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DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D.C. 20523

PROJECT PAPER

268-HG-002 and 268-0310
Lebanon - Shelter Repair and Reconstruction

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LEBANON

LOW INCOME HOUSING PROGRAM

PROJECT PAPER

L E B A N O N

LOW INCOME HOUSING PROGRAM

PROJECT PAPER

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Abbreviations

GOL Government of Lebanon
MOHC Ministry of Housing and Cooperatives
USG U.S. Government
CDR Council for Development and Reconstruction
LL Lebanese Pound
NHB National Housing Bank

Exchange Rate

US $1 = LL 2.90

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT PAPER FACESHEET

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8. ESTIMATED FY OF PROJECT COMPLETION: FY 80

9. ESTIMATED DATES OF OBLIGATION: A. INITIAL FY 78 Q. 4; C. FINAL FY 79

10. ESTIMATED COSTS ($10,000 OR EQUIVALENT $)

A. FUNDING SOURCE	FIRST FY B. FX	FIRST FY C. L/C	FIRST FY D. TOTAL	LIFE OF PROJECT E. FX	LIFE OF PROJECT F. L/C	LIFE OF PROJECT G. TOTAL
AID APPROPRIATED TOTAL						
(GRANT) SSA	(2,800)		2,800	2,800		2,800
(LOAN)	( )	( )				
OTHER U.S. 1 Housing Guaranty		15,000	15,000		15,000	15,000
OTHER U.S. 2						
HOST COUNTRY	700	1,000	1,700	1,400	2,000	3,700
OTHER DONORS	658		658	1,000		1,658
TOTALS	4,158	16,000	20,158	5,200	17,000	23,158

11. PROPOSED BUDGET APPROPRIATION

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	PRIMARY TECH. CODE	FIRST FY			LIFE OF PROJECT		
		C. GRANT	D. LOAN	E. GRANT	F. LOAN	G. GRANT	H. LOAN	
(1)								
(2)		Non-appropriated Funds						
(3)								
(4)								
TOTALS								

A. APPROPRIATION	4TH FY B. GRANT	4TH FY C. LOAN	5TH FY D. GRANT	5TH FY E. LOAN	LIFE OF PROJECT F. GRANT	LIFE OF PROJECT G. LOAN
(1)						
(2)						
(3)						
(4)						
TOTALS						

13. DATA CHANGE INDICATOR: ALL CHANGES MADE IN THIS PROJECT DATA BASE AS A RESULT OF THIS SCREEN FACESHEET DATA, BLOCK 12 (IF YES, ATTACH CHANGE PAGE)

14. ORIGINATING OFFICE CLEARANCE

SIGNATURE: Peter Fumo

TITLE: Director DS/H

DATE SIGNED: MO. 09 DA. 27 YR. 78

DATE INFORMATION PROVIDED TO ORIGINATING OFFICE

AID 1330-4 (3-78)

1.2 Recommendations

Based upon review of the proposal set forth in this paper, it is recommended that a guaranty be approved as follows:

Amount of Guaranty: $15 million

Term: The consolidated loan will be for a term of up to 30 years with a grace period of the repayment of principal to be negotiated with the investor.

Interest Rate. The interest rate payable to the U.S. investor shall not exceed the allowable rate of interest prescribed by the A.I.D. Administrator pursuant to Section 223 (f) of the Foreign Assistance Act, and shall be consistent with rates of interest generally available for similar type loans.

It is also recommended that a grant of $2.8 million from Security Supporting Assistance funds be approved as follows:

Amount of Grant: $2.8 million

1.3 Description of the Repair and Reconstruction Program

Best estimates indicate that 30,000 to 40,000 units of housing have been damaged during fighting in Lebanon, representing a repair-reconstruction cost initially placed in the neighborhood of $120-200 million. Sporadic civil strife during 1978, in addition to the Israeli incursion into southern Lebanon are estimated to have added a further $25-30 million in damages to residential structures.

In response to this situation, in FY 1977, USAID funded a $4.5 million grant, $500,000 of which was earmarked for technical assistance with the balance supporting initial GOL repair efforts, and further authorized a $15 million Housing Guaranty to finance home repairs of reconstruction loans for affected below median income families via the GOL program established under Decree-Law #20.

The $17.8 million shelter program proposed herein is an important element of overall AID assistance to Lebanon in 1978. Reflecting both GOL requests and AID appraisals that repair of war damaged housing promises the greatest immediate impact on the current housing shortage and social-economic dislocation, the entire $17.8 million would be directed to support of the existing GOL home repair program as follows:

a) A $2.8 million grant from Security Supporting Assistance funds to provide maximum repairs for basic shelter. Priority will focus on repairs to housing damaged in Southern Lebanon during the Israeli incursion and aims to support GOL efforts to relieve the pressure on major urban areas by facilitating a return of people to the South.

b) An additional $15 million in Housing Guaranty financing in support of the Decree Law #20 program for home repairs and reconstruction.

1.3.1 Description of the Housing Guaranty Program

The Ministry of Housing and Cooperatives will be the Borrower and implementing agency for this nationwide program.

Decree Law #20 provides for terms up to 15 years, at 2% annual interest with a maximum allowable loan of $10,000 per unit. HG monies will exclusively serve affected families below the median family income, which has been determined to be $4,000 annually. The maximum loan allowable remains at $10,000, with a loan average of $3,300 fixed. While the individual borrower must be the owner of the building, repairs financed will not be restricted to owner occupied units in recognition of the large number of multi-family units damaged and thus the need to include renters as potential beneficiaries of the program. It is estimated that approximately 4,500 families will benefit from the HG Loan.

This additional Housing Guaranty program is a crucial ingredient in Lebanon's repair program as it makes possible the implementation of the DL #20 repair program on a scale more commensurate with the dimensions and characteristics of the need. In tandem with ongoing technical assistance inputs financed under the first grant; it will help shape and strengthen the GOL's institutional capacity to deal directly with the housing problems of below median income families by establishing a framework for housing data collection and utilization, technical inspection, credit administration and personnel recruiting and project management.

In addition, continual support of the repair-reconstruction program should help maintain demand in the construction industry, especially for small contractors, and serve as a significant source of employment.

1.3.2 Description of the Grant Program:

These funds will provide minimum repairs needed for basic shelter. Priority will be focused on repairs to housing damaged in southern Lebanon during the Israeli incursion that began in mid-March of 1978, but, if required, will be available for other parts of the country as well. Any funds remaining after immediate needs have been met in those villages currently accessible in southern Lebanon will be retained for use in additional villages - in the South or elsewhere - once it is possible to gain access to them.

The same terms and conditions will be applied to these new funds as to the FY 1977 grant of $4.5 million, except that the average loan made from these grants may be limited if we agree with the GOL to focus on "core" housing only. The other terms and conditions are:

a) loans would be made only to owner/occupants,

b) beneficial families can earn no more than LL 6,000 ($2,000) annually.

These provisions will permit the GOL to use the institutional structure and procedures developed to implement the first grant now operating successfully elsewhere in Lebanon, thereby expediting the process of assisting people to return to the South and repair their homes. Alternatively, the Government, with written AID concurrence, may channel these grant funds through other elements of the GOL should other programs on southern Lebanon present a more effective alternative for implementation.

Returning people to the South is particularly important in that it is a key part of the Government's policy to relieve some of the pressure on the major urban areas (where some 200,000 people fled in the wake of the Israeli military action.) The Government has launched a "Return-to-Village" program in the South, directed specifically at making repairs in the areas damaged during Israeli military action there. UNCHR with A.I.D. support (a grant of $2.5 million was executed on August 4, 1978), is assisting the Government in these efforts. Should AID and the GOL agree that the "Return-to-Village" program in the South is the most expeditious mechanism for utilizing AID funds, such action would be permissible under this grant.

In any case funds under the first AID grant (FY 1977) which are to be committed in other parts of Lebanon will not be diverted and the momentum of program implementation will not be jeopardized.

1.4 Summary Findings

The tables presented below demonstrate that in the face of extremely difficult operating conditions, the MOHC has developed an adequate promotional and processing mechanism for the repair program and that the basic vehicle for implementation of the proposed $15 million HG is essentially in place.

By Nobember 30, 1977, i.e., without taking into account the new applications received since a decision was made to re-open the DL #20 program to new applications, the GOL had received requests for financing the repair of approximately 43,000 units, with a loan amount requested of upwards of $150 million. Initial analysis of these applications demonstrated demand on the part of below median income families several times the total of funding levels contemplated by previous and proposed AID grant and housing guaranty programs.

Technical analysis shows the program to be completely within the capacity of Lebanon's existing construction technology. Furthermore, small contractor capacity exists nationwide to respond on a timely, adequate basis to the labor, skill and minimal entrepreneurial demands flowing from the home repair-reconstruction program contemplated. To date, no material shortages have been encountered despite the unsettled conditions. As relative normalcy progressively returns to economic activity, no significant material shortages are projected at realistically estimated disbursement (construction) rates.

Economic analysis reveals the dislocation to be expected after nearly three years of turmoil. While there is evident caution in the private sector, Lebanon possesses a well-developed economic system which most observers expect will return to normal as security conditions progressively improve. The GOL considers return of the Lebanese to their places of residence an important ingredient of economic recovery.

Note: These tables reflect reporting through June 1978. By August 1978, progress on the FY77 grant program had justified the disbursement of the remaining $2 million dollars from the grant.

TABLE 1

Summary of Total DI 20 Loan Activity

	Oct. 10 1977	Dec. 8 1977	Feb. 8 1978	Apr. 1978	Jun. 1 1978	TOTAL
Loans approved	848	559	481	312	414	2614
Loans amount (millions LL)	27.52	12.26	14.89	12.0	7.72	77.7*
Units	2722	1413	1267	998	645	7045
PRODUCTIVITY:						
Loans per day	7.8	9.5	10.5	4.6	7.8	7.6
Units per day	25.2	23.9	27.5	14.7	12.2	20.7
LL per day	251,400	207,800	310,200	176,500	145,000	228,000

*Actual total of 74.39 million for these columns due to slightly different reporting periods.
Source: MCH Progress Reports

TABLE 2

Summary of AID Grant Loan Activity

	Oct. 10 1977	Dec. 8 1977	Feb. 8 1978	Apr. 1978	June 1 1978	TOTAL
Loans approved (and units)	60	71	81	56	64	332
Loans amount (million LL)	.4615	.5735	.6825	.4990	.4970	2.7135
Average loan (LL)	7690	8080	8430	8910	7770	8170
PRODUCTIVITY:						
Loans per day / Units per day	0.55	1.203	1.306	1.037	1.103	0.97
LL per day	4270	9720	11,000	9240	8570	7960
INCOME DISTRIBUTION:						
Monthly LL: under 300	24	43	20	11	0	98
300-399	9	9	19	6	6	49
400-500	27	19	42	39	58	185

Source: MHC Progress Reports

Even the most cursory social assessment demonstrates that Lebanon's social structure has been severely battered by the events of the past 36 months. The cities and towns are dividing along confessional lines, with formerly integrated areas abandoned, or now occupied by one of the two principal factions. The repair-reconstruction effort permits the GOL to act decisively in a major area of need, and militates towards at least a partial restoration of normalcy insofar as beneficiaries reoccupy their homes, or live more normally in damaged units.

Financial analysis also demonstrates the impact of the slower rate of return to normalcy. Alternate, additional sources of funding identified for the repair-reconstruction program have not in fact materialized, making continuation of this crucial program at or near its current level dependent on this proposed Housing Guaranty.

While there are unquestionably valid arguments in support of the GOL decision to offer highly favorable terms to its citizens at this time, these terms do significantly reduce the rollover potential of the program. Nevertheless, an analysis of the cash flow for the program clearly established the GOL's ability to repay the HG loan.

1.5 Project Issues

During the course of the PID review meeting for the initial HG in February 1977, the following broad issues were raised in reference to our proposed support of the GOL Decree Law #20 program:

1. Institutional Framework - Which Lebanon institutions will handle the AID financed programs and what is their capacity to handle them? The institutions to be looked at include commercial banks, the Ministry of Housing and Cooperatives and the newly created National Housing Bank.
Resolution: The Ministry of Housing and Cooperatives (GOL) will be the Borrower and Implementing Agency. The combination of very little experience on the part of public sector institutions regarding direct involvement in the shelter delivery process prior to the present repair-reconstruction program and the delicate, operationally disruptive security situation have placed tremendous strains on the Ministry regarding its implementation of the program. However, the Ministry has made important strides under the most difficult of circumstances, the repair program has moved forward despite the obstacles encountered, and the technical assistance underway and projected should further capacitate the Ministry staff.

2. Recipients/Beneficiaries - How can AID ensure that the AID-financed program benefits only those who need assistance? Will the program be limited to reconstruction only or open for new construction? What criteria should be used to determine whether a recipient is in the target group (e.g., income location, ownership, etc.). Resolutions: An income limitation of $4,000/year will be imposed on beneficiaries for whom the GOL wishes to use HG funds, ensuring a target group below the median income. New construction is not included in this program.

<u>Tenants as Beneficiaries</u>: Since many displaced families formerly lived in rented housing (possibly 50%), the GOL has included in its repair loan program regulations governing loans to landlords. In fact, most of the HG target group in urban areas are renters. Concern has been expressed regarding the

continuity of tenancy after repairs are made to an apartment. This concern is eased considerably by an understanding of Lebanon's very protective rent control and landlord-tenant laws, and by the fact that most renters enjoy extremely long tenancies, often even passing apartments along to heirs. (See Annex I for legal opinions.)

In addition, the repair program law requires that the original tenant be given the chance to return to his former apartment. Amplification of this issue concerning beneficiaries under the grant program follows:

Target Group of Grant Funds: Since the GOL Home Repair and Reconstruction Program is open to all Lebanese regardless of income, the grant funded Loans will require separate income limitation criteria if it is to reach only low to modest income families. An income limitation of $2,000/year (LL 6,000) on these funds will insure reaching beneficiaries with incomes below the median in Lebanon. Statistics developed by the GOL indicate the current median income is considerably higher than the $2,000 per year limitation which will apply under this grant. The limitation will remain, however, to ensure that the largest possible number of low income persons benefit from grant funds.

Tenant Income Determination: A related issue is the problem of determing incomes of renters in buildings to be repaired using HG funds, since MOHC loans will be made to building owners. The GOL will collect tenant income information which will ensure that HG funds will reach only low-income families. The procedure has been spelled out in the Implementation Agreement for the first HG and will be incorporated in the second HG.

Ability of Tenant to Pay Share of Repair Costs: The GOL program permits the owner to share the cost of repairs if the cost exceeds three times the annual rent. The tenant's share will be spread over the life of the loan in the form of a rent surcharge. The GOL asserts that this will not cause hardship.

Using a theoretical case involving a $2,300 loan (anticipated average in the Bourj Hammoud office), an income of $83 per month (one half the median income in Lebanon), and a previous rent of $12.50 (15% of his income), the cost-sharing formula gives a final total cost to the tenant of $22 (27%) of income. The higher the rent, the lower the tenant's share. For a $2,300 loan, the tenant's share reaches nil at a rent of $63/month (38% of median income).

3. Terms - What interest rates should be charged to the end user and to intermediaries? Should different terms be applied to different groups? If there is a difference in the interest collected at different levels which exceed the cost of program administration, what should be done with the funds (e.g., development of a guaranty fund)?

Resolutions: The relending terms were established by the Decree Law. They are: fifteen years at two percent interest with 18 months grace on principal and interest, 36 months grace in the case of reconstrucition. Different terms are not applied to different groups. Surpluses generated by repayments are mandated by law to go into a fund for the implementation of housing projects.

4. Reporting and Evaluaiton - How closely should AID monitor the program? What kind of reporting and evaluation system is appropriate and useful?

Resolution: Reports of progress of those repair projects financed with HG funds will be made on a regular basis. The AID mission in Lebanon and the Resident Housing Advisor funded under the Technical Assistance Grant will monitor the use of HG funds.

RHUDO/Tunis, with additional resources from DS/H Washington and their consultants if needed, in cooperation with MOHC staff will conduct a 12 month evaluation and a second evaluation within six months following completion of the program to assess its institutional impact, its impact on the recipients, and its effectiveness as a response to a given set of conditions current in the shelter sector.

Part 2: PROJECT BACKGROUND AND DESCRIPTION

2.1 Background and Overview

The war in Lebanon has had a profound effect on the housing situation for all income levels. During the worst part of the conflict perhaps half the population of Beirut fled the city. Upper and middle income Lebanese moved to vacation houses, resort area hotels, or moved in with relatives in secure areas. Many left Lebanon for nearby countries. Lower income Lebanese from heavily damaged areas moved into vacated upper income apartments, beach houses, or back to villages to live with their relatives. An estimated 300,000 non-Lebanese workers, mostly Syrians, Kurds, and Armenians, left Lebanon and returned to their homeland.

Before the war the population of Beirut was approximately 900,000 people. Perhaps 300,000 were non-Lebanese. These were mainly the lower income unskilled workers and their families and Palestinian refugees. The Syrians, Kurds and Armenians were mainly working at the port, on construction projects, in industrial plants, or service industries.

The lower income Palestinians were concentrated, together with large numbers of Lebanese Moslems (mostly Shiites), Kurds and others in areas just past the Beirut city limits. The housing in these areas was a mixture of shanty huts and permanent multi-story buildings in older camps such as Tel el Zaatar.

The area near the port known as Karantina was a tenement area for port workers and low-income service and laborers--perhaps 60% Lebanese and 40% mixed aliens. In general, most lower income people in Beirut were either Moslem (Shiites) or non-Lebanese workers or refugees, and they lived in the worst housing.

Housing production in Lebanon has been almost exclusively a private sector concern in the past. In urban areas, upper- and middle-income families could afford good housing constructed by private builders in urban areas. In rural areas, housing was built by owner-occupants or local craftsmen. Lower income urban families lived in tenements, in "shanty-towns", or in refugee camps. Government-sponsored housing for low-income families has been limited to about 3,000 units after an earthquake in 1956 and only several hundred units in more recent years.

The first law to deal with the housing problem of low-income groups was passed in 1963. It attempted to create mixed public/private corporations to produce housing, but was not implemented because of lack of financing. The law was amended in 1966 to create a special Housing Fund within the Ministry of Finance. In 1974, a new Ministry of Housing and Cooperatives was established but, was able to implement only a few minor projects before the war broke out.

The total number of dwellings damaged or destroyed in the greater Beirut area during the 1975/1976 fighting is estimated by the GOL at about 12,000 units and perhaps 20,000 in all urban areas. In rural areas, at least 110 villages are known to have suffered damage with a minimum of 2500 homes rendered uninhabitable. The cost of replacement is estimated by the GOL at about $170 million (LL 500 million).

The Karantina area and the Tel el Zaatar area of Lebanon were completely destroyed during the war. The central commercial area suffered heavy damage. Many other areas were destroyed or heavily damaged, as indicated on the map (Annex I, Map 2A). The destruction of Karantina and Tel el Zaatar forced the evacuation of about 70,000 people, of which about 42,000 were low-income Lebanese, the rest mainly Palestinians. Heavy damage also occurred in eastern Beirut in the areas of Nabaa (Moslem Shiites and Palestinians) and Bourj Hammoud which had a largely Armenian population with some Shiites. Christians who lived in Damour before the war moved to the Nabaa area of east Beirut which was vacated by the Moslems. Damour, in turn, was occupied by Palestinians who fled Tel el Zaatar in eastern Beirut.

In addition, the Israeli incursion into southern Lebanon in March 1978 left further housing damage. An initial damage assessment of the South, conducted in May/June 1978 identified some 2,500 dwellings destroyed and another 5,200 dwellings damaged in some 90 of the approximately 150 villages in South Lebanon. These damage figures are estimates. A comprehensive damage survyey has not been completed.

There was also heavy damage to housing in other cities, towns, and villages, and fighting continues sporadically in the south where damage was already heavy. Because of security problems, only partial damage estimates in the south have been feasible.

The extent of damage varies from total destruction in some areas where heavy weapons were used to moderate damage (broken windows, shell holes in walls, holes in roofs) to fire damage in other areas. Basic infrastructure was not seriously damaged during the war, although even in normal times Beirut's rapid growth was straining water and sewer systems.

The total undamaged housing stock in Lebanon at present is estimated at about 500,000 dwelling units in the following categories:

	Urban	Rural	Total
Primary Dwellings	240,000	160,000	400,000
Vacant Dwellings	30,000	20,000	50,000
Second Homes (vacation)	6,000	44,000	50,000
TOTAL	276,000	224,000	500,000

There is now a surplus of housing for upper income families, considering the high number of luxury units and vacation homes presently abandoned. In contrast, lower income people are living in poorer housing than before the war, except for those who have illegally occupied vacant upper-income dwelling units in recent months.

There is apparently no need at present for construction of temporary/emergency shelter, although some such housing was used in the Beirut and Sidon areas in May/June 1978. The Government is emphasizing repair of permanent housing so as not to create a problem of "temporary" camps that could spawn additional problems. Moreover, displaced persons for the most part have been able to find temporary shelter in public buildings (i.e., schools, theaters, etc.) and with friends and relatives. These accommodations, however, are expected to be much reduced in the fall and winter with the resumption of regular school sessions and the arrival of cold weather.

Since the war, the government has made a number of policy statements and initiated aciton to address the need for housing. In its Policy Statement of December 23, 1976, the new government in Lebanon said: "Dealing with pressing social problems, such as sheltering displaced people, providing relief for the distressed, helping the orphans and the unsettled and providing work opportunities for the unemployed, heads our list of priorities".

In January 1977 Decree-Law #20 (DL 20) was drafted, establishing a framework for a Home Repair and Reconstruction Program. The Decree was passed by the Council of Ministers on February 24, and became law on March 14. This decree fixed the terms and conditions for loans to owners of war-damaged housing (Annex I). On January 9, 1977 the GOL issued a decree establishing a National Housing Bank. Its initial capital will total $16.7 million (paid-in) plus a $33 million authority to issue government insured bonds. The board of directors will include seven private sector representatives and five government representatives. It will be headed by a "commissioner" who is also the Director General of Housing (under the Minister of Housing and Cooperatives). Although a managing director has been designated, the bank has not yet become operational.

The GOL began accepting loan applications for its home repair program during May 1977. As indicated above, by July 4, 1977, 13,844 applications had been received for repair or reconstruction of 37,240 dwelling units (see Annex I). The amount requested is $251,000,000; this surpasses the $150 to $200 million that the MOHC estimated as required for this program. The MOHC inspection teams, which are charged with analyzing home loan applications, state that the average

loan request rate of only 2% seems to encourage the average Lebanese citizen to try to borrow as much as possible from this fund. Because the program is new, the GOL has not been able to process the loans as quickly as they have been received. Disbursement of loans started during the week of July 11, 1977, and as each inspection team is expected to estimate 15 to 20 units per day, the backlog will diminish rapidly.

During the conflict the offices of the Ministry of Housing and Cooperatives were damaged, and until recently the Ministry had only about forty employees working for the most part in a temporary office. The budgeted staff has now been increased over tenfold, and has been allotted permanent office space in the building formerly occupied by the now defunct Ministry of Planning.

