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THE POLITICAL ECONOMY OF CONTEMPORARY LEBANON: A STUDY OF THE RECONSTRUCTION

by:

Tom Pierre Najem

A thesis submitted in partial fulfillment of the requirement for the degree of Doctor of Philosophy (PhD) in Middle East Politics

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Supervisor: Professor Tim Niblock

PhD Thesis 1997

The Centre for Middle Eastern and Islamic Studies

University of Durham

Autumn 1997

23 JAN 1998

ABSTRACT

The general purpose of this study is to look at the post-war economic reconstruction of Lebanon. More specifically, our primary aim is to examine, within the context of development theory, the institutional arrangement for implementing the various reconstruction programmes. In order to address these points, we will need to examine several important issues: How the economic leadership of post-war Lebanon has developed; what the institutions providing economic leadership have been; what plans have been developed for Lebanon's reconstruction; what groups have participated in the reconstruction; and what the principal obstacles to the economic reconstruction of the country have been.

We will argue that the institutional arrangement is inappropriate for implementing the recovery programme. In part, because of the institutional arrangement, the recovery programme has suffered, and it is conceivable that the programme may fail to strengthen the Lebanese economy.

The information collected for this study originated from three main sources including: material obtained from library research in the U.K.; material collected in Lebanon from organisations, institutions, and individuals involved in the recovery programme; and material acquired from a series of unstructured interviews conducted in Lebanon in the winter of 1997 with individuals intimately associated with the reconstruction, prominent opponents of the system, and general observers of the Lebanese scene.

Declaration

I, Tom Pierre Najem, the author of this research declare that the content of this thesis is my original work. None of the material contained in this study has previously been submitted by me for a degree in this or any other University. All the material in this study, which is not my own work, has been appropriately cited.

Tom Najem

September 1997

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ABBREVIATIONS

A.F.E.S.D.	-----	ARAB FUND FOR ECONOMIC AND SOCIAL DEVELOPMENT
B.C.D.	-----	BEIRUT CENTRAL DISTRICT
B.O.O.T.	-----	BUILD OWN OPERATE TRANSFER
B.O.T.	-----	BUILD OPERATE TRANSFER
B.S.E.	-----	BEIRUT STOCK EXCHANGE
C.D.R.	-----	COUNCIL FOR DEVELOPMENT & RECONSTRUCTION
C.E.C.	-----	COMMISSION OF EUROPEAN COMMUNITIES
C.E.G.P.	-----	CONSEIL EXECUTIF DES GRANDS PROJETS
C.E.G.P.V.B.	-----	CONSEIL EXECUTIF DES GRAND PROJETS DE LA VILLE DE BEYROUTH
E.I.B.	-----	EUROPEAN INVESTMENT BANK
G.D.R	-----	GLOBAL DEPOSITORY RECEIPT
I.D.A.L	-----	INVESTMENT DEVELOPMENT AUTHORITY OF LEBANON
I.F.C.	-----	INTERNATIONAL FINANCE CORPORATION
K.F.A.E.D.	-----	KUWAIT FUND FOR ARAB ECONOMIC DEVELOPMENT
P.M.C.	-----	PROGRAM MANAGEMENT CONSULTANT
P.M.U.	-----	PROGRAM MANAGEMENT UNIT
S.I.U.	-----	SECTOR IMPLEMENTATION UNIT
T.C.C.	-----	TECHNICAL COORDINATION COMMITTEE

NOTE ON SPELLING OF ARABIC NAMES

With reference to the Arabic names used throughout the course of this dissertation, we have not adhered to any formal system of transliteration, but have opted instead to adopt consistently those latinised spellings which seem to be most commonly used in Western literature.

Acknowledgements

There are several people that I wish to acknowledge. Foremost, I would like to thank my supervisor, Professor Tim Niblock, for his unwavering support, and confidence in my abilities. Nedam Shehadi, Director of the Centre for Lebanese Studies at Oxford, played in instrumental role in establishing contacts in Lebanon, and offered valuable advice during the writing up phase of my thesis. I am indebted to him for his generosity and friendship. My good friend Tom McHale, who read my work and who offered valuable critical analysis, is also deserving of my deepest gratitude. Finally, I would like to thank my teachers at the Centre for Middle Eastern and Islamic Studies, Durham, especially Dr. Etheshami, for laying the foundation stones of my study, through the courses of International Relations and Political Economy of the Middle East.

Tom Pierre Najem
September 1997

Dedication

This work is dedicated to my parents, Joseph and Annie Najem.

Chapter One: Introduction

1. Objective of Study

In the aftermath of Lebanon's sixteen year "civil war" (from 1975 to 1990), the current Lebanese government is pursuing an ambitious programme to revitalise the Lebanese economy with the ultimate aim, as Rafiq Hariri, the current Lebanese Prime Minister and the public face of the reconstruction initiative, put it, "to make Lebanon the centre of financial and business activity in the region."[1]

The mere implementation of such a programme, let alone its success, would be an impressive feat. Dr. Nasser Saidi, First Vice Governor of Lebanon's Central Bank, has argued that: "The economic, social, and organisational structures inherited from the pre-war period are, in many cases, either inadequate or inappropriate as a foundation for the rebuilding of the Lebanon."[2] Whether or not this is strictly true, reforms will certainly prove difficult to implement. Thus, the task the Hariri government has set for itself is very daunting. In fact, in 1995, Dr. Saidi estimated that the reconstruction would take at least one generation to complete.[3]

The general purpose of this study is to look at the post-

---

[1] Quoted in MEED (4 February 1994), 20.

[2] Nasser Saidi, "Financing Reconstruction: Issues & Opportunities", unpublished paper delivered at the Financial Times sponsored Conference Lebanon Toward 2000: Opportunities for Finance and Investment in a Re-emerging Market, (Beit Meri, Lebanon: 8-9 June, 1995), 2.

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war economic reconstruction of Lebanon. More specifically, our primary aim is to examine, within the context development theory, the institutional arrangement for implementing the various reconstruction programmes. In order to address these points, we will need to examine several important issues: How the economic leadership of post-war Lebanon has developed; what the organisations providing economic leadership have been; what plans have been developed for Lebanon's reconstruction; what groups have participated in the reconstruction; and what the principal obstacles to the economic reconstruction of the country have been. We will argue that the institutional arrangement is inappropriate for implementing the recovery programme. In part, as a consequence of the institutional arrangement, the recovery programme has suffered, and it is conceivable that the programme may even fail to strengthen the Lebanese economy, let alone fail to help Beirut regain its status as a regional financial and commercial centre.

Before proceeding to an analysis of the post-war economic reconstruction, it will be useful to review briefly political and economic conditions in Lebanon from 1943 to 1990 in order to place the reconstruction in its historical context.

2. The Historical Context

An extensive body of literature pertaining to Lebanon is available in the West. Before 1975, the tone of this literature was generally optimistic.[4] Much praise was directed toward the

[4] In particular, see Leonard Binder (ed.), Politics in Lebanon, (New York: John Wiley and Sons, 1966); and Elie Adib Salem, Modernization Without Revolution: Lebanon's Experience (London: Indiana University Press, 1973). A notable exception to

genius of Lebanon's political and economic systems, which provided the religiously divided country with relative stability in a region fraught with political and economic upheaval. So impressed were the experts that the Lebanese political system was hailed as a potential model for other heterogeneous societies such as Northern Ireland and Cyprus.[5]

2.1 The Lebanese Political System: 1943-1975

The political system which existed in Lebanon from the 1940s to the early 1970s essentially conforms to the political model of "consociational democracy" which was developed in the 1960s through the political scientist Arend Lijphart's research into how societies deeply divided along communal lines managed their latent conflicts. Consociational democracy can be defined as: "government by elite cartel designed to turn a democracy with a fragmented political culture into a stable democracy."[6] According to Lijphart, several important conditions of social structure, and of mass political culture, are prerequisites for a successful consociational democracy. First, there must be clear boundaries between subcultures, as limited contacts between groups tend to lessen the chance of hostility. As

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this is Michael Hudson, The Precarious Republic: Political Modernization in Lebanon (New York: Random House, 1968).

[5] For more information regarding this point, see Myron Weiner's chapter on political change in the developing world. Myron Weiner, "Political Change: Asia, Africa and the Middle East", in Myron Weiner and Samuel Huntington (eds.), Understanding Political Development (Glenview, Illinois: Scott, Foresman/Little, Brown Higher Education, 1987), 36.

[6] Arend Lijphart, "Consociational Democracy", World Politics 21, no.2 (1969), 216.

Quincy Wright explained, ideologies accepted by different groups within a society may be inconsistent without creating tension. The chance of greater tension arises only when the groups are in close contact.[7] A second condition, however, stresses the necessity for elites within each group to work closely together, while at the same time maintaining the loyalty of their followers. A major threat to the system may occur if elites lose control over their followers.[8] A third condition is the existence of a multiple balance of power among subcultures. For instance, in a dual culture society, the tendency is for the majority culture to attempt to dominate the other culture. However, in societies with several subcultures, none of which holds a clear majority, the likelihood is greater that the elite groups will be willing to cooperate with each other.[9] A fourth condition is a relatively low total load on the system. The stability of the system can be weighed in terms of its capacity to handle increased demands. Writing in 1968, Lijphart contended that the loads on the Lebanese system were not great and that this helped to explain its stability.[10]

Lebanese society has been deeply divided for centuries along vertical lines: clans, villages, tribes, sects, and ethnic groups. The most prominent division, at least for purposes of political analysis, is sectarian, and an important feature of

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[7] Arend Lijphart, "Typologies of Democratic Systems", Comparative Politics 1, no.1 (April, 1968), 25.

[8] Ibid, 26.

[9] Ibid, 27.

[10] Ibid, 30.

Lebanese society is the relationship among the various religious sects who make up the population.[11] As Helena Cobban explained:[12]

> For about a millennium now, the major present-day sects have been living in the Lebanese Mountain, each with its quite rich and varied inner life. The idea of the interaction of a number of these sects, which lies at the heart of the concept of `Lebanon', persisted from the late sixteenth century down to the 1980s. Even after the emergence of a 'Lebanese' polity, however, the sects continued to live out their own inner lives.

Further emphasising the vast importance of parochial loyalties in Lebanon, Michael Hudson wrote:[13]

> Parochial divisions are uncommonly important because they are the traditional primary social organisation in terms of family, community and security. They serve as semi-autonomous communities, institutionalised during Ottoman domination, maintaining their own personal status laws and effective internal systems for conflict resolution.

There are seventeen official religious communities in Lebanon, the two most prominent of which, historically, have been the Maronite Christian and Sunni Muslim sects. The Maronite Christian community was the most politically and militarily aggressive of the religious sects. They were the first to

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[11] For a very succinct examination of this, see David McDowell, Lebanon: A Conflict of Minorities (London: Minority Rights Groups, 1986). Also, see Samir Khalaf, "Primordial Ties and Politics in Lebanon", Middle Eastern Studies 4, no.2 (April, 1968).

[12] Helena Cobban, The Making of Modern Lebanon (London: Hutchinson, 1985), 11.

[13] Michael Hudson, The Precarious Republic: Political Modernization in Lebanon, 21.

espouse a distinct Lebanese identity, and they played a major role in the creation of present day Lebanon.[14] In 1918, France secured a mandate over Lebanon, and it was under French tutelage that the Maronites became the dominant sect in the country. The central ideology of the community, which certainly predated these developments, was incisively remarked upon by the Maronite historian Isfan al Duwayhi (1629-1704): "the Maronite community's history is a continuous struggle to maintain national and religious identity in a dominant Muslim environment."[15] In sharp contrast to the Maronites stood Lebanon's Sunni community, the leading Muslim community in the country, whose ideology had long been pan-Arab. Accordingly, they were opposed to the creation of an independent Lebanese state, preferring that Lebanon should belong to a larger Arab/Muslim entity, or failing that, that it should at least be aligned with the Arab/Muslim world.

Within each of Lebanon's religious sects there was a core group of elites, known as zu'ama (political bosses), who wielded extensive political power within their respective sects and were the main players in the Lebanese government. There were at least three different types of zu'ama. First, there was the semi-feudal variety, possessing large estates and traditional

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[14] For a history of the Maronite role in the creation of modern day Lebanon, see Meir Zamir, The Formation of Modern Lebanon (London: Croom Helm, 1985).

[15] Quoted in Peter Sluglett and Marion Farouk-Sluglett, "Aspects of the Changing Nature of Lebanese Confessional Politics: al-Murabitan, 1958-1979", in Ernest Gellner (ed.), Islamic Dilemmas: Reformers, Nationalists and Industrialization (Berlin: Mouton Publishers, 1985), 269.

lordships. Their power rested on their positions as landowners, their use of strong-arm men, and their ability to give protection and patronage. This type of za'im (singular form) was particularly prominent within the Druse community, within the Shiite community, and in the Sunni community of the rural Akkar region, and included, among others, Kamal As'ad, and Kamal Jumblatt. A second type of za'im was the `populist' variety, found in the predominantly Christian regions of Mount Lebanon, and included such noteworthy figures as Camille Chamoun and Pierre Gemayel. Their leadership was derived from the use of powers of protection and patronage and/or some kind of ideological appeal. The third type of za'im was the urban boss, found primarily in Sunni communities in Beirut, Tripoli, and Sidon. This included Riad Solh and Rashid Karami among others. Their power rested on the manipulation of the urban masses, through patronage, ideological appeal, and the use of strong-arm men.[16]

The extreme importance of the zu'ama was commented upon by Elie Salem:[17]

> ... in the moment of truth local leaders and established families held greater control of their followers than did the central government. Each religious and ethnic group had its own pyramid of power and its own internal source of strength, and it is with these pyramids that the cabinet must deal

[16] Albert Hourani, "Ideologies of the Mountain and the City", in Roger Owen (ed.), The Crisis in Lebanon (London: Ithaca, 1976), 35-36.

[17] Quoted in Halim Barakat, "The Social Context", in Edward Haley and Lewis Snider (eds.), Lebanon in Crisis: Participants and Issues (Syracuse: Syracuse University Press, 1979), 12.

and at times even negotiate.

In 1943, a compromise agreement, known as the National Pact, was reached between the elites of the Maronite and Sunni communities. This led ultimately to Lebanon's independence from France. Essentially, the agreement upgraded Lebanon's 1926 constitution, and established the basic parameters of both domestic and foreign relations. At the domestic level it installed a confessional democracy where political power was divided among the religious communities in such a way that, those communities which were numerically the largest at the time were guaranteed the most political power. Based on a 1932 census, the Lebanese population was as follows:

Community	**Population**	**%**
Christian		
Maronite	226,378	28.8
Greek Orthodox	76,522	9.7
Greek Catholic	45,999	5.9
Armenians	31,156	4.0
Others	22,308	2.8
Total Christian	402,363	51.2
Muslim		
Sunni	175,925	22.4
Shiite	154,208	19.6
Druse	53,047	6.8
Total Muslim	383,180	48.8
Total Population	785,543	100%

Lebanon's Christian population was accordingly guaranteed a ratio of 6 seats in parliament for every 5 Muslim seats. At the external level, the National Pact stipulated that Lebanon would pursue a neutral foreign policy in which the Maronites would renounce their reliance on, and support for, the West, while the

Sunnis would accept that the Lebanese state was to be independent from, and neutral towards, the Arab world. Seemingly, the Sunni elite accepted the National Pact, and the Maronite hegemony which accompanied it, primarily because it gave them access to state patronage which they subsequently used to strengthen their own positions within their community. The elites of the other religious communities generally followed suit. As Roger Owen remarked:[18]

> Once it was decided to reward the leaders of some of the religious communities with access to high office, and to attempt to incorporate others into the system on the same basis, ... a powerful group [was created which was] committed to the defence of the existing status quo.

2.2 The Lebanese Economic System: 1943-1975

As we have noted previously, Lebanon's capitalist economic system was generally looked upon favourably in Western circles. This was particularly true where the Lebanese economy was compared to the command economies of other Arab countries. As of 1974, there seems to have been a reasonable consensus that Lebanon was a relatively prosperous country.[19] The dominant economic group in Lebanon was the commercial bourgeoisie, which emerged in the middle decades of the nineteenth century, when the rapid expansion of usurious capital, controlled primarily by the Lebanese merchant and commercial classes, combined with

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[18] Roger Owen, "The Political Economy of Grand Liban 1920-1970", in Roger Owen (ed.), Essays on the Crisis in Lebanon, 24.

[19] See Iliya Harik, "The Economic and Social Factors in the Lebanese Crisis", Journal of Arab Affairs 1, no.2 (April, 1982), 209-244.

other effects of European trade to lead to the collapse of the feudal economy. While the financial and commercial industries expanded dramatically, the development of the agricultural and manufacturing spheres was somewhat limited, to the extent that, by the time the French mandate was established after the First World War, Beirut's financial and commercial class had assumed a dominant role in the Lebanese economy.[20]

The dominance of the commercial bourgeoisie assumed even greater importance during Lebanon's independence period, when the laissez faire nature of the Lebanese economy was solidified. The Lebanese economy was dominated by the tertiary sector - trade, banking and services - which accounted for three-quarters of its national product. The importance of this sector, and its continued growth during Lebanon's independence period is illustrated by the fact that, by the late 1950s and the 1960s, Lebanon was the banking centre of the Arab world.[21] The commercial bourgeoisie included representatives from all of the religious communities, but most importantly from the Sunni, Greek Orthodox, Greek Catholic, and Maronite communities. Individual members of the Greek Orthodox community, for example, owned much of the wealth of Beirut, although the community as a whole only played a minor part in the political life of the

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[20] Paul Saba, "The Creation of the Lebanese Economy - Economic Growth in the Nineteenth and Twentieth Centuries", in Roger Owen (ed.), Essays on the Crisis in Lebanon, 1-20.

[21] Whereas in 1951 there were only five banks in the country, in 1966, there were ninety-three. Michael Hudson, The Precarious Republic: Political Modernization in Lebanon, 95.

country.[22]

The commercial bourgeoisie's alliance with the zu'ama ensured the stability of Lebanon's economic system. Admittedly, there was some overlap between these two groups, but for the most part their respective memberships were distinct. Their cooperation was based on their common interest in keeping the Lebanese state weak, and in maintaining the status quo. For the commercial bourgeoisie, this meant ensuring that the government pursued policies that would guarantee private sector dominance over the economy. This included keeping taxes and tariffs low, as well as ensuring the overvaluation of the Lebanese pound. The zu'ama had other reasons for wishing to see the Lebanese state remain weak, primarily the maintenance of their control over the patronage system.[23]

The fundamental features of the Lebanese political and economic systems were summed up by Owen:[24]

> [The] main characteristic of a system which by virtue of its confessional political arrangements, its commercially oriented economy and its underdeveloped government services gave great power to a small class of men, both Christian and Muslim, whose positions as landlords, merchants or bankers was reinforced by the leadership of their respective religious communities.

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[22] Albert Hourani, "Ideologies of the Mountain and the City", 34.

[23] Ibid, 34-35.

[24] Roger Owen, "The Political Economy of Grand Liban 1920-1970", 26.

2.3 The Collapse of the Lebanese Political System

There has been many debates concerning the collapse of Lebanon's political system in 1975. Hudson's description of the demise of Lebanon's consociational system is apt: "the difficulty in applying the consociational model to developing countries is that the system is too static to accommodate changes unleashed by social mobilisation."[25] Hudson argued that by 1975, the Lebanese political system was unable to adjust to a broad range of political, economic and social developments. In effect, all of the theoretical prerequisites for the stability of the consociational democracy had ceased to exist.

While it is generally acknowledged that several factors contributed to the outbreak of the war, some authors would argue that certain ones were more crucial than others. Essentially, there are five schools of thought.

The first school of thought (including both Marxist and non-Marxist scholars) suggests that problems in the Lebanese economy were the major cause for the outbreak of the civil war. The argument is based on class conflict.[26] Authors subscribing to this school point out that Lebanon's wealth was significantly concentrated along two axes. The first of these was class. There was a dominant economic class, a weak middle class, and a large proletariat. The wealthiest four percent of the population

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[25] Michael Hudson, "The Lebanese Crisis: The Limits of Consociational Democracy", Journal of Palestine Studies, no.344 (Spring-Summer, 1976), 113.

[26] Such an argument has been put forth in such scholarly journals as the MERIP reports and Arab Studies Quarterly, the French daily, Le Monde, and in such studies as B.J. Odeh, Lebanon: Dynamics of Conflict (London: Zed Press, 1983).

received 32 percent of the total gross national product, and 82 percent of the population received only 40 percent.[27] The second was geographic. The heart of the economy was centred around Beirut, which in 1957 accounted for nearly a third of the GNP, while Lebanon's heavily neglected agricultural sector, which employed nearly half the labour force, contributed only 15% of the GNP in that same year.[28] The members of this school of thought proceed to argue that these economic inequalities led to the breakdown of the traditional patron-client system. The government attempted to offset problems created by the concentration of wealth around Beirut by assisting the poorer rural areas with development projects. These projects were met with great resistance by the rural zu'amà, who feared that government aid would undercut their own control over the patronage system. This somewhat shortsighted perspective led to their undoing, however, as continuing poverty in the rural areas initiated a tendency towards urbanisation (in the form of migration to Beirut), which actually served to place much of their traditional client base beyond their influence. The urban zu'ama also suffered from the change in population distribution as they were unable or unwilling to provide patronage for the great numbers of people entering their sphere of influence. As the government was also unable or unwilling to assist them, the new urban poor, facing extreme hardship, turned to an increasingly radical and aggressive Leftist movement. As

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[27] Halim Barakat, "The Social Context", 10.

[28] Roger Owen, "The Political Economy of Grand Liban, 1920-70", 28.

Lebanon's poorer classes, under Leftist leadership, challenged the privileges of the rich, the Right resorted to coercive measures to disrupt the challenge, and a civil war ensued.

A second major school of thought, which includes some of the most prominent observers of the Lebanese scene, including Kamal Salibi and the late Albert Hourani, do not accept the first school of thought as a sufficient explanation, arguing that it fails to account for the fact that Lebanon's population split primarily along sectarian, rather than class lines. As an alternative explanation, they put forth the thesis that, above all else, the Lebanese political system collapsed because of a lack of political community. As we noted previously, Lebanon had a divided political community - those, predominantly Muslim, who supported pan-Arabism, and those, predominantly Christian, who supported a pro-Western Lebanon. The National Pact was based, to a great extent, on a compromise between the major sects which ostensibly neutralised Lebanon's foreign policy orientation. Changes in the Arab world (namely, the popularity of Arab nationalist and Arab socialist ideas) undermined public confidence in the workability of this compromise, and sectarian mistrust superseded class interest as a reason for conflict. As Arab socialism and Arab nationalism tended to be strongly linked, the Lebanese Left was perceived by many of the Christians (perhaps with some justice) as being too much in line with the Arab nationalist and pro-Palestinian agendas of pan-Arabism. Therefore, rather than seeing the Left primarily as a group opposed to the privileges of the wealthy, the Christian masses saw it as a disguise for a Muslim challenge to the basic

Western nature of Lebanon and the traditional position of the Christian community. As the Leftists manifested increasingly aggressive tendencies, and solidified their alliance with the Palestinians in Lebanon, the Christian masses flocked to and encouraged the Christian Right.

A third school of thought suggests that a major cause of the civil war involved increasingly ardent demands for the redistribution of political power by groups which perceived themselves as under-represented in the context of the existing decision making process. In short, groups on the fringes of the Lebanese political system challenged proportional representation on both demographic and ideological grounds. Demographically, it was contended by many in the other sects that the Maronites were no longer numerically the largest group and, therefore, had no legitimate claim to political dominance. The Shiites particularly began to lay claim to their share of political power. Ideologically, the Leftist movements were opposed to the status-quo, calling for the deconfessionalisation of the political system, and a change in Lebanon's foreign policy orientation in favour of support for pan-Arab issues, such as the Palestinian cause. Naturally, many, both within the existing elites and among the masses, with particular reference to Christian elements, were opposed to such radical changes in the status quo. Hence, demands for change were resisted, and society became increasingly polarised, to such an extent that when additional stresses arose to challenge the existing system, a major conflict ensued.

A fourth school emphasises the breakdown of elite-mass

relations. In short, the elites were increasingly unable to control their followers. Their respective attempts to solve this problem led to a general breakdown in good relations between the elites themselves. In his 1986 study of Sunni patron-client relations, Michael Johnson argued that the Sunni zu'ama were unable to control their own `street', as their clients found alternative patrons including pan-Arab and Palestinian groups. In an attempt to retain the support of their clients, Sunni elites paid lip service to popular pan-Arab causes, most particularly the armed Palestinian presence in Lebanon. This position, however, served to put them at odds with other elites, particularly within the Maronite sect, whose own community fervently opposed the Palestinian presence.[29] Tewfik Khalaf argued that the Maronite elite, like their Sunni counterparts, were prisoners of their own `street'. Popular Maronite attitudes hardened as a result of the Palestinian presence in Lebanon and of the increased demands of the Muslim communities.[30] As a consequence, it was difficult for Lebanon's elites to find common solutions to the problems facing the country. The increasingly poor intra-elite relations paralysed the government.

A fifth school, of which Iliya Harik and Georges Corm are leading advocates, argues that it was primarily the pressures originating from external factors, such as the Palestinian-

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[29] Michael Johnson, Class & Client in Beirut: The Sunni Muslim Community and the Lebanese State 1840-1985 (London: Ithaca, 1986).

[30] Tewfik Khalaf, "The Phalange and the Maronite Community", in Roger Owen (ed.), Essays on the Crisis in Lebanon, 43-56.

Israeli conflict, which caused the civil war.[31] The position of this school was summed up by Corm:[32]

> Lebanese society was not genetically flawed; ... {this is} not to say that Lebanon was a country without problems, but only that there was little time to adjust to and assimilate the tensions, imbalances and shortcomings which are also common to other societies before the regional conditions that destabilised the country appeared in 1967.

The Arab-Israeli dispute and the armed Palestinian presence was, according to this school of thought, the major external load on the Lebanese system, greatly polarising Lebanese domestic politics. In addition to drawing the Lebanese completely into the Arab-Israeli conflict, with all the problems which that entails, the Palestinians actively offered their support to Lebanon's Left, reinforcing Maronite fears that the Palestinian presence would upset the political balance. Following Egypt's withdrawal from the Arab-Israeli conflict, Maronite fears that the Palestinian presence in Lebanon would become permanent increased. With the Lebanese government politically powerless to use coercive measures due to the aforementioned intra-elite conflict, the Maronites reacted aggressively by arming themselves, and in 1975, began a military

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[31] In addition, see Walid Khalidi, Conflict and Violence in Lebanon: Confrontation in the Middle East (Cambridge: Center for International Affairs, Harvard University, 1978); Kamal Salibi, Crossroads to Civil War: Lebanon 1958-1976 (London: Ithaca Press, 1976).

[32] Georges Corm, "Myths and Realities of the Lebanese Conflict", in Nadim Shehadi & Dana Haffar Mills (eds.), Lebanon: A History of Conflict and Consensus (London: I.B. Tauris, 1988), 240-259.

conflict with the Palestinians that ignited the war. The regional loads on the Lebanese political system were commented upon by Walid Khalidi:[33]

> When a deeply divided society like Lebanon belongs to a regional system characterised by the level of turbulence prevailing in the Arab world, and when the Pan-doctrine is actively espoused within this system, the centrifugal tendencies within this member society are likely to be maximised.

2.4 The Lebanese Civil War: 1975-1990

For most people, the Lebanon of the late 1970s and the 1980s became synonymous with anarchy, ranging from incidents of random violence, car bombings and kidnappings to major military conflicts such as the 1982 Israeli invasion. The antagonists in the many conflicts which made up the war included both domestic and external actors, and battles were fought over a diverse range of issues. Conflicts over political change in Lebanon and the territorial ambitions of rival militias coexisted with major regional wars which had little to do with internal Lebanese politics but which were fought, nevertheless, on Lebanese territory. A detailed discussion of Lebanon's civil war is beyond the scope of this study, but it will be important, for our purposes, to examine briefly the political and economic changes which have taken place since the outbreak of the conflict.[34]

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[33] Walid Khalidi, Conflict and Violence in Lebanon: Confrontation in the Middle East, 101.

[34] Numerous studies on the Lebanese war were published. In particular, see Kamal Salibi, Crossroads to Civil War: Lebanon 1958-1976; Walid Khalidi, Conflict and Violence in Lebanon: Confrontation in the Middle East; Robert Fisk, Pity the Nation:

2.4.1 The Political System 1975-1988

From a technical standpoint, at least, the Lebanese political system continued to function from 1975 to 1988. Although the security situation prevented the election of a new parliament, resulting in the extension of the 1972 parliament's mandate, new presidents were elected in 1976 and 1982. The Lebanese bureaucracy also continued to function. Moreover, none of the major players involved in the war called for the disintegration of the Lebanese state structure, although their actions did much to undermine it.

Looking at the situation from a broader perspective, however, the government was effectively powerless. With the disintegration of the Lebanese army in early 1976, the Lebanese government lost its coercive capability, thereby becoming, for the most part, a peripheral player for the remainder of the war years. In effect, the Lebanese state was forced both to compete against, and to negotiate with, other more powerful actors in Lebanon, including various Lebanese militias, Palestinian groups, and the Syrian and Israeli governments, all of which were in de facto control over certain territories in the country. In short, it was the policies and actions of these

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Lebanon at War (Oxford: Oxford University Press, 1990); Roger Owen (ed.), Essays on the Crisis in Lebanon; Michael Hudson, "The Lebanese Crisis: the Limits of Consociational Democracy"; David McDowell, Lebanon: A Conflict of Minorities; Salim Nasr, "Lebanon's War. Is the End in Sight?" Middle East Report (January-February, 1990), 5-8.

groups, and of their international supporters, which dictated the pace of developments in Lebanon during the war years.

At the end of the first phase of fighting in 1976, the Maronite militias were in control of East Beirut and the Christian parts of Mount Lebanon; the leftist Lebanese National Movement and its ally the PLO were in control over West Beirut and much of South Lebanon; the Lebanese government, with the backing of the Syrian- army-dominated Arab Deterrent Force, was in control of North Lebanon and the Biqa Valley; and Israeli backed militias controlled a strip of land straddling the Israeli border. Further divisions were to occur during the war. For example, after 1982, and during much of the remainder of the war, the Shiite militias, Amal and Hizb Allah came to dominate West Beirut and the South. The Lebanese government was unable to reinstate its authority after the initial phase of fighting, or in any other period during the war, because of opposition from these domestic and external actors.

The territorial integrity of Lebanon was further undermined by the growth of various administrative centres within the enclaves, which very much came to resemble autonomous "states" within a state. Some of these enclaves, particularly the Maronite and PLO dominated ones, developed highly sophisticated administrative units. For example, the Maronite militias developed a public service department which operated through civilian popular committees in villages and towns, and provided such services as a public transportation system, water, electricity, telephone services, a police force, and the regulation of consumer prices. In addition, the militias

collected taxes, and made military service compulsory. They even had a foreign affairs department with representatives in important world capitals.[35]

In addition to the much weakened role of the Lebanese government, and the establishment of rival "governmental structures", elite turnover occurred. For example, some of the zu'ama, particularly in the Shiite and to a lesser extent in the Maronite communities, lost control over their clients and were supplanted largely by sectarian based militias. Within the Shiite community, Amal and Hizb Allah became new "zu'ama" able to represent the community through their control over coercive power and patronage. Hizb Allah, for instance, built hospitals and other community projects. Within the Maronite community the Lebanese Forces militia became the new dominant force.

2.4.2 The Economic Situation 1975-1990

Ironically, the Lebanese economy performed relatively well from 1975 to 1982. As Salim Nasr put it: "civil strife and continuous confrontation coexisted with economic prosperity. During these seven years of strife the standard of living of most Lebanese remained stable or even improved."[36] For example, per capita income rose from $1,415 in 1974 to $2,011 in 1982, while the monthly minimum wage during the same period rose from

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[35] Raymond Helmick, "Internal Lebanese Politics: The Lebanese Front and Forces", in Halim Barakat (ed.), Toward a Viable Lebanon, 311.

[36] Salim Nasr, "Lebanon's War: Is the End in Sight?" 5.

$135 to $195.[37] Certain sectors of the Lebanese economy including banking, construction, public works, engineering, consulting, and printing and publishing showed substantial growth.

Nasr attributes this surprisingly strong economic performance to five main factors. First, Lebanon had a strong economic reserve. In 1975 Lebanon had a balance of payments surplus of more than $4 billion, with large reserves of gold and hard currencies. In addition, the wealthy Lebanese held considerable private reserves and savings. This situation helped offset the economic disruptions which occurred because of the conflict. Second, an economic boom in the Gulf states created many opportunities for Lebanese workers and businesses, particularly those in the sectors noted above. Lebanese migrant workers in the Gulf increased from 98,000 in 1975 to 210,000 in 1979. As a consequence, transfers and remittances rose dramatically, from $910 million in 1975 to $2,254 million in 1980, representing more than a third of Lebanon's national income. A third factor was the presence of a "Palestinian economy". In 1981, for example, it was estimated that the Palestinian economy represented more than 15% of Lebanon's GNP. The PLO, which was headquartered in Beirut, and which, according to Nasr, had a budget larger than that of the Lebanese government, created tens of thousands of jobs both directly and indirectly. In addition, Palestinian salaries and other sources of income were, to a great extent, either spent in Lebanon or

[37] Ibid, 6.

deposited in Lebanese banks.[38] A fourth factor was the presence of "political money": grants and transfers given to the militias from their external backers. In the early 1980s, the influx of political money was estimated at $300 million a year. This political money underwrote the costs of the various conflicts in Lebanon, lessening pressure on specifically Lebanese sources. A fifth factor was the social and spatial redistribution which occurred because of the fighting. This included the creation both of new elites, such as the militia leaders, and of new regional centres, such as the Christian port city of Jounieh, which created an increasing demand for construction of housing and schools, and the increase of durable goods.[39]

The Lebanese economy during this period did, however, suffer some negative effects from the conflict, including physical destruction to infrastructure (factories, hotels, and other facilities) and the reduction of certain sectors including industry, tourism, transit, the re-export business and educational and health services to non-residents.[40]

Beginning with the Shiite militia takeover of Beirut in 1984, and continuing until the advent of the prime ministership of Rafiq Hariri, the Lebanese economy went into serious decline.[41] For example, GDP dropped to less than one-third its

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[38] Ibid, 5.

[39] Ibid, 6.

[40] Ibid, 7.

[41] In addition to the Nasr article, see Yusif al Khalil, "Economic Developments in Lebanon Since 1982", The Beirut Review no.3 (Spring, 1992), 83-94; and Saade Chami, "Economic

early 1980s level, the exchange rate dropped from 3.4 pounds to the dollar in 1980 to 450 pounds to the dollar in 1989, and the unemployment rate increased from 12% in 1980 to 35% in 1989.[42] The collapse of the economy can be accounted for by a number of factors including the effective disappearance of many of the elements that helped propel the economy in the late 1970s. Economic problems in the Gulf countries closed that economic alternative. By 1987 there were only 65,000 Lebanese working in the Gulf States. Remittances fell off from a peak of $2,254 million in 1980 to only $300 million in 1987. In addition, the return of thousands of Lebanese from the Gulf increased pressures on the Lebanese job market.[43] Second, as a result of the expulsion of the PLO from Beirut in 1982, the Palestinian economy was lost. Third, the richer Arab states greatly reduced their contributions of political money to the various factions in Lebanon. Fourth, the Lebanese state's finances collapsed. On the one hand, expenditures, especially military spending and public subsidies, increased, while, on the other hand, tax collection and customs revenues fell off drastically. This can be partially explained by the fact that a parallel economy had developed in some of the enclaves, which included the illegal collection of non-government taxes and the use of illegal ports. The increased spending and reduced revenues resulted in growing budget deficits, and led to massive inflation. In 1987, for

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Performance in a War-Economy: The Case of Lebanon", Canadian Journal of Development Studies 13, no.3 (1992), 325-336.

[42] Salim Nasr, "Lebanon's War: Is the End in Sight?" 8.

[43] Ibid, 6-7.

example, inflation was 425%.[44] The poorer economic conditions and the continued escalation of violence (see below) led many Lebanese, particularly the middle classes, to emigrate.[45]

2.4.3 A Violent Prelude to the 1989 Ta'if Accord

In addition to the economic crisis of the late 1980s, Lebanon also experienced an increasingly severe political and security crisis. As battles among the various militias and foreign armies became both more frequent and more intense, Lebanon, after 1984, became the focus of considerable negative attention internationally due to the fact that Lebanese hostage-takers began to target Westerners. The dominant players in Lebanon were essentially external; or, to put it more precisely, the Lebanese were no longer the masters of their own country. Syria, with thousands of troops in the country, and a carefully cultivated and maintained alliance with several Lebanese clients, had become the dominant foreign power;[46] Iran played a key role through its client Hizb Allah;[47] and Israel was still active in the South. Only the Maronite enclave, dominated by the Lebanese Forces militia, was reasonably independent of any foreign control.

In 1988, a new political crisis occurred when the leaders

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[44] Ibid, 7.

[45] Ibid, 8.

[46] See Marius Deeb, "The External Dimension of the Conflict in Lebanon: The Role of Syria", Journal of South Asian and Middle Eastern Studies X11, no.3 (Spring, 1989), 37-52.

[47] Jim Muir, "Teheran Calls the Tune", Middle East International no.303 (25 July 1987), 6.

of the various militias and foreign powers failed to agree on the election of a new president for Lebanon.[48] Instead, rival governments, both claiming to be the legitimate government, were set up. One was led by Salim Hoss and dominated by the Syrians, and the other was led by the anti-Syrian Lebanese General Michel Aoun. This dual government system remained in place until the end of the war in the fall of 1990.[49]

The crisis took on a new dimension when General Aoun's government attempted to break the stalemate. First, he successfully extended his government's control over Christian dominated East Beirut by moving against the unpopular Christian militia. This move was applauded in both Christian and Muslim circles, as the Lebanese public had long tired of militia rule and relished the return of a strong central government. Second, he attempted to take the rest of Beirut, an obvious challenge to the Syrians, by moving against their equally unpopular militia allies. The latter move failed, resulting in heavy fighting. Aoun declared a "war of liberation" against the Syrians, refusing to end the fighting until they withdrew from Lebanon.[50]

The political crisis, combined with heavy fighting,

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[48] Jim Muir, "Lebanon Set to Plunge Over the Brink", Middle East International no.334 (23 September 1988), 3-4; Jim Muir, "Why Lebanon Stepped Over the Brink", Middle East International no.335 (7 October 1988), 3-7.

[49] On the popularity of Aoun, see Mansour Road, "Everyone Misunderstood the Depth of the Movement Identifying with Aoun", MERIP Reports no.162, vol 20 no.1 (January-February, 1990), 11-14.

[50] Jim Muir, "Aoun's Bloody Challenge to Asad", Middle East International no.347 (31 March 1989), 3-4; Jim Muir, "The General Overplays His Hand", Middle East International no.346 (17 March 1989), 6-7.

prompted the international community to seek an end to the conflict. A series of Arab mediation efforts came to fruition in the autumn of 1989 in the form of the Ta'if Accord. The accord, negotiated by Lebanese Parliamentarians in Ta'if, Saudi Arabia, under the auspices of the Arab League, brought a formal ending to the civil war.[51] In fact, the accord only called for minor changes to the political system, and it was not greatly different than two previous peace plans, the 1976 Constitutional Document, and the 1985 Tripartite Agreement. The key aspect of the agreement was that it established the principle of Muslim-Christian political parity.[52] Beyond this change to the confessional balance of power, the pre-civil war political and economic systems were to remain intact. Obviously, the system was to remain a confessional one. Moreover, as Norton explained:[53]

> implicitly, the accord rejected the idea that parliamentary seats needed to be reallocated periodically to adjust for disparate rates of population growth among the major confessional groups. Instead, the principle of parity provided the basis of an historic compromise meant to underscore the fact that Lebanon is a country shared by Christians and Muslims.

No changes to the laissez faire nature of the Lebanese economy

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[51] The Ta'if Accord was an American and Saudi idea.

[52] The major communities were guaranteed the following number of seats: Maronites 34, Sunnis 27, Shiites 27, Greek Orthodox 14, Greek Catholics 8, Druse 8. Sunni control over the powerful office of prime minister would continue to ensure their political supremacy over the Shiite community.

[53] Augustus Richard Norton and Jillian Schwedler, "Swiss Soldiers, Ta'if Clocks, and Early Elections: Toward a happy Ending in Lebanon?" Middle East Insight 10, no.1 (November-December, 1993), 46-47.

were envisioned, even though, as we noted, Lebanon's economic problems had worsened considerably since 1975.

Just as few authors had predicted the outbreak of the civil war in 1975, very few would have predicted the conclusion of the war in 1990. As noted, The Ta'if Accord was not substantially different from previous peace plans. It had few supporters amongst the Lebanese leaders and the fighting actually did continue for another year after Ta'if. Indeed, in some cases the fighting was every bit as ferocious as any which had been seen since the beginning of the war.

This raises the question of just why the war did end in 1990. There is general agreement that the conflict ended only as a result of external pressure. In other words, it seems that the Ta'if Accord was imposed on the Lebanese. On the whole, the international community was supportive of the deal. Its major supporters included the United States and Saudi Arabia, both of which sponsored the Ta'if process and, significantly, Syria, whose pre-eminent position in Lebanon was not substantively affected by the accord. On the domestic front, none of the groups allied to, or dependent on, Syria could openly oppose the deal, no matter how much they disliked it. The comments of Druse leader Walid Jumblatt to the French daily Le Figaro are most telling: "I will be summoned to Damascus this week, and I will be told to accept the agreement: I have no choice. I will stupidly accept it."[54] Aoun openly opposed the agreement, largely because it did not set a firm date for a Syrian

[54] FBIS, NES-89-206 (26 October 1989), 49.

withdrawal from Lebanon. His troops held out against various Lebanese militias and the Syrians until 13 October 1990 when the Syrian air force, with a green light from the U.S., successfully ousted him. This effectively ended both the civil war and resistance to the newly appointed president, Elias Hrawi. On 3 December, a rehabilitated, Syrian-backed Lebanese army under the control of the government in West Beirut proceeded to take control of all of Greater Beirut for the first time since the eruption of the war in 1975. On 24 December, Prime Minister Omar Karami formed a "government of national reconciliation" which included 30 ministers, equally divided between Christians and Muslims. By the Summer of 1992, the Lebanese government, with the assistance of the Syrian army, had extended its control over all of Lebanon except the Israeli occupied parts of South Lebanon.

3. The Political Economy of Contemporary Lebanon in the Context of Existing Literature and Theoretical Perspectives

The general purpose of this study is to fill a void in the literature by examining the post-war economic reconstruction of Lebanon. More specifically, our fundamental aim is to examine, within the broader theoretical context of development economics, the institutional arrangement for implementing the various reconstruction programmes.

3.1 The Literature on Lebanon to Date

The war in Lebanon has been over since the autumn of 1990.

Post-War Lebanese governments, including the two before Hariri's regime, immediately began the task of attempting to rebuild Lebanon's devastated economy. In sharp contrast to the wealth of information available about the war years, scholars concerning this period have written little.[55] The most plausible explanation for this is that events are still unfolding, and it has, therefore, been difficult for scholars to obtain reliable information. What literature there has been on the topic of the reconstruction has tended to be somewhat polemic.[56] One school of thought, consisting essentially of the Hariri government and its domestic and external supporters, has attempted to paint a rosy

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[55] In addition to the daily coverage given to the reconstruction programme by the Beirut press, most of the writing produced on this period has tended to consist of short articles which have appeared in specialised journals such as MEED, The Middle East, Middle East Executive Reports, The Lebanon Report, and The Banque Audi Report, and in general sources such as The Financial Times.

Furthermore, brief studies or assessments of the Lebanese situation have been produced by such international institutions as the I.M.F. and the World Bank, and by private companies such as the British merchant bank, Robert Flemings.

The few book length studies to be produced included one by the former Lebanese president, Amine Gemayel, Rebuilding Lebanon (London: University Press of America,1992); one by a former architect who helped develop plans for the rejuvenation of the Beirut Central District, Angus Gavin, Beirut Reborn: The Restoration & Development of the Central District (London: Academy Editions, 1996); one by two leading proponents of the economic regime in the country, Nasser Saidi & Salim Nasr, The Development of Lebanon's Capital Markets: Economic, Legal, and Organisational Issues (Beirut: Centre for Economic Policy Research and Analysis, 1995); and a book produced by critics of the regime, Nabil Beyhum, Assem Salam, & Jad Tabet (eds.), Beyrouth: Construire L'Avenir, Reconstruire Le Passe? (Paris: L'Urban Research Institute, 1995).

[56] The Beirut based journal, The Lebanon Report, has probably produced the most balanced work on the reconstruction programme. Through an effective public relations staff, the Hariri regime has been able to air its views through some of the specialised journals noted in footnote 52.

picture of the reconstruction programme. They have tended to overlook the serious social and economic reservations of a number of groups, in favour of placing emphasis on the ultimate goal of making Lebanon the regional and financial centre of the Middle East. A second school, which consists, essentially, of Hariri's political opponents, including Lebanon's Left and the Christian opposition leaders, has argued that the reconstruction of the country is for the benefit of the super-rich, and that, moreover, Hariri is using the reconstruction to enhance his own personal fortune. In between these two schools of thought, there are a number of individuals who have been critical of certain aspects of the reconstruction programme, but who have generally refrained from commenting on the validity of the programme as a whole. Some of the leading members of this school include Assem Salam, Nabil Beyhum, Jad Tabet, and Paul Mourani, all of whom have been particularly critical of the plans to rebuild the Beirut Central District.[57]

Given the lack of academic work on the reconstruction process, therefore, we feel that a study of this nature is significant, as it will provide an important addition to the literature on post-civil war Lebanon.

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[57] Assem Salam is the President of the Order of Engineers in Lebanon; Nabil Beyhum is an academic; and Paul Mourani is an independent economist. This group has organised conferences, produced a book (see footnote 55), and written articles outlining their major concerns.

3.2 Development Economics and the Importance of Institutions: Theoretical Considerations

As noted, the fundamental aim of this study is to examine the institutional arrangement for implementing the various reconstruction programmes. A consideration of the effect of the Lebanese institutional arrangement and political situation on the recovery process raises interesting questions that have been addressed in the wider context of theoretical literature. We will undertake a brief review of this literature to locate the Lebanese experience within the wider framework. In the following sections, we will begin by briefly surveying some of the dominant theories of development, before proceeding to focus on those parts of the literature which are most relevant.

It should be emphasised at this point that development studies is a vast field which spans the various disciplines found in the social sciences including political science, history, economics, and sociology. The areas of study, which roughly fall under the development literature, are immense. Obviously, we will deal with a very limited aspect of this literature. As we have noted elsewhere, we are primarily interested in the literature that deals with institutional arrangements used to pursue various development programmes. In the Lebanese case, we are interested in examining the institutional arrangements used to pursue economic development programmes planned primarily for an urban environment.

3.2.1 Dominate Theories in Development Economics

Development economics emerged as a discipline during the

1950s and the 1960s when academics and economists, particularly those working for such agencies as the World Bank and USAID, were concerned with understanding the best way to achieve economic growth in the developing world. Essentially, the dominant view taken during this period advocated an activist role for the state in the economy. Capital formation was perceived as the best way to achieve growth, and policies such as Import-Substitution-Industrialisation (ISI) were encouraged.[58] However, for a number of reasons, this perspective lost popularity toward the end of the 1960s and the 1970s,[59] and was replaced by two broad and very different approaches to development theory -- the neoclassical school and the dependency school.

The neoclassical school, which is currently the dominant view within such agencies as the World Bank and the IMF,[60] rejects the philosophy of capital formation, arguing that the best way to achieve economic growth is through an efficient allocation of resources. In order to generate effectively such resources, proponents of this school championed the supremacy of free market principles, including minimal government

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[58] Robert Wade, Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization (Princeton: Princeton University Press, 1990), 8-9.

[59] Several reasons were put forth for the change including: ISI in some countries needed permanent government subsidisation; government fiscal deficits required fiscal constraints; and government corruption wasted resources, See ibid.

[60] See Bella Balassa, et al. Development Strategies in Semi-Industrial Economies. (Baltimore: John Hopkins University Press, 1982).

interference in the domestic market,[61] and full integration into the international market. ISI, for example, was discouraged in favour of export-led growth. A country's strength was to lay in its comparative advantage over others, whether this included cheaper labour costs, better standards of education, advanced technology, or the existence of abundant natural resources.[62] However, while the general tendency within the neoclassical school has been to stress these factors, and de-emphasise the role of the state, some scholars within the school have argued that some government interference in the market may be advantageous. For example, they cite the positive roles that the governments of some of the East Asian NICs, including Taiwan and South Korea, have played toward protecting their respective domestic markets, while at the same time encouraging exports.[63]

The other main paradigm in development literature, the dependency school, sharply rejects the liberal neoclassical view of economic development. Proponents of dependency theory, many of whom were associated in the 1960s with the Economic Commission on Latin America (ECLA) and the United Nations

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[61] This includes the following: providing macroeconomic stability; providing physical infrastructure; supplying "public goods" including defence and national security, education, market information, and the legal system; contributing to the development of institutions for improving the markets for such things as labour, finance, and technology; offsetting price distortions which arise in cases of market failure; and redistributing income to the poorest members of society to meet their basic needs.

[62] See Robert Wade, Governing The Market: Economic Theory and the Role of Government in East Asian Industrialization, 11.

[63] Robert Wade referred to this as the simulated market theory of development. For details of this concept, see ibid, 22-24.

Conference on Trade and Development (UNCTAD), attributed the failure of economic development in the Less Developed Countries to their integration in the world economy. To put it in simple terms, dependency theorists argue that the international economy is structured in such a manner that it benefits only a few states at expense of the rest. This deterministic structuralist approach leaves little room for manoeuvre by national governments. Therefore, it is in the interests of the Less Developed Countries to disentangle themselves from the world capitalist economy.[64]

3.2.2 The Role of Domestic Institutional Arrangements

What is somewhat remarkable about both the neoclassical and the dependency approaches is that they have generally ignored the effect that domestic political institutional arrangements have on a given country's economic development,[65] a fact which

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[64] Of course, the various theories which roughly fall under the dependency approach range from the crude to the highly sophisticated. Included in the latter group, for example, are works by Peter Evans on the "triple alliance" of foreign firms, local firms and state elites, the concept of "dependent development" by Fernando Cardoso, and Immanuel Wallerstein's "word capitalist systems" approach of core, semi-periphery, and periphery states.

See the following works on the dependency perspective. Peter Evans, Dependent Development: The Alliance of Multinational, State, and Local Capital in Brazil (Princeton: Princeton University Press, 1979); Fernando Cardoso, "Associated-Dependent Development: Theoretical and Practical Implications", in Alfred Stepan (ed.), Authoritarian Brazil (New Haven: Yale University Press, 1973); Immanuel Wallerstein, The Capitalist World-Economy (Cambridge: Cambridge University Press, 1979); Immanuel Wallerstein, "The Rise and the Future Demise of the World Capitalist System", Comparative Studies in Society and History 16, no.4 (September 1974), 387-415.

[65] In fact, the role of the state as an actor in the political process has been generally ignored until recently.

has not gone unnoticed by many political scientists, and development economists. As political scientist Stephen Haggard explained:[66]

> Both the neoclassical and the dependency perspectives share a common disability: the tendency to ignore how domestic political forces constrain economic policy and shape state responses to the external environment. ...Economists have focused their attention on the effect of policy on development but generally have not examined the determinants of particular policy choices; they treat politics as exogenous. Sociologists, political scientists, and historians working in the dependency traditions, on the other hand, have viewed external constraints as determinative of national policies; the result is a similar neglect of domestic political forces and institutions.

There have, however, been several studies that have attempted to address this problem. We will cite a few significant examples. In his 1982 study on the rise and fall of nations, Mancur Olsen argued that certain institutional arrangements were necessary to ensure economic growth. Essentially, he contended that some form of strong, or perhaps even authoritarian, state was needed:[67]

> Successful economic development requires institutions that restrain, control, weaken, or encapsulate the independent organisational strength of social forces,

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See Eric Nordlinger, On the Autonomy of the Democratic State (Cambridge: Harvard University Press, 1981); and Peter Evans, Dietrich Rueschemeyer, and Theda Skocpol (eds.), Bringing the State Back In (Cambridge: Cambridge University Press, 1985).

[66] Stephen Haggard, Pathways from the Periphery: The Politics of Growth in the Newly Industrializing Countries (London: Cornell University Press, 1990), 2 & 20.

[67] Ibid, 44.

> thereby insulating decision-makers from group pressures and expanding the range of their directive powers.

In his 1990 study on the industrialisation of the East Asian and Latin American NICs, Stephan Haggard concluded that specific domestic institutional arrangements, especially in the East Asian NICs, such as the relative autonomy of the state and the powerful influence it had over industrial policy, were critical to the direction and growth of the economy. Finally, in his 1990 study of the East Asian NICs, Robert Wade also concluded that specific political arrangements, which gave the state relative autonomy to formulate policy and direct the economy, helped explain East Asian economic growth.

3.2.3 A Theoretical Understanding of Domestic Institutional Arrangements

The growing body of literature on the role of domestic institutional arrangements in influencing economic development has added important new dimensions to the theoretical literature on development economics. Haggard included the domestic institutional arrangement as one of four major units of analysis in determining the economic policies of the countries examined in his study.[68] Wade, in his analysis of the economic development of the East Asian NICs, noted the importance of state institutions both in directing and steering economic growth. He called this arrangement the Governed Market Theory of Development.

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[68] The other units of analysis included: the international system; society as an explanation; and the transmission of policy-relevant knowledge. See Ibid, 28-48.

Perhaps one of the most significant attempts to conceptualise the role of the state in the development process emanated from the works of Chalmers Johnson.[69] Based on his analysis of the institutional arrangements found in many of the East Asian NICs, he developed a model called the "capitalist developmental state".[70]

Johnson's developmental state has several characteristics. To begin with, the developmental state's top priority is economic development. Second, it is committed to private property and the market. Third, it guides the market with instruments formulated by an elite economic bureaucracy, led by a pilot agency or "economic general staff".[71] Fourth, it is engaged in numerous institutions for consultation and coordination with the private sector. Finally, it is relatively autonomous from societal forces, thus allowing the economic bureaucrats to formulate policy without being constrained by private interests.[72] In short, the state is pre-eminent in its

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[69] See the following:
Chalmers Johnson, MITI and the Japanese Miracle: The Growth of Industrial Policy, 1925-1975 (Stanford: Stanford University Press, 1982); Chalmers Johnson, "The Taiwan Model", in J. Hsiung, et al. (eds.), Contemporary Republic of China: The Tawain Experience (New York: Praeger, 1981); Chalmers Johnson, "Political Institutions and Economic Performance: A Comparative Analysis of the Government - Business Relationship in Japan, South Korea, and Taiwan", in F. Deyo (ed.), The Political Economy of the New Asian Industrialism (London: Cornell University Press, 1987).

[70] See Gordon White (ed.), Developmental State in East Asia. (London: The MacMillan Press, 1988).

[71] A classic example of such an agency would be Japan's MITI.

[72] For a summary of the approach, see Robert Wade, Governing the Market: Economic Theory and the Role of Government in East

relations with societal forces. The regime would be inclined to exhibit authoritarian or soft authoritarian corporatist tendencies.[73]

3.2.4. The Economic Development of Lebanon: The Institutional Arrangement

Given that recent theoretical literature has established a link between successful economic development and certain kinds of institutional arrangements, and given the fact that specific domestic institutional arrangements were one of the key factors identified with the impressive economic growth of the East Asian NICs, it seems appropriate to examine the domestic institutional arrangement in post-Ta'if Lebanon with a view to determining its potential impact on the prospects for Lebanon's economic recovery.

The models that we briefly discussed, including those by Olsen, Haggard, Wade, and Johnson, examined the linkages between economic growth and specific institutional arrangements. All of them shared a common central argument in their studies of East Asian development; they argued that a strong government, autonomous from societal actors, strategically intervened in the economy to achieve impressive economic growth. Although all of these models are similar, we will use Johnson's model to test the Lebanese case since it is, perhaps, the only one of the models to give a detailed description of a developmental state. In particular, we will look at some of the key aspects of the

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Asian Industrialization, 25-26.

[73] Ibid, 27.

model including the concept of strategic intervention in the economy, and of the autonomy and power of the economic bureaucracy.

A preliminary survey of the institutional arrangement used to implement Lebanon's economic recovery program suggests that several of the essential characteristics of successful institutional arrangements, particularly of Johnson's developmental state, may apply. For example, a relatively strong Lebanese government, somewhat autonomous from domestic societal forces, may have existed since 1992. Second, this government's apparent raison d'être has been to rebuild the economy. Third, a relatively autonomous economic bureaucracy (the C.D.R.) has been given a generally free rein to implement the recovery programme. Finally, the state has been consistent in its commitment to the concept of private property.

In the course of the study, we wish to determine whether the Lebanese state does actually possess the basic characteristics Johnson establishes for the capitalist developmental state. If it can be demonstrated that the Lebanese state conforms to this model, which has been so successfully used in some East Asian countries, the chances for a successful recovery programme would be increased. If, however, the Lebanese state does not possess the basic characteristics of the developmental state, and if it can be demonstrated that the Lebanese have not developed a comparable alternative, the recovery programme may be jeopardised.

Although it may appear that the Lebanese government possesses some of characteristics found in Johnson's

developmental state, we will argue that this is not the case. The Lebanese government lacks the necessary autonomy vis-à-vis other political actors to successfully implement a recovery programme; the economic bureaucracy suffers from extensive political interference, which has weakened its ability to properly implement recovery programmes; the government has not really strategically intervened in the Lebanese economy to ensure positive economic growth, certainly not to the extent that some of the East Asian governments have; and finally, the government's commitment to the entire economic development process may be questioned. As we will argue in this study, the lack of an appropriate institutional arrangement has had a negative effect on the recovery programme in specific, and the economy in general.

4. Methodology of the Study

The information collected for this study originated from three main sources including: material obtained from library research in the U.K.; material collected in Lebanon from organisations, institutions, and individuals involved in the recovery programme; and material acquired from a series of unstructured interviews conducted in Lebanon in the winter of 1997 with individuals intimately associated with the reconstruction, prominent opponents of the system, and general observers of the Lebanese scene.

We obtained a wealth of information, particularly in the form of raw data, about the reconstruction process from a number of sources found in the Middle East Documentation Unit at the

University of Durham and in the archives of the Centre for Lebanese Studies, Oxford. These include, but are not limited to, specialised journals such as the Middle East Economic Digest (MEED) and The Lebanon Report, as well as some articles taken from more general sources such as The Financial Times newspaper. Progress Reports from the various institutions involved in the reconstruction, particularly those published by the Council for Development and Reconstruction (C.D.R.) have also been invaluable. A wealth of information was obtained from various unpublished sources including World Bank and IMF reports and memorandums, consultancy reports (from which the actual reconstruction plans originated), and from a series of papers delivered at the Financial Times sponsored conference Lebanon Toward 2000: Opportunities for Finance and Investment in a Re-emerging Market held in Beirut (Beit Meri) on June 8-9, 1995.

We have also found that material collected in Lebanon during field research, which took place during the winter of 1997, was particularly valuable. Several organisations and institutions, including the C.D.R., the property development company called Solidere, and the Central Bank, as well as a number of individuals including economists and academics, provided us with information (much of which was unpublished) which has greatly increased our knowledge of the reconstruction process. In particular, our understanding of the institutions, personalities, and other forces integral to the reconstruction process was greatly strengthened, as well as our appreciation of the major criticisms of the recovery programme.

An invaluable part of the material obtained for this study

was derived from a series of unstructured interviews during the winter of 1997 with leading individuals intimately associated with the recovery programme, prominent opponents of the programme, and observers of the Lebanese scene.[74] The interviews not only helped us interpret much of the data that was available through library research, but they also provided us with crucial new information, much of which was otherwise unavailable, concerning the dynamics of the recovery process. We interviewed several people who worked in the main organisations managing and implementing the recovery programme. For example, some of the leading figures at the C.D.R and the I.D.A.L. interviewed included: the Vice-President of the C.D.R., Boutros Labaki; Jim McCredie, the senior Western consultant at the C.D.R., and an advisor to the C.D.R. president on the recovery programme; and Adib Salem, a senior economist at the I.D.A.L. We also interviewed a number of opponents of the recovery programme. Some of the leading opponents interviewed included: Salim Hoss, head of an opposition bloc in parliament and a former prime minister; Assem Salam, President of the Order of Engineers and the brother of a former prime minister; and Paul Mourani, an independent economist. Finally, we also interviewed a number of academics and journalists who have followed the reconstruction process closely. Some of the observers of the Lebanese scene interviewed included: Nadim Shehadi, director for the Centre of Lebanese Studies; Michael Young, editor of the journal, The Lebanon Report; and Kamal Shehadi, research director at the

[74] The interviews were conducted over a five week period.

Lebanese Centre for Policy Studies in Beirut.

5. Outline of the Study

Including the present chapter, this study is divided into eight chapters. Chapter two attempts to explain the circumstances behind the rise of Prime Minister Hariri's government. Chapter three deals with Hariri's economic plan for the reconstruction of Lebanon. Chapter four examines the various institutions which are managing the reconstruction programme. Chapter five looks at the execution and results of the plan. Chapter six examines private sector initiatives in the Lebanese economy. Chapter seven looks at the political constraints faced by the government with respect to the implementation of the programme. Finally, chapter eight concludes the paper with a review of the main players in the post civil war political and economic scene in Lebanon, and, in the context of looking at other kinds of constraints which affect the ability of the government to implement the programme, it raises a number of questions concerning the future stability of the Lebanese political and economic systems.

CHAPTER TWO: THE RISE OF RAFIQ HARIRI

In this chapter, we will attempt to explain the circumstances behind the rise of Prime Minister Rafiq Hariri's government, which has been instrumental in pushing through Lebanon's reconstruction programme. In the course of examining these circumstances, we will look at two crucial questions. First, why did Syria feel compelled to accept the appointment of an influential, independent minded, and, hence, potentially troublesome, figure like Hariri as Lebanon's prime minister? And second, what were Hariri's motives in accepting the position?

We will argue that Syria, for all intents and purposes the main power broker in Lebanon, acquiesced, in spite of earlier misgivings, to a constellation of interests inside and outside Lebanon, and allowed Hariri to become Lebanon's prime minister. We feel that the reasoning behind this acquiescence involved, primarily, Syria's desire to ensure the stability of the essentially pro-Syrian, post-Ta'if, political order in Lebanon, which was threatened, perhaps to some considerable extent, by three factors: first, a serious economic crisis; second, the controversy surrounding the legislative elections; and, finally, the possibility of international intervention if a more popular and effective government was not appointed. In short, we will argue that Hariri's appointment offered Syria a sort of "safety valve". By giving the Lebanese effective control over their own economic system, Syria may have hoped to silence, or at least placate, many of its critics in the country, while allowing Syrian dominance of the Lebanese political system to remain largely intact. Furthermore, in the event that the economy did

not improve, it would, at the very least, allow Syria to escape the blame.

We will also argue that Hariri accepted the prime ministership for two main reasons. First, we will argue that Hariri was a politically ambitious man, who coveted the prime ministership since at least the early 1980s. Hence, when the right circumstances arose, he eagerly accepted the position.[1] Second, we will argue that Hariri accepted the prime ministership because it offered him the chance to push through his own economic plans for the country, in particular the plans for the reconstruction of Beirut's city centre, which he apparently felt were jeopardised by the treacherous political quagmire of the post-Ta'if system in Lebanon.

This chapter is divided into two sections. In section one, we will give a brief overview of the major problems with the post-Ta'if political system, and explain in detail the failure of the Omar Karami and Rashid Solh led governments in resolving Lebanon's political and economic problems. In section two, we will discuss the rise of Rafiq Hariri, the makeup of his government, and the goals that it set for itself.

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[1] This argument is, of course, contrary to the two prevailing views concerning Hariri. One school sees Hariri as a selfless person who accepted a position in government simply to assist Lebanon out of its economic crisis. A second school argues that Hariri took over the prime ministership as a step to simply increase his already immense fortune.

1. Problems With the Post-Ta'if Political System and the Failures of the Karami and Solh Governments

1.1 Problems With the Post-Ta'if System

As we mentioned in chapter one, the Ta'if Accord was never really a popular document with the Lebanese, with the possible exception of the Sunni community.[2] Much of the discontent centred around the accord's political reforms. For example, although the Maronites were guaranteed more parliamentary seats than any other community, their political power was curtailed by the fact that the powers of the presidency were reduced considerably, diminishing the significance of their traditional prerogative and depriving them of their effective veto power over the political system.[3] By contrast, the role of the prime ministership, the traditional prerogative of the Sunni community, was greatly strengthened.[4] The influence of the Shiite community, probably the single largest community in Lebanon at the time, was also significantly increased. Although the Shiites were awarded only the same number of parliamentary seats as the Sunni, the powers of its traditional prerogative,

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[2] For various analyses of the Ta'if Accord and its impact on the situation in Lebanon, see Augustus Richard Norton, "Lebanon After Ta'if: Is The Civil War Over?" Middle East Journal 45, no.3 (Summer, 1991), 457-473; Augustus Richard Norton and Jillian Schwedler, "Swiss Soldiers, Ta'if Clocks, and Early Elections: Toward a Happy Ending in Lebanon?"; Ronald D. McLaurin, "Lebanon: Into or Out of Oblivion?" Current History, (1992), 29-33; Habib C. Malik, "Lebanon in the 1990s: Stability Without Freedom?" Global Affairs part VII (Winter, 1992).

[3] See Ronald McLaurin, "Lebanon: Into or Out of Oblivion?", 32.

[4] Executive power was transferred to the cabinet, which is headed by the prime minister. See ibid, 31.

the Speaker of the House, were greatly enhanced.[5]

While opposition, particularly from the Maronite community, to these internal political reforms was real enough, a very strong argument could be made that they were not the primary reason for widespread opposition to the Ta'if Accord, or for opposition to the post-Ta'if political system. These changes did not really radically alter the pre-civil war political system. After sixteen years of war, one could argue that the Maronite community, who were the most vehement in their opposition to the accord, might have been more accommodating to its political aspects if their other concerns were addressed carefully. As we shall attempt to demonstrate below, the opposite occurred. That is to say, the Ta'if Accord, particularly in its more sensitive aspects, was forced upon the community by Lebanese governments which were popularly perceived as Syrian puppets.

The most fervent opposition to the Ta'if Accord, particularly in Lebanon's Christian communities, seems to have come chiefly as a result of the section dealing with Lebanese-Syrian relations. In short, the Ta'if Accord legitimised the dominant, yet very unpopular, Syrian presence in Lebanon. The accord did not mention the withdrawal of Syrian troops, but only called for their redeployment to the Biqa Valley two years after the implementation of Ta'if. Even if the latter were to happen, and it has yet to at the time of this writing, the Syrian army

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[5] We will give extensive treatment to the relationship among the three leaders, which collectively have been referred to as the "leadership troika", in chapter seven.

would only be some twenty miles from Beirut.[6] Moreover, the accord called on Syria to assist the Lebanese government in implementing the Ta'if Accord. In fact, the Syrian government was the dominant partner in the relationship. As Habib Malik explained: "As the predominant power over most of Lebanese territory, Syria was in an undisputed position to dictate both the interpretation and the implementation of the accord."[7] As one might expect, therefore, Syria would interpret and implement the Ta'if Accord according to its own needs and goals, rather than those of the various Lebanese communities. This is why, for example, the post-Ta'if Syrian backed governments were selective in their disarming of militias. Furthermore, Syria was able to impose a series of bilateral agreements on Lebanon which increased Syrian dominance of the Lebanese system. In effect, Syria came to dominate most facets of Lebanese political life. The extent of this dominance was bluntly commented on by the Druse leader Walid Jumblatt, who has served in all of the post-war governments:[8]

> ... we the government meet once every week, but the agenda and the order of business for the day are usually set for us in advance and communicated to us a day or two earlier. All sensitive subjects have been examined and resolved outside the confines of government. Certain concerned parties are sometimes made privy to the secret, but generally we are the last to find out and the decisions pass without anyone really knowing how.

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[6] Ibid, 31.

[7] Habib C. Malik, "Lebanon in the 1990s: Stability Without Freedom?", 85.

[8] Quoted in ibid, 93.

As we will attempt to demonstrate in greater detail later in this section, the failure of both Karami and Solh to bring about political, and especially economic, stability, can only really be understood within the context of Lebanese opposition to an order thoroughly dominated by Syria, and its Lebanese allies.

1.2 The Karami Government

1.2.1 Developments in Post-Ta'if Lebanon

On 5 November 1989, the Lebanese Parliament met in the Syrian controlled Biqa Valley to ratify the Ta'if Accord, and to elect Rene Muawwad to the presidency. Following his assassination seventeen days later, the parliament elected Elias Hrawi. The prime ministership remained with Salim Hoss, who had headed the rival government to General Aoun. As mentioned previously, it took nearly a year before the Lebanese government, with the support of the Syrian army, was able to militarily defeat Aoun. Therefore, the process of implementing the Ta'if Accord did not really begin until 21 August 1990, when the Lebanese Parliament approved the constitutional reforms stipulated in the accord. The following month, parliament officially amended the constitution.[9]

1.2.2 "The Government of National Reconciliation"

On 24 December 1990, a new Lebanese government was formed,

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[9] Augustus Richard Norton, "Lebanon After Ta'if: Is the Civil War Over?", 461.

led by Prime Minister Omar Karami, and referred to as the "government of national reconciliation". The cabinet, which was the largest in Lebanon's history, included 30 ministers, divided equally between Christians and Muslims. As one commentator noted, the cabinet was "unwieldy and bitterly divided". As a general rule, the ministers were either pro-Syrian and/or militia leaders. In the case of the latter group, it was hoped that including them in the system would make it easier to convince them to disarm their militias.[10] The position of Lebanese Forces leader Samir Geagea is one illustration of this. In return for supporting the Ta'if Accord, and thus opposing Aoun, Geagea was not only given a cabinet position, but he understood that the new government would treat him as the most important leader of the Maronite community.[11]

The Syrian stamp on Karami's government was unmistakeable. In fact, as Norton put it, "the designation of Karami as the successor to Prime Minister Salim Hoss was announced in the Syrian press two days prior to his formal nomination in December 1990, thereby mocking customary parliamentary consultations."[12] The configuration of the government was decided in consultation with Damascus. President Hrawi, Prime Minister Hoss, and other prominent Lebanese figures made several trips to Damascus to discuss the formation of the new government. The feelings of the

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[10] Ibid, 467.

[11] Drew Harrison, "A Manufactured Peace", The Middle East (July, 1991), 18.

[12] Augustus Richard Norton, "Lebanon After Ta'if: Is the Civil War Over?", 457.

Lebanese public about the extent of Syrian input in the makeup of the new government, as well as in appointments to key positions in the Lebanese army, security services, and intelligence services, were commented upon by Ronald McLaurin: "The sight of government ministers, businessmen, and political figures running back and forth to Damascus to plead their cases or receive their orders was the talk of Beirut and the embarrassment of the country."[13]

1.2.3 The Return of State Control: The Dissolution of the Militias

Two of the major objectives of the Karami government were the essentially complementary aims of disarming the militias and extending government control over Lebanese territory. On balance, in the pursuit of these objectives the government was quite successful. However, Syrian intervention in this process became a focal point of public discontent with the government.

