

# Lebanon and Syria

## Blackouts as a way of life

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The politics, economics and societies of Syria and Lebanon have been closely intertwined for many years. This chapter discusses the countries' different approaches to the concept of 'public' and 'private' services. Focusing on the water and electricity sectors, it highlights how international bodies and regional agreements are influencing domestic policies towards the dominant model of market-oriented reforms.

### Two countries, one nation?

Lebanon and Syria became two separate states only after the end of World War I. Under the French mandate, Lebanon was carved out of Greater Syria as a predominantly Christian state. In 1975 a civil war erupted in Lebanon, tearing the country apart along ethnic and religious lines as well as allegiance to regional powers, particularly Israel and Syria. After the end of the war in 1990, the Treaty of Brotherhood, Co-operation and Co-ordination of 1991 extended Syria's presence in Lebanon. Syrian politicians spoke of "*two countries, one nation*".

In 2003 the US Congress passed the Syria Accountability and Lebanese Sovereignty Act (SALSA). The Act accused Syria of supporting terrorism and the Iraqi resistance, hiding weapons of mass destruction, and occupying Lebanon. In 2004, UN resolution 1559 demanded Syria's withdrawal from Lebanon before the Lebanese elections of May 2005. Both the Syrian and Lebanese governments criticised the resolution as "*interference in relations between friendly countries*" (Jordan Information Centre, 2005). With the assassination of Prime Minister Rafik Hariri on 14 February 2005, a so-called grassroots movement demanding self-determina-

tion for Lebanon swept the streets of Beirut in peaceful demonstrations. Under mounting international pressure, Syrian army and intelligence personnel finally withdrew from Lebanon in late April 2005.

Lebanon and Syria have a complex, symbiotic economic relationship only partly compromised by the recent departure of Syria. Their economies overlap substantially in the areas of labour, finances, trade and energy. Lebanon needs cheap, low to medium skilled labour to carry out the government's ongoing reconstruction plans, as well as to service private businesses and individual homes. Estimates of the numbers of Syrian labourers in Lebanon vary between 400 thousand and 1 million. Meanwhile, tens of thousands of Lebanese people are employed in Syria's nascent banking sector. Syria and Lebanon are also highly interdependent in the area of trade. To reach markets overland, Lebanon necessarily has to send goods through Syria. Syria, rich in oil and gas, has been exporting energy to Lebanon since the immediate post-civil war period and, although the recent political crisis between the two countries has disrupted delivery. Lebanon also exports water to Syria.

Despite their common history and interdependence. Syria and Lebanon have followed very different political

paths, however. While Syria adopted state-centred socialist policies, Lebanon moved towards a more market-oriented approach. Interestingly, both countries currently face similar pressure to reform their public sectors.

## Public services in Lebanon

The public sector, though relatively big, is in disarray and basic services are often limited. The government employs approximately 260,000 people, representing 6.5 percent of the population. Public sector expenditure amounts to USD 7 billion, half of which goes towards servicing debt. The sector is rife with corruption, often serving as a kind of pension scheme for aging politicians, their friends and family. In 2004, Transparency International's *Corruption Perception Index* ranked the country ninety-seventh, indicating a very high level of corruption. Accountability is further muddled by a political decision-making process that leaves strategic decision-making to appointed managers, most of whom have limited experience in managing large public sector organisations. Water networks are extensive, reaching most households, but quality is poor. There is hardly any wastewater treatment. Power cuts and blackouts occur on a daily basis. Industry and even private households rely on generators, guaranteeing them some independence from the notoriously unreliable electricity company. It is estimated that 55 percent of the population do not pay their electricity bills and nearly 50 percent do not pay their taxes.

## Debt and pressure to reform

Lebanon's debt stands at USD 36 billion. At 180 percent of GDP it is among the world's highest. It is estimated that debt servicing represents over 45 percent of the government's total budget. The debt is mainly held by Lebanese banks, which mobilised their large deposit base to finance the budget deficits (EC, 2005). The reliance on these savings has insulated Lebanon from some of the pressures experienced by other developing countries. At the 'Paris II' donors' conference of November 2002, the former government pledged to generate more than USD 5 billion from the privatisation of telecommunications and electricity, a figure widely believed to be inflated. Given the size of outstanding debt, it is difficult to see how the proceeds from privatisation would make much of a difference.