Progress on the FY 1977 Grant

For FY 1977, AID made a grant of $4.5 million and a $15 million HG, both for the home repair program. The $4.5 million grant was allocated as follows: $4.0 million was a grant contribution to the GOL home repair loan fund; $.5 million was for technical assistance. The grant funds are reserved for low-income families who are homeowners/occupants.

The grant project began slowly with the first disbursement of funds being made in July 1977. The project now has gained momentum and seems to be moving along quite well. The problems encountered at the start stemmed from several factors, probably none of which could have been entirely avoided. For example, the Ministry of Housing and Cooperatives, through whose auspices the grant funds are focussed, historically has been a frail institution. Also, the

less than stable security situation added to the program's start-up problems. As a result, initial progress was slow, requiring an extension of the grant disbursement period from June 1978 to December 31, 1978.

In making the request for extension of the grant, Minister of Housing and Cooperatives, Salah Salman, pointed out that several areas -- Damour, southern Lebanon, Nab'a, Bourj Hammoud -- where funds from the grant were to have been used, were inaccessible for repairs due to lack of security. At that time, (mid-February, 1978), only 14 percent of the grant monies had been loaned out. The GOL on March 1, 1978 suggested that we consider modifying the grant criteria so as to speed up the drawdown of grant funds. The request to modify the grant criteria included:

1) raising the loan limit from $4,000 to $10,000;
2) extending the life of the grant by one year, and
3) raising the median income from $2,000 to $4,000.

The Mission reviewed the requested changes and recommended extension of the grant (to December 1978), increase of the loan limit from $4,000 to $10,000, and maintaining unchanged the $2,000 median income ceiling for participants who qualified for use of the U.S. funds. The rationale for the recommendation was that between $1.3 and $1.7 million in signed sub loan agreements could be shifted immediately to the A.I.D. - funded program, bringing the drawdown of A.I.D. funds to over $2 million. With the changes, the Mission projected that some 800 beneficiaries could be reached with loans averaging $5,000 and that the remaining grant funds could be liquidated by mid-August 1978. Further, it was shown that beneficiaries required incomes of only $500 in annual income in order to be able to sustain a $10,000 loan, considering 18 (repair)

or 36 (reconstruction) months grace and 15-year maturity with allocation of 25 percent of income to housing. Moreover, by removing the $4,000 loan limit, the Mission argued that the A.I.D.-funded program would become consistent with the GOL's DL 20 program. On this basis, the changes were approved by AID/Washington. The GOL has now requested drawdown of the final tranches of funds under the grant.

Of the technical assistance portion of the grant, some $235,000 has been committed. In addition, at the request of the GOL, arrangements are being made for a high-level housing team to travel to the U.S. during October, 1978.

More Recent Grant Funds

Following the incursion of Israeli troops into southern Lebanon in mid-March 1978, the Government of Lebanon began to address the particular problem of repairing houses damaged in that part of the country. The Government launched a "Return-to-Village" program aimed at encouraging persons displaced from their homes to return and make repairs -- through funds available to the Government -- on their homes. The UN High Commissioner for Refugees (UNHCR) decided in early May to assist the GOL in its programs. In a "Note on UNHCR Humanitarian Assistance" given to the U.S. Mission in Geneva on May 9, 1978, UNHCR expressed readiness to provide a channel for assistance for the GOL program for the South. UNHCR cited as its authority for such participation the U.N. framework established in 1976 for assistance to Lebanon and pointed out that while it did not intend to launch a new appeal for funds, contributions to UNHCR for this purpose "would naturally be welcome".

Program details were worked out between the GOL, UNHCR, and AID, and a formal pledge of $2.5 million in U.S. assistance to the UNHCR/GOL program was signed on September 1, 1978. Salient elements of the program include:

- Target villages selected jointly by the GOL and the implementing agency,
- A village committee established to review repair requirements,
- Assessments of damage made by contract engineering teams,
- Grant levels (average of no more than $1,250) based on estimate for restoration of minimum facilities,
- Disbursement of funds made after inspection of progress,
- Self-help encouraged to the extent practicable.

The $2.5 million being provided under UNHCR auspices would provide the initial funding needed for minimum restoration of damaged housing in approximately 30 of the worst damaged villages in the UN Interim Force in Lebanon (UNIFIL) area of control in South Lebanon.

Progress on the FY 1977 HG

Now that funds under the first grant have been expended, the GOL is proceeding with negotiations to obtain a loan from the investors who responded to the Federal Register notice of June 12, 1978. Agreements were not signed in the summer of 1978 due to the unfamiliarity of the GOL with procedures for negotiating a loan and the physical dislocation of the MOHC offices at the time the bids were received. By the time the MOHC was ready to obtain approval by the Council of Ministers for selection of the investor, the U.S. investor bids had expired. Now that the GOL is aware of the short time deadline U.S. investors put on their offers, we expect a successful selection soon.

2.2 Detailed Description of HG

The proposed $15 million HG loan will be used by the GOL for low-income beneficiaries of its Home Repair and Reconstruction Program, and would contribute to the repair or rebuilding of some 4,500 homes, assuming average loans of $3,300. While administered as a part of this GOL program, the target group of the HG monies will be subject to an income limit and to a lower loan amount limit than that laid down by Decree-Law #20 which established the program (Annex I). Essential terms of this Decree-Law are as follows:

1. Loans will be granted for repair or reconstruction of residential properties damaged as a result of the incidents, on or after February 26, 1975. (Article 1)

2. Loan amount shall not exceed $10,000 (LL 30,000) per unit, nor the amount required for repairs necessary to make the unit habitable. (Article 3b,d)

3. Lending terms are 15 years at 2% with 18 months grace on interest and principal for repair loans, 36 months grace for reconstruction. (Article 3h)

4. The unit must be used for residential purposes throughout the loan period, or the interest becomes 12%. (Article 3j)

5. The property must be Lebanese-owned. (Article 14)

6. Surplus amounts in the Home Repair and Reconstruction Program shall be used for implementation of housing projects. (Article 8)

7. The Ministry of Housing and Cooperatives of the Directorate General of Housing shall handle the implementation of the program. (Article 3)

For the use of the proposed HG, the above limitations of DL 20 will apply. Additional limitations on the use of HG monies are as follows: The $15 million HG loan will be used only to benefit families, whether owners or tenants, whose aggregate incomes are below $4,000 (LL 12,000) per year, the

estimated median family income in Lebanon. Under the lending terms, the monthly payment on $4,000 represents 17% of a monthly income of $167 ($2,000/year). This limitation is based on the judgment that a substantial number of units can be repaired for $4,000 or less, and is intended to insure that a large number of low-income families will benefit. Without this limit, HG-funded loans might average $7,000/unit, thus reducing the number of beneficiaries to about 2100. The $4,000 limit will, however, preclude the use of HG funds for the rebuilding of all but a few completely destroyed homes.

HG funds may be made available to a landlord who by himself exceeds the AID income limitation of $4,000 per year if the funds are used to repair apartments of families whose incomes fall below the limitation. Decree Law #7 required landlords to repair damaged apartments. If the landlord does not take steps to repair the damaged units, there is a procedure whereby the tenant or tenants may force him to do so, or may, under a court procedure, submit a loan application, and the owner will be liable to pay the costs as if he had himself applied for a repair loan. As described under the section entitled "Project Issues," the owner may transfer a portion of the repair costs to the tenant under a formula which relates to the tenant's share of the cost. If the cost of repairs is less than three times the annual rent, the owner pays all. That part of the cost of repairs which exceeds three times the annual rent is to be shared equally between the owner and the tenant, and the tenant will repay his share to the landlord over the life of the loan by way of a rent surcharge.

Decree Law #7 requires that the original tenant have the first chance to return to repaired units at the original rent. Lebanon's rent control laws virtually preclude eviction.

The MOHC repair program is currently functioning. The initial demand for loans has been higher than expected, and cuts across all regional and economic lines. The performance of the Regional Offices of the program is shown in Tables 3 and 4 below.

These offices are well-staffed and hard-working. In estimating the cost of damages, the MOHC limits the scope of repairs to the minimum required to make the unit habitable. Costs for redecorating, etc., are not eligible for financing under the GOL repair loan program.

TABLE 3

Summary of USAID Grant Loan Activity by Region

	Number of Loans Approved*					
Regional Office:	Oct. 10 1977	Dec. 8 1977	Feb. 8 1978	Apr. 3 1978	Jun. 1 1978	TOTAL
Beirut	8	3	0	0	0	11
Baabda/Chouf	2	5	5	9	5	26
Bourj Hammoud	2	6	3	0	1	12
Aley	8	4	2	11	9	34
Metn	4	1	5	5	5	20
Chiya	3	6	3	0	2	14
Bekaa	18	6	6	0	10	40
Zghorta	2	13	31	9	11	66
Tripoli/Akar	12	23	24	22	20	101
South	1	4	2	0	1	8

*Information on amount of loans is incomplete to date.

Source: MHC Progress Reports

TABLE 4

July 20 MHC Report Showing DL 20 Loans
Since June 1977 Now Eligible for AID Grant Funding
in LL 12,000 - LL 30,000 Loan Range

Office	Loans	Amount	Loan Average	Productivity (LL/day)
Beirut	0	0	0	0
Baabda/Chouf	32	600,000	18,750	1642
Bourj/Hammoud	0	0	0	0
Aley	12	259,000	21,585	710
Chiya	4	73,500	18,375	200
Bekaa*	14	298,500	21,320	(1530)
Zghorta*	54	1,183,500	21,900	(6070)
Tripoli*	35	656,000	18,750	(3365)
TOTAL	165	3,312,000+	20,000	9075

	Loans	Amount	Loan Average	Productivity (LL/day)
Estimated Tripoli, Zghorta, Bekaa data for 1978**	190	3.8	20,000	22,350

*not including 1978 data - productivity based on on 195 days only.

+discrepancy with official MHC report not explained.

**HA's interpolation of existing experience

Income Distribution

LL/month	July 20 report only	Total Grant to date
Under 300	1	99
300 - 399	9	58
400 - 500	155	340

2.3 Detailed Description - $2.8 Million Grant

In March 1978, following Israeli military action in southern Lebanon, some 200,000 persons were displaced from their homes in the South. Many of the displaced persons managed to return to the area and are now living in their former homes, are living with friends or relatives, or have set up temporary housing which is moderately adequate during the warm weather season. Others have not returned either out of lack of desire or willingness to return to the area or because the prospects of being able to repair their homes are not as promising as they would hope.

For the displaced persons in immediate need of assistance, the Government of Lebanon launched a "Return-to-Villages" campaign to encourage quick return of Lebanese displaced from their homes. UNHCR is helping the Government (with U.S. Disaster Relief Funds) provide minimal housing for those persons in immediate need of assistance. The Government of Lebanon itself has pledged a substantial sum of money (some $12 million) for housing repair activities in the area.

The magnitude of the need, however, is far greater than the availability of funds to date. For example, UNHCR conducted a partial assessment of housing damage to about half the villages in southern Lebanon and estimated a requirement of some $17 million for house repairs. When a final assessment is completed, the total requirement is expected to be much higher.

The proposed $2.8 million AID grant would contribute the costs of making repairs to up to 2,240 homes.

The funds will be granted to the Government of Lebanon for use in its overall Shelter Repair and Reconstruction program, and as a first priority will be available for use in the "Return-to-Village" efforts in southern Lebanon. While administered as a part of the GOL program, beneficiaries of U.S. grant monies will be subject to an income limit of $2,000 per annum. In addition, beneficiaries will be limited to:

1) owner/occupants
2) Lebanese citizens
3) Damage incurred during the Lebanese Civil War or during the Israeli incursion into southern Lebanon in mid-March 1978.

Funds under the grant will either be administered by the Ministry of Housing and Cooperatives or by the Council of the South which is currently administering the "Return-to-Village" program in the South. The specific mode of implementation will be agree by AID and the GOL within a period of sixty days following the signing of the grant agreement making the $2.8 million available. The reason for the flexibility is to ensure that the grant funds are provided through the most expeditious channel for quickly reaching low-income families in southern Lebanon. We do not yet have full information indicating the rapidity with which the Council of the South's activities will move (funds have been available to it for about 6 weeks); nor is it yet possible to determine if other donor assistance will also be available to the program at a sufficient level to meet all or most of the "core" housing needs in southern Lebanon. If not, we would expect a large part of our grant funding to offer further support of the "Return-to-Village" program. On the other hand, the MOHC is already administering an earlier AID grant to low-income beneficiaries in areas outside southern Lebanon and could undertake to administer these funds as well.

AID, in consultation with the GOL, will decide on the GOL implementing agency and specify funds release procedures by no later than November 30, 1978.

3. PROJECT ANALYSES

3.1 Technical Analysis

3.1.1 Damage Evaluation

Among the estimated 22,500 units damaged throughout the country, the type of damage varies from moderate damage to total destruction. Many units were systematically looted of doors, windows, windowframes, plumbing, and electrical equipment, and elevators in some cases.

For purposes of technical evaluation, damages can be classified in three categories:

1) Non-structural Damage: Looting (of windows, doors, fixtures, etc.), small-arms fire (broken glass, pockmarks), some artillery fire (shell holes in infill walls), minor incendiary (low-temperature and/or short duration).

2) Structural Damage: Artillery fire, TNT; major incendiary (high temperature and/or long duration).

3) Destroyed

The geographic distribution of these categories appears to be general.

Non-structural damage is perhaps the most common type of damage and includes houses in a line of fire, and houses that were simply looted of fixtures and trim. Some buildings which appear to be structurally damaged in fact are not. This condition can be observed in buildings which when originally built were structurally over-designed. A typical example is a column thought to be supporting a small cantilevered balcony; such a column is almost as easily replaced as a trim item. A large shell hole in a concrete block infill wall would be considered non-structural damage.

The absence of large amounts of wood and plastics in most low to moderate income homes suggests that, in most cases, incendiary damage will be minor, and non-structural. Concern about structural damages caused by fire is not justified unless there is reason to believe the reinforcing steel has been heated to over 400 degrees Fahrenheit of the concrete to over 600 degrees Fahrenheit. Lebanese engineers do not feel this is likely in a moderate income household used only for residential purposes.

Many houses were damaged by looting. These houses may not have been touched in any other way by the fighting, and can be considered simply as unfinished buildings. The doors, windows, fixtures, etc., which were stolen are stockpiled and resold. Some of the repairs now taking place in Lebanon are using parts supplied from such stockpiles. It is estimated that a 100 m^2 looted house could be refit for under $1,000 (LL 3000), or $10/$m^2$ to repair.

Structural damage occurs in buildings where a structural element has been weakened or collapsed, yet sufficient sound structure remains to justify repair. Structurally damaged houses are, for the most part, uninhabitable because of danger, exposure to elements, etc. However, a house with some structural damage, such as where a corner of the top floor has been blown away, may still be habitable in parts. The repair of structurally damaged housing may cost up to $100/$m^2$.

Destroyed houses are those which have completely collapsed or where the structural damage is so extensive that repair is not economical. Since the Lebanese will try their utmost to make repairs, most houses in this category will be those which have very little still standing. The cost of rebuilding a demolished house in the "modest" to "middle" category would range from approximately $90 to $133/$m^2$.

3.1.2 Repair Methods

Repair efforts now underway demonstrate that labor is more readily available than machinery or materials. This may be due more to custom and the nature of the damage than to a distorted resources structure.

The Lebanese are willing to go to great lengths to repair an existing structure, no matter how damaged it seems to be. In spite of greatly increased labor costs, concrete is laboriously hammered away from the reinforcing steel of cracked or fallen slabs. The remaining steel might be reused in place, or cut away and reused elsewhere. In some cases, a structure is stripped down to its frame, and slabs with new steel are poured. Columns where significant amounts of steel are exposed are either reformed about 10cm larger all around, or are given a side by side twin column.

Therefore, the cross-over point at which salvageability becomes unfeasible is not clear. Each owner will probably determine that point with a certain amount of personal economic intuition and with advice from acquaintances in the construction business. However, the current cost of $90/m^2 for "modest" new construction gives an indication of the economic cross-over point.

A striking aspect of Lebanese housing construction is that it reveals an attitude of long-term evolution on the part of the owners. As a family increases in size and as money is available, apartments are added, usually vertically. Familiarity with the techniques required to add, alter, or splice onto old construction is thus clearly apparent, and will be advantageous in the repair of damaged houses.

The traditional techniques used in the expansion of existing structures are basically similar to techniques and methods required for repair in that new parts need to be spliced onto existing ones. There is a difference, however, in the fact that a more difficult inspection of existing structure is required for a building which has undergone incendiary or artillery damage than for an undamaged building that is to be expanded. In buildings of three stories or less, this can safely be left to visual inspection. In higher buildings, the engineer will probably need to perform non-destructive testing if exposure of concrete to hot fires of long duration is suspected.

For background on Lebanese design and construction, see Annex I.

3.1.3 Construction Materials

(a) Availability and Cost of Materials

Because of the building boom of the 1960's (culminating in over 5 million square meters in 1972), the materials procurement and delivery infrastructure of Lebanon is well developed. The Lebanese mercantile spirit has guaranteed the necessary warehousing, transport, and sales systems of building materials. During the war, inventories of building materials were reduced by pilfering, and production of materials was cut due to labor scarcity and abandonment and destruction of plants. Suppliers in Lebanon feel, however, that few materials are actually lost, but rather have simply changed hands and are, therefore, available for sale.

The cost and availability of materials needed for the repair program have recently been examined. Cement, reinforcing steel, concrete block, glass, aluminum, wood, sanitary fixtures, and electrical equipment are available. There is no building material which is thought by suppliers to be scarce or potentially scarce.

The Lebanese are more concerned about materials prices than materials availability. Costs of materials have risen sharply in Lebanon since the beginning of the fighting. A composite of materials price increases including cement, steel, concrete block, wood, and glass equals 170%. Reinforcing steel has risen less by contrast, but only because it had already jumped 50% in the first part of 1974. Many Lebanese feel that a substantial portion of the price increases are based not on economic necessity, but on a speculative drive, and that greater building activity will actually force prices down. This appears to be particularly true of concrete block which has increased 240% in price, since the price of the raw materials and/or labor has not risen correspondingly.

In short, costs of materials have risen sharply. Several reasons are given for the increases, including fuel costs, labor shortages, speculation, and the desire to make up for losses, and the war-caused weakness of Lebanese currency in relation to the dollar.

(b) Importation Requirements

The reconstruction program is not expected to create abnormal importation demands. Cement may be imported if the local manufacturers do not lower the current prices. Steel is the material most likely to be imported in major quantities. Production at the Tripoli mill will, of course, reduce this import.

For detailed data on building materials, see Annex I.

3.1.4 Construction Industry

(a) Description and Evaluation

Lebanon has a highly developed construction industry, having long served as a source of design and management capabilities for the Middle East region. Moreover, Lebanon's recent housing boom, though concentrated on luxury housing, has furthered the development of residential construction skills.

The majority of construction work to be done under the Home Repair and Reconstruction Program will be on low-rise buildings, and thus, will draw on a large pool of small contractors. The small contractor of the who will be doing most home repairs, usually does much work himself, with hired help when needed. Typically, the small contractor consists of two partners who have materials for wood forms and have access to an Elba cement mixer. These mixers are made in Lebanon and are widely used. The Elba mixers are operated by one person and make a one-bag batch at a time. These machines are in good supply; there is a large inventory at the factory in the Beqaa.

(b) Labor Availability and Costs

Before the war, most of the construction laborers were aliens from Syria. Most of the Syrians returned home during the conflict.

Two conflicting views are held regarding the future availability of this alien labor supply:

1) It will never return to its former strength because the Lebanese currency has weakened, and the war was particularly dangerous for these workers.

2) It will return to its former strength because Lebanon is close to home, Lebanon has superior working conditions, the currency is still strong, etc.

In any case, Syrian laborers are in fact returning to Lebanon, and are waiting for pick-up at Dora Circle in East Beirut and on the Corniche Mazraa, the traditional "hiring halls" for Christian and Moslem areas, respectively.

Some Lebanese feel there are signs that the former aversion to manual labor on the part of Lebanese youth has weakened in the aftermath of the war, thus creating another source of labor. The Lebanese YMCA which is non-denominational but finds that its social service work attracts mostly Moslems, has started a skilled-job training program in the construction trades. This program is popular, and the GOL is considering establishing a similar training program.

Since the war, labor costs have increased as follows:

Daily Wages ($)	1974	1977
Unskilled	4-5	11-13
Semi-skilled	5-7	13-18
Skilled	7-9	17-27

(c) Capacity for the Repair Program

The capacity of local firms to meet the demand under the repair program is impossible to determine quantitatively. Knowledgeable individuals in Lebanon are confident that the construction capacity is adequate. Included in the healthy small enterprise sector that exists in Lebanon are many small contractors with experience in similar work who will be doing the repair work. It is inconceivable, however, that the contracting industry could resume activity without encountering some problems. For example, a continuing relaxation of security problems is essential for ensuring the small contractor a steady supply of labor and materials. A sudden large initial demand, which could occur if the Repair Program progresses as hoped, could be itself have an inflationary effect, and cause momentary materials and labor supply dislocation.

3.1.5 Contracting Procedures

Traditionally in Lebanon, the small contractor usually negotiates a contract with his client. Competitive negotiations or bidding are not common at this scale, since an owner will usually hire a friend or someone referred by a friend. The opinion has been expressed that until materials prices stabilize, contractors will want cost-plus agreements.

It is also expected that many of the homeowners in the low-income group will be capable of doing some of the repairs and reconstruction themselves, and may prefer to do so in order to reduce the total loan amount and thus keep their loan payments as low as possible. Hence, the poor rural homeowner may limit any contracting to heavy construction and to tasks requiring special skills.

3.1.6 Technology Appropriateness

The technology included in the Home Repair and Reconstruction Program is traditional. It is appropriate both in terms of cost and expediency. The existing methods are labor-intensive, which is appropriate at this time. Except for the needs discussed under technical assistance, there is no "new" technology applicable or appropriate to this decentralized repair program. Materials will be procured with contracts entered into on the open market by the loan beneficiaries themselves, thus producing effective control of costs and methods.

3.2 Environmental Considerations

The Home Repair and Reconstruction Program does not establish higher environmental standards than those previously in effect, but enforces those standards by excluding buildings which do not meet local zoning and code regulations. A certificate of conformance is required before a GOL repair loan can be granted.

The program does not affect densities or uses except to restore housing and settlements to their former condition. The GOL has effective regulations governing repair or construction which might affect antiquities. This program does not bypass such regulations.

Based on the above, and on a more detailed analysis in an Initial Environmental Examination prepared by DS/H, a negative determination has been made by the Assistant Administrator/NE with the concurrence of the Beirut AID Mission.

3.3 Financial Analysis

3.3.1 Costs of Program Administration

As its contribution to this project, the GOL will incur the expenses relating to project development and management. These costs will not be reimbursed by the beneficiary, but will instead be considered a government contribution to this project. Development costs cover such items as the salaries of the administrators and their staff, including the inspection teams, transportation, offices, etc.; management costs include those expenses relating to maintaining the loan portfolio. The GOL is unable to provide at this time a budget for these costs. However, the government estimates that the development costs will total 6% of the total project cost during the 2 years when the loans are being made. To cover servicing of the loan portfolio, it is estimated that 3% of the outstanding loan balance will be sufficient.