The government's first major success concerned the extension of government control over the capital. In December of 1990, under the Greater Beirut Security Plan, the militias withdrew from Beirut, leaving the city in government hands for the first time since the start of the civil war.[14]

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[13] Ronald McLaurin, "Lebanon: Into or Out of Oblivion?", 32.

[14] The process had begun under the Hoss administration. For details of the Greater Beirut Security Plan, and a chronology of the negotiations leading up to its implementation, see the following copies of the Arab Press Service: Diplomat 18, Recorder Covering (13/20 October 1990), SP 235; Diplomat 19, Recorder Covering (20/27 October 1990), SP 251-2; Diplomat 20, Recorder Covering (27/3 November 1990), SP 271; Diplomat 21, Recorder Covering (3/10 November 1990), SP 290; Diplomat 25, Recorder Covering (1/8 December 1990), SP 359.

The disarming of the militias, and the subsequent extension of government authority to their respective enclaves, was considerably more difficult. The Ta'if Accord stipulated that the militias were to be dissolved within six months following its ratification by parliament.[15] Following intense negotiations within the cabinet, in which a number of the militia leaders either participated or were represented, all Lebanese and non-Lebanese militias were given until 30 April 1991 to voluntarily disarm. Their weapons were to be given to the Lebanese or Syrian armies, or the weapons were to be transferred abroad.[16] In return, the militias were to be incorporated into the Lebanese army, the police or the administration.[17] Given the relative balance of power, with the Syrian army backing a rejuvenated Lebanese army, and with strong international support for the dissolution of the militias, particularly from the U.S., few militias were in any real position to resist. Pro-Syrian militias were the first to disarm, followed by the Maronite led militia, the Lebanese Forces. By the spring of 1991, the Lebanese government had successfully extended its control over

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[15] This included the country's 10 religious and secular militias. A four man ministerial committee drew up the plan to disband the country's militias. The plan also included a provision which called for the disbandment of "non-Lebanese militias", referring to South Lebanese Army (S.L.A.) and the various Palestinian groups. See Arab Press Service Diplomat 13, Recorder Covering (16/23 March 1991), SP 252.

[16] Arab Press Service Diplomat 14, Recorder Covering (23/30 March 1991), SP 266.

[17] For the chronology of when the militias dissolved, see Arab Press Service Diplomat 17, Recorder Covering (13/20 April 1991), SP 318; Arab Press Service Diplomat 18, Recorder Covering (20/27 April 1991), SP 331.

much of Lebanon.

The main difficulty with the issue of disarming the militias, and a principal bone of contention with critics of the government, especially within the Christian camp, was a political rather than a technical one. That is to say, for purely political reasons, a few of the militias were not disarmed. The pro-Iranian Hizb Allah, was a particularly important example of this.[18] The official reason given was that Hizb Allah had the right to continue to seek to liberate Lebanese territory from Israeli control. Unofficially, however, the Lebanese government was well aware of the fact that such activities only invited Israeli reprisals against Lebanese targets, and offered the Israelis a pretext to remain in South Lebanon. The Lebanese government's failure to disarm Hizb Allah stemmed, not from a technical inability of the government to do so, but largely from Syria's support of the militia. In fact, it was an agreement between Syria and Iran in April of 1991 that allowed Hizb Allah to retain its arms.[19] The advantages, for Syria, of an armed Hizb Allah presence are obvious. Above all else, Syria was able to continue to use it as a bargaining chip in its relations with Israel, particularly with reference to the peace process. Syria presented itself as the only actor capable of disarming or reining in Hizb Allah, a view accepted by Israel, and thus as the only actor capable of keeping Israel's

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[18] This also included several of the Palestinian groups based in South Lebanon, and the Israeli backed South Lebanon Army.

[19] Augustus Richard Norton, "Lebanon After Ta'if: Is the Civil War Over?", 471.

northern border quiet. Until a peace agreement with the Israelis is signed, Syria will be quite content with the low level conflict in South Lebanon.[20] In effect, the disarming of Hizb Allah and the extension of Lebanese government authority to South Lebanon remained tied to a future peace agreement between Israel and Syria.[21]

1.2.4 The Increase in Syrian Dominance of the Lebanese Political System

The Ta'if Accord called for further negotiations between Lebanon and Syria on a whole spectrum of bilateral issues. Several agreements were subsequently reached; the most prominent of which was the "Treaty of Brotherhood, Cooperation and Coordination" which was signed on 22 May 1991 in Damascus by the Syrian and Lebanese heads of state.[22] The agreement called for the two states to achieve the highest possible coordination in all political, economic, security, and cultural domains. It also established a "Supreme Council" chaired by the two heads of state, and empowered this council to make "mandatory and enforceable"[23] decisions on regional policy or coordination in

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[20] As indeed are the Israelis.

[21] For a succinct look at the dynamics of the situation in South Lebanon, see Augustus Richard Norton, "Lebanon After Ta'if: Is the Civil War Over?", 469-472.

[22] For the text of the treaty, see Arab Press Service Diplomat 22, Recorder Covering (18/25 May 1991), SP 386.

[23] Arab Press Service Diplomat 21, Recorder Covering (11/18 May 1991), SP 371.

the fields noted above.[24] Several subordinate bodies were created to facilitate the objective of the treaty, including: the Foreign Affairs Committee, which includes the foreign ministers of both countries, and is charged with coordinating the two countries' foreign policies; and the Defence and Security Affairs Committee, consisting of the respective defence and interior ministers, which deals with the internal and external security of both states.[25]

The treaty was widely and fiercely criticised in Lebanon, but the opposition of the Christian community was particularly strong. Some Christian members of the cabinet argued in favour of delaying the treaty until the Lebanese government achieved full sovereignty over its territory with the departure of all foreign forces from Lebanon.[26] The Maronite Patriarch, who supported the Ta'if Accord, criticised the treaty saying that it was unequal and imposed.[27]

At the international level, France and Israel protested against the treaty. Israeli Defence Minister, Moshe Arens,

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[24] The Supreme Council included:
On the Syrian side: the president, parliamentary president, the prime minister, and the vice president of the republic.

On the Lebanese side: the president, speaker of the parliament, the prime minister and the vice prime minister.

[25] There is also an Economic and Social Relations Committee. Arab Press Service Diplomat 22, Recorder Covering (18/25 May 1991), SP 387.

[26] This included Georges Saadeh of the Kata'ib and Roger Dib of the Lebanese Forces. Arab Press Service Diplomat 21, Recorder Covering (11/18 May 1991), SP 371.

[27] Jim Muir, "The Syrian-Lebanese Treaty: Grounds for Concern or Hope?" Middle East International no.401 (31 May 1991), 3-4.

referred to the Syrian-Lebanese treaty with the "loaded term Anschluss, recalling the Nazi annexation of Austria in 1938."[28] However, international reaction to the treaty generally tended to be mute. The U.S. government was even somewhat optimistic, arguing that the objectives of the treaty "were in the interests of all states in the region, including Israel."[29] In an effort to placate critics of the deal, some State Department officials privately stated that "such treaties should not be taken too seriously or too literally."[30]

The overwhelming consensus in literature dealing with this issue suggests that the provisions in the treaty have institutionalised Syrian dominance of the Lebanese political system.[31] In particular, it is argued that Syrian dominance is most evident in the realms of foreign policy, security, and defense. Further agreements between the two countries were signed in the defense and security domains, leading to the accusation that the agreements opened the "entire Lebanese security structure, from firefighters to intelligence agencies, to Syrian penetration."[32] In addition, it is claimed that certain

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[28] Habib Malik, "Lebanon in the 1990s: Stability Without Freedom?", 93; Peretz Kidron and Donald Neff, "Euphoria and Alarm", Middle East International no.401 (31 May 1991), 5.

[29] Peretz Kidron and Donald Neff, "Euphoria and Alarm", 5.

[30] Habib C. Malik, "Lebanon in the 1990s: Stability Without Freedom?", 93.

[31] For criticisms of the treaty, see Jim Muir, "The Syrian-Lebanese Treaty: Grounds for Concern or Hope?", 3-4; Habib C. Malik, "Lebanon in the 1990s: Stability Without Freedom?"; Drew Harrison, "A Manufactured Peace", 17-18; Ronald D. McLaurin, "Lebanon: Into or Out of Oblivion?".

[32] Ronald McLaurin, "Lebanon: Into or Out of Oblivion?", 33.

liberties in Lebanon, such as the free press, have been curtailed for such things as criticising Syrian interests in the country.[33]

1.2.5 The Economic Reconstruction of Lebanon

The sixteen years of war brought far-reaching devastation to Lebanon, both in human suffering and in physical destruction. The figures on the number of Lebanese who died as a result of the conflict vary. The Lebanese daily al Nahar puts the final death toll at 144,240 and the number of wounded at 184,051.[34] Another source placed the death toll at 170,000 - some 5.6% of the total population.[35] Non-Lebanese casualties, including Palestinian ones, are excluded from these figures. Estimates of the number of displaced Lebanese, who were either evicted or fled from their homes to the relative safety of areas dominated by their own religious sect, ranged from 680,000 to 800,000 persons, accounting for some one-fifth of the population. The problem of displaced Lebanese has yet to be resolved.[36] And

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The defense and security agreement between Lebanon and Syria was signed on 17 August 1991. Other agreements were also signed including one promising to combat the drug trade.

[33] Ibid, 33.

[34] "Lebanon Chronology", The Beirut Review no.4 (Fall, 1992), 221.

[35] The figure was cited in Boutros Labaki, The Reconstruction Program of Lebanon: Present and Prospects (Lebanon: Council For Development and Reconstruction, 1993), 1.

[36] See Giles Trendle, "The Problems of Lebanon's Displaced", Middle East International no.423 (17 April 1992), 19-20. A significantly lower number of displaced Lebanese, 355,000 was quoted by the Lebanon Information Processing Service Bulletin no.31 (July, 1992), 3. For a brief analysis of government

approximately 900,000 people, 30% of the population, a significant number of which were from either the middle or upper classes, emigrated.[37] The war caused enormous physical destruction, especially to the country's infrastructure. In dollar terms, the damage was estimated to be in the billions of dollars. To cite a number of notable examples of conditions in 1992: less than half of the telephone lines in the country worked, electricity was available for only a few hours a day, 80% of the potable water resources were polluted, and all the sewerage treatment plants were out of order.[38] Of the 3,270 kms of roads in the country, only 1,000 km were classified as being in good condition, 257 km were classified as being in fair condition and the remaining 2,013 km ranged from bad to very bad.[39] Beirut International Airport and Lebanon's ports, particularly Beirut port, were also in need of extensive repair.[40] The Housing Ministry estimated that 86,571 homes were destroyed during the war. The cost of fixing destroyed homes was

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measures for the return of the displaced, see "Government Agrees Measures for the Return of the Displaced", Lebanon Information Processing Service, 1.

[37] The figure was cited in Boutros Labaki, The Reconstruction Program of Lebanon: Present and Prospects, 1. For a detailed examination of the population figures, internal displacement and external migration, see the main consultancy report on the reconstruction of Lebanon -- Bechtel & Dar al Handasah, Recovery Planning for the Reconstruction and Development of Lebanon: Phase One - Volume Two Priority Program (Beirut: Council for Development and Reconstruction, December 1991), section 3, 15-20.

[38] Ibid, 2-3.

[39] Ibid, 46.

[40] Ibid, 3-57.

estimated at $754 million, and $1.6 billion for the building of new homes.[41] A detailed examination of the destruction to Lebanon's infrastructure, and the estimated requirements for repairing it, will be the subject of the next chapter. Suffice it to say, at this point, that, restoring Lebanon's infrastructure must be considered an absolute necessity.

Shortly after taking office, the Karami government attempted to begin the process of Lebanon's economic reconstruction. In January of 1991, the government revamped the Council for Development and Reconstruction (C.D.R.). This was a public autonomous body linked to the Cabinet, which was originally established by the Lebanese government in 1977, two years after the beginning of the war, and entrusted with the task of preparing and organising the economic reconstruction of Lebanon. A new C.D.R. board was appointed by the government, and the organisation was charged with basically the same task. An extensive examination of the C.D.R., which is one of the most crucial bodies involved in the present reconstruction, is undertaken in chapter four. For the moment, it is important to note that shortly after its new mandate in 1991, the C.D.R. retained the services of a consortium of two world-renowned consultants, the American Bechtel International and the Beirut-based Dar al Handasah, to develop a rehabilitation plan for the country. The Bechtel/Dar al Handasah plan, referred to as the three year priority programme, included the rehabilitation of

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[41] 50,000 of the homes were deliberately destroyed by the militias to prevent the return of their inhabitants. Lebanon Information Processing Service Bulletin, 3.

Lebanon's infrastructure in 15 sectors during the years 1993, 1994 and 1995. The objective was to restore the capacity of Lebanon's infrastructure to its peak levels (i.e., the 1975 level for those which had fallen below standard, or the peak post-1975 level for those sectors which had improved after the beginning of the war.)[42] In December 1991, the plan was presented to international donors at a meeting convened by the World Bank in Paris. Following consultations with the members of a series of World Bank missions to Lebanon during 1992, and further damage assessment studies, which received financial support from the Commission of the European Communities (C.E.C.), the plan was updated and revised. This revised edition was called the National Emergency Reconstruction Programme (N.E.R.P.), a three year public investment program which also included programs for strengthening institutions and technical assistance.[43]

The C.D.R. commissioned the same consultants to prepare a master plan for the reconstruction of the Beirut Central District (B.C.D.). The plan, which was presented in June 1991, called on the private sector to assume priority for the reconstruction of the B.C.D. It called for the establishment of a real estate company in which equity was to be held by the present title holders of land in the B.C.D., the government, and additional private investors.[44]

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[42] Boutros Labaki, The Reconstruction of Program of Lebanon: Present and Prospects, 6.

[43] Council for Development and Reconstruction, The Horizon 2000 Plan (Beirut: Council for Development and Reconstruction, 1992), 18-19.

[44] Bechtel & Dar al Handasah, Recovery Planning for the

The C.D.R. also concluded several contracts with European and Lebanese consultancy firms to assess war damage in the infrastructure sectors.[45] In addition, it initiated contacts with several organisations and countries in the hope of receiving funds to finance the reconstruction.[46]

It was under the Karami government, therefore, that post-civil war plans for Lebanon's economic reconstruction were initiated. However, for a number of reasons, little progress was made. Boutros Labaki, a key member of the C.D.R., has attributed the failure to the lack of available financial resources, and to the inability of the government "to act and implement efficiently a large program after 15 years of wars."[47] The public sector, which as one observer commented "was grossly over-staffed and pathetically inefficient,"[48] was severely criticised by nearly every group in Lebanon from the private sector to academics. In effect, the government, which was viewed as

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Reconstruction and Development of Lebanon: Phase One- Volume Two Priority Program, section 3, 23.

[45] Boutros Labaki, The Reconstruction of Program of Lebanon: Present and Prospects, 6.

[46] The following sources were contacted: the European Economic Community (E.E.C.), the European Investment Bank (E.I.B.), France, Italy, Japan, Germany, the Saudi Development Fund, the Saudi government, the Islamic Development Bank, the Arab Fund for Arab Economic and Social Development (A.F.E.S.D.), the Kuwait Fund for Arab Economic and Social Development (K.F.A.E.S.D.), the Abu Dhabi Fund for Economic and Social Development, the United Nations Development Program (U.N.D.P.), the World Bank, the U.N. Food and Agriculture Development (I.F.A.D.), and the Lebanese private banks. Ibid, 10.

[47] Ibid, 16. See also, Gerald Butt, "The Dire Straits of Lebanon's Economy", Middle East International no.423 (17 April 1992), 18-19.

[48] Gerald Butt, "The Dire Straits of Lebanon's Economy", 18.

offering little leadership in the economic sphere, was seen more as an impediment to the economic reconstruction of the country than as a key initiator. Much of the aid promised by international donors was held up because of the government's failure to produce a coherent economic policy.[49] In the end, the Karami government was unable to continue with the C.D.R.'s plans for the economic reconstruction of the country for these reasons, and because of a severe economic and political crisis. As Nohad Baroudi, Secretary General of the C.D.R. explained, "Domestic and external events unfortunately served to halt the recovery dynamic initiated in 1991, to frustrate the economic stabilisation programme and to retard the implementation of the N.E.R.P."[50] It is to these economic and political crises, which eventually led to the downfall of the Karami and later Solh governments, and to the eventual political rise of Rafiq Hariri that we now turn our attention.

1.2.6 The Economic Crisis: 1990 - October 1992

As we noted in the first chapter, the Lebanese economy had begun to deteriorate seriously during the mid-1980s. While a measure of stability emerged during the Karami period with respect to the security situation, there was no real improvement in the sphere of Lebanon's faltering economy.[51] In fact, some

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[49] Middle East Mirror (17 April 1992).

[50] Nohad Baroudi, "Horizon 2000: A Synopsis", unpublished paper presented at The Financial Times organised conference, 1.

[51] As a result of the relatively stable security situation, economic growth did occur within some sectors. In addition,

economic indicators pointed to a continued decline in the economy, reaching a crisis point during the controversial parliamentary elections which were held in the late summer of 1992. A key indicator of the declining economic situation was the fate of the Lebanese pound. The fluctuating pound declined to its lowest levels ever vis-a-vis the American dollar. In February of 1992, the pound was valued at 879 to one U.S. dollar, in April it was valued at 1,500, and in May it dropped to 2,100 to one U.S. dollar.[52] During the parliamentary elections held in the late summer of 1992, the pound was valued at close to 3,000 to one U.S. dollar.[53] The collapse of the Lebanese pound, and the run away inflation rate, which, as one source explained, "was meaningless to refer to when the pound fluctuates so violently on a daily basis,"[54] greatly increased the hardship of Lebanon's growing number of poor.[55] For example, a low income household could spend as much as 20% of its monthly budget on bread alone.[56]

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increased government revenues, mostly through customs receipts, combined with very little spending on the reconstruction programme, helped to lower the budget deficit. However, as we will explain below, other economic indicators showed serious problems with the Lebanese economy. See Said Hitti, "Budgetary Politics in Lebanon: A Memorandum for Public Discussion", Lebanese Economic Tribune Paper 3 (Beirut: Lebanese Center for Policy Studies, 1997), 16.

[52] Middle East Mirror (10 April 1992), (17 April 1992).

[53] Adib Salem, "Elections Exacerbate Economic Crisis", The Lebanon Report 3, no.9 (September, 1992), 12.

[54] Adib Salem, "Poor Grow Poorer", The Lebanon Report 3, no.9, 14.

[55] Ibid, 14.

[56] Giles Trendle, "Lebanon: End of The Nightmare?" The Middle

Criticism of the government's handling of the economy came from a whole range of circles, and, in fact, there was considerable criticism of economic policy even within the government. For example, Minister Walid Jumblatt blamed the government for the country's economic failure, stating that its policies were "stupid and short-sighted".[57] Education Minister Boutros Harb was even more critical, accusing the government of corruption and of breaking the law.[58]

More criticism came from religious and business leaders. Greek Orthodox Patriarch Hazim suggested that the replacement of the Karami government would be a necessary step to improving the economy, and Beirut Greek Orthodox Bishop, Ilyas Audi, implied that the country was essentially in need of a hero to save it. Central Bank Governor, Michel Khoury, threatened to resign if the government did not reduce its spending, which was seen by many as a major cause of the economic crisis.[59]

At the end of February of 1992, the Central Bank issued a surprise announcement that it would no longer draw on its reserves to prop up the value of the pound, a development which made the pound's rapid decline virtually unavoidable. The importance of the Central Bank's assistance is aptly demonstrated by the fact that, in the previous month alone, it

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East (September, 1991), 10.

[57] ----, "Lebanon Chronology", The Beirut Review no.3 (Spring, 1992), 208.

[58] -----, "Lebanon Chronology", The Beirut Review no.4, 223.

[59] -----, "Lebanon Chronology", The Beirut Review no.3, 216; ------, "Lebanon Chronology", The Beirut Review no.4, 223, 226.

had spent approximately $400 million in supporting the pound.[60] Without this assistance, all the government could do was to declare to the public that it no longer possessed the weapons for checking the decline of the pound.[61] The move by the Central Bank, and the government response, left "the people overwhelmingly pessimistic", according to Dr. Elias Saba, an economist and former finance minister.[62]

The most spirited criticism of the government's handling of the economy came from Lebanon's trade union movement, which organised general strikes and protests supported by tens of thousands of Lebanese from all religious denominations. In many instances, the protests turned violent. On 5 May 1992, the home of Finance Minister Ali al Khalil in Tyre was burned down, and in Beirut, banks and expensive cars were attacked.[63] The strikes were led by the Confederation of Trade Unions (C.T.U.), which formed a bloc of approximately 60 Lebanese trade unions with a total membership of 200,000.[64] C.T.U. President Antoine Bishara demanded the resignation of the government. Another union leader stated: "We need a totally different cabinet. There's no longer any room for 30 swindlers who are the direct cause of our

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[60] Gerald Butt, "The Dire Straits of Lebanon's Economy", 18.

[61] "Lebanon Chronology", The Beirut Review no.4, 223.

[62] Arab Press Service Diplomat 20, Recorder Covering (2/9 March 1992), SP 272.

[63] Middle East Mirror (15 May 1992); Arab Press Service Diplomat 20, Recorder Covering (2/9 March 1992) SP 272.

[64] Giles Trendle, "Playing Politics With the Vote", The Middle East (September, 1992), 20.

suffering."[65] On 6 May 1992, following several weeks of general strikes and mass protests, Karami offered his resignation,[66] following consultation with Damascus, and said he was doing so in order to "save the country".[67]

There seems to be a reasonable consensus that the Karami government was primarily to blame for the economic crisis. In fact, this was the conclusion of a major report written by a panel of leading economists,[68] which the Karami government itself commissioned, to study the causes of the economic crisis and to recommend policies to improve the situation. The report was released in April 1992.[69] It stated that the government's fiscal policies, particularly the large budget deficit, were a major contributor to the declining economic situation. As the economists explained in the report, "the persistence of a huge

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[65] Arab Press Service Diplomat 20, Recorder Covering (2/9 March 1992), SP 272.

[66] The Confederation of Trade Unions (C.T.U.) organised general strikes on 15 April and 22 April. On 15 April, some 10,000 people marched in Beirut. See "Lebanon Chronology", The Beirut Review no.4, 225.

[67] Arab Press Service Diplomat 20, Recorder Covering (2/9 March 1992), SP 272.

[68] The panel included Samir al Maqdisi, Hisham al Bsat, Elie Yashui, Kamal Hamdan, Elie Assaf, Hussain Awadha, and Marwan Iskandar. Middle East Mirror (8 May 1992).

[69] Many of the recommendations of the report were later adopted by the Karami, Solh and Hariri governments. For a summary and excerpts of the report, see --- "Report of Economic Experts (Excerpts and Summary)", The Beirut Review no.4, 132-136; Middle East Mirror (1 May and 8 May 1992); -----,"Economists publish their plan for recovery", Lebanon Information Processing Service, 2. For a brief analysis of the causes of the economic crisis see, Gerald Butt "The Dire Straits of Lebanon's Economy", 18-19; Giles Trendle "Only Dreams Amid the Debris", The Middle East (August, 1992), 34-35.

budget deficit implies that more money will be printed, putting higher pressure on the economy and causing a larger fluctuation in the value of the national currency."[70] The report recommended a tougher fiscal policy, and stressed that reduced public spending would be essential for a successful economic recovery. The report also highlighted the importance of "scheduling the reduction of the public deficit and its inflationary consequences," as a key to curbing inflation and stabilizing the exchange rate of the Lebanese pound.[71] Even more damning was the report's harsh criticism of widespread corruption in the government and the civil service, a criticism widely shared by the Lebanese business community, and, for that matter, the public at large.[72] Under such conditions, the economists warned, economic recovery or reconstruction would be difficult to achieve.[73] Therefore, the report also called for the restructuring of the public administration in order to eliminate its "large scale and organised corruption", and to increase its efficiency.[74] Certainly, such a climate was not conducive to business confidence. As the Lebanese manager of an international

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[70] Quoted in -----, "Report of Economic Expert (Excerpts and Summary)", Beirut Review, 132. See also Middle East Mirror (8 May 1992).

[71] Ibid, 132.

[72] For examples of widespread corruption, see Gerald Butt, "The Dire Straits of Lebanon's Economy", 18-19.

[73] Middle East Mirror (1 May 1992).

[74] See for example, the comments of Youssef al Khalil, an economist at the Central Bank, in Gerald Butt, "The Dire Straits of Lebanon's Economy", 18.

bank in Beirut said, "Please tell the outside world one thing, never give a single penny to the public sector. Our only hope here is to minimise the role of the state and the public sector."[75] On a more general level, the report strongly emphasised that the key to Lebanon's economic recovery rested with the political establishment, "which must show the will, ability and commitment to put the country back on its feet."[76] In short, the report suggested that the Lebanese government under Karami did not place a high enough priority on the goal of achieving an economic recovery.

This raises the question of what the government's priorities actually were. The government's words and actions, we will argue, seem to indicate that they were prepared to let Syria dictate their priorities to them, a possibility which may have been every bit as exasperating to Lebanese at all levels of society as the economic crisis itself. On 26 March 1992, displaying a serious lack of understanding for the concerns of the Lebanese public, President Hrawi declared that pushing forward with the parliamentary elections, which most of the Lebanese public favoured postponing, was the main concern of the government. On 25 March 1992, Prime Minister Karami, upon arriving from Damascus, and no doubt because of Damascus's advice, declared that his cabinet would neither be changed nor reshuffled until general elections were held in the summer.[77]

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[75] Ibid, 19.

[76] Middle East Mirror (8 May 1992).

[77] -----, "Lebanon Chronology", The Beirut Review no.4, 223.

Furthermore, the government publicly absolved itself from any blame for the economic crisis, and moreover, at times, did not even acknowledge the seriousness of the crisis. For example, on 27 February, Karami and the Speaker of the House, Husayn al Husayni, insisted that the economy was not in any real crisis.[78] When the government did publicly acknowledge the crisis, it still refused to take any responsibility, preferring to place the blame on various other elements. If the government did activate economic policies to deal with the crisis, it usually did so in response to public strikes or other forms of protest, which, incidentally, were seen by many not just as a response to poor economic management, but as a popular rebellion against the government specifically and the Syrian dominated political order in general.[79]

Even if the government was serious about dealing with the economic crisis, it would have been hard pressed to come up with a consistent plan because the cabinet was so bitterly divided. As we noted earlier, the 30 man cabinet was a conglomeration of pro-Syrians and militia leaders who had little in common, and certainly did not share a national goal. We have already noted the public criticism of government policies by members of the

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[78] -----, "Lebanon Chronology", The Beirut Review no.3, 217-218.

[79] Arab Press Service Diplomat 20,, Recorder Covering (2/9 March 1992) SP 272. On 5 March, in the midst of a general strike, the cabinet announced measures to deal with the crisis, including a freeze on the price of essential commodities such as bread, and the punishment of currency manipulators. See -----, "Lebanon Chronology", The Beirut Review no.4, 221-222.

government.[80] Also, the three most powerful members of the government, the president, the prime minister, and the speaker of the house, were often at odds with each other over policy, and frequently haggled over patronage appointments to the public service.[81] Ronald McLaurin's comments as to the inability of the Karami government to deal with the economic crisis are apt:[82]

> What Lebanon most clearly lacks - besides its sovereignty - is effective national leadership. Members of the government and most other national figures are either artifacts of the traditional feudal system or products of the 15-year domestic conflict. The latter depend no less than the former on narrow clienteles, and have been forced by an environment dominated by foreign powers to pursue policies just as exclusivist as those of their predecessors.

The economic crisis in Lebanon was the first serious threat to the stability of the pro-Syrian political order. Because the Lebanese government was seen by many in Lebanon as a government controlled by Syria, the Syrians were unable to escape the fallout resulting from the Lebanese government's poor handling of the economy. Bowing to overwhelming popular pressure, Syria acceded to the resignation of Karami, but, as we will attempt to show in the next section, was unprepared at this point to allow

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[80] For example, on 13 November, Hrawi warned that opponents who were unhappy were free to quit.

[81] For example, on 1 May, in the midst of a serious public protest against the government's handling of the economy, the cabinet was shaken by differences over allocation of civil service posts. "Lebanon Chronology", The Beirut Review no.4, 227. Middle East Mirror on (17 April 1992) reported that business leaders had hoped for a cabinet reshuffle in order to deal with the sharp disagreements between Hrawi, Karami, and Husayni.

[82] Ronald McLaurin, "Lebanon: Into or Out of Oblivion?", 33.

a more independent Lebanese government to emerge.

1.3 The Government of Rashid Solh

1.3.1 The Formation of a New Government

Immediately following Karami's resignation, President Hrawi travelled to Damascus to discuss the formation of a new government with President Asad, and Syrian Vice President Abdel Halim Khaddam. Reports in the Lebanese press pointed to the possibility that Rafiq Hariri, the Lebanese/Saudi billionaire, would be Lebanon's next prime minister.[83] It was reported that President Hrawi tried to persuade the Syrians of the benefits, particularly economic ones, to be derived from Hariri's role in government. However, the Syrians ruled out Hariri because of his close relationship with the Saudis and with Western countries.[84]

On 13 May, Rashid Solh was asked to form the next government of Lebanon. Solh, who was Lebanon's prime minister when the war broke out in 1975, had a reputation for being a moderate and conciliatory politician.[85] However, critics have pointed out that, as a traditional politician, he had nothing new to offer during a time when Lebanon needed a dynamic leader, and furthermore, that his lack of an independent power base meant that his political manoeuvrability vis-a-vis Damascus

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[83] As we will explain below, both Hariri, and his Saudi backers were pressing for his appointment to the prime ministership.

[84] Hariri did, however, have close relations with some members of the Syrian elite. This fact may have cushioned Syrian opposition to him in 1992.

[85] For a profile of Solh, see Arab Press Service Diplomat 20 Recorder Covering (9/16 May 1992).

would be extremely limited. Solh was quick to announce that the primary concern of his government would be to tackle the economic crisis and to heal divisions in Lebanese society.[86] However, the announcement of his cabinet on 16 May confirmed the critics' belief that little had changed. Fifteen of the twenty-four men named to the new cabinet were from the previous cabinet. Most of the major cabinet posts remained unchanged, and only eight new ministers were appointed.[87] Walid Jumblatt, who was selected to the cabinet, referred to it as a "comedy of errors".[88] Samir Geagea, also nominated to the cabinet, refused to participate, arguing that since it was almost a photocopy of the Karami government, the Solh government was also doomed to failure.[89] The Lebanese daily, al Anwar, stated that the Solh government was the same as the one "that approved excessive public spending, that was incapable of boosting receipts and that failed to inspire confidence abroad."[90]

Taking the minimalist nature of the governmental change

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[86] -----, "Lebanon Chronology", The Beirut Review no.4, 228. His government did attempt to implement, although not vigorously, some of the policies announced by the economic report noted above. See excerpts of the Solh government's intended policies in "Policy Statement of the Solh Government (Excerpts)", The Beirut Review no.4, 138.

[87] For a list of the members of the Solh government, see Lebanon Information Processing Service, 5.

[88] Giles Trendle, "Sticky Start for Solh", Middle East International no.426 (29 May 1992), 7.

[89] Ibid. Of course, Geagea was disappointed with the fact that pro-Syrian politicians were awarded the most important positions within the cabinet.

[90] Arab Press Service Diplomat 22, Recorder Covering (16/23 May 1992), SP 293.

into account, it is clear that the Syrians had little intention of allowing the formation of a government that would stray far from the Syrian line. Syria's main objective in Lebanon, once again, seems to have been to ensure that the parliamentary elections scheduled for the summer of 1992 would take place. As one government minister was quoted as saying: "the new government is a transitional cabinet, whose principal task is to organise legislative elections this summer - which Syria is banking heavily on."[91] Damascus was "adamant"[92] about the elections taking place during the summer because they were apparently confident that they could influence the results to ensure the election of a pliant pro-Syrian parliament prior to the Syrian armed forces' scheduled withdrawal to the Biqa Valley.[93] It is not too difficult to imagine, therefore, that the Solh regime was incapable of instilling enough confidence to improve the economy. As the government continued to press for the parliamentary elections, even after strong public protest against what was widely seen as a Syrian engineered election process, the Solh regime was doomed to failure. It is to the elections that we now turn.

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[91] Ibid.

[92] The statement was made by the same minister.

[93] The intimidating presence of the Syrian military and secret police throughout Lebanon, and the cultivation of several political factions, ensured Syrian confidence that a pro-Syrian parliament would be elected. For an explanation of why Syria pushed for the elections, see Fida Nasrallah, "Why Syria Forced the Elections on Lebanon", Middle East International no.434 (25 September 1992), 17-18.

1.3.2 The Parliamentary Elections of 1992

By the end of the civil war, there were 31 vacant seats in parliament.[94] In addition, the Ta'if process added 9 new seats. One of the first provisions of the Ta'if Accord to be set in motion by the Karami government involved filling the vacant and newly-created seats. Instead of holding bye-elections, the government, perhaps at the urging of Syria, decided to appoint deputies to occupy these seats. This process, which was completed in 1991, was a very contentious one. Whether it was strictly true or not, most Lebanese suspected that none of the appointees would be opponents or critics of the Syrian-dominated order in Lebanon.[95]

As we mentioned earlier, the last parliamentary elections to occur in Lebanon had been in 1972, before the war. Thus, it was natural that the elections scheduled for 1992 would be the focus of considerable attention and political activity. On 16 July 1992, parliament passed a new electoral law establishing the regulations for elections, which were to take place during the months of August and September.[96] The new electoral law

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[94] 28 of the 30 seats belonged to deputies who have since passed away. The remaining two vacant seats belonged to living presidents.

[95] For example, some of the appointees were widely respected, and in a fair election process, they would have probably been elected. See Augustus Richard Norton, and Jillian Schwedler, "Swiss Soldiers, Ta'if Clocks, and Early Elections: Toward a Happy Ending in Lebanon?", 48. For a scathing criticism of the appointment process, see Habib Malik, "Lebanon in the 1990s: Stability Without Freedom?".

[96] A vote on the election law was originally postponed because of Christian opposition. See Arab Press Service Diplomat 3, Recorder Covering (4/11 July 1992) SP 32. The vote eventually took place in which the election law was passed by a margin of

increased the number of seats in parliament from 108 to 128. In addition, it divided the voting constituencies; the provinces of Beirut, the South and the North, were each treated as constituencies, while the provinces of Mount Lebanon and the Biqa were divided into smaller districts. The divisions were quite complicated and led a number of critics to complain about government gerrymandering.[97] In particular, the size of the electoral districts varied greatly. For example, some candidates needed 5,000 votes to win a seat while others needed 100,000.[98] These changes were, of course, contrary to the letter and spirit of those parts of the Ta'if Accord which specifically stipulated that the number of constituencies would be reduced to 5 in order to allow for more communally mixed groups and to lessen the power of local warlords. In addition, Maronite critics have argued that the additional seats allocated to the Maronite community were within largely Muslim areas, therefore requiring candidates to rely on the Muslim vote. As a result, such candidates would hardly be able to represent mainstream Maronite opinion while seeing to the needs of the majority of voters in their constituencies. Other provisions in the new law which were

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64 to 13. For reaction to the vote, see Arab Press Service Diplomat 4, Recorder Covering (11/18 July 1992) SP 46. For a copy of the electoral law, see The Lebanon Report 3, no.8 (August, 1992), 4.

[97] The distribution of seats apparently benefitted such leaders as Walid Jumblatt and Elie Hubayqah. For details, see Augustus Richard Norton and Jillian Schwedler, "Swiss Soldiers, Ta'if Clocks, and Early Elections: Toward a Happy Ending in Lebanon?", 49. Also see Giles Trendle, "Playing Politics with the Vote", 14.

[98] Fida Nasrallah, "Why Syria Forced the Elections on Lebanon", 17-18.

criticized included the denial of the vote to expatriates, and the failure of the government to update an electoral register, "which showed that some electors eligible to vote were lucky enough to have reached the ripe old age of 235."[99]

Most Lebanese groups, for a number of reasons, were even more critical about the timing of the elections. The Maronite community was the most vocal in its opposition.[100] Even groups and personalities within the community which supported the Ta'if Accord, including the Kata'ib party, the Lebanese Forces, and Patriarch Sfeir, opposed the timing of the elections. The main reason for this opposition was the strong belief that with the presence of Syrian troops and intelligence agencies in the country, a pro-Syrian parliament would surely be voted in, cementing Syrian dominance of the political process for many years to come. Given that the community had the greatest number of eligible voters of any sect, approximately 618,000 out of an estimated 2,385,465 voters, its opposition raised serious questions about the validity of the elections.[101] But dissatisfaction with the timing of the elections was clearly evident outside the Maronite community as well. In an interview

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[99] Ibid, 17-18.

[100] Most Maronite leaders, although divided among themselves, were with relative degrees of opposition, against the elections. The groups included the Lebanese Forces, the National Liberal Party, the Awnist World Front, the National Bloc, and the Kata'ib party. For a brief analysis of the opposition, see -----, "Controversial Elections Shake System", The Lebanon Report 3, no.9 (September, 1992), 2-3.

[101] Many Christian MPs warned against the boycott, which one described as a "leap into the unknown". See Arab Press Service Diplomat 6, Recorder Covering (1/8 August 1992), 12.

with the Beirut weekly, Monday Morning, former Prime Minister Salim Hoss believed that the elections should be postponed until all of Lebanon's major communities agreed to an appropriate date to hold them.[102] In a candid interview with the journal Middle East International, Walid Jumblatt declared that it was his belief that it was not the proper time to hold the elections. He went on to state: "I don't like it. Let's be frank. The Syrians want this election to try to give themselves a kind of credibility."[103] Other Muslim leaders who questioned the timing of the elections included Shaykh Muhammad Mahdi Shamsiddine, the Vice President of the Higher Shiite Council, and the Druse leader Shaykh al Aql.[104] Muslim popular indifference toward the elections was also evident as none of the usual pomp was displayed during the campaign.[105]

In the weeks leading up to the election, the Maronite community spearheaded several attempts to have the elections postponed. At the popular level, these came mostly in the form of general strikes and noisy demonstrations.[106] Also, several delegations visited Damascus to attempt to have the elections

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[102] Monday Morning vol XX1, no.1022 (27 July - 2 August 1992), 13.

[103] Jim Muir, "Leap into the Unknown", Middle East International no.430 (24 July 1992), 8.

[104] The Lebanon Report 3, no.8 (August, 1992), 3.

[105] See Monday Morning vol XX1, no.1025 (17-23 August 1992), 16.

[106] General strikes in the Christian areas of Lebanon on 23 July and 21 and 22 of August were widely observed. See Arab Press Service Diplomat 5, Recorder Covering (18/25 July 1992), SP 60; Arab Press Service Diplomat 9, Recorder Covering (15/22 August 1992).

postponed. As a potential inducement for a postponement, the Maronite leadership unsuccessfully proposed a compromise deal where the present parliament would remain and elect the next president in 1995.[107]

Partly as a result of the uncertainties surrounding the elections, and partly because of continuing government indifference to the economic situation, the Lebanese economy continued to deteriorate. This was evidenced by the continued sharp decline of the Lebanese pound. As noted above, when popular protests brought down the government of Omar Karami, the pound was trading at 2,100 to one U.S. dollar, and, at the height of the elections debate, the pound was trading at close to 3,000 to one U.S. dollar, the lowest ever. The Confederation of Trade Unions, which as mentioned previously organized the 6 May strikes that brought down the Karami government, held a peaceful "warning strike", on 29 July to demand that the government do something to improve the economy.[108]

In spite of such widespread popular opposition, and the increasingly serious crisis in the Lebanese economy, the Lebanese government and its Syrian patrons pushed ahead with the elections. Even elections which were initially postponed in the Maronite parts of Mount Lebanon, Beirut and in the South, because no candidates were willing to run, were later held after less popular politicians within the community agreed to

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[107] Arab Press Service Diplomat 9, Recorder Covering (15/22 August 1992), SP 112.

[108] Editorial, "Heeding the Gathering Storm", The Lebanon Report 3, no.8 (August, 1992).

participate. However, low voter turnout raised questions about the legitimacy of the election process. In Beirut, voter turnout was reported at 13%, and in the Maronite districts in Mount Lebanon the turnout was anywhere from 0.55% in Jubayl to a high of 13% in the Metn. Even in the pro-Syrian Christian regions of North Lebanon, voter turnout was very low. In the Maronite region of Bishareh and Batrun, and in the largely Greek Orthodox district of Kourah, only 15% of the electorate voted. In the predominantly Muslim parts of the country, voter turnout, save for Beirut, was somewhat better, reaching a high of approximately 40% in both Tripoli and the Biqa.[109]

1.3.3 The Election Results: The New Parliament

In spite of the largely Christian boycott of the elections, the low voter turnout in most regions, and the widespread allegations of electoral fraud,[110] the newly elected parliament did assume power and at least six important trends were reflected by the election results.[111] First, because of the boycott, the Maronite community was largely under-represented in

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[109] See The Lebanon Report 3, no.9 (September, 1992), 5.

[110] For example, fraud charges were levelled against Hizb Allah and at the Interior Minister, Sami Khatib. Arab Press Service Diplomat 10, Recorder Covering (22/29 August 1992), SP 127.

[111] For a succinct look at the election results, see Augustus Richard Norton and Jillian Schwedler, "Swiss Soldiers, Ta'if Clocks, and Early Elections: Toward a Happy Ending in Lebanon?" For a table of the election results, see The Lebanon Report 3, no.10 (October, 1992), 8; For a biography of each of the new parliamentarians, see The Beirut Review no.4, 148-158; and -----, "Unrepresentative Democracy", The Middle East (October, 1992), 14.

the new parliament. In the district of Jubayl, the two Maronite seats were won by two independents who had run unopposed, Maha Khuri As'ad and Michel al Kuri, receiving a total number of 41 and 130 votes respectively. Other winners were on lists headed by strongly pro-Syrian figures such as Elie Hubayqah. The most important and/or popular Maronite leaders were left out of government. As a result, the wisdom of the Maronite boycott strategy may be questioned. Perhaps the words of Walid Jumblatt are appropriate: "The opposition can't do anything to confront the intelligence services and the cheating. But despite it all, we must play the game to try and limit the damage. The boycott decided by the Christians is stupid; they're just putting themselves out of the game."[112] Second, those who voted showed their disapproval of the government, as several government-sanctioned candidates lost.[113] Lists headed by Prime Minister Solh and House Speaker Husayni lost badly, and even President Hrawi's son was defeated.[114] Third, the elections indicated that the wartime elite within the Shiite community, Amal and Hizb Allah, were to continue as the dominant political elite of that community. Amal won the most seats,[115] while Hizb Allah managed

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[112] Quoted in Arab Press Service Diplomat 10, Recorder Covering (22/29 August 1992), SP 127.

[113] Fida Nasrallah has suggested that Syria rigged the elections in such a manner as to engineer the defeat of some pro-Syrian candidates, thereby arguing that the elections were indeed fair. Fida Nasrallah, "Why Syria Forced the Elections on Lebanon", 17.

[114] He lost to his cousin. See -----, "Controversial Elections Shake System", 2-3; and -----,"Beirut: Hoss List Overwhelms Solh", 8.

[115] For a brief analysis of the electoral success of Amal,

to secure 8 of the 29 Shiite seats.[116] The victories of the two former militias came at the expense of the traditional Shiite zu'ama. Fourth, the election results showed the electoral success of Islamist groups, both within the Shiite community, as indicated by Hizb Allah's success, and within the Sunni community. The Sunni Islamist group, al-Jama'ah al-Islamiyyah, won three seats, two in North Lebanon, and one in Beirut.[117] Fifth, the election results showed the continued strength of Lebanon's traditional leaders, especially within the Druse community, and to a lesser extent, within the Sunni community. In fact, in spite of the Maronite-led boycott, the Maronite deputies who were elected, especially in North Lebanon, also reflected this trend. And finally, several staunchly pro-Syrian parties were represented, particularly candidates on the Elie Hubayqah list, and the Syrian Socialist Nationalist Party (SSNP), which won 6 seats.

2 The Rise of Rafiq Hariri

2.1 Questions for Syria

The very fact that the elections went forward according to a schedule dictated by Syria, not to mention the success of pro-Syrian candidates at the polls, shows the extent to which Damascus had become the arbiter of Lebanon's political fate.

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see "Birri List Easily Sweeps South", The Lebanon Report no.10, 4.

[116] For a look behind the success of Hizb Allah, see Giles Trendle, "The Grass Roots of Success", The Middle East (February, 1993), 12-13.

[117] See "Controversial Elections Shake System", 2-3.

Having secured their dominance within the Lebanese system through the election process which had been their chief priority, however, Syria had to find some way to deal not only with ongoing domestic and international challenges to the legitimacy of their role in Lebanon, but also with the problems which the Karami and Solh governments had failed to solve. As the editors of The Lebanon Report commented directly after the election, several important questions remained to be answered. These included: Would the remaining clauses of the Ta'if Accord be implemented? Would Syrian forces redeploy to the Biqa Valley as the accord specified? Would measures be taken to improve the economy? Would the issue of the displaced gain the attention it deserved? In short, would a new government alter the status quo?[118] Ideally, Syria would have hoped to have a compliant government in Beirut, along the lines of the Karami and Solh administrations. However, all of these problems and hard questions constrained Damascus' preferences in the formation of the next Lebanese government. We will now proceed to demonstrate how these concerns forced Syria to acquiesce to the appointment of a relatively formidable figure like Hariri as the leader of the next government.

2.2 The Post-Election Process: International Reaction

International reaction to the election process was cold. On 8 September 1992, U.S. State Department spokesman Richard Boucher said that the election results did not reflect the "full

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[118] -----, "Fault Lines of the Future", The Lebanon Report 3, no.10 (October 1992), 2.

spectrum of the body politic in Lebanon."[119] Furthermore, the U.S. demanded that the Syrians withdraw their troops from Beirut. On 14 September, Boucher said that U.S. policy called for the "full implementation of both the letter and the spirit of the Ta'if Accord & the withdrawal of all non-Lebanese forces from Lebanon."[120] U.S. government figures, including James Baker and Edward Djerijian also made public statements demanding the redeployment of Syrian troops.[121] On 11 September, the European Community issued a joint statement to the effect that the democratic process in Lebanon had been impeded by irregularities which had produced a non-representative parliament.[122] France's reaction to the elections was strongest. On 3 September, French President Francois Mitterand condemned as "deplorable" the holding of elections under foreign occupation.[123] On 24 September, French Foreign Minister Dumas and Syrian Foreign Minister Sharaa met at the 47th U.N. General Assembly to discuss French concerns about the situation in Lebanon. Dumas stressed that the French would push for the continuing implementation of the Ta'if timetable. Dumas also discussed French concerns about Lebanon with Arab League Secretary-General Abdel Maguid.[124]

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[119] "Lebanon Chronology", The Lebanon Report 3, no.10 (October, 1992).

[120] Arab Press Service Diplomat 13, Recorder Covering (12/19 September 1992), SP 174.

[121] "Lebanon Chronology", The Lebanon Report (October, 1992).

[122] Ibid.

[123] "Lebanon Chronology", The Lebanon Report (October, 1992).

[124] Arab Press Service Diplomat 14, Recorder Covering (19/26 September 1992), SP 190.

Moreover, France went on the diplomatic offensive to try to persuade the international community to become actively involved in the political situation in Lebanon.[125]

In spite of this reaction, the international community effectively accepted the election results as a fait-accompli. However, in return for a tacit recognition of the election results and the promise not to become more actively involved in Lebanese affairs, the international community tried to secure from the Syrians two main concessions. This included a Syrian military withdrawal from most of Lebanon, and the appointment of a more popular government. In the latter case, the international community,[126] and in particular the Saudis, pushed for the appointment of Rafiq Hariri to the prime ministership.[127]

The Saudis' support for Hariri is an important point. As we will explain below, Hariri was very close to the Saudi leadership, and he represented Saudi political interests in Lebanon. In fact, the Saudis had been pushing for the appointment of Hariri to the prime ministership since at least the early 1980s.[128] They had long been concerned about the

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[125] Since Ta'if, the international community has apparently been content with allowing Damascus to dominate the Lebanese political scene. France's diplomatic offensive was aimed at reinvigorating the Ta'if Accord, and thus, lessening Syrian influence over Lebanon. This included a 25 September meeting between Dumas and his counterparts from the tripartite committee which prepared the Ta'if agreement, Prince Saud al-Faisal of Saudi Arabia, Abdellatif Filali of Algeria & Ahmad Taleb Ibrahimi of Morocco. See ibid.

[126] This also included the Americans and the French.

[127] See Arab Press Service Review 18, Downstream Trends (2/9 November 1992), SP 74.

[128] Ibid.

increase of Shiite power in Lebanon, and in other parts of the Middle East. Within Lebanon, therefore, the Saudis wished to install a powerful Sunni ally who would help stymie Shiite power in the country, while at the same time moving Lebanon away from pro-Shiite Iran and Syria.[129] Prior to the early 1990s, relations between Saudi Arabia and Syria were such that the Saudis' support for Hariri could hardly have helped him very much. Crucially however, after the demise of the Soviet Union, and Syria's participation in the coalition against Iraq during the Gulf War, Saudi-Syrian relations warmed somewhat, and Syria hoped to take advantage of an opportunity to align itself more closely with the Saudis, in order to gain greater Saudi political and economic support. This consideration must have weighed heavily with the Syrian leadership when they were considering the formation of the next Lebanese government.[130]

2.3 The Post-Election Process: The Domestic Reaction

The position of the Maronite community probably also continued to weigh heavily in Syria's calculations concerning the next government. Although some Maronite politicians were elected to parliament, due to the boycott, most of the popular Maronite leadership remained outside of the confines of power. Their refusal to participate in the newly elected government seriously undermined its legitimacy and posed a continuing

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[129] Interview with Nadim Shehadi in London in January 1997.

[130] On some of the possible reasons why the Syrians acquiesced to the appoint of Hariri, see -----, "Hariri's Appointment Raises Hopes and Some Questions", The Lebanon Report 3, no.11 (November, 1992), 2-3.

threat to Damascus' position in Lebanon. The appointment of a more popular government would have the advantage, for Syria, of weakening the influence of these leaders by adding an air of legitimacy to the post-election political order.

Another matter of particular concern to the Syrians was the popular unrest over the state of the Lebanese economy. As we have explicitly pointed out elsewhere, poor economic conditions played a major role in causing the fall of one government associated with Syria. The uncertainties surrounding the elections only caused a further decline of the economic situation, and were likely to cause similar problems for the new government if the situation did not improve. Lebanon's labour movement made it clear that unrest would ensue if the economy continued to deteriorate. On 15 September, the Confederation of Trade Unions gave the government a two-week ultimatum to improve the worsening economic situation, or face the possibility of an open-ended strike.[131] A one day C.T.U. organised general strike was held, and widely observed, on 14 October. Two days previously, Lebanon's schools had been shut down because of a one-day teacher's strike.[132]

A third consideration for Damascus was the position of Lebanon's business community, whose confidence was essential for the improvement of the economy. As we hope we clearly demonstrated elsewhere, Lebanon's business leaders were outspoken concerning their unhappiness with the Karami and Solh

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[131] "Lebanon Chronology", Lebanon Report 3, no.10 (October, 1992).

[132] Ibid.

governments', which were viewed as being corrupt, inefficient, and, moreover, a general hindrance to the economic recovery of Lebanon. Naturally, it was likely that a new, but similar government would also fail to attract business confidence. In fact, we will proceed to argue that elements within the business community, led by Rafiq Hariri, demanded a role in the new Lebanese government, a role which, in the face of the aforementioned international and domestic considerations, Syria felt compelled to submit to.

2.4 Hariri's Background

Before continuing to look at the reasoning behind Syria's decision to appoint Hariri, however, it will be useful to examine the role he played in Lebanon prior to his appointment to office and his possible motives in accepting the position of prime minister.

Rafiq Hariri was born into a poor family in 1944 in the predominantly Sunni Muslim town of Sidon, in South Lebanon. At the age of twenty-two, he moved to Saudi Arabia where he worked first as a teacher, and then as an accountant for the French construction company, Oger. In the 1970s, he established a sub-contracting firm. He had formed a close relationship with King Fahd of Saudi Arabia (then Crown-Prince Fahd) originally through a marriage relationship, and then by building the Ta'if Massara Hotel in only six months to host an Islamic Summit. In 1978, he was granted the rare privilege of Saudi citizenship. In 1979, he bought Oger, establishing Oger International. Hariri has since built up a vast world-wide network of business interests ranging

from banks to real estate companies. We will cite a number of notable examples. First, Hariri holds a 35% stake in Banque Francaise de l'Orient, one of the largest financial institutions in Europe, with an equity of $143 million, and a balance sheet of about $3 billion.[133] Second, his company, Oger Liban, is the largest construction company in Lebanon, and Oger Internationale, is one of the leading Construction firms in Saudi Arabia. Finally, he is one of the prime real estate holders on France's Cote D'Azur. Hariri's fortune is estimated at between $3 to $4 billion.[134]

In Lebanon, Hariri gained a reputation for his philanthropic enterprises. For example, since the 1980s, his Hariri foundation has granted over 20,000 scholarships to Lebanese students. As one observer of the Lebanese scene put it: "Hariri should be commended for this. He saved thousands of Lebanese students. ... a study should be conducted to see what

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[133] In 1992, four banking groups, including Hariri's Banque de la Mediterranee, Riyadh-based al Bank al Saudi al Fransi, France's Indosuez group, and Lebanon's Banque Libano-Francaise merged to form Banque Francaise de l'Orient. Arab Press Service Review 18, Downstream Trends (2/9 November 1992), SP 74.

[134] This brief biography of Hariri was adapted from Arab Press Service Diplomat 18, Recorder Covering (17/24 October 1992), SP 244; and The Lebanon Report 3, no.11 (November, 1992), 3.

Given the fact that Hariri acquired an extensive fortune in such a short period of time, it is not surprising that several theories have been promoted concerning the origins of his wealth. One interesting theory states that much of Hariri's alleged wealth actually belongs to members of the Saudi royal family, and that Hariri is simply a front man for them. Proponents of other theories have argued that Hariri's wealth has been greatly exaggerated. This information was based on a number of interviews carried out in Beirut in the winter of 1997.

contribution this has made to the Lebanese economy."[135]

While Hariri's business successes and his generosity have been much commented upon, very little has been written concerning his political involvement in Lebanese affairs prior to his becoming prime minister. However, two points can be clearly established. First, he was Saudi Arabia's representative in Lebanon during the 1980s; second, he was clearly interested in building political influence in Lebanon as early as 1982.[136] We will take a closer look at each of these points.

Hariri acted as King Fahd's personal representative in Lebanon during the 1980s. In this capacity, he acted as a mediator between President Gemayel and Damascus,[137] and he disbursed various forms of Saudi grants to Lebanon.[138] Furthermore, King Fahd was personally behind Hariri's role in financing the Ta'if conference, which produced the Ta'if Accord.[139] In fact, according to some commentators, Hariri was groomed by King Fahd to become prime minister starting in the early 1980s.[140]

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[135] Interview with Kamal Shehadi in Beirut on 25 February 1997.

[136] The information was based on two interviews conducted in Beirut in the winter of 1997.

[137] Whether this was just a one time deal, is unclear. Elie Salem, "A Decade of Challenge: Lebanon 1982-1992", The Beirut Review no.3 (Spring, 1992), 33.

[138] Arab Press Service Review 18, Downstream Trends (2/9 November 1992), 3.

[139] According to Michael Young, Hariri played the role of "whip". Interview with Michael Young in Beirut on 24 February 1997.

[140] MEED (6 November 1992), 2-3; David Garner, "Lebanon

By using his enormous financial resources, Hariri certainly was able to acquire considerable political influence. For example, many politicians, including the President of Lebanon, were receiving financial support from him. At the same time, he also formed close ties with some members of the Syrian elite, and in particular, the Syrian Vice President Khaddam and his son, with whom Hariri had some sort of business association.[141] It is unclear, however, that Hariri necessarily intended to use this influence to further a political career. Throughout the 1980s, he may have been primarily concerned with protecting his business interests. Whether or not he was interested in pursuing a high political office, as an outsider to the Sunni political establishment, Hariri actually had little or no chance of becoming prime minister during the 1980s.[142] It is important to note, however, that when the proper circumstances arose, and Hariri did decide to make himself available, he had enough resources and support that he was generally considered the most credible candidate to lead the government.

While very little has been written concerning his political involvement, Hariri's name was closely associated in Lebanon with various economic plans to rebuild the country. In 1982, Hariri's company, Oger-Liban, played a role in clearing debris

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Survey", Financial Times (6 June 1995), 1.

[141] Hariri also built a palace complex for President Asad. Arab Press Service 18 Downstream Trends (2/9 November 1992), 3.

[142] The information was based on various interviews conducted in Beirut in February 1997.

in Beirut.[143] In 1983, he was ready to bankroll a planned reconstruction of Beirut, and Oger-Liban began the process of restoring numerous buildings. However, continued violence put the scheme on hold.[144] In 1986, Oger-Liban developed a plan for the rehabilitation of the central district, but it was not carried out.[145]

In post-Ta'if Lebanon, Hariri was considered to be the main figure behind the 1991 master plan, designed by the consultants Dar al Handasah and Bechtel, to rebuild Beirut city centre.[146] The plan was supposed to be the showpiece of Lebanon's reconstruction project, and it was to help Lebanon regain its role as the business and financial hub of the region. The C.D.R. initially commissioned the plan, but it was financed by Oger-Liban, which also had a say in the drafting of the plan.[147] In fact, Hariri essentially became the main force behind the C.D.R. when Fadl Chalak, the director of the main firm of the Hariri conglomerate, and Hariri's right hand man, was named its chairman in 1991.

The contents of the $3 billion plan were severely

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[143] Interview with Michael Young in Beirut on 24 February 1997.

[144] Interview with Paul Mourani in Beirut 14 February 1997. Also see Giles Trendle, "Hariri the Panacaea", Middle East International no.437 (6 November 1992), 11.

[145] Interview with Paul Mourani in Beirut on 14 February 1997.

[146] See Nabil Beyhum, "The Crisis of Urban Culture: The Three Reconstruction Plans for Beirut", The Beirut Review no.4 (Fall, 1992), 43-62.

[147] Interview with Paul Mourani in Beirut on 14 February 1997.

criticised. It called for the establishment of a private real estate company, which was later named Solidere, to take over and manage the reconstruction of the 130 hectare city centre. The owners and the tenants of the property, who were not consulted, or given a right to opt out of the plan, were entitled to 50% of the shares in the company, while the other 50% would be made up of cash from investors. The proponents of the plan justified the takeover of the property on the grounds that its owners would be unable to properly finance the reconstruction.[148] Opponents of the plan came from several circles, including the tenants and landlords of the downtown property, who opposed the heavy handed takeover of the area, and many specialists, who opposed certain technical aspects of the plan. The plan was also criticised by political authorities. Even though the plan was finally adopted by parliament, the debate caused the implementation of the plan to be delayed for several months.

We will argue that political ambition, combined with a desire to push forward the plans for the reconstruction of the Beirut Central District were the main reasons why Hariri put himself forward to accept the prime ministership. As we mentioned previously, he had already succeeded in putting his man at the head of the most important body in the reconstruction program, the C.D.R.. In addition, his construction company,

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[148] The proponents of the plan make a very strong argument that in several cases, the ownership of property is unclear, or that several owners own one piece of property. Under such conditions, it is unlikely that all will agree on appropriate plans to rebuild, or that the process will be tied up in the courts for a very long time, further frustrating reconstruction efforts.

Oger, had played a prominent role in assisting the C.D.R. in all its projects.[149]

2.5 The Decision to Appoint Hariri

We have argued throughout this chapter that, by the autumn of 1992, Syria had successfully established itself as the dominant player in Lebanese political life. It had secured from the Lebanese a number of favourable bilateral agreements, as well as securing the election of a pliant Lebanese parliament. However, given the extensive international and domestic opposition to the instalment of another weak pro-Syrian government, Damascus felt that it needed to appoint a more credible government. It is therefore, perhaps, not quite so surprising that, on 22 October, after consultations between President Hrawi and the Syrian leadership, the Syrians reversed their initial opposition to the selection of Rafiq Hariri, and he was asked to form a new government. Most observers of the Lebanese scene see the decision as a bargain aimed at appeasing the domestic and international opposition to Syria's continuing role in Lebanese affairs. The essence of this accommodation was that Hariri was to be given free reign to deal with economic issues, while the larger political and military issues, including the redeployment of Syrian troops and the disarming of Hizb Allah, were to be decided (ultimately delayed) by Syria. This arrangement was acceptable to the international community because it allowed for the possibility of greater independence

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[149] C.D.R., Progress Report, January 1995 (Beirut: Mediterranean Press, 1995), 38.

on the part of the Lebanese government. The Saudis and the U.S. were particularly satisfied because of their links with Hariri. The arrangement was acceptable domestically because, economically, it raised the possibility of a credible reconstruction programme. This pleased business interests and blunted the opposition of the Lebanese masses to continued Syrian involvement by giving them a stake in supporting the government.

2.6 Reaction to Hariri's Appointment

It is, perhaps, appropriate to recall the words of Beirut Greek Orthodox Bishop, Ilyas Audi, when he said that the country was in need of a hero. For many Lebanese, Rafiq Hariri was that hero. Part of the initial attraction to Hariri was that he did not belong to Lebanon's traditional political class or to the war elite. With his vast fortune, and his connections to Saudi Arabia and the West, he was seen as the one figure capable of rebuilding the Lebanese economy. As one author put it, Hariri was "the ultimate Mr. Fix it, the Ross Perot who made it."[150]

The all-important economic markets showed immediate signs of improvement on the announcement of Hariri's appointment. The Lebanese pound rose from 2,205 to one U.S. dollar to 1,950 to one U.S. dollar.[151] Domestic reaction was overwhelmingly

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[150] Jim Muir, "The Bandwagon rolls on", Middle East International no.440 (December, 1992), 8.

[151] -----, "Hariri Appointment Raises Hopes and Some Questions", The Lebanon Report 3, no.11 (November, 1992), 2. Also see -----,"The Hariri Factor", The Lebanon Report 3, no.11 (November, 1992), 13.

positive. Optimistic statements were forthcoming from leaders in the Maronite community, including Patriarch Sfeir who was a prominent player in the anti-elections campaign,[152] and, from the trade union movement. Antoine Bishara, head of the Confederation of Trade Unions said that a "qualitative change" occurred in the appointment of the Hariri government.[153] International reaction to Hariri's appointment, including the reactions of Paris and Washington, was also optimistic.[154] As a sign of its positive attitude towards Hariri's appointment, on 23 October, the U.S. promised to provide military aid, mostly in the form of military hardware, to Lebanon, for the first time since 1984.[155]

2.7 The Hariri Government

On the announcement of his appointment to the position of prime minister on 22 October, Hariri pledged to form a government of "economic salvation".[156] He said he would name "representative and competent people capable of bringing the qualitative change hoped for" to the cabinet.[157] On 31 October, he announced his new 30 man government which was equally divided between Christians and Muslims. Twenty members were new,

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[152] Giles Trendle, "Hariri the Panacaea?", 11.

[153] "Lebanon Chronology", The Lebanon Report 3, no.11 (November, 1992), 14.

[154] For U.S. reaction, see Arab Press Service Diplomat 18, Recorder Covering (17/24 October 1992), SP 244.

[155] Ibid.

[156] Ibid.

[157] Ibid.

including 12 experienced technocrats appointed to the economic portfolios, many of whom had close ties to Hariri. To cite a number of notable examples; Fuad Saniora, who was named Minister of State for Finance, was Vice President of the Board of Trustees of the Hariri Foundation and Chairman of the Board of the Saudi-Lebanese Bank; Michel Edde, who was named Minister of State for Cultural Affairs, served as an executive of the Banque de la Mediterranee owned by Hariri; Samir Moqbel, who was named Minister of State for the Environment, and is owner of the Banaque du Credit Commercial pour le Moyen - Orient and a member of the board of the Chamber of Commerce and Industry was a close associate of Hariri; Bahije Tabbara, who was named Minister of Justice in charge of Administrative Reform, was also a close associate of Hariri; and Adil Qortas, who was named Minister of Agriculture, was a former employee of the United Nations Food and Agricultural Organisation. Hariri kept the all-important Minister of Finance portfolio for himself.

Although the Syrians gave Hariri some autonomy in appointing ministers to the economic portfolios, pro-Syrian figures retained the key non-economic ministries. Mushin Dalloul was named Minister of Defence,[158] Faris Buwayz was named Minister of Foreign Affairs, Michel Murr was named Deputy Prime Minister, and Bishara Merhej was named the Interior minister. Other pro-Syrian candidates to be awarded cabinet positions included Elie

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[158] In an interview on local radio on 20 November, Defence Minister Dalloul said that "to talk about Syrian redeployment is tantamount to treason at a time when Israel continues to occupy Lebanese territory." Quoted in Arab Press Service Diplomat 23, Recorder Covering (21/28 November 1992), SP 327.

Hubayqah, and Sulayman Tony Franjiyyeh.[159]

In spite of the presence of several pro-Syrian figures from the previous cabinet, Hariri's cabinet was described by Beirut observers "as being the first credible post-civil war government and is regarded as freer of Syria than its two predecessors."[160]

2.8 Hariri's Mandate

As we have indicated elsewhere, Hariri's mandate appears to have been limited by Syria to economic matters. As the editors of the Lebanon Report explained: "Hariri is supposed to stabilise the national currency, revive the public sector, begin reconstruction, and revive the private sector?"[161] Certainly, no small task. Considering that his room for manoeuvre has been limited by Syria and its allies in government, such as Speaker of the House Nabih Birri, the task is probably even larger than it may initially appear. The limits placed on Hariri by Syria and its allies are discussed in detail in chapters five and seven. At this point, let it suffice to say that Hariri has understood Syria's role in Lebanon very well. In a speech to the Lebanese parliament, he readily admitted Lebanese subordination to Syria: "There are no parties with any reservations about the full and complete co-ordination between Lebanon and Syria... When they stop, we stop. When they step backwards, we step

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[159] For a list of the cabinet ministers, as well as brief biographies on each minister, see Arab Press Service Diplomat 19 Recorder Covering (24/31 October 1992), SP 262.

[160] Ibid.

[161] "Hariri Appointment Raises Hopes and Some Questions", The Lebanon Report 3, no.11 (November, 1992), 3.

backwards. There is no argument over this."[162]

3. The Hariri Government: A Capitalist Developmental State?

In chapter one of this study, we introduced Chalmers Johnson's model of the capitalist developmental state, and we raised the possibility that the Hariri government may share many of its features. From the evidence presented in this chapter, we feel that the Hariri government has clearly met the first criterion of Johnson's developmental state: that is, economic development is its top priority. As we demonstrated above, the Hariri government's mandate was to rejuvenate a faltering Lebanese economy. In fact, the government's very legitimacy has rested on its ability to successfully implement a recovery programme(s). The Hariri government's commitment to economic development can be contrasted with the lack of a strong commitment to economic matters which characterised the two previous post-Ta'if Syrian-backed regimes. In fact, as the student of Lebanese politics will be aware, most Lebanese politicians have not traditionally adhered to specific programmes or policies, but have been elected, for the most part, simply on the basis of their personal standing and/or their connection to important power blocs. In many ways, therefore, the Hariri government, at least as it was initially seen, was a break with traditional Lebanese political practices.

At this point, we can also comment on the relative strength

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[162] "Restive Lebanon", Foreign Report (London: The Economist Newspaper Limited, 23 November 1993), 6.

of the Hariri government vis-a-vis societal actors, other political forces, and the dominant external power in Lebanese affairs, Syria. As we explained in chapter one, Johnson, as well as others, such as Wade and Haggard, argued that a strong state, somewhat autonomous from societal and other pressures, has demonstrated considerable success in implementing economic development programmes. We feel that, at least to some extent, the Hariri government has been allowed to circumvent the traditional Lebanese political process in order to implement his economic policies and programmes. Hariri was able to gain control over most of the major economic institutions in the country including the Central Bank, the Finance Ministry, and the C.D.R. However, as we noted above, his room for manoeuvre on other aspects of the political process has been limited by Syria and a number of its Lebanese political allies. A more detailed analysis of the relative strength of the Hariri government vis-a-vis other actors, particularly relating to his ability to implement his economic programmes, will be introduced in subsequent chapters.

CHAPTER THREE: THE PLAN FOR THE RECONSTRUCTION AND DEVELOPMENT OF LEBANON - "HORIZON 2000"

Prime Minister Hariri's task of rebuilding Lebanon has been difficult to say the least. As we have briefly explained in the previous chapter, the war caused enormous devastation to Lebanon's social-economic situation. On the whole, the population became poorer, income inequalities increased considerably, and the middle class all but disappeared.[1]

To cite a number of important figures provided by the United Nations concerning the decline of social conditions in Lebanon in 1992: nearly one fifth of the population had been displaced; about 55% of the population suffered from severe overcrowding; 21% did not have private water supply connections, as opposed to 8% prior to displacement; and 48% of the population were housed in dwellings constructed on illegally occupied land or in illegally occupied buildings.[2]

A number of important economic figures, also provided by the U.N., include: the monthly minimum wage, which was $135 in 1975, decreased to $50 by October of 1992; real per capita GNP, which was estimated to be about $1000 in 1992 had fallen to approximately one third of the 1975 level; and approximately 35% of the labour force was unemployed.[3]

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[1] Some 200,000 professional and skilled Lebanese have sought employment in neighbouring countries or in the West.

[2] The U.N. figures were obtained from a World Bank report. World Bank, Memorandum and Recommendation of the President of the International Bank for Reconstruction and Development to the Executive Directors on a proposed loan to the Lebanese Republic for an Emergency Reconstruction and Rehabilitation Project - Report # p -5982 - LE. (Unpublished, 9 February 1993), 17.

[3] Ibid, 17.

Damage to Lebanon's physical infrastructure was also extensive. The U.N. estimated total damage to physical assets in the billions of dollars. More specifically: approximately 50% of telephone connections were in service and a person had only about a 10% chance of completing a call;[4] the electricity system had a generating capacity of about 1600 MW but only about 500-600 MW were working, and the government rationed electricity to about six hours a day; all water treatment plants operated at reduced capacity; there were no functioning sewage treatment facilities in the entire country; 80% of water samples collected from springs, wells, reservoirs and water distribution networks were polluted;[5] the system for solid waste collection was destroyed; most schools, hospitals and vocational and technical training colleges were damaged; and nearly a quarter of the housing was at least partially damaged.[6]

A more detailed analysis of the effects of the war on the Lebanese economic and social systems can be found in the 1991 Bechtel - Dar al Handasah consultancy report on the rehabilitation of Lebanon,[7] but it can be seen just from the few examples listed above that the Hariri government has had a very

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[4] With reference to this, a related problem was that most of the public sector institutions suffered from a serious shortage of skilled manpower. In this case, the telecommunications section of the ministry of post and telecommunications had a vacancy rate of 66%. Ibid, 17.

[5] The water was probably contaminated by sewage.

[6] Ibid, 17.

[7] International Bechtel Inc. & Dar al Handasah Consultants (Shair & Partners), Recovery Planning for the Reconstruction and Development of Lebanon: Phase One - Volume 2 Priority Program (Beirut: Council for Development and Reconstruction, December 1991) section 3, 3-1 to 3-24.

difficult task. The purpose of this chapter is to provide a detailed account of the Hariri government's plan, called Horizon 2000, for the reconstruction and development of Lebanon. The chapter is divided into three sections. In section one, we will give a brief overview of the government's stated objectives for reviving Lebanon's economic fortunes. In section two, we will account for the origins of the Horizon 2000 plan. And in section three, we will give a more detailed treatment of the plan itself.