Since the withdrawal of Syrian troops from Lebanon there has been much talk of a new donors' conference for

Lebanon. Whether or not a 'Paris III' takes place, it is clear that this time the strings attached wouldn't be as easily cast off. France, the United Kingdom and the United States have already sent Lebanon an unambiguous message. There will be no more loans, nor even aid, without reforms. A third donors' conference will enhance significantly the bilateral nature of the debt which, in turn, will increase the constraints on Lebanese policy-making. The government would have to follow-up with concrete reforms, first and foremost a concrete timetable for privatisation (Photiades, 2005). Some first steps have already been taken.

## The Higher Privatisation Council

Under the late Rafik Hariri, the former government's structural reform priority was to raise USD 6 billion over 2003 and 2004 by privatising a number of utility companies, including telecommunications, electricity, water and transport. The 2000 Privatisation Act sets the framework for the liberalisation of state-owned enterprises, establishing a Higher Privatisation Council and providing for the proceeds from privatisation to go towards debt repayment.

Progress has been slow, however, and the government fell short of its Paris II commitments. Controversies between proponents and opponents of liberalisation within the Council of Ministers stalled telecommunications privatisation and resulted in the sale of the Water Company, Electricité du Liban, Middle East Airlines and the ports being put on hold. Potential privatisations are further complicated by the low level of interest shown by foreign investors, due to *inter alia* the controversial cancellation by the government of two mobile operator contracts three years early, a high degree of corruption and shortcomings in infrastructure (EC, 2005).

## The new government

The new government, in which dedicated reformers hold key posts, is determined to overcome these obstacles. Prime Minister Fouad Siniora has long been striving for economic reform. He controls the Finance, Economy and Telecommunications ministries, leaving the Agriculture Ministry to his allies. These ministries hold the key to any reform plan as they will allow Siniora to privatise the telecommunications and electricity sectors and secure the projected revenues of other state-owned firms such as Casino du Liban and the Regie tobacco company. Siniora also brought in Sami Haddad from the World Bank's pri-



vate sector arm, International Finance Corporations (IFC), on a mission to overcome political resistance to privatisation. In a recent interview he stated: “Privatisation is a crucial pillar in this whole public sector restructuring. It’s a necessity – we have no choice” (Executive, 2005). The new government has the support of Saad Hariri, the political heir of the slain former Prime Minister Rafik Hariri and leader of the Future Movement – the faction that has an absolute majority in government.

### Public services in Syria

In Syria, the Ba’th socialist ideology holds that public ownership of national assets is in a country’s best interest. In 2005 public sector monopolies controlled cement production, sugar refineries, fertilisers, oil refining, water, electricity, fixed line telecommunications and insurance. Some agricultural products are subsidised, as are oil and water, which receive the highest subsidies amounting to 12 percent of GDP in 2004. Infrastructure investments are financed by the state except where these are projects implemented by foreign aid. Despite the intention to reduce public spending, the government upgraded its infrastructure spending in 2004, directing 20 percent of investment expenditures to transport and communications, 16 percent to water and electricity and 14 percent to irrigation for agriculture (Oxford Business Group, 2004:59). Infrastructure inadequacy is usually reported as the reason for inefficient delivery of services, particularly in the poor informal residential areas of bigger cities like Damascus and Aleppo, and in the most remote areas of the countryside. In 2002, 94 percent of the urban population had access to drinking water, while water delivery reached only 64 percent of the rural population. Sanitation was available to 97 percent of urban people and just 56 percent of the rural population. Electrification of the rural areas reached 99.4 percent of the total population, however (UNICEF, 2005).

The government has recently envisaged the inclusion of private companies in efforts to upgrade the management of some public sectors. Public-private partnerships (PPPs) already exist in municipal public transport, waste water treatment and solid waste collection. According to the unconfirmed report ‘Municipal Administration Project in Syria’, however, PPPs were banned by the Prime Minister (Plangroup, 2003:119). Build-operate-transfer (BOT) contracts with foreign

companies exist in mobile telecommunications and are expanding in the oil sector. Syria is trying to keep basic services in national hands while increasingly moving towards opening up other parts of its public sector.