3.3.2 Total Project Cost

The Project costs are limited to the amount of the mortgage loans, plus development and management costs. The latter is not included in the mortgage loan and is not reimbursable. As a government contribution, however, development and management costs must be included in the total.

Estimated Total Project Cost (5 years only)

Year (in $000's)

Item	1	2	3	4	5	Total
Loan Program	7,500	7,500	-	-	-	15,000
Project Development[1]	450	450	-	-	-	900
Project Management[1]	225	225	225	225	225	1,125
Total	8,175	8,175	225	225	225	17,025

1) Project Development and Management costs will be borne by the GOL.

Management costs will continue throughout the life of the HG loan at the estimated cost of $225,000 per annum.

3.3.3 Cash Flow

The GOL plans on-lend the HG funds at different terms than those being charged to the GOL. The interest rate charged to the beneficiary of a home repair loan will be 2% p.a. while the term will be 15 years. The much lower GOL on-lending interest rate indicates that the GOL will be required to make a budgetary contribution to cover the short-fall. On the other hand, the 15 year GOL term is half the probable HG term and means that the GOL may roll the funds over at least twice. There could be serious problems if the GOL is not able to supplement the interest rate differential. However, by continuing AID grant support for the DL 20 program, the effects related to deficit financing are lessened and the GOL will be required to make a financial contribution only in the early years.

3.3.4 Government Guaranty

The GOL will guarantee to AID repayment of the loan to the U.S. investor.

3.4 Social Analysis

3.4.1 Population Characteristics

Information on the population of Lebanon has always been sketchy. The last census took place in 1932, and the GOL has made few steps at updating that census in the intervening years. Population estimates were made in 1965, when the number of Lebanese citizens was estimated at 2.4 million. Another estimate, based on a sample survey, was made in 1970 by the National Statistical Office, and revealed that the/+latest total country population as of November 1970 was estimated at 2,126,000 persons, of which 160,000 were foreigners from other Arab countries and 17,800 were non-Arab foreigners. Palestinian refugees living in the camps were not included in the survey.

Updating these figures is difficult. It is estimated that some 300,000 Lebanese fled the country during the war, and while many have returned, it is possible that a majority have not. One recent study shows that 625,760 Lebanese left the country (many of them left more than once) during the last two years, while 353,260 or about half returned. Based on an assumed population growth rate of 2.5% it can be estimated that the number of Lebanese, both inside and outside Lebanon, is about 2,470,000. This figure may be too conservative; the U.N. for instance, estimates the number of Lebanese citizens as high as 3,000,000.

Lebanon is essentially an urban country with some 44% of the population living in the metropolitan center of Beirut. Another 16% live in secondary urban centers, while the remaining 40% inhabit small towns and rural areas. Although the statistics taken from the 1970 survey regarding rural/urban distribution were

+ country population was not so great as previously figured. From this study, the latest total

probably accurate enough at that time, events of the past three years have significantly altered the demographic patterns throughout the country. For example, the population of Beirut in 1970 was about 930,000; by 1974, just prior to the outbreak of the war, metropolitan Beirut had grown to an estimated 1,100,000 persons. The war was responsible for the flight of large numbers of people from Beirut, particularly the more well-to-do who had secondary homes in safer areas, including homes overseas. At the same time, fighting in rural areas, particularly since November 1976, has caused many families from the South to move into the Beirut area. Large numbers of Lebanese have simply moved to other areas of the country where they feel more secure. Whereas the total country population can be estimated, any attempt to estimate population distribution is futile. Migration movements are continuing, as increasing numbers of Lebanese return from abroad and as the security situation changes.

3.4.2 Income Distribution

There is neither reliable nor current information on income distribution in Lebanon. In the past several years, incomes and income distribution have fluctuated due to widespread inflation, labor shortages in some sectors, and increasing unemployment due to destruction of commercial and manufacturing centers. On the basis of data prepared by the ILO, MHUD/Tunis has determined to its satisfaction that it is appropriate to conclude that median family income is currently US $4,000 per annum.

3.4.3 Spread Effects

(a) <u>Strengthen Lebanon's institutional capacity to serve the shelter needs of low-income families</u>. The Lebanese government has only limited experience in the housing sector, and virtually no experience in housing for low-income citizens. The absence of a housing agency at the Ministerial level until just before the re ent events indicates a virtually untried institutional framework. The strife

itself has required the MOHC to rebuild anew.

The repair program which the HG loan will support is expected to contribute strongly to the MOHC's revitalization, by providing experience in housing data collection (including existing patterns of tenure, income levels, and shelter conditions), credit administration, technical inspection, and personnel management.

In addition, the HG component of the GOL program will cause the GOL to focus particular attention on shelter problems of low-income people by requiring the GOL to differentiate between beneficiaries above and below the median income. The data collected and the experience gained in this process are expected to strengthen the GOL's capacity to carry out more extensive housing programs for poor families.

With technical assistance funds provided through the first AID grant, participant training exercises are being planned for mid- and high-level staff of the GOL institutions involved in program implementation. The FSH resident technician is organizing these training activities with the purpose of strengthening the GOL ability to design and implement low-income housing projects.

(b) Housing Fund Rollover. Although the interest rate of the HG funds is higher than the artificially low rates that the MOHC has fixed for relending, the combination of the grant with the HG will provide for a rollover fund in about the tenth year for reuse in housing programs.

3.4.4 Social Consequences

(a) General

The primary task of the GOL at this time is to restore Lebanon's social and political balance and create confidence in the country's stability and security. The repair of homes, which can be expected to promote the restoration of normal living patterns, and the employment of youth otherwise drawn to confessional (religious affiliation) conflict are sine qua non in this task.

The decentralized, small-scale nature of most home repair jobs and the fact that contracting is left to the beneficiary, will further strengthen the small-enterprise sector of the Lebanese construction industry, while still giving the option of using any degree of self-help. Moreover, it will create opportunities for new people to enter the construction business.

(b) Employment

Unemployment is estimated at 20-30% in urban areas in Lebanon. Since housing repair methods are labor intensive and include the full range of construction skills, it can be expected that significant employment will be generated by the Home Repair and Reconstruction Program. Assuming average labor cost at $13/day, and the labor component at 50% of total program cost, the $15 million dollar loan will generate almost 600,000 man-days of employment, or nearly 2,000 man-years. The program will help to encourage the entrance of Lebanese youth into the construction field at a time when they seem to be ready to do so.

(c) Displaced Families

Given increasing security in Lebanon, it is important that displaced families be able to return as quickly as possible to their homes. While confessional obstacles remain in some cases, the availability of funds to repair homes will clearly have a positive impact on the effort of the GOL to restore

and stabilize settlement patterns and slow immigration from damaged rural areas to urban centers.

The broad distribution of the Home Repair and Reconstruction Program will help to insure a balance of benefits from reconstruction with consequent salutary effects on regional social conditions.

3.5 Economic Analysis

3.5.1 Overview

The conflict during the two years of active hostility has severely jolted the Lebanese economy. Damage to the nation's capitol alone includes the destruction of some 5,000 commercial enterprises and some 100 or more factories. Banks, closed for the better part of the fall of 1976, re-opened in January 1977, but volume has been slow. The Beirut Port was heavily damaged and internal transportation was, and to some degree still is, severely hampered. From early 1977 until the Spring of 1977, operations at the Port showed steady improvement, up to 85% of pre-war volume by March 1978. However, the re-appearance of large-scale violence at that time has again made Port operations sporadic.

The Government was unable to function properly for the better part of the period April 1975 to October 1977 and, to date, is operating at a fraction of its past capacity. The principal government office collecting and publishing economic data, the National Statistical Office, was completely destroyed and has been unable to furnish any data more current than December, 1974. This office has yet to re-initiate operations and therefore is not able to provide the necessary data on which economic analyses as related to the housing situation can be based. Because of these events, any analysis of the economic situation in Lebanon is by necessity largely subjective. Moreover, a new "super ministerial"

body - The Council for Development and Reconstruction - although established in January 1977 as the Government's major reconstruction and economic development planning office, has not been able to generate current economic data.

3.5.2 Current trends

There is some information available, although sparse, which can be used to give an idea of the economic situation today as compared with the situation two years ago and at the end of 1976, when the economy was virtually paralyzed.

(a) The Central Bank estimates that real GNP has decreased by 30% from the average annual level of $3.3 billion during the first quarter of 1975. Again, this estimate is purely subjective; the Central Bank has no statistical evidence to verify this figure. Also, the figure does not include the effects of events after mid-1977, including the Israeli incursion into southern Lebanon in March 1978.

(b) Banking activities are at levels well below the peak of 1974/75. Most banks suspended new loan activities sometime during 1975, and as of October 1978, only a few banks had re-initiated loan operations, but volume has been very slow.

(c) The cost of living has jumped dramatically. Rents in many cases have doubled, while the price of petroleum products has increased by almost 150% since early 1975. One survey by the National Labor Council showed that between March, 1975 and March, 1977, the costs of living rose by 57.6%. Wages have risen, although not to the same extent. Salaries, for the most part, have not increased accordingly, although the GOL decreed that government workers be accorded a 20% increase effective 1 January 1977.

(d) During much of 1976, the Port of Beirut was closed down, and finally severely damaged. Activities, however, picked up sharply through February 1978. The number of ships at berth at that time had been increased to about the same as before the conflict. Tonnage unloaded had returned to 85% of 1974 peak levels, due for the most part to the fact that damaged equipment and storage facilities had been largely replaced, in at least one important respect, with U.S. assistance.

These indicators demonstrate that while the situation was able relatively quickly to show important improvement, with new flare-ups in February, April and June/July of 1978, the situation is again uncertain. We must again take a wait-and-see attitude before any further assessment can be made of Lebanon's overall economic health.

3.5.3 Debt Service Considerations

The strong international reserve position of the Lebanese Economy has always been a source of pride throughout the country, and, in fact, was one of the foundations on which Lebanon based its position as the banking capital of the Middle East. Throughout the civil war and presently, the Central Bank has been able to maintain these reserves intact. As of the end of 1974, international reserves totalled LL 1,671 million, of which $400 million was in gold, calculated at $42.00 an ounce. During 1974, international reserves were equal to 7 1/2 months of imports (6 months is considered more than sufficient). According to information available through mid-September 1978, total foreign reserves in Lebanon were reported at the end of July as $2.2 billion, with $406.4 million of that figure reflecting holdings in gold. However, the gold price used in that calculation was 35 SDR per ounce (one SDR at the end of July equalled about $1.26). Thus, the dollar price of gold was being reflected at $44.10

per ounce. The market price of gold at that time was $200.25 (price on July 28, 1978), thus, the value of gold holdings at market prices was $1.845 billion. When added to foreign reserves other than gold (1.804 billion), total reserves were $3.649 billion as of the end of July.

Traditionally, the trade balance has lapsed into a deficit position; in 1974 imports were 73% greater than exports. The balance of payments figure however, has usually shown a surplus, with foreign tourist income, export of services and an inflow of capital compensating for the deficit balance of trade position. Today, the situation has changed dramatically. Tourism, export service income, and capital inflows have virtually ceased. Imported goods and equipment required to rebuild the economy and take up the slack in local production, will probably far outstrip exports, which are most likely at a fraction of the 1974 level.

The Lebanese economy will require large infusions of capital to cover the growing balance of payments deficit, as well as to rebuild and restore the economic capacity of the country. Some experts have estimated the conflict-related destruction at some $1.7 billion. The government is reluctant to use its international reserves to finance reconstruction, and instead is expecting that external grants and loans will cover a large part of the capital needs.

Government revenue is at a low level; taxes are simply not being collected. Neither production nor consumer related tax income are being generated at present. The government reports that in 1977 revenues were $270 million, while current expenditures alone were some $330 million. The Central Bank has been making advances to the GOL to cover deficit spending and meet current expenditures.

Long term public debt was estimated at $74 million as of the end of 1976, of which 65% represented World Bank debt. The debt service ratio (the ratio of the annual debt service payments to the total foreign exchange earned from goods and services) is negligible. However, because of the decrease in foreign exchange earnings, the debt service ratio has risen artificially. Securing the additional $15,000,000 US Housing Guaranty will increase current foreign long term debt by 20% but, because of the low debt service level, will have no significant impact on the capacity of the GOL to repay its foreign debts.

However, the GOL intends to increase its reliance on external borrowing as the primary source of capital for reconstruction purposes. The $50 million World Bank loan is just the first step in that direction. Another such step is a recent loan of $150 million that the GOL obtained from a consortium of Western banks. It is probable, therefore, that external debt will increase dramatically in the next few years. This will require sophisticated financial management on the part of the GOL to maintain the financial integrity of the country and insure prompt loan repayments.

There is considerable concern on the part of the GOL about how to finance the guaranty shortfall. The U.S. investor will lend the money to the GOL at a 9% interest rate range for 30 years, while the GOL will relend the money at a 2% interest rate for 15 years. Cash flow projections, which include the $4 million AID grant, indicate that by the third year, the shortfall will reach a maximum of $924,000, but thereafter will begin to decrease. By the eighth year, the deficit will be eliminated, and the GOL will begin to receive earnings which can be used to finance new housing programs. (See Tables, Annex I)

3.6 Other External Assistance

The GOL estimates that some $170 million will be required to fund the Home Repair and Reconstruction Program. This fund would be used in its entirety to provide soft loans to Lebanese families to repair or rebuild their homes which were damaged or destroyed in the war. The Government of Saudi Arabia has made a grant of $17 million to the GOL to help constitute this fund. There are no conditions attached to this grant regarding loan limitations, income qualifications, etc. The Government of Kuwait has granted the GOL $10 million for reconstruction activities; however, it is not clear at this time whether any or all of this amount will be used to repair and rebuild residential housing.

The GOL has conducted discussions with numerous governments and international agencies in an effort to secure the remaining funds to finance this program. Several of the Middle Eastern Development Institutions as well as individual governments have shown interest in assisting Lebanon in this activity. To date, however, no commitments for housing other than those mentioned have been made. Several European governments have sent missions to Lebanon to assess the situation in light of possible financila and technical assistance. With the exception of a French planning team which has provided some assistance in urban planning, none of these missions has resulted in concrete offers of assistance.

In July, 1977, the World Bank approved a $5,000,000 loan to Lebanon for various reconstruction projects. Included in this package is $300,000 for preparation of studies on urban reconstruction projects, to include sites and services for low income families. The GOL will provide an additional $150,000 in local currency to support this project study.

3.7 Technical Assistance

The GOL has recognized the need for technical assistance in housing programs and accordingly has made a request. One-half million dollars ($0.5 million) was earmarked for such assistance from the $4.5 million grant from the U.S. government to the GOL, which preceded the first HG loan.

The GOL request for technical assistance included training for GOL technical and finance personnel, assistance to the new National Housing Bank (NHB), structural testing equipment, and a Resident Housing Advisor.

Participant training in the U.S. for high-level staff of the MOHC and NHB is scheduled for mid-October, 1978. This training will include seminars and workshops led by U.S. experts which focus on: 1) the various housing finance mechanisms and institutions in the U.S.; 2) procedures and mechanisms in the U.S. for collaboration between public and private sector institutions in housing programs; and 3) design and development of low-income housing programs. The participant training program will include meetings between AID Office of Housing staff and the Lebanese housing officials in order to plan the remainder of the technical assistance program under the FY 1977 grant.

Part 4: IMPLEMENTATION PROCEDURES - MOHC PROGRAM

4.1 Participating Agencies

4.1.1. HG Loan Borrower: MOHC

The GOL, represented by the MOHC in the negotiation of and contracting for the loan, will be the borrower. HG loan funds will be disbursed to the Central Bank which will handle the exchange of funds and disbursements of monies to the MOHC in accordance with program needs.

4.1.2. Implementing Agency: MOHC

The MOHC, Directorate General of Housing is responsible for planning and executing the Home Repair and Reconstruction Loan Program. For background on the MOHC, see Annex I.

4.1.3. Collector of Repayments: National Housing Bank

When repayments by beneficiaries begin in January 1979, the National Housing Bank is expected to be in operation, and will accept them. If not, the MOHC will handle this operation until the NHB can take over.

4.1.4. Other - Council for Development and Reconstruction

The new Council for Development and Reconstruction has just been given the responsibility for establishing an overall plan for the redevelopment of Lebanon, the coordination of all aspects of development, including a definitive survey of damages, development of a master plan, and obtaining and coordinating foreign assistance for development and reconstruction. The CDR's immediate role in this repair program has not been defined, although the CDR may play a major role in determining priorities for use of roll-over funds.

4.2 Administrative Arrangements - MOHC Program

4.2.1. Organization and Coordination

The Directorate General of Housing, which is responsible to the Ministry for administering the home repair loan program will be operating with a staff

of over 400, including about 125 technical personnel. A special home repair and reconstruction office has been established; its Director reports directly to the Director General of Housing. Twelve regional offices, each of which is headed by an engineer, are responsible for operations within designated regions. (See Annex I for Organizational Charts.) The regional offices are staffed and working.

4.2.2. Implementation Plan

(a) Outline of Procedure

All applicants must submit a written loan application on the form provided by MOHC at the designated regional office. The loan application form has been designed to provide information necessary to determine the eligibility and credit-worthiness of the applicant and includes data on such items as the previous use of the house, extent of damage suffered, the combined income of the applicant and other family members, and other relevant information.

Before approving a loan, the MOHC regional office verifies the information provided by the applicant to determine borrower credit-worthiness. For HG funded loans it will also verify incomes of the tenants in the units for which repair loans are requested. Verification of income of employees of private organizations will be made by checking the application against information available from the Social Security Institute, and that of public sector employees from civil service records. The accuracy of the income information supplied by self-employed persons will be verified from other suitable sources. An AID-approved method of certification of tenant income will be spelled out in the Implementation Agreement.

An inspection team verifies that damage to the home was caused by action related to the "events", and makes an estimate of the cost of repair or reconstruction.

After approval of the loan by the regional office, the borrower will sign a loan agreement with the MOHC, setting out the amount of the loan and all terms and conditions related thereto. Loans will be disbursed in tranches, by the regional office.

When all work financed by the loan is completed, the MOHC will arrange for inspection of the work at the earliest possible time.

(b) Scheduling

Decree-Law No.20 stipulates that owners must "undertake to complete repairs within six months: of signing the Loan Agreement, and within eighteen months for reconstruction. If the owner fails to do so, the GOL may recover the loan amount and charge the owner 12% interest during the time he had use of the money.

The GOL initially set November 4, 1977 as the deadline for repair loan applications, and November 14, 1977 for reconstruction loans under this program. However, continued sporadic strife and increased popular demand for participation in the repair and reconstruction program resulted in a government decision to re-open loan applications. Therefore, the program is now operating on an open-ended basis. As of the initial November 1977 closing date for loan applications, the MOHC had received requests for repairs of about 43,000 units with a total loan amount of $150 million.

(c) Disbursement to Loan Beneficiaries

Decree-Law No.20 regulates disbursements to beneficiaries as follows. An advance payment of not more than 10% of the loan amount will be given as an advance to begin repairs. The remainder will be disbursed in tranches of 40% and 50%, in accordance with the progress of the work.

(d) Procurement

All materials required for this program are available and will be procured locally by the loan beneficiary or his contractor.

(e) Supervision and Monitoring

Monitoring of the progress of work for which a loan is granted will be performed by the MOHC local Inspection Team in accordance with the implementation agreement.

4.3 Administrative Arrangements - HG Loan

This HG loan is expected to be authorized in September 1978. Contract negotiations with an approved investor should be started by the beginning of February 1979 and the signing of loan documents by the end of March 1979.

The first drawdown, if this schedule is followed, can take place in April 1979. It is estimated that under good conditions the entire HG amount will be drawn down by the GOL by March 1981.

The AID Mission in Lebanon and the Resident Housing Advisor funded under the Technical Assistance Grant will monitor this HG loan implementation in Lebanon. Technical support will be provided through the SER/H Regional Office in Tunis.

4.4 Evaluation Plan

Progress reports on the programmatic aspects attributable to AID grants and HG financing will be prepared by the MOHC on a regular basis. These will monitor and record such data as:

1) Number of applications received
2) Number of applications approved and beneficiary names
3) Income levels of the approved borrowers and the number of borrowers in each range from the median family income on down
4) Loan amounts and locations
5) Disbursement flows; AID and private US investors to GOL, plus data on GOL to beneficiaries disbursements

In addition, at the 12 month point of program implementation and within 6 months following the completion of this program, RHUDO Tunis, with additional resources from DS/H Washington and their related consultants as needed, in co-operation with MOHC staff will conduct evaluations aimed at assessing the institutional impact of the program and its impact on the recipients/beneficiaries of the specific loans.

Part 5: CONDITIONS, COVENANTS AND NEGOTIATING STATUS OF HG

5.1 Negotiations

After authorization of the loan, a Letter of Advice will be issued to the MOHC and a notice will be placed in the federal register to identify a US lender. The MOHC will enter into negotiation with an investor, seeking financing for the program on the best possible terms. The MOHC is required to inform DS/H of all proposals received and of its preference. Upon DS/H approval, the MOHC may accept a commitment valid for 90 days from the selected investor. The terms of the four basic HG documents are negotiated concurrently during this period. The legal instruments:

a. - The Loan Agreement (between the Investor and GOL);

b. - The Contract of Guaranty (AID and Investor);

c. - The Implementation Agreement (AID and GOL); and

d. - Host Country Guaranty (GOL and AID).

It will be necessary to ascertain and comply with GOL and Investor requirements for execution of these documents. AID will require legal opinions from acceptable counsel for GOL and Investor.

5.2 Conditions

AID will set forth certain conditions with which the GOL must comply at each stage of the project which will include the following:

(1) The guaranty shall extend for a period up to thirty (30) years from the

date of disbursements of the respective installments of the loan or such other period as will coincide with full payment of the notes.

(2) The fee of AID shall be paid in US dollars, and will be made up of:

(a) one half of one per cent (1/2%) per annum of the guaranteed portion of the outstanding loan investment, and (b) $150,000 to be paid from the first drawdown.

(3) GOL shall provide a full faith and credit guaranty of dollar repayment of the loan and payment of the AID guaranty fee.

(4) The HG monies will be reserved for lower income families and will be reserved for loans of US $10,000 or less.

(5) Loan repayments, beginning not before the 12th month after signing of the first mortgage, are to be made to the National Housing Bank if it is operational or otherwise to the CBL. Those repayments not used to repay the HG Loan will be reloaned to eligible low income families for housing purposes.

Part 6: CONDITIONS TO THE GRANT

6.1 Conditions

AID will set forth certain conditions with which the GOL must comply prior to disbursement of funds.

(1) AID and GOL shall agree not later than November 30, 1978 on the GOL agency to implement the program and applicable procedures to be followed for such implementation.