1. "Horizon 2000" - The Government's Stated Objectives for Reviving Lebanon's Economic Fortunes

In a speech to the Lebanese parliament on 9 November 1992, Hariri outlined the most pressing issues on his government's agenda. In addition to the obligatory statements concerning "brotherly" relations with Syria, and the liberation of the South from Israel, the speech concentrated heavily on economic themes. While stressing the point that Lebanon's economic fortunes rested with the private sector, Hariri gave details of his government's strategy to help facilitate economic reconstruction. This included plans and policies to rebuild the infrastructure, to ensure macroeconomic stability, and to introduce institutional reforms intended to maximise economic productivity.[8] On plans to reform the public sector, Hariri declared, "The implementation of administrative reform requires

[8] For excerpts of the speech see, "Policy Statement of the Hariri Government", The Beirut Review no.4 (Fall, 1992), 140-144; "Policy Statement of the Hariri Government", The Lebanon Report 3, no.12 (December, 1992), 5.

the lifting of immunity for a certain period of time on all civil servants and public sector employees, and the adoption of a policy of reward and sanction to get rid of corrupt employees, and reward honest ones."[9] On his government's plans to rebuild the economy, Hariri stressed the need to rebuild the country's infrastructure:[10]

> The government will pay attention to modernising the country's infrastructure destroyed by the war. This includes improving the water and electricity networks, the reopening and restoration of Lebanon's principal roads, and the development of communications and telecommunications, taking into consideration the most recent developments in modern technology, without which Lebanon cannot aspire to regain its pivotal role as a business centre in this part of the world.

On 17 March 1993, the secretary general and the vice president of the C.D.R., Nohad Baroudi and Boutros Labaki, respectively, unveiled the concrete details of the government's plan for the reconstruction and development of Lebanon. Dubbed Horizon 2000, it is a ten year economic plan which sets public investment goals for the period 1993-2002 in all economic sectors. At the time, it was estimated that Horizon 2000 would cost $11.7 billion, in 1992 constant dollars. As the authors of the plan point out, it is hoped that:[11]

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[9] Quoted in "Policy Statement of the Hariri Government", The Lebanon Report, 6.

[10] Ibid, 7.

[11] Council for Development and Reconstruction, Horizon 2000 for Reconstruction and Development: Main Report (Beirut: Council for Development and Reconstruction, 1993), 2.

> government action, in short, will serve as a catalyst for the recovery process, providing, through the Horizon 2000 programme, essential public services and facilities, and supporting an economic and social environment in which the private sector, and all Lebanese, may grasp recovery and development opportunities.

The overall goal of Horizon 2000 is to double per capita GDP over the 10-year period, thus allowing Lebanon to regain its position among the world's middle income countries.

According to the authors of the plan, Horizon 2000 sets two essential tasks for the government. One task is for the government to provide the private sector with an environment conducive to investment. To ensure this, the government must provide a state-of-the-art physical infrastructure including electricity, telecommunications, water supply, wastewater collection and treatment, stormwater drainage, solid waste disposal, roads and expressways, public transport and railways, ports and the airport, and government buildings. Second, the government must provide acceptable social infrastructure in several areas, including adequate housing and resettlement, public health, social affairs, improvements in education, as well as culture and sport. Third, the government must aid the productive sectors including agriculture, industry and tourism. Finally, the government must ensure macroeconomic stability by employing its resources to facilitate the solution of such serious problems as the fluctuation of the national currency and high levels of inflation. This is to be done, primarily by eliminating the budget deficit. The second task that the Horizon 2000 plan sets for the government is to ensure public confidence in the state, and in the future of the country generally. To

achieve this, the government is planning to reform what many observers see as an incompetent and sometimes corrupt public service. Second, the government is hoping to inspire the confidence of the Lebanese public by demonstrating that it has a competent plan (i.e. Horizon 2000) to rebuild the economy of the country. Third, it is hoped that public confidence will be further enhanced by the government's introduction of an effective fiscal policy. And fourth, the government hopes that, through securing external funding at favourable terms for the plan, it will be able to demonstrate that it has international support and thereby improve public faith in its prospects.[12]

It is worth noting at this point that the authors include a cautionary note about the nature of Horizon 2000. "The Horizon 2000 plan is indicative in that although it gives a well defined public recovery programme, it allows the private sector activities to evolve at will. The plan cannot be considered as static. It has been established as a starting point in the quest for progress."[13] In other words, the ultimate costs of the plan, or even its contents, may be subject to change, and furthermore, in any event, the success of the reconstruction is dependent upon the performance of the private sector. Therefore, it is out of the government's hands to some extent.

2. The Origins of the Horizon 2000 Plan

Because the Horizon 2000 plan has been subject to criticism as a personal project of Hariri, which may therefore be

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[12] Ibid.

[13] Ibid.

motivated to some extent by his own private agenda, we think that it is important to establish that the whole of the plan was not developed in a vacuum during a relatively short period of time by a small group of experts working for Hariri. In fact, the plan incorporates elements from a combination of several earlier plans and studies, some of which may have originated as far back as 1978. Therefore, it may be of some value to explore the origins of many aspects of the Horizon 2000 plan by presenting a brief history of the various attempts by successive Lebanese governments to rebuild the economy following the outbreak of war in 1975.

After the first wave of hostilities ended in late 1976, the government, on 31 January 1977, set up the Council for Development and Reconstruction (C.D.R.) giving it the responsibility of preparing a general plan and programme for the development and reconstruction of the country.[14] In spite of the renewal of violence, the C.D.R. inaugurated a reconstruction plan, in December of 1978, which included public sector infrastructure projects and infusions of public credit for the private sector.[15] The basic aim of the plan was to restore the

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[14] The Council for Development and Reconstruction, The Reconstruction Project (Beirut: Council for Development and Reconstruction, April 1983).

[15] The decision to begin the plan was prompted by the offer of aid by Arab leaders meeting in Baghdad in October 1978. Since it was created in 1977, the C.D.R. prepared 21 agenda papers dealing with the main sectors of Lebanon's economy, as well other things such as social policy, and regional development. The 1978 reconstruction programme was based on these agenda papers. See Council for Development and Reconstruction, Progress Report on Reconstruction 1983- 1987 (Beirut, Council for Development and Reconstruction, September 1988), ch.4, 31.

infrastructure to its pre-1975 level. It did not include a definite timetable for the reconstruction projects, and, because of the continuing violence, many of the projects had to be postponed in any case. During the course of the war, additional damage occurred in virtually every sector. In the aftermath of the 1982 Israeli invasion of Lebanon, the C.D.R., in consultation with the ministries, assessed the additional damages to each sector, and from that assessment, developed a new reconstruction plan. The 1983 C.D.R. plan was, with some minor exceptions,[16] essentially an update of the 1978 plan. Like the 1978 plan, it did not offer a definite time period for completion of the projects, and the general aim was to restore Lebanon's basic facilities to their pre-1975 level. Again, continuing civil strife limited the implementation of the programme.

Following the conclusion of the war in 1990, the Lebanese government once again began the process of rebuilding the country. As with previous attempts, the government entrusted the C.D.R. with the task of drawing up a plan for the recovery process. As noted elsewhere, in May of 1991, the C.D.R. commissioned International Bechtel Incorporated and Dar al Handasah consultants to undertake studies for the reconstruction and development of Lebanon. The first phase of the study, which was intended to prepare a priority programme, was conducted over a four month period and was based on a "first cut" appraisal of

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[16] The national waste management programme was added to the 1983 project.

available information.[17] Identification of the individual projects in the priority programme was largely based on secondary information including existing information held by various government ministries and departments, extensive discussions with officials and other secondary sources. No detailed physical survey was undertaken by the consultants to assess the extent of damage and deterioration of physical and social infrastructure.[18] The priority programme was divided into fifteen sectors and included 126 projects to be completed in a three year period (1993-95). The aim was to restore the capacity of Lebanon's infrastructure to its 1975 level or, where appropriate, at the maximum level since 1975.[19] The Bechtel - Dar al Handasah plan was adopted by the Lebanese government in April of 1992. The consultants also discussed and recommended, in detail, the appropriate institutional mechanisms to implement and monitor the progress of the priority programme. These recommendations will be discussed in the next chapter.

In December of 1991 the priority programme was presented to international donors at a meeting convened in Paris by the World Bank, which resulted in funding from the Commission of the

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[17] International Bechtel Inc., & Dar al Handasah Consultants (Shair & Partners), Recovery and Planning for the Reconstruction and Development of Lebanon - Phase One Volume One: Executive Summary (Beirut, Council for Development and Reconstruction, 1991).

[18] However, visual inspection of international, primary, and some secondary roads was undertaken. International Bechtel Incorporated, and Dar al Handasah Consultants, Recovery and Planning for the Reconstruction and Development - Volume Two: Priority Programme, 2-1.

[19] Boutros Labaki, The Reconstruction Program of Lebanon: Present and Prospects, 6.

European Communities for further damage assessment studies to key infrastructure sectors including electricity, telecommunications, water supply, waste water, and solid waste. The results of these studies, combined with further consultation from at least three World Bank missions to Lebanon during 1992,[20] led to the upgrading of the priority programme, which subsequently became known as the National Emergency Reconstruction Programme (N.E.R.P.).[21]

The Horizon 2000 plan introduced by Hariri's government in April of 1993 did not preempt the implementation of the N.E.R.P., but, in fact, incorporated the N.E.R.P. in its entirety. As this substantial segment of the plan actually pre-dated Hariri, it is clear that the characterisation of Horizon 2000 as a personal project of Hariri's may be overstated. Indeed there are significant points of continuity between Horizon 2000, the latest reconstruction plan, and plans that were introduced as early as 1978. Important aspects of the 1978 and 1983 plans can be clearly seen to have been incorporated into the Horizon 2000 plan. For example, some of the specific projects listed in the 1978 and 1983 plans are also to be found in Horizon 2000. To cite one very prominent example, "grandiose" plans for the expansion of Beirut International Airport, often attributed to

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[20] The views and recommendations of the three World Bank missions which visited Lebanon in 1992 can be found in an unpublished internal World Bank report entitled, Memorandum and Reconstruction of the President of the International Bank for Reconstruction and Development to the Executive Directors on a proposed loan to the Lebanese Republic for an Emergency Reconstruction and Rehabilitation Project Report #P-5982-LE.

[21] Council for Development and Reconstruction, Horizon 2000 for Reconstruction and Development, 19.

Hariri, can be found articulated in the earliest reconstruction plans. Both the 1978 and 1983 plans specifically called for an expansion of the airport which would enable it to handle over 6 million passengers a year, which is exactly what the Horizon 2000 plan calls for.[22]

However, it should be recognised that the Horizon 2000 plan also included new projects designed for medium and longer term development. These projects originated from a number of post-N.E.R.P. infrastructure studies in such areas as electricity, telecommunications, water supply, and waste water. These were supplemented by sectoral planning studies which were ongoing at the time that Horizon 2000 was developed, including studies on Beirut International Airport, Beirut Port, roads, education, sports facilities, health, tourism, and further studies on electricity and telecommunications. Using the above studies, the C.D.R., sometimes in consultation with the relevant ministries, decided which components would eventually go into the Horizon project. In sectors or areas in which studies have not been conducted, the C.D.R., again possibly in consultation with the relevant ministries, developed a broad outline, based on available data, for additional projects to be included in the Horizon 2000 programme.[23] It is worth remembering that Hariri effectively had control of the C.D.R. by this point. Therefore, he presumably had the final say over which projects were or were

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[22] Council for Development and Reconstruction, Progress Report on Reconstruction 1983- 1987 , Ch.4, 25.

[23] Council for Development and Reconstruction, Horizon 2000 For Reconstruction and Development, 7.

not incorporated into the plan.

Once the components of the plan were identified, the C.D.R. estimated the cost for each of the projects, a timetable for their completion, and the ability of the government to finance the programme.[24]

3. The Contents of the Horizon 2000 Plan

In this section, we will take a detailed look at the contents of the ten year Horizon 2000 programme. In short, one could separate the plan into two phases - a reconstruction phase and a development phase. Much of the reconstruction phase was supposed to take place during the first three years of the programme and it consisted of the entire N.E.R.P. project (1993-1995) and the "Parallel Programme for Recovery and Development" (P.P.R.D.). The P.P.R.D. was designed with the intent of complimenting the N.E.R.P. It is similar in size to the N.E.R.P., and it devotes one-third of total expenditures to expanding a number of the N.E.R.P. projects, and two-thirds to new projects. According to the authors of Horizon 2000, the P.P.R.D. was designed to help alleviate social and economic imbalances and support medium and longer term recovery and development.[25] The remaining seven years of the Horizon 2000 plan are aimed at activities which go beyond initial recovery programmes through to medium-term recovery and longer term development.[26]

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[24] Ibid, 8.

[25] Ibid, 19-20.

[26] Ibid, 20.

Three types of expenditures are identified in the Horizon 2000 programme, including physical investment expenditures, non-physical investment expenditures, and grant & credit support expenditures.

Physical investment expenditures: "are for the rehabilitation of existing public facilities and the expansion and development of new facilities." Non-physical investment expenditures include: "strengthening public institutions; enhancing the public sector's capacity to implement and monitor the recovery programme, manage, operate and maintain facilities; carrying recovery planning and implementation forward; undertaking master planning and other studies; and providing technical assistance in various areas." And grant and credit support expenditures: "are for private sector recovery including support for housing and resettlement, social institutions and artisans, and agricultural, industrial, touristic & private service activities."[27]

The Horizon 2000 public recovery programme is organised on a sector by sector basis. It consists of 19 sectors, and four major sectoral groups. The sectors are identified as follows:[28]

Physical Infrastructure Sectors

1. Electricity
2. Posts & Telecommunications
3. Water Supply
4. Waste Water
5. Solid Waste
6. Transport, divided into four sub-sectors:
   - 6.1 Roads
   - 6.2 Public Transport & Railways
   - 6.3 Airport

[27] Ibid, 22.

[28] Ibid, 17-18.

6.4 Ports

Social Infrastructure Sectors

7. Education, Divided into three sub-sectors:
   - 7.1 General Education, Youth & Sports
   - 7.2 Vocational & Technical Education
   - 7.3 Culture & Higher Education
8. Public Health
9. Social Affairs
10. Environment
11. Housing & Resettlement

Productive Sectors

12. Agriculture & Irrigation
13. Industry
14. Oil & Gas
15. Private Sector Services (other than Tourism)
16. Tourism

Other Sectors

17. Information
18. Government Buildings
19. Management & Implementation (encompassing a range of requirements for institutional strengthening & technical assistance supporting recovery planning, master planning, overall programme management and sectoral programme implementation).

Table 1 lays out the expenditures in these sectors of the Horizon 2000 plan in detail. An analysis and interpretation of these tables will be undertaken in chapter five.[29]

[29] The table was obtained from the Horizon 2000 Programme. See Ibid.

Table 1: Public Recovery Programme Projects, Years 1-10
(constant 1992 $ million)

No.	Sector/Project	Years 1-5				Years 6-10				Years 1-10					
		Phys.	Non-Phys.	Credit	Total	Phys.	Non-Phys.	Credit	Total	Phys.	%	Non-Phys.	Credit	Total	%
	PHYSICAL INFRASTRUCTURE SECTORS	*4262.2*	*33.6*	*4.0*	*4299.8*	*2319.1*			*2319.1*	*6581.3*	*64.4*	*33.6*	*4.0*	*6618.9*	*56.7*
1	ELECTRICITY	1421.2	10.8	4.0	1436.0	209.0			209.0	1630.2	16.0	10.8	4.0	1645.0	14.1
1-1	Rehab of power plants, transmission/ distribution networks & substations	257.0		4.0	261.0					257.0	15.8		4.0	261.0	15.9
1-2	Installation of additional sub-stations & Transmission Networks	80.0			80.0					80.0	4.9			80.0	4.9
1-3	Repair & Installation of Hraiche Unit #6	45.0			45.0					45.0	2.8			45.0	2.7
1-4	Installation of new 900 MW power plants (combined cycle)	720.0			720.0					720.0	44.2			720.0	43.8
1-5	Installation of new transm./distrib networks & substations	265.5			265.5	200.0			200.0	465.0	28.5			465.0	28.3
1-6	Support facilities to EDL	19.2	1.8		21.0					19.2	1.2	1.8		21.0	1.3
1-7	Design & supervision	35.0	9.0		44.0	9.0			9.0	44.0	2.7	9.0		53.0	3.2
2	POSTS &TELECOMMUNICATIONS	522.3	2.7		525.0	190.0			190.0	712.3	7.0	2.7		715.0	6.1
2-1	Rehabilitation & extension of local service network	385.0			385.0	152.0			152.0	537.0	75.4			537.0	75.1
2-2	Rehabilitation & upgrading of national service network	80.9			80.9	38.0			38.0	118.9	16.7			118.9	16.6
2-3	Rehabilitation & extension of international service network	15.4			15.4					15.4	2.2			15.4	2.2
2-4	Rehabilitation of telex exchanges & networks	5.6			5.6					5.6	0.8			5.6	0.8
2-5	Provision of miscellaneous spare parts & equipment	17.4			17.4					17.4	2.4			17.4	2.4
2-6	Master plan/engineering		2.7		2.7							2.7		2.7	0.4
2.7	New telecommunications training center	8.0			8.0					8.0	1.1			8.0	1.1
2.8	Rural telecommunications network	7.0			7.0					7.0	1.0			7.0	1.0
2-9	Rehabilitation & upgrading of postal services	3.0			3.0					3.0	0.4			3.0	0.4
3	WATER SUPPLY	287.9	3.5		291.4	98.6			98.6	386.5	3.8	3.5		390.0	3.3
3-1	Master plan for water management		1.0		1.0							1.0		1.0	0.3
3-2	Technical assistance to Ministry	6.3	2.5		8.8					6.3	1.6	2.5		8.8	2.3
3-3	Greater Beirut networks rehabilitation	72.9			72.9					72.9	18.9			72.9	18.7

Note In the % columns, the totals for sectors and broad sectors are expressed as the % of the programme grand totals, while the amounts for projects are expressed as % of the corresponding sector's total

Phys . Public physical investments including project related technical assistance (from design to supervision)

Non-Phys. : Non-project-related technical assistance (inst. strengthening, studies, management suppo etc

Table 1: Public Recovery Programme Projects, Years 1-10
(constant 1992 $ million)

No.	Sector/Project	Years 1-5				Years 6-10				Years 1-10					
		Phys.	Non-Phys.	Credit	Total	Phys.	Non-Phys.	Credit	Total	Phys.	%	Non-Phys.	Credit	Total	%
3-4	Design & construction of Awali/Beirut conveyor	22.4			22.4					22.4	5.8			22.4	5.7
3-5	Rehab of water networks in other areas	147.2			147.2	0.1			0.1	147.3	38.1			147.3	37.8
3-6	Bisri dam design & construction	17.0			17.0	58.0			58.0	75.0	19.4			75.0	19.2
3-7	Extension of Dbaye treatment plant	12.1			12.1	9.0			9.0	21.1	5.5			21.1	5.4
3-8	New water networks for unserved areas	10.0			10.0	21.0			21.0	31.0	8.0			31.0	7.9
3-9	Construction of treatment plants in various areas					10.5			10.5	10.5	2.7			10.5	2.7
4	**WASTE WATER**	**241.2**	**3.0**		**244.2**	**475.8**			**475.8**	**717.0**	**7.0**	**3.0**		**720.0**	**6.2**
4-1	Updating master plan		1.0		1.0							1.0		1.0	0.1
4-2	Rehabilitation of existing sewerage networks	59.9			59.9	110.0			110.0	169.9	23.7			169.9	23.6
4-3	Rehabilitation of storm water networks	4.0			4.0					4.0	0.6			4.0	0.6
4-4	Technical assistance to concerned Ministries		2.0		2.0							2.0		2.0	0.3
4-5	Completion of Ghadir treatment plant	18.2			18.2					18.2	2.5			18.2	2.5
4-6	Construction of networks & treatment plants for protection of water resources	83.2			83.2	215.8			215.8	299	41.7			299	41.5
4-7	Constr. of additional treatment plants & outfalls for protection of coastal areas	35.9			35.9	150.0			150	185.9	25.9			185.9	25.8
4-8	Construction of Doua treatment plant and outfall	40			40					40	5.6			40	5.6
5	**SOLID WASTE**	**112**	**3.2**		**115.2**	**64.8**			**64.8**	**176.8**	**1.7**	**3.2**		**180**	**1.5**
5-1	Updating master plan		1		1							1		1	0.6
5-2	Compactor trucks &collection bins	28.9			28.9	20.0			20	48.9	27.7			48.9	27.2
5-3	Technical assistance to concerned ministries		1.8		1.8							1.8		1.8	1
5-4	Sanitising major dump sites	1.3			1.3					1.3	0.7			1.3	0.7
5-5	Beirut disposal plants	7.9			7.9					7.9	4.5			7.9	4.4
5-6	Sanitising other dump sites & setting up new dump areas	33.1			33.1	16.8			16.8	49.9	28.2			49.9	27.7
5-7	Solid waste data base		0.3		0.3							0.3		0.3	0.2
5-8	Composing feasibility study		0.1		0.1							0.1		0.1	0.1
5-9	Construction of new disposal plants	40.8			40.8	28.0			28	68.8	38.9			68.8	38.2
6	**TRANSPORT**	**1677.6**	**10.4**		**1688**	**1280.9**			**1280.9**	**2958.5**	**29**	**10.4**		**2968.9**	**25.4**
6-1	ROADS	1150.1	6		1156.1	952.8			952.8	2102.9	20.6	6		2108.9	18.1

Note: In the % columns, the totals for sectors and broad sectors are expressed as the % of the programme grand totals, while the amounts for projects are expressed as % of the corresponding sector's total

Phys. : Public physical investments including project related technical assistance (from design to supervision)

Non-Phys. : Non-project-related technical assistance (inst. strengthening, studies, management supportc

Table 1: Public Recovery Programme Projects, Years 1-10
(constant 1992 $ million)

No.	Sector/Project	Years 1-5				Years 6-10				Years 1-10					
		Phys.	Non-Phys.	Credit	Total	Phys.	Non-Phys.	Credit	Total	Phys.	%	Non-Phys.	Credit	Total	%
7-1-4	Rehabilitation & reconstruction of sports facilities	120.0			120.0					120.0	12.5			120.0	12.4
7-1-5	Construction of multi-faceted sports clubs	6.0			6.0					6.0	0.6			6.0	0.6
7-1-6	Information & orientation programmes in education	10.0			10.0					10.0	1.0			10.0	1.0
7-1-7	Grouping & integration of schools - buildings & equipment	30.7	0.3		31.0	693.0			693.0	723.7	75.2	0.3		724.0	75.1
7-1-8	Upgrading educational programmes	9.0	1.0		10.0					9.0	0.9	1.0		10.0	1.0
7-2	VOCATIONAL & TECHNICAL EDUCATION	83.9	9.0		92.9	52.0			52.0	135.9	1.3	9.0		144.9	1.2
7-2-1	Construction & equipment of new building for Ministry & institutional strengthening	4.5	0.5		5.0					4.5	3.3	0.5		5.0	3.5
7-2-2	Rehabilitation & equipment of vocational/technical colleges	30.4	8.5		38.9					30.4	22.4	8.5		38.9	26.8
7-2-3	Rehabilitation & equipment of public resthouses	19.0			10.0					10.0	7.4			10.0	6.9
7-2-4	Construction of new vocational/technical colleges	36.0			36.0	49.0			49.0	85.0	62.5			85.0	58.7
7-2-5	Implementation of secondary colleges project	3.0			3.0	3.0			3.0	6.0	4.4			6.0	4.1
7-3	CULTURE & HIGHER EDUCATION	314.5	0.5		315.0	105.0			105.0	419.5	4.1	0.5		420.0	3.6
7-3-1	Construction & equipment of new building for Ministry & institutional strengthening	9.5	0.5		10.0					9.5	2.3	0.5		10.0	2.4
7-3-2	Rehabilitation of Lebanese University building	30.0			30.0					30.0	7.2			30.0	7.1
7-3-3	National museums rehabilitation & construction	15.0			15.0	15.0			15.0	30.0	7.2			30.0	7.1
7-3-4	Construction of national library & libraries in Mohafazat	15.0			15.0	10.0			10.0	25.0	6.0			25.0	6.0
7-3-5	Rehabilitation & equipment of the Music conservatory	10.0			10.0					10.0	2.4			10.0	2.4
7-3-6	Rehabilitation of archaeological sites	15.0			15.0	10.0			10.0	25.0	6.0			25.0	6.0
7-3-7	National theatres rehabilitation & construction	10.0			10.0					10.0	2.4			10.0	2.4
7-3-8	Construction of convention/ exhibition centre	10.0			10.0	10.0			10.0	20.0	4.8			20.0	4.8
7-3-9	Construction of fine arts centres in Mohafazat					10.0			10.0	10.0	2.4			10.0	2.4
7-3-10	Lebanese University new campus	200.0			200.0	50.0			50.0	250.0	59.6			250.0	59.5

Note: In the % columns, the totals for sectors and broad sectors are expressed as the % of the programme grand totals, while the amounts for projects are expressed as % of the corresponding sector's total

Phys. : Public physical investments including project related technical assistance (from design to supervision)

Non-Phys. : Non-project-related technical assistance (inst. strengthening, studies, management suppoetc

Table 1: Public Recovery Programme Projects, Years 1-10
(constant 1992 $ million)

No.	Sector/Project	Years 1-5				Years 6-10				Years 1-10					
		Phys.	Non-Phys.	Credit	Total	Phys.	Non-Phys.	Credit	Total	Phys.	%	Non-Phys.	Credit	Total	%
8	**PUBLIC HEALTH**	**268.7**	**13.1**		**281.8**	**205.9**	**12.6**		**218.5**	**474.6**	**4.6**	**25.7**		**500.3**	**4.3**
8-1	Public hospitals rehabilitation	44.2			44.2					44.2	9.3			44.2	8.8
8-2	Public health pilot schemes	2.7	0.3		3.0	6.0	1.0		7.0	8.7	1.8	1.3		10.0	2.0
8-3	Institutional strengthening of ministry	13.0	5.5		18.5	11.9	0.6		12.5	24.9	5.2	6.1		31.0	6.2
8-4	Medical/health centers rehabilitation	7.3			7.3					7.3	1.5			7.3	1.5
8-5 8-6	Establishment of new medical centers	35.0			35.0	30.0			30.0	65.0	13.7			65.0	13.0
8-7	Construction of new public hospitals	138.0			138.0	122.0			122.0	260.0	54.8			260.0	52.0
8-8	Primary health care care programme	12.5	0.5		13.0	17.0			17.0	29.5	6.2	0.5		30.0	6.0
8-9	Programme for emergency services	7.0			7.0	13.0			13.0	20.0	4.2			20.0	4.0
8-10	Research programmes - health programmes		2.6		2.6		5.0		5.0			7.6		7.6	1.5
	- financial programmes		1.5		1.5		1.0		1.0			2.5		2.5	0.5
8-11	Integration of public health services	9.0	2.7		11.7	6.0	5.0		11.0	15.0	3.2	7.7		22.7	4.5
9	**SOCIAL AFFAIRS***	**18.7**	**4.2**	**46.4**	**69.3**	**16.1**	**2.0**	**42.6**	**60.7**	**34.8**	**0.3**	**6.2**	**89.0**	**130.0**	**1.1**
9-1	Rehabilitation & equipment of Ministry buildings-Beirut	2.1			2.1					2.1	6.0			2.1	1.6
	-Other areas	1.6			1.6					1.6	4.6			1.6	1.2
9-2	Construction of training center	0.6			0.6					0.6	1.7			0.6	0.5
9-3	Social development centers- Rehabilitation of 20 centers	2.0			2.0					2.0	5.7			2.0	1.5
	- Construction of 50 centers	6.0			6.0	14.0			14.0	20.0	57.5			20.0	15.4
9-4	Rehabilitation & equipment of Central Handicraft Institute	0.6			0.6					0.6	1.7			0.6	0.5
9-5	Support programmes to social institutions		1.0	9.0	10.0							1.0	9.0	10.0	7.7
9-6	Programme for the disabled	5.8	1.2	9.4	16.4	2.1	1.0	23.6	26.7	7.9	22.7	2.2	33.0	43.1	33.2
9-7	Support programmes to artisans		2.0	28.0	30.0		1.0	19.0	20.0			3.0	47.0	50.0	38.5
10	**ENVIRONMENT**	**27.8**	**5.2**		**33.0**	**1.0**	**1.0**		**2.0**	**28.8**	**0.3**	**6.2**		**35.0**	**0.3**
10-1	Construction & equipment of new building for Ministry & institutional strengthening	3.0			3.0					3.0	10.4			3.0	8.6
10-2	Environmental monitoring units	3.7	0.3		4.0					3.7	12.8	0.3		4.0	11.4

Note: In the % columns, the totals for sectors and broad sectors are expressed as the % of the programme grand totals, while the amounts for projects are expressed as % of the corresponding sector's total

* Credit allocation under this sector consists mainly of grant support ($79 million over 10 years), with some credit support ($10 million)

Phys. : Public physical investments including project related technical assistance (from design to supervision)

Non-Phys. : Non-project-related technical assistance (inst. strengthening, studies, management support, etc.)

Table 1: Public Recovery Programme Projects, Years 1-10
(constant 1992 $ million)

No.	Sector/Project	Years 1-5				Years 6-10				Years 1-10					
		Phys.	Non-Phys.	Credit	Total	Phys.	Non-Phys.	Credit	Total	Phys.	%	Non-Phys.	Credit	Total	%
10-3	Equipment for central environmental laboratory	2.0	0.5		2.5					2.0	6.9	0.5		2.5	7.1
10-4	Industrial pollution study & laboratory	0.5	0.5		1.0					0.5	1.7	0.5		1.0	2.9
10-5	Environmental standards study		0.5		0.5							0.5		0.5	1.4
10-6	Campaign for cleaning shoreline	4.0			4.0					4.0	13.9			4.0	11.4
10-7	Vehicles & equipment for emergency preparedness	5.7	0.3		6.0					5.7	19.8	0.3		6.0	17.1
10-8	Environmental protection & establishment of nature reserves	6.3	1.7		8.0					6.3	21.9	1.7		8.0	22.9
10-9	Environmental awareness campaign	2.6	1.4		4.0	1.0	1.0		2.0	3.6	12.5	2.4		6.0	17.1
11	HOUSING AND RESETTLEMENT*	**280.0**	**8.0**	**467.0**	**755.0**	**225.0**		**70.0**	**295.0**	**505.0**	**4.9**	**8.0**	**537.0**	**1050.0**	**9.0**
11-1	Study & damage assessment of housing sector		1.6		1.6							1.6		1.6	0.2
11-2	Reconstruction grants & loans			440.0	440.0								440.0	440.0	41.9
11-3	Upgrading of infromal housing areas	175.0			175.0	105.0			105.0	280.0	55.4			280.0	26.7
11-4	Rehabilitation of infrastructure in war damaged urban and rural areas	65.0			65.0					65.0	12.9			65.0	6.2
11-5	Site & services projects for low income households	40.0	6.4	27.0	73.4	120.0		70.0	190.0	160.0	31.7	6.4	97.0	263.4	25.1
	PRODUCTIVE SECTORS	***334.3***	***23.0***	***234.0***	***591.3***	***415.8***	***5.1***	***326.0***	***746.9***	***750.1***	***7.3***	***28.1***	***560.0***	***1338.2***	***11.5***
12	AGRICULTURE & IRRIGATION**	**160.6**	**8.5**	**84.0**	**243.1**	**195.8**	**5.1**	**116.0**	**316.9**	**346.4**	**3.4**	**13.6**	**200.0**	**560.0**	**4.8**
12-1	Restructur. of Ministry & Inst. Strengthening	28.0			28.0					28.0	8.1			28.0	5.0
12-2	Agricultural credit			84.0	84.0			116.0	116.0				200.0	200.0	35.7
12-3	Extension services & rehab. of rural centers and schools	9.9	8.1		18.0	5.2	4.3		9.5	15.1	4.4	12.4		27.5	4.9
12-4	Land survey/preservation & reclamation	21.0			21.0	6.5			6.5	27.5	7.9			27.5	4.9
12-5	Reforestation	11.0			11.0	9.0			9.0	20.0	5.8			20.0	3.6
12-6	Rehabilitation & construction of agricultural roads	12.5			12.5	37.5			37.5	50.0	14.4			50.0	8.9
12-8	Study for development of livestock sector						0.8		0.8			0.8		0.8	0.1
12-9	Study for development of agro-industry		0.4		0.4							0.4		0.4	0.1

Note: In the % columns, the totals for sectors and broad sectors are expressed as the % of the programme grand totals, while the amounts for projects are expressed as % of the corresponding sector's total

* Credit allocation under this sector consists of grant support ($333 million over 10 years), and credit support ($204 million)

** Project # 12-7 not utilized

Phys. : Public physical investments including project related technical assistance (from design to supervision)

Non-Phys. : Non-project-related technical assistance (inst. strengthening, studies, management support

Table 1: Public Recovery Programme Projects, Years 1-10
(constant 1992 $ million)

No.	Sector/Project	Years 1-5				Years 6-10				Years 1-10					
		Phys.	Non-Phys.	Credit	Total	Phys.	Non-Phys.	Credit	Total	Phys.	%	Non-Phys.	Credit	Total	%
12-10	Rehabilitation of Qasmieh/Ras El-Ain irrigation scheme	6.5			6.5	8.6			8.6	15.1	4.4			15.1	2.7
12-11	Rehabilitation of other irrigation schemes	21.0			21.0					21.0	6.1			21.0	3.8
12-12	Rehabilitation of Beka'a irrigation scheme	10.1			10.1	10.0			10.0	20.1	5.8			20.1	3.6
12-13	Study & development of South Lebanon irrigation scheme	18.8			18.8	50.0			50.0	68.8	19.9			68.8	12.3
12-14	Study & development of El-Assi irrigation scheme	11.8			11.8	30.0			30.0	41.8	12.1			41.8	7.5
12-15	Study & development of other irrigation schemes					39.0			39.0	39.0	11.3			39.0	7.0
13	**INDUSTRY***	**58.3**	**6.6**	**50.0**	**114.9**	**180.0**		**100.0**	**280.0**	**238.3**	**2.3**	**6.6**	**150.0**	**394.9**	**3.4**
13-1	Energy audit	0.5	1.0		1.5					0.5	0.2	1.0		1.5	0.4
13-2	Legal & taxation framework		0.7		0.7							0.7		0.7	0.2
13-3	Industry statistical survey	0.1	0.4		0.5					0.1	0.0	0.4		0.5	0.1
13-4	Institutional support to Ministry		0.4		0.4							0.4		0.4	0.1
13-5	Management training workshops & seminars		0.7		0.7							0.7		0.7	0.2
13-6	Establishing industrial estates	52.0			52.0	180.0			180.0	232.0	97.4			232.0	58.7
13-7	Study of industry financing		0.5		0.5							0.5		0.5	0.1
13-8	Rehabilitation of Industry Resarch Institute	4.4	0.5		4.9					4.4	1.8	0.5		4.9	1.2
13-10	Industrial development strategy		2.4		2.4							2.4		2.4	0.6
13-11	Industrial credit			50.0	50.0			100.0	100.0				150.0	150.0	38.0
13-12	Rehab. & equipment of Ministry building	1.3			1.3					1.3	0.5			1.3	0.3
14	**OIL & GAS**	**89.9**	**4.1**		**94.0**					**89.9**	**0.9**	**4.1**		**94.0**	**0.8**
14-1	Restructuring of refineries a. Rehab. & expansion of Tripoli refinery	78.8	1.0		79.8					78.8	87.7	1.0		79.8	84.9
	b. Transformation of Zahrani refinery into a handling center	1.1			1.1					1.1	1.2			1.1	1.2
14-2	Feasibility study of regional refinery in Tripoli		0.7		0.7							0.7		0.7	0.7
14-3	Refined products storage facilities	10.0			10.0					10.0	11.1			10.0	10.6
14-4	Hydrocarbon exploration		2.0		2.0							2.0		2.0	2.1
14-5	Study of gas pipeline from Syria		0.4		0.4							0.4		0.4	0.4

Note: In the % columns, the totals for sectors and broad sectors are expressed as the % of the programme grand totals, while the amounts for projects are expressed as % of the corresponding sector's total

* Project # 13-9 not utilized

Phys. : Public physical investments including project related technical assistance (from design to supervision)

Non-Phys. : Non-project-related technical assistance (inst. strengthening, studies, management suppo etc

Table 1: Public Recovery Programme Projects, Years 1-10
(constant 1992 $ million)

No.	Sector/Project	Years 1-5				Years 6-10				Years 1-10					
		Phys.	Non-Phys.	Credit	Total	Phys.	Non-Phys.	Credit	Total	Phys.	%	Non-Phys.	Credit	Total	%
15	**PRIVATE SECTOR SERVICES***	**14.8**	**0.8**	**50.0**	**65.6**	**25.0**		**10.0**	**35.0**	**39.8**	**0.4**	**0.8**	**60.0**	**100.6**	**0.9**
15-1	Diesel trucks study		0.1		0.1							0.1		0.1	0.1
15-2	Truck finance			30.0	30.0								30.0	30.0	29.8
15-3	Review of TIR agreement		0.2		0.2							0.2		0.2	0.2
15-5	Study, construction & financing of storage & distribution facilities	14.0		20.0	34.0			10.0	10.0	14.0	35.2		30.0	44.0	43.7
15-6	Study of recruitment of Lebanese expatriates		0.2		0.2							0.2		0.2	0.2
15-7	Study of strengthening insurance industry		0.3		0.3							0.3		0.3	0.3
15-10	Grain silos rehabilitation & expansion	0.8			0.8	25.0			25.0	25.8	64.8			25.8	25.6
16	**TOURISM**	**20.7**	**3.0**	**50.0**	**73.7**	**15.0**		**100.0**	**115.0**	**35.7**	**0.3**	**3.0**	**150.0**	**188.7**	**1.6**
16-1	Rehabilitation & equipment of Ministry & touristic offices/new office in airport	12.3			12.3					12.3	34.5			12.3	6.5
16-2	Training of Ministry staff		1.0		1.0							1.0		1.0	0.5
16-3	Survey of touristic installations & tourist census		1.0		1.0							1.0		1.0	0.5
16-4	Tourism master plan		1.0		1.0							1.0		1.0	0.5
16-5	Establishment of public beaches	2.0			2.0					2.0	5.6			2.0	1.1
16-6	Jetta grotto rehabilitation	6.0			6.0					6.0	16.8			6.0	3.2
16-7	Kfar Zabad grotto development	0.2			0.2					0.2	0.6			0.2	0.1
16-8	Tourism credit			50.0	50.0			100.0	100.0				150.0	150.0	79.5
16-9	Rehabilitation of Cedars Tele-ski	0.2			0.2					0.2	0.6			0.2	0.1
16-10	Development of existing touristic facilities					15.0			15.0	15.0	42.0			15.0	7.9
	OTHER SECTORS	***197.4***	***136.3***		***333.7***	***121.5***	***15.0***		***136.5***	***318.9***	***3.1***	***151.3***		***470.2***	***4.0***
17	**INFORMATION**	**25.0**			**25.0**	**25.0**			**25.0**	**50.0**	**0.5**			**50.0**	**0.4**
17-1	Uprgrading & equipment of Radio Lebanon	2.4			2.4					2.4	4.8			2.4	4.8
17-2	Upgrading & equipment of Tele Liban	13.0			13.0	13.0			13.0	26.0	52.0			26.0	52.0
17-3	Planning & equipment of transmission & broadcast networks (Radio & TV)	8.0			8.0	12.0			12.0	20.0	40.0			20.0	40.0
17-4	Automation & organization of Ministry	1.0			1.0					1.0	2.0			1.0	2.0
17-5	Upgrading & equip. of National News Agency	0.2			0.2					0.2	0.4			0.2	0.4
17-6	Upgrading & equip. of Ministerial Press Agency	0.4			0.4					0.4	0.8			0.4	0.8

Note: In the % columns, the totals for sectors and broad sectors are expressed as the % of the programme grand totals, while the amounts for projects are expressed as % of the corresponding sector's total

* Projects # 15-4, 15-8 & 15-9 not utilized

Phys. : Public physical investments including project related technical assistance (from design to supervision)

Non-Phys. : Non-project-related technical assistance (inst. strengthening, studies, management support

Table 1: Public Recovery Programme Projects, Years 1-10
(constant 1992 $ million)

No.	Sector/Project	Years 1-5				Years 6-10				Years 1-10					
		Phys.	Non-Phys.	Credit	Total	Phys.	Non-Phys.	Credit	Total	Phys.	%	Non-Phys.	Credit	Total	%
18	GOVERNMENT BUILDINGS	171.8	1.7		173.5	96.5			96.5	268.3	2.6	1.7		270.0	2.3
18-1	Detailed survey of requirements		1.7		1.7							1.7		1.7	0.6
18-2	Rehabilitation & equipment of Min. of Finance	4.1			4.1	3.9			3.9	8.0	3.0			8.0	3.0
18-3	Rehab. & upgrading of Customs buildings	3.0			3.0	2.0			2.0	5.0	1.9			5.0	1.9
18-4	Rehab. & upgrading of Vehicle Registration Centers	1.2			1.2	0.8			0.8	2.0	0.7			2.0	0.7
18-5	Rehab. & upgrading of three Ministries in Shiyah	6.8			6.8	3.2			3.2	10.0	3.7			10.0	3.7
18-6	Rehab. & upgrading of other Govt. buildings	51.0			51.0	10.0			10.0	61.0	22.7			61.0	22.6
18-7	Construction & equipment of new Govt. buildings	25.0			25.0	5.0			5.0	30.0	11.2			30.0	11.1
18-8	Additional equipment & furniture	25.5			25.5	7.5			7.5	33.0	12.3			33.0	12.2
18-9	Construction of slaughter houses	15.0			15.0	35.0			35.0	50.0	18.6			50.0	18.5
18-10	Miscellaneous	40.2			40.2	29.1			29.1	69.3	25.8			69.3	25.7
19	MANAGEMENT & IMPLEMENTATION	0.6	134.6		135.2		15.0		15.0	0.6	0.0	149.6		150.2	1.3
19-1	Land use planning study		12.0		12.0							12.0		12.0	8.0
19-2	Mapping and data base development		23.0		23.0		8.0		8.0			31.0		31.0	20.6
19-3	Programme management/implementation		60.0		60.0							60.0		60.0	39.9
19-4	Construction training	0.6	4.5		5.1					0.6	100.0	4.5		5.1	3.4
19-5	Public sector training unit & staff training		21.6		21.6		7.0		7.0			28.6		28.6	19.0
19-6	Computerization of Ministry of Finance		1.8		1.8							1.8		1.8	1.2
19-7	TA coordination & evaluation		5.2		5.2							5.2		5.2	3.5
19-8	Institutional strengthening		6.5		6.5							6.5		6.5	4.3
	PROGRAMME TOTALS	6057.3	234.7	751.4	7043.4	4154.4	35.7	438.6	4628.7	10211.7	100.0	270.4	1190.0	11672.1	100.0

Note: In the % columns, the totals for sectors and broad sectors are expressed as the % of the programme grand totals, while the amounts for projects are expressed as % of the corresponding sector's total

Phys. : Public physical investments including project related technical assistance (from design to supervision)

Non-Phys. : Non-project-related technical assistance (inst. strengthening, studies, management support, etc .)

Having listed the expenditures in each sector, we will now proceed to look in more detail at the individual sectors concentrating on three areas: the extent of war-time damage; the projected expenditures for reconstruction and development; and what the government hopes to achieve as a result of the programme.

Physical Infrastructure

The physical infrastructure sector accounts for 56.7% of the total Horizon 2000 programme.

1) The Electricity Sector

The extensive damage to Lebanon's electricity sector has already been discussed.[30]

Given the fact that electricity supplies are crucial to the revitalisation of business and industry, as well as to the general improvement in the everyday lives of the Lebanese, it is of little surprise that this is the largest sector in the N.E.R.P./P.P.R.D programme at 23%, and it represents 14% of the total Horizon programme.

Over 60% of the electricity programme was scheduled to be implemented within the first three years of Horizon 2000. The target of the electricity program is to provide increased and continuous electricity with a per capita electricity consumption of 1780 KWh by the year 2002. The government also planned to

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[30] For a detailed account of the destruction in the electricity sector, see International Bechtel Inc. & Dar al Handasah Consultants (Shair & Partners), Recovery Planning for the Reconstruction and Development of Lebanon: Phase One - Volume 2 Priority Program, 3-26 to 3-29.

For a more succinct look at the problems in the electricity sector, see -----, "Electricity for the Year 2003", The Lebanon Report 3, no.10 (October, 1992), 12.

implement measures aimed at preventing theft and non-payment of bills.[31]

2) Posts & Telecommunications

As we have noted previously, the telecommunications network was severely damaged as a result of the war.[32]

Improvements in the posts and telecommunications sector is essential if Beirut hopes to recover its role as the financial, business and trade hub of the region. The aim of the projects in this sector, which represent 6% of the total Horizon programme, was not only to restore services but also to close a technological gap which emerged during the war years. As the authors of the plan put it, "the development of modern, efficient, domestic and international telecommunications links is a necessary condition for Lebanon to emerge as a competitive force and reclaim its role as a financial, commercial and tourist centre of regional and international significance."[33]

The Horizon plan set a target of 295 lines density per one thousand people by the year 2002. In addition, the C.D.R. developed plans, not included in the Horizon programme, to introduce a mobile telecommunications system.[34]

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[31] The EDL estimated that 50% of its production had been stolen by people who have hooked up their lines to the main cables on the street. See, "Electricity for the Year 2003", 12.

[32] For exact details of the damage to the sector, see International Bechtel Inc. & Dar al Handasah Consultants (Shair & Partners), Recovery Planning for the Reconstruction and Development of Lebanon: Phase One - Volume 2 Priority Program, 3-41 to 3-45.

[33] Council for Development and Reconstruction, Horizon 2000, 58.

[34] Ibid, 58.

3) Water Supply

As noted at the beginning of this chapter, some 80% of the water supply was polluted to some degree as a result of the war. All eighteen of the water treatment plants were damaged or operated at a reduced level. Chlorinators, whether in plants or in wells, were not maintained for lack of both technical staff and funds. In the South, most of the water infrastructure was damaged or completely destroyed as a result of Israeli invasions.[35]

The Water Supply sector represents 3.3% of the Horizon programme.

The aim of the repairs and extensions in this sector was to provide an average of 150 litres per capita per day by 1997 and 160 litres by 2002.[36]

4) Waste Water

As we noted previously, there were no functioning sewage treatment facilities in the entire country. Coastal communities disposed of their sewage directly along the shore, while inland communities disposed of their sewage in rivers or streams used for domestic water supply by downstream communities.[37]

The waste water sector accounts for 6.2% of the Horizon

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[35] International Bechtel Inc. & Dar al Handasah Consultants (Shair & Partners), Recovery Planning for the Reconstruction and Development of Lebanon: Phase One - Volume 2 Priority Program, 3-35.

[36] Council for Development and Reconstruction, Horizon 2000, 57.

[37] International Bechtel Inc. & Dar al Handasah Consultants (Shair & Partners), Recovery Planning for the Reconstruction and Development of Lebanon: Phase One - Volume 2 Priority Program, 3-30.

2000 programme. Projects in this sector have been focused at mitigating public health hazards, particularly the levels of pollution in the water sources, and at collection, treatment and disposal of waste water.

The aim of the programme in this sector was to connect 50% of the total population to waste water facilities (collection and disposal systems) by the year 1997 and 98% of the urban population and 70% of the rural population by 2002.[38]

5) Solid Waste

As noted elsewhere, the system for solid waste collection was destroyed. Equipment such as collection vehicles and community collection containers were either stolen or destroyed, and disposal plants were directly shelled during the war. As a result of the breakdown of the system, solid waste has been disposed of in open dumps virtually everywhere. Coastal communities have disposed of waste on the seashore or into the mouths of rivers, while inland communities tended to use ravines, rivers, the roadside, and other vacant lands.[39] As a consequence, there has been real concern over pollution and the general health of the population.

The solid waste sector accounts for 1.5% of the Horizon programme. Programmes are geared toward the development of appropriate collection and disposal facilities for solid waste.

The aim of the programme was to extend collection and

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[38] Council for Development and Reconstruction, Horizon 2000, 57.

[39] International Bechtel Inc. & Dar al Handasah Consultants (Shair & Partners), Recovery Planning for the Reconstruction and Development of Lebanon: Phase One - Volume 2 Priority Program, 3-37.

disposal facilities to virtually all of the urban population and 75% of the rural population by the year 2002.[40]

6) Transport

The Transportation sector accounts for 25.4% of the Horizon 2000 programme. This sector is divided into four sub-sectors, including roads, public transport and railways, the airport, and ports. Improvements to Beirut International Airport and Lebanon's ports, which, combined, account for 6% of the Horizon programme are viewed by the government as crucial to Lebanon's links to international trade, and the increase of custom duties for the government.[41]

6.1 Roads

Damage to Lebanon's road network has been discussed in the previous chapter.

The roads sector is the single largest sector in the Horizon programme accounting for some 18% of the total. Compared to neighbouring countries, Lebanon has been able to maintain a good road network. The programme was aimed at improving the quality of the roads, upgrading key links, and redressing the deterioration that occurred due to a lack of adequate maintenance.[42]

6.2 Public Transport and Railways

Lebanon's railway and bus systems were severely affected by the war. The railways' fixed facilities, such as stations,

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[40] Council for Development and Reconstruction, Horizon 2000, 57.

[41] Ibid.

[42] Ibid, 56.

workshops and tracks and its rolling stock were damaged or stolen. Much of the bus fleet was also damaged or stolen, and those which remained lacked essential spare parts.[43]

The public transport and railways sector accounts for 1.4% of the Horizon programme. It includes work on the rehabilitation of railways and on a public bus transport system.

In the latter project, the aim was to increase services to six times the present level.

6.3 Airport

Beirut International Airport suffered severe infrastructural damage as a result of the war. This includes the majority of buildings, electromechanical installations, and some of the aviation safety and control equipment.[44]

An ambitious project to rehabilitate and expand Beirut International Airport accounts for 3% of the Horizon programme.

As noted previously, the aim was to expand the capacity of the airport to handle six million passengers a year.

6.4 Ports

The rehabilitation[45] and expansion of Lebanon's main ports, including Beirut port, Tripoli port, and ports in Sidon, Jounieh and Tyre, account for 3% of the Horizon programme.

The aim of the project for the main Lebanese port, Beirut

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[43] International Bechtel Inc. & Dar al Handasah Consultants (Shair & Partners), Recovery Planning for the Reconstruction and Development of Lebanon: Phase One - Volume 2 Priority Program, 3-49 to 3-52.

[44] Ibid, 3-55

[45] For an assessment of the damage, see ibid, 3-57.

port, was to double its 1993 capacity.[46]

Social Infrastructure Sector

The social infrastructure sector accounts for 27.8% of the Horizon 2000 programme.

7) Education

On the whole, Lebanon's educational facilities are quite strong, but mostly in the private education sector. Lebanon's public school system is in need of serious upgrading. Almost half of the teaching staff, particularly at the primary level are unqualified; damage, theft or lack of money has reduced the level of teaching aid; four-fifths of the schools are not considered functional and 90% have no external recreation area.[47]

The education sector, which is divided into three sub-sectors, accounts for 13% of the Horizon programme. The aim of the programme was to try and improve the level of public education, through physical investments and by improving the quality of teachers.

7.1 General Education, Youth and Sport

This sub-section represents 8.3% of the Horizon programme. A significant portion of this section was geared towards the development of national sports facilities, in anticipation of the Arab games which were supposed to be held in Beirut in the

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[46] Council for Development and Reconstruction, Horizon 2000, 58.

[47] International Bechtel Inc. & Dar al Handasah Consultants (Shair & Partners), Recovery Planning for the Reconstruction and Development of Lebanon: Phase One - Volume 2 Priority Program,

summer of 1996.[48]

7.2 Vocational and Technical Information

This sub-section represents 1.2% of the Horizon programme.

7.3 Culture and Higher Education

This sub-section represents 3.6% of the Horizon programme.

8) Public Health

Prior to the war, Lebanon had a strong reputation for health care services, although the system tended to be dominated by private sector health care which was relatively expensive.[49] While there are plenty of good hospitals and no shortage of doctors, the vast majority of the health care services are located in Beirut and Mount Lebanon, leaving nearly one million people without direct access to health facilities at the local level. Only fifteen of the 24 public hospitals were operating, and only one at full capacity.[50]

The public health sector accounts for 4.3% of the Horizon programme. The goal was to rehabilitate the public health sector in order to make good health care accessible to the majority of the population.[51]

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[48] In fact, construction to the sports stadium was halted during the Israeli bombardment of Lebanon in the spring of 1996, resulting in the postponement of the Arab games.

[49] For details, see International Bechtel Inc. & Dar al Handasah Consultants (Shair & Partners), Recovery Planning for the Reconstruction and Development of Lebanon: Phase One - Volume 2 Priority Program, 3-72.

[50] Ibid, 3-72.

[51] Council for Development and Reconstruction, Horizon 2000, 60.

9) Social Affairs

The social affairs sector accounts for 1.1% of the Horizon 2000 programme. Similar to the public health sector, the aim was to extend social services to the majority of the population. For example, some of the non-physical investments were to include reforms to social security and national insurance schemes.[52]

10) Environment Sector

The environment sector represents 0.3% of the Horizon programme. This aim of this sector was to set up an environmental laboratory to study, establish and enforce environmental protection regulations and standards, and to establish national nature parks and reserves. As the authors of the programme point out, the major environmental issues are dealt with in other sectors. For example, the protection of water resources and coastal areas are dealt with in the water and sanitation sector.[53]

11) Housing and Resettlement

As we noted elsewhere, 48% of the population were housed under dubious conditions (i.e., in illegally occupied land or buildings) as a result of the war.

The housing and resettlement sector accounts for 9% of the Horizon programme. More than half of the programme was geared towards offering grants and loans to the displaced and to those living in war damaged housing.

The aim of the programme was to cover about 90% of the informal housing, and to provide an average of 2,000 serviced

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[52] Ibid, 60.

[53] Ibid, 61.

plots annually for lower income housing.[54]

Productive Sectors

The productive sectors, including agriculture, industry, and tourism are dominated by the private sector. It is not surprising, therefore, that the Horizon programme allocates the majority of the funding in these sectors to private sector credit support.

12) Agriculture and Irrigation

Total losses incurred by the agricultural sector during the war years is estimated to be more than $600 million. This included direct damages such as the destruction of fields and equipment, the introduction of cheap agricultural goods by Lebanon's neighbours (such as Israel), and the closure of external markets.[55]

The agriculture and irrigation sector accounts for 5% of the Horizon programme. Over half of the programme in this sector was directed to credit support. Some of the projects in the sector included: land preservation and reclamation, reforestation, rehabilitation and development of agricultural roads, and the rehabilitation and extension of agricultural schools and training centres.

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[54] Ibid, 61.

[55] International Bechtel Inc. & Dar al Handasah Consultants (Shair & Partners), Recovery Planning for the Reconstruction and Development of Lebanon: Phase One - Volume 2 Priority Program, 3-38.

13) Industry[56]

The industry sector represents 3.4% of the Horizon programme. Approximately 38% of the programme in this sector was for the provision of industrial credit. Much of the remainder was geared towards the creation of industrial sites.[57]

14) Oil and Gas[58]

The oil and gas sector represents 0.8% of the Horizon programme, and most of the work in this sector was concerned with the rehabilitation and development of the Tripoli oil refinery.

15) Private Sector Services

This sector accounts for 0.9% of the Horizon programme, and included the provision of credit for truck purchasing and for storage/distribution facilities.

16) Tourism

Prior to the war, the tourist industry was very important to the Lebanese economy, as it amounted to approximately 15-20% of the country's GDP. The nearly 1.5 million annual tourists were attracted to Lebanon's location, weather, and the customs and hospitality of the people. The war, however, effectively

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[56] For the effects of the war on Lebanese industry, see ibid, 3-86 to 3-88.

[57] Council for Development and Reconstruction, Horizon 2000, 62.

[58] For the effects of the war on the Lebanese economy, see International Bechtel Inc. & Dar al Handasah Consultants (Shair & Partners), Recovery Planning for the Reconstruction and Development of Lebanon: Phase One - Volume 2 Priority Program, 3-89 to 3-91.

killed the tourist industry. Very few visitors came for touristic reasons, and nearly 50% of the hotels closed for various reasons related to the war.[59]

The tourist sector accounts for 1.6% of the Horizon programme, with projects aimed at rehabilitating tourist facilities such as the establishment of public beaches, and national and international tourist offices. Four-fifths of the sector, however, consisted of credit support for the tourist industry.[60]

The government understood that stability and hence, personal security, as well as the rehabilitation of the country's infrastructure are prerequisites for the revitalisation of the tourist industry.

Other Sectors

17) Information

The information sector represents 0.4% of the Horizon programme with projects intended to strengthen official television and radio networks.[61]

18) Government Buildings

2.3% of the Horizon programme was geared towards the rehabilitation of Government buildings.

19) Management and Implementation

Management and implementation accounts for 1.3% of the

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[59] Ibid. 3-101.

[60] Council for Development and Reconstruction, Horizon 2000, 62.

[61] Ibid, 62.

Horizon programme and was geared towards enhancing the ability of the public sector to manage the reconstruction of the country.[62]

Financing Horizon 2000

Having laid out the Horizon 2000 plan in some detail, it may be useful, at this point, to look briefly at the overall cost of the programme and at how the Lebanese government plans to finance it. As noted above, the cost of Horizon 2000 was estimated at $11.672 billion at constant 1992 prices. Of this amount, $10.212 billion was allocated to physical investment - 64% of which was supposed to go to physical infrastructure and 25% to social infrastructure, $270 million was allocated to non-physical investments related to institutional strengthening, programme planning and implementation support, and $1.190 billion was designated for grant and credit support to the private sector.[63]

When counted in current prices over the entire Horizon period, the C.D.R. estimated that the plan would cost the Lebanese government approximately $18.4 billion. The initial $11.7 billion would add up to approximately $14.3 billion when valued at the time of spending. The C.D.R. also estimated that additional financing of $4.1 billion would be needed to meet budget deficits in the first two years of the Horizon period, and debt repayment commitments throughout the rest of the

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[62] Ibid, 63.

[63] Ibid, 8-9.

period.[64]

The government expects funding for the project to originate from three sources. For the time being, we will merely identify these and comment on the amount of funding the government expected to derive from each. An evaluation of the accuracy of these expectations will be dealt with in chapter five. The first and most significant portion of financing was supposed to come from government budget surpluses which the C.D.R. believed would materialize in 1996. Budget surpluses were expected to amount to $8.7 billion or 47% of gross financing requirements over the Horizon period. This included $7.1 billion, or 50% of the $14.3 billion Horizon 2000 programme, and $1.6 billion, or 38% of other requirements. The second major source of financing was to originate from foreign currency borrowing, which was supposed to contribute $4.9 billion or 34% of the public recovery programme. No foreign currency borrowing was expected for non-recovery expenditures such as government debt.[65] Finally, funding for the recovery plan was also expected to come from foreign grants which were to account for 6% of financing, and from receipts of interest and principal repayments under the credit support programme which were to contribute 4%.[66]

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[64] Ibid, 14.

[65] Although domestic currency borrowing by the government is expected to cover a modest 6% of the Horizon 2000 plan, it will remain a significant source of financing to meet other government expenditures including current budget deficits and debt repayments. Ibid, 14.

[66] Ibid, 15.

4. The Hariri Government: A Capitalist Developmental State?

As we explained in chapter two, the Hariri government's primary concern, and, indeed its very raison d'etre, appears to have been the reconstruction and the development of the Lebanese economy. Its economic programme, outlined in this chapter, clearly gives more evidence that the Hariri government is committed to the recovery of the Lebanese economy. On the whole, it has pursued policies to this end, such as ensuring macroeconomic stability and rebuilding and developing infrastructure. However, we feel that the level, or type, of government participation may not correspond to Johnson's model of the capitalist developmental state, which envisioned a much more active role for the state in the economy.

A key feature of Johnson's model is that the government guides, or assists, the private sector and the market in order to promote economic growth. For example, in the context of the East Asian NICs, such as Taiwan or Korea, the governments played the leading role in directing key aspects of the economy. They used a combination of incentives, controls and mechanisms, which resulted in more investment in certain key industries than would have occurred in the absence of government intervention. The Hariri government's Horizon 2000 plan, however, is simply a public expenditure programme aimed at rebuilding Lebanon's shattered physical, and to a lesser extent, social infrastructures. The Hariri government has allowed private sector investment to evolve at will, as opposed to giving it direct guidance. It should be noted, at this point, that the Hariri government did apparently plan to encourage private

sector participation in some specific areas by fostering government-assisted redevelopment schemes, but for a number of reasons, which we will consider in chapter six, we do not feel that these schemes are such that the Lebanese government can be said to conform to Johnson's model of the developmental state in this context.

CHAPTER FOUR: THE INSTITUTIONS MANAGING & IMPLEMENTING THE HORIZON 2000 PLAN

In the previous chapter, we described the government's programme for the reconstruction and development of Lebanon. At its peak, the programme was to involve large financial requirements, the management and monitoring of thousands of men as well as a wide range of project types (from very small to very large), the worldwide procurement of goods and services, and the need to deal with diverse sources of international financing. Clearly, the programme was ambitious for a country with Lebanon's limited financial, institutional, and technical capabilities.

The purpose of this chapter is to examine the various institutions which have been managing the reconstruction programme. In fact, the institutional arrangement used to manage the recovery programme is not particularly new. Generally speaking, the Council for Development and Reconstruction (C.D.R.) has been responsible for overall programme management and coordination, as well as for contracting and disbursements associated with the implementation of the projects in Horizon 2000. In many cases, it has also been responsible for implementing the individual projects which were initially supposed to be the responsibility of government ministries and agencies. This institutional arrangement was in evidence with all of the former reconstruction projects including the original one dating back to 1978. Considering the failure of all of these former plans, it may be appropriate to question the use of this arrangement for managing Horizon 2000. Additionally, one might question the eagerness of the private sector, whose

participation in Lebanon's economic recovery is essential, to deal, to such a great extent, with a public sector which it has tended to view as being incompetent and corrupt. We will give fuller consideration to this latter point in chapter six.

With respect to the institutional arrangement, however, at least three critical changes have taken place which may bode well for a successful implementation of the programme. First, security has returned to Lebanon. The violence has effectively ceased, and the political and economic systems have stabilised under the leadership of Rafiq Hariri. Second, important changes have been introduced to strengthen the institutions. In light of the technical and structural weaknesses of both the C.D.R. and the ministries and agencies, highly professional international consultants have been contracted to work with the institutions to add the necessary technical and organisational skills. This system has the double advantage of strengthening the institutions without a very time-consuming and politically risky attempt to reform the bureaucracy, and, at the same time, of giving the recovery programme greater international credibility.

The third critical difference is the way in which Hariri has managed to take personal control of the reconstruction programme in such a way that it is removed, to some extent, from the political process, in which it would, more than likely, have been delayed or effectively crippled by frequent political disputes. By appointing men loyal to him to leadership positions in the major economic institutions of the country, including the Central Bank, vital ministerial portfolios, and, perhaps most importantly, the C.D.R., Hariri has been able to use his

personal influence to mediate disputes and facilitate the implementation of the programme.

This chapter is divided into four sections. The first two give an overview of the state of the institutions implementing Horizon 2000, with section one concentrating on the C.D.R. and the second section on the ministries and agencies. In section three, we will explain the institutional set-up for implementing the Horizon 2000 programme, concentrating on the changes employed to strengthen the institutions. Finally, in section four, we will examine the nature and scope of Hariri's personal involvement in the programme.

1. The Council for Development and Reconstruction (C.D.R.)

The C.D.R. has been, and continues to be, the most important institution in the reconstruction programme. In spite of this, very little is known about it, even by the serious student of Lebanese politics. This is primarily because most of the recent material on Lebanon tends to concentrate on the political-military aspects of the situation, and even material written specifically on the Lebanese economy does not offer much on the role of specific organisations like the C.D.R. In this section, we will attempt to address this problem by giving an overview of the history of the C.D.R. from 1977 to 1990.

1.1 The Origins of the C.D.R.

When the first round of fighting ceased in 1976, the Lebanese public sector was too weak, inefficient, and

demoralised to provide an effective institutional framework to carry out the planning, programming and implementation of a recovery programme. Given this, the extensive damage to Lebanon's basic infrastructure, and the disruption of its social services and economy, extraordinary measures were needed to deal with the rebuilding of the country. On 31 January 1977, the reform-minded Lebanese government of President Elias Sarkis and Prime Minister Salim Hoss issued Decree Law no.5 which created the Council for Development and Reconstruction. The organisation was to act as an apolitical technical advisory unit reporting to, and answerable only to, the Council of Ministers (the Cabinet).

The idea to create the C.D.R. originated with P.M. Hoss.[1] In brief, by creating the C.D.R., he wanted to bypass the inefficient Lebanese bureaucracy, and the many restrictive practices associated with it. As Hoss put it, he wanted an organisation "free from the shackles" of the public sector.[2] For example, he wanted to attract talented new people to the C.D.R., something that could not have been done in any of the ministries, such as the Ministry of Planning, because of the restrictive confessional and seniority-oriented practices involved in hiring new employees. Furthermore, the plan was to give the organisation "vast authority to free it from red tape."[3] To once again quote the former prime minister, "we wanted to

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[1] Interview with the former Prime Minister Salim Hoss in Beirut on 21 February 1997.

[2] Ibid.

[3] Ibid.

create an island to get rid of the inefficiency of the ministries."[4] Since the C.D.R. would basically have many of the same responsibilities as the Ministry of Planning, the government abolished the latter organisation.[5]

1.2 The Structure of the C.D.R.

Originally, as specified by Decree Law no.5, the C.D.R. was controlled by an executive board of twelve members, of whom four were full-time. The four full-time members, each appointed by the Council of Ministers for a term of five years, consisted of the president of the C.D.R, two vice presidents and a secretary-general.[6] The C.D.R. was divided into four departments including Programmes, Project Management, Finance, and Administration.

According to a C.D.R. progress report, security conditions during the war years made the recruitment of senior staff difficult, leaving it essentially devoid of qualified leadership. Apparently, the directors of the C.D.R. chose to keep the organisation small and refrained from filling senior positions until qualified applicants were found.[7] Presumably, the number of people involved fluctuated to some extent. As of 1983, however, the C.D.R. reported that it had a full time staff of 158 including 74 professional staff and 84 administrative

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[4] Ibid.

[5] In fact, Decree Law no.5 abolished the Ministry of Planning.

[6] According to P.M. Hoss, the first president of the C.D.R. was a highly respected individual. Interview with the former P.M. Salim Hoss in Beirut on 21 February 1997.

[7] The Council for Development and Reconstruction, The Reconstruction Project, 2.

staff. In addition, 22 consultants and advisors worked with the organisation.[8]

Since 1990, as we will discuss in sections three and four, the C.D.R. has become a different organisation. Although the basic structures have remained the same - with the organisation consisting of an executive board and four departments - new management personnel, connected with Hariri, have taken control of the organisation.[9]

1.3 The Stated Role of the C.D.R.

Even at its inception, the C.D.R. was granted unprecedented powers for a Lebanese government unit. It was seen as being so powerful, that some parliamentary debates during the late 1980s centred around whether or not the C.D.R. should be abolished.[10] In fact, at one point a bill calling for the abolition of the C.D.R. was submitted to the Lebanese parliament, but it failed to pass.[11]

The C.D.R.'s principal role was to draw up an overall framework for the reconstruction of the country, and to mobilise and coordinate external finance, including loans and grants, for

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[8] Ibid, 19.

[9] As we will discuss elsewhere, a restructuring of the organisation was suggested by consultants in 1995. However, as of February 1997, the plan had yet to be adapted, and it is unclear whether the changes would take place. Interview with Jim McCredie, lead consultant at the C.D.R. in Beirut on 20 February 1997.

[10] Interview with the former P.M. Salim Hoss in Beirut on 21 February 1997.

[11] Ibid.

the reconstruction effort.[12] It was made responsible for the financing of any project or programme assigned to it, and, in special circumstances, it could also be called upon to implement individual projects. For example, if the line ministries or other government agencies were unable to fulfil duties within their respective areas of interest, provision was made for the intervention of the C.D.R.[13] In some cases, such as the redevelopment of the ports, Beirut International Airport, or the national waste management program, the C.D.R. set up special implementation units under its authority because there was no other national agency able to assume responsibility. Concerning most of the other projects, it was envisaged that the C.D.R. would play a supervisory role in the implementation stage, thereby giving the line ministries and agencies added technical expertise. The role of the C.D.R. in the implementation stage was supposed to decline as the public sector became efficient enough to manage the new projects, and responsibility for funding projects was supposed to return to the line ministries and agencies.[14]

1.4 The Actual Role of the C.D.R: From 1977-1990

As we have specified above, the C.D.R. was initially

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[12] International Bechtel Inc. & Dar al Handasah Consultants, Recovery Plan for the Reconstruction and Development of Lebanon: Phase One - Volume Two Priority Program, 3-21; Council for Development and Reconstruction. Progress Report on Reconstruction 1983 - 1987, 16.

[13] Ibid, 3-21.

[14] Council for Development and Reconstruction, Progress Report on Reconstruction 1983 - 1987, 12.

created to help develop a reconstruction plan, and to mobilise external funds for the reconstruction of the country. For much of the war, and particularly during the 1980s, the C.D.R.'s role in Lebanon went beyond its original mandate in at least two significant ways.

First, the C.D.R. was meant to act as an implementation agency only under special circumstances. In practice, however, the ministries were so weak that the C.D.R. came to play a very active role in the implementation of not only the individual projects of the reconstruction programme, but also the day to day projects of the ministries including public sector investment. From 1987 until the end of 1990, for example, the C.D.R. was responsible for the implementation of externally funded projects to repair/upgrade schools and health care facilities.[15]

Second, the C.D.R. was meant to concentrate on raising funds from external sources. In practice, because of the war, the projected amounts of external funding were not forthcoming, and so the C.D.R. came to rely on public funding for its projects.[16] Prior to 1983, the C.D.R.'s programmes were largely financed from external sources. Ninety-one percent of total commitments and 78% of total expenditures were externally financed. After that, the contribution of external sources of

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[15] In addition, the C.D.R. did some work to Beirut International Airport. The rehabilitation of the schools was funded by the E.E.C.
International Bechtel Inc. & Dar al Handasah Consultants, Recovery Plan for the Reconstruction and Development of Lebanon: Phase One - Volume Two Priority Program, 3-21.

[16] Council for Development and Reconstruction, Progress Report on Reconstruction 1983 - 1987, 46.

finance to the total C.D.R. programmes declined substantially. For example, in 1983, external finance accounted for 25% of total expenditures, and in 1985 it accounted for 12%. During this period, financing for the C.D.R. programmes came largely from general government fiscal sources.[17]

A classic example of both of these changes in the mandate of the C.D.R. was its role with respect to Lebanon's roads. By the mid-1980s, the C.D.R. concentrated much of its attention on primarily domestically funded programmes involving the road network. Sixty-three percent of the C.D.R.'s expenditures in 1985 were for such programmes.[18]

1.5 The Failure of Past Reconstruction Plans: Problems with the C.D.R.

As we explained in the previous chapter, the inability of the C.D.R. to effectively carry out previous reconstruction projects was largely due to circumstances beyond its control. Foremost among these were the deterioration of the political situation, rapid inflation, and a general lack of financing. However, problems within the C.D.R. also affected its ability to effectively carry out the reconstruction projects.

