

RETHINKING CENTRAL GOVERNMENT POLICYMAKING FOR LOCAL ECONOMIC DEVELOPMENT

National Recommendations to Revitalize Local Economies in Lebanon



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REPUBLIC OF LEBANON
MINISTRY OF
INTERIOR AND
MUNICIPALITIES



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TABLE OF ACRONYMS

AOC	Agreement of Cooperation
BDL	Central Bank of Lebanon
BTVL	Technical Office of Lebanese Municipalities
CAS	Central Administration of Statistics
CBO	Community Based Organization
COA	Closing of Account
COM	Council of Ministers
COVID	Coronavirus Disease
CNRS	National Council for Scientific Research
CSO	Civil Society Organizations
DGLAC	Directorate General for Local Administrations and Councils
DGLRC	Directorate General of Land Registry and Cadaster
DGUP	Directorate General for Urban Planning
ECOSOC	United Nations Economic and Social Council
ESC	Economic and Social Council
ESCWA	United Nations Economic and Social Commission for Western Asia
EU	European Union
FGD	Focus Group Discussion
GDF	Growth Diagnostics Framework
GDP	Gross Domestic Product
GIS	Geographic Information System
IMF	Independent Municipal Fund
INGO	International Non-Governmental Organization
IO	International Organization
KII	Key Informant interview
LBP	Lebanese Pound
LCPS	Lebanese Center for Policy Studies
LED	Local Economic Development
LFHLCS	Labor Force and House Living Conditions Survey



MEHE	Ministry of Education and Higher Education
MERP	Municipal Empowerment and Resilience Project
MoC	Ministry of Culture
MoE	Ministry of Energy
MoET	Ministry Of Economy & Trade
MOEW	Ministry of Energy and Water
MoIM	Ministry Of Interior and Municipalities
MoL	Ministry of Labor
MoPWT	Ministry of Public Works and Transportation
MoSA	Ministry of Social Affairs
MSPG	Multi-stakeholder Partnership Group
NGO	Non-Governmental Organization
NPMPLT	National Physical Master Plan of Lebanese Territory
NSSF	National Social Security Fund
PPP	Public Private Partnership
SDC	Social Development Centers
SDP	Sustainable Development Plans
SLAT	Special LED assessment Taskforces
UCF	Urban Community of Al-Fayhaa
UCL	United Cities Lebanon
UN	United Nations
UNDP	United Nations Development Programme
UN-Habitat	United Nations Human Settlements Programme
UNHCR	United Nations High Commissioner for Refugees
UoM	Union of Municipalities
US	United States
WB	World Bank
WHO	World Health Organization



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INTRODUCTION

Under the ‘Municipal Empowerment and Resilience Project’ (MERP), UN-Habitat and UNDP signed an Agreement of Cooperation (AOC) with United Cities of Lebanon (UCL) to deliver three (3) local economic development (LED) assessments for the Unions of Municipalities (UoMs) of Al-Fayhaa (Urban Community of Al-Fayhaa), Matn (Northern, Coastal, and Central Matn), and Tyre. UCL mobilized a team of experts with significant, multi-disciplinary competence in local economic development, urban planning, and local governance to design a participatory multi-stakeholder LED assessment process in each of the above-mentioned unions.

The overall goal of the LED assessments 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. These assessments will constitute the foundation on which planning for LED could be developed in a subsequent stage.

The experts’ team employed qualitative and quantitative tools to examine the state of LED in each of the abovementioned UoMs. These tools include two (2) regional surveys, namely a firm-level survey and a human-capital survey. To complement data from these surveys, the team also held focus group discussions (FGDs) and key informant interviews (KIIs) with various local actors such as national and local government authorities, business leaders and workers, residents (including youth, women, and refugees), territorial planning (land) experts, among others. A detailed report that was tailored to each of the regions under study emanated from this LED assessment. Each report aimed and succeeded at identifying the most binding constraints inhibiting local development as well as outlining key policy recommendations that could help local officials initiate a strong LED process as a way forward. Annex 1 provides a comprehensive account of the study’s methodology and its key findings.

The aim of this policy paper is to recommend policy measures that could be advocated for and supported across the central government level to enable an environment conducive to local economic development.

As the Ministry in charge of local affairs, the Ministry of Interior and Municipalities with the technical support of the Directorate General of Local Administrations and Councils (DGLAC) is obviously concerned by many of the measures proposed in this Policy Paper. Local economic development requires, however, a cross-cutting approach and for the measures falling under MoIM prerogatives to be effective, they shall be coupled with complementary ones involving the Ministry of Finance (MoF)/Directorate General of Land Registration and Cadaster (DGLRC), the Ministry of Public Works and Transportation (MoPWT)/Directorate General of Urban Planning (DGUP), the Ministry of Culture (MoC), the Ministry of Labor, the Ministry of Agriculture and Cooperatives (MoAC), the Ministry of Education and Higher Education (MEHE), and the Ministry of Economy and Trade (MoET) among others.

