

TRANSITION FINANCE COUNTRY STUDY LEBANON: GLOBAL PUBLIC GOODS AND THE RESPONSE TO ADVERSE SHOCKS

Emilio Chiofalo, Konstantin Poensgen and Yasmine Rockenfeller

OECD DEVELOPMENT CO-OPERATION WORKING PAPER 61

Authorised for publication by Jorge Moreira da Silva, Director, Development Co-operation Directorate

OECD Working Papers

OECD Working Papers do not represent the official views of the OECD or of its member countries. The opinions expressed and arguments employed are those of the author(s).

Working Papers describe preliminary results or research in progress by the author(s) and are published to stimulate discussion on a broad range of issues on which the OECD works. Comments on this Working Paper are welcome and may be sent to dac.contact@oecd.org – Development Co-ordination Directorate, OECD, 2 rue André-Pascal, 75775 Paris Cedex 16, France.

This document, as well as any data and any map included herein, are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.

Please cite this paper as: Chiofalo, E., K. Poensgen and Y. Rockenfeller (2019), “Transition Finance Country Study Lebanon – Global public goods and the response to adverse shocks”, OECD Development Co-operation Working Papers, No 61 OECD Publishing, Paris.

Abstract

This study investigates transition finance in Lebanon, an upper-middle income country in the MENA region transitioning from a significant adverse shock. Lebanon’s development path has been historically non-linear and, most recently, the Syrian conflict adversely affected the country’s development path. The Syrian conflict compounded pre-existing deficits and challenges in Lebanon, calling for increased international assistance. DAC donors increased official development assistance (ODA) to Lebanon to preserve stability and promote refugee protection. Donors also created special financing instruments such as the Global Concessional Financing Facility (GCFF) to foster the provision of multilateral concessional financing to Lebanon. Official development finance in Lebanon is high in comparison to its peers, particularly on a per capita basis and for humanitarian assistance. The country also attracts high amounts of FDI and remittances. Overall, domestic credit dominates the financing landscape and public debt is high. DAC members and other donors can strengthen the humanitarian-development-peace nexus, address long-standing country needs to promote self-sufficiency, and re-design partnerships driven by mutual accountability and appropriate incentive structures.

Table of contents

| | |
|--|----|
| OECD Working Papers | 2 |
| Abstract | 2 |
| Acknowledgments | 6 |
| Abbreviations and acronyms | 7 |
| Executive summary | 9 |
| Assessment | 9 |
| Benchmarking | 9 |
| Counselling | 10 |
| Background | 11 |
| 1. Assessing | 12 |
| 1.1. Lebanon is an upper-middle income country that experiences fragilities and faces recurrent shocks due to its vulnerability to political tensions and external financing volatility | 12 |
| 1.2. Concessional finance to Lebanon promotes regional stability and refugee protection, but its UMIC status makes these flows volatile and difficult to reach beyond humanitarian crises | 19 |
| 1.3. Official development finance in Lebanon is set to move from emergency response to supporting self-sufficiency but the transition is challenging | 25 |
| 2. Benchmarking | 31 |
| 2.1. A comparison of the financing landscape of Lebanon with those of peer countries shows that Lebanon receives large amounts of external financing and domestic credit but low levels of tax | 31 |
| 2.2. Lebanon attracts more external financing than peer countries but struggles to find resources for productive activities | 34 |
| 2.3. Lebanon receives a large share of concessional finance towards humanitarian assistance through the UN system and less so for development through the recipient government | 37 |
| 3. Counselling | 47 |
| 3.1. The co-operative strategy | 47 |
| 3.2. The competitive strategy | 53 |
| 3.3. Cross-cutting issues | 60 |

| | |
|------------|----|
| References | 67 |
|------------|----|

| | |
|---------------------|----|
| Methodological note | 76 |
|---------------------|----|

Tables

| | |
|---|----|
| Table 2.1. The top-10 donors of overall ODF in Lebanon and its benchmarking groups | 43 |
| Table 2.2. The top 10 portfolio shares of donors in Lebanon and respective peer group | 43 |
| Table 3.1. Lebanon shares similar issues in promoting inclusive growth compared to other countries in the MENA region | 52 |
| Table 3.2. There are many opportunities to fund promising start-ups in Lebanon, including through many local and foreign private equity funds | 60 |
| Table 3.3. World Bank Indicator | 78 |

Figures

| | |
|--|----|
| Figure 1.1. Lebanon has an open economy as shown by its high levels of trade and the low levels of tariffs applied on products | 12 |
| Figure 1.2. Lebanon has been trapped in middle-income status during the last 20 years | 13 |
| Figure 1.3. Domestic credit by the financial sector dominates the financing landscape in Lebanon and drives growth | 14 |
| Figure 1.4. Lebanon has large current account deficits and high levels of external debt due to decades of reconstruction efforts | 16 |
| Figure 1.5. High levels of debt servicing and spending on wages and subsidies reduce fiscal space for capital investment and contribute to constant deficits | 17 |
| Figure 1.6. Concessional finance to Lebanon, mostly provided by European DAC members, picked up when the number of asylum seekers to Europe was increasing | 20 |
| Figure 1.7. Official development finance to countries affected by the Syrian conflict significantly increased since its outbreak | 21 |
| Figure 1.8. Official development finance significantly increased in the years following the outbreak of the 2006 war and the conflict in Syria | 22 |
| Figure 1.9. Besides Turkey, UMICs hosting large numbers of refugees receive small shares of concessional finance from multilateral development partners | 23 |
| Figure 1.10. Increases of official development finance are largely about post-conflict humanitarian assistance | 26 |
| Figure 1.11. Most of donor financing for Lebanon is channelled through UN entities rather than the Lebanese government | 27 |
| Figure 1.12. Arab development partners have been particularly important in financing Lebanese public institutions | 28 |
| Figure 1.13. Official development partners pledged USD 11 billion to support infrastructure development in the period 2018-2021 | 29 |
| Figure 1.14. Sectoral allocation of the capital investment programme | 30 |
| Figure 2.1. Benchmarking countries | 31 |
| Figure 2.2. The share of remittances in Lebanon's external financing is comparably high and tax collection compared to overall external flows is low | 32 |
| Figure 2.3. Domestic credit provided by the financial sector is substantially higher in Lebanon than in benchmarking countries | 33 |
| Figure 2.4. Remittances to Lebanon are comparably high and stable in absolute levels | 34 |
| Figure 2.5. FDI in Lebanon has historically been high compared to its peers but inflows sharply declined following the general trend among other countries | 36 |
| Figure 2.6. Debt level and servicing costs are comparably high in Lebanon | 37 |
| Figure 2.7. The level of official development finance in Lebanon is high in per capita terms | 38 |
| Figure 2.8. Lebanon's official development assistance per capita remains high after controlling for population size | 39 |
| Figure 2.9. Lebanon receives high amounts of concessional finance on a per capita basis compared to other developing countries | 40 |

| | |
|--|----|
| Figure 2.10. Lebanon receives a larger share of its official development finance from bilateral DAC donors compared to all benchmarking groups | 41 |
| Figure 2.11. Lebanon receives less multilateral development finance on absolute terms but not per capita if compared with developing countries hosting large numbers of refugees | 42 |
| Figure 2.12. Less official development finance is channelled through the government in Lebanon whereas the share of the UN is substantially higher compared to its peer groups | 44 |
| Figure 2.13. Lebanon receives more official development finance for humanitarian assistance and less for production compared to its peer groups | 45 |
| Figure 2.14. Lebanon receives less concessional and non-concessional development finance in production and infrastructure and much more concessional development finance for social sectors compared to other countries at similar income levels | 46 |
| Figure 3.1. Demands addressed in the Lebanese Crisis Response Plan are underfunded | 48 |
| Figure 3.2. Concessional finance in Lebanon is largely allocated to promote inclusiveness and help the country leave no one behind | 50 |
| Figure 3.3. Lebanon can do more to reduce inequality, particularly on social spending and tax progressivity | 51 |
| Figure 3.4. Institutions, infrastructure and the macroeconomic environment are less competitive in Lebanon than on average in the MENA | 54 |
| Figure 3.5. While Lebanon's performance in achieving SDG 9 on industry, innovation and infrastructure is the poorest among all SDGs, the share of official development assistance for this goal is low | 55 |
| Figure 3.6. Support for private sector development is smaller than for other purposes but it is growing | 56 |
| Figure 3.7. Multilateral development partners and a few bilateral donors mainly carry out private sector development activities in Lebanon | 57 |
| Figure 3.8. Support provided through blended finance approaches in Lebanon is limited and concentrated among few donors | 58 |
| Figure 3.9. Official development finance from DAC donors has been volatile, mainly driven by the 2006 war in Lebanon and the 2011 Syrian conflict | 62 |
| Figure 3.10. Lebanon has large trade imbalances, particularly with the European Union | 63 |

Boxes

| | |
|---|----|
| Box 1.1. The Capital Investment Programme (2018) | 30 |
| Box 2.1. Countries with small population receive higher amounts of official development assistance per capita | 38 |
| Box 3.1. 'Reaching All Children with Education in Lebanon Support' (RACE) Project | 49 |
| Box 3.2. Norway's 'Tax for development' approach | 53 |
| Box 3.3. USAID supported the start-up ecosystem through the Berytech group under MENA Investment Initiative | 59 |
| Box 3.4. GIZ Programme 'Cooperation with Arab Donors (CAD)' | 64 |
| Box 3.5. Achieving the 2030 Agenda requires a pact among donors and multilateral organisations | 65 |

Acknowledgments

This paper was written by Emilio Chiofalo (lead author Chapter 1 and 3), Konstantin Poensgen (lead author chapter 2) and Yasmine Rockenfeller under the overall supervision of Olivier Cattaneo. The work has benefitted from close collaboration with the Crises and Fragility Team and the DAC's International Network on Conflict and Fragility (INCAF). Richard Fribert, Cyprien Fabre and Rachel Scott provided substantive contributions including research, analytical input and technical feedback, particularly on refugee-related aspects of this study.

Pierre Blanchard provided technical support and quality assurance on official development finance data.

The authors would also like to thank Bachir Ayoub, Marisa Berbegal-Ibañez, Sara Casadevall Bellés, Juan Casado-Asensio, Abdoulaye Fabregas, Rachel Morris, Annalisa Prizzon and Rolf Schwarz whose comments helped improved the paper. The paper also benefited from comments by several donors, multilateral agencies, government representatives, civil society organisations and private sector institutions interviewed during a fact-finding mission in Beirut.

Stacey Bradbury and Sara Casadevall Bellés facilitated the publication of the paper.

Abbreviations and acronyms

| | |
|-------|---|
| CEDRE | Conférence économique pour le développement, par les réformes et avec les entreprises |
| DAC | Development Assistance Committee |
| ERI | Economic Resilience Initiative |
| EIB | European Investment Bank |
| EU | European Union |
| FDI | Foreign direct investment |
| GDP | Gross domestic product |
| GCFF | Global Concessional Financing Facility |
| GIZ | Deutsche Gesellschaft für Internationale Zusammenarbeit |
| GNI | Gross national income |
| IBRD | International Bank for Reconstruction and Development |
| IDA | International Development Association |
| IFC | International Finance Corporation |
| IsDB | Islamic Development Bank |
| LCRP | Lebanon Crisis Response Plan |
| LDC | Least Developed Countries |
| LHSP | Lebanon Host Communities Support Programme |
| LIC | Low-income country |
| LFR | Lebanon recovery fund |
| MEHE | Lebanon's Ministry of Education and Higher Education |
| MENA | Middle East and North Africa |
| MDB | Multilateral development bank |
| PSD | Private sector development |
| RACE | Reaching All Children with Education in Lebanon Support |
| SDGs | Sustainable Development Goals |
| SIDS | Small Island Developing State |
| UMIC | Upper middle-income country |

| | |
|-------|--|
| UN | United Nations |
| UNHCR | United Nations High Commissioner for Refugees |
| UNRWA | United Nations Relief and Works Agency for Palestine Refugees in the Near East |
| USAID | United States Agency for International Development |
| USD | United States dollar |

Executive summary

This study investigates transition finance in Lebanon, an upper-middle income country in the MENA region transitioning from a significant adverse shock. Transition is the journey to sustainable development, and transition finance the financing of that journey (Piemonte et al., 2019^[1]). Adopting the holistic approach introduced by OECD (2018^[2]), this study investigates development finance, including domestic and external, private and public resources, in light of the country's challenging transition. Lebanon's development has been historically non-linear and, most recently, the Syrian conflict adversely affected the country's development path. The present study highlights DAC members' role in support of global public goods and derives recommendations to tailor development assistance to these contexts.

Assessment

Development setbacks and fragilities have shaped Lebanon's non-linear transition path. Once a high-income country in the 1970s, internal and external shocks have hampered Lebanon's development. With average growth per capita at 16% after the 1975-1990 civil war, Lebanon obtained upper-middle income country status in 1997. However, growth stagnated subsequently. Following the 2006 war, the country again experienced high average growth per capita at 7% driven by reconstruction and booming real estate. Yet, coinciding with the conflict in neighbouring Syria, average growth per capita turned negative in 2011. A fragmented political landscape and complex power sharing arrangements, representing the country's religious diversity, complicate political decision-making and stability. Reflecting weak governance, Lebanon is perceived to be among the most corrupt countries globally.

The Syrian conflict compounded pre-existing deficits and challenges in Lebanon, calling for increased international assistance. Prior to 2011, poverty, income inequality and regional disparities have already been high whereas the quality of infrastructure and public service provision was low. The Syrian conflict amplified these deficits: Investment decreased due to regional instability and Lebanon's main trade route through Syria was closed. In parallel, demand for public services and the use of infrastructure increased with Lebanon estimated to host between 1 and 1.5 million Syrian refugees. In other words, up to one in four people in Lebanon is a Syrian refugee. The Lebanon Crisis Response Plan (LCRP) estimates that 3.3 million people are in need of assistance, including both Lebanese and Syrians.

Preserving stability and promoting refugee protection, donors increased official development assistance to Lebanon. Responding to the Syrian conflict, development partners significantly increased official development assistance (ODA) to Lebanon, mostly in the form of grants and for humanitarian purposes. As Lebanon exceeds concessionality thresholds of many MDBs, donors created special financing instruments such as the Global Concessional Financing Facility (GCFF) to the foster provision of multilateral concessional financing to Lebanon. The sizeable allocation of concessional resources to Lebanon as UMIC reflects DAC members' effort in contributing to the global public goods 'regional stability' and 'refugee welfare'; especially as some donors had reduced or phased-out development co-operation in Lebanon before. Scaling up assistance to Lebanon revealed the importance of having in place an ecosystem that ensures absorptive capacity, effective use of financing and adequate incentive structures to avoid negative spillovers.

Benchmarking

Relative to its peer countries, official development finance to Lebanon is comparably high, particularly on a per capita basis and for humanitarian assistance. Reflecting the need for more

concessional resources despite its UMIC status, Lebanon receives a larger share of its official development finance (ODF) from bilateral DAC donors. Whereas the recipient government constitutes the largest individual channel in peer countries, the channel accounts for only a small fraction of ODF in Lebanon. In contrast, UN agencies make up the largest individual channel in Lebanon.

Lebanon receives considerable amounts of remittances and FDI in comparison with benchmarking countries but struggles to find resources for productive activities. Lebanon's large and wealthy diaspora provides sizeable amounts of remittances, significantly exceeding levels in most peer countries. Remittances, primarily used for private consumption in Lebanon, contribute to social protection but are not used for productive activities. Likewise, foreign direct investment is relatively high in Lebanon but flows largely to real estate acquisitions.

Domestic government revenues are relatively low in Lebanon while domestic credit dominates the financing landscape and public debt is high. Reflecting its strong banking sector, domestic credit exceeds that of benchmarking countries and dominates Lebanon's financing mix overall. Domestic government revenues are low in Lebanon in relation to external financing, especially when considering its UMIC status. As consequence of large reconstruction efforts and continuous fiscal deficits, Lebanon's public debt burden relative to GDP is among the highest globally. This entails high levels of debt servicing and interest payments, effectively lowering expenditure on public infrastructure and social services.

Counselling

DAC members can strengthen the humanitarian-development nexus to meet humanitarian needs and ensure financing remains sustainable. As long as refugee protection concerns persist, the level of humanitarian assistance needs to be maintained. Meanwhile, opportunities exist to support longer-term interventions that benefit all: Development partners can foster greater synergies and spillovers between humanitarian and development assistance as presented for example by the 'Lebanon's Host Community Support Programme' (LHSP). Using common country systems can lead to scale effects and help develop domestic capacity. A strengthened nexus also allows transitioning towards more development oriented partnerships while ensuring that humanitarian needs remain addressed.

Resuming or up-scaling development partnerships in response to large shocks enables DAC members to address long-standing country needs and promote self-reliance. Having increased ODF to Lebanon, DAC members have the opportunity to enhance Lebanon's social service provision, address governance issues, and promote productive sector development. In light of high inequalities and public debt, development partners can provide technical assistance to mainstream inclusiveness in governance and public financial management. Donor pledges at the CEDRE, a conference on large-scale infrastructure financing in Lebanon, could provide a meaningful contribution to Lebanon's future development; however, as financing is attached to reforms on public financial management and infrastructure sectors, its disbursement remains uncertain. Opportunity exist to promote trade and decent work, particularly in agriculture and industrial sectors. There is an untapped potential for innovative finance approaches, especially in supporting the burgeoning start-up ecosystem.

A transition approach calls for a shift in development partnerships driven by mutual accountability and appropriate incentive systems. Development assistance in Lebanon can benefit from more long-term oriented donor-recipient partnerships to develop country capacity and promote self-sufficiency. That is, an effective transition finance approach calls for more engagement with the government, in turn requiring appropriate incentive structures for mutual accountability. Development partners can support rather than substitute government responsibilities such as the provision of social safety nets. Long-term approaches can also include multiannual commitments for humanitarian and resilience activities; and using official development finance to tap into broader forms of financing. Lastly, there is opportunity among donors to better co-ordinate beyond humanitarian assistance.

Background

In 2017, the OECD Development Assistance Committee (DAC) initiated a work-stream on transition finance to shed light on the interplay of sources of financing at different stages of development, including when countries grow economically. Recognising the multidimensional nature of development, the work on transition finance also tries to compare countries that share similar development challenges beyond income category, such as least developed countries (LDCs), small island development states (SIDS), landlocked countries and countries experiencing fragility. In the biennium 2017-2018, work concentrated on a methodological concept note (Piemonte et al., 2019^[1]) and country-level analysis in Cabo Verde (Morris, Cattaneo and Poensgen, 2018^[3]), Zambia (Kim et al., 2018^[4]) and Uganda (Thompson, Scott and Poensgen, forthcoming^[5]).

The biennium 2019-20 extends the scope of the analysis, including several country pilots to provide analysis on a broader range of financing needs of governments and vulnerable people in countries at different stages of development. This includes examining countries in more geographic regions, at different income levels and presenting diverse thematic issues (e.g. anticipating graduation from official development assistance; responding to shocks, crises and disasters, etc.). In addition to the present study, country pilots have been conducted in Chile (Piemonte, forthcoming^[6]) and Viet Nam (Kim and Poensgen, forthcoming^[7]). Additional country pilots will be conducted in the second semester of 2019.

Furthermore, the OECD is developing a Transition Finance Toolkit providing an evidence base, diagnostic tools, and policy instruments to adopt and implement transition finance approaches in developing countries. A Transition Finance Compendium that builds on the individual country pilots will synthesise emerging transition finance findings across countries.

The Lebanon country study has been selected based on various criteria:

- Conducting a case study in the Middle East and North Africa (MENA) region, extending the geographical scope of the transition finance work;
- Addressing the role of development finance in an UMIC experiencing an external shock, adversely affecting the country's development trajectory;
- Assessing the contribution of development partners to support the provision of global public goods, in particular in middle-income countries exceeding eligibility criteria to specific sources of concessional financing (e.g. IDA, other MDBs);
- Supporting the work on better financing for forced displacement by the DAC's International Network on Conflict and Fragility (INCAF), intended to contribute to the Global Compact on Refugees that will be showcased at the Global Refugee Forum in December 2019.

The present paper follows the Assess, Benchmark and Counsel (ABC) approach developed in (Piemonte et al., 2019^[1]). This approach helps to identify specific transition characteristics of a selected country (assessing), to compare development finance with peer countries (benchmarking) and to derive recommendations and policy options for development partners (counselling).

The preparation of the paper entailed desk-based research using data publicly available and a fact-finding mission in Beirut in early 2019. The mission involved semi-structured interviews with about 30 public and private stakeholders, such as representatives of Lebanese public institutions, bilateral donors, multilateral agencies, multilateral development banks, research institutes, civil society organisations and private financial institutions.

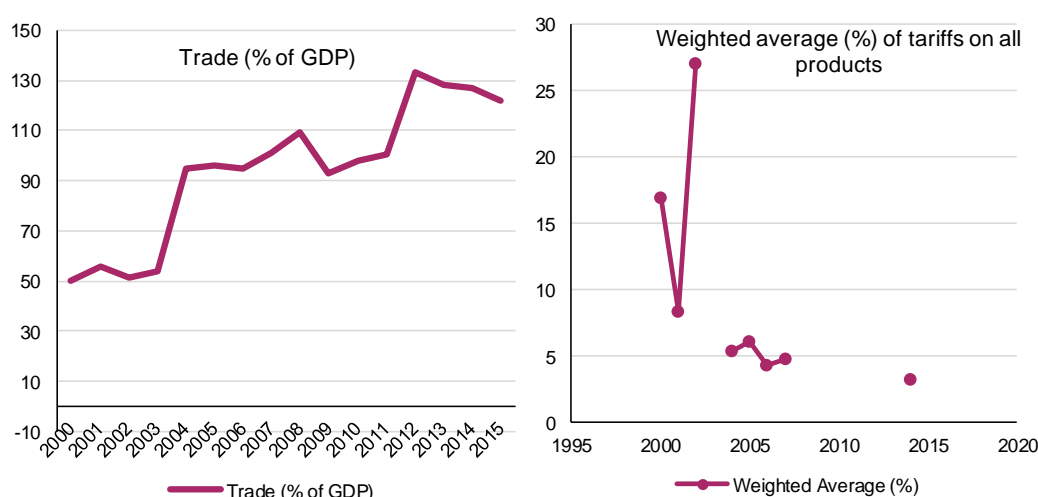
1. Assessing

1.1. Lebanon is an upper-middle income country that experiences fragilities and faces recurrent shocks due to its vulnerability to political tensions and external financing volatility

A long civil war stopped an important economic uptrend, trapping Lebanon at middle-income level

Lebanon is an open and service-oriented economy driven by financial services, construction and tourism. Since its independence, Lebanon positioned itself as a service-oriented economy open to foreign investment and trade (see Figure 1.1). Even during the civil war when the currency was falling steeply, Lebanon maintained its open regulatory regime to attract foreign investment (Baumann, 2016^[8]). A strong banking and financial sector became an important hub in the 1970s reinvesting large revenues from oil producing countries in the MENA who channelled oil revenues to Lebanon for political considerations. These flows drastically decreased in the early 1990s with declining world oil prices. Moreover, a wealthy and entrepreneurial diaspora provides significant amounts of remittances and foreign direct investment (FDI) to support consumption and the expansion of the real estate sector, the main growth sector in the country. Lebanon has also been an important touristic destination in the MENA region.

Figure 1.1. Lebanon has an open economy as shown by its high levels of trade and the low levels of tariffs applied on products

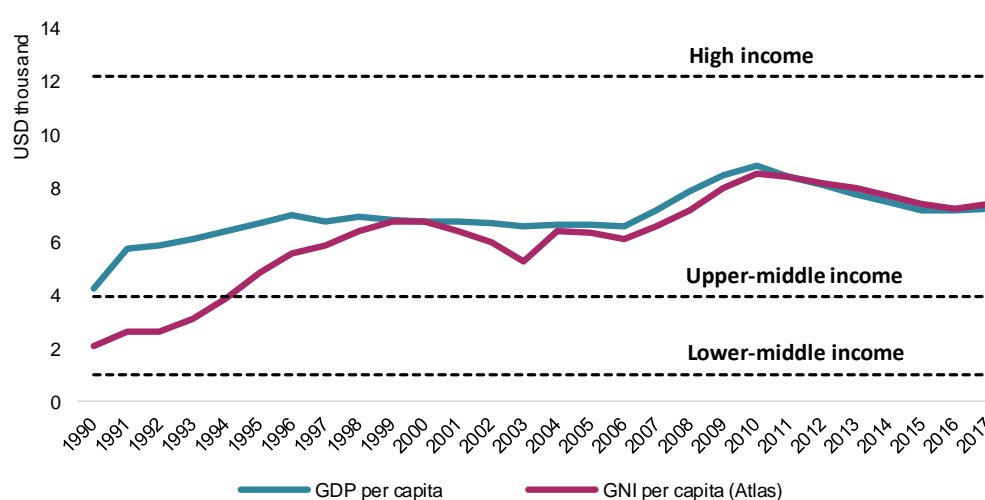


Source: World Bank (2019^[9]), World Integrated Trade Solution (WITS), Lebanon trade statistics, <https://wits.worldbank.org/CountryProfile/en/LBN>

The 1975 civil war stopped an important economic uptrend, which trapped Lebanon in middle-income level. An economic model driven by the financial sector and foreign flows allowed the country to reach high-income level status in the 1970s (AsDB, 2018^[10]). However, the outbreak of the civil war in 1975 ended the positive cycle. After 1990, the country moved up on the middle-income spectrum, reaching UMIC status in 1997 but remained distanced from the high-income threshold, raising questions of a potential middle-income trap (see Figure 1.2). Despite reconstruction boosting the economy in the 1990s, growth was stagnant until the late 2000s due to political deadlocks in policy-making. After two decades of sluggish growth, average growth in worker productivity turned negative after 2010, pointing to increased employment in relatively low quality and low-paying jobs in informal activities (ILO, 2015^[11]).

Figure 1.2. Lebanon has been trapped in middle-income status during the last 20 years

GDP per capita and gross national income (GNI) per capita (Atlas) in Lebanon (1990-2017)



Note: GDP per capita and GNI per capita are in constant (2010) prices. Thresholds for income level in dotted lines refer to GNI per capita (Atlas) categories by World Bank income group classification in 2018.

Source: World Bank (2019^[12]), <https://data.worldbank.org/indicator> for GNI per capita, GDP capita and GDP deflator series.

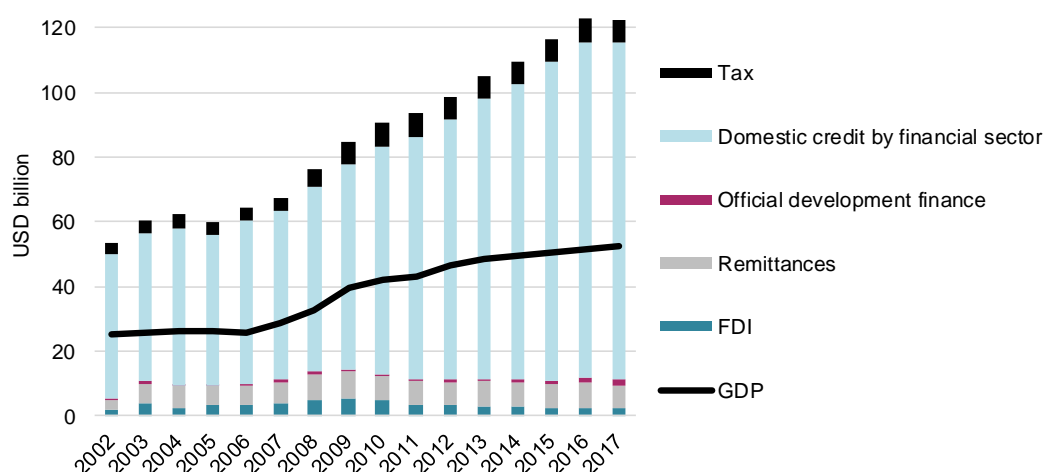
Domestic credit by the financial sector dominates the financing landscape in Lebanon and drives growth – though not for productive investment. Domestic credit by the financial sector is between once and twice the size of Lebanon's gross domestic product (GDP) (see Figure 1.3). A strong economic growth uptrend in 2007 – revived by post-war reconstruction needs and accommodated by the central bank through mortgage subsidies – triggered a large expansion of domestic credit in real estate. While this expansion facilitated economic growth in the first years of the real estate boom, its stimulating effect soon faded. Regional instability resulting from the Syrian conflict, which started in 2011, further affected the deterioration of the general macroeconomic environment contributing to subduing growth needed for ensuring debt sustainability. The growth rate declined from more than 7% between 2007 and 2010 to less than 2% in 2018.