These problems were reported on in a 1990 study of the C.D.R. conducted by the accountancy team of Coopers & Lybrand - Deloitte, which is the most definitive work on the C.D.R. to

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[17] Ibid, 49.

[18] Council for Development and Reconstruction. Progress Report on Reconstruction 1983 - 1987 , 50; International Bechtel Inc. & Dar al Handasah Consultants, Recovery Plan for the Reconstruction and Development of Lebanon: Phase One - Volume Two Priority Program, 2-21.

date.[19] The study cited serious organisational problems, including, most significantly, a lack of well defined procedures for implementing and monitoring the individual projects, and significant political interference in the C.D.R.'s decision making process. These problems were partly created, and certainly exacerbated, by the presence of inadequately trained staff in virtually every section of the C.D.R.'s operations.[20]

The lack of well defined procedures was a very serious problem. To cite one example, prior to 1990 there was no procedure for the crucial process of the prequalification of consultants and subcontractors. Obviously, without a prequalification procedure, it would be very difficult, if not impossible, to prevent a situation where a bidder of questionable credentials would be awarded a contract simply on the basis of having made a competitive bid.[21] Other procedural problems included the lack of standard contracts and purchase order documents, and inadequately standardised codes and specifications for construction contracts.[22] Procedures for

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[19] The study was for the Arab Fund. For an abridged version of the study, see International Bechtel Inc. & Dar al Handasah Consultants, Recovery Plan for the Reconstruction and Development of Lebanon: Phase One, Volume One - Executive Summary.

[20] Coopers & Lybrand-Deloitte study. See Ibid, 20.

[21] Coopers & Lybrand-Deloitte study. See International Bechtel Inc. & Dar al Handasah Consultants, Recovery Plan for the Reconstruction and Development of Lebanon: Phase One, Volume Three - Program Implementation and Monitoring Procedures (Beirut: Council for Development and Reconstruction, 1991), 2-15.

[22] Coopers & Lybrand-Deloitte study. See International Bechtel Inc. & Dar al Handasah Consultants, Recovery Plan for the Reconstruction and Development of Lebanon: Phase One, Volume One - Executive Summary, 26.

monitoring the progress of projects were also poorly defined or flawed. In addition to a general lack of satisfactory supervision, inadequate procedures created a situation in which contractors were allowed to select their own consultants to certify their work, a circumstance which clearly created the potential for massive abuse.[23]

In addition to the problems created by a lack of well defined procedures, the Coopers & Lybrand-Deloitte study reported an increased level of political interference in the C.D.R.'s decision making process as a serious problem, particularly after a new administration came to power in 1983.[24] As a result of politically motivated decisions, the C.D.R. was unable to make the most efficient possible use of resources for the reconstruction of the country. A classic example of this was, again, the prequalification and contract tendering process. Part of the problem was a lack of coordination amongst government departments, which created delays in preparing tender packages. More personally-motivated political interference also contributed to a climate in which tendering procedures were frequently bypassed in favour of restricted tenders, quotation requests and mutual agreements.[25] While one could see the

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[23] Coopers & Lybrand-Deloitte study. See International Bechtel Inc. & Dar al Handasah Consultants, Recovery Plan for the Reconstruction and Development of Lebanon: Phase One, Volume Three - Program Implementation and Monitoring Procedures, 2-12.

[24] Coopers & Lybrand-Deloitte study. See Ibid.

[25] Coopers & Lybrand-Deloitte study. See International Bechtel Inc. & Dar al Handasah Consultants, Recovery Plan for the Reconstruction and Development of Lebanon: Phase One, Volume One - Executive Summary, 20.

advantage of restricted quotations in some circumstances,[26] on the whole such a system tended to favour those with political connections and increased the potential for corruption throughout the entire system. It would also increase the risk of alienating segments of the international community, including donors, lenders and investors, which would be concerned with the accountability and openness of the overall reconstruction programme.[27]

In addition to the difficulties created by poorly defined procedures and political interference in the C.D.R.'s decision making, the Coopers & Lybrand - Deloitte study identified staff weaknesses at all levels of the C.D.R. as a very significant obstacle to the success of the recovery process, and recommended the recruitment of additional personnel in the areas of management, administration, procurement, engineering, and construction.

At the management level, the report found a real shortage of experienced managers able to administer multiple contracts for a large programme. In the administration division, there was a shortage of experienced accountants, auditors, and computer specialists. The procurement division was in urgent need of personnel experienced in dealing with the prequalification of contractors, contract package formulation, including instructions to bidders, bid forms, contract conditions, the

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[26] See ibid, 26.

[27] Coopers & Lybrand-Deloitte study. See International Bechtel Inc. & Dar al Handasah Consultants, Recovery Plan for the Reconstruction and Development of Lebanon: Phase One, Volume Three Program - Implementation and Monitoring Procedures, 2-3.

evaluation of tenders and the adminstration of purchase orders. The engineering division required design engineers experienced in all of the basic engineering disciplines including civil, mechanical, electrical, and related technical disciplines. Finally, the construction division required construction engineers experienced in all of the basic engineering disciplines and in the technical administration of contract documents.[28]

It should go without saying that, if these organisational and structural difficulties are not rectified by the current leaders of the reconstruction process, something which we will look at in chapter five, the success of the Horizon 2000 programme, or any other programme designed to be administered by the C.D.R. will continue to be seriously doubtful.

1.6 Recommendations for Reforms to the C.D.R.

In 1991, the consultancy team of Bechtel/Dar al Handasah made several recommendations to improve the C.D.R.'s capacity to manage the reconstruction programme.[29] Some of the more obvious ones included attracting qualified staff by offering incentives such as higher wages, and improvements to procedures relating to tendering, bidding, the monitoring of projects, and the standardisation of contracts and codes for construction contracts.

The consultants argued that the quickest and most efficient

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[28] Coopers & Lybrand-Deloitte Study. See Ibid, 3-12.

[29] These recommendations are reported in the 1991 consultancy report.

way to strengthen and expand the organisational capabilities of the C.D.R. would be to hire a Programme Management Consultant (P.M.C.) body to work within the C.D.R. The P.M.C. would be staffed by international consultants, and would work in concert with the C.D.R. in providing technical and management assistance. The P.M.C. would be responsible for providing training to C.D.R. members to improve their technical and management skills, and would be involved in most aspects of the reconstruction programme. Its duties would include assisting the C.D.R. in the preparation and maintenance of a programme plan, the prequalification of consultants and contractors, contract tendering, tender evaluation, recommendation for contract awards, and the monitoring of contractor performances.[30]

The use of a Programme Management Consultant body, staffed by international consultants, offered several advantages over potential alternative reform plans. First, and above all, it had the crucial advantage of being able to be initiated rapidly. Second, it was flexible. Finally, the use of well known international consultants would give the C.D.R., and the entire reconstruction programme, an aura of international credibility - crucially important to a country trying to attract foreign funds and investors.[31] As we will explain below, this system was essentially adopted by the Lebanese government.

2. The Collapse of the Lebanese Public Sector

In this section, we will explain some the weaknesses found

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[30] Ibid, 2-23.

[31] Ibid, 2-23.

in the Lebanese public sector. In brief, we will argue that the poor state of the Lebanese public sector ensured the necessary and the dominant role of the C.D.R. both in managing the reconstruction programme and in implementing many of the individual projects.

The poor state of the Lebanese public sector is well known and frequently commented on by both the Lebanese public and the specialists on Lebanon's political and economic systems. Some of the most frequently heard complaints concerning the public sector are that it is corrupt, inefficient, and is staffed with poorly qualified personnel.[32] Moreover, the public sector is seen as a place staffed, or to be more precise, overstaffed, with personnel who received their jobs through the political patronage network, rather than through merit. To cite one prominent example, Lebanon's Central Bank was, and continues to be, severely overstaffed.[33] As one observer put it, the Central Bank "is a favourite dumping ground", for political patronage.[34] The public sector has been, and still is, a major drain on the Lebanese government finances, and reforms to the sector are needed if the government budget deficits are to be brought under control.

In spite of widespread concerns pertaining to the state of

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[32] See chapter 2 of this study for private sector views of the public sector.

[33] Some Lebanese observers believe that over half of jobs at the Central Bank should be eliminated. This information was based on interviews in Beirut in the Winter of 1997. See also Philip Khoury, "Not Banking on the Future", The Lebanon Report 6, no.3 (March, 1995), 5.

[34] Interview with Lebanese economist in Beirut in the winter of 1997.

the Lebanese public sector, no recent detailed study has been published about it in the English language. Because of this, we will base much of the information in this section on the 1991 Bechtel - Dar al Handasah report.

2.1 The Weaknesses of the Lebanese Public Sector

The Bechtel - Dar al Handasah report indicated that Lebanon's public sector was the sector most severely affected by the war.[35] We have already documented the extensive physical damage to Lebanon's public sector. Perhaps, the extent of the public sector's problems can be more readily understood in light of the fact that it was, and still is, unable to measure or keep record of vital statistics including crucial ones related to the economic, social and health fields. To cite one very important example, the government is unable even to measure the country's GNP,[36] which obviously is going to seriously restrict its ability to pursue programmes or policies which may be beneficial to the Lebanese public.

In this section, we intend to give a brief overview of two crucial factors - the loss of authority and the poor quality of personnel - which have considerably weakened the ability of the Lebanese public sector to perform its duties. In addition, we

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[35] International Bechtel Inc. & Dar al Handasah Consultants, Recovery Plan for the Reconstruction and Development of Lebanon: Phase One - Volume Two, 3:5.

[36] This situation may have existed as far back as 1976. Proponents of one school of thought in Lebanon argue that the Hariri government is not particularly interested in reviving the various statistical departments, or providing accurate measurements of the economy for fear that the figures would be unfavourable to the government.

will take a closer look at the problems faced by the individual ministries and agencies which have played a role in the implementation of the Horizon 2000 recovery programme.

The most serious problem faced by the Lebanese public sector was the loss of authority. This has been evident in its continuing inability to collect revenues, including taxes, utility tariffs and a variety of fees.[37] Important public utility services, such as the telephone and electricity networks, have faced problems not only with collecting fees from registered users but also with numerous people who have connected into the systems illegally.[38] At the same time, the public sector was expected to continue to provide such basic services, and to pay the salaries of its employees. The obvious consequence of this situation was the occurrence of huge budget deficits. To cite one example, while the Lebanese public sector reported modest surpluses in the years before the war, total revenues only covered 8% of expenditures in 1988. In addition, a large proportion of government expenditures were earmarked to pay off interest on government debt.[39]

The other serious problem was related to the shortcomings of Lebanon's public servants. While the Lebanese public sector had a certain level of staff-related problems before the war, the situation deteriorated significantly for at least two

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[37] Either the public evaded payment or the system of collection broke down.

[38] International Bechtel Inc. & Dar al Handasah Consultants, Recovery Plan for the Reconstruction and Development of Lebanon: Phase One - Volume Two,, 3:11.

[39] Ibid, 3:9.

reasons.

First, there was a critical shortage of qualified staff, caused, to a great extent, by the emigration of many skilled and professional Lebanese, who left either to escape the war or to find more attractive opportunities abroad.[40]

Second, a lack of professionalism among the staff was widespread. Corruption, including bribery, favouritism (political or otherwise), influence peddling, diversion of funds, conflicts of interest and racketeering reached epidemic proportions.[41] Bribes, for instance, were widely required in transactions between citizens and the government, including such things as the registration of a vehicle, obtaining a driver's license, acquiring telephone service and the registration of deeds establishing the ownership of property. In the latter case, the fee (i.e., bribe) was usually a percentage of the value of the transactions, which could run into thousands of dollars.[42] Absenteeism among public servants was another widespread problem. For example, out of the 2,200 staff on the Ministry of Health's payroll, only 4% reported regularly to work.[43] There may be certain functional advantages to allowing a moderate level of bribery and absenteeism to exist in a war-time situation. Maroun Kisirwani, a specialist on the Lebanese

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[40] Ibid, 3-12.

[41] Maroun Kisirwani, "The Lebanese Bureaucracy Under Stress: How Did It Survive?", 33.

[42] Ibid, 34.

[43] International Bechtel Inc. & Dar al Handasah Consultants, Recovery Plan for the Reconstruction and Development of Lebanon: Phase One - Volume Two, 3:73.

bureaucracy, has indicated that political and economic corruption helped the bureaucracy to survive by offering enough economic incentives to keep low paid civil servants on the job. Allowing absentee workers to stay on the payroll helped to keep them loyal to the bureaucracy, and to the state in general, and thereby reduced the number of people joining the militias.[44] Now that the war has ended, however, these practices no longer serve any useful purpose, and, indeed, have become an obstacle which must be overcome if Lebanon's economic recovery is to succeed.

2.2 A Brief Examination of Some of the Ministries and Agencies

Having given a general idea of the state of the Lebanese public sector, we will now proceed to take a closer look at some of the government ministries and agencies which have been given the critical task of implementing the individual projects in the recovery programme. As we shall see, the weaknesses in these ministries and agencies has made the role of the C.D.R. even more crucial in the recovery programme. In particular, the C.D.R. performed much of the implementation duties that were supposed to be conducted by the ministries and agencies.

The agency responsible for providing Lebanon with its electricity needs is Electricite du Liban (E.D.L.), which is an autonomous state-owned organisation responsible to the Ministry of Hydraulic & Electric Resources. The E.D.L. has experienced both financial and institutional problems. As we noted previously, the financial difficulties emanated partially from

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[44] Maroun Kisirwani, "The Lebanese Bureaucracy Under Stress: How Did It Survive?", 39.

the agency's inability to collect bills, and to prevent theft from the electricity network (estimated at 50% of production). This was coupled with an increase in both employee wages and in the price of providing electricity. Institutional weaknesses were related to a lack of technical capabilities among the staff. It should be stressed that some of the difficulties facing this agency, in particular the collection of payments and the ability to prohibit theft, have been rectified with the reassertion of government authority throughout the country.[45]

With respect to the Ministry of Posts & Telecommunications, local and national services are provided directly by the ministry while international services are operated by two semi-public companies: S.O.D.E.T.E.L. which operates and maintains submarine cables, and O.G.E.R.O. which operates and maintains high frequency radio links.[46] The ministry and these organisations also suffered from institutional and financial problems. Institutional problems ranged from a lack of fully qualified staff to more general kinds of staff shortages. As of 1991, the number of regular employees at the ministry was estimated at 3,200 as contrasted with the approximately 8000 who were supposed to be employed.[47] Part of the reason for a shortage of skilled labour was the inability of the administrative staff

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[45] See International Bechtel Inc. & Dar al Handasah Consultants, Recovery Plan for the Reconstruction and Development of Lebanon: Phase One - Volume Two, 3:27-28. For a succinct look at the problems faced by the E.D.L., see -----, "Electricity for the Year 2003", 12-13.

[46] Ibid, 3:41.

[47] Ibid, 3:41.

to provide adequate training.[48]

Responsibility for the wastewater sector, which includes sewage and stormwater, rests with several organisations. The municipalities are supposed to provide and maintain public works. In addition, the municipalities along with the Ministry of the Interior are supposed to fund projects within the sector. Other responsibilities are assigned to the Ministry of Housing & Cooperatives and the Ministry of Public Health, and to three agencies (namely, the Executive Council for Large Projects, the Council for Scientific Research for Controlling Environmental Pollution and the C.D.R.). This sector faced the same general difficulties as the other sectors. Some of the more specific problems associated with this sector include both a lack of coordination and a great deal of competition amongst the various agencies and ministries. In addition, the whole chain of command has been highly politicised. For example, the Ministry of the Interior, which is responsible for distributing government revenue to the municipalities, has done so on political grounds.[49]

Responsibility for the solid waste sector also rests with several organisations, including the municipalities, which are responsible for collecting refuse, and the Ministry for Public Health, which is responsible for setting the level of industrial & commercial discharges and studying pollution problems. The C.D.R. and the Council for Scientific Research also play a role in this sector. In addition to the common problems faced by all

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[48] Ibid, 3:43.

[49] Ibid, 3:33.

of the ministries and agencies, a key problem in this sector is that there is no national authority responsible for solid waste planning & management, and that, therefore, there was a need to establish a "National Waste Management Authority."[50]

The Ministry of Health is responsible for Lebanon's public health care needs. In effect, like many of the other ministries, it is only a shell. We have already noted the extraordinary level of absenteeism in the ministry, which has all but closed down daily operations.

Basically, all of the other ministries and agencies involved in the recovery programme suffer from similar institutional and financial circumstances.

2.3 Recommendations for Improving the Ministries & Agencies

Concerning the problems faced by the C.D.R., it should go without saying that if the organisational and structural problems of the ministries are not rectified by the current leaders of the reconstruction process, the prospects of the Horizon 2000 projects designed to be implemented specifically by the ministries and agencies will continue to be put in doubt.

The World Bank recommended that the quickest, the most flexible, and the most politically tenable option to enhance the technical and organisational level of the public sector would be to hire international consultants to work within each of the major ministries and agencies. The consultants would assist the staff of the ministries and agencies at all levels of the implementation phase of individual projects of the Horizon 2000

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[50] Ibid, 3:39.

plan.[51] As we shall explain in the next section, this recommendation was adopted in some of the most important ministries and agencies, while financial constraints have prevented the recommendation from being adopted at many of the other ministries and agencies.[52]

3. The Institutional Arrangement for the Implementation of the Horizon 2000 Programme

We have argued, in the previous two sections, that Lebanon's public institutions were not in any real position to effectively manage any recovery programme, let alone one as large as Horizon 2000. Since reforming the public sector was not seen to be a realistic option, the government decided that the most viable alternative was to employ a number of international consultants to assist the C.D.R. and the ministries and agencies with the implementation of the recovery programme. The purpose of this section is to explain the institutional arrangement for implementing Horizon 2000.

3.1 Origins of the Institutional Arrangement

As we have previously noted, the plan to hire international consultants to assist the public sector with the implementation of the recovery programme came originally from the Bechtel-Dar al Handasah report in 1991. However, the idea was further developed by the World Bank, which sent a few missions to

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[51] As we will explain below, the recommendations came from the World Bank reported cited earlier.

[52] Interview with Jim McCredie, the chief foreign consultant at the C.D.R., in Beirut on 20 February 1997.

Lebanon in 1993.[53] The existing institutional arrangement was revised, in accordance with World Bank recommendations, and, beginning in 1993, was supposed to work in the following way: The C.D.R. was given responsibility for overall programme management and coordination, as well as for contracting and disbursements associated with the implementation of the projects. In light of the C.D.R.'s weaknesses, a Programme Management Unit (P.M.U.) staffed by international consultants was hired to assist the organisation at every stage of the recovery programme. The ministries and agencies were responsible for overseeing the implementation of the individual projects. Given their weaknesses, a Sector Implementation Unit (S.I.U.) staffed by international consultants was to be added to each ministry and agency to reinforce their respective capacities to implement the projects. In order to ensure proper coordination, the C.D.R. established a Technical Coordination Committee (T.C.C), consisting of senior members of the P.M.U., the S.I.U.s, and donor organisations.[54]

3.2 The C.D.R. and the P.M.U.

The C.D.R. and P.M.U. were supposed to function in the following manner. The operational activities of the C.D.R. were to be carried out by the four divisions - Programmes, Project Management, Finance, and Administration - under the direction of

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[53] World Bank. Memorandum and Recommendation of the President of the International Bank for Reconstruction and Development to the Executive Directors on a proposed loan to the Lebanese Republic for an Emergency Reconstruction and Rehabilitation: Project - Report # P-5982-LE.

[54] Ibid, 32.

the President, the Board of Directors, and the Bureau of the C.D.R.[55] In 1995, the C.D.R. had a staff of 141, although new staff were supposed to be hired over the next couple of years, increasing the number to 270.[56]

The Programmes division was primarily responsible for the planning and coordination of the recovery programme, but it was also to play a role in monitoring the progress of the projects during the implementation stages. This division was mainly staffed with economists, but also consisted of personnel specialising in other disciplines including information science, urban planning, sociology, and biology.[57] At the time of writing, it was led by Najib Baroudi, who also sits on the advisory board to the President of the C.D.R.[58]

The Project Management division was primarily responsible for preparing bidding documents, managing consultancy and

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[55] The current president of the C.D.R. is Nabil Jisr, an associate of Hariri. At least five man act as advisors to the President including Francis Abou-Assi, Najib Baroudi, Yasser Berri, Ali Serhal, and Nader Sraje. The Bureau consists of the vice-president, who is currently Boutros Labaki, and the secretary-general, who is currently Nohad Baroudi. The Board of Directors includes Nadra Aboukhater, Imad Chatila, Georges Maroun, Ali Dandash, Georges Samaha, Yahiya Sankari, and Walid Takieddine.

The information was given to the author by the office of the C.D.R. Vice President, Boutros Labaki, in Beirut in February 1997.

[56] C.D.R., Progress Report - March 1996 (Beirut: Mediterranean Press, 1996), 57.

[57] C.D.R., Progress Report - January 1995 (Beirut: Mediterranean Press, 1995), 60.

[58] Approximately 30 people worked in the programmes department, not including the consultants from the P.M.U.C. The figures were given to the author by the office of the vice-president of the C.D.R.

engineering contracts, and managing the interface with the consultants handling major projects, including the ones related to Beirut International Airport and the Beirut central district infrastructure works. This division is staffed primarily with engineers and architects.[59] At the time of writing, it was headed by Hassan Deghayli, and consisted of at least thirty employees, not including the consultants from the P.M.U.C.[60]

The Finance division, which is divided into three departments - the Contracts department, the Financial Accounting department, and the Information Technology department - was to have been responsible for the management and accounting of government funding and all external loans and grants. It was also to have kept account of disbursements and debt servicing. The Contracts department was to have been primarily involved in bid evaluation, contract preparation and verification of payments to contractors and consultants. The Financial Accounting department was to have been mainly responsible for managing the C.D.R.'s accounts. And the Information Technology department was to have been responsible for monitoring the project implementation process.[61] At the time of writing, this division was headed by Riad Zaouk.[62]

The Administration division is also divided into three

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[59] C.D.R., Progress Report - January 1995, 60.

[60] The information was given to the author by the offices of the vice-president of the C.D.R.

[61] The Council for Development and Reconstruction, Progress Report - January 1995, 60.

[62] The information was given to the author by the offices of the vice-president of the C.D.R.

departments including Personnel, General Services, and Legal. The Legal department is particularly important. It had a number of responsibilities including the preparation of ministerial decrees, coordination with the Ministry of Justice related to opinions about legal documents concerning protocols and loan agreements, preparing contractual agreements and dealing with expropriation documents, law suits, and tax matters.[63] At the time of writing, it was headed by Antoine Samaha.[64]

In September 1993, a joint venture of the U.K.'s KPMG Peat Marwick and Nedeco of the Netherlands was awarded a three year contract to run the P.M.U.[65] In fact, the P.M.U. technically consists of not just the consultants, but also the permanent staff from the four divisions of the C.D.R. The consultants have been integrated into the C.D.R. divisions and were supposed to report to the relevant division heads. A consultant team leader is responsible for the quality of work of the consultants and for coordination between the consultants and the division heads. The division heads and the team leader constitute a permanent task force which was to be responsible for ensuring coordination between divisions, and reporting to the president of the C.D.R.

The KPMG/Nedeco team, whose contract ended in the spring of 1997, consisted of up to 16 consultants.[66] The team was led by

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[63] C.D.R., Progress Report - January 1995, 60.

[64] Information given by the offices of the vice-president of the C.D.R.

[65] The Council for Development and Reconstruction, Progress Report - January 1995, 38.

[66] The number fluctuated between 12 and 16. Interview with Jim McCredie in Beirut on 20 February 1997.

Jim McCredie, who is a management consultant, and included several accountants, engineers, management consultants and lawyers.[67] As noted above, the consultants were integrated into the various C.D.R. divisions. For example, three consultants worked in the Programmes department, and three consultants worked in the Project Management division.[68]

The consultants were supposed to have five main responsibilities. First, they were to establish management procedures for the implementation of the recovery programme, including the implementation of a management information system. Second, they were to participate directly in the C.D.R.'s work, helping the four divisions perform their duties more efficiently and providing on the job training. Third, they were to assist the heads of divisions and departments in the planning of operations. Fourth, they were to contribute to streamlining the work of the C.D.R. divisions. Finally, they were to compensate for any shortage of expertise within the four divisions.[69] This

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[67] Interview with Jim McCredie in Beirut on 20 February 1997. Other members of the consultancy team included Hans Rood, Giles Roche, and Joyce Damiani.

The World Bank had recommended 21 consultants to be integrated into the C.D.R. divisions. For details see World Bank, Memorandum and Recommendation of the President of the International Bank for Reconstruction and Development to the Executive Directors on a proposed loan to the Lebanese Republic for an Emergency Reconstruction and Rehabilitation Project - Report # P-5982-LE, 37.

[68] The three consultants which worked in the Programmes division at the time of writing included Bob Klaversteijn, Maurice Stafford, and Fulco Van Deventer. The three consultants which worked in the Projects sector at the time of writing included John Bourke, Brian Irving, and Bill Edmondson. Information given to the author by the offices of the vice-president of the C.D.R.

[69] World Bank, Memorandum and Recommendation of the President of the International Bank for Reconstruction and Development to

last point is particularly interesting. Given that the C.D.R. is seriously understaffed,[70] members of the consultancy team have actually performed specific jobs to make up for the staff shortages. In effect, this creates a situation in which non-Lebanese consultants are, essentially, managing and implementing much of the recovery programme.[71]

3.3 The Ministries, Agencies, and the S.I.U.s

In order to help strengthen the public sector's capacity to implement the individual projects in the Horizon 2000 programme, Sector Implementation Units were supposed to be attached to most ministries and agencies. The S.I.U.s were to be responsible for the management and supervision of the implementation of sectoral projects, as well as providing institutional support to the sectors. In addition, they were to report to the P.M.U. concerning the progress of work in the sectors.[72] Each S.I.U. includes a team of consultants - international ones - plus a number of staff from the related ministry and agency and one representative of the C.D.R. The group was to work under the

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the Executive Directors on a proposed loan to the Lebanese Republic for an Emergency Reconstruction and Rehabilitation Project - Report # P-5982-LE, 36.

[70] Ibid, 36.

[71] Ahmed Sbaiti, "Reflections on Lebanon's Reconstruction", 171.

[72] World Bank, Memorandum and Recommendation of the President of the International Bank for Reconstruction and Development to the Executive Directors on a proposed loan to the Lebanese Republic for an Emergency Reconstruction and Rehabilitation Project - Report # P-5982-LE, 39.

authority of the leader of the S.I.U.'s team of consultants.[73] The S.I.U. was to report directly to the Director General of the relevant ministry or agency.

As noted elsewhere, due to financial constraints, the C.D.R. has been able to establish only six Sector Implementation Units.[74] Some of the sectors in which they were operating included: electricity, solid waste, water & wastewater, and public works. The consultant for the electricity sector is the Electrical Supply Board of Ireland. The consultant was to be responsible for assisting Electricite du Liban (E.D.L.) with the management of the rehabilitation programme, and was to participate in the evaluation of bidding documents and in the preparation of prequalification documents. The consultant was also to assist with structural reforms at the E.D.L.[75] The consultant for the water & waste water sector is Binnie and Partners of the U.K., which is working with the Ministry of Hydraulic and Electrical Resources and the Ministry of the Environment. Binnie and partners was to be responsible for managing the consultants and contractors engaged in sectoral projects.[76] The joint venture Transtec/Fichtner is the consultant for the solid waste sector, and is working with the Ministry of Environment.[77] Dangroup is the consultant working at the Ministry of Public Works and it was to deal with a range of projects in

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[73] Ibid, 39.

[74] Interview with Jim McCredie in Beirut on 20 February 1997.

[75] C.D.R., Progress Report - January 1995, 38-39.

[76] Ibid, 39.

[77] Ibid, 39.

the education, health, and transport sectors and in the sector dealing with government buildings.[78]

3.4 The Technical Coordination Committee

Theoretically, in order to avoid overlapping responsibilities and to ensure coordination between the C.D.R. and S.I.U.s, a Technical Coordination Committee (T.C.C.) was established with representatives from the C.D.R. and each S.I.U. In addition, since the European Community funded the S.I.U.s, it is also represented on the T.C.C., as are observers from other donor organisations. In effect, the T.C.C. has been staffed mostly by non-Lebanese.[79]

3.5 The Actual Workings of the Institutional Arrangement

Technically speaking, what we have described above is the institutional arrangement for managing and implementing the Horizon 2000 programme. The C.D.R., which is responsible to the Council of Ministers, is supposed to manage the programme, and assist the ministries and agencies with implementing the individual projects. In practice, however, the situation is different.

To begin with, the divisions of power between the C.D.R. and the ministries are highly complicated and not altogether clear, even to some members of the organisations themselves. This has led to a great deal of competition between the two. In

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[78] Ibid, 39.

[79] Ahmed Sbaiti, "Reflections on Lebanon's Reconstruction", 171.

fact, as we will explain below, the C.D.R. is the dominant organisation. Not only has it been responsible for managing the programme, but it has also implemented much of the programme as well. Moreover, the C.D.R. has tried to marginalise the role of the ministries in the recovery programme.[80] Second, coordination between the C.D.R. and the ministries is practically non-existent. The Technical Coordination Committee, which includes representatives from the C.D.R., the P.M.U. consultants, the Sector Implementation Units, and the donor organisations, is devoid of any significant power.[81] It mostly deals with technical details or other routine issues.[82] There is no clear mechanism to decide issues such as which organisations will implement various projects.

As we will argue in the next section, Hariri has attempted to take personal control of the recovery programme. He put his associates in the top positions of the C.D.R., and proceeded to try to remove the C.D.R., and hence, the recovery programme, from the political arena. As we will discuss in chapters five and seven, he has been only partially successful. Briefly, many of the significant decisions relating to the recovery programme emanate from Hariri through the C.D.R., and other organisations over which Hariri exercises effective control. In theory, this should allow the C.D.R. to operate outside the sphere of

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[80] For a very brief look at this point, see Philip Khoury, "Hariri is Getting Personal", The Lebanon Report 5, no.8 (August, 1994), 9.

[81] This information was based on an interview with a high ranking official at the T.C.C in Beirut in the Winter of 1997.

[82] Ibid.

complicated political disputes. However, since Hariri himself has had to operate inside the political process, in which he has had to bargain with other political forces, he has not been able to completely immunise the recovery programme from the problems inherent to the Lebanese political system.

4. Hariri's Dominance Over the Recovery Programme

The purpose of this section is explain how P.M. Hariri has attempted to take personal control of the reconstruction programme. Essentially, Hariri has succeeded in this, to a great extent, by controlling the most important levels of command in the economic recovery process.

To begin with, P.M. Hariri has played a dominating role in the government. He is, for all intents and purposes, the principal figure in the cabinet. He has even kept the all-important Ministry of Finance portfolio for himself. Moreover, as we explained in chapter two, he has allocated many of the ministerial posts, particularly the key economic ones, to men loyal to him.

Second, Hariri had managed to ensure his dominance over the C.D.R, by appointing his business associates to the top posts of the organisation.[83] For example, from 1991 to June of 1995, the C.D.R. was headed by Fadl Chalak, Hariri's right hand man. On 9 June 1995, another associate of Hariri, Nabil Jisr, was appointed chairman. Jisr, who is a member of a notable Sunni family from Tripoli, held senior management positions in

[83] The process began well before Hariri became prime minister.

Hariri's Saudi Oger and Oger International.[84] In addition, Hariri's construction company, Oger International has played a prominent role in assisting the C.D.R. in the implementation of the recovery programme.[85] As one senior consultant put it, "we think of Oger as part of the C.D.R."[86]

As we noted above, technically the C.D.R. was accountable to the Council of Ministers. In actuality, however, Hariri has allowed the C.D.R. to act, to some extent, with impunity in implementing the Horizon 2000 recovery programme. As a result, the ability of Hariri's critics within the cabinet to influence the recovery programme has been somewhat limited. This situation has led some cabinet ministers to complain both privately and publicly about the lack of ministerial influence over the recovery programme. For example, in the spring of 1993 the Tourism Minister, Nicolas Fattouh, criticised the role of the C.D.R. saying "the cabinet was kept in the dark about many details of the government's finances and the C.D.R. was allowed to operate as a kind of super ministry accountable to no-one"[87]

In an attempt to placate criticism of the C.D.R.'s power, Hariri decided to submit the organisation to the scrutiny of the national audit office.[88] In addition, political pressure played a role in the decision by Hariri and the leaders of the C.D.R. in 1995 to allow an external consultant to carry out a study on

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[84] MEED (23 June 1995), 15.

[85] See chapter two of this study for details.

[86] Interview in Beirut in the winter of 1997.

[87] MEED (23 April 1993), 27.

[88] MEED (22 July 1994), 25.

restructuring the C.D.R.[89]

As we explained above, it is also evident that the divisions of power between the C.D.R. and the ministries are highly complicated and not altogether clear, even to the organisations themselves. This has led to a great deal of competition between the two. Hariri has tended to support the C.D.R. in its disputes with the ministries, especially those ministries led by ministers not closely associated with Hariri. To cite one example, a dispute between Hariri and the then electricity and water resources minister Georges Frem, apparently over the latter's handling of contract negotiations with Ansaldo Energia in June 1993, led to Frem's dismissal from his post. Beirut observers, however, noted that the C.D.R. carried out the main tender evaluations for the Ansaldo's contract and that furthermore, the minister's role was marginal. Protesting about his lack of power during a 9 June 1993 cabinet meeting, Frem was reported to have stated that Muslim ministers in charge of other sectors had been given more influence over infrastructure contracts.[90] It may be more accurate to state that ministers, both Muslim and Christian, who are allied with Hariri have been given more power over the recovery programme.

In addition to his dominant role in government and his influence over the C.D.R., Hariri also managed to place allies at the most important economic institutions, such as the Central Bank.

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[89] The report was conducted by Team International and the P.M.U.C.

[90] We will give more consideration to this case in chapter five. MEED (25 June 1993), 11.

Even though P.M. Hariri has considerable power over the recovery programme, his dominance can be overstated. His programme and policies continue to be criticised and partially frustrated by pro-Syrian elements in the cabinet, by his relationship with the other two members of the ruling troika, by the parliament, which has the power to pass budgets, and by the trade unions, who have, at several points, threatened to call a general strike.

In response to such criticism, Hariri has played, and can continue to play, his trump card - he can threaten to resign from the government. Given his immense economic weight and the support he has with the international community, and in the private sector, such a move may have devastating consequences for the recovery programme, and for the stability of the Lebanese economy in general. For the moment, therefore, the recovery programme, and the economy in general, will continue to be led by P.M. Hariri.

5. The Hariri Government: A Capitalist Developmental State?

A key institutional characteristic of Johnson's capitalist developmental state is the existence of a small but powerful elite economic bureaucracy, a pilot agency which is autonomous from the political process and societal influences, and plays a key role in directing economic policy.[91] For example, it helps to decide industrial policy, offering government support to certain industries. In addition, it has some powers to implement

[91] For a summary of its role, see Robert Wade, Governing the Market, 195.

policies, rather than relying solely on the ministries. The pilot agency often employs the use of foreign consultants to help it plan economic, particularly industrial policy. For example, the consultants Arthur D. Little of the U.S. advised the Taiwanese government on industrialisation policies.

To some extent at least, the C.D.R. conforms to Johnson's model of an elite economic bureaucracy. It has been staffed by some qualified people, and its main function has been to develop plans, with the assistance of foreign consultants, for the recovery of the Lebanese economy. In addition, by taking personal control over the organisation, Hariri has attempted to remove it from political and societal influences. While it has been quite similar, in these respects, to the pilot agencies found in the East Asian NICs, its actual role has probably been considerably different from the roles of those agencies.

The focus of the pilot agencies in the NICs has been planning development strategies, and, in particular, industrial policy. The implementation of these strategies and policies is the responsibility of the ministries and other parts of the economic bureaucracy. Due to the weaknesses of the Lebanese bureaucracy, the C.D.R. has developed a greater role in one sense: it has become the main agency responsible for both managing and implementing the recovery programme. In effect, it has become a super-ministry. In another sense, however, its role is not as extensive as those of the agencies in the NICs: it does not formulate industrial policy, or interact with the private sector to any great extent. For example, the agencies in the NICs would formulate policies to provide incentives for

private sector investment in industries where there is a perceived potential for growth, and would also formulate policies to discourage investment in industries which are not seen as profitable. The role of the C.D.R. clearly does not extend into this area of policy formulation.

CHAPTER FIVE: THE PROGRESS OF THE RECONSTRUCTION PROGRAMME

In chapter three of this paper, we gave a detailed description of the Hariri government's ambitious Horizon 2000 programme. It will be remembered that the programme contained a series of projects which were aimed at rehabilitating the country's infrastructure, and, to a lesser extent, the social and productive sectors. In chapter four of this paper, we looked at the C.D.R. and the other institutions responsible for managing and implementing the programme.

In this chapter, we will examine the progress of the Horizon 2000 programme itself. In doing so, we plan to address two important questions. First, we intend to find out whether or not the programme, which is in its fourth year of implementation, has succeeded in its goals with respect to improving the country's infrastructure and facilitating economic growth. Second, we intend to identify both national and international forces, including foreign governments, institutions, companies, and personalities, which have participated to some extent in the programme. By identifying these forces, we should be able to judge the level of national and international interest, in the reconstruction programme specifically, and in Lebanon in general.

Before proceeding with this chapter, however, we must note that the Horizon 2000 Plan was never passed by parliament. The government had attempted to get the entire plan passed with the 1995 budget, but that idea was rejected by parliamentarians who argued that, since the plan stretched over a ten year period, it must be dealt with separate from any annual fiscal legislation.

In a compromise, some of the most crucial projects were included in the 1995 budget. Other projects were dealt with separately. Theoretically speaking, therefore, there was no official programme for the reconstruction of the country.[1] Unofficially, however, the government has pushed ahead with the implementation of the Horizon 2000 programme. In cases where the government needs parliament's approval to receive funds for projects, it promulgates government decrees. For example, In the fall of 1994, the parliamentary commission for Budget and Finance approved a government decree ordering the immediate freeing of $536 million for the construction of two new power stations.[2]

This chapter will be divided into two sections. In section one, we will provide data on the projects which have been implemented. In section two, we will analyse the data, with the aim of answering the above two questions.

1. The Implementation of the Horizon 2000 Programme

As we noted above, the purpose of this section is to provide data on the projects in the Horizon 2000 programme which have been implemented by the C.D.R. between 1 January 1992 and 30 September 1996. We feel that we should indicate, at this time, that there are two basic constraints which must be kept in mind concerning the information given in this section.

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[1] For a brief summary of this situation, see -----, "Parliament and the Horizon 2000 Plan", The Lebanon Report 5, no.12 (December, 1994), 8.

[2] -----, "Funds Released for Two Power Stations", The Lebanon Report 6, no.1 (January, 1995), 9.

The first constraint concerns the sheer size of the programme. A detailed examination of each individual project is, unfortunately, beyond the scope of this study. For example, during just the four year period we are examining, the C.D.R. alone awarded 1,131 contracts at a cost of approximately $3.3 billion. This included several different types of projects - from pre-feasibility studies to construction management - which have varied in price from a few thousand dollars to hundreds of millions of dollars. In addition, a number of other contracts were awarded by ministries and other agencies.[3] It would, obviously, be impracticable to deal with each and every one of these projects, but because it is important to look at least at a cross section of activity over the past four years, in order to assess the overall success of the programme, we will give a fairly broad sample of projects, including, of course, the most significant ones.

The second constraint involves the fact that the reconstruction is a dynamic and ongoing process. One of the inherent problems of studying such a process is that details tend to change as circumstances change, and hard information becomes outdated very quickly. Within this section, this constraint applies to three areas particularly. First, it should be borne in mind throughout this section that the cost of each project, as stated in the contract, was not necessarily the final cost of the project. The cost and the condition of many, or perhaps even most, of the contracts have been subject to some

[3] With the exception of a few cases, we will only list the projects implemented by the C.D.R.

readjustment.[4] One of the most significant examples of this was the contract awarded to the Italian firm Ansaldo Energia for repairs to the electricity network. Ansaldo was given the contract on 13 June 1993 for $66 million. However, the price was later readjusted to $106 million to account for further work on the project. When going through the individual projects, we will try to take account of these sorts of changes, but where limited data is available, we will simply note the agreed price at the time the contract was signed. A second area where this constraint applies is external funding for the projects. It is likely that some funding promised by external sources may have been delayed or reduced, or for that matter, may not have even materialised. Finally, one must also bear in mind that, in many cases, international firms which were awarded contracts in Lebanon have sub-contracted the work to a local company. Apparently, this procedure is standard practice for international firms working in the Middle East, but it does tend to create some confusion both in terms of who is responsible for the work, and in terms of the actual amount of international involvement in the reconstruction process.[5]

1.1 The Rehabilitation of Lebanon's Physical Infrastructure

As we have documented elsewhere, Lebanon's physical

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[4] According to Jim McCredie, a senior consultant with the C.D.R., this situation was to be expected. Interview with Jim McCredie in Beirut on 20 February 1997.

[5] This information was based on an interview with Paul Mourani, an economist specialising in the region, in Beirut on 14 February 1997.

infrastructure was extensively damaged. It is hardly surprising, therefore, that the majority of the projects implemented in the early stages of the reconstruction programme were directed towards rehabilitation in this area. Out of the approximately $3.3 billion worth of contracts signed by the C.D.R., nearly $2.8 billion, or about 85%, were for physical infrastructure.[6] Six out of the fifteen sectors in the Horizon programme were classified under physical infrastructure, including electricity, posts & telecommunications, transport (roads, public transport & railways, airport, and ports), water supply, wastewater, and solid waste. We will now take a closer look at the projects implemented in these six sectors.

1.1.1 The Electricity Sector

As we have noted previously, as late as 1993 the government was able to provide Lebanese households with only about six hours of electricity a day. Given the importance of continuous electricity to the revitalisation of business and industry as well as for improving the everyday lives of all Lebanese, it is not surprising that the most extensive projects implemented in the first four years of the Horizon 2000 programme were in the electricity sector. The C.D.R. awarded 36 contracts between 1 January 1992 and 30 September 1996. The contracts were valued at over $1.1 billion, or about one-third of the value of all contracts signed. These included several consultancy contracts to provide for technical and organisational support, and for

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[6] C.D.R., Progress Report - October 1996 (Beirut: Mediterranean Press, 1996), 5.

supervision of major works, four main contracts for repairs to the electricity network, a contract to rehabilitate substations, a major contract to build two new power plants, and a contract to install gas turbines. All of the major contracts in this sector were awarded to international firms, and most of the funds were secured from external sources.

Table 2: Electricity Sector[7]

Consultancy						
	Contractor	**Country of Origin**	**Description**	**Value**	**Date**	**Funding**
1.	Electricity Supply Board of Ireland	Ireland	Management S.I.U.	4	1993	E.U.
2.	Electricite du France	France	Project Supervising Engineer	8.8	1993	France
3.	Electricite du France	France	Assist E.D.L Restructuring	3.3	1993	France
Physical Rehabilitation & Development Projects						
	Contractor	**Country of Origin**	**Description**	**Value**	**Date**	**Funding**
1.	Ansaldo Energia	Italy	Repairs to network	106	1993	Various
2.	Hyundai	S. Korea	" "	85	1993	AFESD, KFAED
3A.	Clemessy	France	" "	51	1993	WB, EIB
3B.	Bouygues	France	" "	52	1993	WB, EIB
4.	M. Elec	France	Rehab. of substations	7.8	1993	France
5.	Ansaldo/Siemens	Italy/Germany	Construction of Power Plants	534	1995	Italy, Germany
6.	European Gas Turbine	Fr./English	Install gas turbines	61	1995	---

* The numbers in the value column are in millions of U.S. dollars

1.1.1.1 The Consultancy Contracts

As we have explained elsewhere, the Lebanese public sector, including Electricite Du Liban (E.D.L.), was in no real position to help implement projects in the reconstruction programme, or, for that matter, to administer the projects once they have been completed. To help rectify the situation, the C.D.R. signed

[7] The table was derived by the author from a number of C.D.R. reports.

several contracts with international consultants to assist the E.D.L. with technical and organisational support.

One of the most important consultancy contracts involved the operation of a Sector Implementation Unit (S.I.U.) within the E.D.L. to help strengthen its ability to implement projects. This $4 million contract, which was funded by an E.U. grant, was given to the Electricity Supply Board of Ireland. The consultant was to be responsible for helping to manage the rehabilitation programme, for carrying out specific duties, such as preparing prequalification documents and evaluating bidding documents, and for assisting the E.D.L. with structural reform.

Most of the other consultancy contracts were given to Electricite Du France (E.D.F.).[8] We will list a couple of examples. In the first half of 1993, the E.D.F. secured a $8.8 million contract, which was funded by the French government, to act as the supervising engineer for all of the contracts in the electricity sector. In the same year, it was given a $3.3 million contract, which was also funded by the French government, to help the E.D.L. reorganise and develop new business procedures, especially practices related to customer accounting.[9]

1.1.1.2 Repairs to the Electricity Network

The first major set of infrastructure projects in the Horizon 2000 programme included four contracts which were given

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[8] In 1992 the C.D.R. commissioned the E.D.F. to produce a master plan for the electricity sector.

[9] The E.D.F. was also responsible for preparing tender documents for the construction of the two 415 MW combined-cycle power stations.

to different international firms for work on rehabilitating the generating plants, the transmission system, and the distribution system. The level of international interest in the projects was strong, as an impressive array of international companies bid for the contracts, including Germany's Siemens, Japan's Mitsui & Company and Toshiba Corporation, Italy's Ansaldo Energia, South Korea's Hyuandai and Lucky Goldstar, the U.K.'s Balfour Beatty and NEI International, the Anglo-French company GEC Alsthom, and several French companies including Bouygues, GTIE, Entreprise Industrielle, SGE/SDEL, and Clemessy, as well as companies from Norway, Austria, Finland, Switzerland, China, Saudi Arabia, and Turkey.[10]

Package A, which involved repairs to thermal power stations and hydro plants, was awarded on 13 June 1993 to Ansaldo Energia for $66 million.[11] The starting date of the contract was 1 October 1993, and it was to be completed in 18 months.[12] As noted above, however, additional work was found to be necessary, causing both a delay in the completion of the project,[13] and a substantial increase in cost.[14] Approximately three quarters of the project was to be funded by external loans from the Arab

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[10] American companies, however, were notably absent. MEED (26 February 1993), 27.

[11] For some background material concerning both Ansaldo's previous work in Lebanon, and international expertise, see Marwan Iskandar, Lebanese Economy 1995 (Beirut: Raidy Press, 1996), 81-82.

[12] C.D.R., Progress Report - January 1994, 14.

[13] For more information, see C.D.R., Progress Report - January 1995, 4.

[14] As noted, the price was adjusted to $106 million. C.D.R., Progress Report - October 1996, 6.

Fund for Economic and Social Development (A.F.E.S.D.), the Kuwait Fund for Arab Economic Development (K.F.A.E.D.), and the Italian government. The remaining amount was to come from the Lebanese government.[15]

Package B, which entailed work on the rehabilitation of high voltage transmission lines and substations,[16] was awarded on 24 June 1993 to Hyundai for $80 million,[17] although the price was later adjusted to $85 million.[18] The starting date of the contract was 20 October 1993, and the work was to be completed in 18 months.[19] External loans from the A.F.E.S.D, and the K.F.A.E.D., were supposed to fund most of this contract.[20] As noted above, many international firms have sub-contracted their work. In this case, Hyundai sub-contracted work to Bulgarian and Lebanese contractors.[21]

Package C, which involved work to distribution equipment, was divided into two separate contracts. Clemessy was awarded package C1 for $42 million, for work in the Greater Beirut area.

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[15] C.D.R., Progress Report - January 1994, 14; and C.D.R., Progress Report - October 1996, 10.
Interest on the loans advanced by the A.F.E.S.D. and the K.F.A.E.D. were 4.5% and 3% respectively. See Marwan Iskandar, Lebanese Economy 1995, 82.

[16] This included repairs to over 50 substations, 19 main high voltage overhead lines, and underground cable links. C.D.R., Progress Report - January 1995, 4; and Progress Report - March 1996, 6.

[17] For a brief look at Hyundai's work in the region, see Marwan Iskandar, The Lebanese Economy 1995, 82.

[18] C.D.R., Progress Report - March 1996, 6.

[19] C.D.R., Progress Report - January 1994, 14.

[20] C.D.R., Progress Report - October 1996, 10.

[21] Marwan Iskandar, The Lebanese Economy, 1995, 82.

The price of the contract was later increased to $51 million. The company was supposed to have begun work on the project by 4 November 1993. In addition, Clemessy signed a $10 million contract in September 1995 to carry out further work in the capital.[22] Package C2, for work in other areas of Lebanon, was awarded to Bouygues for $52 million.[23] Work on the project was supposed to have begun on 25 October 1993. Both projects were to be funded by loans from the World Bank and the European Investment Bank.[24]

1.1.1.3 The Rehabilitation of the Jamhour & Bsalim Substations

A contract to rehabilitate the Jamhour and Bsalim Substations was given to M.ELEC of France for $7.8 million. The work, which began in April of 1993, and which was to be completed in a year, included the rehabilitation of the main transformers and the construction of a new 245 KV substation. Funding for the contract was provided by the French government.[25]

1.1.1.4 The Construction of Two New Power Plants at Zahrani and Beddawi

A major project to construct two 450 MW combined-cycle power stations to be built at Zahrani, in the South, and Beddawi, outside of Tripoli, was awarded on 7 January 1995 to a consortium of Ansaldo Energia and Siemens for $534 million. The bid by the consortium beat out several other bids by

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[22] C.D.R., Progress Report - March 1996, 7.

[23] It should be noted, however, that the contract did not include all areas of Lebanon.

[24] C.D.R., Progress Report - January 1994, 14.

[25] C.D.R., Progress Report - October 1996, 7

international firms, including ones submitted by GEC Alsthom, Zurich based ABB Asea Brown Boveri, Mitsubishi, and John Brown Engineering of the U.K.[26] The aim of the project was to add 870 MW to the country's generating capacity. Work on the project began in June of 1995 and was scheduled to be completed in three years. The Lebanese government planned to fund the project primarily through international loans. Most of the money was to come from Italian and German banks, which received strong backing by their governments and respective export credit agencies, SACE and HERMES. In addition, the C.D.R. secured concessionary loans from the A.F.E.S.D., and loans from local banks.[27]

Weir Westgarth of the U.K. secured a sub-contract, worth $53.9 million from Ansaldo/Siemens to supply water treatment and pumping equipment to the two power stations. An affiliate of Weir Westgarth, Glasgow based Weir Pump, was responsible for supplying pumping equipment. In addition, the company was to procure a range of specialised engineering goods from U.K. firms.[28]

1.1.1.5 The Installation of New Gas Turbines in Baalbeck and Tyre

In May 1995, the C.D.R. gave two contracts to European Gas Turbine, an affiliate of GEC Alsthom, to supply and install four gas turbines, two in the city of Baalbeck and two in the Southern city of Tyre. The contracts were valued at $29 million and $32 million respectively. The project, which had the

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[26] MEED (20 January 1995), 25; (11 November 1994), 22.

[27] Marwan Iskandar, Lebanese Economy 1995, 83.

[28] MEED (20 January 1995), 25; (3 February 1995), 24.

capacity to produce 150 MW, was completed on schedule in June 1996.[29]

1.1.2 The Posts & Telecommunications Sector

As detailed elsewhere, the telecommunications network was severely damaged as a result of the war. As late as 1992, only about 50% of telephone connections were in service and one had only about a 10% chance of completing a call. In addition to restoring services and expanding the network's capacity to over one million lines (although it was later estimated that even more lines would be required to satisfy the country's needs), the aim of the programme was to close the technological gap which had emerged during the war years.[30]

Lebanon's postal service has also barely functioned since the beginning of the war, and when it has functioned, it has been immensely inefficient. A frequent complaint has been that it could take up to two weeks for mail to travel just from one part of Beirut to another. Suffice it to say, most people used, and continue to use, private courier services. The government has planned to privatise the postal service, turning it over to an international postal company.

It should go without saying that a modern and efficient telecommunications network is essential if Beirut is to recover its role as a regional business centre. The posts and telecommunications sector was second, after the electricity

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[29] C.D.R., Progress Report - October 1996, 7.

[30] Previously, only 300,000 lines were working, and not very well.

sector, in the value of contracts awarded by the C.D.R. Eighty-seven contracts, valued at over $580 million were signed between 1 January 1992 and 30 September 1996.[31] The contracts awarded in this sector were for consultancy work, supplying equipment, repairing buildings, rehabilitating the fixed telephone network, and creating a mobile telephone network. Similar to the electricity sector, the major contracts were secured mostly by international companies. However, the Lebanese government has had to use its own resources to fund some of these projects.

[31] C.D.R, Progress Report - October 1996, 5.

Table 3: Post & Telecommunications Sector[32]

Consultancy						
	Contractor	**Country of Origin**	**Description**	**Value**	**Date**	**Funding**
1.	Cable and Wireless	U.K.	Management	5.6	1994	WB
2.	Norconsult	Norway	Supervising Projects	13	1993	---
3.	Deloitte & Touche	France	Conduct Study on the Sector	2.1	1994	---
Physical Rehabilitation & Development Projects						
	Contractor	**Country of Origin**	**Description**	**Value**	**Date**	**Funding**
1.	Siemens	Germany	Repairs to Telephone Exchanges	33.6	1993	Lebanon
2.	Alcatel	France	" "	21.6	1993	Lebanon
3.	Ericsson	Sweden	" "	22.7	1993	Lebanon
4.	Siemens	Germany	Expansion of Telephone Network	153	1994	Lebanon
5.	Alcatel	France	" "	130	1994	Lebanon
6.	Ericsson	Sweden	" "	147	1994	Lebanon
7.	Siemens Telecomunicazini	Italy	Installation of Link with Syria	4.95	1994	---
8.	AT&T	U.S.A.	Laying Undersea Fibre Optic Cable to Cyprus and Syria	8.8	1994	---
9.	France Telecom	France	Operate Mobile Telephone Network	BOT	1994	---
10.	Finnish Telecom	Finland	" "	BOT	1994	---
11.	La Poste	France	Management of Postal Service	35	1997	---

* The numbers in the value column are in millions of U.S. dollars

1.1.2.1 The Consultancy Contracts

The C.D.R. signed several contracts with firms for consultancy work in the telecommunications sector. We will note three examples. To begin with, a major contract to provide management for the entire telecommunications system was secured by Cable & Wireless of the U.K in 1994. The three year $5.6 million contract was funded by the World Bank.[33] Second, in July 1993, Norway's Norconsult was awarded a $13 million contract to assist the C.D.R. with the preparation of tender documents, the

[32] The table was derived by the author from a number of C.D.R. reports.

[33] C.D.R., Progress Report - January 1995, 10.

evaluation of bids, and the supervision of work on both the fixed telephone network, and on the mobile network.[34] Finally, Deloitte & Touche was awarded a $2.1 million contract to conduct a study on the restructuring of the telecommunications sector. The contract, which was to have begun in February 1994, was to last for 12 months, although the contract was later extended due to additional responsibilities given to the consultant.[35]

1.1.2.2 The Supply of Spare Parts and Equipment & the Rehabilitation of Buildings

Several contracts for supplying spare parts and equipment, and for rehabilitating government buildings were awarded by the C.D.R. to international and local companies. We will list a few examples. To begin with, France's Alcatel secured a $1.8 million contract in September 1993 to provide spare parts and equipment to the Ministry of Telecommunications.[36] Second, a consortium of Lebanese firms was given a $500,000 six month contract in the summer of 1993 to supply miscellaneous equipment.[37] Third, another consortium of Lebanese firms, which included 3 consultants and 15 contractors, was awarded a six month $750,000 contract, in the same year, to prepare buildings for the new

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[34] The contract was to be funded by the government. C.D.R., Progress Report - January 1994, 19; and C.D.R., Progress Report - May 1994, 30. However, in July 1995 that contract was reissued to the local firm Dar al Handasah. C.D.R., Progress Report - March 1996, 13.

[35] This included conducting a study on the financial situation of the sector, and of the organisation of the financial and administrative functions of the Ministry. The contract was funded by the World Bank. C.D.R., Progress Report - March 1996, 9.

[36] C.D.R., Progress Report - May 1994, 19.

[37] The consortium included Kaiser International, Datcom, Mideast Tech. Dev., and Ramalek. See ibid.

equipment. Finally, near the end of 1995, the C.D.R. granted several contracts to local firms to rehabilitate the ministry's buildings.[38]

1.1.2.3 Repairs to Exchanges (Upgrading telephone exchanges)

In the spring of 1993, the Lebanese government awarded contracts to three international companies, Germany's Siemens, France's Alcatel, and Sweden's Ericsson, to upgrade the telephone exchanges by supplying new digital telephone exchanges. Siemens' contract, valued at just over $33.6 million, included supplying over 400,000 lines in the Beirut area. Alcatel's contract, valued at just over $21.6 million, included supplying 271,000 lines in North Lebanon and Beirut. Ericsson's contract, valued at over $22.7 million was for 284,000 lines in the South, the Biqa Valley and parts of Mount Lebanon. In addition, Ericsson was also to supply $23 million worth of hardware supplies. Work on all three projects was due to begin in the autumn of 1993 and was to last for up to two years.[39] The projects have been financed by the Lebanese government.

1.1.2.4 The Rehabilitation and Expansion of the Telephone Network

The major project in the telecommunications sector was the rehabilitation and expansion of the telephone network. Costing $431 million, it was awarded on 9-10 March 1994 to Siemens, Ericsson, and Alcatel, the same trio who secured the first telephone contract. Siemens' $153 million contract, which was for work in the Beirut area, was to be carried out by the firm's

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[38] For several of these examples, see C.D.R., Progress Report - March 1996, 13.

[39] C.D.R., Progress Report - May 1994, 19; C.D.R., Progress Report - January 1995, 8.

Italian subsidiary, Siemens' Telecomunicazini. Ericsson's contract was for $147 million and entailed providing an access and transport network in the Northern part of Beirut and in the South of the country. Ericsson was also to supply buildings for switching equipment. Alcatel's $130 million contract included work on a national transmission network and the installation of cables in parts of Beirut and in the North of the country.[40] The work, which is expected to be completed in two years, included the supply of all network needs for 600,000 new lines and 200,000 existing lines, with the option of adding a further 200,000 lines.[41] The Lebanese government planned to finance the project on a cash basis, without any special foreign financing facilities.[42]

1.1.2.5 Contracts for the Reinstatement and Improvement of International Telephone Connections

Several contracts were awarded for projects aimed at improving Lebanon's international telephone links.[43] We will note three of them. Siemens Telecomunicazini was awarded a $4.95 million contract in April of 1994 for the installation of a digital microwave link with Syria. As a result of the work, the

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[40] Alcatel was also responsible for work on the rehabilitation and extension of the transmission network, the construction of two earth stations, and civil works.

[41] Italy's Sirti was awarded a $93 million sub-contract from Siemens to work on upgrading the telephone system. See MEED (22 July 1994), 25.

[42] At the beginning of 1996, the three companies were awarded contracts to provide equipment for inter-exchange traffic. The three contracts, which were funded by the Lebanese government, were all under $2 million.

[43] For a summary of the contracts, see C.D.R., Progress Report - October 1996, 13.

number of telephone lines between the two countries was expected to increase from 220 to 1,920. The project was expected to be completed in about a year. A second contract, worth $8.8 million, was secured by the American company AT&T in April 1994 to lay a fibre optic undersea cable linking Lebanon and Syria with Cyprus. Work was expected to be completed in 14 months.[44] A third contract was awarded to Alcatel/Submarcom to establish a submarine telephone cable link with Egypt and Syria.[45]

1.1.2.6 GSM Network (Global System for Mobiles)

Another major project undertaken in the telecommunications sector was the introduction of a mobile telephone network. This project was particularly unique as it was based on a build operate transfer (B.O.T.) basis. Essentially, this meant that a company would be responsible for building the system using its own financial resources, operating the system for a specified period of time with the aim of making a return on its investment, and then turning the system over to the government. Several international firms from a number of countries including Germany, France, the U.K., Italy, Finland, and the U.S. showed interest in the project. In June 1994, two companies, France Telecom and Finnish Telecom, were awarded contracts to set up competing mobile telephone companies. The companies, which were to have 12 year concessions, began offering services in 1995.

The company set up by France Telecom was called France Telecom Mobile Liban (F.T.M.L.) or Cellis, which is majority

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[44] The cable, which was to carry at least 3,800 lines, was to be owned 42% by Lebanon, 42% by Cyprus, and 16% by Syria. MEED (1 April 1994), 22; C.D.R., Progress Report - 1995, 9.

[45] C.D.R., Progress Report - October 1996, 13.

owned (nearly 70%) by France Telecom Mobile International, a subsidiary of France Telecom, with the remaining shares owned by Lebanese investors including the Mikati group. The company set up by Telecom Finland was called Libancell, which is 14% owned by Telecom Finland International, with the remaining shares also held by Lebanese investors, including Dalloul and the al Mabini groups.[46] As of June 1996, both companies had more than 70,000 subscribers, and were planning to extend their networks to accommodate even more subscribers.[47]

1.1.2.7 The Postal Service

The German consultant, Deutsche PostConsult, was given a contract to restructure the postal service, and to help with the preparation of tender documents for the contract to manage the postal service. This major contract to manage the postal service went to La Poste of France. The $35 million project was awarded on a B.O.T. basis for 25 years.[48] In addition, some minor contracts to refurbish postal buildings were awarded to local companies. This included an eight month $500,000 contract given to the local contractor Mohamed al Hajj in 1994 for the rehabilitation of the Bir Hassan Post Office.[49]

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[46] C.D.R., Progress Report - January 1995, 8-9.

[47] For a brief discussion on some of the problems faced in the mobile telephone sector, see -----, "Communication Breakdown", The Lebanon Report no.3 (Fall, 1995), 18.
For a look at the extension plans of the two mobile telephone companies, see The Economist Intelligence Unit, Country Report: Lebanon - 2nd Quarter 1997, 22.

[48] The Economist Intelligence Unit, Country Report: Lebanon - 2nd Quarter 1997, 23.

[49] The project was to be funded by the Lebanese government. C.D.R., Progress Report - January 1995, 10.

1.1.3 The Transportation Sector

Some of the most extensive projects in the reconstruction programme, including various ones associated with Hariri and criticised by some as grandiose, such as the expansion of the airport, were located in the transportation sector.[50] This sector was divided into four sub-sectors including airports, ports, public transport & railways, and roads. As we noted in chapter three, the sector accounted for 25.4% of the entire Horizon 2000 programme, the largest percentage of any of the sectors. The Hariri government has made the sector one of its prime concerns, as an efficient transportation network is seen as being crucial to extending Lebanon's trade and other links with the outside world.

From 1 January 1992 to 30 September 1996 the C.D.R. awarded 86 contracts totalling $760.4 million in the transportation sector.[51] Below, we will look at some of the contracts implemented by the C.D.R. in the four sub-sectors. Before proceeding, however, it should be noted that many other contracts, especially in the road network, were awarded to firms by other agencies including the Conseil Executif des Grands Projets (C.E.G.P.), the Conseil Executif des Grand Projets de la Ville de Beyrouth (C.E.G.P.V.B.), and the Roads Directorate of the Ministry of Public Works (M.P.W.).

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[50] As we noted in chapter three, however, plans for the airport expansion project dated back to 1978.

[51] C.D.R., Progress Report - October 1996, 5.

1.1.3.1 The Rehabilitation of Beirut International Airport

As we explained in chapter three, Beirut International Airport suffered extensive damage as a result of the war, including damage to the majority of buildings, some of the aviation and control equipment, and the runway. The plan was to rehabilitate and expand the airport with the ultimate goal of creating a world class facility capable of handling up to six million passengers a year. Basically, three types of contracts were awarded in this sub-sector, including the consultancy contract to oversee the rehabilitation and expansion work, the main contract to rehabilitate and expand airport facilities, and a few contracts given to firms to operate certain facilities at the airport such as the duty-free shop.

Table 4: Transportation - The Airport[52]

Consultancy						
	Contractor	**Country of Origin**	**Description**	**Value**	**Date**	**Funding**
1.	Dar al Handasah	Lebanon	Design and Supervision	13	1993	---
Physical Rehabilitation & Development Projects						
	Contractor	**Country of Origin**	**Description**	**Value**	**Date**	**Funding**
1.	Hochtief/CCC	Germany/ Lebanon	Rehab. and Expansion of Airport	387	1994	Various
2.	Fahmi Karagulla	Lebanon	Work on East Runway	59	1994	---

* The numbers in the value column are in millions of U.S. dollars

1.1.3.1.1 The Consultancy Contract

The main consultancy contract was awarded in 1993 to Dar al Handasah for $13 million to design and then supervise work on the passenger terminal and the new runway.[53] The contract was

[52] The table was derived by the author from a number of C.D.R. reports.

[53] Funding for the service was from the Lebanese government.

expected to be completed in 1997.

1.1.3.1.2 The Rehabilitation and Expansion of the Airport

There was very strong interest from both local and international companies for the main project to rehabilitate and expand the airport. The project included the following components: adding a new West runway, part of which was to be reclaimed from the sea; the building of an aircraft parking area and taxiways; the rehabilitation and extension of the terminal building; the construction of a new air traffic control tower; and associated infrastructure work.[54] Twenty-three companies and joint ventures prequalified for the project, including ones from major European countries - Germany, France, Italy, and Great Britain - as well as from South Korea, Brazil, the U.S., Spain, Egypt, Turkey, and Saudi Arabia.[55] The contract was awarded on 22 July 1994 to a consortium of Germany's Hochtief and the Athens-based Lebanese company Consolidated Contracts International Company (C.C.C.) for $387 million.[56] The project, which was scheduled to begin in September 1994 was to be completed in four years. The government planned to finance the project by levying fees to passengers and freight operators for use of the airport. Additional funding was to have come from the European Investment Bank and the Kuwait Fund for Arab Economic Development.[57]

C.D.R., Progress Report - January 1994, 22-23.

[54] Designs for the expansion were drawn up by France's Aeroports de Paris in the early 1980s, and later updated by the Dar al Handasah, and Perkins Will of the United States.

[55] MEED (11 March 1994), 15.

[56] C.D.R., Progress Report - January 1995, 21.

[57] The Lebanese government was supposed to have received ECU

In addition to the main contract, a $59 million contract was awarded to the local firm Fahmi Karagulla in December 1994 for work on the East runway. The contract was expected to be completed in June 1997.[58]

1.1.3.1.3 The Operation of Facilities at Beirut International Airport

Several facilities at Beirut International Airport were offered to the private sector on either an operate transfer (O.T.) basis or on a build operate and transfer (B.O.T.) basis. The projects included a car park, catering and restaurants, a duty free shop, a four star hotel, cargo handling, fuel facilities, and a free zone. The Investment Development Authority of Lebanon (I.D.A.L.), an agency established in 1994 to attract and facilitate investment into Lebanon, has been in charge of the projects.[59]

Some of the contracts that have been awarded by the I.D.A.L. include ones for the duty free shop, the restaurants and catering, and the fuel facilities. The duty free shop was given to a consortium of firms for $180 million, the operation of fuel facilities was also awarded to a number of firms for $48 million, and the restaurants and airport catering services were awarded to the Lebanese Beirut Airport Catering Company for $30.5 million. All three contracts were let on a O.T. basis for

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80 million and 15 million Kuwaiti dinars respectively. C.D.R., Progress Report - March 1996, 15.

[58] C.D.R., Progress Report - March 1996, 15.

[59] We will take a closer look at the I.D.A.L. in chapter six.

15 years.[60]

1.1.3.2 The Rehabilitation and Extension of Beirut Port

The one time importance of Beirut's port to the country's commercial and services industry has been well documented. In 1994, 3.7 million tonnes of goods, not including petroleum products, passed through the port. The aim was to rehabilitate and extend the port with the ultimate goal of increasing its capacity to 11.6 million tonnes by 1999, making it a first class facility able to compete with other Eastern Mediterranean ports.[61]

Several contracts were awarded in this sector, including ones for consultancy work and ones for rehabilitating and expanding the port's basins 2, 3 and 4 with associated infrastructure work.

Table 5: Transportation - The Port[62]

Consultancy						
	Contractor	**Country of Origin**	**Description**	**Value**	**Date**	**Funding**
1.	Port Autonome de Marseille	France	Project Supervision	1.5	1993	EIB
2.	Posford Duvivier	U.K.	" "	.416	1994	---
3.	Sogreah	France	Work on Marine Infrast.	.118	1994	---

* The numbers in the value column are in millions of U.S. dollars

1.1.3.2.1 The Consultancy Contracts

Most of the consultancy contracts for the port were secured

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[60] For more information on the projects, see the information package provided by the Investment Development Authority of Lebanon. I.D.A.L., Lebanon: The Will to Reconstruct, The Opportunity to Invest. (I.D.A.L: Beirut, January 1997).

[61] C.D.R., Progress Report - October 1996, 52.

[62] The table was derived by the author from a number of C.D.R. reports.

by European firms. In November 1993, France's Port Autonome de Marseille signed a $1.5 million three year contract with the C.D.R. for supervising the various projects for improving the Beirut Port. The contract was financed from a European Investment Bank loan.[63] In August 1994, the U.K.'s Posford Duvivier and France's Sogreah were awarded consultancy contracts for various projects. Posford Duvivier (with Lebanese partner Rifik Khoury) was awarded four of the five contracts valued at $416,000 total. They were for land infrastructure ($133,200), superstructure ($109,500), power & lighting ($140,000), and water supply & fire-fighting equipment ($33,000). Sogreah's contract was worth $118,000 and was for work on the marine infrastructure, including the breakwater.[64]

1.1.3.2.2 The Physical Rehabilitation of Beirut Port

The Beirut Port authority, the Societe de Gestion du Port de Beyrouth, in coordination with the C.D.R., invited companies to prequalify by 20 January 1995 for work on an estimated $130 million worth of contracts to develop Beirut Port.[65] The estimated cost of the projects was later revised to approximately $200 million.[66] The work was to include the rehabilitation of basins 2 and 3, and the completion of basin 4. The project was also to involve rebuilding infrastructure and buildings, and civil works and equipment.[67]

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[63] C.D.R., Progress Report - January 1994, 23.

[64] MEED (26 August 1994), 21.

[65] MEED (16 December 1994), 14.

[66] C.D.R., October 1996 - Progress Report, 52.

[67] C.D.R., Progress Report - October 1996, 52.

The project was to be divided into several contracts. Five initial packages - for a power station, a quay, roads, and infrastructure upgrading, including repairs to the breakwater - were the first to go to tender. Interest in the projects was high as sixty-nine companies bid for the initial five packages. Bids came from companies based in France, Italy, Great Britain, Denmark, Norway, Belgium, Greece, South Korea, Saudi Arabia, Egypt, and Lebanon. The port authority also invited companies to prequalify by 3 March 1995 for two more contract packages, the removal of debris and dredging in the main basin.[68] Bids for work on marine infrastructure, onshore infrastructure and buildings were invited on 31 May 1996. Financing for the improvement to Beirut Port was to come from the European Investment Bank, which promised loans amounting to approximately $57 million, and from the Port's own funds.[69]

1.1.3.3 The Rehabilitation and Expansion of the Road Network

Anyone who has lived or travelled in Lebanon is aware of the chaotic nature of the transportation network. On the one hand, there are far too many cars on the roads, and, on the other hand, there are far too few modes of public transportation. Approximately 1.4 million vehicles were officially registered in Lebanon in 1995 compared to 243,584 registered vehicles in 1974, an increase of 460%. Moreover, during the same period, the road network actually deteriorated.[70]

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[68] MEED (17 February 1995), 21.

