

## LEBANON

UNITARY COUNTRY

## BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: UPPER MIDDLE INCOME

LOCAL CURRENCY: LEBANESE POUND (LBP)

## POPULATION AND GEOGRAPHY

**Area:** 10 450 km<sup>2</sup>**Population:** 6.812 million inhabitants (2017), an increase of 5.5% per year (2010-2015)**Density:** 652 inhabitants / km<sup>2</sup>**Urban population:** 88% of national population**Urban population growth:** 1.7% (2017 vs 2016)**Capital city:** Beirut (35.0%\* of national population)

\*There is some uncertainty regarding the estimates for Beirut, which do not include Syrian refugees.

## ECONOMIC DATA

**GDP:** 87.3 billion (current PPP international dollars), i.e. 12 814 dollars per inhabitant (2017)**Real GDP growth:** 0.6% (2017 vs 2016)**Unemployment rate:** 6.3% (2017)**Foreign direct investment, net inflows (FDI):** 2 559 (BoP, current USD millions, 2017)**Gross Fixed Capital Formation (GFCF):** 19.4% of GDP (2017)**HDI:** 0.757 (high), rank 80 (2017)

## MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

Lebanon is a parliamentary democratic republic and a unitary country. The legislative power is vested in a unicameral parliament, composed of 128 representatives elected for a four-year term. The President of the Republic is the head of state, and is elected by the Parliament for six years. The Prime Minister is the head of government and presides the executive body, i.e. the Council of Ministers. He is nominated by the President. Besides the central government level, the country is administratively divided into three distinct levels of subnational authorities: the regional level, made up of deconcentrated units called governorates (*muhafazat*); the district level, composed of districts (*qada*) that are sub-divisions of governorates; and the local level, that includes municipalities (*baladiyat*) and federations of municipalities also referred to as unions of municipalities (*ittihadat baladiyat*). The Ministry of Interior and Municipalities (MoIM) is the central body responsible for local administration. The MoIM provides municipalities with technical and financial support as needed, exerts financial control over municipalities, and is in charge of organizing and monitoring the municipal elections. At the deconcentrated levels, the governor (*muhafez*) and the district commissioner (*qaimaqam*) supervise the administrative aspect of the municipalities but must refer to the MoIM in matters related to municipalities.

Numerous local administration laws and reforms were promulgated in Lebanon since the country's independence from France in 1943. The Municipal Act, Decree-Law No. 118 was adopted on June 30th, 1977, and is currently the main legislative text regulating municipal governments. The Municipal Act (as amended in 1999) defines the municipality as a self-governing, decision-making body whose members are directly elected for a period of six years. Although it has been underway since the 1950s, the decentralisation process was truly enhanced in 1989 with the Ta'if Agreement, that marked the end of the Lebanese civil war. This agreement stipulated the adoption of an "extensive administrative decentralisation" to achieve local development and boost citizen participation. The first municipal elections in thirty-five years were held in 1998.

More recently, the massive challenge of hosting 1.5 million refugees from Syria and the waste management crisis have added huge constraints on the local governance system. At the same time, these challenges have revived the debate around decentralisation and the need to strengthen the role of local governments across the country. Several attempts to adopt a new legal and political framework for decentralisation have been made, but none have fully materialised. The latest attempt was the Administrative Decentralisation Bill introduced in 2014, which provided for the creation of elected local councils at the district level with wide responsibilities and fiscal autonomy, as well as the institutionalisation of participatory mechanisms and civic oversight at the local level. However, this bill remains unclear about the role of municipalities and does not provide a basis for the reform of the municipal system. This bill, still under discussion, has not yet been adopted.

## TERRITORIAL ORGANISATION

MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
1 038 municipalities ( <i>baladiya</i> ) + 57 federations or unions of municipalities ( <i>ittihad baladiyat</i> )			
Average municipal size: 6 221 inhabitants			
1 095			1 095

**OVERALL DESCRIPTION.** Lebanon has one decentralised tier of government, comprising 1 038 municipalities (*baladiya*) and 57 federations or unions of municipalities (*ittihad baladiyat*). The central government also maintains a presence at the sub-national level, through deconcentrated administrations at the regional level (9 governorates or *muhafazat*) and at the district level (26 districts or *qada*).