PROJECT DESIGN SUMMARY

LOGICAL FRAMEWORK

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Program or Sector Goal: Improve shelter conditions of lower income families.	Reduction of number of families living in war damaged units through repair of said units. Increase in number of damaged units repaired and returned to usable housing stock.	MOHC data on Housing stock and the total DL#20 Program. AID evaluation sample surveys. USAID Lebanon appraisal.	Continued improvement in security and return to normalcy. Adequate Financin forthcoming to address aggregate demand.
PROJECT PURPOSE	EOPS:		
Repair and Reconstruction of war related damage to the shelter of below median income families Strengthen GOL capability to meaningfully address the shelter needs of below median income families.	H.G. Funding has been disbursed for purposes of repair/reconstruction of target group shelter. Attributable shelter is now habitable and occupied by the target group. MOHC successfully implements targeted, funded DL 20 Program. Mohc has in place a planning, programing, implementation and outreach capacity for public sector social housing.	Disbursement Data. MOHC DL 20 Reports. Joint RHUDU/TUNIS MOHC assessment.	Identified effective demand follows through on program.GOL funds required level of effort b MOHC. Non AID-HG contemplated financi is secured and forthcoming. Public sector policy on its shelter role does not change negatively.

Continued:

OUTPUTS:	MAGNITUDE OF OUTPUTS:	MEANS OF VERIFICATION:	IMPORTANT ASSUMPTIONS:
Repaired/ Reconstructed shelter for below median income families. Increased MOHC capability to implement social interest shelter programs. Increased employment for the contruction industry.	1) Approx. 4,500 families benefitted with average loan of $3,300. 2) Table of organization, on Board staffing pattern, functional and procedural manuals and a supervisory system adequate for DL 20 and successor programs. 3) 2,000 man years of employment.	MOHC certified reports. AID monitoring reports. RHUDO/TUNIS - MOHC evaluation and assessment activities. Public/Private statistical reports and publications.	Identified applicants do participate. GOL priority continues for this activity. Market variables do not change sufficiently to create construction labor shortage or building materials shortages.
INPUTS:	IMPLEMENTATION TARGET		
AID 1) H.G. Funds 2) Unused balance of $.5 million T.A. Grant LOCAL GOL- MOHC program support	1) $15 million H.G. Funds 2) Unused balance of T.A. Grant estimated at $250,000. Estimated $1 million contribution by GOL in the form of administrative, logistical implementation support to the program.	1) US/H Records and Reports 2) Closings and Drawdowns 3) GOL MOHC Budgets and records.	US investor is available GOL resources provided.

ANNEX I

UNCLASSIFIED

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D.C. 20523

PROJECT PAPER

Proposal and Recommendations
For the Review of the
Development Loan Committee

LEBANON - LOW INCOME HOUSING GUARANTY
(Shelter Repair & Reconstruction)

AID-DLC/P- 2261

UNCLASSIFIED

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

UNCLASSIFIED
AID-DLC/P-2261
September 16, 1977

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: LEBANON - Low Income Housing Guaranty
(Shelter Repair & Reconstruction)

Attached for your review is the recommendation for authorization of the issuance of guaranties pursuant to Section 221 of the FAA of a face amount not to exceed Fifteen Million Dollars ($15,000,000) assuring against losses (not to exceed one hundred percent (100%)) of the loan investment and interest with respect to loans made to finance housing in Lebanon by eligible U.S. Investors (Investor) acceptable to A.I.D.

This housing investment guaranty is scheduled for consideration by the Development Loan Staff Committee on Friday, September 23, 1977, at 2:30 p.m. in Room 3886 New State.

Please note that your views are requested at the close of the meeting. If you are a voting member a poll sheet has been enclosed for your response.

Development Loan Committee
Office of Development
Program Review

Attachments:
Summary And Recommendations
Project Analysis
Annexes:
A - M

L E B A N O N

LOW INCOME HOUSING GUARANTY PROGRAM

PROJECT PAPER

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Abbreviations

GOL Government of Lebanon
MOHC Ministry of Housing and Cooperatives
USG U.S. Government
CDR Council for Development and Reconstruction
LL Lebanese Pound
NHB National Housing Bank

Exchange Rate

US$ 1 = LL 3

Appendix G, [illegible]
Page 4 of [illegible]

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT PAPER FACESHEET

TO BE COMPLETED BY ORIGINATING OFFICE

TRANSACTION CODE
[X] Original [ ] Change
[ ] Add [ ] Delete

PP

DOCUMENT CODE
3

2 COUNTRY/ENTITY
Lebanon/Ministry of Housing & Cooperatives

3 [illegible] SECTOR NUMBER

4 PROJECT NUMBER
268-HG-001

5 BUREAU
a. Central: NE
b. Code:

6 ESTIMATED FY OF PROJECT COMPLETION
FY 79

7 PROJECT TITLE (SHORT) (Max. [illegible] characters)
Shelter Repair & Reconstruction

8 ESTIMATED FY OF AUTHORIZATION/OBLIGATION
a. INITIAL FY 77 b. FINAL FY 77

9 ESTIMATED TOTAL COSTS ($000) 15,000

10 FUNDING SOURCE	FY 77 a. DA	FY 77 b. ESF	FY 78 a. DA	FY 78 b. ESF	ALL YEARS a. DA	ALL YEARS b. ESF
AID APPROPRIATED TOTAL						
(Loan)						
(Grant)						
OTHER U.S. 1. Housing Guaranty	15,000	-	15,000			15,000
2.						
HOST GOVERNMENT						
OTHER DONOR(S)						
TOTALS	15,000	-	15,000	-		15,000

10 ESTIMATED COSTS ($000) (Continued)

a. Account Classification (Project Code)	b. Primary Purpose Code	c. Primary Tech. Code	FY a. Grant	FY b. Loan	FY a. Grant	FY b. Loan	FY a. Grant	FY b. Loan	ALL YEARS a. Grant	ALL YEARS b. Loan
TOTALS										
11 ESTIMATED EXPENDITURES										

12 PROJECT PURPOSE(S) (Max. [illegible] characters) [ ] Check if different from PID/PIP

Assist the GOL in the reconstruction and repair of damaged and destroyed units for low-income families.

13 WERE CHANGES MADE IN BLOCKS 12, 13, 14 OR 15 OF THE PID FACESHEET? IF YES, ATTACH CHANGED PID FACESHEET
[ ] Yes [X] No

14 ORIGINATING OFFICE CLEARANCE

Signature: C. R. Zenger

Title: Asst. Director for Operations

Date Signed: MO. 8 DAY 2 YR. 77

15. Date Received in AID/W, or For AID/W Documents, Date of Distribution

MO. DAY YR.

AID 1-3-4 (7-75)

BEST AVAILABLE COPY

1.2 Recommendations

Based upon review of the proposal set forth in this paper, it is recommended that the subject guaranty be approved as follows:

Amount of guaranty: $15 million

Term: The consolidated loan will be for a term of up to 30 years with a grace period of the repayment of principal to be negotiated with the investor.

Interest Rate: The interest rate payable to the U.S. investor shall not exceed the allowable rate of interest prescribed by the AID administrator pursuant to Section 223(f) of the Foreign Assistance Act, and shall be consistent with rates of interest generally available for similar type loans.

Technical Assistance: Funds for Technical Assistance in the amount of $0.5 million is available under a USAID grant for repair and reconstruction activities, and for general housing assistance.

1.3 Description of the Program

This program is the main housing component of the $50 million USG disaster assistance to Lebanon in 1977. The housing component comprises $19.5 million, of which $4.5 million is a grant and $15 million is funded by this HG loan program. In the Project Identification Document, this HG loan was split into two sub-programs: $10 million for the existing GOL home repair loan program, and $5 million for new construction demonstration housing projects. The GOL, however, does not wish to identify projects in new housing construction at this time, and has therefore requested that the entire $15 million in this program be used in their existing home repair program.

The MOHC, as the borrower, will add the proceeds of the HG loan to its existing fund for home repair and reconstruction.

The existing GOL fund is to be used for loans to owners of dwelling units damaged by incidents in Lebanon's recent civil strife. The existing GOL program was established by Decree-Law #20 in March 1977. The law set lending terms of 15 years at 2% interest, and a loan limit of $10,000 per unit. (see Annex E1). Tenants in damaged buildings benefit through the owner, who is required under law to make repairs. The HG monies will be reserved for families earning $2,000/year or less, and will be reserved for loans of $4,000 or less. It is estimated that about 5000 families will benefit from the HG loan.

US HG assistance is a crucial ingredient in Lebanon's repair program because it represents an early infusion of funds and will have a major formative effect on the GOL's institutional capacity to deal with low-income housing problems by establishing a framework for housing data collection, technical inspection, credit administration, and personnel recruiting and management.

It is expected that the program will also contribute to the early revitalization of the construction industry, will contribute to a reduction in unemployment and encourage the entrance of Lebanese youth into the construction trades.

1.4 Summary Findings

The findings in this paper result from four fact-gathering trips by an expert team, in January, February, April, and June 1977. This process has taken place simultaneously with the growth of security and with the establishment of new government in Lebanon. The absence of basic statistics, workable liaison arrangements, and freedom of movement, presented unique problems to the team. Conditions continue to be insecure in some places. The private and public sectors are by necessity cautious in the aftermath of unpredictable fighting. Nevertheless, an improvement in security conditions and public confidence is observable. As long as improvement continues, the goals of this program can be achieved.

Technical analysis shows the program to be based on Lebanon's existing appropriate construction technology. Concern about potential material and labor shortages is lessened as conditions improve. It is assumed that while a speedily implemented program could cause momentary inflationary pressure and materials shortages, such conditions will be short-lived as long as political and security conditions permit the natural functioning of Lebanon's free enterprise economy, and flexibility in the informal segment of its construction industry.

Financial analysis reveals one major concern: The shortfall between the HG interest rate and the lower GOL relending rate, which significantly reduces the rollover potential of the program. However, there are valid arguments in favor of the GOL policy to offer very favorable terms to its citizens at this time, and an analysis of cash flow for this program confirms the GOL's ability to repay the HG Loan (see Annex H, Tables 3.3 A&B).

Social analysis confirms the potential of the program to aid significantly in quickly shoring up Lebanon's battered social structure. The repair loan program represents decisive action on the part of the GOL in facilitating the return of Lebanese to their homes.

Economic analysis reveals the dislocation to be expected after nearly two years of turmoil. While there is evident caution in the private sector, Lebanon possesses a well-developed economic system which most observers expect will return to normal as security conditions improve. The return of the Lebanese to their places of residence is thought to be an important ingredient of economic recovery.

Earlier concerns about whether conditions will permit the GOL to implement its housing program speedily have been somewhat eased by the government's recent efforts to normalize administrative operations in general, and to strengthen the MOHC in particular. Lower level staff positions are being filled, and given continuing improvement in security conditions, further strengthening of these positions is anticipated.

1.5 Project Issues

During the course of the PID review meeting in February 1977, the following broad issues were raised:

1. Institutional Framework - Which Lebanon institutions will handle the AID-financed programs and what is their capacity to handle them? The institutions to be looked at include commercial banks, the Ministry of Housing and Cooperatives and the newly created National Housing Bank. Resolution: The GOL will be the borrower of the HG loan, and the implementing agency of the repair program. The NHB has been designated collector of repayments

2. Recipients/Beneficiaries - How can AID ensure that the AID-financed program benefits only those who need assistance? Will the program be limited to reconstruction only or open for new construction? What criteria should be used to determine whether a recipient is in the target group (e.g., income, location, ownership, etc.) Resolutions: An income limitation of $2,000/year will be imposed on beneficiaries for whom the GOL wishes to use HG funds, ensuring a target group below the median income. New construction is not included in this program. The loan limit of $4,000 imposed for the HG funds virtually rules out reconstruction.

Amplification of this issue concerning beneficiaries follows:

Target Group: Since the GOL Home Repair and Reconstruction Program is open to all Lebanese regardless of income, the HG Loan requires its own income limitation if it is to reach only low to modest income families. An income limitation of $2,000/year (LL 6,000) on AID HG funds will insure reaching beneficiaries with incomes below the median in Lebanon. More recent statistics currently being developed by the GOL may indicate that the current median income is higher than $2,000 per year. In this event, the GOL in consultation with and with the approval of AID could raise the income limit of HG funded loans, if this were judged to be necessary to implement the program effectively.

The MOHC Director of the Bourj Hammoud Office, stated that 90% of the applicants from that low income area earn less than $2,000 per year. To date, that office has received 948 applications covering 5751 dwelling units. This is only one of several areas comprised of predominantly low-income families. It is therefore believed that the $2,000/year income limitation is a valid cut-off point for HG participation.

In addition, the latest compilation of income data included on applications for repair loans received by the MOHC shows 6281 requests from owners whose income is below $2,000/year.

Since the application deadline does not occur until November 1977, and since many of these requests represent more than one dwelling unit, there is felt to be a sufficient market in the income group below $2,000/year.

Limitation on Loan Amount: In order to broaden the effect of the $15 million HG loan, and after estimating that a substantial number of units can be repaired for $4,000, a loan limit of $4,000 per unit has been set for those loans using the HG funds. (The loan limit established by the GOL for the overall program is $10,000 per unit).

Hard data on the cost of repairing damaged units is not available. The Bourj Hammoud MOHC Director stated that the average loan request per dwelling unit is US$3,400. He estimates that after varification of the damage by an inspection team, the actual loan will be about $2,300 per unit.

Tenants as Beneficiaries: Since many displaced families formerly lived in rented housing (possibly 50%), the GOL has included in its repair loan program regulations governing loans to landlords. In fact, most of the HG target group in urban areas are renters. Concern has been expressed regarding the continuity of tenancy after repairs are made to an apartment. This concern is eased considerably by an understanding of Lebanon's very protective rent control and landlord-tenant laws, and by the fact that most renters enjoy extremely long tenancies, often even passing apartments along to heirs. (See Annex I for legal opinions.)

In addition, the repair program law requires that the original tenant be given the chance to return to his former apartment.

Tenant Income Determination: A related issue is the problem of determining incomes of renters in buildings to be repaired using HG funds, since MOHC loans will be made to building owners. The GOL will collect tenant income information which will ensure that HG funds will reach only low-income families. The procedure will be spelled out in the Implementation Agreement.

Ability of Tenant to Pay Share of Repair Costs: The GOL program permits the owner to share the cost of repairs if the cost exceeds three times the annual rent. The tenant's share will be spread over the life of the loan in the form of a rent surcharge. The GOL asserts that this will not cause hardship.

Using a theoretical case involving a $2,300 loan (anticipated average in the Bourj Hammoud office), an income of $83 per month (one half the median income in Lebanon), and a previous rent of $12.50 (15% of his income), the cost-sharing formula gives a final total cost to the tenant of $22 (27%) of income. The higher the rent, the lower the tenant's share. For a $2,300 loan, the tenant's share reaches nil at a rent of $63/month (38% of median income).

Two final issues raised in the PID review meeting concern Terms and Reporting and Evaluation:

3. Terms - What interest rates should be charged to the end user and to intermediaries? Should different terms be applied to different groups? If there is a difference in the interest collected at different levels which exceed the cost of program administration, what should be done with the funds (e.g., development of a guaranty fund)? Resolutions: The relending terms were established by the Decree Law. They are: fifteen years at two

percent interest with 18 months grace on principal and interest, 36 months grace in the case of reconstruction. Different terms are not applied to different groups. Surpluses generated by repayments are mandated by law to go into a fund for the implementation of housing projects.

4. Reporting and Evaluation - How closely should AID monitor the program? What kind of reporting and evaluation system is appropriate and useful? Resolution: Reports of progress of those repair projects financed with HG funds will be made on a regular basis. The AID mission in Lebanon and the Resident Housing Advisor funded under the Technical Assistance Grant will monitor the use of HG funds.

Part 2: PROJECT BACKGROUND AND DESCRIPTION

2.1 Background and Overview

The war in Lebanon has had a profound effect on the housing situation for all income levels. During the worst part of the conflict perhaps half the population of Beirut fled the city. Upper and middle income Lebanese moved to vacation houses, resort area hotels, or moved in with relatives in secure areas. Many left Lebanon for nearby countries. Lower income Lebanese from heavily damaged areas moved into vacated upper income apartments, beach houses, or back to villages to live with their relatives. An estimated 300,000 non-Lebanese workers, mostly Syrians, Kurds, and Armenians, left Lebanon and returned to their homeland.

Before the war the population of Beirut was approximately 900,000 people. Perhaps 300,000 were non-Lebanese. These were mainly the lower income unskilled workers and their families and Palestinian refugees. The Syrians, Kurds and Armenians were mainly working at the port, on construction projects, in industrial plants, or service industries.

The lower income Palestinians were concentrated, together with large numbers of Lebanese Moslems (mostly Shiites), Kurds and others in areas just past the Beirut city limits. The housing in these areas was a mixture of shanty huts and permanent multi-story buildings in older camps such as Tel el Zaatar.

The area near the port known as Karantina was a tenement area for port workers and low-income service and laborers--perhaps 60% Lebanese and 40% mixed aliens. In general, most lower income people in Beirut were either Moslem (Shiites) or non-Lebanese workers or refugees, and they lived in the worst housing.

The areas of greatest destruction in Beirut were the Karantina area, the Tel el Zaatar area, and the central commercial area. Many other areas were destroyed or heavily damaged, as indicated on the map (Annex G, Map 2A).

The complete destruction of Karatina and Tel el Zaatar forced the evacuation of about 70,000 people, of which about 42,000 were low-income Lebanese, the rest mainly Palestinians. Heavy damage also occurred in

eastern Beirut in the areas of Nabaa (Moslem Shiites and Palestinians) and Bourj Hammoud which had a largely Armenian population with some Shiites. Christians who lived in Damour before the war moved to the Nabaa area of East Beirut which was vacated by the Moslems. Damour, in turn, was occupied by Palestinians who fled Tel el Zaatar in eastern Beirut.

There was also heavy damage to housing in other cities, towns, and villages, and fighting continues sporadically in the south where damage was already heavy.

Because of security problems, damage estimates in the south have not been feasible. (See Map 2B, Annex A).

Thousands of people have been displaced as a result of the war, with Moslems leaving traditional Christian areas and Christians leaving Moslem areas. Beirut is beginning to be a divided city with Moslems located in the western half and Christians in the eastern half. The country as a whole is also becoming divided with Christians predominating in the north, Moslems in the south, and Palestinians in the far south and along the southern coast. There is some question whether many non-Lebanese workers who left Lebanon will return, especially Syrians. Many of the middle and upper income Lebanese who left during the war are now returning.

The total number of dwellings damaged or destroyed in the greater Beirut area is estimated by the GOL at about 12,000 units and perhaps 20,000 in all urban areas. In rural areas at least 110 villages are known to have suffered damage with a minimum of 2500 homes rendered uninhabitable. The cost of replacement is estimated by the GOL at about $170 million (LL 500 million).

The extent of damage varies from total destruction in some areas where heavy weapons were used to moderate damage (broken windows, shell holes in walls, holes in roofs) and fire damage in other areas. Many units were systematically looted of doors, door frames, plumbing and electrical fixtures.

It should be noted that the damage figures mentioned above are estimates, since a comprehensive damage survey has not been possible.

However, there is some indication that the damage estimates developed by the GOL are on the low side. As of 4 July 1977, the MOHC had received 13,844 loan applications covering a total of 37,240 dwelling units. Because only a fraction of these applications have been processed, it is too early to verify if all these damaged dwelling units were actually war related. However, it does tend to indicate that the damage was more extensive than originally believed.

Basic infrastructure was not seriously damaged during the war although even in normal times Beirut's rapid growth was straining water and sewer systems.

There is apparently no need for construction of temporary/emergency shelter. In fact, such a program would probably be counter-productive, since "temporary" housing often becomes permanent.

The total population of Lebanon is currently about 3 million people, with perhaps 50% in rural areas and 50% in urban areas. Perhaps 300,000 Lebanese left the country during the war, although precise figures are not available. Movement between rural and urban areas is still taking place.

The total undamaged housing stock in Lebanon at present is estimated at about 500,000 dwelling units in the following categories:

	Urban	Rural	Total
Primary dwellings	240,000	160,000	400,000
Vacant dwellings	30,000	20,000	50,000
Second homes (vacation)	6,000	44,000	50,000
Total	276,000	224,000	500,000

There is a surplus of housing for upper income families, considering the high number of vacant luxury units and the number of vacation homes. In contrast, lower income people are living in more difficult conditions, except for those who have illegally occupied vacant upper-income dwelling units in recent months.

Housing production in Lebanon has been almost entirely a private sector concern in the past. Upper and middle income families could afford good housing constructed by private builders in urban areas. In rural areas housing was built by owner-occupants or local craftsmen. Lower income urban families lived in tenaments, in "shanty-towns" or in refugee camps. (Most low-income urban families are Moslem).

Government sponsored housing for low-income families has been limited to about 3,000 units after an earthquake in 1956 and several hundred units in recent years.

The first law to deal with the housing problem of low-income groups was passed in 1963. It attempted to create mixed public private corporations to produce housing but was not implemented because of lack of financing. The law was amended in 1966 to create a special Housing Fund within the Ministry of Finance. In 1974 a new Ministry of Housing and Cooperatives was established but was able to implement only a few minor projects before the war broke out. During the conflict its offices were damaged, and until recently it had only about forty employees working for the most part in a temporary office. The budgeted staff has now been increased over ten-fold, and it has been allotted permanent office space in the building formerly occupied by the now defunct Ministry of Planning.

On January 9, 1977 the GOL issued a decree establishing a National Housing Bank. Its initial capital will be composed of $16.7 million (paid-in) plus $33 million authority to issue government insured bonds. The board of directors will include seven private sector representatives and five from the government. It will be headed by a "commissioner" who is also the Director General of Housing (under the Minister of Housing and Cooperatives). Although a managing director has been designated, the bank has yet to raise its capital and initiate operations.

In its Policy Statement of December 23, 1976, the new government in Lebanon said: "Dealing with pressing social problems, such as sheltering displaced people, providing relief for the distressed, helping the orphans and the unsettled and providing work opportunities for the unemployed, heads our list of priorities."

In January 1977 Legislative Decree #20 was drafted, establishing a framework for a Home Repair and Reconstruction Program. The Decree was passed by the Council of Ministers on February 24, and became law on March 14. This decree fixed the terms and conditions for loans to owners of war-damaged housing. (Annex E7).

The GOL began accepting loan applications for its home repair program during May 1977. As indicated above, by July 4, 1977, 13,844 applications had been received for repair or reconstruction of 37,240 dwelling units (see Annex J). The amount requested is $251,000,000, which is higher than the $150 to $200 million that the MOHC estimated as required for this program. The MOHC inspection teams, which are charged with analyzing home loan applications, state that the average loan request is often twice the amount actually required. The fact that the interest rate is only 2% seems to encourage the average Lebanese citizen to try to borrow as much from this fund as possible. Because of the newness of the program, the GOL has not been able to process the loans as quickly as they have been received. Disbursement of loans started during the week of July 11, 1977, and as each inspection team is expected to estimate 15 to 20 units per day, the backlog will diminish rapidly.

AID has already made a US$4.0 million grant contribution to this GOL fund. The grant was executed for $4.5 million, of which $0.5 is for technical assistance. The grant funds are reserved for low income families who are homeowner/occupants. The first disbursement from this grant was made in July, 1977.

