diagnosis Report.”

<sup>34</sup> According to Article 2 of the urban planning code (Decree-Law 69 of 22<sup>nd</sup> September 1983), HCUP is a specialized body in urban and rural planning affairs that is particularly responsible for expressing opinion on a number of issues including zoning classifications, expropriations, large-scale development projects, the establishment of real estate companies, and legislative amendments to existing zoning regulations and to the building code. The HCUP is presided by the DGUP and consists of the Director Generals of select ministries (Interior and Municipalities, Housing, Transport, Public Works, Justice, and Environment), representatives from several institutions (such as the CDR), and urban planning specialists.

<sup>35</sup> UN-Habitat. 2018. “National Urban Policies Programme in Lebanon: Diagnosis Report.”

<sup>36</sup> UN-Habitat. 2013. “Reforming Urban Planning System in Lebanon: Findings of the Research/ Assessment.”

<sup>37</sup> UN-Habitat. 2013. “Reforming Urban Planning System in Lebanon: Findings of the Research/ Assessment.”

<sup>38</sup> UN-Habitat. 2013. “Reforming Urban Planning System in Lebanon: Findings of the Research/ Assessment.”

<sup>39</sup> Based on a KII conducted on November 1<sup>st</sup>, 2021, with Ninette Fadel (Head of Department at the Directorate General for Urban Planning Unit (DGUP)), DGUP takes the recommendations of this national plan into account and has tried to reduce allowable built-up areas in certain geographic zones but was faced by the resistance of municipalities—noting that “local economic development in the Lebanese mentality is linked with land exploitation factors, which often determines land price”.

master plan can also substitute the master plan if such a plan does not exist. In practice, master plans' function is reduced to specifying allowable built-up areas and the detailed plans to physical and aesthetic considerations. Issues related to local economic development, spatial fragmentation, social divides, and environmental sustainability are completely overlooked by these plans. Many plans are also outdated but still enforced and considered legally binding.

Available data (from 2018) shows that only 15 percent of the national territory is planned. The legal status of planned areas can be classified into four categories: 1) Areas with a comprehensive decreed plan; 2) areas with a decreed partial plan; 3) properties or group of properties within a given planned or unplanned area that have an exceptional decree allowing them to exceed the maximum allowable built-up ratios in that area; and 4) unplanned areas for which HCUP has issued a planning decision.<sup>40</sup> The building code applies to all unplanned areas. This code, however, has had significant negative impacts as it has permitted construction (up to certain allowable ratios) on any privately owned parcel of land in unplanned areas without any consideration of their location, natural and geographic features, and existing land use and land cover.

Before 2005, the allowable surface and total coverage ratios, as per the Lebanese building code, were respectively 40 percent and 80 percent of the plot area. In 2005 DGUP issued a decision (Decision 11/2005) that reduced the maximum surface coverage ratio anywhere in unplanned areas to 25 percent of the plot area and the total coverage to 50 percent. In 2019, HCUP issued another decision (Decision 22/2019) that divided unplanned areas into different zones corresponding to the NPMLPT classifications and specified the maximum allowable built-up ratios and building height for each. For urban unplanned areas, it maintained the same allowable plot coverage ratios remained as per Decision 11/2005. However, allowable construction was reduced in other zones with the minimum being in natural areas, particularly the mountain peaks and the Cedar corridor.<sup>41</sup> This does not mean that the specified ratios are always respected. They can be higher if HCUP grants an exceptional approval based on its discretionary prerogatives.

Likewise, road construction and private land pooling and subdivision practices that the Lebanese urban planning code recognizes have significantly contributed to the mushrooming of construction, mostly at the expense of agricultural lands.<sup>42</sup> Different circulars (issued by the MoIM) allowing construction on plots of lands that do not meet the requirements of the Lebanese building code and that exempt their owners from the building permit requirements had even a more negative effect on the physical environment and natural landscapes.<sup>43</sup> The Lebanese environmental code (Article 21-23 of Law 444 of 2002) requires an environmental impact assessment for any project (whether planned by private or public sector actors) that involves construction works, infrastructure, land pooling, or extraction of natural resources. This requirement is however often neglected or performed in a biased manner that favors the interests of project proprietors.<sup>44</sup>

### 3.1.3 Strategic Spatial Planning and Local Development Strategies

Strategic planning was introduced in Lebanon by international organizations in the early 2000s to fill the gap in the existing planning system.<sup>45</sup> All strategic plans follow a participatory methodology and are quite similar in their scope and phasing—typically, there is a diagnostic phase followed by a vision and strategy development phase that includes a set of short and medium-to-long term programs and projects. The unions of municipalities are usually the main counterparts of international organizations in the preparation of regional scale plans or local development strategies that involve more than one municipality. This is for instance the case with Al-Fayhaa and the district of Tyre's development strategies.

The use of strategic planning tools and methods intensified after the Syrian crisis, whereby several international organizations launched rapid participatory assessments—like the neighborhood

<sup>40</sup> Public Works Studio. 2018. "The General Directorate of Urban Planning: Senseless Practice Between the National Master Plan, General Master Plans, Exceptions, and Decisions", the Legal Agenda.

<sup>41</sup> MoE, UNHCR, UNICEF & UNDP. 2020. SOER Report. Lebanon State of the Environment and Future Outlook: Turning the Crises into Opportunities. Chapter 7 (Haphazard Urbanization).

<sup>42</sup> Based on a KII with Ninette Fadel (Head of Department at the Directorate General for Urban Planning Unit (DGUP)) on November 1<sup>st</sup>, 2021.

<sup>43</sup> MoE, UNHCR, UNICEF & UNDP. 2020. SOER Report. Lebanon State of the Environment and Future Outlook: Turning the Crises into Opportunities. Chapter 7 (Haphazard Urbanization).

<sup>44</sup> For more information and examples, refer to the article of Nermine Sibai (October 7<sup>th</sup>, 2014), the Legal Agenda: نرمن سباعي، قانون حماية البيئة في لبنان: تشريع رمزي يتخبط بين المصالح السياسية وضعف الإدارة.

<sup>45</sup> Darwich, R. 2018. Strategic Spatial Planning in Lebanon: An International "Recipe". The Case of the Union of Municipalities. European Spatial Research and Policy, Volume 25, No. 2.

profiles of UN-Habitat and UNICEF—focusing on most vulnerable areas or urban pockets.<sup>46</sup> In essence, these assessments aim at supporting local actors to develop short-to-medium term cross-sectoral area-based development strategies geared toward improving the living conditions in targeted areas. They are also key documents for understanding where poverty is concentrated and the socio-economic and spatial dynamics in some of the most vulnerable urban and rural areas.

Although Article 126 of the Municipal Law stipulates that the UoM council is responsible for deciding on and approving the development plan (a form of strategic plan) that falls within the area of the Union and within its competence, these plans are not considered part of Lebanon's official spatial planning framework since they have not been formally approved by the council of ministers.<sup>47</sup> Existing strategic plans and local development strategies are, therefore, not legally binding documents. This explains why there is a lack of commitment to their implementation even if they are supported by CDR and MoIM.<sup>48</sup>

### 3.1.4 The NPMPLT Principles and Guiding Directions

Notwithstanding earlier planning attempts that viewed Lebanon as a coherent entity, the need to respond to the unbalanced growth of the national territory emerged after the civil war as a key priority. The NPMPLT was drafted with a threefold purpose in mind: 1) reinforcing the unity of the country; 2) attaining balanced and equitable development of all regions; and 3) rationalizing the use of the country's limited resources. Consequently, the NPMPLT put forth eight (8) guiding principles to meet these overarching goals:

- Structuring the territory around the major urban centers.
- Associating all regions to the national economic development process.
- Distributing the major public facilities in an effective and integrated manner.
- Uniting the territory with an efficient and developed transportation network.
- Ensuring an urban development of good quality, respecting the characteristics of each region.
- Highlighting and benefiting from the natural wealth of the country.
- Exploiting the water resources in a sustainable way.
- Resolving efficiently the problems of quarries, wastewater, and solid wastes.

To ensure an integrated economic system and complementarity between Lebanon's different geographic regions, the plan identified five (5) major urban agglomerations:

- The Central Urban Area (Beirut and Mount Lebanon).
- Cities located at the gates of this Central Urban Area: Jbeil and Saida.
- The large metropolis of the north: Tripoli.
- The metropolis of balance (growth centers): Zahle-Chtoura and Nabatieh.
- The large patrimonial cities: Baalbek and Sour/ Tyre.

To meet global economic competitiveness, the NPMPLT gave each of these agglomerations a specific role or vocation in the national economy while building on its geographical comparative advantages and existing natural and cultural assets. Significantly, while cities are the engines of economic growth, it underlined the need for a coherent planning system that supports the development and interconnectivity of urban agglomerations and rural areas. Hence, it recommended to develop robust service and industrial centers in all urban agglomerations and to work in parallel on harnessing the economic potential of rural areas.

<sup>46</sup> These neighbourhood profiles are accessible on this link: <https://lebanonportal.unhabitat.org>.

<sup>47</sup> Based on discussions with several urban planning practitioners.

<sup>48</sup> Although municipalities are autonomous entities, their approval of the strategic plans does not make these plans legally binding. Moreover, if the strategic plan contradicts the master plan of a certain municipality, the latter plan prevails. Master plans are issued by a decree approved by the CoM on the proposal of the minister of the MoPWT. This is not the case with strategic plans, even when conducted at a UoM level.

In addition, the NPMPPLT emphasized the need to protect Lebanon's natural and cultural landscapes from urban sprawl, given their tourism potential and importance to social and economic development. It advocated the establishment of a "green and blue network" between areas of natural significance from the mountain peaks down to the coastline. At the same time, it underscored the need to rationalize the use of water resources and to find effective solutions to issues that threaten natural resources and pose serious threats to human health, like quarries, wastewater, and solid wastes.

Although it lacks clear implementation mechanisms, and despite its need for an update, the NPMPPLT is today a reference document concerning regional and urban planning and development in Lebanon. In principle, its recommendations and guidelines should override all other existing urban and regional plans and should act as a framework to guide future sub-national and local level master plans.<sup>49</sup> In addition to the reasons mentioned earlier in this report, political and institutional realities have put serious constraints on its implementation. Particularly, the idea of giving each urban agglomeration a certain role in the national economy has been questioned vis-à-vis Lebanon's realities of conflict, sectarian divisions, security issues, and physical and demographic changes.<sup>50</sup>

Local physical master plans that do not comply with the NPMPPLT guidelines, therefore, continue to be issued by DGUP and HCUP and unchecked urban growth and (un)sanctioned exploitation and extraction of the country's natural resources (e.g., illegal quarrying activities and deforestation) continue to take place against its recommendations. Politicized decision-making processes, polarization and fragmentation of institutional responsibilities, and lax urban regulations that mirror Lebanon's economic system which the Constitution of the country describes as "free";<sup>51</sup> but which has been criticized as a *laissez-faire economy*,<sup>52</sup> explain the inconsistency in the urban and territorial planning system. More specifically, the growing share of the real estate sector in GDP over the 2009-2019 period (itself a result of a whole set of economic, monetary, fiscal, and financial decisions) has made the application of the NPMPPLT extremely difficult for both political and economic reasons.

### 3.1.5 Critical National-Level Territorial Challenges Hindering Local Economic Development

Flawed territorial planning in Lebanon has had a detrimental effect on the Lebanese economy. Many areas are expanding without master plans to guide their expansion and protect their productive landscapes and natural and cultural assets from chaotic urbanization, real estate speculation, and commodification. The country's main economic activities and dwindling job opportunities remain concentrated in the Greater Beirut region<sup>53</sup> and other coastal urban agglomerations, such as Tripoli, Jbeil, Saïda, and Sour/Tyre,<sup>54</sup> that are growing rapidly and chaotically at the expense of rural areas of the country's hinterland, particularly agricultural land and without master plans to guide their expansion.<sup>55</sup>

Noteworthy, around 30 per cent of the Lebanese territory has not been surveyed and delineated yet by the General Directorate of Land Registry and Cadastre, which falls under the Ministry of Finance (MoF). This issue poses another challenge to effective territorial planning.<sup>56</sup> The boundaries of state-owned lands remain undefined in such areas, which has encouraged transgressions and violations leading to the disappearance of much of the country's natural heritage—a main pillar of local economic development in view of its potential to create sustainable jobs in eco-tourism, forestry, and agroforestry.

The Syrian crisis has exacerbated existing challenges, exerted additional pressures on an already crumbling infrastructure and public service system, and exposed the deficit in decent and affordable housing. Lebanon's current financial and economic crisis adds another level of complexity to the problem. It does not only put the Lebanese economic model into question but also the country's current urban and territorial growth patterns and the validity of the NPMPPLT to guide future economic and territorial development in a more sustainable and equitable manner.

<sup>49</sup> Article 4 of Lebanon's urban planning code (Decree-Law 69 of 22<sup>nd</sup> September 1983) stipulates that local master plans should be developed "in the framework of a national land use master plan". Considering this, the forward of the NPMPPLT final report (2005) mentions that the recommendations of the NPMPPLT, "as decreed by the Council of Ministers, will be imposed, among others, on local urban planning master plans that will be elaborated or reviewed afterwards", p.vii.

<sup>50</sup> UN-Habitat. 2018. "National Urban Policies Programme in Lebanon: Diagnosis Report."

<sup>51</sup> The preamble of 23<sup>rd</sup> May 1926 Constitution and amendments states that "the economic system is free and ensures private initiative and the right of private property".

<sup>52</sup> See for example, The Political Economy of Lebanon 1948-2002, the Limits of Laissez-faire by Toufic K. Gaspard, Brill, 2003.

<sup>53</sup> The Greater Beirut area does not have a fixed boundary definition. The term is used with reference to the city of Beirut and parts of Mount Lebanon. As per the NPMPPLT definition it refers to the geographic area between Dbayeh and Khaldeh, below 400 m of altitude.

<sup>54</sup> This is indeed confirmed by the ILO-CAS 2019 survey.

<sup>55</sup> For some examples, see: Ghaleb Faour, Éric Verdeil and Walid Bakhos. 2019. Rural and Natural Areas under Pressure, in Atlas of Lebanon: New Challenges, Éric Verdeil, Ghaleb Faour et Mouin Hamzé (eds). IFPO and CNRS.

<sup>56</sup> Verdeil, E., G. Faour, and M. Hamze. 2016. Atlas du Liban. Presses de l'Ifpo, CNRS Liban. <https://www.ifporient.org/978-2-35159-053-9/>.

There is **dearth of strategic territorial development plans** that focus on sustainable development. Existing plans (e.g., the development strategies of Sour and Al-Fayhaa), have partly lost their immediate relevance in view of Lebanon's emerging crises and changing development priorities. At the same time, there is an acute absence of comprehensive land use planning at the national, sub-national, and local scales to guide development projects, protect significant natural sites, and deal with pollution, particularly marine pollution. Existing zoning regulations have reduced land value to how much can be built on it. Allowable land uses and built-up ratios are yet often determined in accordance with the interest of powerful landowners and the "real estate cartel" who influences decisions regarding land use classifications and built-up ratios.<sup>57</sup>

At the same time, **the combination of neoliberal trends and poor land management and administration** has led to major infringements over public and communal lands, many of which ended up in private hands. All over Lebanon natural landscapes—including sites recognized by the NPMPLT as significant natural sites of national importance—are threatened by encroaching urbanization, speculative development, and poor land management. Paradoxically, while public and communal lands are disappearing, municipal authorities are facing serious challenges in finding land for vital projects of public benefit that can potentially stimulate the local economic development.

**Critical territorial planning-related issues include:**

- **Rapid urban expansion** at the expense of other land uses and without taking social and environmental concerns into account. Incompatible land uses exist almost everywhere in Lebanon, with many polluting industries located within residential areas and areas that have tourism potential.
- **Major urban mobility related challenges** due to the concentration of economic activities in main cities, particularly the Greater Beirut area, and lack of efficient connective public transportation systems. Besides traffic and mobility issues, reliance on private cars contributing to air pollution and environmental degradation.
- **Growth of concentrated poverty and informality** mainly in view of the huge influx of Syrians displaced to Lebanon after 2011 and the constrained ability of local governments to cope with the emerging and overwhelming situation.
- **Neglect of cultural heritage and landscapes** and failure to maintain and protect them from deterioration, pollution, extraction, misuse, and abuse which undermines future economic development prospects in the eco and cultural tourism sectors.
- **Land degradation and loss of health and productivity** triggered by land abandonment, chaotic land use transformations, land cover loss, land fragmentation, and poor land management practices; all of which have tremendous impacts on the agriculture sector and national food security.
- **A widening social divide and increased socio-economic inequalities and vulnerabilities** due to lack of guiding vision and/ or predominance of large-scale urban development visions that tend to ignore and eliminate existing economic activities and social practices, and that are often associated with gentrification and social exclusion.

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<sup>57</sup> This is a well-known fact in Lebanon confirmed by several key informants who were interviewed for this study.

<sup>58</sup> This synthesis is informed by the findings of Key Informants Interviews (KIIs) with national and local actors and the SLAT and MSPG workshops in the three (3) UoMs in which the LED process was initiated (al-Fayhaa, Sour, and Northern Coastal and Central Matr).

**Lebanon's current compounded crises are exacerbating existing territorial planning challenges. Key concerns include:**<sup>58</sup>

- Further **encroachments on public and communal lands** due to escalating poverty rates, reverse migration from cities to rural areas, and increased demand on land for housing and farming. Lack of a common vision on how to use public and communal lands for the public good and in ways that have positive impacts on the local economy exacerbates the risk. Current scenarios that count on privatization Lebanon's public assets (including land) to remediate banks' financial losses would not only lead to the eventual disappearance of these lands but also to compromise the ability of future generations to meet their own needs, which jeopardizes sustainable development.

- **Land cover loss and inadequate land use transformations** pose serious challenges to sustainable development. Lebanon loses annually three-square kilometers of scarce agricultural land due to urban sprawl.<sup>59</sup> The current financial strains on many families represent additional threats to biodiversity, causing huge economic and ecological damage—for instance due to cutting down ancient trees for heating purposes, land abandonment, over exploitation of natural resources, increased water pollution, and illegal dumping. The growth of wildfires (whether natural, intentional, or caused by acts of negligence) is further threatening the natural and cultural capital of many towns and villages.
- **A looming threat of displacement and real property abandonment** in view of domestic currency (Lira) volatility and high cost of inputs, which are key factors behind the closure of many businesses and emigration of significant numbers of workers and their families.<sup>60</sup> It is believed to be more acute in cities whereby job loss and rental costs are also leading many vulnerable families to move back to their towns or villages of origin. Crucially, therefore, the economic crunch might lead to real property abandonment and deterioration and, eventually, to enlarging the “rent gap” between the actual and potential value of land. This can stir long-lasting demographic changes and perpetuate socio-economic divides as private profit seeking investors and more affluent groups rush to buy abandoned property at low rates from those who are in bad need for cash.

In addition to the above-mentioned issues, there is a host of **critical challenges that hinder the implementation of vital projects for local development**. Funding is a major obstacle but is not the only one. Land acquisition can also be a major hurdle and a reason, when not available, to prevent municipalities from gaining access to funds through donor organizations. Land is required for most local territorial development projects, mainly infrastructure and public utilities projects (e.g., solar power, solid waste disposal, and wastewater treatment plants); its acquisition however often presents a major challenge for UoMs and municipalities who do not own or have at their disposal (suitable) lands. **Key impeding factors that can cause project delays and/or stoppages include:**

- **Cost** of land (if to be expropriated from a private owner).
- **Land ownership and boundary disputes** particularly in areas that have not been surveyed and delineated yet given the entanglement of property rights in these areas.
- **Bureaucratic and lengthy administrative procedures** (particularly where an absentee owner has parts of the land proposed for the project and in cases that involve usage of state-owned lands by municipalities). Administrative procedures can be particularly complex and lengthy in non-surveyed areas. For example, unnecessary project delays can be caused by the inability of the Ministry of Environment (MoE) to review the Environmental Impact Assessment (EIA) of the proposed projects in a timely manner.<sup>61</sup>
- **Technical requirements** regarding land size and lease period can lead to projects delays and stoppages if available lands do not meet the requirements. For example, as per Ministry of Energy and Water (MoEW) requirements, the minimum land area for municipal solar energy projects must be ten thousand square meters (10,000m<sup>2</sup>). In their turn, funding organizations require the land to be fully owned by the municipality, allocated formally by the CoM for municipal use based on a proposal to be made by the relevant ministries (if the land is privately owned by the Lebanese Republic), or be at its disposal for a period of at least twenty years (20) years through the long-term lease of land(s) endowed for a charitable cause also known as “waqf” land (usually through a religious institution). Unions and municipalities that do and/or cannot meet these conditions are at a disadvantage.
- **Politics** play a major role in decisions related to the location of certain projects mainly landfills for solid waste management, whereby solid wastes, their collection and management processes have been contributing to the deepening of territorial, political, and confessional divisions within the Lebanese society.<sup>62</sup>

<sup>59</sup> World Bank. 2018. “Lebanon Municipal Investment Program.” Project Information Document/ Integrated Safeguards Data Sheet.”

<sup>60</sup> Based on the findings of the FGDs, the firm level and the human capital surveys.

<sup>61</sup> According to MoE this delay is caused by understaffing and by the MoE’s need to ensure that the EIA process is participatory. MoE can be particularly strict when a proposed project is located on state land of the miri type (specifically cultivated lands that were given to a cultivating tenant). In such cases, the MoE requests a property certificate to ensure that all those who have a right to the land approve the project (based on KII with Head of Department at Ministry of Environment (MoE) Youssef Naddaf on December 22<sup>nd</sup>, 2021. Other concerned actors however suspect that MoE is delaying some projects due to political reasons.

<sup>62</sup> Based on the SLAT discussions and interviews with key informants in the three (3) UoMs covered by the LED assessment.

## 3.2 TERRITORIAL PLANNING AND DEVELOPMENT IN MATN

This sub-section examines the specific territorial planning-related challenges to local economic development in Matn UoM. It first provides an overview of the existing frameworks and other key studies that guide area development. Second, it elaborates on the area's territorial planning challenges based on Key Informants Interviews (KIIs), the SLAT and MSPG workshops in Matn, Geographic Information System (GIS) land use/cover comparatives maps,<sup>63</sup> follow-up phone meetings with some municipal actors and/or their responses to a short questionnaire that was issued to them for the purpose of better understanding the challenges they face in utilizing municipal and state-owned lands for local development projects.<sup>64</sup>

### 3.2.1 Existing Territorial Planning Frameworks and other Key Studies

#### A. THE NPMPLT

The Matn UoM falls in Lebanon's "Central Urban Area." This is the area with the highest population density, as it is the country's main economic, social, cultural, and political center. The NPMPLT recommends decreasing the relative weight of this area in favor of other major agglomerations but recognizes that areas around Beirut will continue to play a primary role at the national level.<sup>65</sup> Hence, this national plan proposes to reorganize the existing functions of these areas as to improve the economic competitiveness of Lebanon.

For the relay towns of Matn's District closer to Beirut, the NPMPLT envisions a possibility for the establishment of office centers and tertiary services in strategic locations (e.g., in the industrial area of Nahr El-Mot). At the same time, it recommends the redeployment of industrial activities, without specifying from where to where, in order "to reduce the damages and dangers resulting from certain industries established within the heart of inhabited neighborhoods or in their immediate surroundings." The plan considers this reorganization as "an opportunity to modernize the industrial sector by creating new and modern zones of activities." In addition, it calls for adopting a housing policy that supports the conversion of old industrial areas into residential neighborhoods targeting young households.

To diversify job offers and sources of income, the plan also sees potential for the development of new activities in some relay towns further away from Beirut, "such as industry (Zouk) or service in the sectors of education [and] health." More generally, it underlines tourism as the main economic asset for the mountainous areas of Matn's District, and specifically recommends strengthening tourism and leisure related activities of Broummana and Bickfaya.<sup>66</sup> For the less populated rural regions, it recommends the articulation of specific policies that support the development of all-year round activities, to avoid the transformation of these areas into "dormitories".<sup>67</sup>

Finding solutions for the transportation sector is another key issue that the NPMPLT links with the economic development of the Central Urban Area. In recognition that traffic congestion can significantly impede economic activities, it recommends the exploration of "creative and modern solutions [...], particularly through reorganizing the outdated public transportation system".

#### B. OTHER KEY PROJECTS AND STUDIES

One of the relatively well-studied areas in the Matn District is Bourj Hammoud. A city profile prepared at the request of Bourj Hammoud municipality and a study targeting its industrial zone provide some propositions and recommendations with regards to the area's future image and

<sup>63</sup> Two (2) maps were made available to the Team by CDR. The first map (dated 2004) was prepared by Dar Al-Handasah (Shair & Partners) and IAURIF in the context of the NPMPLT based on satellite imagery taken in 1998, updated through field surveys, and published in 2004. The second map (dated 2017) was prepared by Lebanon's National Center for Scientific Research (CNRS) in the context of preparing Lebanon's land cover map based on satellite imagery taken in 2013, updated through field surveys, and published in 2017.

<sup>64</sup> The questionnaire was issued to all municipalities who participated in the SLAT workshops. Only three (3) municipalities in Matn responded.

<sup>65</sup> More specifically, the NPMPLT recommends diminishing the relative weight of the Central Urban Area from being home to 40 percent of the population to 35 percent, under the dual effect of 1) lower growth rate, and 2) strengthening Lebanon's other major urban agglomerations.

<sup>66</sup> Both municipalities are members of the Matn Union.

<sup>67</sup> "Dormitory towns" are areas where there is little to do beyond sleeping. The residents usually commute to other areas for work, shopping, leisure, and other activities.

relationship with the waterfront.<sup>68</sup> Both studies underline that Bourj Hammoud's reclaimed land from sea is part of the maritime public domain and envisage transforming it into an ecological industrial park that combines unpolluting industries with offices and commerce and that can act "labor intensive" zone for surrounding areas.<sup>69</sup> The future of the area is still ambiguous knowing that the envisioned Linord project, which was put on hold for many years but not cancelled, imagines the waterfront of coastal Northern Matn as a luxurious mixed-use district on the model of Solidere and Dbayeh waterfront city.

### 3.2.2 Critical Territorial Planning Challenges and their Effects on Local Economic Development

#### A. ABSENCE OF COMPREHENSIVE STUDIES AND A UNIFIED VISION FOR TERRITORIAL DEVELOPMENT

Like other districts in Lebanon, Matn District has been growing without a guiding vision and clear territorial development strategy. The potential of its territorial assets to boost the local economy remains untapped and the NPMPLT recommendations for the development of the area remain short of application. The only existing vision for the area is that proposed for the redevelopment of the waterfront of coastal Matn (the Linord project). Initiated in the mid 1990s, this project is one of the largest in Lebanon. It extends between the Beirut River and the Antelias River and involves the rehabilitation of the Bourj Hammoud and Jdaidet el Matn solid waste dumps. The rehabilitation scheme includes three parts:<sup>70</sup>

- A mixed used part (residential, leisure, and commercial) with an area of 1,101,137m<sup>2</sup>.
- A tank farm and business area (including commercial and office areas as well as light industries) with an area of 564,000m<sup>2</sup>.
- Sewage treatment plants and a park/light industrial area with an area of 729,430m<sup>2</sup>.

Although presented as an environmental proposal, the Linord project has been criticized by local communities and civil society as motivated by the private financial interests of land developers rather than by a genuine attempt to revitalize the waterfront as an inherently public asset. The politics behind the project was also a subject of debate. Some commentators have portrayed it as "the Christian version" of the Solidere project, which also has a "Shiite version", i.e., the "Elissar" project in the southern suburbs of Beirut.<sup>71</sup>

After a long period of stagnation, there has been a recent attempt to revitalize the Linord project.<sup>72</sup> No publicly available information however exists on the new proposal. Territorial planning visions for other parts of Matn are not less obscure. This for instance applies to the Nahr Beirut area, which—despite being subject of a lot of studies by urban planning, design, and landscape design students—does not have an officially endorsed rehabilitation and development strategy.

In another vein, not all municipalities in Matn UoM have master plans to guide their future growth. When such plans exist, they are not comprehensive and mostly in need of an update.<sup>73</sup> The general absence of urban and territorial planning guidance has led to chaotic urbanization and the widespread of industries within residential areas, with serious negative impacts on the quality of life within these areas.<sup>74</sup> Jdaidet El Matn is one of the most affected municipalities. It has four (4) industrial zones. Although all are licensed, they grew chaotically, without a guiding vision.<sup>75</sup> At the same time, lack of comprehensive territorial planning has led to the unbalanced growth of different sectors of the economy. Industrial activities have burgeoned both along the coastal zone and in the central part of the UoM while the cultural and ecotourism potential of the area has not been fully harnessed.

<sup>68</sup> Harmandayan, D. 2009. "Bourj Hammoud Brief City Profile." APEC; and Harmandayan, D. 2010. "بلدية برج حمود، دراسة تنظيم المنطقة الصناعية في برج حمود: المرحلة الأولى التحقيقات (أيار)" APEC.

<sup>69</sup> Ibid.

<sup>70</sup> Lebanese American University, International Network for Urban Research and Action. [https://www.inura.org/v2/wp-content/uploads/2014/01/INURA11\\_Beirut.pdf](https://www.inura.org/v2/wp-content/uploads/2014/01/INURA11_Beirut.pdf).

<sup>71</sup> See article of Mona Khechen (9/12/2020), the Legal Agenda:

أي مستقبل ينتظر الكرنيتينا بعد انفجار مرفأ بيروت؟ "لينور" و"قدموس". (2/3)

<sup>72</sup> The Linord project was among the projects proposed in 2019 by Lebanon during the Conference for Economic Development and Reform through Enterprises (CEDRE).

<sup>73</sup> Both Based on discussions with several KILs.

<sup>74</sup> According to a KII held with Habib Debs (Architect Urbanist) held on September 17<sup>th</sup>, 2021, industrial and residential areas get mixed up when no buffer zone is designated around industrial zone. This is the case with most areas, with a few exceptions, like Mazraat Yachouh that has a buffer zone.

<sup>75</sup> Based on a KII with Antoine Gebara (Vice President of Matn UoM and Jdaideh municipality mayor) on December 2<sup>nd</sup>, 2021.

Neglect of the area's cultural heritage and natural landscapes threatens its unique identity and jeopardizes prospective investments in cultural and nature-based tourism. For instance, Deir el-Qalaa in Beit Meri enjoys the same legal protection as the antique ruins of Baalbeck. Both are protected by Decree no. 343 of 28 March 1942 (amended by Decree no. 836 of January 1950) that derives from the law of 8 July 1939 concerning the protection of natural landscapes and sites. While Baalbeck is a prime tourist destination and one of the most iconic landmarks in Lebanon, Deir el-Qalaa remains off the tourist map.

## **B. URBAN DENSIFICATION AND GROWTH OF CONCENTRATED POVERTY AND INFORMALITY**

Matn District, and specifically the Matn UoM area, has significantly changed in the last fifteen (15) years—the period that followed the articulation of the NPMPLT—in terms of population number and built-up area and density. This growth has been instigated by available job opportunities and lower real estate and rental prices as compared to Beirut. In addition to Lebanese rural-to-urban migrants, the area has become home to many displaced Syrians following the eruption of the war in Syria in 2011. Particularly, Bourj Hammoud municipality has been seriously impacted by the arrival of displaced Syrians to Lebanon. One of its most impacted neighborhoods is Nabaa, a poor and neglected mixed-use area strategically located close to the east of Beirut. Nabaa's current populations come from different backgrounds and include Lebanese, Palestinians, Syrians, and migrant workers. Bourj Hammoud municipality "struggles to intervene in the neighborhood due to conflicts of interest with private service providers (water, electricity, cable TV, internet)."<sup>76</sup> In 2017, UN-Habitat found that its economic activities are dominated by small (informal) enterprises, 47 percent of which are new, 20 percent established and 33 percent mature.<sup>77</sup>

There are no recent statistics on how the Nabaa and other vulnerable neighborhoods in Matn UoM have been affected by Lebanon's current compounded crises. However, many of the challenges that Nabaa and the rest of Bourj Hammoud suffer from today are observable in other parts of Matn UoM and elsewhere in Lebanon. These include:<sup>78</sup>

- Poor infrastructure and public services;
- Very poor living conditions, crowded and unhealthy living environment, and housing tenure insecurity whereby the housing brokers control rents without any control;
- High unemployment and school drop-out rates;
- Social tension and discrimination with threats to safety; and
- Struggling small businesses (shops and workshops).

These challenges have shifted the development priorities of the municipalities of Matn UoM. The main concern today of mayors and municipal council members of the area is how to respond to the increased demand for basic public services given their dwindling financial, technical, and human capacity.<sup>79</sup>

## **C. LAND COVER LOSS AND INADEQUATE LAND USE TRANSFORMATIONS**

Rapid and unguided urban expansion has led to a significant reduction in Matn's agriculture and natural areas in recent years. Land use/land cover comparative maps 2003 and 2017 show a significant increase in built-up area at expense of other land uses between 2003 and 2017 (coastal towns, but also in some mountainous areas that have a tourism sector like Ghabe and Cornet Chahwan, Ain Aaar, Beit El Kikko, Hbous). Weak land use planning systems, poor land and forest management, and illegal dumping certainly have enormous negative economic and ecological impacts. For example, the wildfires of summer 2021 severely affected the affected the woodlands around Deir el-Qalaa in Beit Mery (Matn)—a major cultural landscape in Lebanon with high cultural and eco-tourism potential.

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<sup>76</sup> UN-Habitat. 2017. Nabaa Neighbourhood Profile: Bourj Hammoud, Lebanon (March). <https://reliefweb.int/report/lebanon/nabaa-neighbourhood-profile-strategy-bourj-hammoud-lebanon-march-2017>.

<sup>77</sup> Ibid.

<sup>78</sup> Ibid.

<sup>79</sup> Based on Matn SLAT workshops on July 23<sup>rd</sup>, 2021, and February 21, 2022.

Resource extraction is a major problem in Northern, Coastal, and Central Matn. While accessible studies and published reports are unavailable, Google Earth and Bing imagery show that urban sprawl, real estate investments, and quarrying activities have tremendously transformed the landscape of the suburban and rural areas of Matn. They had important negative impacts on its natural and environmental resources, which are the area's main source of richness.<sup>80</sup> Quarries are concentrated in some areas, e.g., the town of Abou Mizan near Bickfaya. Around three quarters of these quarries are not licensed.<sup>81</sup> Chaotic legal decisions that "legalize" illegal construction and/or allow higher built-up in unplanned areas and some planned areas, without going through the regular permitting process and without paying the construction permit fees, can lead to more dramatic impacts on the landscape and productive lands.

Coastal Matn is one of the most congested and problematic areas in Lebanon today.<sup>82</sup> It is highly urbanized and a main node of activity in the commercial and industrial sectors. While agriculture has totally disappeared from the coastal plain, there is a lot of potential for agriculture and eco- and agro-tourism development in the upper parts of Matn. Lebanon's crisis makes some municipalities and local people more aware of the potentials of these need support to engage in productive projects. For example, a local seasonal worker in the tourism sector started a project built on the concept of "from farm to table". The project suffered from electricity failure which interfered with the irrigation system.<sup>83</sup> Aware of the challenges facing small farmers, the Municipality of Mar Moussa Al Douar sees a need to prioritize investments in the agriculture sector, to support small farmers and to stay and work in their land and areas, to strengthen farmers' coops, and to recognize that different parts of Matn have different identities' and need different kinds of initiatives.<sup>84</sup>

**TABLE 7** Land use/ cover surface areas and percentages in Matn UoM in 2003 and 2017

Land use/cover	2003		2017	
	m <sup>2</sup>	Percentage	m <sup>2</sup>	Percentage
<b>Agriculture</b>	10,482,140	9.2	5,705,533	5.0
<b>Wooded lands</b>	53,724,995	47.1	52,342,581	45.9
<b>Grass lands</b>	2,797,940	2.5	2,238,600	2.0
<b>Built and artificial areas</b>	45,014,103	39.5	50,859,348	44.6
<b>Other</b>	1,997,498	1.8	2,870,615	2.5
<b>Total area</b>	<b>114,016,677</b>	<b>100</b>	<b>114,016,677</b>	<b>100</b>

<sup>80</sup> A map produced by Architect Antoine Atallah in 2018 using Bing imagery shows the actual location of quarries across the Lebanese territory versus their designated location as per the NPMPLT.