Such transversal approach to local economic development would allow the Council of Ministers (CoM) to streamline local development systematically in its policy-making and propose impactful reforms for the relevant Parliamentary Committees to study and be submitted to the General Assembly eventual approval. To this effect, we look at the specific short-term and medium-term policies that Lebanese authorities should be directly engaged in to successfully implement LED. We define short-term policies as the specific measures that should be implemented with the support of central government officials to initiate subnational/regional development. These policies are specifically aimed at preserving local endowments like infrastructure and credit/finance channels as means to empower local actors to conduct development. Furthermore, we define medium-term policies as vertical policy instruments that are implemented entirely by the central government to further advance the LED process and strengthen its core elements.

The paper is structured as follows. Section I begins with a diagnosis of the most pressing challenges facing the UoMs under study. Section II, and in light of Section I, proposes short-term policy recommendations that the central government should immediately approve¹ to help preserve crucial local/regional endowments as part of a broader economic recovery package. Section III proposes medium-term recommendations that are necessary to advance the LED process and strengthen its core elements, with a specific focus on political capital/governance and territorial resources.

¹ Some of the recommendations require legal reforms and, therefore, should be proposed by the central government to the Parliament for study and ultimately approval and enactment.



I. DIAGNOSIS OF LOCAL DEVELOPMENT IN AL-FAYHAA, TYRE, AND MATN UoM REGIONS

Using a cross-thematic diagnostics approach, the experts' team identified a set of binding constraints that have distorted local economic development in Al-Fayhaa, Matn, and Tyre UoM regions. Key findings indicate that the development process in these regions has been obstructed by several structural factors, many of which originate from central government level. To this end, we posit that a diagnosis of the national political (governance), geographic (territorial), and socio-economic landscapes could help explain the sluggish LED process in the studied regions. In what follows, we present the diagnosis' findings, with a focus on specific elements that require policy attention.

Weak national political capital, characterized by poor governance mechanisms, is the leading inhibitor of local growth. The stark absence of a government accountability framework is a key challenge facing development planning in Lebanon today. In fact, local economic development or growth is approached by authorities, both national and local, as a technicality—limited to minor infrastructure rehabilitation— rather than a process that should be monitored closely. As matters stand today, there is a lack of integrated or comprehensive approaches that could bring local entities closer to the economic, social, or territorial aspects of a locality. This diagnosis may be confirmed by the weak interaction between the government and the different beneficiaries or stakeholders such as businesses or households. Such an observation may be traced back to overall political and social instability at the national level, which have reflected poorly on the capacity of local authorities to create and sustain meaningful networks that are necessary to streamline development.

In tandem with overall governance failure, poor territorial planning has also inhibited regional development. National and/or regional development policy programming often sidelines the issue of landscape continuity. Some of the major challenges facing territorial planning today include institutional fragmentation, outdated urban and planning framework nationally and locally, as well as the growing trend of land privatization. Furthermore, there is a significant lack in unified territorial development plans, driving landscape fragmentation as well as dramatic land cover/land use changes. Such a reality has created huge barriers to development. In Tyre for example, agricultural investments have dropped along with farmers' incomes.² As the economic crisis continues unabated, property abandonment has been expected to rise, and inequalities are bound to exacerbate.

Frail human capital accumulation in face of Lebanon's multiple crises is directly limiting the development potential of regions. The economic crisis has left households with major losses in income and purchasing power, malnutrition, and housing insecurity. Also, around 45 percent of residents across the three (3) Unions of Municipalities have become unemployed or inactive today.^{3,4} This is a subpopulation that is being forced into reducing its economic contribution at the regional scale, bearing in mind that the trend is visibly worse amongst women adults. Coupled with heavy youth emigration, the effect on the regional human capital has proven to be detrimental. Furthermore, there are looming health and education crises, whereby more and more people are being barred from accessing necessary medical and educational services. This is found to be the immediate outcome of weak national-level management of social sectors as well as the absence of robust social protection systems. Another major challenge facing local communities is the absence of proper infrastructure such as electricity, roads, street lighting, transport regulation, water and wastewater networks, healthcare facilities, and education services.

² Information based on conducted key informant interview and focus group discussions with agricultural workers and specialists.

³ Based on a human capital survey the team conducted with 1,809 households spanning the three UoMs under study.

⁴ Based on survey data, this is an average figure on unemployment and inactivity across the three (3) UoMs under study.