Liberalisation is at odds with the socialist ideology of the Ba’th Party, which has promoted the centralisation of the public system since its assumption to power. According to some analysts, Syria is forced to liberalise because it is facing an economic crisis. Others hold that the government, destabilised by a crisis in both domestic and foreign policy, is heeding internal and international calls for liberalisation. In reality, the history of the Syrian Ba’th Party has always followed a path between ideology and pragmatism, an approach that mirrors choices currently being made by the government. Since the sixties, state-centred measures have assured the party its popular support. At the same time, reformist pressures from the entrepreneurs were met by small concessions to the private sector. Social stability was maintained through this compromise, which combined a large public sector and a small private sector.

### The Reforms

In the mid-fifties, post-independence Syria was characterised by deep social inequalities and political crisis. In 1963 the radical Ba’th Party, formed by the subordinated classes, took power. It established a socialist state that cut short private enterprise expansion and made the public sector the core of the economy (Hinnebusch, 1995). All large industries, banks and insurance were nationalised. An import-substitution strategy protected domestic industry from foreign competition. Agrarian reform endowed peasants with land and centralised agricultural production. The Euphrates River Development Project, an ambitious development plan, was meant to expand irrigation and deliver water and electricity to the Syrian countryside. Schools, hospitals and other infrastructure began to reach the most remote rural areas.

Periods of economic stagnation, however, obliged the government to give more space to the domestic private sector whose investments could reduce Syria’s reliance on foreign aid and borrowings. The collapse of communism at the beginning of the nineties discredited the Ba’th socialist ideology and further favoured the private sector. Nonetheless, the state kept control of all basic industries such as oil production and refining, telecommunications, air transport, power generation and distribution, and water distribution until the end of the nineties.

In recent years, in spite of its macroeconomic stability, Syria has been faced with growing difficulties. Its slow economic growth could not offset the high unemployment rate of 20 percent. A diversification of income, two thirds of which are currently based on dwindling oil revenues, is needed. The government also has to solve the growing scarcity of water critical for the agricultural sector, which contributes 30 percent of GDP.

'Reform' or 'renewal' have become the buzzwords both domestically and internationally since the late Hafez al-Assad was replaced by his young son Bashar as head of state in June 2000. Confronted with the challenges of improving the economy, increasing popular support and accommodating both reformist and conservative pressures, the new president focused on urgent calls for reforms. During his opening speech, he promised a modernisation of the system, while reconfirming the Ba'athist ideology as the basis for the government's policies. Accountability and efficiency became the keywords for public sector reforms inspired by a new market-oriented approach. But the government reiterated that straightforward privatisation was not on the agenda.

In reality, the reforms have slowly shifted towards privatisation. In the last few years, whole public sectors, once controlled by only one ministry, have been fragmented into smaller units eventually allowing for the privatisation of some segments of service production. This reflects Planning Minister Issam az-Zaim's words: "*We want to move to having an independent, accountable public sector, governed by market prices and with management separated from ownership*". World Bank senior economist Paolo Zacchia believes the Syrian government is pursuing a compromise by adopting flexible systems of liberalisation such as private management contracts that are less politically charged. (Interview with Paolo Zacchia, World Bank Office, Beirut, 29 September 2005)

The government's move towards liberalisation has been gradual, while government officials have constantly expressed their commitment to social welfare. In 2002, the Foreign Trade Minister spoke of the need to include in the management of some sectors a responsible and caring private sector, with rights but also obligations towards the community and the country (George, 2003:165). In 2004, the chief of the state planning commission announced Syria would adopt a market economy by 2010. In the same year, the Prime Minister declared: "*today there are no barriers blocking the private sector from investing in any sector [...] though some parts of the*

*market will still be protected*" (Oxford Business Group, 2004:20-21). The main objectives of the Syrian government were, according to the Prime Minister, "*to realise macroeconomic stability, to feed and clothe the population, and to provide housing, education and health [...] in addition to improving the living standards of all Syrians*" (ibid). These commitments were reconfirmed in 2005 in a new statement from the Prime Minister's office, according to which the government was aiming at a "*sustainable growth not vulnerable to social shocks*".

During the national conference of the Ba'ath Party in June 2005, Syria committed itself to a 'social market economy'. By this is meant a market economy where public management guarantees basic services, civil services are protected and social safety nets strengthened. Creating this 'socialist path' towards an open economy serves multiple purposes. The government takes pride in bringing about change without following the structural adjustment programmes of the IMF and other western international financial institutions. This diminishes Syrian economic and political dependence on foreign institutions and states. Furthermore, it imbues liberalisation policies with the arabist rhetoric of the Ba'ath Party, thus strengthening the government's ideological stand.