[69] Ibid.

[70] Marwan Iskandar, Lebanese Economy 1995, 175. For a

A 1994 study by the Industrialists Association found that the loss of efficiency caused by traffic congestion cost the Lebanese economy approximately $1 billion a year, or about 10% of GDP.[71] It is not surprising, therefore, that the road network is the single largest sector in the entire Horizon programme accounting for some 18% of the total.

Numerous contracts were awarded to firms for rehabilitating and expanding the country's road network. From 1 January 1992 to 30 September 1996, the C.D.R. awarded 65 contracts valued at $250 million. However, the real push was supposed to have taken place by the end of 1997, when an estimated $700 million of contracts were expected to be settled.[72] Furthermore, three other organisations, the C.E.G.P.V.B., C.E.G.P., and the M.P.W., were also responsible for awarding contracts in the sector.

A few interesting points can be observed relating to the projects in this sector. To begin with, although this is the largest sector, none of the projects being implemented by the C.D.R., during the period under study, were funded by foreign sources.[73] Only a few projects, implemented by the C.E.G.P.V.B., and the C.E.G.P., were externally funded, mostly by the Saudi Fund.[74] Second, almost all of the contractors and the consultants involved in the projects were Lebanese. Finally, extensive criticism was directed at the tendering process in the sector.

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breakdown of the type of vehicles in Lebanon, see ibid, 177.

[71] Ibid, 176.

[72] C.D.R., Progress Report - October 1996, 5.

[73] Ibid.

[74] C.D.R., Progress Report - January 1995, 20.

In particular, the criticism centred on the alleged favouritism shown to some contractors, and the allegedly exorbitant prices charged by the contractors for the work on the projects.[75] We will give these points more consideration in section two of this chapter.

The C.D.R. divided the projects in the sector into five main components. These include the following: the rehabilitation and maintenance of the international, primary, secondary and local road networks; the completion of the coastal expressway; the construction of the Beirut ring road and the associated penetrator roads; the improvement of the road network in the Greater Beirut area; and the construction of the Beirut - Damascus highway. Below, we will look at some of the projects implemented in the five main areas of the sector.

1.1.3.3.1 The International, Primary, Secondary, and Local Road Networks

Compared with the number of road projects which have taken place in the Beirut area, relatively few projects were implemented in the rest of Lebanon.[76] However, this may change in the next few years. Based on a 1994 report prepared by Dar al Handasah concerning the condition of Lebanon's road network outside of Beirut, the Ministry of Public Works is in the process of preparing a major roads rehabilitation programme. The

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[75] I'm basing this information on some of the interviews which I conducted in Beirut in the winter of 1997.

[76] To site one example, in the summer of 1994, the contractor Edmon Akkar was awarded two contracts worth a total of $5.83 million to rehabilitate and extend the Jounieh-Bkerke-Harisa road in the Kesrouan area of Lebanon. Dar al Hanadash was responsible for the supervision of the work. For other examples see C.D.R., Progress Report - October 1996, 23.

programme is to cover the rehabilitation of over 6,500 km of roads over a five year period at a cost of $1.25 billion. Dar al Handasah is preparing the project, which may get some financial assistance from the World Bank and the Japanese government.[77]

1.1.3.3.2 Completion of the Coastal Expressway

Most of the responsibility for work on the coastal expressway rested with the C.E.G.P. Contracts for at least two main projects, both of which were partly funded by Saudi Arabia, have been awarded for work on the coastal expressway. This included consultancy and contract work on two sections of the expressway -- the Chekka-Tripoli section and the Damour-Sidon section.[78] Other projects connected with the rehabilitation and extension of the coastal expressway included two consultancy contracts awarded to Dar al Handasah and Gicome/Salame, and a $22.8 million contract given to ELCO/Rashid al Khazen for improvement to the Nahr el Kalb section of the coastal road.[79]

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[77] C.D.R., Progress Report - October 1996, 21.

[78] The project was partially funded by the Saudi fund, and included both consultancy and contract work. For more details, see the following progress reports: January 1994, 25-26; May 1994, 33; January 1995, 20; and March 1996, 19.

[79] All three of these contracts were funded by the Lebanese government. Dar al Handasah was to conduct an alignment study of the Antelias to Casino du Liban section. The contract, which was worth $500,000, was due to begin in October 1994. The other consultancy contract, which was worth $160,000, was for preparing preliminary designs for the Beirut River to Tabarja road section. C.D.R., Progress Report - January 1995, 22.

1.1.3.3.3 Construction of the Beirut Ring Road and the Associated Penetrator Roads

Table 6: Transportation - Ring & Penetrator Roads[80]

Consultancy						
	Contractor	**Country of Origin**	**Description**	**Value**	**Date**	**Funding**
1.	Dar al Handasah	Lebanon	Design, Prep. of Tender Docs. and Supervision	4.7	1993	Lebanon
2.	Khatib & Alami	Lebanon	" "	4.4	1993	Lebanon
3.	ACE	Lebanon	" "	4	1993	Lebanon
Physical Rehabilitation & Development Projects						
	Contractor	**Country of Origin**	**Description**	**Value**	**Date**	**Funding**
1.	Heads Haidar	Lebanon	Construction of Roads	5.42	1995	Lebanon
2.	Sleiman Haddad	Lebanon	" "	8.74	1995	Lebanon
3.	Elie Selwan	Lebanon	" "	16.87	1995	Lebanon
4.	Jalk and Fils	Lebanon	" "	6.54	1996	Lebanon
5.	BETH (Selwan)	Lebanon	" "	14.3	1995	Lebanon

* The numbers in the value column are in millions of U.S. dollars

Not surprisingly, most of the roads which have been rehabilitated or constructed were centred in the Beirut area. This included the construction of a ring road which was to connect the Northern and Southern sections of the coastal expressway, and which would also link the Beirut road network with the Damascus expressway. When completed, the ring road was supposed to improve traffic flow into Beirut.[81] The projects were divided into three areas including the Northern access roads, the Central section, and the Southern section.

Three local consultants were awarded contracts for designing, preparing tender documents, and supervising work on

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[80] The table was derived by the author from a number of C.D.R. reports.

[81] C.D.R., Progress Report - October 1996, 16.

the network. Dar al Handasah was responsible for the Northern section, Associated Consulting Engineers (A.C.E.) for the Central section, and Khatib & Alami for the Southern section.[82] By October 1996, the consultants had completed the design portion of their work, while the contracts to build the ring road were in the process of being awarded.

By October 1996, some work on the ring road and the penetrator roads had begun. We will note a few examples. The contractor, Heads Haidar was awarded a $5.42 million contract for the construction of a penetrator road in the Southern section. The contract was supposed to begin in July 1995 and was to be completed in five months.[83] The contractor Sleiman Haddad secured a $8.74 million contract for work on a penetrator road in the Southern section, while the contractor Elie Selwan was awarded a $16.87 million contract, also for work on a penetrator road in the Southern section. Both contracts were to have begun in February 1995 and were to have been completed in a year and a half.[84] The contractor Jalk & Fils was granted a $6.54 million contract for the construction of a penetrator road in the Central section. That contract was supposed to have begun in March 1996 and was to be completed in 18 months.[85] The contractor

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[82] Dar al Handasah's contract was for $4.7 million, ACE's contract was for $4 million, and Khatib & Alami's contract was for $4.4 million. The starting date of all three contracts was December 1993. C.D.R., Progress Report - January 1994, 24.

[83] The penetrator road was called Chatila-Choueifat 1. C.D.R., Progress Report - March 1996, 16.

[84] C.D.R., Progress Report - January 1995, 22.

[85] The penetrator road was referred to as the Hazmieh-Airport road. See C.D.R., Progress Report - March 1996, 16.

BETH (Selwan) secured a $14.3 million contract for the construction of a penetrator road, also in the Central section. That contract was due to begin in November 1995 and was to be completed in 21 months.[86] In addition to the contracts awarded by the C.D.R., other organisations, including the C.E.G.P.V.B. and the C.E.G.P., have awarded contracts related to the ring road and penetrator roads. For example, the C.E.G.P.V.B. let two contracts, funded by the Saudi Fund, for work on two penetrator roads.[87]

As we noted above, the Lebanese government has funded most of the projects. The parts of the ring road which were to be connected to the Damascus expressway were supposed to be given out on a B.O.T. basis, and subsequently to become toll roads. However, due to certain difficulties, this has not been able to go forward as of this writing, and the plan will have to be reorganised.[88]

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[86] The penetrator road was called the Adlieh-Damascus road. See ibid.

[87] C.D.R., Progress Report - January 1995, 20.

[88] For a list of those parts of the ring road which will be let on a B.O.T. basis, see C.D.R., Progress Report - March 1996, 19.

1.1.3.3.4 Improvement of the Road Network and Services in the Beirut Conurbation[89]

Basically, responsibility for the road network in Beirut and its suburbs has been divided between the C.D.R. and the Conseil Executif des Grands Projets de la Ville de Beyrouth. The C.E.G.P.V.B. was responsible for roads in Beirut proper, and the C.D.R. was responsible for projects in the capital's suburbs.

The C.D.R. awarded several contracts for the rehabilitation of the road network and associated infrastructure in the suburbs. Dar al Handasah was the consultant on most of the projects in both the Northern suburbs and the Southern suburbs. Its responsibilities ranged from designing to supervising projects. The consultant A.C.E. also played a role in designing projects located in the Northern suburbs. The contractors awarded projects in the Northern suburbs included Habib Hakim, Hamid Kayrouz, Ramco, Societe Nationale d'Entreprises, Estephen, and South Construction. Contractors awarded projects in the Southern suburbs included Teccen, Impresem/Batco, Hourieh, Contra, and South for Construction. As of the end of September 1996, the total cost of all of these contracts was less than $100 million.[90]

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[89] A consortium of Lebanese and French consultants were given a $2.4 million contract, which was to have begun in January 1994, to prepare a study on traffic needs in Metropolitan Beirut over the next 20 years and to offer both short-term and long-term solutions to the problems.

[90] For precise details of each contract, see the following: C.D.R., Progress Report - 1996,19-20; Progress Report - March 1996, 16, 19, 21; Progress Report - January 1995, 19, 20, 22, 23; Progress Report - May 1994, 33; Progress Report - January 1994, 22.

1.1.3.3.5 Beirut - Damascus Motorway

A major project to build a 64 km motorway from Beirut to Damascus was launched in 1994. The estimated $500 million project, which was supposed to be a toll road, and one of the few road projects that was opened to international tender, was based on a build-own-operate-transfer basis (B.O.O.T.). Many international groups prequalified for the project, including the German companies Walter Bau, Dornier Autostrade, Dasa, Dyckerhoff, Widmann, Wayss and Freytag, and the French companies Bouygues with its affiliate SCREG, Dumez, and Campenon Bernard SGE.[91] The C.E.G.P. was responsible for the project.[92] Its supporters claimed that, once the road is completed, the trip from Beirut to Damascus would take less than one hour.[93] However, difficulties with the viability of the toll road have meant that the government has had to rethink this whole project. As of this writing, its future is uncertain.

1.1.3.4 Public Transport & Railways

As we have explained above, Lebanon's public transportation system is woefully inadequate. In fact, it is practically nonexistent.[94] There was, and continues to be, no railway service and prior to the implementation of the programme there were less

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[91] MEED (8 July 1994), 28; (22 July 1994), 25.

[92] For more information concerning the project, see -----, "New Beirut-Masna Toll Highway Planned", The Lebanon Report 5, no.3 (March, 1994), 8-9.

[93] Ibid, 8.

[94] For a succinct study of the public transportation system, see Marwan Iskandar, Lebanese Economy 1995, 186-190.

than thirty buses operating in the entire Beirut area. The government plan was to rehabilitate the rail system, and to purchase buses to meet some of the transportation needs in the Beirut area.

1.1.3.4.1 The Purchase of Buses

In January 1993, the local consultant A.C.E. was given a six month $500,000 contract, which was funded by Italy, to prepare tender documents for the purchase of buses in the Greater Beirut area.[95] The plan was to add 140 new buses to the Beirut area,[96] although the number may have increased to 490.[97]

1.1.3.4.2 The Railway Network

In the summer of 1993, France's Sofrerail was awarded a $4.8 million contract to carry out a study on the rehabilitation and extension of the 170 km coastal railway from the Southern city of Tyre to the Northern city of Tripoli. Based on the study, international companies were invited to bid by 10 May 1994 for an estimated $500 million contract to rehabilitate the coastal railway. Twenty international companies applied to prequalify including major European ones such as the U.K.'s Trafalgar House Construction, Balfour Beatty Construction, and Taylor Woodrow, Italy's Ansaldo Trasporti, and a consortium of Germany's Siemens, France's Compenon Bernard, and Spain's

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[95] C.D.R., Progress Report - January 1994, 24.

[96] C.D.R., Progress Report - May 1994, 31.

[97] Marwan Iskandar, Lebanese Economy 1995, 187. The E.I.U. noted that the Lebanese government had leased 200 Czech made buses from Sogelease-Liban. See Economist Intelligence Unit, Country Report: Lebanon - 2nd Quarter 1996, 19.

Dragados & Construcciones. The contract called for the rehabilitation of the 205 km line from Tyre to the Syrian border. The 170 km stretch from Tyre to Tripoli was to be double-track and fully electrified. The stretch from Tripoli to the Syrian border was to carry diesel trains on a single track. The aim of the project was to relieve congestion on the coastal roads. The implementation of this project, however, was delayed, and it is unclear whether or not the government planned to go ahead with it.[98]

1.1.4 The Water Supply and Wastewater Sectors

As we explained in chapter three, the water supply and wastewater networks in Lebanon were severely damaged as a result of the war. For example, 21% of households did not have a private water supply connection, an estimated 80% of the water supply was polluted to some degree, the water treatment plants were damaged or operated at reduced levels, and there were no functioning sewage treatment plants in the entire country.

The two sectors accounted for 9.5% of the Horizon 2000 programme. Between 1 January 1992 and 30 September 1996, the C.D.R. awarded a total of 85 contracts valued at $193.4 million in the two sectors.[99] Unlike the road network, the Water Supply and Wastewater sectors received funding from a number of external sources including the French, the Italian and the Saudi governments, the World Bank, the European Community, the

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[98] See the following sources. See C.D.R., Progress Report - January 1995, 20; May 1994 ,31; and MEED (4 March 1994), 27.

[99] C.D.R., Progress Report - October 1996, 45.

European Investment Bank, the Saudi Fund for Development, and the Kuwait Fund for Arab Economic Development. Furthermore, international companies, particularly consultants, were awarded several contracts in these two sectors. Basically, one could divide the projects in the sectors into two types including consultancy management contracts, and work on the rehabilitation and extension of the sectors with related consultancy contracts for supervision on the projects. Below, we will take a closer look at some of the projects in the two sectors.

Table 7: Water & Wastewater Sectors[100]

Consultancy

	Contractor	Country of Origin	Description	Value	Date	Funding
1.	Binnie & Partners	U.K.	Management S.I.U.	6.1	1993	E.U.
2.	Lyonnaise des Eaux-Dumez	France	Technical Assistance	2.5	1993	France
3.	Sir Alexander Gibb & Partners	U.K.	Preparation of Programmes	3.4	1995	---
4.	Howard Humpherys & Partners	U.K.	" "	9.8	1995	WB
5.	Nazeh Taleb	Lebanon	Supervision of Dbaye Project	.155	1992	Italy
6.	Montgomery Watson	U.K.	Study/Design of Drinking Water Conveyer	1.7	1993	Lebanon
7.	Dar al Handasah	Lebanon	Bisri Dam Project	1.93	1994	Lebanon

Physical Rehabilitation & Development Projects

	Contractor	Country of Origin	Description	Value	Date	Funding
1.	Kuk Dong	S. Korea	Fix Pumping Stations	12.3	1994	WB/EIB
2.	Kuk Dong	S. Korea	Water Treatment Works	3.8	1994	WB/EIB
3.	Estephan	Lebanon	Work on Springs and Wells	2.8	1994	WB/EIB
4.	Estephan	Lebanon	Transmission/Dist. Networks	14.9	1994	WB/EIB
5.	Unibuild/Polimer	Lebanon	Work on Reservoirs	11.3	1994	WB/EIB
6.	Gico Costruzioni	Italy	Sewer Networks	14.1	1994	WB/EIB
7.	Emco Engineering		Work on Pumping Stations	.750	1994	WB/EIB

* The numbers in the value column are in millions of U.S. dollars

1.1.4.1 Consultancy Management

International consultants have provided institutional

[100] The table was derived by the author from a number of C.D.R. reports.

support to the Ministry of Hydraulic & Electric Resources, and other institutions associated with the water supply and wastewater sectors. We will note two examples. To begin with, as we explained in chapter four, a Sector Implementation Unit staffed by the U.K. consultant Binnie & Partners was installed in the Ministry of Hydraulic & Electric Resources (M.H.E.R.) to assist with the implementation of the programme.[101] Some of the main tasks of the S.I.U. included reviewing the reports and tender documents submitted by consultants, reviewing the progress reports from consultants and contractors, conducting a follow-up on current contracts, and participating in tender evaluation committees.[102] Second, a three year management contract was given to the French consultant Lyonnaise des Eaux-Dumez in 1993. The consultant was responsible for assisting the Directorate of Operations of the M.H.E.R. by training ministry staff and offering technical and administrative management to the various water boards.[103]

1.1.4.2 Work on the Rehabilitation and Extension of the Two Sectors

The projects which have been, or are in the process of being implemented, were basically divided into two kinds - the first year programme and the second & third year programmes, and an assortment of individual projects.

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[101] The $6.1 million contract was financed by the E.U.

[102] C.D.R., Progress Report - March 1996, 39.

[103] The three year contract, which was financed by the French government, was worth $2.5 million. See C.D.R., Progress Report - May 1994, 25; and ibid.

1.1.4.2.1 The First Year Programme and the Second & Third Year Programmes

The first phase, which has, for the most part, been completed, consisted of 5 priority projects in the water supply sector, and 2 priority projects in the wastewater sector. The projects, which were all scheduled to have begun by April 1994, were funded by the World Bank, the European Investment Bank, and the Lebanese government. Two of the projects in the water supply sector were awarded to Kuk Dong of South Korea including a $11.69 million contract (adjusted to $12.3 million) to fix pumping stations and a $3.48 million contract (adjusted to $3.8 million) for water treatment works.[104] The other three contracts in the sector were awarded to local companies, including the contractor Estephan, which was awarded two contracts: one for $1.97 million (adjusted to $2.8 million) for work on springs and wells; and the second for $10.42 million (adjusted to $14.9 million) for work on transmission and distribution networks. The third contract, valued at $8.68 million (adjusted to $11.3 million) went to Unibuild/Polimer, and involved work on reservoirs.[105] The two wastewater contracts were awarded to the firms Gico Costruzioni, a $5.82 million (adjusted to $14.1 million) contract for sewer networks, and Emco Engineering, which was given an approximately $750,000 contract for work on pumping stations.[106]

Numerous consultancy firms were contracted to supervise the

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[104] C.D.R., Progress Report - May 1994, 25.

[105] Ibid, and Progress Report - October 1996, 40.

[106] C.D.R., Progress Report - May 1994, 25; and Progress Report - October 1996, 40.

first year programme, including Hydea, E.N.B., Geti, Jouzi, B.T.D., B.T.U.T.P., and Liban Consult. These contracts were funded by the World Bank and the European Investment Bank.[107]

By the autumn of 1996, consultants were preparing the programmes for the second and third phases. The main consultants on the projects included a consortium of the U.K.'s Sir Alexander Gibb & Partners with the local groups K.C.I.C. and Khatib & Alami, and a consortium of the U.K.'s Howard Humpherys & Partners with E.N.B. of Greece and the local B.T.D. The K.F.A.E.D. financed $3.4 million contract, led by Sir Alexander Gibb & Partners, was for work on the Greater Beirut area, while the other contract, financed by the World Bank and valued at $9.8 million, was for work outside of the Greater Beirut area.[108]

1.1.4.2.2 Individual Projects in the Sectors

A large number of other contracts also related to consultancy and rehabilitation work were awarded in the two sectors. We will cite several examples. In December 1992, the contractors, E.M.I.T./S.E.L.C. were scheduled to have begun work on the Dbaye treatment plant; the consultants Nazih Taleb were awarded a contract to supervise the project.[109] In December 1993, the U.K.'s Montgomery Watson, along with the local Engeco, were to have begun work on a study/design of the Awali-Beirut

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[107] For precise details of the contracts, see C.D.R., Progress Report - May 1994, 25.

[108] C.D.R., January 1995 - Progress Report, 13-14.

[109] The main contract was valued at $5.72 million, and the consultancy contract was valued at $155,000. The contract was to be funded by Italy. C.D.R., May 1994 - Progress Report, 25.

drinking water conveyor.[110] In the spring of 1994, Dar al Handasah had begun consultancy work on the Bisri Dam project, a crucial project aimed at meeting the future demand for drinking water in the Beirut area.[111] In March of 1996, the local al Rachid Engineering began work on carrying out a geotechnical study of the Bisri Dam project.[112] In November 1995, the local company Geneco, owned by Hariri's brother, was awarded a $368,000 twelve month contract to rehabilitate the Jamour pumping station. The project was funded by the K.F.A.E.D.[113] Finally, the Saudi Fund for Development funded consultancy contracts for supervision of water supply works in the Akkar region and in devastated villages in the Chouf region.[114]

1.1.5. The Solid Waste Sector

In chapter three of this paper, we explained that the waste collection system in Lebanon had broken down completely. As a result, solid waste was disposed of in open dumps virtually everywhere. This was not only unsightly, but it raised concerns over environmental damage, and the general health of the

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[110] The $1.7 million contract was funded through internal sources. Ibid.

[111] The contract, valued at $1.93 million, was financed by the Lebanese government. C.D.R., Progress Report - May 1994, 25.

[112] The contract, valued at $804,000, was also funded by internal sources. C.D.R., Progress Report - March 1996, 26.

[113] The K.F.A.E.D. backed at least two further projects including a $3.4 million project for the rehabilitation of Daichounieh & Hazmieh water treatment works, and a $3.2 million project at the Kachkouch Spring encatchment & conveyor. C.D.R., Progress Report - March 1996, 26.

[114] C.D.R., Progress Report - March 1996, 26.

population.

The solid waste sector accounted for 1.5% of the Horizon 2000 programme. Between 1 January 1992 and 30 September 1996, the C.D.R. awarded a total of 22 contracts valued at $158.5 million.[115] Basically, the contracts were awarded for four types of projects, including: a range of consultancy contracts from supervision to conducting studies on a series of issues; repairing and maintaining garbage incinerators; providing collection equipment; and street cleaning and collection of garbage.

Table 8: Solid Waste Sector[116]

Consultancy

	Contractor	Country of Origin	Description	Value	Date	Funding
1.	Transtec Fichtner	German/Bel.	Management S.I.U.	1.8	1994	E.U.
2.	C.R.E.E.D.	France	Technical Assistance and Supervision	1.5	1993	---
3.	C.R.E.E.D./Liban Consult	France/ Lebanon	Study of Sector	.192	1994	WB
4.	Liban Consult	Lebanon	Environmental Impact Study	.150	1994	Japan
5	D.G. Jones	U.S.A.	Supervision Work on Garbage Collection	.300	---	---

Physical Rehabilitation & Development Projects

	Contractor	Country of Origin	Description	Value	Date	Funding
1.	Sukkar Engineering	Lebanon	Rehab. and Oper. Amroussieh , Incenerator	1.3/ year	1993	---
2.	O.T.V.	France	Rehab. Qarantina Compost Plant	4.5	1993	---
3.	Sukkar Engineering	Lebanon	Oper. Qarantina Compost Plant	1.3/ year	1993	---
4.	Gallion/Abilamah	U.S.A./ Lebanon	Rehab. & Providing Compactor Trucks	5.64	1994	WB
5.	Dallah Albaraka/Bin Laden/Almabani	Saudi Arabia	Providing Garbage Containers	.910	1994	WB
6.	Sukkar Engineering	Lebanon	Garbage Collection and Street Cleaning (Beirut)	24	1994	---
7.	Terro	Lebanon	Garbage Collection (Chouf)	.690	1995	---

* The numbers in the value column are in millions of U.S. dollars

[115] C.D.R., Progress Report - October 1996, 45.

[116] The table was derived by the author from a number of C.D.R. reports.

1.1.5.1 Consultancy Work

As we noted in chapter four, a sector implementation unit, led by the U.K. consultant Transtec Fichtner, was installed in the Ministry of Municipal Affairs and the Ministry of the Environment to help implement programmes from the Solid Waste sector. Transtec Fichtner's $1.8 million E.E.C. funded contract was for three years (1994-97).[117] Several other consultancy contracts were awarded in the sector, of which we will note a few. The French consultant, C.R.E.E.D., secured a $1.5 million contract near the end of 1993 for assisting with designs for landfill sites, preparation of tender documents, and the supervision of construction work.[118] A consortium of C.R.E.E.D./Liban Consult were given a $192,000 World Bank backed contract near the end of 1994 to conduct a study on a long term strategy for the Solid Waste Sector. Finally, Liban Consult secured a Japanese funded $150,000 contract to carry out an environmental impact assessment.[119]

1.1.5.2 Repairing and Maintaining Garbage Incinerators

The C.D.R. awarded a few contracts for work on rehabilitating and operating the Amroussieh incinerator and the Qarantina Compost Plant. In the spring of 1993, the local company Sukkar Engineering secured the contract to rehabilitate and operate the Amroussieh incinerator. The contract was worth $1.3 million per year of operation.[120] In December 1993, the

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[117] C.D.R., Progress Report - January 1994, 27.

[118] C.D.R., Progress Report - January 1994, 27; May 1994, 29.

[119] C.D.R., Progress Report - January 1995, 18.

[120] The contract was for five years, although it would

French contractor O.T.V. secured a $3.95 million (adjusted to $4.5 million) contract to rehabilitate the Qarantina Compost Plant. The French firm, C.R.E.E.D., was the supervising consultant on the World Bank funded project,[121] while Sukkar secured a $1.3 million a year contract to operate and maintain the Qarantina plant.[122]

1.1.5.3 Contracts to Provide Collection Equipment

Several international companies, including Italy's Waste Management Italia, France's Serrat, Japan's Hiro, the U.S.'s Gallion Solid Waste and Heil, and Saudi Arabia's Dallah Albaraka Group bid for two contracts aimed at improving garbage collection. One contract was for providing 2,800 garbage containers, and the other contract was for rehabilitating 33 compactor trucks and providing 76 new ones.[123] The latter contract was awarded to a consortium of Gallion with local partner Abilamah for $5.64 million. The other contract was awarded to the Saudi consortium of Dallah Albaraka Group, Bin Laden, and Almabani for $910,000. The contracts, which began in January 1994, were funded by the World Bank.[124]

1.1.5.4 Contracts for Garbage Collection and Street Cleaning

Sukkar Engineering was awarded the contracts for garbage

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probably be extended. Also, additional work was added raising the value of the contract. See C.D.R., Progress Report - 1994, 27; May 1994, 29, and October 1996, 48-49.

[121] C.D.R., Progress Report - January 1994, 27; and March 1996, 30.

[122] C.D.R., Progress Report - May 1994, 29.

[123] MEED (18 June 1993), 18.

[124] C.D.R., Progress Report - May 1994, 29.

collection and street cleaning for the Greater Beirut area. The two contracts went into effect in 1994, but were later consolidated into a single contract, running until the year 2001, worth $24 million a year. The consultant D.G. Jones was awarded a $300,000 contract per year for supervising the work.[125] D.G. Jones was also responsible for supervising work on garbage collection in the Chouf area. That contract was given to the local group Terro.[126]

1.2 The Rehabilitation of the Social Infrastructure Sectors

As noted above, out of the approximately $3.3 billion worth of contracts signed by the C.D.R., nearly $2.8 billion, or about 85% were for the rehabilitation of the country's physical infrastructure. Only $251 million or 7.65% of the total spent by the C.D.R. was for the rehabilitation of the country's social infrastructure.[127] This included the following sectors: education, public health and social affairs, environment, and housing & resettlement. Below we will take a closer look at the projects implemented in these sectors.

1.2.1 The Education Sector

The 416 contracts signed by the C.D.R. from 1 January 1992 to 30 September 1996 for projects in the Education sector were

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[125] The nature and the value of the contracts continued to change. See the following reports: C.D.R., Progress Report - October 1996, 49; March 1996, 30-31; January 1995, 16; May 1994, 29; January 1994, 27.

[126] Terro's contract, which began in January 1995, was worth $690,000. C.D.R., Progress Report - January 1995, 18.

[127] C.D.R., Progress Report - October 1996, 5.

by far the highest number of contracts in any of the sectors. The value of the contracts, however, was comparatively very small; the 416 contracts combined were only valued at $171.6 million.[128] However, contracts valued at over $300 million, the largest value after the road network, were scheduled to be implemented during 1997-98.[129]

As we mentioned in chapter three, the education sector, which accounted for 13% of the total Horizon programme, was divided into three sub-sectors including: general education, youth & sport; vocational & technical education; and culture & higher education. We will give a brief examination of the developments in each sub-sector.

Table 9: Education Sector[130]

	Contractor	Country of Origin	Description	Value	Date	Funding
1.	Over 150 Contractors	Lebanon/ Some - Italy	Rehab. over 1,200 Public Schools	25	1993	Lebanon/Italy
2.	Trafalgar House	U.K.	Build Sports Complex	115	1994	Various
3.	Several Local Firms	Lebanon	Rehab. of 23 Tech. and Vocational Schools	7.4	1993	WB
4.	(To be awarded)	---	Construction of a new Lebanese University Campus	200	---	Various

* The numbers in the value column are in millions of U.S. dollars

1.2.1.1 General Education, Youth & Sport

This sub-sector was by far the largest of the three sub-sectors, representing 8.3% of the Horizon plan. Several programmes were located in this sub-sector, including an approximately $25 million project, which began in 1993, to rehabilitate over 1,200 public schools (primary, intermediate,

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[128] C.D.R., Progress Report - October 1996, 5.

[129] Ibid.

[130] The table was derived by the author from a number of C.D.R. reports.

and secondary). The project involved at least 10 consultants and over 150 individual contracts, most of which were awarded to local firms, although some of the projects funded by the Italian government were awarded to Italian firms.[131] Other projects included the reconstruction of 7 destroyed schools, providing equipment to schools, studies on improving the teacher training colleges and regrouping schools, and the rehabilitation of the ministry's buildings.[132]

The most significant project in this sub-sector, however, was the construction of a national sports city. The U.K.'s Trafalgar House Corporation was awarded a $115.5 million contract on 8 August 1994 for the construction of the sports city in Beirut. The project was to be completed in two phases. The first phase, which was valued at $49.5 million, included the construction of a 48,000 seat Olympic Stadium, the refurbishment of a 3,300 seat multi-purpose sports hall, and the building of a car park. The second phase, which was valued at $66 million, included building a swimming centre, an administration building, an open air tennis centre, and a turf club. The initial completion date was for the summer of 1996, but was put back a year to the summer of 1997.[133] The project was financed by grants

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[131] The Lebanese government funded most of the projects, although the Italian government and the C.E.C. also contributed. Italy provided funding for some of the contracts which called for the supplying of equipment. For details of each project, see C.D.R., Progress Report - May 1994, 39; January - 1995, 29; October - 1996, 32.

[132] For precise details, see ibid.

[133] Two reason were given for the delay. First, the Israeli invasion halted work on the project, and, second, promised financial aid was slow in materialising.

from the Arab Sports Federation and various Arab countries. To date, $36.5 million was promised including $20 million from Saudi Arabia, $6.5 million from Kuwait, and $5 million each from the United Arab Emirates and Qatar.[134]

1.2.1.2 Vocational & Technical Education

The main programme in this sub-sector consisted of the rehabilitation of 23 technical and vocational schools. The World Bank funded projects were split into 8 contracts valued initially at $4.4 million, although later adjusted to $7.4 million. The projects were awarded to local firms, including Estephan, Spectrum, Ghassen Chaccour, and Sleiman Haddad.[135] Another project in the sector included providing workshop and laboratory equipment to the technical schools.

1.2.1.3 Culture & Higher Education

The most significant project in this sector was the construction of a new Lebanese University campus in the Hadath area of Beirut. The new university campus, estimated to cost $200 million was to include 13 faculties, and other supporting facilities. Financing for the project, which was still at the prequalification stage during the period we are looking at, was to come from Saudi Arabia, Oman, the Islamic Development Bank and the Lebanese government.[136]

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[134] C.D.R., Progress Report - October 1996, 32.

[135] For precise details of the projects, see C.D.R., Progress Report - May 1994, 39.

[136] C.D.R., Progress Report - October 1996, 34.

1.2.2 Public Health and Social Affairs

The Public Health and the Social Affairs sectors accounted for 5.4% of the total Horizon programme. As of 30 September 1996, the C.D.R. allocated 60 contracts valued at $71.8 million. Two main problems existed in the public health and social affairs sectors. The first problem consisted of institutional weaknesses, primarily at the Ministry of Health. To help rectify the situation, consultants were employed to conduct studies aimed at offering solutions to institutional problems,[137] and to offer institutional support to the Ministry of Health to implement the programmes. For example, the World Bank sponsored a plan to set up a Project Coordination Unit and a Task Force within the Ministry of Health.[138] The second main problem was the lack of access to medical and social facilities, particularly for those people who lived outside of Beirut. To help rectify the situation, the government planned to rehabilitate and build hospitals and other related facilities in both Beirut and the outlying regions of the country. During the first four years of the programme, the construction of many new hospitals began, while plans to develop other hospitals were in the final stages. We will give several examples of projects which were started during the period that we are looking at.

The main project was the construction of a new 360-bed government university hospital in the Bir Hassan area of South Beirut. The project, funded by the Saudi Fund For Development,

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[137] Several studies, which examined the various ways the Ministry of Health can improve health care, were produced.

[138] For a summary of these contracts, see C.D.R., October 1996 - Progress Report, 26.

the Saudi government, and the Islamic Development Bank, was divided into two contracts consisting of the construction of the main building and of an auxiliary building. The contract to build the main building was awarded to a consortium of Saudi Arabia's El-Seif Contracting Engineering Establishment and the local Alfred Matta for $44.7 million, while the other contract was secured by Saudi Arabia's Hoshance for $8.7 million. The consultant on the project was the local firm Spectrum.[139] Work was expected to be completed in 1997.

Other hospitals under construction reflected government attempts to provide health facilities to outlying regions of the country. These included the construction of two new 70 bed hospitals in Halba, which is in the deprived Akkar region in the far North, and in Hermel, which is in the Biqa Valley.[140] Other hospitals under construction were in such regional towns as Nabatiyeh, Tannourine, and Rachaya. Work on most of these new hospitals was supposed to be completed by 1997.[141]

It may be of some interest to note that many of the hospital and health centre projects which have been implemented, or are in the process of being implemented, have not only been funded by the Kuwaiti government, but have, in fact, been awarded by the Kuwaiti Fund on behalf of the government of Kuwait. This included work on the 40-bed hospitals at Tannourine

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[139] C.D.R., Progress Report - January 1994, 36.

[140] The Lebanese firm ACE, which secured several consultancy contracts in the health sector, was also the consultant on the two contracts. The Halba and Hermel contracts were funded by the S.F.D. and the OPEC fund for International Development. C.D.R., January 1994 - Progress Report, 36.

[141] C.D.R., Progress Report - March 1996, 23.

& Rachaya, a 75-bed hospital at Nabatieh, and the construction of 7 health centres.[142]

Finally, the rehabilitation and extension of older hospitals and the construction of new ones in Beirut, Tripoli, Zahle, Sidon and other major centres was expected to take place during 1996-97.[143]

1.2.3 The Environment Sector

As we noted elsewhere, many of the projects related to environmental issues were dealt with in other sectors. As a result, very few projects have come under the environment sector. In fact, under the period of study, this included only two projects worth $3.5 million, and a couple of other projects which were still in the preparation stage. The projects, which were funded by the U.N. and the World Bank, included planning and policy studies, and the preparation of a national strategy for the environment.[144]

1.2.4 Housing & Resettlement

Throughout this study, we have explained the serious problems facing Lebanon's housing sector. In particular, we noted the large portion of the population which was displaced as a result of the war. However, in the time period that we are looking at, only 15 projects in the sector, valued at $4.2

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[142] C.D.R., October 1996 - Progress Report, 27.

[143] Many of them were at the design stage. Ibid.

[144] C.D.R., Progress Report - October 1996, 65; January 1995, 37.

million, have been implemented by the C.D.R. Basically, the projects included studies, funded by the E.U., to assess damage to the sector, and credit programmes for house owners to repair damage to their homes.[145]

1.3 The Productive Sector

The productive sector consisted of several sectors including agriculture, industry, oil & gas, and tourism. Although the productive sector only represented a small portion of the programmes in the Horizon 2000 Programme, it contained some key programmes, most of which were located in the agriculture sector. Below, we will give a brief review of some of the important projects in the productive sector.

1.3.1 Agriculture & Irrigation

Basically, there were three major projects in the agriculture sector, all of which received extensive support from international organisations including the World Bank and the United Nations.[146] The principal project in the sector was for the rehabilitation and modernisation of the irrigation system in several parts of the country. The World Bank contributed

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[145] In the autumn of 1993, local consultants, supervised by Hariri's company Oger International, were responsible for conducting a physical survey of damage and collecting socio-economic data for future planning. For a list of the consultants dealing with the project, see C.D.R., Progress Report - May 1994, 47. In September 1994, ETI of France was awarded a contract to conduct a legal and financial study of the sector. See C.D.R., Progress Report - January 1995, 24.

[146] There were many other smaller projects. For details see, C.D.R., Progress Report - January 1994, 39-40; May 1994, 51; January 1995, 32-33; March 1996, 33.

approximately $57 million towards the project, and the Lebanese government provided approximately $13 million. The programme included supplying irrigation infrastructure for more than 27,000 ha of land, as well as providing technical assistance to the relevant management bodies.[147] As of October 1996, work had started in parts of South Lebanon and in the North Biqa, while other projects in the South Biqa, and in North Lebanon were at the design stage.[148] A second project, which received approximately $10 million from the International Fund for Agricultural Development (I.F.A.D.) of the U.N., included further work on irrigation projects, institutional support concerning the management of water resources, and support services to both farmers and to the development of women's activities.[149] The third programme essentially consisted of U.N. backed technical assistance programmes offered to the Ministry of Agriculture for a number of projects including the improvement of olive growing, the quality control of food products, and the offer of training in new irrigation techniques.[150]

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[147] Namely, the Irrigation Department of the Ministry of Hydraulic & Electric Resources.

[148] C.D.R., Progress Report - March 1996, 33; October- 1996, 56. The contracts were awarded to Lebanese firms.

[149] C.D.R., Progress Report - October 1996, 56; and March - 1996, 33.

[150] Ibid. For more information on the technical programmes, see C.D.R., Progress Report - January 1994, 39-40.

1.3.2 The Industrial, Oil & Gas Sectors

As we have explained throughout this study, there is a serious lack of statistical information related to most aspects of Lebanese society. The same holds true for information related to industry. The main programme in this sector was a 1994-95 industrial census financed by the Germans for DM 500,000. The census included a survey of approximately 24,000 companies. From the information obtained, the government planned to draw up an industrial strategy. Another project included a programme to produce a uniform standard for the Lebanese construction industry. That project, which was the responsibility of the Ministry of Industry, was funded by the C.D.R. ($200,000), the C.E.G.P. ($100,000), Solidere ($200,000), and the French government ($400,000). Other programmes included the rehabilitation of the Industrial Research Institute, financed by Belgium,[151] and a French funded study of Lebanon's oil refinery industry.[152]

1.3.3 Tourism[153]

We have already noted the former importance of the tourist trade to Lebanon's economy. The tourist sector represented 1.6%

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[151] C.D.R., Progress Report - January 1995, 24; March 1996, 35; October 1996, 61.

[152] C.D.R., Progress Report - January 1995, 24.

[153] Interestingly, the tourism sector was not listed in any of the C.D.R. progress reports even though it was supposed to represent 1.6% of the Horizon Programme. One possible reason for this is that the projects were implemented by agencies other than the C.D.R., notably the Ministry of Tourism.

of the Horizon Programme, with projects aimed at renovating and reopening major tourist facilities including the Casino du Liban, the Jeita caves, and the Istirahat rest houses in Sidon and Tyre. Other programmes included opening new or improving established national & international tourist offices, and the development of a master plan for the tourist industry. We will take a closer look at developments in the tourist industry in chapter six.

1.4 Other Sectors

Two main areas concern us here. These include the rehabilitation of government buildings, and programmes to help manage and implement the reconstruction programme.

1.4.1 Government Buildings

Most government buildings suffered some sort of structural damage as a result of the war. Just over 2% of the Horizon programme was geared towards rehabilitating government buildings, and constructing new ones. Between 1 January 1992 and 30 September 1996, 82 contracts valued at $88.6 million were awarded by the C.D.R. Sixty eight contracts were let to firms, essentially local companies, for rehabilitating government buildings, 6 contracts were given to firms for the construction of new government buildings, 6 contracts were awarded (consultancy contracts only) for the development of slaughterhouses, and 2 contracts were awarded to develop a training centre for the Internal Security Forces.[154] The Saudi

[154] C.D.R., Progress Report - October 1996, 66.

government provided a grant of $60 million for work on urgent projects. The Saudi Development Fund provided loans for other projects. Grants were given by Qatar, the U.A.E., and other sources for the rehabilitation of the Presidential Palace, while the Lebanese government funded the remaining projects.[155]

1.4.2 Management & Implementation

As we explained in chapter four, various national and international consultants were employed to assist the C.D.R. and the various ministries and agencies with managing and implementing Horizon 2000. These programmes, along with similar ones, accounted for 1.3% of the entire Horizon programme. These programmes, which we have listed throughout chapters four and five were largely externally funded, with most of the funds coming from the European Community.

2. An Analysis of the Horizon 2000 Programme

In this section, we will provide an analysis of the progress of the Horizon 2000 programme with the intent of answering two questions: first, we intend to find out the level of international interest in the reconstruction programme; and second, we intend to find out whether or not the programme has succeeded in its goals with respect to improving the country's infrastructure and facilitating economic growth.

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[155] Some of the local contractors who worked on the project included Sleiman Haddad, Khatib and Alami, and Khoury Contracting. For details, see C.D.R., Progress Report - March 1996, 36; January 1995, 35.

2.1 International Interest in the Reconstruction Programme

In the course of evaluating the current economic and political situation in Lebanon, one may tend to overlook the fact that, only a few years ago, the country, was suffering from a perpetual civil war and was considered to be one of the premier pariah states. Few Westerners would travel to Lebanon for fear of being kidnapped or killed, further adding to Lebanon's isolation from the rest of the world. Even as late as 1989, foreign governments seemed to be resigned to the fact that Lebanon would remain unstable indefinitely, and were, therefore, simply interested in preventing the conflict from escalating beyond its borders.

Therefore, it is somewhat remarkable that only a few years later, after the end of the war and the release of the last of the Western hostages, we should be examining such "mundane" issues as the level of foreign participation in the rehabilitation of Lebanon's road network, and other infrastructure projects. In effect, however, looking at such issues may go a long way towards demonstrating how far Lebanon has returned to the international fold.

It is clear from the data we presented in section one that international actors, including governments, businesses, and organisations such as the World Bank, have played an active role in the reconstruction of Lebanon. The only point that one may contest is whether or not the level of international interest in the recovery programme is really all that extensive.

When attempting to assess the real level of international interest in the Lebanese reconstruction, one must take into

consideration the violence of Lebanon's recent past, and a constellation of other factors including: the cash flow problems of Gulf Arab states, which would, naturally, affect their abilities and willingness to provide funding; intense world competition for Western aid, especially from East European countries who are also trying to rebuild their economies; the continuing Syrian dominance of Lebanon, which would tend to frighten off expatriate Lebanese capital, not to mention other investors; and the persistent instability in South Lebanon, which would tend to adversely affect international interest for obvious reasons. Given this admittedly problematic climate, we are inclined to argue that the level of interest, which is substantial, is relatively high -- although it should be pointed out that it may not be quite as high as the Lebanese have expected, and, perhaps, needed it to be.

The level of international involvement in the reconstruction programme can be observed on at least five levels including: external funding (grants, loans, and "soft" loans) for the recovery programme; the role of international companies in the recovery programme; the reinstatement of coverage by export credit agencies; the number of visits by Western government and business delegations to Beirut; and international investor interest in Lebanese government Eurobonds.

2.1.1 External Funding of the Reconstruction Programme

As we explained in chapter three, the authors of Horizon 2000 expected external grants and loans to fund about 40% of the

total programme. This was about the percentage of foreign aid which was actually received by the Lebanese government during the first four years of the programme. Out of the approximately $3.3 billion worth of contracts signed by the C.D.R. between 1 January 1992 and 30 September 1996, $1.4 billion, or about 42%, were funded through external grants and loans. However, due to the time scaling built into the plan, this was far below the amount of aid that the government had hoped to receive for these years. Within the first three years of the programme foreign funding was expected to cover a massive, and perhaps unrealistic, 87% of the reconstruction programme, including 21% through grants and 66% through loans. After the first few years, it was hoped that the level of reliance on foreign funding would be reduced as more domestic funding (primarily from projected budget surpluses) would become available.[156]

In fact, the Lebanese government had to push hard, due to the cash flow problems and wariness of potential investors, to solicit as much aid as it did.[157] Hariri, personally, made numerous trips to the Arab Gulf states in an attempt to secure aid for the programme, sometimes without much success. For example, in February 1993, after a visit to the Gulf, Hariri declared, "The money has not come and no one is thinking of supporting us...We have to rely on ourselves."[158] Nonetheless,

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[156] ----- "Horizon 2000 and Foreign Debt", The Lebanon Report 4, no.4 (April, 1993), 9.

[157] For an explaintation of why the aid was slow in coming, see -----, "Modest Progress on Foreign Aid", The Lebanon Report 4, no.3 (March, 1993), 9.

[158] Ibid, 9.

Hariri did have some success in obtaining aid during later trips to the Gulf.

2.1.1.1 Origins of the External Funds

As the information provided in section one of this chapter revealed, a number of countries, both Western and Arab, and several international organisations, aid agencies, and commercial banks, provided both grants and loans for the recovery programme. In total over 20 bodies pledged $3.1 billion by 30 September 1996 for completed, current, and future projects. Grants totalled $405 million or 13%, soft loans accounted for $1.1 billion or 35%, and other loans accounted for $1.6 billion or 52%.[159]

The World Bank contributed 17% of the total, the largest amount of any foreign source. The other main donors included the European Investment Bank 13%, the Arab Fund for Economic & Social Development (A.F.E.S.D.) 12%, Italy 11%, France 9%, the Kuwait Fund For Arab Economic Development (K.F.A.E.D.) 6%, and Saudi Arabia and various commercial banks each accounted for 5% of the total.[160] A number of other countries and institutions also contributed including Japan and the Saudi Fund for Development, each accounted for 4%, the Commission of European Communities and the Islamic Development Bank, each accounted for 3%, Kuwait 1%, and several other sources which made up the remaining 7%.[161]

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[159] C.D.R., Progress Report - October 1996, 77.

[160] Ibid, 76.

[161] These included:
Abu Dhabi Fund for Development (A.D.F.D.)
Belgium

2.1.1.2 The Disbursements of the Grants and Loans

In giving an account of the projects in the various sectors of the programme, we listed the main sources of funding for each sector. In addition to reproducing a chart furnished by the C.D.R. of the disbursements of external funds, we will briefly reiterate where the main funds were allocated. The sectors which received the most external funding included: electricity, water and wastewater, solid waste, transportation (particularly the airport), public health and technical assistance programmes to the institutions implementing the programmes.[162]

Germany
International Fund for Agricultural Development (I.F.A.D.)
OPEC Fund for International Development (O.F.I.D.)
Oman
Qatar
U.N.

See C.D.R., Progress Report - October 1996, 76.

[162] The following table is taken from the C.D.R. Progress Report from October 1996, p 78.

Table 10: Documented Foreign Financing

($ Million)

At 30 September 1996

Sector Name	AFESD	SFD	Saudi	KFAED	Kuwait	UAE	ADFD	Oman	Qatar	IDB	IBRD	CEC	EIB	UN	METAP	CRIF	IFAD	OFID	Bel.	France	Germany	Italy	Japan	Cbank	Totals
Electricity	218.9			57.6						38.2	150.8	4.7	76.2							100.0	53.2	258.5		148.0	**1106.2**
Telecommunications	3.3			34.3						12.8	9.1	1.0		0.0						16.0					**76.6**
Roads and Highways	4.0	64.5	10.8								42.0					0.3				0.4			0.5		**122.5**
Nat. Ed., Youth, & Sp.		6.8	20.4		16.3					11.6		14.5		0.5						1.7		3.7			**75.6**
Voc. & Tech. Ed.	50.0				3.0						12.4	0.1		0.7						7.8	3.3		1.1		**78.2**
Cul. & Higher Ed.		14.9	25.1					15.0		16.2				1.4						7.0					**81.7**
Public Health		33.1	27.2	7.0	25.0					11.1	35.7	2.2		1.2				15.2		5.7		7.9			**171.3**
Social Affairs			1.8																						**1.8**
Housing & Reset.	26.6						25.0				8.0	2.8		6.4											**68.9**
Water Supply	38.6	4.8	19.4	33.3							72.5	1.1	86.7							38.3		25.7			**320.5**
Waste Water			0.8								15.0	0.9	70.8		38.0					44.9	9.8		117.6		**297.7**
Solid Waste			4.0								77.2	0.3											0.2		**81.8**
Environment														3.3	0.4										**3.7**
Public Transport																							0.4		**0.4**
Airport				50.0									112.5	2.1						26.8					**191.4**
Ports													56.2							2.0					**58.2**
Agriculture				0.3							31.0	0.8		9.6		1.6	10.5	5.0		4.3	0.7				**63.8**
Irrigation											52..7						9.7			2.4			0.4		**69.7**
Industry												4.1		0.1					1.6	2.1	0.3				**8.2**
Oil and Gas												0.7								0.4					**1.1**
Tourism														0.3											**0.3**
Private Sector Ser.												0.1		0.4											**0.4**
Government Buildings		5.9	24.0			5.0			1.0			0.6													**36.5**
Public Information																				4.8					**4.8**
Man. & Imp. & Others	21.0		26.5								40.4	38.2		8.3						3.9			0.9		**139.2**
Unallocated	11.7											6.8									3.3	42.5			**64.8**
Total	**374.1**	**130.0**	**160.1**	**182.6**	**44.3**	**5.0**	**25.0**	**15.0**	**1.0**	**92.0**	**561.4**	**78.0**	**402.3**	**34.3**	**38.4**	**2.0**	**20.2**	**20.2**	**1.6**	**268.4**	**71.3**	**338.4**	**121.1**	**148.0**	**3125.5**

Source: CDR

Small Differences Due to Ro

The electricity sector accounted for 35% ($1.1 billion) of all external funding. Funding originated from Italy ($258.5m), the A.F.E.S.D. ($218.9m), the World Bank ($150.8m), Commercial Banks ($148m), France ($100m), the E.I.B. ($76.2m), the K.F.A.E.D. ($57.6m), Germany ($53.2m), and a few other sources.[163]

The water and wastewater sectors, and the solid waste sector, received the second largest source of foreign funding, amounting to $700 million. The World Bank provided the largest amount of loans at $164.7 million, followed by the E.I.B. at $157.5 million and Japan, which contributed $117.8 million.[164]

The airport and the public health sector received grants and loans totalling $191.4 million and $171.3 million respectively. The E.I.B., the K.F.A.E.D., and France provided the majority of funding for the airport projects, while funding for the public health sector was pretty evenly divided among a number of sources including the World Bank, the S.F.D., the Saudi government and the Kuwaiti government.[165]

Programmes which offered technical and other assistance to the C.D.R. and the ministries were supposed to have received $139.2 million worth of grants and loans. Funding for the projects was derived from four sources including the World Bank ($40.4m), the Commission of European Communities ($38.2m), the

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[163] Ibid, 78.

[164] Ibid.

[165] Ibid.

Saudi government ($26.5m), and the A.F.E.S.D. ($21m).[166]

2.1.1.3 Reasons for Giving Foreign Aid

Critics have argued that foreign countries have only provided funding for the reconstruction programme in exchange for some tangible, usually economic, benefit. For example, it has been asserted that some donor countries use the grants or loans they have provided to the Lebanese government as leverage to ensure that their national companies win the more lucrative contracts in the recovery programme. In fact, this criticism does seem somewhat valid with reference to several of the major contracts, as well as many of the consultancy contracts. We will look at some examples.

Clearly, the Italian government has used its aid programmes vis-a-vis Lebanon as leverage in ensuring that Italian firms secured many of the contracts in the Horizon 2000 programme. As noted above, Italy was one of the leading sources of foreign funding, accounting for 11% or $339 million of the total. The Italian government was the first external actor to offer the Lebanese government extensive financial assistance. In 1992, it offered a financial protocol worth tens of millions of dollars, consisting of grants, loans, and guaranteed credits, to finance several projects in the physical infrastructure sectors. A clause in the agreement stated that the financing would be limited to projects involving Italian firms.[167]

In at least two cases which dealt with lucrative contracts, it appeared that political pressure from both the Italian and

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[166] Ibid.

[167] MEED (4 December 1992), 36.

Lebanese governments ensured that the C.D.R. awarded them to Italian firms. One case dealt with repairs to the electricity network, in which the Italian firm Ansaldo was apparently only awarded the contract after P.M. Hariri and the Italian Ambassador to Beirut, Giuseppe de Michelis di Slonghello, personally intervened. As the Italian ambassador pointed out to his Lebanese counterparts, "Italy was the first country to show good faith in participating in the rehabilitation of Lebanese state institutions and reconstruction."[168] This case was the main reason why the Minister of Electricity and Water Resources, Georges Frem, who attempted to negotiate with another firm, in order to get a lower price, was forced to leave his post.[169] A second case involved the substantial $534 million contract to construct two 450 MW combined-cycle power stations, which was given to a consortium of Ansaldo Energia of Italy and Siemens of Germany. According to sources close to the project, generous financing from the Italian government tilted the contract in favour of Ansaldo/Siemens who were initially ranked second behind John Brown Engineering of the U.K.[170]

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[168] -----, "Electricity: Ansaldo to Rehabilitate Network", The Lebanon Report 4, no.7 (July, 1993), 8.

[169] Interview with Michael Young, editor of the Beirut based journal The Lebanon Report, on 24 February 1997; "Hubayqah Takes Over Electricity Ministry from Frem", The Lebanon Report 4, no.7 (July, 1993), 4.

[170] The Lebanese government is funding the project primarily through international loans. Most of the money will come from Italian and German banks, who are backed by their respective export credit agencies, SACE and HERMES. The Italian government offered approximately $240.6 million in concessionary loans to finance the contracts. This is being provided in the form of a loan from CREDIOP, Italy's leading medium & long-term bank. See Marwan Iskandar, Lebanese Economy 1995, 83; and MEED (20 January 1995), 25.

It can be clearly seen from the data presented in section one, that Italian firms secured several other contracts in the reconstruction programme. A good number of these may have been connected to financing programmes from the Italian government, and other sorts of political persuasion.[171] As one Italian banker put it: "It is fundamental to have external finance. If we don't give the aid, then we won't get the business."[172] Even the Lebanese Parliament, which approved the 1992 protocol, publicly acknowledged that Italian firms would be favoured in many of the contracts, as long as their bids were "competitive".[173]

French government financing, which accounted for 9% or $278 million of external funding, also played a role in ensuring French companies many of the contracts in the reconstruction programme.[174] Several of the projects financed by the French government were awarded to French firms. This included numerous consultancy contracts secured by French firms, such as the E.D.F., and contracts in the electricity sector, including the one for the rehabilitation of the Jamour and Bsalim substations. In addition, the French government provided grants to finance

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[171] As we will discuss below, Italian leaders, from both government and business, made several visits to Beirut to secure contracts, and other sorts of trade agreements. This included a visit by the Italian Foreign Minister Emilio Colombo in January 1993. MEED (29 January 1993), 22.

[172] MEED (8 July 1994), 28.

[173] The Lebanon Report 3, no.12 (December, 1992), 10; and MEED (4 December 1992), 36.

[174] For a closer look at the French financial protocols, look at the following MEED reports: (18 December 1992), 35; (26 February 1993), 26; (8 October 1993), 22; (3 March 1995), 22; (19 July 1996), 20.

French technical assistance in other areas of the Lebanese economy including a $900,000 grant to revive the Beirut Stock Exchange.[175]

The bidding for many of the projects funded by the Saudi government, or Saudi backed agencies, was restricted to Saudi or local companies. As a result, Saudi companies secured several contracts. A prime example was the awarding of the Saudi funded contract to build a 360-bed government university in South Beirut to two Saudi firms, El-Seif Contracting Engineering Establishment and Hoshance.[176]

2.1.2 The Participation of International Companies in the Recovery Programme

In addition to the interest shown by foreign governments, especially from Western Europe and the Gulf region, and international agencies, such as the World Bank, the information presented in section one revealed the remarkable interest shown in the recovery programme by international firms. In short, notable international companies, particularly from Western Europe, have played a leading role in the recovery programme. They were awarded most of the lucrative contracts to rehabilitate the country's infrastructure, a significant portion of the consultancy contracts related to supervising and managing the individual projects, and nearly all of the consultancy contracts which offered technical and organisational assistance

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[175] MEED (17 February 1995), 24, 25.

[176] A prime example was the construction of the new 360 bed government hospital in the Bir Hassan area of South Beirut. See section one of this chapter for precise details.

to the institutions responsible for implementing the recovery programme. Below, we will provide a sample of the many international companies which were involved in the recovery programme.

2.1.2.1 The Main Projects

As noted above, an impressive list of prominent international companies, most of which were from Western Europe, secured the major contracts to rehabilitate Lebanon's infrastructure. The list included: Siemen's of Germany secured contracts worth hundreds of millions of dollars in the electricity and telecommunications sectors; Ericsson of Sweden carried out work on the telecommunications network; Hyundai of South Korea and Ansaldo Energia of Italy both worked on the electricity network; Clemessy, Bouygues, and M.Elec, all of France, also worked on the electricity network, as did European Gas Turbines, an affiliate of the Anglo/French company GEC Alsthom; Alcatel of France worked on the telephone network; France Telecom and Finnish Telecom were given the responsibility of operating the mobile telephone network; Germany's Hochtief worked on rehabilitating Beirut International Airport; Kuk Dong of South Korea secured a couple of contracts in the water supply and wastewater sectors; and Trafalgar House of the U.K. secured a contract to build a sports city.

In addition to these companies, numerous other international firms placed bids for the main contracts. Most of the bids submitted must be considered serious, owing to the fact that each tender document cost at least $3000. We will reiterate two of the many examples listed in section one of this chapter.

For the main electricity contracts, a myriad of companies from a number of countries placed bids, including the U.K.'s Balfour Beatty, NEI International and John Brown Engineering, the Anglo-French company GEC Alsthom, Japan's Mitsui & Company and Toshiba Corporation, South Korea's Lucky Goldstar, several French companies, as well as companies from Norway, Austria, Finland, Switzerland, China, Saudi Arabia, and Turkey.

For the main contract to rehabilitate the airport, 23 companies and joint ventures prequalified. The list included companies from the four major European countries - Germany, France, Italy and Great Britain, but also included companies from Spain, Brazil, Egypt, and Turkey.

2.1.2.2 Consultancy Contracts: Rehabilitation Projects

A sizeable number of the consultancy contracts for studies, designs and supervision work linked to the various projects went to numerous international firms, and in particular, to British and French firms. Some of the British firms which secured consultancy contracts included Posford Duvivier, for work on the Beirut port, and Sir Alexander Gibb & Partners, Howard Humpherys and Partners, and Montgomery Watson, all of which worked in the water supply and wastewater sectors. French companies awarded consultancy contracts included Electricite Du France, which was awarded numerous consultancy contracts in the electricity sector, Deloitte & Touche for the telecommunications network, Port Autonome de Marseille and Sogreah, both of which worked on Beirut Port, Sofrerail for the rail network, Lyonnaise des Eaux-Dumez on the watersupply and wastewater sectors, and C.R.E.E.D., who worked in the Solid Waste sector.

2.1.2.3 Consultancy Contracts: Technical and Organisational Assistance

Crucial consultancy contracts, which were aimed at giving technical and organisational assistance to the institutions responsible for implementing the recovery programme, were secured by Western firms, and in particular, British firms. This included the consultants KPMG Peat Marwick which operated the Programme Management Unit at the C.D.R., Binnie & Partners, which operated the Sector Implementation Unit at the Ministry of Hydraulic & Electric Resources, and Transtec Fichtner, which managed the S.I.U. at the Ministry of Municipal Affairs and the Ministry of the Environment. The Electricity Supply Board of Ireland managed the other S.I.U., which was at the Electricite Du Liban, and the Dutch consultants NEDECO, assisted KPMG.

2.1.3 Support of Export-Credit Agencies

An important measurement of external confidence both in the recovery programme specifically, and in the Lebanese political and economic systems generally, was the return of coverage to Lebanon by the export guarantee agencies of major Western countries. By the end of 1994, the Italian, the French, the German, the British, and even the American export guarantee agencies were all active in Lebanon.[177]

In particular, the French, the Italian, and the German credit agencies - COFACE, SACE, and HERMES respectively - have

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[177] The British agency is called the Export Credit Guarantee Department E.C.G.D. and the American one is the Export-Import Bank. For a look at the role of the Export-Import Bank of the U.S., see Julius Kaplan, "A New Source of Financing for Lebanon: The Export-Import Bank of the United States", Middle East Insight 9 (March-April, 1995), 53-55.

all played a leading role in backing the bids of their national companies. As we explained elsewhere, for example, strong financial backing by SACE and HERMES ensured the consortium of Ansaldo/Siemens the lucrative contract to build two power stations in the electricity sector.[178]

2.1.4 Visits to Beirut by Foreign Government and Business Delegations

Another measurement of the international interest in the reconstruction programme specifically, and the Lebanese government generally, was the relatively high number of visits to Beirut by government and business delegations from numerous countries including the U.K., France, Italy, Germany, Canada, Russia, Romania, Spain, Australia, Brazil, and several Arab countries. Hopes of securing economic opportunities in Lebanon appear to have been the main reason behind the majority of the visits to Beirut. Below, we will cite several examples.

In December of 1992, a Russian economic delegation visited Beirut with hopes of increasing cooperation between Lebanese and Russian industrialists; in January 1993, the Italian F.M. Emilio Colombo visited Beirut and pledged millions of dollars for the recovery programme; in June 1993, the U.K. construction minister, Sir George Young, led a trade mission to Beirut; in October 1994, the British Foreign Office secretary, Douglas Hogg, visited Beirut to encourage closer economic ties with the U.K; in November 1994, the Italian F.M. visited Beirut with the intention of encouraging closer economic cooperation; in

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[178] In a bid for the same contract, COFACE backed GEC Alsthom. MEED (20 January 1995), 25.

November 1995, the German Economic Minister, Gunter Rexredt, headed a large business delegation to Beirut including bankers and businessman, with the hopes of increasing German economic opportunities; and in July 1995, the German F.M., Klaus Kinkel, visited Beirut with a large delegation of businessman.[179] The high level of foreign visits to Lebanon is also clear from the fact that, in the first six months of 1996 alone, a total of 32 foreign delegations, many of which were economic delegations, visited Lebanon from a large number of countries.[180]

2.1.5 International Support for Lebanese Government Eurobonds

Another indication of international support for the Lebanese government and its recovery programme is the interest shown in two Lebanese government Eurobonds. The first one, worth $400 million was issued in September 1994, and the second one, valued at 300 million, was issued in July 1995. A supplement to the second Eurobond, valued at $100 million, was issued in March 1996.[181] The $800 million raised by the government was to be used to support infrastructure projects in the Beirut area.[182] Both issues were oversubscribed, with investor interest from over 20 countries, although the majority of the buyers were Lebanese and

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[179] This information was taken from the chronology section of The Lebanon Report.

[180] For a list of the 32 foreign delegations, see -----, Business Lebanon no.1 (2nd Quarter 1996), 44.

[181] Merrill Lynch was the lead manager for the first issue, while Paribas managed both parts of the second Eurobond.

[182] See -----, "Eurobonds Are Issued", The Lebanon Report 5 no.10-11 (October-November, 1994), 8.

Arab investors.[183]

2.2 The Progress of the Horizon 2000 Programme

Having established that there has been relatively strong international interest in the recovery programme, we will now attempt to assess the progress of its implementation to date, and to address the question of whether or not the programme is likely to succeed in its ultimate goals with respect to improving the country's infrastructure and facilitating economic growth. Obviously these are very controversial issues. Horizon 2000 was designed as a ten year programme, and after only five years of implementation, there are bound to be a whole range of unresolved questions and concerns. However, it certainly is possible at this point to draw some general conclusions about the results of the work that has been done, and to identify some areas of concern which are likely to have a crucial impact on the programme's final outcome.

2.2.1 Horizon 2000 To Date: Some General Conclusions

A general examination of the progress of the Horizon 2000 programme to date yields some very positive impressions. We would argue that, above all else, there has been an improvement in the country's infrastructure. To put it briefly, things have moved forward in Lebanon. Electricity is now available to Beirut residents for 24 hours a day, and to most other Lebanese for all

[183] Economist Intelligence Unit, Country Report: Lebanon - 4th Quarter 1995, 19.

but 2 hours a day. There has been a marked improvement in the fixed telephone network and access to the cellular network is widely available. A reasonably efficient system of garbage collection is now in place in Beirut. In addition, as we have shown in section one of this chapter, thousands of projects have been completed, or are currently in progress. Even critics of the programme cannot deny the importance of these infrastructure projects. They have clearly improved the everyday lives of all Lebanese, and they have served to provide at least the beginnings of an adequate foundation for facilitating private sector activity in Lebanon.[184]

A second positive observation concerns the favourable international attention that the reconstruction programme has focused on Lebanon. At the beginning of the 1990s, Lebanon was a pariah state, associated primarily with intractable confessional and political conflict and terrorism. Now, largely as a result of the recovery programme, Lebanon is once again viewed fairly positively, in terms of its potential as an economic and cultural centre. The programme has acted as a sort of magnet, attracting all kinds of positive international attention. Because of the recovery programme, and the opportunities it offers, foreign governments are once again interacting positively with the Lebanese government and other groups in Lebanon, international businesses are making bids, winning contracts, and generally bringing their expertise to bear on the Lebanese economy, and the Western media is no longer depicting

[184] See the relatively positive conclusion on the progress of the programme in Said Hitti, Budgetary Politics in Lebanon, 20-21.

Lebanon in almost purely negative terms.

However, it would be grossly inaccurate to suggest that the Horizon 2000 programme has been an unqualified success thus far, or that its future is necessarily a bright one. A number of problems, or potential problems, have become all too apparent during the course of the last few years, and these raise serious questions about the ultimate viability of at least some aspects of the plan.

2.2.2 Some Areas of Critical Concern

2.2.2.1 Funding: The Debt Problem[185]

Perhaps the most serious problem facing the Lebanese recovery programme, and the Lebanese economy as a whole, has been the high debt burden associated with the perennial budget deficits accumulated by the Lebanese government and the increasingly high levels of foreign borrowing. The problem is so serious that the World Bank revealed in the autumn of 1995 that Lebanon is on its short-list of states that are a high risk for bankruptcy.[186] As of the end of July 1996, Lebanon's total debt rose to $10.5 billion, which was nearly triple the debt figure for 1993. Domestic debt accounted for $8.9 billion, or 85.4% of

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[185] For a look at the debt issue, see ibid.

[186] -----, "6% Growth Conceals Difficulties", The Lebanon Report no.3 (Fall, 1995), 14.
In fact, the World Bank opinion was reciteed in a paper delivered by Alberto Musalem, the principal economist at the World Bank, at the Financial Times sponsored conference on reconstruction in Beirut in June 1995. See Albert Musalem, "An Appraisal of Lebanon's Economic Prospects - Lebanese and International Perspective".

the total.[187] Total external debt increased from $327 million in 1993 to $1.53 billion in July 1996.[188] The total gross debt (before taking into account government revenues) to GDP ratio increased from 49.5% in 1993 to 79% in 1995. In terms of total net debt to GDP ratio, it increased from 38% in 1993 to 64% in 1995.[189] In addition, both the 1996 and 1997 budgets have recorded large deficits.

Obviously, if the Horizon 2000 plan is to succeed, it must be sufficiently funded. As we noted previously, the government expected to rely heavily on external sources of funding for the first few years of the programme, and planned to balance this with budget surpluses which were supposed to materialise beginning in 1996. For a whole range of reasons, perhaps including the fact that the government was, as we noted previously, unable to raise as much money from external sources as it had hoped, these surpluses have not appeared. It is unlikely that the government will even be able to control budget deficits for the foreseeable future, let alone, record budget surpluses. This has obviously had a negative effect on the continuing implementation of the Horizon 2000 programme. In short, lack of money has slowed the programme down.

Given these circumstances, it is not surprising that the government has attempted to attract even more foreign funding for the recovery programme, particularly grants and soft loans,

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[187] MEED (11 October 1996), 34.

[188] Actually, the foreign debt component maybe much larger. See Said Hitti, Budgetary Politics in Lebanon, 21, 25.

[189] Ibid.

as opposed to relying on domestic funding which tends to involve high interest. To quote C.D.R. Vice President, Nahoud Baroudi, "We initially forecast a limited role for grants and soft loans. Now we are saying that of $5 billion we are seeking over the next five years, 30% should be in grants and 70% in concessional loans, which we define as carrying annual interest of less than 3.5%."[190]

In spite of this attempt to find alternative sources of funding to continue the programme, it appears that the government is resigned to the fact that the Horizon 2000 programme will have to be scaled down. P.M. Hariri has implied that the programme may be cut in half to $7.7 billion.[191] He may have come to this decision under pressure from the World Bank. A confidential 1995 World Bank report was highly critical of the government's debt problems, and recommended that the government cut its programme.[192] The report stated: "the original Horizon 2000 in its entirety could not be undertaken by the government alone without risking the failure of stabilisation under the best of circumstances and strong fiscal adjustment efforts."[193] Moreover, as we noted above, the report stated that Lebanon's debt burden had placed it on a shortlist of states threatened

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[190] Quoted in MEED (31 May 1996), 2-3.

[191] For more details concerning this issue, see -----, "Reconstruction Spending is Cut in Half", The Lebanon Report no.2 (Summer, 1996), 24-25; and The Economist Intelligence Unit, Country Report: Lebanon - 1996/1997, 11-12.

[192] Ibid, 24.