Regional economic analysis shows that the private sector is suffering from unhinged losses and poor productivity. It is straightforward to see how the national economic crisis has limited business productivity as well as local economic activity, amid complete absence of national and local government policy during the crisis. Considering the market shock,⁵ the regional private sector has become severely constrained by local currency (Lebanese lira) volatility or depreciation, limited access to subsidized raw material such as fuel, expensive input goods, scarcity of credit or microcredit facilities, poor access to foreign markets, and competition with businesses with informal status. Faced with increasing costs, dwindling sales, and a compromised production capacity, a third of the three hundred seventy-nine (379) firms surveyed had laid off workers.⁶ This diagnosis then reaffirms our binding constraint assessment which hinted at a severe cost burden directly affecting firms. Our evaluation of firms' balance sheets also shows that retrenchment has also been triggered by a "crisis" of weak demand, as illustrated by an overall drop in sales. In light of such a heavy economic toll, there appears to be a growing business need for better public services and infrastructure. Sampled firms have specifically expressed a demand for enhanced road infrastructure, electricity provision, traffic regulation, and health services, all of which are shared by local residents as well.



II. SHORT-TERM POLICY RECOMMENDATIONS

In light of the diagnosis presented in Section I, we propose a set of short-term policy measures that, if properly supported and/or advocated by the Ministry of Interior and Municipalities with technical support from DGLAC, the Ministry of Economy and Trade, and the Ministry of Finance, could lay the groundwork for local economic development in Lebanon.

Much of our proposed policy response, however, is contingent on the transition of the Lebanese economy to a healthier equilibrium. To this end, Box 1 presents the necessary macroeconomic reforms that should be spearheaded by central government authorities, well in advance of any LED policy programming.

BOX 1 Macroeconomic Stabilization as a Prerequisite to Development

Considering the ongoing economic crisis, the government should immediately implement five (5) key economic and financial reforms, as detailed below:

1. The Lebanese government and monetary authorities should stabilize the local currency to reduce business losses, increase labor retention, arrest the loss in purchasing power, and reduce social vulnerability.
2. The Lebanese government and monetary authorities should work on restructuring the banking sector to help store credit and increase liquidity, all while achieving debt sustainability. The availability of such credit/microcredit facilities would serve small and medium sized businesses most as their credit constraints are usually the most binding compared to larger businesses.
3. Increase capital inflows by investing in productive economic sectors such as manufacturing and agriculture.

⁵ In September 2019, a currency crisis affected both household consumption and business performance. In the absence of any government support, many businesses struggled to counter the high cost of raw material, lacking credit access, poor access to foreign markets etc. Eventually, many had to lay off workers or reduce their salaries.

⁶ Firms within this subsample let go off 30 to 50 percent of their work force, on average. Regional heterogeneities do exist but are barely noteworthy.

4. The Ministry of Economy and Trade should work on strengthening trade competitiveness by optimizing and enhancing customs regulations and fostering a clear-cut cooperation between private and state agents and among local producers and political blocs (at the national and subnational scales). Also, trade competitiveness could be enhanced by way of regional integration policy. There is a need to implement a clear regulatory framework and a sound competition law, led by Ministry of Economy and Trade, to reduce unfair oligopolistic behavior.
5. Competitiveness measures should be spearheaded by an effort led by oversight and control agencies to counter corruption, clientelism, nepotism, and political employment of public servants.

To this end, two (2) key policy measures should be developed and subsequently adopted by the Lebanese government (with the support of the MoIM) to preserve local endowments and help restart the LED process in Lebanon, as part of a broader economic recovery program.

A. ADJUSTING GOVERNANCE MODALITY TO SERVE LOCAL INTERESTS

The Ministry of Interior and Municipalities (MoIM), through DGLAC, should support the establishment of a local Sustainable Development Unit dedicated to economic, social, and environmental affairs at the level of the UoMs. The Ministry should develop a standardized core template through consultations with the unions, who could then amend based on their specific needs. This Unit would be tasked to regularly conduct rapid assessment surveys to extract data on resident and business needs in any given area and analyze this data to develop or improve area strategic plans. Importantly, the proposed unit would be supporting the bilateral exchange of local data and information between a Municipal Observatory at DGLAC to assess municipal trends, identify areas for improvement, and inform local planning and policymaking. The Unit would also comprise a rich hiring structure, which can be made possible by way of repurposing municipal employees as well as attracting volunteers from the local community to collect population and needs-specific data and analyze it. We view the latter functionality as a priority because current local databases are outdated and are based on registered population data. Additionally, the Unit should be institutionalized, to promote humanitarian assistance to citizens and residents. In cooperation with the Ministry of Social Affairs (Social Development Centers (SDCs)), the proposed Unit would facilitate the work of all active humanitarian actors and charities on the ground to increase efficiency, by matching aid with local needs, and ensures fairness. In close collaboration with the local SDC, and in coordination with the Ministry of Labor (MoL), the proposed Sustainable Development Unit could also link private sector actors and young SDC service users (e.g., graduates) through job-matching and referral schemes.