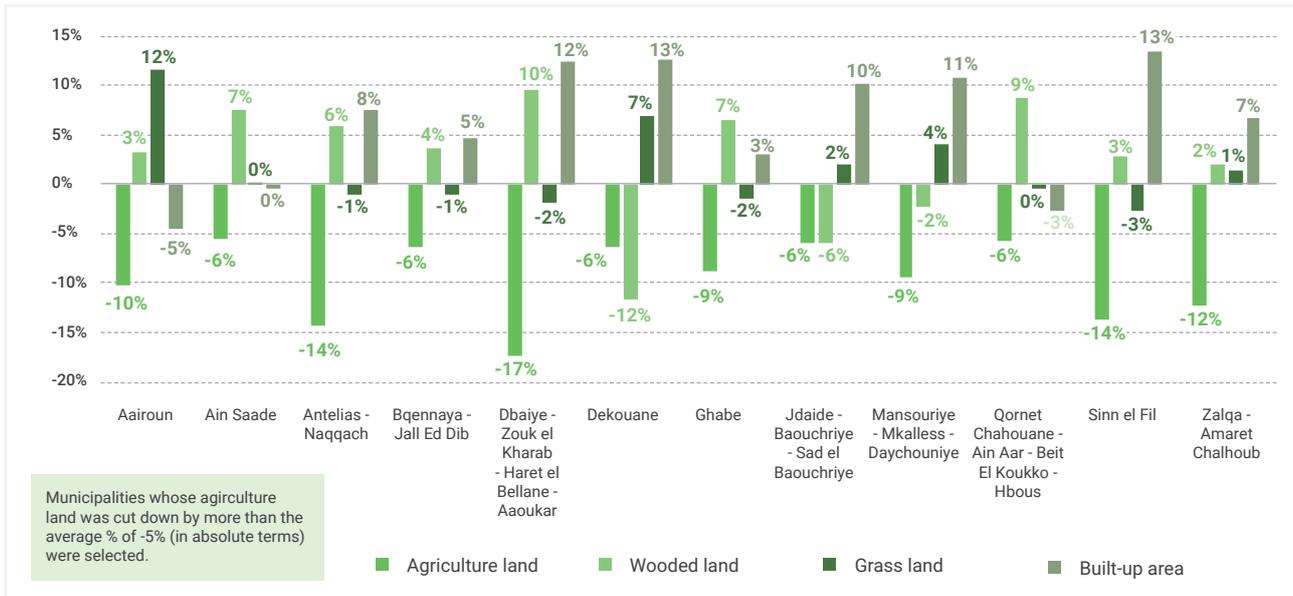
<sup>81</sup> Based on a KII with Antoine Gebara (Vice President of Matn UoM and Jdaidet EL Matn municipality mayor) on December 2<sup>nd</sup>, 2021.

<sup>82</sup> Based on a KII with Elie El-Helou (CDR) on November 30<sup>th</sup>, 2021.

<sup>83</sup> FGD with workers in the tourism sector in El-Matn (five (5) men and one (1) woman) on February 18<sup>th</sup>, 2022.

<sup>84</sup> According to Habib Chayban (mayor of Mar Moussa Al Douar municipality) during the Matn SLAT workshop on February 21<sup>st</sup>, 2022.

**FIGURE 4** Municipalities in the Matn UoM whose agricultural land was cut down by more than 15 percent between 2003 and 2017



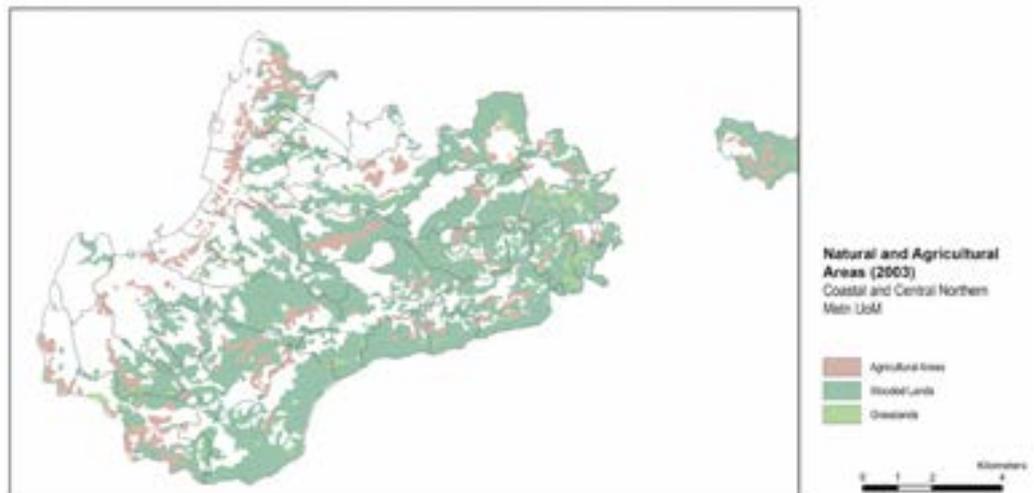
**FIGURE 5** Land use/ cover in Northern, Coastal, and Central Matn in 2003



**FIGURE 6** Land use/ cover in Northern, Coastal, and Central Matn in 2017



**FIGURE 7** Agricultural and natural area in Northern, Coastal, and Central Matn in 2003



**FIGURE 8** Agricultural and natural area in Northern, Coastal, and Central Matn in 2017



#### **D. THE CHALLENGE OF PROTECTING PUBLIC LANDS FROM POLLUTION, TRANSGRESSION, AND PRIVATIZATION**

Lebanon's lack of a comprehensive solid waste management strategy has led to expansion of existing landfill sites of Bourj Hammoud and Jdaidet El Matn as well as to illegal dumping and waste burning in many towns. In addition to the costs on human health, the solid waste crisis is incurring huge environmental costs. The entire coast of Matn district, from Nahr Beirut to Nahr el-Kalb is littered with garbage.<sup>85</sup> Nahr El-Mot (the river of death), for example, is believed to have "earned" its name due to its high pollution level. Not only has the river channel been violated in several locations but it has also been turned into a sewage and dirt canal for surrounding slaughterhouses and factories.<sup>86</sup>

Transgressions and illegal occupation of the maritime public domain have also been recorded in the area,<sup>87</sup> with the majority of the violators being industrial establishments. In its coastal part, the landfill of Bourj Hammoud has tremendously grown to become a major environmental hazard. This waste dump site has transformed the whole waterfront of Bourj Hammoud and seriously affects its fishermen port and fishers' livelihoods. The near-by Bourj Hammoud Industrial Zone

<sup>85</sup> These two (2) rivers are respectively the southern and northern boundaries of the administrative district.

<sup>86</sup> [https://al-akhbar.com/Archive\\_Research/151393](https://al-akhbar.com/Archive_Research/151393).

<sup>87</sup> Based on responses to the issued questionnaire.

was placed “under study” in 2007 in view of its deterioration living conditions, incompatible land uses (industrial in the vicinity of densely populated areas), strategic coastal location, and proximity to Solidere.<sup>88</sup> It is also believed that placing the zone under study back then was intended to set the grounds for the envisioned Linord project, which would change the relation of Matn with the sea. This long-stalled project is one of many cases of maritime public domain privatization in Lebanon. Its implementation is likely to lead to more social inequalities and exclusions.

## E. LAND-RELATED IMPEDIMENTS TO IMPLEMENTING VITAL PROJECTS FOR LOCAL ECONOMIC DEVELOPMENT

Electricity and solid waste management are high priorities for the municipalities of the Matn. Nabay municipality has initiated a solar power project on municipal land and plans to produce power and ensuring street-lighting at night and the energy of a municipal multi-use community center<sup>89</sup> in the short run. Other small-scale successful initiatives also exist in the area.<sup>90</sup> For example, Bickfaya municipality constructed a well-functioning solid waste recycling plant, and environmental and industrial engineer/ entrepreneur Ziad Abi Chaker succeeded in building a composter factory.<sup>91</sup>

While such projects are potentially replicable in other municipalities, land availability is often a big obstacle for many municipalities in Matn UoM. Even when funding is available, the question of land might delay or stop vital projects. For example, funding is potentially available (through the Swiss) for the establishment of a solid waste factory in Matn UoM. Land remains, however, unavailable.

Larger scale interventions are more difficult to implement in view of land politics. As mentioned above, solid waste poses a major challenge to the development of coastal Northern Matn mainly to the municipalities of Bourj Hammoud and Jdaidet el Matn (where the existing landfill is located). It was decided in 2016 that the landfill will stay until 2020. No alternative location was found during these four (4) years, again because no one in another area would accept to take it and because it was difficult to export it. The only solution was dumping at sea. There was a proposition for a land reclamation project composed of one-third (1/3) solid waste and two-thirds (2/3) rubble. The project extends from Bourj Hammoud/ Jdaidet El Matn landfill to Antelias. Supposedly, it contributes to the Linord project, which has been hindered by many factors.

## 3.3 Conclusions and Policy Recommendations

This section of the report addressed the role of territorial planning in local economic development in the UoM of Northern, Coastal, and Central Matn. It underlined the presence of important cultural and natural assets (e.g., forested areas, natural areas, and archaeological sites) in the union that can potentially help reinvigorate the local economy in the short and medium-to-long terms. Inquiry into this matter, however, shows that these assets suffer from neglect, lack of protection, and poor management. This is largely because the existing urban and territorial planning system neither supports nor guides land investors to the location and types of needed investments. The consequence is a twofold challenge to LED:

- The area’s public and communal lands and productive, cultural, and natural landscapes which constitute a main pillar of the local economy—including sites recognized by the NPMPLT as significant natural sites of national importance—are threatened by encroaching urbanization, speculative development, and illegal transgressions.
- The UoM and municipalities of the area are challenged to leverage state and municipal owned lands for vital local development projects (e.g., infrastructure and public services, affordable housing, open markets, municipal gardens) that can potentially enhance the livability of urban and rural areas and stimulate private sector economic activities.

<sup>88</sup> See article of Mona Khechen (December 9<sup>th</sup>, 2020), the Legal Agenda:

أي مستقبل ينتظر الكرتينا بعد انفجار مرفأ بيروت؟ (2/3) “لينور” و “قدموس”.

<sup>89</sup> The community center will welcome and provide business and library services to local entrepreneurs, students, and other community members looking to upgrade their skills and receive trainings.

<sup>90</sup> During the Matn SLAT workshop on July 23<sup>rd</sup>, 2021.

<sup>91</sup> During the Matn MSPG workshop on August 11<sup>th</sup>, 2021.

This section also highlighted that many of the territorial planning challenges facing the UoM are country-wide challenges stemming from institutional fragmentation, outdated urban and territorial planning framework (or lack thereof), and economic and political aspects of land use regulations that serve private interests rather than the public good. This reality poses a serious challenge to sustainable development at both the national and local levels. Lebanon's economic and financial crunch is worsening the situation. Significantly, the spike in food and fuel prices, rising poverty and unemployment levels, inadequate infrastructure, and insufficient public services require an integrated and holistic territorial planning approaches that bridge economic, social, and environmental goals.

Local governments everywhere in Lebanon are compelled today to rethink territorial planning and development along two (2) tracks, the immediate and the strategic. These two (2) tracks are interrelated—sustainable development being defined as “meeting the needs of the present without compromising the ability of future generations to meet their own needs.”<sup>92</sup> Based on this understanding, it **will be important from a territorial planning and development perspective to prioritize sustainable land management** in policy dialogues on the linkage between local economic development and municipal empowerment and resilience, with special emphasis on the socio-economic needs and land rights of vulnerable groups and the global commitment to “ensuring that no one is left behind”.<sup>93</sup>

***In this regard, and considering the suggestions of various people consulted in the LED assessment, key broad recommendations for short term action are:***

- **Invest in agricultural reclamation and support small farmers so they do not leave their land.** Land abandonment is a main factor behind land degradation and loss of health and productivity. This is a key global and national challenge that requires “a paradigm shift in land stewardship: from ‘degrade-abandon- migrate’ to ‘protect-sustain-restore’”.<sup>94</sup> Particularly in the context of Lebanon’s looming food crisis this kind of investment becomes even more crucial.
- **Invest in hands-on educational programs geared towards reconnecting people with land.** Land in Lebanon is generally regarded as commodity. This logic ought to change as land has a cultural and social value that can boost its economic value and help provide new income opportunities to vulnerable groups (including women and refugees).
- **Assess the development potentials of public and communal lands** based on detailed socio-economic surveys, land suitability studies, and environmental plans geared towards protecting valuable landscape and sites while respecting existing land rights; and support municipalities to gain access to lands that can be deployed for projects serving the public good.
- **Protect important natural and cultural landscapes and agricultural land** by laws and regulations that reject their classification, or reclassification, for other uses.<sup>95</sup> This entails designating the land use of productive lands located in unplanned areas as “agricultural”. This also involves exploring collective forms of land management (e.g., the concept of *hima*,<sup>96</sup> the role of agricultural cooperatives, and land trusts) and strengthening multi-level collaborations.

<sup>92</sup> Definition advanced in 1987 by the United Nations Brundtland Commission.

<sup>93</sup> UNDP. 2018. What Does it Mean to Leave No One Behind? A UNDP Discussion Paper and Framework for Implementation.

<sup>94</sup> United Nations Convention to Combat Desertification (UNCCD). Contributions to the 2030 Agenda for Sustainable Development Submission from the UNCCD, 28<sup>th</sup> February 2017. <https://sustainabledevelopment.un.org/content/documents/13708UNCCD.pdf>

<sup>95</sup> As mentioned earlier in this around 85 percent of the Lebanese territory is unplanned, i.e., does not have land use classifications.

<sup>96</sup> The *hima* (Arabic for “protected natural area”) is a communal system of resource tenure that has been practiced since centuries in several Arab countries, including Lebanon. It is believed that this traditional system is “one of the most successful institutions integrating nature conservation with human well-being”. For more information see: International Union for the Conservation of Nature and Natural Resources – Society for the Protection of Nature and Natural Resources. 2007. *Al-Hima, a way of life*.

04

# HUMAN CAPITAL



# 04 HUMAN CAPITAL

The second factor in our conceptual framework that could lead to low social return is low human capital. While Lebanon is known to have a relatively high human capital, the onset of the financial crisis is affecting its quality. The aim of this section is to identify the changes in human capital accumulation and its determinants in the last year using newly collected survey data.

Human capital is a main contributor to economic development, as its accumulation increases the levels of skill and productivity of the resident population, which has a direct positive outcome on economic outputs. In the context of a deteriorating economic situation in Lebanon, analyzing the determinants of human capital, mainly education and health, is a necessity. Indeed, a decrease in the standards of health and nutrition have immediate adverse effects on the ability of individuals to engage actively in the economic sphere, while lowered access to education plays a major role in weakening the pool of skills and knowledge that can shape local economic development in the long term.

The section relies on data collected through a representative household survey with six hundred (600) households in the union of municipalities of Northern, Coastal, and Central Matn. The sample was stratified by municipality with the main characteristic being the vulnerability of the area. Accordingly, two hundred ninety-one (291) households were selected in non-vulnerable municipalities, while three hundred-nine (309) were selected in vulnerable municipalities.

The section is divided as follows: First, we present the socio-economic characteristics of the Northern, Coastal, and Central Matn UoM and the changes since the onset of the crisis. Second, we analyze the main determinants of human capital, which are healthcare, proper nutrition, and education. We then explore the interaction between the working population and the local economy by investigating the labor dynamics and employment outcomes. Fourth, we look at the access to public services, housing, and their quality, in the area. Finally, we observe emerging trends in emigration, which plays a crucial role in shaping human capital in the short and long terms.

## 4.1 SOCIO-ECONOMIC CHARACTERISTICS

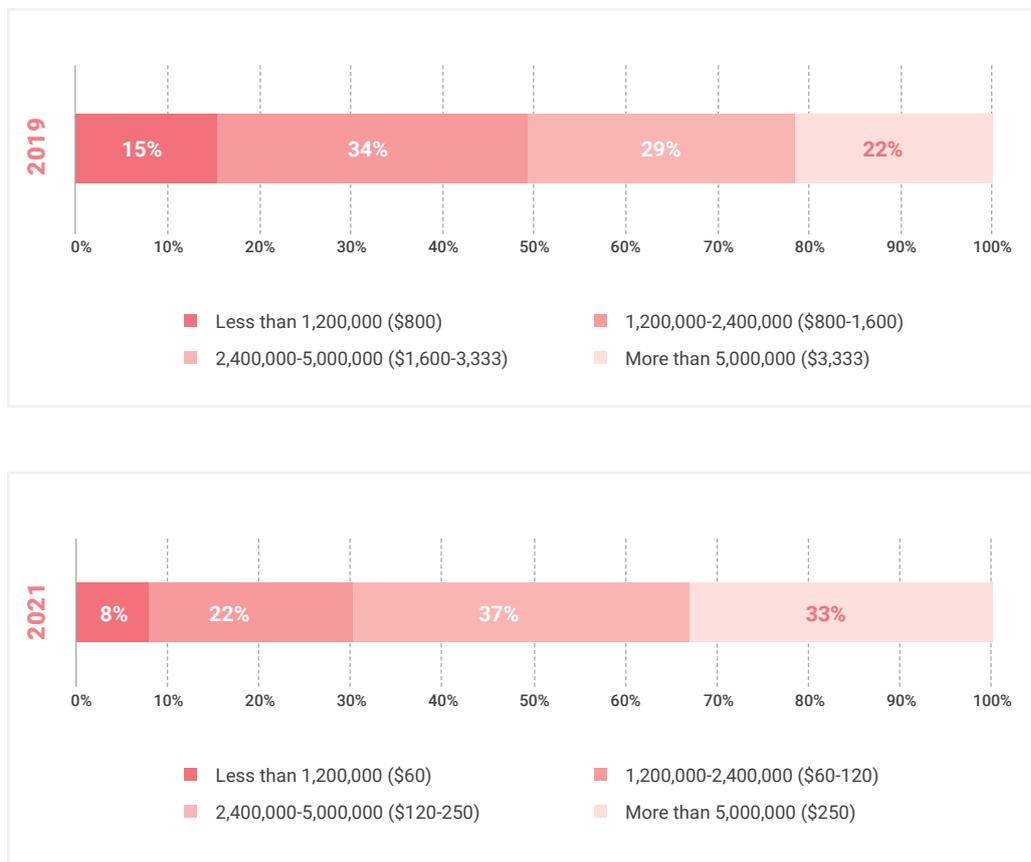
Socio-economic characteristics, which include income and financial situation, determine access to healthcare and education, and therefore feed into human capital development. In this section, we highlight the recent changes in socio-economic characteristics in the UoM of Northern, Coastal, and Central Matn since the start of the crisis. The results shed light on a deteriorating situation.

The survey results show that most households (93 percent) earn in Lebanese pounds and therefore have not been able to maintain the same standards of living. While average income in Lebanese pounds has increased, the increase is far from being proportional to the devaluation of the local currency. Before the crisis, most households were already better off than those in other regions, as

the vast majority earned well above the minimum wage. In 2019, 51 percent of households earned over USD 1,600 per month (total household income as reported by respondents), equivalent to over LBP2,400,000 at the official exchange rate of LBP 1,500 to the dollar. However, today, nearly 70 percent earn less than LBP5,000,000, which, using the average LBP-USD exchange rate of 20,000 on the parallel market, amounts to less than USD 250 (figure 9).<sup>97</sup>

A regression analysis highlights the factors that significantly affect household income. First, controlling for levels of education and employment, women-headed households have, on average, lower income. Higher levels of education are positively correlated with income, which could be related to having higher-paying jobs. Additionally, while having an illness does not significantly affect income, when illness inhibits an individual’s ability to work, their income is generally lower.

**FIGURE 9 Household income in Matn UoM in 2019 and 2021 in USD, considering the official exchange rate in 2019 (1,500) and the average exchange rate on the parallel market in 2021 (20,000)**

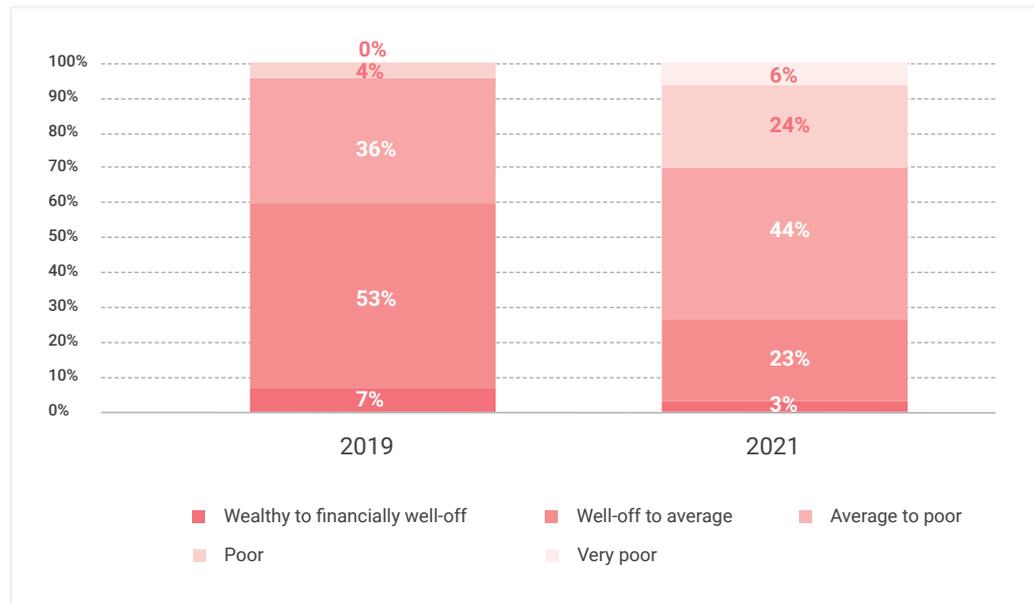


<sup>97</sup> Assuming an exchange rate of 1,500 in 2019 and 20,000 in 2021. Here we report the income of households who reported their income in Lebanese pounds. Twenty-eight (28) households reported their income in USD: 29 percent earn less than USD 433; 18 percent earn between USD 433-800; 21 percent earn between USD 800-1,600; 21 percent earn between USD 1,600-3,333, and 11 percent earn over USD 3,333. Twelve (12) households reported their income in Lollar: 42 percent earn less than USD 433; 25 percent earn between USD 433-800; 25 percent earn between 800-1,600, and 8 percent earn between USD 1,600-3,333.

In line with the results above, households consider themselves to be moving closer to poverty, as self-assessed financial situations have become much worse. Beyond income, self-assessed financial situation provides a measure of whether households are able to cover their needs. In 2019, 40 percent of heads of households considered their household to be average to very poor, while today that share has jumped to 74 percent; and 60 percent considered their household as wealthy or well-off in 2019, compared to only 27 percent today. Overall, 61 percent of households consider their financial situation to have worsened (while 39 percent assess it as being similar and only 0.1 percent as having improved) (figure 10).

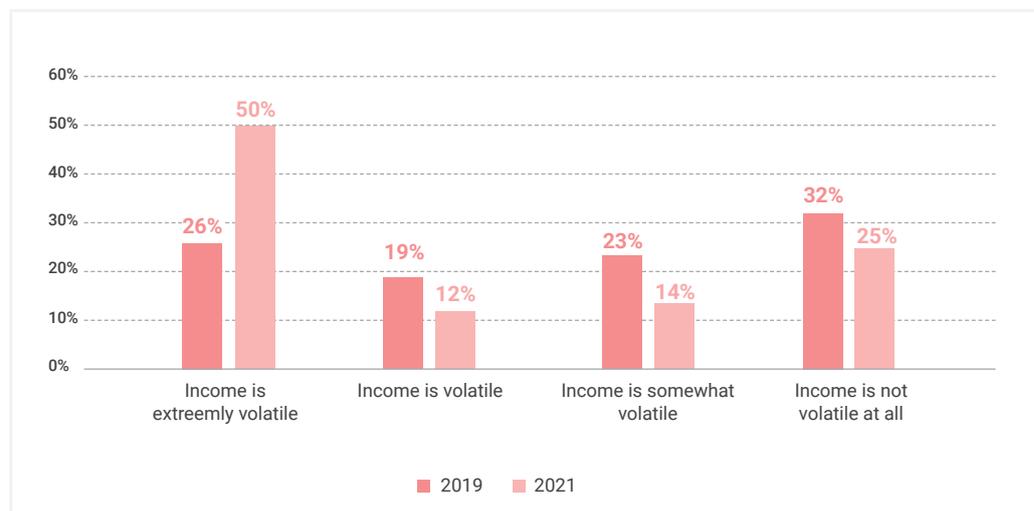
Generally, households with lower income are significantly more likely to have experienced a drop in their self-assessed financial wellbeing. Having an illness negatively affects self-assessed financial situation, which could be related to having to cover additional medical expenses or lower ability to work. Furthermore, lower levels of education are correlated with a drop in self-assessed financial situation, potentially due to having lower salaries, although being employed is not statistically significant.

**FIGURE 10** Self-assessed financial situation of households in 2019 and 2021



Additional indicators of socio-economic situation highlight income insecurity, as income is becoming increasingly hard to predict—62 percent of households consider their income to be extremely volatile or volatile, compared to 45 percent who did in 2019. Only a quarter have a stable income, compared to a third in 2019 (figure 11).

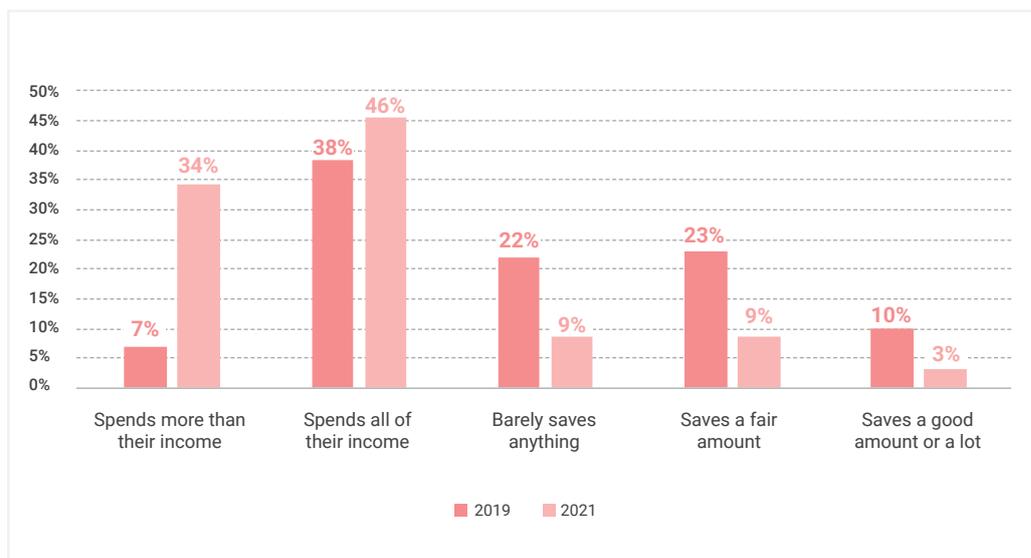
**FIGURE 11** Income stability in 2019 and 2021



Accordingly, households have much less savings than they used to: A third of households are spending more than their income (34 percent, compared to 7 percent in 2019) and a near majority are spending all of their income (46 percent, compared to 38 percent in 2019), while 20 percent are able to save a certain amount, if anything (down from 55 percent in 2019). Higher-income households are able to save a certain amount, but even the majority of them spend all or more of their income (figure 12).

This inability to save some income, combined with current banking restrictions that prevent access to any savings households may have had in the past, may lead to lower investments in health, education, nutrition, or housing, which poses a threat to society’s well-being in both the short and long-term.

**FIGURE 12 Household savings in 2019 and 2021**



The drop in socio-economic conditions of households in Matn Union could be partially due to the decrease in the value of real wages and salaries. Indeed, salaries are mainly in Lebanese pounds (94 percent heads of households earn their full salary in LBP) with only a few heads of households earning in USD (1 percent).<sup>98</sup> While salaries have increased for the majority of employees (55 percent of heads of households), the increase has been far from proportional to the devaluation of the local currency—averaging an extra 10 percent increase for most.

In terms of purchasing power, 43 percent of those who have had a salary increase consider their salary to be lower, in terms of what it can cover (compared to 93 percent of those who have had a salary decrease), while 35 percent of those who have had a salary increase consider their purchasing power to have increased as well. This means that, while those who have had a salary increase are comparatively better able to cover their expenses, a higher share still considers that their purchasing power has decreased.

<sup>98</sup> Employees (full and part-time) represent 41 percent of heads of households in the sample.

## 4.2 ACCESS TO AND QUALITY OF HEALTHCARE

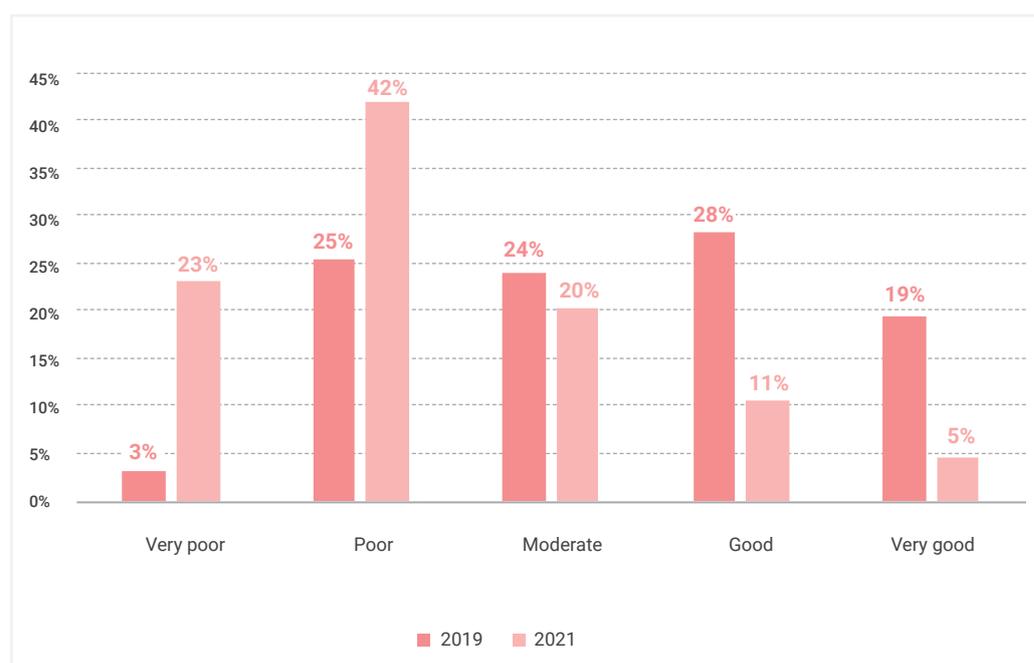
The following section provides an overview of access to and quality of healthcare in the Matn UoM. While healthcare coverage in the union is higher than that in other regions, less than half of surveyed heads of households, or their children, have health insurance (46 percent of heads of households, 49 percent of children, and 42 percent of other adults in the households).

Coverage is by far more common among retired individuals (75 percent), nearly all of whom have state-funded coverage. It is significantly lower among the unemployed (7 percent) and inactive heads of households (21 percent), and close to the average among employed respondents (48 percent). Most heads of households have private self-funded health insurance (42 percent), followed by private insurance funded by the employer (27 percent) and state-funded coverage (26 percent).

The access to healthcare households now receive is much lower than it was in 2019, as the share of those who consider it to be poor or very poor has more than doubled (from 29 percent in 2019 to 65 percent today). The main reason behind this drop is due to shortages in medication (54 percent)—which has become a national problem—followed by financial difficulties (35 percent) faced by households. However, most heads of households who have an illness or disability (22 percent of heads of households) are receiving the treatment they need (69 percent), although those who are in need of additional treatment again attribute this mostly to lack of availability on the market (56 percent) and it being too expensive (44 percent).

A regression analysis highlights factors that significantly affected the drop in the access to healthcare households are receiving. Although income is not a significant factor, those who have an illness are more likely to have experienced a drop in their access to healthcare compared to 2019. This could be related to the shortages in medication, which is inhibiting individuals from accessing the care they need.

**FIGURE 13** Quality of healthcare received by households in 2019 and 2021

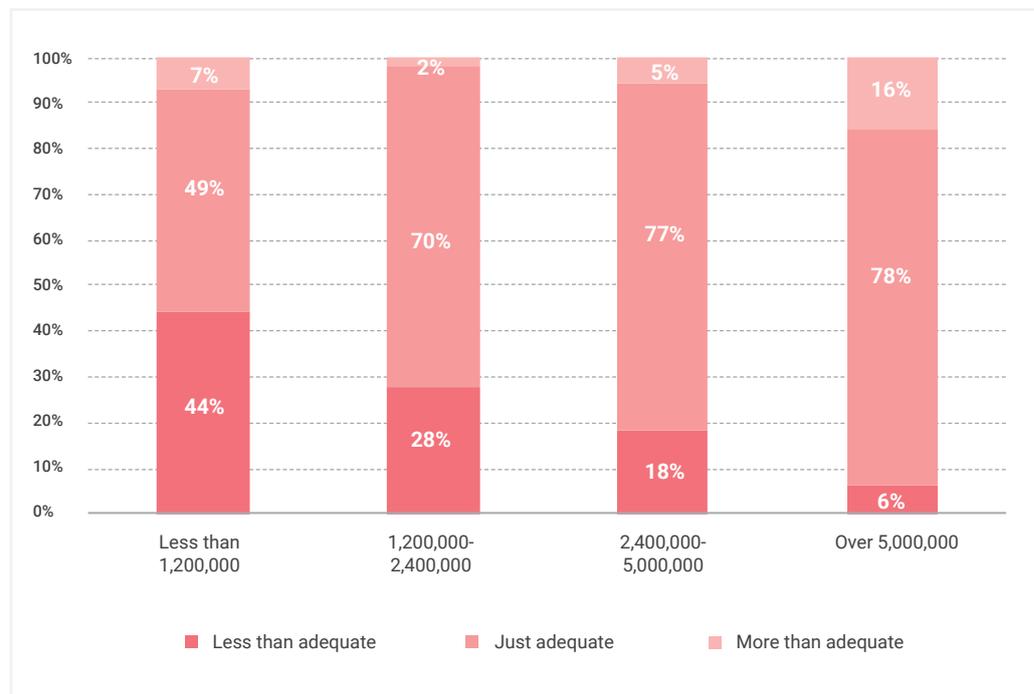


In addition, children’s access to healthcare is also dropping, and there is a relationship between household income and children’s ability to consult healthcare professionals. In the past year, 33 percent of households’ heads report that the number of times their children visited a healthcare professional (including doctor or nurse) was insufficient, given the child’s healthcare needs. The rate is much higher among lower-income households: 46 percent of the lowest-income households (less than LBP 2,400,000 per month) reported that their children’s medical visits were insufficient, compared to only 25 percent of the highest-income households (over LBP 5,000,000 per month).

Overall, although households’ access to healthcare has decreased, the majority of heads of households consider the quality of healthcare their households receive as being adequate. However, households with higher income assess it as being better compared to those with lower income. Indeed, over a third of the lowest-income households see their quality of healthcare as being less than adequate (figure 14). Lower-income households are also comparatively spending less of their income on healthcare than they used to in 2019.<sup>99</sup>

Income is a statistically significant factor when controlling for other factors through a multivariate regression analysis, as households with lower income are indeed less likely to perceive their standards of healthcare as adequate. Those who have an illness or disability are also more likely to have inadequate healthcare standards. Other significant factors are medical expenditures and nutritional habits: Households who have reduced their medical expenditures and changed their nutrition habits since the start of the crisis are more likely to be receiving less than adequate healthcare.

**FIGURE 14** Quality of healthcare households are receiving by income



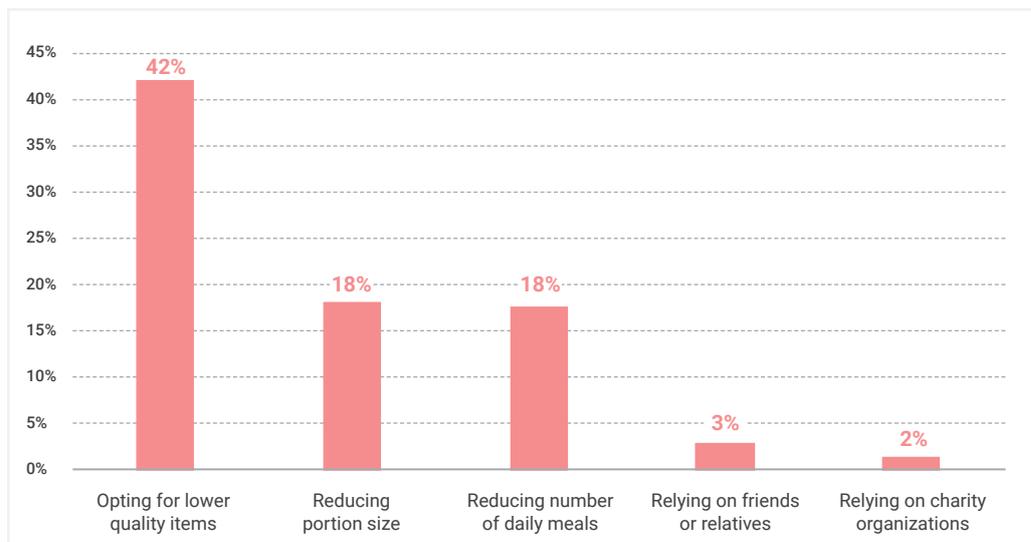
<sup>99</sup> Most households (75 percent) are spending the same amount on medical expenditures than they used to in 2019. This share is much higher among the highest-income (those who earn over 5,000,000 per month) households than it is among the lowest-income ones (those who earn less than 1,200,000 per month). On the other hand, 20 percent of lower-income households are spending less of their income on medical expenditures, compared to 3 percent of higher-income households, and 18 percent are spending more, compared to 10 percent of higher-income households.

## 4.3 NUTRITION

In order to be healthy, individuals need to receive their nutritional needs. The results above show that the quality of healthcare has dropped. What is even more worrying is the rise of malnutrition.