External finance provides foreign currency for macroeconomic stability and partly makes up for small public spending on productive and social sectors. The pillar of macroeconomic stability in Lebanon is the central bank's peg of the Lebanese pound to the dollar that requires high levels of foreign currency. High levels of remittances, FDI and official development finance in Lebanon (see Chapter 2 below) bring the much-needed foreign currency. FDI also contribute to positive knowledge spillovers into the economy. Remittances and official development finance act as social safety nets for parts of the most

vulnerable; however, it is unclear whether refugees receive remittances as well.¹ Official development finance, while small in comparison with other financing sources, makes up for very small government spending on social protection in addition to productive investment, given the low levels of tax raised and the high debt limiting space for fiscal expenditure.

Figure 1.3. Domestic credit by the financial sector dominates the financing landscape in Lebanon and drives growth

Gross domestic product and domestic and external financing in Lebanon



Note: Tax amount for 2017 estimated using 2016 amount as proxy.

Source: World Bank (2019^[12]), <https://data.worldbank.org/indicator> for FDI, GDP, remittances and domestic credit; ICTD/UNU-WIDER (2018^[13]) for tax revenue; OECD (2019^[14]), Creditor Reporting System (database) », <https://stats.oecd.org/Index.aspx?DataSetCode=crs> for official development finance.

In light of the frequent crises, the economy shows remarkable economic resilience thanks to a strong central bank and a resilient banking sector. The banking and financial sector is a resilient element of Lebanon's economy. Its success is due to high liquidity, strong solvency and solid capitalisation, which protects the sector from local and external shocks (Torbey, 2014^[15]). In response to the 2008 financial crisis, Lebanese commercial banks benefitted from a large number of investors and depositors transferring money to Lebanon due to historically prudential financial sector regulation and supervision. In 2017, Lebanese banks held total assets valued United States dollar (USD) 220 billion with total deposits equivalent to USD 173 billion (Association of banks in Lebanon, 2019^[16]). The domestic banking sector holds the majority of the large national public debt [(Torbey, 2014^[15]); (Saad, 2017^[17])]. The central bank carries out vigilant monetary policy intervening directly into the economy to preserve macroeconomic stability and compensating for Lebanese negative economic performance. These include financial engineering to maintain the peg between the USD and the Lebanese pound and subsidising economic activity in the real economy.

¹ The Beirut Research and Innovation Center, having conducted a survey among Syrian refugees in Lebanon, finds that most respondents deny having received remittances. For those stating having received remittances, receipts seem to be in case of emergency. Yet, expenditure patterns seem to suggest that some income streams from Syria might still exist (Beirut Research and Innovation Center (BRIC), 2013^[123]).

Lebanon presents home-made fragilities that are compounded by instabilities in the MENA region

The economic trajectory of Lebanon towards UMIC status left unaddressed socio-economic and political fragilities of the country. Fragilities arise from socio-political fragmentation, political instability in the country, including civil wars and conflicts with neighbouring countries as well as knock-on effects from conflicts in the region, such as drops in external finance and large refugee inflows (Saad, 2017^[17]). They also arise from a high exposure to external financing and a narrow fiscal space for public investment due to a very high level of public debt and an inefficient use of public resources.

Socio-political fragilities include governance issues in finding agreements within an intricate web of fragmented political groups representing the many religions of the country. Lebanon has a culturally diverse population where religious affiliation defines political and social identity. Religious groups have political representation and citizens and media pluralism contribute to the political debate (Freedom House, 2018^[18]). However, political divisions encourage antagonism. This requires power-sharing arrangements that make agreements difficult to reach and slow down decision-making and implementation.

Lebanon has struggled with widespread poverty, unequal income distribution, disparities across regions and difficulties in generating inclusive growth. According to the 2007 national survey, the most commonly used for a pre-Syria conflict poverty profile, 28.5% of the population were considered poor and 8% extremely poor in 2005 (UNDP, 2008^[19]). The bottom 20% of the population accounted for 7% of all consumption while the richest 20% accounted for 43%; however, comparable to other middle-income countries and the average among MENA countries [(MOSA and UNDP, 2007^[20]) (UNDP, 2008^[19]); (Oxfam, 2017^[21])]. Around 65% of the total poor in Lebanon is estimated to live in the North and Mount Lebanon governorates. Around 4 in 10 workers lack formal work contracts and the same share did not benefit from any type of health insurance in 2015. Pension and health service coverage among Lebanese older than 65 years of age was very low with only 2 in 10 people covered. (World Bank, 2012^[22]) (ILO, 2015^[11]).

Lebanon is vulnerable to external financing fluctuations. Lebanon receives very large levels of external financing, particularly remittances and FDI, thanks to its large diaspora. Most recent data provided by the World Bank on tax revenue states revenues at 15.3% of GDP in 2017 up from 13.5% in 2016 but lower than the 16.9% reported for 2010 (World Bank, 2019^[12]). While large FDI and remittances from diaspora support consumption and investment, they could make the country vulnerable to external shocks. For instance, a large share of these flows originates from oil-rich countries in the MENA, making these flows exposed to volatility in oil-prices and political disputes with governments in these countries (IMF, 2017^[23]).

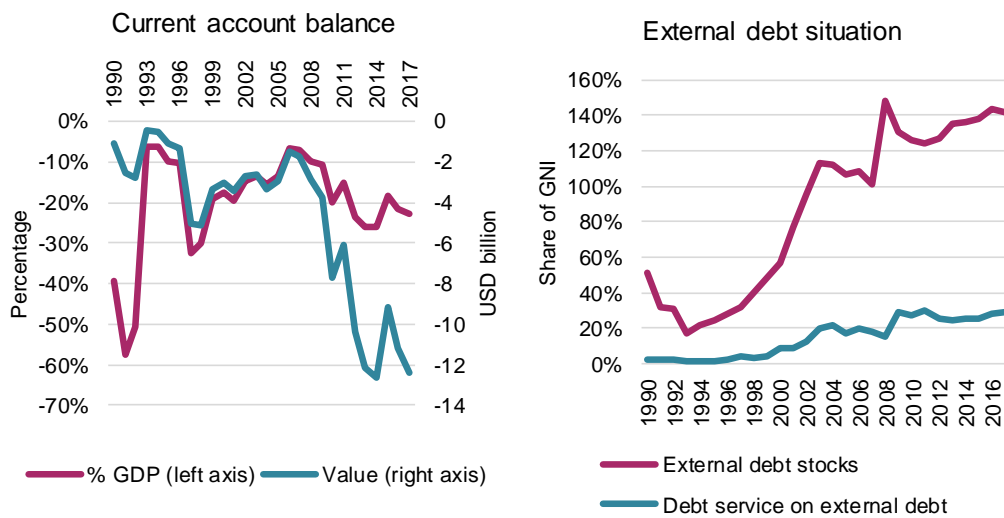
Lebanon's fragilities have been exacerbated by decades of wars and conflicts. Conflicts with neighbouring countries and a long civil war have exacerbated political divisions and made institutions more fragile, revealed a vulnerability to knock-on effects from regional disputes [(Sune, 2011^[24]); (Gaub, 2015^[25])]. Conflicts have severely affected the national capital stock (e.g. infrastructure, industrial fixed capital, etc.) and subdued potential economic development (IMF, 2017^[23]). This occurred primarily through destruction and depreciation of infrastructure and other physical capital. The 1975 civil war cut national output by half and destroyed more than a one fifth of industry's fixed capital (Collelo, 1989^[26]). Estimates of the direct damage of the 2006 war are at USD 9.4 billion (USD 3.5 of which for infrastructure²) (IMF,

². The attacks hit bridges, roads, airport runways, ports, factories, and power and water networks. It also destroyed towns and villages in Hezbollah's areas such as Beirut's southern suburbs and in the Bekaa Valley.

2017^[23]). Indirect effects include a drop in private investment as exports and tourism suffer from security concerns and regional instability reduce financial inflows from countries in the region.

Multibillion post-war reconstruction led to massive debt accumulation. Reconstruction entailed large imports for infrastructure in turn leading to constant trade deficits. While high levels of external resources, such as remittances, FDI and foreign earnings from tourism and financial services, compensated for negative trade balances, government fiscal and external positions deteriorated importantly. Lebanon rebuilt its infrastructure by borrowing heavily, mostly from domestic banks, leading to one of the largest debt burdens in the world (Figure 1.4). Syrian labour in the construction sector has been important throughout Lebanon's reconstruction.³

Figure 1.4. Lebanon has large current account deficits and high levels of external debt due to decades of reconstruction efforts



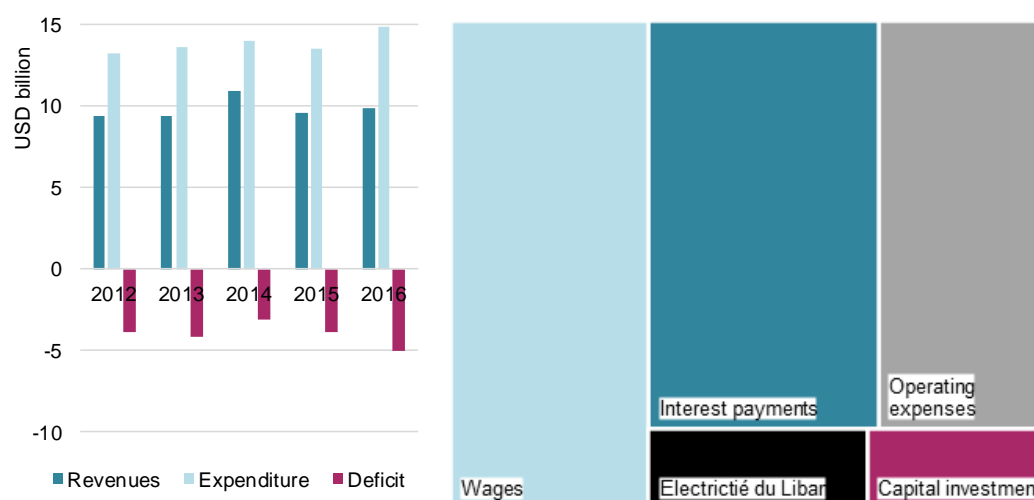
Source: IMF (2018^[27]), World Economic Outlook (October 2018), <https://www.imf.org/external/pubs/ft/weo/2018/02/weodata/index.aspx> for current account balance; World Bank (2019^[28]), International Debt Statistics, <https://data.worldbank.org/products/ids> for external debt stocks and debt service; World Bank (2019^[12]), <https://data.worldbank.org/indicator/> for gross national income.

Massive public debt stocks entail high levels of debt servicing, which reduces an already small level of public resources for productive investment and social spending. The government is in a constant situation of fiscal deficit, which hampers resource allocation for productive investments and social protection (Figure 1.4). Beyond debt servicing – which accounts for about a third of public spending – the public wage bill is high, absorbing another third of all government spending (Figure 1.5). An inefficient energy sector – highly dependent on oil and prone to frequent technical damages – requires large subsidies that make up about 6% of total public spending (McKinsey, 2019^[29]).

³ In 1972, male Syrian nationals represented 90% of total construction workers in Lebanon (Chalcraft, 2009^[18]). Between 400,000 (Balanche, 2007^[19]) and 1.4 million (Gambill, 2001^[20]) Syrian workers were estimated to work in Lebanon in the nineties, and right before the outbreak of the Syrian conflict, some 300,000 Syrian workers were estimated to be located in Lebanon (ILO, 2015^[28]).

Figure 1.5. High levels of debt servicing and spending on wages and subsidies reduce fiscal space for capital investment and contribute to constant deficits

Government revenues, government spending and fiscal deficit (left hand chart, 2012-2016) and government expenditures by broad area (right-hand chart, 2012-2016)



Source: McKinsey (2019^[29]), *Lebanon Economic Vision*.

Negative spillovers from the Syrian conflict compounded pre-existing fragilities of the country

The Syrian conflict had a tremendous impact on Lebanon's economic development due to regional instability and closure of Lebanon's main trade route. Regional instability affected economic growth and investment, and subdued FDI and tourism. The conflict also blocked the country's main trade route through Syria, negatively affecting its exports. The Syrian conflict exacerbated the pre-existing situation in Lebanon and an early estimate suggests that 200,000 Lebanese have been pushed into poverty since the outbreak of the conflict (World Bank, 2013^[30]). Average unemployment rates increased from around 11% before the conflict to an estimated 18-20% in 2014 (Al-Attar, 2015^[31]), (IMF, 2014^[32]). The persistence of poverty and the lack of inclusive economic growth are attributed to weak job creation and a low quality of jobs (Khater, 2017^[33]).

The outbreak of the Syrian conflict forced a large number of refugees fleeing conflict in Syria to Lebanon. Since the Government of Lebanon suspended the registration of refugees by UNHCR in 2015, it is difficult to obtain an accurate number of Syrian refugees in Lebanon. It is estimated that one out of four people in Lebanon is a Syrian refugee, the highest per capita rate of refugees and the fourth largest refugee population in the world [(UNHCR, UNICEF, WFP, 2018^[34]), (UN and Inter-Agency Co-ordination, 2019^[35])].⁴ The government estimates that the country hosts 1.5 million of 6.3 million Syrians who have fled the country since 2011. Up to 87% of the Syrian refugees have been estimated to be located in the peripheral, historically poorest and deprived regions of Lebanon, characterised by underinvestment and facing critical development challenges [(Bajec, 2017^[36]), (UNDP, 2008^[19])]. The vast majority of the refugees are Syrians fleeing their home country along with 29,145 Palestinian refugees from Syria (PRS) and a pre-existing population of an estimated 180,000 Palestinian refugees from Lebanon (PRL) living in

⁴ As of 31 March 2019, there are 944,613 Syrians registered with UNHCR (UNHCR, 2019^[47])

12 camps and 156 gatherings [(UNRWA, 2019_[37]), (CAS-Lebanon, the PCBS and LPDC, 2017_[38])].⁵ The Lebanon Crisis Response Plan (LCRP) 2017-2020 takes Syrian and Palestinian refugees into account, estimating that 3.3 million people are in need of assistance, including 1.5 million vulnerable Lebanese.

Compounded by the existing socio-economic conditions in Lebanon, the Government of Lebanon's policy not to facilitate legal residency and access to work for refugees will have an impact on both host communities' and refugees' vulnerability. While the Lebanese people and the Government of Lebanon have generously hosted refugees from Syria and worked in partnership with development partners to avert dire consequences of the conflict and support positive outcomes for Syrian refugees, integration of refugees is not politically acceptable. Syrians entering Lebanon are not recognised by the government as refugees and are instead referred to as 'displaced'. As of 2014, refugee policies were introduced making access to legal residency, civil documentation and work permits challenging.

- In 2014, the government, for instance, introduced an annual fee of USD 200 for residency permits (Janmyr, 2016_[39]), making it difficult for refugees to live legally in Lebanon.⁶ In January 2015, new restrictions on the entry and legal status of Syrian nationals were passed⁷, resulting in limited access to the country and to residence permits⁸ and the Lebanese government requested UNHCR to suspend the registration of all Syrian nationals in May 2015 (UN-Habitat and UNHCR, 2018_[40]). More than 74 percent of registered Syrian refugees did not have legal status by May 2017 (UNHCR, UNICEF, WFP, 2018_[34]).
- In terms of right to work, refugees are prohibited from employment in the public sector and 36 other specified professions such as medicine, law, or engineering, and are only allowed to work in agriculture, construction and cleaning services [(Eldawy, 2019_[41]), (UNHCR, UNICEF, WFP, 2018_[34])]. Restrictive labour policies for refugees are estimated to have reinforced informality in the economy, with adverse effects for the country's growth potential, public finances and both legal and illegal workers' welfare (Errighi and Griesse, 2016_[42]).

While direct effects of government policies on refugee welfare and poverty are difficult to establish in the short- to medium-term, the lack of legal residency status in the longer-term will adversely affect refugees' options for accessing work, social services and social benefits, particularly for those refugees who decide not to return. As long as these restrictive policies persist alongside key protection issues, humanitarian assistance will have to be maintained.

A sudden and large increase in the number of vulnerable people entailed an increase of needs for public services. An already poor infrastructure, as well as poor public management capacity in the

⁵ For further details on the figures of the West Bank and Gaza Strip, see the official Census carried out by Central Administration of Statistics, the Palestinian Bureau of Statistics and the Lebanese Palestinian Dialogue Committee in July 2017.

⁶ In 2017, the residency fee was waived for those eligible to a residency based on their registration with UNHCR, and provided they never had a residency based on sponsorship, making eligibility for the fee waiver more difficult and adding another obstacle towards a legal stay.

⁷ The residency regulations enforced in January 2015 were issued through a decision by the General Security on 31 December 2014, pursuant to the October 2014 policy, whereby the government adopted its first official Policy on Syrian Displacement (Lebanese Council of Ministers, 2014). The policy's first objective was to "decrease the numbers" of Syrians in Lebanon by reducing access to Lebanon and encouraging departures from the country.

⁸ In 2011, Syrians in Lebanon were freely admitted and provided with legal status and admission to Lebanon and legal status provision were arranged by bilateral (labour) agreements signed between Lebanon and Syria in 1993 (UN-Habitat and UNHCR, 2018_[40]).

delivery of public services, put tremendous stress for the country in managing the need of an extended population. According to the United Nations (2018^[43]) since 2011:

- Housing availability decreased, with a third of displaced Syrians living in inadequate and overcrowded shelters;
- Municipal spending on waste disposal increased by 40 % leading to important challenges for the poorest municipalities, which are also those that deal with the vast majority of refugees;
- An estimated additional 447 megawatts are needed to cover increased electricity demand.

1.2. Concessional finance to Lebanon promotes regional stability and refugee protection, but its UMIC status makes these flows volatile and difficult to reach beyond humanitarian crises

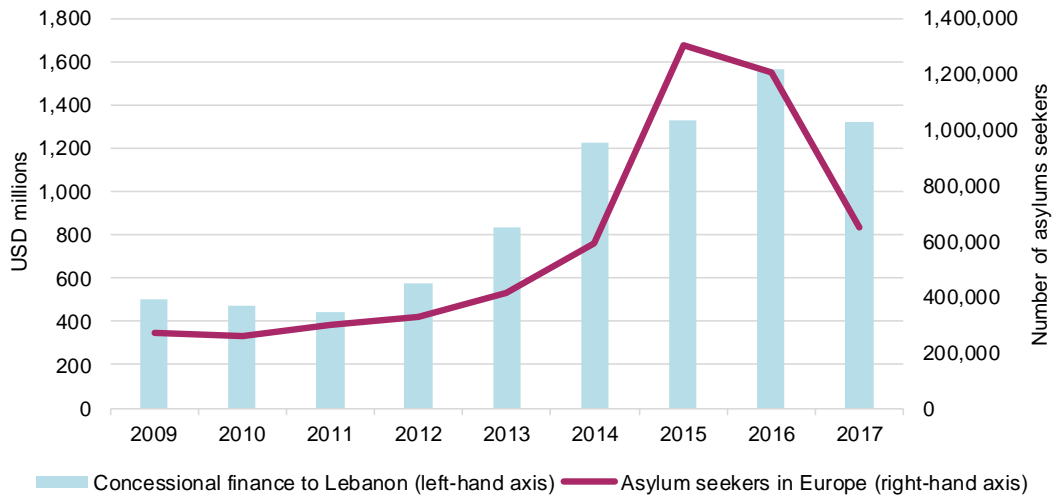
Development partners provide concessional finance to Lebanon to promote regional stability and refugee protection, which are global public goods

The interest of official development partners in providing concessional finance to a UMIC is by contributing to the global public goods regional stability and refugee protection. Global public goods are goods that are non-rivalrous, non-excludable and available more or less worldwide. These include climate, international security or global financial stability. Support for global public goods may include containing the costs of negative spillovers from shocks and crises in neighbouring countries that could turn into regional and global threats (“global public bads”). Such support can take the form of crisis preparedness and response capacity, supporting reconstruction and financing development activities that promote resilience and self-sufficiency (Kaul, 2017^[44]).

The donor community is increasingly interested in promoting regional stability and refugee protection in the MENA. Global public goods are generally challenging to finance because no single country can fully recover the benefit of its own spending. This results in low political returns on financing and incentives for free-riding (OECD, 2018^[45]). However, supporting certain global public goods can also give donors visibility among its own constituencies. European countries, for example, having faced internal political issues with increases in the number of refugees in their countries, have stepped up support in countries in the MENA region affected by large influxes of refugees. Data from European countries indeed suggests a correlation between the number of asylum seekers in Europe and concessional finance to Lebanon (see Figure 1.6).

Figure 1.6. Concessional finance to Lebanon, mostly provided by European DAC members, picked up when the number of asylum seekers to Europe was increasing

Concessional finance to Lebanon and number of asylum seekers in Europe (2008-2017)



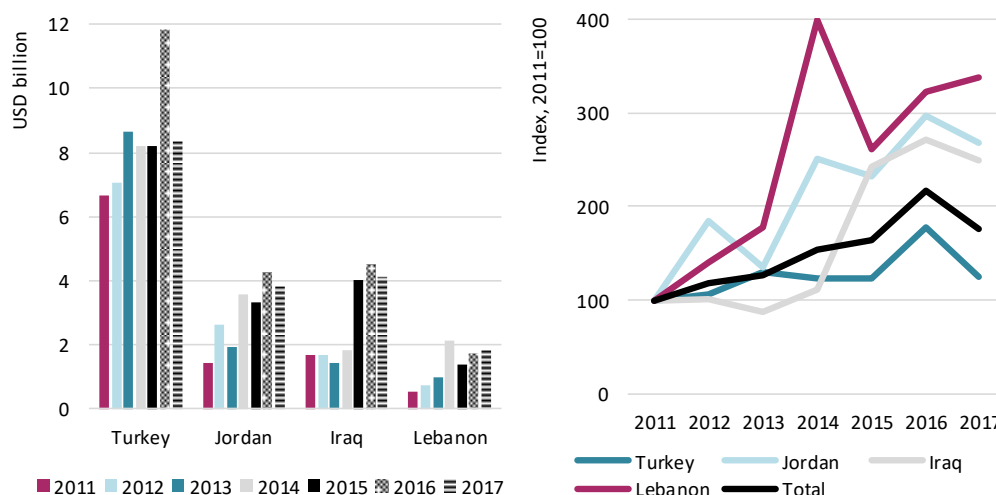
Note: Concessional finance to Lebanon only from development partners reporting the OECD's Development Assistance Committee.

Source: OECD (2019^[14]), Creditor Reporting System (database), <https://stats.oecd.org/Index.aspx?DataSetCode=crs> for data on concessional finance to Lebanon. OECD (2018^[46]), « International Migration Outlook 2018 », https://doi.org/10.1787/migr_outlook-2018-en for data related to asylum seekers in Europe.

Various financing conferences succeeded in increasing support to countries dealing with large refugee inflows in the MENA region. Since the outbreak of the Syrian conflict, about 5.6 million registered Syrian refugees escaped conflict by moving to neighbouring countries, in particular to Turkey, Lebanon, Jordan followed by Iraq, Egypt and other countries in North Africa [(UNHCR, 2019^[47]); (Yassin, 2018^[48])]. As shown in Figure 1.7, the level of official development finance for humanitarian, development and resilience activities to countries affected by the Syrian conflict significantly increased since the outbreak of the conflict in 2011. The last Brussels conference (III) on 'Supporting the future of Syria and the region' shows that annual pledges of donor grants picked up in 2019 (i.e. USD 7 billion of grants) after a previous decline in 2018 (i.e. USD 4.4 billion) compared to 2016 and 2017 (USD 6 billion respectively) [(European Union, 2019^[49]); (European Union, 2019^[50])]. Notably, actual contributions exceeded pledges made for 2016, 2017 and 2018. These grant pledges add to pledges of about USD 21 billion in concessional loans, mostly from multilateral development banks (MDBs).

Figure 1.7. Official development finance to countries affected by the Syrian conflict significantly increased since its outbreak

Official development finance to countries affected by the Syrian conflict (2011-2017)



Note: Only development partners reporting the OECD's Development Assistance Committee.

Source: OECD (2019^[14]), Creditor Reporting System (database), <https://stats.oecd.org/Index.aspx?DataSetCode=crs>

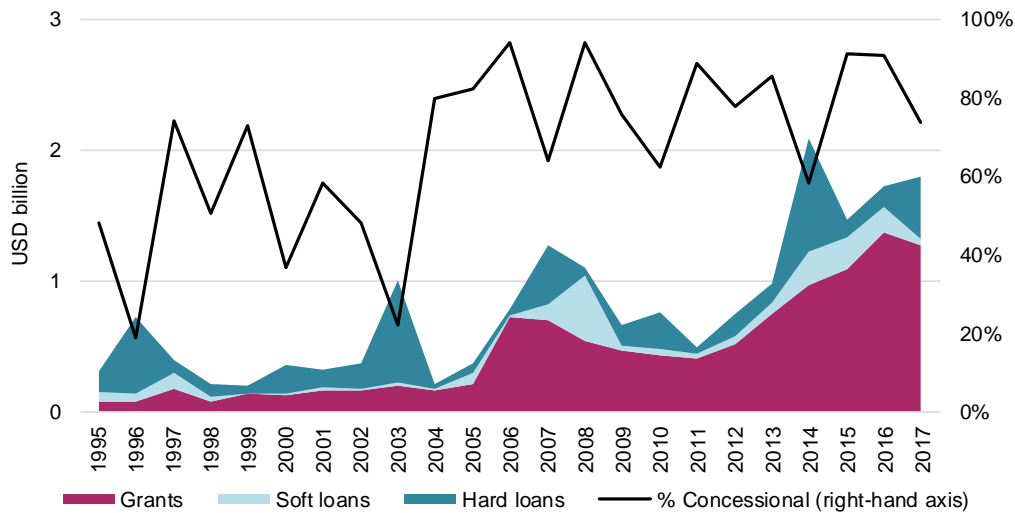
Conflicts and crises raised the level of official development finance to Lebanon holding the opportunity to address long-standing issues in the country

Before the 2006 war and the Syrian conflict, Lebanon received very small amounts of official development finance⁹. As a UMIC, Lebanon struggled to receive grants as such often flow to low income countries (LICs), LDCs or other country groups such as SIDS. As shown in Figure 1.8, significant increases of concessional finance, mostly in the form of grants, occurred after 2006 and after 2011. The former being the outbreak of a war in Lebanon and the latter the beginning of large refugee inflows following the conflict in Syria.

⁹ Official development finance is a broad measure of developing countries' official receipts for development purposes. It defined as the sum of official development assistance, which is concessional finance, and other official flows, which are not concessional. Other official flows exclude grants and loans for commercial purposes.

Figure 1.8. Official development finance significantly increased in the years following the outbreak of the 2006 war and the conflict in Syria

Official development finance to Lebanon by bilateral and multilateral development partners reporting OECD's Development Assistance Committee (1995-2017)



Note: Only development partners reporting the OECD's Development Assistance Committee.

Source: OECD (2019^[14]), Creditor Reporting System (database), <https://stats.oecd.org/Index.aspx?DataSetCode=crs>

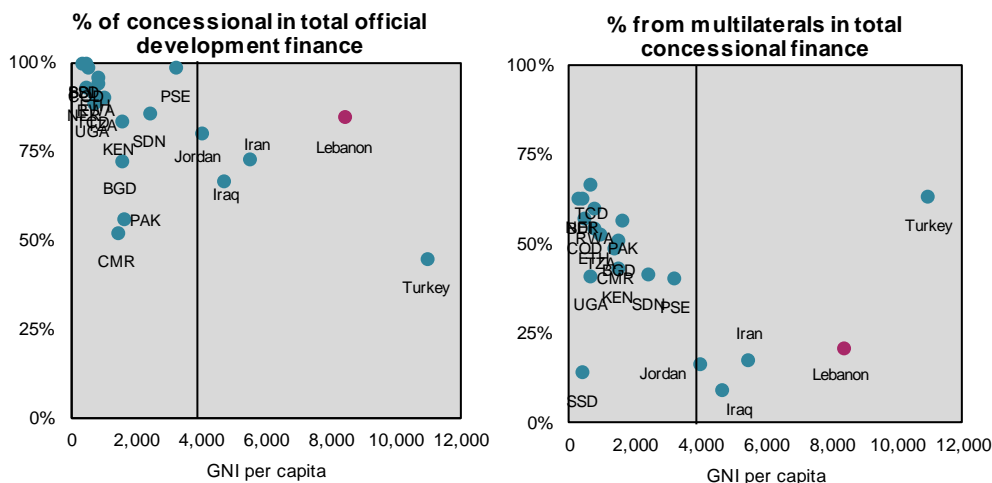
Low levels of official development finance beyond humanitarian assistance can be due to the particular situation of Lebanon as UMIC and country experiencing fragilities. UMICs generally receive official development finance at 'harder' (less concessional) terms than countries at lower income levels. This can be problematic for politically and economically fragile UMICs such as Lebanon that have difficulty receiving hard loans for infrastructure and production (e.g. for debt sustainability issues or because of poor implementation capacity) and that still need concessional financing for humanitarian and social sectors in times of crises.

