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The World Bank
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McNamara Papers

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President's papers - Robert S. McNamara Contacts with member countries: Lebanon -
Correspondence 01

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WBG Archives

LEBANON

LEBANON

- 7/18/69 Usamah Hamze, Controller, Customs Dept., Beirut Intl. Airport
(Aspen-
Eisen.Ex.)
1. 9/3/69 Maurice Geymal, Member of Parliament (former Minister
Ambassador Najati Kabbani
Walid R. Naja, Economic Counselor
- 6/23/72 Nayef Maalouf, Eisenhower Fellow
- 8/22/72 Dr. Albert Badre, Professor of Economics, American University of
Beirut -- at reception for professors attending Middle Eastern
Seminar
Dr. Elias Gannagé, Faculty of Law and Economics, University Saint
Joseph, Beirut - at reception
2. 9/27/72 Fouad Naffah, Minister of Finance
Dr. Khalil Salem, Director General, Ministry of Finance
3. 2/73 Notes on visit to Middle East countries (*Filed in L Mack office*)
4. 2/8/73 Fouad Naffah, Minister of Finance
(Beirut) George Saadeh, Minister of Planning
Sabri Hamade, Minister of Public Works
Joseph Skaff, Minister of Hydraulic and Electric Resources
Dr. K. Salem, Director General of Finance
Edward Sauma, Director of Land and Water Development
Sulayman Frangieh, President of Lebanon
- 2/8/73 Rashid al-Sulh, Prime Minister
(Beirut)
- 9/19/74 Hassan Saab, University of Lebanon
5. 12/17/76 Ghassan Tueni, Chairman, National Reconstruction Council
Ambassador Najati Kabbani
Joseph Akl, Counselor of Embassy
Mr. Shaydiac, General Consul, New York
6. 5/19/77 Michael Doumet, Minister of Industry and Agriculture
- 2/9/81 Ambassador Maksoud (Arab League's Amb. to the UN)
at lunch
7. 4/23/81 Mohamed Attalah, Ambassador to the United Nations
Ambassador Itani, Ambassador to the U. S.



Mr McNamara:
to see please
Lee 9/15

OFFICE MEMORANDUM

TO: Memorandum for Record

DATE: September 9, 1969

FROM: Michael L. Lejeune

SUBJECT: Meeting attended by Mr. Lejeune, Mr. Gemayel, Lebanese Member of Parliament and currently Chairman of the FAO Council, Mr. Walid R. Naja, Economic Counselor, Mr. D. McCall and Mr. E. Y. Asfour, on September 3.

1. In a meeting held in Mr. Lejeune's office from 2:40 p.m. to about 3:30 p.m. on September 3, Mr. Maurice Gemayel went again over the exposé he made earlier in Mr. McNamara's office (see Memorandum for the Record of that meeting). Additional information on the timetable was supplied. The meeting of inter-agency experts in Paris is expected to produce its final document by the middle of September, for submission to the Lebanese Government. After its approval, the Lebanese Government is expected by Mr. Gemayel to ask Mr. Hoffman officially to invite senior representatives of international organizations to meet during the first week of October in Beirut to discuss the document.
2. Mr. Gemayel asked that the Bank send a representative, a French-speaking generalist in finance, to participate during 11-13 September in the work of the Paris team. It seems that Mr. Massé, who has joined Mr. Delpras as FAO consultant will be writing the report, and that work is already advanced.
3. Mr. Lejeune expressed his concern that nothing very serious could be done by a Bank representative on such important questions as are being dealt with in a period as short as 2 to 3 days, and that the Bank does not customarily become committed without thorough study. Mr. Lejeune would consider the question seriously with a view to seeing how the Bank could usefully contribute.
4. Mr. Gemayel expressed the hope that Mr. Lejeune could come to the October meeting in Beirut. Mr. Lejeune said he could not promise to do so in view of existing commitments.
5. Mr. Gemayel welcomed direct contact with Mr. Delpras (IRFED, 47 Rue de la Glaciere, Paris 13eme) who seems to be heading the team, and with Mr. Paul Marc Henri who will be in New York on September 5.



President has seen

OFFICE MEMORANDUM

TO: Memorandum for Record

DATE: September 9, 1969

FROM: Michael L. Lejeune

SUBJECT: Meeting attended by Mr. McNamara, Mr. M. Gemayel, H.E. Najati Kabbani,
Ambassador of Lebanon, Mr. M. L. Lejeune, Mr. E. Y. Asfour on September 3

1. In a meeting held on September 3 between 12 and 12:45 p.m. in Mr. McNamara's office, Mr. Maurice Gemayel, Lebanese Member of Parliament and currently Chairman of the FAO Council, exposed to Mr. McNamara his view that success of development is hindered by archaic organizational attitudes in the developing countries themselves as well as by their sensitiveness to infringements of their sovereignty which they feel foreign aid may involve. An approach is needed which emphasises basic principles and policy rather than techniques or projects which should flow from them. Foreign help should be fully international involving coordinated action between the various international organizations and perhaps including bilateral and private agencies as well.
2. The application of this idea to Lebanon could serve as an experiment, a pilot project in coordinated international action. Its success could serve as a practical example, a "show case" to other developing countries. Lebanon offers ideal ground for the experiment, being a small country with a varied structure, a cosmopolitan culture, an adaptable and responsive population and a central geographic position.
3. The idea, Mr. Gemayel said, had the support of the President of the Republic of Lebanon. It has obtained the support of Mr. Boerma (Director General of FAO), Mr. Paul Marc Henri (of the UNDP who had meetings recently with Lebanon's President and Prime Minister), Mr. Maheu (UNESCO) and Mr. David Morse. The support of Mr. McNamara, Mr. Hoffman and the International Cooperation Board are being solicited, and the WHO, ILO, UNIDO, the International Atomic Agency have been contacted and their preliminary reactions have been favorable.
4. The application of the idea in practice requires several steps:
 - (a) Preparation of a document on a scientific basis by international experts, outlining the basic development principles and policies to be followed by Lebanon and covering fiscal, monetary, credit, management, as well as other developmental fields;
 - (b) Approval of the development principles by the highest Lebanese authorities, possibly after discussions between the Government and representatives of the relevant sectors;

.../2

President has seen

September 9, 1969

- (c) Review by high officials of international organizations of the document in Beirut during the first week of October;
- (d) Discussions of the policy and of their possible role by the heads of the international organizations, (Mr. McNamara, Mr. Hoffman, Mr. U. Thant) in a meeting to be held in Beirut late March or early April 1970. The meeting is to result in a document giving general directives for a development plan;

5. Steps undertaken so far under 4 (a) above include the assignment of Prof. Massé and Prof. Olivier (engaged as consultants by FAO) and working closely with Mr. Delpras of IRFED (a main French Consultants' firm) in Paris. (It was not clear whether Mr. Delpras, who seems to be heading the team, was also engaged by FAO; it is noted that IRFED had done major consulting work in Lebanon about 6 years ago on a development plan). Mr. Gemayel said he asked for one man each from ILO, WHO and UNESCO to join the team in Paris.

6. Mr. Gemayel's request was for Bank participation at the three levels: to send a generalist (suggested Mr. Benjenk) to Paris for 2 or 3 days to cooperate in preparing the first document; by being represented by a senior man during 2 or 3 days in the October meeting in Beirut; that Mr. McNamara visit Lebanon for 2 or 3 days in late March or early April. Mr. Gemayel said he understood that a meeting organized by the UNDP would take place in Beirut at that time and suggested that Mr. McNamara and others would stay on to discuss the question of assistance for Lebanon.

7. Mr. McNamara pointed out the increasing demands on Bank staff. He expressed his readiness to have the Bank contribute to the effort Mr. Gemayel had in mind if additional technical capabilities become available and useful work can be done. Mr. McNamara himself would consider attending the Beirut meeting but would come only if he felt he could contribute usefully. He said he believed Lebanon needed to adopt a more positive attitude towards its economic development and that it could usefully use the Bank's help in undertaking studies and financing development projects. He could not promise, however, that he would attend the meeting and would decide closer to the time of the meeting and after seeing the agenda and the policy problems to be discussed so as to be able to judge if he could contribute to the meeting.



OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: September 3rd, 1969

FROM: Michael L. Lejeune

SUBJECT: LEBANON - Brief for your meeting
with Mr. Geymael

1. I understand Mr. Geymael is to call on you today at 12:00 noon. I will be present and so will Mr. Asfour of my department who can act as interpreter. Mr. Geymael is a prominent Lebanese political figure, Member of Parliament and former Minister. He is also a member of the Executive Board of the Falange party which is a right wing, Christian party favoring close ties with the West. He is currently Chairman of the FAO Council, which is the governing body elected by the biennial conference of member countries.