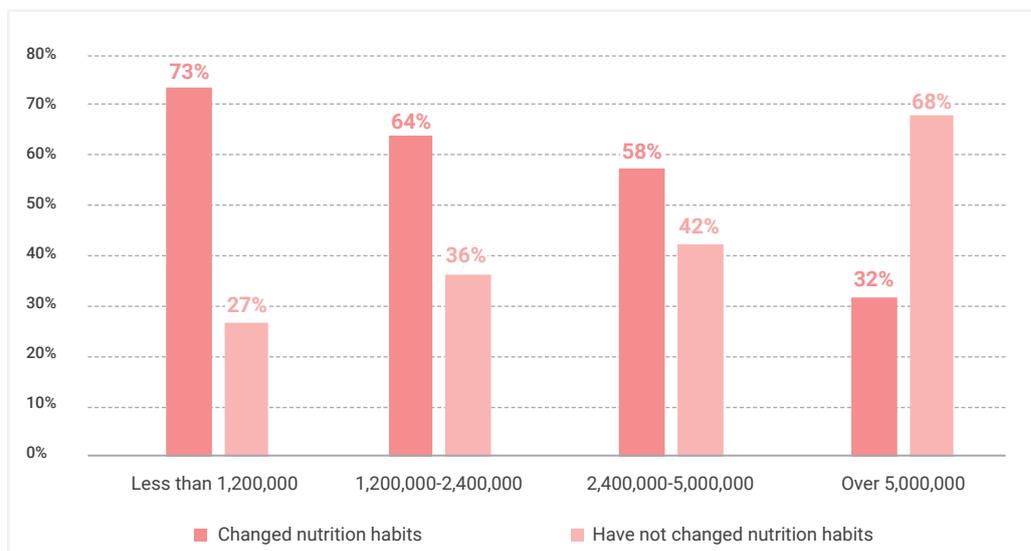
More households are compromising their nutritional needs in order to deal with the deteriorating financial situation, as the majority of households (52 percent) have had to adopt negative coping strategies related to nutrition. The most common change in nutritional habits has been opting for lower quality items (42 percent of them), followed by reducing portion size and reducing the number of meals (18 percent each), which points at rising malnutrition among Matn Union's population (figure 15).

**FIGURE 15** Changes in nutritional habits since the start of the crisis



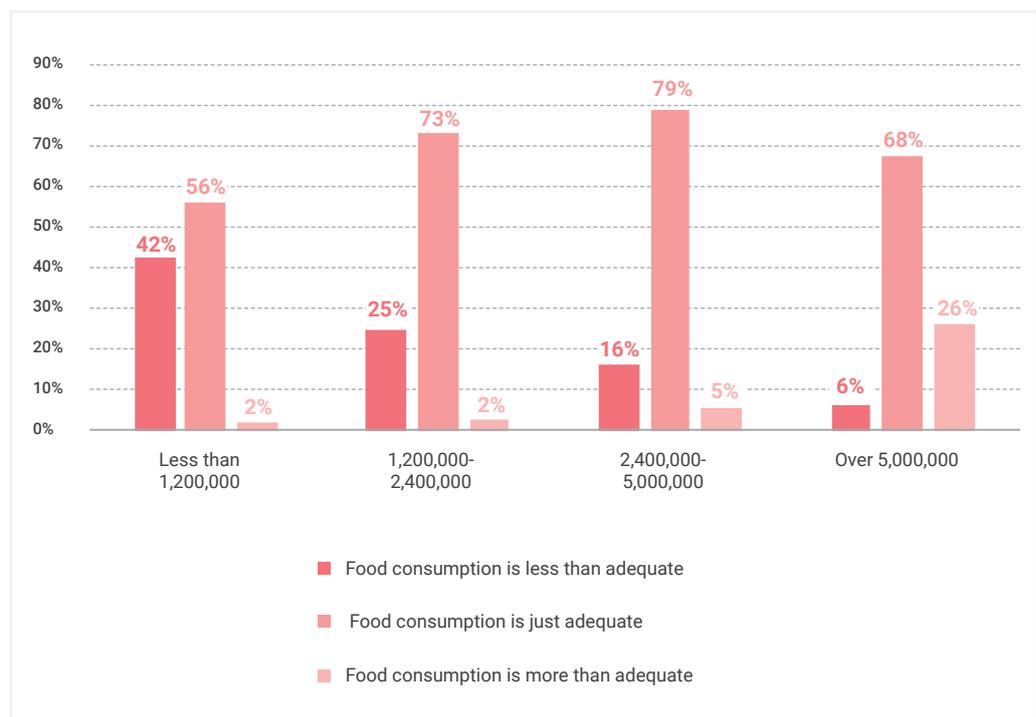
There are clear income variations: Lower-income households have adopted such negative coping strategies at higher levels, while the majority of households in the highest-income group have not had to change their eating habits. This relationship is highly statistically significant. Related to this, households who have experienced a drop in their assessed financial situation are significantly more likely to have adopted negative coping strategies related to nutrition (figure 16).

**FIGURE 16** Changes in nutritional habits across income groups



While the majority of households assess their food consumption as adequate, the lowest income groups have a much higher share of those who see it as less than adequate (42 percent), while the highest income group have a higher share of those who see it as more than adequate (26 percent). The relationship between income and considering the food consumption as less than adequate is again highly significant. In addition, those whose financial situation worsened since 2019 are more likely to consider their food consumption to be less than adequate. Having an illness and having adopted changes in nutritional habits are also positively correlated with considering food consumption as less than adequate, which could be potentially due to having to spend more on healthcare.

**FIGURE 17** Adequacy of food consumption households are receiving by income categories

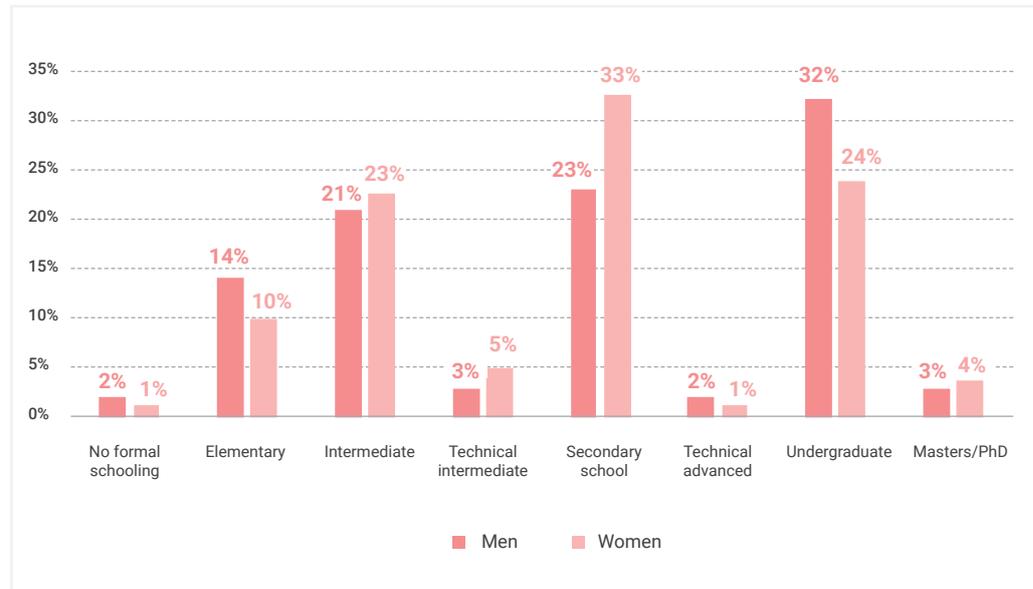


## 4.4 EDUCATION

Education is an important determinant of human capital, as it contributes to building the workforce. The survey results show that levels of education and skills in Matn Union are relatively high. One-third of heads of households have a university degree, although a quarter have a secondary and 37 percent have achieved intermediate education at best.

There are some gender variations. Among the heads of households, men have higher levels of education, with 37 percent of them holding a vocational training or university degree, compared to 29 percent of women heads of households. However, among other adults in the households (all adults excluding heads of households), women tend to be more educated, with 34 percent of them holding a vocational training or university degree, compared to 19 percent of men.

**FIGURE 18** Levels of education of surveyed heads of households by gender



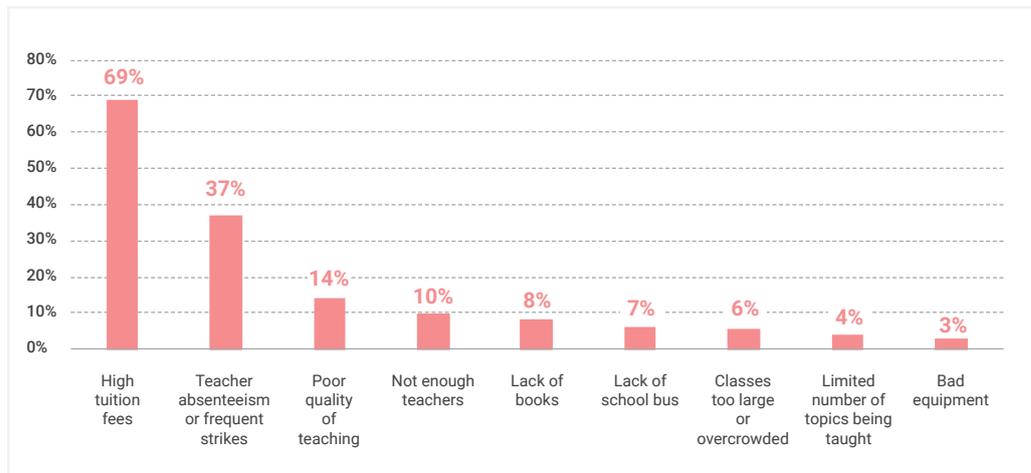
Language skills are high, as 78 percent are able to speak at least one language in addition to Arabic. Computer and manual skills are much less common, with only 40 percent being able to use common computer software and 34 percent having at least one manual skill.

Among children, enrolment rates in Matn Union are high, as nearly all children of schooling age (5-18) are currently attending school (97 percent). Furthermore, 66 percent of those aged between 5 and 29 have completed an undergraduate or post-graduate degree, highlighting high levels of education in the region. There are variations across gender among children. Women have, on average, higher levels of education, as 76 percent of have either a vocational or university degree, compared to 63 percent of men.

The main reason for stopping education cited by respondents is having acquired the desired level of education (60 percent of those aged between 5 and 29 who are not currently attending school) or having found work (15 percent), showing that there are little financial constraints to pursuing education among Matn Union's children and youth.

However, despite this, 69 percent of households reported that a main challenge faced during children's education has been high tuition fees. This was followed by teacher absenteeism or frequent strikes (37 percent) and a poor quality of teaching (14 percent). Overall, 61 percent of households reported challenges related to teaching (absenteeism, poor quality of teaching, and lack of enough teachers). This suggests that, beyond ensuring access to education, the quality of education should be improved: There is a need to hire qualified teachers and provide more training to those already teaching.

**FIGURE 19** Main challenges faced related to education

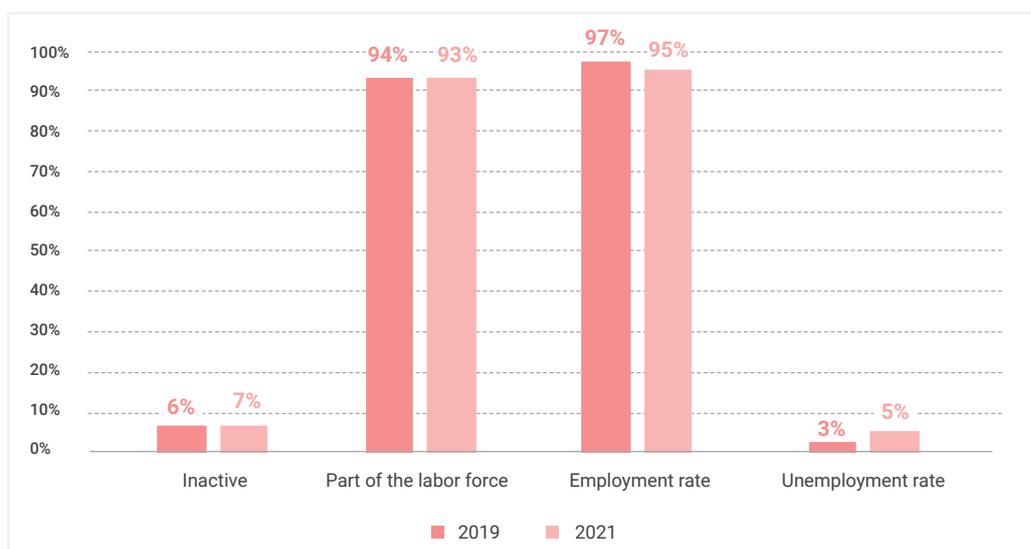


The Focus group discussions that the team conducted with teachers in February 2022, highlighted further issues in the education sectors. Participants noted that they were working longer hours due to a decreasing number of teachers. Indeed, the low salaries which are mostly paid in Lebanese pounds have pushed many teachers to leave their jobs, while those still teaching are barely making ends meet. Government has not provided any help or support to teachers.

## 4.5 LABOR DYNAMICS

Employment outcomes in Matn Union are positive. Nearly all heads of households are part of the labour force. The unemployment rate has slightly increased since 2019, from 3 percent to 5 percent in 2021, but almost none of the heads of households who were employed in 2019 have lost their jobs or have become inactive since (4 percent), however, those who are unemployed attribute this mostly to the lack of available jobs (75 percent). While the unemployment rate is similar across genders, labor force participation is lower among women (76 percent) than men heads of households (96 percent).

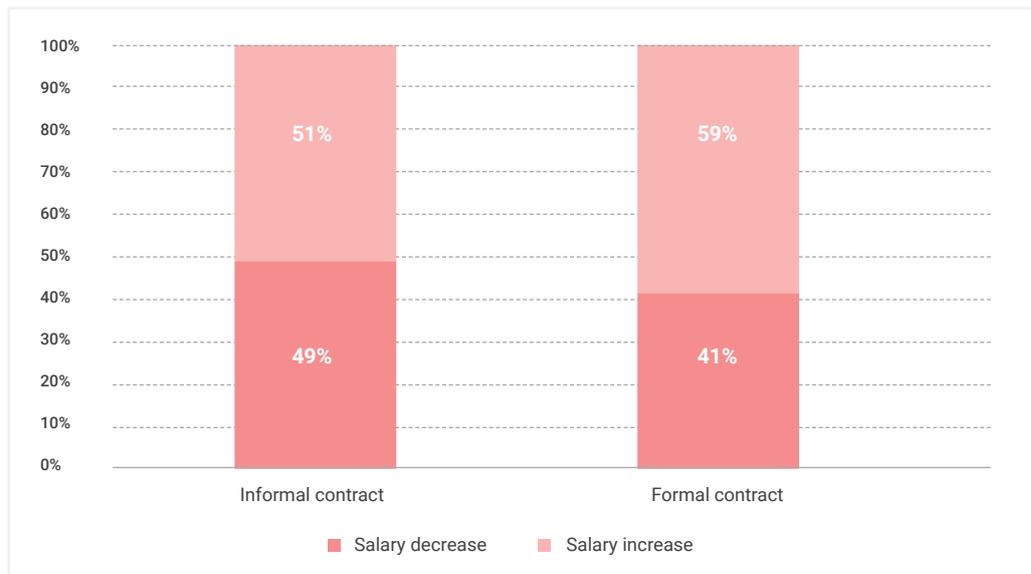
**FIGURE 20** Labor force participation among heads of households in Matn UoM



Most of the heads of households are self-employed (44 percent) or employees (41 percent), with a few being freelance workers (13 percent) and almost no seasonal workers (1 percent), suggesting employment stability. Most employees also have a formal contract (65 percent), while a third have an informal contract (35 percent).

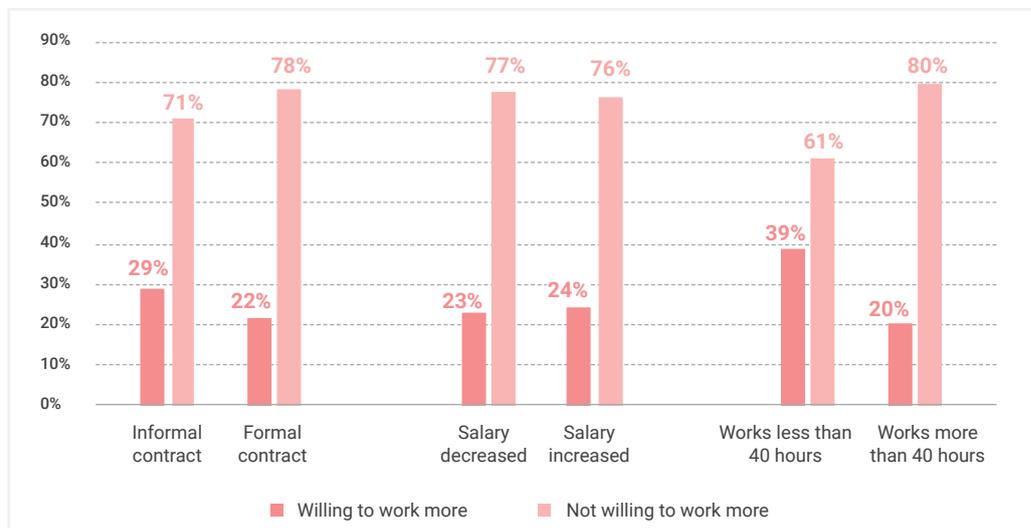
Among those who have a contract, informal (short-term, no duration, or no benefits) or formal (long-term contract), the majority have had a salary increase. However, the share of those with a formal contract who have had a salary increase is higher than the share of those with an informal contract (figure 21).

**FIGURE 21** Salary change by type of contract among employees (heads of households)



Underemployment is low, as 75 percent of surveyed respondents are not willing to work more hours; however, those who work part-time (less than 40 hours per week) are more likely to be willing to work more hours (39 percent compared to 20 percent of those who work more than 40 hours). Those who have an informal contract also reported being willing to work more more commonly compared to those with a formal contract (29 percent compared to 22 percent), although the shares are low in both cases (figure 22).

**FIGURE 22** Willingness to work more



Furthermore, when controlling for type of contract and salary change, older individuals are slightly more likely to be willing to work more hours. Those whose financial situation worsened since 2019 are also more likely to be willing to work more.

## 4.6 ACCESS TO INFRASTRUCTURE

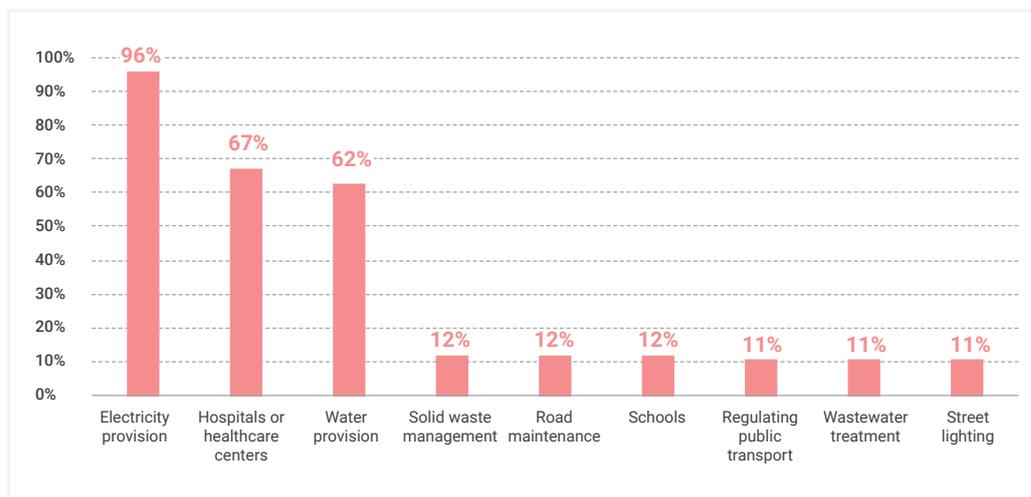
The following section presents respondents' priorities in public service deliveries. As unions of municipalities can have a role in providing such public services, the Matn union should address the needs of its population.

In Matn Union, infrastructure quality and public services are assessed as poor by the majority of households. Nearly all households (79 percent) rate electricity provision as poor or not provided at all—which is a national level problem. Other services that rank particularly low are solid waste management, water provision, wastewater treatment, public transport regulations, road maintenance, and street lighting.

When asked about the services that should be improved most urgently, nearly all respondents ranked electricity provision among their priorities (96 percent of households). This was followed by improving hospitals and healthcare centers (67 percent), and water provision (62 percent).

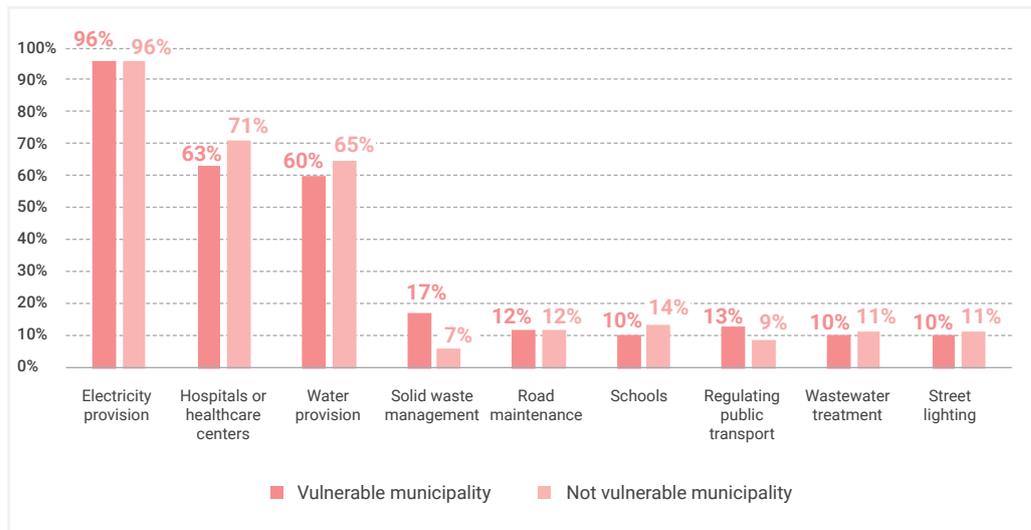
There are gender variations. Compared to men, women prioritize improving hospitals and healthcare centers (76 percent of women heads of households and 65 percent of men), as well as schools (16 percent of women compared to 11 percent of men heads of households). In other words, social services seem to hold more importance to women.

**FIGURE 23** Services that should be improved most urgently



While priorities do not vary across income groups, they vary by municipality. Overall, water provision, improving healthcare facilities, and schools are a bigger priority for those in non-vulnerable municipalities, while solid waste management and public transport regulations are more important for those in vulnerable municipalities (figure 24).

**FIGURE 24** Services that should be improved most urgently by municipality

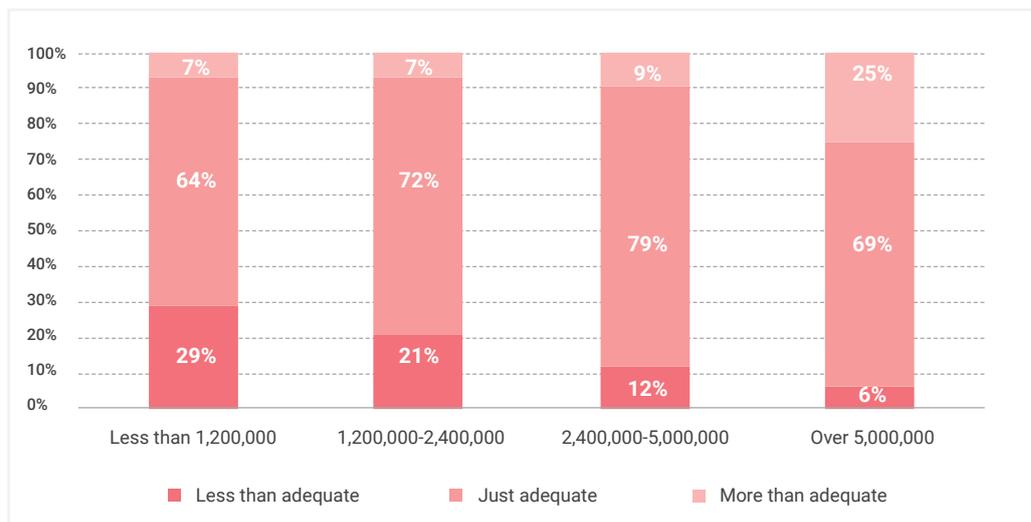


## 4.7 HOUSING

Although the development of housing policies and provision of housing related financial schemes are the remit of the central government through the Public Housing Cooperation and in coordination with the BDL, adequate housing is an essential need and local authorities should seek to strengthen housing conditions within the prerogatives granted to them by the Municipal Legislation.

Most households in the Matn Union consider their standards of housing as adequate (73 percent), although the standards are considered higher among higher-income households: 25 percent of households with the highest income consider their housing to be more than adequate, compared to 7 percent of lowest-income households. On the other hand, 29 percent of the lowest-income households consider their standards of housing as being less than adequate, compared to 6 percent of the highest-income households.

**FIGURE 25** Standards of housing by household income



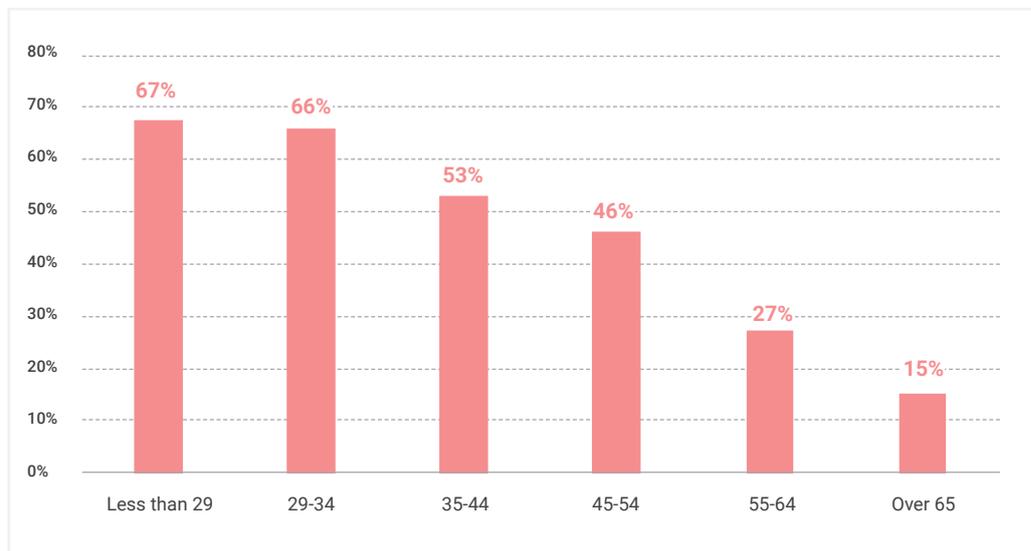
Standards of housing are also comparatively better among those who own their house (20 percent consider them as more than adequate), but much worse among those who rent (24 percent consider them as less than adequate). Standards of housing also tend to be slightly less adequate in vulnerable municipalities, where the share of households renting their house is also higher than the share in non-vulnerable municipalities (38 percent rent their house compared to 23 percent). Furthermore, most of those who rent their house have had a rent increase and are now experiencing some difficulty with paying their rent, putting them at risk of housing insecurity. This points at the need to target vulnerable municipalities and ensure that rented houses are within good standards.

## 4.8 EMIGRATION

Matn Union is experiencing a brain drain, as 40 percent of heads of households are planning to emigrate. The main reason is to look for job opportunities abroad (86 percent of those who plan to emigrate). However, surprisingly, the share of those who are planning to emigrate is higher among the employed (43 percent, compared to 30 percent of unemployed individuals). There are barely any gender variations, as 43 percent of women heads of households are planning to emigrate, compared to 40 percent of men heads of households.

A striking relationship exists between age and plans to emigrate—the majority of respondents aged less than 45 have taken steps to emigrate, while less than half of those aged above 45 have done so. The share is particularly low among the elderly (15 percent), which also reflects low intentions to emigrate among retired individuals (18 percent).

**FIGURE 26** Plans to emigrate by age



Having social networks abroad also seems to positively affect one’s intentions to emigrate. Indeed, 67 percent of those who have had a family member or friend emigrate in the last year are planning to emigrate themselves, while 31 percent of those who have not experienced emigration in their close circle are planning to emigrate.

A multivariate regression highlights that one’s financial situation or employment status do not seem to affect intentions to emigrate. Controlling for these factors shows that younger individuals

are significantly more likely to be planning to emigrate, and that having friends or family who have recently emigrated is also positively correlated with intentions to emigrate. The threat of a brain drain points at the dire need to create employment opportunities, particularly for younger individuals, who may now be suffering from even more from the deteriorating situation in the country. Higher emigration among the youth will reduce the human capital pool in Lebanon, and thus poses a threat to long-term economic development.

## 4.9 CONCLUSION AND POLICY RECOMMENDATIONS

Local communities in the Matn UoM are becoming increasingly vulnerable. The population is being pushed into poverty as income insecurity and volatility are rising, which hinders the population's ability to invest in their future. Consequently, as investment in human capital decreases, the future and health of the workforce is under threat both in the short and long term. While some of the social repercussions of the economic crisis are a national-level problem, local authorities can play an active role in mitigating the risks of society falling further into poverty and deprivation.

The results of the survey show that the population in the union of municipalities of Northern, Coastal, and Central Matn is being pushed into poverty, as income have sharply decreased. Income instability is on the rise, as households are finding their income to be increasingly hard to predict, which may negatively impact their future investments in education or healthcare. While salaries and wages have increased, nearly all employees are paid in local currency and their salaries have not increased in line with the devaluation of the Lebanese pound. Respondents reported reduced access to and lower quality of healthcare compared to 2019.

This can be partially attributed to shortages in medication and financial difficulties which are preventing individuals from seeking and receiving proper care. One worrying finding is that the majority of households have had to compromise their nutritional needs in order to cope with the deteriorating financial situation. This is posing an urgent threat to society's wellbeing, not only in the short term but in the long term as well. Furthermore, lower-income households are compromising their nutrition at much higher rates. Finally, Matn Union is suffering from a brain drain particularly among youth; though this trend exists across the labor force.

A priority in the Matn UoM is the healthcare sector. Residents seem to prioritize improvements in healthcare facilities, a measure which falls under the prerogative of UoMs. The UoM should therefore think of investing in healthcare facilities, ensure that medication is available on the market rather than stored, and provide medical assistance to those in need. Furthermore, in light of rising malnutrition which is posing an urgent and long-term threat to society, the UoM could provide food aid or collaborate with charity and civil society organizations in order to ensure the nutritional needs of its population.

The UoM must also address challenges faced in the education sector. Education institutions suffer from understaffing, as low salaries are pushing teachers to leave, and those who remain are having to work longer hours. Municipalities have yet to provide any support in the sector. In order to address this, the UoM can increase the human resources in the education sector, organize trainings for existing teachers, and ensure the curriculum offers valuable and diverse skills. The UoM should also support teachers by pushing for salary raises or covering transportation costs.

Furthermore, emigration trends point at a decreasing human capital pool in Matn, which poses a threat to long-term economic development. There is a need to create employment opportunities and the UoM could collaborate with the private sector in order to identify which workers are in demand.

Finally, infrastructure quality and public service provision in Matn are poor. Electricity provision ranks particularly bad, and although this is a national issue, the UoM could invest in renewable energy sources as a local solution to a national-level problem. Solid waste management is also a common concern, which calls for encouraging and supporting recycling and sorting initiatives, which the union could promote in partnership with NGOs. Water provision is also in need of improvement, and the union should address this by building better water and sewage networks.

05

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# MARKET ANALYSIS: SHOCK-WEARY MARKET IN THE MATN UOM REGION



# 05

## MARKET ANALYSIS: SHOCK-WEARY MARKET IN THE MATN UOM REGION

Poor local development could also be attributed to low appropriability. That is local economic actors are not reaping their investment efforts due to market or government failure. In this section, we examine generally market failures and the obstacles facing firms which is preventing them from (re-)investing in the region.

Faced with currency depreciation, inflation, and restricted access to credit/microcredit following Lebanon's financial crisis, many local businesses ended up with large losses in their financial books. Furthermore, dwindling foreign currency reserves since the onset of the crisis have also largely limited the ability of the central bank of Lebanon to subsidize essential raw material– the bread and butter of the region's private sector– such as fuel.<sup>100</sup>

In light of the above, this section aims to unpack the specific market conditions that have come to surface and influenced LED in the Matn UoM region since the onset of the crisis. To establish this, we spotlight a key development actor, namely the private sector, and assess the effect of the ongoing crisis on its performance and growth. Particularly, we examine how firms' employment growth – a key driver of local development – was affected during the crisis period. To complement these findings, the research then zooms in on private sector needs ranging from improved credit access and business support to road infrastructure, electricity, wastewater networks, traffic regulation, education, and health services.

The section is organized as follows. Part 5.1 summarizes the sectoral composition of the Matn UoM region's economy and its key characteristics.<sup>101</sup> Part 5.2 offers a binding constraint analysis that aims to gauge the effect of different business obstacles, such as weakened market conditions, inadequate governance and infrastructure, and weak human capital accumulation, on private sector activity. Part 5.3 presents a balance sheet analysis, with a focus on business sales, costs, and production capacity, to quantify the effect of the crisis on job creation and local development between 2019 and 2021. Part 5.4 explores firms' different survival strategies during the crisis such as remote work policy, voluntary closure, or altering staff working hours. Part 5.5 investigates the interaction between the Matn UoM area's private sector and the local government. Part 5.6 looks into the local economy's long-run prospects in light of the ongoing crises. Part 5.7 concludes with a few policy recommendations.

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<sup>100</sup> Prior to the crisis, the central bank made business access to raw material goods at a subsidized rate possible. However, amid dwindling foreign currency following the financial crisis, many of these subsidies were lifted.

<sup>101</sup> This is based on a firm-level survey conducted in the Al-Fayhaa region in December 2021 with one hundred twenty-six (126) firms. A detailed breakdown of the sample follows.

## 5.1 MATN'S LOCAL ECONOMY: KEY CHARACTERISTICS

Comparatively speaking, Matn is a well-off region of the country. Entering the crisis, average earnings were high, labor force participation was high including that of women, and unemployment rates were lower than the rest of the country. For example, the unemployment rate was 7.1 percent in Matn compared to 10.4 percent nationwide.<sup>102</sup> Such positioning of Matn helped shield its private sector for only some time, in the face of shrinking sales and soaring business costs.

Economic activity in Matn is concentrated in services and trade (wholesale & retail), followed by industry (manufacturing), and then agriculture to a much smaller extent. Prior to the crisis, 71.2 percent of men and 91 percent of women were employed in services and trade, 27.4 percent of men and 8.3 percent of women in industry, and 1.2 percent of men and 0.1 percent of women in agriculture.<sup>103</sup>

Industrial/manufacturing firms are concentrated in Matn (about 27 percent of all industrial establishments in the country are in Matn and employ a quarter of total workers).<sup>104</sup> Nonetheless, even in Matn, which has the highest population density of the country, the informal sector comprises a significant share of economic activity (more than a quarter based on the CAS LFHLCs 2018-19) and average firm size is quite small by international standards. For example, most firms belong to the less than five-worker category (based on the CAS 2004 Census of Buildings, Dwellings, and Establishments cited in the desk review).

These key features of economic activity in Matn are well reflected in the firm-level survey the team had conducted on one hundred twenty-six (126) enterprises in the Matn UoM region in December 2021. The majority (61 percent) belongs to the trade sector (wholesale & retail). Another 10 percent belongs to services, 14 percent to real estate, 9 percent to manufacturing, and less than 6 percent to agriculture.<sup>105</sup>

Even though the region's economy was classified as strong in past years, none of its economic sectors emerged unscathed following the market shock. As will be discussed in the next section, employment took a major hit in Matn, thus compromising LED in the area. This is especially the case in comparison to other regions.

More than 65 percent of the firms in Matn employed five (5) or fewer workers (full-time). The average firm size in 2019 (pre-crisis) was twelve (12) workers and the median firm size was three (3) workers.<sup>106</sup> By 2021, the average firm employed eight (8) workers (and the typical median firm employed only two (2) workers). It is also worth bearing in mind that these characteristics are computed based on the surviving firms that were surveyed in December 2021. In reality, employment fell more when accounting for all the businesses that shut down and dismissed all their workers. It is also evident that surviving firms have retrenched to their core, male, full-time workers. For example, the average share of temporary workers went down between 2019 and 2021 from 8.2 percent to 5.8 percent; the average share of non-Lebanese workers went down from 11.4 percent to 9 percent; and the average women worker share from 18.2 percent to 16.8 percent.

Other characteristics of the firms in the Matn sample confirm the small and diffuse nature of firms. More than a quarter are sole proprietorships and close to another quarter are family businesses. These firms do not have a diversified ownership structure and control is limited to an individual or family decision-maker. They are therefore more vulnerable to shocks if the individual or family's savings are also hit by the crisis and cannot be used to plug gaps in business cash flows. The larger firm type in the Matn sample is a partnership.<sup>107</sup> These are also associated with the largest firm size (twenty-two (22) on average and the typical one has eight (8) workers). Almost none of

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<sup>102</sup> CAS Labor Force and Household Living Conditions Survey (LFHLCs), 2018-19.

<sup>103</sup> Ibid.

<sup>104</sup> Ministry of Industry.

<sup>105</sup> While the weight of industrial manufacturing firms in the sample appears less than their population weight, other surveys such as the World Bank Enterprise Survey (WBES) intentionally overweight the manufacturing sector (more than half of surveyed enterprises in recent rounds) and also sample from larger firms with five (5) or more employees.

<sup>106</sup> The use of a median measure is favored because it captures the typical firm (at the 50<sup>th</sup> percentile).

<sup>107</sup> There are no limited liability companies (SARL) or joint stock companies (SAL) in the sample. All firms are privately owned; and only one is foreign owned. None are non-profit organizations.

the sampled firms export. Only four (4) of the one hundred twenty-six (126) companies sold some of their products in foreign markets.

One characteristic that highlights the fact that Matn along with the rest of the country is experiencing a sharp recession is that no firm in the sample has been established since the financial crisis. The youngest firms were established two years ago in 2019 (pre-crisis). This is a sobering statistic in that there has been anemic business creation in the Matn economy, if at all.