The $15 million housing guaranty will form part of the total GOL home repair fund. During the first AID technical assistance mission in January 1977, the joint AID/GOL housing committee recommended that the HG funds be split between $10,000,000 to the Housing Bank for home repair and reconstruction and $5 million to the MOHC for demonstration self-help cooperative housing projects. The AID Project Identification Document for this project outlines how this could be accomplished. Since that date, the situation has changed. First, the Housing Bank, which was established by law in January 1977, has not begun operations. And it is probable that the Bank will not do so within six months to a year, at best.

Secondly, the GOL is in the process of establishing a housing policy, a key part of which would provide the basis for new housing construction, especially for low and modest income families, such as would be assisted under an HG program.

The GOL, therefore, believes that it is premature to attempt to identify new housing projects at this time, in order to assure that new projects conform to the new housing policy.

2.2 Detailed Description

The $15 million HG loan would contribute to the repair or rebuilding of 5,000 homes, presuming average loans of $3,000.

The $15 million HG loan will be used by the GOL for low-income beneficiaries of its Home Repair and Reconstruction Program. While administered as a part of this GOL program, beneficiaries of the HG monies will be subject to an income limit and to a lower loan amount limit than that laid down by Decree-Law #20 which established the program (Annex E). Essential terms of this Decree-Law are as follows:

1. Loans will be granted for repair or reconstruction of residential properties damaged as a result of the incidents, on or after February 26, 1975 (Article 1.)

2. Loan amount shall not exceed $10,000 (LL 30,000) per unit, nor the amount required for repairs necessary to make the unit habitable. (Article 3b,d)

3. Loans are for 15 years, at 2% with 18 months grace on interest and principle for repair loans, 36 months for reconstruction. (Article 3h)

4. The unit must be used for residential purposes throughout the loan period, or the interest becomes 12%. (Article 3j)

5. The property must be Lebanese-owned. (Article 14)

6. Surplus amounts shall be used for implementation of housing projects. (Article 8)

7. The Ministry of Housing and Cooperatives, Directorate General of Housing shall handle the implementation of the program. (Article 3)

For the use of the HG monies the additional limitations are as follows:

Whereas the GOL program places no restrictions on income of borrowers, and sets a loan limit of $10,000, the $15 million HG loan will be used only to benefit families whether owners or tenants, whose incomes are below $2,000 (LL 6,000) per year, the estimated median family income in Lebanon, and will be limited to $4,000 per unit. The monthly payment on $4,000 represents 17% of a monthly income of $167 ($2,000/year). This limitation is based on the judgement that a substantial number of units can be repaired for $4,000 or less, and is intended to insure that a large number of low income families will benefit. Without this limit, HG funded loans might average $7,000/unit, thus reducing the number of beneficiaries to about 2100. The $4,000 limit will, however, preclude the use of HG funds for the rebuilding of all but a few completely destroyed homes.

With the $4 million grant, the HG component of the GOL repair program would provide an additional 5000 loans of $3,000 each for a total of about 6300 loans for families in the lower income range. Because a detailed damage survey has not been done, and because recent income data is not available, it is not possible to determine the total demand precisely, or the demand at various income levels. However, an estimate can be made, accepting the GOL damage estimate of 22,500 units, and assuming that at least 50% or 11,250 are in the lower income category. In that case, the estimated 6300 units

which will be repaired with HG and USAID grant funds represents 55% of the demand in the low income category. This would account for over 25% of the total demand.

Decree Law #7 required landlords to repair damaged apartments. If the landlord does not take steps to repair the damaged units, there is a procedure whereby the tenant or tenants may force him to do so, or may, under a court procedure, submit an application, and the owner will be liable to pay the costs as if he had himself applied.

As described under the section entitled "Project Issues", the owner may transfer a portion of the repair costs to the tenant. The formula is presented in Annex E1, "Excerpts from Decree Law #7." This formula relates the tenant's share of cost inversely to the rent: the lower the rent, the higher the tenant's share of the cost. If the cost of repairs is less than three times the annual rent, the owner pays all. That part of the cost of repairs which exceeds three times the annual rent is to be shared equally between the owner and the tenant, and the tenant will repay his share to the landlord over the life of the loan by way of a rent surcharge.

HG funds may be made available to a landlord who by himself exceeds the AID income limitation of $2,000 per year if the funds are used to repair apartments of families whose incomes fall below the limitation.

Decree Law #7 requires that the original tenant have the first chance to return at the original rent. Lebanon's rent control laws virtually preclude eviction.

As mentioned under Background and Overview, the MOHC repair program is currently functioning. The initial demand for loans has been higher than expected, and cuts across all regional and economic lines. The organization of the Regional Offices of the program are shown in Annex L. These offices are well-staffed and hard-working.

The lending procedure now in operation is described in Part 4.2.2.

In estimating the cost of damages, the MOHC limits the scope of repairs to the minimum required to make the unit habitable. Costs for redecorating, etc., are not financed.

3. PROJECT ANALYSES

3.1 Technical Analysis

3.1.1. Damage Evaluation

Among the estimated 22,500 units damaged, the type of damage varies from moderate damage to total destruction. Many units were systematically looted of doors, and windows (and their frames), plumbing, and electrical equipment, including elevators in some cases.

For purposes of technical evaluation, damages can be classified in three categories:

(1) Non-structural Damage: Looting (of windows, doors, fixtures, etc.), small-arms fire (broken glass, pockmarks), some artillery fire (shell holes in infill walls), minor incendiary (low-temparature and/or short duration).

(2) Structural Damage: Artillery fire, TNT; major incendiary (high temperature and/or long duration).

(3) Destroyed.

The geographic distribution of these categories appears to be general.

Non-structural damage is perhaps the most common, representing houses in a line of fire, plus houses that were simply looted of fixtures and trim. Some buildings which appear to be structurally damaged in fact are not. This condition can be observed in buildings which when originally built were structurally over-designed; a typical example is a column thought to be supporting a small cantilevered balcony. Such a column is almost as easily replaced as a trim item. A large shell hole in a concrete block infill wall would be considered non-structural damage.

The absence of large amounts of wood and plastics in most low to moderate income homes suggests that in most cases incendiary damage will be minor, and non-structural. Concern about structural damages caused by fire is not justified unless there is reason to believe the reinforcing steel has been heated to over 400°F or the concrete to over 600°F. Lebanese engineers do not feel this is likely in a moderate income household used only for residential purposes.

The looted building is a pervasive type. It may not have been touched in any other way by the fighting, and can be seen simply as an unfinished building. The doors, windows, fixtures, etc., which were stolen are stockpiled and resold. Some of the repairs now taking place in Lebanon are using parts, most likely supplied from such a stockpile. It is estimated that a $100m^2$ looted house could be refit for under $1,000 (LL 3000), or $\$10/m^2$ to repair.

Structural damage includes buildings where a structural element has been weakened or collapsed, yet sufficient sound strucrure remains to justify repair. Structurally damaged houses are, for the most part, uninhabitable because of danger, exposure to elements, etc. However, a house with some structural damage may still be habitable in parts, such as where a corner of the top floor has been blown away. Cost: up to $\$100/m^2$.

Destroyed houses are those which have completely collapsed or where the structural damage is so extensive that repair is not economical. Since the Lebanese will try their utmost to repair, most houses in this category will be those which have very little still standing. The cost of rebuilding a demolished house in the "modest" to "middle" category would be approximately from $90 to $\$133/m^2$.

3.1.2 Repair Methods

Repair efforts which can now be observed in progress suggest a situation where labor is more available than machinery and materials. This may be due more to custom and the nature of the damage than to a distorted resources structure. Nonetheless, the current repair processes include a large proportion of hand labor, where damaged portions along undergo

The Lebanese are willing to go to great lengths to repair an existing structure, no matter how damaged it seems to be. In spite of greatly increased labor costs, concrete is laboriously hammered away from the reinforcing steel of cracked or fallen slabs. The remaining steel might be reused in place, or cut away and reused alsewhere. In some cases, a struc-ure is stripped down to its frame, and slabs with new steel are poured. Columns where significant amounts of steel are exposed are either reformed about 20 cm larger all around, or are given a side-by-side twin column.

The cross-over point where salvageability becomes unfeasible is therefore not clear. Each owner will probably determine that point with a certain amount of personal economic intuition and with advice from acquaintances in the construction business. However, the current cost of "modest" new construction of about $ 90/m^2 gives an indication of the economic cross-over point.

A striking aspect of Lebanese housing construction is that it reveals an attitude of long-term evolution on the part of the owners. As a family increases in size and money is available, apartments are added, usually vertically. Familiarity with the techniques required to add, alter or splice onto old construction is thus clearly apparent, and will be advantageous in the repair of damaged houses.

These traditional techniques used in the expansion of existing structures are basically similar to techniques and methods required for repair in that new parts need to be spliced onto existing ones. There is a difference, however, in the fact that a more difficult inspection of existing structure is required for a building which has undergone incendiar- or artillery damage than for an undamaged building that is to be expanded. In buildings of three stories or less, this can safely be left to visual inspection. In higher buildings, the engineer will probably need to perform non-destructive testing if exposure of concrete to hot fires of long duration is suspected.

For background on Lebanese design and construction, see Annex K.

3.1.3 Construction Materials

(a) Availability and Cost of Materials

Because of the building boom of the 1960's (culminating in over 5 million square meters in 1972) the materials procurement and delivery infrastructure of Lebanon is well developed. As with other goods, the Lebanese mercantile spirit guaranteed the necessary warehousing, transport, and sales systems.

During the war, inventories were reduced by pilfering, production cuts due to labor scarecity, abandonment, destruction, etc. A common feeling expressed by suppliers in Lebanon, however, is that very little is actually lost, but has simply changed hands and is therefore again for sale.

The materials essential to the repair program have recently been examined as to cost and availability. Cement, reinforcing steel, concrete block, glass, aluminum, wood, sanitary fixtures, and electrical equipment have been found to have risen in cost, but are available. The Lebanese are more worried about materials prices than materials availability. There is no building material which is thought by suppliers to be scarce or potentially scarce.

Costs of materials have risen sharply in Lebanon since the beginning of the events. Steel for reinforcement has risen less by contrast, but only because it had already jumped 50% in the first part of 1974. A composite of materials price increases including cement, steel, concrete block, wood, and glass equals 170%. Many Lebanese feel that a substantial portion of the price increases are based not on economic necessity, but on a speculative drive, and that greater building activity will actually force prices down. This appears to be particularly true of concrete block which has increased 340% in price, since none of the ingredients, including labor, have increased to such an extent.

In short, costs of materials have risen sharply. Several reasons are given for the increases, including fuel costs, labor shortages, speculation and the desire to make up for losses, and the war-caused weakness of Lebanese currency in relation to the dollar.

(b) Importation Requirements

The reconstruction program is not expected to create abnormal importation demands. Cement may be imported if the local manufacturers do not respond with lower prices. Steel is expected to be the most imported material. Production at the Tripoli mill will of course reduce this import.

For detailed data on materials see Annex M.

3.1.4 Construction Industry

(a) Description and Evaluation

Lebanon has a highly developed construction industry, having long served as a source of design and management capabilities for the Middle East. Moreover, Lebanon's recent housing boom, though primarily in luxury housing, has furthered the development of residential construction skills.

The Home Repair and Reconstruction Program, as far as it is applied to low-rise buildings, will draw on a large pool of small contractors. A typical contractor of this type might consist of two partners who own wood for forming and have access to an Elba cement mixer (very common and made in Lebanon). These machines include a winch for a hoist, one man operation, and makes a one bag batch at a time. These machines are in good supply; there is a large inventory at the factory in the Beqaa.

The small contractor of the type who will be doing most home repairs, usually does much work himself, with hired help when needed.

(b) Labor availability and Costs

Most of the construction labor before the war were aliens from Syria. Most left for home during the troubles.

Two views are held regarding the future of this alien labor supply:

(1) It will never return to its former strength because the Lebanese currency has weakened, and the war was particularly dangerous for these workers.

(2) It will return because Lebanon is close to home, Lebanon has superior working conditions, the currency is still strong, etc.

In any case, laborers can be seen to be returning, and waiting for pick-up at Dora Circle in East Beirut, the traditiaonal "hiring hall" for Christian areas, and on the Corniche Mazraa, for Moslems.

Moreover, to some Lebanese there are signs that the former aversion to manual labor on the part of Lebanese youth has weakened in the aftermath of the war, thus creating another source of labor. The Lebanese YMCA, which is non-denominational but finds that its social service work attracts mostly Moslems, has started a skilled-job training program in the construction trades. This program is popular, and the GOL is considering a similar one.

Labor costs have increased as follows:

Daily Wages ($)	1974	1977
Unskilled	4-5	1-13
Semi-skilled	5-7	13-18
Skilled	7-9	17-27

(c) Capacity for the Repair Program

The capacity of local firms is impossible to determine quantitatively. Individuals concerned with building in Lebanon are confident that there will be no problem in this area. There are many small contractors with experience in similar work who will be doing this work, typical of the healthy small enterprise sector that exists in Lebanon. It is inconceivable, however, that the contracting industry could resume activity without encountering some problems.

A continuing relaxation of security problems is essential if the small contractor is to get a steady labor and materials supply.

A sudden large initial demand, which could occur if the Repair Program progresses as hoped, could by itself have an inflationary effect, and cause momentary materials and labor supply dislocation.

3.1.5 Contracting Procedures

Traditionally in Lebanon, the owner of a small job enters into an agreement wih a contract on the basis of a negotiated contract. Competitive negotiations or bidding is not common at this scale, since an owner will usually use a friend or someone known through a friend. The opinion has been expressed that until materials prices stabilize, contractors will want cost-plus agreements.

It is also expected that many of the owners in the low-income group will be capable of doing part of the work themselves, will be accustomed to doing so, and may prefer to do so in order to keep the loan payments as low as possible. Hence the poor rural owner may limit any contract to heavy construction and to items requiring special skills.

3.1.6 Technological Appropriateness

The technology included in the Home Repair and Reconstruction Program is traditional and existing. It is appropriate both in terms of cost and expediency. Except for the needs discussed under technical assistance, there is no "new" technology applicable or appropriate to this decentralized repair program. The existing methods are labor-intensive, which is appropriate at this time. Materials will be procured with contracts entered into on the open market by the loan beneficiaries themselves, thus producing effective control of costs and methods.

3.2 Environmental Considerations

The Home Repair and Reconstruction Program does not establish higher environmental standards than those previously in effect, but enforces those standards by excluding buildings which do not meet local zoning and code regulations. A certificate of conformance is required before a GOL repair loan can be granted.

The program does not affect densities or uses except to restore housing and settlements to their former condition. The GOL has effective regulations governing repair or construction which might affect antiquities. This program does not bypass such regulations.

Based on the above, and on a more detailed analysis in an Initial Environmental Examination prepared by SER/H, a negative determination has been made by the Assistant Administrator NE with the concurrence of the Beirut AID Mission.

3.3 Financial Analysis

3.3.1 Costs of Program Administration - As their contribution to this project, the GOL will incur the expenses relating to project development and management. These costs will not be reimbursed by the beneficiary, but will instead be considered a government contribution to this project. Development costs cover such items as the salaries of the administrators and their staff, including the inspection teams, transportation, offices, etc., while management costs include those expenses relating to maintaining the loan portfolio. The GOL is unable to provide at this time a budget for these costs, however, they estimate that the development costs will total 6% of the total project cost during the 2 years when the loans are being made. To cover servicing of the loan portfolio, it is estimated that 3% of the outstanding loan balance will be sufficient.

3.3.2 Total Project Cost - The Project costs are limited to the amount of the mortgage loans, plus development and management costs. The latter is not included in the mortgage loan and is not reimbursable. As a government contribution, however, development and management costs must be included in the total.

Estimated Total Project Cost (5 years only)

Item	Year (in $000's) 1	2	3	4	5	Total
Loan Program	7,500	7,500	-	-	-	15,000
Project Development[1]	450	450	-	-	-	900
Project Management[2]	225	225	225	225	225	1,125
Total	8,175	8,175	225	225	225	17,025

1) Project Development costs will be borne by the GOL.

2) Management costs will continue throughout the life of the HG loan at the estimated cost of $225,000 per annum. (To be borne by the GOL).

3.3.3 Cash Flow - The GOL plans to on-lend the HG funds at different terms than those being charged to the GOL. The interest rate charged to the beneficiary of a home repair loan will be 2% p.a. while the term will be 15 years. The much lower GOL on-lending interest rate indicates that the GOL will be required to make a budgetary contribution to cover the short-fall. On the other hand, the 15 year GOL term is half the probable HG term and means that the GOL may roll the funds over at least twice. There could be serious problems if the GOL is not able to supplement the interest rate differential. However by continuing the AID $-million grant on the HG loan, the effects related to deficit financing are lessened and the GOL will be required to make a financial contribution only in the early years. And if the $16.[illegible] millionSaudi grant is also included in the calculation, the problem associated with deficit financing is virtually eliminated.

Table 3.3A (Annex 9) shows the 15 year cash flow of the $19,000,000 continued HG and AID grant program and demonstrates that during the first three years, the [illegible] cash flow will approximate $[illegible]. The principle reason for this deficit is that the GOL will permit an [illegible] month grace period on both principal and interest, while the interest on the HG loan must be repaid beginning the first years. After the third year, the mortgage repayments on $19 million, amortized over 15 years, exceeds the amount required annually to repay the $1[illegible] million HG loan over 30 years. By year 8, the deficit is eliminated, and from that year, the surplus is roughly $100,000 annually.

By including the Saudi Arabian grant with the $19 million AID program, the cash flow deficit is reduced considerably (Table 3.3B). Again, because of the differences in grace periods, there is a total deficit of $514,000 during the first two years. In the third year there is a surplus of $980,000 which easily covers the deficit in the first two years. By the fifth year, the surplus is $3.8 million and in the tenth year, $11.4 million. The GOL plans to reinvest these funds in other low-income housing rather than retain them as surplus earnings.

3.3.4 Government Guaranty

The GOL will guarantee to AID repayment of the loan to the US investor.

3.4 Social Analysis

3.4.1 Population Characteristics

Information on the population of Lebanon has always been sketchy. The last census took place in 1932, and since that date, the GOL has made few steps at updating that census. The latest population estimates were made in 1965, when the number of Lebanese citizens was estimated at 2.4 million. Another estimate, based on a sample survey, was made in 1970 by the National Statistical Office, and revealed that the country population was not so great as previously figured. From this study, the latest total country population as of November 1970, was estimated at 2,126,000 persons, of which 160,000 were foreigners from other Arab countries and 17,800 were non-Arab foreigners. Palestinian refugees living in the camps were not included in the survey.

Updating these figures to 1976/77 is difficult. Estimates are that some 300,000 Lebanese fled the country during the war, and while many have returned, it is possible that a majority have not. One recent study shows that 625,760 Lebanese left the country (many more than once) during the last two years, while 353,260 returned, or about half. Based on an assumed population growth rate of 2.5%, it can be estimated that the number of Lebanese, both inside and outside Lebanon, is some 2,470,000 persons. This figure may be too conservative; the U.N. for instance, estimates the number of Lebanese citizens as high as 3,000,000.

Lebanon is essentially an urban country with some 44% of the population living in the metropolitan center of Beirut. Another 16% live in secondary urban centers, while the remaining 40% inhabit small towns and rural areas. Although the statistics taken from the 1970 survey regarding rural/urban distribution were probably accurate enough at that time, events over the past two years have done much to rearrange the demographic patterns of the country. For example, the population of Beirut in 1970 was about 930,000; by 1974, just prior to the outbreak of the war, Metropolitan Beirut had grown to an estimated 1,100,000 persons. The war was responsible for the flight of large numbers of people from Beirut, particularly the more well-to-do who had secondary homes in safer areas, including overseas homes.

At the same time, fighting in rural areas, particularly since November 1976, had caused many families from the South to move into the Beirut area. Large numbers of Lebanese have simply moved to other areas of the country where they feel more secure. Whereas the total country population can be estimated, any attempt to estimate population by geographic area is futile. In fact, migration movements are continuing, as increasing members of Lebanese return from abroad and as the security situation changes.

3.4.2 Income Distribution

Reliable information on incomes in Lebanon is not readily available or up-to-date. No regional or national surveys covering incomes have ever been undertaken by either private or public groups. Information on salaries is available from the Social Security Institute for employees, farm workers, or the self-employed. These figures were compiled in 1974 and cover approximately two-fifths of an estimated labor force of one-half million. According to this distribution curve, 71.3% of Social Security affiliated employees earned less than $167 (LL 500) per month. The median salary of this group or wage earners is estimated at $140 (LL 415) per month.

Since the date of that report, salaries and wages have undergone change. Because of the destruction of many businesses and factories, unemployment has shot up, although the exact level is unknown. The internal and external migration movements have contributed to uncertainty regarding incomes and salaries. Because of labor shortages, wages have increased significantly for certain skilled workers. In addition, the government recently raised the salaries of all government employees by 20%, retroactive to 1 January 1977. Indications are that private sector employers will be forced to raise salaries also.

Monthly Income - Salaried Workers

(Ms) Monthly salary in 1974 in Lebanese Pounds*		Cumulative
Less than 300	27.82	27.82
300 - 500	48.50	71.32
500 - 750	14.62	85.94
750 - 1000	5.50	91.44
1000 - 1250	3.02	94.46
1250 - 1500	1.73	96.19
Over 1500	3.81	100.00
	100.00	

*in 1974 1 US $ = 2.25 Lebanese Pounds
in 1977 1 US $ = 3.00 Lebanese Pounds

Source: Privately calculated based on Social Security Institution statistics.

In spite of many opinions regarding family incomes in Lebanon today, the only available data (1974) indicates a median family income of about $167 (LL 500) per month.

The AID team preparing this report recognizes that the median family income may be higher than $167 per month. Efforts have been made to update this information, but so far no new supporting evidence has been obtained that would permit the team to change those loan and income limitation figures which were approved by AID for the AID grant. However, as mentioned under "Issues" ("Target Group") if more recent statistics become available, the GOL may, after AID approval, alter the income limitation.

3.4.3 Spread Effects

(a) Strengthen Lebanon's institutional capacity to serve the shelter needs of low-income families. There has been little experience on the part of the Lebanese government in the housing sector, let alone housing for low-income citizens. The absence of a housing agency at the Ministerial level until just before the recent events indicates a virtually untried institutional framework. The events themselves have required that the MOHC rebuild anew. The reconstruction efforts which followed the earthquake and flood of 1956 has produced some data on user acceptance and management problems, but has not provided institutional continuity. The recent events interupted the latest efforts.

The repair program which the HG loan will support is expected to contribute strongly to the MOHC's revitalization, by providing experience in housing data collection (including existing patterns of tenure, income levels, and shelter conditions), credit administration, technical inspection, and personnel management.

In addition to the above, the HG component of the GOL program will cause the GOL to focus particular attention on low-income shelter problems by requiring the GOL to differentiate between beneficiaries above and below the median income. The data collected and the experience gained in the process is expected to strengthen the GOL's capacity to carry out broader housing programs for poor families.