2. According to the U.S. State Department, the purpose of his visit to the U.S. is to stress the urgency of comprehensive economic assistance to Lebanon both through international agencies and on a bilateral basis. In case this is the purpose of his visit to you, the following is a summary of our relations with Lebanon and the status of our present operations and plans for the future in this country.

General Relations

3. Relations with Lebanon have been increasingly close since 1966 when the Government felt the need to seek Bank assistance to which it had not resorted since the 1955 loan for the Litani power project (\$27.0 million).

4. The Banking crisis in October 1966 (Intra Bank collapse) together with the 1967 war with Israel, although Lebanon did not take part in it, disrupted the economy. The slowdown experienced in certain activities of the private sector (the main driving force behind the economy) calls for increasing public investments by the public sector, but the Government is limited in what it can do by the scarcity of domestic resources. Nevertheless, an effort has been made and by the end of 1968 production in almost every sector had picked up the 1966 levels. In October/November 1968, an economic mission visited the country and an economic report was distributed to the Executive Directors in April this year. It concludes that Lebanon's satisfactory performance and creditworthiness qualify it for Bank assistance.

Present operations

5. A \$31.0 million loan to finance the construction of a 60 km. freeway between Tabarja and Tripoli and a number of studies that could eventually lead to further Bank financing of highways and roads, was

... /2

President has seen

decided upon in April of this year. On April 17 we issued an invitation to negotiate the loan subject to the Government's securing the funds needed to cover the local cost of the project, i.e. raising gasoline taxes. However, on April 24, following the disturbances caused by different attitudes towards the Arab commandos operating in Lebanese soil, the Government resigned and it has been acting merely as a caretaker since. The proposed loan has been left in suspense and no action on the part of the Lebanese to secure the funds for the local costs of the project is expected before a new Cabinet is formed.

South Beqaa irrigation project

6. This project was identified over a year ago but a number of studies are yet required. The Bank has recently agreed that the Lebanese entity concerned - Office National du Litani (ONL) - retain consultants to establish the feasibility of the project whose rate of return from the information so far available appears to be marginal. Once these studies are finished, and if they show the probability of an acceptable rate of return, (which is doubtful), the Bank will appraise the project. In addition, a number of Governmental actions such as controlling water used through private wells, establishing adequate water rates, etc. will be required prior to consideration of this possible loan.

Prospective operations


7. A project identification mission is planned for late this year (the Government has not been informed yet) with a view to adding to our knowledge of possible projects for the future. Sectors where we are likely to find suitable projects are agriculture, industry, and tourism, but there may be others as well. A financial institution (DFC) for industry or tourism or both may be useful. There have been discussions about such an institution in the past, but they have not borne fruit. The studies included in the highway project under consideration may form the basis for further lending in the transport sector.

A handwritten signature in blue ink, appearing to read 'M. H. H. H.', with a horizontal line underneath.

OFFICE MEMORANDUM

TO: Memorandum for the Record

DATE: October 13, 1972

FROM: Guy de Lusignan SUBJECT: LEBANON: Meeting with Mr. McNamara and H.E. Fouad
Naffah, Minister of Finance, Sept. 27, 1972

H.E. Fouad Naffah, Minister of Finance, called on Mr. McNamara on September 27. He was accompanied by Dr. Khalil Salem, Director General of the Ministry of Finance. Present from the Bank were: Messrs. Shoaib, Benjenk and de Lusignan.

H.E. Fouad Naffah extended his greetings to Mr. McNamara and invited him on behalf of the President of the Republic of Lebanon to visit his country. Mr. McNamara took note of his invitation to which he will be glad to respond at a date mutually convenient.

Three points raised in the meeting could be summarized as follows:

- 1) The Minister referred to the status of the projects under preparation, i.e. the education project and the highway construction project, and expressed the wish that these two projects could be negotiated at the same time. Mr. McNamara said that the education project could be negotiated shortly. However, it was impossible, considering the Bank's operations workload, to accelerate the process of the highway project, and it was preferable to negotiate the two projects separately.
- 2) The Minister referred to the need for the Lebanese authorities to rehabilitate the Southern part of Lebanon which had been damaged by recent events. He asked Mr. McNamara whether the Bank would consider a reconstruction loan. Mr. McNamara said that he did not know how great the damages were and what the preparation of such a project would imply for our staff. The Minister said that he would send us the necessary information.
- 3) Finally, the Minister mentioned that given the excess liquidity of commercial banks in Lebanon, he was asked to inquire to what extent the Bank could borrow in Lebanon. Mr. McNamara indicated that he would be delighted to have the opportunity of considering the possibility of borrowing from private banks in Lebanon and asked Mr. Shoaib to follow it up with the Minister.

cc: Mr. McNamara (2)
Mr. Benjenk
Mr. Hartwich
Mr. El Darwish

GdeLusignan/gp

President has seen



OFFICE MEMORANDUM

TO: Files

DATE: March 9, 1973

FROM: A. Sani El Darwish SUBJECT: LEBANON: Mr. R. McNamara's Meeting of February 8, 1973 with
President S. Frangieh (Memorandum for the Record)

Present: Ministers Fu'ad Naffah (Finance), G. Saadeh (Planning), S. Hamade (Public Works), J. Skaff (Hydraulic and Electric Resources, Dr. K. Salem (Director General of Finance), Mr. Edward Sauma (Director of Land and Water Development, FAO), Mr. M. Shoaib, Mr. M. P. Benjenk and Myself

After a general review of Lebanon's development efforts, its desire to diversify from a predominantly "service" economy and its insular nature, in emphasizing tolerance and freedom of enterprise, while surrounded by larger countries with specific dogma, the following specific topics were discussed:

1. Lebanon's exceptional scope to supply oil rich Arab neighbors, not only through transit trade, but also from its own production, with agricultural and industrial goods.
2. The South Beqa'a irrigation project's benefits to inhabitants of the area were applauded. The Bank mission will review the project and will study the spread and distribution of benefits, capital and current, resulting from the investment of the Lebanese Government (with possible Bank participation) to the small and large farmers, tenants and land owners. Dr. Salem mentioned that legislation is under preparation to introduce a tax on capital appreciation resulting from Government and municipal public works (draft law handed to the Bank for comment). This, and possibly progressive pricing of inputs and taxation, could insure equitable distribution of benefits.
3. Urbanization, infrastructure, power, and urgent problems of water supply, sewerage, and pollution of the coast, are particularly important. Priority is given to projects that help in these sectors, especially in the Beirut area, that is central to the Lebanese economy. WHO has been asked to prepare studies for water and sewerage, which the Bank would pursue. Various important highway projects (Beirut bypass; highways North to Iraq and East to Syria) are under study. The Bank's technical assistance and financing is needed in these sectors.
4. The FAO survey work on water and soils in Southern Lebanon (Versant West) and on drainage of flood areas of the Litani Basin is being followed by the Bank. Agriculture in Southern Lebanon has priority for lack of alternatives of employment of almost 300,000 people living in the South.
5. The potential for developing an active capital market in Lebanon is considerable and the Bank Group (also through IFC) would be glad to help. Dr. Salem mentioned that, besides creation of a new DFC and a private medium-term investment bank, legislation has been passed to allow commercial banks to lend up to 3 years (5 years for infrastructures) and rediscount paper with the

Central Bank and other measures are under consideration which grant tax exemptions and other incentives to encourage medium- and long-term investments and credits. Government bonds are being introduced into the market of varying maturities of up to three years and the World Bank's recent bond issue also provides securities of a new type, and should stimulate confidence. Further help from the Bank in developing the capital market would be very welcome.