Strict allocation rules and policies of MDB soft windows require bilateral donors to provide concessional finance to Lebanon

Except for Turkey, UMICs hosting large numbers of refugees receive less concessional finance from multilaterals due to strict allocation rules and policies of MDBs. As shown in Figure 1.9, a large share of official development finance received by UMICs hosting a large number of refugees is in concessional form. This is despite the fact that, overall, countries receive mostly non-concessional financing at UMIC level (see Chapter 2). Bilateral development partners, reflecting more limited eligibility criteria to concessional resources of some multilaterals (especially MDBs), provide most of the concessional finance received by these countries.

Figure 1.9. Besides Turkey, UMICs hosting large numbers of refugees receive small shares of concessional finance from multilateral development partners

Countries hosting large numbers of refugees (average values, 2015-2017)



Note: GNI per capita represents 2017 value in all cases except for South Sudan. Official Development Finance figures represent average inflows per recipient between 2015 and 2017. List of developing countries hosting a large number of refugees in Figure 2.1 below. Development finance providers are only those reporting the OECD's Development Assistance Committee.

Source: World Bank (2019^[12]), <https://data.worldbank.org/indicator> for GNI per capita; OECD (2019^[14]), Creditor Reporting System (database), <https://stats.oecd.org/Index.aspx?DataSetCode=crs>

To channel concessional finance to UMICs hosting large numbers of refugees, bilateral donors and the European Union (EU) financed special instruments implemented by multilateral agencies. The World Bank and other MDBs, e.g. the Islamic Development Bank (IsDB) and the European Investment Bank (EIB), provide development loans (mainly for infrastructure) that are subsidised by grants from DAC members. United Nations agencies, on the other hand, implement grant-funded operations for emergency, stabilisation and resilience, including through special pooled funds. Some of these pooled funds concentrate on long-term development projects, others on humanitarian and local development.

Development-related facilities

The Global Concessional Financing Facility (GCFF)

The GCFF is an innovative instrument launched by the World Bank in 2016 to reduce the cost of borrowing for middle-income countries coping with a large influx of refugees. In 2018, it had received about USD 600 million in pledges of which the Facility disbursed USD 500 million in grants, leveraging over USD 2.5 billion in concessional financing (World Bank, 2018^[51]). The facility initially covered Lebanon and Jordan; more recently, Colombia also became eligible for GCFF support. DAC members provide grants to subsidise loans provided by MDBs. These projects allow Lebanon to borrow loans for long-term development projects at interest rates of 1-2% rather than at market rates of 8-10%. To date, two projects are approved in Lebanon and are starting implementation. These are the 'National Roads and Employment Project' (implemented by the World Bank) and the 'Lebanon Health Resilience projects' (implemented by the World Bank and the IsdB). The projects aim to support long-term development of Lebanon and provide short-term jobs for refugees.

The EUs Economic Resilience Initiative (ERI)

The ERI is the EU response to forced displacement and migration in the MENA, Turkey and the Western Balkans. It is implemented in co-operation with EU member states, the European Commission, donors and other partners. The EIB estimates that EUR 6 billion, together with other sources of public and private sector finance, will deliver EUR 15 billion of additional investment in the eligible countries of the Southern Neighbourhood and the Western Balkans by 2020. The ERI does not lower the interest rates of EIB as the GCFF but uses grants from the European Commission to cover some charges that lower the overall cost of the project. Moreover, the ERI increases the European Commission's guarantees under the External Lending Mandate, which enables the EIB to increase the level of loans provided to countries covered by the ERI. The ERI mostly supports infrastructure and private sector development, although social sectors receive some support. There are five projects supported in Lebanon: (i) one on industrial zones; (ii) an urban development programme; (iii) a wastewater project; (iv) a road rehabilitation project and (v) one that provides several credit lines through local banks to help small businesses in Lebanon.

Humanitarian and local development pooled funds

The EU Trust Funds in response to the Syrian conflict

The EU Trust Funds in response to the Syrian conflict (EUTF) constitute a major instrument to help EU neighbouring countries affected by a large inflow of refugees from Syria, including Lebanon. The EUTF supports up to 2 million Syrian refugees and their host communities in Egypt, Iraq, Jordan, Lebanon, Turkey and the Western Balkans. The EUTF's objective is to provide a coherent funding approach on a regional scale to address needs of Syrian refugees in neighbouring countries, as well as of the communities hosting the refugees (European Union, 2015^[52]). The trust fund is a key instrument to deliver the EU's pledges for the conflict made at the London conference on Syria in 2016 and the Brussels conferences in April 2017 and 2018. It also underpins the special EU Compacts agreed with Jordan and Lebanon for assistance during this protracted refugee crisis. The results framework is aligned with the Regional Refugee and Resilience plan (3RP) in response to the Syrian conflict. Key priorities of the EU Regional Trust Fund in response to the Syrian conflict are primary education, supporting livelihoods and host communities.

The Lebanon Humanitarian Fund

The Lebanon Humanitarian Fund was established in December 2014 following the decentralisation of the Regional Syria Fund. It has played a key role in funding urgent humanitarian needs in Lebanon. Aligned with the LCRP, the fund aims to function as a predictable, and complementary source of humanitarian financing, making timely and flexible funding available for humanitarian activities targeting the most vulnerable population. Since 2015, the Lebanon Humanitarian Fund has been a source of direct funding available to NGOs.

Lebanon Syrian crisis trust fund

The Lebanon Syrian crisis trust fund is a multi-donor trust fund established in December 2013 and managed by the World Bank. It aims to help mitigate the impact of the Syrian conflict on the Lebanese people and host communities through financing of activities identified in the Roadmap of Priority Interventions for Stabilisation from the Syrian Conflict. To date, the fund has supported projects in support of municipalities, education, primary healthcare, and social protection. The Lebanon Syrian crisis trust fund channels funds through the Government's national systems and adheres to the World Bank's applicable policies and procedures for projects the Bank forms the Implementation Support Agency.

Lebanon recovery fund

Established in 2006, the Lebanon recovery fund (LRF) is a multi-donor trust fund managed by the Government of Lebanon and administered by the UN. It enables donors to pool their resources to facilitate the financing of projects executed by participating UN entities in co-operation with the Government of Lebanon and NGOs. In 2017, the LRF was revised to primarily channel support for national development priorities not covered by existing funding instruments and which are in line with the Government stabilisation and development vision. The LRF will act as a funding mechanism for joint programming of key priorities articulated in the 2017-2020 UN Strategic Framework. This mechanism provides joint Government/UN/donor steering and oversight, and enables rapid approval and disbursement.

SAWA Initiative

The Sawa is a five-year (2017-2021) regional initiative aiming to help countries that deal with the social, economic, and political strains generated by the Syrian conflict including for forced displacement. Beneficiaries of this initiative are mainly refugees in Syria and Iraq.

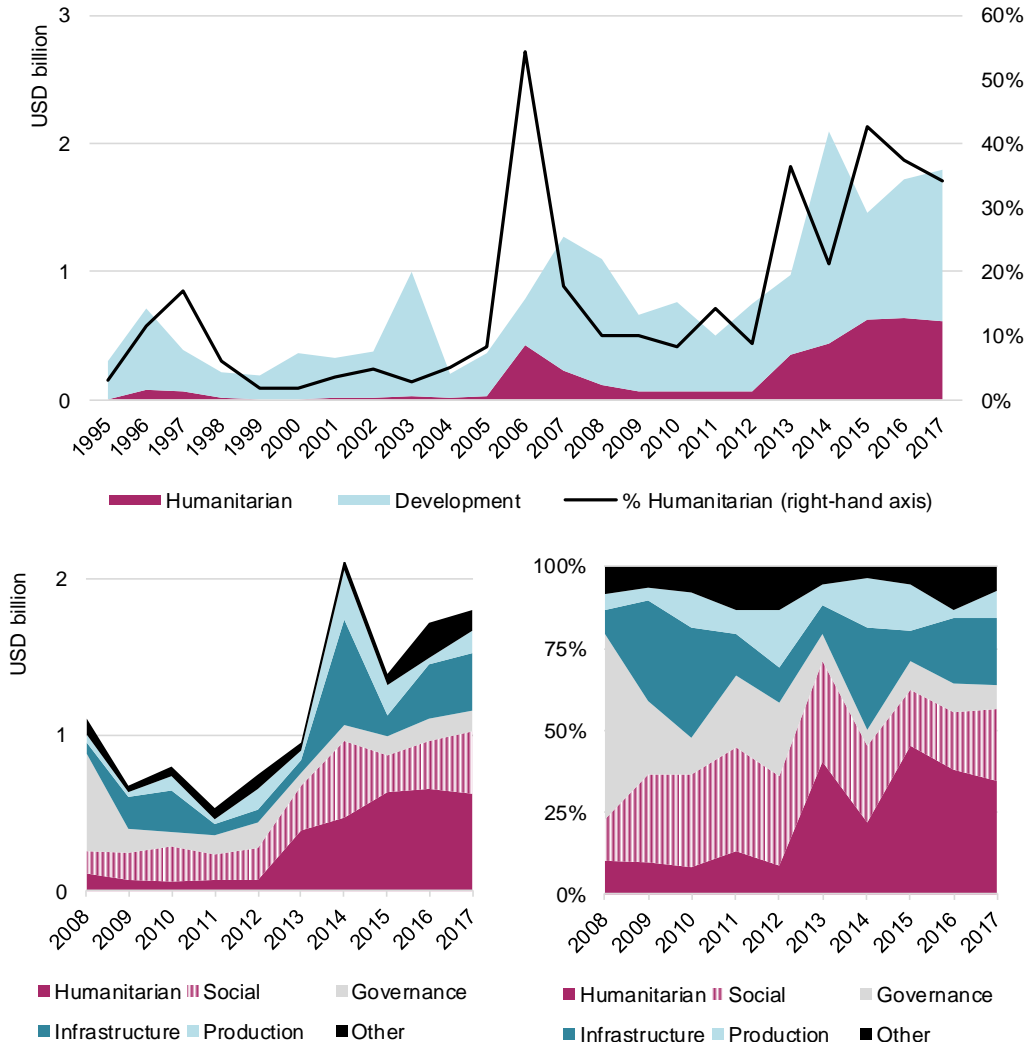
1.3. Official development finance in Lebanon is set to move from emergency response to supporting self-sufficiency but the transition is challenging

In recent years, a large share of official development finance for Lebanon has been humanitarian and was channelled through UN agencies. In response to the Syrian conflict, official development finance increased from about USD 534 million in 2011 to USD 1.8 billion in 2017, peaking at USD 2.1 billion in 2014 (Figure 1.10). Development partners and other political actors created an International Support Group for Lebanon in 2013 to mobilise financial support for Lebanon's response to the Syrian conflict. The largest portion of official development were grants for humanitarian and social assistance, largely provided by DAC members (especially Canada, the European Union, France, Germany, Italy, the Netherlands, Norway and the United States) and some Arab development partners (especially the Arab Fund, Kuwait, Qatar, Saudi Arabia and the United Arab Emirates). The financing contribution of MDBs was more modest but is set to grow in the future.

Official development finance supported innovative instruments and programmes that helped shape the humanitarian-development-peace nexus and introduced incentives for an integrated response – a win-win situation. Instruments such as the Global Concessional Financing Facility (GCFF) or the "Reaching All Children with Education" (RACE) programme (Lebanon - Ministry of Education and Higher Education, 2016^[53]) introduced a 'twin modus operandi' whereby project funds targeting Lebanese were complemented by humanitarian funds targeting refugees. These programmes help improve the quality and reach of public social services while ensuring equal access for both refugees and Lebanese. While this approach is not sustainable as it requires both humanitarian and development funding to continue in parallel over the long-run, it presents an opportunity to promote refugee self-reliance in a restrictive policy environment. It can also prepare for better reintegration of refugees in the country of origin or of habitual residence, if refugees opt to return based on an informed decision about their return in safety and dignity. At the same time, it extends social services to vulnerable Lebanese living in disadvantaged and remote areas.

Figure 1.10. Increases of official development finance are largely about post-conflict humanitarian assistance

Official development finance to Lebanon by humanitarian and development purposes (1995-2017)

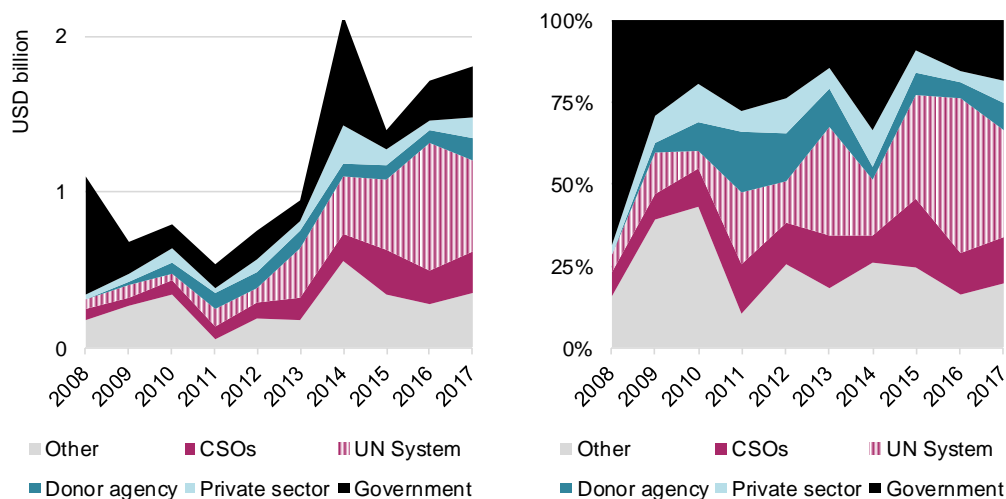


Note: Only bilateral and multilateral development partners reporting to the OECD.
 Source: OECD (2019_[14]), Creditor Reporting System (database), <https://stats.oecd.org/Index.aspx?DataSetCode=crs>.

Large portions of official development finance are channelled through UN entities rather than Lebanese authorities, particularly after the Syrian conflict. A fifth of official development finance to Lebanon after the outbreak of the Syrian conflict was channelled through the national government whereas the share through UN entities is about 30%; civil society organisations made up roughly 14% (Figure 1.11). Since 2015, the share of financing through the UN is further increasing and the share through the government decreasing. Among bilateral DAC donors only France, Germany, Italy, Norway and the United States provided support to Lebanese authorities. Among bilateral Arab partners, only Kuwait seems to have provided official development assistance directly to the Lebanese government to strengthen the resilience of Lebanese hosting communities.

Figure 1.11. Most of donor financing for Lebanon is channelled through UN entities rather than the Lebanese government

Official development finance to Lebanon by channel of delivery (2012-2017)



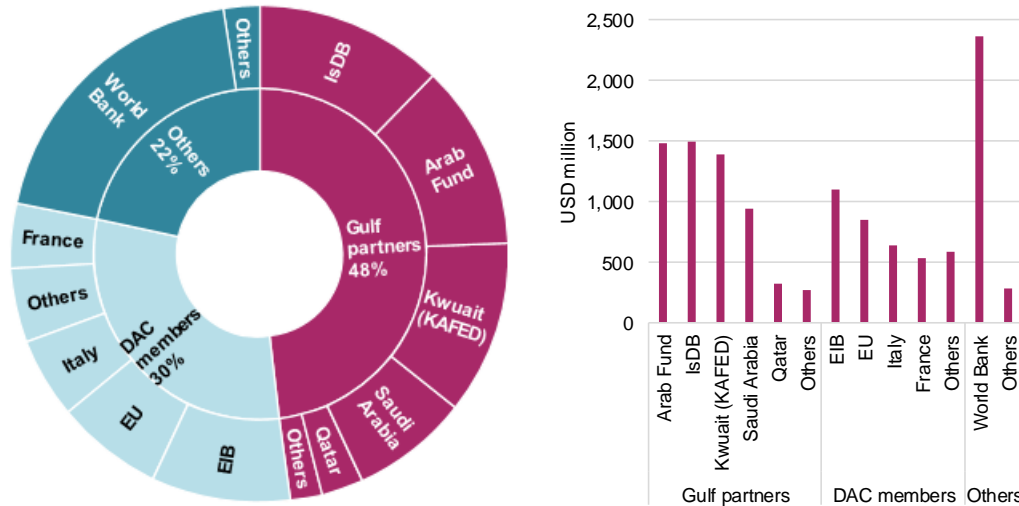
Note: Only development partners reporting the OECD.

Source: OECD (2019^[14]), Creditor Reporting System (database), <https://stats.oecd.org/Index.aspx?DataSetCode=crs>.

Arab development partners have been major bilateral donors in Lebanon, particularly in supporting public institutions. The Arab States, in particular Saudi Arabia and Qatar, have close political, economic and development co-operation with Lebanon. Between 1992 and 2017 almost half of all funds received by Lebanese public institutions were from Arab development partners (Figure 1.12). These were mostly concessional loans for major infrastructure projects and grants to Lebanon during times of conflict, e.g. after 2006 and 2011. Arab States made large-scale pledges at the financing conferences in Kuwait and London to support the response to the Syrian refugees (UK Gov, 2016^[54]). Arab States are also important sources of financing beyond development co-operation. Arab States heavily invest in Lebanon's economy, particularly in real estate, banking, and tourism. Many Lebanese citizens work in Arab States and remittances originating in these States are an important source of income for many Lebanese families.

Figure 1.12. Arab development partners have been particularly important in financing Lebanese public institutions

Cumulative loan and grant commitments from bilateral and multilateral development partners to Lebanese public institutions (1992-2017)



Note: The IsDB is a global institution with membership spanning the Arab world. However, it is labelled here Arab institution given that it is a member of the Arab Co-ordination Group.

Source: Council for Development and Reconstruction (2018^[55]), « Progress Report », available at http://www.cdr.gov.lb/eng/progress_reports/pr102018/PReng.pdf

Development partners are set to scale up loans for infrastructure and production but condition disbursement to implementation of challenging reforms by the Lebanese Government. Donors pledged USD 11 billion in the 2018 Paris Conference (CEDRE¹⁰) to fund mostly infrastructure projects through soft loans. Disbursement, however, is tied to the implementation of challenging reforms (see Figure 1.13). The pledges consist of USD 10.2 billion in loans – 9.9 billion of which concessional – and USD 860 million in grants. These resources are mainly to finance Lebanon’s Capital Investment Programme, a list of priority infrastructure projects developed by the government (see Box 1.1).

To unlock loans from development partners, the government committed to undertake challenging reforms on public financial management and infrastructure sectors. The “Vision for stabilisation, growth and employment” presented by the Lebanese government at the CEDRE Conference outlines a broad set of reforms. The vision seeks to address long-standing issues that hold back private investment. The objectives of the Vision are:

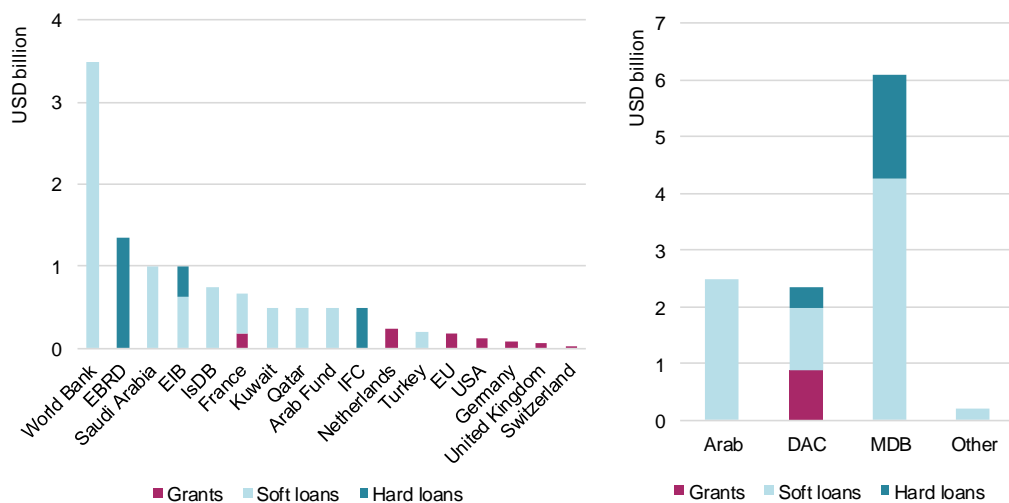
- Ensuring macroeconomic stability, including a fiscal consolidation of 5% of GDP and carrying out reforms in utility sectors, such as electricity, solid waste, water and telecommunications;
- Promoting public sector efficiency and integrity, particularly improving public financial management and fighting corruption;
- Facilitating trade, mostly through customs modernisation;
- Fostering financial sector development, including capital markets;
- Investing public resources in infrastructure and production, focusing on transport, water, wastewater, electricity, telecom solid waste;

¹⁰ Conférence économique pour le développement, par les réformes et avec les entreprises

- Promoting diversification, including by supporting tourism and the industrial sector as well as harnessing the export potential of the national economy.

Figure 1.13. Official development partners pledged USD 11 billion to support infrastructure development in the period 2018-2021

Pledges by bilateral and multilateral development partners at the CEDRE conference (April 2018)



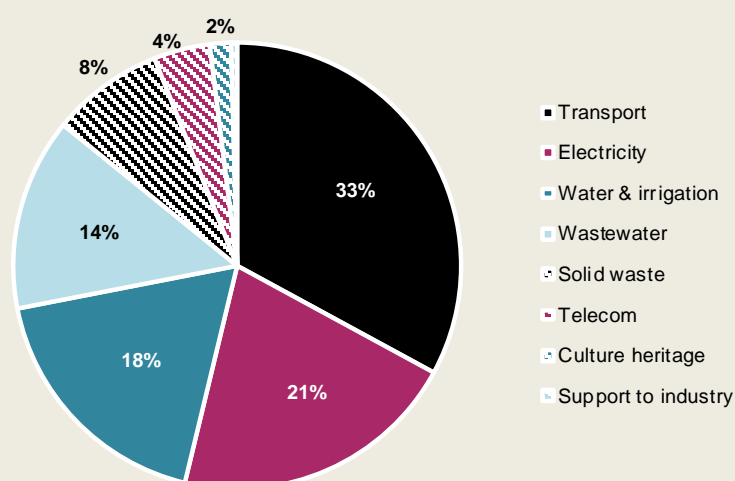
Note: Data provided directly to the authors.

Source: Council for Development and Reconstruction Lebanon (2019^[56]).

Box 1.1. The Capital Investment Programme (2018)

- The total cost of the government plan during the first two phases of the programme (2018-21 and 2022-25) is estimated at USD 17.3 billion;
- The first phase estimated at USD 10.8 billion (including expropriation costs);
- Around 38 % of cost has the potential to be financed by the private sector in phase 1;
- The programme is expected to help reinforce Lebanon's depleted infrastructure, thereby supporting a boost in economic growth;
- New projects for physical infrastructure focus mainly on transport, water, waste water and electricity.

Figure 1.14. Sectoral allocation of the capital investment programme



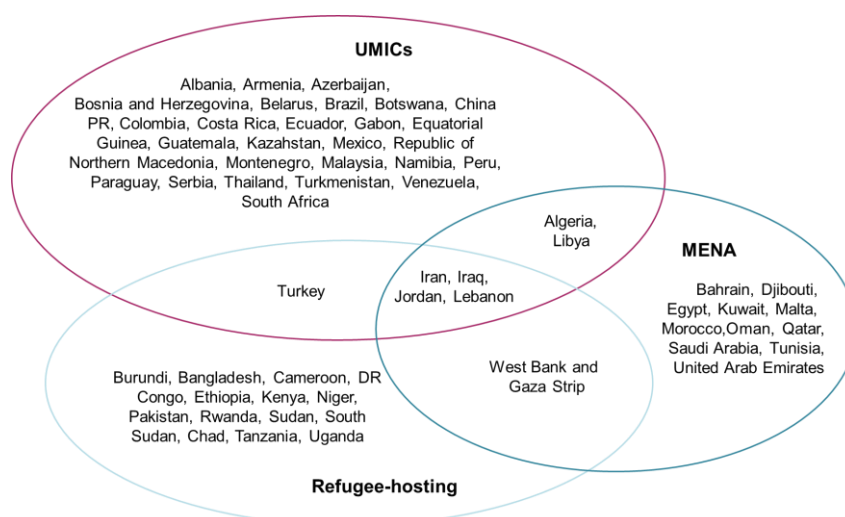
Source: Government of Lebanon (2018^[57]), Capital Investment Programme, <http://www.pcm.gov.lb/Admin/DynamicFile.aspx?PHName=Document&PageID=11231&published=1>

2. Benchmarking

2.1. A comparison of the financing landscape of Lebanon with those of peer countries shows that Lebanon receives large amounts of external financing and domestic credit but low levels of tax

Lebanon is a UMIC in the MENA region hosting a large number of refugees. Comparing development finance in Lebanon to countries sharing similar characteristics gives a better understanding of the country's transition finance specificities. Figure 2.1 outlines countries belonging to the three benchmarking groups in accordance with Lebanon's characteristics as UMIC in the MENA region hosting a large number of refugees. While useful for comparative analysis, these groups are very heterogeneous and therefore one should not derive definitive conclusions. UMICs are located in every region of the world and include very small and very large countries with very different levels of economic development. MENA countries have very different economic structures with some being oil importers and other oil exporters. Large refugee-hosting developing countries are, unlike Lebanon, generally low-income countries or least developed countries in sub-Saharan Africa.

Figure 2.1. Benchmarking countries



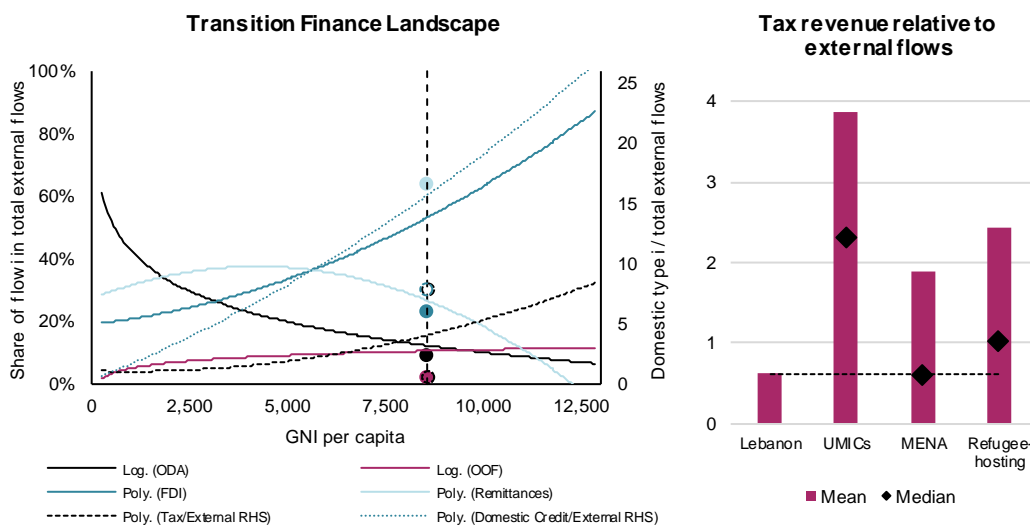
Note: The groups include only ODA eligible countries; countries included for specific calculations depend on respective data availability and are outlined in the methodological annex; due to its tendency to distort average figures, SIDS are excluded from the UMIC list; due to the current country-specific context, the Republic of Yemen and the Syrian Arab Republic are excluded from the analysis.

Source: World Bank (2019^[58]) for UMICs and regional grouping; OECD (2019^[59]) for SIDS; list of refugee-hosting countries based on internal assessment.

Lebanon's financing mix is characterised by high levels of remittances and low levels of tax. Piemonte et al. (2019^[11]) developed a holistic approach to transition finance, assessing domestic and

external, private and public financing sources. The various financing sources not only complement each other but also reveal an important relationship as countries move along the income continuum. Figure 2.2 (left panel) shows that while official development assistance is the main source of external financing among poorer countries, other official flows and private flows, particularly FDI and domestic credit by the financial sector, become more prominent as per-capita income levels increase. In other words, there is a substitution between ODA, on the one hand, and other official flows and private flows, on the other, when countries' income per capita level rises.