While partial privatisation satisfies international and domestic pressures for liberalisation, by the government assuming responsibility over water, energy and other basic services and excluding them from the private market, its commitment to socialist ideology is restated in an effort to boost popular support. More importantly, by keeping its hold over basic services, energy and water in particular, the government is retaining absolute control over an economy based on oil and water-dependent agriculture. These key sectors constitute the basis of the government's economic power and social legitimacy.

### International players and pressures

Heated domestic debates on the liberalisation of public sectors notwithstanding, the actual options available tend to be framed by the regional and global players dominating the discourse. Both Lebanon and Syria eventually aim to be included in the planned Euro-Mediterranean Free Trade Area and to accede to the WTO. In the process of integration, both countries will be expected to implement wide-ranging reforms as regards the ownership and management of their public services. For years the World Bank has been actively pushing for such a transition.



### The European Union and Euro-Med

In 2003 Lebanon signed an Association Agreement with the EU that commits both parties to gradual market opening and tariff dismantling. Syria and the EU have been intensively working toward the Syria-EU Association Agreement since the end of 2003. Within the framework of the Euro-Mediterranean Partnership, associated countries are to be integrated eventually into the internal market in terms of the European Neighbourhood Policy (ENP). The Euro-Med Partnership ultimately aims at the creation of a Euro-Mediterranean Free Trade Area (EMFTA) by 2010.

The EU is Lebanon's single largest donor. It channels grants, loans and guarantees bilaterally through member countries and multilaterally through the European Investment Bank (EIB) and special budget-lines such as the MEDA initiative (Mediterranean Development Assistance), the principal financial instrument for the implementation of the Euro-Med Partnership. Through MEDA funding is made available for economic and institutional development. A structural adjustment facility of EUR 50 million finances economic transition and stabilisation. To further reforms MEDA supports the creation of a regulating authority for the telecommunications sector as well as an Investment Planning Programme to rehabilitate infrastructure in water, energy, environment, public works and transport sectors. Grants are complemented by risk capital finance and interest subsidies in relation to loans provided by the EIB. The Bank offers a EUR 100 million Risk Capital Facility that offers guarantees to investors with a special focus on privatisation.

To improve its economy in preparation for the EMFTA, the EU recommends Syria stimulates growth and employment opportunities, diversifies the economy, reduces reliance on oil revenues, improves the business environment, rationalises and improves the quality of the public sector, and modernises the health and education system. Within this framework, a number of bodies have been working to reform the Syrian economy. The Syrian European Business Centre (SEBC) has been created to increase the competitiveness of the Syrian private sector. The Facility for Euro-Mediterranean Partnership (FEMIP) works to increase activities in favour of the private sector. The European Investment Bank (EIB) "*makes use of considerable amounts of risk capital for private sector development*" (Euro-Med Partnership, 2004:3). The 'Institutional and Sector Modernisation Facility' (ISMF) works to enhance the economic modernisation of Syria

in preparation for the establishment of the EU-Mediterranean FTA.

The Syria-EU Association Agreement gives special importance to reforms of the service sectors. Among the programme's objectives are the "*opening of energy and transport markets*" (Euro-Med Partnership, 2004:22). According to the *Middle East Report*, a transition from a public to a private economy was among the EU's preconditions for the agreement with Syria. The journal also reports that the "*Syrian team included 'services' in the list of sectors to be liberalised, and at a faster pace, as a way to hasten the signing [of the agreement]. This concession was not made public*" (Haddad, 2005:7).

The importance of the Association Agreement for Syria becomes clear in light of worsening ties with the United States. In fact, the longstanding enmity with Washington has more recently escalated after the American government accused the Assad government of supporting terrorism and imposed sanctions on Syria, which is increasingly isolated in the regional and international context. Syria has, therefore, been moved to try to strengthen its ties to the EU to counterbalance economic and political pressures from across the Atlantic.

### The World Bank

The World Bank's attempts to push through reform in Lebanon have suffered several setbacks. One was the failure of the so-called 'Privatisation Support Project' focused on a privatisation strategy, a framework law for privatisation and the preparation of an enabling policy and regulatory framework for the telecommunications and transport sectors. Bank staff refused to comment on why the project was dropped in 2000. In 1997, the Bank also underwrote Lebanon's first issue on the international bonds market with a guarantee of USD 100 million. The money borrowed was made available for the restructuring of the state-owned *Electricité du Liban*, however.