ASED:lgv

cc: Messrs. McNamara, Benjenk, Wapenhans, Hartwich, Gaud (IFC)
Dr. K. Salem (6) - as agreed in Lebanon

cc: Mr. M. Shoaib



OFFICE MEMORANDUM

CONFIDENTIAL

TO: Memorandum for the Record

FROM: J. Guillot-Lageat, Senior Loan Officer, EMENA CP II-C

SUBJECT: LEBANON: Visit of Mr. Tueni to Mr. McNamara

DATE: January 6, 1977

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1. On December 17, Mr. McNamara received Mr. Tueni, special envoy of President Sarkis, who was accompanied by His Excellency Ambassador Kabbani, Mr. Akl, Counsellor at the Lebanese Embassy, and Mr. Shaydiac, General Consul in New York. On the side of the Bank, also present were Messrs. Benjenk, Bart, and Guillot-Lageat.
2. Mr. Tueni opened the discussion by assuring Mr. McNamara that Lebanon would take prompt action to forward to the Bank any outstanding amounts concerning overdue service payments on past loans.
3. Mr. McNamara told the Lebanese delegation that the Bank was viewing Lebanon's problems with sympathy and that it now had to define what its role could be given the intentions of other, mostly Arab, donors. The Bank would be prepared to send a mission to Lebanon, as soon as security conditions would allow it, in order to review Lebanon's reconstruction plans and to define how the Bank could fit into them. Mr. Tueni said that, following Mr. Benjenk's queries regarding security, he had checked with President Sarkis who had assured him that the security of a Bank mission would be ensured. Under the circumstances, Mr. Benjenk indicated that the mission could take place toward the end of January.
4. Mr. Tueni told Mr. McNamara that the Lebanese Government would very much welcome his visit to Lebanon. Mr. McNamara assured Mr. Tueni that he would very much like to visit Lebanon again but that he could not commit himself precisely at this time.
5. The conversation then moved on to the question of aid coordination. Mr. Tueni mentioned that a special Arab fund for the reconstruction of Lebanon was in the process of being set up and that it would certainly agree to cooperate with the Bank. He stressed that a comprehensive approach to reconstruction was necessary and that the Lebanese Government wished the Bank to help them in this respect. Mr. McNamara answered that the Bank could do staff work for the Lebanese Government and help other donors appraise projects; generally, the Bank would be ready to bring all interested parties together as long as they so wished. While it would be best to avoid the creation of new structures for aid coordination, the Bank would need to have a clear idea of the roles of the different donors. In summary, the Bank would be ready to play a coordinating role, even unofficially, as long as it would have the certainty that this role was welcome by all donors.

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CONFIDENTIAL

Memorandum for the Record

January 6, 1977

- 2 -

6. Turning to the sectors in which Bank projects could take place, Mr. Tueni told Mr. McNamara that the first priority was infrastructure and housing. For the latter sector, a housing bank had been created. He emphasized that reconstruction should have social objectives since the Lebanese authorities were perfectly aware that social imbalances had been one of the reasons of the civil war. The poorer areas in Beirut and in other parts of the country had suffered particularly heavy damage and had sometimes been totally destroyed. The new government wanted to create adequate social housing in and outside Beirut to avoid the recurrence of social problems. Mr. McNamara answered that the Bank was best equipped to deal with infrastructure projects since we did not lend for housing except for the very poor segments of the population; however, some Bank assistance in that sector might prove possible.

7. Mr. Tueni concluded by assuring Mr. McNamara that the Lebanese Government would be very permeable to any Bank suggestion concerning the reconstruction of the country.

Cleared with & cc: Mr. Bart

cc: Messrs. McNamara's Office, Knapp, Benjenk, Knox, Siebeck

JGuillot-Lageat:jls

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: December 17, 1976

FROM: M. P. Benjenk *MP*

SUBJECT: Visit of Lebanese Delegation

The Lebanese Delegation which is discussing problems relating to the reconstruction of Lebanon with the State Department, the IMF and the Bank visited me yesterday morning. They asked:

- (a) That the Bank should make a contribution to the reconstruction of Lebanon both in terms of financial assistance and of technical advice, and
- (b) That a World Bank mission should be sent to Lebanon as early as possible to help assess some of the reconstruction needs.

In reply to this request I made the following response:

- (i) That the Bank has the deepest sympathy for the tragic events which resulted in so much loss of life and material destruction and would play a part in any international effort to assist Lebanon's reconstruction;
- (ii) That the Bank's comparative technical advantage was in the field of Lebanon's infrastructure (e.g. ports, water supply, transport etc.), most of which the Bank is familiar with in view of its past involvement in Lebanon;
- (iii) That the Bank would wish to know the economic and social program of the new Lebanese Government as soon as possible, particularly as concerns the Government's intention with regard to improving the fate of the poorer segments of the Lebanese population and remedying some of the obvious inequalities about which the Bank had warned in the past;
- (iv) The Bank would need to look into the machinery set up for the reconstruction of the country and into the way the priorities of the reconstruction program were determined;
- (v) We would attach the greatest importance to working in close cooperation with the principal Arab donor countries and Arab Funds whom we naturally expected to play the principal role in this matter.

Bearing in mind the points stated above, I told the Delegation that, as soon as we judged the security situation to be safe, we would be prepared to send out a preparatory mission to Lebanon to discuss with the Government what contribution we could make to the reconstruction program. I also reminded the Delegation of the outstanding debts of Lebanon to the Bank, which needed to be cleared up at the earliest possible time.

Mr. Robert S. McNamara

- 2 -

December 17, 1976

The Delegation seemed to understand the meaning of these various points. At the beginning of the meeting they made a general statement concerning the war damage which confirms the general situation described in our memo to you of December 16.

cc: Mr. Knapp
Mr. Bart

MPB:lr

LEBANON
CURRENT SITUATION AND PROSPECTS FOR BANK LENDING

1. Since President Sarkis took office in September 1976, the Lebanese authorities have taken a number of preliminary steps toward organizing the financing and implementation of the country's reconstruction, even before peace was totally restored. A National Reconstruction Council was created to start assessing needs and thinking out a program. Contacts have been taken with Arab and other donors. The visit of Mr. Tueni to Washington, takes place in that framework.

Political and Military Situation

2. Apart from sporadic clashes between Christians and Moslems in the south, peace generally appears to have been restored. The major agreements reached by the Arab countries with Syria and Lebanon at the Riyadh (October 18, 1976) and Cairo (October 26, 1976) summits, are being implemented; they provided for:

- (i) The creation under the high command of President Sarkis of a 30,000 man Arab peace-keeping force, including at least 25,000 Syrian troops, to be financed mainly by Arab oil producing countries.
- (ii) Enforcement of the 1969 Cairo agreement limiting Palestinian presence in Lebanon to specific refugee camps in the south.
- (iii) Pledges in amounts unknown for the creation of a reconstruction fund.

3. On December 9, President Sarkis arranged for the formation of a new cabinet (list attached as Annex 1). Although its composition follows the traditional pattern, with a distribution of portfolios among representatives of the various religious sects (the Prime Minister being Sunni Moslem), it is a cabinet of technocrats, emphasising President Sarkis' objective of restoring Lebanon to economic health and establishing gradually a viable public administration. All but two of the eight ministers are politically unknown technocrats. The two, including Prime Minister Salim Hoss, along with President Sarkis, were close associates of General Chehab when he was President in 1958-64 and carried out a reconstruction program. The Prime Minister himself is an administrator of repute and integrity, and his selection at this time appears to reflect the President's above mentioned objective.

Economic and Financial Situation

4. The extent of war damage is not known. Indications are that the port facilities in Beirut have been entirely destroyed and must be totally rebuilt, as well as the commercial district in the center of town. Besides housing, it is also estimated that about 50-60 percent of industrial plants in greater Beirut have been entirely destroyed, while public utility facilities like power, water and sewerage are believed to have been significantly affected. Informal estimates made by official sources, put physical damage at about \$3 billion and lost income at about \$5 billion (as compared to a GNP of \$2.8 billion in 1973). These estimates cannot be verified at this stage and may perhaps have been inflated, to generate a more generous response from the international community.

5. The country's financial situation, however, remains sound. At the end of 1975, Lebanon's external debt was minimal (\$68 million outstanding and disbursed). Despite substantial repayments in October of overdue service payments to the Bank, \$613,000 are still outstanding. International reserves were estimated at \$1.6 billion, the major part of which in gold. It is possible that the actual value of these reserves is even higher if, as it is believed, gold reserves have been valued at a price substantially lower than the current market price. This explains the resilience of the Lebanese Pound during the civil war. Before the war, the exchange rate was about LL2.3 for \$1. It fell to 3.4 in June/July 1976 and increased again to 2.9 at the end of October 1976 following the Cairo agreements. The high amount of reserves, however, should not preclude the need for considerable external financial assistance for reconstruction purposes. If Beirut is to resume its former role as financial intermediary in the Middle East, the country will need to keep a high level of liquidity which those substantial reserves offer. Hence, Lebanon might not be willing to use more than a marginal amount of these reserves, with some justification, towards the costs of reconstructing its economy.

6. In keeping with the estimates mentioned above, President Sarkis outlined at the Cairo summit a \$3 billion program covering the reconstruction of physical infrastructure, social facilities, Government administration facilities, as well as private homes and businesses. He requested an additional emergency aid of \$500 million for food, medicine, and provisional Government facilities. In mid-November 1976, Saudi Arabia and Kuwait approved, in principle, the creation of a \$3 billion reconstruction fund for Lebanon, to be financed by contributions from Saudi Arabia, Kuwait, Qatar, and Abu Dhabi. We have at this stage no indication to what extent this decision has even begun to be implemented. Indications are also that the Arab Fund intends to play an important part in the reconstruction effort, but no specific program or viable projects seem to have been yet defined. While coordination of Arab and other assistance still remains an open question, it has been stated that all major reconstruction and investment decisions would be subject to President's Sarkis' approval.