**MUNICIPALITIES AND FEDERATIONS OF MUNICIPALITIES.** The number of municipalities has increased steadily since 1998, from 638 to 1 038 in 2017, a high figure in relation to the country's surface area and number of inhabitants. The majority of Lebanese municipalities are small municipalities with less than 4 000 inhabitants. The municipality consists of a decision-making authority entrusted to the municipal council and an executive authority assigned to the mayor. Municipal councils range from 9 to 24 members depending on the size of the constituency. Only the cities of Beirut and Tripoli have 24 council members. The capital city of Beirut benefits from a special administrative status. Beirut's municipal council is composed of 24 members, from which 16 members are elected and eight are designated by the central government. Unlike other municipalities, Beirut municipal council is presided by a governor appointed by the council of ministers, while the elected mayor remains part of the decision-making authority. The capital city and its agglomeration are home to more than one-third of the total Lebanese population. However, this figure is probably much higher, since most Syrian and Palestinian refugees (not included in the estimates) reside in the Beqaa Valley, around Beirut.

Municipalities may form a federation (also called union) for the purpose of conducting common projects and coordinating resources to deliver public services. There is a large variation in terms of federations' size, population, specific contexts and institutional capacities, given that the 1997 Municipal Act does not specify the size of the federations or specific areas of action. Unions of municipalities have usually between 3 and 53 member municipalities with an average of 14 municipalities. The creation of a union must be approved by the ministry cabinet based on the recommendation of the Ministry of Interior and Municipalities (MoIM). Since 2000, the number of unions of municipalities multiplied by four, reaching 57 as of 2017. About 75% of municipalities are members of these federations. The federation of municipalities is chaired by a federation council headed by a president.

**TERRITORIAL ADMINISTRATIVE UNITS.** The country is divided into 9 governorates (Akkar, Baalbak-Hermel, Beirut, Beqaa, Jbeil-Kesrwan, Mount Lebanon, Nabatiyyeh, North Lebanon and South Lebanon). Each governorate, with the exception of Beirut, is in turn subdivided into 26 districts. Governorates and districts are deconcentrated tiers of the central government and do not enjoy administrative and financial autonomy. On average, a district has 42 municipalities and 2 federations, and, on a larger scale, governorates encompass 148 municipalities and 7 federations. Governorates are chaired by a governor (*muhafez*) while districts are headed by a district commissioner (*qaimaqam*). Both are appointed by the council of ministers, and report to the MoIM. Governors and district commissioners are in charge of supervising local police services and the elected municipal councils. Governorates also have regional branches of the main line ministries.

## SUBNATIONAL GOVERNMENT RESPONSIBILITIES

According to the 1997 Municipal Act (as amended), each municipality has a jurisdiction over matters of public interest within its boundaries (art. 47). Municipal responsibilities are diverse and include: planning, infrastructure works in various domains such as water, waste and wastewater networks, territorial and urban management, economic development, environmental protection, as well as the provision of health, social, educational, cultural and sports facilities and services. The Act further grants municipal council the right to establish committees among its members to assist in performing its tasks. The union of municipalities has prerogatives on public projects that bring common benefits for most member municipalities such as roads, sewerage systems, waste collection, slaughterhouses, transportation, markets and civil defence, among others. The union also oversees the planning system and has a coordinating function among member municipalities.

In practice, municipalities and federations face several challenges that often prevent them from performing their duties effectively. Indeed, overlapping functions between the central administrations and municipal governments and between municipalities and unions of municipalities, lack of adequate administrative and fiscal capacity within many municipalities and strong central government oversight significantly undermine their ability to act. For instance, around three-quarters of the municipal decisions need prior approval of the relevant government agencies or deconcentrated administrative units. Municipalities also rely heavily on central government, civil society organisations and foreign-funded projects to provide technical services.

### MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

LOCAL GOVERNMENT LEVEL (MUNICIPALITIES AND UNIONS OF MUNICIPALITIES)	
1. General public services	Administrative services; Public buildings and facilities
2. Public order and safety	Municipal police (incl. guards, firefighting, crisis response); Civil defence; Road signals; Road security, traffic regulation
3. Economic affairs/transport	Local markets and shops; Transport regulation; Planning and maintenance of local roads; Slaughterhouses
4. Environmental protection	Public parks & green areas management; Solid Waste management (collection, treatment and disposal); Landscaping and beautification; Preventing pollution; Maintenance and implementation of sewerage systems
5. Housing and community amenities	Maintenance and implementation of water infrastructure; Monitoring the quality of drinking water; Public lighting; Urban and land use planning (in cooperation with the Directorate General for Urban Planning); Urbanism and property management; Building and housing permits; Street cleaning; Naming streets in the municipal area
6. Health	Clinical centres; Dispensaries; Primary healthcare (medical centres); Preventive healthcare; Implementation of health establishments and institutions; Health activities support
7. Recreation, culture & religion	Cultural Heritage; Museums; Libraries; Recreational centres; Support and implement cultural, sports and social activities.
8. Education	Construction and/or maintenance of educational facilities; Control of educational activities; Kindergartens; Vocational training centres
9. Social protection	Social services (especially rescuing the needy and disabled people)

## SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: municipalities.	Other	Availability of fiscal data: <b>Low</b>	Quality/reliability of fiscal data : <b>Low</b>
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**GENERAL INTRODUCTION.** The fiscal and financial framework for Lebanese municipalities is defined in the 1963 Public Accounting Act for large municipalities, and the 1982 Municipal Accounting Act for the other municipalities. The 1977 Municipal Act and the Municipal Fees and Surtaxes Act No. 60 of 1988 further enumerate the main sources of revenue municipalities are allowed to raise. The 1977 Municipal Act also created the Independent Municipal Fund, i.e. the main mechanism for distributing the revenues raised by central government to the municipalities. As per the above-mentioned acts, municipal councils are empowered to plan, budget and spend their revenues, approve or reject donations and ordered funds, as well as transfer and open credits and determine the rates of the municipal taxes.

Despite this relative enabling environment for local autonomy, municipalities in Lebanon face chronic shortages in municipal financial resources, which affect their capacities to implement sustainable development projects. They are also subject to strong administrative, financial and budgetary oversight from three layers of central government – i.e. the district commissioner, the governor and the Ministry of Interior and Municipalities (MoIM) –, resulting in bottlenecks and backlogs. Additional administrative constraints, such as excessive procedures for hiring municipal staff and lack of financial means to hire new employees, result in understaffing that also affect service provision at the municipal level.

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## SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION



**EXPENDITURE.** It was not possible to find recent data on subnational finances in Lebanon. A report from the Lebanese Centre for Policies Studies (LCPS) report, published in 2015, estimates that municipal expenditures accounted for 6% of total public expenditure in 2008, which is low compared to other countries. The expenditures of Lebanese municipalities have increased significantly between 1998 and 2008, representing an annual average rise of 10.6%. According to the same source, in 2010, current expenditure were making the bulk of total municipal expenditure, followed by equipment and development expenditure. A correlation can be made between the size of the municipality and the amount it spends on administration and local development: in general, the larger a municipal council is, the more the municipality spends on administration. On the contrary, the smaller municipalities spend more on development than the larger ones.

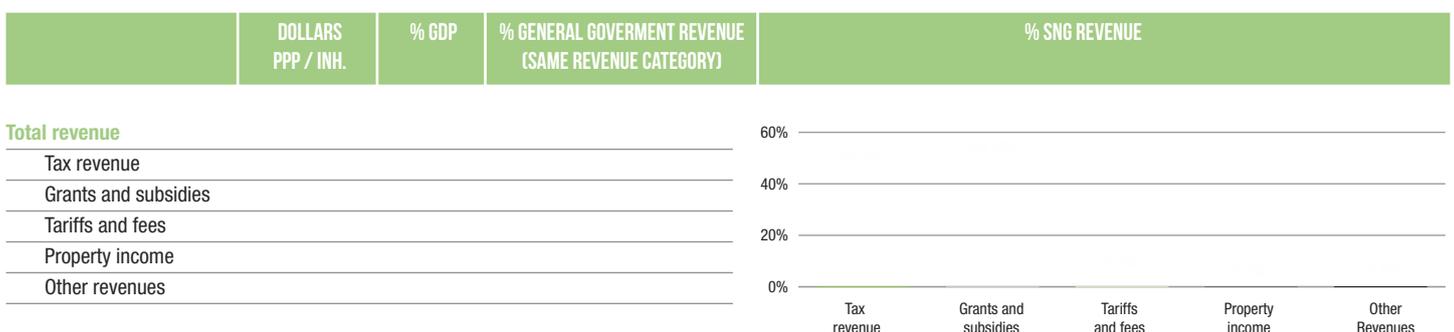
**DIRECT INVESTMENT.** Nearly 70% of the country's municipalities are small towns with limited capacity to provide and deliver basic public services. Thus, most functions related to urban development and infrastructure project implementation are supervised by the district commissioner. In addition, Lebanon's social and economic growth has been significantly impacted by the conflict in Syria, especially with the massive influx of population, that put additional pressure on the country's development potential. The Lebanon Crisis Response Plan (LCRP) was developed as a joint response between the Government of Lebanon and its international and national partners to provide assistance and protection to vulnerable populations, including Syrian and Palestinian refugees, and to support municipalities and infrastructure to provide effective public services across the country. Since 2013, a total of USD 6.39 billion has been allocated, including USD 4.5 billion under the current 2017-2020 LCRP, to support Lebanese infrastructure such as roads, water and waste management, and to assist municipalities in implementing priority projects for their local communities.

## SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

As part of their core responsibilities, municipalities spend the bulk of their expenditures on providing local services, including road rehabilitation, road paving, road lightning network, potable water network and sidewalks, among others. In 2012, only 8% of municipalities were able to provide all of the above services. A 2017 briefing paper also reports that about 63-70% of municipal capital expenditures are allocated to basic infrastructure works, in particular the construction and maintenance of roads. A similar trend can be observed at the union of municipalities level, since 61.5% of municipal unions' expenditures are allocated to the construction of public roads in 2010. Unions of municipalities also spend a significant part of their capital expenditures on the provision of public lighting networks, the construction of public water networks, sewerage systems, and other facilities for which they are responsible.



## SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY



**OVERALL DESCRIPTION.** As specified in Art. 86 of the 1977 Municipal Act, Lebanese municipalities are entitled to receive revenue from the following sources: own-source taxes; taxes and fees collected by the central government on behalf of the municipalities; fees collected by the central government and deposited in the Independent Municipal Fund; financial aids and loans; revenues from municipal properties; fines; and donations and bequests. Municipal revenues come mostly from direct fees (representing 43% of total municipal revenues in 2010), the Independent Municipal Fund transfers (31% of total municipal revenues in 2010) and other sources related to aid and loans, revenues from municipal properties, fines and grants and bequests (26% of total municipal revenues in 2010). The sources of revenue of the federations of municipalities are detailed in the Art. 133 and 134 of the 1977 Municipal Act, They comprise 10% of the revenue of each municipal member, an additional percentage from the budget of the municipalities which benefit from a common project, grants and loans, and a share from the Independent Municipal Fund. Unions of municipalities are not empowered to impose or collect any fee or tax.

**TAX REVENUE.** Municipalities suffer from low tax collection rates and a lack of diversified sources of revenues. They are not allowed to impose any new tax or determine the tax base. The 1977 Municipal Act and the 1988 Municipal Fees and Surtaxes Act No. 60 (as amended in 1990) provide a list of 36 taxes and fees directly collected by the municipalities (further detailed below). The poor tax collection performance is due to several factors, such as weak administrative capacity, inadequate human resources and IT systems, as well as lack of a proper assessment of the fee rates, among many others.

**GRANTS AND SUBSIDIES.** Art. 86 of the 1977 Municipal Act provides for two types of shared taxes collected by the central government on behalf of the municipalities: 1) taxes collected by the central government, independent agencies or public institutions on behalf of municipalities and distributed directly to each municipality; and 2) taxes collected by the central government on behalf of municipalities through the Independent Municipal Fund, an intergovernmental grant system. Shared taxes belonging to the first category include a 10% surtax on telephone, electricity and drinking water bills, later converted into a value-added tax; surtax on built property tax; surtax on the tax on industrial, commercial and non-commercial occupations; surtax on the transfer of estates, bequests and donations; surtax on real estate registration fees; surtax on liquid fuel fees; surtax on the registration fees of cars, motor vehicles and motorcycles; port fee; fees for spirits, alcoholic and soft drinks, as well as meat and fish; and fee on insurance premiums except life insurance. The remaining taxes and fees, which form the second category, are deposited in the Independent Municipal Fund to be later distributed to the municipalities. The Fund is made up of a total of 11 taxes and fees, including income tax, customs fees, insurance fees, vehicle registration fees, real estate registration fees, transfers of estate fees and property tax. In 2010, Independent Municipal Fund transfers represented 70% of unions of municipalities' revenues and 31% of municipalities' revenues but only amounted to 0.4% of GDP. At least 75% of its funds are allocated for municipalities and up to 25% are distributed to unions of municipalities. The revenue distributed to municipalities is further divided into different components: 70% are assigned to support municipal current expenditure, calculated with a formula based on registered population (around 60%) and direct revenues collected by the municipalities during the last two years (40%); and 30% are earmarked for capital expenditure. As for unions of municipalities, 25% of this Fund are allocated to support unions' current expenditure, based on registered population, and 75% for development projects, taking into account the union's development needs.

