

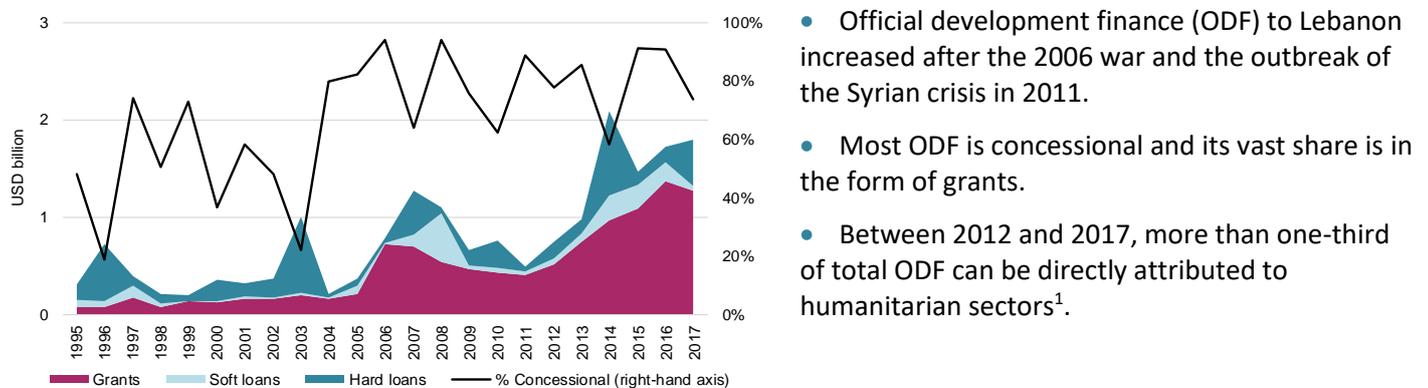
As part of its Transition Finance work stream and through its new “Assessing, Benchmarking and Counseling” (ABC) approach, the DAC/OECD is carrying out several pilot studies in countries facing different transition challenges as they move through the development continuum. The Lebanon pilot looks particularly at the transition challenges faced by a UMIC country having recently faced a large external shock and that experiences a non-linear development trajectory. It expands the geographical scope of the country studies to the MENA region.

ASSESSING

The Syrian crisis marked a significant external shock to Lebanon compounding pre-existing deficits and challenges in a country that had experienced several setbacks and fragilities in the past. Once a high income country in the 1970s, internal and external shocks such as the 1975-1990 civil war and the 2006 war hampered Lebanon’s development. Still, high average growth per capita after the conflict periods allowed the country to reach and maintain upper-middle income status (UMIC) since 1997. Coinciding with the crisis in neighbouring Syria, however, average growth per capita turned negative in 2011. Investment decreased and Lebanon’s main trade route through Syria was closed. Demand for public services and use of infrastructure increased with the country hosting between 1 and 1.5 million Syrian refugees. This amplified pre-existing deficits including high poverty and inequality and a low quality of infrastructure and public service provision. A fragmented political landscape and complex power-sharing agreements complicate decision-making and stability. Lebanon is perceived to be among the most corrupt countries globally.

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 protection’. This is especially as some donors had reduced or phased-out development co-operation in Lebanon before. Responding to the Syrian crisis, development partners significantly increased official development assistance (ODA) to Lebanon, mostly in the form of grants and for humanitarian purposes (Figure 1). As Lebanon is not eligible for concessional resources from most MDBs, donors created special financing instruments such as the Global Concessional Financing Facility (GCOFF). Scaling up assistance to Lebanon highlighted the need of an ecosystem that ensures absorptive capacity, effective use of financing and adequate incentive structures to avoid negative spillovers of a large upscaling of ODA.

Figure 1. Official development finance to Lebanon by type of finance



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

¹ The Creditor Reporting System allows to allocate on purpose code. The share of ODF to humanitarian is likely to be higher as, for instance, part of ODA to education and health also is for humanitarian purposes.

BENCHMARKING

Comparing Lebanon to countries at similar income levels (UMICs), regional peers (MENA) and other countries hosting large numbers of refugees reveals the following financing for development traits of Lebanon:

- **Official development finance to Lebanon is comparably high, particularly on a per capita basis and for humanitarian assistance.** This reflects the need for more concessional resources to respond to the adverse effects of the Syrian crisis. Compared to other UMICs, Lebanon receives a larger share of its official development finance (ODF) from bilateral DAC donors and the recipient government accounts for only a small fraction of ODF in Lebanon. UN agencies make up the largest individual provider channel in Lebanon.
- **Lebanon receives considerable amounts of remittances and FDI but resources are not targeting productive activities.** Lebanon's large and wealthy diaspora provides sizeable amounts of remittances. These are primarily used for private consumption in Lebanon and contribute to social protection. Foreign direct investment is relatively high in Lebanon but targets real estate acquisitions rather than productive investment in real sectors.
- **Domestic government revenues are relatively low in Lebanon while domestic credit dominates the financing landscape.** 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.
- **Public debt in Lebanon is among the highest globally.** 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 concerns persist, the level of humanitarian assistance needs to be maintained.
- ✓ Meanwhile, opportunities exist to support longer-term interventions and foster greater synergies and spillovers between humanitarian and development assistance. Using common country systems can lead to economies of scale 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.

- ✓ DAC members have the opportunity to support Lebanon's social service provision, address governance issues, and promote productive sector development. 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 if attached reforms are undertaken.
- ✓ There is opportunity 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 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-reliance. This calls for more engagement with the government, in turn requiring appropriate incentive structures for mutual accountability. 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.
- ✓ There is opportunity among donors to better co-ordinate beyond humanitarian assistance.