Figure 2.2. The share of remittances in Lebanon's external financing is comparably high and tax collection compared to overall external flows is low



Note: Official development assistance (ODA) and other official flows (OOF) only from development partners reporting to the OECD's Development Assistance Committee. The left-hand side figure applies the transition finance methodology developed by Piemonte et al. (2019^[11]). The shares are based on flows between 2012 and 2016 and use OECD CRS data. The right-hand side graph shows the ratio of tax revenue over FDI, remittances and official development finance.

Source: OECD (2019^[14]), Creditor Reporting System (database), <https://stats.oecd.org/Index.aspx?DataSetCode=crs> for figures on official development finance; World Bank (2019^[4]), <https://data.worldbank.org/indicator> for GNI per capita, remittances, domestic credit and GDP deflator series; ICTD/UNU-WIDER (2018^[13]), Government Revenue Dataset, <https://www.wider.unu.edu/project/government-revenue-dataset> for tax revenue.

Remittances are particularly high in Lebanon's external financing mix irrespective of the per-capita income level of the country. The share of remittances in Lebanon, accounting for roughly two-thirds of external flows between 2012 and 2016, is much higher than in countries at similar income levels Figure 2.2, reflecting Lebanon's large and relatively wealthy diaspora. Meanwhile, the share of FDI and other official flows are lower and the share of ODA, making up around a tenth of external finance, is at levels comparable to those of countries at the similar per-capita income. As discussed below, however, one should not conclude that FDI, concessional and non-concessional development finance would be particularly low in Lebanon but rather acknowledge the remarkably high and stable inflows of remittances.

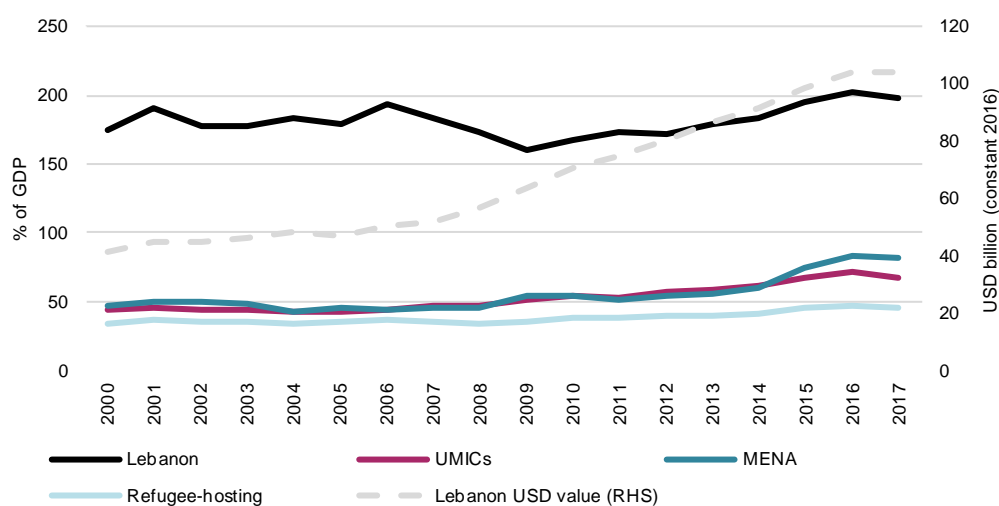
Domestic government revenues relative to external financing is low in Lebanon especially when considering its upper-middle income level. A lower level of domestic versus external financing sources raises a question of dependency on external sources to financing development in Lebanon. While tax revenue exceeds the sum of total external flows in most UMICs, the sum of considered external flows was

60% higher than tax revenue in Lebanon in 2016 and 2017.¹¹ Figure 2.2 shows that tax revenue compared to external flows is low in Lebanon in contrast to all developing countries more generally (left panel) and selected benchmarking groups specifically (right panel). Between 2014 and 2016, Lebanon ranked at the bottom ten percent of UMICs with an average tax level at 14% of GDP. In contrast, the average UMIC collected tax at 22% of GDP. Total government revenue in Lebanon (that is both tax and non-tax revenue) was at 19% of GDP—much lower than the average 28% in UMICs. In MENA countries, low tax but high non-tax revenue in oil-exporting countries distorts the analysis but reflects structural differences for oil-importers such as Lebanon. According to IMF Article IV consultations, tax stood at 16% in Jordan in 2015 and at 21% in Tunisia in 2016. Most recent World Bank data suggests an increase of Lebanese tax revenue (relative to economic output) from 13.5% of GDP to 15.3% of GDP between 2016 and 2017. Low levels of government revenues imply limited fiscal space for public services and capital investments, such as infrastructure.

Domestic credit by the financial sector is much higher than in almost any peer country though not for very productive investment. Comparing domestic credit provided by the financial sector across benchmarking countries amplifies the significant role played in Lebanon. As shown in Chapter 1, domestic credit by the financial sector has been a central source of financing in driving economic growth in Lebanon. Figure 2.3 shows that this source of financing is much higher in Lebanon than in almost any peer country. With amounts at 202% of GDP in 2016, Lebanon accounts for the third highest level in terms of GDP between 2000 and 2017 among UMICs, only exceeded by China with 215% of GDP in 2016 and 2017.

Figure 2.3. Domestic credit provided by the financial sector is substantially higher in Lebanon than in benchmarking countries

Domestic credit provided by the financial sector (% of GDP) and absolute USD value in Lebanon



Note: Unweighted average per year and benchmarking group.

Source: World Bank (2019_[12]), <https://data.worldbank.org/indicator> for domestic credit, GDP and GDP deflator series.

¹¹ Due to data limitations this includes only 33 of the listed UMICs. Namely, Albania, Armenia, Belarus, Belize, Bosnia and Herzegovina, Brazil, Colombia, Costa Rica, Dominica, Dominican Republic, Ecuador, Grenada, Guatemala, Guyana, Islamic Republic of Iran, Jamaica, Jordan, Lebanon, Macedonia, Malaysia, Mauritius, Mexico, Montenegro, Namibia, Paraguay, Peru, Samoa, Serbia, South Africa, Thailand and Turkey.

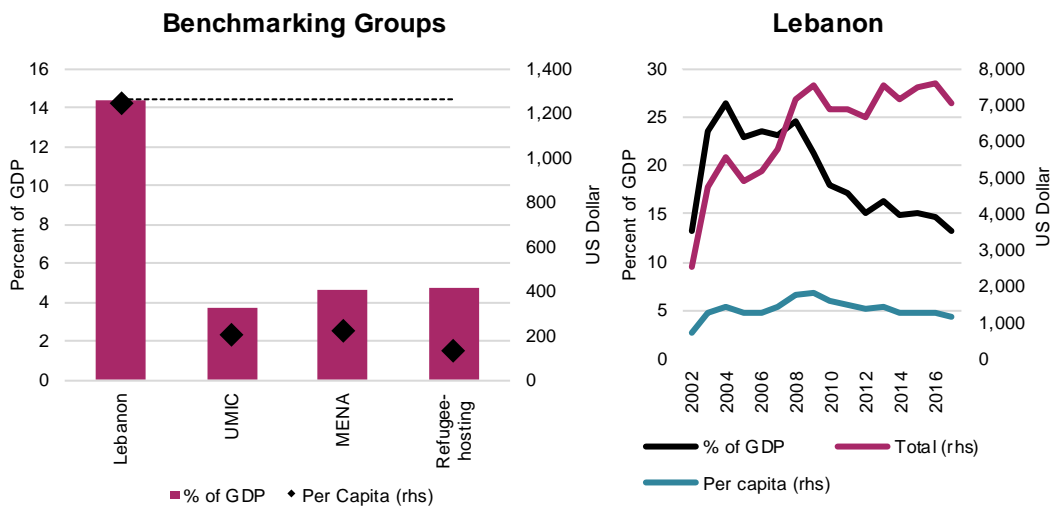
2.2. Lebanon attracts more external financing than peer countries but struggles to find resources for productive activities

Remittances are much higher in Lebanon than in benchmarking countries but are mostly used for private consumption than for productive purposes

Remittances in Lebanon are stable over time and are among the highest across peer groups. Along with Jordan and the West Bank and Gaza Strip, Lebanon receives the largest level of remittances in the MENA as GDP share and outnumbers all regional peers on a per capita basis. With average remittances at more than 14% of GDP between 2014 and 2017, Lebanon belongs to the top ten% of UMICs in terms of GDP share. The average UMIC only received remittances at about 4% of GDP and the median only 1-2%.

Figure 2.4. Remittances to Lebanon are comparably high and stable in absolute levels

Remittances as % of GDP, per capita and overall value in USD in Lebanon



Note: Unweighted average across benchmarking groups; current USD for USD value terms.

Source: World Bank (2019_[12]), <https://data.worldbank.org/indicator> for remittances, GDP and population.

While large, remittances are primarily for private consumption contributing to social protection but not explicitly increasing productivity. Households receiving remittances benefit from higher average monthly income and show higher education expenditure while being less indebted than others (Blominvest Bank, 2014_[60]). Remittances are largely spend on food, housing costs and improving quality of life, including health and education. While remittances can foster consumption and social protection, which can be important especially for the most vulnerable, transition finance approaches require allocating resources for productive purposes in order to support self-sufficiency. Reflecting the private nature of remittances, only 2% of receipts in Lebanon are used for starting a business (Chami et al., 2018_[61]). Although remittances have provided important resources over the years to the banking sector by increasing the level of savings and increasing provision of domestic credit, this did not foster very productive investment. Moreover, as a large share of the Lebanese diaspora lives in MENA countries and other oil producing countries, remittance inflows could be vulnerable to variation in oil prices (IMF, 2017_[62]). Nevertheless, remittances to Lebanon have proven stable over time and can play a distinct role in contributing to household income.

Donors can help facilitate access to and reduce transaction costs of remittances for individuals without access to formal financial services. Domestic policy and development actors can foster the transfer of remittances and use of diaspora financing for development purposes along several dimensions. Access to digital money transfer services, for instance, can reduce the cost of remittances and maximise the benefits of the receipt. In neighbouring Jordan, the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) joined forces with the Central Bank of Jordan and a Jordanian FinTech to provide access to mobile wallets for 60,000 Jordanians and Syrian refugees, effectively lowering barriers to access financial services and reducing the costs of money transfers. Additionally, the programme provides training courses on the responsible use of such services and advises policy making on consumer protection, anti-money laundering and anti-terror financing (GIZ, n.d.^[63]). According to the World Bank (2019^[12]), the average transaction costs of sending remittances to Lebanon was around 12% in 2017, roughly double the transactions costs to Jordan and Turkey at 6% and 7% respectively. However, this masks considerable variation with, for instance average costs of sending remittances from Saudi Arabia to Lebanon between 2% and 5% depending on the amount sent.

Development partners can also help Lebanon channel diaspora resources to local development purposes. With the help of a USD 1.05 million grant from the United States Agency for International Development (USAID), a digital platform (DiasporaID) was developed to mobilise expertise and resources within the Lebanese diaspora for local development projects. This could include investment opportunities for SMEs, fundraising efforts for local projects, on-line mentoring for young people, and marketing and purchasing goods of local Lebanese businesses (USAID, 2017^[64]). Another example is a EUR 2.9 million project by the Italian Agency for Development Cooperation implemented by the International Organization for Migration mobilising Tunisians living in Italy to invest in micro-projects in disadvantaged zones in their home country (Info Migrants, 2017^[65]).

FDI are higher in Lebanon than in benchmarking countries but mainly flow towards real estate acquisitions

FDI in Lebanon remains high despite declining sharply since 2009, following a general trend in the region and other UMICs. FDI in Lebanon targeting reconstruction (real estate), tourism and telecommunications helped to increase foreign investment until 2009.¹² Since then, FDI dropped due to local and regional developments ensuing from the Syrian conflict, the global financial crisis, and a drop in oil prices (UNCTAD, 2018^[66]). The increase until the late 2000s followed by a sharp decline after 2008 somewhat mimics a general trend observed across all the benchmarking groups (Figure 2.5). While dropping importantly after 2008, however, FDI remains comparably high at about 5% of GDP in Lebanon between 2015 and 2017 against 4% in UMICs and 3% among MENA countries.

FDI targets primarily real estate rather than highly productive sectors. More than seven out of ten of real estate acquisitions resulted from the Lebanese diaspora. Only 4% of FDI went into greenfield investments and 2% in cross-border M&As. The sectoral allocation of FDI is similar in neighbouring Jordan, where investments are concentrated in the field of real estate, financial services and large tourism projects (Santander, 2018^[67]). The direct contribution of FDI to productive purposes like manufacturing is low and a large portion of the investment originates from few countries in the region, exposing FDI to shocks such as the recent decline in oil prices. UNCTAD (2018^[66]) summarises that the largest share of FDI is in the real estate sector followed by investment in hotels and tourism. More than 90% of FDI in 2017 to Lebanon went into real-estate acquisitions according to IDAL (2018^[68]).

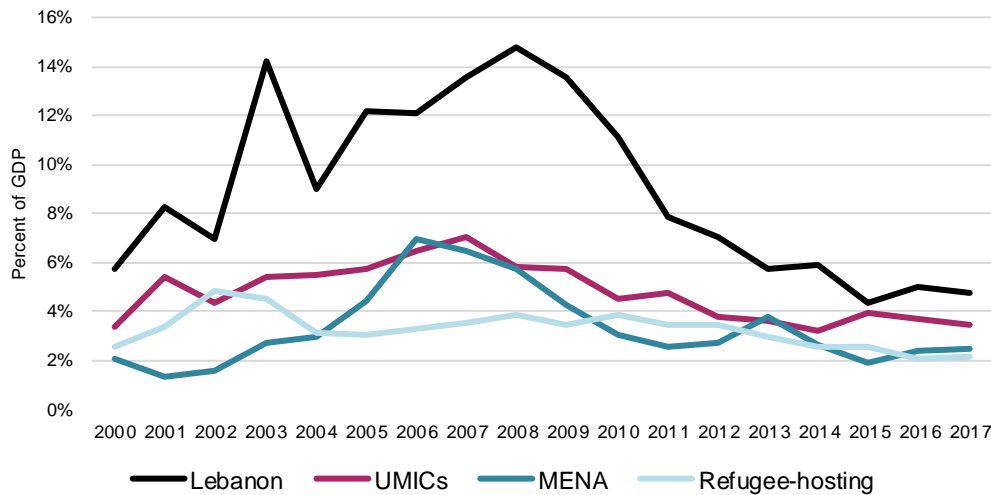
FDI in Lebanon originates largely from few countries in the MENA although some OECD countries play an important role. Half of the FDI between 2003 and 2015 to Lebanon originated from the United Arab Emirates followed by 14% from Kuwait and 13% from Saudi Arabia (UNCTAD, 2018^[66]). Although

¹² Due to economic growth, FDI as share of GDP already declined after 2008.

countries in the region have dominated as origin of FDI to Lebanon in the past, the UK accounted for 9% of FDI inflows to Lebanon in 2017, the United States, France and Switzerland for 7% respectively (IDAL, 2018^[68]).

Figure 2.5. FDI in Lebanon has historically been high compared to its peers but inflows sharply declined following the general trend among other countries

Foreign direct investment (% of GDP) in Lebanon and average among benchmarking groups



Note: Unweighted averages within benchmarking groups; the UMIC group excludes Malta which represents a large outlier.

Source: World Bank (2019^[12]), <https://data.worldbank.org/indicator> for FDI and GDP.

Donor countries are not only a source of FDI but also engage in the promotion of investment to SMEs and growing start-ups. Development partners are involved in promoting foreign investment to the region, especially towards SMEs and start-ups. According to the Ministry of Economy and Trade – that also developed an action plan to improve the business environment for SMEs – around 95% of Lebanese firms are SMEs employing employ about 50% of its population. Since 2015, the UK is part of a joint initiative with the Banque du Liban (BdL) that established the UK-Lebanon TechnologyHub connecting start-ups in the knowledge economy with global investors. It has raised USD 63 million of investment for start-ups with a commutative valuation of around USD 200 million (UK TechHub, 2018^[69]) and aims to create 25,000 jobs in Lebanon by 2025 (Government of the United Kingdom, 2017^[70]). Likewise, USAID started the regional ‘Middle East North Africa Investment Initiative’ (MENA II) that incentivises private sector investment in early stage businesses through co-funding and de-risking of investments (see Chapter 3.). Similarly, the World Bank provided a loan to the Government of Lebanon to introduce the iSME programme, a USD 30 million initiative to encourage equity investment in early stage businesses (Kafalat Sal, 2015^[71]). More generally, donors contribute to FDI promotion through private sector development, for instance by supporting the development of the Tripoli Special Economic Zone.

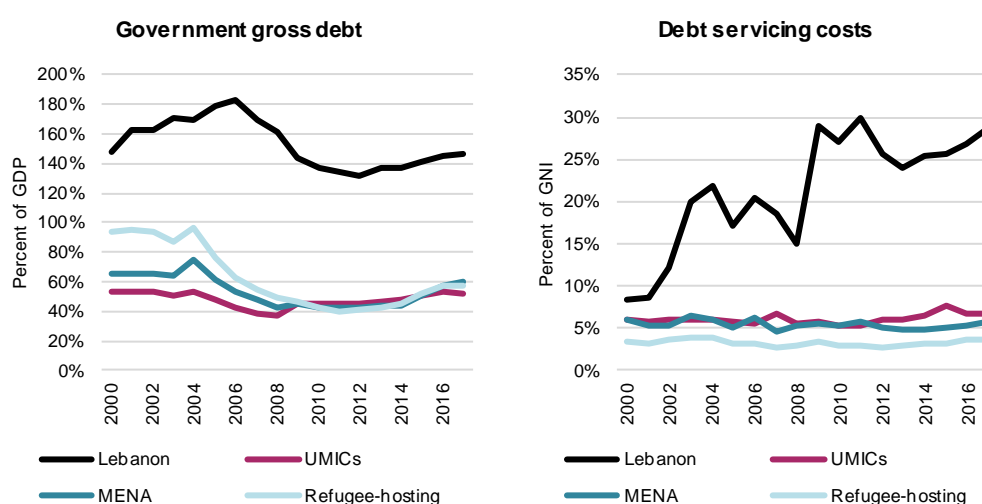
The debt burden is much higher in Lebanon than in the other benchmarking countries, using up considerable fiscal resources for debt servicing and interest payments

Debt levels and debt servicing costs are substantially higher in Lebanon than in peer countries. The level of government gross debt reached 145% of GDP in Lebanon in 2016, higher than in any other benchmarking group (Figure 2.6). This compares with an average ration of debt to GDP of 47% in UMICs

and 57% in MENA countries. Likewise, debt-servicing costs at more than 25% of GDP in 2016 exceed levels observed across all benchmarking countries. Interest payments at about 5% of GDP in 2016 are the highest in the MENA region and the second highest within the group of UMICs.

The high debt burden in Lebanon constrains fiscal capacity and increases financing costs on private capital markets. High debt levels and servicing costs require large portions of Lebanon's public expenditure, further limiting public resources for social spending and productive investment. Additionally, the high debt impacts Lebanon's ability to finance such projects via private capital markets where financing costs have increased in consequence. Coupled with political and economic challenges, rising short-term US interest rates and a stronger US dollar, the average yield on five-year Lebanese Eurobonds increased from 7% to 10% between the end of 2017 and end of June 2018 (Blominvest Bank, 2018^[72]). The five-year credit default swap reached 724 bps up from 520 bps in the same period. From a transition finance view, this is critical as private finance tend to become more available and prominent when developing countries become richer, allowing a sequential reduction in concessional finance.

Figure 2.6. Debt level and servicing costs are comparably high in Lebanon



Note: Unweighted averages across benchmarking groups.

Source: World Bank (2019^[28]), International Debt Statistics (IDS), <https://data.worldbank.org/products/ids> for total debt service; IMF (2018^[73]), World Economic Outlook (October), <https://www.imf.org/external/pubs/ft/weo/2018/02/weodata/index.aspx> for gross government debt; World Bank (2019^[12]), <https://data.worldbank.org/indicator> for GNI

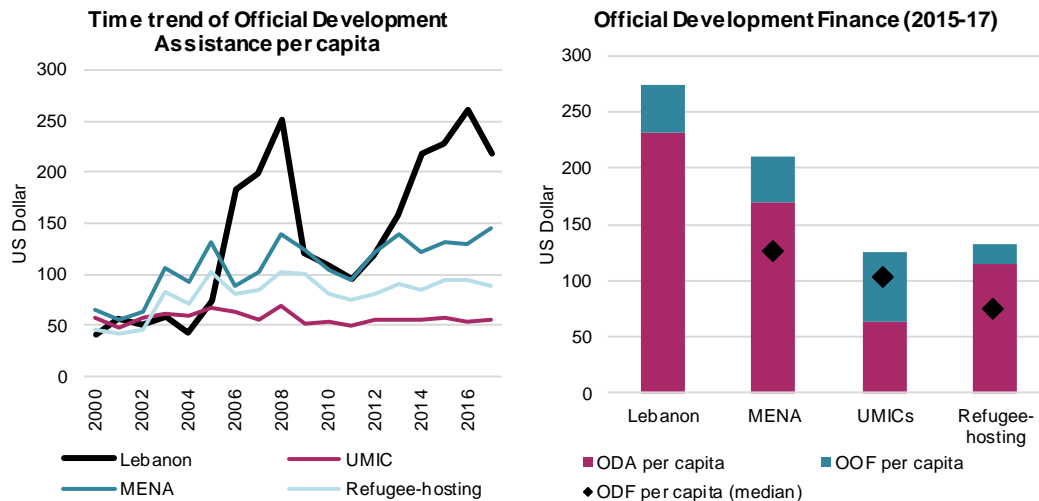
2.3. Lebanon receives a large share of concessional finance towards humanitarian assistance through the UN system and less so for development through the recipient government

Official development finance to Lebanon is high in per capita terms compared to its benchmarking groups

Concessional and non-concessional finance for development in Lebanon is larger than in the other benchmarking countries on a per capita basis. As shown in Figure 2.7, official development finance flows are larger in Lebanon than in the other peer countries, especially after the 2006 war and, more recently, in response to hosting a large number of Syrian refugees in the 2011-onwards. From a transition finance perspective, the humanitarian response dimension of development partners in Lebanon explains

why per capita levels remain relatively high even after controlling for the relatively small population size (see Box 2.1). Between 2015 and 2017, Lebanon received on average USD 231 per capital in concessional finance, which is higher than the amount flowing into 90 percent of other UMICs. Annual amounts of non-concessional finance at USD 42 per are, however, below the average UMIC that received USD 63 per year. Summing concessional and non-concessional flows for development, Lebanon receives more than most countries in the three benchmarking groups.

Figure 2.7. The level of official development finance in Lebanon is high in per capita terms



Note: Unweighted average and median for benchmarking groups. Only development partners reporting to the OECD.

Source: OECD (2019^[14]), Creditor Reporting System (database), <https://stats.oecd.org/Index.aspx?DataSetCode=crs> for official development finance; World Bank (2019^[12]), <https://data.worldbank.org/indicator> for population.

Box 2.1. Countries with small population receive higher amounts of official development assistance per capita

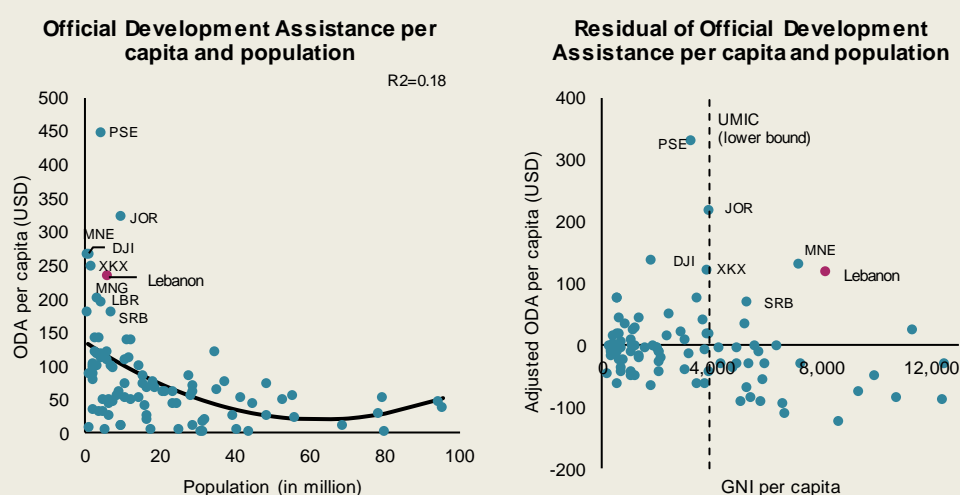
Official development assistance per capita strongly and negatively correlates with population size, which means that countries with a small population tend to receive more official development assistance per capita than populous countries (see left-hand side panel of Figure 2.8). This could be explained by economies of scale and resource scarcity. For example:

- Equally distributing official development assistance provided in 2015-2017 based on population, would have required on average a reduction of two thirds of amounts received by the vast majority (107) of recipients, all with key development needs, such as LDCs, LICs, countries with large numbers of refugees and SIDS. This would have increased receipts of only one fifth of all recipient countries, particularly populous and relatively richer recipients (e.g. China, India, Brazil, Indonesia and Mexico).
- Conversely, if donors provided to every person living in a developing country the per-capita amount of what they gave on average to each developing country in the same period, they would have needed to increase official development assistance four times. This would have been both unfeasible (because official development assistance is scarce) and unnecessary as economies of scale may reduce marginal cost of per-capita needs when population increases.

Being a country with a small population, Lebanon receives a large amount of official development assistance. The right-hand side chart of Figure 2.8 plots the residual of the regression displayed in the left hand side panel. A positive residual implies official development assistance per capita exceeds levels predicted based on the population model introduced in the left-hand side chart. While most countries at UMIC levels receive less official development assistance per capita than countries at similar income levels and population size, Lebanon's official development assistance per capita is higher than what one could expect for a country with a similar size of economy and population.

Figure 2.8. Lebanon's official development assistance per capita remains high after controlling for population size

Official development assistance per capita and population (left-hand chart) and official development assistance per capita and population (right-hand chart) (one-year average 2015-2017)

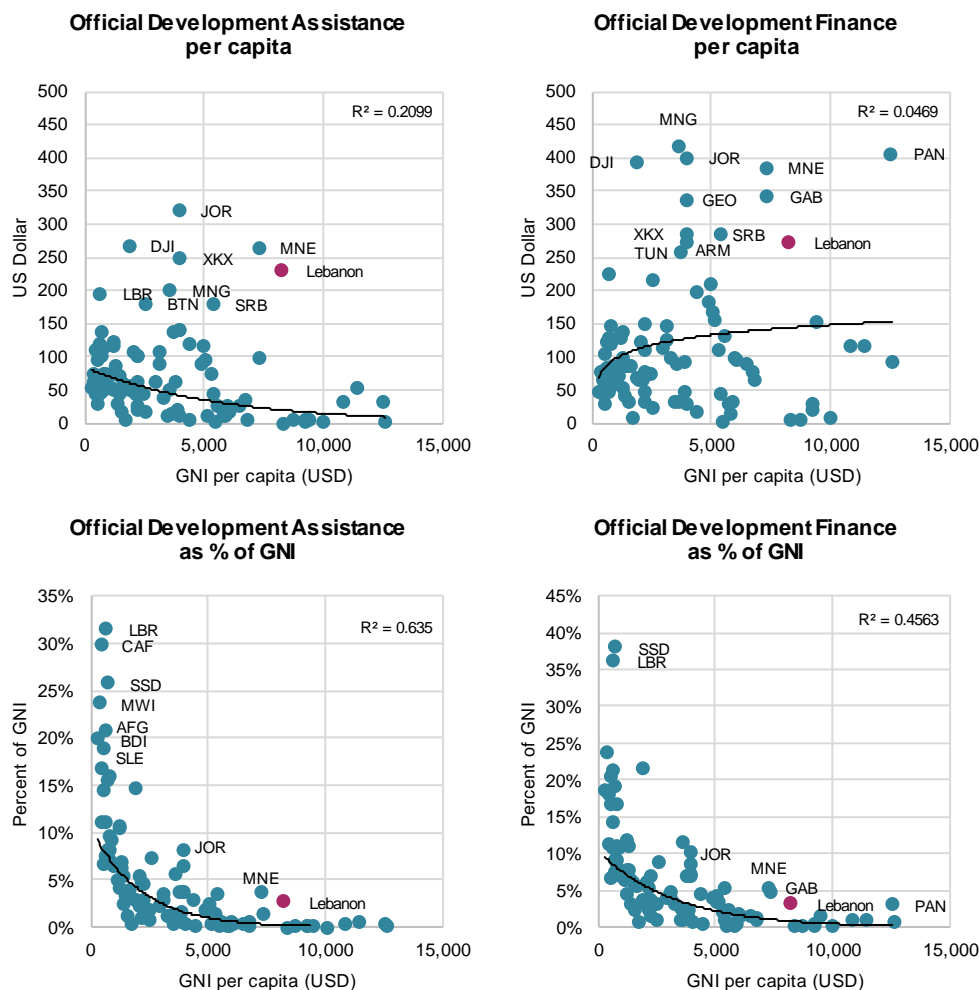


Note: The left-hand side panel plots the predicted relationship using a quadratic regression with official development assistance per capita as dependent variable and population and its squared term as independent variables. The coefficient of population is -3.644 with a p-value of 0.001, the coefficient of the squared population variable is 0.039 with a p-value of 0.029. The constant is 135.2947 with a p-value of less than 0.000. The adj. R2 is 0.1562. The estimation includes all official development assistance eligible developing countries except SIDS (which have very small populations) and countries exceeding the 90th percentile in terms of population size to avoid distortions. The right-hand panel plots the residual for each individual country and its respective GNI per capita level. The residual is the different between the country's actual official development assistance per capita and the predicted level as shown by the regression line.