7. Preliminary indications seem to indicate that the Government is aware of the need for strict planning of the economy and a much larger role than in the past, for the public sector. However, no specific measures have yet been announced. A beginning may however have been made with the appointment of Mr. Tueni, as the head of the Reconstruction Board, by getting the necessary personnel for it. We should be able to have a clearer picture following the discussions this week with him.

The Role of the Bank

8. Reconstruction needs fall into five broad categories:

- (i) emergency relief aid including food, medicines, housing for returning refugees or displaced people within the country, to be provided by specialized agencies and bilateral donors;
- (ii) reconstruction or rehabilitation of infrastructure in Beirut and elsewhere, which must be immediately undertaken to provide Lebanon with the minimum basis on which it can build its economic recovery;
- (iii) infrastructure and productive facilities that must also be reconstructed or established anew, on a lower scale of priority than (ii) above, through development projects bearing fruit in the medium-term future;
- (iv) reconstruction of private homes and businesses, wherever destroyed; and
- (v) reorganization and strengthening of public, fiscal and monetary institutions.

9. Category (i) might appropriately be carried out under the leadership of the UN, which has considerably experience in this regard. Category (iv) is one where we can reasonably expect Lebanese entrepreneurship to do a lot, and where liberal Arab aid may also be forthcoming as it did in Egypt for the reconstruction of Suez. IMF could well help with Category (v). The remaining two categories, i.e. (ii) and (iii), are those where the Bank could play a role in cooperation with the IMF, other multilateral institutions (including Arab aid agencies) and possibly bilateral donors.

10. While the Government should try to restore as quickly as possible the necessary conditions for an economy oriented towards international services, it should also take the opportunity to implement badly needed reforms, to redress the severe social and economic imbalances which were one of the reasons of civil disturbances. This is an area where the decision as to what should be reconstructed first, is extremely sensitive politically (geographic areas controlled by the different sects) and will need to be handled very delicately by any external aid source. Prerequisites for the resumption of Bank lending to Lebanon would be the creation of economic mechanisms which could efficiently utilize internal and external resources, and a basic working administrative machinery to implement the projects and recovery programs. In many fields, it is most

likely that technical assistance will be needed much more than money, given the readiness to assist of Arab and other governments and institutions. It is also probable that these lenders would welcome the creation of a well organized planning entity. One should also be aware that Arab aid institutions, for domestic political reasons, may very well want to appear in the forefront for formulating and coordinating the recovery programs. Within this framework, the Bank could act as a modest lender, and possibly as a technical advisor, provided the Government and all interested aid donors, including the Arab governments and aid agencies, ask it to do so.

The Bank as a Lender for Immediate and Near-Term Reconstruction

*Partly long
Report 3.0*

11. For the near future, and provided the situation offers evidence of stability, we have tentatively envisaged a US\$50 million infrastructure rehabilitation loan in FY78. This should enable us to act swiftly to help with some rehabilitation of infrastructure which needs to be immediately provided to enable Lebanon to proceed with its overall reconstruction program (para. 8(ii) above) and assist in preparing and implementing a longer term program for reconstruction and development. We could consider as a first priority a rehabilitation program for transport (e.g. Beirut port), communications and water and power supply; secondly, project lending based on projects currently included in the lending program (Annex II) if still appropriate - which is doubtful - and possibly new ones to substitute for them, if so requested by the Government and they are demonstrably of high priority. Thirdly, any technical assistance in identifying priority projects for Bank and other financing which we are in a good position to supply. It is most likely that co-financing with other, mostly Arab, institutions will take place in these areas.

Possible Next Step to be Taken

12. If the present cease-fire holds, and when security conditions are deemed adequate, a small mission should go to Lebanon whose terms of reference would be:

- (i) to discuss with the Government its economic and social priorities in the reconstruction of the country;
- (ii) to assess reconstruction needs suitable for project or sector financing and available financial and human resources;
- (iii) to initiate contacts with other Arab lenders.

Annex I

LEBANON
NEW GOVERNMENT

Mr. Salim Hoss (Sunni Moslem and former General Manager of the semi-public Investment Bank for Industry and Tourism): Prime Minister and Minister of Trade, Economy, Industry and Oil and of Information

Mr. Fouad Boutros (Greek Orthodox Christian and former Minister under President Chehab): Minister of Foreign Affairs and of Defense

Mr. Farid Raphael (Maronite Christian): Minister of Finance, of Justice and of Post, Telephone and Telegraph

Mr. Michel Doumit (Maronite Christian): Minister of Planning

Mr. Salah Salman (Druze Moslem): Minister of Interior and of Housing

Mr. Ibrahim Shaito (Shiite Moslem): Minister of Health and of Resources

Mr. Amin Bizri (Sunni Moslem): Minister of Public Works and Transport and of Tourism

Mr. Assad Rizk (Greek Catholic): Minister of Labor and Social Affairs, of Education and of Agriculture

Annex II

LEBANON - ACTUAL AND PROPOSED LENDING OPERATIONS THROUGH FY 81 (US\$ Million)

Population : 3.0 million (mid-1973)
GNP Per Capita: 3938 (1973)
Area : 10,400 km²
Literacy Rate : 69% adult population

	Through FY 69	FY 70	FY 71	Actual		FY 74	FY 75	Current FY 76	FY 77	FY 78	FY 79	FY 80	FY 81	Total FY 69-73	Total FY 74-78	Total FY 76-80	Total FY 77-81	Reserve Projects
South Beqaa Irrigation	IBRD								50.0*									
Regional Development	IBRD												15.0					
Education I	IBRD				6.6													
Education II	IBRD								17.5*									
Highways I	IBRD				33.0													
Highways II	IBRD									35.0								
Beirut Sewerage	IBRD												25.0					
Power	IBRD	27.0																
LENDING PROGRAM	IBRD(TW)	27.0			39.6				17.5	50.0	35.0	25.0	15.0	39.6	67.5	127.5	142.5	
	Total	27.0			39.6				17.5	50.0	35.0	25.0	15.0	39.6	67.5	127.5	142.5	
	Number	1			2				1	1	1	1	1	2	2	4	5	
Lending Program in Constant FY74 \$ Million		34.4			32.4				11.1	30.1	20.0	13.6	7.8	32.4	41.2	74.8	82.6	
Commitment Deflator					122.4				158.4	166.4	174.7	183.5	192.6					
Standby Projects	IBRD Total Number							17.5 17.5 1	50.0 50.0 1									
1/																		
IBRD o/s incl. Undis.	20.4	19.0	17.6	16.5	54.7	53.1	50.7	48.9	62.6	109.0	140.7	162.4	176.1					
excl. Undis.	20.4	19.0	17.6	16.5	15.2	13.4	11.2	14.9	21.0	28.3	44.1	70.1	96.9					
IBRD Gross Disbursements	27.0	-	-	-	-	-	-	5.5	7.9	10.1	18.8	29.1	28.9					
Less Amortization	6.7	1.4	1.4	1.5	1.6	1.7	1.7	1.8	1.9	2.7	3.0	3.1	2.2					
Equals: Net Disbursements	20.3	-1.4	-1.4	-1.5	-1.6	-1.7	-1.7	3.7	6.0	7.4	15.8	26.0	26.7					
Less Interest and Charges	9.1	1.0	.9	.8	.8	.7	1.0	1.7	3.0	4.0	5.6	8.2	10.5					
Equals: Net Transfer	11.2	-2.4	-2.5	-2.5	-2.4	-2.4	-2.7	2.0	3.0	3.4	10.2	17.8	16.2					

*Standby Projects
1/ As of the end of fiscal year.

EMENA CP II - C
JANUARY 9, 1976

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President

DATE: December 15, 1976

FROM: Munir P. Benjenk, Vice President, EMENA Region *my*SUBJECT: LEBANON: Visit of Government Delegation

1. A delegation from the Government of Lebanon is currently in Washington where it will stay from December 15-17. The delegation is headed by Mr. Ghassan Tueni, ex-cabinet minister, Chairman of the National Reconstruction Council of Lebanon, and special envoy of President Sarkis (see biographical note attached). Mr. Tueni is accompanied by Messrs. Issam Haidar, Director for Economic Affairs, Ministry of Foreign Affairs; Georges Zoghbi, Division Chief for technical assistance, Ministry of Planning; and Sami Ahouar, Economist. The delegation intends to discuss the prospects for assistance to Lebanon. A similar visit to France has already taken place, but apparently none has yet taken place to all interested Arab countries. We have at present no indication on the nature or extent of possible requests.