Since 1997, the Syrian government has requested only non-lending services of the World Bank. The latter is currently providing Syria with analytical advice and grants for policy reforms and institutional development towards a transition to a private sector-led economy. According to the Bank, Syria has been making efforts towards the liberalisation of services since 2000. In fact, the financial and telecommunication sectors have been opened to private enterprise. According to the Bank, however, the services sector is still underdeveloped. The Bank also criticised the substitution of state monopolies

by private monopolies, as is the case with the duopoly granted to private companies in the mobile telecommunications sector (World Bank, 2005:39-41).

### **The World Trade Organisation**

Lebanon is in the process of accession to the WTO, where it has had observer status since it applied for membership in 1999. Lebanon submitted a foreign trade memorandum in May 2001 accompanied by a series of regulatory reform measures, such as the new customs law which reduces tariff rates. Lebanon submitted a market access offer in June 2004 and is committed to eliminating all measures incompatible with the WTO's rules and to bring its trade regime into full conformity with the WTO upon accession (EC 2005).

In October 2001, half a century after Syria withdrew from the General Agreement on Tariffs and Trade (GATT), Syria formally applied for membership of the WTO. Even if the process seems to be stalled, the ongoing plans to join the WTO are used by pro-liberalisation reformers, the EU and the World Bank as a yardstick of Syrian progress towards integration into the global economy.

### **Reforms in the energy and water sectors**

On the surface the contrasts between the basic services sectors in Lebanon and Syria could not be more striking, with Lebanon having among the region's most expensive and Syria the cheapest. Lebanon's infrastructure suffered severely from the civil war and fifteen years ago had to be rebuilt from scratch, while Syria continuously gave high priority to infrastructure investments. On the other hand, both suffer from bad service delivery caused by high levels of corruption, amongst other factors. And both have made the first inroads towards privatisation.

### **The Lebanese electricity sector**

Lebanon is almost fully dependent on external energy sources for the generation of power. Its annual bill for importing oil products is about USD 1 billion, a figure likely to rise with current developments in the oil market. Several measures aimed at cutting energy costs have been undertaken. First, Lebanon will be linked to the regional power grid that includes Egypt, Jordan, Syria and Turkey from the beginning of 2006, thus reducing its electricity bill. Second, a favourable three-year deal with Kuwait will bring 800,000 tons of fuel a year to Lebanon. Finally,

introducing natural gas will increase supply security, reduce the energy bill and improve the environment (EC, 2005).

Lebanon has the highest electricity tariffs in the region and some of the highest in the world. Lebanese consumers currently pay 13.7 dollar-cents per kilowatt-hour. This compares with 2.7 dollar-cents per kilowatt-hour in Syria, the lowest tariff in the region even after the recent 70 percent increase. In 2001, only 60 percent of electricity users had meters installed and were being billed. Given the high tariffs, Lebanon's industrialists complain that electricity costs are seriously affecting their ability to compete with regional producers. Power outages occur daily and private generators and distributors supply 20 percent of electricity needs and are specifically used during peak times.

The sector is dominated by the vertically integrated and state-owned monopoly *Electricité du Liban* (EdL). EdL owns and operates generation, transmission and distribution assets. The company is in a very difficult financial situation as a result of low cash collection, theft, high technical network losses, organisational inefficiencies and the legacy of infrastructure damage incurred during the civil war. EdL loses more than USD 450 million a year and remains a serious drain on the government's budget. Moves to privatise EdL's operations have been under discussion for some years.

As early as 1996, a World Bank project, Power Sector Restructuring, got under way but failed. The funds granted did improve available infrastructure to some extent but at the expense of pushing up EdL's debt even further. The project completely failed to turn the ailing company around, however. The Bank assessed the project outcomes as well as its own performance as highly unsatisfactory, even declaring a misprocurement. This failure notwithstanding, another Bank project aiming to reform the power sector is in the pipeline and is expected to be launched in January 2006 (World Bank, 2002).