Source: OECD (2019_[14]), Creditor Reporting System (database), <https://stats.oecd.org/Index.aspx?DataSetCode=crs>; World Bank (2019_[12]), <https://data.worldbank.org/indicator> for population and GNI per capita.

In relation to economic output, official development finance in Lebanon appears somewhat larger within its income group but more moderate compared to other refugee-hosting countries. Official development assistance as share of gross national income (GNI) indicates the importance of this flow relative to economic output. Figure 2.9 maps official development finance in both per capita terms and as share of GNI across the income per capita spectrum. Lebanon stands out on both a per capita terms and as a share of GNI, suggesting that official development assistance relative to population and economic activity is higher than for most other countries at similar size of population and economy. Concerning other benchmarking groups, Lebanon received concessional finance at roughly 3% of GNI between 2015 and 2017 similarly to other MENA countries though less than the median refugee-hosting country at about 7% as many of these countries are poorer than Lebanon.

Figure 2.9. Lebanon receives high amounts of concessional finance on a per capita basis compared to other developing countries



Note: Only development partners reporting to the OECD.

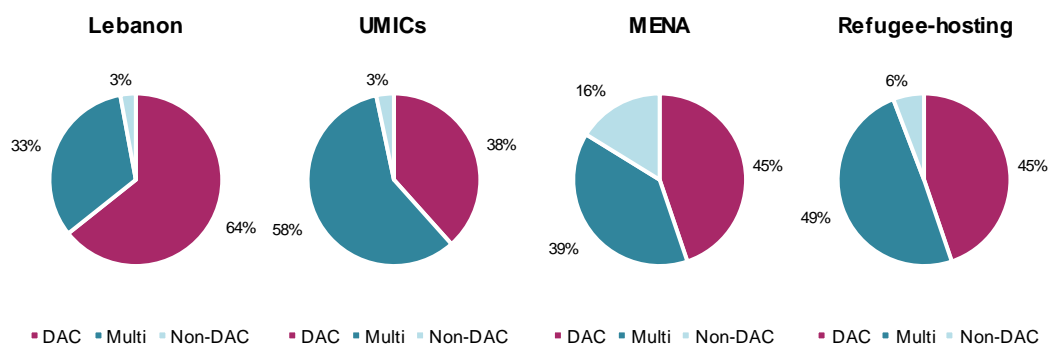
Source: OECD (2019^[14]), Creditor Reporting System (database), <https://stats.oecd.org/Index.aspx?DataSetCode=crs>; World Bank (2019^[12]), <https://data.worldbank.org/indicator> for population, GNI and GNI per capita.

Lebanon receives more financing from DAC countries but less so from multilateral institutions and Arab donors

The share of official development finance from multilateral donors is relatively low in Lebanon when considering its income level and the presence of a large number of refugees. While multilateral development partners provide on average 58% of concessional and non-concessional finance to UMICs, they only account for a third in Lebanon (Figure 2.10). Conversely, bilateral donors provide a third of total official development finance on average in UMICs, whereas they provide two thirds of total in Lebanon. These differences reflect high amounts from bilateral donors for refugee-related activities in Lebanon. Compared to other MENA countries, the share of official development finance from non-DAC countries is smaller in Lebanon. However, this difference might be due to data gaps related to some Arab donors.

Figure 2.10. Lebanon receives a larger share of its official development finance from bilateral DAC donors compared to all benchmarking groups

Official development finance to Lebanon and to average country in benchmarking group (2015-2017)



Note: Only development partners reporting to the OECD. The share per country is calculated first, followed by the average per group over each benchmarking group.

Source: OECD (2019^[14]), Creditor Reporting System (database), <https://stats.oecd.org/Index.aspx?DataSetCode=crs>.

Lebanon receives less multilateral development finance on absolute terms compared to developing countries hosting large numbers of refugees but not in per capita terms. In absolute terms, Lebanon receive much less from the European Union, MDBs and vertical funds, both in terms of concessional and non-concessional finance (Figure 2.11). However, looking at per capita levels, Lebanon receives much more from multilateral development partners both in concessional and non-concessional terms. In particular, Lebanon receives more non-concessional finance from regional MDBs, particularly the IsDB, and from the World Bank Group, which include both the International Finance Corporation (IFC) and the International Bank for Reconstruction and Development (IBRD). Regarding concessional finance, Lebanon receives almost the double from the UN development system compared to developing countries hosting large numbers of refugees on per capita terms.

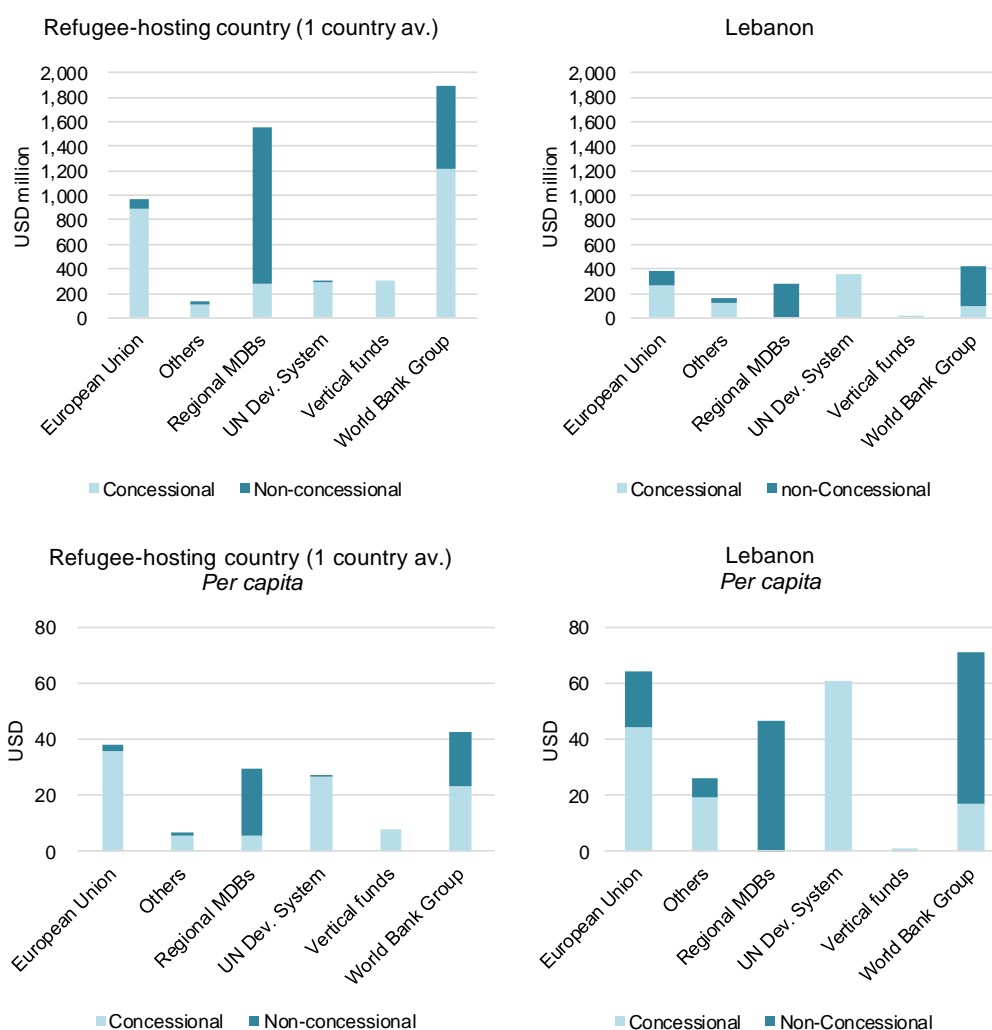
While some of the largest donors to Lebanon are also among the top providers within the three benchmarking groups, some differences emerge, especially among multilateral development partners. Donors that generally provide large volumes of official development finance to Lebanon are also among the main donors across all benchmarking groups. The United States, Germany and the European Union, for example, are the three largest individual providers of official development finance to Lebanon (

Table 2.1) and are among the top six donors in each benchmarking group. Yet, one can also note the smaller share of some multilateral donors in Lebanon compared to UMICs within the list of main donors, such as the IBRD.

Portfolio shares among donors reveal regional and country specific characteristics. Arab donors like Kuwait and the Arab Fund mainly target the MENA region, which explains their relatively high shares of financing in Lebanon (Table 2.2). Dealing only with Palestinian refugees, the UN Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) is only active in the MENA region and refugee-hosting countries, including Lebanon. Some bilateral DAC countries such as Netherlands, Iceland, Italy, Canada and Norway have large shares of their portfolios in Lebanon and in the other benchmarking groups.

Figure 2.11. Lebanon receives less multilateral development finance on absolute terms but not per capita if compared with developing countries hosting large numbers of refugees

Multilateral development finance to developing countries hosting large numbers of refugees and in Lebanon (annual average, 2015-2017)



Note: Only development partners reporting to the OECD. One-country amounts in left-hand charts are obtained by dividing per capita amounts of each country first and then averaging them out rather than dividing cumulative amounts by cumulative population of these countries.

Source: OECD (2019^[14]), Creditor Reporting System (database), <https://stats.oecd.org/Index.aspx?DataSetCode=crs>.

Table 2.1. The top-10 donors of overall ODF in Lebanon and its benchmarking groups

Donor share of official development finance in Lebanon and benchmarking groups (2015-2017)

| Lebanon | UMICs | | MENA | | Refugee-hosting | | |
|----------------|-------|-----------------|------|----------------------|-----------------|----------------|-----|
| United States | 23% | IBRD | 15% | Turkey | 14% | United States | 14% |
| Germany | 14% | IADB | 11% | United Arab Emirates | 12% | IDA | 12% |
| European Union | 8% | European Union | 8% | IBRD | 11% | European Union | 10% |
| UNRWA | 6% | Germany | 7% | United States | 10% | Turkey | 8% |
| IBRD | 6% | Korea | 7% | European Union | 8% | Japan | 6% |
| United Kingdom | 6% | United States | 6% | Germany | 7% | Germany | 5% |
| IsDB | 6% | EBRD | 6% | Japan | 5% | AsDB | 4% |
| Canada | 5% | Dev. Bank of LA | 5% | France | 4% | IsDB | 4% |
| France | 3% | AsDB | 4% | AfDB | 4% | IBRD | 4% |
| Netherlands | 3% | France | 4% | EBRD | 4% | United Kingdom | 3% |

Note: Only development partners reporting to the OECD. For benchmarking groups, the donor share refers to the share of total financing provided to the sum of countries in each respective set of countries.

Source: OECD (2019_[14]), Creditor Reporting System (database), <https://stats.oecd.org/Index.aspx?DataSetCode=crs>

Table 2.2. The top 10 portfolio shares of donors in Lebanon and respective peer group

Share of official development finance to Lebanon and benchmarking groups within total official development finance by donor (2015-2017)

| Donor | Lebanon | UMIC | MENA | Refugee-hosting |
|-------------------|---------|-------|-------|-----------------|
| UNRWA | 13.3% | 36.6% | 100% | 100% |
| Kuwait | 3.7% | 30.7% | 65.8% | 42.9% |
| Arab Fund (AFESD) | 3.1% | 10.5% | 72.5% | 20.3% |
| Canada | 2.3% | 14.4% | 14.3% | 28.4% |
| Iceland | 2.1% | 3.5% | 9.6% | 20.6% |
| WFP | 1.7% | 9.8% | 20% | 45.9% |
| Norway | 1.5% | 9.5% | 9.2% | 18.9% |
| Netherlands | 1.4% | 4.8% | 6.1% | 15.1% |
| Italy | 1.3% | 11.4% | 8.7% | 13.6% |
| United Kingdom | 1.2% | 8.6% | 10.9% | 28% |

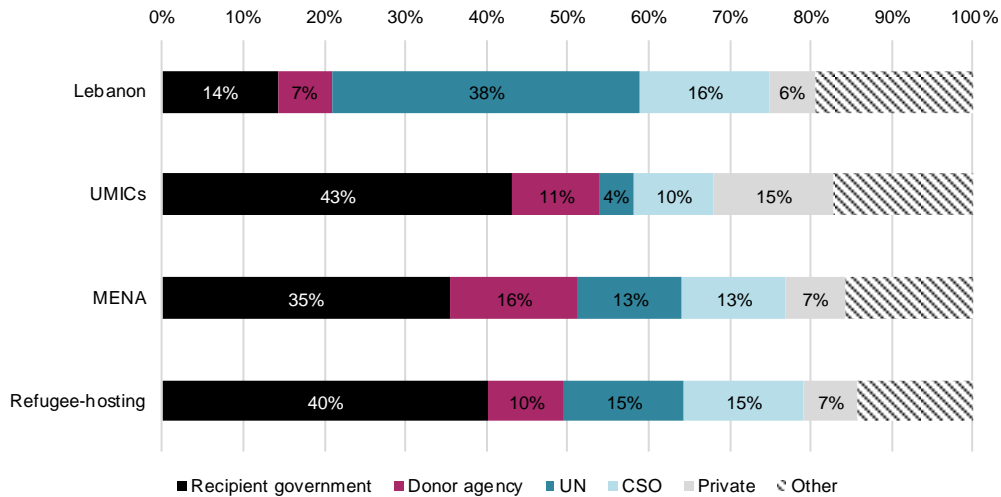
Note: Only development partners reporting to the OECD. The portfolio share is calculated by dividing the sum of concessional and non-concessional development finance to Lebanon or countries in each benchmarking group by the total amount provided to all ODA eligible countries by the respective donor.

Source: OECD (2019_[14]), Creditor Reporting System (database), <https://stats.oecd.org/Index.aspx?DataSetCode=crs>

Unlike in the three benchmarking groups, official development partners channel low levels of resources through the Government in Lebanon. While on average about two fifths of concessional and non-concessional finance from donors is channelled through the government in UMICs and slightly more than a third in MENA countries, the share is only 14% in Lebanon (Figure 2.12). Conversely, about two fifths of financing is channelled through UN entities in Lebanon, which is much higher than the 4% in UMICs, the 13% in MENA and the 15% in developing countries hosting a large number of refugees.

Figure 2.12. Less official development finance is channelled through the government in Lebanon whereas the share of the UN is substantially higher compared to its peer groups

Share of total concessional and non-concessional development finance by channel of delivery (2015-2017)



Note: Only development partners reporting to the OECD.

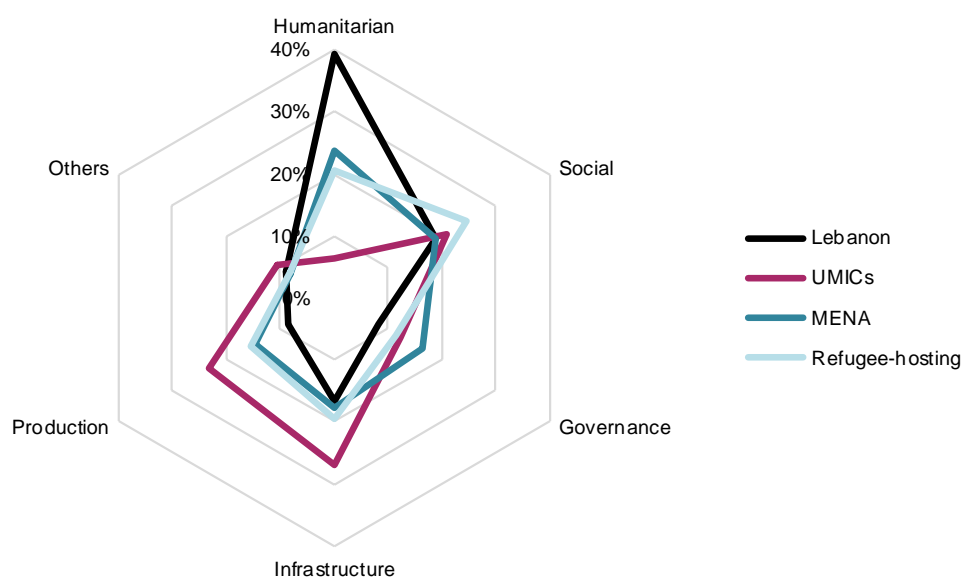
Source: OECD (2019^[14]), Creditor Reporting System (CRS), <https://stats.oecd.org/Index.aspx?DataSetCode=crs>

Compared to all peer groups, official development finance in Lebanon is significantly higher in humanitarian assistance and lower in governance and production

Larger shares of official development finance are for humanitarian assistance in Lebanon than in the three benchmarking groups. Humanitarian assistance accounted for two fifths of official development finance to Lebanon between 2015 and 2017. This can be due the fact that Lebanon hosts the largest number of refugees in the world on a per capita basis and that it is a relatively fragile context. Conversely, Lebanon attracts lower shares of official development finance for infrastructure compared to UMICs and for governance and production compared to all benchmarking groups (Figure 2.13).

Figure 2.13. Lebanon receives more official development finance for humanitarian assistance and less for production compared to its peer groups

Share of total concessional and non-concessional development finance by sector (2015-2017)



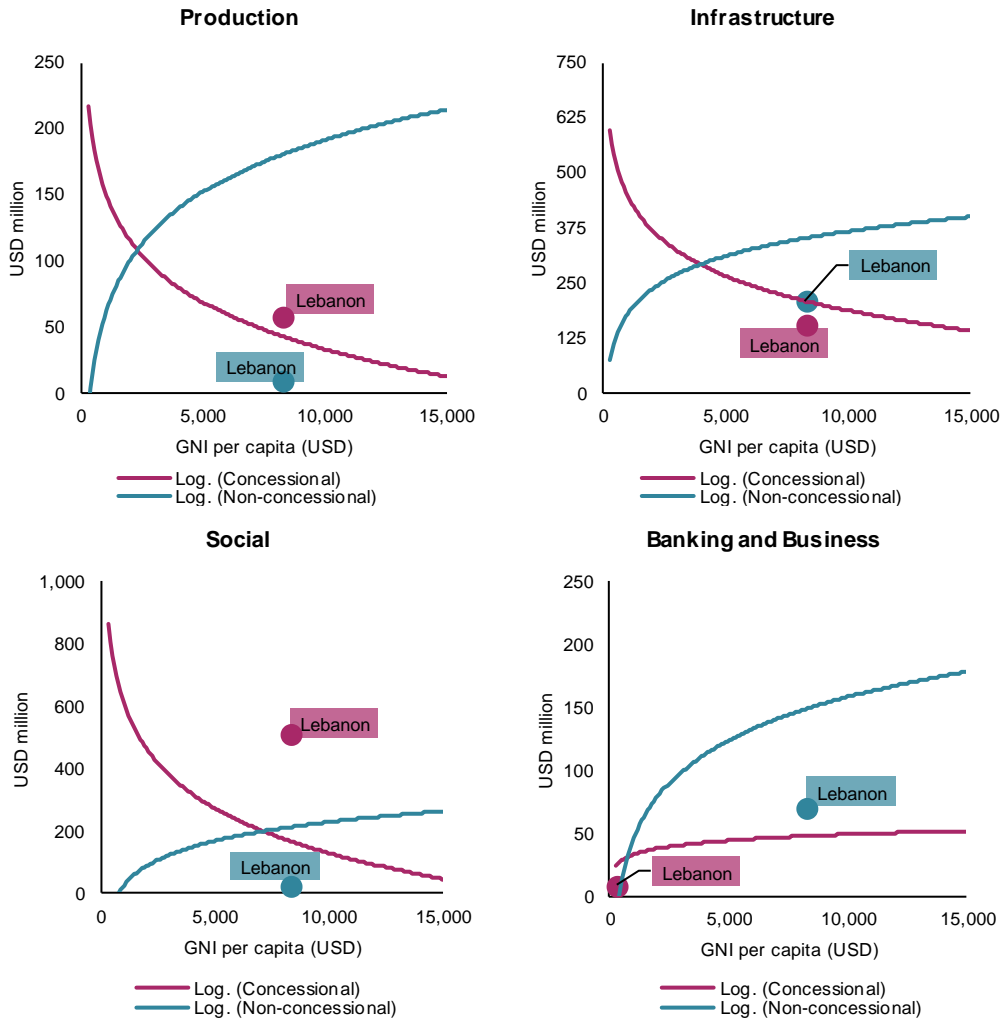
Note: Only development partners reporting to the OECD.

Source: OECD (2019^[14]), Creditor Reporting System (CRS), <https://stats.oecd.org/Index.aspx?DataSetCode=crs>

Non-concessional development finance for production, infrastructure and banking and business have not picked up despite Lebanon's UMIC level. As a general trend, non-concessional finance phases in and concessional finance phases out as countries become richer (Figure 2.14). This phase-in is especially visible in production, infrastructure, banking and business sectors. However, this is not the case in Lebanon. Conversely, concessional finance for social sectors generally phases out when countries reach UMIC level, which is not the case for Lebanon, which has high levels of concessional finance for social sectors.

Figure 2.14. Lebanon receives less concessional and non-concessional development finance in production and infrastructure and much more concessional development finance for social sectors compared to other countries at similar income levels

Logarithmic trendlines of concessional and non-concessional development finance by sector across all ODA-eligible countries, average of USD commitment (2012-2016)



Note: Only development partners reporting to the OECD. The lines represent logarithmic trendlines over the range of ODA-eligible developing countries

Source: OECD (2019^[14]), Creditor Reporting System (database), <https://stats.oecd.org/Index.aspx?DataSetCode=crs>; World Bank (2019^[12]), <https://data.worldbank.org/indicator> for GNI per capita.

3. Counselling

3.1. The co-operative strategy

To meet financing gaps of vulnerable Lebanese and refugees, donors can strengthen the nexus between humanitarian and development assistance

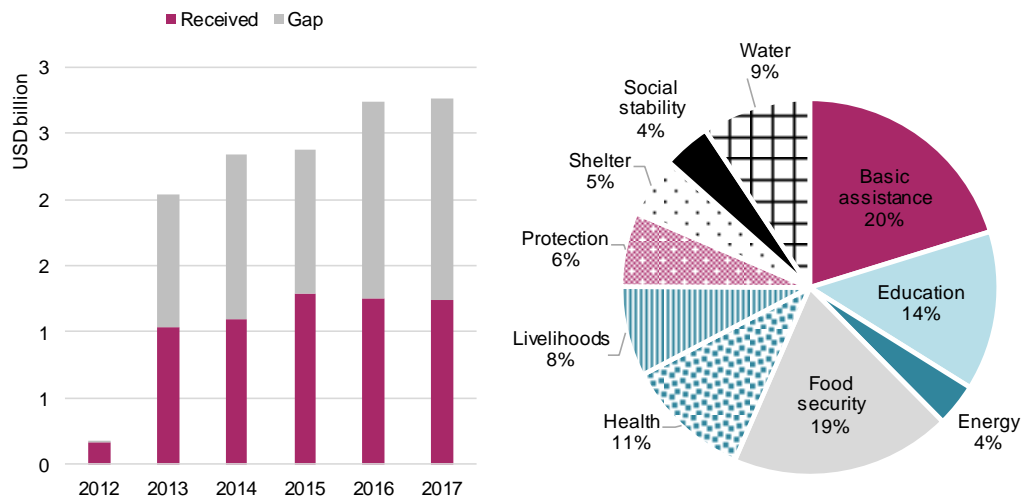
In the immediate and as long as refugee protection concerns persist, responding to needs requires to maintain the level of humanitarian assistance. Eight years into the conflict, refugees continue to remain in the country. The current situation in Syria makes a large-scale voluntary return in the immediate unlikely, reflecting the protracted nature of the Syrian conflict. Moreover, while four fifths of Syrians hope to return to Syria one day according to the 2018 intention survey, most would not do so in the next year; one fifth would not return at all (UNHCR, 2018^[74]). As long as the current protection concerns persist and barriers to legal residency and legal work are in place, the level of humanitarian assistance should be sufficiently high to meet the basic needs of refugees and build on its assets.

Meanwhile, as vulnerability and social protection needs among Lebanese and refugees increase, opportunities exist for development finance to support longer-term interventions that benefit all. Poverty rates, already high before the Syrian conflict, have increased. The Government is trying to enhance social assistance for the most vulnerable Lebanese people but programmes are underfunded. Communities hosting the majority of the refugees lack the resources to address the increased demand for public and social services. At the same time, humanitarian needs among the refugees remain critical. This calls for development partners to maintain humanitarian funding at needed levels. It also provides opportunities to support the government enhance social safety nets and quality social services to vulnerable Lebanese and promote its extension to refugees.

Strengthening the humanitarian and development nexus can ensure that development finance remains sustainable. Including refugees into national social protection programmes not only improves their access to quality services, legal employment and livelihoods but also removes inefficiencies caused by providing basic social services through distinct systems. Supporting the efficient use of scarce public resources is pivotal; the Lebanon Crisis Response Plan, for instance, was already underfunded in recent years (Figure 3.1). In the long-term, development partners can also leverage their position to promote inclusion into national and sectoral development plans of those refugees that decide not to return to Syria and articulate integrated and area based responses.

Figure 3.1. Demands addressed in the Lebanese Crisis Response Plan are underfunded

LCRP-related financing received and gap (left-hand chart) and sectoral breakdown (right-hand chart)



Source: (Government of Lebanon and United Nations, 2019^[75]), "Lebanon Crisis Response Plan 2017-2020 (2019 update)", available at <https://reliefweb.int/report/lebanon/lebanon-crisis-response-plan-2017-2020-2019-update>.

A co-operative strategy in Lebanon requires synergies between humanitarian and development activities to use common systems and leave no one behind. This will create win-win approaches for both vulnerable Lebanese and refugees as pioneered by the innovative RACE Project that revitalised a waning public education system supporting both refugees and vulnerable Lebanese (see Box 3.1). This initiative demonstrated that the presence of refugees can have a positive impact on Lebanese host communities and refugees alike. Another project is the Subsidised Temporary Employment Programme (STEP) which has the objective to generate jobs by supporting SMEs. It intends to create a savings account for Syrian employees of these firms, which will also be accessible to Syrian employees once and if they decide to leave Lebanon voluntarily (Development Tracker, 2018^[76]). Building on these examples, donors could develop programmes that promote the protection of both vulnerable Lebanese and refugees.

Box 3.1. 'Reaching All Children with Education in Lebanon Support' (RACE) Project

At the onset of the Syrian refugee situation in 2011, nearly 500 000 children were out of school. The Ministry of Education and Higher Education received international donor support (provided through UNHCR, UNICEF, UNESCO and bilateral donors) during the last four school years, as part of its RACE plan, to provide free education for all children, including Lebanese, up to grade 12.

The Ministry of Education with the support of donors seized the opportunity and built on the momentum of global attention to the Syria conflict to launch the amounting to a total of USD 234 million. The objective of the project is to:

- ensure equitable access to educational opportunities;
- improve the quality of teaching and learning and;
- strengthening national education systems, policies and monitoring.

The Syrian refugee situation meant that Lebanon's Ministry of Education and Higher Education (MEHE) had to focus on coordinating and managing an emergency response. Since 2011, MEHE has created places for more than 200,000 non-Lebanese students in its public schools, from a starting point of around 3,000. As a result, the kindergarten to grade nine public school population has doubled in the past seven years. Today, more than half of the pupils enrolled in these grades in public schools are non-Lebanese.

