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CEDRE Reform Program: Learning from Paris III

Sami Atallah, Mounir Mahmalat, and Sami Zoughaib

About the authors

Sami Atallah is the director of the Lebanese Center for Policy Studies (LCPS). He is currently leading several policy studies on youth social identity and political engagement, electoral behavior, political and social sectarianism, and the role of municipalities in dealing with the refugee crisis. He is the co-editor of *Democracy, Decentralization, and Service Delivery in the Arab World* (with Mona Harb, Beirut, LCPS 2015), co-editor of *The Future of Oil in Lebanon: Energy, Politics, and Economic Growth* (with Bassam Fattouh, I.B. Tauris, 2018), and co-editor of *The Lebanese Parliament 2009-2018: From Illegal Extensions to Vacuum* (with Nayla Geagea, 2018).

Mounir Mahmalat is a Ph.D. candidate in economics at Dublin City University, Ireland; fellow at Harvard University, Department of Government and American University of Beirut, Center for Arab and Middle Eastern Studies; and a doctoral fellow at LCPS. His scholarship focuses on the political economy of reform, specifically in the Middle East and Lebanon. He consults for UN ESCWA, focusing on the political economy of private sector development in MENA. He holds a master's degree in International Management and two bachelor's degrees in Engineering and Music Performance.

Sami Zoughaib is a public policy researcher at the Lebanese Center for Policy Studies. He holds an M.A. in Public Policy from the University of Reading. His work at LCPS is mainly focused on Lebanese politics, specifically international donor conferences and the recent parliamentary elections. He has previously worked on several research projects at the American University of Beirut, covering a range of issues including Palestinian refugees and health economics.

Executive Summary

Lebanon's poor track record of implementing past 'Paris' reform programs looms large over the recent CEDRE conference. In order to make CEDRE a success and avoid past mistakes, policymakers, international donors, and civil society must understand why previous reform programs failed. By analyzing the design of the Paris III reform agenda, this policy brief derives guidelines for the formulation of the CEDRE reform program to increase its feasibility and thereby its likelihood of success. We provide a framework to assess a reform program based on institutional requirements, which categorizes a reform measure according to the degree of involvement of political actors from different parties and institutions. Applying the framework to the Paris III reform agenda shows that it was poorly designed by failing to reflect the capacity of the Lebanese state to enact reform. More than half of all reform measures exhibited high requirements and necessitated approval from a parliament that, at the time in 2007, was paralyzed and sidelined over mounting political tensions. Several measures for fiscal consolidation and privatization were unrealistic and prone to institutional bottlenecks, such as parliamentary paralysis, which could be used by the government to justify inaction. In total, the government enacted only 14% of all high-requirement and about half of the low-requirement reform measures. For CEDRE, the international community's approach to designing the reform program must reflect the low capacity of the Lebanese state to enact reforms by focusing on enhancing administrative capacity in public service delivery in order to increase the likelihood of success.

Introduction

During the CEDRE conference, international donors pledged \$11 billion to fund a lengthy list of infrastructure projects in Lebanon. In return, the Lebanese government committed to enacting a reform program. However, the CEDRE conference was not the first time that Lebanon received the international community's support contingent on the government undertaking reforms. CEDRE was preceded by three conferences of a similar nature—Paris I in 2001, Paris II in 2002, and Paris III in 2007—whose successes in terms of implementing required reform program were limited at best.

By analyzing the design of the Paris III reform agenda, this brief derives guidelines for the formulation of the CEDRE reform program to increase its feasibility and thereby its likelihood of success. We argue that both the government and the donor community must design the program in a manner that reflects the institutional capacity of the state to implement reform in order to avoid institutional bottlenecks that could serve as justifications for inaction.

We establish a framework to assess a reform program based on institutional requirements. The measure categorizes a reform according to the extent to which the legislative process involves political actors from different parties and institutions. These requirements differ significantly across measures

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within a reform program. For example, measures that require the passage of laws by the parliament have higher institutional requirements than reform measures that can be enacted by ministries or the Council of Ministers. The framework identifies high-requirement reform measures as those that require the passage of a law. Medium-requirement reform measures are decrees or decisions by the Council of Ministers or concerted efforts by ministries, while low-requirement reforms entail decisions at a ministerial level.