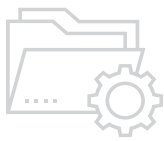
B. PROTECTING TERRITORIAL RESOURCES

The spike in food and fuel prices, rising poverty and unemployment levels, inadequate infrastructure, and insufficient public services also require an integrated and holistic territorial planning approaches that bridge economic, social, and environmental goals. MoIM can play an indirect role in advocating for the protection of existing local wealth and ensuring that the efforts of local governments are synchronized with those of relevant public sectors institutions (at the national and/or sub-national levels) and concerned international and local organizations.

In the context of Lebanon's looming food crisis, agricultural reclamation, and safeguarding productive land from encroaching urbanization are priority concerns that require the concerted efforts of local and central government actors, including the Ministry of Agriculture and Cooperatives, the Ministry of Interior and Municipalities, the Ministry of Energy and Water, and the Ministry of Education and Higher Education. Key issues to be addressed in this regard include:

- The costs incurred by farmers and required incentives to support small farmers, so they do not leave their land (e.g., low cost/free pesticides, raw material, equipment, and technical support).
- Availability of water for irrigation and electric power to operate water pumps, and allocation of funding for the maintenance of existing facilities.
- The development of hands-on educational programs geared towards reconnecting different age and social groups with land (e.g., through extracurricular activities that engage school children and youth in land and natural resource appreciation and protection).

MoIM can play a more direct role in protecting local territory resources by resisting pressures to issue circulars in an ad-hoc manner which allows construction on plots of lands that do not meet the requirements of the Lebanese building code and exempting their owners from the building permit requirements. Although popular and welcomed by many local authorities for their short-term expansionary effects on the local economy, these circulars have negative effects on the physical environment and natural landscapes and have led in many cases to the loss of valuable productive land which undermine medium to long term regional sustainable development prospects.



III. MEDIUM-TERM POLICY RECOMMENDATIONS

In this section, we present medium-term policy measures that are meant to enhance governance mechanisms, strengthen political capital, and sustain territorial resources, all of which are necessary elements for advancing the LED process in Lebanon.

These medium-term recommendations seek to address key governance and territorial concerns through vertical, centralized interventions. The merit of such a focused proposal is that it allows the typical policymaker to deep dive into key structural reforms that would indirectly affect the presence and activity of stakeholders such as businesses, enterprises, and households in the local area.

A. LIBERATING THE LOCAL AUTHORITY FROM ITS GEOGRAPHICAL, INSTITUTIONAL, AND FISCAL CONSTRAINTS

At the present time, a large chunk of Lebanon's UoMs are non-contiguous, which has limited their ability to plan for or implement development projects that could benefit member municipalities. They also suffer from weak fiscal autonomy and limited mandate/control over public policy. To this end, the MoIM should design a multi-tier policy program that addresses the different geographical, institutional (mandate-specific), and fiscal constraints facing these local authorities today. Table 1 presents two (2) multi-tier policy programs. One fit for the current regime at the level of the UoM and one alternative program in case Lebanon's 2014 Decentralization Draft Law, as a representative model, is passed.

TABLE 1 Policy measures at the UoM or Caza Council levels

CHALLENGES	POLICY MEASURE AT LEVEL OF UoM (UNDER CURRENT MUNICIPAL LEGISLATION)	ALTERNATIVE POLICY MEASURE AT LEVEL OF THE CAZA COUNCIL (IF 2014 DECENTRALIZATION DRAFT LAW IS ADOPTED)
Non-contiguous geography	MoIM, with DGLAC technical support, should ensure UoMs (decentralized tier) are contiguous. Hence, there should be a concerted effort to encourage municipalities to join a particular UoM located in their own District. This would make it possible for them to deliver essential services and implement common development projects.	Alternatively, under a Decentralized system, the burden of development would be shifted to caza councils (deconcentrated tier) by endowing them with a mandate to provide a wide range of services, as well as the financial capacity to do so.
Restricted mandate	<p>MoIM, with DGLAC technical support, and in agreement with MoF, should promote the establishment of Sustainable Development Units at the UoM level and advance their role by expanding it to include strategic support for revenue mobilization and allocation by working closely with the UoMs respective Finance Departments in charge of revenue collection and management.</p> <p>In this case, the Sustainable Development Unit would be incorporating the role of a Local Fiscal Policy Unit that supports the strategic allocation and tracking of resources by the UoMs. If revenues from local tax or fee collection and administration become sufficiently predictable and sustainable, UoMs finances – bolstered by municipal membership fees – can play a significant role in stimulating balanced regional development.</p>	<p>Ensure caza councils are responsible for developing broad-based strategic plans which can pave the way for infrastructure projects and/or economic initiatives.</p> <p>This requires that they are supported by a specialized technical department or office dedicated to sustainable development which is staffed with the adequate cross-disciplinary expertise.</p>
Lacking fiscal capacity	MoIM should propose the amendment of Article 128 of Decree-Law 118/1977 to COM, so that municipal unions gain authority to ensure payment of municipal membership dues.	<p>1. Along with the MoF, the MoIM should advocate for fully decentralizing a number of revenue items such as the built property tax through legislative amendment.</p> <p>By doing so, one can fully reallocate the built property tax and the real estate registration fees, a portion of the income tax and other tax and non-tax revenues to the caza councils in a way that equips them with a sufficient level of fiscal autonomy and allows them to fund the public services that they will be expected to provide in line with the 2014 Decentralization Draft Law.</p>