In 2002, the Electricity Sector Organisation Act was passed. It sets the legal basis for restructuring and aims to establish a regulator (EC, 2005). Parliament appointed French investment bank BNP-Paribas as advisor for the proposed sell-off of EdL's operations to take place by 2005. Part of the legislation allowed for a restructuring of EdL's debts, with the company granted a 150 million) treasury loan on top of a previously endorsed loan of USD 133 million, bringing the company's total debt up to USD 950 million. The new legislation also allowed the



government to break up EdL into three separate companies dealing with generation, transmission and distribution, and to sell up to 40 percent of the shares in the generation and distribution companies to strategic investors.

Since 2003, the Ministry of Energy and Water has been working with the European Commission utilising a loan supplied under the Investment Planning Programme. The project produced an inventory of the ministry's resources and operations in 2003. In 2004, it produced a new general policy and a strategy for 2005-2020 aimed at creating a liberalised competitive electricity market in which policy and strategy are the government's only responsibilities (Oxford Business Group, 2005).

Given the company's protracted difficulties, few believe that the government has any hope of successfully privatising 40 percent of the sector anytime soon. The chances of finding a strategic investor willing to buy a minority stake in either company is, not surprisingly, quite slim. EdL's privatisation remains on the agenda, but rather for the longer term due to its financial position (EC, 2005).

### **The Syrian electricity sector**

Energy sources in Syria include oil, natural gas, hydro-power and potentially solar, wind and biomass. Oil brings in substantial income for Syria, accounting for 17 percent of GDP in 2005. Some predict that its decreasing availability might see Syria becoming a net importer of oil in the next ten years. Production of gas, on the other hand, is slowly substituting oil in meeting the internal demand for electricity. At the same time, exploration of new oil fields has been stepped up with the involvement of foreign companies: 75 percent of Syria's oil is currently produced under production-sharing agreements. Foreign companies are invited to bid for the exploration of assigned blocks. If a new oil reserve is discovered, they are obliged to form a joint venture with state-owned Syrian Petroleum Company (SPC). A predetermined formula establishes the shares between the two partners. Since 2004, major international contractors have been building power plants on a turn key basis (Oxford Business Group, 2004:81-89).

As in Lebanon, the rest of the Syrian energy sector is a vertically-integrated state monopoly. The Ministry of Electricity is responsible for generation, transmission and distribution, as well as for tariff setting, contracting and ensuring standards of energy supply (Brown,

2005:43). There is no electricity law spelling out procedures for structuring, policy-making and regulation of the energy sector, which is in entirely controlled by the Ministry of Electricity.

Electricity supply seems to be the most problematic service provided by the state despite the heavy subsidies to the sector. Since the sixties, the state has assigned roughly 15 percent of its public sector expenditure to energy, mainly fuel and electric power. The latest investment took place in 2003, when a loan of EUR 190 million was raised from the EIB for power generation. Since the distribution of the service was not improved, however, delivery remained unreliable in many locations (World Bank 2005:iii). Currently, 72 percent of factories run on private generators.

Pricing used to be very low for all customers and households, particularly prior to 2002. In 2000, one kilowatt-hour cost USD 0.152. In 2002, the government raised prices by 70 percent. Further increases are planned in an attempt to eliminate state subsidies and move towards full cost recovery. This pricing process and the adverse impact of tariff increase on low-income households have been highly controversial within the government, clashing with the Ba'th concept of social market economy.

The EU-backed Institutional and Sector Modernisation Facility recommends tariff-based full cost recovery policies, together with an emphasis on provision to socially disadvantaged groups (Brown, 2005:37). The ISMF also highlights the need to reduce supply costs through increased efficiency of production and distribution systems.

### **Water delivery in Syria**

Although Syria does not suffer a serious water deficit, it is constantly faced with increasing demand and less than reliable availability. Since 1925, Syria's water resources have belonged to the state. Public ownership of water is firmly anchored in the constitution.

Drinking water services and wastewater in Syria are administered by the Ministry of Irrigation and Drinking Water Resources, and the Ministry of Housing and Construction. The Ministry of Local Administration and Environment manages drinking and wastewater issues. Syria is divided into fourteen governorates, and each has a water authority controlled by the government. These authorities manage the public companies that operate at the local level. The 'water supply unit' operates at village

level but has no decision-making power and no trained staff.