The RACE II programme is supporting the public education system with world class technical assistance in line with the Government of Lebanon's second RACE II strategy, focused on equitable access, enhanced quality, and strengthened systems.

Source: European Union (2018^[77]), Action Document for EU Trust Fund to be used for the decisions of the Operational Board, https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/eutf_final_ad_education_lebanon_revised_after_the_june_board_2018.pdf

Targeting both vulnerable Lebanese and refugees in productive and infrastructure sectors can create positive spillovers from development programmes into humanitarian assistance. A multi-donor programme under the leadership of the Ministry of Social Affairs, the 'Lebanon Host Communities Support Programme' (LHSP) is creating productive infrastructure for host communities and work opportunities for refugees and host communities in the sectors refugees can officially work in (UNDP, 2019^[78]). The International Labour Organisation, in partnership with UNDP, works in the most vulnerable municipalities of Bekaa, North and Mount Lebanon, and promotes a system for the speedy and transparent issuance of work permits to Syrian refugees via the LHSP. This illustrates that financing is most effective when accompanied by appropriate policies such as legalised work for refugees. More can be done, including through an enabling refugee policy environment, ensuring that development programmes, while serving the development of Lebanon, can also include and provide benefits to refugees.

In line with the Global Compact on Refugees (GCR), DAC members can shoulder Lebanon's burden and take responsibility through increasing resettlement places and third country solutions. Both through the GCR and the Brussels II Conference, the international community committed to expand access to third-country solutions, including opportunities for resettlement as well as for complementary pathways for the safe admission of refugees [(UNHCR, 2018^[79]); (GoL, EU and UN, 2018^[80])]. While complementary pathways including family reunification, study programmes and labour mobility, are not intended to substitute other durable solutions such as resettlement, they can contribute to alleviating pressures on host countries particularly in large scale and protracted refugee situations (OECD and UNHCR, 2018^[81]). Other

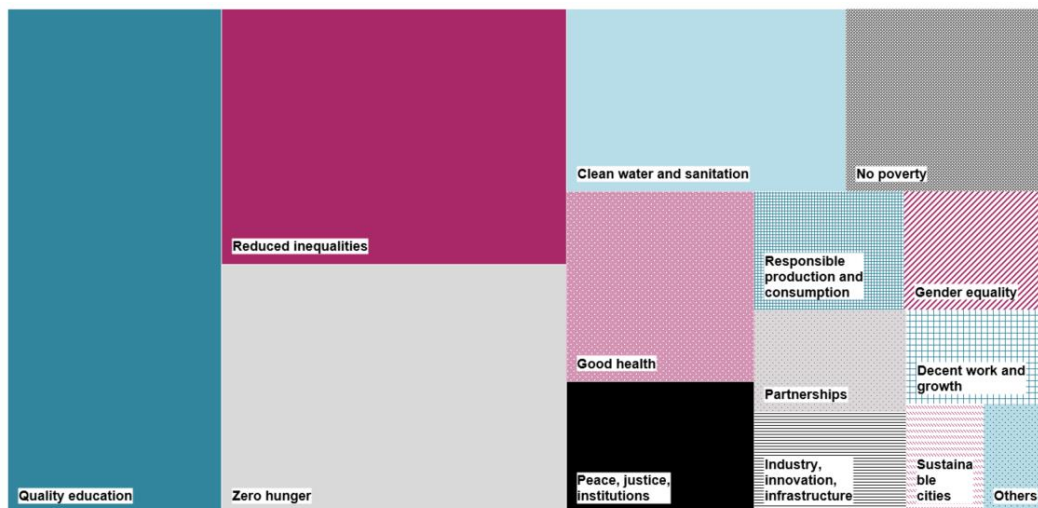
potential measures include directing official development assistance to the CEDRE outcomes and encouraging a reform agenda that will address Lebanon's structural deficits (CGD and IRC, 2017^[82]).

Inequality is particularly challenging in the country, making donor support important in helping institutions and municipalities leave no one behind

Concessional finance is important in Lebanon given the recurrent shocks and the low public investment in social spending. While small if compared to all domestic and external financing, donor support is critical for helping Lebanon transition politically and from humanitarian crises and leave no one behind. Low tax revenues, high levels of debt servicing and inefficient allocation for wages and subsidies constrain public resources for social spending. These issues are exacerbated in times of crises, such as in post-conflict efforts and during humanitarian crises. Probably for this reason, very high levels of concessional finance in Lebanon address SDGs related to people, such as quality education (SDG 4), reducing inequality (SDG 10) and eliminating hunger (SDG 2).

Figure 3.2. Concessional finance in Lebanon is largely allocated to promote inclusiveness and help the country leave no one behind

Official development assistance for the SDGs in 2016



Note: Only bilateral and multilateral development partners reporting to the OECD. Data on official development assistance by SDG provided by the authors of (Pincet, Okabe and Pawelczyk, 2019^[83]).

Source: (OECD, 2019^[84]), "International development statistics (database)", <http://www.oecd.org/dac/stats/idsonline.htm>

Special attention is needed to the poorest municipalities, which are also those that host the largest number of vulnerable Lebanese and refugees. Low public sector involvement in economic development left unaddressed inequalities between the centre of the country, particularly Beirut, and the other regions across the country [(Gaspard, 2004^[85]); (Baumann, 2016^[8])]. According to the World Bank, poverty rates in the Bekaa, North and South Lebanon are twice as high as in Beirut (World Bank, 2018^[86]). The Syrian conflict exacerbated this situation as the vast majority of refugees are located in the poorest regions of the country. A number of initiatives have targeted municipalities, e.g. CDR's Program for Economic and Urban Resilience. The Economic and Social Fund for Development and the World Bank funded the Lebanon Municipal Services Emergency Project, which is trying to increase service delivery, rehabilitation of community infrastructure, community activities and urban mobility in communities hosting large numbers

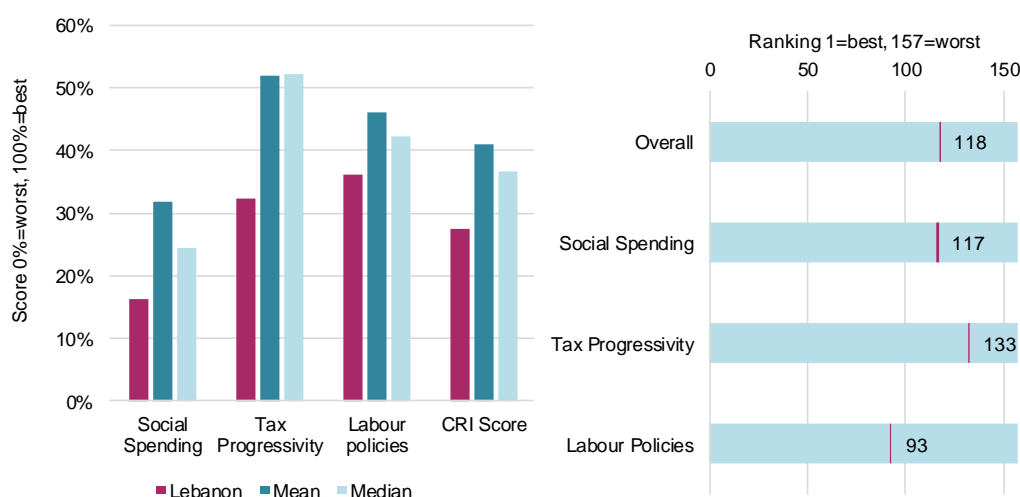
of refugees. Keeping these efforts alive and providing the right amount of financing can help communities strengthen resilience and promote self-sufficiency.

Donors can focus more on helping Lebanese institutions address fiscal policy and governance to fight inequality and make growth more inclusive

Low commitment for reducing inequality in Lebanon suggests that donors can help the country make fiscal policy frameworks more inclusive. Flawed fiscal policy is a major impediment for inclusive growth in MENA countries, including in Lebanon (see Table 3.1). Inequality is widespread in the MENA region, with Lebanon being one of the worst performers. Lebanon is the country with the lowest level of labour share of GDP in MENA, and as such highly unequal on redistributing revenues from production to workers (UNESCWA, 2016^[87]). According to Oxfam's inequality index, Lebanon has a low score on tax progressivity and social spending (see Figure 3.3). Low levels of tax progressivity and social spending means that the government requires proportionally less tax from rich people and delivers less social services to the poor, including on health and education.

Figure 3.3. Lebanon can do more to reduce inequality, particularly on social spending and tax progressivity

Lebanon in Oxfam's Commitment to Reducing Inequality Index (2018)



Note: Values in left-hand chart are normalised.

Source: (Oxfam, 2018^[88]), "The Commitment to Reducing Inequality Index 2018 (dataset)", <https://www.oxfam.org/en/research/commitment-reducing-inequality-index-2018>.

Table 3.1. Lebanon shares similar issues in promoting inclusive growth compared to other countries in the MENA region

| Issue | Performance in the MENA | Performance in Lebanon |
|--|--|---|
| Too little spending on social sectors | <ul style="list-style-type: none"> Only a tenth of GDP is spent on education, health and social protection (half as much in emerging Europe) Only a fifth of spending on social safety nets goes to the poorest two-fifth of the population | <ul style="list-style-type: none"> Very low social spending ranking on Oxfam's Commitment to Reducing Inequality Index (138th out of 152 countries) In 2004, only half of Lebanese were covered by social insurance programs |
| Inefficient public services | <ul style="list-style-type: none"> MENA spends more on health than other regions but has higher levels of infant mortality and lower life expectancy | <ul style="list-style-type: none"> Quality healthcare and education are mainly provided by expensive private institutions, leaving poor households behind The public health system faces a number of challenges, including financial constraints and understaffing Very high level of participation in organised learning before primary education in the region |
| High amounts on wages and subsidies reduce the space for social and productive spending | <ul style="list-style-type: none"> MENA governments spend a third of their resources on wages MENA countries account for a fourth of global spending on fuel and energy subsidies, half of which goes to the richest 20% of the population and only 7% to the poorest 20% | <ul style="list-style-type: none"> Lebanon spends a third of government resources on wages Lebanon spends 6% of government resources on electricity subsidies |
| Tax collection are too low to fund inclusive growth spending | <ul style="list-style-type: none"> MENA tax revenues averaged 9% of GDP in 2016 Personal income taxes are not progressive (the rich often pay less in taxes as a share of income than the average citizen) Tax exemptions are widespread; property and wealth are often excluded from the tax net | <ul style="list-style-type: none"> Lebanon's tax revenues are at about 15% of GDP in 2016 Low tax progressivity ranking on Oxfam's Commitment to Reducing Inequality Index (108th out of 152 countries) |
| Corruption and lack of transparency on government spending undermines trust and accountability | <ul style="list-style-type: none"> Government scores on effectiveness, regulatory quality, rule of law and control of corruption are low and deteriorating; | <ul style="list-style-type: none"> Very low score in the Transparency International Corruption Index (28 out of 100) Very low score in World Governance Indicator on Control of Corruption (14 out of 100) Low score in WEF Competitiveness index |

Note: Adapted from (Purfield et al., 2018^[89]) by adding a comparison of performance in Lebanon. Analysis on MENA also includes Afghanistan and Pakistan. Column on 'Performance in Lebanon' populated by the authors using publicly available data.

Source: (Purfield et al., 2018^[89]); (McKinsey, 2019^[29]); (Oxfam, 2018^[88]); (UNESCWA, 2016^[87]); (Government of Lebanon, 2018^[90]).

Given the high public debt and inequality of the country, development partners can support technical assistance about mainstreaming inclusiveness in governance and public financial management. Donors could help Lebanon's resource mobilisation efforts, including in addressing large fiscal evasion, which requires more support on improving governance and public financial management. Government's revenues account for as low as a fifth of Lebanon's GDP and are on a declining trend (see Chapter 2). This level of public revenues is low compared to international standards (i.e. 36% for advanced economies and 26% for emerging and developing economies) (Bank Audi, 2018^[91]). Lebanon raises half of its tax potential, while spending 50% more on public salaries and generating 10% less on government revenues compared to peer countries (McKinsey, 2019^[29]). The low level of public revenues can be explained by low tax rates and large fiscal evasion (Bank Audi, 2018^[91]). Estimates show that the government failed to collect about USD 5 billion in 2017 (equivalent to 10% of GDP) in unpaid income taxes, value added tax, electricity bills and property taxes (Bank Audi, 2018^[91]). Some donors, particularly Norway, have been promoting peer-to-peer learning and transfer of knowledge on improving tax for development based on their experience (see Box 3.2). These models offer opportunities to increase the levers of resilience and inclusiveness in countries like Lebanon.

Box 3.2. Norway's 'Tax for development' approach

Norway's Tax for Development programmes aim to help developing countries improve tax systems and increase tax revenues. The programmes focuses on four areas:

- Capacity building to improve tax systems and strengthening tax authorities;
- Knowledge generation and dissemination of research findings in the areas of taxation and capital flight;
- International co-operation efforts related to issues of taxation and capital flight;
- Support to civil society to strengthen public engagement in taxation and capital flight issues.

Examples include, co-operation between the Norwegian Tax Administration and tax authorities in Zambia, Tanzania and Mozambique on improving effectiveness and increasing the countries' tax revenues. It also includes research programme on taxation, development and capital flight. Norway is an active supporter of OECD's work on taxation and development, where OECD's Development Assistance Committee and Committee on Fiscal Affairs have established a joint work programme. Norway also supports other international and local organisations working on tax issues in partner countries.

Source: Norad (2019^[92]), <https://norad.no/en/front/thematic-areas/macroeconomics-and-public-administration/tax-for-development/what-we-do/>.

3.2. The competitive strategy

To promote self-sufficiency, donors could help Lebanon boost inclusive and productive private sector development, as this is an area where the country has important needs

Similarly to other countries in the MENA region, Lebanon struggles to promote inclusive and productive growth and decent jobs. The MENA region has higher unemployment rates than other regions in the world, particularly among young people and women, and a lower labour share of GDP¹³ (UNESCWA, 2018^[93]). This means that in MENA economies there are few jobs and unfair wages. MENA workforce is also not productive, particularly in agriculture. While half of the population engages in agriculture, revenues from these activities only account for about 14% of GDP (UNIDO, 2015^[94]). Lebanon shares many of these challenges. While it has a lower level of unemployment than other MENA countries, it has a low ratio of employment elasticity, which means that economic growth does not translate into many jobs, and offers opportunities that are mostly low quality and low productive (Le Borgne and Jacobs, 2016^[95]). Lebanon has very low levels of workforce in manufacturing, which is a labour-intensive sector. More recently the large inflow of refugees has increased competition on low-skilled jobs, as refugees are generally paid about 40% less than the national minimum standard (UNESCWA, 2018^[93]).

Poor governance and corruption are major obstacles for business development and reduce competitiveness in Lebanon. Main issues include red tape, bribery, arbitrary licensing, outdated legislation, ineffective judicial system, complex customs procedures and weak intellectual property rights. Corruption practices include both large patronage networks that monopolise the economy and small

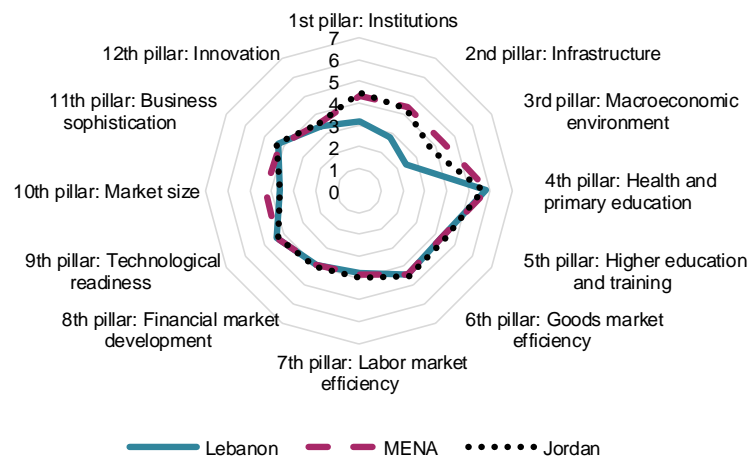
¹³ This indicator measures the share of output paid to workers rather than to capital providers, which means the lowest the share the more unequal the production processes are.

bribery practices to get access to basic services (e.g. small rents and gifts). The national criminal law forbids and punishes bribery and corruption but implementation is poor. Lebanon scores very low in both the Transparency International Corruption Perception Index (28/100) and in the World Governance Indicator on Control of Corruption (14/100).

Moreover, domestic and external political instability holds back potential new investment. Sectarian antagonism and vested interests explain political deadlocks and slow important reforms. Lebanon has frequent vacuums in key political positions (e.g. prime minister), weakening the government's effectiveness. The parliament faces major issues in taking decisions that require political consensus. All this increases the perception of political risk, which has a negative impact on business decisions. Likewise, geopolitical tensions in neighbouring countries have negative economic spillovers. For example, the outbreak of the Syrian conflict has destabilised Lebanon, resulting in decreasing FDI and tourism.

Figure 3.4. Institutions, infrastructure and the macroeconomic environment are less competitive in Lebanon than on average in the MENA

Comparing Lebanon's Global Competitiveness Index score with the average score in MENA (2017-2018)



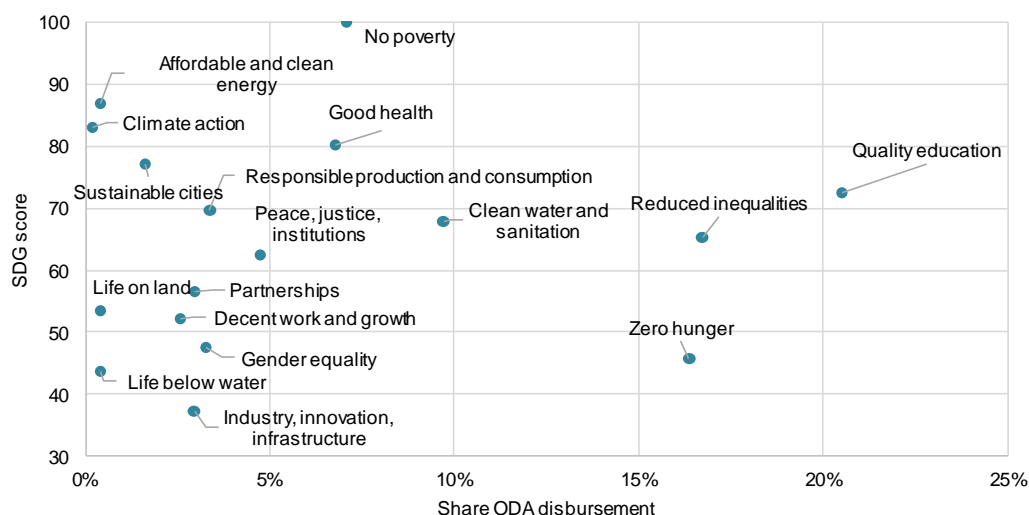
Source: (World Economic Forum, 2018^[96]), "The Global Competitiveness Index 2018 (dataset)", <http://reports.weforum.org/global-competitiveness-report-2018/downloads/>.

Despite the needs to improve productivity, labour-intensive growth and decent work, development partners support for SDG 8 (decent work and growth) and SDG 9 (industry, infrastructure and innovation) is particularly low in Lebanon. Services generate the vast majority of the economic output, particularly real estate, construction, financial services and business services. Agriculture and industrial sectors, while generating less economic output employ more people. Productive sectors contribute to only 16% of GDP, while employing 26% of the workforce (McKinsey, 2019^[29]). Agriculture accounts for a small share of national GDP but has a high share of employment and is crucial in rural areas where it employs a quarter of the local labour force and makes up the vast majority of the local GDP (FAO, 2018^[97]). These hurdles are reflected in the low performance of Lebanon on SDG 9, which is related to industry, infrastructure and innovation. They are also reflected in the low performance of SDG 8, due to the persistence of poverty and the lack of inclusive economic growth in the poorest regions of the country and the weak job creation and the low quality jobs (Khater, 2017^[33]). Average unemployment rates increased from around 11% before the conflict to an estimated 18-20% in 2014 [(Al-Attar, 2015^[31]); (IMF, 2014^[32])].

Despite the low performance of Lebanon in achieving SDG 8 and 9, concessional resources for related activities are among the lowest (see Figure 3.5).

Figure 3.5. While Lebanon's performance in achieving SDG 9 on industry, innovation and infrastructure is the poorest among all SDGs, the share of official development assistance for this goal is low

Comparison among SDG score and share of concessional finance for SDGs in 2016



Note: Non-concessional development finance is not included for data quality reasons. Its inclusion could make shares of financing to economic-related SDGs more significant.

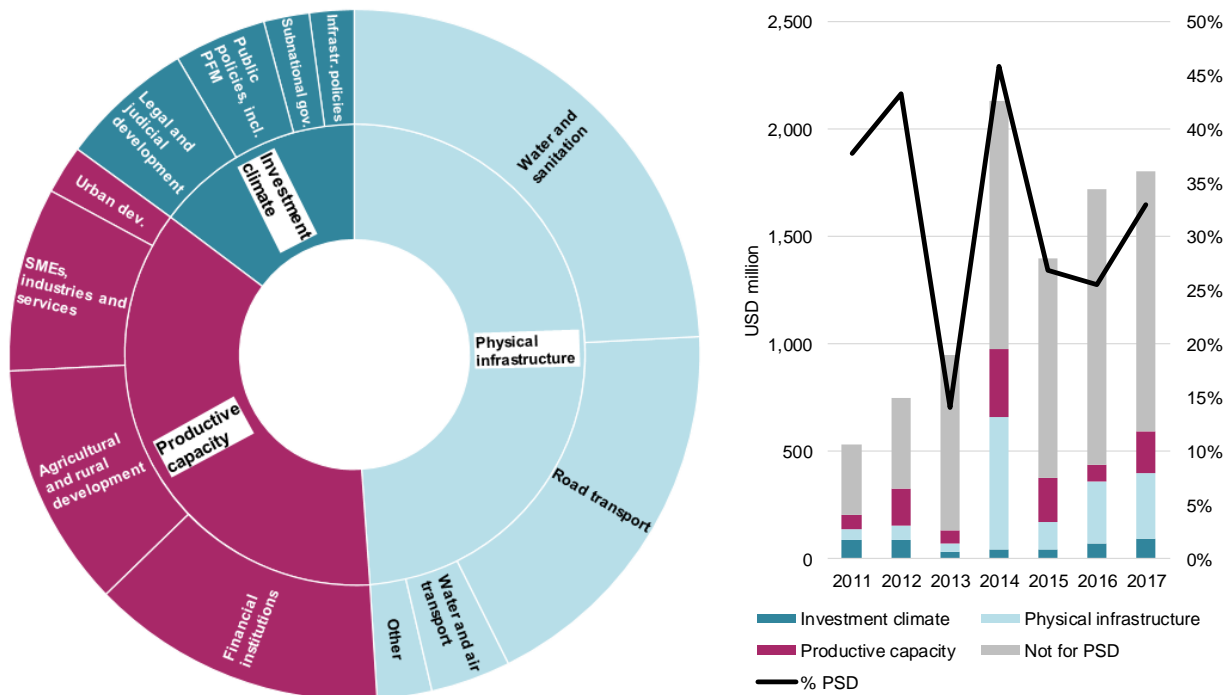
Source: (OECD, 2019^[84]), "International development statistics (database)", <http://www.oecd.org/dac/stats/idsonline.htm>

There are opportunities for donors to boost productivity and decent employment in real sectors

To help Lebanon escape a low productivity trap and promote inclusive and decent growth, official development partners could further support private sector development (PSD). Official development finance for PSD includes supporting the investment climate, physical infrastructure and productive capacity of developing countries (Miyamoto and Chiofalo, 2017^[98]). In Lebanon, official development finance for PSD has been on average a third of total amounts received by development partners but very volatile and mostly for physical infrastructure (Figure 3.6). Since 2015, official development finance for PSD experiences an increasing trend from roughly a fourth of total amounts in 2015 to a third in 2017. Given the issues discussed above about the achievement of SDG 8 (decent work and growth) and SDG 9 (industry, infrastructure and innovation), PSD programmes can be used as a way to contribute to these goals.

Figure 3.6. Support for private sector development is smaller than for other purposes but it is growing

Official development finance for private sector development in Lebanon (2011-2017)



Note: Only development partners reporting to the OECD. PSD sectoral classification adapted from (Miyamoto and Chiofalo, 2017^[98]).

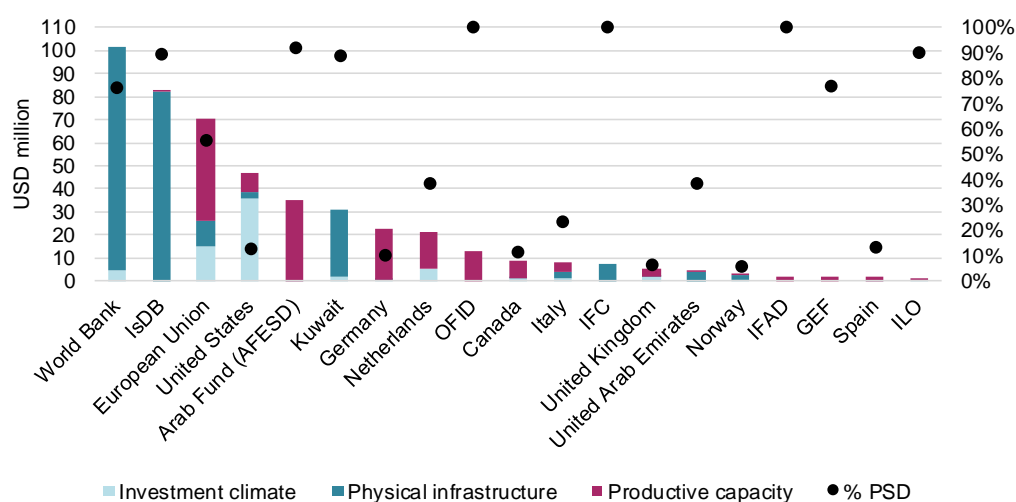
Source: (OECD, 2019^[84]), "International development statistics (database)", <http://www.oecd.org/dac/stats/idsonline.htm>.

While infrastructure seems to make consensus among donors and the Government of Lebanon in discussions around the future of PSD, there seems to be little interest in boosting the low levels of financing for needed productive sectors. The main PSD area supported so far is physical infrastructure, with half of PSD support, mostly for water and sanitation and roads. Financing for productive capacity is about a third of PSD support, mainly for supporting financial institutions and agricultural development. Finally, support for the investment climate is about 15% of total PSD resources, particularly on legal and judicial development and support for public policies, including public financial management. As shown above, most of the USD 11 billion financing pledged at the CEDRE conference by development partners are for infrastructure (see Chapter 1), which will make the share of PSD more prominent if loans will be disbursed.

Donors could step up PSD support to promote trade and decent work, particularly in agriculture and industrial sectors as they employ more people and can promote economic diversification. A few MDBs and bilateral donors make the vast majority of PSD support in productive sectors (Figure 3.7). Lebanon could be a regional hub in the MENA region, including for companies from donor countries, due to cheap workforce and educated intermediaries. The EIB signed a EUR 52 million project under the ERI to support industrial zones in areas near the Syrian border. Lebanon already has about 130 private industrial zones, but they do not offer proper infrastructure support and many are located in the middle of cities and their prices are prohibitive for young entrepreneurs. Other donors, such as the United Kingdom and Germany are interested in real sectors but support to these areas has been limited so far.