CHALLENGES	POLICY MEASURE AT LEVEL OF UOM (UNDER CURRENT MUNICIPAL LEGISLATION)	ALTERNATIVE POLICY MEASURE AT LEVEL OF THE CAZA COUNCIL (IF 2014 DECENTRALIZATION DRAFT LAW IS ADOPTED)
Lacking fiscal capacity		<p>2. MoIM and MoF should identify which specific revenue items to partially decentralize to caza councils (i.e., shared revenues) through channels like the Decentralization Fund (replacing the Independent Municipal Fund) proposed in the 2014 Administrative Decentralization Draft law. This fund would have more practical and effective governance structure than the ImF, and ensure equitable distribution criteria to municipalities and municipal unions.</p> <p>3. MoIM should explore options to help municipalities enhance the collection of municipal fees derived from licenses/permits and the annual permits for investment. These items comprise 15 percent of total municipal fees directly collected by municipalities. To do so, authorities should propose the reform of the Municipal Fees and Surtaxes Law to shift fees from a lump sum to an ad-valorem mode where administratively possible and efficient. This will require setting a minimum ad valorem rate for the relevant fee categories, identifying the relevant taxable basis, alongside strengthening municipal public financial systems, human resources, and capacities to manage this kind of taxation system. This effort should be coupled with all the required legal and governance interventions.</p> <p>Alternatively, and to increase tax/fee collection, MoIM should develop a strategy to help municipalities enhance the collection of the following direct revenues: fees collected on the rental value of residential and non-residential units, fees on sewage and pavement maintenance, and fees on building permits, which comprise 85 percent of all municipal revenues. The higher the direct revenues collected, the larger the ImF share accruing to them as per the ImF decree. which means that municipalities will be incentivized to increase their tax/fee collection rates. The MoIM could help, for example, municipalities better identify the potential revenues that could be collected and, therefore, share of ImF that they could potentially receive.</p> <p>4. Using the local sustainable development office/department, at the caza level, as a platform to share local public finance data between municipalities and unions of municipalities.</p>

B. REFORMING LEBANON'S LOCAL PUBLIC FINANCE SYSTEM

Lebanese national authorities should work towards achieving a wider local fiscal space. If successful, this would help local administrations and councils, with the support of sustainable development units, maintain a flow of revenues which would help bolster public service provision, re-establish regional economic cycles, and revitalize economic activity. To achieve these goals, policymakers should consider national and regional policy reforms that are subdivided into two (2) main groups: national policy recommendations that have an indirect impact on municipal financing and region-specific policy recommendations.

I. National Policy Recommendation with Impact on Municipal Affairs

Harmonizing the national tax: MoF should advocate for reforming the personal income tax by imposing a generalized income tax system i.e., a single tax is levied on all kinds of income, which increases tax revenues while maintaining equity.

- Raise marginal tax rate imposed on individuals/groups belonging to higher income categories.

Adjusting the municipal taxation system: Amend the tax-sharing system by adapting it to the proposed tax harmonization policy.

- Formula for tax sharing should be reconsidered to reflect true social and economic needs, as tax revenues are currently set out based on registered population figures.
- Integrating GIS technology to identify tax-base more efficiently and scale up tax collection on the longer run.

II. Region-Specific Policy Recommendations

A) MUNICIPAL REVENUES:

The policy recommendations listed below introduce alternative ways through which financial resources can be increased and made more predictable at the subnational scale. These proposals would leverage local authorities with a larger capacity to plan for and conduct development projects.

Enhancing municipal revenues: MoF and MoIM should advocate for amending Law 60/1988 by increasing the marginal rate of municipal fees. This recommendation increases municipal revenue from direct fees, reduces corruption, and generates resources to meet overall local public expenditure.