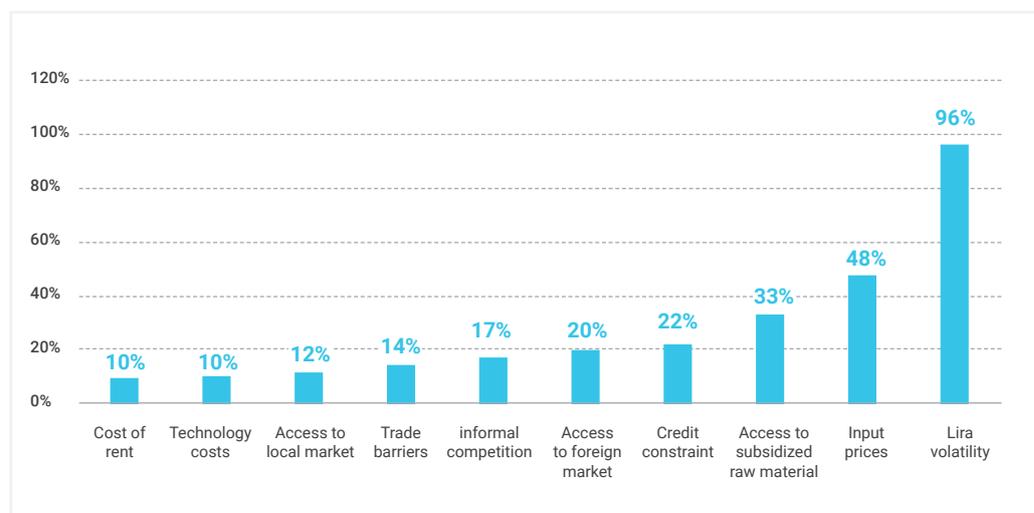
## 5.2 LOCALIZED GROWTH DIAGNOSIS

Building on Rodrik et al.'s growth diagnostics framework and the scaled-down version of the latter presented in Section 1, the team now analyzes the main constraints that unambiguously deterred firms' business activity during the crisis period. Sampled firms were each asked how they would rate certain obstacles (one (1) to four (4), four (4) indicating significance). These obstacles were subdivided into five (5) main categories: *market, human capital, governance, infrastructure, and territorial capital (land as capital)*.

Firms in the Matn UoM region have been severely constrained by volatility in the Lebanese lira (as reported by 96 percent of the firms), high cost of input goods (48 percent), poor access to subsidized raw material (33 percent) owed to the inability of the central bank to fund import goods as much anymore, and restricted access to credit (22 percent) following the collapse of the banking sector. Firms in the sample do not appear to be severely constrained by informal competition or poor access to local and foreign markets (figure 27).

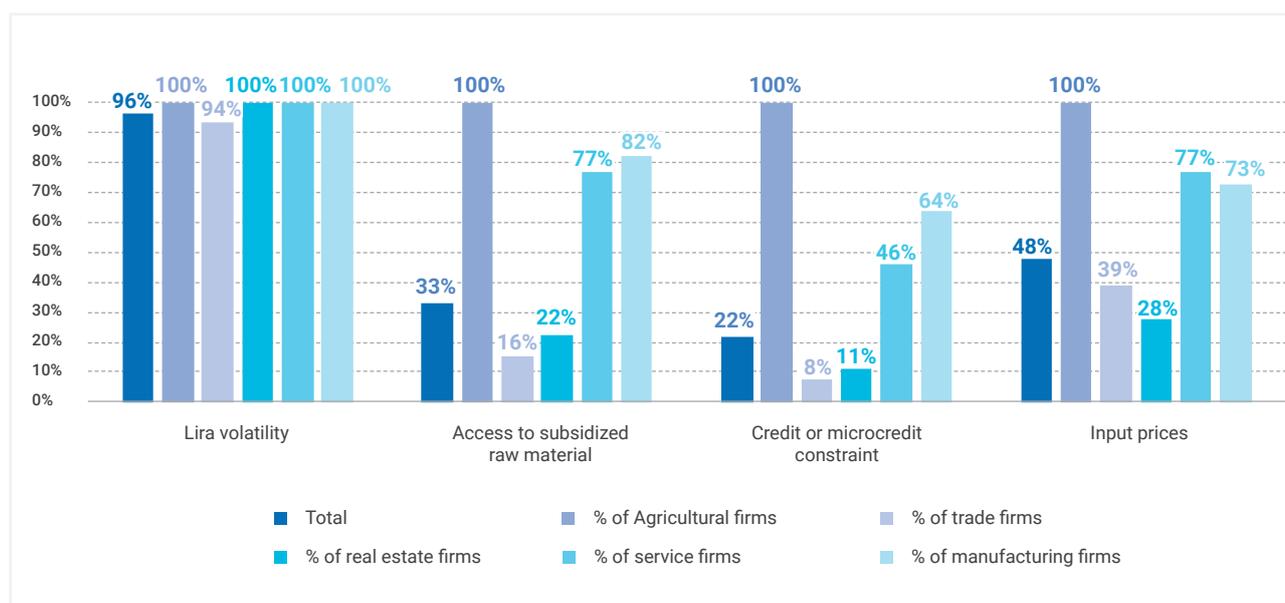
Our FGDs with business actors in Matn confirms these findings. Faced with inflation and reduced demand, some touristic companies had to reduce their services/products or lay off workers. One touristic resort had to reduce the number of operating All-terrain vehicles (ATVs) following the crisis to remain in business.<sup>108</sup>

**FIGURE 27** Market binding constraints



<sup>108</sup> This FGD was implemented in February 2022.

**FIGURE 28** Top market obstacles by sector



Note: We define a 'binding' constraint as one which has been rated as either "Moderate" or "Significant" by at least 20 percent of the firms.

The magnitude was even more acute when we looked at binding constraints by economic sector (Figure 28 and Table 8). Almost all firms, regardless of sector, have been severely constrained by the volatility in the domestic currency (Lebanese lira).

All firms in the agriculture sector have been constrained by costly input goods. Those were followed by service firms (77 percent of sampled service companies), followed by manufacturing firms (73 percent), trade firms (39 percent), and real estate firms (28 percent). Similarly, all agriculture firms were severely constrained by limited credit lines/microcredit. This was followed by manufacturing firms (64 percent) and service ones (46 percent). The firms most constrained by limited access to subsidized raw material include those working in agriculture (all sampled agriculture firms), manufacturing (82 percent), services (77 percent), and real estate (22 percent).

Hence, the market shock has clearly paralyzed companies working across different industries/sectors, with manufacturing, services, agriculture firms absorbing much of its negative effects. Table 8 summarizes the most binding constraints by economic sector.

**TABLE 8** Binding constraints by sector

Sector	Lira volatility	Access to subsidized raw material	Credit constraint	Input prices
Agriculture	Yes	Yes	Yes	Yes
Trade	Yes	No	No	Yes
Real estate	Yes	Yes	No	Yes
Services	Yes	Yes	Yes	Yes
Manufacturing	Yes	Yes	Yes	Yes

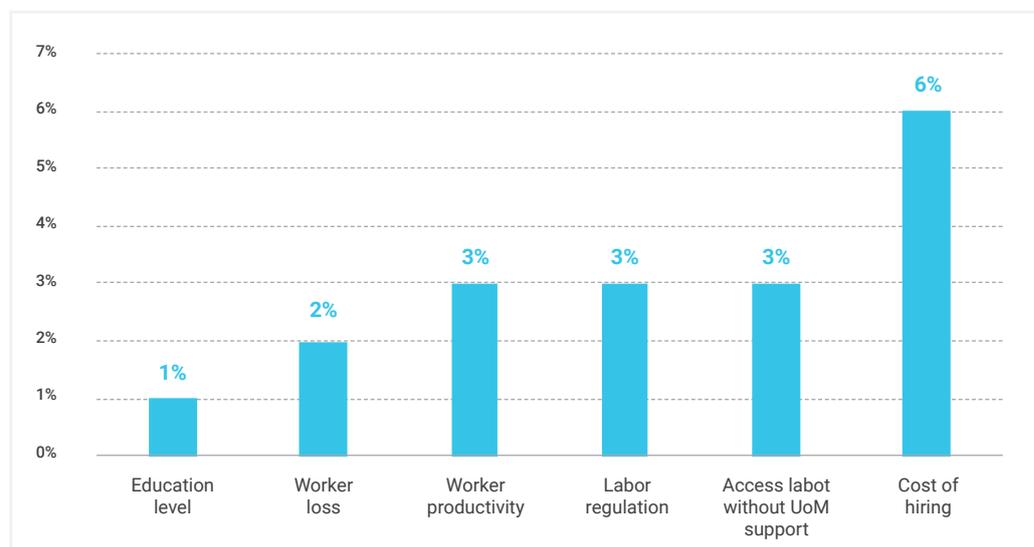
Note: We define a 'binding' constraint as one which has been rated as either "Moderate" or "Significant" by at least 20 percent of the firms.

However, and in light of such a sizable market shock, these firms do not seem to be constrained by human capital obstacles like labor costs (Figure 29). Only **eight (8) companies** find the **cost of hiring workers** to be a moderate or significant constraint to their business activity,<sup>109</sup> which is much lower than in UCF and UoM Tyre. This is an interesting finding because it implies that firms are less likely to lay off workers due to labor costs.

This paradoxical result then shows that in a crisis setting, the burden of labor costs becomes less of a concern to firms as it can be dealt with using direct and targeted policies such as laying off workers (though the margin for such a policy is rather small in the Matn Union sample) or alternatively reducing salaries.

Interestingly, only a handful of firms (3 percent) perceive poor worker productivity as a major constraint. However, contrary to this finding, when we asked firms to provide reasoning behind layoffs, thirty-one (31) out of the fifty-three (53) firms who let workers go mentioned it is because of poor performance or the lack of productivity. The rest attributed their decision to the current business climate or the COVID-19 pandemic.

**FIGURE 29** Human capital as a constraint to business



*Note: We define a 'binding' constraint as one which has been rated as either "Moderate" or "Significant" by at least 20 percent of the firms.*

An interesting finding here is that almost none of the surveyed firms (3 percent) find accessing labor without the support of the UoM a serious obstacle. This is seen as a drawback as it might imply that firms see little benefit in relying on local authorities to reach potential employees or recent graduates.

Our binding constraint analysis shows that firms in the Matn UoM region perceive the effect of the market shock as a highly drastic one today, especially in comparison to what has been reported in UoM Tyre and UCF. Particularly, currency depreciation and inflation have burdened many of these firms with high lira volatility, a lack in access to credit, high input prices, and limited availability of subsidized raw material. This is not surprising given the high concentration of industrial firms in the region. Interestingly, firms do not perceive informal competition or limited access to local and foreign markets as major constraints. These results were especially pronounced for firms in the manufacturing, service, agriculture, and real estate sectors, less so in the wholesale sector. In the absence of proper local/municipal financial support, the minority of firms who could reduce their workforce considers layoffs to be an inevitable business decision today. In what follows, we validate these findings by measuring firms' real business constraints using data on balance sheet changes between 2019 and 2021.

<sup>109</sup> Although one might assume that familial ties may have affected this outcome, we find no correlation.

## 5.3 THE 'REAL' EFFECT OF LEBANON'S FINANCIAL CRISIS ON THE LOCAL MARKET

In this section, we examine how firms' cost and revenue structures were altered in response to the market shock. Concurrently, we measure the effect of said changes on local employment growth in Matn UoM region. This approach is employed as it allows the local planner to quantify the magnitude of market constraints discussed in the earlier section.

Our survey data suggests that firms' balance sheets were heavily affected by the current market shock, in terms of both sales and costs, leaving businesses in Matn Union struggling to break even.

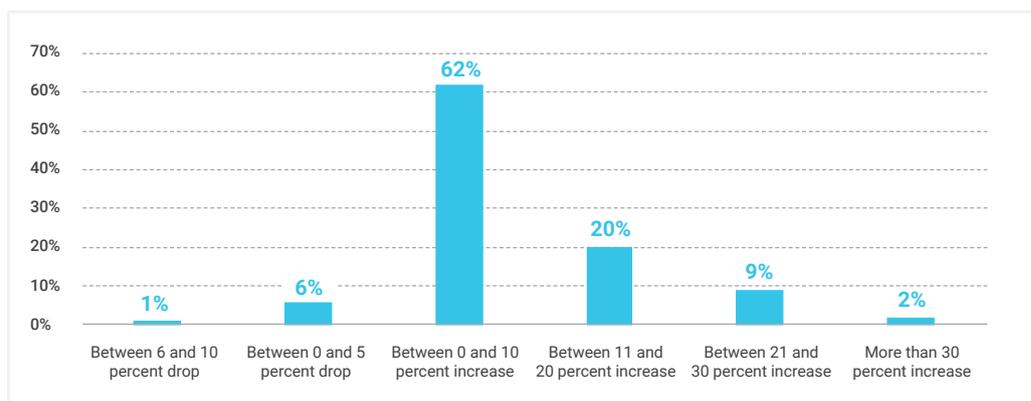
### 5.3.1 Unhinged Cost Increases and Major Drop in Sales

The ongoing national financial crisis has evidently transformed the 'resilient' positioning of business in the Matn Matn Union region. Indeed, the private sector in the area is being left to fight extortionate costs and weak sales in the absence of a national economic recovery program or local/municipal financial aid programs.

We examine balance sheet data by looking at two (2) periods: 2019-20 and 2020-21. Survey analysis shows that 81 percent of the sampled firms saw a significant increase in costs (exceeding 10 percent) during either the 2019-20 or 2020-21 periods.

Figure 30 presents the magnitude of cost changes one year into the crisis for firms in the sample. More than 60 percent of the sampled firms observed an increase in costs ranging between 0 and 10 percent at the time. Between 2020 and 2021, the magnitude of this cost surge was even higher for some firms.<sup>110</sup>

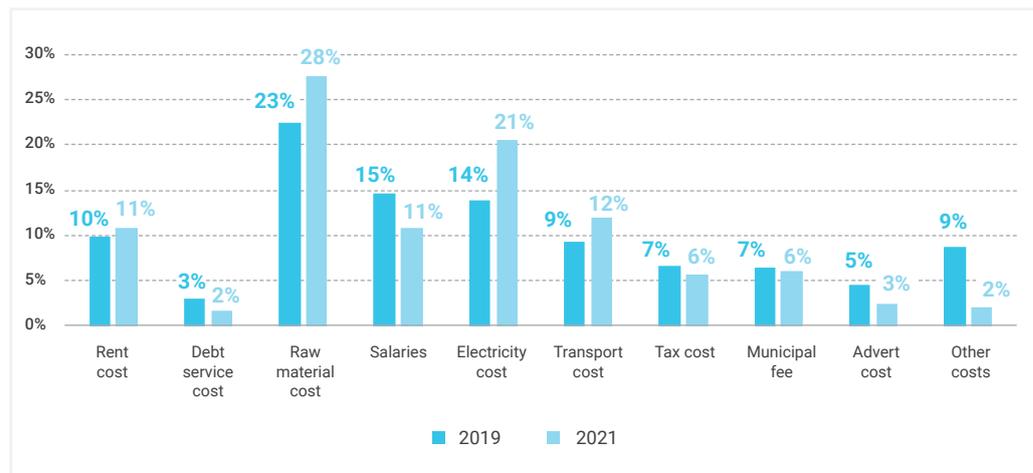
**FIGURE 30** Share of firms by cost increase between 2019 and 2020



This sharp increase in costs may be explained by the domestic currency's steep depreciation coupled with inflationary pressures during the past three (3) years. Consequently, these economic conditions dictated the extent to which companies were able to access import goods, raw material, or basic services in the area. This may also be validated by the binding constraint analysis detailed in the earlier section which indicated that a wide majority of firms have been constrained by Lebanese lira volatility, lacking raw material, and high input prices. Expectedly, data on the variation in firm expenses (as percent of total costs) between 2019 and 2021 reveals that raw material goods (5 percent change), electricity (8 percent change), and transport services (3 percent change) accounted for much of the surge in costs (Figure 31). These changes are considerably high in comparison to data from UoM Tyre and UCF.

<sup>110</sup> By December 2021, almost half of the sampled companies— up from 11 percent in the year before—experienced a surge in overall costs of above 21 percent.

**FIGURE 31** Changes to cost composition during the crisis

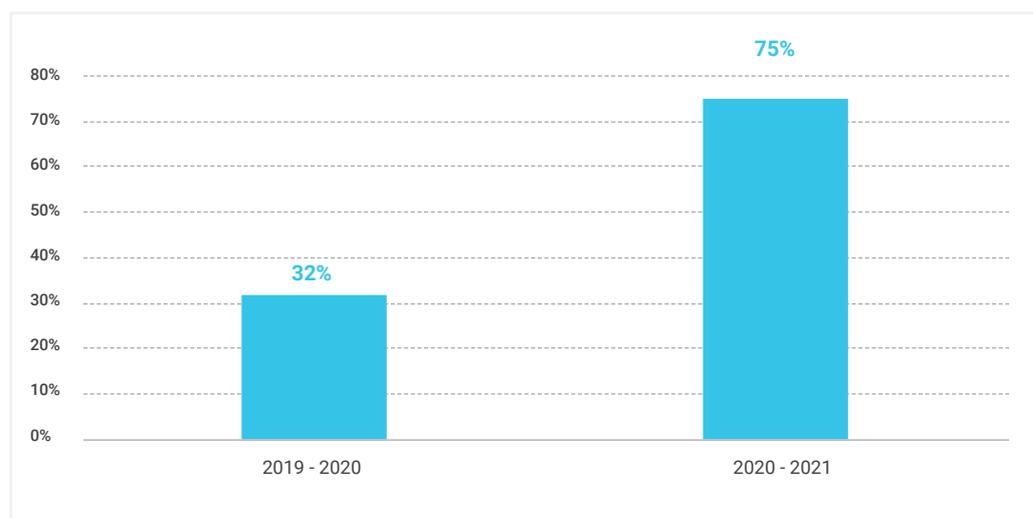


### SHRINKING SALES

Sales growth, which we refer to as sales turnover in this section, is a key determinant of local growth and economic activity. Broadly speaking, a positive sales turnover typically implies the presence of a strong local demand and steady consumption spending, both of which are vital for any LED process. Considering the financial crisis, this indicator is even more important as it paints a clear picture of the size of the market shock.

In the Matn Union region, sales turnover was unambiguously poor during the crisis period. In fact, almost 80 percent of the sampled firms witnessed a significant drop in sales (exceeding a cut-off of 10 percent) during either the 2019-20 or 2020-21 periods. Of those, sixty-six (66) were wholesale/trade firms, thirteen (13) were real estate firms, eight (8) were manufacturing firms, seven (7) were service firms, and four (4) were working in the agriculture sector.<sup>111</sup> It is worth noting that, on average, the share of firms whose sales dropped by more than 10 percent grew from 32 percent in 2019 to 75 percent by December 2021 (Figure 32).

**FIGURE 32** Share of firms with significant sales drop (> 10%) across time



<sup>111</sup> Figures are almost identical to those from UCF region.

Our balance sheet analysis presents three important findings. First, it validates our binding constraint assessment. Raw material/input prices, coupled with currency depreciation and limited access to subsidized raw material have been most constraining to firms. Second, we also find that transport and electricity costs have significantly surged in light of the aforementioned business obstacles. Third, this analysis allows us to complement our earlier evaluation of supply-side/market constraints by additionally tapping into demand-side shocks using sales data. The area's negative sales turnover tells us that firms have also been constrained by an overall drop in demand for goods and services, which is uncommon for a region like Matn Union. This is a finding that is pronounced in wholesale, manufacturing, and real estate sectors. In what follows, we measure the effect of these balance sheet changes—constraints— on the region's economic development process, with a focus on job creation.

### **5.3.2 Compromised Employment Growth as A Feature of The Crisis**

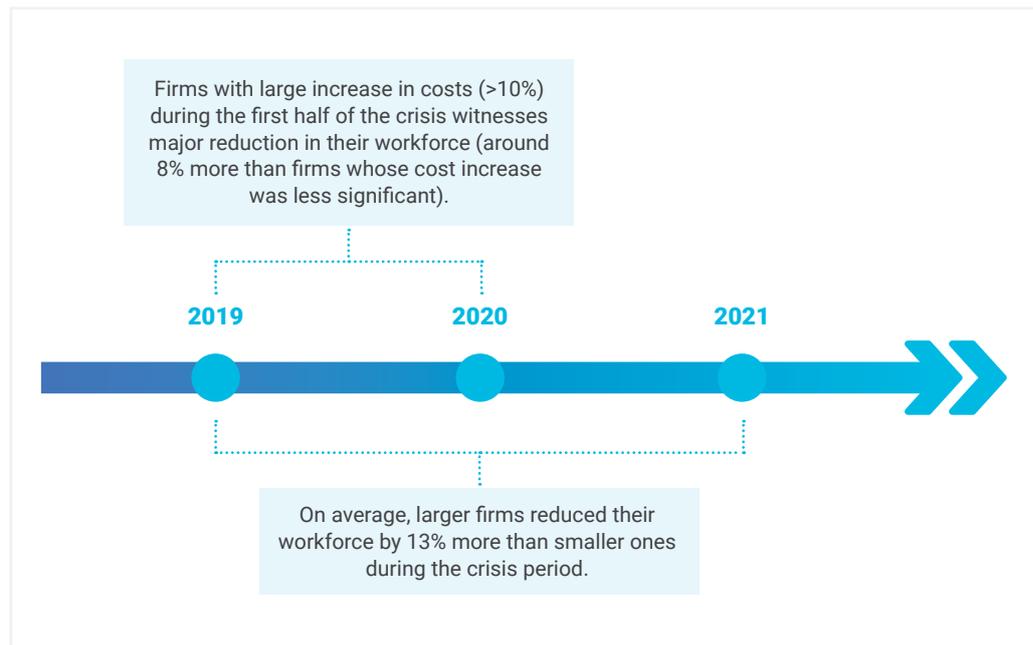
As is clear by now, the crisis has limited the flow of income into Matn Union's real local economy in an unprecedented manner. Coupled with demand-side shocks, this has pushed firms into making unfavorable business choices to survive, one of which is laying off workers. Out of the fifty-three (53) firms which let workers go, forty-four (44) laid off what amounts to over 31 percent of their employees.

In this section, we center our analysis on employment growth due to the significant role it plays in bringing about inclusive local economic development. Specifically, job creation has two (2) main implications in this context. First, it enables the private sector to meet local demand by offering diversified and relatively accessible products and services. Second, and in light of the aforementioned, it ensures that workers – across a wide skills spectrum – are earning a livable wage to sustain themselves and their families, thus streamlining a satisfactory level of social stability and economic activity.

Using regression analysis controlling for cost, sales turnover, size, sector, and age, we attempt to answer the following question: Did weak sales and cost surges seriously guide the average firm's layoff policy and employment growth during the crisis? Our findings suggest that cost increases had a negative effect on employment growth in Matn Union between 2019 and 2020. Negative sales, or alternatively weak demand, contribute only modestly to this outcome.

We first zoom in on firms that saw an upsurge in costs (i.e., exceeding a threshold of 10 percent) during the crisis. To capture any possible heterogeneity, we analyze this data by looking at two (2) periods, namely 2019-20 and 2020-21. Between 2019 and 2020, the average firm reduced its workforce by around 8 percent more than firms whose cost increase was less significant. This employment effect, however, shrinks for firms whose costs significantly increased between 2020 and 2021. This is an important finding because it shows how firms' response to the crisis altered across time. During the early stages of the market shock, firms perceived layoffs as an inevitable business decision, which explains why more people were laid off during the first half of the crisis (when the Lebanese lira lost most of its value). This mechanism was not as visible amongst firms in the UCF and Tyre UoM regions. More so, our analysis suggests that firms in the manufacturing, agriculture, and services sector laid off the most workers, relative to those in real estate (the base category).

**FIGURE 33** The effect of firms' cost burden on employment growth



We also find that larger firms reduced their workers by 13 percent more than smaller ones in the sample. This indicates that large-sized firms were more vulnerable to the market shock, possibly due to low accumulated savings and high labor costs. See figure 33 for a summary of these results.

Controlling for firm size, age, and sector, we also gauge the effect of both cost burden and weak sales turnover on the probability of laying off a worker. Predictably, firms that experienced major cost increases during the first half of the crisis were almost 30 percent more likely to reduce their employment.<sup>112</sup> Similarly, firms that witnessed a substantial drop in sales (exceeding 10 percent) during the same period were 29 percent more likely to let go off workers.

Policies on the extensive margin in the Matn UoM region are directly tied to changes in the units of labor or capital (i.e., hiring or laying off workers). Our data shows that changes on the said margin were not always driven by concerns over worker productivity in times of crisis as also revealed in our binding constraint analysis.<sup>113</sup> In fact, survey results suggest that a significant share of firms (42 percent) laid off people due to the economic crisis or worker characteristics such as age of workers.<sup>114</sup> Furthermore, we find that around 40 percent of sampled firms in the region decided to reduce the salary of their own workers by at least 11 percent. This indicates that income loss haunted surviving workers as well, thus increasing their social instability via a distorted or volatile income stream.

<sup>112</sup> The probability shrinks to 4 percent by the end of 2021.

<sup>113</sup> Policies on the extensive margin relate to any changes in the units of labor or capital (i.e., hiring or firing workers). Policies on the intensive margin have a direct influence on productivity of labor already employed.

<sup>114</sup> A total of fifty-three (53) firms laid off workers between 2019 and 2021.

A key finding in this section is that the current market shock has transformed the shape of business in the Matn UoM region. Faced with rising costs, shrinking sales, and a restrictive production capacity, local firms had to lay off a high number of workers to stay in business, thus reducing the number of available jobs and distorting development in the region. What distinguishes Matn Union's private sector from the Tyre UoM and UCF regions is (a) the period of time when layoffs happened and (b) the sectors most affected by the layoffs. In the Matn UoM region, firms whose costs significantly increased between 2019 and 2020 laid off the most workers, which indicates that the direct response to the market shock for many local firms was immediate retrenchment. Compared to Tyre UoM and UCF regions, firms in Matn's agriculture, manufacturing, and services sectors laid off a higher number of workers.

Amid a steep loss in local jobs and income, workers – part and parcel of the local community– will be forced into reducing their consumption and social spending, or even pay tax dues, thus suppressing proper development in the region.<sup>115</sup> It is expected that a loss in local income will eventually drive weak local service provision as local governments lose their capacity to meet any spending commitments.

## 5.4 BEYOND LAYOFF POLICY: LOCAL FIRMS' KEY SURVIVAL STRATEGIES

We asked firms about the strategies they implemented to stay in business.

**None of the one hundred twenty-six (126) companies** reported receiving financial (or other) support to bolster their business functions. See table 9 which presents the different kinds of support we inquired about.

**TABLE 9** Private sector support by entity

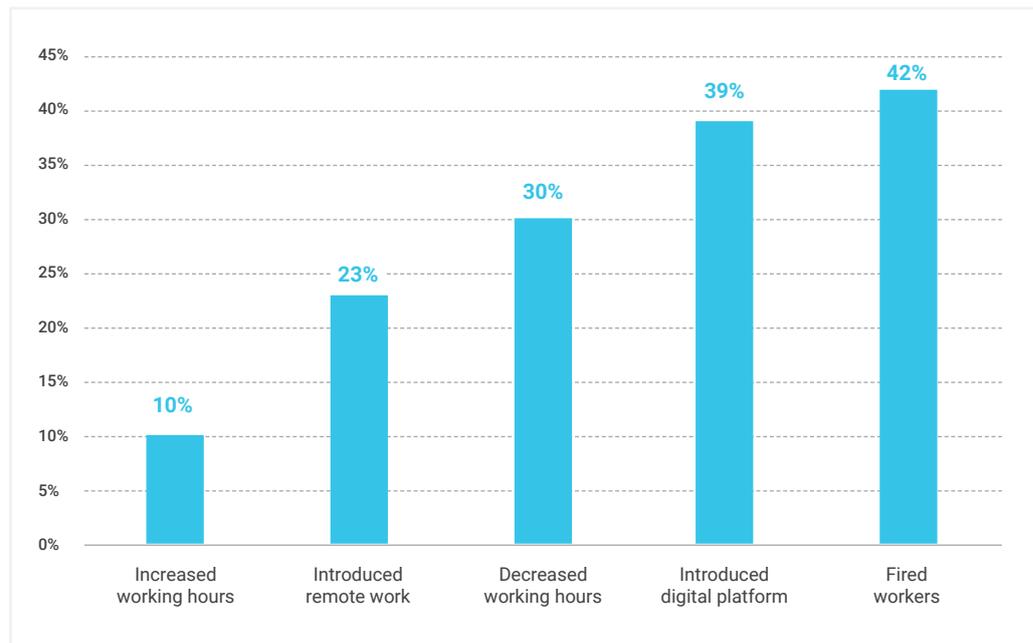
From national government	From Union of Municipalities (UoM) or Municipality	From international donor	From trade union
Credit access	Microcredit	Discretionary loans	Support in hiring
Cash transfer	Business grant	Grants	Campaign to improve quality of public services
Deferral of fee payment	Deferral of fee payment	Technical support	Political campaign in support of policies that could serve your business
Tax exemption	Tax exemption	In-kind support	Wage bargaining to boost worker productivity
Fee exemption	Fee exemption	Other kinds of support	Other

<sup>115</sup> Data from the human capital survey conducted by the team in January 2021 confirms this finding. 67 percent of the six hundred (600) sampled households in the region reported not paying their municipal taxes during the crisis period.

<sup>116</sup> Policies on the intensive margin have a direct influence on productivity of labor already employed.

Indeed, in the absence of such support, firms relied on five (5) key policies to increase the chances of survival during the crisis period. 39 percent of the sampled firms in the region introduced a digital platform (online website or social media pages) to facilitate business operations. 21 percent introduced remote work in order to cut costs. Other firms worked against the intensive margin by altering the number of working hours.<sup>116</sup> 30 percent reduced hours of work and only around 10 percent increased them (figure 34).

**FIGURE 34** The effect of firms' cost burden on employment growth



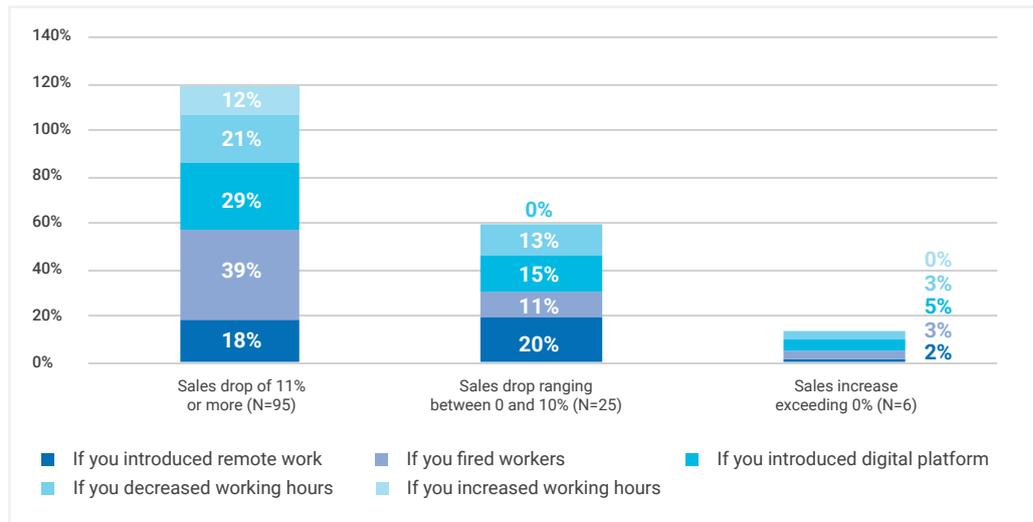
However, most of these strategies also varied by sector. Data shows that layoffs were largely concentrated in the services and manufacturing sectors. 85 percent of firms in the latter industry fired workers, which was not as prominent across wholesale firms (only twenty-four (24) out of seventy-seven (77) firms) or real estate firms (eight (8) out of eighteen (18) firms). Agriculture firms appear to have also relied on such a strategy, seeing as five (5) out of seven (7) laid off workers.

Almost none of the firms introduced work-from-home policy. Data shows that only two (2) out of eleven (11) manufacturing firms and seven (7) out of seventy-seven (77) trade firms exploited this survival strategy. Nonetheless, a significant number of real estate firms (twelve (12) out of eighteen (18)) introduced remote work. Only three (3) agriculture firms relied on such a policy for survival.

A similar trend emerged for digitizing work: Almost all service firms introduced a digital platform to conduct business. 45 percent of manufacturing firms and 58 percent of agriculture firms also introduced such a platform. This was less pronounced amongst wholesale/trade companies (21 percent). Finally, there was barely any variation across sectors when it came to increasing or decreasing working hours.

We also investigate how these decisions might have been shaped by the magnitude of the local market shock. To unpack this relationship, we disaggregate the data on survival strategies by change in sales between 2020 and 2021. It is evident that firms who were in a better positioning in terms of sales were less likely to rely on survival strategies like laying off workers (figure 35).

**FIGURE 35** Survival strategies by sales turnover



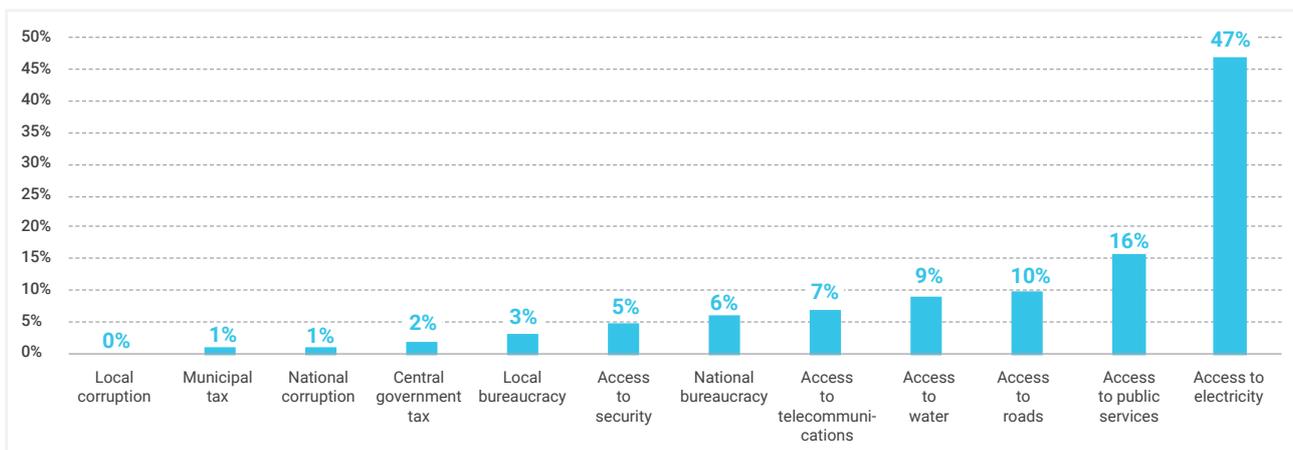
Hence, one of the strategies that persisted is remote work policy. To unpack this, we examined how different firm characteristics and balance sheet elements affect the probability of introducing such policy. We find that larger firms were 26 percent more likely to introduce remote work. It also appears that firms in the manufacturing, trade, and services sectors were most likely to introduce remote work. Another interesting finding is that this policy was mostly driven by sales/production drops, less so by cost increases.

Finally, it appears that remote work or work-from-home policy was also driven by positive growth prospects. Firms who expected positive long-run growth for their business were 15 percent more likely to introduce remote work.

## 5.5 THE PRIVATE SECTOR'S ASSESSMENT OF LOCAL GOVERNANCE AND POLICY IMPLICATIONS

When firms were prompted to rate the extent to which poor governance has constrained their activity, the results turned out uncanny (Figure 36).

**FIGURE 36** Poor governance as an obstacle



Our measure of local governance is dictated by five (5) key indicators. Those are the management of the municipal tax and firms' ability to pay it, extent of local bureaucracy (including readying registration documents, issuing business permits etc.), access to security, access to public services such as solid waste management, and local corruption (i.e., irregular procurement processes for development or infrastructure projects). Returning to our definition of a binding constraint,<sup>117</sup> it appears that none of the firms in the sample are constrained by weak governance. These results may be clouding the reality, where firms' productivity might be indeed affected by bad government policy.

To rationalize this finding, we prodded these firms even more by asking about their interaction and collaboration with local governments next.

### 5.5.1 Interactions with Government

The interaction of the Matn Union region private sector with various levels of their government is weak. The main "interaction" is a transactional one: the payment of taxes. For example, about 80 percent of firms in Matn Union region have fully paid their tax obligations since the crisis and another 15 percent have partly paid their tax obligations. However, there are almost no direct interactions between firms and their municipality or Union of Municipalities (UoM). For example, 76 percent of firms did not interact with their municipality and an even greater share 94 percent did not interact with their UoM in the previous twelve (12) months. Even among the 14 percent that interacted once, the main purpose was for settling taxes and other financial issues.

Firms reported little interaction around implementing infrastructure or development projects. When prodded to answer specifically if they were ever invited by their municipality or their UoM to discuss local economic development, only one (1) firm replied in the affirmative (for an invitation by its municipality, not the UoM).

The lacking nature of infrastructure investments confirms such poor coordination with local authorities. While the quality of infrastructure in the district of Matn was found to be among the best across Lebanese districts, there is an evident disparity in the level of investment across districts and within governorates, with the district of Matn receiving 44 percent below the national average (\$594 per capita).<sup>118</sup>

When asked to assess their relationship with various levels of government, one striking result is the share of firms noting that the question "does not apply" to them. This share rises the more distant the level of government is from them. For example, only 10 percent of the firms noted that the question about their relationship with municipal employees does not apply to them. In contrast, 21 percent said that about their relationship with the municipal mayor, 32 percent with the UoM president, 44 percent with the Governor, and 60 percent with the Qaemaqam. Of those answering these questions, the median (and average) response for all these questions was "moderate" (on a scale of poor, moderate, or good). Similar results are obtained for questions pertaining to the capacity of the different levels of government.