We apply the framework to the Paris III conference reform program in order to derive guidelines for the formulation of the CEDRE reform program. To do so, all 117 reform measures of the Paris III reform agenda are categorized according to their institutional requirements. We then track their implementation status over the reporting period (January 2007 to September 2009) and analyze the extent to which the government enacted reform measures with different institutional requirements. That way, we gain an understanding of the priorities of both the government and the international donor community, as well as the type of reform measures the government could successfully enact.

The analysis reveals how limited and selective the success of the Paris III reform program was. While less than one-quarter of all reform measures were enacted in total (26 out of 117), the government was particularly unsuccessful

in implementing reform items with high institutional requirements (only 14% or nine out of sixty-six). Even reform measures in the low-requirement category were enacted only 50% of the time (nine out of nineteen), although these required much less agreement and concerted effort among the political elite.

There is significant variation across reform areas. The government prioritized fiscal adjustment measures over social sector reform, which, in the view of the government, comprised all issues pertaining to health care, pensions, education, and the environment. The share of high-requirement reform measures was more than 50% in the fields of fiscal adjustment and revenue enhancement, which made these reform areas overly ambitious and unrealistic to achieve. These high-requirement reforms were more likely to be affected by ‘institutional bottlenecks,’ such as parliamentary paralysis, which the government could use to justify inaction. Instead, only 20% of social sector reforms exhibited high-requirements, which signals that the government had few ideas for specific action steps regarding how to improve administrative capacity in public service delivery. While the government drafted detailed legislation for fiscal adjustment, revenue enhancement, and debt management, it was remarkably unprepared and unambitious in the social sector.

To be sure, the inclusion of high-requirement reforms in the CEDRE reform program in return for financial assistance remains indispensable. High-requirement reforms need to be used to maintain political pressure for change, in particular structural reform in fiscal management and taxation.¹ Yet, these measures tend to end up unimplemented and thereby fail to improve citizens’ welfare.² The CEDRE reform program needs to reflect the low capacity of Lebanese legislators to implement reforms with high institutional requirements. In particular, the international donor community must avoid reform measures that create institutional bottlenecks such as unrealistic large-scale privatization programs, which can be used to justify inaction. Instead, the CEDRE reform program should push for enhancing administrative capacity in public service delivery. These improvements can be achieved with reforms of comparably lower requirements, which are more likely to be implemented.

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¹ Mahmalat, M. and S. Atallah. 2018. ‘Why Does Lebanon Need CEDRE? How Fiscal Management and Low Taxation on Wealth Necessitate International Assistance.’ Policy Brief. Lebanese Center for Policy Studies.

² Atallah, S., M. Mahmalat, and S. Zoughaib. 2018. ‘CEDRE Conference: The Need for a Strong Reporting Mechanism.’ Policy Brief. Lebanese Center for Policy Studies.

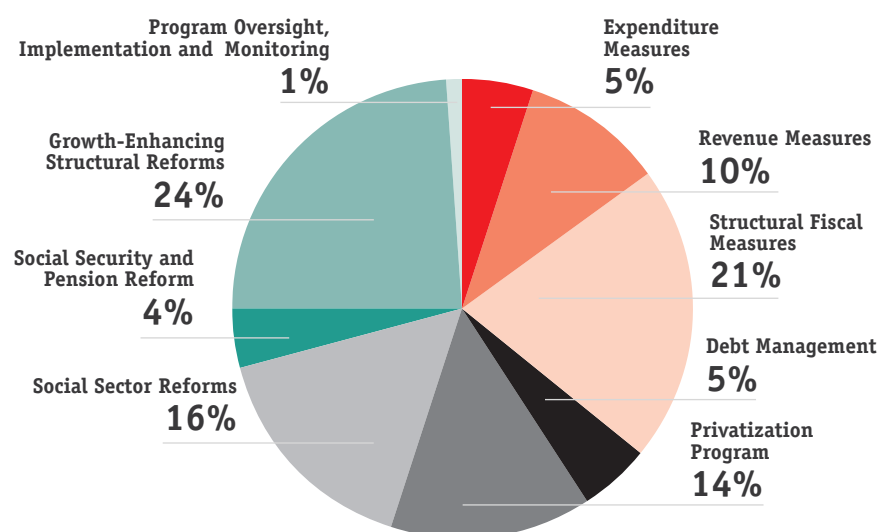
A Brief Snapshot of the Paris III Reform Agenda

The Paris III conference, held on 25 January 2007, convened thirty-eight donor countries and seven regional and international institutions that pledged a total of \$7.6 billion, of which about 50% has been disbursed. In return, the government committed to a wide-ranging reform program comprising 117 measures. These measures are distributed across nine areas: Expenditure measures, Revenue Measures (VAT in particular), Structural Fiscal Measures, Debt Management, Privatization Programs, Social Sector Reform, Social Security and Pension Reform, Growth Enhancing Structural Reform, and Program Oversight, Implementation and Monitoring.