2. The delegation is slated to have meetings with Mr. Witteveen and staff of the IMF on December 15, with Dr. Kissinger also on December 15, and with State Department and USAID officials on December 15 and 16. It will also meet with members of the U.S. Congress. A meeting with Bank staff will take place in my office on December 16 at 10:00 a.m., and the delegation has requested to call on you in the afternoon of the same day.

→ 3. I recommend that you meet with Mr. Tueni on the afternoon of December 16 at your convenience. I will send you tomorrow an Aide Memoire summarizing the political and economic situation in Lebanon and outlining a recommended course of action for the Bank following preliminary contacts with U.S. officials and IMF representatives.

Attachment

1715
6:30 PM
F
1717
Sh
Told Mr. Benjenk
office
and
12/16

BIOGRAPHY

Mr. Ghassan Tueni, a 50 year old Greek Orthodox Christian, is publisher of the highly respected newspapers, Al Nahar and L'Orient-Le Jour. He was educated at the American University of Beirut and did post-graduate work in France. He was Deputy Prime Minister in 1971 and Minister of Industry and Oil, of Tourism, of Labor and of Information in the last Government. In this capacity he travelled extensively to the Arab Oil Producing countries during the civil war. Prior to the formation of the new cabinet, he chaired a newly established Interministerial Committee for Reconstruction of Lebanon. It has not been confirmed whether he still holds that position.

OFFICE MEMORANDUM

TO: Memorandum for the Record

FROM: Wolfgang E. Siebeck, Chief, EMENA CP II-C

SUBJECT: LEBANON: Visit of Minister Michel Doumet

DATE: July 5, 1977

1. Mr. Doumet, Minister of Industry and Agriculture, called on Mr. McNamara on May 19.
2. Mr. McNamara opened the meeting by explaining his readiness to assist Lebanon in its difficult reconstruction endeavor, and his hope that the country would soon overcome the economic consequence of the civil war.
3. The Minister explained the reconstruction and development concept pursued by the post-civil war Government: it was trying to rebuild the Lebanese economy based on a free-enterprise concept which had accounted for its strength in the past. At the same time, while being fully aware of traditional, historic and sectarian constraints, the new Government was keenly intent to improve the social disequilibrium that marked pre-civil war Lebanon. This would not be easy and, in fact, it would require a long-haul effort to change behavioral patterns. At the same time, Lebanon should not be expected to alter the role of free enterprise, its open society which had allowed labor and capital to flow in and out, and had permitted it to grow into the role of a service economy serving the Arab world.
4. Mr. McNamara expressed the hope that the new Government, in the framework of the policy stated by the Minister, would be more forceful and effective than its predecessor in attacking social problems and in its effort to improve income distribution. Mr. Doumet, in reply, stated that the Government was already working on specific measures, including introduction of a capital gains tax and in general a more equitable tax system, but that it was not easy to overcome the differences in drive and ability to improve their lot which distinguished the various Lebanese communities. He mentioned that despite the efforts of the industrial bank (to the Board of which he belonged before the civil war) some communities had barely availed themselves of the credit facilities offered. In the same way, traders had reacted very differently to the destructions of the war, some "colonizing" the Gulf emirates while others had opened sheds in the streets. Mr. McNamara pointed that it was these very imbalances in the development of the various social groups which the Government should try to correct. Mr. Bart added that in the context of the on-going negotiations, the Government had demonstrated its determination to improve low income housing in destroyed Beirut neighborhoods, which was an area never touched by previous Lebanese governments, and the conditions in the poorest rural areas, and had sought Bank assistance to prepare projects in these fields.

cc: Mr. McNamara's Office

WESiebeck/MPBart:cek

DATE: **May 18, 1977**

5/18 Informed Mr. Baet

LEBANON

His Excellency Michel Doumet,
Minister of Industry and Agriculture

Mr. Michel Elias Doumet, a maronite born near Beirut in 1925, is one of the most prominent industrialists in Lebanon. He studied economics and finances at the French speaking University of St. Joseph in Beirut; he is married and has six children.

Mr. Doumet had had no political involvement and no career in the public sector prior to becoming, last December, a Minister in the Cabinet headed by Prime Minister Hoss.

His business interests in Lebanon are varied and numerous. They include in particular chemicals (Esso Fertilizers), cement, textiles (LITEX Company which has received a Loan from IFC), electric cables and equipment, shipping, tourism and retail trade. He also has business interests abroad.

Mr Bart

OFFICE MEMORANDUM

CONFIDENTIAL

TO: Mr. J. Burke Knapp, Senior Vice President, Operations
THRU: Mr. A. David Knox, Acting Vice President, EMENA
FROM: Maurice P. Bart, Director, CP II, EMENA

DATE: April 1, 1977

DECLASSIFIED

MAY 06 2013

WBG ARCHIVES

SUBJECT: Mission to Lebanon

1. In accordance with the arrangements agreed upon last December between Mr. McNamara and the Lebanese delegation led by Mr. Tueni, I visited Lebanon, from February 27 thru March 6, with Mr. Pollan and a combined Programs/Projects team. We met with President Sarkis, Prime Minister Hoss and all cabinet members except the Foreign Affairs and Health Ministers. We called on the US, British and French Ambassadors. We travelled extensively in and around Beirut, took field trips as far as the Zahran refinery (South of Sidon) and Byblos. Time did not permit to visit Tripoli and the Beqaa Valley but Guillot-Lageat made a round trip to Damascus by car. He also visited Kuwait and Riyadh to liaise with Kuwait, Arab and Saudi Funds and the Saudi Government.

2. This memorandum summarizes our findings regarding the political and economic situations, assesses prospects for resumption of governmental and economic activities, outlines priority needs and recommends a course of action.

Political Situation

3. Four major factors bear on the political situation: (a) the extensive presence of the Arab Force (largely Syrian) which has restored peace and security, except in the South; (b) the continued strength of the previously warring -- and still armed -- factions, divided chiefly along confessional lines (Christians, Moslem/Palestinians); (c) the reconstitution of a legal--and somewhat neutral -- Government under President Sarkis, which is focusing on the reactivation of the economy and has chosen to postpone open discussions on solutions to the basic political issues; and (d) the yearning for peace of a population which has suffered enormous human and material losses, but seems capable of as much resilience in reconstruction as it demonstrated during the war.

4. Large scale fighting has stopped except in the area lying between the border with Israel and a line going roughly from the mouth of the Litani River to Chebaa (see map). Part of the Palestinian armed groups (deprived from the support of regular Palestinian units and of other foreign forces -- e.g. Iraqi -- who have left the country), together with the most militant of the Lebanese leftists, have moved to the South in order to be out of the reach of the Syrian army. The Phalangists (mostly Maronites), helped by some Moslem Chia elements and Lebanese Army units, have built up a force along the Israeli border and are receiving reinforcements from the Christian zone north of Beirut with the apparently tacit consent of the Syrians and the overt support of Israel, which is providing armament and logistical support. Fighting in this area between Palestinians and Phalangists is flaring from time to time and is causing a large influx of Chia refugees in Beirut; these are adding to the squatters who have moved in unoccupied apartment buildings

and in new shanty towns. Disarmament of the civil war opponents has reportedly been limited to part of their heavy weapons (tanks and artillery); no attempt has been made so far by the Arab Force to conduct a more extensive disarmament which would in all likelihood be strongly resisted by both sides. The gangs, which took advantage of the anarchy and caused some of the most savage casualties and serious damages and looting, have gone underground. The Government is facing difficulties in reconstituting the Army (paralysed by its mixed Christian/Moslem composition until it split) and even the gendarmerie; they remain divided on the side of their respective allies but continue to be paid by the Government. The recent appointment by President Sarkis of a new Chief of Staff, reportedly acceptable to both sides, is a first step towards the reconstitution of a reunited Army, which could intervene in the South. The police and intelligence services are slowly being put back in operation. On the whole, except for isolated settlement of scores and the fighting in the South, security has been restored, thanks to the Arab Force, which man numerous checkpoints and can prevent disturbances from spreading as was demonstrated following the assassination of Kamal Djoumblat. Fear is, however, still prevalent and is preventing many people from moving freely between the zones previously controlled by the civil war opponents.

5. President Sarkis has elected to rebuild first the State and the economy in a country which, as he told us, has been materially and morally destroyed, rather than to seek an immediate political solution to the problems which caused the civil war. The major problem, i.e. the containment and control of the Palestinians, is finding a short-term solution thanks to the Syrian presence and the return in most Palestinian camps of the pro-Syrian elements such as the Saika. But the prevailing feeling is that the Syrians cannot afford vis-a-vis Saudi Arabia, Kuwait and -- to a lesser extent -- Egypt, to completely subjugate the Palestinians as Jordan had done in 1970-71. Moreover, they need the Palestinian card in the broader context of possible negotiations with Israel.