### 5.5.2 Local Government Priorities and Service Provision

Firms were also asked their views about local public spending priorities. One (1) result is that a large majority of firms in Matn Union (87 percent)—more than in the other areas—said they would be willing to pay higher local taxes in return for better local services. This is an important finding because it shows that there is a tax base in the population willing to fund well-managed local infrastructure and public services. This reduces the need to find outside donor support

<sup>117</sup> We define a 'binding' constraint as one which has been rated as either "Moderate" or "Significant" by at least 20 percent of the firms.

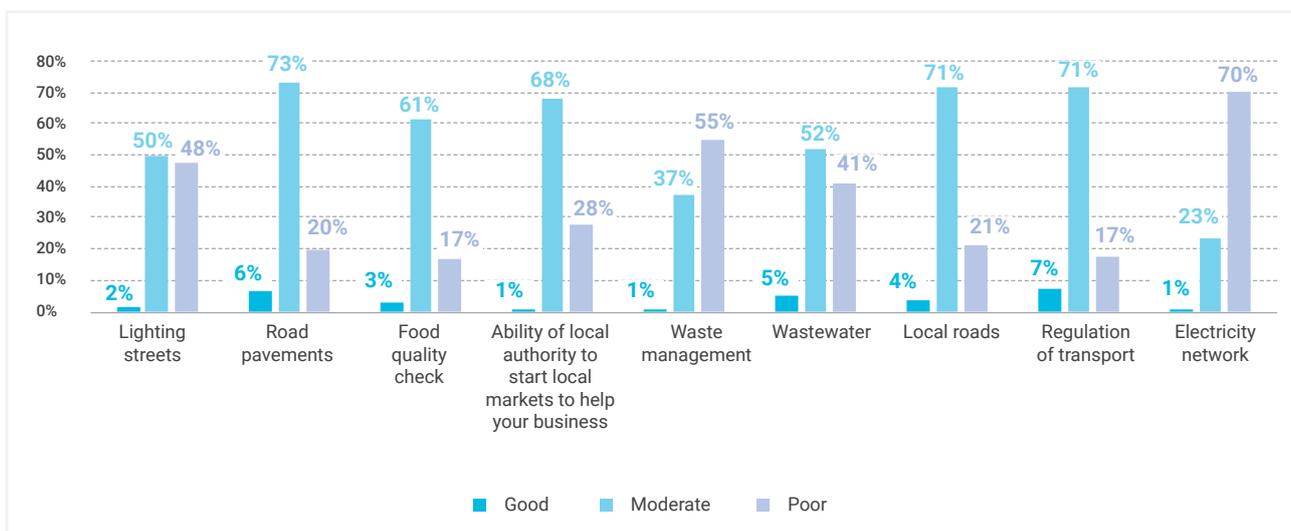
<sup>118</sup> Sanchez, D. 2018. "Perpetuating regional inequalities in Lebanon's infrastructure." Lebanese Center for Policy Studies.

from various aid agencies or transfers from the national government. However, this is largely dependent on the ability of firms to pay taxes in the long run.

In terms of assessing the current quality of the different public services and infrastructure in the area, the median response to all services was “moderate” with the exception of the electricity network and solid waste management that were rated “poor” by more than half the firms. These numbers may be validated by the fact that almost half of the firms found their poor access to electricity a severe constraint to their business. Lighting the streets also received poor marks by nearly half the firms (Figure 37). By and large, poor service provision by local authorities appears to have restricted business activity in Matn.

Another interesting finding is that around a third of the firms classified the ability of local authorities to start local/public markets to help business as poor.<sup>119</sup>

**FIGURE 37** Poor local service provision in Matn



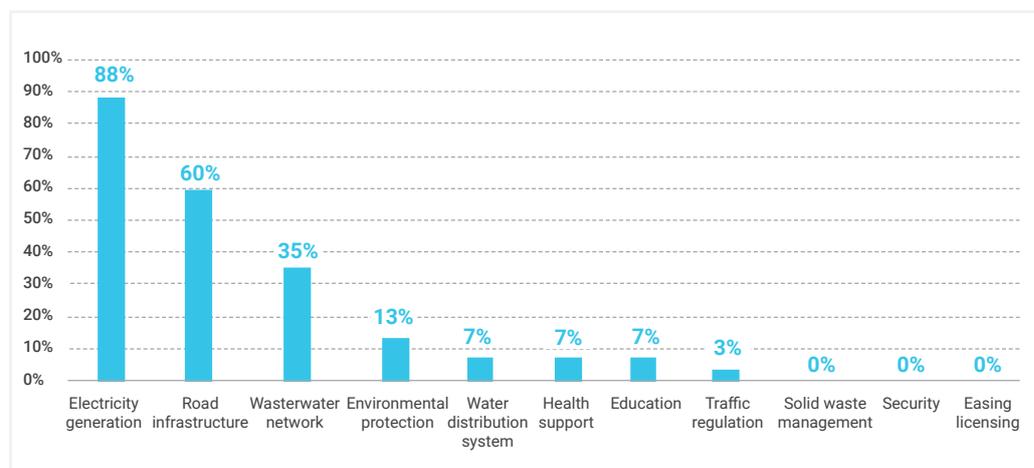
Electricity generation and road infrastructure were selected as the top two (2) priorities for the local government to focus on in order to facilitate business delivery.<sup>120</sup> In that question, a pre-selected list of possible infrastructure options was given to firms to choose from.<sup>121</sup>

<sup>119</sup> According to the municipal act, Unions for example can set up popular markets to help businesses advertise their products.

<sup>120</sup> The results displayed in Figure 38 should be treated with caution as the ‘solid waste management’ option, along with a few others, may have been omitted inadvertently.

<sup>121</sup> The options provided were 1) road infrastructure, 2) environmental protection, 3) traffic regulation, 4) waste-water network, 5) water distribution system, 6) electricity generation, 7) health support, 8) education, 9) solid waste management, 10) security, and 11), easing licensing policy.

**FIGURE 38** Local firms’ needs



There are significant differences in local private sector needs across economic sectors. For the sake of simplicity, we categorize a particular local need as a priority if it was selected as such by at least 15 percent of the firms in the sample.

For example, 71 percent of the agricultural firms in the sample ranked improved road infrastructure and electricity generation as top priorities for business enhancement, followed by health support (as reported by 29 percent of the firms). In addition to the beforementioned, a large deal of wholesale firms (95 percent) classified electricity generation support by municipality as a top need, which was followed by road infrastructure (58 percent), and proper wastewater networks (34 percent).

Expectedly, manufacturing firms have expressed a great desire for better road infrastructure (73 percent of the firms), and electricity generation (91 percent). A small group of firms in said industry (18 percent) demand better health services, which is perceived as necessity for productivity.

Interestingly, none of the firms in the sample seem to prioritize educational services. Almost none of the firms, unlike other regions, demanded protective environmental policy as a means of enhancing their business. A detailed mapping of priority needs is summarized in Table 10.

**TABLE 10** A detailed mapping of priority needs

Local service or need	Agriculture firms	Manufacturing firms	Wholesale/ trade firms	Real estate firms	Service firms
Road infrastructure	x	x	x	x	x
Traffic regulation	Not a top need	Not a top need	Not a top need	Not a top need	Not a top need
Electricity generation	x	x	x	x	x
Environmental protection	Not a top need	Not a top need	Not a top need	Not a top need	x
Wastewater network	Not a top need	x	x	x	x
Water distribution system	Not a top need	Not a top need	Not a top need	x	Not a top need
Health support	x	x	Not a top need	Not a top need	x
Education support	Not a top need	Not a top need	Not a top need	Not a top need	Not a top need

An alternative open-ended question asked firms to propose their top priorities in a hypothetical scenario where they were given the equivalent of \$500,000 and also given the authority to implement local economic development policy. This question resulted in a wider range of responses, as expected.<sup>122</sup> Nonetheless, the top two (2) priorities were similar to the question with pre-selected options: A large share of responses (33 percent) clustered on electricity generation (including repeated mention of electricity support to the industrial cities) and a sizable number of responses mentioned solar and other renewable energy sources (another 16 percent). Together, electricity-related written suggestions amounted to the top category with 49 percent. Following that came the improvement of road infrastructure and specifically the lighting of roads (total 21 percent were roads-related).

<sup>122</sup> This categorization mostly applies to Matn firms. Firms in other regions had less diverse answers to this question.

What is interesting in the open-ended written suggestions is what followed the top two (2), namely, electricity and roads. There were several suggestions that can be grouped under the category of “industrial support policy”. These ranged from subsidizing raw materials, subsidizing imported intermediate goods, supporting the producing sectors, supporting SMEs, supporting seasonal projects etc. Close to 20 percent of responses in Matn Union fell under this category. Following the “industrial support policy” category came a number of suggestions that can be grouped under “job creation and direct support to people” (for example: addressing youth employment, worker training, improving salaries, transfers to people with limited incomes, and support to poorer areas). About 10 percent of responses fell in this category. Finally, the fifth most common category was solid waste management including frequent mention of recycling initiatives. The total mention of anything related to solid waste management was 7 percent.<sup>123</sup>

## 5.6 FUTURE PROSPECTS

One common challenge for the private sector in Matn Union is how to recover and sustain growth in the years ahead to make up for lost years. The last two (2) years since the onset of the crisis have been characterized by widespread business and job destruction with little to no creation. Firms in Matn—more than in the other regions—were most likely to lay off workers. As discussed earlier, more than 40 percent took that painful decision and upon taking that decision, the cuts to their workforce were large, and not cosmetic. The average share of workers dismissed ranged between 30 to 50 percent. Moreover, as emphasized in the previous part, a significant share of these was dismissed due to reasons unrelated to individual productivity and job conduct. In addition, there were significant reductions in hours, salaries, and benefits as discussed previously.

There is a strong risk of a jobless recovery. Because firms are operating significantly below full capacity, even if the Matn Union region slowly recovers, they can expand production without increasing labor. The longer the recession continues, and the longer firms continue to operate below capacity, they have little incentive to hire workers and create jobs. This causes a situation of persistent unemployment and under-employment, and the eventual exit of discouraged workers from the labor force altogether as skills atrophy. The risk is highest to the current young cohort, which has not had the opportunity to gain job experience and skills. They risk losing out the most when well-paying jobs with health and other benefits return to the economy.<sup>124</sup>

A key finding from this section is that getting workers back into well-paying jobs and ensuring local job creation will not be a direct outcome of recovery by firms. This calls for policy intervention that is discussed at greater length in the next section on governance.

The reality on the ground in Matn Union is that surviving firms are pessimistic about their future growth prospects. This is despite their having survived so far (albeit with significant worker attrition) in the face of: 1) sharp increases in operating costs and lower sales; 2) being small, disparate and isolated (not part of larger conglomerates as they are mostly individual and family firms); 3) not receiving any outside support since the crisis from various possible sources including government, municipal, and trade unions; and 4) not receiving any financing in the form of either formal bank credit or informal loans.<sup>125</sup> Less than 30 percent of firms in Matn Union assess their growth prospects over the next three (3) years as being good (where “good” is defined as more than or equal to five (5) on a one (1) to ten (10) scale, where one (1) is very weak and ten (10) is very good). Indeed, the average and median firm’s growth assessment is closer to three (3).

Even more troubling is that more than 36 percent perceive their likelihood of closure over the next six (6) months as being high (where “high” is defined as more than or equal to five (5) on a one (1) to ten (10) scale, where one (1) is very unlikely and ten (10) is very likely). Note that these vulnerable firms (on the short run) are not perfectly correlated with those having weak growth

<sup>123</sup> Note the responses for manufacturing sector were similar in shares to the overall one hundred twenty-six (126) firms in Matn Union region, where for example 55 percent of manufacturing cited electricity related services. The agriculture sector, however, mentioned most frequently industrial support policy (57 percent).

<sup>124</sup> For example, even in Matn Union where the share of firms offering health insurance pre-crisis was highest among the three (3) regions, there are still many workers and their families vulnerable to large out-of-pocket emergency expenses: Of the 51 percent firms offering health insurance pre-crisis, only about 80 percent are still offering insurance. Similarly, the share of workers in Matn Union eligible for the national social security fund (NSSF) has decreased to 45 percent by 2021 from 49 percent in 2019.

<sup>125</sup> It is striking that all one hundred twenty-six (126) firms in the Matn region answered in the negative to having received any financing since the crisis or any support from the national or local government and other sources such as trade unions and international agencies.

assessments (long run). The correlation between the two (2) indicators in Matn Union is weak and not statistically significant.<sup>126</sup> What this means is that there are many firms with good growth and business opportunities over the longer three-year horizon that might not survive over the shorter term. This is likely due to liquidity and cash-flow problems that can affect any firm even if its longer-term expected profitability is good. And there are no support mechanisms in place to keep them afloat because they are diffuse and isolated with no business networks or government networks to rely on.

More evidence consistent with excessive business destruction and job losses comes from responses to a hypothetical question on how would firms best spend \$100,000 if offered such a grant. Firms were given various options which can be grouped as follows: 1) the option to expand (by increasing production or by hiring more workers); 2) to option to diversify and innovate (by diversifying production or by opening new branches or by investing in technology); and 3) the option to close their business and invest the extra funds elsewhere in presumably higher-return opportunities. That fact that only 18 percent of firms in Matn Union chose to invest elsewhere while more than 80 percent chose to either expand or diversify their business means that firms believe they have good business prospects but are financially constrained and vulnerable to liquidity-induced closures.

It is therefore encouraging that with some form of financial support businesses expect to recover and expand (the large majority chose to expand 58 percent) or diversify and innovate (24 percent). But the key finding is that when asked about how they will expand, only a minority chose to hire more workers (25 percent). Even when given three (3) top spending choices to allocate the funds, only 38 percent chose to do so by hiring more workers. This is a key finding implying that 1) firms are operating significantly below capacity and can expand production of goods & services demanded without creating new jobs. A recovery will be a jobless recovery. And therefore 2) if policymakers and international aid agencies want to see local job creation, they cannot rely on passive recovery of businesses but instead should take a more active role in aiding that process. The next section discusses what shape and form that active aid should take.

## 5.7 CONCLUSION AND POLICY RECOMMENDATIONS

To summarize, the market shock that hit firms in the Matn Union region presented itself in the form of weak sales, unhinged cost surges, and layoffs especially during the first half of the crisis (between 2019 and 2020). We predict that such effects will likely last in the face of sporadic and slow economic recovery. The resultant loss in local income will in turn restrict economic activity and consumption, and therefore obstruct proper LED in the region. Finally, our analysis suggests that such market conditions have been further exacerbated by weak infrastructure and public services, complete absence of private sector credit/microcredit, and firms' weak relationship with local authorities.

Our analysis suggests that firms in the Matn UoM region have been severely constrained by high lira volatility, costly input prices, limited access to subsidized raw material, and restricted access to credit. This effect was even more acute for firms in the manufacturing, services, and agriculture sectors, whose work largely depends on the availability of affordable input goods.

Second, we find that 42 percent of all firms had to lay off workers to put a brake on their losses amid high costs and diminishing sales.<sup>127</sup> Furthermore, our analysis shows that what distinguishes firms in the Matn Union region from those in Tyre Union and UCF is the period when most layoffs occurred. On average, firms that saw higher costs and lower sales during the first half of the crisis

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<sup>126</sup> The correlation coefficient is -0.13.

<sup>127</sup> The layoff rate is much higher than that in Tyre and UCF regions.

were more likely to lay off workers. Such an effect was most pronounced in the manufacturing, agriculture, and services sectors. As a result, we posit that this substantially restricted local income and economic activity during the past three years.

Third, a minority of firms continue to be optimistic about their long run growth, which implies that there is still some potential for local interventions to reverse the current situation. Interestingly, this finding was applicable for firms in the manufacturing, wholesale, real estate, and agriculture sectors. None of the service firms in the sample appear to be optimistic about their future growth. However, 37 percent of all firms perceive their likelihood of closure over the next six (6) months as being high, which indicates limited liquidity and cash flow.<sup>128</sup>

Fourth, firms appear to be highly constrained by weak local infrastructure such as electricity, roads, health, and wastewater networks with little variation by economic sector. This finding suggests that the area's weak infrastructure has in fact distorted economic activity.

Fifth, we find that there is very weak coordination between the region's private sector and local authorities on development and infrastructure projects, which we believe may inhibit any proper attempt at LED.

Finally, we predict that the local economy might undergo a jobless recovery,<sup>129</sup> whereby firms seek to scale up production but refrain from hiring. Indeed, survey data suggests that a small minority of firms would prioritize hiring in the circumstance that they are provided with additional funds. Hence, local authorities and international donors cannot rely on passive business recovery but should instead take a more active role in aiding that process.

It is evident that the private sector wants better local public service provision, including roads, electricity generation, and wastewater networks to help all businesses operate and be productive, as well as enhanced health care services.

Sector-tailored policies should be spearheaded by local authorities to optimize the work of businesses in the Matn Union region and their contribution to LED. For example, the needs of manufacturing firms center around, besides enhanced roads and electricity access, improved health services which are essential for worker health and skill accumulation, and in turn productive output. Wholesale and retail estate firms favored similar projects. In Table 11, we consider the different measures that should be considered to enhance business across different economic sectors.<sup>130</sup>

<sup>128</sup> Short-term closure seems most likely for almost all agriculture firms, and a large chunk of wholesale, and manufacturing firms.

<sup>129</sup> An economy that undergoes jobless recovery may bounce back from a recession without reducing the unemployment rate.

<sup>130</sup> Traffic regulation, though crucial, does not appear to be a top service priority for firms in the region. This implies firms in Matn Union do not perceive poor regulation of traffic as a major challenge, even though it was brought up by residents and firms in other regions.

**TABLE 11** Sector-tailored measures

	Sector				
Service priority	Agriculture	Manufacturing	Real estate	Services	Wholesale
Road infrastructure	Enhancing internal roads to facilitate transport of material and agricultural products.	Enhancing internal roads to improve consumer access to cities and ease transport of goods between factories etc.	Enhancing internal roads to improve consumer access to cities and ease transport of construction material and workers etc.	Enhancing internal roads to improve consumer access to cities and ease transport of goods between business units etc.	Enhancing internal roads to improve consumer access to cities and ease transport of goods between business units etc.
Traffic regulation	Not a top need.	Not a top need.	Not a top need.	Not a top need.	Not a top need.

Service priority	Sector				
	Agriculture	Manufacturing	Real estate	Services	Wholesale
<b>Electricity generation</b>	Supply alternative energy to increase productive work and rich crop seasons, taking into account high export potential.	Alternative energy. Subsidizing fuel. Connecting business with investors to support in funding this need.	Alternative energy. Subsidizing fuel. Connecting business with investors to support in funding this need.	Alternative energy. Subsidizing fuel. Connecting business with investors to support in funding this need.	Alternative energy. Subsidizing fuel. Connecting business with investors to support in funding this need.
<b>Environmental protection</b>	Not a top need.	Not a top need.	Not a top need.	Recycling initiatives and better waste management methods. Monitoring misuse of environmental resources.	Not a top need.
<b>Wastewater network</b>	Not a top need.	Map out key wastewater networks and fund factories to support with this work.	Map out key wastewater networks and fund factories to support with this work.	Map out key wastewater networks and fund factories to support with this work.	Map out key wastewater networks and fund factories to support with this work.
<b>Water distribution system</b>	Not a top need.	Not a top need.	Enhance water distribution channels.	Not a top need.	Not a top need.
<b>Health support</b>	Set up local medical centers to support farmers and those vulnerable to health crises.	Set up local medical centers to support workers and those vulnerable to health crises.	Set up local medical centers to support staff of real estate companies.	Set up local medical centers to support staff of service companies.	Not a top need.
<b>Education support</b>	Not a top need.	Not a top need.	Not a top need.	Not a top need.	Not a top need.

There are important lessons to be learned from successful local development policy as applied in France based on discussion with French LED planning agencies. One of the main ones is that it is not the job of the local planning agency to replace the private sector and provide employment directly to the unemployed and underemployed. Nor is the lesson that local planning agencies take a passive laissez-faire approach either and expect that the market will achieve the first-best outcome in terms of local economic activity and job creation. The key lesson is that local outcomes are optimized when the planning agencies serve as facilitators bringing together the private sector and entrepreneurs with the investor class. The local planning agency is instrumental at the launch phase, for example, by providing “incubators” for new businesses or by supporting marketing and promotion agencies to attract investment capital into the area.

This is especially relevant to Lebanon where firms are small, diffused, and disconnected from their local planning authorities and disconnected from financing sources to grow and create jobs. At the same time, there is a donor and expatriate class that can be attracted to fund local investment projects.

06

# GOVERNANCE AND DEVELOPMENT



# 06

## GOVERNANCE AND DEVELOPMENT

Poor local development could also be the result of low appropriability whose source lies not necessarily in market failure but in governance failure. That is local investments, in a certain area, are hindered due to factors that emanate from the nature and quality of interactions among social actors and between social actors and the state. In other terms, they are context dependent and contingent on mechanisms, processes, and institutions through which collective decisions are made and implemented, how citizens, groups and communities pursue their visions, articulate their interests, exercise their legal rights, meet their obligations, and mediate their differences.

Hence, capturing the shortcomings or weaknesses of these different actors, stakeholders, bodies, and institutions governing a certain area is what governance in the conceptual diagnostics framework refers to.

Accordingly, governance can be defined as “the exercise of political, economic, and administrative authority to manage a society’s affairs” - UNDP.<sup>131</sup>

From this perspective, the approach of multi-governance in political science and public administration theory is best suited to act as a framework analysis of the relationships of these different state levels with the different types of actors. It stresses the complexity of policy making, implementation, and responsibilities among different governmental and societal actors in their activities on supranational, national, subnational, and local institutions for the coordination of services through several functional areas. It describes the way power is spread vertically across many levels of government, including their institutional and financial aspects and horizontally across multiple quasi-government, municipal and NGOs actors.

Multi-level governance gives expression to the idea that there are many interacting structures at work.

According to Romeo (2002), good local governance practices depend upon the legal and regulatory framework governing the political and administrative public sector powers’ responsibilities and resources, and the role and status of civil society and private sector associations and organizations. In addition, the buildup of local governments’ capacity along three (3) dimensions: performance, partnership, and participation.

Thus, good local governance has impacts on improved services delivery and local economic development; the latter being our focus of interest within the framework of our report on Matn UoM LED governance.

LED initiatives can take many forms and are context dependent. We can distinguish between three (3) main categories of local economic development initiatives:

- The first set refers to actions that may be broadly described as community/livelihood/neighborhood based economic development and which could be applied to both rural and urban settings.

<sup>131</sup> <https://www.parlicentre.org/about-us/area-expertise/governance>

- The second category refers to business/enterprise/corporation development.
- The third category refers to regional/locality/town development.

However, community economic development would apply to all types of localities and regions, while business/enterprise development initiatives have their greatest relevance in those localities and regions which have an economic or export base. Moreover, issues of locality/town development policies have their greatest relevance in the more urbanized areas (though in principle applies also to all types).

Building on the above, the assessment of the local territorial economic development governance of Matn UoM, is to be based on the analysis of the dynamic relationships and interactions between two (2) sets of interconnected systems:

- The first set is a multilevel governance system at local, national, and international levels.
- The second set addresses the governance dimensions of local good governance system at the level of the Union in terms of performance, participation, and partnerships and their impact on local economic development and its three (3) levels which we defined above as (i) community based economic development, (ii) enterprise, business, and corporation development and (iii) regional, locality, and town development.

The identification of the strengths and weaknesses of the two (2) interconnected systems as well as potential options (whenever applicable) to strengthen them is essential for the gradual “nesting” of local economic development within local governance structures in Lebanon and particularly union of municipalities level structures.

The “Governance and Development” part of the report will, therefore, start with the analysis of Lebanon’s multilevel governance system within which the local governance structures and particularly union of municipalities’ are embedded (please see Section 6.1: The Multi-Level Governance System). This will cover the current political model of consociationalism and its impact on public institutions as well as the prevailing economic regime. It will be followed by a presentation of the decentralized structures administratively and financially, the administrative control mechanisms overseeing local structures, and the actual constraints local authorities are facing.

We will then assess the governance structures of the Matn UoM underlying any current and/or potential LED role in-depth (please see Section 6.2: Matn UoM LED Governance). This will cover two (2) different UoM governance scopes using each time the same three (3) dimensions of local governance system set above as per the relevant governance and public administration literature: performance, participation, and partnership.

The scope of our analysis of the UoM Matn LED governance will be initiated with an “institutional” and be completed with a “territorial” focus.

The “institutional” focus covers the various roles,<sup>132</sup> practices,<sup>133</sup> as well as the organizational structure, various forms of knowledge and capacities, tools, and technical resources available to the Union to achieve its mission and objectives (please see Sub-section 6.2.1: The Governance Structure of the Union).

The second scope will broaden the focus and look at Matn UoM’s governance and its limitations and challenges within the geographic context of the district and its territorial dynamics. The “territorial” focus will delve into key topics such as internal coordination and cohesion within the Union, natural hazard and disaster threats, preservation and protection of built and natural heritage, urban sprawl, what is constraining them as well as the existing capacity to address these objectives and capacity gaps (please see Sub-section 6.2.2: The Territorial Governance of the Union).

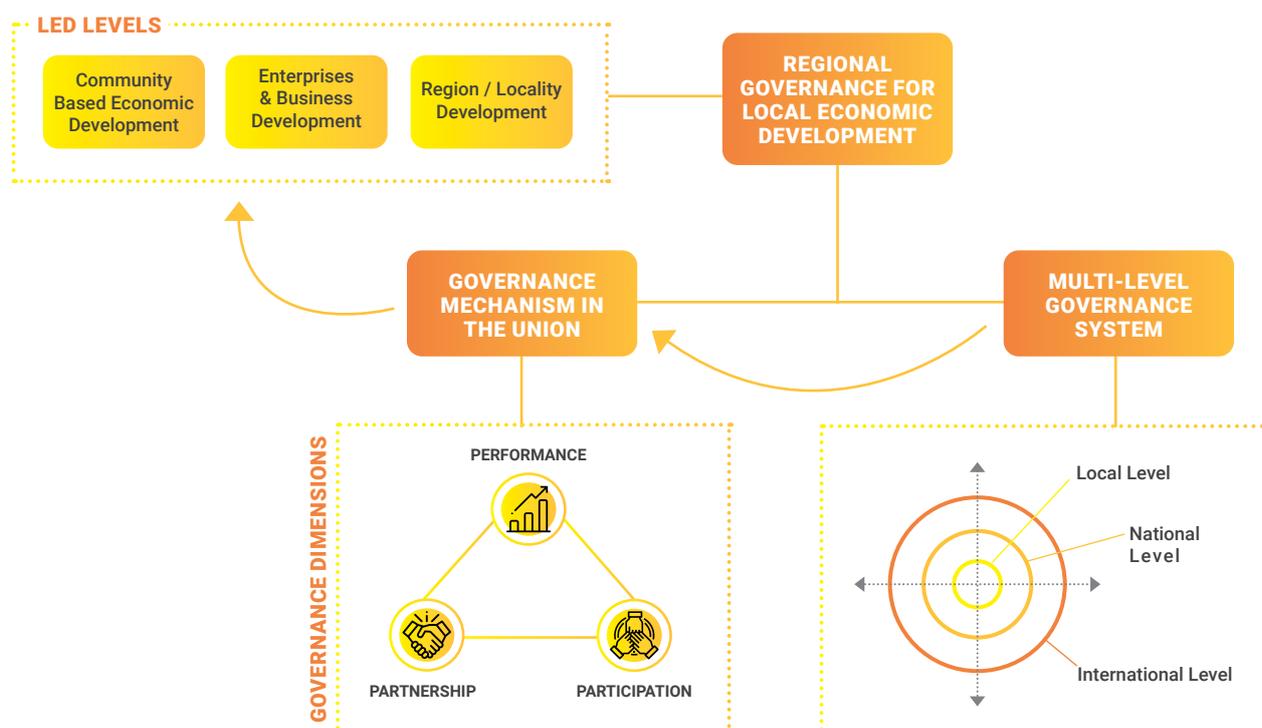
<sup>132</sup> As set by the Lebanese legislation and as commonly understood by local governance actors and practitioners. This includes administrative, financial, planning, and basic service provision roles among others.

<sup>133</sup> For example, regular engagement of local communities, partnership building with private sector etc.

- The “Governance and Development” component will conclude with a final section dedicated to setting the contours of pro-active LED policymaking at Union level and the national requirements to optimize such policy making.

Figure 39 sketches the different components that will be discussed and analyzed as a basis for policy recommendations.

**FIGURE 39** LED multilevel governance environment components



## 6.1 THE MULTILEVEL-LEVEL GOVERNANCE SYSTEM

### 6.1.1 The National Level

Based on a review of main laws and administrative structure, the Lebanese State seems to need many reforms; but nothing hints to the continuous crisis Lebanon has been living for decades and that has culminated in last years to a situation of near collapse. Lebanon might not be a secular state and its decentralization could be enhanced; however, it has modern laws and decrees covering a wide diversity of social, economic, and environmental issues adopting internationally recognized values and standards. Hence, the explanation for this situation should be sought elsewhere.

In fact, the Lebanese State has been facing, since its creation and to this day, two (2) structural challenges:

- Dealing with socio-cultural diversity when identity polarization is growing in the country, the region, and the world.

- Dealing economically with a growing demographic of highly educated and qualified population seeking high living standards in a country with limited resources and complex geopolitical situation.

Lebanon has historically tried to answer these questions. The dominant political powers seem to have steered the position of the Lebanese state regarding these questions in the direction of two (2) answers: 1) a consociationalist regime, 2) a liberal then a neoliberal economic development approach.

These answers have tremendous implications. In fact, they redefine profoundly the mechanisms of decision-making and public institutions' policies and actions of the Lebanese State. Informal political, economic, financial, and confessional networks operate within and outside public institutions at the margin of the text of the law, and it is in this grey area - not officially recognized but central to the social, economic, and political systems - that most decisions are made.

## A. CONSOCIATIONALISM

Consociationalism, or as it is sometimes called consensus democracy, is a non-majoritarian form of democracy that its theorists believe is the most stable form of government in fragmented societies. Its central feature is that political elites representing different communities eschew majoritarian democracy processes in most public institutions including union of municipalities by relying on consensus and compromise to deal with political conflict.

The case of Lebanon reflects this situation. Consociationalism - Demogratia Tawafuqia as it is usually called in Lebanon - is widely seen among scholars and even among certain communitarian groups as flawed and the source of most crises.

## B. IMPACTS OF CONSOCIATIONALISM AND COMMUNITARIANISM ON PUBLIC INSTITUTIONS

We here identify five (5) avenues through which consociationalism and communitarianism are affecting the functioning of public institutions and the Matn Union directly or indirectly:

1. **Communitarian networks within public institutions.** With the growing entrenchment of consociationalism and specifically power-sharing of communitarian groups within public institutions, access to public service even at the lower ranks of government are increasingly determined based on communitarian affiliation. This affiliation means that communitarian networks exist within most institutions. These networks support their members and often try to shield them from any disciplinary decisions or even control from their superiors. This leads to situations where disciplinary measures could become issues of "community oppression", employees openly defying their superiors and an overall crumbling of institutional decision-making and operational processes.
2. **Employees are not selected upon merit.** As communitarian affiliation, and not meritocracy, is the first rule of recruitment in most public institutions, the quality and productivity of these institutions is much affected.
3. **Clientelism.** The existence of communitarian networks within public institutions often translates in favoritism by employees to citizens affiliated to their own communities. This is what is often dubbed 'wasta'. It is even common practice among deputies and ministers to have someone in their office who follows up within public institutions the requests of their political clients. This is usually done by tapping into these communitarian networks and securing reciprocal favors.
4. **Impacts on public institutions' programs and projects.** There are two (2) direct impacts of consociationalism and communitarianism on public programming. The first relates to the idea of "equal" access to State services and has always been at the heart of communitarian parties'

programs, presenting their own communities as marginalized or not benefitting from public institutions as much as others. This has become a very sensitive issue after the civil war that the amendments of the Constitution of 1989 state in its preamble “balanced development” as an objective to be included in all State policies. All this translates into the replication of public services and facilities in areas where different communitarian groups are dominant - even though this has no objective reasons. The second impact is even more structural, with communitarian groups being linked and effectively controlling decision-making in central institutions (e.g., the Council of Development and Reconstruction, the Council of the South, the Displaced Fund, State security apparatuses and even Ministries). This translates into difficult relations between different public institutions and practical disintegration of the idea of public interest at the heart of these institutions. With ever more unstable and weak governments, many of these institutions have been setting their own strategies without real coordination and complementarity with others. This is leading to increasing fragmentation of the State.

- 5. Impacts on local authorities.** Communitarianism is also strong at the level of local institutions. This is related to the fact that in many areas in Lebanon there is communitarian homogeneity - the civil war has heavily contributed to that. In the last decade, large communitarian parties have become more interested in controlling local authorities. In fact, local authorities with their growing services and resources are becoming more present in the daily life of citizens. Moreover, they represent opportunities for employment as well as public works and procurement contracts. Most importantly, their prerogatives allow them to have close control on their territories. Today, as most local authorities lack resources, they increasingly rely on large communitarian parties and their affiliated networks to tap into central institutions resources and get support for their towns and villages. In the towns and villages where there are multiple communities, informal conventions exist for representatives of the different communities to share representation in the Municipal Council, the Presidency of the Municipality, the Union Council, and the Presidency of the Union Council. Breaches to these conventions could lead to tensions. In some cases, tensions have led to pressures for municipality secession.

### **C. THE NEOLIBERAL ECONOMY**

From the founding of the Republic of Lebanon, there is a strong overlap between the economic and the political elites. In fact, one could say that the Lebanese political regime is based on an understanding between political elite made of communitarian networks’ leaders often themselves members of the economic elite and implicated in its most lucrative activities. This understanding is based on a series of principles that could be sketched as follows:

- A.** Free enterprise and private propriety as central values that should be ensured and protected.
- B.** The investment of the State in large infrastructure projects and utility related state-owned-enterprises.
- C.** The strategic importance of the banking sector perceived as the “pillar of the Lebanese economy” and of the banking secrecy law.
- D.** The importance of maintaining strong relations with Western and Gulf countries as they represent the main partners of Lebanese economic elite and sources of diaspora remittance and tourists.

These principles ensured, on one hand, a constant flow of incoming hard currency and, on the other, secured rent income for those who could tap in the lucrative markets of State projects and procurement - and after the civil war on State debt - and real-estate rent economy. The division of the latter markets between the different communitarian political networks is at the heart of the political dynamic in the country. Hence, instability on the geopolitical regional level has very destabilizing effects on the Lebanese economy and political system.

## 6.1.2 The Local Level

### A. THE DECENTRALIZED STRUCTURES

The country knows a particular form of decentralization, in the Law of Municipalities of 1977. The law recognizes the municipalities and unions of municipalities as local administrations and councils respectively for their territories but does not formally speak of decentralization. These local administrations have administrative and financial autonomy, within the margins defined in the law.

### B. MUNICIPALITIES

The territory of a municipality is set within the MoIM decision of its creation and usually encompasses a village or town or a group of villages. It could also be created by secession from a former larger municipality or by the fusion of former smaller municipalities.

A municipality has competence on all that could be considered as of general interest in its territory. The law cites, as example, planning of land-use, provisions of facilities (schools, nurseries, hospitals, clinics, museums, libraries, leisure spaces, gardens, cinemas, sport courts, public pools, social housing, markets, cool-storage, grain insolation spaces), infrastructures (public transport, water, wastewater, solid waste), support and financial contribution to schools, clubs, associations, social, cultural and sport activities and poor and handicapped populations.

The municipal apparatus is divided in two (2) authorities: a decisional authority (the elected Municipal Council) and an executive authority (the President of the Municipality). The Municipal Council can create committees to help him or her study particular issues and give recommendations.

Members of these committees could be selected from outside the Municipal Council but are named by it. The municipal law and other relevant municipal legislation insist on the creation of four (4) specific committees, that of tenders, procurement, receipt of goods and services procured, and rental assessment. For engaging in the management of the municipality the execution of projects and implementation of services, municipal staff assist the President.

Each municipality must set its own inner rules of procedures, personnel policies, and employees' salary scales. It can create administrative departments, municipal police, civil defense, and ambulance units. The Municipal Act defines seven (7) types of income for municipalities: fees directly collected by municipalities, fees collected by State and the public institutions on behalf of the municipalities and distributed directly to each municipality, fees collected by the State on behalf of all municipalities, incomes from renting municipal proprieties, fines, donations/wills, and loans/financial aid. The amounts of the fees are defined by law in ranges of maximum

#### Box 1: Administrative Control as Exercised by the Minister of Interior and Municipalities:

- Decisions by virtue of which the municipal rules of procedures are established.
- Loans.
- Naming public streets, squares and buildings as well as setting up monuments and statues.
- Creating municipal units, organizing them, determining their cadre and competence as well as the scale of salaries and wages.
- Creating Unions consisting of many Municipal Councils in order to carry out common tasks of public interest:
  - 1) Compensations for the President and Vice-president of the Municipality,
  - 2) Transferring public municipal property to private municipal property,
  - 3) Ordering the beneficiaries of a construction project for which the study has been made to contribute to the fees of the said project,
  - 4) Assigning some of the municipal present and future returns to the donor or to the State.

and minimum for each fee.<sup>134</sup> Municipalities are not allowed to impose new fees for services it provides. Presently two (2) fees account for 85 percent of the income of the thirty-six (36) fees municipalities could impose: the rent fee on occupied properties and the fee on construction permits.<sup>135</sup>

Municipalities face two (2) types of administrative control by public institutions: ex-ante control and ex-post control. These controls and audits are made for municipal decisions by the Qaemaqam, the Governor, the Minister of Interior and Municipalities, and for some municipalities the Court of Audit, the Civil Service Council, and a General Controller attached to the Ministry of Interior and Municipalities. All municipalities fall under the ex-ante control of the Qaemaqam, the Governor, the Minister of Interior and Municipalities (see Box 1 and Box 2). Forty-one (41) municipalities are subject to the Court of Audit, which has financial control mostly over the larger municipalities both for ex-ante and ex-post controls. Fifty-eight (58) municipalities are assigned general controllers from the MoIM, who exercise control over municipal budgets, contracts, revenues, and financial operations and transactions. Only ten (10) municipalities (those of cities at the center of Governorates as well as the municipalities of Al-Mina and Bourj Hammoud) are subject to the Civil Service Council, which oversees all municipal decisions regarding employees, administrative organization, and salary scale.