Analyzing the distribution of reform measures across the nine focus areas reveals that the government focused primarily on consolidating state finances (figure 1). While 55% of the reform measures addressed fiscal measures and privatization, ‘social sector reforms’ combined—comprising reform measures in a wide array of topics from healthcare to pensions, education, and environment—constituted some 20% of all reform items.

Figure 1

Allocation of reform measures of the Paris III reform program



Source Author's calculation based on Ministry of Finance, First Progress Report.

However, neither the distribution of reform measures nor the implementation rate sufficiently captures the government's ability to undertake reforms or reflects their actual impact.³ Each of the 117 reform measures reflects a distinct entry in the reform program, which renders these measures not directly comparable in terms of their impact and their requirements to be enacted. For instance, an increase in the VAT rate and the drafting of a strategy paper are both listed as separate action steps and are therefore listed equally as one of the 117 reform measures in our analysis. Yet, an increase in the VAT rate has an immediate impact on people's well-being, whereas drafting a strategy

³ Note that we do not discuss the extent to which reform measures were eventually implemented and applied after enactment by the government.

paper has no effect until it translates into a policy or a law. Moreover, the requirements of putting these measures into effect differ significantly. An increase in taxes requires the consolidated effort and approval of a majority of political parties, whereas strategy papers can be administered at a ministerial level. In what follows, we derive a conceptual framework to assess the implications of a reform agenda.

A Framework for Assessing the Requirements of Reform

To assess the governmental commitments of a reform program, 'reform' needs to be understood as a multilayered concept. We define reform as the outcome of a legislative process that involves bargaining over political exchanges.⁴ That way, the occurrence of reform essentially represents an instance of agreement among key political actors. Such bargaining processes take various forms and thereby involve different actors and have different institutional requirements. These requirements are not equal for all legislation a government can issue but depend on the type of legislation. According to the constitution, three major types of legislative output can be distinguished: Laws, decrees, and resolutions. Table 1 synthesizes the Lebanese legal code as well as the authority needed to enact them.

⁴ Spiller and Tommasi. 2003. 'The Institutional Foundations of Public Policy: A Transactions Approach with Application to Argentina.' *Journal of Law Economics and Organization*, 19: 281-306.

Table 1

Simplified description of Lebanese law code

Rank	Type of Legislation	Description	Issuing Body	Level of Institutional Requirements
1	Laws	A supreme, general, and impersonal legal rule, following the Parliament's deliberation and initiative. No law can be enacted if it has not been passed by the parliament.	Parliament	High
2	Decrees	Administrative orders issued by the President of the Republic or the Council of Ministers according to the powers allocated by the constitution and enacted laws. No parliamentary approval necessary but limited to applying the law rather than generating new general rules.	Council of Ministers, President	Medium
3	Resolutions	Issuance of executive power, i.e., ministers or administrative authorities, to which constitutional laws conferred regulatory power. Limited legal scope within the realm of existing legal frameworks.	Ministries	Low

Source **Lebanese Constitution, Dictionnaire du droit privé, and Glossaire de Vie Publique.**

Laws require parliamentary approval by a majority of political parties and establish a general and impersonal rule that all legislation further down the hierarchy needs to adhere to. Decrees, on the other hand, constitute administrative orders and decisions issued by either the Council of Ministers or the president. The scope of decrees is limited to the application of the law, rather than the establishment of independent, impersonal, and general rules. Resolutions are decisions made by ministers and ministries in the framework of existing legal frameworks and do not require the formal approval of the parliament or Council of Ministers.