6. In the medium-term, there are two categories of political and social problems which need to be addressed to with varying degrees of urgency. First, it should be stressed that the war was waged primarily along confessional lines, rather than between rich and poor, although one community was on the average richer than the other. It is the richer one (Christian) who launched the war, essentially in reaction to the Palestinian military presence allowed by the 1969 Cairo agreements and to the large influx of uncontrolled foreign elements which ensued, with the resulting emergence of "a State in the State" as no other Arab country -- however favourable to the Palestinian cause -- had ever permitted. The Maronite Christians, whose relative affluence had increased with the influx of Arab money, were prepared to run the risk of losing it in order to preserve their identity and prevent the obliteration of the Western-oriented and liberal character of the country. This led the least bellicose and most hospitable and tolerant country in the Middle East into a ferocious war and to the verge of partition, a la Cyprus. Should the Palestinian problem be resolved in a broader context, the purely Lebanese causes of the war are likely to be deflated. A better balance of power and wealth between

the communities, between Libanism and Arabism, between the conservative and progressive elements, will still be difficult to achieve. President Sarkis, with the backing of key Arab countries, seems to be following the same conciliatory policies as his mentor, President Chebab, did after the 1958 civil war. He will, however, need to reconcile much more intransigent -- and powerful -- factions and it is doubtful whether this can be achieved without constitutional changes and the establishment of local governments (which President Chebab had not attempted to introduce), which would enable the main communities to feel more secure in the areas where they are concentrated and to follow their own development paths. Nonetheless, the outcome of the war has ruled out, for the time being, as much partition as Palestinian rule. In the longer run, the old dream of a Greater Syria, or the new one of a federation between Syria, Lebanon, Jordan and a Palestinian State, will test again the willingness of the Lebanese people to survive as a nation.

7. Second, the laissez-faire economic system as well as the varying degrees of drive and modernization among the various communities had led to serious social imbalances. Services and industry, mostly Christian-owned, had grown at a much faster pace than the mostly Moslem underdeveloped regions. These imbalances had been compounded by the influx of a large foreign middle-class and proletariat (numbering perhaps 500,000 to 800,000), attracted by employment opportunities and a standard of living unavailable elsewhere in the Middle East, except in oil countries. Many foreign workers have left but the problems of highly skewed income distribution among Lebanese remains an issue of the highest gravity. While its solution requires a long and difficult reorientation of the economy, of public investments, of the taxation system, etc., it is essential for the present Government, if it wants to avoid a social confrontation as serious as the political one, to take immediate measures to solve the most pressing problems, chiefly unemployment and housing.

8. The properly Lebanese causes of the war have not been addressed so far. There is barely any dialogue between the Government and the factions on constitutional or political changes. This is probably the wisest course in the absence of a Syrian diktat but it entails the risk that the de facto division of the country will solidify rather than abate. The Maronites, led by the alliance of Gemayel, Chamoun and Franjieh, have, so far, continued to display much solidarity and determination to protect their position; they feel that they have won the hard way the country which was created for them. In contrast, the traditional leaders of the Sunni Moslems have been largely discredited and none of the heads of their many fighting groups has emerged to replace them. The religious leader of the Chia, Imam Sadr, has gained much influence; he is cooperating with Syria, but is poorly seconded by his largely backward community. The assassination of Kamal Djoumblat has removed the only leader of real standing on the left and Moslem/Druze sides. The Cabinet is composed of respected technocrats and businessmen, reflecting the moderate viewpoints of both sides as well as the "neutralist" stand of part of the population; they have not much political following and muscle of their own. A domestic political settlement will thus necessarily require, sooner or later that the Government devise new solutions acceptable to those who fought on both sides. The mission's assessment of the political situation is necessarily incomplete since, owing to the sensitivities involved, I refrained from meeting with the main leaders of the previously warring factions (whom I all knew personally) in order to elicit their views.

9. The deep wounds will take very long to heal. Hatred will continue to explode occasionally in clashes and vendettas. However, the people are tired of the war and prepared to accept the Syrian-imposed security, so long as it remains, at it has been so far, relatively light handed. Syria is bound to retain an armed presence until the fundamental Palestinian and Lebanese problems have found a solution. Thus, the Lebanese picture may evolve from the Biafra type confrontation to, say, a Northern Ireland situation aggravated, however, by the risks of the Middle Eastern powder keg. Barring hostilities with Israel, the political risk in Lebanon can be equated in the foreseeable future with the chances of survival of the Assad regime in Syria.

Economic Situation

10. Destructions. The zones of heavy fighting, in and around Beirut, suffered destructions ranging from total obliteration (e.g. the port and the Palestinian camps and adjoining industries in the Christian zone) to heavy structural damages. Looting was generalized and emptied factories, stores, offices, schools and dwellings. Outside Beirut, destruction was concentrated in a few areas (Damour, agricultural installations in the Bekaa, etc.). The heaviest damages, in value terms, seem to have affected buildings in the Beirut area (trade, businesses, banks, hotels and dwellings) and equipment and stocks throughout the country (in the port alone, \$600 to \$900 million of cargo is reported to have vanished). In infrastructure, the port has lost practically all of its equipment and storages; telecommunications come second in the extent of damage; power and water supply as well as the airport have restored rapidly an adequate level of service. Public offices and equipment have suffered extensive damages and looting. Government rough estimates put capital losses at \$0.5 billion in the public sector and at \$2 billion in the private sector.

11. Reconstruction and Finance. The Cabinet constituted last December faced a formidable array of problems: (a) to restore public utilities; (b) to decide on policies regarding war damages, employer/employee, landlord/tenant and contractual relationships; (c) to reactivate the administration which had disintegrated; (d) to resume the collection of taxes and utility charges; (e) to reactivate the banking system; (f) to decide on the steps needed for the housing and possible relocation of the some 50,000 families displaced by the war within Lebanon (excluding those who fled to other countries); and generally to take steps for a resumption of economic activity.

12. Since public revenues have not been collected since early 1976, the Treasury has lived on advances from the Central Bank (LL700 million or \$230 million so far) and has, somewhat aberrantly, continued to pay all civil servants and armed forces throughout the war, on whatever side they were. With the resumption of certain revenues (custom duties chiefly), the 1977 "budget" forecasts expenditures of LLL.5 billion, with about half being expected to be covered by revenue, the remainder by Central Bank advances. Investment expenditures in the central budget are expected to be limited; some autonomous budgets (e.g. power) may have substantial cash generation if they collect current charges and can recoup overdues. We strongly advised that an attempt be made to curtail current expenditures which are largely wasted on absentee civil servants and military personnel. The Government does not seem anxious to add to its problems the removal of the dead wood which had accumulated in the inefficient civil service.

13. The Central Bank has remained a pillar of financial strength amidst the desolation. The subsidies received by the warring factions from a variety of sources and the apparent continued confidence in the Lebanese pound throughout the war have resulted in foreign exchange reserves as of February amounting to \$1.6 billion (with gold valued at \$43/ounce), or \$2.5 billion at the current price of gold, i.e. somewhat higher than at the outset of the war. We did not see the Acting Governor of the Central Bank, who had met with the IMF/Bank mission that preceded us. We urged the Finance Minister to resist the temptation to support the pound, as certain banking circles were asking him to do, and to continue to let it float as had been the policy over the past twenty years. It seemed to us imperative that imports of luxury goods be curbed as much as possible through tariff increases and that some depreciation of the Lebanese pound be allowed to provide an automatic regulator of imports and incentive for exports. All the banks have reopened and are taking on new business, but they are resisting the Government's policy to induce them to finance industrial reconstruction with an assumption of part of the risk on the loans made with funds advanced by the Central Bank.

14. The present Cabinet, headed by Salim Hoss, a former General Manager of the industrial bank, is certainly the most competent and dedicated Lebanon has had for a long time. Its non-political nature is well suited to the current interim period during which only few basic political decisions can be taken. It has acted fast and, in my opinion, in the wisest possible way, except for current expenditures, to spur economic recovery. An impressive set of decree-laws has been enacted under the emergency powers given to it by Parliament, and has introduced audacious and sound measures to cope with the problems listed in paragraph 11 above. The policy followed appears to be three-pronged: (a) to restrict the State's liabilities for war damages to the public sector and to extreme hardship cases in the private sector; (b) to rely on the private sector, with the support of the banking system, for the bulk of private reconstruction; and (c) to seek external aid in order to restore the equilibrium of public finance and of the balance of payments and the financing of both public and private reconstruction. In the short run, the Government is suffering from the paralysis of the administration due to the lack of staff and the destruction of physical facilities. One of its major weaknesses has been the limitation of economic planning capability. In this respect, the Development and Reconstruction Board has now been staffed with some of the best Lebanese talent. The Board (which replaces the Ministry of Planning) has broad powers to develop and implement the Government's investment budget, to ensure coordination between ministries and to assume responsibility for foreign and domestic borrowings. With this key step taken, the main constraint, apart from the financial one, is going to be the rebuilding of the operation and project implementation capability in the public sector.