- Modify legislative-decree 118/77 and law 60/88 to allow municipalities to increase direct revenues.
- Re-evaluate the lump-sum fees set by law as their real value has now sharply decreased following the Lebanese pound devaluation.

Conducting appraisal of municipal assets: MoF should implement yearly appraisal of the value of all municipal properties in line with international best practices. This should go in line with the establishment of an automated municipal asset system.

- Apply and enforce the Assets Accounting Law of 8620/1996.

Allocating of some municipal revenues to specific services: MoF and MoIM should work on proposing amendments to Article 78 of Law 60/1988. Specifically, MoIM authorities should enforce the earmarking of the value of collected municipal fees to associated activities such as public parking or sewage networks. This would enhance public service provision and is crucial for proper LED planning.

Discarding specific municipal fees: MoIM should propose the annulment of Article 37, 64, and 65 of Law 60/1988. Specifically, authorities should abolish a number of municipal fees due to the difficulty of their administration. For example, a large majority of municipalities do not benefit from the investment fee on advertisement or from inspection fees on certain imported products.⁷

Reassessing the Value Added Tax (VAT): MoIM and MoF should propose the amendment of VAT Law 379/2001 to enforce transparency of VAT redistribution and establish mechanisms to compensate municipalities for the loss of revenue resulting from the transformation of certain municipal fees into VAT. The magnitude of municipal fees across-the-board is varied. So, unilaterally superimposing a similar VAT fee instead is diluting the financial books of local administrations and inhibiting development.

Increasing collection through legal rules: MoIM should propose the amendment of Article 113 of Law 60/1988 so that it becomes obligatory for a municipal accountant to seize money or assets of taxpayer in case of fee non-payment. The same law should also be amended to legalize the imposition of fees and fines on illegal activities (such as building violations).

Supporting public-private partnerships (PPPs): Enact Law 48/2017 to encourage private sector collaboration with local authorities on financing public services and infrastructure projects. However, this should be accompanied with a national strategy that integrates UoMs in the implementation of the law.

- MoIM, through DGLAC, and in partnership with the Institute of Finance under MoF should promote and support the proper implementation of the new public procurement law⁸ at union and municipal level in line with the Public Procurement Reform Strategy⁹ to ensure open competition and streamlined tendering process at the subnational scale;
- MoIM, through DGLAC, and in partnership with the Higher Council for Privatization and Partnerships (HCPP) should train unions and municipalities to better understand PPP Law No. 48/2017;
- MoIM, through DGLAC, should standardize a platform for municipalities to pool resources for joint infrastructure investments. This could take the form of fee exemptions to incentivize participation in joint ventures or projects;
- MoIM through DGLAC could advocate for the development of a sub-national version of the PPP law that is more adapted to the reality and capacities of unions and municipalities in the Lebanese context.

⁷ International City/ County Management Association (ICMA). 2011. 'Municipal Finance Studies Program: Final Roadmap for Modernizing Municipal Finance in Lebanon

⁸ Public Procurement Law Number 244 dated July 29th, 2021. The law is effective since July 29th, 2022, or one year after its issuance.

⁹ Public Procurement Reform Strategy approved by the Council of Ministers as per Decision 66 dated May 20th, 2022.

B) OTHER RELEVANT REGIONAL POLICIES:

This set of recommendations seeks to improve human resources at the subnational scale. Also, some of these policies count as concrete measures to strengthen the performance of local authorities through clear-cut accountability systems.

Enhancing hiring structure of local authorities: MoIM should propose the amendment of Article 83 of Decree-Law 118/1977 to require big municipalities to set up human resource departments and provide support for management of human resources to smaller municipalities.

- MoIM through DGLAC, in coordination with the MoL, should amend Article 82 of Decree-Law 118/1977 to expand the National Social Security Fund (NSSF) coverage to all municipal employees.

- MoIM through DGLAC, in coordination with MoL, should amend Article 83 of Decree-Law 118/1977 to allow employees to be transferred from one municipality to another while maintaining salaries, benefits, and position.

Improving accountability: Abide by Law 28/2017 (Right of Access to Information) to enact transparency and accountability practices.

- MoIM through DGLAC should re-enforce the Municipal Observatory to identify municipal trends and enact oversight.
- MoIM through DGLAC should promote a culture of transparency and accountability among local administrations and councils in particular regarding their decisions and development projects but also their budgets and closing of accounts.