### Box 2: Administrative Control as Exercised by the Qaemaqam and the Governor:

#### The Qaemaqam has to authenticate:

- Municipal budget including transferring and opening credits;
- Fixing the rates of the municipal fees;
- Buying or selling properties in the limits of LL 100 million;
- Lease contracts in the limits of LL 20 million in the municipalities being subject to the pre-audit control of the Court of Audit and LL 10 million in the other municipalities. In both cases, it shall not exceed LL 40 million;
- Providing help to the disabled and supporting clubs, association and other cultural, social, sports, health activities when the total of donations exceeds LL 10 million per year;
- Authorizing transactions regarding the supplies, works and services for value between LL 30 million and LL 80 million;
- Authorizing works held in trust when buying supplies if their value is between LL 20 million and LL 50 million;
- Approval or rejection of donations and ordered funds being related to charges.

#### The Governor has to authenticate:

- Buying or selling properties whose value does not exceed LL 100 million;
- Lease contracts whose annual rent exceeds LL 40 million;
- Authorizing transactions regarding the supplies, works and services when their value exceeds LL 80 million;
- Authorizing works held in trust and buying supplies through invoices if their value exceeds LL 50 million;
- Transferring public municipal property to a certain profit, when this property has been allocated to a public benefit purpose;
- Establishing markets, racing places, museums, hospitals, popular residences, waste disposal and others.

<sup>134</sup> Law 60/1988 on Municipal Fees and Surtaxes define the fees and set their nominal ranges when applicable (certain fee rates such as the rental value fee are set on an ad-valorem basis). The fees rates are to be set annually by decision of the Municipal Council from within their respective ranges.

<sup>135</sup> DRI & LCPS. (2020). Restructuring Subnational Governance in Lebanon.

### C. CONSTRAINTS FACING GOVERNANCE CAPACITIES AT THE LOCAL LEVEL

The institutional capacity (human and financial resources, physical and material assets) of municipal unions determines their ability to provide effective public service delivery and achieve developmental objectives in a systematic and accountable way.

- Unions of Municipalities are local councils created by decrees, bringing together representatives of several member municipalities. The union's mission is to assist the municipalities in their mandates and to develop projects that may serve them all. Like municipalities, unions have their councils and their executive authorities. Representatives of member municipalities form the union council. As with municipalities, the council can form specialized committees. It elects a president of the union who oversees the union administration. This administration has to have by law at least three (3) departments: the administrative and financial department, the department of health and engineering and the department of police. The revenues of the union come essentially from the contributions of the member municipalities equivalent to 10 percent of their budget each, revenues from projects it develops and which serve several member municipalities, its share from the Independent Municipal Fund, revenues of the public domains falling within the competence of the council of the union, donations/wills, and financial aids/loans. The union falls under the same rules of control, oversight, and financial reporting that concern municipalities.
- The Independent Municipal Fund set up by the Municipal Act has its functioning detailed in a specific decree.<sup>136</sup> The IMF holds the fees due to municipalities and unions gathered by central institutions and then redistributes the fees annually to them by decree based on set mechanisms. The unions ought to receive a percentage of the IMF that cannot exceed 25 percent and the rest goes to municipalities. In practice this percentage has been in the last decades between 10 percent and 12 percent. 60 percent of these union fees are to be directly distributed based on number of registered populations in each union, and 40 percent are distributed to unions based on the number of member municipalities for the development projects and the related studies. As for municipalities, according to the regulatory decrees, 70 percent is to be directly distributed based on the number of their registered populations and the income of municipalities in the two (2) previous years and 30 percent is to be redistributed to development projects. However, prior to actual distribution, 5 percent of the municipalities' share are retained for the Civil Defense as per the legislative decree establishing it and an additional 10 percent has been going to the municipalities that have less than four thousand (4000) registered population for development projects as per the latest decrees allocating IMF monies. The remaining amount is currently divided as per the following formula 78 percent based on the number of registered population and 22 percent based on the income of the two previous years. The weight of the IMF in municipal finances varies considerably, while it remains limited for a number of larger and richer municipalities, it is a central income for smaller and poorer municipalities as well as larger municipalities in peripheral areas of Lebanon.
- The Municipal Act opened the way for a dynamic of local development that has been growing steadily since 1998 - the year of the first municipal elections after the civil war. Many municipalities and unions are involved in a wide range of projects with local and international partners to transform their villages and towns. However, there is a very wide disparity between municipalities and between unions which makes it questionable to be talking about them in general. In fact, the one thousand one hundred thirteen (1,113) municipalities vary in terms of territory, population, and economic activities, but also more importantly, in terms of budgets and human resources. Some municipalities have considerable resources and hundreds of employees while others are practically broke and without employees. The same could be said for the fifty (50) or so unions. This is largely due to the absence of clear criteria and purpose in creating municipalities and unions in the Law and how successive Ministers of Interior and Municipalities have been supporting the creation of new municipalities and unions. Moreover, the transfers from the IMF that constitute an important part of municipal

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<sup>136</sup> Decree No. 1917 dated April April 6<sup>th</sup>, 1979.

revenues are highly volatile. In the past decades, governments have not respected deadlines in the Law for transfer of IMF money to municipalities and have arbitrary made deductions in it. This is to say nothing of the criteria of the IMF distribution adopted. Focusing on registered populations is inappropriate as it does not allow capturing the real demographic realities: people living in large cities and their suburbs are usually still registered in their villages of origin and vote there. In terms of IMF, this punishes these large cities while benefiting small villages.

### 6.1.3 The International Level

Relations between international organizations and public institutions in Lebanon are deep rooted and varied.<sup>137</sup> Nevertheless, these relations face important challenges. Some of these challenges are of strategic nature while others are at the practical levels.

International organizations are believed to be overall competent, having solid expertise gathered from worldwide experience, the recruitment of skilled staff and participation in learning processes in multiple international forums. Most are progressive in their orientations pushing for reforms for the respect of human rights, better governance, and sustainable development. They can address donors in a successful way and access funds. They have elaborated operational mechanisms that should ensure adequate implementation of projects and services as well as ensuring quality of these projects and services.

However, there is always a question regarding their political or cultural neutrality.<sup>138</sup> A complex role in development projects is being played by these 'new intermediaries' often with power but no legitimacy, able to facilitate communication and action between levels.<sup>139</sup> In addition, external actors provide opportunities for new vertical alliances in which certain discourses lacking national or local credibility can become favored because of their amplification internationally.

The current emphasis on combining project-based grant aid with 'capacity building' can be a valuable form of policy transfer.<sup>140</sup> However, the reasons for the successes or failures of international organizations in pushing governments towards change and reform are still contested in literature. Most literature points to the weight of domestic political and socioeconomic specificities in host communities.<sup>141</sup>

In other words, while it is important to give attention to the ways strategies, narratives and practices of international organizations are conceived and implemented, it is even more important to have a good understanding of the institutional system, the political regime, and the political economy of the host country in order for government engagement to be appropriate and relevant.<sup>142</sup>

## 6.2 THE UNION OF NORTHERN, COASTAL, AND CENTRAL MATN LED GOVERNANCE

The Union of Matn was founded on January 1st, 1979, by the decree number 2395. Its administrative center is located in the city of Jdaidet El Matn. It consists of thirty-three (33) municipalities. These are the municipalities of:<sup>143</sup> Aayroun, Antelias – Naccache , Baabdat, Beit Chaar – Mazraat El Hadira, Beit Chabab – Chawiye- Koneitra , Beit Mery, Bickfaya – Mhaiydseh, Bourj Hammoud, Broummana, Bsalim – Majzoub – Mezher, Byaqout, Bteghrine (joined the Union in 1998), Dahr El Sawan, Dbayeh – Zouq El Kharab – Mar Youssef – Aaoukar, Dekwaneh – Deir Mar Roukoz – Dahr El Hossein, Douar, El Ghabe- El Maska, El Ouyoun, Fanar, Jal El Dib – Bkenaya, Jdaidet El Matn – Baouchriyeh – Sadd El Baouchriyeh, Mansouriyeh – Mkallis – Dayshouniyeh, Mar Chaaya

<sup>137</sup> INGOs come mostly to fill a void left by the incapacity of the Lebanese State to respond to large and sweeping crises. Their presence in Lebanon goes back to the beginning of the Syrian crisis or to the aftermath of the July 2006 war, with some active in Lebanon since the civil war (1975-1990). The interaction between Lebanese public institutions and international organizations was developed in the context of renewal of municipal action as of 1998. These included technical and financial support on territorial development issues (planning, public service delivery, environmental protection, local economic development, etc.).

<sup>138</sup> Abdallah Ahmad, Director General, Ministry of Social Affairs, November 6<sup>th</sup>, 2021.

<sup>139</sup> Tarek Osseiran, Program Manager at UN-Habitat, November 2<sup>nd</sup>, 2021.

<sup>140</sup> Natasha Marshalian Saade, RMF PSL Chief of Party, Rene Moawad Foundation, December, 2021.

<sup>141</sup> Tarek Osseiran, Program Manager at UN-Habitat, November 2<sup>nd</sup>, 2021.

<sup>142</sup> Sarah Sannouh, Regional Partnership Advisor at IRC, November 10<sup>th</sup>, 2021.

<sup>143</sup> The romanization of the municipalities' names follow municipal actual practices and not standard rule of Arab to English transliteration.

– Mzakkeh, Mar Moussa – El Douar, Mazraat Yachouh, Nabay, Qennabet Broummana, Cornet Chahouane – Ain Aar – Beit El Kekko – Hbous, Rabieh, Roumieh, Sakiet El Misk – Bhersaf, Sin El Fil, and Zalka – Amaret Chalhoub.

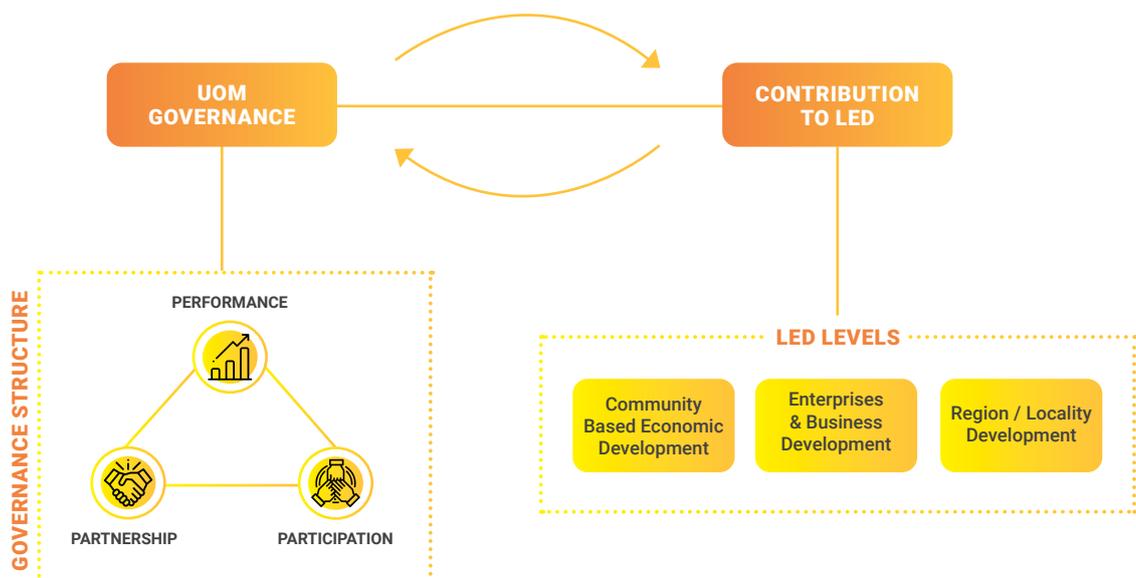
Municipal unions were established to spearhead collective projects, programs and investments that address the development and planning needs of their territories. However, they have to attend to all these, while 1- they are all subjected to the multilevel governance frameworks analyzed in the previous sections, and 2- drawing on the same, largely insufficient, resources they had before the current dire economic situation in the country and facing the gridlock of the central government with the bureaucratic hurdles, outdated systems, and the lack of institutional backstopping by the line ministries.

Hence, in this context, to assess LED governance of the Union is somehow to assess, on one hand, the governance structure of the Union and, on the other, the territorial aspects of local governance.

Based on the interviews, surveys and FGDs conducted as part of this assessment, LED is to be reviewed as a process in which partnerships between local governments, community and civic groups and the private sector are established to manage existing resources to create jobs and stimulate the economy of a well-defined area by using the potentials of human, institutional, and physical and area natural resources. Governance of LED contributions aim to mobilize actors, organizations and resources, develop new institutions and local systems through dialogue and strategic actions.

Figure 40 shows the relationship of LED governance structure and dimensions.

**FIGURE 40** The relationship of LED governance structure/institutional and territorial dimensions



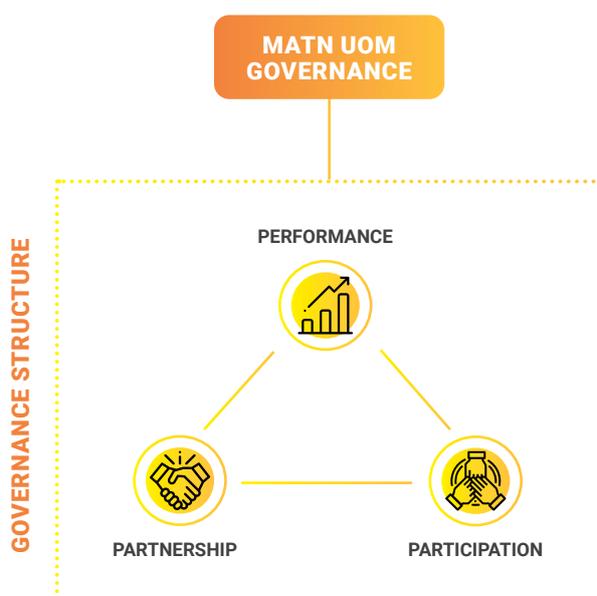
## 6.2.1 The Governance Structure of The Union

### THE GOVERNANCE DIMENSIONS

Good governance on the local level as defined by Romeo<sup>144</sup> is an institutional system for managing local public affairs, characterized by three (3) interrelated critical dimensions:

1. **Performance** of the local authorities in managing public resources and discharging their responsibilities for delivery of economic and social services, protection of the environment and management of natural resources, and promotion of economic development.
2. **Participation** of organized and individual citizens in local public sector decision-making, through mechanisms that supplement and enhance, rather than replace or contradict, the functioning of the institutions of democratic representation; and
3. **Partnership** (networking or collaboration) between local authorities, Civil Society Organizations (CSO), and private sector units for the provision and production of local collective goods and services.

**FIGURE 41** The governance structure/institution



What follows are analytical descriptions of each dimension in figure 41 and their associated entities and relationships within the governance structure of the Union.

Through the performance dimension, we will look at financial resources, administrative capacities defined as the organizational structure in relation to its functions (e.g. basic services, planning etc.), tools and resources, environmental awareness, and territorial knowledge. We will then analyze the engagement of communities, businesses, institutions, and access to information through the prism of participation. Finally, we will assess the partnership dimension by looking at collaboration with central government and international organizations.

<sup>144</sup> Romeo, L., (2002), Local Governance Approach to Social Reintegration and Economic Recovery in Post-Conflict Countries: Towards a Definition and Rationale, Discussion Paper, Institute of Public Administration (IPA) and UNDP, New York.

## 1. PERFORMANCE

### 1.1 FINANCIAL RESOURCES

- Revenues  
The Union did not share this data as requested.
- Expenditures  
The Union did not share this data as requested.

### 1.2 INTERNAL COHESION

The main issue that faces the Union regarding its internal cohesion is the socioeconomic gaps and the different political affiliations that lead to lack of collaboration between member municipalities.<sup>145</sup>

The presence of different political affiliations of member municipalities and within them, in addition to the various geographical regions, actors, frameworks, and standards within the Union, is affecting the decision-making process and the internal cohesion of the Union.<sup>146</sup> Therefore, the Union is not sufficiently capacitated to meet the challenges and expectations of towns and cities facing multi-level problems with rapid social transformation, an unstable economy, a threatening environment, and a volatile political situation.

### 1.3 ADMINISTRATIVE CAPACITIES

According to the Municipal Act, unions are composed of a policymaking body, represented by the union council, and an executive body, represented by the union administration. By law, the executive consists of finance, administrative, engineering and health, and police departments as well as a chief administrator known as the “director general” serving as a link between the policy-making and executive branches. Both branches are chaired by the union president. Moreover, unions are also required by law to have organizational charts that set forth the relationships between these different departments and provide clear lines of reporting.

However, the Union lacks such a chart,<sup>147</sup> revealing the absence of the needed bureaucratic infrastructure to its functioning and without which it is unable to fulfil the developmental objectives in a systematic and accountable manner.

### 1.4 TOOLS AND TECHNICAL RESOURCES

- Planning tools.
  - i. The Union lacks the presence of an RTO<sup>148</sup> or strategic plans.
  - ii. The Union Lacks the presence of a GIS or data systems. However, GIS mapping is present at municipality level such in Jdeidet El Matn and Bourj Hammoud, in addition to a local RTO in the latter.

### 1.5 ENVIRONMENTAL AWARENESS

- i. The Solid Waste Management (SWM). The SWM is one of the most important components of environmental awareness and a major concern in the Union. It is the subject of many initiatives at multiple scales: at the scale of the Union, mainly by Beit Mery and Bickfaya municipalities, and by Jdeidet El Matn and Bourj Hammoud municipalities at the national level, although independently from the Union’s framework.
- ii. The waterfront. The waterfront in Bourj Hammoud and Jdeidet El Matn area is totally out of touch with the adjoining municipalities and home to industrial activities and dangerous fuel storage.<sup>149</sup>

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<sup>145</sup> Antoine Gebara, Vice-President of Matn UoM and Mayor of Jdeidet El Matn, July 9<sup>th</sup>, 2021.

<sup>146</sup> Ibid.

<sup>147</sup> Andre Sleiman, Country Representative at Democracy Reporting International (DRI).

<sup>148</sup> The Regional Technical Office is part of UN-Habitat projects’ implementation strategy/approach at the regional level and performs under the mandate of the Union and comprises local experts and technical persons.

<sup>149</sup> Arpine Mangassarian, Former Head of Technical and Urban Planning Office at Bourj Hammoud Municipality and Director of Badguer NGO, December 1<sup>st</sup>, 2021.

## **1.6 TERRITORIAL KNOWLEDGE**

Many potential natural and cultural assets are not being valorized within the Union, such as Beirut River and Deir el Qalaa historical heritage site in Beit Mery. The seafront and the fishing port of Bourj Hammoud could well be a starting point to play a different role as generators of social inclusion and economic activities in any local development scheme. Moreover, the neglect of the seafront is being reflected in the different separate and fragmented projects next to waste dumping sites.<sup>150</sup>

## **1.7 ATTENDING TO BASIC SERVICES**

There is no clear plan at the level of the Union to deal with Solid Waste Management. However, Bourj Hammoud and Jdeidet El Matn Municipalities, concerned by the landfills, are trying to play a role in finding solutions for SWM at the local and national level in coordination with the Union.<sup>151</sup> In fact, the Bourj Hammoud landfill is one of the four (4) landfills serving the largest areas of the governorates of Beirut and Mount-Lebanon.<sup>152</sup> However, local initiatives exist, mainly in Beit Mery and Bickfaya.

# **2. PARTICIPATION**

## **2.1 CITIZEN PARTICIPATION**

Citizen participation and data sharing are at municipality level and not at Union level. The municipality of Bourj Hammoud conducted a series of meetings with shop owners and inhabitants for the urban renewal of Maraach neighborhood.<sup>153</sup>

## **2.2 BUSINESSES PARTICIPATION**

According to the survey on businesses in the Union, it has shown that business leaders' impact is limited as they do not see themselves part of LED.

## **2.3 INSTITUTIONAL PARTICIPATION**

Based on the spirit of the Legislative Decree number 116 dated 12 June 1959 and the tasks involved,<sup>154</sup> the Qaemaqam can be a participant in LED and ensure equal development, where he/she can advise the local authorities and the Union on what project to implement and where. Moreover, he/she can coordinate with many municipalities to help identify their needs and strength.<sup>155</sup>

## **2.4 ACCESS TO INFORMATION**

Some municipalities such as Bourj Hammoud share their data online (through websites or social media), but not the Union.

# **3. PARTNERSHIP**

## **3.1 NETWORKING WITH LOCAL AND NATIONAL ORGANIZATIONS / INSTITUTIONS**

According to interviews, mainly with INGOs., the Qaemaqam, and the Governor and the surveys, the Union faces three (3) main challenges regarding partnership: 1- Lack of networking and cooperation with the various actors responsible for the local economic development sectors; businessmen and economic actors in the region, 2- The Union's weak relationship with public institutions, sectoral ministries, and deconcentrated authorities, and 3- The clearly defined role and policies of international organizations in the current situation and their relationship with the Union.

<sup>150</sup> Ibid.

<sup>151</sup> Antoine Gebara, Vice-President of Matn UoM and Mayor of Jdeidet El-Matn, July 9<sup>th</sup>, 2021.

<sup>152</sup> DRI (2019), Solid Waste Management in Lebanon: Lessons for Decentralisation.

<sup>153</sup> George Krikorian, deputy mayor of Bourj Hammoud municipality, December 17<sup>th</sup>, 2021.

<sup>154</sup> See Annex 1.6 – Deconcentrated structures.

<sup>155</sup> Iman El Rafei, Qaemaqam of Zgharta District, December 14<sup>th</sup>, 2021.

The relation with the Union and the private actors is mostly based on personal relations or on a project-based relationship, mainly for construction permits or real estate development. However, municipalities in the Union, do fund charitable and caritative projects in partnership with local associations.<sup>156</sup>

## 6.2.2 The Territorial Governance of The UoM

What follows is rapid overview on the territorial governance in the Union which aims at highlighting the challenges that might prevent the UoM to play the effective LED role that will be explored in the next section.

The Union's geography has the assets needed for local development in terms of territorial and human capital. However, for the governance system to be performative, the Union needs to address a set of issues ranging from capacities at administrative level to important and complex challenges at the socio-economic and political levels. According to the interviews, literature and the SLAT meetings, the Union's territorial governance across the three (3) dimensions (performance, participation, and partnerships) suffers mainly from the following points:

### 1. PERFORMANCE AT THE SCALE OF THE UNION SUFFERS FROM THE FOLLOWING MAIN POINTS:

- a) **The lack of internal cohesion of the Union.** The Union was originally formed by member municipalities sharing the same political affiliation to serve mainly local and national electoral objectives and to empower partisans. However, changes in the political, economic and social landscape have lately affected and gave way to political polarization and division within the Union along party lines.<sup>157</sup>
- b) **Regulatory constraints.** Despite the relative enabling environment for local self-serving interests and objectives, the Union faces several challenges that often prevent it from performing its duties effectively and affecting its capacities to implement sustainable development projects.<sup>158</sup> In addition, the overlapping functions between the central administration and municipal councils, between municipalities and unions of municipalities and the lack of adequate administrative capacity in many municipalities, on one hand, and the strong central government's oversight, on the other, is significantly undermining the ability of the Union to act. For instance, around three-quarters (3/4) of the municipal decisions need ex-ante approval of the relevant government agencies or deconcentrated administrative units – i.e., the Qaemaqam, the Governor and the Ministry of Interior and Municipalities (MoIM)<sup>159</sup> - resulting in detrimental bottlenecks and backlogs. Additional administrative constraints, such the interdiction for hiring municipal staff and lack of financial means to hire new employees, result in understaffing that also affects the service provision at the municipal level. Hence, the heavy reliance of the Union on central government, civil society organizations, and foreign-funded projects to provide technical services for assistance and LED projects.<sup>160</sup>
- c) **Urban sprawl.** Real-estate and construction sector is the dominant lever for LED in the Union. In the absence of the larger territorial development vision at the scale of the Union, the Union's role is mainly to serve urbanization and secure construction permits, oblivious to their subsequent consequences in terms of land speculation, urban sprawl, environmental degradation, and the negative externalities.<sup>161</sup>
- d) **Integrated territorial development.** In the absence of the Union's governance authority, each municipality developed its own scheme of renewing its urban fabric and supporting its economic activities within its administrative boundaries; without necessarily coordinating and collaborating with its neighboring municipalities. Thus, failing opportunities for sustainable partnerships and a wider spatial complementarity (inter-communality), diversity and synergy in the Union's territory and developing the collective attractiveness of the Union at the regional,

<sup>156</sup> Antoine Gebara, Vice-President of Matn UoM and Mayor of Jdeidet El-Matn, July 9<sup>th</sup>, 2021.

<sup>157</sup> Antoine Gebara, Vice-President of Matn UoM and Mayor of Jdeidet El-Matn, July 9<sup>th</sup>, 2021.

<sup>158</sup> Ibid.

<sup>159</sup> As mentioned earlier, ex ante control exercised by the Qaemaqam, the Governor, and the Minister of Interior and Municipalities is from a strict legal perspective an "authentication" and not an "approval".

<sup>160</sup> Antoine Gebara, Vice-President of Matn UoM and Mayor of Jdeidet El-Matn, July 9<sup>th</sup>, 2021.

<sup>161</sup> Arpine Mangassarian, Former Head of Technical and Urban Planning Office at Bourj Hammoud Municipality and Director of Badguer NGO, December 1<sup>st</sup>, 2021.

national, and even international levels.

**e) Neglect of the industrial and crafts sectors.** The lucrative outcome and image of the commercial activities, centers and their attraction has sidelined and overshadowed an entire productive sector in many regions of the Union. This has reflected in the fact that none of the member municipalities of the Union seeks to mitigate the needs and pollution problem resulting from this sector's activities.<sup>162</sup>

**f) Territorial and cultural diversity.** The Union is home for social, ethnic, religious, territorial, and cultural diversity and host for migrant workers as well a high diversity of nationalities (Somalians, Ethiopians, Philipinos, Sri Lankans, Syrians, Iraklis, etc.) mainly in Dora and Bourj Hammoud areas.<sup>163</sup> In many ways, this social complexity leaves its traces in the uses and identity of the streets within the same grid where these diverse social groups succeeded in opening small ethnic restaurants or groceries and cloths shops. Another layer of complexity was added to Bourj Hammoud's space-identity paradigm with the arrival of thousands displaced Syrians.<sup>164</sup> However, this diversity needs careful and close attention from local authorities, in terms of harmonious inclusivity and integration in the public space where these many identities are in continuous process of construction, through everyday conflicts and negotiations over this space. This negotiation often takes place through acts of mutual understanding but, sometimes, in clashes and violence.<sup>165</sup>

**g) Financial constraints.** The financial capacity of the Union achieving financial stability is the main stumbling block, curtailing its ability to conduct development projects, hire competent workers and develop their organizational structure.<sup>166</sup> The revenues of the Union do barely cover its basic expenditures, such as salaries, operating costs, and routine infrastructure work, limiting its ability to deliver public services and to invest in larger scale projects. Moreover, the Union is not empowered to impose or collect any fee or tax or contracting loans. The main sources of revenue of the Union are detailed in Articles 133 and 134 of the 1977 Municipal Act. They are limited to 10 percent of the revenue of each municipal member, an additional percentage from the budget of the municipalities which benefit from a common project, grants and loans, and most importantly a share from the Independent Municipal Fund. However, the latter suffers from the unpredictability of the amount transferred, the delay in the disbursement as well as lack of transparency.<sup>167</sup>

**h) Provision of public services.**

- **Solid waste management.** The SWM poses the greatest threat and environmental hazard in the Union, as Bourj Hammoud and Jdaidet El Matn serve as landfills for garbage dumps for the Matn area. As such, the Union is the site of multilayered stakes and multilevel interventions of many competing public and private actors; an arena in search for sustainable local and national initiatives and solutions. In this context, the Mount Lebanon Governor<sup>168</sup> took the initiative to meet with the Union's municipalities and their technical consultants regarding a SWM facility in terms of waste sorting and treatment plants. This facility would be built and served on a land property of the Ministry of Industry in the Roumieh village, at no cost for the Union. The initiative took place in 2019 in a participatory approach and was the first time the municipalities of the Union met again since their last time 2015. However, the project was stopped, as Roumieh municipality did not agree on having the facility within its administrative boundaries, and discussions were stalled with the onset of the 2019 crisis.<sup>169</sup>
- **Public transport and mobility.** The Union is heavily populated; traffic and mobility are main concerns. In this regard, the Qaemaqam of Mount Lebanon,<sup>170</sup> considers that it is her duty, as an institutional actor, to be involved in local development and to help find solutions, and more so as she was watching the lack of initiatives from municipalities and the Union on this front. She was able with experts to elaborate a project for a transport hub in Dora for buses and taxis with a defined location. However, the project was not met by approvals by the concerned parties; the Union and the transport operating agents.<sup>171</sup>

<sup>162</sup> Ibid.

<sup>163</sup> Ibid.

<sup>164</sup> Ibid.

<sup>165</sup> Ibid.

<sup>166</sup> Antoine Gebara, Vice-President of Matn UoM and Mayor of Jdeidet El-Matn, July 9<sup>th</sup>, 2021.

<sup>167</sup> Ibid.

<sup>168</sup> Mohammad Makkaoui, Mount Lebanon Governor, November 30<sup>th</sup>, 2021.

<sup>169</sup> Mohammad Makkaoui, Governor of Mount Lebanon, November 30<sup>th</sup>, 2021.

<sup>170</sup> Marlene Haddad, Qaemaqam of Matn District, November 28<sup>th</sup>, 2021.

<sup>171</sup> Ibid.

## 2. PARTICIPATION AT THE SCALE OF THE UNION SUFFERS FROM THE FOLLOWING MAIN POINTS:

**Citizen participation.** Major internal population displacement during the civil war in the 80's and subsequent wars and refugee influx has profoundly changed the territorial morphology of certain towns and villages of the Union. Some villages along the main Bickfaya road, for example, have seen increases in their population and demographic increases from very few hundreds to many more thousands. . However, according to the municipal electoral law,<sup>172</sup> they are not represented in the municipal councils, consequently not primary beneficiaries of the municipal decisions in terms of urban amenities.<sup>173</sup> In addition, this has distorted greatly the perception of the municipalities in terms of local prosperity and LED seen only from the perspective of land development and speculation, in which the town and village landowners are largely served by land use and zoning regulation to their advantage.

## 3. PARTNERSHIP AT THE SCALE OF THE UNION SUFFERS FROM THE FOLLOWING MAIN POINTS:

**Partnerships between the public and the private sectors.** The Union has a solid economic and social base in terms of small industries and crafts, vibrant commercial centers, and malls. In addition, the Union is home to diverse social demographics and a relatively well-educated and trained human capital supported by a solid schooling and a scientific sector. However, each segment is operating in isolation, catering for its proper needs and pursuing its own objectives with little coordination or collaboration platforms for sharing learning experiences and solutions for the common collective good. Thus, missing opportunities for the consolidation of this base by partnerships between the Union and the private actors for a better territorial competitiveness in terms of skilled labor and job creation.<sup>174</sup>

## 6.3 RECOMMENDATIONS

Given the current quasi absence of LED policymaking, practices and/or initiatives withing the governance structures of the Union, this section will introduce conceptually and practically what an active LED role would entail for Matn UoM.

This section will introduce the three (3) levels of LED as defined by the economic development literature and propose under each one a set of coherent, complementary, and, purposeful actions for the Union to consider as part of any future efforts to integrate local economic development systematically into its mission and associated functions.

It will conclude with a series of policy and reform recommendations necessary to stimulate a local economic development friendly environment in Lebanon. These will be particularly relevant for the Ministry of Interior and Municipalities given its administrative control and oversight mission over local authorities but also essential role in supporting the legislative authorities in development of a legal framework conducive to sustainable local development.

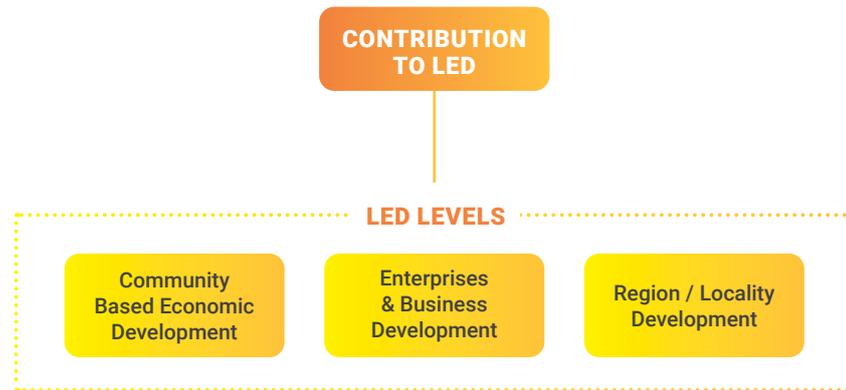
The Union has an important role to play to create place prosperity in terms of actions aiming to enhance: 1- community assets, 2- business environment, and 3- human assets. However, it must realize that it is not alone in the driving seat. Much depends on local producers and their associations, community-based organizations (CBOs), and support agencies (incl. NGOs). Lastly, local economic development is about new roles for the public sector. This applies not only to central government but also to local authorities. Local authorities are to provide the right mix of local public goods and secondly to facilitate or enable these other actors, communities, enterprises, workers, and NGOs, to make their most productive contribution.

<sup>172</sup> Individuals are restricted to vote and run in the districts of their official town of origin.

<sup>173</sup> Charles Muller, member of the association of industrialists in Matn, December 1<sup>st</sup>, 2021.

<sup>174</sup> Arpine Mangassarian, Former Head of Technical and Urban Planning Office at Bourj Hammoud Municipality and Director of Badguèr NGO, December 1<sup>st</sup>, 2021.

**FIGURE 42** LED Levels



According to Helmsing<sup>175</sup>, the following are the three (3) interconnected levels of local economic development initiatives (see figure 42).

1. The first level refers to actions that may be broadly described as community economic development. Community economic development may be applied to both rural and urban settings, though several characteristics would necessarily be different. The essence is to facilitate household diversification of economic activity as the principal way to improve livelihood and reduce poverty and vulnerability. Survival based micro enterprise activity also falls under the community economic development.
2. The second set refers to entrepreneurship and enterprise development. This broad category consists of initiatives that directly target and involve (cluster(s) of) enterprises in particular product specific settings (chains). The destination of these products is for all practical purposes anywhere, in other parts of the same country or abroad.
3. The third level refers to locality development, which relates to overall planning and management of economic and physical development management of an area.

### 6.3.1 Community Economic Development

Community economic development has a number of broad aims: i) to stimulate a sense of community; ii) to promote self-help and empowerment; iii) to contribute to the generation of (self-) employment; iv) to improve living and working conditions in settlements; and v) to create public and community services.

What follows is not more than a general repertoire of practices and experiences that have demonstrated to have relevance in terms of community economic development according to interviews and literature.

- **Creating a local development unit in the Union.** This unit would build on the existing fragmented knowledge and expertise scattered in the municipalities<sup>176</sup> and serve as a territorial observatory, collecting data and compiling territorial, social and economic indicators, and propose plans to help the Union make best informed decisions regarding its policies and actions.
- **Creating local safety nets.** One of the key features of social vulnerability is the inability to withstand economic shocks of any kind. Creating local safety nets and reducing insecurity is fundamental for creating better conditions for local economic development. More

<sup>175</sup> Helmsing, A.H.J. (2003) 'Local economic development. New generations of actors, policies and instruments' in: Public Administration and Development, 23, 1, 1-16.

<sup>176</sup> Existing RTO in Bourj Hammoud and Social Development Unit in Jdaidet El Matn.

Participative Needs (PNA) assessment is needed to better identify actions and strategies at this stage. One example could be day care centers run by women groups, supported by the Union as the basis of local mutual support networks at neighborhood level.

- **Decentralizing basic service delivery:** A pragmatic approach would be needed in the restructuring or decentralization of basic services delivery, like encouraging unions and municipalities to enter renewable energy production and distribution or the Solid Waste Management (SWM) to fill the gaps of the formal (and collapsing) system, which (either commercially or on a non-profit basis) can be brought into the realm of community enterprise. This context lends itself well to the example of Nabay, where its mayor is planning to generate power from solar energy on municipal property in partnership with UNDP and UN-Habitat.
- **Rethinking and using the options offered by the municipal code:** Municipalities can use some “twists” when it comes to the municipal law, as it is flexible in order to raise revenues and ensure sustainability.<sup>177</sup> The solutions depend on the will of the mayor. Municipalities have to think out of the box; political and private interest are the hurdles, not the law. Moreover, the law allows local authorities to pay more than 10 percent for the union in order to implement a project they will benefit from (article 133).<sup>178</sup> However, contributions in terms of share, need to be approved by the minister of MoIM. Moreover, the municipal law could well serve as a springboard for municipalities to be part of private-public partnership (PPP) deals. For example, articles 49 and 50 of the municipal code allow municipalities to establish a market or “souk” and use the revenues for other development projects. They can even use common “Mushaa” lands for public projects. In addition, article 51 allows municipalities to manage projects by themselves, like festivals for example.<sup>179</sup>
- **Stimulating community economy:** Households act in the local economy in three (3) ways: as consumers, as micro-entrepreneurs, and as workers. Micro-enterprise programs would constitute the core of community economic development. Such programs could consist of three (3) or more components, i.e. credit provision, training and technical assistance, and marketing. The Union could advocate for such programs by partnering with local NGOs for training and technical assistance and with microcredit associations identifying and assisting the most fragile and vulnerable populations.