15. Foreign Aid. Apart from emergency relief from various sources, FAO assistance and the \$50 million aid package given by the USA in February, contacts with other potential donors have so far not led to more than unquantified promises to help. The EEC countries seem prepared to resume suppliers' credits on a substantial scale. During Mr. Guillot-Lageat's visit to Kuwait and Riyadh, the Kuwait and Arab Funds appeared to have taken a more forthcoming position on project aid to Lebanon than the Saudis. However, the Saudi, Kuwaiti and Gulf Governments met in Riyadh on March 21 and reached agreement in principle to provide financial assistance in amounts

yet undisclosed. All Arab Funds are scheduled to meet on April 16 to discuss specific projects submitted by the Lebanese Government and to agree on their repartition between the various institutions and, possibly, on a coordination mechanism. No indications have been given so far on possible budget and balance of payments support by Arab countries. Mr. Benjenk intends to clarify the extent of Arab pledges when he visits Kuwait next week. In any event, the Arabs may come with substantial aid but in all likelihood, not with the billions the Lebanese had initially thought of. Lebanon may therefore have to rely to a very large extent on the resources it can mobilize domestically or on conventional terms. In the end, it is essential to restore economic activity as quickly as possible, to launch a vigorous program to increase national savings, curb consumption and avoid slow-yielding investments.

16. Lebanon's creditworthiness for external borrowings has to be assessed in light of the following factors: (a) an extremely low external debt (\$74 million, of which \$40 million DOD, entailing a debt service of \$7 million in 1977); (b) very high foreign exchange reserves; which are likely to be drawn down substantially in the coming years but would still provide an adequate buffer for the service of the large additional debt to be contracted to finance reconstruction; (c) the likelihood of aid from Arab countries on soft or medium terms; (d) the possibility that the economy will regain before long its pre-war buoyancy. On the whole, the political risk remains the most serious, but given the Syrian presence, backed politically and financially by the key Arab countries, does not exceed that which the Bank faces in some other countries in the Middle East.

17. Prospects. The trump card on which the Government is counting is that the people will show the same remarkable resiliency in reconstruction tasks as they had before and during the war. The war had a certain purification effect in that it led to the exodus of the least national-minded (and most affluent) bourgeois and of the large number of foreign residents (except the Palestinians) who had contributed to social imbalances as much as to economic activity. The hard-core Lebanese who stayed throughout the war, or returned, seem determined to rebuild a better nation. The political solutions are not yet found but the will to rebuild is apparent. The merchants of the destroyed souks are operating again in sheds lining the Corniche over several kilometers; the farmers who had their pumps and poultry farms systematically blown up in the Bekaa have asked for credit to re-equip; the industrialists are slowly resuming production or planning the reconstruction of their plants; international transit is starting again; Middle East Airlines and Trans-Mediterranean Airlines have resumed their large and efficient operations throughout their old routes. On the whole, the country retains substantial potential in terms of human resources, business acumen, infrastructure and plant, and can get moving again if security is preserved, irrespective of the shape that the necessary political and social reforms may take.

Mission's Findings

18. With the constant help and presence of Minister Doumet (Agriculture and Industry), the mission reviewed the reconstruction and development priorities set out by the Government and looked in more detail at the needs in transportation (port and highways), education, telecommunications, agriculture and low-cost housing. In the light of the findings of the previous IMF/Bank mission, our

own review of needs, priorities and available resources led to the following conclusions which were communicated to the Government:

(a) The private services sector provides the best opportunity to spur and facilitate economic recovery and employment, and should be given the means to resume activity as soon as possible. This requires rehabilitation of public services, especially of the port and telecommunications, as top priority. In view of the general congestion of ports in neighbouring countries and in the Gulf, international transit can increase substantially but transit charges should be reviewed so as to leave in the country as high net revenues as the traffic can bear.

(b) An equally high priority, unfortunately much less amenable to quick solutions, is the upgrading or eradication of the old and new slums around Beirut, and the housing of squatters. The Government has a difficult political decision to take and was urged by the mission to define urgently possible lines of action in relation with the location of employment.

(c) The large scale public investments for infrastructure under way or planned before the war should be reassessed in light of the new priorities and of available resources. The planned trunk road system (coastal and Beirut-Syrian border expressways) should be postponed in its greater part, as should the large-scale irrigation schemes (including South Beqaa). The reconstruction of the center of Beirut is being studied but the now contemplated ambitious development plan should be spread over a long period with public investment being phased to allow for gradual private reconstruction. The comprehensive school building program started before the war should be updated and priority should be given to the re-equipment of vocational training centers.

(d) Agriculture has suffered limited damages and production can continue or resume with local resources. Rural/social projects being prepared for the three poorest regions (Hermel, Akkar and, when security is restored, the South) deserve a high priority.

(e) Industrial reconstruction and expansion can be left to the private sector, but the Government should promote the development of industrial estates which would reduce industrial concentration around Beirut. A major political obstacle relates to the fact that most industries are Christian-owned and employ Moslem labour. The conversion of the largely obsolete coastal railway in a quick transit system is considered by certain circles as a possible solution; the French are studying this possibility, which did not appear promising to the mission.

(f) Public administration should be restored progressively and streamlined in the process so as to improve its pre-war general inefficiency. We urged the Government to fill three key senior posts as soon as possible: (i) the President of the Development and Reconstruction Board (appointed since as well as all Board members); (ii) the Director-General of Finance; and (iii) the Governor of the Central Bank.

(g) Autonomous public entities (power, water telecommunications, port, etc.) have to a large extent preserved their managements and continued to operate at a reduced level during the war. We encouraged the Government to rebuild their operating capability as fast as possible, to enable them to resume collection of their charges, and to follow a systematic policy of borrowings for their reconstruction and development needs, so as to enable part of their savings to accrue to the general budget (the power authority was financing 50-60% of its expansion before the war from its own cash generation).

19. The mission reviewed the previous Bank loans (highways and education) and possible fields for new lending, both in terms of needs and of implementation capability, and reached the following conclusions (individual reports are available on each sector):

(a) Highways: \$28 million remain undisbursed under Loan 944-LE (\$33 million). Construction should be resumed on some sections of the Tabarja-Tripoli highway, which retain a high priority or where previous works (tunnel) should be safeguarded. The Government has since identified the priority sections on which work should be resumed and confirmed the allocation of the necessary local funds. \$5 million should be reallocated to highway maintenance equipment, which was completely lost or stolen during the war. An amount to be determined should be retained for the studies financed under the loan.

(b) Education: The \$6.6 million Loan 877-LE is fully undisbursed. The construction of primary and secondary schools and teacher training institutes to be financed under the loan should be deferred until the school construction program is reassessed by UNESCO. Meanwhile the whole loan should be used to re-equip the technical and vocational schools in Beirut, Tripoli and Zahle (all have lost all their equipment).

(c) Port: The re-equipment of the Beirut port is considered a top priority. A loan of \$24.5 million would restore the pre-war handling capacity and provide for technical assistance to improve port operations.

(d) Telecommunications: The mission identified items which could be produced under i.c.b. amounting to about \$10 million. The additional reconstruction needs would be financed with suppliers' credits (about \$50 million).

(e) Studies: The mission considers that Bank involvement in sites and services for low-cost housing, rural/social development, industrial estates and Beirut water and Sewerage would be highly warranted if the Government resolves the related policy issues. All of these projects would require feasibility studies, the scope and cost of which has yet to be defined. The Bank should urge the Government to address the critical problem of low-cost housing and define a program even if it does not finance the related studies

or infrastructure works. In concertation with other lenders, especially Saudi Arabia and Kuwait, we should also maintain constant pressure on the Government to introduce the broader economic and social policies needed to correct basic imbalances.

20. The mission recommends that the financing of the port and telecommunications projects be processed as a "shopping list" loan (along the lines followed in Nigeria and Bangladesh) of about \$35 million, plus an amount to be determined (perhaps \$2 million) for studies. If you agree to this in principle, a President's Report supported by Sectoral annexes could be ready for Loan Committee consideration by April 18, 1977. The necessary revision of the previous Highway and Education loans could be processed in the same President's Report or in separate President's memoranda.