The number of political actors involved in approving the proposed reform measures decreases the lower the institutional requirements of a reform measure are. For example, while laws require consensus among the majority of political parties represented in the parliament, decrees only need the Council of Ministers' or president's approval. Resolutions are issued by ministers and do not require

Measures of a reform program that involve consensus among a high number of political parties, such as laws, have a higher likelihood of being blocked by veto players and falling victim to institutional bottlenecks

agreement among legislators from different parties. That way, measures of a reform program that involve a consensus among a high number of political parties, such as laws, have a higher likelihood of being blocked by

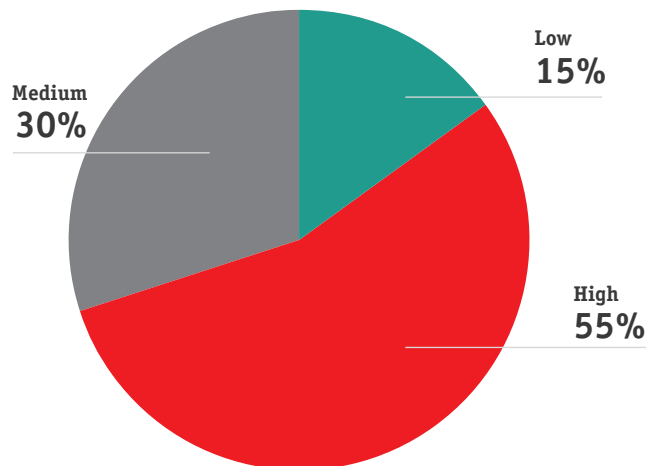
veto players and falling victim to institutional bottlenecks. Decrees and resolutions, on the other hand, have a higher probability of being adopted even in the absence of consensus among parties or the blockage of governmental institutions such as the parliament.

In what follows, this brief refers to institutional requirements as the extent to which the legislative process of a reform measures involves political actors from different parties and institutions. 'High-requirement reforms' are thereby measures that involve parliamentary decisions to be approved. 'Medium-requirement reforms' refer to measures that involve decrees by the Council of Ministers, the president, or concerted efforts by several ministries. 'Low-requirement reforms' can be enacted by ministries or specific commissions and usually do not require the involvement of political parties other than the party controlling the ministry.

Little Success with High-Requirement Reforms

The Paris III reform agenda exhibited a high share of high-requirement reforms, reflecting the ambitions associated with the reform program. Figure 2 shows that more than half of all reform measures required parliamentary approval. Roughly one-third of all reform items required a decision by the Council of Ministers and only 15% could be implemented by ministries.

Figure 2

Institutional requirements of reform items

Source MoF, First Progress Report, author's calculation.

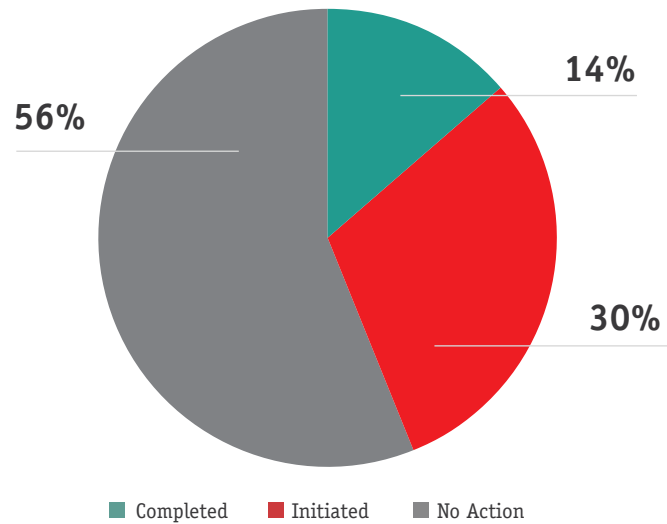
However, the government had a disappointing record in implementing the reform agenda, in particular with respect to higher requirement reforms. By displaying the implementation status of reform measures by group of requirements, figure 3 shows that the higher the institutional requirements of a reform measure were, the less likely the government was to implement it. Of the high-requirement reforms, only 14% (nine out of sixty-six) were enacted by the end of the reporting period in December 2009, while it was eight out of thirty-three for medium requirement reforms and nine out of eighteen for low requirement reforms.