C) REDESIGNING THE INTERGOVERNMENTAL TRANSFER SYSTEM

The Independent Municipal Fund (ImF), Lebanon’s intergovernmental transfer system, has not been able to properly support municipalities and municipal unions in their budgeting and LED planning efforts.¹⁰ Given the adverse effect this has on local development (disengaging business actors, weak infrastructure, social vulnerability, supply-side and demand-side shocks), policymakers should reform the fund by enacting fairer allocation and disbursement formulae. It is only through such policies that local administrations and councils can truly reap the benefit of such transfers. Some of our policy recommendations regarding the ImF include:

Reforming the disbursement formula¹¹ to properly support development:

i. Policy makers should decide on an allocation formula that corresponds to resident rather than registered population.¹² This would ensure that transfers are reflective of the actual needs of the local population in any region.

- DGLAC, in cooperation with the unions’ sustainable development units, should inform member municipalities how deducted amounts from ImF share were calculated.
- DGLAC, in cooperation with the unions’ local sustainable development units, should periodically assess the needs of member municipalities and share of needs covered by the fund.

ii. Policy makers should also ensure that the allocation formula non-demographic component is not dependent solely on municipal direct revenues actual collection (mostly consisting of property tax revenues.¹³). Otherwise, the inequity between wealthier and poorer localities (i.e., in terms of property ownership) becomes inevitable.¹⁴

- An additional criterion must take into account resident population (proxied by taxpayer list, electrical meters, night light vision, etc.), socio-economic condition (i.e. IMPACT database), and tax effort (i.e. tax potential vs budgeted tax revenues vs collected taxes).

A closer look at the revenue composition of the fund:

Reducing the unpredictability of the amount transferred to municipalities and municipal unions: Limit any delay in the disbursement of ImF funds, as this has proven to interrupt budget planning and development/infrastructure programs.

Auditing the ImF account: MoIM should propose the amendment of Article 87 of Decree-Law 118/1977 to publicly issue annual reports on ImF revenues and expenditures and distribution to municipalities.

- Amend Decree-Law 118/1977 to define a dependency ratio of municipalities. Municipalities whose ratio exceeds a threshold should be diagnosed accordingly to promote larger fiscal independence. The ratio will be a function of the following factors, namely the budget of the municipality, population size, share from the ImF. If the ratio of a certain municipality is

¹⁰ Atallah, S. 2011. “The Independent Municipal Fund: Reforming the Distributional Criteria.” <https://api.lcps-lebanon.org/content/uploads/files/1331312295-imf-policybrief-eng.pdf>

¹¹ As per Decree 1917 dated April 6th, 1979.

¹² 60 percent of the municipal revenue allocation formula (excluding what is calculated for development projects) is calculated based on a demographic component as per Decree 1917/1979.

¹³ These are mainly rental value tax on residential and non-residential properties.

¹⁴ 40 percent of the municipal revenue allocation formula (excluding what is calculated for development projects) is calculated based on the “actual municipal fee direct collection” component as per Decree 1917/1979.

high enough, its financial statement should be audited by law. This will help officials best diagnose trends of over-reliance on central government transfers and propose long term fixes to address “abnormal” dependency.

D) PRIORITIZING PROPER INFRASTRUCTURE

Amid weak and unreliable local infrastructure, national and local authorities should lead a concerted effort to strengthen basic infrastructure systems. This important step is a precursor for proper LED planning because, for example, it can connect active businesses and households to essential goods, input, and technology markets, thus driving economic surplus. Policymakers should consider the following policy proposals:

– Improve the institutional capacity of local governments in order to strengthen the ties with the local private sector for LED initiatives, especially infrastructure. In practice, the interaction of the private sector with various levels of their government is generally weak. The main purpose of interaction is often to settle taxes and other financial issues, not local economic development, or infrastructure planning.

– As documented in the firm-level survey conducted as part of our LED assessment, business costs have significantly gone up, especially in the last year. In particular, electricity and transport costs were shown to have significantly gone up since the crisis. The best way to first bring down these business costs would be to directly improve the quality and coverage of basic infrastructure. Lower costs would be passed on to consumers in the form of lower prices. In summary, this proposal should consider the following:

- A well-functioning national grid is the most cost-effective solution.
- Given the political and financing constraints of the paralyzed national grid, a second-best solution would be for the local governments to step in and provide this needed infrastructure at a cost still significantly below the current system. For example, the project by the municipality of Nabay to invest in the fixed cost of solar power and then to power a municipal business center providing services for local entrepreneur and freelancers falls in this category. This can be expanded to the level of Union of Municipalities.
- To get around this reluctance is to deliver a good quality and well-managed infrastructure project (such as improving roads), authorities can partner with a private company that finances a build-operate-transfer project. The bidding process for the private company should be transparent and clear. Another option is for the local government to secure a concessional loan in advance from an international agency and then repay it over time with a direct usage fee from the project.¹⁵

C. PRESERVING TERRITORIAL RESOURCES

Concerned national authorities (e.g., MoF/DGLRC, MoPWT/DGUP, MoC, MoIM/DGLAC, MoAC, MoE, CoM/CNRS), each from its respective position and mandate, and national and international organizations should support local governments in:

- Designing local development strategies that take into consideration 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.
- Protecting important natural and cultural landscapes and agricultural land by laws and regulations that reject their classification for other uses. This includes:

¹⁵ It is worth noting that this will require parliamentary approval.