21. President Sarkis asked the mission to relay to the Bank's Management his hope that IDA could finance the projects selected for possible consideration by the Bank Group. We expressed doubts that the war could have brought the per capita GNP (\$1070 on the 1972-74 base period-Atlas) to a level meeting the IDA poverty criteria. However, given the drastic reduction in economic activity and production, which was only in part compensated by the external financing of the war, per capita GNP may have fallen in 1976 to a level of, perhaps, \$500-600, although it would be difficult to substantiate this rough guess owing to the paucity of economic and population data. The mission doubts that an exception to the IDA criteria can be made; a case could have been made for Third Window lending, had funds been available.

Conclusions

22. Lebanon's civil war has ended; its last flickers in the South cannot endure long. Syria is likely to continue to support the Government and preserve security until a Middle East settlement takes place. The domestic political issues have not been resolved, but the Government is doing its best to get the economy moving again. It should be pressed to address the most acute social problems but needs to rebuild a national consensus in order to progress in this field. Creditworthiness hinges essentially on the negligible external debt, on the Central Bank's reserves and on the resumption of economic activity. The Bank would run a mostly political risk in resuming lending but, as in other war-torn countries, its help is needed most in such difficult circumstances. The country barely ran into arrears on Bank loans in the midst of carnage and destruction. It is a risk worth taking now that peace is restored.

23. The mission recommends that the Bank should:

(a) Amend the highway and education loans to meet the most urgent needs in these sectors;

(b) Make an import loan of about \$35 million for the port and telecommunications; and

(c) Finance those studies addressing high priority social and economic needs which could be defined while the above loan is processed.

(Map Attached)

Cleared with and cc Mr. Pollan
cc Messrs. Benjenk o/r, Knox, Dubey, Merat, Guillot-Lageat

MPBart:rpo

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President
THRU: Mr. Ernest Stern, Senior Vice-President, Operations
FROM: Robert Picciotto, Acting Vice-President, EMENA Region

DATE: April 22, 1981

SUBJECT: LEBANON: Visit of President of Council of Development and Reconstruction (CDR)

1. You are scheduled to meet Mr. Mohammed Atallah, President of Lebanon's Council of Development and Reconstruction on April 23 at 5:00 p.m. (Please see Annex "A" for biographical details). The purpose of his visit is to explore the possibility of increasing the Bank role in the reconstruction of Lebanon. This memorandum provides a brief background on the present situation and Bank activities in Lebanon.

Political and Economic Situation

04/23
2. Since the end of the Civil War in 1976 and the formal resumption of constitutional rule, the Government has been unable to exercise authority over large segments of Lebanon's population and territory. As a result of civil strife and the intrusion of the Palestinians, Israel and Syria, the country has been fragmented into fiefdoms controlled by various armed groups. Hostilities have erupted sporadically as the various contending forces maneuver for consolidation of their control. The efforts of the Government to re-establish its authority by creating a political coalition and consensus and rebuilding the Lebanese army have been checked by the various domestic and foreign forces in the country.

3. In sharp contrast with the political and military chaos, the performance of the public services has been remarkable during the whole period. They have continued to provide power, water and transport, and operated the telecommunications system, the ports and the airport. Servicing of the Bank loans has never been interrupted. The efforts of dedicated public officials and the resilience of the private sector have kept the economic system alive. While reliable statistical data are not available, it is clear that the economy has shown an amazing vitality with an active import/export trade (much of it transit), high private construction activity, large workers' remittances and little evidence of unemployment (largely because of the migration of Lebanese workers to other Arab countries). The balance of payments was, for instance, in surplus during 1979 and 1980 and the foreign exchange reserves are high (about \$5 billion in gold alone).

International Assistance

4. Since 1979, the Arab countries have pledged substantial financial aid for the reconstruction of Lebanon (about \$400 million per year). Although only about one-third of this has been reflected in commitments so far, external aid is unlikely to be a constraint in the future, should stability return to Lebanon. Lebanon has received small amounts of bilateral assistance from the OECD countries, particularly from France and

the U.S. Technical assistance from the UNDP, although maintained at a high level since 1977, does not provide sufficient expertise and support to the Government to help it choose between various reconstruction and development options and to prepare projects on a sound basis. The Bank is, therefore, looked upon by the Government as a unique source of assistance, that could not only finance, but also guide and monitor project preparation and implementation carried out by Government entities, UN experts, and consultants.

Bank Activities

5. In the past decade, Bank assistance to Lebanon has consisted of three loans: \$6.6 million for an Education project in January 1973, \$33 million for a Highways project in November 1973 and \$50 million for the Reconstruction project (Ports, Telecommunications, Water Supply and Sanitation, and various studies) in July 1977. After slow starts, the Bank-financed projects are now proceeding fairly satisfactorily, considering the difficult conditions prevailing in the country. Disbursements have, however, lagged behind the physical progress due to administrative bottlenecks and lack of familiarity with Bank procedures. The supervision of the projects has been fairly regular since 1977 although missions had to be postponed in periods of strife. (Please see Annex "B" for details on projects under implementation).

6. In November 1980, at the repeated urging of the Government and the UN, a 6-man Bank multi-sector mission was mounted to:

- (a) review the progress on ongoing Bank-financed projects and to provide assistance in expediting execution;
- (b) to assist the relevant Government implementing agencies (the CDR in particular) in deciding upon the priority and program for studies that would help prepare suitable development and reconstruction projects; and
- (c) to advise the CDR and the UN Coordinator for Assistance to Lebanon on establishing a Technical Support Group within the CDR under the aegis of the UN Coordinator.

The mission, as a result of its discussions with CDR, relevant Government executing agencies and the UN officials, formulated a program of work designed to advance preparation of suitable projects that could be undertaken if the security situation permits without waiting for an overall political settlement (e.g., highway maintenance, rehabilitation of ports, education and water supply). The mission reported that the Government seeks further Bank assistance in project preparation and would also like an indication on whether Bank financing would be available. The mission recommended that serious consideration be given to the Government request provided the security situation did not deteriorate and the Government's ability to prepare and execute projects was assessed as satisfactory.

Recommendation

7. In its desperate striving for survival, legitimacy and ultimately stabilization, the Government of Lebanon feels that the support of international agencies is a lifeline. The President of CDR is likely to ask you whether the Bank is ready to support, initially with technical assistance but when feasible with lending, the Government's efforts to revive the economic and social development of the country. In your response, you may wish to stress that the Bank is sympathetic to the predicament of Lebanon as demonstrated by the 1977 Reconstruction Loan and by the activities it has pursued since. In the present circumstances the Bank is not able to plan a specific commitment of future work, but should the security situation improve sufficiently, the Bank would be able to consider assisting the Government in project identification and preparation and thereafter, at an appropriate time, consider the resumption of lending.

Cleared with & cc: Messrs. Bart, El Maaroufi, Bachmann.

SAWMoini:rm

Biographical Notes

Mr. Mohammed Atallah is about 50 years old. He is a Sunni Muslim who has never been in politics. He did his doctorate in economics in the Netherlands and for many years taught economics at the American University in Beirut. He was a very respected academic and successful businessman when he was requested by President Sarkis and Prime Minister Salim Al-Hoss to take responsibility for the Council of Development and Reconstruction in late 1977. The CDR replaced the Ministry of Planning in 1976 in an effort to create a comprehensive planning and development agency that would coordinate the work of the rival ministries and executive entities. Mr. Atallah, who was brought in as a technocrat, has managed to keep the CDR free of political feuding but is frustrated by his inability to make it into an effective instrument for planning and implementing a development program. He is an extremely articulate man.

LEBANON - Status of Bank-assisted projects

Education (Loan 877-LE for \$6.6 million of January 1973): The objective of the project, as amended in 1977, is to equip three secondary schools/vocational training centers. Execution started very slowly. Bids have now been awarded and all equipment is expected to be procured by December 1981. No disbursements so far.

Highways (Loan 944-LE for \$33 million of November 1973): The project consists of bridge and road construction (Tabarja-Tripoli Expressway), procurement of equipment and two studies. Project execution has been satisfactory during 1978-80. Construction should be completed by March 1982. All equipment has been procured. The studies have been completed. All funds have been committed and \$19.3 million has been disbursed.

Reconstruction Loan (Loan 1476-LE of July 1977): \$13.1 million of the loan has been disbursed. The Ports component (\$24 million) has progressed well. The construction work is only slightly behind schedule. Almost the entire amount has been committed. The Telecommunications component (\$14.5 million) has progressed fairly satisfactorily, but disbursements have been slow. With regard to the Water Supply and Sanitation component (\$6.6 million), the physical works have been completed but no disbursements have been effected. Only one of the four studies has been started.