[193] See -----, "Reconstruction Spending is Cut in Half", 25.

with bankruptcy.[194] Hariri was unhappy with the report, and apparently negotiated with the World Bank to moderate the criticism.[195]

The funding shortage has been so serious that, in some cases, the C.D.R. has already had great difficulty paying contractors for their work. To cite one important example, the C.D.R. has apparently failed to pay the joint venture Hochtief of Germany and the C.C.C. for work on the rehabilitation of the airport. Delays in payments prompted the heads of Hochtief International and Asian Divisions to travel to Beirut to meet with both Hariri and C.D.R. officials.[196]

If the programme is to be cut, this obviously raises serious questions concerning the priorities of Hariri, the government and the C.D.R., who will be making the decisions about which programmes are retained and which are indefinitely postponed. Critics have raised the concern that the important social infrastructure programmes, which were scheduled to dominate the second half of the programme, will be cut in favour of completing the leadership's "pet" physical infrastructure programmes, such as the controversial expansion of the airport, and the construction of the sports city. One may certainly question whether all of the physical infrastructural works, which have already been initiated or which are in the planning stages, will ultimately be of particular benefit to the people

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[194] The Economist Intelligence Unit, Country Profile: Lebanon - 1996/1997.

[195] Ibid, 24.

[196] -----, "To Pay or Not to Pay?" The Lebanon Report, no.1 (Spring, 1997), 15.

of Lebanon if the public sector is not reformed, if the housing problem is not addressed, and, generally, if the social infrastructure of Lebanon is insufficiently improved to enable the Lebanese to develop and utilise their human resource potential.

2.2.2.2 The Institutional Arrangement

Throughout this paper, we have explained that the Lebanese public sector has suffered from a great deal of corruption, and inefficiency. In chapter four, we outlined the institutional arrangement which was supposed to do away with these problems and implement the programme as quickly and efficiently as possible. Briefly, the recovery programme was placed in the hands of the C.D.R., an organisation designed with technical expertise and efficiency in mind. In contrast to the public sector, it was staffed by technocrats hired on the basis of merit and it was supported by highly qualified international consultants. In addition, the C.D.R. was supposed to be autonomous vis-a-vis the bureaucracy and the political process, and, hence, not subject to the endemic conflict, compromise and personal interest of the Lebanese political process, which would very likely have dramatically altered the content of the programme and significantly delayed its implementation.

2.2.2.2.1 The Functioning of the C.D.R.

Given the central significance of the C.D.R. in the implementation of the recovery programme, it is critical to determine whether or not it functions as it is intended to function, and can really be characterised in terms of technical

expertise and efficiency.[197]

There are certain variables which would tend to indicate that the program has been operated in a relatively responsible manner, but, it must be said, that none of these are particularly conclusive. We will cite two examples.

First, the high level of international bids for many of the major contracts is evidence that the international community has faith in the management of the programme, and in the fair awarding of contract bids. If this were not the case, we feel that these international companies would not be willing to pay the fee for a bidding document which averages between $2000 and $10,000.[198] Indeed, the bidding process is usually much more than just the cost of the bidding document. The British company Trafalgar House, for example, spent up to $350,000 just to bid on the Sports City project.[199] This point, about international confidence in the C.D.R. is not, however, conclusive. Another factor which promotes such confidence, perhaps a more significant one, is that external procedures have been put in place to ensure that projects will be allocated fairly. Aid donors would usually have to okay the awarding of a contract

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[197] Many specialists in Lebanon have relayed to us the difficulties of retrieving information on the C.D.R. For several reasons the C.D.R. has remained incredibly guarded, including its desire to keep information away from the ministries. This information was based on interviews in Lebanon in the Winter of 1997 with several specialists.

[198] The figures were given by Boutros Labaki in an interview with The Lebanon Report 5, no.3 (March, 1994), 10.

[199] In addition to paying for the tender documents, the cost included bid bonding, performance bonding, advance payment bonding, and retention bonding. Paul Hodge, "Contracting Operations in Beirut", unpublished paper delivered at the Financial Times sponsored conference Beirut on 8-9 June 1995, 2.

which they have funded. The World Bank, for example, has supervisory authority to insure that the loan's guidelines are properly respected, and to resolve any problems which may arise.[200] What this simply means is that corruption is less likely to occur in the projects which were externally funded, so the levels of international involvement may or may not represent a vote of confidence in the C.D.R.

A second indicator that the C.D.R. would tend to function relatively effectively is that, below its top level, it is staffed primarily with technocrats, who are, at least theoretically apolitical, and who should be more accountable than typical Lebanese public sector employees, in the sense that they are hired on the basis of merit rather than on the basis of patronage and confessional considerations, and can be more easily dismissed for poor job performance or other shortcomings. This point also is not conclusive. As will be recalled from chapter four, the C.D.R. has suffered from a massive shortage of qualified personnel. While more people have been hired, and foreign consultants brought in to compensate, we cannot say with certainty whether or not these measures have been effective. Furthermore, it is not evident that the personnel who are available have been organised in the most efficient manner. A 1995 study by the P.M.U.C. and Team International on the C.D.R. organisational plan requested changes to the C.D.R.'s structure in order to make the organisation more efficient. The major change was to reorganise the C.D.R. into three divisions, from

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[200] -----, "Behind the World Bank Loan", The Lebanon Report 4, no.5 (May, 1993), 8.

the original four, and to add two new staff units including an Information Systems Unit, and a Monitoring and Evaluation Unit, which was responsible for monitoring and evaluating the work of the C.D.R.[201] However, as of this writing, the C.D.R. has yet to institute these reforms, and the government does not seem to be in any particular hurry to implement them in the near future.[202] In fact, the decision to commission the study was basically in response to political pressure from the opposition who were worried about the C.D.R.'s lack of accountability.[203]

Aside from variables like these however, it is possible to draw a reasonably favourable conclusion about the C.D.R. simply based on the parts of plan that have been implemented to date. As we detailed in section one of this chapter: thousands of projects either have already been completed or are in the process of being implemented; hundreds of contractors and consultants have become involved; project types ranging from the very simple to the very complex have been integrated into the programme; and a diverse range of funding for the projects has been attracted and administered. It is hard to imagine that the reconstruction would have proceeded as it has if the C.D.R. had not been conducting the programme in a relatively professional and efficient manner.

2.2.2.2.2 The Autonomy of the C.D.R.

As we have indicated, the main strength of the

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[201] For precise details about the proposed reorganisation of the C.D.R., see C.D.R., Progress Report - March 1996, 56-57.

[202] Interview in Beirut in the winter of 1997.

[203] Ibid.

institutional arrangement to manage the Horizon 2000 programme was that the C.D.R. was to be relatively autonomous from the political process, thereby lessening the impact of political interference, which would more than likely have retarded the programme. However, it should be acknowledged that, almost paradoxically, this autonomy would be fairly pointless, in itself, if there were not a strong force, firmly grounded in the political system, pushing for the implementation of the programme in the first place. In short, the C.D.R. cannot be completely autonomous. It needed, and continues to need, Hariri, or someone very much like him, to give it the necessary political authority to manage the programme. But Hariri has gone beyond merely giving strong support to the Horizon programme and the C.D.R. to immunise them from the fluctuations of the political process. As we have noted many times in the course of this study, for motives which are not entirely clear, he has actually attempted to take personal control of the recovery process by allocating the top posts in the C.D.R. to close associates. While this has meant that the C.D.R. has increasingly been able to utilise his personal authority to assist it in pushing the reconstruction forward, it also has meant that the C.D.R. is subject to the same limitations vis-a-vis autonomy from the political process as he is subject to. In short, Hariri, who effectively controls the C.D.R., has had to operate in a political environment in which he is not completely dominant, and the C.D.R. has had no choice but to endorse the compromises that he has been forced to make, irrespective of the impact that these might have on the programme.

In order to maintain his position and get his programmes through, Hariri has had to bargain with his political rivals. In effect, in order to prevent his political opponents from crippling the programme, he has been forced to give them access to some of the projects, where they have been allowed to pursue their own interests in terms of financial gain or the allocation of patronage. The result has been that the major political factions have split many of the projects in the Horizon 2000 programme amongst themselves. Political interference left a situation where many of the contracts in the programme have been awarded on the basis of political connections rather than on the basis of competitive bidding. We will cite several examples.

A prime example was the project to rehabilitate Lebanon's famous tourist attraction, the Jeita caves, a project which was the responsibility of the Ministry of Tourism. In brief, the Minister of Tourism, Nicolas Fattouh, awarded the contract both to rehabilitate and to manage the caves to a company owned by one of his friends. Apparently, the company lacked the geological and technical expertise to rehabilitate the caves. Critics argued that the company did not properly rehabilitate the caves, and that in the long run, damage to the caves would occur.[204]

A second example was the very controversial contract to build a coastal road from Beirut to the South. The contract was awarded to the local company Ittihad Contracting, which is owned

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[204] For details of the affair, see -----, "A special deal for Friends", The Lebanon Report no.4 (Winter, 1995), 21; and Economist Intelligence Unit, Country Report: Lebanon - 4th Quarter 1995, 18.

by Nabih Birri's wife Randa, a Syrian company Qassioun, which the Khaddam family has had some stake in, and the local company Geneco, which is owned by Rafiq Hariri's brother, Shafiq. The contract sparked a controversy in parliament where opposition figures claimed that the companies charged an extraordinary sum, and that, furthermore, there was no competitive bid for the projects. Because of the controversy, the companies agreed to cut their price by 20%, but observers noted that they would still make a huge profit on the deal.[205] Other examples included a $67 million contract awarded to Geneco for work on the Sidon corniche, a $206 million contract awarded to Syria's Mount Qassioun Company to build a road between the Southern towns of Zahrani and Qena,[206] and the awarding of the two contracts, noted in section one, to operate the cellular telephone network. In the latter case, the project was divided, at least partly because one group was backed by interests close to the defense minister Mohsen Dalloul, and the other group was backed by Kuwaiti interests.[207]

Of course, Hariri has also gained a great deal from the recovery programme through his connections with the C.D.R. As the most powerful domestic actor, has been able to secure the most lucrative contracts for his allies, thereby strengthening his own political patronage network.

In addition to the numerous other examples which could be

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[205] See the Economist Intelligence Unit, Country Report: Lebanon - 3rd Quarter 1996, 20.

[206] MEED (9 February 1996), 19.

[207] Interview in Beirut in the winter of 1997.

easily cited, there are some which are much more difficult to identify. As we noted at the beginning of section one, most of the contracts awarded to international firms have been sub-contracted to local firms, usually for significantly less than the international companies had bid for them. It is quite conceivable that these contracts have been sub-contracted to firms which had political connections to either Hariri, or other groups.[208]

Obviously this level of political interference has an adverse effect on the recovery process as a whole, and on the bidding process in particular. Although the programme has not been crippled, modified and delayed to the extent that it might have been, had it been fully exposed to the political process, even the limited interference that has taken place has jeopardised its ultimate success by driving up costs.

2.2.2.2.3 Future Institutional Problems

We would like to conclude this chapter by raising an interesting question regarding the future of the programme once it has been completed. Few would argue that Lebanon does not need a modern infrastructure. Still, we would question the benefit of spending billions of dollars on this kind of development without a corresponding comprehensive reform of the public sector. If the kinds of corruption, inefficiency, and the lack of technical expertise, that, in part, necessitated the creation of the C.D.R., continue to persist after it has fulfilled its role, there is a very real danger that a multi-

[208] This information was based on interviews conducted by the author in February 1997.

billion dollar investment will effectively go to waste.

We will give just four examples of many which could be found to illustrate our point. First, a telling example of the sorry state of the Lebanese public sector and its inability to either implement the projects or manage them after their completion was strongly in evidence when the Post and Telecommunications Minister, Mohamed al Ghazairi, requested in February 1995 that the C.D.R. relieve his ministry from the task of supervising the rehabilitation of the telecommunications network.[209] This situation could also apply to the EDL, which lacks the technical expertise to run and maintain the new and rehabilitated electrical facilities.[210] A third example concerns the government's plan to buy buses to improve the public transportation network in the Beirut area. A 1994 study of the public transportation system by Team International indicated that investing in the transportation system would be a "clear waste of money" unless there was a complete restructuring of the agency responsible for operating the buses.[211] A final example concerns the management of Beirut Port, where corruption, theft, and bribery are rampant, at present. Companies which have refused to pay bribes, have found great difficulty getting their goods through the port. Things are so bad, that insurance

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[209] Philip Khoury, "Reconstruction: Implementing Horizon 2000", The Lebanon Report 6, no.4 (April, 1995), 8.

[210] -----,"End to Rationing in 18 Months", The Lebanon Report 4, no.11 (November, 1993), 8.

[211] The operating agency is the O.C.F.L.T.C. Quoted in Marwan Iskandar, Lebanese Economy 1995, 186.

companies have refused liability during this period.[212]

Thus far, Hariri has not had the necessary political support or resources to really deal with the problem of institutional reform, and he has been limited to "reforming" the public sector, by putting his own men at the top of the bureaucratic institutions to streamline the decision making process. However, this has not been a particularly effective policy due to the fact that, while it allows him to exercise authority over top level bureaucrats, it does not give him effective control of the ministries because the chain of command breaks down at the middle management level. As the economist, Philip Khoury explained, "In the clientist nature of Lebanese politics, middle managers remain under the control of politicians and the chain or responsibility has fallen apart at this level. The chief victim has been the government's reconstruction programme."[213]

3. The Hariri Government: A Capitalist Developmental State?

The need for a strong state, a state which is pre-eminent relative to other political or societal forces, and hence has the capability to formulate coherent development policies and carry them out, is one key feature of Johnson's model of a capitalist developmental state. Another feature is the presence of an elite economic bureaucracy which must be autonomous from the political process in order to focus on purely economic

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[212] For a damning look at port practices, see -----, "A Den of Theives?" The Lebanon Report no.4 (Winter, 1995), 19.

[213] Philip Khoury, "Not Banking on the Future", The Lebanon Report 6, no.3 (March, 1995), 5.

imperatives. As we have seen in section two of this chapter, the Lebanese case does not conform to this model in either of these two respects. The Lebanese state is not particularly strong. The political process is structured in such a way that elite solidarity, primarily sustained through a broad distribution of access to patronage, is a key priority, a pre-condition for the effective management of sectarian conflicts. Thus, bargaining and compromise is an inherent part of politics in Lebanon, a part which even the most powerful domestic political actors cannot escape from. As we have seen, Hariri has attempted to provide Lebanon's version of the elite economic bureaucracy, the C.D.R., with the necessary autonomy from the bargaining process by taking personal control of the organisation and using his influence to push through its initiatives. However, in practice, this has meant that the C.D.R. is only as autonomous as Hariri himself, and, for reasons which we will return to in chapter seven, and which are mostly related to Syria's penetration of the Lebanese political system, Hariri has been fairly heavily engaged in the bargaining process.

CHAPTER SIX: PRIVATE SECTOR INVOLVEMENT IN THE ECONOMIC RECONSTRUCTION OF LEBANON

In the previous chapter, we presented a survey of the progress of the government's Horizon 2000 plan. As we noted, we feel that several conclusions can be reached. Above all, it is clear that, largely as a result of the institutional framework established during Hariri's period in government, the reconstruction of the country is progressing: this is particularly true in respect to the rehabilitation of the important infrastructure projects. However, because of a shortage of funds, the programme has slowed down, and it is doubtful that the government will have the financial resources to implement the remainder of the plan. Second, the C.D.R. has, to some extent, executed the plan in a reasonably professional manner. Third, the government's reconstruction programme has received international attention. International firms have played a leading role in the recovery programme, and many of the projects were funded through loans or grants from foreign governments or international organisations.

As we explained in chapter three, as crucial as the government's Horizon 2000 programme is in helping to restore the economy, the success of Lebanon's economic recovery is ultimately dependent upon the performance of the private sector. To put it a different way, the government's hopes of returning Lebanon to its former role as the commercial and financial capital of the Middle East very much hinge on the level of private sector investment in the country.

The purpose of this chapter is to provide a survey of

private sector investment in numerous areas of the Lebanese economy, with a view to establishing several conclusions: first, we hope to provide the reader with a general idea of what has happened, and is happening, in the Lebanese economy, and show that things in Lebanon are at least moving forward, even if it is not possible at this time to draw any definitive conclusions concerning the success of the economic recovery; second, we hope to identify both the personalities and companies, Lebanese and otherwise, which have invested their resources in Lebanon; third, we can gain a relatively accurate impression of private sector confidence both in the Hariri government, and in the political system as a whole; and fourth, the survey may also provide some insight into the future stability of the Lebanese state. For example, if it can be shown that important Saudi businessmen, and/or major Western businesses have developed a presence in the country, then it follows that they, and their respective governments, would have a greater interest in ensuring the stability of Lebanon.

This chapter is divided into two sections. In section one, we will look at the various ways the Hariri government has attempted to attract private sector investment into the country. In part two, we will give a survey of private sector investment in Lebanon.

1. Government Assistance to the Private Sector

In section one, we will take a brief look at the various ways the government has attempted to attract private sector investment into Lebanon. Briefly, these have included: the

establishment of private companies (and one public agency) to redevelop large sections of Beirut and other urban areas; the encouragement of Build-Operate-Transfer (B.O.T.) projects; the lowering of personal and corporate tax rates; the establishment of a government agency - directly linked to the prime minister's office - to advise foreign companies on investing in Lebanon; the establishment of a development bank to assist entrepreneurs; and the passage of several specific laws aimed at particular sectors of the economy.

1.1 Government-Established Private Companies

On 7 December 1991, nearly one year before Hariri took the reins of power, the Lebanese government established Law 117, which stated that the C.D.R. had the legal right to set up one or more real estate companies, which would then proceed to take over and rebuild areas destroyed during the civil war.[1] The owners of the private property affected by the takeover would be given shares in the new property companies. The rationale behind the law was that a private company backed by the government would be able to manage the redevelopment of large areas of urban Lebanon much more quickly and efficiently than individual property owners.

Hariri was a major supporter of Law 117. In fact, it may

[1] For precise details on the law, see Solidere, Law No. 91-117 of 7th December 1991 4th Edition (Beirut: Solidere, May 1995), 3-14. For a critical examination of the law, see Paul Mourani, "Decision Making in Reconstruction: The Consequences of Monopoly-Type Solutions", in Nabil Beyhum, Assem Salam, and Jad Tabet (eds.) Beyrouth: Construire L'Avenir Reconstruire Le Passe?, 115-144.

have been his idea to establish a private real estate company, which came to be known as Solidere, to redevelop the Beirut Central District (B.C.D.). As we will see below, Hariri's government zealously supported the Solidere project, and employed Law 117 to create more privately-owned real estate companies to develop areas in other parts of Lebanon. These controversial projects will be discussed in section two.

1.2 Government-Sponsored B.O.T. Projects

The Hariri government has also enthusiastically supported the use of B.O.T. projects. As we explained in Chapter 5, several of the projects in the Horizon 2000 plan were awarded on a Build Operate Transfer (B.O.T.) basis, or on similar concepts including Build Operate Own (B.O.O.), and Design Build Operate Transfer (D.B.O.T.) projects. Enterprises originally intended to be based along these lines included the mobile telephone network, the Arab highway linking Beirut and Damascus, the southern section of the Beirut ring road, free zones at Beirut, Riyak, and Quleaat airports, and the country's postal service.[2] The reasoning behind encouraging these types of projects was simple: They invited investment into the country, at little or no cost to the government. The government also encouraged the development of several purely private sector (i.e., outside the Horizon 2000 plan) B.O.T. projects, including the development of commercial complexes.[3] These projects will be discussed in

[2] Of course, some of these projects did not go ahead. For instance, we have commented in chapter five that the Beirut-Damascus toll road had to be abandoned for a number of reasons.

[3] It should be noted, however, that the mobile telephone

section two.

1.3 Tax Incentives

One of the Hariri government's most ambitious attempts to attract domestic and foreign investment into Lebanon was the establishment of a new tax law, passed by Parliament on 14 December 1993, which significantly lowered the personal tax rate to between 2 and 10%, and the corporate tax to a flat rate of 10%. Previously, the top rate for personal tax had been 43% and for corporate tax had been 35%.[4] The new corporate rate is the lowest in the region. The government had hoped that with a 10% corporate tax rate, foreign companies might be encouraged to establish their regional bases in Beirut. As the Central Bank governor, Riad Salameh, explained, "[a corporate income tax of 10%] cannot be matched by any country in the region."[5] The low corporate tax, combined with no capital gains tax, should prove to be attractive to foreign investors.[6]

1.4 The Investment Development Authority of Lebanon (I.D.A.L.)

In an attempt to both attract and facilitate foreign

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network was also not included in the Horizon 2000 programme.

[4] See the following: MEED (18 December 1993), 26; -----,"Government Preparing New Tax Laws", The Lebanon Report 4, no.6 (June, 1993), 8; -----, "Cabinet Approves Reduced Tax Rates", The Lebanon Report 4, no.7 (July, 1993), 9.

[5] MEED (3 December 1993), 15.

[6] In addition to hoping to attract domestic and foreign investment, the government hoped that the low tax rates would lower tax evasion.

For a brief review of some of the criticisms levied against the new tax law, see -----, "Cabinet Approves Reduced Tax Rates", The Lebanon Report, 9.

investment the government established a special investment promotion agency, called the Investment Development Authority of Lebanon (I.D.A.L.). This agency, which was established in December of 1994, is attached to the prime minister's office, and is currently headed by Youseff Choucoir, who has been a senior advisor to Hariri on reconstruction and economic affairs.[7] As of January 1997, it consisted of approximately 15 professionals and a total staff of about 40, although the organisation was hoping to increase its staff.[8]

The I.D.A.L. is responsible for helping to facilitate foreign (as well as domestic) investment by identifying projects which need investment, marketing these projects to foreign investors, and providing recommendations to relevant state bodies.[9] Choucoir stressed the need for such an agency, commenting: "We have had a lot of requests and interest from prospective foreign investors but we were not able to deal with them in a formal way until the new authority was set up."[10] Since its establishment, numerous foreign business delegations have visited the I.D.A.L. to find out about investment opportunities

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[7] Dr. Choucair was a former World Bank economist, and was involved in the first World Bank loan to Lebanon.

[8] Interview with Adib Salem, senior economist at the I.D.A.L, in Beirut on 4 February 1997.

[9] For a succinct look at the activities of the I.D.A.L, see Nicholas Blanford, "Let the Free Trade Begin", Business Lebanon no.1 (3rd Quarter 1996), 20-22. In addition, see the information package distributed by the organisation. I.D.A.L., Lebanon: The Will to Reconstruct, The Opportunity to Invest.

[10] MEED (2 December 1994), 2-3, 33.

in Lebanon.[11]

One project which the agency has promoted, although apparently they have failed to draw significant interest, was the development of free trade zones at various airports and ports.[12] The I.D.A.L. is also responsible for Lebanon's existing and future industrial zones.[13] The ability of this organisation to promote Lebanon to foreign investors, may however, be somewhat limited due to a lack of financial resources.[14]

In addition to its stated role of promoting investment in Lebanon, the I.D.A.L. has also assisted foreign investors in dealing with red tape. As one senior economist at the I.D.A.L. put it, "if an investor is caught in a bureaucratic nightmare, we will make the necessary phone calls to facilitate the process."[15]

1.5 Government-Sponsored Development Bank

To help encourage private sector investment in two key sectors of the Lebanese economy, the tourist and industry sectors, the Hariri government created the National Bank for the Development of Industry & Tourism. The bank, which was established on 25 October 1994, was entrusted with the task of

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[11] The delegations have probably heard about the I.D.A.L. through their embassies.
Interview with Adib Salem in Beirut on 4 February 1997.

[12] Ibid.

[13] Nicholas Blanford, "Let the Free Trade Begin", 20-22.

[14] The organisation is, however, on the internet.
Interview with Adib Salem in Beirut on 4 February 1997.

[15] Ibid.

financing industrial and touristic projects, as well as encouraging the investment of domestic and foreign capital. The government was to contribute 20% of the bank's capital, while the remaining 80% was to come from private investment.[16]

1.6 Additional Laws

The government has also passed several laws, dealing with more specific aspects of the Lebanese economy, which were intended to help foster private sector growth by reestablishing the stock market, and by strengthening the banking system, the tourist sector, and the industrial sector. In section two, we will take a closer look at these government laws.

2. Private Sector Investment in Lebanon

In section two, we will give a detailed survey of private sector investment in Lebanon. In sub-sections one and two, we will look at unique private sector projects which are essentially sponsored by the government, with sub-section one concentrating on the largest private sector project, the reconstruction of the Beirut Central District, and the second sub-section on similar but smaller scale projects. In sub-section three, we will look at the B.O.T. projects which have been, or are currently being, developed. In sub-section four, we will look at major projects, mostly consisting of commercial/residential enterprises developed solely by private interests. In sub-section five, we will look at the health of

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[16] Middle East Economic Survey XXXVIII no.5 (31 October 1994); Economist Intelligence Unit, Country Report: Lebanon - 1st Quarter 1995, 19.

the real estate sector. In sub-section six, we will look at the health of the banking sector. In sub-section seven, we will look at developments in the stock market. In sub-section eight, we will look at the tourism sector. In sub-section nine, we will look at investments in the industrial sector. And finally, in sub-section ten, we will look at private sector investment in various other sectors of the economy.

2.1 Government Assisted Private Sector Projects: Solidere & the Reconstruction of the Beirut Central District

2.1.1 The Importance of the City Centre

The Beirut Central District (B.C.D.) is the most prized piece of property in Lebanon. During modern Lebanon's prosperous years (1950s-1975) the city centre was not only the heart of the country's economic, cultural, and bureaucratic establishment, but it was also the financial and commercial centre of the Middle East. One might even argue that the centre's prosperity confirmed Lebanon's success as a country. The city centre, however, was completely destroyed during Lebanon's civil war (from 1975 to 1990) and it became merely a desolate physical barrier between Christian dominated East Beirut and Muslim dominated West Beirut. The B.C.D. was replaced by other economic and cultural centres, most of which were parochial, such as the Maronite dominated city of Jounieh. With the end of the war, the reconstruction of Beirut's city centre had become a project of paramount importance. From a symbolic standpoint, rebuilding a centre accessible to persons of all faiths would help to signify an end to the divisions in Lebanese society. From a practical

standpoint, Beirut's centre is the natural location for Lebanon's financial and commercial core.

In this sub-section, we will look at the reconstruction of the Beirut Central District. There is a belief among many observers of the Lebanese scene that those who dominate the city centre will also dominate the rest of the country.[17] In many ways, therefore, looking at the reconstruction of the city centre provides an interesting avenue to understanding the forces, both governmental and private, which are involved in driving through the reconstruction of Lebanon. Moreover, given the importance that the government, and particularly Prime Minister Hariri, has placed on the city centre project, its success or failure can be regarded as an indicator of the progress, or lack thereof, of the economic reconstruction of Lebanon and also of support for the government.

2.1.2 The Development of Plans to Renovate the City Centre

Since the initial destruction of the city centre during the first rounds of fighting in 1975, at least three major attempts have been made to renovate the area: the master plan of 1977-78 which dealt exclusively with the renovation of the city centre; the master plan of 1983 which covered the entire Metropolitan Beirut area; and the 1991 plan, which once again covered only the Beirut city centre.[18] As we mentioned elsewhere, Hariri was

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[17] It is therefore not very surprising, as we will demonstrate below, that the plan to rebuild the city centre was met with opposition from numerous groups and individuals.

[18] For an analysis of all three plans, including a damning critique of the 1991 plan, see Nabil Beyhum, "The Crisis of Urban Culture: The Three Reconstruction Plans For Beirut," The

considered to be the main player behind the 1991 plan, designed by the consultants Dar al Handasah and Bechtel, to rebuild Beirut city centre. The C.D.R. initially commissioned the plan, but it was financed by one of Hariri's companies, which also had considerable input into the plan.[19] To reiterate our earlier argument, when the $3 billion plan was severely criticised by both private and public figures, Hariri decided to put himself forward to accept an executive position in order to push forward the reconstruction of the Beirut city centre.

As noted elsewhere, the plan called for the establishment of a private real estate company, which was later named Solidere, to take over and manage the reconstruction of the 130 hectare city centre. As Angus Gavin, Dar al Handasah's project manager for planning, and a former employee for the London Docklands Development Corporation, explained, "the company will operate like a British development corporation. It will have to build infrastructure on a large scale, refurbish the retained buildings, and market the land approved for development."[20]

The owners and the tenants of the property, who were not consulted or even given a right to opt out of the plan, were entitled to 50% of the shares in the company, while the other

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Beirut Review no.4 (Fall, 1992), 43-62.
In addition, see chapter two for details on Hariri's involvement in these, and other plans.

[19] Ibid, 49; Interview with Paul Mourani on 14 February 1997.

[20] Quoted in Graham Ridout, "Rebuilding Beirut", Building 2 (July, 1993), 32.
For an insider's view on the plan to develop the reconstruction of B.C.D., see Angus Gavin, Beirut Reborn: The Restoration and Development of the Central District, (London: Academy Editions, 1996).

50% would be made up of cash from investors. As critics have strongly pointed out, the expropriation of private property was highly illegal.[21] The proponents of the plan, however, justified the takeover of the property on two grounds. First, they argued that the owners would be unable to properly finance the reconstruction.[22] Second, some of the individual properties were jointly owned, or the legitimate ownership was unclear. Such conditions clearly presented obstacles to reconstruction with regard to decision-making and the management of the process. It seemed unlikely that all owners (or claimants) would agree on appropriate plans to rebuild, presenting the prospect that the process would be tied up in the courts for a very long time, further frustrating reconstruction efforts. As Gavin explained, "There are estimated to be in excess of 40,000 individual owners. The idea of a property development company was conceived because no major reconstruction could take place under these circumstances."[23] Critics of the plan strongly dispute the logic of this argument. They have argued that this management problem has existed in all parts of Beirut, but it has not prevented development in those parts of the capital.[24]

2.1.3 Solidere: Its Structure and the Personalities Who Manage it

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[21] Interview with Assem Salam in Beirut on 22 February 1997; Interview with Paul Mourani in Beirut on 14 February 1997.

[22] Critics, on the other hand, argued that this is unfounded. Interview with Assem Salam in Beirut on 22 February 1997.

[23] Quoted in Graham Ridout, "Rebuilding Beirut", 32.

[24] Interview with Assem Salam in Beirut on 22 February 1997.

On 23 December 1992, the C.D.R. established a Board of Founders which would be responsible for taking the necessary steps to form the company Solidere. The Board of Founders consisted of 12 men, including a member of the C.D.R., and representatives of both the owners and tenants of properties in the B.C.D., and prospective investors in Solidere.[25] The Board of Founders included prominent businessmen from Saudi Arabia including Mohamad Saad Yamini of the Dallah Albaraka Group, Yahia Binladin of the Binladin Group, and Abdullah Ba Hamdan of the National Commercial Bank.[26] The high level of Saudi involvement in Solidere indicates, at least to some extent, the degree to which Arab interests have supported the reconstruction process in Lebanon.

On 5 May 1994, Solidere was incorporated at a general assembly of shareholders in Beirut.[27] At the same meeting, an 11 member board of directors was elected for a three year period. The board included, and currently includes, both prominent members of Lebanon's business community and businessmen from other parts of the Arab world. Nasser Chamma, an associate of Hariri, and a representative of the Hariri Group, was elected Chairman.[28] Nabil Boustani, a member of Parliament from the wealthy Boustani clan and one of the largest investors in

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[25] Solidere, Information Memorandum (Beirut: Solidere, November 1993), 7.

[26] For a list of the members of the board of founders, see Solidere, Information Memorandum, 37.

[27] Sixty-four percent of the shareholders were represented. MEED (20 May 1994), 22-23.

[28] Nasser Chamma worked formerly for I.T.T. and Hariri's company, Oger. See MEED (16 June 1995), 11-19, and 25-26.

Solidere, was elected Vice Chairman along with Maher Beydoun, who is the president and general manager of several commercial companies. Other members included Raphael Sabbagha, president and general manager of Ashada engineering and several real estate companies, Joseph Asseily, and Maher Daouk, both real estate developers, Fouad al Khazen, businessman, Chairman of the Lebanese Contractors Syndicate and President of Industry and Labor Bank, Basile Yared and Sami Nahas, who are both attorneys, and Sarkis Demerdjian, who is the general manager of Demco steel. Yehia Binladin represented Arab interests on the board. And finally, the Posts and Telecommunications Minister, Mohamed Ghazairi, was appointed as the 12th member of the board.[29]

As of 1994, Solidere employed a core of 156 professionals and support staff to plan and implement the B.C.D. reconstruction project. As we will demonstrate below, the staff at Solidere have used a number of consultants to assist them with all aspects of implementing the plan.[30]

2.1.4 Ownership and Investor Interest in the Project

There are two types of shares in Solidere: "A" shares, which are reserved for property owners and distributed as compensation for the expropriation of B.C.D. properties by Solidere; and "B" shares which can be purchased by investors.

With respect to the A shares, seven government appointed appraisal committees and a higher appraisal committee ruled, on

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[29] For details on each board member, see Solidere, Annual Report 1994 (Beirut: Solidere, 1994), 52.

[30] Ibid, 7.

25 February 1993, that the worth of the B.C.D. properties (essentially the worth of Solidere) was just over $1.17 billion.[31] Seven judicial distribution committees have been responsible for distributing shares in the company to the property owners of the appraised land. A maximum of just over 11.7 million A shares, valued at $100 each was to be issued. The process of distribution has not been completed, as the courts have yet to settle ownership of numerous properties claimed by several owners. As of April 1995, just over 2.6 million shares have been allocated.[32]

In addition to the A shares distributed to property owners, the company offered investors a cash subscription of 6.5 million shares at $100 each, worth a total of $650 million. The share offering was made between 1 November 1993 and 10 January 1994. The cash shares were offered only to Lebanese and Arab investors, with priority going to existing landowners and tenants followed by Lebanese residents, government institutions, Lebanese expatriates, and citizens of Arab countries. In order to prevent a single shareholder from dominating the company, the law stated that a shareholder is allowed a maximum of 10% of the cash B shares.[33] The shares were marketed by local, regional, and international banks including Banque Paribas, Saudi American

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[31] The findings cannot be appealed. ibid, 16; -----, "Downtown Property", The Lebanon Report 4, no.3 (March, 1993), 10.

[32] Ibid, 18.

[33] MEED (5 November 1993), 2-3, 28. For a interesting critique of this law, see Paul Mourani, "Decision Making in Reconstrucion: The Consequences of Monopoly-Type Solutions", in Nabil Beyhum, Assem Salam, & Jad Tabet (eds.), Beyrouth: Construire L'Avenir, Reconstruire Le Passe?, 115-144.

Bank, and over 20 local banks.[34] The cash raised by the share issue was to be used for financing the first stage of infrastructure projects.

In a powerful show of investor confidence in the Solidere project specifically, and the reconstruction of the country in general, the cash share offering was 42% oversubscribed.[35] Out of the $926 million total subscribed, $600 million originated from Lebanese investors. According to Central Bank governor Riad Salameh, 90% of the Lebanese investment came from accounts held in banks abroad. In particular, Lebanese based in the Gulf were actively involved. Some of the investors included Hariri himself, who bought $125 million worth of shares accounting for about 7% of the total,[36] and Nabil Boustani, who subscribed to approximately $50 million worth of shares. Other Lebanese businessmen who have bought shares have apparently decided to remain anonymous.[37] Critics have pointed out, however, that although 19,000 people may have shares, in effect, only a few, led by Hariri and his associates, but also Boustani and one of the leading Lebanese construction firms, the C.C.C., dominate the company. In fact, many of the initial subscribers may have sold their shares to Hariri and his close associates, further increasing their control of the company.[38] Moreover, liquid share

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[34] Ibid.

[35] Solidere Annual Report 1994, 18; MEED (21 January 1994), 21.

[36] MEED (21 January 1994), 21.

[37] MEED (26 November 1993), 29.

[38] Interview with Assem Salam in Beirut on 22 February 1997.

holders dominate the company because most of the other shares are still up for grabs in the courts.[39]

2.1.5 The Master Plan[40]

At the time of writing, the B.C.D. constituted approximately 8% of the total Beirut area. It included a 1.2 million square metre area which is projected to rise to 1.8 million square metres after land reclamation work is completed. The project has touched on every aspect of urban development, including land reclamation, the building of infrastructure such as roads, utilities and public space, the restoration of historic buildings and areas such as the traditional Beirut souks, and the construction of commercial and residential units.

Of the total area of 1.8 million square metres, 853,000 square metres was to consist of public space -- including roads, public squares and gardens, about 863,000 square metres was to consist of development blocks, and approximately 83,000 square metres are to be owned by religious or state authorities. The master plan allocated the amount of floor space to the types of building as follows: 1,582,000 square metres of floor space was reserved for offices, 1,959,000 for residential buildings, 563,000 for commercial buildings, 386,000 square metres for cultural facilities and government offices, and 200,000 square metres for hotels.[41]

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[39] Ibid.

[40] As we will note below, the original plan was later changed to account for more land reclamation from the sea, creating more built up area.

[41] Solidere, Annual Report 1994, 21.

The plan is supposed to be executed in two phases. Phase one, which is to be completed between 1994 and 1999 includes both infrastructure and construction work. Infrastructure projects include archaeological excavations, demolition, road construction, seafront protection and marinas, and landfill treatment and additional land reclamation. Construction projects designed to be implemented during this phase include the restoration of retained buildings, the redevelopment of the souks, and the construction of office, residential, and public buildings, as well as the construction of hotels. Many of the construction projects, particularly those related to the development of office, residential and hotel construction have been, or are in the process of being, constructed by other developers. Phase two, which is scheduled to begin in the year 2000, includes major development projects on the reclaimed land.[42]

2.1.6 Execution of the Plan

2.1.6.1 Infrastructure Projects

As we explained above, Solidere was responsible for the redevelopment of the Beirut Central District's infrastructure. The company estimated the cost of infrastructure projects at $129 million, and the cost of reclaiming the landfill zone at $346 million.[43] In return for building the infrastructure of the area, the company was to be compensated by the Lebanese government. Given the weak financial position of the government,

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[42] Ibid, 22.

[43] MEED (2 September 1994), 2-3, 27.

it decided to repay Solidere by allowing the company to reclaim even more land from the sea, thereby increasing the surface from 105,000 to 608,000 square metres.[44] Critics point out that such a move was a windfall for Solidere. They claim that Solidere would earn billions of dollars once the land is built-up.[45]

At least two groups of international consultants and engineers have assisted Solidere in several aspects of the infrastructure projects. Maunsell Consultancy Services of the U.K. has been the general project engineer, helping Solidere with a range of issues from tender evaluation to construction supervision. A partnership of the U.K.'s Christiani & Nielsen and Denmark's C.O.W./consult has been the general construction managers.[46]

To date, infrastructure projects can be broken into four areas, including the first stage of infrastructure projects, the second stage of infrastructure projects, the construction of marine defences, and the reconstruction of Beirut's historic souks.

The contract for the first stage of infrastructure projects was awarded in November 1994 to a consortium of the local Khlat & Moawad and Italy's Consorzio Cooperative Costruzion for $63.7 million, a cost that even critics of the project concede was

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[44] -----, "Green Acres: The Turning of Land into Political Influence", The Lebanon Report 5, no.9 (September, 1994), 3.

[45] A prime critic of the government move was Henri Edde. See -----, "No Solidarity Downtown", The Lebanon Report 5, no.9 (September, 1994), 8.

[46] MEED (3 November 1995), 18.

competitive.[47] The contract stipulated that the work was due to be completed in four years, but that a 20% bonus would be awarded to the contractors if the work was completed in three years. The work included a diverse range of infrastructure projects including roads, sewerage, water and draining pipes, power distribution, and lighting.[48]

Four other contracts related to the first phase of infrastructure works were awarded. Buro Happold Consulting Engineers of the U.K. was awarded a contract to carry out cost controls on the project.[49] Dar al Handasah has been the supervisor on the contract, and France's Pilotage has been the construction manager. And a subcontract worth $442,000 to provide 20km of water distribution pipework was awarded to Biwater of the U.K.[50]

Several projects are part of the second phase of infrastructure repairs, including the construction of a power substation, major landscaping work, and the inclusion of street furniture.[51] Contracts have yet to be awarded.

The contract to build the critical marine defences for the B.C.D. was awarded in June 1996 to Bouygues & Bouygues Offshore, both of France, for $230 million. The work, which is designed to protect the 1 km long seafront of the reclaimed zone, is

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[47] Interview with Paul Mourani in Beirut on 14 February 1997.

[48] MEED (16 June 1995), 11-19, 25-26. Solidere, Annual Report 1994, 24; Marwan Iskandar, Lebanese Economy 1995, 56-57.

[49] MEED (28 July 1995), 15.

[50] MEED (10 March 1995), 16.

[51] MEED (12 May 1995), 27; (5 January 1996), 27.

expected to be completed in 30 months. Other companies involved in the project included Sogreah of France, which designed the project,[52] Maunsell Consultancy Services, which was appointed as project engineer, and a partnership of Christiani & Nielsen & C.O.W/consult, which are joint construction managers.[53] Unlike the infrastructure contract, critics have claimed that the price of the marine contract was too high. They have further claimed that the involved companies and political groups took commissions, while the contract was subcontracted to a local firm for considerably less than the initial contract.[54]

A master plan for the reconstruction of Beirut's traditional souks was prepared in March 1995 by a group of local and international firms.[55] Construction on the refurbishment of the souks was due to begin in early 1997.[56] To date, a number of international and local architects were awarded contracts to carry out designs for various aspects of the project, which, in addition to renovating the souks, will also include a multi-media cinema, an underground car park, an office building and a department store. Paris based Jad Tabet, has been responsible for supervising overall designs, and the local Samir Khairallah

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[52] For an explanation of the designs, see Solidere, Annual Report 1994, 28.

[53] MEED (26 July 1996), 32; (21 June 1996), 19, 36-37, 41; (16 February 1996), 24.

[54] Interview with the author in the winter of 1997.

[55] The team included the local Samir Khairallah & Partners, a group of local architects, Paris based Jad Tabet and Larry Smith, and U.S. consultant Benjamin Thompson. MEED (16 June 1995), 11-19, and 25-26; Solidere, Annual Report 1994, 28.

[56] MEED (26 July 1996), 32.

& Partners is carrying out detailed designs. Other firms responsible for designs, or which are assisting with designs, include the U.K.'s Kevin Dash and Buro Happold, Valode & Pistre of France, Rafael Moreo of Spain, and the local Nabil Tabbarah.[57]

2.1.6.2 Projects Developed by Solidere

Several projects have been, or are in the process of being, developed by Solidere. In addition to the construction of a new corporate headquarters,[58] and the establishment of a permanent exhibition centre in Martyrs Square to display models of the new B.C.D.,[59] Solidere has been working on a number of new residential projects in the Saifi and Wadi Abu Jamil areas of the B.C.D.[60] In addition, it has been working on the construction of a new headquarters for the U.N.'s Economic & Social Commission for West Asia,[61] and it has been carrying out an estimated $50 million refurbishment of the one time Beirut

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[57] Samir Khairallah & Partners with the assistance of Buro Happold were responsible for designing an underground car park. Belgium's Tractebel was appointed project manager on the scheme. Kevin Dash was responsible for designing an office building and jewellery souks. Nabil Tabbara was responsible for designing a department store. Rafail Moreo was responsible for designing various souks. And Valode & Pistre were responsible for designing a multi-media cinema. MEED (11 October 1996), 34; (21 June 1996), 41; (12 April 1996), 21.

[58] The local architect Pierre Khoury designed Solidere's new corporate headquarters. MEED (16 June 1995), 11-19, 25-26.

[59] Buro Happold Consulting Engineers helped with the establishment of the exhibition centre. MEED (28 July 1995), 15.

[60] MEED (21 June 1996), 37.

[61] The local company, Arabian Construction Company is working on the estimated $25 million project. MEED (11 October 1996), 34.

landmark, the Murr Tower, which is to become the new Beirut Trade Centre. When completed, the Beirut Trade Centre is supposed to become a "flagship business complex and a symbol of Beirut's return to financial eminence."[62] A consortium of the local company, Almabani General Contractors, and the Binladin group of Saudi Arabia were awarded the contract to refurbish the trade centre, and the U.K.'s Wimpey Construction Management is acting as construction advisor to Solidere on the project.[63]

2.1.7 Solidere's Raison D'Etre: To Earn Profits

Solidere's raison d'etre is to develop the B.C.D., and to earn a profit for its shareholders. So far, it has generally succeeded on both fronts. From the very beginning of the company's operations, it has been able to earn a profit, largely through the sale of land. In 1995, the price per square metre of built-up land was fixed at $950. According to Beirut financial analysts, the cost to the company of each square metre of built-up land was nearly half that price at about $500. At the end of 1994, after eight months of operation, the company announced profits of 18.1 million.[64] In 1995, it recorded a net profit of $32.3 million.[65] A further $164 million of revenues was due to be booked into the company's 1996 account from land sales in

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[62] The Ministry of Economy and Trade, Business Lebanon, 8.

[63] The new building was designed by Canadian architects Webb Zerefer Menkes Housden. MEED (27 September 1996), 19; (23 August 1996), 23; (5 June 1996), 31.

[64] The profits came from interest on cash reserves. MEED (7 July 1995), 5, 27.

[65] MEED (24 May 1996), 17.

1995 alone. Eventually, Solidere will develop over 46 million square metres of real estate space with sales expecting to earn the company billions of dollars. As noted, the company would receive further profits from rents and franchise agreements, and interest on its cash reserves.[66]

2.1.8 Private Purchases of Land in the B.C.D.

As noted, a substantial proportion of the company's profits have stemmed, and will in the future, stem from the sale of land and receipts from rental properties in the B.C.D. The company has had some considerable success both in selling and in renting property in the B.C.D. According to Dr. Marwan Ghandour of the investment house Lebanon Invest, there seem to be at least three factors which would point to investor interest in the Beirut Central District. First, many investors, especially from the Gulf, believe in the resurgence of Beirut as a regional economic power. Second, the investors also believe that, at present, they could get the best plots of land at the best prices. And third, Lebanese expatriates who have built empires elsewhere have decided to establish their headquarters in Beirut to "hoist their flag of success at home."[67]

According to Solidere Chairman, Chamma, Solidere sold 250,000 square metres of built up land, including 11 plots of land, for an estimated $250 million during 1995.[68] That number

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[66] MEED (21 June 1996), 36.

[67] Marwan Ghandour, "Investing in Lebanon's Growth & Revival: Investment Opportunities & Challenge", Financial Times Conference (Beirut: 5 June 1995).

[68] MEED (5 January 1996), 27.

was expected to rise substantially as Solidere expected 40 land sales in 1996.[69]

The list of local groups which have bought land, or are in negotiations to purchase property in the B.C.D., is impressive. The list of those which have bought land in the B.C.D. includes Banque Audi, which is one of Lebanon's largest banks, al Nahar, which is the country's most prestigious daily newspaper, and the C.C.C., which is the Arab World's leading construction firm. Banque Audi has planned to build its new headquarters in the B.C.D. Kevin Dash of the U.K. is the main architect.[70] The C.C.C. has planned to build a residential block overlooking the marina.[71] Other buyers include Lebanon & Gulf Bank, the Republic National Bank, the Idriss retail group, the Diab Group, the Beirut Stock Exchange, which will be based in the B.C.D., and the development company Prime Estate, which is owned by the politically prominent North Lebanon based Muawwad and Fares families. Prime Estate has planned to build an office complex, which is designed by the architecture firm Terry Furell & Company of the U.K.[72]

The number of non-Lebanese interests which have bought land in the B.C.D., or have shown some sort of interest in investing in the area, is also extensive. Included among them is the

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[69] MEED (21 June 1996), 36-37.

[70] MEED (21 June 1996), 37.

[71] MEED (21 June 1996), 36-37; "Stampede to Buy Land in Solidere", Lebanon Opportunities Preview Issue (Beirut: 1996), 18.

[72] MEED (5 January 1996), 27; Lebanon Opportunities, Preview Issue, 18.

company Kingdom Establishment, which is owned by Prince Alwaleed bin Talah bin Abdulaziz of Saudi Arabia. In the autumn of 1996, the company was negotiating with Solidere for the purchase of a site for the construction a Four Seasons hotel. The hotel is expected to cost approximately $75 million.[73] Another private project, backed by Saudi Arabian based M.D.'s Mustafa Ghandour and Fayes Takieddine, is an estimated $20 million plan to build a medical clinic. The local E.R.G.A. group was awarded the contract to design the clinic, which is to be modelled after a consultancy clinic in Riyadh, also owned by Ghandour and Takieddine. Also involved in the project is the Mayo Clinic of the U.S., which is responsible for supervising the designs for the clinic, and Arthur D. Little, also of the U.S., which carried out feasibility studies for the project. Construction on the project is to begin in mid-1997.[74]

Solidere has also had considerable success in attracting tenants for the B.C.D. rental properties. By the end of September 1995, 600 former tenants, companies and institutions, have registered their intent to return to the B.C.D.[75]

2.1.9 Additional Financing: Attempts to Attract Foreign Investors

In November of 1996, Solidere opened its shares to international investors for the first time when it launched a

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[73] MEED (4 October 1996), 28; Lebanon Opportunities, Preview Issue, 18.

[74] MEED (11 October 1996), 34; (14 June 1996), 17.

[75] Solidere, Solidere: The Quarterly (Beirut: Solidere, July-September 1995), 3.

global depository receipt for an estimated $80 million. Merill Lynch was lead manager of the issue, with the U.K.'s Robert Flemings and other institutions playing a subsidiary role. The launch of the G.D.R. was the first of its kind taken by a Lebanese company since the end of the civil war.[76]

2.1.10 Criticism of Solidere

The Hariri government has been generally pleased with the progress of the programme to redevelop the Beirut Central District. In fact, the programme has received some praise from international circles. For example, Dr. Hannes Swoboda, Vienna's Executive City Councillor for Urban Development, believed that the Solidere model should be used for the reconstruction of Sarajevo. According to Dr. Swoboda, "Beirut is the best example in the world in this area because the reconstruction process is moving along quickly and in a credible way."[77] Also, at a U.N.D.P. conference in Dubai in 1996, Solidere was declared the best example of "urban planning and reconstruction of a war-torn city centre".[78]

Although progress on the development of the B.C.D. has proceeded relatively smoothly, opposition to the project has existed from the very beginning. As we explained in chapter two, opponents of the plan came from several circles. Some groups

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[76] MEED (27 September 1996), 15; (11 October 1996), 17; ----, "Solidere Issues GDRs", The Lebanon Report no.4 (Winter, 1996), 14-15; The Economist Intelligence Unit, Country Report: Lebanon - 1st Quarter 1997, 27.

[77] The Ministry of Economy & Trade, Business Lebanon no.1 (3rd quarter 1996), 9.

[78] Ibid.

were worried about the fate of squatters who resided in the area. Many groups and individuals were concerned that Solidere was created with the basic intention of earning vast profits, even at the risk of destroying the historical and social importance of the city centre.[79] For example, one prominent critic argued that 80% of the buildings demolished by Solidere could have been preserved. As he put it, the claim made by Solidere that they had to knock them down was "rubbish".[80] They were demolished because it was cheaper than renovating them, and because it allowed for a greater density of building, which would greatly increase Solidere's profits.[81] Also, many specialists opposed certain technical aspects of the plan as well as the general secrecy surrounding it.[82] Finally, and perhaps most significantly, the property owners of the downtown property opposed the heavy-handed takeover of the area, and

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[79] Many people were concerned that the plan would segregate Beirut, and create a "ghetto of prosperity" surrounded by poor suburbs. Proponents of this line of argument included Fouad Awada of the Institute for Planning and Urbanism of Ile-de-France (I.A.U.R.I.F.), Michael Davie from the Center for Urban Studies in the Arab World (U.R.B.A.M.A.), and Nabil Beyhum, who was a sociologist. See -----, "C.D.R. Plan Debated in Paris", The Lebanon Report 4, no.3 (March, 1993), 5; Nabil Beyhum, "The Crisis of Urban Culture: The Three Reconstruction Plans for Beirut", The Beirut Review, 43-62.

[80] Interview with Assem Salam in Beirut on 22 February 1997.

[81] Ibid.

[82] Included in this group was Henri Edde, the author of the original Dar al Handasah plan. On 22 October 1993, he gave a press conference to warn that a "secret" plan existed to redevelop the B.C.D., which was to replace the officially propagated one by Solidere. His main criticism focuses on the parts of the plan which call for a greater built up area, an obvious attempt by the plans promoters to increase the profitability of the venture. See -----, "Secret Plan for Old City Center", The Lebanon Report 4, no.11 (November, 1993), 8.

believed that the worth of their land was extremely undervalued.

By the middle of 1996, Solidere had succeeded in dealing the with the thorny issue of removing the squatters living in the B.C.D. by paying $245 million to the government agency established for settling displaced persons. This agency is widely seen as a vehicle of patronage for political factions, particularly those representing the Shiite community.[83]

Solidere has also taken pains to deal with technical concerns, and concerns about the secrecy surrounding certain aspects of the project. In particular, Solidere has attempted to dispel the popular notion that it is prepared to ignore Lebanese sensitivities concerning the history, tradition, property rights, etc., of Beirut, for the sake of profit. As one critic of the project put it: "Beirut is not a Wahabi city."[84] For example, Solidere has attempted to soften its image by financing much of the archaeological fieldwork in the area. In addition, due to a public outcry, controversial aspects of the plan, including the development of certain office and residential complexes, were dropped because of the popular perception that they were included in the plan solely to generate enormous profits for the people behind the plan (i.e., Hariri and his close associates.)[85]

The criticism levelled against the Solidere project by the

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[83] MEED (21 June 1996), 35.

[84] Nabil Beyhum, "Beirut's Three Reconstruction Plans", 54-55.

[85] Ibid, 51-52.

former property holders, particularly concerning the relatively low level of financial compensation for the properties appropriated by the company, seems to be warranted. In fact, as one major critic of the plan put it, "the squatters had more rights than the land owners. They were paid to leave. The owners received no such benefits."[86] There are over 200 libel suits against Solidere which are still before the courts.[87] However, as noted above, given the complexity of the issues of ownership and decision-making, it is difficult to imagine how the reconstruction of the B.C.D. could have proceeded without some of the drastic measures that were taken. The Economy and Trade Minister, Yassine Jaber, offered a balanced view. "The important issue with Solidere is how well it is managed. The owners may indeed have lost out, but what was the alternative?"[88] Taking the long view, if Solidere does succeed in attracting developers and tenants to the area, which it appears to be doing, then the project can be largely vindicated.

2.2 Government Assisted Projects

Pleased with the progress of the Solidere project, the Hariri government decided to create three more property companies to develop land or to rebuild damaged areas, one in Sidon, and the other two in the northern and southern suburbs of Beirut. The first two, the companies Sidon and Linord are private companies, while the one created to develop the southern

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[86] Interview with Assem Salam in Beirut on 22 February 1997.

[87] Ibid.

[88] MEED (16 June 1995), 11-19, 25-26.

suburbs of the city, called Elysser, is a public agency. We will take a closer look at each of these three projects.

2.2.1 Property Company - Sidon

In the autumn of 1995, the government created the property company Sidon to develop land in the southern Lebanese city of Sidon, Hariri's birthplace. The value of the land taken over by the company, and therefore the worth of the company is between $100-150 million. The project included considerable land reclamation from the sea, and called for the development of a new port.

The project had its roots in 1994, when it was decided to rehabilitate and expand Sidon port.[89] In 1995, apparently through the offices of P.M. Hariri, the Lebanese owned shipping company Compagnie Maritime d'Affretement, one of the largest shipping companies in the world, indicated that it was willing to develop the port and to turn it into a regional transhipment centre.

As noted, the scheme is similar to the Solidere project. In fact, it was authorised by Law 117 of 1991, the law which created Solidere. Subscriptions to the capital would only be open to Lebanese and Arab citizens, and no investor would be allowed to hold more than 10% of the company's total capital. As with Solidere, the company will pay some of the costs of the infrastructure work, but will be allowed to sell, or lease land for commercial or residential development.

Criticism of this plan centres around Hariri's involvement

[89] This was probably Hariri's idea.

in the project. In particular, it has been feared that Hariri will use his control of the project to strengthen his own political and economic weight in Sidon.[90] Moreover, Law 117 was designed to redevelop land that was badly damaged by the conflict, which is not the case here. The Sidon project was mostly intended to develop virgin land.[91] As a result, critics see the project as an attempt by its supporters, namely Hariri and associates, to earn a great deal of profit.

2.2.2 Property Company - Linord

In the summer of 1996, the government began the process of forming a private company called Linord, based on guidelines similar to Solidere, to develop a two million square metre coastal zone from the Beirut River (north of Beirut) to the Metn Coast. As with other similar schemes, the project has entailed considerable land reclamation from the sea. Linord is worth $200 million. The company was expected to divide the land into four zones, and was to build commercial, industrial, touristic, and residential schemes, as well as a free trade zone. It is also expected to sell or lease land for commercial or residential ventures. Two U.S. firms, Arthur Anderson and Arthur D. Little, and the Lebanese firm Associated - Construction & Engineering (A.C.E.) have carried out pre-feasibility and financial studies.[92]

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[90] For a look at the criticisms of the plan, see -----, "A Monster in Sidon", The Lebanon Report no.3 (Fall, 1996), 14.

[91] Interview with Assem Salam in Beirut on 22 February 1997.

[92] Linord has an 11 member board of founders which is overseeing the studies. MEED (26 July 1996), 32; (21 June 1996),

As one critic pointed out, this project is "even worse than Solidere."[93] As with Sidon, the rational behind the project appears to be the development of prime virgin land along the coast, which would earn substantial profits for its backers.[94] Its promoters, namely Hariri and associates, have used state instruments, and state land, to promote private sector projects.

2.2.3 Property Company (Public Agency) - Elysser

In the summer of 1995, the government established the real estate company, Elysser, for the redevelopment of Beirut's southern suburbs (near the airport). This project very much differed from the B.C.D., Linord, and Sidon projects, in that Elysser was a public agency, rather than a private company. The public agency was charged with the task of developing the southern suburbs - a poor, densely populated area politically dominated by Hizb Allah - taking into consideration the immense social and economic problems in the area.

Elysser was the product of three years of negotiations between the government, Shiite interests, and the ultimate arbiter in the discussions, the Syrians. Initial government plans to redevelop the area, including one based on the Solidere model, were vetoed by both Hizb Allah, and Amal, backed up by

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41; (16 February 1996), 24; (10 November 1995), 24.
For a brief summary of the project, see -----, "There goes the Metn Coast", The Lebanon Report no.4 (Winter, 1995), 21.

[93] Interview with Assem Salam in Beirut on 22 February 1997.

[94] For some of the criticisms, see ----- "There goes the Metn Coast".

the Syrians.[95] A compromise agreement between the government and the Shiite leadership (both Hizb Allah and Amal), which consisted of giving the two Shiite groups a major say in the development company, brought about the establishment of Elysser. By controlling the company, both groups were trying to secure (increase) their patronage network in the region.[96] In return for giving the Shiite groups a stake in the project, Hariri received their backing on other issues. For example, Birri supported the revisions of the B.C.D. plan in parliament.[97]

Elysser is headed by a seven member board including the chairman, Joseph Helou, and Saad Khaled, Ali al Khalil, Najif Karim, Antoine Andreos, and Eli Sahnini. The board included one representative from Hizb Allah, and one representative from Amal.[98] Critics of the project point out that Amal and Hizb Allah, through their influence on the board, have used projects on the scheme to increase their influence on the constituents.[99]

The Elysser project, to be divided into two phases, consists of infrastructural works, and the construction of housing units; The first phase consists of building 1,150 homes, and is to be completed by the middle of 1997, and a second phase consists of additional housing units to be completed in early

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[95] For example, in 1994, a Hariri plan to create a Solidere style development company failed because of Shiite opposition.

[96] -----, "Green Acres: The Turning of Land into Political Influence", The Lebanon Report 5, no.9 (September, 1994), 3.

[97] Ibid.

[98] -----, "Elissar and the Southern Suburbs", The Lebanon Report no.3 (Fall, 1995), 17-18.

[99] Economist Intelligence Unit, Country Report: Lebanon - 2nd Quarter 1996, 16.

1998. Dar al Handasah is providing the planning and designs for the project, which will be financed from the two Eurobonds issued between 1994-1995.[100]

2.3 B.O.T. & B.O.O. Projects

As we explained in part one of the chapter, Hariri has encouraged the use of Build-Operate-Transfer (B.O.T.) projects because it was seen as a good way to generate income without tapping into government revenue.[101] We have already discussed several of the B.O.T. projects in the context of the Horizon 2000 programme. This type of system has also been encouraged for some of the commercial/sports projects including the development of a Beirut Cultural/Conference Centre, a commercial complex in the Bir Hassan area of Beirut, and the development of a Beirut Sports City. We will look at each of these projects.

2.3.1 Beirut Cultural/Conference Centre: Palais de Congres

After making several changes to the original design, the C.D.R. decided in the autumn of 1995[102] to create a Lebanese company to carry out an estimated $350 million project to build a cultural/conference centre on a design-build-operate-transfer basis (D.B.O.T.) in the al Manara district of West Beirut.[103]

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[100] MEED (21 June 1996), 22; (9 February 1996) 25 ; (18 August 1995), 22.

[101] MEED (6 January 1995), 31.

[102] The Council of Ministers approved the revised version of the project on 6 December 1995.

[103] The changes were recommended by the Investment

The project, named the Palais de Congres, is to be built on 51,628 square metres of state owned land along the waterfront. It will include a conference centre, a theatre, two hotels, a library, a commercial centre, a cinema, and a parking area. Before the aforementioned changes were made, three companies - Bouygues of France, Almabani General Contractors of Saudi Arabia, and the Binladin Group, also of Saudi Arabia - were in contention for the contract.[104] The contractor will be required to raise at least half of the cost of the project.[105]

2.3.2 Commercial Complex in Bir Hassan, Beirut

In December of 1995, the Lebanese firm, Engineering Development Company (Endeco), which is owned by the local Hijaz Group, was awarded a contract to build an estimated $150 million commercial complex in Bir Hassan. The project, which is being carried out on a B.O.T. basis, is scheduled to be completed by 1998. The investment house, Lebanon Invest, is the financial advisor to the project. Financing for the project is expected to come from the sale of equity in the complex, which is to be listed on the Beirut Stock Exchange.[106]

2.3.3 Beirut Sports City

In the autumn of 1995, the firm Endeco was also awarded a contract to build a Beirut Sports City commercial and leisure

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Development Authority of Lebanon.

[104] MEED (20 January 1995), 25.

[105] MEED (22 December 1995), 2-3 and 26-27.

[106] MEED (31 May 1996), 17; (21 June 1996), 40.

complex estimated to cost between $200-250 million. The project is to be carried out on a B.O.T. basis and is to be completed in two and a half years. The concession is for 45 years before ownership of the complex transfers to the government. Lebanon Invest is also the financial advisor to this project, which is to be listed on the B.S.E.[107]

2.4 Major Projects

In this section, we will look at numerous major projects which have been, or are in the process of being developed completely independent of the government. The projects are backed both by Lebanon's private sector and by Arab businessmen from the Gulf. Prominent businessmen from the Gulf states have invested heavily in Lebanon. We have already indicated, for example, the extensive Saudi interest in the Solidere project. Entrepreneurs from the Gulf have also chosen to invest in substantial commercial/residential schemes. Some of the projects are joint ventures between these two groups.

2.4.1 Trimacor Backed Project

An estimated $80 million project to develop a residential and commercial centre in the Delhaniya area south of Beirut is being carried out by the company Trimacor, which is headed by Rashad al Shara. The company, which is registered in the British Virgin Islands, and is mainly owned by Saudi, and to a lesser extent, Kuwaiti and U.A.E. interests, includes on its board a number of prominent Saudis and Kuwaitis. Switzerland's Royal

[107] MEED (15 December 1995), 15.

Trust Bank is sponsoring the project. The bank has raised funds for the project in Saudi Arabia, and it is providing finance for Trimacor's Lebanese affiliate, which will own the land. The project, which will include the construction of villas, is being designed by Saudi architects.[108]

2.4.2 New City Venture

In the summer of 1995, a group of Arab and local investors announced plans to develop a $100 million residential/commercial project in the Hazmieh district of Beirut. The preliminary master plan called for 122,000 square metres of residential space and 52,000 square metres of commercial and office space. The development is also to include leisure facilities, recreational areas such as public parks, and a car park.

The project is backed by prominent investors, and its board includes some of the major players in the Arab world's business and financial world including U.K. based businessmen Wafic Said, Banque Audi chairman Raymond Audi, Fransabank chairman Adnan Kassar, George Asseily of J. Henry Schroder & Company, Credit Commercial du Moyen Orient (C.C.M.O) chairman George Ashi, and Gefinor Investment Management Company chairman Khaled al-Ossaimi, who heads the board. The founding investors in the project put up 70% of the $100 million needed for the project and have offered shares worth $30 million to Lebanese and Arab investors. The sale of the shares, which involves 300,000 shares priced at $100 each, is being managed by J. Henry Schroder & Company and Gefinor Investment Management Company. Credit

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[108] MEED, (7 October 1994), 25-26.

Commercial du Moyen Orient, Banque Audi, and Fransabank have acted as placing agents for the shares.[109]

2.4.3 Twin Towers Project

Financial details for an approximately $80 million project to build two 40 storey buildings offering condo style apartments were to be completed by the end of 1995. The twin towers are to be situated on the Beirut waterfront between the A.U.B. campus and the Beirut Central District. The project is sponsored by Ziad Abdelnour, who is one of the managing partners with the N.Y. based investment and merchant bank Continuum Capital.[110]

2.4.4 The Golden Cedar Club

Ayboub Farid Saab & Fadi Saab, who head the Cyprus based The Federal Bank of the Middle East, are behind a scheme to build a luxury residence and commercial complex, in the foothills of the Shouf mountains, 2 km from the coast at Mechref-Daraiya, and 17 km from Beirut International Airport. The project, named the Golden Cedar Club, will include 417 villas, 37 apartments, a five star hotel, and conference and exhibition facilities. The estimated $73 million first phase of the project, was to be completed by 1996. The entire project was estimated to cost $500 million. The master plan for the project was drawn up by Cyprus-based Integrom Resources and studies were carried out by the U.K.'s Howath & Howath consulting.

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[109] MEED (28 April 1995), 28; MEED (7 July 1995), 5 and 27; Marwan Iskandar, Lebanese Economy 1995, 46.

[110] MEED (26 May 1995), 22-23.

The Saab family will own a good portion of the project, but have also offered shares to Lebanese, Saudis, and other Gulf Arabs. A real estate company was formed to sell the shares. Saudi Arabia's Consulting Center for Finance & Investment (C.C.F.I.) is the placement manager for the offering.[111]

2.4.5 St. Charles City Centre

Societe St. Charles, the owner of the 500 room Holiday Inn which is located in the B.C.D., is planning to renovate the hotel as part of larger complex, named the Saint Charles City Centre, which will include offices, furnished apartments, a mall, a cinema, a 12,000 square metre exhibition centre, and parking facilities. The largest shareholder in Societe St. Charles is Kuwaiti P.M. Crown Prince Saad al Abdulla al Sabah. The project is expected to be completed in 1998.[112]

2.4.6 Beirut Agora Shopping Complex

An estimated $150 million commercial complex, named the Agora complex, in the Furn el-Chebbak area of Beirut, is being developed by the local contracting firm, the Karam Group, and one of the leading local architects, Samir Khairallah. The U.K.'s Healey & Barker is the consultant on the project, advising the developers with both the design of the project, and the approach to tenancy agreements. London-based Schroder

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[111] MEED (22 April 1994), 29-30; Marwan Iskandar, Lebanese Economy 1995, 46.

[112] The hotel will no longer be managed by the Holiday Inn. The Ministry of Tourism, Visitor (2nd Quarter, 1996), 58; and MEED (9 February 1996), 20; (22 March 1996), 39.

Asseily is the financial advisor on the project.

Several international firms, as well as regional and local ones, have shown interest in leasing out space in the complex, including a French hypermarket operator, a number of U.S. firms interested in setting up multiplex sports facilities, Lebanese department store operators, and Gulf retail firms.[113]

2.4.7 The Mechref Project

An estimated $80 million project to develop luxury residential villas on 2.3 million square metres of land in the hills overlooking Beirut was begun in 1995 by the Dallah al Baraka group of Saudi Arabia. The project was scheduled to be completed in seven years.[114]

2.4.8 Developments Constructed by the Murr Group

The Murr group, which is headed by the wealthy interior minister, Michel Murr, began the construction of two luxury apartment complexes in 1995, called Les Toits de Beyrouth and Cap sur Ville. In addition, the construction of a planned country club will be connected to the projects.[115]

2.4.9 Other Major Projects

Several other large residential/commercial complexes have been developed, or are under construction. The Freeway project,

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[113] MEED (22 March 1996), 25; Marwan Iskandar, Lebanese Economy 1995, 50.

[114] Marwan Iskandar, Lebanese Economy 1995, 46.

[115] Marwan Iskandar, Lebanese Economy 1995, 46.

a large commercial center developed by Copri and Credit Bancaire, consists of retail and office space, as well as entertainment facilities such as a restaurants, cinemas, and health clubs. It is located in Sin-El-Fil. The Dunes project, developed by the Rayess and Tabbara Group and located near Verdun street, is a huge mixed development project consisting of two 19 story residential towers, and a third building housing a four star hotel as well as commercial, office and leisure facilities.[116]

2.5 The Real Estate Market

During modern Lebanon's prosperous years (1950s-1975), entrepreneurs invested heavily in the real estate market, particularly in the Beirut area. Property speculation, combined with no capital gains tax, earned fortunes for many involved in the real estate market. The purpose of this section is to look at developments in the real estate market. Three areas will be of particular interest to us. First, we will examine growth in the market. Second, we will discuss who is involved in developing the market. Finally, we will look at some of the negative ramifications of what has happened in the real estate market.

2.5.1 Growth in the Real Estate Market

Between the years 1992 and 1995, property development in Lebanon was booming.[117] According to figures released by the

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[116] Marwan Iskandar, Lebanese Economy 1995, 47,49.

[117] -----, "Property Development is Booming", The Lebanon

Beirut and Tripoli Order of Engineers, building permits were awarded for areas covering 15,052,825 square metres in 1993, increasing to 21,541,471 square metres in 1994, and reaching a high of 34,031,586 square metres in 1995.[118] In 1995 alone, investment in the real estate market topped $3 billion.[119] Partly as a result of the boom in property development in 1995, however, the market suffered a setback in 1996 as significantly fewer building permits were awarded.[120] In 1996, the construction industry slowed considerably, falling by 60% from 1995 figures.[121]

As we will explain in sub-section six, billions of dollars have returned to Lebanon. Most of the money has been deposited in Lebanese banks by investors who wish to take advantage of generous interest rates. However, a significant portion of the money has also gone into the real estate market.

In sub-sections one through four, we have already discussed several of the huge property development projects which have occurred in Lebanon since 1992. In addition to these projects, property investors have built a myriad of apartment buildings, and commercial and retail offices throughout Lebanon, and, in

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Report 5, no.4 (April, 1994), 8.

[118] Marwan Iskandar, Lebanese Economy 1995, 38; Banque Audi, Lebanon: Facts and Figures 1993 - 1995. One method used for measuring growth in the industry is to look at cement sales. For a monthly record, see Banque du Liban, Monthly Bulletin.

[119] Lebanon Opportunities, Preview Issue, 6.

[120] For 1996 numbers see Banque Audi, Quarterly Economic Report (4th Quarter 1996), 1; and Banque du Liban, Quarterly Bulletin no.70 (3rd Quarter, 1996), 7.

[121] Economist Intelligence Unit, Lebanon: Country Report - 2nd Quarter 1997, 19.

particular, in the Beirut area.[122] We will cite numerous examples.