(b) Housing Fund Rollover. Although the interest rate of the HG funds are higher than the artificially low rates that the MOHC has fixed for relending, the combination of the grant with the HG will provide for a rollover fund in about the tenth year for reuse in housing programs.

3.4.4 Social Consequences

(a) General

The primary task of the GOL at this time is to restore Lebanon's social and political balance and create confidence in the country's stability and security. The repair of homes, which can be expected to further the restoration of normal living patterns and the employment of youth otherwise drawn to confessional (religious affiliation) conflict is a sine qua non in this task.

The decentralized, small-scale nature of most home repair jobs and the fact that contracting is left to the beneficiary, will further strengthen the small-enterprise sector of the Lebanese construction industry, while still giving the option of using any degree of self-help. Moreover, it will create opportunities for new people to enter the construction business.

(b) Employment

Unemployment is estimated at 20-30% in urban areas in Lebanon. Since housing repair methods are labor intensive and include the full range of construction skills, it can be expected that significant employment will be generated by the Home Repair and Reconstruction Program. Assuming average labor cost at $13/day, and the labor component at 50% of total program cost, the $15 million dollar loan will generate almost 600,000 man-days of employment, or nearly 2000 man-years. The program will help to encourage the entrance of Lebanese youth into the construction field at a time when they seem to be ready to do so.

(c) Displaced Families

Given increasing security in Lebanon, it is important that displaced families be able to return as quickly as possible to their homes. While confessional obstacles remain in some cases, the availability of funds to repair homes will clearly have a positive impact on the effort of the GOL to restore and stabilize settlement patterns and slow immigtation from damaged rural areas to urban centers.

The broad distribution of the Home Repair and Reconstruction Program will help to insure a balance of benefits from reconstruction with consequent salutary effects on regional social conditions.

3.5 Economic Analysis

3.5.1 Overview - The conflict over the past two years has severly jolted the Lebanese economy. Damage to the nation's capitol alone includes the destruction of some 5,000 commercial enterprises and some 100 or more factories. Banks have provided sporadic service, most being closed for the better part of the Fall of 1976. The Beirut Port was heavily damaged and internal transportation was, and to some degree still is, severly hampered. The Government was unable to function properly for the better part of the past two years, and, to date, is operating at a fraction of its past capacity. The principle government office collecting and publishing economic data, The National Statistical Office, was completely destroyed and has been unable to furnish any data later than December, 1974. This office has yet to re-initiate operations and therefore is not able to provide the necessary data on which economic analyses as related to the housing situation can be based. Because of these events, any analysis of the economic situation in Lebanon is by necessity largely subjective.

3.5.2 Current trends - There is some information available which can be used to give an idea of the economic situation today as compared with the situation two years ago and at the end of 1976, when the economy was virtually paralyzed.

(a) The Central Bank estimates that real GNP has decreased by 30% from the average annual level of $3.3 billion during the first quarter of 1975. Again, this estimate is purely subjective; the Central Bank has no statistical evidence to verify this figure

(b) Banking activities are at levels well below the peak of 1974/75. Most banks suspended new loan activities sometime during 1975, and as of April 1977, not one bank has re-initiated loan operations. In fact, one of the most difficult tasks facing the banks is collection of past loans from businesses destroyed or forced to cease operations during the war. Short term supplier credits are available to the most credit worthy-customers. Check writing operations have also fallen drastically, indicating greater dependence on cash transactions. One large U.S. owned bank estimates that check activity at the end of March, 1977 was 20% of pre-conflict levels.

(c) The cost of living has jumped dramatically. Rents in many cases have doubled, while the price of petroleim products has increased by almost 150% over the past two years. One survey by the National Labor Council showed that between March, 1975, and March 1977, the cost of living rose by 57.6% Wages have risen, although not to the same extent. Salaries, for the most part, have not increased accordingly, although the GOL recently decreed that government workers be accorded a 20% increase effective 1 Jan., 1977.

(d) During much of 1976, the Port of Beirut was closed down, and finally severely damaged. Activities, however, are beginning to pick up. The average number of ships at berth at any one time is now almost forty, the same as before the conflict. Tonnage unloaded is only 50% of peak levels, due for the most part to the fact that damaged equipment and storage facilities have not been completely replaced. Port revenues are only 30% of pre-conflict levels.

These indicators demonstrate that while the situation is still serious, there are signs that it is improving. The banking consensus is that, if the situation remains normal, they may begin making loans in the summer of this year. The GOL is considering measures to contain the cost of living; for example; cement may now be imported freely, which may cause locally produced cement manufacturers to decrease prices. Also the current level of port activity, which should increase as port facilities improve, is an indication of an improving economy.

3.5.3 Debt Service Considerations

The strong international reserve position of the Lebanese economy has always been a source of pride throughout the country, and, in fact, was one of the foundations on which Lebanon based its position as the banking capital of the Middle East. Throughout the past two years, the Central Bank has been able to maintain these reserves for the most part intact. As of the end of 1974, international reserves, totalled LL 1,671 million, of which $400 million was in gold, calculated at $42.00 an ounce. During 1974, international reserves were equal to 7½ months of imports (6 months is considered more than sufficient). International currencies held by banks and private citizens and businesses in Lebanon have most certainly decreased, although there is no way to determine by how much.

Traditionally, the trade balance has lapsed into a deficit position; in 1974 imports were 73% greater than exports. The balance of payments figure however, has usually shown a surplus, with foreign tourist income, export of services and an inflow of capital compensating for the deficit balance of trade position. Today, the situation has changed dramatically. Tourism, export service income and capital inflows have virtually ceased. Imported goods & equipment required to rebuild the economy and take up the slack in local production, will probably far outstrip exports, which are most likely at a fraction of the 1974 level.

The Lebanese economy will require large amounts of capital, in part to cover the growing balance of payment deficit, as well as rebuild and restore the economic capacity of the country. Some experts have estimated the conflict-related destruction at some $1.7 billion. The government is reluctant to use its international reserves to finance reconstruction and instead is expecting that external grants and loans will cover a large part of the capital needs.

Government revenue is at a low level; taxes simply are not being collected. And with production down, both production and consumer related tax income is not being generated. The government estimates that in 1977, revenues will total $270 million, while current expenditures alone will reach $330 million. The Central Bank has been making advances to the GOL to cover deficit spending and meet current expenditures. There is some talk of the government raising up to $170 million through a local bond issue.

Long term public debt was estimated at $74 million as of the end of 1976, of which 65% represented Work Bank debt. The debt service ratio, which is the ratio of the annual debt service payments to the total foreign exchange earned from goods and services, is negligible. However, because of the decrease in foreign exchange earning, the debt service ratio has risen artificially. Securing the additional $15,000,000 US Housing Guaranty will increase current foreign long term debt by 20% but, because of low debt service level, will have no significant impact on the capacity of the GOL to repay foreign debt.

However, as mentioned, the GOL intends to increase its reliance on external borrowing as the primary source of capital for reconstruction purposes. The $50 million World Bank loan is just the first step in that direction. It is probable, therefore, that external debt will increase dramatically in the next few years. This will require sophisticated financial management on the part of the GOL to maintain the financial integrity of the country and insure prompt loan repayments.

There is considerable concern on the part of the GOL about how to finance the guaranty shortfall. The U.S. investor will lend the money to the GOL at a 9% interest rate range for 30 years, while the GOL will relend the money at a 2% interest rate for 15 years. Cash flow projections, which include the $4 million AID grant, indicate that by the third year, the shortfall will reach a maximum of $924,000 but will begin to decrease.

By the eighth year, the deficit will be eliminated, and the GOL will begin to receive earnings which can be used to finance new housing programs. (See Tables, Annex H).

3.6 Other External Assistance

The GOL estimates that some $170 million will be required to fund the Home Repair and Reconstruction Program. This fund would be used in its entirety to provide soft loans to Lebanese families to repair or rebuild their homes which were damaged or destroyed in the war. The Government of Saudi Arabia has made a grant of $17 million to the GOL to help constitute this fund. There are no conditions attached to this grant regarding loan limitations, income qualifications, etc. The Government of Kuwait has granted the GOL $10 million for reconstruction activities; however, it is not clear at this time whether any or all of this amount will be used to repair and rebuild residential housing.

The GOL has carried out discussions with numerous governments and international agencies in an effort to secure the remaining funds to finance this program. Several of the Middle Eastern Development Institutions as well as individual governments have all shown interest in assisting Lebanon in this activity; to date, however, no commitments other than the above have been made. Several European governments have sent missions to Lebanon to assess the situation in light of possible financial and technical assistance. With the exception of a French planning team which has provided some assistance in urban planning, none of these missions has resulted in concrete offers of assistance.

In July, 1977, the World Bank approved a $50,000,000 loan to Lebanon for various reconstruction projects. Included in this package is $300,000 for preparation of studies on urban reconstruction projects, to include sites and services for low income families. The GOL will provide an additional $150,000 in local currency to support this project study.

3.7 Technical Assistance

The GOL has recognized the need for technical assistance and accordingly has made a request. One-half million dollars ($0.5 million) has been earmarked for such assistance from the $4.5 million grant from the U.S. government to the GOL, which preceded the H.G. loan.

Included in the GOL request are training for GOL technical and finance personnel, assistance to the new Housing Bank, structural testing equipment, and a Resident Housing Advisor.

A Seminar/Workshop under the direction of US experts has been scheduled for the middle of September in Beirut, with MOHC personnel as the core audience. NHB personnel are also expected to attend. This personnel is scheduled to visit the U.S. for participant training in early 1978. The Resident Housing Advisor is expected to be in the field by the end of 1977.

Part 4: IMPLEMENTATION PROCEDURES - MOHC PROGRAM

4.1 Participating Agencies

4.1.1 HG Loan Borrower: MOHC

The GOL, represented by the MOHC in the negotiation of and contracting for the loan, will be the borrower. HG loan funds will be disbursed to the Central Bank which will handle the exchange of funds and disbursements of monies to the MOHC in accordance with program needs.

4.1.2 Implementing Agency: MOHC

The MOHC, Directorate General of Housing is responsible for planning and executing the Home Repair and Reconstruction Loan Program. For background on the MOHC, see Annex L.

4.1.3 Collector of Repayments: National Housing Bank

When repayments by beneficiaries begin in January 1979, the National Housing Bank is expected to be in operation, and will accept them. If not, the MOHC will handle this operation until the NHB can take over.

4.1.4 Other - Council for Development and Reconstruction

The new Council for Development and Reconstruction has just been given the responsibility for establishing an overall plan for the redevelopment of Lebanon, the coordination of all aspects of development, including a definitive survey of damages, development of a master plan, and obtaining and coordinating foreign assistance for development and reconstruction. The CDR's immediate role in this repair program has not been defined, although the CDR may play a major role in determining priorities for use of roll-over funds.

4.2 Administrative Arrangements- MOHC Program

4.2.1 Organization and Coordination

The Directorate General of Housing, which is responsible to the Ministry for administering the home repair loan program will be operating with a staff of over 400, including about 125 technical personnel. A special home repair and reconstruction office has been established; its Director reports directly to the Director General of Housing. Twelve regional offices, each of which is headed by an engineer, are responsbile for operations within designated regions. (See Annex L for Organizational Charts.) The regional offices are staffed and working

4.2.2 Implementation Plan

(a) Outline of Procedure

All applicants must submit a written loan application on the form provided by MOHC at the designated regional office. The loan application form has been designed to provide information necessary to determine the eligibility and

credit-worthiness of the applicant and includes data on such items as the previous use of the house, extent of damage suffered, the combined income of the applicant and other family members, and other relevant information.

Before approving a loan, the MOHC regional office verifies the information provided by the applicant to determine borrower credit-worthiness. For HG funded loans it will also verify incomes of the tenants in the units for which repair loans are requested. Verification of income of employees of private organizations will be made by checking the application against information available form the Social Security Institute, and that of public sector employees from civil service records. The accuracy of the income information supplied by self-employed persons will be verified from other suitable sources. An AID-approved method of certification of tenant income will be spelled out in the Implementation Agreement.

An inspection team verifies that damage to the home was caused by action related to the "events", and makes an estimate of the cost of repair or reconstruction.

After approval of the loan by the regional office, the borrower will sign a loan agreement with the MOHC, setting out the amount of the loan and all terms and conditions related thereto. Loans will be disbursed in tranches, by the regional office.

When all work financed by the loan is completed, the MOHC will arrange for inspection of the work at the earliest possible time.

(b) Scheduling

Decree Law #20 stipulates that owners must "undertake to complete repairs within six months" of signing the Loan Agreement, and within eighteen months for reconstruction. If the owner fails to do so, the GOL may recover the loan amount and charge the owner 12% interest during the time he had use of the money.

The GOL has set November 4, 1977 as the deadline for repair loan applications, and November 14, 1977 for reconstruction loans under this program. If the GOL deadlines are enforced, and the above stipulation has effect, the final disbursement would be made before the end of 1978.

This, however, is unrealistic. The continuing unsettled conditions are very likely to force the GOL to extend the deadlines. Some people may be reluctant to return to and repair their damaged homes at this time. In addition, some owners who have applied for loans have units which are occupied illegally, and the occupants sometimes hinder inspections. A two-year disbursement period is more likely.

(c) Disbursement to Loan Beneficiaries

Decree Law #20 regulates disbursements to beneficiaries as follows: An advance payment of not more than 10% of the loan amount will be given as an advance to begin repairs. The remainder will be disbursed in tranches of 40% and 50%, in accordance with the progress of the work.

(d) Procurement

All materials required for this program are available and will be procured locally by the loan beneficiary or his contractor.

(e) Supervision and Monitoring

Monitoring of the progress of work for which a loan is granted will be performed by the MOHC local Inspection Team in accordance with the implementation agreement.

4.3 Administrative Arrangements - HG Loan

This HG loan is expected to be authorized in September 1977. Contract negotiations with an approved investor should be started by the beginning of December and the signing of loan documents by the end of January 1978.

The first drawdown, if this schedule is followed, can take place in February 1978. It is estimated that under good conditions the entire HG amount will be needed by the GOL within one year of the first drawdown.

The AID Mission in Lebanon and the Resident Housing Advisor funded under the Technical Assistance Grant will monitor this HG loan implementation in Lebanon. Technical support will be provided through the SER H Regional Office in Tunis.

4.4 Evaluation Plan

Reports of progress of those repair projects financed by the HG loan will be made on a regular basis. These reports will contain data pertaining to loans made with HG funds, as follows:

1. Number of applications approved

2. Income levels of borrowers: (number of borrowers in each range)

   $1600 - 2000 per year
   1200 - 1599 per year
   Under 1199 per year

3. Loan amounts and locations; names of beneficiaries

4. Cumulative disbursement to MOHC from AID

In addition, the GOL will evaluate the program by reporting, along with the above data, its assessment of the program's weaknesses and strong points. These reports will be scheduled with those of the grant.

Part 5: CONDITIONS, COVENANTS AND NEGOTIATING STATUS

5.1 Negotiations

After authorization of the loan, a Letter of Advice will be issued to the MOHC and a notice will be placed in the Federal Register to identify a US lender. The MOHC will enter into negotiation with an Investor, seeking financing for the program on the best possible terms. The MOHC is required to inform SER/H of all proposals received and of its preference. Upon SER/H approval the MOHC may accept a committment valid for 90 days from the selected Investor. The terms of the four basic HG documents are negotiated concurrently during this period. The legal instruments:

a. - The Loan Agreement (between the Investor and GOL);
b. - The Contract of Guaranty (AID and Investor);
c. - The Implementation Agreement (AID and GOL); and
d. - Host Country Guaranty (GOL and AID).

It will be necessary to ascertain and comply with GOL and Investor requirements for execution of these documents. AID will require legal opinions from acceptable counsel for GOL and Investor.

5.2 Conditions

AID will set forth certain conditions with which the GOL must comply at each stage of the project which will include the following:

(1) The guaranty shall extend for a period up to thirty (30) years from the date of disbursements of the respective installments of the loan or such other period as will coincide with full payment of the notes.

(2) The fee of AID shall be paid in US dollars, and will be made up of: (a) one half of one per cent (1/2%) per annum of the guaranteed portion of the outstanding loan investment, and (b) $150,000 to be paid from the first drawdown.

(3) GOL shall provide a full faith and credit guaranty of dollar repayment of the loan and payment of the AID guaranty fee.

(4) The HG monies will be reserved for lower income families and will be reserved for loans of US$4,000 or less.

(5) Loan repayments, beginning not before the 12th month after signing of the first mortgage, are to be made to the National Housing Bank if it is operational or otherwise to the CBL. Those repayments not used to repay the HG Loan will be reloaned to eligible low income families for housing purposes.

(6) As a condition precedent to the first disbursement MOHC will establish a procedure satisfactory to AID to determine income eligibility for families who are to be the beneficiaries of the project.

ANNEX A

STATUTORY CHECKLIST

The Republic of Lebanon
The Ministry of Housing and Cooperatives (MCHC)

Central Bank of Lebanon (CBL)

National Housing Bank (NHB)

Sections 221 and 222 (b):

The proposed Guaranty will finance self-liquidating housing projects under one or more of the following criteria:

(a) Private housing projects of types similar to those insured by HUD and suitable for conditions in Lebanon.

(b) Credit institutions in Lebanon engaged directly or indirectly in the financing of home mortgages.

(c) Low-income housing projects.

Sections 221 and 222 (c):

The total face amount of guaranties issued, outstanding at any one time, shall not exceed $1,030,000,000.

Section 223 (a):

The A.I.D. guaranty fee has been determined by A.I.D. in accordance with the authority delegated by the President.

Section 223 (f):

The maximum rate of interest allowable to the eligible U.S. investor to be prescribed by the Administrator will not be more than one percent above the current rate of interest applicable to housing mortgages insured by the Department of Housing and Urban Development.

Section 223 (h):

No payment may be made under any guaranty issued for any loss arising out of fraud or misrepresentation for which the party seeking payment is responsible.

Section 223(j):

Although Lebanon is not receiving and has not in the previous two years received development assistance, the guaranty in the face amount of $15,000,000 is within the special authority granted to the President for Lebanon available until September 30, 1977.

The project is designed and planned by A.I.D. so that at least ninety percent (90%) of the face value of the proposed guaranty will be issued for housing suitable for families with incomes below the median income (below the urban median income for the housing in urban areas) in Lebanon.

The $15,000,000 housing guaranty will be authorized in Fiscal Year 1977. The face value of guaranties issued (i.e. authorized) with respect to Lebanon shall not exceed $25 million in any fiscal year. It is planned that the average face value of all housing guaranties issued (i.e. authorized) in any fiscal year shall not exceed $15 million.

Section 238(c):

The guaranty agreement will cover only lenders who are "eligible investors" within the meaning of this section of the statute at the time the guaranty is issued.

Section 620/620A:

There is no available information as to facts which would prohibit the furnishing of assistance to Lebanon.

AID 1020-20 (1-72)

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

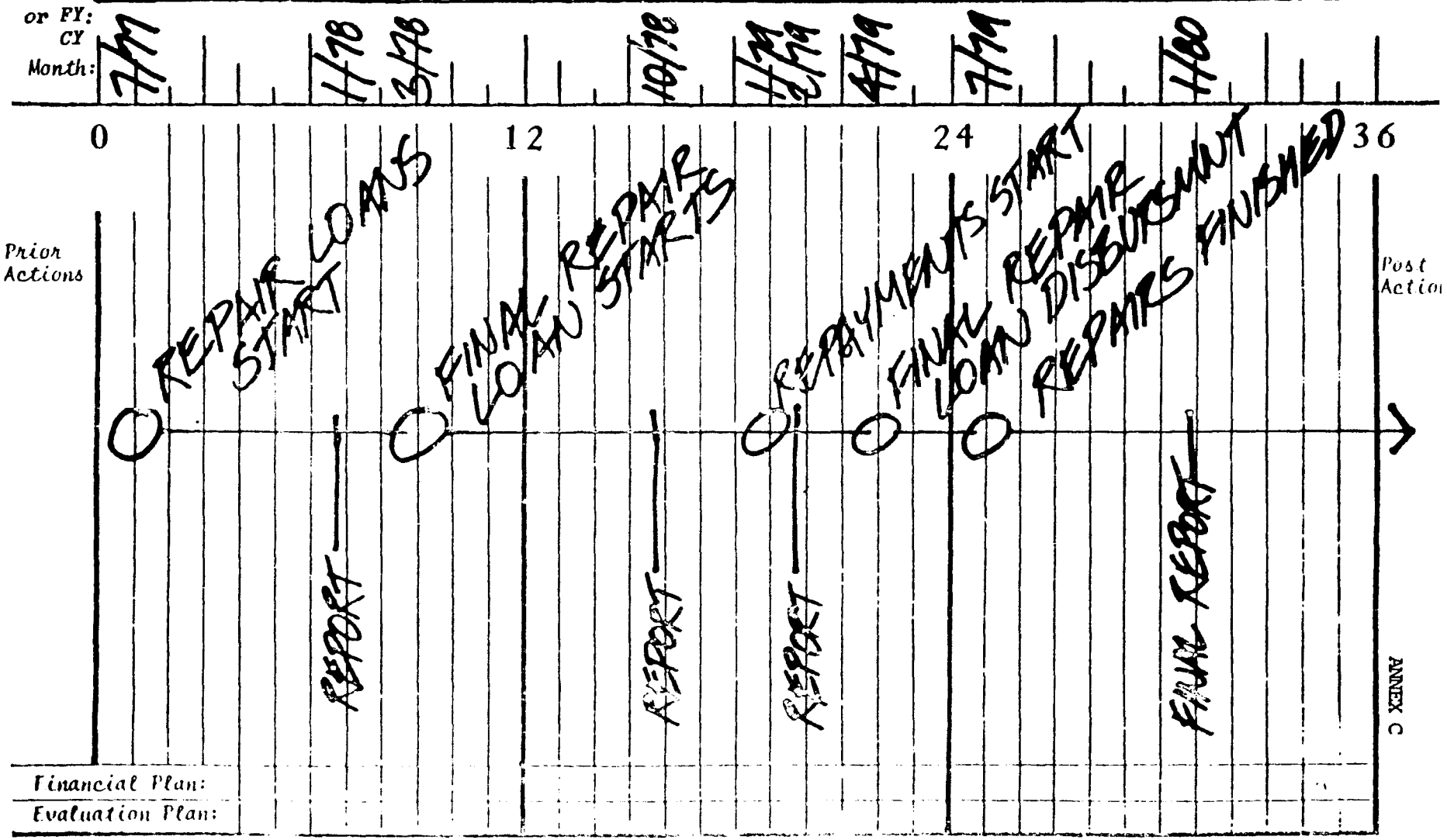
Life of Project:
From FY _____ to FY _____
Total U. S. Funding _____
Date Prepared: _____