The government is the main provider of infrastructure services in Syria. For the past four decades, the state has assigned between 30 and 40 percent of its public sector investment to expansion of the irrigation system and bringing running water to the countryside. Faulty and inefficient irrigation plans have caused high levels of salinity and waste, however, while huge leakages reduce domestic delivery by 50 percent in some cities. For this reason, roughly 40 percent of private companies and numerous households have dug private wells, further impacting on overall water availability (World Bank, 2005:45). Together with upgrading water infrastructure in the main cities, the government is installing metres to monitor consumption and gradually increase tariffs. Consumption up to 20 cubic metres per month per household is charged at a rate of only USD 0.07 per cubic metre. No tariffs are applied to wastewater (Plan Group, 2003:82).

Wastewater treatment is present only in major cities and only 30 percent of municipal wastewater is treated. Untreated water is used for irrigation with negative impacts on health and sanitation. More dangerous health consequences result from the complete lack of proper treatment of hazardous waste. The Ministry of Housing and Construction is increasingly arranging deals with foreign partners for the management of wastewater (Polaris Institute, 2002).

Environmental regulations are managed by a number of ministries and are currently very fragmented. The government is generally working towards modification of consumers' behaviour to reduce waste. It has also given high priority to recycling treated water for agriculture. Each of the seven water basins in Syria has a new environmental action plan. Furthermore, under the FEMIP, the EIB is lending EUR 2 billion to Syria for reforms that prioritise improvement of domestic water supply and treatment (Euro-Med Partnership, 2004)

### **Water delivery in Lebanon**

The civil war left Lebanon with an inadequate water supply infrastructure dating back to the sixties. Unaccounted losses amount to more than 40 percent. Service is unreliable partly because few utilities have generators to maintain distribution during the frequent power failures. An estimated 80 percent of Lebanon's water supplies are polluted and, while coverage reaches 90 percent, water qual-

ity is generally poor. Few wealthy people rely on company water piped to their homes. There is a low flat tariff structure that has not been updated for decades and collection rates are as low as 10 percent.

Private sector involvement in water provision dates as far back as the Ottoman Empire, when concessionary contracts were awarded to private firms, including the Water Companies of Beirut, Zahle and Bhamdoun. In the late forties and early fifties, the government began to buy back concessions. Public utility performance was poor, however, and after 1993 the Lebanese government began to borrow money from the World Bank for the rehabilitation and development of water and waste water systems.

In 1994, a national emergency and reconstruction programme was initiated with a view to establishing a basis for the private sector playing a leading role in Lebanon's attempt to re-establish itself as a regional hub for trade and services. The Ministry of Water and Energy oversees developments in the sector and recently consolidated the 21 Water Authorities (WAs) into five bigger entities covering the country's major geographic regions. This was in line with the national privatisation law approved in May 2000. The law has built in several safeguards concerning monopolistic practices and the government reserves the right to own a golden share for a specified period, giving it veto powers. Major civil society concerns regarding the law pertain to the short period allowed a private firm to recover its investment and the relative secrecy in which procurement procedures are shrouded.

At the Paris II donor conference in 2002, Lebanon committed itself to increased private-sector involvement but so far this has been limited mainly to service contracts. Some ten municipalities have contracted management, operation, provision and maintenance of wells, pumping and treatment stations to local companies since 2002/3. Only the Tripoli Water Authority has taken steps thus far to award a service and management contract to a private operator. A new law (Law 401) enacted in June 2003 approved two concessionary loans from the French Development Agency (ADF) totalling EUR 20 million for upgrading the city's drinking water supply. The proceeds of the loans were specifically used to implement a service and management contract with a private contractor. Ondeo was signed up as the first private water provider in Lebanon. Although the Water Authority retains its administrative and legal responsibilities,



Ondeo is fully responsible for financial management, applying cost-recovery schemes, defining a remuneration policy and building the capacity of financial staff.

The Council for Development and Reconstruction has also engaged a consultant with the mandate to prepare tender documents for the Baalbeck-Hermel Water Authority. A World Bank project, aiming at operation, maintenance, rehabilitation and billing, is also in the pipeline. Planned future activities will ultimately result in the complete restructuring of the water sector. Measures will include greater private-sector involvement in the development and management of domestic water supply (ESCWA, 2003).