The Saudi/local Inmaa group, with the assistance of the U.K.'s Buro Happold Consultancy Engineers, completed a 13 story apartment block in the Ramlet al Baidasame area of Beirut in 1995.[123] A group of investors from the U.A.E., led by the al Habtour Group of Dubai, launched a $30 million project to build luxury houses in the Jamour area overlooking Beirut.[124] A Saudi group was to begin work on a $80 million project to build villas and commercial and touristic sites in the hills overlooking Beirut.[125] The Lebanese contracting firms, Ramco Trading & Contracting, which spent the war years operating in Saudi Arabia and Spain, built an apartment complex in the Ramlet al Baida area of Beirut, as well as several other projects. Banque Credit Libanais competed work on a 12 storey, highly sophisticated commercial complex, named Liberty Tower, in the Hamra district of Beirut. The I.D.A.L. offices are located in the building. The Soubra family, completed work on a 16 storey office, commercial, and residential complex in the Raouche area of Beirut. The Zakhem Group constructed a seven story office complex, called the Allied Business Center, in the Achrafieh area of Beirut. The main tenant in the building is Allied

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[122] MEED (25 June 1993), 11; Marwan Ghandour, "Investing in Lebanon's Growth & Renewal: Investment Opportunities & Challenges", Financial Times Conference (8-9 June 1995).

[123] MEED (23 June 1995), 15.

[124] -----, "Private Foreign Investment Picking Up", The Lebanon Report 4, no.10 (October, 1993), 8.

[125] Ibid, 8.

Business Bank. Ashada Enterprises[126] developed a 10 storey office building, called the Ashada Center, in the Achrafieh area. The owners had hoped to lease the property to banking, insurance, or tourist firms.[127]

Other office and retail complexes that were completed and operational, or were under construction, between 1995-1997 included: the Hamra Square building; the Mirage Plaza, which is a luxury complex of over 20 floors of commercial, office and residential units located in the Sanayeh area of Beirut; the Palm Center, an 11 storey office complex located in the eastern part of Beirut; the Pag building, a 10 storey complex for office and retail space, located in Achrafieh and to be completed in 1997; the Fauchon building, nine floors of office and retail space, located in Achrafieh;[128] developer Jamil Ibrahim, a wealthy Shiite emigre from Africa, connected to the Amal movement, has constructed several buildings including a large project, called Sodeco Square, which is to include several cinemas, a shopping mall, and further commercial space, as well as residential space;[129] developer Nadim Qmeir is also developing a mixed residential/commercial project to be completed by 1998.

In addition, some of the many luxury residential towers constructed included the 20 storey Weavers Tower developed by

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[126] As noted, a leading member of this group sits on the Solidere Board.

[127] The Ashada Group also began construction on a residential complex called Jardin de Tabaris.
For information concerning the projects, see Marwan Iskandar, Lebanese Economy 1995, 45-53.

[128] The ABN bank has many offices in this building.

[129] Lebanon Opportunites, Preview Issue, 6.

Hassan Smadi, the 11 storey Jaffal Center located in the Ramlet el-Bayda area of Beirut, and the 11 storey Terra-Blanca building, also located in Ramlet el-Bayda, developed by the Saudi al Fadl group and the local Sameer Haddad firm.[130]

2.5.2 Investors in the Real Estate Market

In sub-sections one through four of this chapter, we have given a detailed listing of the major players involved in property development. As Assem Salam, President of the Beirut and Tripoli Order of Engineers, explained, there is no single group involved in property development in Lebanon.[131] To reiterate briefly, developers included representatives from Lebanon's traditional business elite, such as the Boustani clan, some of Lebanon's new business elite, mostly consisting of Hariri and his associates, members of Lebanon's expatriate community, particularly from those who live in the Gulf region and Shiites from Africa, many of Lebanon's contracting firms, including those who moved their bases of operations to neighbouring countries, and Gulf Arab interests[132] In fact, P.M. Hariri has encouraged Gulf Arabs to invest in such projects. In the summer of 1993, Hariri hosted a convention of 200 Saudi and

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[130] This project is estimated to cost about $44 million. For more information concerning these projects see Marwan Iskandar, Lebanese Economy 1995, 45-53.
For numerous other examples, see Lebanon Opportunities, Preview Issue, 6-9.

[131] Interview with Assem Salam in Beirut on 22 February 1997.

[132] For a brief look at Arab interests in the real estate market, see "Arabs Buy More Real Estate", The Lebanon Report 4, no.8 (August, 1993), 10.

Arab Gulf investors at Beirut's five star Summerland hotel.[133] As for Hariri himself, in addition to his involvement in the property schemes noted above, he has apparently bought extensive tracts of land throughout Lebanon.[134]

2.5.3 Negative Aspects of Growth in the Real Estate Market

Growth in the real estate market, particularly as it relates to the construction of apartment buildings, has caused serious distortions in the demand/supply aspect of the market. Most of the apartment buildings which have been constructed, or are currently being constructed, have been targeted at the upscale market. As a consequence, the market is saturated, and many apartments (or even whole apartment buildings) remain vacant. Estate agents estimated in 1994 that 30,000 premium apartments, priced from $300,000 upwards, were empty in Beirut. The prices of these apartments, however, are unlikely to go down, because the developers have self-financed the projects from their own savings, rather than borrowing from the banks. Thus, many developers are in a position in which they can afford to hold onto their properties until a buyer is found who is willing to pay the asking price.[135] While there is a considerable amount of surplus property in the upscale market, however, there is a serious shortage of more affordable housing in Lebanon, especially in the Beirut area.

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[133] -----, "Private Foreign Investment Picking Up", The Lebanon Report, 8.

[134] Interview with Assem Salam in Beirut on 22 February 1997.

[135] James Whittington, "Beirut Property Prices Soar to Sky-High Limits", Financial Times (22 November 1994).

There have also been some serious questions related to the market viability of the hundreds of commercial/office properties being developed by Solidere and other private contractors. In particular, it may appropriate to ask whether or not there will be enough demand for the rental of these facilities.

It is highly likely that Beirut Central District, for several reasons, will take tenants and other businesses away from various other parts of Beirut. To begin with, many businesses would prefer to be based in the B.C.D. because it is centrally located. In fact, many of the roads being constructed in Beirut are intended to make it easier to travel to the centre.[136] Second, there is a feeling in Beirut that the city centre is the "place to be". Third, given the political and economic weight of Solidere's backers, it is likely that they should be able to easily induce businesses to relocate.[137]

2.6 The Banking Sector

As we have stated throughout the thesis, a major goal of the Hariri government is to return Beirut to its former role as the financial centre of the Middle East. Beirut's previous success as a financial centre rested largely on the strength of its banking sector. As Louis Hobeika explained: "The commercial banking sector [is the] main centrepiece of the nation's

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[136] Interview with Assem Salam in Beirut on 22 February 1997.

[137] In fact, people working on behalf of Solidere (or maybe on behalf of Hariri) went around the various business establishments in Beirut, such as accounting firms, to find out whether or not they had any interest in relocating to the city centre. Interview with Riad Mansour, area manager for KPMG, in Beirut on 14 February 1997.

financial environment."[138] The purpose of this section is to look at developments in the banking sector.[139] In addition to looking at both the health of the banking sector and the role that it has played in the economic recovery of the country, we wish to examine whether or not the sector has the capability to help Beirut regain its role as a regional financial centre. Having examined the available literature, we feel that four conclusions can be reached. First, we intend to show that the banking sector is healthy. The major banks have enjoyed massive profits over the last few years. Second, Lebanon's banks have made an effort, to at least some extent, to expand their resources in order to play a role in the reconstruction of the country by extending loans to Lebanese businesses and to home buyers. Third, several new investment banks (houses) have been established in Beirut in the last few years. The investment houses, which are owned by both local and international concerns, have played a key role as financial advisors for projects developed by the private sector in Lebanon. Finally, Beirut has made some progress, albeit limited at this point, towards regaining its role as the banking

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[138] Louis Hobeika, "Banking on Beirut: What Lebanon Needs to Become the Region's Financial Centre." Middle East Insight (March-April, 1994), 53.

[139] A few succinct articles have been written on the state of the Lebanese banking system. See, James Whittington, "Beirut, City of Surprises", Financial Times (Thursday 15 December 1994), 36; Louis Hobeika, "Banking on Beirut: What Lebanon Needs to Become the Region's Financial Center"; Roula Khalaf, "Facing the New Order", Financial Times (Tuesday 6 June 1995), 2; Chafic Nehme, "Lebanon's Banking Potential", Middle East Executive Reports 18, no.1 (January, 1995), 8; Nasser Saidi, "Lebanon - Financing Reconstruction: Issues and Opportunities Part II: Banking and the Financial Market, Prospects for Beirut as Financial Center", Middle East Executive Reports 19, no.4 (1996), 9.

centre of the region. A number of international banking firms have opened or reopened offices in the city, and some international banks have established their regional offices there. However, as we will discuss in the final chapter, due both to competition from other regional cities (i.e., Dubai and Bahrain), and to the changing nature of international banking, Beirut is unlikely to regain the predominant regional role that it once held.

2.6.1 The Health of the Commercial Banking Sector

Thanks largely to the fact that billions of dollars have been deposited in Lebanon's banks by Lebanese expatriates, the banking sector has prospered greatly. Much of this money either was taken out of Lebanon during the 1980s or it was made outside of the country. The principal inducement for depositing money into Lebanese bank accounts has been, simply, the high interest rates, which have, at times, reached over 20%. The amount of money which has been deposited into Lebanese banks since Hariri took office is staggering. According to Raymond Audi, President of the Lebanese Bankers' Association, "billions of dollars are being repatriated thanks to growing confidence in Hariri's government."[140] Central Bank governor, Riad Salameh, noted that some $1 billion returned to the country within a month of Hariri taking over as prime minister.[141] In November of 1994, Audi said the banking system had recovered 90% of the funds sent abroad

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[140] Quoted in MEED (28 January 1994), 29. For a look at Hariri's influence on the money markets, see -----, "The Hariri Factor", The Lebanon Report, 13-14.

[141] MEED (3 December 1993), 15.

over the past 8 years.[142] Some 15 months into Hariri's administration, net transfers from abroad totalled $6.5 billion.[143] At the end of 1993, total deposits in Lebanon's commercial banks were $8.5 billion.[144] By May of 1996, deposits had grown to $16.3 billion.[145] The vast majority of the deposits have been in dollars, as opposed to Lebanese pounds.

One of the largest banks, Banque du Liban & d'Outre-Mer (B.L.O.M.) recorded a $4 million profit in 1992, up from $1.2 million the previous year. In subsequent years, the bank's profits skyrocketed: $8.9 million in 1993, $14.1 million in 1994, and reaching a total of $18 million in 1995. The growth of the bank's assets was equally impressive. In 1992, the bank recorded assets of $693 million, growing steadily in subsequent years and reaching a total of $1.9 billion in 1995.

Banque de la Mediterrannee, in which, incidentally, Hariri has a controlling interest, overtook B.L.O.M. in 1996 to become the largest Lebanese bank. The bank recorded a profit of $19.2 million in 1995, compared with a profit of just $1.6 million in 1993. Bank de la Mediterrannee's assets grew from $521 million in 1992 to an impressive $2 billion in 1995.

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[142] MEED (11 November 1994), 17.

[143] MEED (28 January 1994), 29.

[144] MEED (3 December 1993), 15. For a detailed look at the balance sheets of commercial banks, see the Monthly Bulletin projected by the Department of statistics and Economic Research at the Banque du Liban. The Monthly Bulletin can also be found on the world wide web: (http://www.bdl.gov.lb/). For quarterly summaries, see Banque du Liban, Quarterly Bulletin.

[145] MEED (16 August 1996), 26. For details about the health of the banking sector in 1996, see Economist Intelligence Unit, Lebanon: Country Report - 2nd Quarter 1997, 23.

Banque Audi's profits rose from $2.6 million in 1993 to $13 million in 1995. Its assets rose from $375 million in 1992 to $986 million in 1994.

Finally, Byblos bank's profits reached approximately $15 million in 1995, while its assets grew from $309 million in 1992 to just over one billion in 1995.[146]

2.6.2 The Role of the Banking Sector in the Reconstruction

Lebanon's banking sector has been the subject of extensive criticism. In particular, critics of the banking system have pointed to the lack of financing available to the private sector. To at least some extent, this criticism is appropriate. With the exception of the local arm of the Amman based Arab Bank, which is backed by extensive resources outside of Lebanon,[147] the nature of the Lebanese banking system is such

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[146] The numbers were taken from several sources including numerous MEED editions: (14 January 1994), 17-18; (29 April 1994), 34; (17 June 1994), 7-17, 24; (1 September 1995), 16; (4 August 1995), 24; (14 July 1995), 22-23; (7 July 1995), 5, 27; (24 February 1995), 33; (28 April 1995), 28; (5 May 1995), 25; (19 May 1995), 17-18; (26 May 1995), 22-23; (16 June 1995), 11-19, 25-26; (14 June 1996), 17; (19 July 1996), 22; (26 July 1996), 14; 12 July 1996), 18-19; (28 June 1996), 16; (1 March 1996), 19; (23 February 1996), 25; (16 Febraury 1996), 25; (9 February 1996) 19; (9 August 1996), 31; Economist Intelligence Unit, Country Report: Lebanon - 4th Quarter 1996, 24; Economist Intelligence Unit, Country Report: Lebanon - 3rd Quarter 1996, 24; Economist Intelligence Unit, Country Report: Lebanon - 2nd Quarter 1996, 19-20; Economist Intelligence Unit, Country Report: Lebanon - 2nd Quarter 1995, 18; Lebanon Opportunities, Preview Issue, 49; Banque Audi, Quarterly Economic Reports.

[147] The Arab bank is backed by prominent Palestinian families, including the founders of C.C.C., and by Rafiq Hariri, who is represented on the board by his son Bahaa. The bank is financing the construction of the Commodore hotel in Beirut and is also playing a role in the financing of 4 small contracts by the company European Gas Turbine. MEED (16 June 1995), 11-19, 25-26.

that the banks are not in any real position to finance the recovery programme or to provide medium or long-term loans to the private sector. There are two main reasons for this. First, most of the deposits are short-term. For example, the general manager of B.L.O.M. bank, Fadi Osserian, stated that "the effective maturity of its deposits is about one month."[148] Second, the government has required banks to keep 40% of their deposits in treasury bills (T-bills), 10% in non-interest bearing deposits with the Central Bank, and 3% in special bonds yielding 6% interest. Consequently, government borrowing (t-bills) has crowded out private sector borrowing.[149] The banks, however, have been generally pleased with this profitable arrangement, as t-bills yield a robust return, with one year t-bills having reached a high of 40%.[150] The sector has received a return on equity of 31.4% versus 11.38% for the world's first 100 banks.[151] The downside for the banking sector is that this arrangement puts them, effectively, at the mercy of government economic policy.[152]

It should be stressed, however, that both the government and the banks themselves have made an effort to reorganise the banking sector in order to allow banks to play a greater role in

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[148] MEED (11 November 1994), 17.

[149] MEED (21 June 1996), 33.

[150] MEED (8 March 1996), 21.

[151] Roula Khalaf, "Facing the New Order", 2.

[152] For a brief look at the role of T-bills in financing government spending, see -----, "Retrospective on the Government's T-Bill Plan", The Lebanon Report 4, no.2 (February, 1993), 9.

providing the private sector with credit. The reasoning behind the banks expansion was summed up by a local banker: "Banks two years ago saw no need to expand into capital markets or investment banking. But, with reconstruction, some banks are realising there is a need to expand, otherwise foreign banks will get all the business."[153]

2.6.2.1 Changes in Central Bank Regulations and Government Law

The Central Bank and the government have introduced a number of changes to existing regulations and laws which were intended to encourage the banking sector to advance loans to the private sector. To begin with, the Central Bank reduced the percentage of deposits which banks were required to keep in t-bills from 60% to 40%. In fact, in mid-1997, the government was considering legislation which would have eliminated all bank requirements to keep t-bills.[154] Second, the Central Bank allowed commercial banks to reduce their statutory reserves by the equivalent amount of their medium term lending to the productive sector.[155] Third, the Central Bank allowed banks to increase dollar loans from 60% to 65%.[156] Fourth, investment banks have previously had an advantage over commercial banks in acquiring t-bills because they have no reserve requirements. According to a new law they are only allowed to purchase t-bills amounting to an equivalent of their loans to the private

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[153] Quoted in ibid.

[154] MEED (16 September 1994), 26.

[155] MEED (21 June 1996), 33.

[156] Approximately 90% of bank lending has been in dollars. MEED (22 September 1995), 34.

sector.[157] Fifth, banks are now required to increase their available capital to a minimum of $7 million.[158] Finally, in a move aimed at increasing the banking sector's available capital, the government has authorised banks, which are mostly controlled by families, to trade up to 30% of their shares on the stock market.[159]

2.6.2.2 The Banks' Response

There is ample evidence to suggest that many of the larger commercial banks have made an attempt to increase their resources in order to place themselves in a stronger position to offer financing to the private sector. Their efforts have consisted primarily of raising capital by selling short and medium term debt and equity issues on the international market. In addition the banks have raised some capital by securing loans from the International Finance Corporation, an affiliate of the World Bank. Finally, some Lebanese banks, and Fransabank in particular, have joined forces with foreign banks in order to provide additional financing to the private sector.[160]

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[157] MEED (21 June 1996), 33.

[158] MEED (31 May 1996), 17.

[159] The law was passed in May of 1996. MEED (20 September 1996), 32; -----,"Eurobond Mania", The Lebanon Report no.4 (Winter, 1996), 16.
By mid-June 1997, a few banks have already issued shares on the Beirut Stock Exchange, while others were in the process of doing so. For examples, see Economist Intelligence Unit, Country Report: Lebanon - 2nd Quarter 1997, 24.

[160] In addition, several of the larger banks have attempted to modernise their banking practices, and to improve the skills of their workforce. For a brief look at some of the practices employed by the banks, see Marwan Iskandar, Lebanese Economy 1995, 27-30.

2.6.2.2.1 Capital Raised on the Local and International Markets[161]

The largest of Beirut's commercial banks, Banque de la Mediterrannee, planned to launch a $300 million certificate of deposit in the autumn of 1996. This was to be done in two stages. The bank launched a two year first tranche worth $100 million in the autumn of 1996. The certificate of deposit was priced at 265 basis points over U.S. treasury bills. The issue was managed by Merill Lynch and the Mediterrannee Investment Bank, a subsidiary of Banque de la Mediterrannee. Apparently, the bank has planned to use the money to play a more active role in project finance.[162]

Banque Audi raised its capital through a $34 million global depository receipt (G.D.R.) which was issued in October 1995. The issue, which was managed by the U.K.'s Robert Flemings, was 100% oversubscribed. Most of the buyers were from outside the Middle East. Forty-five percent of the funds were raised in the U.K., 25% elsewhere in Europe, 15% in the U.S., 10% in the Far East, and 5% in the Middle East.[163] Flemings was particularly pleased with the American interest, given the reluctance of U.S. investors to invest in Lebanon.

In October of 1996, Banque Audi also launched the first tranche, worth $100 million, of its $200 million Eurobond. The

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[161] For a brief look at developments in this area during 1995, see ibid, 26.

[162] See MEED (4 October 1996), 28; -----, "Eurobond Mani", 14; The Economist Intelligence Unit, Country Report: Lebanon - 1st Quarter 1997, 25; Banque du Liban, Monthly Bulletin no.30 (November, 1996), 7 & (October, 1996), 7-8.

[163] MEED (20 September 1996), 32.

first tranche was for five years and was priced at 315 basis points over U.S. treasuries. The Eurobond is particularly noteworthy as it was the largest amount achieved by a local borrower. The issue, which was managed by Merrill Lynch, was heavily oversubscribed. American investors accounted for 40% of the total, Europeans accounted for another 40%, while the remaining 20% went to Arab investors.[164]

Byblos Bank went twice to the international market to raise capital. In June 1995, the bank raised $11.6 million in equity through an international equity placement managed by Japan's Nomura Securities, and the local investment house, Lebanon Invest. The equity placement was one and a half times oversubscribed, and it was supported by a range of international investors mainly from the Gulf.[165]

In September 1996, the bank launched a three year Euronote worth $50 million. The Euronote, which was managed by the U.K.'s S.B.C. Warburg and Lebanon Invest, was priced at 285 basis points over comparable U.S. treasuries. It was sold out in 30 minutes, and was three times oversubscribed. The bank is to use the capital to increase its personnel and lending facilities.[166]

Credit Libanais, which is 97% owned by the Central Bank,

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[164] The Eurobond was quoted on the London Stock Exchange. MEED (25 October 1996), 27; ----- "Eurobond Mania", 15; The Economic Intelligence Unit, Country Report: Lebanon - 1st Quarter 1997, 25; Banque du Liban, Monthly Bulletin, no.30 (November, 1996), 7.

[165] MEED (20 September 1996), 32; Economist Intelligence Unit, Country Report: Lebanon - 4th Quarter 1995, 19.

[166] MEED (20 September 1996), 15; -----, "Eurobond Mania", 16; Economist Intelligence Unit, Country Report: Lebanon - 1st Quarter 1997, 25; Banque du Liban, Monthly Bulletin, no.28 (September, 1996), 8.

also increased its capital by tapping the Eurobond market. In June of 1996, the bank launched, with the assistance of Merrill Lynch, a $60 million Eurobond priced at 320 basis points over three year U.S. treasuries. The bank intended to use the capital to strengthen its medium-term financing facilities.[167]

Banque Beyrouth Pour Le Commerce increased its capital in October 1996 by issuing a one-year certificate of deposit worth $12 million, and based at 200 basis points over U.S. treasuries. The issue was launched by Lebanon Invest.[168]

Banque Libanaise Pour le Commerce announced plans in the autumn of 1996 to issue a global depository receipt, which is to be listed on the Luxembourg and Beirut Stock Exchanges. Beirut finance house, Middle East Group, was to manage the local issue, while Nomura International was to manage the international issue. Assuming this goes as planned, Banque Libanais Pour le Commerce will be the first bank to list its share on the B.S.E since the government changes noted above.[169]

Some of these banks and other Lebanese banks have also raised money on the international markets during the first half of 1997.

2.6.2.2.2 I.F.C. Loans

Lebanon's commercial banks have also increased their

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[167] MEED (20 September 1996), 32; (18 July 1996), 22; (14 June 1996), 17; -----, "Eurobond Mania", 16; Economist Intelligence Unit, Country Report: Lebanon - 4th Quarter 1996, 24; Lebanon Opportunities, Preview Issue, 52; Banque du Liban, Monthly Bulletin, no.2 (June, 1996) 7-8.

[168] MEED (18 October 1996), 15; Banque du Liban, Monthly Bulletin, no.29 (October, 1996), 8.

[169] MEED (25 October 1996), 27.

capital by securing millions of dollars in loans from the International Finance Corporation (I.F.C.), an affiliate of the World Bank. The I.F.C. has advanced local banks three loans since 1993, amounting to a total of $190 million. The I.F.C. project was intended to help increase the capability of the banks to offer loans to small businesses and homeowners.[170] As Lebanese Bank Association Chairman, Raymond Audi, explained, "the loan(s) are an important source of finance for the private sector, as commercial banks on their own are unable to meet this kind of demand."[171] The importance of the loans to the recovery process was stated by the I.F.C. investment officer in charge of the loans, Michel Ayoub: "The I.F.C.'s project in Lebanon will help the Lebanese play an effective role in the reconstruction of the country by providing much needed loans to the private sector."[172]

The first I.F.C. loan was initiated on 24 June 1993, when the I.F.C. signed a $45 million loan with 5 local banks, including Banque Audi, Byblos Bank, Fransabank, Bank of Beirut & the Arab Countries, and Banque du Liban & d'Outre Mer.[173] The intent of the loan was to provide the Lebanese banks with capital to back projects which are too small for direct I.F.C. involvement.[174] The credit line was distributed to the following

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[170] MEED (19 July 1996), 22.

[171] MEED (1 July 1994), 22-23.

[172] MEED (4 June 1993), 26.

[173] For loan conditions see, "IFC Extends Credit Line to Five Lebanese Banks", The Lebanon Report 4, no.10 (October, 1993), 9.

[174] The I.F.C. set a loan minimum of 300,000 and a maximum of $1.5 million for each borrower. -----, "The I.F.C. Extends

sectors of the economy: industrial projects (50%), tourism projects (14%), hospitals (13%), agricultural projects (9%), and other projects (14%).[175]

On 21 June 1994, The I.F.C. signed a $45 million loan with four local banks, providing the banks with funds to lend to small and medium borrowers.[176] A limit of $1.5 million was placed on the size of any loan.[177] The banks involved included Fransabank, Banque Libano Pour le Commerce, Banque Libano Francaise, and Societe Generale Libano-Europenne de Banque.[178] On 5 July 1996, the I.F.C. signed a $100 million loan with 6 local banks aimed at providing long term housing loans. The banks involved included Fransabank, Banque Audi, Byblos bank, Banque Libano-Francaise, Societe Generale Libano-Europenne de Banque, and the Bank of Beirut & the Arab Countries. The banks have provided loans to homeowners covering a minimum of 60% of house prices ranging from $40,000 to $200,000.[179] According to I.F.C. regional director, Andre Hovaguimian, "The credit lines alleviate a social crisis by enabling about 3,000 middle-income

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Credit Line to Five Lebanese Banks", 9.

In March 1993, the I.F.C. was directly involved in a $6 million loan to a ceramics project. MEED (4 June 1993), 26.

[175] -----, "IFC Provides $45 million for Private Sector", The Lebanon Report 5, no.7 (July, 1994), 9.

[176] MEED (1 July 1994), 22-23.

[177] -----, "IFC Provides $45 million for Private Sector", 9.

[178] Ibid.

[179] MEED (19 July 1996), 22; Lebanon Opportunities Preview Issue, 46.

families to afford the purchase of their primary residence."[180]

2.6.2.2.3 Additional Project Financing: Lebanese Banks in Association with Foreign Banks

In addition to raising capital on the local and international markets, and through loans from the I.F.C., some Lebanese banks have also entered into joint ventures with foreign banks for the purpose of providing credit for the private sector.

A group of banks, led by Fransabank, have formed a leasing company, named the Lebanese Leasing Company, in order to provide local contractors and industry access to long-tern financing for their equipment. The company, which is capitalised at $5 million, is majority owned by Fransabank, with Credit Agricole of France, the I.F.C. and various local business people holding a share.[181]

Also, the German government-owned development bank, D.E.G., acquired a 5% stake in Fransabank in 1995.[182] D.E.G. chairman Rainer Von Otergraven said that "the move is aimed at boosting project finance capabilities in Lebanon and encouraging German investment in the region."[183] As part of the package, the D.E.G. has agreed to provide Fransabank with a $6.7 million credit line, which would allow Fransabank to play a greater role in providing medium and long term financing for domestic

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[180] Quoted in Lebanon Opportunities, Preview Issue, 46.

[181] MEED (16 September 1994), 26; Economist Intelligence Unit, Country Report: Lebanon - 1st Quarter 1995, 19.

[182] Marwan Iskandar, Lebanese Economy 1995, 26.

[183] MEED (29 September 1995), 21-22.

borrowers.[184]

2.6.2.3 Meeting the Financial Needs of Post-War Lebanon: Investment Banks and Finance Houses

While the commercial banks have admittedly played a somewhat limited role in the economic recovery process, the same can hardly be said of Lebanon's finance and investment banking sector. In fact, since 1992, several new investment banks and finance houses have been established in Beirut in order to compensate for perceived shortcomings in this aspect of the banking system. The financial houses and investment banks have acted as financial advisors on several private sector projects, and, in some cases, on projects listed in the Horizon 2000 plan. In addition, some of the investment banks, particularly Lebanon Invest, have played a regional role, thereby helping to validate Beirut's claim as a regional banking and financial centre. It may also be of particular interest to note that the new investment banks and finance houses are sponsored by prominent individuals and institutions from local, regional, and international circles. This suggests not only that international financial players have confidence in the Lebanese recovery process, but also that they are prepared to seriously consider at least the possibility of Beirut's resurgence as the regional financial centre.

2.6.2.3.1 Lebanon Invest

The most active of the finance and investment houses, by far, has been Lebanon Invest, an investment bank which was founded in 1994 by Banque Audi, Luxembourg-based Capital Trust

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[184] Ibid.

and Lebanese investor Marwan Ghandour, with a capital base of $26 million.[185] It is based in Beirut partly because of the country's favourable tax rate.[186] Lebanon Invest (Holding) is the main enterprise, but the operational activities are carried out by its subsidiary, Lebanon Invest (S.A.L.). Lebanon Invest claims to be the largest investment and financial services group based in Beirut. The investment bank has offered an array of financial advisory services to investors wishing to invest in the Levant region, including Lebanon, Syria, and Jordan. The bank's services have also included the management of client funds and investments. In particular, the bank has been interested in income generating projects such as hotels and other touristic facilities.[187]

Lebanon Invest is backed by prominent Lebanese, Middle Eastern, and international shareholders, both institutional and individual. The international array of shareholders is impressive. There are 21 institutional and corporate shareholders originating from the following countries: 5 from Kuwait, 4 from Lebanon, 3 from Saudi Arabia, 2 each from Luxembourg and Liechtenstein, and one each from the U.K., the U.S., the Netherlands, Bahrain, and Liberia.[188] This includes the U.S. Brokerage & Finance house Donaldson, Lufkin & Jennette, and

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[185] From 1990-1993, he was a Vice Governor of the Central Bank of Lebanon.

[186] MEED (15 July 1994), 20-21.

[187] Marwan Ghandour, "Investing in Lebanon's Growth & Renewal: Investment Opportunities & Challenges: A Practitioner's View"; Roula Khalaf, "Facing the New Order", 2.

[188] Lebanon Invest, Lebanon Invest Group (Information Pamphlet).

the Luxembourg based Kredietbank Luxembourgeosis.[189] In addition, there are 38 individual shareholders originating from the following countries: 18 from Saudi Arabia, 12 from Lebanon, 3 from Kuwait, 2 from Jordan, and one each from the U.S., U.A.E., and Syria.[190] The internationally visible Saudi businessman, Prince Alwaleed bin Talal, is also a major shareholder.[191]

The board of directors for Lebanon Invest (Holdings) includes an impressive group of international businessmen and financiers. The chairman is Saudi Arabian businessman, Abduallah al Hobayh, and the vice-chairman is Raymond Audi. Other members include Waleed Hassan al Saggaf of Saudi Arabia, Sayer al Sayer, who is representing the al Sayer Group of Kuwait, Abdusalam al Awadi of Kuwait, Ali Ghandour of Lebanon, Nuhad Basha, who is representing J.J. Lebanon, John Chalsty, who is representing Donaldson, Lufkin & Jennette of the U.S., Faisal Kudsi, who is representing Capital Trust, Odeh Aburdene of the U.S. who is associated with Capital Trust, and Sami Khoury, who is representing Questridge Corporation of the Netherlands.[192]

The board of directors for Lebanon Invest (S.A.L.) consists of 10 men, including Nuhad Basha, who is the chairman, Faisal Kudsi, who is the representative for Lebanon Invest (Holding), and Antoine Elias Maroun, who represents the management of Lebanon Invest (S.A.L). Others board members include Mahmoud

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[189] MEED (1 July 1994), 22-23.

[190] Lebanon Invest, Lebanon Invest Group.

[191] See the report on him in Nicholas Blanford, "Saudi Prince Takes Stake in LI", The Daily Star (Beirut: 31 January 1997), 9.

[192] Lebanon Invest, Lebanon Invest Group.

Zuhdi Malhas of Saudi Arabia, who is also chairman of the Coca-Cola bottling company of Jordan, Abdulkade Ahmad Askalan of Jordan, who is the general manager and a member of the board at the Oman Arab Bank, Samir Nicolas Hanna, who is the General Manager of Banque Audi (S.A.L.), Bernard Barecqe, who represents the Kredietbank Luxembourgeoise, Ali Selim Hobballah, who is the General Director of Societe Generale de Papetrie au Senegal, George Zeini, who represents the Arab Reinsurance Company, and Imad Mansour, who is the representative on the board for First National (Holding) S.A.L.[193]

The high calibre of people who work at the bank is a strong indicator of the professionalism of Lebanon Invest. The top professionals at the bank have earned M.A., M.B.A., or Ph.D. degrees from American or Western European universities. The professionals were recruited by Lebanon Invest from major regional and international banking or financial institutions.[194]

From the available evidence, Lebanon Invest appears to have been a success. In its first full year of operations (1995), it declared a net profit of almost one million dollars. Its assets grew to $33.2 million including $12.8 million in Lebanese treasury bills.[195] It should be clear from the information we have already given in this chapter, that Lebanon Invest has been intimately involved in a number of important projects in

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[193] Ibid.

[194] See Ibid for details.

[195] MEED (14 June 1996), 17.

Lebanon.[196]

2.6.2.3.2 Other Investment and Finance Houses

Two other important investment and finance houses were established in 1996. In January of 1996, Banque de la Mediterrannee established a subsidiary investment bank named The Mediterrannee Investment Bank. It was established with a start up capital of $6.4 million and assets of over $220 million.[197] Also, in March of 1996, the I.F.C. approved plans to launch a regional and investment bank with its Middle East office based in Beirut, called Middle East Capital Group.[198] The project is a joint venture between I.F.C. and Saudi Arabia's National Commercial Bank & B.Z.W., which is the investment arm of Barclays Bank of the U.K. Other shareholders include Saudi Arabia's bin Mahfouz family, and Khaled al Turki, founding shareholder of Saudi American Bank and chairman of ABC International Bank, and Ahmed al Badi of the Abu Dhabi-based Belbadi group.[199] The new bank will concentrate on promoting and developing a secondary market for corporate and government securities, underwriting equity and bond issues and making private equity investment in private companies going public.

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[196] For a look at a couple of financial projects undertaken by the investment house, see Economist Intelligence Unit, Country Report: Lebanon - 1st Quarter 1997, 26.

[197] The Central Bank has encouraged banks to establish subsidiaries to deal in investment banking. See Roula Khalaf, "Facing the New Order", 2; MEED (12 July 1996), 18-19; Lebanon Opportunities, Preview Issue, 49.

[198] Officially, the bank is based in the Channel Islands.

[199] See MEED (2 February 1996), 22; Economist Intelligence Unit, Country Report: Lebanon - 3rd Quarter 1996, 24; Lebanon Opportunities, Preview Issue, 46.

Initially, the bank will focus on developing business in the Levant including Lebanon, Syria, Jordan, and Gaza.[200]

Another investment bank actively involved in Lebanon is J. Henry Schroder & Company. The bank, which has a London based sister company called Schroder Asseily & Company, is 65% owned by the U.K.'s Schroder and 35% by the Asseily family. The bank has offered the typical range of investment banking services, but, it has also attempted to fill a void by offering project finance. As Tony Asseily put it, "The local banks are just not equipped for major project finance".[201] J. Henry Schroder & Company has been involved in several projects including: raising $50 million to finance the expansion of the local cement company, Cimenterie Nationale; raising millions of dollars of capital to develop the New City commercial and residential complex in Beirut; and helping to restructure the local Banque du Credit Populaire.[202]

2.6.2.4 Beirut As A Magnet For International Banking and Finance Firms

By this point, we hope that we have demonstrated that the international financial community has evinced a strong interest in the Lebanese recovery, and in the future of Beirut as a regional financial centre. International interests have shown a high level of confidence in Beirut's financial sector by

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[200] MEED (3 November 1993), 6; Lebanon Opportunities, Preview Issue, 46.

[201] The finance house raised capital on the international market for the Societe Hoteliere de Tourisme, which are the owners of the al-Bustan hotel. MEED (16 June 1995), 11-19, 25-26.

[202] MEED (23 February 1996), 25; Lebanon Opportunities, Preview Issue, 49.

investing in the commercial banks through the purchase of international bonds and certificates of deposit. The international community has also become directly involved by participating in the sponsorship of investment banks and finance houses. Finally, international institutions such as the I.F.C. have shown confidence in the Lebanese financial sector by furnishing Lebanese banks with substantial loans. Now, we will also show that elements of the international business community have responded to Beirut's attempts to encourage them to establish bases of operation in the city.[203]

Several international banking firms from the U.K., Germany, France, the Netherlands, the U.S., and the Gulf region have established a presence in Beirut, with many of them using the Lebanese capital as a regional base. As John Manser, chairman of the U.K.'s merchant bank Robert Flemings & Company explained: "The Middle East does not have a clear, dominant financial centre. Tradition is on Beirut's side, it needs building up."[204] Manser led a U.K. delegation to Beirut on 23-25 October 1994, which included representatives from the London Stock Exchange, Schroder Asseily, Coopers & Lybrand, Samuel Montagu and Morgan Grenfell, to promote British financial services.[205]

Three international banks established a presence in Beirut in 1994. In mid-1994, the Dutch bank, Internationale Nederlanden

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[203] Counted among them was Edmond Safra, the leading internatinal Lebanese banker, who controls the Republic National Bank of New York. He showed interest in reactivating the bank's Beirut subsidiary, Banque National de Credit. See Marwan Iskandar, Lebanese Economy 1995, 23.

[204] Quoted in MEED (11 November 1994).

[205] MEED (4 November 1994), 30.

Bank (I.N.G. - Bank) set up a fully-fledged branch in Beirut, the first foreign bank branch to be established in 25 years. Bank officials say the aim is to use the Beirut branch to cover the entire Middle East.[206] In November of that year, Robert Flemings & Company decided to set up a representative office in Beirut to serve a number of countries including Lebanon, Syria, the Palestinian territories, Turkey, Egypt, and Cyprus. The Beirut office will concentrate on raising funds for capital market investments in the region, and it also plans to help banks and corporations develop long range strategies to deal with their currency exposures.[207] London based U.B.A.F. bank also established a representative office in Beirut in 1994.[208]

Several international banks either established a presence in Beirut in 1995 or were planning to do so. Germany's Commerzbank reactivated its representative office, which was closed because of the civil war,[209] while Citibank of the U.S. decided to open a full branch.[210] J.P. Morgan & Company of the U.S. reactivated its representative office licence,[211] both the

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[206] MEED (22 July 1994), 25; (20 January 1995), 25; Economist Intelligence Unit, Country Report: Lebanon - 2nd Quarter 1996, 20.

[207] MEED (11 November 1994) 17.

[208] MEED (20 January 1995), 25; Economist Intelligence Unit, Country Report: Lebanon - 2nd Quarter 1995, 19.

[209] MEED (20 January 1995), 25; Economist Intelligence Unit, Country Report: Lebanon - 2nd Quarter 1995, 19; Marwan Iskandar, Lebanese Economy 1995, 24-25.

[210] MEED (23 February 1996), 25; Marwan Iskandar, Lebanese Economy 1995, 24-25.

[211] MEED (20 January 1995), 25, Marwan Iskandar, Lebanese Economy 1995, 24-25.

Scotia Bank of Canada and the Bank of Tokyo opened a representative office,[212] and Malaysia's largest bank, Malayan Bank was considering establishing an office.[213] The Bahrain based Gulf International Bank (G.I.B.) decided to open an office in Beirut to study investment opportunities.[214] G.I.B. general manager Ghazi Abdul Jawal said the office "will study and identify investment opportunities, cement existing ties or set up new links with Lebanese banks and also take part in financing development projects."[215]

In 1996, the German bank, Berliner Bank, opened a representative office in Lebanon. It aims to play a role in the growing economic relationship between Germany and Lebanon.[216] Toqueville Middle East, part of the French-American investment firm, opened up a branch office in Beirut to handle its Middle Eastern operations.[217] Finally, in 1997, Merrill Lynch announced plans to expand its Beirut office.[218] In addition to established banks and financial institutions which have set up bases of operation in Beirut, a consortium of local and foreign

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[212] Marwan Iskandar, Lebanese Economy 1995, 24-25.

[213] MEED (24 November 1995), 14.

[214] Economist Intelligence Unit, Country Report: Lebanon - 2nd Quarter 1995, 19; Marwan Iskandar, Lebanese Economy, 25; and Arab Press Service, Diplomat 4 Recorder Covering (7/14 January 1995), 43.

[215] MEED (20 January 1995), 25.

[216] Marwan Iskandar, Lebanon Opportunities, Preview Issue, 49.

[217] Ibid, 46.

[218] Nicholas Blanford, "Merrill Lynch Set to Expand Beirut Office", The Daily Star (Beirut: Thursday 27 February 1997), 7.

individuals and institutions have created a new bank called the First National Bank, which opened in 1996. The bank, which started with a paid up capital of $5 million, is backed by investors from Lebanon, Saudi Arabia, Kuwait, and the U.A.E.[219]

2.7 The Stock Market

As we have demonstrated above, investors have invested capital in Lebanon, both in the real estate market and in the banking system. In effect, these are really the only two sectors that investors feel comfortable investing in. In this section, we will discuss the Hariri government's plans to revive the Beirut Stock Exchange (B.S.E.) in the hope of using it to attract foreign and expatriate capital. We will argue that although some progress has been made in attracting capital to the stock market, its role will nevertheless, remain limited.

2.7.1 The Purpose of the Beirut Stock Exchange

The Beirut Stock Exchange (B.S.E.) was reactivated in 1995 after an absence of more than 10 years. The Hariri government has introduced several new features aimed at modernising the stock exchange. These included the establishment of an independent regulatory body,[220] the passage of laws establishing

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[219] Investors in the bank include Khaled Abdallah Sakr and Suad al Sabah, both of Kuwait; Khalaf and Mohammed al Habtour of the U.A.E.; Mutlaq al Mutlaq of Saudi Arabia; Lebanese Minister Marwan Hamadeh and former Minister Mikhail Daher, and several others. See Marwan Iskandar, The Lebanese Economy 1995, Lebanon Opportunities, Preview Issue, 49; MEED (5 June 1996), 13.

[220] The B.S.E. is regulated by a committee headed by the Banque du Liban. The committee also included the finance, justice, and economy ministers, a member from Societe Financiere Libanaise, 33 intermediaries from 30 banks and 3 finance

the rules for trading,[221] and the introduction of laws aimed at protecting the investor.[222] To qualify for a listing on the B.S.E., a company has to be in existence for at least three years, and meet stringent requirements.

The B.S.E. was to perform several functions. To begin with, there would, of course, be the usual listing of blue chip companies, of which Solidere would be the most prominent. Second, the exchange was to attract mutual funds and act as a market for treasury bills and Eurobonds. Third, government owned organisations which are likely to be privatised were also to be listed on the exchange. Fourth, banks were to trade a portion of their shares on the B.S.E. Such a move would give the banks' access to greater capital, which would presumably, in turn, give them greater resources to extend loans to the private sector. Fifth, the B.S.E. was to serve as a regional exchange rather than a local one. The idea was to attract regional companies who would agree to be listed on the B.S.E. As the head of the stock market committee, Gabriel Sehnaoui, explained, "the aim is to create a regional, rather than a local market."[223] For example, representatives from the B.S.E. have held discussions with leaders in Dahrain and Tunisia about cross-listing.[224]

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companies, Solidere chairman Nasser Chamma, and representatives of the public.

[221] For example, to prevent speculation, the price of a given stock will not be allowed to rise or fall by more than 5% a day. MEED (1 July 1994), 22-23.

[222] See ~~MEED~~ (4 November 1994), 30.

[223] MEED (1 July 1994), 22-23.

[224] MEED (24 February 1995), 33.

As noted, the aim of the stock exchange was to attract funds from foreign sources, and particularly Lebanese expatriates. As a leading proponent of the stock market pointed out, "We want above all to create vehicles for Lebanese abroad to invest, without physically coming to the country."[225]

2.7.2. The Stock Market: Strengthening Beirut's Role as a Financial Centre

There has been considerable debate concerning the role that the stock market may play in Lebanon's economic recovery. Advocates of the stock market paint a rosy picture of its potential effectiveness, both in drawing funds for the economic recovery of the country, and in playing a major role in strengthening Beirut's status as a financial centre. Support has come from the Central Bank, the government, the I.M.F. and the World Bank. Perhaps the most outspoken supporter of the stock market is Central Bank Vice Governor, Nasser Saidi, who has published several works on the subject.[226] It was hoped that approximately 45 blue chip companies would be listed on the

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[225] The quote was attributed to Yassine Jaber, a member of the stock exchange committee. MEED (24 February 1995), 33.

[226] They include: N. Saidi, and S. Nasr (eds.), The Development of Lebanon's Capital Markets, (Beirut: 1995); N. Saidi, "The Development of Lebanon's Capital Markets" Economic, Legal and Organisational Issues", in N. Saidi and S. Nasr (eds.), The Development of Lebanon's Capital Markets; N. Saidi, "Financing Reconstruction: Issues and Opportunities", Financial Times Conference - Lebanon Toward 2000: Opportunities for Finance and Investment in a Re-emerging Market (8-9 June 1995); N. Saidi, "The Economic Reconstruction of Lebanon: War, Peace, and Modernisation", in Deirdre Collings (ed.), Peace for Lebanon? From War to Reconstruction (London: Lynne Rienner Publishers, 1994), 195-212.

stock exchange within the first year.[227] Furthermore, it was hoped that the market capitalisation of the B.S.E. would reach $30 billion by the year 2000.[228] There has also been qualified support concerning the capabilities of the stock market from the Western press, including The Financial Times, and from journals which specialise in the Middle East, including the Middle East Economic Digest.[229]

However, the views expressed by proponents of the stock market have been severely criticised as being overly optimistic.[230] To cite one example of this, the B.S.E. was not able to attract nearly as many blue chip companies in its first year as had been hoped (45 or so, as noted above). In fact, only, perhaps, half a dozen companies were listed.

2.7.3 The Beirut Stock Exchange: Attracting Investor Capital?

Lebanon has several advantages, which may prove valuable in attracting investor capital to the Beirut Stock Exchange. Unlike other countries in the region, Lebanon has had a tradition of being friendly to foreign investors. The country has a liberal financial system, a low tax structure, and no capital gains tax. In addition, Beirut has the skilled manpower to run a stock market. Furthermore, a clearing and settlement

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[227] MEED (7 July 1995), 5, 27.

[228] MEED (7 July 1995), 5, 27.

[229] For a generally balanced article, however, see Julian Ozanne, "Symptom of Change", Financial Time Survey - Lebanon (Tuesday 6 June 1995), 2.

[230] For a critique, see Bassam Fattouh and Reinoud Leenders, "Lebanon: The Emerging Regional Financial Center? Amsterdam Middle East Papers no.6 (August, 1996), 1-23.

system, operated by Midclear, is already in place. Midclear is 75% owned by the Central Bank with the remaining stake owned by local and international banks and brokerage houses.[231] The company will be responsible for ensuring the settlement of transactions within a period of three days, and will also be responsible for setting up a system which will register all transactions electronically without the necessity of handing over documentation to shareholders.[232]

2.7.4 Constraints to a Successful Stock Market

As we noted, the optimistic view regarding the potential of the stock market to channel funds into Lebanon has not escaped criticism.[233] In fact, critics point to several characteristics of the Lebanese economy which may make potential investors wary about investing in the B.S.E. In addition, a lack of reliable information regarding macroeconomic developments and information about the companies themselves, political instability, and increased competition from regional stock markets, may also hinder investor appetite for B.S.E. stock.

2.7.4.1 Characteristics of the Lebanese Economy

There are at least three characteristics of the Lebanese

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[231] Midclear was established in 1994 following the recommendation of an international study completed in mid-1994. MEED (7 July 1995), 5, 27.

[232] Ibid.

[233] In particular, see Bassam Fattouh and Reinoud Leenders, "The Lebanese Economy: Exaggerated Prospects", Middle East International (4 October 1996), 19. A more extensive version of their argument can be found in Bassam Fattouh and Reinoud Leenders, "Lebanon: The Emerging Regional Financial Center?", 1-23.

economy which may hinder the establishment of a successful stock market.

Foremost among these is that most Lebanese businesses, especially the largest ones, are family owned. As Marwan Khair al Din, a member of the stock market committee, pointed out, "there is a saying that the Lebanese economy is made up of 100 families."[234] These families are very reluctant to list their companies on the stock market for fear of losing control of their respective companies. In an attempt to alleviate some of these concerns, some international investment houses operating in Beirut, including Robert Flemings, have attempted to convince these companies of the advantages of being listed on the stock market, while still keeping majority control over the company.[235]

A second problem relates to the concept of joint-stock companies and the nature of management in such companies. As we noted above, a major rationale behind creating a stock market in Lebanon was to attract investors, who had previously been limited, for the most part, to investing in either the real estate market or to simply depositing their money in bank accounts, in the course of investing in Lebanon. However, one could seriously question whether or not Lebanese or other Middle Eastern joint-stock companies would be attractive investments.[236]

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[234] Quoted in Bassam Fattouh and Reinoud Leenders, "The Lebanese Economy: Exaggerated Prospects", 19.

[235] Interview with Dominic Herbert, Robert Flemings representative at the Beirut office, on 21 February 1997.

[236] This point was made by Paul Mourani in an interview with the author on 14 February 1997. For a look at this problem, see Paul Mourani, "Decision Making in Reconstruction: The Consequences of Monopoly-Type Solutions", 118.

There is always the danger in joint-stock companies, in which there is a separation between ownership and management, that the chances for corruption amongst the management is high. In developed economies, strict rules governing management behaviour exist to help alleviate, although by no means completely eliminate, this problem. In Lebanon, and other Middle Eastern states, strict rules governing management behaviour are practically non-existent. Therefore, the potential for management corruption is high. For example, joint-stock companies with dispersed ownership in Lebanon have been plagued by mismanagement and corruption, including such companies as Intra and M.E.A.[237] Given this situation, it may be doubtful that investors would retrieve optimal returns on their investments.

A third factor which may be seen as a constraint to the stock market, is that there are very few companies in Lebanon which would be considered suitable to be listed on the stock market. Lebanon is simply too small a market, and the majority of Lebanese firms are too small to offer investors a substantial return on their investments.[238] Of the companies listed on the market before it closed in 1983, only seven survived the war.

2.7.4.2 Other Constraints

As we noted above, there are other constraints which would indicate to us that a stock market would probably not be a major source for the attraction of investment into the country. To

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[237] Interview with Paul Mourani in Beirut on 14 February 1997; Paul Mourani, "Decision Making in Reconstruction: The Consequences of Monopoly-Type Solutions", 118.

[238] Bassam Fattouh and Reinoud Leenders, "Lebanon: The Emerging Regional Financial Center?", 7-8.

begin with, potential investors need to know as much information as possible about the company, and about macro-economic developments in a general. On both points, information is relatively hard to come by in Lebanon. We have explained elsewhere that the Lebanese government cannot even measure GNP, let alone provide detailed information about other aspects of the Lebanese economy. As for Lebanese companies, unlike those in Western countries, they do not tend to keep a meticulous account of their records. As one Lebanese banker explained: "People here are just not accustomed to write financial statements."[239] Given the lack of accurate information about a company, or even regarding macroeconomic figures, potential investors would find it difficult to make a rational choice about investing in the Beirut Stock Exchange.

Another potential constraint is that the Beirut Stock Exchange is likely to find stiff competition in attracting foreign investors from other regional stock markets, including the Egyptian and Jordanian ones. In fact, the Egyptian stock market, not the Beirut Stock Exchange, is seen by Western financial houses as being the most "exciting" prospect for investors in the region.[240] For example, Egyptian investors abroad have directed considerable amounts of capital back into Egypt.[241]

Finally, many investors, both Western, and Lebanese

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[239] Bassam Fattouh and Reinoud Leenders, "The Lebanese Economy: Exaggerated Prospects", 20.

[240] Interview with a Western banker operating out of Beirut.

[241] Bassam Fattouh and Reinoud Leenders, "Lebanon: The Emerging Regional Financial Center?", 8.

expatriates, are still quite reluctant to invest in Lebanon due to the legacy of war, the continued problems in the south, which may expand into a larger conflict, and the continued instability of the political system. In particular, every time Hariri has resigned, or threatened to resign, Lebanon's macroeconomic instability becomes evident.

2.8 The Tourism Sector

Prior to the civil war, tourism was a major industry in Lebanon, with revenue from the tourist trade accounting for as much as 20% of the country's GNP.[242] For this reason, rebuilding the tourist industry has been one of the Lebanese government's high priorities. The purpose of this section is to look at developments in the tourist sector.

2.8.1 Government Attempts to Improve the Tourist Industry

The government's direct efforts to reconstruct the tourist industry have extended into four areas. To begin with, since Hariri's appointment as Prime Minister, the government has overhauled the Ministry of Tourism. The ministry's system of record-keeping has been computerised, allowing the ministry to keep meticulous statistics related to all aspects of the tourist trade, including counting the number of tourists who visit Lebanon, the sites they visit while staying in the country, and the number of hotel reservations. Second, the Ministry of Tourism, in conjunction with the United Nations Development Program and the international tourism organisation (OMT),

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[242] -----, Visitor no.2 (2nd quarter 1996), 10.

developed a master plan for the tourist industry. The ministry also received assistance in the development of a tourism strategy from a French team supported by the French government.[243] Third, the government made it a priority to renovate and reopen major tourist attractions, including the Casino du Liban,[244] the Jeita caves, and the Istirahat rest houses in Sidon and Tyre. In 1996, the Ministry of Tourism illuminated many of the historical buildings and fortresses around the country and has begun work on the ruins in Tyre, Tibnin, and Sidon. There are also plans to revive Lebanon's famous Baalbek festival, and plans to create a national park in Dahr al Baydar and a national exhibition centre in Jounieh.[245] Finally, the government has attempted to market Lebanon as a tourist attraction to the rest of the world. The Ministry of Tourism reopened its offices throughout Lebanon, and in major regional and international cities including Cairo, Jeddah, and London. The ministry also participated in international tourist exhibitions in Paris, Milan, Amsterdam, Gothenburg, Geneva, Cairo, and Dubai. Its advertising and public relations personnel have updated the ministry's brochures and guides covering 11 major tourist sites, and have published guides covering hotels, restaurants, and ski resorts. In addition, the ministry has produced a film called Lebanon Today in English, French and

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[243] Michael Karam, "A Centre for Selective Tourism", Visitor (2nd Quarter 1996), 10.

[244] For details, see -----, "The Casino du Liban is to Reopen", The Lebanon Report no.3 (Fall, 1995), 20; Economist Intelligence Unit, Country Report: Lebanon - 1st Quarter 1997, 24.

[245] Michael Karam, "A Centre for Selective Tourism", 10.

Arabic.[246]

Indirectly, the Hariri government has also encouraged the redevelopment of the tourist sector by offering incentives, including customs exemptions, to the private sector to develop, or to cater to, the tourist industry. These efforts have been targeted particularly at those operating in the hotel industry. Some of these incentives might be interpreted as being more negative than positive. For example, in a move to encourage owners of damaged hotels in Beirut to start with renovating them, the government passed a law in October 1995 that renovation of the hotels must begin by the end of 1996, or else their assets would be taken over by property companies set up according to law 117.[247]

2.8.2 Private Sector Interest in the Tourist Sector: The Hotels

One way to assess the level of private sector confidence in the Lebanese economy in general, and in the tourist trade in particular, is to look at developments in the hotel trade. At the beginning of 1996, Lebanon had 6,500 rooms in 218 hotels, compared to 14,000 rooms in 569 hotels in 1974. The government estimated that 18,000 rooms would be required by the year 2002.[248]

The hotel industry has seen impressive growth over the past

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[246] Ibid.

[247] MEED (10 November 1995), 24.

[248] -----, Visitor (2nd Quarter 1996), 56. For a look at developments in the sector, see -----, "Hotel Reconstruction and the Tourism Sector", The Lebanon Report, no.3 (Fall, 1995), 21.

few years, particularly with the building or reconstruction of several five star hotels.[249] Between 1994 and mid-1996 the Ministry of Tourism issued 59 permits to construct new hotels.[250] Many international chains have established or reestablished a base in Lebanon, including the Mariott, the Intercontinental, and the Sheraton, all from the U.S., and Hilton International of the U.K. In addition, Arab businessman, such as Saudi Adnan Khashoggi, have also planned to develop hotels.[251]

The new five star Beirut Mariott Hotel, located in the Jnah district of southwest Beirut, opened on 1 May 1996. It was the first hotel managed by an international chain to be opened in Lebanon since the war. The hotel is owned by Ziad Fakhry's Jnah Development Company, an affiliate of the local development company Safeco.[252] The owners of the hotel secured a $2 million loan from a local bank to furnish the hotel with U.S. manufactured goods.[253] The loan was guaranteed by the U.S.'s

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[249] Derek Kelly of the British Bank of the Middle East criticised the trend toward building five star hotels. He argues that the money would be better spent on marketing. See Derek Kelly, "Lebanon as a Gateway to the Middle East and Europe", Financial Times Conference (Beirut: 8 June 1995), 16-17.
For a brief look at some of the hotel projects, see Marwan Iskandar, Lebanese Economy 1995, 40-45.

[250] Economist Intelligence Unit, Country Report: Lebanon - 4th Quarter 1996, 23.

[251] For Khashoggi's role in this sector in specific, and growth in the sector in general, see Lebanon Opportunities, Preview Issue, 51.

[252] It has 174 guest rooms including 42 executive rooms and a presidential suite, a shopping mall, four cinemas, several restaurants, a fitness centre, and a business centre.-----, Visitor no.2 (2nd Quarter, 1996), 58.

[253] The agreement was with Banque Beyrouth Pour le Commerce.

Import-Export bank (Eximbank), which is particularly significant, as it was the first loan guaranteed by Eximbank in Lebanon in twenty years.[254]

In autumn of 1995, Hilton International of the U.K. stated its desire to return to Beirut to manage an approximately 600 room five star hotel located in the Beirut Central District. The hotel, which is owned by the local/Saudi Societe Mediterrane des Grands Hotels, was originally completed in 1975 but was later damaged during the war. The refurbishment of the hotel is scheduled to be completed in late 1998.[255]

Beirut's once famous Phoenicia Hotel, to be managed by the Intercontinental Hotel Corporation, is also being redeveloped. The hotel will have approximately 600 rooms including 50 suites, and the usual facilities one would expect from a five star hotel. Redevelopment of the hotel is to begin in early 1997. Several international construction firms have bid for the contract to rebuild the hotel, including a consortium of Trafalgar House and John Laing, both of the U.K., Philipp Holzmann of Germany, Besix of Belgium, a consortium of the U.K.'s Costain International with the local Almabani General Contractors, and a consortium of Sweden's Skanska and the local C.A.T.[256] The Athens based contracting firm, C.C.C., is

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[254] See MEED (5 April 1996), 16; Economist Intelligence Unit, Country Report: Lebanon - 3rd Quarter 1996, 22; Lebanon Opportunities, Preview Issues, 51.

[255] The hotel will be one of the largest in Beirut and will include five restaurants, a coffee shop, a night club, a conference room, and a ballroom. See Visitor no.2 (2nd Quarter 1996), 57; -----, "Hilton Leads Hotel Comeback", The Lebanon Report 4, no.10 (October, 1993), 9.

[256] MEED (19 July 1996), 21.

construction manager.[257] The owners of the Phoenicia, Societe des Grands Hotels du Liban, secured financing for the $80 million project in June 1996. Lebanon Invest and Capital Trust managed a share placement worth approximately $31 million in Societe des Grands Hotels du Liban, with buyers from both the Arab world and the West. Additional financing will come from a $45 million loan from Fransabank, of which $10 million will be underwritten by D.E.G. of Germany.[258]

The Societe des Grands Hotels du Liban has also been renovating the Vendome Hotel, which will also come under the management of the Intercontinental chain. The Vendome is a small five star hotel, with 96 rooms.[259]

The renovation of Beirut's Meridien hotel is another colossal hotel project. When completed in the summer of 1997, the hotel will include 340 rooms, 12 restaurants, a nightclub, and a major health and fitness club which will be one of the largest in the Middle East. In addition, the hotel will have a marina with a capacity to accommodate approximately 180 boats.[260]

Several other hotels have been, or are in the process of being, built or renovated in Beirut. These include a new Sheraton hotel, which is to be built in the Ramlet al-Baida area, the expansion of the five star al Bustan hotel, which is

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[257] MEED (26 July 1996), 32.

[258] The remainder of the financing will come from shareholders and local banks. See MEED (7 June 1996), 26; Economist Intelligence Unit, Country Report: Lebanon - 4th Quarter 1996, 23; Marwan Iskandar, Lebanese Economy 1995, 40-41.

[259] The hotel is located near the once famous St. Georges hotel. Visitor (2nd Quarter 1996).

[260] Marwan Iskandar, Lebanese Economy 1995, 41.

located in the resort town of Beit Meri north of Beirut,[261] the renovation of the Cadmos hotel, and the construction of several quality hotels in the Jounieh vicinity including the $40 million Regency Palace Hotel (located in Adma), and the PortEmilio hotel (located in Kaslik).[262] In addition, Ali Abdulla Jammal, head of the local Jammal Trust, is planning to build a new $100 million five star hotel, in the Raouche district of Beirut.[263]

Many hotels are also being constructed as part of larger commercial or residential complexes, including one at the Golden Cedar Club complex, two hotels at the Palais de Congres enterprise, one at the St. Charles City Centre project, and one at a tourist resort at the Jeita caves in Kesrouan.

Finally, hotels are also planned for Beirut International Airport (B.I.A.) and the Casino du Liban. The hotel at the airport is to built on a B.O.T. basis.[264] The cost of the hotel at Casino du Liban is estimated at $35 million, and will include approximately 200 rooms.[265]

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[261] The local investment house, Middle East Capital Group, will assist the owners of the hotel with financing the expansion. Economist Intelligence Unit, Country Report: Lebanon - 4th Quarter 1996, 23.

[262] Marwan Iskandar, Lebanese Economy 1995, 44.

[263] The newly renovated Cadmos hotel opened on 11 January 1996. The renovation cost $5 million and took two years to complete. See Visitor no.2 (2nd Quarter, 1996), 58-59.

For details about the new hotel being planned by Jammal, see MEED (26 July 1996), 32; Economist Intelligence Unit, Country Report: Lebanon - 4th Quarter 1996, 23; Lebanon Opportunities, Preview Issue, 51.

[264] MEED (26 July 1996), 32.

[265] MEED (16 December 1994), 13-14.

2.8.3 Other Private Sector Initiatives in the Tourist Sector

In addition to the development of hotels to accommodate tourists, the private sector has also developed a number of tourist resorts, including ones located at the Jeita Caves, at a site north of Tyre, and one in al Mansourieh. A tourist resort at the Jeita caves in the Kesrouan district of Mount Lebanon is being developed by local and Arab investors. The plan is to build a hotel and a number of chalets on a 7,000 square metre site at an estimated cost of $71 million.[266] Ali Abdallah Jammal is planning to build a tourist village at al Qasimjya, north of the southern city of Tyre. It is estimated that the project will cost $200 million.[267] Finally, a Lebanese-U.S. consortium operating under the name "Recreational Management" are planning to build a water sport amusement park in al Mansourieh in early 1998. The project, estimated to cost $8 million, will include amusement parks, golf courses, water sports, as well as restaurants, movie theatres and sports centers. The two U.S. firms involved in the project are called "Putt Putt" and "Water Technology".[268]

2.8.4 The Number of Tourists Arriving in Lebanon

So far, we have shown that both the government and the private sector have invested significant resources in the tourist industry. The question that arises is whether or not

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[266] MEED (4 June 1993), 26.

[267] MEED (17 May 1996), 13.

[268] Banque Audi, The Weekly Local Economic Report week 6 (3rd-9th February 1997), 4.

tourists have decided to return to Lebanon.[269] In 1994 alone, 850,000 people visited the country. Out of that total, 322,000 foreign tourists stayed at 41 hotels between May of 1994 and December 1994.[270] Between 1992 and 1995, there was a 130% increase in tourists to Lebanon. The highest number have tended to come from the E.U., followed by Arab nationals.[271]

2.9 The Industrial Sector

The purpose of this sub-section is to see what has occurred since 1992 in Lebanon's industrial sector, which accounts for about 20% of the GNP.[272] We will look at three areas related to developments in this sector. First, we will look at government industrial policy. Second, we will look at the support given to Lebanon's industrial sector by national and international financial institutions. Finally, we will look at growth in the industrial sector.

2.9.1 Government Policies Toward the Industrial Sector

As we have mentioned several times previously, one of the Hariri government's top priorities was to pursue policies aimed at strengthening Lebanon's financial and commercial capabilities. It is unclear, however, to what extent the Hariri

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[269] The central bank keeps a monthly record of the number of people who arrive in Lebanon via Beirut International Airport. See Banque du Liban, Monthly Bulletin.

[270] -----, "Hotel Reconstruction and the Tourism Sector", The Lebanon Report no.3 (Fall, 1995), 21.

[271] -----, "Foreign Visitors Keep Coming", The Lebanon Report no.3 (Fall, 1996), 16-17.

[272] Marwan Iskandar, Lebanese Economy 1995, 93.

government has made growth in the industrial sector a major priority. According to one of Lebanon's leading economists, however, the industrial sector lacked adequate support from the government.[273] The government has, however, taken some limited steps to assist the sector. In 1996, the government signed a contract with Arthur D. Little of the U.S. to carry out a comprehensive study of the industrial sector and to offer prospects for its development. Furthermore, the government has taken a few steps to help encourage growth. To begin with, as we explained in section one of the chapter, the government established a Bank for the Development of Industry and Tourism. To reiterate, the law establishing the bank stated "that the bank is entrusted with financing industrial and touristic projects, and that it is to encourage the investment of domestic and foreign capital into such projects."[274] Second, in the summer of 1996, the government-backed Investment Development Authority of Lebanon began a series of studies to determine the viability of a pilot project, a light industrial park north of Sidon. The government planned to buy the land, build the infrastructure and lease the property to the private sector.[275] Finally, the government has employed tariffs to protect some industries, such as the domestic furniture sector, while decreasing tariffs on imported raw materials necessary for

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[273] Marwan Iskandar, Lebanese Economy 1995, 94.

[274] Quoted in Middle East Economic Survey XXXVIII no.5, (31 October 1994).

[275] MEED (23 August 1996), 22.

Lebanese industry.[276] Having said this, however, in the summer of 1993, the government had planned to reduce custom duties by 50%, a process that industrialists claim would hurt the Lebanese industry sector. As the president of the Industrialists' Association, Jacques Sarraf, explained, the "government had opted for an anti-industrial policy.[277]

2.9.2 Support From National and International Financial Institutions

Private sector industry has also received assistance from national and international financial institutions, although access to credit is still difficult to obtain.[278] The local financial institution, Lebanon Invest, has played a role in assisting industrialists, especially those involved in the smaller enterprises. For example, Lebanon Invest has raised nearly $6 million in order to provide small and medium sized loans to local industries. The loans were to be between $500,000 and $2 million to help industries prepare for flotation on the stock market.[279] At the international level, the I.F.C. has been particularly helpful in assisting industrialists. As the regional director for the I.F.C. in the Middle East, North

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[276] In 1995, 2% decreases in tariffs were decided on 185 raw materials used in such sectors as electricity, telephone cables, soft drinks, and car batteries, while tariff increases ranged from 15 to 20% on textiles, and 30% on imported bottle water. For more details, see Marwan Iskandar, Lebanese Economy 1995, 97-98.

[277] Quoted in -----, "Industrialists Unhappy", The Lebanon Report 4, no.7 (July, 1993), 8.

[278] Marwan Iskandar, Lebanese Economy 1995, 94.

[279] MEED (3 September 1995), 22.

Africa, and Central Asia, Andre Hovaguimian, explained: "The I.F.C. could play a major role in Lebanon's rehabilitation by supporting its private sector."[280] As we have noted in sub-section five of this chapter, the I.F.C. has either provided loans to Lebanese industry directly, or it has provided loans via Lebanese banks.

2.9.3 Growth in the Industrial Sector

Growth in the industry sector has occurred during the period under study.[281] We will site a few figures. According to figures released by the General Directorate of Industry, investment in light industry increased substantially between 1991 and 1992. In 1992 a total of 462 licences to build factories was issued accounting for $30 million of investment. In addition, $67 million of machinery was imported for the factories from such countries as Italy, Germany and the U.K.[282] In the first half of 1993, machinery imports increased to $300 million. Many companies, particularly in the light industrial sector, including textiles, printing and food, have built new plants or expanded existing ones, and have updated their technological capabilities.[283] In 1995, 431 firms valued at $60 million and employing 3,451 workers were set-up. These new firms were most heavily concentrated in producing food and beverages,

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[280] MEED (2 April 1993), 30.

[281] For a monthly record of the number of new registrations of industrial firms and their associated jobs, see Banque du Liban, Monthly Bulletin.

[282] MEED (12 February 1993), 26.

[283] MEED (25 June 1993), 11.

followed by metal products, and furniture and wood.[284] In 1996, 459 new industrial enterprises were founded, employing 3,414 people.[285]

2.9.3.1 Growth in the Cement Industry

Lebanon's cement industry has enjoyed impressive growth thanks to strong demand from the construction industry. The country's three cement companies, the Sibline Cement Company, Cimenterie Nationale, and Societe des Ciments Libanais, have all enjoyed healthy profits, and have planned major expansions to meet increased demand for their products.[286]

In May of 1995, the largest of Lebanon's cement companies, Societe des Ciments Libanais, announced plans for an estimated $150 million expansion project. Krupp Polysius of France was awarded the contract. The cement company, which is majority owned by Switzerland's Holderbank, raised funds for the project by tapping the local and international bond markets including the issue of a $50 million Eurobond in January 1996. The Eurobond issue, which was managed by S.B.C. Warburg and priced at 350 basis points above U.S. treasuries, was oversubscribed at its launch. In an indication of support for the Lebanese economy, 40% of the Eurobond was sold to institutional European

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[284] See Marwan Iskandar, Lebanese Economy 1995, 98; Lebanon Opportunities, Preview Issues, 69.

[285] Banque Audi, Quarterly Economic Report (4th Quarter 1996), 2.

[286] For a brief study of Lebanon's cement industry, see Flemings Research, Emerging Opportunities: Cement Review - Eastern Mediterranean (Flemings Research: November 1996), 40-50.

investors.[287]

Lebanon's second largest cement company, Cimenterie Nationale,[288] expanded its Chekka plant in 1996 in order to double its production capacity. Equipment for the approximately $85 million expansion was supplied by Germany's Kloeckner Humboldf Deutz. In March of 1995, the cement company signed an 8 year $50 million loan with a number of international institutions including the I.F.C., the Banque Nationale de Paris, and the Netherlands Development Finance Company. The finance house, George Asseily and Company is financial advisor to the cement company. The significance of the loan was commented on by the I.F.C. regional director, Andre Hovaguimian: "the loan was a mark of confidence in Lebanese reconstruction."[289]

The Sibline cement company signed a $100 million contract on 15 October 1995 with France's Technip to expand its Sidon plant. Civil works for the project were carried out by the C.C.C. Sibline raised funds for the project on the local and international bond market. An interesting group of powerful businessmen/politicians own the Sibline plant. P.M. Hariri owns 26% of the company, the Druse leader, and sometime political

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[287] MEED (26 January 1996), 20; (1 December 1995), 15-16; (2 June 1995), 4-5, 17; (12 May 1995), 27. For a brief history of the company, see Flemings Research, Emerging Opportunities: Cement Review - Eastern Mediterranean, 46-48.

[288] It has 28 shareholders, although it is dominated by the Doument and Asseily families. Flemings Research, Emerging Opportunities: Cement Review - Eastern Mediterranean, 49.