Project Title & Number: _____

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Program or Sector Goal: The broader objective to which this project contributes: CONTRIBUTE TO SOLUTION OF SHELTER PROBLEMS FACING LOW-INCOME FAMILIES	Measures of Goal Achievement: - WAR-DAMAGED HOUSING REPAIRED/RECONSTRUCTED - RENTERS ABLE TO RECOCUPY DAMAGED HOMES	- GOL ASSERTIONS - MISSION OBSERVATION - AID EVALUATION	Assumptions for achieving goal targets: - SECURITY IMPROVES - ADEQUATE FINANCING SECURED - POLITICAL HARMONY RESTORED
Project Purpose: - REPAIR AND RECONSTRUCTION OF WAR-RELATED DAMAGE TO LOW-INCOME HOUSING - STRENGTHEN GOL CAPACITY TO DEAL WITH LOW-INCOME SHELTER PROBLEMS	Conditions that will indicate purpose has been achieved: End of project status: - LOAN MONEY DISBURSED TO TARGET GROUP - MCHC CARRIES OUT DEBT MANDATE - MCHC BANK OPERATING - CONSTRUCTION INDUSTRY OPERATING NORMALLY	- MCHC INTERNAL AND AID-REQUIRED REPORTING - INSTITUTIONS' ANNUAL REPORTS - ROUTINE ECONOMIC STATISTICAL DATA PUBLISHED BY GOL AND PRIVATE OBSERVERS	Assumptions for achieving purpose: - SUFFICIENT MARKET FOR LOW-INCOME FAMILIES - COMMITMENT OF ADEQUATE ADMINISTRATIVE & FINANCIAL RESOURCES BY GOL
Outputs: - REPAIRED LOW INCOME HOUSING - INCREASED CONSTRUCTION INDUSTRY EMPLOYMENT	Magnitude of Outputs: - 5000 FAMILIES AIDED AT AVERAGE COST OF $400. - 2000 MAN YEARS OF EMPLOYMENT	- MCHC CERTIFIED REPORTS WITH AID EVALUATION - PUBLIC/PRIVATE STATISTICAL DATA	Assumptions for achieving outputs: - WILLINGNESS OF TARGET GROUP TO PARTICIPATE IN PROGRAM - EFFECTIVENESS OF MCHC IN IMPLEMENTATION - STABLE LABOR/MATERIAL SUPPLIES
Inputs: 1. AID a. HG LOAN b. TECHNICAL ASSISTANCE 2. LOCAL	Implementation Target (Type and Quantity) 1. a) $15 MILLION b) 10 MAN MONTHS 2. LOGISTICAL SUPPORT	SER/M RECORDS GOL RECORDS	Assumptions for providing inputs: - U.S. INVESTOR AVAILABLE - GOL RESOURCES PROVIDED

ANNEX B

Country:	Project No:	Project Title:	Date:	/ / Original / / Revision #__	PPT appr



PROJECT PERFORMANCE NETWORK

ANNEX C

ANNEX D

GUARANTY AUTHORIZATION

Provided From: Housing Investment Guaranty Authority

THE REPUBLIC OF LEBANON: The Ministry of Housing and Cooperatives

Pursuant to the authority vested in the Assistant Administrator, Bureau for Near East, by the Foreign Assistance Act of 1961, as amended (FAA), and the delegations of authority issued thereunder, I hereby authorize the issuance of guaranties pursuant to Section 221 of the FAA of not to exceed fifteen million dollars ($15,000,000) in face amount, assuring against losses (of not to exceed one hundred per centum (100%) of loan investment and interest) with respect to loans by eligible U.S. investors (Investor) acceptable to A.I.D. made to finance housing in Lebanon. This guaranty shall be subject to the following terms and conditions:

1. Term of Guaranty: The loan shall extend for a period of up to thirty years (30) from the date of disbursement of the first installment of the loan including a grace period on the repayment of principal to be negotiated with the Investor. The guaranty of the loan shall extend for a period beginning with the first disbursement of the loan and shall continue until such time as the Investor has been paid in full pursuant to the terms of the loan.

2. Interest Rate: The rate of interest payable to the Investor pursuant to the loan shall not exceed the allowable rate of interest prescribed pursuant to Section 223 (f) of the FAA and shall be consistent with rates of interest generally available for similar types of loans.

3. Republic of Lebanon Guaranty: The Republic of Lebanon shall provide a full faith and credit guaranty to A.I.D. in United States dollars assuring against any and all losses to A.I.D. by virtue of A.I.D.'s guaranty to the Investor or from non-payment of the guaranty fee.

4. Fee: The fee of the United States shall be payable in dollars and shall be one half of one per centum (1/2%) per annum of the outstanding guarantied amount of the loan plus the fixed amount of $150,000 to be paid as A.I.D. may determine upon disbursement of the loan.

5. Other Terms and Conditions: The guaranty shall be subject to such other terms and conditions as A.I.D. may deem necessary.

Joseph C. Wheeler
Bureau for Near East

Date

ANNEX E1

LEGISTLATIVE DECREE No. 20

Relative to Loansto Owners of Damaged Properties

Destroyed During the Incidents

The President of the Republic,

In accordance with the Constitution,

With Law No. 2176 dated Dec. 30, 1971 (granting the government the right to issue Legistlative Decrees)

With the Legistlative Decree No. 7 of Feb. 8, 1977 (Organisation of the relations between owners and lease holders),

With Legistlative Decrees No. 9 dated Nov. 21, 1939 (Determination of time when the laws and decrees become effective)

After consultation with the State Consultative Council,

With the proposals by the Minister of Housing and Cooperatives, the Minister of Justice, the Minister of Finance and the Minister of Public Works and Transportation,

And after the approval by the Council of Minister on Feb, 24, 1977

Decrees the following :

Article 1

Those who benefit from the rules of this Legistlative Decree, shall be granted loans for repair or for reconstruction of properties used as for residence purpose which were damaged as result of the incidents, since Feb. 28, 1975, with the exception of the cases stipulated in Article 15 of this decree.

Article 2

The term unit as stipulated in this Legistlative Decree is meant the building or part of it as used as a house for residence.

Article 3

The Ministry of Housing and Cooperative- The Directorate General of Housing- shall handle the implementation of this Legistlative Decree.

The mentioned ministry shall provide financial loan to the owner of the damaged unit or building, taking into consideration the stipulations a of para 2 of Article 11 hereunder, under the following conditions :

a To submit a request for the loan.

b The amount of the loan shall not exceed the value of repairs as estimated by the department after making the necessary inspection, provided that the value of the one loan for each unit shall not exceed LL 30,000.

c- The value of one loan for repair or for reconstruction of the building of joint ownership shall not exceed LL 60,000.

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d The repairs subject of the loan shall be restricted to the necessary repairs in order to make the house fit for living.

e- The loan relative to the units and to properties jointly owned shall be paid in consecutive payments and that a part of it shall be given as advance payment to begin the repairs which is equivalent to 10% at the most of the value of the loan and the remaining part of it, in accordance with the progress of work or in accordance with the conditions set for this purpose in the loan contract.

The Department may pay the whole amount of the loan in exchange for a bank guarantee equivalent to the value of the loan and the interest, to guarantee the implementation of the purpose of the loan.

f g- The borrower shall undertake to complete the repairs within 6 months and the reconstruction of the building within 18 months of the date of the signature of the loan's contract. In case this undertaken is not implemented, the receiver of the loan shall lose his right to benefit from the rules of this Legislative Decree, and the state shall recover the borrowed amounts together with an interest rate of 12% on the period between the date of receipt of the loan to the date of repayment, in accordance with the procedures followed in collecting the state's debts.

g- The loan connected with the units and with the portions jointly owned shall be subject to an interest rate of 2 % in favor of the state.

h- the Loans relative to units and portions jointly owned shall be repaid to the state with interest on quarterly equal installments through a maximum period of 15 years which date of maturity shall be determined in the loan contract without warning or any other formality starting on the first 19th month which follow the signature of the contract connected with the repairs. And the first 37th month which follow the signature of the contract connected with the reconstruction of the building.

The building which is divided into stories or flats, each owner of the flat shall be held responsible for repayment of the loan connected with the building jointly owned in accordance with the ratio of distribution of responsi-bilities provided in the regulation of Joint Ownership properties.

In case the borrower failed to pay two consecutive installments or three consecutive installments on the dates determined for repayment, all the remaining installments shall be considered mature immediately and without need to warning or any other formality and the debt shall be recovered in accordance with the procedures followed in collecting state's debts.

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i- Payment of installments shall be completed in the locations determined in the loan's contract.

j- The borrower shall guarantee in the loan contract to allocate or use the unit during the period of the loan for residence.

If he changes its use during this period, all the remaining installments shall immediately mature and the interest rate stipulated in para (g) shall be changed on the date of change of use and another interest rate of 12 % h shall de jure apply on all the installments until the date of their repayment.

Article 4

With consideration to the rules stipulated in this Legistlative Decree, the owner of the unit shall benefit from the loan and the owner or owners of the jointly owned buildings shall benefit from the loan, provided that the share of ownership shall be more than half of the total area of the whole building which is prepared for residence.

Each owner shall have the right to obtain a number of loans equivalent to the number of damaged units in the same building whether occupied or not occupied.

Article 5

The loan relative to the unit or to buildings jointly owned shall be considered "Preferred debt" of the state.

This debt shall be recorded in accordance with the request of the administration de jure and without any formality on the document of the property, if this property is limited and free, and with the proper authority if it is unlimited and not free and the " property document " shall include a copy of the loan contract.

In the buildings which are divided into stories or flats, the loan connected with the jointly owned properties shall be recorded on each portion and all the owners of the portions shall be jointly responsible before the state for repayment of the mentioned loan, provided that the repayment of the loan shall be made in accordance with the stipulation provided in para (h) of Article 3 of this Legistlative Decree. The owner of the portion who repay the whole value of the loan connected with the jointly owned properties, shall replace the state in all its rights and privileges toward all owners of the portions who have not repaid their shares of this loan.

For payment of the sum of the loan as stipulated in para 1 of this Article, the state shall enjoy a general privilege on all fixed and moveable properties of the borrower.

Article 6

With disconsideration to every conflicting stipulation, all contracts, loans,

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insurance mortgage and interest, and other formalities organising the implementation of the rules of this Legislative Decree shall be exempted from all fees, stamps and all the mentioned formalities shall be exempted from advance accounting control.

The loan shall be exempted from the Ministry of Finance and Municipal acquittance.

Article 7

The Ministry of Housing and Cooperatives The Directorate General of Housing may when necessary use the housing fund for achievement of the purposes of this Legislative Decree and for administrative and technical expenses and others.

Article 8

The amounts received from repayment of loan's installments and their interest shall be used for payment of treasury debts.

The surplus amounts shall be placed in the housing fund for implementation of housing projects.

Article 9

The Directorate General of Housing shall cooperate with banks working in Lebanon for achievement of the objectives of this Legislative Decree, especially deposit and withdrawal of funds and collection of installments.

Article 10

The government is eligible by a decree adopted in the Council of Ministers, to designate the Housing Bank and to substitute it in the place of the Ministry of Housing and Cooperatives The Directorate General of Housing to implement or follow up the implementation of this Legislative Decree.

Article 11

In keeping up with the stipulations of this Legislative Decree, the owner who wishes to benefit from its rules shall submit loan request to the Ministry of Housing and Cooperatives The Direct orate General of Housing to repair the damaged unit or the parts jointly owned, within a period not exceeding May 31, 1977.

If the owner fails to submit the request for th e loan within the specified period in this article, or failed after obtaining the loan to carry out the repairs or their completion through one of the two periods determined in article 9 of Legislative Decree No. 9 7 dated Feb. 8, 1977, the holder of the lease shall have the right during a period not exceeding two months from the date of expirey of the previous periods, to bring the owner before the Preliminary Arbitration Committee which is provided in the above mentioned Legislative Decree, and this

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committee shall decide, inaccordance to the stipulation of article 10 of the mentioned Legistlative Decree the following :

1- Permitting the lease holder or the Judicial Custodian (guardian) to obtain a loan and sign a loan contract in the name of the owner and on his behalf.

In case the owner received the whole loan or a part of it and failed to accomplish the repairs within the periods determined above in the second para of this article, the lease holder shall prove that he informed the Directorate General of Housing about this failure.

2- The state debt shall be recorded on the " property document" as excellent debt.

Article 12

Taking into consideration articles 13, 14 and 15 of Legistlative Decree No. 7 dated Feb. 8,1977, the owner of the damaged building which needs reconstruction, and who wishes to benefit from the rules of this Legistlative Decree, shall submit a request for the loan to the Ministry of Housing and Cooperatives- The Directorate General of Housing for reconstruction of the building during a period of 18 months from the date this Legistlative Decree became effective.

Article 13

The Directorate General of Housing shall take all necessary measures to implement in the best methods this Legistlative Decree, especially :

1- Establishment of unified regulations with regard to the loans contracts held between the Directorate and the receivers of the loans.

2 Putting unified forms for the contracts which organize the methods of dealing between the Ministry of Housing and Cooperatives The Directorate General of Housing- and the banks.

3- Registration of every damaged unit, especially having records in the names of owners of the properties who have requested loans, the number of their properties, the flats in the muti story buildings in order to facilitate the lease holders to follow up the requests submitted by the owners.

Article 14

The right to benefit from the rules of this Legistlative Decree shall be restricted to the buildings and units owned or occupied by Lebanese national persons or by Lebanese companies as provided in the " Law of Acquirement by Non Lebanese Property Rights in Lebanon."

Article 15

The buildings and units constructed illegally, shall be exempted from the rules

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of this Legislative Decree. Also the buildings constructed illegally on other people's properties (lots) in on lots owned by the state shall be exempted from the rules of this decree.

Article 16

As exception to all applicable laws, the reconstruction or repair licenses, the declarations (of completion of houses) and the licenses of occupation relative to buildings damaged during the incidents starting from Feb. 26,1975, shall be issued by an engineer of the Directorate General of Civil Organization or By Beirut Municipality, or by Tripoli Municipality, or by Tripoli Port Municipality, authorized by his department for this purpose, taking into consideration the stipulations provided in article 19 and 20 of Legislative Decree No. 7 dated Feb. 8, 1977. This exception shall be applicable for one year with respect of the "declarations" and for the repairs and reconstruction, and for 3 years in respect of "flats occupation" licenses, from the date this legislative Decree became effective.

Article 17

The details of adoption of the stipulations of this Legislative Decree shall be determined, when necessary, by a decree taken by the Council of Ministers.

Article 18

This Legislative Decree shall become effective immediately after its hanging on the door of the Prime Ministerie office.

Ba'bda March 14, 1977

Issued by the President
The Prime Minister
Signed Salim al Hoss

Signed Elias Sarkis

Minister of Finance
Signed Farid Roffayel

Minister of Housing and Cooperatives
Signed Salah Salman

Minister of Justice
Signed Farid Roffayel

Minister of Public Works and Transportation
Signed Anis Bizri

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CONCERNING RENTAL UNITS

Excerpts of Decree Law 7 (loosely translated)

Article 1: Existing Law 10/74 governing landlord/tenant relations remains in effect.

This law has force between landlord and tenant in spite of devastation or relocation of the parties or the total or partial hindering of tenants to benefit by it.

Article 3: It is incumbent on the owner of a damaged apartment house to repair it.

Article 4: The owner of a unit rented for residence will pay the cost of repairs up to two times the annual rent if the rent is over LL 5000/yr, or three times the annual rent if the rent is LL 5000 or less.

Article 6: The tenant and owner shall share that part of the cost of repair which is in excess of the amount defined in Art. 4. Of this excess, the owner is not required to pay more than an amount equal to two years rent. In cases where this amount exceeds two years rent, either the tenant must pay the latter excess or the dispositions of the second section of this law will govern (refer to laws concerning destroyed houses).

ANNEX F

Ministry of Housing and Cooperatives
General Directorate of Housing
Beirut - Lebanon
July 14 1977

140813/H

Mr. THOMAS C IRVIN
AID Representative to Lebanon
Embassy of the United States of America
Beirut - Lebanon.

Dear Sir,

During the first AID mission in January of this Year, we decided, in principle, to divide the $ 15 million Housing guarantee Loan into a fund of $ 10 million for home repair and reconstruction and $ 5 million for self-help Cooperatives in the new Housing program. So we are in the process of developing a Housing Policy which will provide the guide lines for new housing construction. As we believe that this policy will not be ready in due time to implement the $ 5 million new Housing Project, we mutually agree, in light of the discussions between the AID experts and my office, that the $ 15 million will be used entirely for home repair and reconstruction. The information show that there is a need for more than this amount for the loans in this field.

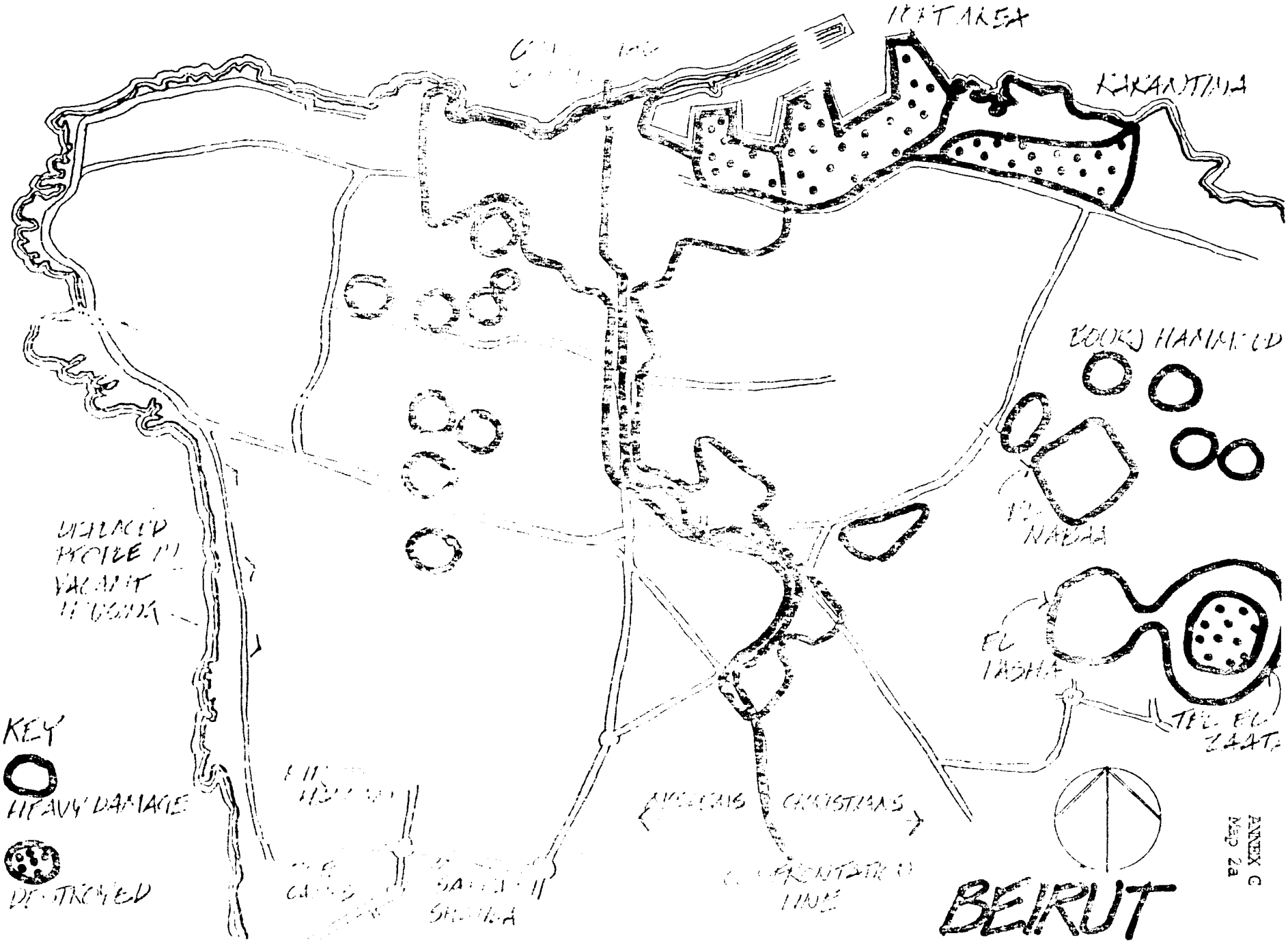
With best Regards

Sincerely Yours

FOUAD ZEBIAN

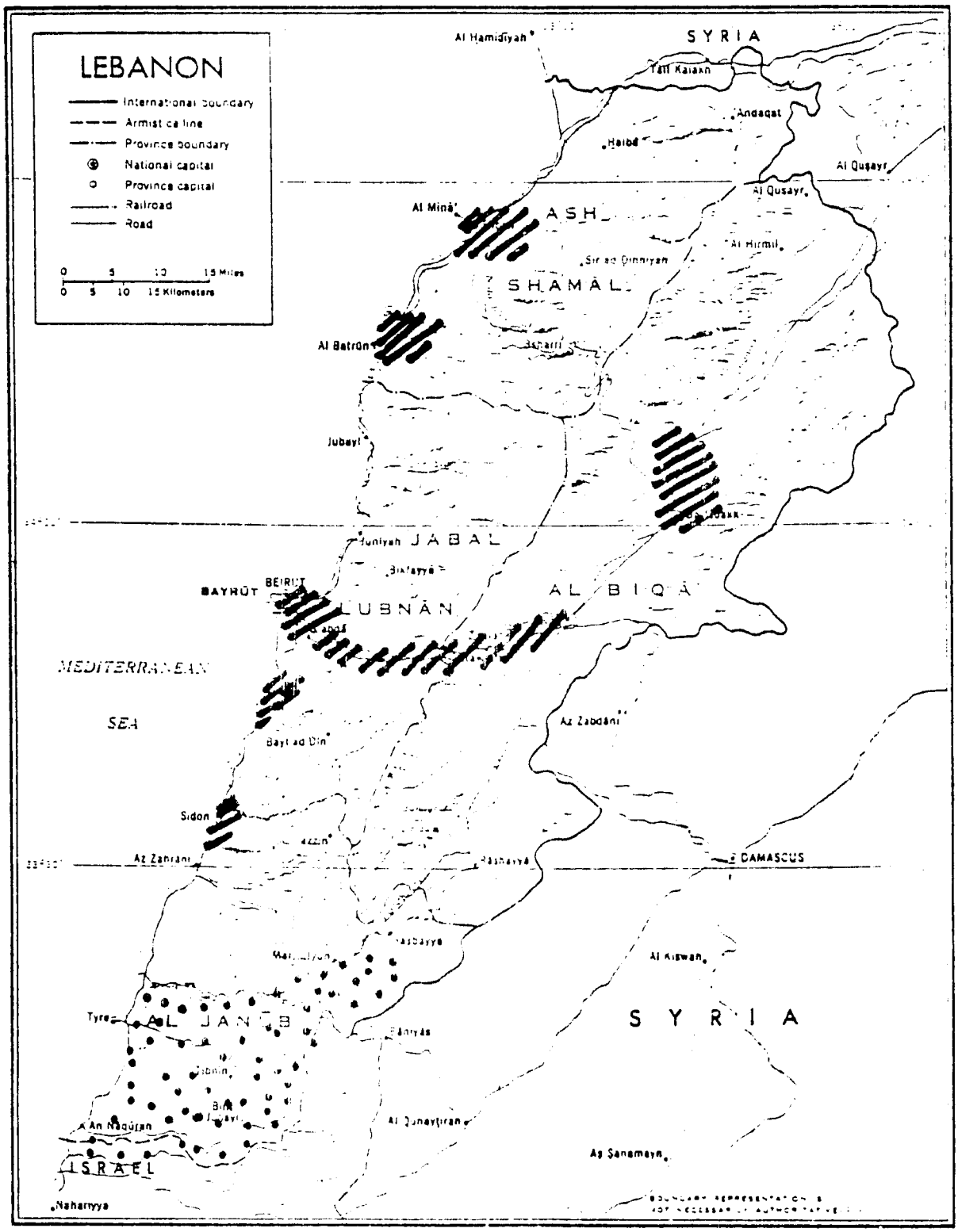
Fouad Zebian

Director General of Housing



ANNEX C
Map 2a

ANNEX G
Map 2b



AREAS OF GREATER DAMAGE

CONTINUED FIGHTING

TABLE 3.3A. CASH FLOW: $19,000,000 Home Repair Program (Includes $4 M grant) in $1000's

Sources	Year 1	2	3	4	5	6	7	8	9	10
AID Grant[1]	4000	--								
HG Loan[2]	7500	7500								
Mortgage Repayments[3]	--	486	1289	1607	1607	1607	1607	1607	1607	1607
GOL Development Subsidy[4]	690	450								
GOL Materials Subsidy[5]	345	570	570	570	570	570	570	570	570	570
Total Sources	12535	9006	1859	2177	2177	2177	2177	2177	2177	2177
Uses										
Repair Program	11500	7500								
HG Repayment[6]	337	1012	1350	1350	1350	1390	1470	1511	1511	1511
Project Development	690	450								
Project Management	345	570	570	570	570	570	570	570	570	570
Total Uses	12872	9532	1920	1920	1920	1960	2040	2081	2081	2081
Deficit/Surplus	(337)	(526)	(61)	257	257	217	137	96	96	96
Accumulated	(337)	(863)	(924)	(667)	(410)	(193)	(56)	40	136	232

Assumptions & Givens

[1] Disbursed entirely in Year 1.