Figure 3.7. Multilateral development partners and a few bilateral donors mainly carry out private sector development activities in Lebanon

Largest providers of official development finance for private sector development in Lebanon (annual average 2015-2017)



Note: Only development partners reporting to the OECD. PSD sectoral classification adapted from (Miyamoto and Chiofalo, 2017^[98]).
Source: (OECD, 2019^[84]), « International development statistics (database) », <http://www.oecd.org/dac/stats/idsonline.htm>

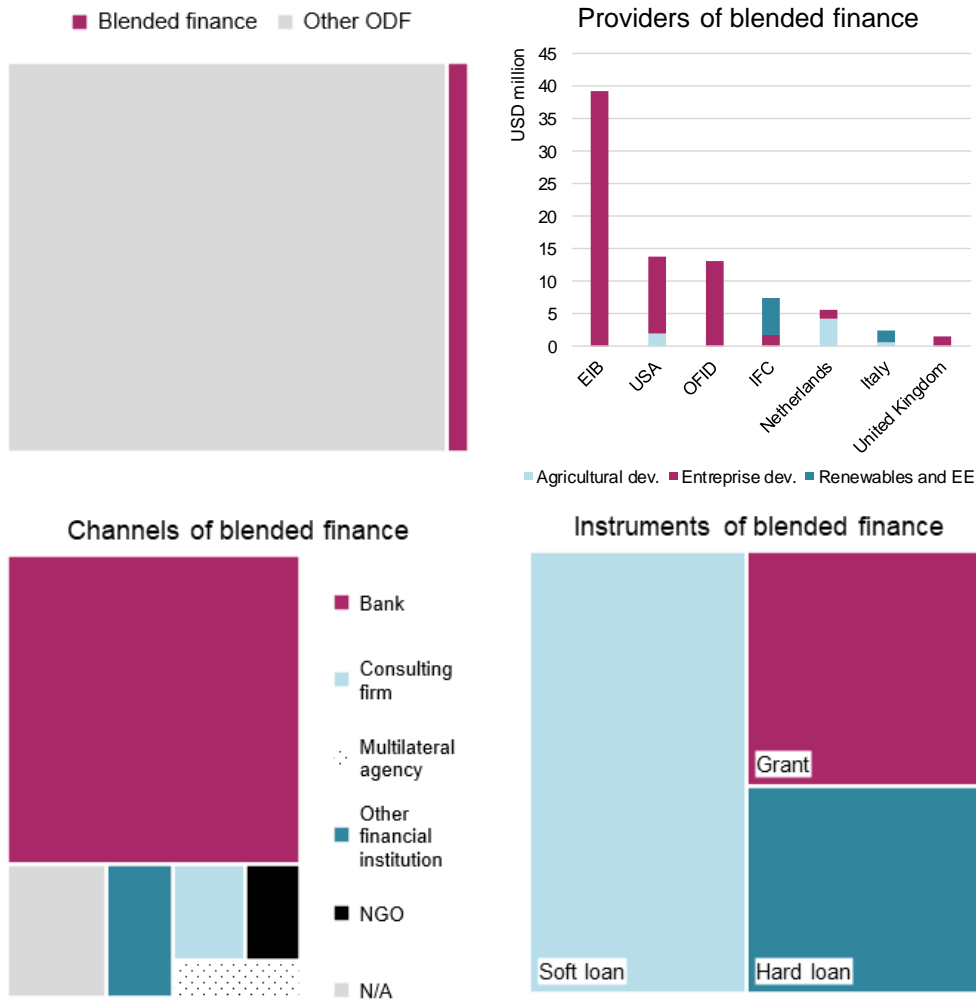
There is an untapped potential for blended finance approaches, especially in supporting the burgeoning start-up ecosystem

Official development partners allocate small shares of financing through blended finance¹⁴ approaches, mostly credit lines for SME via large banks, grants for microenterprises and start-ups and support for green finance. Only 5% of official development finance is used for blended finance approaches (Figure 3.8). Most of the financing are credit lines for SMEs from the EIB, OPEC Fund for International Development, and IFC via large local banks. Bilateral donors support agricultural and industrial development of microenterprises as well as equity funds investing in start-ups. For example, the United States' Industry Value Chain Development programme supports Lebanese farmers and companies in agriculture to become more competitive. Finally, IFC and Italy provided blended finance to support renewable energy and energy efficiency. IFC, with the support of Canada, helped Lebanon's largest leasing company provide lending to businesses to boost the adoption of energy-efficient technology. Italy provided grants to subsidise the central bank loan programme 'National Energy Efficiency and Renewable Energy Action', which allows private sector entities to apply for subsidised loans for any type of energy efficiency and renewable energy project.

¹⁴ (OECD, 2018^[99]) defines blended finance as '*the strategic use of development finance for the mobilisation of additional finance towards sustainable development¹ in developing countries*', with 'additional finance' referring primarily to commercial finance.

Figure 3.8. Support provided through blended finance approaches in Lebanon is limited and concentrated among few donors

Official development finance through blended finance approaches in Lebanon (annual average 2015-2017)



Note: Only development partners reporting the OECD. List of projects selected manually by the authors based on OECD definition of blended finance, see (OECD, 2018_[99]).

Source: (OECD, 2019_[84]), "International development statistics" (database), <http://www.oecd.org/dac/stats/idsonline.htm>

Although some development partners have been crucial in promoting the start-up ecosystem, more can be done by financing equity funds and incubators that support promising initiatives at early stages. Since 2006, the Government of Lebanon and the central bank implemented regulations and financed entrepreneurship programmes (e.g. incubators, co-working spaces, mentorship, subsidies for equity funds investing in start-ups, etc.) to support the start-up sector, which became a thriving tech-hub in the MENA region (OECD, 2019_[100]). Opportunities for supporting promising start-ups are sprawling, particularly via private equity funds and venture capital (see Table 3.2), although these funds mostly support initiatives at late stages of business development (Rouhanna, 2018_[101]). Blended finance can further support this ecosystem at early stage and attract local big venture capital funds.

Development partners could support thematic funds and scale-up programs, allowing local funds to tap into the diaspora, structure maker spaces into hardware accelerators, and more. Some

development partners have financed similar types of initiatives. USAID financed Berytech, a local incubator and venture capital fund supporting start-ups in Lebanon (see Box 3.3). Since 2015, the UK is part of a joint initiative with the Lebanese central bank that established the UK-Lebanon TechnologyHub connecting start-ups in the knowledge economy with global investors (see Chapter 2). The Netherlands supported the DSH Agri-Food Innovation Hub, which source the top start-ups with disruptive innovations in the agrifood sector and provides them with the adequate technical and business resources as well as community support.

Box 3.3. USAID supported the start-up ecosystem through the Berytech group under MENA Investment Initiative

Under its USD 225 million region-wide MENA Investment Initiative, USAID supported Insure & Match Capital, a subsidiary of Berytech (a Lebanese incubator and venture capital fund) to help start-ups boost their capacity and access financing at early-stage of development. Insure & Match Capital manages the USD 15 million programme, to be doled out over the first five years of the 20-year program. The money will be distributed along three channels:

- Matching capital for angel investors and venture capital firms; Insure & Match Capital provides up to 50% of matching capital
- Equity guarantees for investors in early stage businesses
- Technical assistance for investors and entrepreneurs (e.g. training on business development, access to international markets, angel co-ordination, etc.)
- On the technical assistance side, the programmes contributed to:
 - Launching several new initiatives, including the Speed@BDD accelerator;
 - Managing and building the capacity of four business angel groups (Seeders & LWAF);
 - Creating a mentorship platform based on the MIT Venture Mentor Service model (Confideo), and a coaching program based on Stanford Seed methodology.

Source: Rouhanna (2018^[101]), Lebanon's entrepreneurship ecosystem: Invest in the building blocks, <http://www.executive-magazine.com/entrepreneurship/lebanons-entrepreneurship-ecosystem>

Table 3.2. There are many opportunities to fund promising start-ups in Lebanon, including through many local and foreign private equity funds

Financing landscape for SMEs in Lebanon

| | ICT – Knowledge economy | Agribusiness | All |
|-----------|--|---|--|
| USD 2 M | IMPACT (MEVP) (equity) MIC TelcoFund (equity) B&Y Ventures (equity) | | Lucid (debt, equity) EBRD (equity) EuroMena (equity) IFC (equity) Leap Ventures (equity) |
| USD 500 K | MEVF II (equity) Phenician Fund(equity) Impact (MEVP) (equity) Wamda capital fund (equity) Berytech I and II (equity) Cedar Mundi (equity) B&Y Ventures (equity) | | Daher Capital (equity) iSME (equity) EuroMena (equity) IFC (equity) Theemar (equity) Libank (equity) |
| USD 50 K | Lebanon Seed Fund (equity) Azure Fund (equity) Flat6labs (equity) BBEF (equity) Saned (equity) Phoenician Fund (equity) B&Y Ventures (equity) | | Daher Capital (equity) Saned (equity) iSME (equity) IFC (equity) LBA (equity) Cedar Ventures (equity) IM Capital (equity) Kafalat Plus (debt) Bader (equity) LWAF (equity) Faro Lebanon (equity) Theemar (equity) |
| | Kafalat innovative (debt) Speed (equity) | AEP (microfinance) Al Tamkeen (microfinance) Agrytech (grants) | Alpha capital (debt) Makhzoumi foundation (debt) LWAF (equity) CFC (debt) iSME (grants) ESFD (debt) Emkan (debt) Al Majmoua (debt) Alfanar (grants) Vitas (debt) ADR (debt) |

Source: Lebanon's Ministry of Economy and Trade (2018), available at https://www.economy.gov.lb/media/11435/financing_landscape_pre_180709-24.pdf.

3.3. Cross-cutting issues

Donor financing has been volatile and responded to short-term needs rather than long-term strategies, which requires better reflecting on transition finance approaches to promote long-term stability

While the case of Lebanon shows that development partners are promoting regional stability, most donors do not have a long-term strategy in place. As shown by Figure 3.9, support from donors has

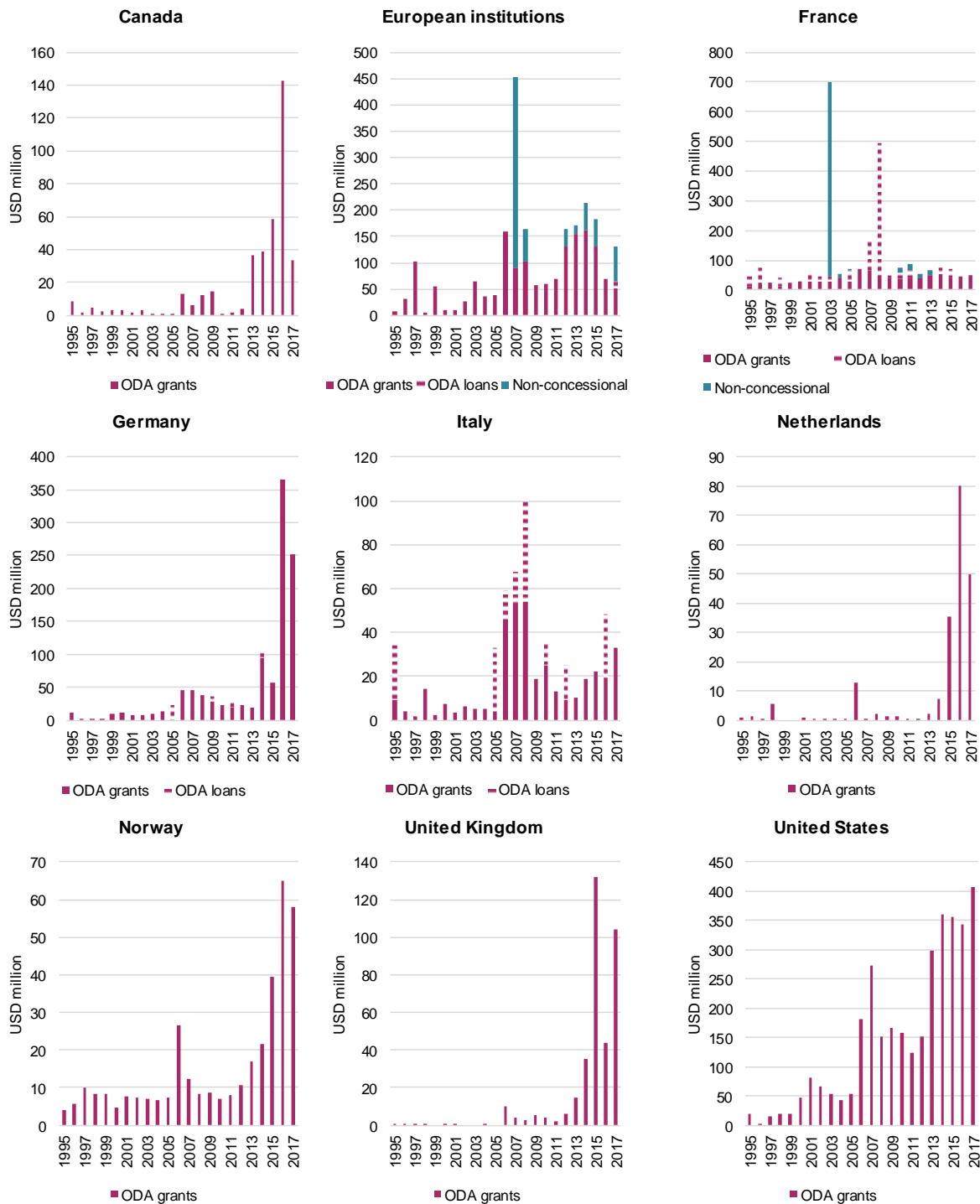
been volatile and mainly driven by the emergence of conflict-related shocks. Some countries, e.g. Germany, Netherlands and the United Kingdom were phasing out before the Syrian conflict while others, e.g. Canada and Norway, significantly increased their support after that. To optimise their resources, donors could better reflect on their country strategy having long-term objectives rather than responding to sudden humanitarian crises. This also enables a focus on a longer-term reform agenda as initiated by CEDRE.

Long-term approaches require sustainable financing, including multiannual commitments for humanitarian and resilience activities and using official development finance to tap into broader forms of financing. The timeframe of financing impacts on the timeframe of programme development, which hinders the promotion of resilience and long-term development for vulnerable Lebanese and refugees. That is a particular issue for stakeholders, such as UN entities and NGOs that rely primarily on donor financing for their operations. Beyond aid, donors could further support the enablers for maximising financing for development, including support for domestic revenue mobilisation (e.g. tax and local private investment) as well as external resources, such as FDI and remittances.

Donors can also assist Lebanon beyond aid through a ‘compact’ approach, including by facilitating trade as European donors made with Jordan. Jordan became the model for compacts in refugee-hosting countries, attracting concessional finance and incentives beyond aid, including trade concessions that relaxed rules of origin to export to Europe in exchange for more favourable labour market regulations for refugees (Huang and Gough, 2019^[102]). Lebanon has a large trade imbalance globally (accounting for 30% of GDP), and particularly with European countries (accounting for 15% of GDP) (see Figure 3.10). Beyond European countries, Lebanon imports significantly from China and the United States. Helping Lebanon export more to European and other donor countries can be an important opportunity for improving long-term development in Lebanon beyond aid through compacts. The EU initiated a similar approach with Lebanon but the Government was reluctant to it due to the political sensitivity of refugee policy, which led to the adoption of a compact ensuring aid but no trade concessions (Temprano Arroyo, 2018^[103]).

Figure 3.9. Official development finance from DAC donors has been volatile, mainly driven by the 2006 war in Lebanon and the 2011 Syrian conflict

Official development finance to Lebanon by selected DAC members (1995-2017)

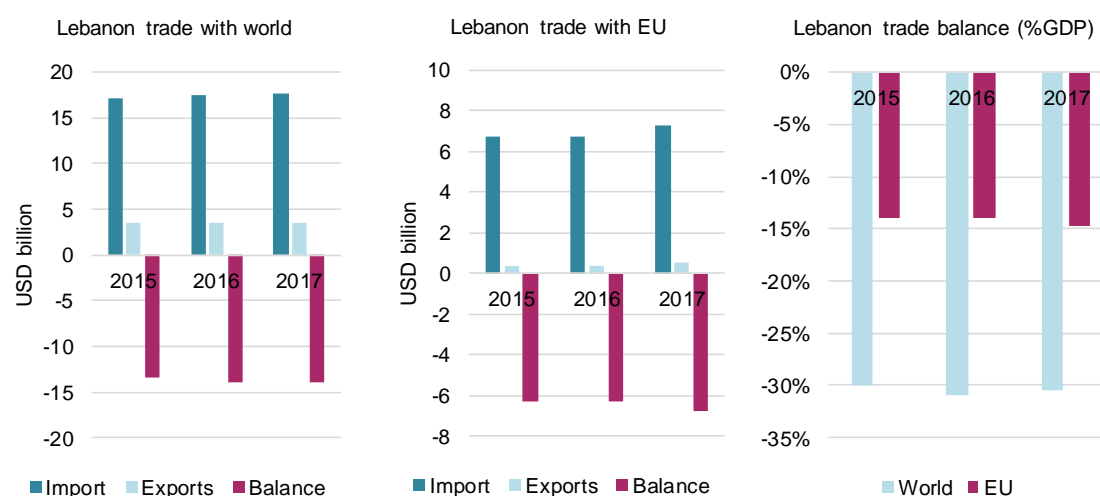


Note: European Institutions include both the European Commission and EIB.

Source: (OECD, 2019_[84]). « International development statistics (database) », <http://www.oecd.org/dac/stats/idsonline.htm>.

Figure 3.10. Lebanon has large trade imbalances, particularly with the European Union

Lebanon's trade balance with the world and the EU (2015-2017)



Source: (IMF, 2018_[73]), « World Economic Outlook (database) », <https://www.imf.org/external/pubs/ft/weo/2018/02/weodata/index.aspx>.

Given the large support extended to Lebanon, assistance benefits from stronger co-ordination and coherence as well as donor-wide partnerships

Co-ordination and co-operation among donors is particularly weak in the country beyond crisis-response, which presents room for revitalising existing co-ordination mechanisms. Donors mainly exchange information on respective activities rather than engaging in joint strategies and programming. The exception is the humanitarian sector where co-ordination mechanisms around the LCRP, which is co-led by the Lebanese Ministry of Social Affairs and the UN, have been functioning particularly well. There are opportunities to revive the Lebanon Development Forum, an inter-agency co-ordination mechanism co-chaired by the UN resident coordinator and the World Bank, as it has not been up to its potential due to contrasting motives and rationales for donor support. For example, while some donors might be interested in supporting humanitarian assistance to promote country stabilisation and resilience, others might focus more on expanding loans for long-term development activities. More co-ordination can help align these motivations in ways that are meaningful and sustainable.

The need to break silos between humanitarian and development activities is pushing multilateral organisations to join forces, as shown by the recent compact between the World Bank and the UN. So far, collaboration among multilateral organisations has been scattered, especially on ensuring coherence between humanitarian and development issues. The UN system has been dealing with the implementation of humanitarian assistance, while MDBs were more involved providing loans for infrastructure. The recent (2018) three-year Compact for Lebanon between the World Bank and the UN shows that there is momentum in stepping up co-ordination among multilateral organisations specialising in different field to build on comparative advantages and align their financing instruments. On the way forward, it will be important to bring European partners closer together both on issues related to infrastructure development (the EIB) and on humanitarian/resilience programming (European Commission).

Co-operation and co-ordination between DAC members and Arab development partners has been limited in Lebanon to date. There is scope to strengthen mutual engagement, for example by enhancing information exchange, co-ordination or co-financing activities, including through triangular co-operation,

when feasible. There is potential for more co-operation between Arab and other donors due to the shared sector-focus and the mutual ambition to strengthen Lebanon's resilience to cope with the Syrian refugee situation. As Lebanon seeks international funding for projects in these sectors, the Lebanese government generally encourages co-operation between international donors. Good practice in joint programming in Lebanon includes the GIZ programme "Co-operation with Arab Donors" that tries to strengthen co-operation with Arab partners (Box 3.4).

Box 3.4. GIZ Programme 'Cooperation with Arab Donors (CAD)'

Germany's Regional Programme "Cooperation with Arab Donors" is a well-developed example of systematic triangular co-operation between an Arab and a DAC member. This programmatic approach towards triangular co-operation in the MENA region is commissioned by the German Federal Ministry for Economic Co-operation and Development and implemented by the GIZ through an Open Regional Fund. Germany takes a programmatic approach that includes triangular co-operation projects as a component of larger bilateral or regional programmes and funds. This way of working provides flexibility and ensures ownership of all partners, as projects are jointly planned, financed and implemented with the facilitating and beneficiary partners both coming from the MENA region.

Activities aim to strengthen civil society structures and contribute to poverty reduction through microfinance and financial inclusion of marginalised groups, such as women and youth. These areas are particularly suitable for triangular co-operation with Arab providers, according to the German officials consulted for this paper. The programme offers financial contributions, advisory services, training, materials and equipment to marginalised and disempowered social groups in social sectors (e.g. education, health). The main objective of the programme is to strengthen co-operation between German and Arab providers at the operational level to increase the impact for beneficiary partners in the MENA region, build relationships based on trust and foster dialogue with all parties

Source: Cascado-Asensio and Piefer (2018^[104]), Breaking Down the Myths of Triangular Co-operation in Middle East and North Africa, <https://dx.doi.org/10.1787/41102acd-en>

Good multilateral donorship principles could guide donor engagements with multilateral organisations, especially with UN entities that mostly rely on grant finance from bilateral donors.

As shown by recent OECD work on multilateral development finance, the cross-cutting and integrated nature of the 2030 agenda requires a 'pact' between donors and multilateral organisations (OECD, 2018^[45]). This pact needs to be based on principles that promote not only quantity but also quality of financing, which means ensuring predictability, flexibility, harmonisation and focus on results (see Box 3.5).

Box 3.5. Achieving the 2030 Agenda requires a pact among donors and multilateral organisations

Lessons from the OECD Multilateral Development Finance Report

At a time when the value of multilateralism is being questioned, the OECD Multilateral Development Finance Report provides new evidence and recommendations for a new “pact” on multilateralism. This pact is founded on recognition of the mutual responsibility of sovereign states and multilateral institutions to create a stronger, more effective multilateral system. The pact is based on principles of ‘good multilateral donorship’, such as:

- Adopting whole-of-government approaches to define expected outcomes of multilateral partnerships and establish adequate co-ordination mechanisms.
- Strengthening collective initiatives to assess multilateral performance, such as multilateral organisations’ evaluation units.
- Promoting harmonised working practices of multilateral organisations and encouraging discussions on systemic gaps and division of labour.
- Filling gaps in underfunded areas by funding thematic windows and softly-earmarking funds instead of strictly earmarking at project level.
- Increasing predictability of funding by making multi-annual commitments linked to the strategic plans of multilateral organisations.
- Using evidence to make decisions on earmarked funding and ensuring alignment with the mandate and priorities of multilateral organisations.

Source: OECD (2018^[45]), Multilateral Development Finance: Towards a New Pact on Multilateralism to Achieve the 2030 Agenda Together, <https://dx.doi.org/10.1787/9789264308831-en>

Donor engagement with multilateral organisations, especially UN entities, shows that there is a space to increase predictability and flexibility of funding to foster sustainability and impact, and promote system-wide approaches. Currently, two thirds of donor financing through UN entities is for commitments of a period less than 24 months. Providing multiannual commitments is crucial to promote projects and programmes with long-term horizons. To increase predictability, flexibility and harmonisation, donors could further support pooled funds or other softly earmarked facilities. An increasingly vast literature shows that strictly earmarked multilateral contributions pose threats for multilateral organisations that mostly rely on donor grants, such as the UN, in promoting system-wide and long-term approaches (OECD, 2018^[45]). This echoes with the multilateral financing situation of Lebanon where the vast majority of donor financing for humanitarian and resilience activities through the UN system is channelled bilaterally from donors to the specific agency at the project level. Funding from humanitarian pooled funds in Lebanon amounted to USD 14 million.

Partnership between development partners and the government could be driven by effectiveness and mutual accountability

Effective transition finance approaches need more engagement with the government, in turn requiring appropriate incentive structures for mutual accountability. As shown in Chapter 1, official development finance for Lebanon has been increasingly channelled beyond the national government, mainly to UN entities and civil society organisations. Ensuring long-term development of the country

requires stepping up support to public institutions, particularly on infrastructure. The momentum raised by the USD 11 billion CEDRE conference revived the discussions on long-term infrastructure finance through the government. However, increasing financial resources is not enough if implementation is not effective, which requires appropriate incentive structures. For example, mechanisms such as the GCFF have been slow in operationalising resources available because of slow approval and implementation. Comparatively, Jordan (another country eligible to receive GCFF resources) is receiving more financing from the GCFF because approval and implementation is more effective.

Ongoing discussions point to the development of a follow-up mechanism that tracks both government reforms and disbursement of donor funds at the project level. This mechanism offers the opportunity to improve mutual accountability, which is particularly important for donors in a relatively rich country. Unlike low-income countries where donor support accounts for a large share of national resources, ensuring accountability in richer countries is more challenging. The World Bank is the body to co-ordinate around reform implementation. Currently, it is helping the Lebanese government develop a roadmap of actionable reforms, as it did on several other occasions (e.g. Iraq, Jordan, etc.). Other mechanisms to increase accountability—and hence resources channelled to the government—could include programme for results. France is also providing political support to create a follow-up mechanism that tracks implementation of reforms and the disbursement of funds at the project level.

Beyond accountability, aid effectiveness principles need to guide partnerships between donors and the country. Ensuring effectiveness means that increasing financing volumes is not enough. This requires to promote country ownership, results, inclusiveness and transparency. Several issues are undermining effectiveness in Lebanon, including:

- The lack of a national development plan by Government of Lebanon that can provide and overarching framework for guiding development partners' strategy; and
- Limited data publicly available, which reduces transparency and makes donor focus on results more challenging;

In this context, development partners can help the Government of Lebanon with soft support on making essential elements of decision-making process available. Development partners can further co-ordinate with the Government of Lebanon on the development of a national development agenda, locally owned. They can also support initiatives that increase the availability of data publicly available. Finally, donors should ensure that civil society contributes to political discussions and monitoring of operations supported by development partners as they can bring transparency and accountability, especially about issues related to refugee protection and human rights. This can help ensure that local priorities and citizens' voices are included.