### 6.3.2 Entrepreneurship and Enterprise Development Initiatives

The core of a local economic development program would be the expansion, re-structuring or creation of the economic base of the area. The three (3) types do co-exist in varying degrees within the Union. The Initiatives to be developed by local producers could develop in the creation of an enterprise incubation program; Incubators play an important role in enterprise development, as they provide strategic services that assist startups to cope with the complexities of current and new markets.

Another type of program could focus on group learning to acquire new competencies. The most advanced form of such program seeks to generate collective learning which is based on the interaction between enterprises, research and training institutes, other business development services organizations and local authorities. The industrial cluster zone in Mazraat Yachouh could well be partner with the Union on this. C. Muller, one of the businesses in the cluster and an official member of the association of industrialists in Matn, expressed his willingness to contribute to this effort.<sup>180</sup>

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<sup>177</sup> For example, in the North, a municipality collects valet parking fees instead of entrance fees for access to a natural reserve.

<sup>178</sup> Faten Abou Hassan, Director General of Local Administrations and Councils at MoIM, December 1<sup>st</sup>, 2021.

<sup>179</sup> Sami Minkara, former Mayor of Tripoli, November 19<sup>th</sup>, 2021.

<sup>180</sup> Mr. Charles Muller, official member of the association of industrialists in Matn, December 1<sup>st</sup>, 2021.

### 6.3.3 Locality Development

Locality development corresponds to the management of the entire local territory. In other words, managing and intervening on the built-up physical infrastructure and economic and social overhead capital of the locality in such a manner that it generates the balanced development of all land uses, resolving land use conflicts, minimizing negative (congestion, pollution) and maximizing positive externalities (agglomeration economies). The Union could undertake partnerships with the local stakeholders to better manage their territories and contribute to enhance the local 'quality of life' and the competitiveness of local economic activities.

*The 'management of the territory' would involve several components:*

- **Physical planning and development controls:** Urban land market is rife with all sorts of distortions as well as different property types and rights both public and private. This requires government regulation and interventions. Zoning and other land and building regulations can be an important tool if it is carried out with flexibility and with a developmental attitude. Regulations should be simplified, understood, and agreed on by all parties. Subsequently the Union and local member authorities should make these regulations stick. The lack of transparency often makes this a lucrative area for rent seeking and corruption.
- **Urban planning and design:** Economic performance can be improved if commercial centers and souks are upgraded through improvement of commercial streets and premises. 'Urban renewals' includes actions geared towards the improvement of the town or city central areas and make them more attractive and safer for local communities and prospective investors. The coastal towns of the Union, such as Jdaidet El-Matn, Zalka, Bourj Hammoud, are greatly involved in this type of action to serve not only local populations but the wider Beirut area. This trend needs to engage not only commercial streets but the other neighborhoods too.
- **Infrastructure and basic services:** The basic services to be provided are water and sewer, electricity and street lighting, access roads and sidewalks. Other key areas are roads, irrigation, and drainage. Local needs vary considerably by region and therefore a stronger role of local government in its planning is critical to better respond to local needs. Last but not least, the Union can participate in a range of institutional modalities to deliver infrastructure and basic services, ranging from pure public and purely private to public – private partnerships, community-based enterprises and all kinds of hybrid forms thus increasing the capacity of local governments to provide infrastructure. Such novel modalities and partnerships could be implemented, namely with international organizations paving the way to new practices for the common good of the community such as UN-Habitat's actions in Bourj Hammoud for SWM and Nabay's municipality's partnership with UNDP and UN-Habitat for funding solar power generation for the village in order to ensure streetlighting, power the planned multi-use community center, and reduce reliance on expensive fossil fuels.
- **Socio-economic capital:** One of the important challenges of locality development is the creation and expansion of economic and social overhead capital. This refers to public, non-profit, and private institutions in the areas of education and training, research and technology, information and communication and social capital serving the locality holistically as well as institutions dedicated to its local businesses, enterprises or industries. The Union is well endowed with such a capital that could be put to contribution if properly engaged.

Figure 43 is a mapping of stakeholders from desk reviews and secondary sources. Most are within the Union's territory, however serving larger areas for some.

**FIGURE 43** Matn main stakeholders map

Governance	Trade / Industry	Finance	CSO	Education
<ul style="list-style-type: none"> <li>• UoM of Metn</li> <li>• Metn Municipalities</li> <li>• Qaimqamiya</li> <li>• MoET</li> <li>• Department of Finance</li> <li>• SDCs (Bikfaya, BH, Baabdat)</li> <li>• NSSF</li> <li>• BDL</li> <li>• WE</li> <li>• IDAL</li> <li>• Real Estate department</li> <li>• Topography Department</li> <li>• Health Department</li> <li>• Agriculture Department</li> <li>• CDR</li> <li>• EDL</li> </ul>	<ul style="list-style-type: none"> <li>• Chamber of Commerce, Industry and Agriculture of Beirut and Mount-Lebanon</li> <li>• North Metn Industrialists Gathering</li> <li>• Industrialists' gathering in Zalka and Amaret</li> <li>• Chalhoub</li> <li>• Dekweneh Traders Association</li> <li>• Greater Bikfaya Traders Union</li> <li>• Mansouriya Merchants Committee</li> <li>• Bourj Hammoud Merchants Committee</li> <li>• Zalka and Amaret Chalhoub Traders Association</li> <li>• Association of Industrialists and Traders in and around Mkalles</li> </ul>	<ul style="list-style-type: none"> <li>• Banque Libano-Française (BLF)</li> <li>• BLOM Bank</li> <li>• BankMed</li> <li>• Bank Audi</li> <li>• Bank Byblos</li> <li>• Lebanese Development Cooperative</li> </ul>	<ul style="list-style-type: none"> <li>• Representatives of Construction and Real-Estate Firms</li> <li>• Representatives of Hotel, Resorts and Restaurants industry</li> <li>• Representatives of the transportation sector</li> <li>• Representatives of the Hospital and health sector</li> <li>• Think Positive</li> <li>• Beyond Association</li> <li>• Amel Association</li> <li>• Societe De Saint Vincent De Paul - Liban</li> <li>• Act for Youth Development and People's rights</li> <li>• Arcenciel</li> <li>• Caritas Lebanon</li> <li>• Center for Development, Democracy and Governance</li> <li>• Lebanese Association for Development and Communication</li> <li>• Lebanese Institute for Economic and Social Development</li> <li>• Proud Lebanon</li> <li>• Rene Mouawad Foundation</li> <li>• The Lebanese Center For Public Information</li> <li>• Lebanese Society For Educational and Social Development</li> </ul>	<ul style="list-style-type: none"> <li>• Lebanese University (Sciences, Humanities, Law &amp; Political Sciences, Journalism)</li> <li>• The Economic And Social Fund For Development (ESFD)</li> <li>• The Center for Educational Research and Development (CRDP)</li> <li>• Industrial Research Institute (IRI)</li> <li>• ALBA-BALAMAND University</li> <li>• Lebanese International University</li> <li>• Arab Open University</li> <li>• American University of Lebanon</li> <li>• American University of Culture and Education</li> <li>• Kafaat University</li> <li>• Public Schools</li> <li>• Private Schools</li> </ul>

However, according to the survey on businesses regarding their relationships with the Union, it has been shown that:

- Businesses believe that LED is mainly based on the improvement of WWT, Electricity, and Road Infrastructure.
- Many businesses believe that the Union can play a major role in providing electricity and better road infrastructure.
- They also believe that the Union and municipalities have a moderate capacity to deal with LED.
- The impact of businesses is limited as they are rarely invited to discuss LED projects. However, more than 80 percent are willing to pay taxes to improve LED.
- Capacity building. According to the Qaemaqam,<sup>181</sup> many of the municipal council members are not well informed of their duties and prerogatives. Hence, the need to provide the Union with the necessary assistance and expertise to plan and develop its own solutions. For this capacity building to succeed, the Union should also improve its internal systems, and integrate information and computer technology (ICT) as well as a GIS<sup>182</sup> into its functioning and prepare the grounds for more transparency.

### 6.3.4 Policy Recommendations for a LED Friendly Environment

It is important to stress here that LED does not only refer to local institutions but also to decentralized sectors and national agencies and institutions. The participation of key stakeholders may generate new forms of multi-level local economic governance. Donor and international agencies can also play a facilitating but rarely decisive role. However, the most pressing challenge at this moment is the rebuilding of state institutions from the grassroots up. For the country to become a pluralist democratic state with a vibrant market economy, it needs to re-build local institutions of governance. Decentralization and local authorities' reforms are key challenges in this context.

Accordingly, and in addition to Matn UoM's local governance analysis and recommendations at each level of LED (Entrepreneurship and enterprise development, Community economic development, and Locality development), what follows are main policy implications to be also considered:

- The existing administrative-territorial setup and functions that derive from the related legislation in Lebanon do not comply with the needs of economic growth and development on the local level.
- Due to the missing institutional links (formal and informal), political instability and low level of collaboration, all the negative development effects recognized in theory like the backwash<sup>183</sup> effects, drain of skilled labor or the time lag in trickling-down are visible throughout Lebanon.
- Municipalities and unions of municipalities have been a space where local notables are active. The latter have their political legitimacy built on strong relations with local family clans, businesses, etc. They have an ambiguous relationship with large communitarian parties: they defend their autonomy while trying to build a working relationship with these parties. But it must be noted that in the last decade, large communitarian parties have become more interested in controlling local authorities. In fact, local authorities with their growing services and resources are becoming more present in the daily life of citizens. Moreover, they represent opportunities for employment as well as public works and procurement contracts. Most importantly, their prerogatives allow them to have close control on their territories (refer to 6.1.1.b).

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<sup>181</sup> Marlene Haddad, Qaemaqam of Matn District, November 28<sup>th</sup>, 2021.

<sup>182</sup> The construction permits would be one of the main pillars of the GIS system guiding urbanization and land use planning in the Union.

<sup>183</sup> Myrdal (1957) called the movement of wealth from poorer regions to the central rich region the backwash effect. It takes place because of better facilities and opportunities offered by the growing region.

- Finally, they are economic networks. Indeed, as trust plays a central role in the development of economic relations, endogenous social interactions tend to favor the development of economic partnership, complementarity, and favorable treatment between people from the same community. This is accentuated when people from different communities are competing to control the same markets.

There is clearly a need to rethink and rework the local authorities' laws in Lebanon. This has brought the interest of many Chamber representatives that proposed bills for "enlarged decentralization". In fact, developing decentralization is a goal identified in the Constitution of Lebanon since the 1989 amendments. The most influent of these bills focus on the creation of a new layer of decentralized authority directly elected by the registered population (with a small proportion given to non-registered Lebanese citizens) for representatives in a new Council at the level of the district. This bill eliminates unions of municipalities and defines twenty-six (26) Councils for the twenty-six (26) districts. It gives the Council important prerogatives and resources to be able to organize large administrations influence development. It revises many of the issues criticized in the present Municipal Act especially regarding cumbersome ex-ante administrative controls and lack of resources. However, one could criticize this proposed law at three (3) levels at least.

- First, the district is rarely a development unit. Many districts (like most those of Mount-Lebanon) find themselves cut between two (2) realities: an urban dynamic at the coast and lower hills and a rural situation in the higher mountains. Cities on the coast like Antelias, Ghobeiri, Khaldeh, and Jounieh have more in common than they do with mountain villages in Keserwan, Matn, Baabda, and Aley. On the other hand, agglomerations like that of Tripoli will find itself cut in more than one district.
- Second, many district borders are rivers. It results in a situation in which rivers and watersheds, which normally form basic environmental units, are divided up between different authorities who will treat them as their periphery, unable to provide proper attention, protection, and development, with grave environmental consequences.
- Third, it is very likely that the District Council would be most probably politically dominated by large communitarian parties, sidelining local notables that have been in the last two (2) decades at the heart of municipal life. It is at the level of districts that communitarian parties are most influential. Decentralization is clearly something Lebanon should engage in more steadily, however, there is still much effort to be done to clarify the way forward.

# 07

# CONCLUSION AND POLICY RECOMMENDATIONS

## I. MAIN FINDINGS

Our analysis reveals a somber LED reality as we found major constraining elements in each of the four (4) components. The diagnosis of weak LED in the Matn UoM confirms very low social returns due to a broken territorial planning process as well as poor and worsening human capital exacerbated by the major exogenous shocks at the national level. Moreover, it reveals low appropriability, since governance systems seem to suffer from weak capacity and fragmentation, while market constraints, which have substantially increased due to the national economic shocks, are weakening the local private sector.

*More specifically we identify the following constraints for each of the four (4) analyzed components:*

### **Territorial Planning Constraints**

1. Poor territorial planning, stemming from institutional fragmentation at the national level, outdated urban and territorial planning framework (or lack of), and economic and political aspects of land use regulations that serve private interests rather than the public good.
2. There is an acute absence of comprehensive land use planning at the national, sub-national and local scales to guide development projects, protect significant natural sites, and deal with pollution, particularly marine pollution.
3. Lack of unified territorial development plans at the local and subnational levels is leading to landscape fragmentation and dramatic land cover/land use changes.
4. Rapid and unguided urban expansion in the last two (2) decades has led to a significant reduction in the agriculture and natural areas of Matn UoM and district more generally.
5. The area's public and communal lands and productive, cultural, and natural landscapes which constitute a main pillar of the local economy—including sites recognized by the NPMPLT as significant natural sites of national importance (e.g., Nahr Beirut area, the waterfront, rural area with tourism potential, the archaeological site of Deir el-Qalaa in Beit Meri)—are threatened by encroaching urbanization, speculative development, and illegal transgressions.
6. The UoM and municipalities of the area are challenged to leverage state and municipal owned lands for vital local development projects (e.g., infrastructure and public services, affordable housing, open markets, municipal gardens) that can potentially enhance the livability of urban and rural areas and stimulate private sector economic activities.

## Human Capital Constraints

*The findings below are mostly based on a human capital survey conducted with six hundred (600) households in the region.*

1. Worsening human capital due to poor national-level management of the healthcare and education sector and the absence of robust social protection systems to address the explosion in vulnerabilities.
2. The unemployment rate has slightly increased since 2019, from 3 percent to 5 percent in 2021. Most of those who have been unemployed attribute this to the unavailability of jobs which indicates weak job creation locally.
3. While the unemployment rate is similar across genders, labor force participation is lower among women (76 percent) than men heads of households (96 percent).
4. Incomes have sharply decreased and are increasingly volatile, which may hinder future investments in education and healthcare. Only a quarter have a stable income, compared to a third in 2019.
5. The quality of and access to healthcare households receive has decreased since 2019, and this can be mostly attributed to shortages in medication and financial difficulties faced by households.
6. There is a significant rise in malnutrition, as the majority of households have had to compromise their nutritional needs in order to cope with the deteriorating financial situation, and lower-income households have changed their nutrition habits at significantly higher rates.
7. Brain drain is quite evident in Matn UoM region, compared to other regions, especially among the youth. More so, figures/rates appear to be equal across genders. The share of those who are planning to emigrate is higher among the employed.
8. Those who rent their house are at increased risk of insecurity and worsening housing conditions. Lower-income households have comparatively worse housing conditions, compared to higher-income households.
9. Infrastructure quality and public services are assessed as mostly moderate, if not poor, for the majority of households in Matn Union. Electricity provision is the most poorly ranked service. Other services that rank low are quality of hospitals and healthcare centers, water provision, solid waste management, education services, public transport regulations, road maintenance, and street lighting.

## Market Constraints

*The findings below are mostly based on a firm-level survey conducted with one hundred twenty-six (126) companies in the region.*

1. Sporadic and severely inadequate macroeconomic response to the financial crisis is inhibiting credit and dramatically decreasing aggregate production, while increasing business costs.
2. There is anemic business creation in the Matn UoM. The youngest firms were established two (2) years ago in 2019 (i.e., prior to the crisis).
3. The UoM and municipalities in the UoM region are unable to make good use for municipal owned lands for vital local development projects, which include open markets, which can stimulate private sector economic activities.
4. Across sampled firms, the share of female employment in the Matn UoM sample decreased since 2019. It dropped from 18 percent in 2019 to approximately 16 percent in 2021.
5. Firms in Matn UoM region have been severely constrained by high lira volatility, high input

prices, restricted access to credit and subsidized raw material. This effect was even acute for firms across-the-board for all sectors except wholesale/trade.

6. Our analysis of balance sheets reveals how many firms had to lay off up to 50 percent of their employees to put a brake on their losses amid high costs and shrinking sales. This effect was most visible amongst firms who saw high increases in costs during the first half of the crisis.
7. Similarly, revenues from sales have also significantly dropped during the crisis period. 78 percent of sampled firms witnessed a 10 percent drop in sales during either 2019-20 or 2020-21 periods. We posit that this is symptomatic of weak demand. These effects were most pronounced in the wholesale, real estate, and manufacturing industries.
8. Faced with inflation and reduced demand, some touristic companies had to reduce their services/products or lay off workers. One touristic resort we spoke with had to reduce the number of operating All-terrain vehicles (ATVs) following the crisis to remain in business.
9. Firms appear to be highly constrained by weak local infrastructure such as electricity, wastewater networks, and roads. Some have also been constrained by poor health services in the area.
10. Business recovery in Matn Union area is tenuous. Surviving firms are pessimistic about their future growth prospects despite having survived so far without business networks, financing, or support (including from the local government). Less than 30 percent of the firms assess their growth prospects over the next three (3) years as being good. Moreover, 36 percent of all firms perceive their likelihood of closure over the next six (6) months as being high, which indicates limited liquidity, including among firms that believe they have good long-term growth prospects.
11. There is a strong risk of a jobless recovery because firms in Matn UoM are operating significantly below full capacity and therefore can expand output without increasing labor. Even in a hypothetical scenario where firms were given a substantial grant and decided on how best to use it, only a minority chose to hire more workers (25 percent).
12. The relationship between local authorities and the private sector is deficient. The interaction of the Matn Union private sector with various levels of their government is weak. The main "interaction" is a transactional one: the payment of taxes. There is little to no collaboration on infrastructure or development projects.

## Governance Constraints

1. Weak performance of local authorities due to sporadic, unpredictable, and unequal distribution of the Independent Municipal Fund (IMF).
2. The high exposure of the UoM processes (such as employment) to national and regional level bureaucracy hurts its independence and planning ability.
3. The UoM suffers from weak administrative and financial capacity hampering the optimal use of existing resources or the acquisition of new ones.
4. Poor collection efforts, unpredictable IMF instalments and municipality membership fees, have taken a toll on the UoM's finances.
5. The Union has at its disposal tools to address LED (such as the existing regional technical office in Bourj Hammoud and a social development unit in Jdaidet El Matn.). However, such tools need to be empowered by expertise.
6. LED should be reviewed as a process in which partnerships between local governments, community and civic groups, and the private sector are established to manage existing resources to create jobs and stimulate the economy of a well-defined area by using the potential of human, institutional, and physical and area natural resources.

*Looking deeper into the constraints we can identify the binding ones, which we define as constraints that are affecting two (2) or more of the four (4) components highlighted in the framework. We highlight these binding constraints below:*

- 1.** Governance is seen as the area's most binding constraint, thus negatively affecting LED at large. That said, understanding of the LED concept in Matn UoM is limited, leading to planning failures and weak implementation of existing strategic plans:
  - LED understanding is constrained to minor infrastructure and facilities development and lacks an integrated and comprehensive approach that brings together the territorial, economic/business, and social aspects.
- 2.** Low interaction and partnership between UoM and local stakeholders:
  - Private sector and local community report low to no interaction with the UoM, hurting the ability of the latter to produce relevant solutions to the emerging economic and social priorities.
- 3.** Matn UoM's governance system fails to properly integrate the local private sector in its overall development vision due to:
  - Non-existent collaboration with firms (of all sizes and industries) on development or infrastructure projects.
  - Businesses seek support from municipalities to promote their products/services as well as to expand their consumer base. Often, municipalities find themselves not capable of playing a "market-specific" role (like organizing open public markets to stimulate private investment) as also reiterated by local officials in the area.
  - Municipalities and municipal unions have not been able to implement proper infrastructure, such as electricity and roads, that could ease business in the area.
- 4.** Absence of comprehensive planning and lack of clarity over the area's future economic identity in view of growing crises and shifting priorities:
  - Unbalanced growth and a blurred vision of the future identity of the region and how to develop its main economic pillars.
  - Politics, territorial governance, security and growing social tension have been barriers to effective economic development.
  - Lebanon's worsening economic situation and inefficient investments in infrastructure and public services is leading to the widespread deterioration of the built environment and the growth of poverty, inequalities, and informality.
- 5.** Frail human capital accumulation in the face of market shocks, seen through loss in income, unemployment, skill atrophy, and poor health:
  - Substantive job mostly concentrated in services, followed by agriculture, and manufacturing.
  - Some demand for better health services in the area amongst sampled firms. This is especially true for firms working in the manufacturing and agriculture sectors.
  - Businesses do not perceive workers' educational skills to be a crucial or necessary requirement for hiring. This implies higher likelihood of skills atrophy following crisis, which is concerning given that Matn's education sector has been considerably resilient in the past.

6. The current market shock has led to property abandonment, side-lining agriculture, and privatization:
  - Amid lira volatility and soaring input prices, growing risk of property abandonment, and increased rent gap.
  - Possible privatization of Lebanon's public assets (including land) to remediate banks' financial losses would not only lead to the eventual disappearance of productive land.
  - Matn is highly urbanized, and the main node of activity lies in the commercial and industrial sectors, but there is potential to restore agricultural activity today.
  
7. The future of the workforce is threatened due to decreasing access and quality of healthcare and food insecurity:
  - While healthcare coverage in the union is higher than that in other regions, less than half of surveyed heads of households, or their children, have health insurance (46 percent of heads of households, 49 percent of children, and 42 percent of other adults in the households).
  - A regression analysis highlights factors that significantly affected the drop in the quality of healthcare households are receiving. Although income is not a significant factor, those who have an illness are more likely to have experienced a drop in the quality of healthcare compared to the healthcare quality they received in 2019.
  - Poorly managed, and limited capacity and lack of equipment in public hospitals, forcing residents—those who can afford it—to seek treatment in private facilities.
  - Food insecurity and malnutrition on the rise. While the majority of households assess their food consumption as adequate (as opposed to the Tyre and Al-Fayhaa regions), lowest income groups have a much higher share of those who see it as less than adequate (42 percent), while the highest income group have a higher share of those who see it as more than adequate (26 percent). The relationship between income and considering the food consumption as less than adequate is highly significant.
  
8. Decreasing pool of workers as the youth plans to emigrate to find job opportunities abroad:
  - Matn UoM region is suffering from a serious brain drain, particularly among the youth. The main reason behind intentions to emigrate is finding job opportunities. Employed individuals are more likely to have plans to emigrate, which implies that there are concerns over loss in skills in the country.
  - Having a social network is also a driver of emigration.
  
9. While the level of education was good pre-crisis in Matn relative to other regions, educational outcomes became significantly worse between 2019 and 2021. Poorer quality of education, and negative perceived returns to education, has led to lower human capital accumulation. However, this negative effect is even more visible in the Tyre and Al-Fayhaa UoM regions.
  - High tuition fees, teacher absenteeism, strikes, poor quality of teaching, and lack of enough teachers are common concerns among households.
  - 69 percent of households reported that a main challenge faced during children's education has been high tuition fees. This was followed by teacher absenteeism or frequent strikes (37 percent) and a poor quality of teaching (14 percent). Overall, 61 percent of households reported challenges related to teaching (absenteeism, poor quality of teaching, and lack of enough teachers).
  - Lack of information on which skills are in demand in the market, leading to a mismatch between demanded and supplied skills.

- 10.** Housing insecurity on the rise, though at a rate lower than that of Tyre and Al-Fayhaa UoM regions, leading to increased vulnerabilities:
- Poor housing quality, lack of affordable housing, and tenants (including commercial ones) are growing unable to pay their rent.
  - Standards of housing are comparatively better among those who own their house (20 percent consider them as more than adequate), but much worse among those who rent (24 percent consider them as less than adequate).
  - Standards of housing also tend to be slightly less adequate in vulnerable municipalities, where the share of households renting their house is also higher than the share in non-vulnerable municipalities (38 percent rent their house compared to 23 percent).
- 11.** Union unable to provide public services, leading to deprivation:
- Electricity, health, wastewater networks, road maintenance, and street lighting are particularly poor.

## II. BROAD LEVEL POLICY RECOMMENDATIONS

The assessment reveals clearly that the national level endowments, particularly the major governance failures and the severe economic shock, have played a primary role in decreasing the development potential and capacity of Lebanon's territories. However, the report also indicates that the margin of improvement that can be spearheaded by the Matn UoM is wide and should be properly exploited through a local LED effort geared towards achieving better outcomes for the resident society and market. In what follows, we outline key guiding broad-level policy recommendations below that can inform local-level interventions in the short term. We do not categorize these by theme as broad-based policy recommendations are meant to reveal a clear nexus between the different sub-themes, namely territorial planning, human capital, market conditions, and governance. A total of eight (8) policy measures are proposed next:

- Considering governance as the area's main binding constraint, the concept of LED should thus be expanded within the UoM governance apparatus with the interaction between markets, society, governance, and the territory well established and understood. The salience of LED interventions should gain salience on the agenda of the local authority, with proper allocation of resources towards a dedicated unit that can inform these interventions. Furthermore, the UoM should better audit its finances (revenues and expenditures) to ensure that available funds are put into proper use (i.e., by way of internal control). Lastly, technical offices and local development units at the level of the UoM can bolster the development capacity of the UoM, if complemented with necessary expertise.
- The UoM should play an active "entrepreneurial" role in securing better public services at the local level. A mission-oriented approach that brings together public and private stakeholders can achieve better outcomes through a sustainable business model for electricity, wastewater, road and transportation issues. Novel and creative ideas, using renewable and sustainable primary products, some examples of which are already implemented at the local level in Lebanon, can go a long way in preserving the local economy and human capital.
- For the first time in years, social services, in particular health and education, appear to be declining in the Matn UoM, so officials should develop collaborations with local civil society and international organizations to increase public health and education funding and staff capacity. This requires an urgent intervention that can avert a social calamity in the short and long term. By supporting health and education facilities, businesses and market actors will also enjoy a higher level of productivity.

- The dangerous trend of compromising nutritional needs to cope with the destruction of income found in most families in the region requires an immediate intervention by the Matn UoM. The Union, in cooperation with member municipalities, should work towards providing food aid directly or in collaboration with local charity organizations to ensure the nutritional needs of the struggling population.
- The UoM should prioritize investments in agricultural reclamation and the support of small farmers. Land abandonment is a main factor behind land degradation and loss of health and productivity. Particularly in the context of Lebanon's looming food crisis this kind of investment becomes even more crucial. However, the UoM should lead on the design of detailed studies and plans that could better guide the location of agricultural investments.
- The UoM, in collaboration with international donors and agencies, should ease the transition of the private sector out of the crisis. While sales turnover has been quite encouraging in the region, many firms appear to be experiencing liquidity shortages today. In order to preserve business and maintain a satisfactory level of production, urgent intervention is needed. The UoM can play an indirect role by acting as a platform that connects private sector actors with a class of investors and international organizations. This would increase firms' production capacity, hiring margin, and access to local and foreign markets. This is the primary way through which the UoM can help generate fresh income streams in the area as well as re-establish local economic cycles that are essential for proper local economic development in a post-crisis environment.
- The UoM should better regulate road traffic to ensure strong business by working closely with the central government (MoPWT) and the municipal police. This would especially matter for agriculture, manufacturing, and service firms. Similar efforts should be taken up by the union when it comes to electricity generation, health support, and establishing better wastewater networks.
- Furthermore, the UoM should conduct regular needs assessments of local firms' and communities' infrastructural needs to inform more adequate project planning that could have a direct positive effect in the area.

# ANNEXES

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## ANNEX 1.1: DETAILED SURVEY THEMATICS

Below is a detailed depiction of the firm-level survey questionnaire.

### **ENTERPRISE CHARACTERISTICS**

- a) Age.
- b) Sector.
- c) Location.
- d) Size (number of employees).
- e) Employee formality.
- f) Employee profile.
- g) Ownership status.
- h) Land-use classification.
- i) Type of business (export or local market).

### **THE IMPACT OF LEBANON'S MULTIPLE CRISES: THE PRIMARY EXOGENOUS SHOCK OF INTEREST**

1. Labor-specific effects.
2. Trade-specific effects (local trade potential in the case of an exporting firm).
3. Changes in cost structure and variation in expenditure/budget lines.
4. Change in competition (e.g., with foreign labor, with local formal firms, with local informal firms).
5. Change in type of production.
6. Change in production volume.
7. Change in access to primary goods.

## IDENTIFYING THE MAIN CONSTRAINTS

1. Access to finance (with a focus on microcredit or alternative credit channels).
2. Access to and cost of infrastructure (by sector).
3. Bureaucratic processes impeding business.
4. Human resources (existing human resources, vacancies, salaries/wages).

## COPING MECHANISMS TO

1. Poor infrastructure.
2. Increased costs.
3. Diminished access to credit or possibility to access it.
4. Weakened sales.

## MAIN PRIORITIES

1. Main priorities for increasing production.

## COLLABORATIONS AND CONSULTATIONS

1. Extent of collaboration with public entities.

Below is a detailed description of the human capital survey questionnaire.

## PROFILE

This section asks about the main characteristics of the household, such as:

- Household size, gender, and age of members.
- Health status of all members (any health conditions or disabilities, including mental health).
- Level of education of household members.
- Number of employed, unemployed, or inactive individuals in the household.
- Income and sources of income.

## EMPLOYMENT

1. **Employment status and type of employment:**
  - a. Number of employed, unemployed, or inactive individuals in the household before and since the crisis.
  - b. Sector of employment (former if unemployed).
  - c. Position and type of contract (formal or informal).
  - d. Place of residence and distance from employment, and means of commuting before and since the crisis.
2. **Changes since the crisis:**
  - a. Changes in contract (salary, number of hours).
  - b. Increasing informal employment.
  - c. Rise in emigration.

3. **Labor demand:**
  - a. Perceived competition with other workers (including non-Lebanese populations or lower skilled workers).
  - b. Perceptions on the (mis)match between available jobs and respondents' own qualifications and expectations (e.g., position, salary).
  - c. Prevalence of informal sector and illegal employment.

## EDUCATION AND SKILLS

1. **Type of education:**
  - a. Level of education of household members (and of the head of household's parents).
  - b. Public/private education for all household members. If public, specify if there was a switch from private to public since the crisis.
2. **Access to education:**
  - a. Availability of schools, vocational training centers, and universities nearby.
  - b. Spending on education relative to total yearly expenditures before and after the crisis.
  - c. Main challenges in pursuing education since the crisis: Increase in tuition fees, textbooks, and material; school closures; unreliable (or unavailable) internet and electricity; no technological devices; or additional responsibilities for and required support from parents.
3. **Perceived returns on education:**
  - a. Perceived value of pursuing formal education vs. seeking employment.
  - b. Perceived (mis)match between completed education and labor demand: Are some skills available without the demand, or is there demand for certain skills but no supply?

## HEALTH

1. **Health status and access to healthcare:**
  - a. Health status of all household members (health conditions or disabilities, including mental health).
  - b. Availability and type of health insurance, and care covered by the insurance (e.g., blood tests, consultations, medication, hospital stay, etc. If any changes since the crisis, specify).
  - c. Availability and access to healthcare facilities nearby (public and private).
2. **Post-crisis:**
  - a. Out of pocket expenditures on healthcare before and after the crisis.
  - b. Change in behavior since the crisis: Seeking care (or specialized care) less often; stopping medication (specify the type of medication and treatment).
  - c. Main healthcare provider before and after the crisis (private doctors, NGOs).

## HOUSING AND LOCALITY

1. **Housing characteristics:**
  - a. Place of residence.
  - b. Housing condition.
  - c. Size (number of rooms).
  - d. Housing type (apartment, shared accommodation with other people, other. Specify).
  - e. Housing tenure (ownership, waqf, long term lease, short term lease, informal contract with owner, no contract).
  - f. Housing changes since the crisis. If yes, specify: Rental increase, eviction by landlord, closer to new job.
2. **Access to infrastructure and public services:**
  - a. Connectivity to infrastructure networks and public services (also specify if formal or informal).

- b. Access to open space.
- c. Public transportation in the neighborhood.
- d. Provider and daily supply of electricity before and since the crisis, and cost of electricity.
- e. Supply and quality of water before and since the crisis.
- f. Any home located businesses? If yes, specify.

## INCOME, EXPENDITURES, AND SOCIO-ECONOMIC CONDITIONS

### 1. Income:

- a. Total monthly/yearly income.
- b. Sources of income (all sources), main source, and whether this changed since the crisis.
- c. Change in income since the crisis (e.g., lower wages/salary; less/more remittances; lower purchasing power due to limits on cash withdrawals).
- d. Whether the income covers expenses (to what extent).

### 2. Spending:

- a. Main expenses before and after the crisis.
- b. Ability to cover expenses before and after the crisis.
- c. Changes in spending composition since the crisis.
- d. Main reductions in spending since the crisis (food, housing, doctor consultation, school, unnecessary expenses such as clothing, etc.).
- e. Municipal taxes.

## SOCIAL CAPITAL

### 1. Social networks:

- a. Reliance on direct or extended family (direct assistance or remittances).
- b. Reliance on local or international NGOs to cover basic needs (specify).
- c. Other networks (specify: Neighbors, friends, municipality, political actor, religious institutions, or other).

### 2. Coping mechanisms:

- a. Seeking medical care less often.
- b. Skipping meals.
- c. Dropping out of schools or shifting from private to public school.
- d. Lower electricity consumption.
- e. Other.

## ROLE OF THE LOCAL GOVERNMENT

In this section, the respondents will be presented with what the local government is allowed to do by law and then asked about their needs and priorities on what the local government should do and prioritize.

### 1. Education:

- a. The perceived role of the local government in improving access to education: Building public schools, covering tuition fees, offering more trainings, or other.

### 2. Healthcare:

- a. Perceived role of UoM and municipalities in improving access to healthcare.
- b. Building healthcare facilities and hiring healthcare workers.
- c. Providing support for out-of-pocket expenditures.
- d. Securing medication.

### 3. Infrastructure and public service needs:

- a. Regulating generator subscription fees.
- b. Improving solid waste and wastewater management.

- c. Improving water quality and quantities (for drinking, irrigation, and industrial needs).
- d. Providing affordable housing, regulating rent prices, and protection from evictions.
- e. Public safety and risk management (security/police, night lighting, firefighting services, and flooding prevention).
- f. Provision of public and leisure spaces and public sports amenities (public squares, public gardens, public beaches, and sport fields).
- g. Provision of cultural amenities and activities (libraries, cultural centers, festivals, and commemorations).

## PERCEPTIONS TOWARD THE UOM

1. **Urgent assistance and response to the crisis:**
  - a. Most urgent assistance needed from local government in addressing poverty and rising expenditures (cash assistance, food, medication, housing).
  - b. Overall assessment of the local government's response to the crisis.
2. **Trust in the UoM as an alternative to the central government:**
  - a. Trust in the central government's ability to respond to the crisis.
  - b. Support for decentralization to address local needs.

# ANNEX 1.2:

# KEY RESEARCH LIMITATIONS

*(Firm-level and Human Capital Surveys)*

## A. THE FIRM-LEVEL SURVEY: A NOTE ON BINDING CONSTRAINT ANALYSIS AND SAMPLING ISSUES

1. One of the main aims of the survey is to conduct a binding constraint analysis to identify the main business obstacles facing firms in the Matn UoM area..

The survey questionnaire had two (2) questions on such constraints. The first one prodded the firms to rate different business obstacles from one "1" to four "4" (four "4" being a significant obstacle). The second question asked the firms to rank their top five (5) obstacles. To capture the latter, we constructed a variable called "top obstacle" which took the value of one "1" if a certain obstacle was ranked amongst these five (5).

However, upon closer look at the data underpinning each of these questions, we did not find any merit in conducting analysis using data obtained using the second question. Using this approach, we created a variable titled "major obstacle" which corresponded to firms that either rated three "3" or four "4" for each obstacle because it best captured the intensity of the constraint.

The main reason why we went for the first survey question when presenting our results is methodological. Since there is a long list of obstacles to go through, it might be difficult for respondents to recall each and every obstacle and then rank them accordingly. Consequently, such a strategy might bias down the true effect or intensity of effect. Therefore, we went with the data that guarantees that the true effect or its intensity are being well captured.

In any case, the results were mostly robust regardless of which variable was used.