[289] MEED (14 April 1995), 34. For a brief history of the company, see Flemings Research, Emerging Opportunities: Cement Review - Eastern Mediterranean, 49.

critic of Hariri, Walid Jumblatt owns 28%, businessman Iskander Bourri owns 10%, and the brothers Adnan and Adel Kasser, the major shareholders in Fransabank, own 10%.[290] This fusion of political/economic interests raises interesting questions concerning both government economic policies and alliances between politicians and businessmen. We will cite one example concerning government policy toward the cement industry. In November 1995, the Lebanese parliamentary finance and budget committee recommended that the government lower duties on cement imports and provide special incentives for new cement projects as a means to break the monopoly of the three cement producers. As of this writing, we do not have information concerning the government's response to this important recommendation. Obviously, if the government chose to ignore it, it would raise further questions about certain ministers placing their own economic interests ahead of the general interest.[291]

In spite of the increased production of local producers, imported cement is still needed to meet demand. In 1993, the Bourri trading group established a cement importing company called Seament.[292]

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[290] MEED (1 December 1995), 16; (27 October 1995), 2-3, 33; (29 September 1995), 21-22; Flemings Research, Emerging Opportunities: Cement Review - Eastern Mediterranean, 49.

[291] In April of 1993, the price of cement rapidly increased from $67 a ton to $120 a ton, prompting a public outcry. However, a close observer of the scene, Mr. Marcos, blamed factors beyond the control of the cement companies for the crisis. For a succinct analyses of the problem, see -----, "Crisis in the Cement Market", The Lebanon Report 4, no.6 (June, 1993), 9.

[292] See MEED (16 June 1995), 11-19 and 25-26; Flemings Research, Emerging Opportunities: Cement Review - Eastern Mediterranean, 41.

2.9.3.2 Examples of Growth in Other Industries

In 1993, a local ceramic floor tiles manufacturer, Uniceramic, received a $6 million loan from the I.F.C. to expand its ceramics plant. Uniceramic, which is headed by Joseph Ghoara, was the first company in Lebanon to receive a loan from the I.F.C. since 1978.[293]

In 1994, a new factory, which produces a variety of pipes, including glass reinforced plastic pipes, was built in the Akkar region of Lebanon by the local company Future Pipe Industries.[294] The company will use a process licensed by the American company Owens Corning Corporation, through its subsidiary Neroc Technology of Norway. Other technological capabilities were supplied by Wauin of the Netherlands. The pipes are being manufactured for water supply and irrigation projects in both Lebanon and Syria. The project has cost over $35 million, and was expected to create 700 jobs.[295]

In 1994, another Dubai based pipe manufacturer, Gulf Eternit, in a joint venture with the U.K.'s Johnston Pipes, planned to build a new plant to design similar pipes in the northern Lebanese city of Chekka. The project has an estimated cost of about $8 million.[296]

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[293] MEED (2 April 1993), 30.

[294] The company was set-up by Lebanese owned Future Management Services.

[295] A local contractor was to build the plant. See MEED (4 March 1994), 26-27; (5 November 1993), 2-3, 28; (8 October 1993), 22.

[296] Eternit has a plant in Chekka which designs concrete pipe plants. MEED (4 March 1994), 26-27.

2.9.4 Problems Facing the Industrial Sector

As noted above, however, the Industrial sector faces many obstacles to continued growth. Economist Marwan Iskandar listed several constraints. The most prominent was the lack of an effective government strategy in the industrial sector. Second, the sector lacked the proper institutional support. Institutions overseeing the sector, including the Ministry of Oil and Industry, and the Institute of Industrial Research lack qualified personnel and financial resources to properly assist the sector.[297]

2.10 Foreign Investment/Interest in Lebanon

Throughout chapters five and six, we have clearly demonstrated the high level of foreign business activity in Lebanon. Foreign companies have figured prominently in most of the projects in the Horizon 2000 plan, and they have also played a leading role in many of the projects which have been, or are in the process of being, developed by private interests. We have also demonstrated the high level of direct foreign investment in Lebanon, some of which has been quite substantial. These investments have included, in particular, B.O.T. projects or enterprises of a similar nature.

In this sub-section we wish to look at additional examples of foreign investment in Lebanon which have not been discussed elsewhere. We also wish to discuss the increased level of foreign interest in Lebanon, including companies which have set

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[297] For a look at some of the problems facing the industrial sector, see Marwan Iskandar, Lebanese Economy 1995, 106-111.

up offices in Lebanon, or have established some sort of relationship with a Lebanese representative.

2.10.1 Direct Foreign Investment

Foreign companies have invested in Lebanon in a number of different ways. In addition to the types of investments listed above, these have included the following: operating directly in Lebanon; buying a Lebanese company; taking a stake in a local company; operating a joint venture with a local company; or having a local company represent a foreign company's interest.

Both Gulf Arab companies and Western European ones have invested directly in Lebanon. We will cite three examples. In the summer of 1995, Saudi Arabia's Corral Petroleum Holdings and the Dubai based Gulf Interstate Oil Company acquired the Fortune Holding Company for approximately $50 million. The Fortune Holding Company operated 2 petrol distribution subsidiaries and 146 petrol stations throughout Lebanon.[298] One of the largest insurance firms in the Arab world, Bahrain based Arab Insurance Group announced, in 1996, plans to expand to Lebanon.[299] And in 1995, a new company dealing in the liquor trade, International Distillers & Vintners Lebanon, was launched by a joint venture of International Distillers & Vintners (I.D.V.), which is the drinks sector of the U.K.'s Grand Metropolitan, and the local company Amlevco Trading. The company was to be responsible for marketing and distributing I.D.V. spirits and Wines in

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[298] MEED (14 July 1995), 22-23.

[299] MEED (10 May 1996), 17.

Lebanon.[300]

While the presence of Arab and Western European companies in Lebanon is not surprising, it will be of particular interest to note that several U.S. companies have also invested in Lebanon. This has occurred in spite of the U.S. government travel ban on U.S. citizens to Lebanon. We will cite four examples of direct investment in Lebanon by leading American companies. In 1995, a new computer company was launched in Lebanon, Quantech, to represent the giant U.S. computer company I.B.M. Quantech is owned by both I.B.M. and local interests.[301] The U.S. company Owens Corning Corporation took an equity stake in a local firm which produces glass fibre pipes.[302] The American firm M.C.I. International has operated a satellite international telephone service in Beirut since 1993 according to an agreement with the government.[303] Finally, the giant U.S. automaker, Ford, decided to return to Lebanon in 1994 after a 30 year absence. The local Boustany-Dahdah automobiles will be its Beirut representative.[304]

2.10.2 Foreign Interest in Lebanon

In addition to investing directly in Lebanon, numerous foreign companies have either established an office in Beirut or they are represented by local agents. During the years 1992 and

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[300] MEED (21 July 1995), 13.

[301] MEED (21 July 1995), 13.

[302] MEED (8 October 1993), 22.

[303] MEED (17 December 1993), 26.

[304] MEED (11 November 1994), 17.

1995, a number of foreign companies have established a presence in Lebanon, including such well known brand names as Pepsi Cola and Adidas.[305] We have already mentioned the number of banks which have done so. In addition, many Western based construction firms have also established a presence in Beirut. Moreover, these offices have often been established as regional bases for the companies. For example, the U.K.'s Trafalgar House established a regional office in Beirut in 1995 with the intent of targeting the "Fertile Cresent" as a place to do business in the future.[306] In addition, some prominent international advertising agencies, including the U.K.'s Saatchi and Saatchi, and B.B.D.O., one of the largest advertising agencies in the country, have set-up offices in Lebanon.[307] Moreover, some international media sources, including Reuters, have decided to open offices in Lebanon, to cover the entire region. This would help strengthen Beirut's claim to be a headquarters for multinational firms interested in the region as a whole.

Figures on the number of foreign companies which have established a presence in Beirut either directly or through a local representative during the first half of 1996 are staggering. Within the first half of 1996, 18 foreign companies have opened offices in Lebanon, with a further 76 foreign

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[305] For numerous examples of international companies which established a presence in Lebanon, see Lebanon Opportunities, Preview Issue, 56.

[306] Paul Hood, "Contracting Operations in Beirut", Financial Times Conference (Beirut: 8-9 June 1995).

[307] Giles Trendle, "Flaunting It: Lebanon's Thriving Advertising Industry", The Lebanon Report 4, no.7 (July, 1993), 7.

companies represented by Lebanese agents. The 18 foreign companies included:[308]

Company	Date of Registration	Country of Origin
Citibank	6 Jan.	U.S.
Malaysian Airlines	31 Jan.	Malaysia
Smithkline Beecham	30 Jan.	U.K.
ETDE	24 Jan.	France
Christiani & Nielson	26 Jan.	U.K.
Shenfu Real Estate Development Co.	29 Jan.	China
Ansaldo-Energia SPA	6 Feb.	Italy
Engineering Business Development Inc.	14 Feb.	U.S.
Berliner Bank Aktiengessllschaft	15 Feb.	Germany
Saudi Co. for Research and Publishing	15 Feb.	S.A.
CAT Intl. Ltd.	19 Feb.	Chan.Isles
Mothercat Ltd.	19 Feb.	Chan.Isles
Kuwaiti Center for Industrial Metals	11 March	Kuwait
SIF Bachy	26 March	France
Klockner Steel Middle East FZE	11 April	U.A.E.
Reuters Ltd.	9 May	U.K.
ABB Management Ltd.	10 May	Swiss.
Club Flipper	13 May	Turkey

The 76 Foreign Companies Represented By Lebanese Agents Include:[309]

Company	Date of Registration	Country Of Origin
Fijian Hitachi T.V. Co.	3 Jan.	China
Apparel Ventures Inc.	6 Jan.	U.S.
Tseng-Wang Intl.	16 Jan.	Taiwan
Sinequanone	17 Jan.	France
AJB Hightech Ltd.	17 Jan.	Greece
Office Automation M.E. Ltd.	23 Jan.	Chan.Isles
Heinrich Frings GmbH & Co. KG	26 Jan.	Germany
EMI Music Intl. Services	3 Feb.	U.K.
Kali Und Salz GmbH	5 Feb.	Germany
Shiseido Co. Ltd.	7 Feb.	Japan
NGK Sparkplug Co. Ltd.	10 Feb.	Japan
Osram GmbH	12 Feb.	Germany
Telecom Trading SRL	15 Feb.	Italy
Beam Industries	15 Feb.	U.S.
Hard Rock Cafe Ltd.	24 Feb.	Canada
McAlpine & Co. Ltd.	26 Feb.	U.K.
Lumen SRL	27 Feb.	Italy
Siemens	27 Feb.	Germany
Leolux Mobefabrik	4 March	Germany
Silca SPA	4 March	Italy
Mirato Nuovo SPA	4 March	Italy

[308] The Ministry of Economy and Trade, Business Lebanon, 39.

[309] Ibid.

Mirato Nuovo SPA	4 March	Italy
LPC Hellas	7 March	Greece
Snap-On-Tools Intl. Ltd.	7 March	U.S.
Glem Gas SPA	7 March	Italy
Sciclone Pharmaceuticals Ltd.	7 March	H.K.
D.M.T. Corp.	7 March	U.S.
Compania Roca Radiodores SA	7 March	Spain
Cellogique	7 March	U.S.
Sumitomo Rubber Industries Ltd	9 March	Japan
Industrial Parts Distribution	12 March	Germany
Arcluce	12 March	Italy
Niba SRL	12 March	Italy
C&G Carandini SA	12 March	Spain
Ferraz	12 March	France
Le Livre de Paris et de Quil.	19 March	France
General Electric Co.	21 March	U.S.
Biogenex Laboratories Inc.	27 March	U.S.
GMB Corp.	18 April	Japan
Thompson Consumer Marketing	17 April	France
Christian Dior	19 April	France
Vapco Vet. & Agric. Products	23 April	Jordan
Van Den Berg Seeds SL	27 April	Spain
Blanc Pain SA	7 May	Swiss.
Ferrari	9 May	Italy
Big Star Holding AG	9 May	Swiss.
P.T. First National Glassware	9 May	Indonesia
Kali Und Salz GmbH	9 May	Germany
Gulf Oil Intl. M.E. Ltd.	14 May	U.S.
Bayex	14 May	Canada
Rum Metal Manufacturing Co.	14 May	Jordan
Apotex Inc.	14 May	Canada
Handelmaatschappijvan Rijn	16 May	Netherlands
Toshibi Corp.	16 May	Japan
Galassi Sementi SNC	17 May	Italy
Importations Ricci Intl. Ltd.	20 May	Canada
BPT SPA	22 May	Italy
Sumanthi Newspapers (PVT) Ltd	22 May	Sri Lanka
Kedaung Subur Ind. Ltd.	23 May	Indonesia
Kedaung Medan Ind. Ltd.	23 May	Indonesia
Kedaung Ind. Ltd.	23 May	Indonesia
Kedaung Oriental Porcelain	23 May	Indonesia
Kedaung Surya Ind. Ltd.	23 May	Indonesia
Supreme Indo-American Indust.	23 May	Indonesia
Kanigara Gelas Ind. Ltd.	23 May	Indonesia
Elite Models Fashion Sarl.	25 May	France
Anglofranchise Ltd.	31 May	U.K.
Theratronics Intl. Ltd.	3 June	Canada
Shiseido America Inc.	7 June	U.S.
Alpargatas Santista Textile SA	7 June	Brazil
GTR Group SPA	7 June	Italy
Elefanten-Schuh GmbH	15 June	Germany
Gewiss SPA	15 June	Italy
Prenatal	17 June	France
E-arrs	17 June	U.S.
Haag Streit AG	21 June	Swiss.
Black & Decker (Overseas) AG	22 June	U.S. (Dubai)

Nordyne Intl.	22 June	U.S.
Terry of Redditch	22 June	U.K.

International business confidence in Lebanon during the beginning of 1997 continued to remain strong. For example, the British owned supermarket chain, Spinneys, has decided to return to Beirut after an absence of 22 years. As John Bartley, the executive director of the company explained, "the resumption of the company's operations in Lebanon is due to the country's stability and rising confidence in it."[310] The company has decided to open several branches in Lebanon.[311]

As one can see from the data which we have presented in this sub-section, Lebanon has succeeded in attracting international firms to the country. To cite one more impressive figure, over 80 British companies are presently active in Lebanon.[312]

3. The Hariri Government: A Capitalist Developmental State?

A defining feature of Johnson's capitalist developmental state is substantial government direction of, or assistance to, the private sector. As we have noted, Hariri's government has not been particularly active in this area, preferring to allow private sector involvement in the recovery process to evolve in a laissez faire fashion. The exception to this was a number of government assisted private sector projects to develop vast areas of land such as the Solidere project in Beirut, and the

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[310] Quoted in Bassem Ajami, "Spinneys back in Beirut", The Daily Star (Beirut: Friday 31 January 1997), 9.

[311] Ibid.

[312] Source: British Embassy in Beirut.

Linord and Sidon projects. However, government assistance as it relates to the capitalist developmental state usually refers to productive sectors, such as industry or agriculture, not to the development of land or infrastructure. The government assisted land development projects in Lebanon are not a long term growth priority. Once the land is developed, and particularly given Lebanon's small size, the short term construction boom will come to a conclusion. As with all infrastructure development, long term benefits in terms of revenue, economic growth, the generation of new employment, etc., may be derived from the improvements, but probably not to nearly the same extent that benefits would be derived if the government were to target a growth industry and focus investment on it.

4. Summary

As we explained in chapter three, as crucial as the government's Horizon 2000 programme is in helping to restore the economy, the success of Lebanon's economic recovery is ultimately dependent upon the performance of the private sector. To put it a different way, the government's hopes of returning Lebanon to its former role as the commercial and financial capital of the Middle East very much hinge on the level of private sector investment in the country.

The purpose of this chapter was to provide a survey of private sector investment in numerous areas of the Lebanese economy, with a view to establishing several conclusions. First, we have demonstrated that things in Lebanon have moved forward, even if it is not possible at this time to draw any

definitive conclusions concerning the success of the economic recovery. Second, we have identified both the personalities and companies, Lebanese and otherwise, which have invested their resources in Lebanon. Numerous business interests have invested in Lebanon, including, of course, Hariri and associates, but also a considerable number of other business interests -- Lebanese, Arab, and to a lesser extent, Western. Two sectors of the economy, the real estate sector and the banking sector, received the bulk of the investment. In the real estate sector, the investments included several government backed private sector projects such as the reconstruction of the Beirut Central District, and the Linord and Sidon projects, but also included some large projects launched by various Lebanese and Arab interests. We feel that the level of investment in Lebanon that we have demonstrated throughout this chapter is a relatively accurate reflection of considerable private sector confidence both in the Hariri government, and in the Lebanese political system as a whole. Finally, we also feel that the relatively high level of international investment in Lebanon, particularly from prominent Saudi investors, may bode well for the continuing stability of the Lebanese state, as it follows that they, and their respective governments, would have a greater interest in helping to ensure the future stability of Lebanon.

CHAPTER SEVEN: THE POLITICAL SYSTEM AS A CONSTRAINING FACTOR TO LEBANON'S ECONOMIC RECOVERY

In chapters five and six of this paper, we have demonstrated that things have moved forward in Lebanon. The country's infrastructure network has been greatly improved, and the private sector has been very active. We have further demonstrated that international actors, including governments, organisations, and businesses have taken a relatively strong interest in both the recovery programme, and in the Lebanese economy in general. In the latter case, prominent international investors, particularly from the Arab world, from the Lebanese expatriate community, and to a lesser extent, from Europe, have invested extensively in the Lebanese economy, especially in the real estate, banking, and tourist sectors. This fact may bode well both for the health of the economy, and for the stability of the Lebanese state. For example, Arab investors, especially from Saudi Arabia, have developed a stake in the Lebanese system, and it follows that they may use their influence with the Saudi government to ensure that it does all it can to support continued stability in Lebanon.

Furthermore, macroeconomic indicators under the Hariri government have stabilised. To begin with, inflation has been checked. For example, it was reduced from 131% in 1992 to 12% in 1994.[1] Second, the Lebanese pound has stabilised at around 1,500 to one-U.S. dollar. Third, the Lebanese economy showed strong signs of growth between 1993 and 1995 with 13% growth in

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[1] Bassam Fattouh and Reinoud Leenders, "The Lebanese Economy: Exaggerated Prospects", 20.

In spite of these relatively positive conclusions, the Hariri government has continued to face numerous problems, which, if not rectified, may jeopardise the country's economic recovery, and, potentially, the stability of the political system. In fact, as we noted elsewhere, both the recovery programme and the economy have already slowed down. The problems faced by the Hariri government included: the large deficit, which as we have shown elsewhere, was a major factor in causing a slowdown both in the recovery programme and in the economy; the growing rift between the rich and poor, which may incline poorer elements within Lebanese society to be co-opted by groups unhappy with the present political order, thereby destabilising that order; the inability to reform the public sector, which accentuates waste and corruption, and turns away potential investors; the inability to incorporate the Maronite community within the political system, which has, amongst other things, kept a good part of the Lebanese Christian expatriate community from investing in or returning to the country; and the regional conflict which continues to be played out in South Lebanon, with all the negative ramifications it entails.

As we explained in chapter two, the Syrians acquiesced, in spite of earlier misgivings, to a constellation of interests inside and outside Lebanon, and allowed Rafiq Hariri to become Lebanon's prime minister, primarily because he was widely seen as the only figure capable of reviving the Lebanese economy, and, thus, the fortunes of the post-Ta'if system. In addition to the qualified support of Syria, Hariri had the support of the majority of Lebanese, and, therefore, to at least some extent, a

popular mandate to govern.[5] These two factors gave him the basic support to push through his economic plans for the country.

Once in office, Hariri strengthened his position by building up an impressive political network to help him carry out his economic programmes. He managed to bring several of his associates into the cabinet with him, and also to install associates at the head of the key economic institutions running the country, including the C.D.R. and the Central Bank. In addition, through political appointments, he established a large class of men whose political careers are dependent upon him.

However, Hariri's great personal wealth, international connections, mandate to govern, and impressive political power base, all of which have combined to give him an effective monopoly over Lebanese economic policy making, have not necessarily given him the sort of authority he would need to be the "saviour" that many in Lebanon may have been hoping for. As Michael Young, the editor of The Lebanon Report put it, "men of providence come and go - Mr. Hariri being only the latest in an illustrious line - but they never seem able to reform the political system they have come to save."[6] And the fact is, Hariri has not been able to reform the Lebanese political system. On the contrary, he has faced, and continues to face, a number of serious political constraints in implementing his economic and political policies. As we will demonstrate below,

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[5] A poll taken a couple months after he came to power showed that he had a 75% approval rating. -----, "Reflections on Independence Day", The Lebanon Report 3, no.12 (December, 1992), 3.

[6] Michael Young, "Hariri or Chaos", The Lebanon Report 6, no.1 (January, 1995), 2.

he has been so frustrated by these constraints periodically that he has threatened to resign on several occasions.

In this chapter, we will discuss these political constraints. In essence, there are two of these: an "internal" constraint, which consists of Hariri's problematic relations with the other two key leaders within the institutional set-up of the Lebanese political process (i.e., the president and the speaker of the house); and, an "external" constraint, in the form of Syria's massive and continuing influence over virtually every aspect of the Lebanese political system. These two constraints are strongly related. Whereas there might be strong divisions amongst the three principal institutional leaders in Lebanon irrespective of any external interference, Syria has played a very interesting role, exacerbating the problem by playing the three off against each other (mostly Hariri against the other two), but also regulating the conflict to ensure that the system does not break down entirely.

1. The "Internal Constraint": The Troika

As we explained in chapter one, the post-1943 political order was a confessionally-based patron-client system. Political leaders would use their positions of power to distribute patronage to their followers in return for political support. Essentially, the political leaders of the various sects, through the use of informal compromises, divided the patronage amongst themselves. Obviously, those with the most political power, such as the President of Lebanon, would have access to the greatest amount of patronage. Moreover, political leaders were also

likely to use their positions of power to gain financially.

As we explained in chapter two, the Ta'if Accord did not change the basic foundations of this system, but simply made some adjustments which lessened Maronite power in favour of the Sunni and Shiite communities. In fact, the Ta'if Accord made the necessity for compromise amongst the top leaders even more essential for the system to function. Although compromising was important in the pre-Ta'if system, the president was usually powerful enough that his views prevailed. In the post-Ta'if political system, the architects of the accord made the divisions of power between the president, the prime minister, and the speaker of the house intentionally ambiguous, on the understanding that the three leaders, as representatives of the three most powerful communities in Lebanon, would have to compromise in order to successfully govern the country. The post-Ta'if political system, has been ruled by what is often termed the "leadership troika". As one keen observer of the Lebanese political system explained, "the term [leadership troika], widely accepted and used, came to legitimise what could more accurately be called a confusion of powers."[7]

Since November of 1992, the governing troika has included Prime Minister Rafiq Hariri, who is a Sunni, President Elias Hrawi, who is a Maronite, and the Speaker of the House, Nabih Birri, who is a Shiite.

Obviously, Hariri, a relatively independent leader backed by enormous personal wealth and vast international connections,

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[7] Joseph Bahout, "Lebanese Parliamentarism: Shadow Plays and the Death of Politics", The Lebanon Report, no.1 (Spring, 1996), 28.

is, by some considerable margin, the most powerful of the three, and he has certainly been the most crucial player in the programmes aimed at facilitating the economic recovery of Lebanon. He is also the only member of the three who had a developed political and economic programme. (Indeed, it is actually quite unusual in Lebanese politics for any politician, or even any political party for that matter, to have a stated set of political or economic policy goals.) Furthermore, while the other two members of the troika are traditional leaders who have, arguably, tended to use the system to advance their own personal status, sometimes to the detriment of the economic recovery programme, Hariri's role in government has generally been seen as a necessity to the health of the Lebanese economy.[8] The other two troika members have, however, been a major check on Hariri's ability to implement his policies.

The speaker of the house, Nabih Birri, has been the second most powerful man in the governing troika, and is probably Hariri's greatest political nemesis within Lebanon. As noted, the Ta'if Accord gave the speaker of the house increased powers. To begin with, his term in office was extended from one to four years. Second, the speaker was given immense control over parliament, an institution which must pass all government legislation including legislation connected to the economic recovery programme, through his right to decide the timing of the examination of draft laws in parliament.[9] Finally, the

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[8] Of course, Hariri has also personally benefitted from his political position, both through increased political power and through economic gain.

[9] Joseph Bahout, "Lebanon, Fin de Regne" The Hariri

speaker of the house, as Joseph Bahout put it, "under the guise of participating in the `national destiny', was accorded quasi-executive powers with the president and the prime minister."[10]

Through tough bargaining with the prime minister, Birri, who has the backing of Syria, has been able to gain access to all sorts of state programmes, which further has increased his ability to distribute patronage. For example, Birri took control of the Council of the South, an organisation which received public funds, and which has, historically, been used by Shiite leaders to extend their patronage network. As one scholar noted, the Council of the South acted "as a sort of super-ministry of Southern affairs and carries out a wide range of activities".[11] For example, the Council of the South has had a great influence over many of the infrastructure projects throughout the south of the country. Furthermore, as we noted in chapter five, Birri has been able to gain access to some of the other recovery programmes. As we recall, this included the awarding of a contract, to build a major coastal road, to a company owned by his wife.

The president of Lebanon, Elias Hrawi, has been the weakest member of the troika. However, in his capacity as president, which means that all legislation must be signed by him, as an ally of Syria, and as the only Christian member of the troika,

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Resignation and the Post-Ta'if System", The Lebanon Report 6, no.1 (January, 1995), 3.

[10] Joseph Bahout, "Lebanese Parliamentarism: Shadow Plays and the Death of Politics", 28.

[11] See Adib Ne`meh, "Slipping Through the Crack: Social Safety Nets in Lebanon", The Lebanon Report, no.2 (Summer, 1996), 49.

Hrawi has also been able to bargain with Hariri to extract some concessions to secure for himself the right to distribute patronage in a number of areas.

In addition to opposition from the other two members of the troika, Hariri has faced opposition from members of his own cabinet, and from members of the Lebanese parliament. However, as we shall see, this opposition is, to a considerable degree, an extension of the his continuing problems with the other members of the troika, and of course, with Syria.

As we explained in chapter two, although Hariri was allowed to place many of his associates in the cabinet, he was forced to include several pro-Syrian figures, as well as men close to Birri. As with the members of the troika, these men have also used their positions in government to secure access to patronage, and to further their personal economic status. As we will explain shortly, some of these men have been highly critical of Hariri, and as a result, he has threatened to resign on several occasions, demanding that he be allowed (by Syria) to reshuffle his cabinet.

As noted elsewhere, parliament's power was greatly enhanced by the Ta'if Accord. In fact, parliament has been able to successfully oppose Hariri on several occasions. In February 1993, it refused to grant the government special powers to rule by decree, as Hariri had wanted. He was also forced to compromise with parliament on a number of issues including the 1995 budget.[12] Parliament was also highly critical of Hariri's

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[12] -----, "Legislative Privilege", The Lebanon Report 5, no.12 (December, 1994), 7.
For a chronology of the major highlights of parliament from

economic programmes. Criticism of the programmes came from several figures within the parliament including such independent and respected politicians as the former prime minister, Salim Hoss. Basically, they were concerned that the Horizon 2000 programme would plunge Lebanon into a bottomless debt situation.

However, it should be recognised that it was the Speaker of the House, Birri, who mostly benefitted from parliament's increased power. Since parliament had the power to delay executive decrees, a situation arose where, as Bahout put it, "the prime minister is forced to bargain with the speaker to insure that draft laws are placed within a reasonable amount of time on the agenda of the relevant parliamentary committees."[13] Although theoretically, the changes introduced by Ta'if would have given parliament much greater power, as Bahout further explained, "these powers were largely confiscated by the speaker of parliament, who was able to put them to use for strictly communal ends."[14]

In the course of the 1996 parliamentary elections, Hariri and Birri were able to secure the election of a number of their supporters to parliament, thereby increasing their own influence within the institution. Hariri had the support of between 30 and 40 members while Birri had the support of a block of approximately 20 and 25 members. Very few independent

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1992-1996, see -----, "Highlights of Parliament, 1992-1996", The Lebanon Report, no.1 (Spring, 1996), 37-39.

[13] Joseph Bahout, "Lebanese Parliamentarism: Shadow Plays and the Death of Politics", 28.

[14] Ibid.

parliamentarians remained.[15] As a result, parliament will continue to be used, to a great extent, simply as a bargaining chip between elements in the troika to gain access to more patronage or concessions.

Essentially, therefore, the principal internal constraint on Hariri's ability to carry out his programmes, is that he has had to bargain with the other two leaders of the troika concerning almost all aspects of government business. For example, they bargained over civil service appointments, over the establishment of a media law, and over economic policy. This policy of bargaining between the three members of the troika has been described, accurately in our view, by one observer of the Lebanese system as "the splitting up of the Lebanese pie". We will cite but one of many examples which could be found.

In the autumn of 1996, the Lebanese government passed, after years of debate, a controversial media law, which limited the number of private T.V. stations in the country to four, and the number of private radio stations to eight (this did not include the government television or radio station). The major political figures secured the rights to broadcast T.V. and radio stations. The four T.V. licenses were awarded to Future Television, which is owned by Rafiq Hariri, the National Broadcasting Network (NBN), a station which had yet to be established, which is to be owned by Nabih Birri, Murr Television (MTV), owned by the brother of the interior minister Michel Murr, and the Lebanese Broadcasting Corporation

[15] For election details, see the fall 1996 issue of The Lebanon Report.

International (LBCI), once the mouthpiece of the Lebanese Forces militia, but now owned by a number of independent shareholders including the billionaire and parliamentary deputy, Isam Fares, and the parliamentary deputy Sulayman Franjiyyeh. The situation was similar in the awarding of radio station licenses, where the owners included Hariri and Birri.[16] The media law was criticised on several grounds including: that it attempted to monopolise access to the media; and that it was designed to reap huge financial gains for the owners.[17] Indeed, this case is a perfect example of an obvious conflict between the public and private interests of the government leaders, a conflict that has been reflective of a very large proportion of government business.

The almost total lack of any attempt by Lebanon's political leaders to acknowledge a distinction, or form a separation, between government and personal interest has not been lost on the Lebanese population. For example, on 9 December 1994, after several more scandals in government were revealed, including the alleged role of some political leaders in the drug trade, fifty-five intellectuals released a statement condemning the high levels of corruption in the country.[18]

> There is no democracy without transparency. The present controversy is not, as such, unhealthy; on the contrary, it appears necessary to get to the bottom of things. The major problem lies not so much in the opening of dossiers than in what these dossiers reveal of the mafia-type relations

[16] -----, "Switching off the Competition", The Lebanon Report, no.3 (Fall, 1996), 8.

[17] Ibid.

[18] For a version of the anti-corruption text, see The Lebanon Report 6, no.1 (January, 1995), 6.

> between those who stand accused and those who are manipulating accusations. Are not those who are denouncing scandals today the same who covered them in the past?

However, the process of splitting up the pie has not been an easy one. Problems in relations between members of the troika started immediately after Hariri took power, and centred around appointments to various political positions. For example, Birri was unhappy over not being properly consulted over the make-up of Hariri's cabinet. In particular, he was upset over Hariri's decision to take over the finance portfolio, a position which had in recent years, gone to a Shiite. In January 1993, tensions among the troika (as well as influential ministers) arose over numerous high level government appointments, which were only agreed on, after much political bickering, several months later. The most widespread criticism of the appointments was that they resulted from political horse-trading among the troika and influential ministers."[19] To cite one example, Birri secured the allocation of the position of director general at the ministry of emigrant affairs to Haytham Jom'a, who headed Amal's executive committee. Such a move was unpopular with Lebanon's emigrant community, which is mostly Christian.[20] Even ambassadorial appointments were controversial, and were only agreed on after Syrian intervention.[21]

Frustrated both at the inability to get some of his

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[19] -----, "Appointments Controversy: Government Fills Grade-One Positions", The Lebanon Report 4, no.6 (Juné, 1993), 4.

[20] Ibid, 4.

[21] -----, "Cabinet Appoints Ambassadors", The Lebanon Report 5, no.2 (February, 1994), 7.

policies through, and at being criticised by certain cabinet ministers, Hariri either threatened to resign, or did in fact resign, only to return to work after Syrian intervention. Hariri first threatened to resign in August 1993, after ministers in the cabinet criticised him for attempting to monopolise power.[22] Hariri was reported to have said that he can no longer govern in an atmosphere of insurrection within his cabinet.[23] The crisis was defused after Syrian Vice President Khaddam, and the Syrian head of intelligence in Lebanon, General Ghazi Kanaan, intervened.[24] In May 1994, Hariri boycotted cabinet meetings in protest, after his attempt to reshuffle the cabinet to make it more inclusive by adding more Christian ministers, was opposed by both Hrawi, who wanted his own Christian allies in cabinet, and Birri, who demanded a greater Shiite role in the cabinet, particularly at the finance ministry. Again, Hariri returned to work under Syrian pressure.[25]

In December 1995, Hariri actually announced his resignation, but recanted after Syrian intervention. Two reasons lay behind his attempt to resign. First, he was outraged over the constant accusations of corruption directed against him. For example, Najah Wakim, the outspoken independent parliamentarian from Beirut charged that Hariri had bribed 30 MPs to vote in

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[22] Arab Press Service, Diplomat 10, (21/28 August 1993), SP 135.

[23] Ibid.

[24] Ibid.

[25] Arab Press Service, Diplomat 21 (7/14 May 1994), SP 392.

favour of the creation of Solidere.[26] Hariri was also accused of planning to profit from a proposed sale, to the Saint Georges Hotel company, of land apparently reclaimed illegally and worth $50 million, of which Hariri acquired 70% for a relatively small amount of money. This accusation was raised at a cabinet meeting by several ministers including the Minister of Housing and Co-operatives, Mahmoud Abu Hamdan, who was the unofficial representative of the Amal movement in cabinet and was close to Birri.[27] Second, the Parliament refused to pass the 1995 budget submitted by Hariri because it also contained the entire budget for the Horizon 2000 Plan. Critics, which included Birri, argued that the plan should have been submitted and debated separately from the 1995 budget, as it dealt with expenditures until the year 2002. Hariri stated that he was resigning to protect reconstruction projects for Beirut's city centre:[28]

> For two years our efforts have stumbled more than once against obstacles aimed at hampering them, provoking doubts and preventing them from succeeding - as if Lebanon was condemned to political decay and under-development. For two years we have tried to promote the reconstruction project, and for two years people have put up walls in front of us. That is why we have made our latest decision, a decision we won't go back on, with the sole aim of defending the reconstruction project for Lebanon.

As we have noted elsewhere, Hariri's ultimate weapon in

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[26] Even President Hrawi criticised Hariri for adopting a "hegemonistic style". Ibid.

[27] The issue was also raised by the Minister of Tourism, Nicholas Fattouh, and Sulayman Tony Franjiyyeh. See Arab Press Service Diplomat 24 (26 November/3 December 1994), SP474.

[28] Quoted in Arab Press Service Diplomat 24, (26 November/3 December 1994), SP 474.

securing his policies was to threaten to resign. While threatening to resign may serve Hariri in attempting to break through political deadlock, although not always with the desired results, it tends to have adverse effects on the economy, and in particular, on the exchange rate. For example, the central bank was forced to intervene to stabilise the currency, spending an estimated $342 million of its reserves.[29] Thus, in many ways, the stability of the economy was dependent on the whims of one man, a factor which would surely be considered by any potential investors in Lebanon.

In this case, a compromise deal was hammered out by the Syrians, in which only some of Hariri's demands were met. Although the Horizon 2000 plan was to be delinked from the 1995 budget, that draft legislation of some of the most important projects worth over $2 billion were to be passed by the parliament. Furthermore, other parts of the plan were to be dealt with in the first half of 1995.[30] Hariri's attempt to reshuffle his cabinet, in order to get rid of some pro-Birri ministries who were opposed to his policies was blocked by the Syrians.[31] A more homogenous cabinet, however, was realised in May of 1995, two and a half years after the first cabinet was formed, as a result of a Syrian brokered deal between Hariri and Birri. Hariri was able to exclude some pro-Syrian members

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[29] Joseph Bahout, "The Hariri Resignation and the Post-Ta'if System", 3.

[30] For details, see Philip Khoury, "Reconstruction: Implementing Horizon 2000", The Lebanon Report 6, no.4 (April, 1995), 8.

[31] Arab Press Service Diplomat 25 (3/10 December 1994), SP 497.

including the former minister of rural affairs, Sulayman Franjiyyeh and the former information minister Michel Samaha. As well he brought into the cabinet his associates Fadl Chalak, who headed the C.D.R., and Farid Mecari, who was a former president of Saudi-Oger. Hariri also kept the finance ministry, opposing Birri's demand that the post be given to one of his allies.[32]

Tensions among the troika greatly increased after the parliamentary elections of 1996. It took a couple of weeks for the troika and Syria to agree on a cabinet. The new cabinet,

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[32] The new cabinet included the following:, see Arab Press Service Diplomat (20/27 May 1995), SP 415.

Premeir & Finance Minister	Rafiq Hariri
Deputy Premeir & Interior Minister	Michel Murr
Foreign Affairs Minister	Fares Buwayz
Defence Minister	Mushin Dalloul
Economy Minister	Yassin Jaber (new)
Petroleum & Industry Minister	Shahe Barsumian(new)
Information Minister	Farid Mecari(new)
Justice Minister	Bahige Tabbara
Health Minister	Marwan Hamadeh
Education Minister	Robert Ghanem(new)
Social Affairs Minister	Stephen Douweihy(new)
PTT Minister	Fadl Chalek(new)
Public Works Minister	Ali Harajli(new)
Emigrant Affairs Minister	Ali Khalil(new)
Displaced Persons Minister	Walid Jumblatt
Agriculture Minister	Shawki Fakhury(new)
Labour Minister	Assad Hardan(new)
Water & Electric Resources Minister	Elie Hubayqah
Cultural Affairs & Higher Edu. Min.	Michel Edde
Tourism Minister	Nicolas Fattouh
Public Transport Minister	Omar Meskawi
Housing & Cooperatives Minister	Mahmud Abu Hamden
Rural Affairs Minister	Hagop Demerdjian(new)
Environment Minister	*Joseph Mughayzel(new)
Vocational & Technical Edu. Min.	Abdel Rahim Mrad(new)
State Minister for Finance	Fuad Seniora
State Minister without Portfolio	Nadem Salem(new)
State Min. for Administrative Reform	Anwar Khalil
State Minister without Portfolio	Kabalan Khoury(new)
State Minister	Fayez Shukr(new)

* He had passed away shortly after coming into cabinet.

Hariri's third since taking power in 1992, was slightly less homogenous than his previous cabinet and included such noteworthy critics as Sulayman Franjiyyeh, and Talal Arslan. Furthermore, depending on which way the political wind was blowing, Jumblatt can also be seen as a partial critic of Hariri.

In fact, relations among the troika leaders effectively broke down between the autumn of 1996 and the first half of 1997. Birri, in particular, with Syrian encouragement, was increasingly critical and hostile towards both Hariri and Hrawi, accusing the other two leaders of pursing policies which were aimed at lessening his power. Moreover, all three leaders attacked each other over a host of issues, including corruption. For example, all three leaders accused each other of aiding corruption at the finance ministry. Apparently, senior politicians connected to all three members of the troika where linked to a situation where employees at the finance ministry sold counterfeit fiscal stamps for profits worth millions of dollars.[33]

Under such conditions, it is likely that Birri, and his external allies, and other political leaders would try to frustrate any programmes or policies, including economic ones, set out by Hariri. Relations among the troika had worsened to such a degree, that Birri, in the winter of 1997, declared the troika system dead.[34] All three leaders were in constant touch

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[33] -----, "The Troika Divided", The Lebanon Report, no.4 (Winter, 1996), 5.

[34] -----, "An Unruly Threesome", The Lebanon Report, no.1 (Spring, 1997), 4.

with Syrian leaders to ensure their support. Whether or not Syria mediates an end to the conflict very much hinges on Syrian interests. As we will explain below, by the early part of 1997, Syria was interested in lessening Hariri's power, however, not to an extent that would seriously destabilise the Lebanese system.

2. The "External" Constraint: Syria

As we explained in chapter two, Syria has been, and is, the dominant political and military power in Lebanon. Both the Syrian army and the Syrian secret police have penetrated nearly all facets of Lebanese society, making any form of opposition to either Syria, or the Syrian sponsored political order in Lebanon, extremely difficult. Furthermore, Syria has cultivated an impressive group of political dependents. For example, to a considerable extent, both Hrawi and Birri owe their power to Syria. In addition, several ministers, and numerous members of parliament also owe their positions primarily to Syrian influence. Very few political decisions are made without first consulting Damascus. Lebanese politicians, including all three members of the troika, regularly travel to Syria to consider Syria's opinion before proceeding with a policy. In addition, Syrian leaders such as Khaddam regularly visit Beirut, while Syrian leaders based in Lebanon, such as the head of Syrian military intelligence, General Kaanan, are in constant contact with Lebanese politicians to ensure that Syrian interests are given adequate consideration. Given this deep level of Syrian involvement in Lebanese politics, it is hardly surprising that

Syria has also played a major role in shaping relations among the members of the troika.

Syria's primary interest in Lebanon has been to ensure the presence of a stable pro-Syrian government which is prepared to defer to Syria in dealings with regional and international powers, especially those dealings which relate to Israel. Syrian interests are also increasingly linked to the Lebanese economy. The Syrian economy has become increasingly tied to the Lebanese economy primarily through Syrian migrant labourers working in the country. Estimates of the number of Syrian workers vary from approximately 500,000 to a million, contributing a sum of around $1 billion to the Syrian economy.[35] It is not surprising therefore, that Syrian leaders signed a Labour Accord with Lebanese leaders in the autumn of 1994 regulating, or, to put it more accurately, legitimising, the presence of Syrian workers in Lebanon. In addition, several Syrian leaders have developed substantial business interests in Lebanon.

Having said all of this however, we would argue that it should be recognised that the relationship between the Syrian and Lebanese leaders is considerably more complex than is widely recognised. Although Syria clearly is dominant, a few Lebanese leaders at least, have considerable influence with Syria's leaders, and are occasionally able to gain Syrian support for their initiatives in Lebanon. We have already noted that Syria sometimes supports the personal interests of important political

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[35] The respected daily, al Nahar, put the total number of Syrian migrant workers at 650,000, most of whom were employed in construction and agriculture. Arab Press Service Diplomat 18, Recorder Covering (15/22 October 1994).

allies such as Hrawi and Birri. Indeed, one might argue that men with these kinds of ties to Syria are unlikely to be in a hurry to see Syrian power in Lebanon decrease. If it were to decrease, or if Syria were to withdraw its military and security services from Lebanon, it is unclear to these leaders whether or not they would survive politically.[36] In addition, one must understand that many of the Lebanese leaders, and businessmen including Hariri, the interior minister Michel Murr, and the deputy Isam Fares are extremely wealthy people, and it is probably standard practice for them to buy influence with the Syrian leadership. To put it a different way, if they want something done, they offer the Syrians financial incentives to facilitate the process. As one observer of the Lebanese scene explained: "it's like a mafia relationship."[37] Some of the prominent Lebanese politicians and businessmen seem to have personal allies within the Syrian leadership. For example, Hariri and Khaddam, the chief Syrian official vis-a-vis Lebanon, have some sort of relationship which extends into the business world, and some people feel that Khaddam occasionally advocates Hariri's point of view in Damascus.[38]

As noted, Syria allowed Hariri to take power primarily so that he could improve the economy, thereby stabilising the pro-Syrian political order. However, Syria has been intent on limiting Hariri's power base strictly to the economic domain,

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[36] Interview with Michael Young on 24 February 1997 in Beirut.

[37] Interview in Beirut 1997.

[38] Interview with Michael Young 24 February 1997 in Beirut.

while continuing, itself, to exercise effective control over Lebanese foreign policy, and domestic security issues.

Syria's approach to the troika leadership is indicative of its approach to the Lebanese political situation in general. In short, Syria plays a game of divide and rule with the troika, thereby securing its role as the ultimate arbiter among the three leaders. Syria has skilfully played the three leaders off against one another, ensuring that no one leader (particularly Hariri) dominates, and that all three remain dependent on Syrian goodwill. As noted, Syria has great influence over Birri and Hrawi, both of whom are essentially dependent on Syria for their continuing political survival. Syria often expresses its policy preferences through them, and at the same time, perhaps to encourage their continuing loyalty, tends to be sympathetic to issues which are of personal concern to them (status, access to sources of patronage, etc.) However, while Syria has generally tended to limit Hariri's room for manoeuvre vis-a-vis the other two members of the troika (and its other political allies in cabinet) it has been careful not to antagonise him to too great an extent, for fear that he would resign, causing a crisis in the economy, and thus risking the pro-Syrian political order.

Syria's policy of divide and rule also extended to the relations between the Lebanese government and the Lebanese people. The general idea was to prevent any leader, Hariri particularly, in this case, from gaining too broad a base of support among the population -- especially among those parts of the population which are opposed to Syria's dominance of Lebanon. Such a base of support would obviously increase a

politician's popular legitimacy, lessening Syrian control over him. We will cite the example of Syrian policy towards Lebanon's Christian community. Syria has been concerned to prevent an alliance between Hariri and the Christians who, for the most part, remain strongly anti-Syrian.

As we have explained elsewhere, Lebanon's Christians, particularly the Maronites, who have been effectively leaderless for some time, were marginalised in the post-Ta'if political system.[39] The most popular politicians within the community, such as General Michel Aoun, were in exile, and in spite of attempts by the various exiled leaders to organise a political movement which would form an opposition party to the government, they have been mostly ineffective in influencing political developments in Lebanon.[40] In the meantime, Hariri has generally been seen as the most legitimate leader in Lebanon, the one who is doing the most to promote the general welfare by pushing through the reconstruction programme. In short, the Christian community has been in a position where they might potentially be co-opted by Hariri.

Perhaps because it does not wish to see this happen, Syria has attempted to further marginalise the Christians. One example

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[39] Within Lebanon itself, the Cardinal Sfeir, had become the defacto leader of the Maronite community.

[40] On 21 November 1996, it was announced that several prominent exiled Christian leaders have established an oppositional organisation called the Lebanese National Grouping. It was to include General Aoun, the former President, Amin Gemayel, and Dory Chamoun, the son of the former president Camille Chamoun. However, this group is unlikely to make any impact on the political scene in Lebanon in the foreseeable future. Even their traditional ally, France, is supportive of the government, and has called on Christians to participate in government.

of this concerns Syria's insistence on the imprisonment of the former Lebanese Forces militia leader, Samir Geagea. He is currently serving a life sentence in prison for crimes very similar to those which have likely been committed by many of the people currently in the government. While few Christians sympathised with Geagea during the war years, many view his punishment as idiomatic of the Christian position in post-War Lebanon.[41]

An example, which more clearly illustrates Syria's concern about the possibility of a political accommodation between Hariri and the Christians, has to do with Hariri's attempt in 1994 to broaden Christian support for his government by including more independent Christians in cabinet. The move was vetoed by Birri, which one would expect, but also by the Christian president, Hrawi. As we have noted previously, Hrawi's base of support among Lebanese Christians is tenuous, essentially because of his relationship with Syria. He, and, no doubt, his Syrian sponsors, were apparently unwilling to allow potentially more popular Christians into the cabinet.

The main point that we wish to make is that elements within Lebanon's Christian community, especially those within the expatriate community, were unwilling to invest vast resources into the Lebanese economy, as long as Syria remained the dominant power in Lebanon.

Hariri's lack of control over foreign policy and security issues also had an adverse affect on the Lebanese economy. This included Syria's continued support for Hizb Allah activities

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[41] Interview in Beirut in the winter of 1997.

against Israel in the south, which many in the Lebanese government would like to stop, but are powerless to do anything about. The continued conflict in the south led to two widescale Israeli military operations against Lebanon, one in 1993, and the other in 1996. The conflicts caused enormous damage both to Lebanon's infrastructure, and to Lebanon's economy. According to one of Lebanon's leading economists, Marwan Iskandar, Israel's 16 day military operation in April 1996, which was dubbed Grapes of Wrath, cost Lebanon some $500 million. The conflict may have cost Lebanon's tourist industry alone approximately $150 million. We will cite two concrete examples concerning the effects of the conflict on the hotel trade. First, a group of Japanese tourists cancelled their booking (which was for September 1996) at a leading Beirut hotel, and second, Beirut's Cavalier hotel lost about 100 European businessmen and tourists.[42]

The damage to the Lebanese economy arising from the continued instability in the south is very difficult to estimate. However, it is highly likely that many potential investors, both Lebanese and foreign, and potential tourists, would be wary about investing in or travelling to Lebanon as long as the problems in the south continue.[43]

An independent Lebanese foreign policy, which may include a wish to end the conflict in the south as quickly as possible, is unlikely in the face of determined Syrian opposition. Hariri's

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[42] -----, "What did Grapes of Wrath Cost?", The Lebanon Report, no.2 (Summer, 1996), 26.

[43] -----, "The April Understanding", The Lebanon Report, no.2 (Summer, 1996), 10.

efforts to seek even a very limited independent Lebanese foreign policy have been met with extreme concern by Syria, which has responded, in each case, by attempting to weaken his position. We will cite a couple of examples. Syria was opposed to Hariri's visit to Washington during the Friends of Lebanon conference in Washington in December 1996, in which Hariri was trying to secure aid that was promised in compensation for Israel's Grapes of Wrath operation. In particular, Syria was worried that Washington and Hariri would form closer ties, thereby lessening Syrian power in Lebanon. The second example centred around Hariri's visit to Paris in mid-February 1997. During the meeting, it was hinted that France might play a role in south Lebanon. Syria worried that this meant that Lebanon might come to a separate agreement with Israel, or, at the very least, it would mean that France would cut into Syrian power in Lebanon. Aware of Syrian sensitivities, Hariri convinced President Chirac to telephone Asad to ease his mind about the fact that the two of them would not make any unilateral moves in the south.[44] It was partially because of Syrian displeasure with Hariri, that Syria gave the "green light" for its allies (Hrawi and particularly Birri) to be more critical of Hariri, which, as we have noted, led to the escalating tensions that led to a functional breakdown of the troika following the parliamentary elections of 1996.

3. The Hariri Government: A Developmental Capitalist State?

As we have noted previously, the existence of a strong

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[44] -----, "An Unruly Threesome", 5.

state, a state capable of developing and implementing coherent growth-oriented economic policies, is central to Johnson's conception of the capitalist developmental state. At the end of chapter five, we explained that Lebanon does not conform to this aspect of the model due to the system of bargaining and compromise which is an inbuilt characteristic of the Lebanese political process rooted in the sectarian character of Lebanese society. Throughout the course of this chapter, we have shown how Hariri has been forced, by domestic political imperatives and, particularly, by Syrian penetration of the Lebanese political process, to engage in this system of bargaining and compromise. This has obviously affected the coherence of economic policy to the detriment of the recovery programme.

Beyond this, the current political process in Lebanon has seriously endangered the recovery process by distorting the government's priorities. In Johnson's conception of the capitalist developmental state, the state's primary policy objective is to foster economic growth. Theoretically, this policy focus far from conflicting with the government's natural interest in retaining power, would almost always tend to serve it, because a healthy economy disrupts the ability of rival elements to effectively challenge the status quo. In Lebanon the situation is complicated by the fact that the elite elements in each of the major sects need patronage to secure their political positions. If the patronage is not fairly widely distributed across the sects, the system breaks down. There is no over-arching mechanism for ensuring that this balance is maintained, which is why the system of bargaining and compromise is so

important. However, the fierce competition among politicians for sources of patronage, which entails a considerable level of "under the table" dealing and corruption, often escalates to the level where it becomes an end in itself irrespective of larger political and economic concerns. With respect to the recovery process, this tendency has been manifest in the distribution of contracts for political reasons instead of on the basis of competitive bidding, in the large "commissions" claimed by politicians for their involvement in virtually every aspect of the recovery process, in the distribution of bureaucratic appointments on the basis of patronage considerations rather than on the basis of merit, etc. Personal interest has become such a feature of the politics surrounding the recovery process that one must question whether the economic well-being of Lebanon remains as the government's top priority. Given that relations among members of the troika have become increasingly strained, it may be no exaggeration to claim that survival has become the top priority of the government.

CHAPTER EIGHT: CONCLUSION

The general purpose of this study was to look at the post-war economic reconstruction of Lebanon. More specifically, our primary aim was to examine, within the context of development theory, the institutional arrangement for implementing the various reconstruction programmes. In order to address these points, we examined several important areas: We looked at how the economic leadership of post-war Lebanon developed, we identified the institutions providing economic leadership, we explained the plans for Lebanon's reconstruction programme, we identified the groups which have participated in the reconstruction, and we looked at the principal obstacles to the economic recovery of the country.

In this chapter, we will restate briefly the major conclusions reached in this study. In section one, we will identify the forces behind the reconstruction programme, and the economic recovery in general. In section two, we will comment on the validity of the Horizon 2000 programme and other government programmes aimed at rehabilitating the Lebanese economy. And in section three, we will address the primary issue in this study, namely, the appropriateness of the institutional arrangement used to implement the recovery programmes. In addition to stating the major conclusions reached in the study, we will end this chapter by including a brief postscript on the potential for future political instability.

1. Conclusions About The Forces Behind the Reconstruction Programme, and the Economic Recovery of Lebanon

1.1 The Importance of Rafiq Hariri to the Economic Recovery Programme

The first major conclusion reached in this study is that Prime Minister Rafiq Hariri and his personal network have been the crucial forces in pushing through the economic reconstruction of Lebanon. Above all else, he rejuvenated and stabilised a very unpopular and precarious post-Ta'if political system. One must bear in mind that the two previous post-war governments failed miserably, not only in their attempts to push through similar economic programmes, but even in their efforts to halt the decline of the Lebanese economy. As we have seen, Hariri has had considerable success, both in pushing through the reconstruction programme and in stabilising the Lebanese economy -- particularly with respect to improving certain macroeconomic indicators such as currency valuation and rate of inflation.

We have argued that P.M. Hariri's success in taking control of the recovery programme can be explained in terms of three factors.

First, his massive personal wealth, his considerable array of connections to Saudi and Western business interests, and the widespread feeling that he was personally indispensable to the reconstruction of the Lebanese economy, have given him great leverage in dictating the terms of the reconstruction. Hariri's importance to the recovery programme, and to the Lebanese economy in general, has been demonstrated by the fact that when he has threatened to resign, Lebanon's economy has shown signs

of entering a sharp decline.

Second, to a great extent, Hariri has made the reconstruction programme the centre-piece of his administration, and has taken personal charge of it. He has appointed men loyal to him to leadership positions in the major economic institutions of the country, including the Central Bank, to the key institution managing and implementing the reconstruction, the Council for Development and Reconstruction (C.D.R.), as well as to vital ministerial portfolios.

And third, by giving extensive powers to institutions such as the C.D.R., which are loyal to him, and yet somewhat autonomous from the political system, he has been able to remove the programme, to at least some extent, from the political process, in which it would, more than likely, have been delayed or effectively crippled by frequent political disputes.

However, at the same time as they have contributed to the success that Hariri has enjoyed to date, these three factors have also undermined Hariri's personal credibility to some extent. For example, the extremely high level of personal involvement which has enabled Hariri to accomplish so many of his goals, has also left him open to frequent accusations that he is primarily concerned about his own personal stake in the Horizon programme, and other projects, and the benefits that he may eventually derive from them. Hariri stands to derive enormous profit particularly from his stake in the development of the Beirut Central District, and from other property development projects such as the Linord and Sidon projects.

In addition, in spite of Hariri's dominance over the key

economic institutions, he has not been able to completely remove the recovery programme from the political process. He has certainly succeeded to the extent that he has been able to bypass the time consuming debates and modifications that would surely have impeded the programme if it had gone through the normal political channels. He has been able to use the C.D.R. as a sort of parallel public sector to implement substantial elements of the programme. However, he has faced, and continues to face, a number of serious political constraints in executing his economic and political policies. In essence, Hariri's power has been checked by the other key members of the institutional set-up of the Lebanese political process, including the president and the speaker of the house, and, by the key power broker in the country, Syria. As a consequence, Hariri has had to negotiate with the other two members of the troika, and with Syria, in order to push through the recovery programme. Part of the bargaining process included allowing politicians, or political forces, access to some of the reconstruction projects, which they have used as sources of wealth and patronage. As a result, in many cases, decisions about such matters as the awarding of contracts have been based on political rather than economic considerations. As one observer of developments in Lebanon put it, "Lebanon's reconstruction program has become a fountainhead of influence and wealth, from which the political class, many deputies included, have benefited".[1] Given the extremely serious problems that the government has encountered

[1] Michael Young, "The Price of Politics", The Lebanon Report, no.3 (Fall, 1996), 22.

with respect to funding the recovery programme, Hariri's inability to immunise it from this aspect of the political process is potentially very serious.

1.2 The Dominance of the Wealthy Classes

A second major conclusion reached in this study is that Lebanon's wealthy classes, irrespective of their sectarian affiliations, and including numerous expatriates who made their fortunes outside of Lebanon, have been heavily involved in the rebuilding of Lebanon, even if only through the reinvestment of some of their resources into the country. Most of the investments were in the real estate market, including numerous large real estate development projects. Others have simply invested some of their enormous fortunes in the Lebanese banking system, significantly contributing to the country's balance of payment surpluses.

One might also argue that Lebanese businessmen, most of whom made their fortunes outside of Lebanon, have represented a new political elite, and have become the dominant domestic force in post-Ta'if Lebanon. Hariri and his associates are the most obvious example of this. However, many other wealthy Lebanese businessmen have entered politics vis-a-vis the 1996 parliamentary elections, including the billionaire Isam Fares.

Given this situation, it is not surprising that the post-Ta'if political and economic order has heavily favoured Lebanon's rich and super-rich. Many of the Hariri government's initiatives have tended to create advantages for this class. For example, corporate and personal taxes were reduced to 10% or

less, and the government ensured that there would be no capital gains tax on such things as land sales. As one critic of the government noted, "it is a crime that a rich man like Hariri does not pay any taxes."[2] The government's initiatives appear to reflect a general belief in the trickle down school of economic growth, an economic policy tried by the Reagan administration in the U.S. during the 1980s. The main losers in this system have been the poorer elements in society.

1.3 The Participation of International Actors in the Recovery Programme and in the Economy in General

The third major conclusion reached in this study is that the international community, including international organisations, such as the World Bank, foreign governments, such as Italy, and important international companies, such as Siemens of Germany, have all been actively involved in the recovery programme. Aid for the recovery programme has come from several foreign governments, numerous international aid agencies (particularly those connected to the Gulf Arab states) and international organisations. The international business community, especially from Western Europe, has been awarded the most crucial contracts in the recovery programme, some of which were worth tens of millions of dollars. In addition, international consultancy firms, again, particularly from Western Europe, were awarded many of the consultancy contracts, including the main ones to assist the institutions managing the

[2] Interview in Beirut in the winter of 1997.

recovery programme.

In addition to participating in the recovery programme, we have also demonstrated that the international business community, especially from the Gulf Arab countries, has made significant investments in Lebanon. Most of the investments, however, have gone into real estate and tourist developments, including some of the vast development projects such as Solidere.

Given the level of international economic involvement in Lebanon, one might further argue that the international community as a whole has a vested interest in maintaining the stability of the Lebanese system, a possibility that bodes well for Lebanon's future. However, it is important to note that, although the most of the prominent players in the international community have participated in Lebanon's reconstruction, the United States has been a notable exception.

2. Conclusions about the Horizon 2000 Programme, (and Other Programmes Including the Development of the B.C.D.)

In this section, we will explain briefly the major conclusions reached concerning the Horizon 2000 programme. As we noted in this study, the Horizon 2000 Programme is a public expenditure programme aimed at rehabilitating Lebanon's devastated physical and social infrastructure network.[3] We have argued that the plan was a necessary component of Lebanon's

[3] Kamal Shehadi, for example, prefers to see it more as a aggregation of individual projects in the various sectors, rather than a plan.

recovery, not only in the sense of providing a proper environment for attracting business confidence, but also in terms of alleviating the hardships of all Lebanese. However, we feel that although the plan, or something along very similar lines, was necessary, one may raise questions concerning specific aspects of it, and, generally, concerning the extent of infrastructure development which was really necessary. The Horizon 2000 Plan is exceedingly expensive as written, and may leave Lebanon a legacy of overwhelming public debt instead of the surpluses and prosperity which were its stated aims. Naturally, one way to decrease the cost of the plan, would be to determine which projects are strictly necessary to Lebanon's present well-being, and which are luxuries which Lebanon cannot afford. Critics, however, have questioned whether or not the present government's priorities reflect this kind of consideration.

For example, the government has attempted to build an infrastructure that would reflect its goal of making Beirut the financial and commercial capital of the Middle East. Thus, plans included the construction of an enormous airport, and the construction of numerous roads, although it is unclear whether or not Lebanon really needs such an airport, or a road network of that magnitude. Other government initiatives, including the government-backed private sector projects such as the immense Solidere project to develop the Beirut Central District, are being constructed on the understanding, or hope, that Beirut can regain its role as a financial centre.

A number of economists and other observers of the Lebanese

scene, however, have seriously questioned the validity of the government's plans of trying to return Beirut to its traditional role as the financial capital of the Middle East.[4] Even the assertion that Beirut ever was a real financial centre has been questioned. As the economist P. Khoury put it, "Lebanon was never much of a financial center, just an intermediary between Arab money and Western banks and markets."[5] Besides, the critics would argue that many of the factors which made Beirut a financial centre are no longer valid. For example, with the Suez canal having reopened, Beirut will no longer be needed as a transshipment point. Second, the Gulf states, no longer need to use Beirut as a banking intermediary. Since 1975, they have developed sophisticated infrastructure of their own, and have increasingly tended to deal directly with Western bankers.[6] Finally, with the advent of the information age, one could question the need for a regional financial centre at all.

Certainly, as we concluded in chapter five, the Lebanese government does not have the financial capability to proceed with many of the projects. In fact, the government is having great difficulty paying for many of the programmes which are in the process of being implemented. As we have noted, the focus of the plan, during the first few years, was to rehabilitate the physical infrastructure. It is possible that, having proceeded

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[4] For a succinct look at this line of argument, see P. Khoury, "Servicing Lebanon: The Government's Economic Vision", The Lebanon Report 5, no.2 (February, 1994), 5.

[5] Ibid.

[6] Ibid.

with this, the government may choose to abandon many of the social programmes which were to be implemented in the latter years of the Horizon 2000 programme. Although the rehabilitation of physical infrastructure was definitely a priority, one may question whether the reconstruction, and particularly some of the projected improvements, in this area, are all that useful in the long term if social problems, such as education and affordable housing for the hundreds of thousands of poor citizens and people displaced by the war, are not also adequately addressed.

Having said this, however, we feel that critics of the Hariri government's plan(s) have failed to offer sound alternatives. Let us look at just one example. One option which is frequently advanced by critics is that the government should concentrate on building up the industrial and agricultural sectors of the economy, rather than on trying to re-establish Beirut's role as a regional financial centre. According to the critics, the advantage to this is that the industrial and agricultural sectors would employ more people, and would, therefore, be more practical. However, this may not itself be a particularly practicable option, for many reasons, including the fact that Lebanon lacks a disciplined labour force. In addition to requiring the bulk of the physical infrastructure work, it would also require, perhaps to an even greater extent, substantial investments in the social infrastructure which are not forthcoming.

3. Conclusions About the Institutional Framework Established to Implement the Horizon 2000 Plan

As we have explained elsewhere, the primary purpose of this study was to examine, within the context of development theory, the institutional arrangement for implementing the various reconstruction programmes. In chapter one of this study, we introduced several theoretical models of development that examined linkages between economic growth and specific institutional arrangements in several East Asian countries. These included works by Olsen, Haggard, Wade, and Johnson. All of them shared a common central argument in their studies of East Asian development; they argued that a strong government, autonomous from societal actors, strategically intervened in the economy to achieve impressive economic growth. Although all of these models are similar, we used Johnson's model to test the Lebanese case, since it is, perhaps, the only one to give a detailed description of a developmental state. In particular, we looked at some of the key aspects of the model including the concept of strategic intervention in the economy, and of the autonomy, and power of the economic bureaucracy. We noted that a preliminary survey of the situation in Lebanon suggested that a number of the key characteristics of successful institutional arrangements, particularly Johnson's model of the capitalist developmental state, may apply. In the course of the study, we attempted to determine whether the Lebanese state actually does possess the basic characteristics Johnson establishes for the capitalist developmental state. We have argued in this study that the Lebanese state does not possess the basic

characteristics of either Johnson's model, or other similar development models, and cannot, therefore, be considered a developmental state. Furthermore, we have argued that the Lebanese model itself is not an appropriate or effective one for implementing the recovery programme. In fact, the institutional arrangement may jeopardise the recovery programme. Below, we will note some of the main conclusions reached concerning the institutional arrangement used to implement the recovery programme.

3.1 The Lebanese Model: A Strong and Autonomous State?

As we have indicated, Lebanon clearly does not possess a particularly strong or autonomous state in spite of Hariri's mandate to rebuild the economy, his considerable personal influence, or Syria's acquiescence to his priorities in the economic sphere. Hariri's government has been quite strong in relation to the other two post-Ta'if governments, but it does not approach the standard that the theoretical model of a capitalist developmental state would seem to require. The system of bargaining and compromise which is rooted in the sectarian character of Lebanese society, and which is therefore an in built characteristic of the Lebanese political process, has obviously affected the coherence of economic policy to the detriment of the recovery programme. We have shown how Hariri has been forced, by domestic political imperatives and, particularly, by Syrian penetration of the Lebanese political process, to become increasingly engaged in this system of bargaining and compromise, and we have also seen how the

corruption and excessive competition engendered by the system have threatened the ultimate success of the economic recovery programme.

3.2 The Lebanese Model: A Development Oriented State?

While it would probably be fairly accurate to say that economic development has been the principal priority of the Hariri government, and even its raison d'etre, we have concluded that this must be qualified by an acknowledgement of the extent to which personal interest and the imperatives of political infighting have obscured this priority and interfered with the government's ability to effectively run the economy, and particularly the recovery programme.

3.3 The Lebanese Model: Strategic Government Intervention in the Economy?

A defining feature of Johnson's capitalist developmental state is substantial government direction of, or assistance to, the private sector. As we have noted, Hariri's government has not been particularly active in this area, preferring to allow private sector involvement in the recovery process to evolve in a laissez faire fashion. The exception to this was a number of government assisted private sector projects to develop vast areas of land such as the Solidere project in Beirut, and the Linord and Sidon projects. However, government assistance as it relates to the capitalist developmental state usually refers to productive sectors, such as industry or agriculture, not to the development of land or infrastructure. The government assisted

land development projects in Lebanon are not a long term growth priority. Once the land is developed, and particularly given Lebanon's small size, the short term construction boom will come to a conclusion.

3.4 The Lebanese Model: An Autonomous and Effective Economic Bureaucracy?

We have given a great deal of attention to the C.D.R., which, as we noted, was supposed to serve as an autonomous elite economic bureaucracy, to do away with the inefficiencies of the public sector and implement the programme as quickly and efficiently as possible. In terms of its organisation, the C.D.R. was designed with technical expertise and efficiency in mind. In contrast to the public sector, it was staffed by technocrats hired on the basis of merit and it was supported by highly qualified international consultants. In addition, the C.D.R. was supposed to be autonomous vis-a-vis the bureaucracy and the political process, and, hence, not subject to its endèmic conflict, compromise and personal interest, which would very likely have dramatically altered the content of the programme and significantly delayed its implementation.

We have argued that the C.D.R. has done reasonably well in managing and implementing the recovery programme. Above all else, it has been able to achieve a great deal, particularly relating to the rehabilitation of Lebanon's physical infrastructure, including the electricity sector, the telecommunications sector, and the solid waste sector. In addition, the C.D.R. must be commended for its ability to manage

such a large project. For example, thousands of projects either have already been completed or are in the process of being implemented; hundreds of contractors and consultants have become involved; project types ranging from the very simple to the very complex have been integrated into the programme; and a diverse range of funding for the projects has been attracted and administered.

As we have argued throughout the study, however, the Hariri government was unable to remove completely the programme from the political arena. Because Hariri effectively controls the C.D.R., and because it has relied on Hariri's personal influence to push through its initiatives, it is, in effect, only as autonomous from the political process as Hariri is. As Hariri has become increasingly engaged in the political process, the whole programme has been opened to the bargaining, compromise and corruption that are inherent parts of that process.

3.5 The Lebanese Model: A Developmental State?

As is clear from this study, Lebanon does not really conform to Johnson's model to any significant degree, and, indeed, it clearly does not conform to any rapid development model that stresses the need for a strong state. Lebanon also does not conform to the neoclassical school, which does not stipulate the need for a strong state, but which requires the supremacy of the free market. The functioning of the free market in Lebanon is constrained by the high level of state involvement, in the sense of personal interest, competition for patronage, etc., and also by Syrian political imperatives. Given

development models, and given other problems that we have raised, such as the debt issue, and relatively unique problems such as the sectarian divide and the Syrian occupation, it seems appropriate to raise questions regarding the future prospects of the recovery programme and of the economy as a whole. Few would argue that Lebanon does not need a modern infrastructure. Still, we are inclined to question the benefit of spending billions of dollars on this kind of development without a corresponding comprehensive reform of the public sector. If the kinds of corruption, inefficiency, and lack of technical expertise, that, in part, necessitated the creation of the C.D.R., continue to persist after it has fulfilled its role, there is a very real danger that a multi-billion dollar investment will effectively go to waste.

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4. Postscript: The Potential for Future Political Instability

Before concluding this study, we wish to raise the issue of the potential for future political instability in Lebanon. As any student of Middle Eastern politics will be aware, personalities, rather than institutions dominate the political systems of most Arab countries. The list of contemporary examples is very extensive indeed. Muammar al Qaddafi essentially personifies power in modern Libya. Saddam Hussein has continued to exercise almost exclusive personal control over the Iraqi state in spite of continued attempts by domestic and foreign actors to overthrow him. King Hussein of Jordan symbolises the Jordanian state. Hafez al Asad has been the

symbolises the Jordanian state. Hafez al Asad has been the undisputed dominant figure in Syrian politics for almost three decades. To some extent, this level of importance, if not this level of control, could also be said to apply to Rafiq Hariri in Lebanon.[7]

Hariri's personal dominance over the Lebanese economy, and the continuing belief that he is indispensable to the recovery process, raise some interesting, and, perhaps, worrying questions about the ultimate prospects of the reconstruction, and of the current regime. To begin with, it may be appropriate to raise an issue that is often raised with reference to regimes dominated by one man: what if he passes away? For that matter, what if the economic situation or the political system becomes so intolerable, that Hariri resigns? In the context of the Lebanese political system and the economy, is there an alternative leadership candidate who can fill Hariri's shoes in terms of domestic and international connections, popularity, the credibility that he has brought to the recovery programme, etc.?

By extension, acknowledging that Syria is the true dominant force in Lebanon, one must consider the impact of potential political instability in Syria. Given President Asad's age and apparent ill-health, it is conceivable that Syria may soon suffer a leadership crisis. Even the most seasoned observers of the Syrian scene do not know how the post-Asad succession will

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[7] Both Hariri and Syria were so concerned about maintaining the stability of the troika, that they chose to override Lebanese constitutional considerations, in order to ensure the extension of Hrawi's presidential term. This exemplifies that personalities, rather than institutions, have become predominant in Lebanon.

resolve itself, and it is even more difficult to speculate about the impact that such a development will have on Lebanon.[8]

[8] One possible scenario is that Syrian forces would be inclined to return to Syria to help settle the leadership issue, thereby leaving a power vacuum, which Hariri and the Lebanese army will attempt to fill, either as competitors or as partners. This kind of situation might present an opportunity for the Maronite community and other disaffected groups to assert themselves.

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