However, by considering only the registered populations rather than the actual population residing in each municipality, the Independent Municipal Fund fails to properly allocate resources. This misallocation of resources seriously impacts municipalities and municipal unions and their ability to provide local services, because the amount distributed to them does not match their needs. Similarly, the Independent Municipal Fund only takes into account direct municipal revenues – mainly consisting of property-related taxes –, that favor urban or turistic municipal areas to the detriment of rural or agricultural areas, thus deepening inequalities among municipalities. Another issues affecting the allocation of resources are the unpredictability of the amount transferred, the delay in the disbursement as well as lack of transparency of the Independent Municipal Fund, resulting in instability in municipal budgeting and planning.

**OTHER REVENUES.** Municipalities are entitled to collect fees on rental value, sewage and pavement maintenance and building permit, as well as on public/meeting places and gambling clubs, advertisements, occupation of public municipal property, shops and fuel stations, classified institutions, auctions, street vendors, butchered animals, access to municipal public spaces, registration of rent agreements, attestations, certificates and technical studies, compensation resulting from improvement works, and special fee on combustible and explosive materials. Of the 36 taxes and fees collected directly by the municipalities, three – namely fee on rental value on residential and non-residential units, fee on sewage and pavement maintenance and fee on building permit – constitute nearly 83% of direct municipal revenues (all related to property). The fee on rental value constitutes the main source of direct revenue for municipalities, but only accounted for 0.02% of GDP in 2005. Additionally, most of these municipal fees are not used since their collection requires more effort and resources than the value they generate. Many are also obsolete, such as the “investment fee on the generators used in industrial institutions”, or the “fee on certificates of technical studies”.

## ■ SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
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### Total outstanding debt

Financial debt\*

\* Currency and deposits, loans and bonds

**FISCAL RULES.** There is no unified budget system in Lebanon, since municipalities are subject to two different accounting systems: the 1963 Public Accounting Act governs the accounting practices of all central government agencies and large municipalities, while the 1982 Municipal Accounting Act defines the accounting principles of the other municipalities and unions of municipalities. As per the 1982 Municipal Accounting Act, the mayor is in charge of preparing the budget proposal which must be approved by the municipal council, the district commissioner, the governor and the Ministry of Interior and Municipalities. The financial operations of Beirut and the municipalities and unions of municipalities whose revenues exceed LBP 1 million are supervised by the Controller General. For those municipalities, the prior approval of the Controller General is required before the mayor submits the budget to the municipal council. In addition, the Audit Court is in charge of controlling the execution of municipal budgets and the bank accounts of the municipalities. A Civil Service Board is also responsible for monitoring municipal decisions regarding administrative staff and salaries in large municipalities.

**DEBT.** The 1977 Municipal Act grants municipalities the right to borrow from banks. However, this provision was amended by the Act 89/5 of 1989, that prohibits municipalities from taking out loans and prohibits the central government to act as a guarantor to the municipalities except if a special decree is passed for that purpose.



Lead responsible: UCLG  
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**Socio-economic indicators:** World Bank, UNDP, UN DESA, ILO.

**Sources of statistics (fiscal data):** International City/County Management Association (2011), Municipal Finance Studies Programs – Final Strategic Framework // Atallah, Sami, “The Independent Municipal Fund: Reforming the Distribution Criteria”, Policy Brief, 2011, Lebanese Center for Policy Studies.

**Sources of information:** Government of Lebanon and United Nations (2019), Lebanon Crisis Response Plan 2017-2020 (2019 update) // Nahnoo (2018) Citizen and Municipality Handbook. Simplified Legal Rules Governing Municipal Work in Lebanon // Democracy Reporting International (2017), Public Service Provision in Municipal Unions in Lebanon. Solid Waste Management, Municipal Police and Public Safety, Accountability and Participation // Democracy Reporting International, “BP 80: Reforming Decentralisation in Lebanon – The State of Play,” 2017 // UCLG MEWA (2016), The Role of Municipalities of Turkey and Lebanon in the Syrian Migratory Influx Management // Lebanese Center for Policy Studies (2015), About Administrative Decentralization in Lebanon // Harb, Mona and Atallah, Sami (2015), Local Governments and Public Goods: Assessing Decentralization in the Arab World, the Lebanese Center for Policy Studies // Ministry of the Environment (2010), “ECODIT. State and trends of the Lebanese environment”.