References

- Ajluni, S. and M. Kawar (2015), *Towards Decent Work in Lebanon: Issues and Challenges in Light of the Syrian Refugee Crisis*, https://www.ilo.org/wcmsp5/groups/public/---arabstates/---ro-beirut/documents/publication/wcms_374826.pdf. [109]
- Al-Attar, S. (2015), *Quatre ans après le soulèvement en Syrie, le chômage explose et les inégalités se creusent au Liban*, <http://www.lorientlejour.com/article/915891>. [31]
- AsDB (2018), *Avoiding the middle-income trap in Asia: the role of trade, manufacturing and finance*, <https://www.adb.org/sites/default/files/publication/469276/adbi-avoiding-middle-income-trap-asia.pdf>. [10]
- Ashkar, H. (2018), *The Role of Laws and Regulations in Shaping Gentrification: The case of Beirut*, http://edoc.sub.uni-hamburg.de/hcu/volltexte/2018/435/pdf/Ashkar_thesis_2018.pdf. [118]
- Association of banks in Lebanon (2019), *Main indicators by the end of 2017*, <http://www.abl.org.lb/subPage.aspx?pageid=12341> (accessed on 22 January 2019). [16]
- Bajec, A. (2017), *Bringing facts back to Lebanon's refugee conversation*, AL Jazeera, <https://www.aljazeera.com/indepth/features/2017/07/bringing-facts-lebanon-refugee-conversation-170710113854403.html>. [36]
- Bank Audi (2018), *Lebanon Economic Report*, <http://www.databank.com.lb/docs/Lebanon%20Economic%20Report-Q2%202018.pdf>. [91]
- Baumann, H. (2016), *Social protest and the political economy of sectarianism in Lebanon*, pp. 634-649. [8]
- Beirut Research and Innovation Center (BRIC) (2013), *Survey on the livelihoods of Syrian refugees in Lebanon*, https://www-cdn.oxfam.org/s3fs-public/file_attachments/rr-bric-livelihoods-syrian-refugees-lebanon-211113-en_0.pdf. [123]
- Benn, J., C. Sangaré and T. Hos (2017), "Amounts Mobilised from the Private Sector by Official Development Finance Interventions: Guarantees, syndicated loans, shares in collective investment vehicles, direct investment in companies, credit lines", *OECD Development Co-operation Working Papers*, No. 36, OECD Publishing, Paris, <http://dx.doi.org/10.1787/8135abde-en>. [116]
- Blominvest Bank (2018), *Lebanese Eurobonds' performance H1 2018*, <http://blog.blominvestbank.com/wp-content/uploads/2018/07/Eurobonds-Market-H1-2018.pdf>. [72]

- Blominvest Bank (2014), *Where are the USD 7B remittances spent*, [60]
<http://blog.blominvestbank.com/wp-content/uploads/2014/11/2014-10-Where-Are-the-7B-Remittances-Spent.pdf>.
- Casado-Asensio, J. and N. Piefer (2018), "Breaking Down the Myths of Triangular Co-operation in Middle East and North Africa", *OECD Development Co-operation Working Papers*, No. 41, OECD Publishing, Paris, <https://dx.doi.org/10.1787/41102acd-en>. [104]
- CAS-Lebanon, the PCBS and LPDC (2017), *Population and Housing Census in Palestinian Camps and Gatherings in Lebanon*, [38]
<http://www.lpdc.gov.lb/DocumentFiles/Key%20Findings%20report%20En-636566196639789418.pdf>.
- CGD and IRC (2017), *Refugee Compacts: Addressing the Crisis of Protracted Displacement*, [82]
<https://www.cgdev.org/publication/refugee-compacts-addressing-the-crisis-of-protracted-displacement>.
- Chami, R. et al. (2018), *Is there a remittance trap?*, IMF, [61]
<https://www.imf.org/external/pubs/ft/fandd/2018/09/is-there-a-remittance-trap-chami.htm>
 (accessed on 28 February 2019).
- Collelo, T. (1989), *Lebanon: A Country Study*, Library of Congress, [26]
<https://www.loc.gov/item/88600488/>.
- Council for Development and Reconstruction (2018), *Progress Report*, [55]
http://www.cdr.gov.lb/eng/progress_reports/pr102018/PReng.pdf.
- Council for Development and Reconstruction Lebanon (2019), *Data on CEDRE contributions*. [56]
- Development Tracker (2018), *Support to the Lebanon Subsidised Temporary Employment Programme (STEP)*, <https://devtracker.dfid.gov.uk/projects/GB-GOV-1-300060>. [76]
- Eldawy, D. (2019), *A Fragile Situation: Will the Syrian Refugee Swell Push Lebanon Over the Edge?*, <https://www.migrationpolicy.org/article/syrian-refugee-swell-push-lebanon-over-edge>. [41]
- Errighi, L. and J. Griesse (2016), *The Syrian Refugee Crisis: Labour Market Implications in Jordan and Lebanon*, European Commission, [42]
https://ec.europa.eu/info/sites/info/files/dp029_en.pdf.
- European Commission (2019), *Lebanon*, https://ec.europa.eu/echo/where/middle-east/lebanon_en. [121]
- European Commission (2016), *The Syrian Refugee Crisis: Labour Market Implications in Jordan and Lebanon*, https://ec.europa.eu/info/sites/info/files/dp029_en.pdf. [111]
- European Union (2019), *Co-chairs' Statement Annex (Fundraising), Supporting the Future of Syria and the Region-Brussels III Conference*. [50]
- European Union (2019), *Supporting Syria and the region: Post-Brussels conference financial tracking*, <https://www.voltairenet.org/IMG/pdf/syria-report-seven.pdf>. [49]

- European Union (2018), *Action Document for EU Trust Fund to be used for the decisions of the Operational Board*, https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/eutf_final_ad_education_lebanon_revised_after_the_june_board_2018.pdf. [77]
- European Union (2015), *European Union Regional Trust Fund in response to the Syrian crisis, “the MADAD FUND”: Draft Results Framework 2015-2017*, https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/eutf_madad_results_framework.pdf. [52]
- FAO (2018), *Country brief: Lebanon*, <http://www.fao.org/giews/countrybrief/country.jsp?code=LBN> (accessed on 16 January 2019). [97]
- Freedom House (2018), *Lebanon profile*, <https://freedomhouse.org/report/freedom-world/2018/lebanon> (accessed on 17 January 2019). [18]
- Gaspard, T. (2004), *A Political Economy of Lebanon 1948–2002: The Limits of Laissez-Faire*, Leiden: Brill. [85]
- Gaub, F. (2015), *Lebanon’s civil war: seven lessons forty years on*, https://www.iss.europa.eu/sites/default/files/EUISSFiles/Alert_21_Lebanon_civil_war.pdf. [25]
- GIZ (n.d.), *Money transfers without borders (Website)*, <https://www.giz.de/en/worldwide/38566.html> (accessed on 17 March 2019). [63]
- GoL, EU and UN (2018), *Brussels II Conference: Lebanon partnership paper*, <https://www.consilium.europa.eu/media/34145/lebanon-partnership-paper.pdf>. [80]
- Government of Lebanon (2018), *Capital Investment Programme*, <http://www.pcm.gov.lb/Admin/DynamicFile.aspx?PHName=Document&PageID=11231&published=1>. [57]
- Government of Lebanon (2018), *Lebanon’s Voluntary National Review on Sustainable Development Goals*, <https://sustainabledevelopment.un.org/content/documents/19624LebanonVNR2018.pdf>. [90]
- Government of Lebanon and United Nations (2019), *Lebanon Crisis Response Plan 2017-2020 (2019 update)*, <https://reliefweb.int/report/lebanon/lebanon-crisis-response-plan-2017-2020-2019-update>. [75]
- Government of the United Kingdom (2017), *UK announces Pound 2.5m investment in Lebanon’s knowledge economy*, <https://www.gov.uk/government/news/uk-announces-25m-investment-in-lebanons-knowledge-economy> (accessed on 17 March 2019). [70]
- Huang, C. and K. Gough (2019), *The Jordan Compact: Three Years on, Where Do We Stand?*, <https://www.cgdev.org/blog/jordan-compact-three-years-on>. [102]
- ICTD/UNU-WIDER (2018), *“Government Revenue Dataset”*, <https://www.wider.unu.edu/project/government-revenue-dataset>. [13]
- IDAL (2018), *IDAL FDI Monitor*, <https://investinlebanon.gov.lb/content/uploads/Publication/180730121559464-IDAL%20FDI%20MONITOR%20LEBANON%20-%20%202018.pdf>. [68]

- ILO (2015), *Towards Decent Work in Lebanon: Issues and Challenges in Light of the Syrian Refugee Crisis*, https://www.ilo.org/wcmsp5/groups/public/---arabstates/---ro-beirut/documents/publication/wcms_374826.pdf. [11]
- IMF (2018), “*World Economic Outlook (October)*” (database), <https://www.imf.org/external/pubs/ft/weo/2018/02/weodata/index.aspx>. [73]
- IMF (2018), *World Economic Outlook Database*, <https://www.imf.org/external/pubs/ft/weo/2018/02/weodata/index.aspx>. [27]
- IMF (2017), *Lebanon - 2016 Article IV consultation*, International Monetary Fund, Washington, D.C., https://www.elibrary.imf.org/doc/IMF002/23987-9781475570618/23987-9781475570618/Other_formats/Source_PDF/23987-9781475570977.pdf. [62]
- IMF (2017), *Lebanon: Selected Issues*, <https://www.imf.org/~media/Files/Publications/CR/2017/cr1720.ashx>. [23]
- IMF (2014), *Lebanon: 2014 Article IV Consultation – Press Release; Staff Report; and Statement by the Executive Director for Lebanon*, International Monetary Fund, <https://www.imf.org/external/pubs/ft/scr/2014/cr14237.pdf>. [32]
- Info Migrants (2017), *Italy and IOM team up for Tunisia with 'migration as resource'*, <https://www.infomigrants.net/en/post/5839/italy-and-iom-team-up-for-tunisia-with-migration-as-resource> (accessed on 17 March 2019). [65]
- Janmyr, M. (2016), *Precarity in Exile: The Legal Status of Syrian Refugees in Lebanon*. [39]
- Kafalat Sal (2015), *What is the iSME programme?* (Website), <http://www.kafalatisme.com.lb/what-is-the-isme-programme> (accessed on 17 March 2019). [71]
- Kaul, I. (2017), *Providing global public goods: What role for the multilateral development banks?*, Overseas Development Institute, <https://www.odi.org/sites/odi.org.uk/files/resource-documents/11724.pdf>. [44]
- Khater, L. (2017), *Labour Policy and Practice*, <http://www.lb.undp.org/content/dam/lebanon/docs/CrisisPreventionRecovery/SupplementArticles/16Supp/PEACE%20BUILDING%2016%20july%202017%20p4.pdf>. [33]
- Kim, J. et al. (2018), *Transition finance challenges for commodity-based least developed countries: The example of Zambia*, https://www.oecd-ilibrary.org/development/transition-finance-challenges-for-commodity-based-least-developed-countries_feb640fe-en. [4]
- Kim, J. and K. Poensgen (forthcoming), *Viet Nam transition finance country pilot*. [7]
- Le Borgne, E. and T. Jacobs (2016), *Lebanon: Promoting Poverty Reduction and Shared Prosperity*, <http://documents.worldbank.org/curated/en/951911467995104328/pdf/103201-REPLACEMENT-PUBLIC-Lebanon-SCD-Le-Borgne-and-Jacobs-2016.pdf>. [95]
- Lebanese Palestinian Dialogue Committee, Central Administration of statistics and Palestinian Central Bureau of Statistics (2018), *The Population and Housing Census in Palestinian Camps and Gatherings (2017): Key Findings Report*, <http://www.lpdc.gov.lb/DocumentFiles/Key%20Findings%20report%20En-636566196639789418.pdf>. [114]

- Lebanon - Ministry of Education and Higher Education (2016), *Reaching All Children with Education: RACE II (2017-2021)*, http://racepmulebanon.com/images/RACE-II_FINAL-Narrative_29AUG2016.pdf. [53]
- McKinsey (2019), *Lebanon Economic Vision*, <https://www.economy.gov.lb/media/11893/20181022-1228full-report-en.pdf?fbclid=IwAR1D3dyuF33kZKS07CWomIlijvLPFaOpA4Rb213Ve3PDbhchHF6iisdqRIQA>. [29]
- Miyamoto, K. and E. Chiofalo (2017), "Development Co-operation for Private Sector Development: Analytical Framework and Measuring Official Development Finance", *OECD Development Co-operation Working Papers*, No. 32, OECD Publishing, Paris, <https://dx.doi.org/10.1787/ded2028f-en>. [98]
- Morris, R., O. Cattaneo and K. Poensgen (2018), "Cabo Verde Transition Finance Country Pilot", *OECD Development Co-operation Working Papers*, No. 46, OECD Publishing, Paris, <https://dx.doi.org/10.1787/1affcac6-en>. [3]
- MOSA and UNDP (2007), *Development of Mapping of Living Conditions in Lebanon, 1995-2004: A Comparison with the Results of Living Conditions in Lebanon, 1998.*, https://www-cdn.oxfam.org/s3fs-public/file_attachments/rr-poverty-inequality-social-protection-lebanon-200116-en_0.pdf. [20]
- Norad (2019), *Norad - What we do*, <https://norad.no/en/front/thematic-areas/macro-economics-and-public-administration/tax-for-development/what-we-do/>. [92]
- OECD (2019), "Creditor Reporting System (CRS)" (database), <https://stats.oecd.org/Index.aspx?DataSetCode=crs>. [14]
- OECD (2019), "International development statistics (database)", OECD, Paris, <http://www.oecd.org/dac/stats/idsonline.htm>. [84]
- OECD (2019), *Aid at a Glance Lebanon 2016-2017*, https://public.tableau.com/views/OECDDACAidataglancebyrecipient_new/Recipients?:embed=y&:display_count=yes&:showTabs=y&:toolbar=no?&:showVizHome=no. [119]
- OECD (2019), *Boosting Private Sector Development and Entrepreneurship in Afghanistan*, <http://www.oecd.org/eurasia/competitiveness-programme/central-asia/Boosting-Private-Sector-Development-and-Entrepreneurship-Afghanistan-2019-EN.pdf>. [100]
- OECD (2019), *DAC and CRS code list*, <http://www.oecd.org/dac/stats/dacandcrscodelists.htm>. [59]
- OECD (2018), *DAC List of ODA Recipients, effective for reporting on 2018, 2019 and 2020 flows*, http://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/DAC_List_ODA_Recipients2018to2020_flows_En.pdf. [105]
- OECD (2018), *Global Outlook on Financing for Sustainable Development*, <http://www.oecd.org/dac/global-outlook-on-financing-for-sustainable-development-2019-9789264307995-en.htm>. [2]
- OECD (2018), *International Migration Outlook 2018*, OECD Publishing, Paris, https://dx.doi.org/10.1787/migr_outlook-2018-en. [46]

- OECD (2018), *Making Blended Finance Work for the Sustainable Development Goals*, OECD Publishing, Paris, <https://dx.doi.org/10.1787/9789264288768-en>. [99]
- OECD (2018), *Multilateral Development Finance: Towards a New Pact on Multilateralism to Achieve the 2030 Agenda Together*, OECD Publishing, Paris, <https://dx.doi.org/10.1787/9789264308831-en>. [45]
- OECD (2018), *States of Fragility 2018*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264302075-en>. [115]
- OECD and UNHCR (2018), *Safe pathways for Refugees*, <https://reliefweb.int/sites/reliefweb.int/files/resources/5c07a2c84.pdf>. [81]
- Oxfam (2018), *The Commitment to Reducing Inequality Index 2018*, <https://www.oxfam.org/en/research/commitment-reducing-inequality-index-2018>. [88]
- Oxfam (2017), *Making Aid To Jordan And Lebanon Work*, <https://www.lcps-lebanon.org/publications/1493725844-oxfam.pdf>. [21]
- Piemonte, C. (forthcoming), *Chile transition finance country pilot*. [6]
- Piemonte, C. et al. (2019), "Transition Finance: Introducing a new concept", *OECD Development Co-operation Working Papers*, No. 54, OECD Publishing, Paris, <https://dx.doi.org/10.1787/2dad64fb-en>. [1]
- Pincet, A., S. Okabe and M. Pawelczyk (2019), "Linking Aid to the Sustainable Development Goals – a machine learning approach", *OECD Development Co-operation Working Papers*, No. 52, OECD Publishing, Paris, <https://dx.doi.org/10.1787/4bdaeb8c-en>. [83]
- Purfield, C. et al. (2018), *Opportunity for all : promoting growth and inclusiveness in the Middle East and North Africa*, International Monetary Fund, <https://www.imf.org/~media/Files/Publications/DP/2018/45981-dp1811-opportunity-for-all.ashx>. [89]
- Rouhanna, N. (2018), *Lebanon's entrepreneurship ecosystem: Invest in the building blocks*, <http://www.executive-magazine.com/entrepreneurship/lebanons-entrepreneurship-ecosystem>. [101]
- Saad, W. (2017), "Economic Growth and Total Factor Productivity in Lebanon", *International Journal of Economics and Finance*, Vol. 9/2, pp. 159-171, <http://dx.doi.org/10.5539/ijef.v9n2p159>. [17]
- Santander (2018), *Jordan: Foreign Investment (Website)*. [67]
- Sune, H. (2011), *The historiography and the memory of the Lebanese civil war*, [http://dx.doi.org/The historiography and the memory of the Lebanese civil war](http://dx.doi.org/The%20historiography%20and%20the%20memory%20of%20the%20Lebanese%20civil%20war). [24]
- Temprano Arroyo, H. (2018), *Promoting Labour Market Integration of Refugees with Trade Preferences Beyond the EU-Jordan Compact*, https://www.ifw-kiel.de/fileadmin/Dateiverwaltung/IfW-Publications/-ifw/Kiel_Working_Paper/Promoting_Labour_Market_Integration_of_Refugees_with_Trade_Preferences_Beyond_the_EU-Jordan_Compact/KWP_2108.pdf. [103]

- The Economist (2018), “Why Lebanon struggles to form governments: Deep divisions mean agreeing on anything takes time”, *The Economist*, <https://www.economist.com/the-economist-explains/2018/12/21/why-lebanon-struggles-to-form-governments>. [108]
- The Government of Lebanon and the United Nations (2017), *Syria Crisis Response Plan 2017-2020*, <https://data2.unhcr.org/fr/documents/download/53061>. [113]
- The Government of Lebanon and the United Nations (2014), *Lebanon Crisis Response Plan 2015-2016*, <https://data2.unhcr.org/en/documents/download/42701>. [112]
- Thompson, C., R. Scott and K. Poensgen (forthcoming), *Financing the Transition to Middle Income Status in Uganda*. [5]
- Torbey, J. (2014), *Lebanese banking thrives in tough economic conditions*, World Finance, <https://www.worldfinance.com/banking/lebanese-banking-thrives-in-tough-economic-conditions>. [15]
- UK Gov (2016), *Supporting Syria and the region conference - Co-host’s statement annex: fundraising*, <https://webarchive.nationalarchives.gov.uk/20180601145806/https://www.supportingsyria2016.com/news/co-hosts-statement-annex-fundraising/>. [54]
- UK TechHub (2018), *UK TechHub (Website)*, <https://www.uklehub.com/> (accessed on 17 March 2019). [69]
- UN and Inter-Agency Co-ordination (2019), *2019 January Statistical Dashboard (Lebanon)*, <https://reliefweb.int/sites/reliefweb.int/files/resources/68634.pdf>. [35]
- UNCTAD (2018), *Investment policy review - Lebanon*, https://unctad.org/en/PublicationsLibrary/diaepcb2017d11_en.pdf. [66]
- UNDP (2019), *Lebanon Host Communities Support Programme (LHSP)*, <http://www.lb.undp.org/content/lebanon/en/home/projects/SupportLebaneseHostCommunities.html>. [78]
- UNDP (2008), *Poverty, Growth and Income Distribution in Lebanon*, <http://www.lb.undp.org/content/dam/lebanon/docs/Poverty/Publications/Poverty,%20Growth%20and%20Income%20Distribution%20in%20Lebanon.pdf> (accessed on 1 February 2019). [19]
- UNESCWA (2018), *Survey of Economic and Social Developments in the Arab Region (2017-2018)*, https://www.unescwa.org/sites/www.unescwa.org/files/publications/files/survey-economic-social-development-arab-region-2017-2018-english_1.pdf. [93]
- UNESCWA (2016), *The Arab Sustainable Development Goals Wall Chart 2016*, https://www.unescwa.org/sites/www.unescwa.org/files/page_attachments/wall_chart_120x90_cm_corr1.pdf. [87]
- UN-Habitat and UNHCR (2018), *Housing, Land and Property Issues of Syrian Refugees in Lebanon from Homs City: Implications of the Protracted Refugee Crisis*, UN-Habitat Lebanon, https://reliefweb.int/sites/reliefweb.int/files/resources/UNHABITAT-UNHCR_HLP%20ISSUES%20OF%20SYRIAN%20REFUGEES%20IN%20LEBANON%20FROM%20HOMS_NOV%202018_web.pdf. [40]

- UNHCR (2019), *Situations Syria Lebanon*, <https://data2.unhcr.org/en/situations/syria/location/71> [106]
(accessed on 31 January 2019).
- UNHCR (2019), *Syrian Regional Refugee Response*, [47]
<https://data2.unhcr.org/en/situations/syria/location/71>.
- UNHCR (2018), *Fourth Regional Survey on Syrian Refugees' Perceptions and Intentions on Return to Syria (RPIS)*, <https://reliefweb.int/sites/reliefweb.int/files/resources/66198.pdf>. [74]
- UNHCR (2018), *Global Compact on Refugees*, [79]
<https://www.unhcr.org/events/conferences/5b3295167/official-version-final-draft-global-compact-refugees.html>.
- UNHCR, UNICEF, WFP (2018), *Vulnerability Assessment of Syrian Refugees in Lebanon (VASyR)*, <https://data2.unhcr.org/en/documents/download/67380>. [34]
- UNICEF, UNCHR & WFP (2018), *VASyR 2018*, [120]
<https://data2.unhcr.org/en/documents/download/67380>.
- UNIDO (2017), *Promoting Women Empowerment for Inclusive and Sustainable Industrial Development in the Middle East and North Africa region*, [107]
https://www.unido.org/sites/default/files/2017-04/MENA_REPORT_Eng_interactive-1_0.pdf.
- UNIDO (2015), *Inclusive and Sustainable Industrial Development in the Arab Region*, [94]
https://www.unido.org/sites/default/files/2015-07/UNIDO_in_Arab_Region_0.pdf.
- United Nations (2018), *Lebanon Crisis Response Plan 2017-2020 (2018 update)*, [43]
https://reliefweb.int/sites/reliefweb.int/files/resources/LCRP2018_EN_Full_180122.pdf.
- UNRWA (2019), *Emergency Appeal*, [37]
https://www.unrwa.org/sites/default/files/content/resources/2019_syria_ea_final.pdf.
- UNRWA (2019), *Palestine Refugees*, UNRWA, <https://www.unrwa.org/palestine-refugees>. [110]
- UNRWA (2019), *Protection in Lebanon*, <https://www.unrwa.org/activity/protection-lebanon>. [122]
- USAID (2017), *Championing economic growth best practices in Asia and the middle east*, [64]
https://www.chemonics.com/wp-content/uploads/2018/06/AMEG_Final-Report.pdf.
- World Bank (2019), *"International Debt Statistics" (database)*, [28]
<https://data.worldbank.org/products/ids>.
- World Bank (2019), *World Bank Country and Lending Groups*, [58]
<https://datahelpdesk.worldbank.org/knowledgebase/articles/906519-world-bank-country-and-lending-groups>.
- World Bank (2019), *World Bank Indicators*, <https://data.worldbank.org/indicator>. [12]
- World Bank (2019), *World Integrated Trade Solutions (WITS)*, [9]
<https://wits.worldbank.org/CountryProfile/en/LBN>.
- World Bank (2018), *Global Concessional Financing Facility: Annual Report 2017-2018*, [51]
https://globalcff.org/wp-content/uploads/2018/12/GCFF-Annual-Report-2018_181220_FINAL_Digital.pdf.

- World Bank (2018), *Lebanon: Creating Economic Opportunities in Support of the Lebanon National Jobs Program. Program Appraisal Document*, [86]
<http://documents.worldbank.org/curated/en/707931530329796565/pdf/Lebanon-PAD-final-06082018.pdf>.
- World Bank (2013), *Lebanon-Economic and Social Impact Assessment on the Syrian Conflict*, [30]
<http://documents.worldbank.org/curated/en/925271468089385165/pdf/810980LB0box379831B00P14754500PUBLIC0.pdf>.
- World Bank (2012), *Lebanon - Good jobs needed: the role of macro, investment, education, labor and social protection policies (MILES) - a multi-year technical cooperation program*. [22]
- World Economic Forum (2018), *The Global Competitiveness Report 2018*, [96]
<http://reports.weforum.org/global-competitiveness-report-2018/downloads/>.
- Yahya, M., J. Kassir and K. el-Hariri (2018), *Unheard Voices: What Syrian Refugees Need to Return Home*, Carnegie Endowment for International Peace, [117]
https://carnegieendowment.org/files/Yahya_UnheardVoices_INT_final.pdf.
- Yassin, N. (2018), *101 Facts and Figures on the Syrian Refugee Crisis*, [48]
https://www.unhcr.org/lb/wp-content/uploads/sites/16/2018/06/AUB-IFI-101-fact-Sheet-2018_-_English.pdf.

Methodological note

Definition of official development finance and type of flows

Data analysis on support by development partners is based on official development finance, which is broad measure of developing countries' official receipts for developmental purpose [see list of developing countries in (OECD, 2018_[105])]. Official development finance can be concessional (i.e. official development assistance or ODA) and non-concessional (i.e. other official flows or OOF). Export credits and OOF grants are not covered to ensure that the dataset only includes developmental flows.

The flow basis of official development finance is deflated commitments (2016 prices). The choice of commitments over disbursements was made for two reasons: first, commitments better reflect geopolitical events in the period covered in the analysis (e.g. financial crisis, humanitarian crises, etc.); second, the data coverage is much more comprehensive than for disbursement.

List of official development finance providers

Data on official development finance is reported by bilateral and multilateral providers to the OECD Creditor Reporting System (OECD, 2019_[84]). Three groups of development finance providers covered:

1. **DAC countries**: Australia, Austria, Belgium, Canada, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, Korea, Luxembourg, Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, United Kingdom, United States.
2. **Non-DAC countries**: Algeria, Bulgaria, Croatia, Cyprus¹⁵, Estonia, Iraq, Israel¹⁶, Kazakhstan, Kuwait, Latvia, Libya, Liechtenstein, Lithuania, Malta, Qatar, Romania, Russian Federation, Chinese Taipei, Thailand, Turkey, United Arab Emirates. Saudi Arabia was not included

¹⁵ Note by Turkey: the information in this document with reference to “Cyprus” relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people on the Island. Turkey recognises the Turkish Republic of Northern Cyprus (TRNC). Until a lasting and equitable solution is found within the context of the United Nations, Turkey shall preserve its position concerning the “Cyprus issue”.

Note by all the European Union Member States of the OECD and the European Union: The Republic of Cyprus is recognised by all members of the United Nations with the exception of Turkey. The information in this document relates to the area under the effective control of the Government of the Republic of Cyprus.

¹⁶ The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

in this analysis due to the lack of detail reported by country and sector (see more details in the section “Estimates and exclusions”).

3. **Multilateral organisations:** Adaptation Fund, African Development Bank, African Development Fund, Arab Bank for Economic Development in Africa, Arab Fund for Economic Social Development, Asian Development Bank Special Funds, Asian Development Bank, Asian Infrastructure Investment Bank, Caribbean Development Bank, Climate Investment Funds, Council of Europe Development Bank, European Bank for Reconstruction and Development, European Union Institutions⁵, Food and Agriculture Organisation, Gavi (the Vaccine Alliance), Global Environment Facility, Global Fund, Global Green Growth Institute, Green Climate Fund, Inter-American Development Bank, Inter-American Development Bank Invest, Inter-American Development Bank Special Fund, International Atomic Energy Agency, International Bank for Reconstruction and Development, International Development Association, International Finance Corporation, International Fund for Agricultural Development, International Labour Organisation, International Monetary Fund (Concessional Trust Funds), Islamic Development Bank, Joint United Nations Programme on HIV and AIDS, Montreal Protocol, Nordic Development Fund, Organization of Petroleum Exporting Countries Fund for International Development, Organization for Security and Co-operation in Europe, United Nations Children’s Fund, United Nations Development Programme, United Nations Economic Commission for Europe, United Nations Environment Programme, United Nations High Commissioner for Refugees, United Nations Peacebuilding Fund, United Nations Population Fund, United Nations Relief and Works Agency for Palestine Refugees in the Near East, World Food Programme, World Health Organisation, World Tourism Organisation.

Clustering of sectors

Sectoral analyses of official development finance used the following clusters, based on OECD DAC Creditor Reporting System sector codes (in brackets):

- governance: governance and civil society (150); general budget support (510)
- humanitarian: emergency response (720); reconstruction relief and rehabilitation (730); disaster prevention and preparedness (740)
- infrastructure: water (140); transport (210); communications (220); energy (230)
- multisector: general environment protection (410); other multisector, excl. rural development (430)
- production: banking and financial services (240); business and other services (250); agriculture, forestry, fishing (310); industry, mining, construction (320); trade policy and regulations (331); tourism (332); other multisector, only rural development (430)
- social: education (110); health (120); population policies and reproductive health (130); other social infrastructure and services (160)
- other: food aid (520); other commodity assistance (530); action relating to debt (600); administrative costs of donors (910); refugees in donor countries (930); unallocated or unspecified (998).

Estimated and exclusion of official development finance data

- Gross disbursements are used as a proxy wherever commitments are not available. Saudi Arabia only provided information on its development co-operation programme on an aggregate basis. As this did not allow for a sectoral breakdown, Saudi Arabia was not included in the analysis;
- Gross disbursements were used as a proxy for commitments for the Arab Bank for Economic Development in Africa, International Atomic Energy Agency, Montreal Protocol, United Nations Environment Programme, United Nations Population Fund, and World Food

Programme due to incomplete reporting on a commitment basis. For Climate Investment Fund: commitments were used for ODA and gross disbursements for OOF, due to specific reporting issues.

List of World Bank Indicators

The following indicators are used throughout the study as specified for respective graphs.

Table 3.3. World Bank Indicator

Type the subtitle here. If you do not need a subtitle, please delete this line.

| Variable/Indicator | WB Indicator Code |
|---|--------------------------|
| Domestic credit provided by financial sector (% of GDP) | FS.AST.DOMS.GD.ZS |
| Foreign direct investment, net inflows (% of GDP) | BX.KLT.DINV.WD.GD.ZS |
| Foreign direct investment, net inflows (BoP, current US\$) | BX.KLT.DINV.CD.WD |
| GDP (current US\$) | NY.GDP.MKTP.CD |
| GDP deflator (base year varies by country) | NY.GDP.DEFL.ZS |
| GNI per capita, Atlas method (current US\$) | NY.GNP.PCAP.CD |
| GNI, Atlas method (current US\$) | NY.GNP.ATLS.CD |
| Interest payments on external debt, total (INT, current US\$) | DT.INT.DECT.CD |
| Personal remittances, received (% of GDP) | BX.TRF.PWKR.DT.GD.ZS |
| Personal remittances, received (current US\$) | BX.TRF.PWKR.CD.DT |
| Population, total | SP.POP.TOTL |
| Portfolio Investment, net (BoP, current US\$) | BN.KLT.PTXL.CD |
| Total debt service (% of GNI) | DT.TDS.DECT.GN.ZS |

Note: Data available under <https://data.worldbank.org/>