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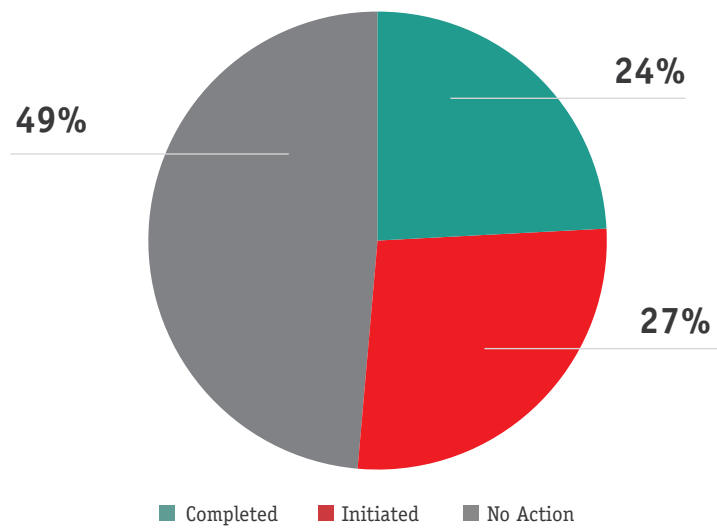
Figure 3

Share of completed, initiated, and failed reform items to institutional requirements

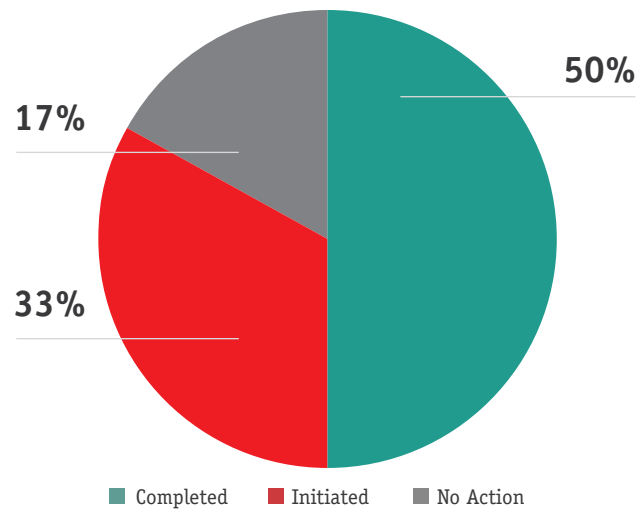
High



Medium



Low



Source Author's calculations, based on MoF progress reports.

Political and public attention to reform tends to focus on high-requirement reforms but lower-requirement reforms are no less important to improving citizens' welfare. They provide the necessary legislative steps to put legislation of higher rank—laws and decrees—into effect. In particular, they can enhance the administrative capacity of the government to improve public service delivery according to existing legal frameworks.

In the social sector, for example, the government was able to 'establish a health card system aiming to promote universal accessibility', improve monitoring, and rationalize expenditures on health services for eighty centers and initiated the process for others. Moreover, the government reduced the 'time it takes to obtain a business license, and the cost of opening and closing a business and managed to 'sustain the hospital accreditation system and expand it to cover the PHC [Primary Healthcare] system. In the financial sectors, the government enhanced revenue collection 'through improved communication with taxpayers and improved taxpayers services', from 'public properties (namely from Casino du Liban)' and established 'taxpayer services in satellite offices'.⁵

All of these measures constitute small but important improvements in governance for the Lebanese people. Yet, they have been achieved without long-lasting debate and political contestation in parliamentary commissions. The CEDRE reform program can improve citizens' welfare by strengthening administrative procedures and enhancing public service provisioning.