### Oppositions, resistances and trends

Syria is highly centralised and controlled by an unscrupulous regime. Investments and policies at all levels are decided by the government through five-year plans. Local authorities have very little decision-making power and citizens can report complaints at the neighbourhood committees. Despite being criticised as out of date during the 2005 Ba'ath conference, this centralisation policy remains in place. Such criticism, however, represents a new voice in a country where dissent has never been tolerated. NGOs have been legalised only in the last few years, censorship applies to all news and individuals, and it is apolitical religious groups which mainly constitute civil society. Furthermore, under the emergency law in place since 1963 no popular gathering is allowed. This restricts the formation of citizens' groups and offers few

opportunities for demonstrations or other such activities. Under these conditions, people's responses to the government's reforms are not voiced publicly and are difficult to monitor. Our attempts at surveying civil society's perspectives on public services reform have been to no avail.

In Lebanon, on the other hand, there is a vibrant civil society but important players willing to oppose the planned reforms are few and far between. There are some, however, whose political clout could go some way towards delaying the process. In particular, Hizballah (the Party of God), which remains a powerful national player despite being recently classified a terrorist organisation by the US. Lebanon's new Energy Minister Mohamed Fneish is Hizballah's first and only government representative and he is understood to oppose the privatisation of EdL. Lebanon's President Emile Lahoud has also presented himself in the past as the guardian of national assets. When Syria pressured Lebanon to change its constitution last year so that President Lahoud could extend his term in office for another three years, it also eroded what little standing he had left and he is losing power fast. Hizballah and Lahoud are staunch allies of Syria in Lebanon. Another critical voice comes from the Progressive Socialist Party, whose leader recently threatened to withdraw its three Cabinet Ministers if the government decides to privatise. And there is discontent, maybe even a fledgling movement trying to keep control over water resources (see box).

This is to say that if the likelihood of reforms occurring in the near future is understood as the outcome of a struggle between supporters and opposition, it is highly

### Resistance in the making?

'Andit is a village of some 10,000 people in the north of Lebanon. It shares its wells with the neighbouring, bigger Qubayat. Only one of the seven springs is potable as all the others are polluted due to mismanagement. Households pay a standing fee of equivalent to just over EUR 25.64 (USD 30) dollars annually towards the maintenance of the network from which they can draw up to a cubic metre of water every day. The local Water Authority is governed by an elected committee of five, led by a president. To enhance its chances of finding investors in the water sector, the government recently decided to integrate the 21 small Water Authorities into 5 bigger ones. Local water committees should be disbanded and control over the water handed to the government. This was resisted by local villagers, who staged protests and refused to give up their water even when the government sent in soldiers in September 2005. As the President of the Water Authority put it: "We don't want to give our water to the government so they will sell it to a company that will then sell it back to us." Inevitably prices would go up with privatisation, the villagers claim. Additionally, they are worried about their land losing value if water is no longer made available for irrigation. They are just beginning to meet with others in the area whose water resources are also threatened. A ten-member committee has been chosen to unite more villages and start a campaign. Their goal is to keep control over their water, and is not necessarily to keep out private companies.

likely that changes in Lebanon will happen fast. The reformers are in power and there is simply no sizeable opposition. There is much work to do for civil society organisations to build resistance, extremely difficult in present Syria. If reforms speed up in Syria, it will be due to international pressure. The reformers certainly have on their side institutional support from the EU, the World Bank and the WTO.

In assessing futures, however, one must also take account of the ramifications of the war in Iraq and the relentless pressure of the US on Syria, which may still draw the whole region into broader and deeper conflict. Even if the countries of the Middle East manage to avoid being pulled into the conflict, Iraq may yet set the tone for what roles the state and the market should play. At the very least, it will export discussions on the role of state (Young, 2005). Iraq's new constitution, dividing the country along religious and ethnic lines, may yet serve as a dangerous model for the disintegration of many Arab

states. Many other states in the region, especially Syria and Lebanon, carefully balance a patchwork of minorities, clans and religious groups, some of which are armed. Certainly, the forces in power will make use of whatever restrictive measures are at their disposal to keep their crumbling regimes together for as long as they can. In Lebanon, those who favour a market-driven, largely privatised state are those already well entrenched in the market. Those that favour a more mixed system, where the state plays a dominant role but where the market is allowed to remain free, are some small parties on the left and Hizballah, representing those traditionally disenfranchised. Which vision will prevail will impact decisively on public services. The dividing line between the different political forces is not only access to the market, however, it is also along religious and ethnic lines. If reforms are likely to happen in this climate, and if civil society has a stake in decision-making, the direction reforms will take is an open question.

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