- Removing infringements and exploring collective forms of land management (e.g., the concept of *hima*,¹⁶ the role of agricultural coops, and land trusts) and strengthening multi-level collaborations.
- Ensuring that the introduction of agricultural roads does not trigger land use transformations.
- Enforcing the unbiased implementation of Article 21-23 of the Lebanese environmental code (Law 444 of 2002) which 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.
- Gaining access to lands that can be deployed for projects that can potentially enhance the livability of urban and rural areas and stimulate private sector economic activities (e.g., infrastructure and public services, affordable housing, open markets, municipal gardens). This entails:
 - Removing administrative barriers that prevent municipalities from gaining access to state-owned land for the implementation of projects serving the public good.
 - Ensuring the effective implementation of Article 7 of Lebanon’s property law (Decision no. 3339 of 12/11/1930) which stipulates that land of the “*matruka murfaqa*” type is considered the private property of municipalities when it falls within their administrative boundaries.

¹⁶ 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*.

ANNEX 1:

STUDY SCOPE AND METHODOLOGY

A. SCOPE

Under the 'Municipal Empowerment and Resilience Project' (MERP), UN-Habitat, and UNDP commissioned United Cities of Lebanon (UCL) to design a participatory, multi-stakeholder process that will deliver three (3) local economic development assessments for the Unions of Municipalities (UoMs) of Al-Fayhaa (Urban Community of Al-Fayhaa (UCF)), Matn (Northern Coastal and Central Matn), and Tyre.

District	# Of Municipalities in the district	Targeted UoM	# Of municipalities in the UoM
Tripoli	Four (4)	Urban Community of Al Fayhaa	Four (4)
Matn ¹⁷	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)

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.

¹⁷ 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".

B. 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 (GDF) 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 so it serves our local economic development assessment. Given that the agency that should take a leading role is the UoM, many of the potential binding constraints are out of its control. Hence, we refined the framework in a way so the constraints can be addressed by local authorities. 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, leading to a mismanagement of physical assets. Second, weak human capital accumulation, which results from poor healthcare, education, and public services, and 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 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 and fluctuating prices, restricted access to credit and financing facilities, and low competition, leads to anaemic production, a lower local aggregate demand, and low job creation.

C. METHODOLOGY

We analyse these components through a mixed methods and participatory approach that spanned 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 (KIIs), 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 meeting with local officials, workshops with key stakeholders, focus groups, and a land assessment.

A similar methodological approach was followed in each of the regions under study, namely Matn, Tyre, and Urban Community of Al-Fayhaa. We present the information specific to each region below starting with Matn. This is followed by Tyre and Urban Community of Al-Fayhaa.

TABLE 1 Conceptual framework for assessment in Matn

Phase 1 Informing the assessment instruments in Matn UoM	Phase 2 Field Assessment in Matn UoM	Phase 3 Validating the assessment in Matn UoM
<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 at the level of the Matn UoM).</p>

TABLE 2 Conceptual framework for assessment in Tyre

Phase 1 Informing the assessment instruments in Tyre UoM	Phase 2 Field Assessment in Tyre UoM	Phase 3 Validating the assessment in Tyre UoM
<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-seven (127) 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 (three (3) were strictly held at the level of the Tyre UoM).</p>	<p>Five (5) focus group discussions.</p> <p>The final assessment report.</p> <p>The policy paper.</p> <p>Three (3) KIIs on land assessment (Three (3) mayors of municipalities in the Tyre UoM).</p> <p>A land assessment questionnaire to a sample of member municipalities (Six (6) respondents at the level of the Tyre UoM).</p>

TABLE 3 Conceptual framework for assessment in UCF

Phase 1 Informing the assessment instruments in Fayhaa UoM	Phase 2 Field Assessment in Fayhaa UoM	Phase 3 Validating the assessment in Fayhaa UoM
<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 nine (609) 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 (four (4) were strictly held at the level of Al Fayhaa UoM).</p>	<p>Five (5) focus group discussions.</p> <p>The final assessment report.</p> <p>The policy paper.</p> <p>Two (2) KIIs on land assessment (one specialist lawyer at the national level and a municipal member in Al-Fayhaa UoM).</p> <p>A land assessment questionnaire to a sample of member municipalities (one (1) respondent in Al-Fayhaa UoM).</p>

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