2. As mentioned in Section 5 (Market Analysis), our sampling matches the joint CAS ILO LFHLCs figures. Sample size per region is sufficient but can be increased for more significant statistical results. Since we ran the analysis by region, this leaves a smaller space for variation. At times, this generated statistically insignificant results even if they are economically significant. When we ran a pooled regression including all three hundred seventy-nine (379) firms (covering all three (3) UoMs) – assuming that the economic significance of our explanatory variable does not vary much by region – most of the results turned significant. When examining the impact of the different business obstacles (i.e. ordered variable) on **employment growth** per region, there was barely any variation. For example, when almost all firms identify volatility in the Lebanese Lira as a top obstacle, then this rids the model of necessary variation to identify a causal effect. We, thus, relied on a more descriptive approach to conduct our binding constraint analysis as explained in this report.
3. Informal businesses were excluded from the sample, but their effect is captured using binding constraint analysis. Registered firms were asked to assess the extent of influence informality had on their business.
4. The size of firms targeted in the sample was more skewed towards small-sized businesses.
5. The survey did not ask about private sector debts or credit receipts. This was based on concerns over non-responses as advised by the hired statistical firm. To remedy this, we asked firms about their funding sources in times of crisis (excluding the banking sector) and their short-term business expectations (as a proxy for liquidity shortages).
6. National and local corruption was defined in the survey as “irregular procurement processes”. However, there are still some concerns over how this was interpreted by firms. A question for future research: What are the specific channels through which Lebanese-style corruption affects the private sector? How do they interpret these two (2) obstacles? Can they provide concrete examples?

## **B. THE HUMAN CAPITAL SURVEY: A NOTE ON SAMPLING AND OTHER LIMITATIONS**

1. **Sample size** is sufficient but can be increased for better variation and coverage.
2. **Gender representation** is limited as most heads of households happen to be men in the chosen regions. This may be remedied by looking at the gender of other household members.

## ANNEX 1.3:

# FINDINGS FROM MEETINGS WITH LOCAL ACTORS

- Two (2) major problems facing the local area are unemployment and lack of government support. Furthermore, inflation has led to huge losses for both firms and local authorities.
- Local enterprises are highly indebted.
- Municipalities are in debt. According to officials, the main focus should be on filling financial gaps.
- Hospitalization bills are way too high for the average resident.
- Having an updated local database will give municipalities a head start to address local development.
- Officials should aim for local development that is in line with what was proposed by Mr. Hussein Cheaito (market support).
- The money local authorities receive should be conditional on implementing certain projects.
- Farmers are now unable to transport their goods to work as it is very expensive and the same applies for workers in the hospitalization sector.
- Administrative Decentralization is a necessity and must be achieved to free localities from central government control and bureaucracy.
- Pollution is a major problem to address in Matn.
- A new recycling factory will help create jobs and generate local income.

# ANNEX 1.4:

## REVENUES AND EXPENDITURES ON SELECTED MUNICIPALITIES IN MATN

### 1. REVENUES

Union of municipalities	Municipality	Year	Expected revenue	Actual revenue	Ratio	Direct fees				Indirect Fees		Other Revenues
						Total	Rental Fees	Sewage Treatment	Building/ Construction licensing	Excluding IMF	IMF	
Northern and Coastal Matn	Al Billani	2017		27.005		7.050	0.767	1.047	1.025	1.854	-	18.101
		2018	25.5	21.825	0.86	12.986	0.796	0.976	0.359	0.281	2.469	6.089
		2019	18.5	14.962	0.81	4.159	0.811	0.654	0.441	0.204	1.998	8.601
	Nabay	2016		3.189		0.901	0.157	0.057	0.283	0.366	0.341	1.581
		2017		3.742		0.842	0.277	0.099	0.299	0.154	-	2.746
		2018	2.517	4.073	1.62	0.694	0.259	0.900	0.236	-	0.188	3.191
		2019	2.517	4.391	1.74	0.496	0.242	0.083	0.084	0.006	0.190	3.699
		2020	2.517	4.581	1.82	0.472	0.212	0.075	0.097	-	0.192	3.917
	Roumieh	2017		4.992		1.326	0.162	0.207	0.195	0.150	-	3.516
		2018	6.084	5.604	0.92	1.344	0.186	0.184	0.146	0.024	0.309	3.927
		2019	6.431	6.319	0.98	1.396	0.147	0.196	0.010	0.009	0.300	4.614
	Sekiet el Misk Bhersaf	2017		1.709		0.456	0.128	0.069	0.087	0.186	-	1.067
		2018	2	1.364	0.68	0.471	0.146	0.070	0.052	0.029	0.214	0.650
		2019	2	1.241	0.62	0.848	0.205	0.076	0.025	0.011	0.145	0.237
	Bickfaya - Mhaydseh	2016		0.6		0.274	0.069	0.024	0.052	0.113	0.203	0.010
		2017		1.309		0.815	0.264	0.105	0.097	0.464	-	0.030
		2018	1.501	1.524	1.02	0.967	0.261	0.108	0.316	0.069	0.420	0.068
		2019	1.4	1.199	0.86	0.695	0.256	0.109	0.070	0.025	0.356	0.123
		2020x	1.15	1.06	0.92	0.598	0.256	0.116	0.007	0.233	0.194	0.035
	Bourj Hammoud	2016		17.072		6.006	1.028	0.974	0.375	5.280	5.680	0.106
		2020	40.668	10.166	0.25	3.674	0.690	0.679	-	1.621	1.376	3.495
	Sin el Fil	2016		9.052		6.938	1.078	1.229	0.104	0.258	1.839	0.017
		2017		13.121		9.463	1.383	1.546	0.696	3.648	-	0.010
		2018	18.664	18.527	0.99	11.339	1.243	1.433	2.893	3.476	3.512	0.200
		2020	19.119	11.376	0.60	8.485	1.369	1.487	0.240	0.932	1.800	0.159
	Fanar	2017		2.602		2.218	0.155	0.338	0.386	0.379	-	0.005

## 2. EXPENDITURES

Union of municipalities	Municipality	Year	Municipal Expenditure	Recurrent Expenditure					Capital Expenditure
				Total	Administrative	Equipment, Maintenance and Public Cleaning	Services and Grants	Miscellaneous Expenditures	
Northern and Coastal Matn	Al Billani	2017	20.926	11.822	0.967	9.677	0.818	0.360	9.104
		2018							
		2019	2.528	2.523	1.301	0.351	0.609	0.262	0.005
	Nabay	2016	0.457	0.428	0.124	0.256	0.020	0.028	0.029
		2017	0.560	0.546	0.259	0.202	0.020	0.065	0.014
		2018	0.444	0.439	0.202	0.194	0.021	0.022	0.005
		2019	0.489	0.429	0.145	0.243	0.003	0.038	0.060
		2020	0.638	0.521	0.207	0.238	0.019	0.057	0.117
	Roumieh	2017	1.260	0.848	0.165	0.584	0.024	0.075	0.412
		2018	0.986	0.837	0.149	0.574	0.046	0.068	0.149
		2019	1.399	1.046	0.276	0.607	0.065	0.098	0.353
	Sekiet el Misk Bhersaf	2017	1.114	0.860	0.121	0.633	0.022	0.084	0.254
		2018	1.134	0.916	0.140	0.671	0.014	0.091	0.218
		2019	0.592	0.561	0.140	0.362	0.009	0.050	0.031
	Bickfaya - Mhaydseh	2016	0.732	0.367	0.040	0.029	0.016	0.013	0.267
		2017	1.467	0.686	0.070	0.327	0.024	0.032	0.328
		2018	1.892	0.838	0.124	0.255	0.029	0.020	0.626
		2019	1.249	0.720	0.098	0.162	0.022	0.004	0.243
		2020x	0.960	0.686	0.084	0.066	0.024	0.001	0.099
	Bourj Hammoud	2016	15.270	0.463	0.955	5.376	1.275	2.568	4.633
		2020	10.908	0.403	0.745	7.312	0.064	0.469	1.915
	Sin el Fil	2016	10.138	0.087	0.598	4.965	0.416	1.568	2.504
		2017	10.262	3.772	0.750	1.068	0.378	1.385	2.909
2018		14.685	3.798	0.625	1.182	0.356	0.928	7.796	
2020		7.171	0.077	0.808	1.720	0.295	1.272	2.999	
Fanar	2017	2.753	0.130	0.177	0.828	0.647	0.117	0.854	

# ANNEX 1.5:

## FGDs PROTOCOL

(Phase 1 and Phase 2)

Below is the protocol for FGDs conducted in Phase 1. Some questions will be common across different groups.

### A. PROTOCOL FOR BUSINESSES STILL IN OPERATION

In this discussion, we aim to understand challenges and opportunities for local economic development in three (3) areas across Lebanon: Matn UoM, Urban Community of Al-Fayhaa, and UoM Tyre. We will focus on three (3) thematic areas as follows: governance, market, and human and social capital.

#### INTRODUCTORY QUESTION:

1. Almost two (2) years into the crisis, what can you tell me about the business climate in {area}?

#### GOVERNANCE:

2. When thinking of your business and the legal / local environment, what are the major hindrances or obstacles you face? Probe if not mentioned:
  - a. Access to basic public services (electricity, transportation, water, pollution, and garbage collection, etc.).
  - b. Bureaucracy such as hurdles business owners may have faced to acquire business license and related papers.
  - c. Associated costs not directly related to production (government procedures – local or central - taxes, legal issues, fees, etc.) and other implicit / illegal costs that are burdening to businesses.
  - d. Security: at both national and local levels.
  - e. Mobility and channels of service / product delivery.
  - f. What are the coping mechanisms you have come up with in order to counter the various aspects of the crisis? Mainly:
    - i. Access to electricity.
    - ii. Access to fuel and transportation-related issues.
    - iii. Fluctuations of the exchange rate.
    - iv. Increase in rent fees (in case of rent).
    - v. Cost-cutting strategies (including labor protection and positive investment in human capital).
  - g. What coping plans or mechanisms have you put together with other businesses and /or trade unions? Why / why not?

#### MARKET:

3. How did the current crisis impact your business in terms of supply, demand, consumption patterns, internal management structures, and access to expert labor? (Staffing, discarding or innovating departments or lines of work, new consumers versus old consumers).

4. Tell me more about the access to funding for your business: does your business rely on microcredit or alternative credit channels for survival and what can you tell me about the access to and the source of these schemes after the crisis?
5. What can you tell us about the fluctuations of your business trends in the last two (2) years, as a result of the crisis?
  - Trends of import/export as a result of the crisis.
  - Competition with other local formal and informal businesses.
  - Competition with exporting companies.
  - Increase of informal sector within same line work.
6. In the last two (2) years, did your business venture into new markets? How was this possible? What role did local or national authorities play in this?

## HUMAN AND SOCIAL CAPITAL

7. Can you please give us a brief about your employees, in terms of size, profile, working hours, and salary scale?
8. How did this change in the period following the crisis? (Salary or working hours' revisions, number and profile of laid off employees, number and profile of employees who quit for emigration, etc.).
  - a. Did laid off employees engage in labor complaint procedures? Please tell us more about this.
  - b. To what extent would you be willing to engage in an employment recovery scheme following the crisis to target those who became unemployed or underemployed?
9. What measures were taken following the pandemic in terms of business survival and employees' health precautions?
10. What kind of social protection schemes did your business invest in? Why / why not?

## WRAP UP QUESTIONS

11. What did the municipality and other local government structures do to mitigate the effect of the crisis on local businesses? What do you think of these measures?
  - a. If no measures were taken, why is that in your opinion?
  - b. What could have been done instead?
12. In brief, how did you manage to keep your business while many other businesses were forced to shut down? What are the three (3) elements for success? (Probe about government support, internal funds, network effects or trade operations).

## B. INFORMAL BUSINESSES STILL IN OPERATION

### INTRODUCTORY QUESTIONS

1. Almost two (2) years into the crisis, what can you tell me about the business climate in {area}?
2. Based on the current situation, was being an informal business an advantage or a disadvantage? Why? Please explain.

## GOVERNANCE

3. When thinking of your business and the legal / local environment, what are the major hindrances or obstacles you face? Probe if not mentioned:
  - a. Access to basic public services (electricity, transportation, water, pollution, and garbage collection, etc.).
  - b. Security: at both national and local levels.
  - c. Mobility and channels of service / product delivery.
  - d. What are the coping mechanisms you have come up with to counter the various aspects of the crisis? Mainly:
    - i. Access to electricity.
    - ii. Access to fuel and transportation-related issues.
    - iii. Fluctuations of the exchange rate.
    - iv. Increase in rent fees (in case of rent).
    - v. Legality issues – eviction notices – including paying any sort of taxes (such as municipal fees).
    - vi. Cost-cutting strategies (including labor protection and positive investment in human capital).
  - e. What coping plans or mechanisms have you put together with other businesses (formal and/or informal and /or trade unions? Why / why not?

## MARKET

4. How did the current crisis impact your business in terms of supply, demand, consumption patterns, internal management structures, and access to expert labor? (Staffing, discarding or innovating departments or lines of work, new consumers versus old consumers).
5. Tell us more about the access to funding for your business: does your business rely on microcredit or alternative credit channels for survival and what can you tell me about the access to and the source of these schemes after the crisis?
6. What can you tell me about the fluctuations of your business trends in the last two (2) years, because of the crisis?
  - Competition with other local businesses, formal and informal.
  - Increase of informal sector within same line work.
7. In the last two (2) years, did your business venture into new markets? How was this possible? What role did local or national authorities play in this?

## HUMAN AND SOCIAL CAPITAL

8. Can you please give us a brief about your employees, in terms of size, profile, working hours, and salary scale?
  - a. How did this change in the period following the crisis? (Salary or working hours' revisions, number and profile of laid off employees, number and profile of employees who quit for emigration, etc.).
  - b. Did laid off employees engaged in labor complaint procedures? Please tell us more about this.
  - c. To what extent would you be willing to engage in an employment recovery scheme following the crisis to target those who became unemployed or underemployed?
9. What measures were taken following the pandemic in terms of business survival and employees' health precautions?
10. What kind of social protection schemes did your business invest in? Why / why not?

## WRAP UP QUESTIONS

11. What did the municipality and other local government structures do to mitigate the effect of the crisis on local businesses? What do you think of these measures?
  - a. If no measures were taken, why is that in your opinion?
  - b. What could have been done instead?
12. In brief, how did you manage to keep your business while many other businesses were forced to shut down? What are the three (3) elements for success? (Probe about government support, internal funds, network effects or trade operations).

## C. NEW BUSINESSES

### INTRODUCTORY QUESTIONS

1. As a business emerging in the middle of a crisis, what can you tell us about the business climate in general and how was your emergence possible?
2. What were you doing before November 2019? Would you say that the crisis created an opportunity for your business? Why? How?

### GOVERNANCE

3. When thinking of your business and the legal / local environment, what are the major hindrances or obstacles you face? Probe if not mentioned:
  - a. Access to basic public services (electricity, transportation, water, pollution, and garbage collection, etc.).
  - b. Security: at both national and local levels.
  - c. Mobility and channels of service / product delivery.
  - d. Many things have changed since November 2019; what are the coping mechanisms you have come up with to counter the various aspects of the crisis? Mainly:
    - i. Access to electricity.
    - ii. Access to fuel and transportation-related issues.
    - iii. Fluctuations of the exchange rate.
    - iv. Increase in rent fees (in case of rent).
    - v. Legal issues including taxes (such as municipal fees).
    - vi. Cost-cutting strategies (including labor protection and positive investment in human capital).
  - e. What coping plans or mechanisms have you put together with other businesses (formal and/or informal) and /or trade unions? Why / why not?
4. What type of collaborations or networks is your business involved in? How is this supporting your business?

### MARKET

5. How did the current crisis impact your business in terms of supply, demand, consumption patterns, internal management structures, and access to expert labor? (Staffing, discarding or innovating departments or lines of work, new consumers versus old consumers).
6. Tell me more about the access to funding for your business: does your business rely on microcredit or alternative credit channels for survival and what can you tell me about the access to and the source of these schemes after the crisis?
7. What can you tell me about the fluctuations of your business trends in the last two (2) years, as a result of the crisis?

- Competition with other local businesses, formal and informal.
  - Increase of informal sector within same line work.
8. Since its inception, did your business venture into new markets? How was this possible? What role did local or national authorities play in this?

## HUMAN AND SOCIAL CAPITAL

9. Can you please give us a brief about your employees, in terms of size, profile, working hours, and salary scale?
- a. How did this change throughout the crisis? (Salary or working hours' revisions, number and profile of laid off employees, number and profile of employees who quit for emigration, etc.).
  - b. Did laid off employees engage in labor complaint procedures? Please tell us more about this.
  - c. To what extent would you be willing to engage in an employment recovery scheme following the crisis to target those who became unemployed or underemployed?
10. What measures were taken following the pandemic in terms of business survival and employees' health precautions?
11. What kind of social protection schemes did your business invest in? Why / why not?

## WRAP UP QUESTIONS

12. What did the municipality and other local government structures do to mitigate the effect of the crisis on local businesses? What do you think of these measures?
- a. If no measures were taken, why is that in your opinion?
  - b. What could have been done instead?
13. In brief, how did you manage to open a new business in the midst of a severe and economic crisis, while many other businesses were forced to shut down? What are the three (3) elements for success? (Probe about government support, internal funds, network effects or trade operations).

## D. CLOSED BUSINESSES

### INTRODUCTORY QUESTIONS

1. Almost two (2) years into the crisis, what can you tell me about the business climate in {area}?
2. When did you take the decision to close your business and what were the main drives for this decision?

### GOVERNANCE

3. When thinking of your business and the legal / local environment, what are the major hindrances or obstacles you faced? Probe if not mentioned:
  - a. Access to basic public services (electricity, transportation, water, pollution, and garbage collection, etc.).
  - b. Security: at both national and local levels.
  - c. Mobility and channels of service / product delivery.
4. What coping mechanisms did you try to come up with in order to counter the various aspects of the crisis? Mainly:
  - i. Access to electricity.

- ii. Access to fuel and transportation-related issues.
  - iii. Fluctuations of the exchange rate.
  - iv. Increase in rent fees (in case of rent) and availability of equipment.
  - v. Legality issues – eviction notices – including paying any sort of taxes (such as municipal fees).
  - vi. Cost-cutting strategies (including labor protection and positive investment in human capital).
- b.** Did you try to improvise any coping plans or mechanisms with other businesses (formal and/or informal) and /or trade unions? Why / why not?

## MARKET

- 5.** Before the closure, how did the crisis impact your business in terms of supply, demand, consumption patterns, internal management structures, and access to expert labor? (Staffing, discarding or innovating departments or lines of work, new consumers versus old consumers).
- 6.** Tell me more about the access to funding for your business: did your business rely on microcredit or alternative credit channels for survival and what can you tell me about the access to and the source of these schemes? How did this affect your business survival?
- 7.** What can you tell me about the fluctuations of your business trends in the last two (2) years, before you decided to close your business? Probe:
  - Competition with other local businesses, formal and informal.
  - Increase of informal sector within same line work.
- 8.** In the last two (2) years, did your business attempt to venture into new markets? What happened as a result of this? What role did local or national authorities play in this?

## HUMAN AND SOCIAL CAPITAL

- 9.** Can you please give us a brief about your employees, in terms of size, profile, working hours, and salary scale?
  - a.** How did this change in the period following the crisis and preceding the closure? (Salary or working hours' revisions, number and profile of laid off employees, number and profile of employees who quit for emigration, etc.).
  - b.** Did laid off employees engaged in labor complaint procedures? Please tell us more about this.
- 10.** What measures were taken following the pandemic in terms of business survival and employees' health precautions?
- 11.** What kind of social protection schemes did your business invest in before the closure? Why / why not?

## WRAP UP QUESTIONS

- 12.** What did the municipality and other local government structures do to mitigate the effect of the crisis on local businesses? What do you think of these measures?
  - a.** If no measures were taken, why is that in your opinion?
  - b.** What could have been done to avoid the closure of businesses such as yours?
- 13.** In your opinion, how did other businesses manage to keep working while many other businesses, including yours, were forced to shut down?
- 14.** What are the three (3) elements that could have changed the course of things? (Probe about government support, internal funds, network effects or trade operations).

## E. UNEMPLOYED INDIVIDUALS

1. When were you employed for the last time? Why / how did you leave?
2. In case you were laid off, did you engage in official or unofficial labor complaints? Why / why not?
  - a. Did the municipality or local authority try to help you in any way since you became unemployed? How is that?
3. Thinking of your skills and overall working profile, what is, in your opinion, the main reason for you being unemployed? (Poor education, business closures, economic crisis, competition with migrant workers, etc.).
4. While on the job, did you feel at any point that there were some skills that you needed and that could have changed the path of things?
  - a. What were these skills?
  - b. Why in your opinion you did not have them?
  - c. How would you like to get additional skills and who can play this role?
5. Do you know of any initiatives aiming to connect jobseekers to appropriate businesses?
  - a. Have you tried to connect to an employer through those? What happened?
  - b. Usually, what are the mechanisms or networks that you use in order to find a job? How better can it get?
6. What is the role of local authorities in addressing unemployment?
  - a. What is the role of the municipalities in caring for vulnerable youth?
7. Are you currently engaged in any form of informal employment?
8. What campaigns or initiatives are local actors (municipalities, NGOs) currently engaged in specifically targeting youth and vulnerable youth?
9. Anything else you would like to share with us on these issues?

### BELOW IS THE PROTOCOL FOR FGDS CONDUCTED IN PHASE 2.

Profile	Theme(s)
<b>Women and men in the tobacco sector.</b>	<ol style="list-style-type: none"> <li>1. Change in labor dynamics (formality to informality, full time to part time roles).</li> <li>2. Change in working conditions and salaries following the crisis.</li> <li>3. Main challenges facing farmers and their coping mechanisms (due to rising costs for example).</li> <li>4. Assessing municipal support to these workers.</li> </ol>
<b> Holders of formal and customary land rights</b> in areas classified as natural reserves (includes residents, farmers, herders).	<ol style="list-style-type: none"> <li>1. Assessment of whether the classification of a certain area as a natural reserve affects their land tenure.</li> <li>2. Assessment of specific challenges.</li> <li>3. Assessment of land use and the perception of the role of the municipality, Ministry of Environment, and Ministry of Agriculture and Cooperatives.</li> <li>4. Assessment of their needs to protect significant natural sites and their own land tenure rights.</li> </ol>

Profile	Theme(s)
<p><b>Tenants</b> (commercial and industrial and residential).</p>	<ol style="list-style-type: none"> <li>1. We need to understand the level of tenure security that current tenants have. Did the landowner increase the rent, gave them eviction notice, threaten them, stopped providing them with certain services, etc.?</li> <li>2. What are their coping strategies and future plans e.g. are they planning to leave to another area? where? what are the challenge of moving to a new location? how this will affect their businesses?</li> <li>3. What do they need to stay in the same location or a location close to their original place of work/ residence?</li> </ol>
<p><b>Cultural heritage and tourism sector</b> (Local NGOs, local authorities, representatives for commercial and farming activities, residents in or near old or heritage areas, restoration activities. This groups also includes workers in developing local resources, representatives of cultural amenities, and workers in hospitality services.</p>	<ol style="list-style-type: none"> <li>1. Importance of Planning and Community participation in the conservation and tourism development of heritage. <p><b>Discussion points:</b> how to initiate or support or implement processes involving and empowering local stakeholders, - local authorities, local residents, and private enterprises.</p> <p>Issues, potentialities, challenges, prerogatives, and constraints of local authorities and networking.</p> </li> <li>2. Heritage is not only a factor of economic development but also the driver of new local economy: creative and innovative industries that have important direct and indirect impacts in socio-economic development. <p><b>Discussion points:</b> Growth of the sector and the new local avenues or trends in post-crisis times (examples: recycling and reuse, restoration of heritage in the built environment, urban regeneration, promotion of small and medium-scale cultural enterprises, development of local resources (farming, food, artisanal, etc...)).</p> <p>Issues, potentialities, challenges, prerogatives, and constraints of local authorities and networking.</p> <p>Role of local authorities.</p> </li> </ol>
<p><b>Healthcare sector.</b></p>	<ol style="list-style-type: none"> <li>1. Understanding why weak health appeared to be a major constraint for households and businesses.</li> <li>2. Effect of crisis on healthcare provision.</li> <li>3. Perceived change in demand for healthcare.</li> <li>4. Role of local authorities.</li> </ol>

# ANNEX 1.6:

## BACKGROUND ON GOVERNANCE IN LEBANON

Lebanon is a constitutional parliamentary republic; with the Chamber of Deputies (the Parliament) as the representative of the people. The latter is seen, in the Constitution, as the source of authority and sovereignty and exercises these powers through the constitutional institutions: the legislative, the executive, and the judicial branches.

### THE CHAMBER OF DEPUTIES

The legislative authority is in the hand of the Chamber of Deputies. As per Article 24 of the Constitution, Chamber seats are divided between members of different communities.

### THE PRESIDENT OF THE REPUBLIC

The executive authority is entrusted to the Council of Ministers. Headed by a Prime Minister, the Council of Ministers includes the ministers in charge of the different ministries as well as other ministers of state who have been assigned special missions.

### THE PRIME MINISTER

The Prime Minister, as head of the Council of Ministers, speaks in its name and represents it in front of the Chamber of Deputies. He/she is responsible for the general policy of his/her Council of Ministers. For that, the Prime Minister has next to the Ministries, twenty-two (22) different administrations directly affiliated to his/her Office. These administrations include:

- Control administrations: The Court of Audit, the Central Inspection, the High Disciplinary Council, and the Civil Service Council.
- Muslim communities' religious higher councils and tribunals.<sup>184</sup>
- A large variety of General Directorates, Councils and Autonomous Institutions covering a wide variety of issues, from research, knowledge development, and archiving (e.g. National Council for Scientific Research, Central Administration for Statistics, National Institute for Public Administration, National Archives, etc.), to strategic economic development (Investment Development Authority for Lebanon, Higher Council for Privatization and Partnership, Economic and Social Council, Consumer Markets Authority, etc.) to urban and territorial development (Council for Development and Reconstruction, ELYSSAR (tasked with the development of the Southern Suburbs of Beirut), Council of the South (tasked with the reconstruction and development of South Lebanon), Displaced Fund (mainly for compensation and return of displaced Lebanese in the civil war), etc.), to crisis response and State security (Higher Council of Defense, General Directorate for State Security, Higher Relief Authority), etc.

*In addition to these administrations, the Office of the Prime Minister is directly in charge today of many strategic programs:*

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<sup>184</sup> This is a reminiscence of the Ottoman Empire administration when Christian and Jewish communities had their own non-governmental community structures and tribunals while those of Muslims were integrated in the State system.

1. Programs related to safety and security: Council for Food Safety, Unit for Risk Reduction, Platform for Coordination of Relief and Reconstruction Efforts in Relation to Beirut Port Blast, Initiative for the Reduction of Risk of Biological, Chemical and Nuclear Materials.
2. Programs related to development: National Strategy for Sustainable Development Program, National Program for Poorest Households, National Information and Communication Technology Strategy Unit.
3. Program related to the coordination of European Union cooperation programs; and
4. Program related to Palestinian-Lebanese relations.

This large apparatus mobilizing hundreds of employees and considerable budgets gives the Prime Minister in Lebanon large space for maneuver and autonomy from the Council of Ministers - the authority vested with constitutional executive power in Lebanon.

## THE MINISTRIES

Ministries, whose number fluctuates according to political contexts, cover the main sectorial areas of development and sovereignty assertion. They are all created through laws and their working mechanisms are established through decrees. Each has its own separate organization. Nevertheless, they all share similar structures:

1. The Minister is the head of the Ministry. He/she has authority over its staff. However, his/her position is temporary and is related to the lifespan of the government of which he/she is a member. His/her position is then mainly political.
2. The Office of the Minister assists the Minister administratively in his functions. Usually, ministers are also assisted by their own political advisers and technical consultants who are not Ministry employees but support the minister by following up on different projects, giving technical, political, or legal advice, or acting as unofficial liaison with other institutions and actors.
3. Affiliated institutions and Councils are usually autonomous institutions that are, however, put under the guardianship of the ministers concerned. These institutions develop their own autonomous administration, policies, and budgets and have their own mechanisms of decision-making defined in separate laws and decrees. Nevertheless, they fall under the minister's and the Council of Minister's control and need their approval for certain decisions, limiting their practical autonomy.
4. Under the Minister and reporting directly to him/her, one might find one or more specialized Directorate General. A Director General heads each of these directorates. He/she is appointed by the Council of Ministers and selected from the First Category civil servants state employees.<sup>185</sup> If there is more than one Directorate General in a Ministry, a Directorate for Joint Administration would be created and would report directly to the Minister. This Directorate takes in charge all human resources, procurement, accounting, and legal assistance issues related to the Ministry. If there is only one Directorate General, then these tasks are integrated in a department reporting to the Director General.
5. Under the Directorate General there are - in the descending hierarchy - directorates, departments, units, and sections. While Ministries are established by law, a Ministry's structure is set up by a specific Council of Ministers' decree aiming at organizing the Ministry, and additional decrees can be issued to allow for the creation of new components in the Ministry's original hierarchy.

<sup>185</sup> In the Lebanese State civil servants' system, there are five (5) main categories, the first being the one allowing access to highest ranking positions.

The direct follow up on the Ministry's management is the responsibility of the Directors General. While some ministers might be interested in following up on the management of their Ministries, they usually leave it to the Directors General and focus on policies, particular projects and reforms they want to advance.

## DECONCENTRATED STRUCTURES

Under this centralized institutional structure of the Lebanese State, mainly seated in the capital's agglomeration, there are affiliated deconcentrated institutions representing it at the local level. These deconcentrated institutions were created to allow closer and "softer" contact between the State center and the populations in the different territories of the country. Moreover, in the 1989 amendments, a preamble was introduced to the Constitution, in which article G states "*The even development among regions on the educational, social, and economic levels shall be a basic pillar of the unity of the state and the stability of the system*". Hence these deconcentrated institutions gained in importance as levers to reach this even development.

*They are usually identified in two (2) categories: vertical and horizontal:*

- Vertical affiliated deconcentrated institutions at the local level are responsible for applying Ministry policy and projects in the regions. These could be local branches of the Ministry like the Regional Educational Offices or local outlets providing specialized services like Primary Health Care Centers or Social Development Centers (SDCs). They all take orders from the Ministry and are supervised by it. One, however, must differentiate between these affiliated deconcentrated institutions and other local autonomous public institutions like the Regional Water Establishments. The latter might be regional but enjoy autonomy in terms of decision-making and budgets. They fall under the "guardianship" of the Minister and not the executive authority of the Ministry.
- Horizontal deconcentrated institutions. Next to the Ministry-affiliated deconcentration, the Lebanese State established a horizontal deconcentration by dividing the national territory in a number of Governorates, Districts, and Localities and setting special deconcentrated institutions to coordinate ministerial efforts at the territorial level and link central institutions with elected decentralized institutions.

**The Lebanese Territory is divided in nine (9) Governorates (Muhafaza).<sup>186</sup> A governor (Muhafiz) is put at the head of each Governorate with institutions and staff to assist him/her.**

- The Governor is selected from the First Category civil servants. Their rank puts them on top of all Ministry-affiliated staff in the Governorate. They oversee all departments and is administratively in charge of all ministerial staff in his/her territory. All communication between local ministerial institutions and central ones goes through his/her office.
- He/she is tasked to ensure the proper functioning of public institutions in his/her area, monitor the situation of his/her area on the political and economic level and keep central authorities informed, and more broadly he/she is in charge of keeping public peace and protecting individual liberties and private properties. He/she should deliver each three (3) months a report on the state of his/her area to the central public administrations.
- He/she is in charge of the Internal Security Forces, and he/she might use them to any task that falls under his/her mandate.
- He/she must be consulted for the creation or termination of any public school. He/she also assist the Ministry of Education and Higher Education in finding needed building(s) and equipment(s) for teaching in his/her area.
- He/she can take all the steps needed so that public health requirements are respected. He/she also ensures that patients in need can get hospitalized in public hospitals. Alternatively, he/she can contract private hospitals for this goal.
- He/she gives permits for opening all category 1 and 2 commercial outlets.
- He/she discusses with the Governorate Council the projects proposed by the municipalities and unions of municipalities to be funded by the project-allocated part

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<sup>186</sup> These are Beirut, North Lebanon, Mount-Lebanon, South Lebanon, Bekaa, Baalbek-Hermel, Nabatieh, Akkar and Keserwan-Jbeil. The last four were created in the last two (2) decades and their administration is less developed than the first five (5) that exist since the founding of Greater Lebanon in 1920.

of the Independent Municipal Fund, and recommends priorities to the Ministry of Interior and Municipalities.

- He/she has the right to discuss with the regional prosecutor all cases related to his/her governorate, especially those related to general security. He/she also must support the judicial system in their area within the limits of his/her competencies.
- He/she is also in charge of all issues that may emerge and to which there is no dedicated authorities in the Lebanese State. It is usually under this entry that the Governor gets to be involved in response to crises.
- He/she heads the Governorate Council that includes also the Qaemaqams at the head of the districts, the head of the regional financial administration affiliated to the Ministry of Finance, and two (2) civil representatives for each district chosen by the Governor and nominated for four (4) years by the Council of Ministers. Representatives of the local ministerial administrations attend when their administrations are concerned in the discussions.<sup>187</sup>
- The Governorate Council gives its opinions on the situation in the area, the evolution of the execution of projects, however, it also votes on the budgets for development projects in villages where there are no municipalities.
- The local ministerial units that report to the Governor are: the gendarmerie forces, the judicial police forces, the office of criminal records, the general security forces, the department of municipal technical assistance, the office of statistics and civil records, the department of finance, the cadaster, the survey office, the agricultural department, the veterinary department, the department of implementation of social programs, the department of implementation of health programs and public health control, the roads section, the buildings section, the water and electricity section, the vehicles section, department for control of private schools. The weights and measures section, the customer protection section, the control of goldsmiths' section, the tourism section, the telephone department and the post and telegraph department also report to the Governor. It is to be noted that those units may change by decrees.

**At the district level, and under the control and supervision of the Governor, the Qaemaqam heads the deconcentrated administration.**

- The Qaemaqam takes the responsibilities of municipal councils in the villages and towns where the municipal councils resign or are disbanded.
- The Qaemaqam has the authority to give construction permits in areas where there are no municipalities.
- With the district doctor of the Ministry of Public Health, he/she sets the monthly work plan regarding health issues in the district. He/she also ensures coordination between ministerial and municipal health services.
- His/her prerogatives used to extend to domains in relation to environmental issues like giving permits for quarries and the exploitation of forest areas as well as the nomination of forest guards. However, these prerogatives have been transferred by subsequent laws and decrees to central ministerial administrations such as the MoIM and the MoE.
- Regarding social affairs, Decree No 116/1959 gives the Qaemaqam the responsibility to sign work certificates and the responsibility to ensure shelter for orphans, old people, and beggars. However, it is not clear if the later responsibility was transferred in later legislations to the Ministry of Social Affairs or if the Qaemaqam simply stopped engaging in it.

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<sup>187</sup> According to Mount Lebanon Governor, the Council convenes every three (3) months.

## THE JUDICIAL SYSTEM

The judiciary in Lebanon is an authority whose independence is guaranteed by Article 20 of the Constitution of Lebanon. This system is based on a set of laws and courts.

1. Laws in Lebanon are voted in Chambers of Deputies, promulgated by the President of the Republic, and published in the Official Gazette. Historically, and under the Ottoman Empire, Islamic law as per the Hanafi school was the main source of law and legal procedures. During French and later independent Lebanon rule, the civil law system was adopted. Today, laws are inspired by civil law, Islamic law, and international declarations and conventions.
2. The main laws that define the workings of common Lebanese courts are the Obligations and Contracts Law, the Code of Civil Procedures, the Code of Criminal Procedures, the Penal Code, and the Code of Commerce. However, other courts autonomous of the main judicial court system are charged of trying certain issues. This is the case for:
  - a. The religious courts, for the eighteen (18) different recognized religious communities, are charged of judging matters related to personal status and family law. Their laws and judgements are inspired by religious tradition and theology. Till now, there is no recognized civil marriage in Lebanon. People who marry in civil marriage abroad have their personal status and family issues judged by civil judges, on the basis of the laws of the country where they were married.
  - b. The military courts, where judges and prosecutors are military officers. These courts judge cases that involve military personnel, use of military arms and ammunitions, national security issues or that are perpetrated on a military facility. Special accreditations are requested for lawyers who want to stand before these courts.
  - c. The administrative courts that judge in matters related to misuse of public resources or issues where the direct actions of State institutions or their consequences are involved. The decisions of these courts may be appealed to the State Consultative Council. The latter institution may be called upon by State institutions when drafting decisions and decrees.
  - d. Other special courts also include the Supreme Judicial Council that has the responsibility of judging cases identified as of grave crimes by the Council of Ministers. The Constitutional Council judges of the constitutionality of laws and decrees promulgated by Lebanese State institutions. The Arbitral Labor Council deals with labor law disputes.
  - e. The Constitution of Lebanon (Article 80) speaks of a Higher Council for the Prosecution of Presidents and Ministers. However, this court was never officially formed.
  - f. Next to these courts, there are other spaces for arbitrating disputes as the ones provided for commercial contracts by the Bars associations.
3. However, most litigation goes through the main structure of the judicial system in Lebanon, made of the three-levels courts: the first instance, the appeal and cassation courts. In the Lebanese judicial system there are no juries, judgements are given by judges. Each court has either one (1) judge – especially at the first instance level – or one (1) president and two (2) associates' judges.

At the head of the main Lebanese judicial system is the Supreme Judicial Council. Other than judging cases of grave state crimes, this Council has the responsibility of appointments, transfers, and disciplinary issues. However, its decisions and appointments must be first agreed upon by the Minister of Justice prior to being issued in a Council of Ministers decree in order to be effective. This raises questions as to the independence of the judicial branch of government in the face of the executive one. As for judge recruitment, it goes through a specific channel: the Institute of Judiciary Studies. The Institute has its own administration which depends on the Supreme Judicial Council.

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