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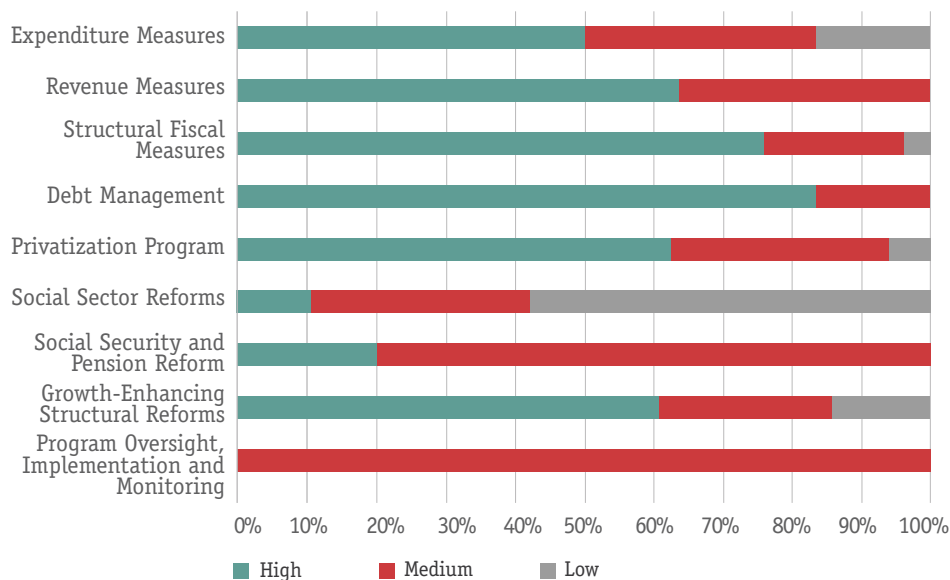
Unprepared for the Social Sector, Over-Ambitious in Financial Reform and Privatization

The distribution of institutional requirements across reform areas varies significantly across the nine focus areas and reveals that the government's priority relied on fiscal adjustment and revenue enhancement rather than improving service provisioning in social sectors. While financial and economic measures exhibit a share of high-requirement reform measures of more than 50%, social sector reforms have the lowest institutional requirements with only 10% to 20% of high-requirement reform measures (figure 4).⁶

⁵ Government of Lebanon. 2007 'International Conference for Support for Lebanon - Paris III - First Progress Report', pp. 19.

⁶ Not only did the government focus its attention on fiscal adjustment and revenue measures, these areas turned out to be the most successful reform areas. See Atallah, S., M. Mahmalat, and S. Zoughaib. 2018. 'CEDRE Conference: The Need for a Strong Reporting Mechanism.' Policy Brief. Lebanese Center for Policy Studies.

Figure 4

Institutional requirements per reform area

Note Authors' calculation, based on MoF First Progress Report.

In other words, social sector reforms entailed few measures that involved the parliament or the Council of Ministers, which reflects the low priority placed on them by the government. Social sector reform measures are the least developed and reflect a remarkable degree of unpreparedness on the part to the government. For example, the social sector measures entail very few, if any, specific laws that the government already prepared or envisioned to advance Lebanon's social sectors. In fact, some of the reform measures

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are vaguely formulated and constitute little more than the 'Development of Strategies' or 'Assessments of Existing Studies.' Reform measures related to fiscal and financial

measures, on the other hand, involve a larger share of referrals to specific laws, many of which appear to have already been prepared for parliamentary submission—even without the reform program.⁷

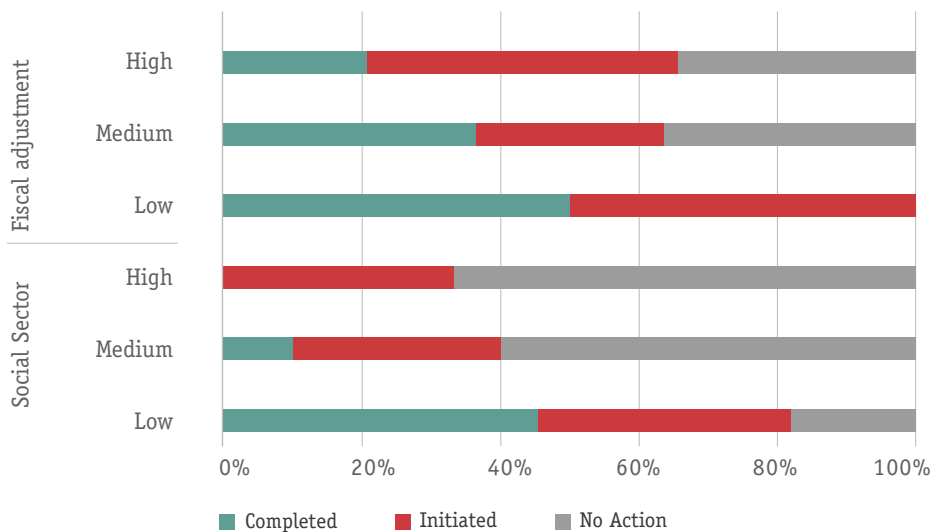
While the government prioritized fiscal reform in the design of the reform program, it neglected the implementation of social sector reforms (figure 5). The government was less likely to enact reforms with high institutional requirements in the social sector than it was in the financial sector. For instance, the government did not attempt to implement more than 60% of all high-and medium-requirement reforms in the social sector, while it remained inactive in less than 40% in financial areas. And while more than 20% of the financial reform measures with high requirements were enacted, none of the social sector high requirement reform measures were adopted.

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Government of Lebanon. 2007. 'International Conference for Support for Lebanon - Paris III - First Progress Report.' pp. 19.

Figure 5

Share of completed, initiated, and no-action reform items for fiscal and social sector reform areas



Note Author's categorization of reform measures.

Setting Objectives for the CEDRE Reform Program

Institutional requirements constitute a useful dimension for assessing a reform agenda. Reform measures with high institutional requirements involve the parliament—and thereby the consensus of a high number of political parties and actors. These reforms tend to create ‘institutional bottlenecks’ as they can easily be blocked by single veto players or a state of political paralysis. Lower-requirement reform items—such as decrees by the Council of Ministers or ministerial resolutions—apply the law and involve a smaller set of political actors that could potentially block legislation. These reform items are therefore less susceptible to political polarization and individual veto players but can nevertheless significantly improve public administration and citizens’ welfare. In light of these findings, several guidelines emerge for the CEDRE reform program.

While both the government and parliament need to improve their performance in order to meet their obligations, the international community should avoid vague and inaccurate formulation of reform items to be able to maintain pressure

Target the Reform Program to Institutional Capacities

Maintaining political pressure by calling for high-requirement structural reform remains indispensable to effectuate change in a highly inefficient polity. Yet, in order to improve citizens’ lives, the international community must avoid past mistakes and design the CEDRE reform program in a way that fulfills two

major objectives: First, it should enable the donor community and civil society to maintain pressure on the Lebanese government to enact reform. Second, the program should reflect the capacity of Lebanese legislative institutions to implement laws and policies. Some areas of the Paris III agenda included measures which were unrealistic from the outset. The privatization program,

Reforming public administration with lower-requirement legislation can have a more profound impact on Lebanese citizens than ambitious structural reforms that are likely to be blocked by institutional bottlenecks

for example, spelled out the privatization steps for the Telecommunication and Power Sectors, and then required the government to '[p]rivatize MEA, Intra, Casino du Liban, Grains Silos, Government holdings in tobacco manu-

facturing and Tripoli and Zahrani refineries'⁸ in less than one year—without further description of action steps.

The CEDRE reform program therefore needs to reflect the very limited capacity of the Lebanese government to implement reform that involves consensus among a high number of parties. While both the government and parliament need to improve their performance in order to meet their obligations, the international community should avoid vague and inaccurate formulation of reform items to be able to maintain pressure on the government.

Prioritize Reform in Public Administration Rather Than Solely Fiscal Adjustment and Privatization

The analysis revealed that the Paris III reform program was much more developed and specific in fiscal and financial areas than in social sector reforms. The government referred to specific laws that were already on the governmental agenda and had been elaborated on prior to the conference, such as the Tax Procedure Code. Yet, the 2007 parliamentary paralysis allowed the government to refer to extraordinary political circumstances to justify inaction, which affected all other reform areas as well. Nevertheless, the international community proceeded with the disbursement of donor pledges. The share of disbursed pledges eventually amounted to 50%, which far exceeded the share of successfully implemented reforms (21%).

The CEDRE reform program must include reform areas that the government would not otherwise tackle itself to improve citizens' welfare, such as reducing corruption, and improving public administration and service provisioning. Reforming public administration with lower-requirement legislation can have a more profound and positive impact on Lebanese citizens than ambitious structural reforms that are likely to be blocked by institutional bottlenecks.

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Government of Lebanon. 2007. International Conference for Support for Lebanon - Paris III - First Progress Report.' pp. 21.

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Contact Information Lebanese Center for Policy Studies

Sadat Tower, Tenth floor
P.O.B 55-215, Leon Street,
Ras Beirut, Lebanon
T: + 961 1 799301
F: + 961 1 799302
info@lcps-lebanon.org
www.lcps-lebanon.org