[2] Disbursed equally over 2 year period.

[3] Terms are 2% interest rate, 15 years, 18 months grace on Principal & Interest.

[4] Development Subsidy estimated at 6% of Project Development Costs

[5] Management Subsidy estimated at 3% of Project Costs.

[6] Terms are 9% interest rate, 30 years, 5 year grace period on principal only.

ANNEX A
Table 3.3A

TABLE 3.3B. CASH FLOW: $35,500,000 Home Repair Program (Includes $16.5 million Saudi grant) in $1000's

Sources	Year 1	2	3	4	5	6	7	8	9	10
AID Grant[1]	4000	--								
HC Loan[2]	7500	7500								
Saudi Grant[2]	8250	8250								
Mortgage Repayments[3]	--	835	2337	3003	3003	3003	3003	3003	3003	3003
GOL Development Subsidy[4]	1185	945								
GOL Management Subsidy[5]	593	1005	1005	1005	1005	1005	1005	1005	1005	1005
Total Sources	21528	18535	3342	4008	4008	4008	4008	4008	4008	4008
Uses										
Repair Program	19750	15750								
HC Repayment[6]	337	1012	1350	1350	1350	1390	1470	1511	1511	1511
Project Development	1185	945								
Project Management	593	1005	1005	1005	1005	1005	1005	1005	1005	1005
Total Uses	21865	18712	2358	2355	2355	2395	2475	2516	2516	2516
Deficit/Surplus	(337)	(177)	984	1653	1653	1613	1533	1492	1492	1492
Accumulated[7]	(337)	(514)	470	2123	3776	5389	6922	8414	9906	11398

Assumptions & Givens

[1] Disbursed entirely in Year 1.

[2] Disbursed equally over 2 year period.

[3] Terms are 2% interest rate, 15 years, 18 months grace on Principal & Interest.

[4] Development Subsidy estimated at 6% of Project Development Costs.

[5] Management Subsidy estimated at 32 of Project Costs.

[6] Terms are 9% interest rate, 30 years, 5 year grace period on principal only.

[7] Accumulated Surplus beginning in Year 3 can be used to make new loans to qualified low-income families. In this case, surplus will be decreased by a like amount invested in new program.

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ANNEX E
Table 3.3B

EXCERPTS OF LEGAL OPINION ON LANDLORD/TENANT RESPONSIBILITIES

If this system is applied and if the tenant moves prior to full payment of the loan, would the new tenant be liable for the tenants share of repayment

The law is very lear on this point. Loans are to be provided to landlords only (Article 3). Even if the landlord fails or refuses to ask for the loan, the law gives the tenant the right to request a loan and if the Government considers and grants such a request, then the landlord becomes responsible for its payment (Article 11).

Therefore tenants are in no way responsible for such loans.

11 Eviction

In general terms the tenant may be evicted for the following reasons:

i) if he fails to pay his rent.

ii) if he does not use the premises for the purpose specified in the lease agreement.

iii) if he intentionally causes physical damage to the apartment.

The landlord can also request eviction if he wishes to use the apartment for himself, his son or his daughter; and also if he wishes to pull down the building and rebuild.

As for the assumption that the landlord may never increase the rent, the following has to be considered: in principle, lease agreements are subject to the Code of Obligations and Contracts whereby the parties may agree on whatever is equitable to them.

The rent laws promulgated since 1944 are exceptional laws and in that capacity they apply only to lease agreements in effect at the time of their promulgation. These laws have provided for increments in rent in some buildings as well as decreases in others. Such increase or decrease is dependent on whether the building is a luxury building or not, new or old, on the time the tenant has occupied the premises and on the amount of rent he is paying.

Therefore we cannot say that the landlord may never increase the rent but, you are right in assuming that increments are not for the landlord to dictate once he agrees to lease; they are provided for only by the law.

111. <u>Can a tenant assign or will his lease to his heirs and not have the rent increased at his death?</u>

To answer this question we have to differentiate between commercial and residential occupancy: for the latter, Rent Law No 10/74 stipulates in Article 3 the following:

In the case where the tenancy is for housing purposes, beneficiaries of the legal extension of the lease are:

1. The spouse or children living in the premises at the time of death.
2. Relatives who occupied the premises with the deceased when he first entered the premises and continued to live with him all that time.

For buildings or units that are leased for non-residential purposes, the beneficiaries are:

1. heirs as a group or some of them as they may agree or as willed, if there was a will and if it was considered legal.
2. Partners whose partnership can be proven to have existed at the date on which the lease was signed or prior to it.

In all the above cases, the rent shall be extended at the same rate.

IV. Regarding the Rent Control Law

Law No. 10/74 deals with buildings erected prior to May 9, '67
In Article 8, it provides that if the building is used for residential purposes, the rent shall be increased, if the lease agreement was entered into prior to July 1, 1943, in the following manner:

10% for 1974
15% for 1975
20% for 1976
25% for 1977.

Agreements entered into between July 1, 1943 and December 31,1953 are to be raised by half the increments quoted above.

This is true for ordinary buildings built prior to 1967.

If the building is a luxury building, the landlord cannot request eviction for the reason that the rent agreement has fallen due and that is for housing units whose rent on December 31, 1970 was L.L.6000 in Beirut and L.L.4000 outside Beirut. If the rents are as such, the landlord cannot request eviction except after three years have elapsed on the first contract, and in all cases he has to pay the tenant a compensation equivalent to four years' rent.

If the rent is more than the amounts quoted above, the landlord has the right to request an increment of 3% on the original rent once before December 31, 1977

If the building is an ordinary building built after 1967, the rent shall be decreased once by 15% between January 1, 1974 and December 31,1977

What is presented above applies to rents of units built after 1967 whether they are ordinary or luxury buildings. However, once a unit becomes vacant, the landlord has absolute freedom to rent it at whatever amount he may choose.

ANNEX J

MOHC REPAIR PROGRAM: APPLICATION DATA AS OF 4 JULY 1977

REGION	DEMANDS	UNITS	COMMON AREAS	AMOUNTS (Millions of Lebanese Pounds)
BEIRUT CITY LIMITS	734	3,240	460	74
LIBAN NORD (includes Tripoli)	3,160	5,700	800	136
MONT LIBAN (includes Beirut Suburbs)	5,400	22,000	3,000	409
LIBAN SUD	3,100	4,000	250	80
BEQAA	1,450	2,300	200	52
TOTALS	13,844	37,240	4,710	751
INCLUDED IN ABOVE FIGURES:				
TRIPOLI (LIBAN NORD)	1,160	2,600	310	57
BOURJ HAMMOUD/NABA'A (low income)	944	5,920	650	110

ANNEX J

SAMPLE OFFICES - BEIRUT AREA

	METN	ALEY	BOURJ HAMMOUD
PREDOMINANT INCOME CLASS	LO, MED, HI	MED, HI	LO
DEMANDS	1,657	630	948
UNITS	11,600	1,550	5,751
AMOUNT	± 120 million	31 million	59 million
AVG. UNITS/BLDG	7	2.4	6
AVG. LOAN REQUEST/UNIT	-	20,000	10,259
APPLICATIONS COMPLETE	-	300	215
CONTRACTS READY	140 (900 dw's)	-	99
CONTRACTS SIGNED*	74	15	None
CONTRACTS AMOUNT	± 5.4 Million	±260,000	-
AVG. APPROVED LOAN	±10,400	± 17,000	-
UNITS INSPECTED DAILY	20 - 25	± 20	20 - 25

Background on Lebanese Design and Construction

(a) General Description of Housing in Lebanon

According to statistics gathered in 1972, 62% of all dwellings in Lebanon were apartments, 35% were individual detached, and only 2% "improvised." (In Beirut the figures are respectively, 88%, 7.3%, and 4.5%.) Also in 1972, 70% of the dwellings were less than 25 years old. Of the total, 8% were classed as "luxurious" and 92% as "ordinary". 61% were $80m^2$ or smaller with 4 or less rooms.

Thus, the typical dwelling is a fairly new apartment of permanent construction, not larger than 800 SF with four rooms. This description applies also in Beirut, except that a dwelling is more likely to be in the luxury category. The distribution of dwellings is weighted towards urban areas, with 46% in Beirut and its suburbs, 15% in other cities and towns, and 39% in rural areas.

(b) Construction Materials and Methods

Lebanon is a country with well-developed building skills and very little housing of non-permanent construction. Rich in limestone, Lebanon has a long tradition of masonry construction, both vaulted and wood-framed. In this country reinforced concrete construction has become the dominant method of construction for all building. Urban or rural, large or small, rich or poor, reinforced concrete frame and slab with concrete block infill is the prevalent building type.

Older buildings of limestone masonry are common in rural areas, and in the heavily damaged downtown commercial area of Beirut. Rural masonry buildings have gabled roof framing of wood with red clay roofing tile. However, the proportion built of reinforced concrete appears to be greater.

Wood is used only for doors, shutters, windows, and minor interior trim, and wood has lost ground to aluminum and galvanized steel for windows. Wood is an important item in construction, however, for forming, bracing and scaffolding, and is carefully stored and reused.

Roofs are usually flat concrete, except in the mountain areas, where they are often gabled. Newer houses in such regions might have gabled roofs in monolithic concrete covered with red roofing tiles.

Interior finishes typically consist of hard cement plaster and paint on walls and ceilings, and terrazo tile on floors. Exterior finish is also typically painted cement plaster.

Bathrooms are in the European tradition. Modest units have W.C., lavatory, and shower, and are tiled. More expensive units also have a bathtub and bidet.

Kitchens are usually generous, and are tiled.

Central heating is not considered a necessity, and is rare in older low-rise buildings of modest character. The small amounts of space heating required in Lebanon is provided by oil or wood space heaters in such buildings. Domestic hot water is common and is provided by gas, oil, or wood heaters, depending on age and location of the building.

Plumbing installations are according to Western European quality and method.

Water from the municipal supply is commonly fed to a reservoir above the kitchen or bath, because of uncontinuous pressure and delivery. A separate line for drinking water is tapped off directly from the supply, before entering the reservoir.

Domestic electrical installations are also according to European standards. 80-90% of Lebanese homes are electrified.

BACKGROUND ON THE MOHC

The Ministry of Housing and Cooperatives was established in December 1973 as the government agency responsible for developing and implementing government housing policy. Prior to the war, the MOHC was able to complete projects only in Tripoli and Tyr, now occupied illegally by war refugees. The MOHC was also able to produce a housing plan for the period 1975 through 1977, but events over the past two years have prevented the MOHC from carrying out this plan.

The MOHC is composed of a Directorate General of Housing and a Directorate General of Cooperatives. The latter is charged with the promotion and regulation of the cooperative movement. There are agricultural, consumer, and artisan cooperatives, but only one housing cooperative in Lebanon now. It is through the Directorate General of Housing that the MOHC is charged by Decree Law 420 with the handling of the repair loan program. The MOHC receives Government budgetary assistance for administrative purposes. Its only source of housing finance is a "Housing Fund" (see below), which enabled the MOHC to do some development work, although as mentioned, only two projects have been completed.

In 1956, the GOL set up the Housing Fund, which was funded through special taxes and assessments. Money from this fund was used for reconstruction in the Chouf after the earthquake there and the Tripoli area after the flood. Since that time until 1974 the fund had been used by the Ministry of Social Affairs to develop some scattered housing projects. Since 1974, the MOHC has managed this fund, and was able to develop the units in Tripoli and Tyr. The war effectively prevented development of additional planned projects. In 1973,

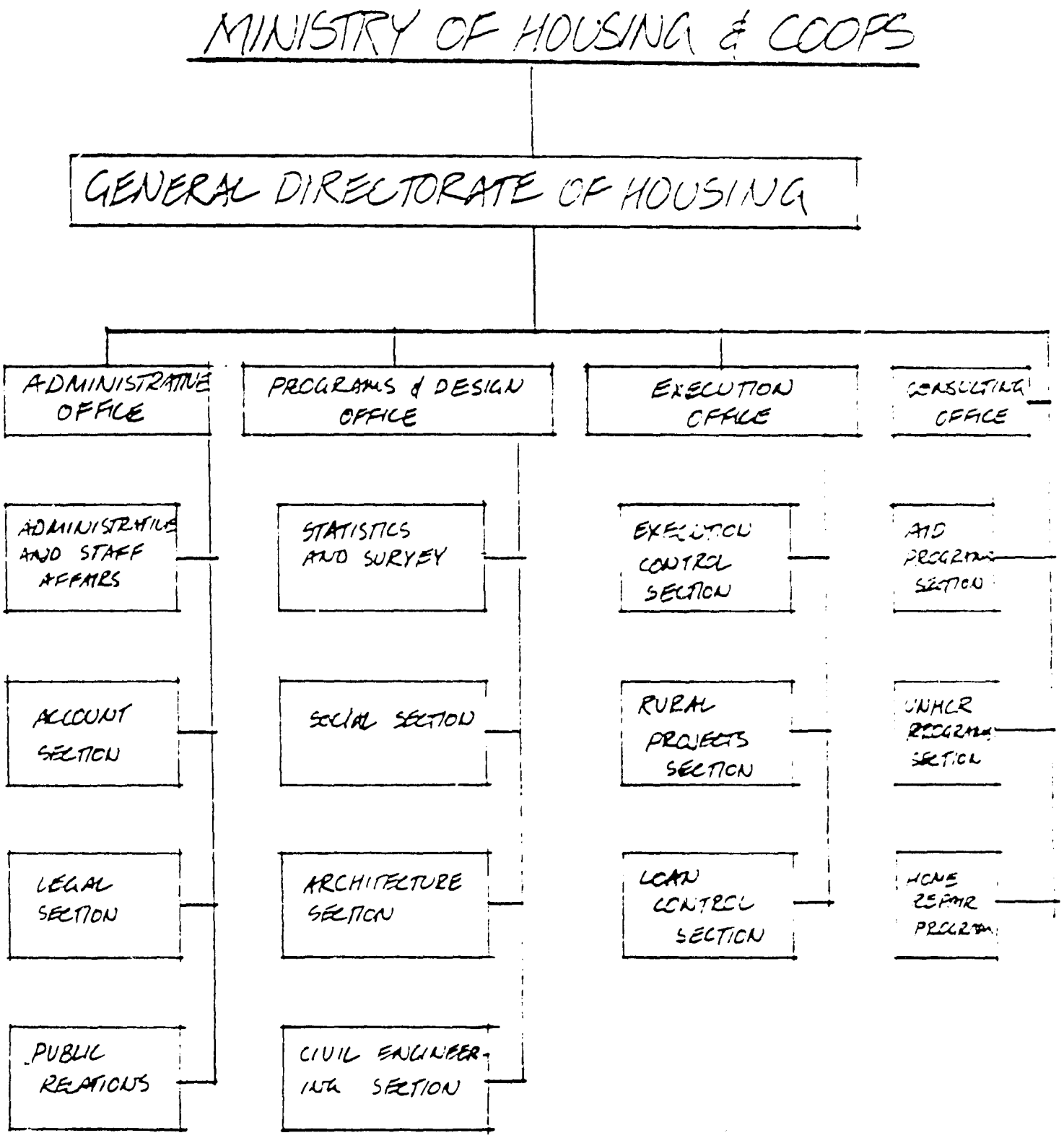
this housing fund totaled some LL 84,000,000 and today is probably closer to LL 100 million. However, this fund is only a bookkeeping entry; according to the GOL, there are no funds on hand, and the GOL asserts that this money is not available for the reconstruction program because of other budgetary needs.

Prior to the war, the MOHC had been unable to staff up to its authorized strength. Since the truce, the Ministry has been able to increase its actual working staff considerably. A total of 454 positions have been budgeted, and staff identified, most of whom are on the job today.

The MOHC offices, which were damaged heavily, were located close to the confrontation line. New offices are now located in a building formerly used by the Ministry of Planning.

The technical expertise of the MOHC is not extensive. The two projects planned and built just before the war included a 192 unit development of two-story row houses in Tripoli (El Mina) and a 96 unit project of one-story row houses in Tyr. Unit costs ranged from LL 90/m^2 to LL 120/m^2 and families earning less than LL 500 monthly were eligible to purchase the units. Actual construction was carried out by a private builder with financing available from the "Housing Fund". The prospective beneficiaries were to receive loans at a 6% interest rate for 15 years. Although the projects were completed, the war intervened prior to initiation of a marketing program. War refugees then moved in illegally and remain there today.

A third project of some 400 units was initiated at about the same time in Madiaya, near Tripoli. Due to a dispute with the contractor over rising costs, work was discontinued. It is estimated that only about 25% of each unit has been completed.


MINISTRY OF HOUSING & COOPS
GENERAL DIRECTORATE OF HOUSING
ADMINISTRATIVE OFFICE
PROGRAMS & DESIGN OFFICE
EXECUTION OFFICE
CONSULTING OFFICE
ADMINISTRATIVE AND STAFF AFFAIRS
ACCOUNT SECTION
LEGAL SECTION
PUBLIC RELATIONS
STATISTICS AND SURVEY
SOCIAL SECTION
ARCHITECTURE SECTION
CIVIL ENGINEERING SECTION
EXECUTION CONTROL SECTION
RURAL PROJECTS SECTION
LOAN CONTROL SECTION
AID PROGRAM SECTION
UNHCR PROGRAM SECTION
HOME REPAIR PROGRAM

GENERAL DIRECTOR - HOUSING

PROJECT HEAD OFFICE - 25 empl.

REGIONAL OFFICES:

BEIRUT 8 empl.	SOUTH HAMMUD 9 empl.	METN 6 empl.	CHIYA CHOBAIRI HIMBERIK 10 empl.	BAABDA 9 empl.	ALEY 8 empl.	CHOUF 11 empl.	KEROUAN JBEIL BATROUN 6 empl.	KOURA ZAHORTA BELHARRE 10 empl.	TRIPOLI AKKAR 10 empl.	SOUTH 12 empl.	BEQAA 5 empl.
WORKING TEAMS:											
I: 4 empl	I: 4	I: 7	I: 13 II: 6	I: 8 II: 7	I: 6 II: 5	I: 5 II: 5	I: 6	I: 6 II: 7	I: 11 II: 8	I: 10 II: 3 III: 6 IV: 7	I: 4 II: 4

TOTALS: HEAD OFFICE 25
REGIONAL " S 108
TEAMS 144
277

BUILDING MATERIALS DATA

Cement: Cement is manufactured in Lebanon from local raw materials at two plants located in the port city of Chekka, about 75 km north of Beirut. They are currently at full production. A third plant has been under construction at Seblin in the Caza Chouf, about 40 km south of Beirut. Of the 1974 production of the two Chekka plants, 25% was exported. Price in 1974 was LL 50 to LL 60 per metric ton, which was equivalent to about US$ 1 per 94 lb. bag, at the 1974 exchange rate. The price is now LL 150 to LL 165 per metric ton, equivalent to US$ 2.40 per bag at the current exchange rate. To the Lebanese, the cost increase amounts to about $175%. Lebanese in the construction industry and various government officials agree that the price increase cannot be explained except as an attempt to take advantage of unsettled conditions to make up missed profits and to administer a permanent higher price structure. As a result, discussion about forcing prices down has taken place in the GOL. It has been asserted by members of the government that the increase in fuel cost from LL 62 to LL 200/ton justifies an increase of only LL 10 ton on the price of cement.

On April 9, the Minister of Economy and Commerce decided to discontinue the import license requirement for cement, "to authorize the liberal importation of cement until further notice." Government officials said that East European cement could be delivered to the Beirut port at LL 50/ton. Some Lebanese question the quality of such cement.

Reinforcing Steel: Most bars are imported from Germany. A local plant is located in Tripoli but is not currently in production. The Tripoli plant was undamaged and is said to have the capacity to meet local needs

Full production is expected this year.

Suppliers foresee no problem with steel availability. Warehouse outlets near the port area are stocked, and stockpiles exist in "safe areas" outside the city.

Prices are up 20% to 25%, from LL 70 - 790 per metric ton in December 74 to LL 820 - LL 990 per ton now, depending on size and strength.

Concrete Block: The manufacture of this material in Lebanon is decentralized and less vulnerable to war-related disruption, except that production has been off. On large construction jobs, block is traditionally made at the construction site with simple forming equipment and low-skill labor. No availability problem exists or is expected, yet concrete block prices have increased more than any other material - about 300% from LL 0.20 per unit per decimeter thickness to LL 0.80. The cost of labor and of cement is cited as the cause, but speculation is blamed for the biggest portion of the increase. The high price is not expected to hold when competition begins to flourish under high production conditions.

Other Materials:

- Glass is made in Lebanon up to 4mm (5/32") thickness. Scavengers at present collect for recycling. There is no damage to the plant south of Beirut, but costs are up 100% to LL 15 per m^2 for 3 mm (1/8") thickness. (4oc per sq. ft.) Local glass is said to be less smooth than European.

- Aluminum is locally formed and extruded; plants are undamaged.

- Sanitary fixtures are made locally in sufficient quantities to meet local needs, but large amounts are nonetheless imported for upper income housing. Typical bath set costs from LL 500 to 700, including fittings, excluding labor.

- Softwood is imported from Germany and Scandinavia. Costs are up almost 50% to rough equivalent of 50c per board foot (US).

- Electrical equipment is imported from Italy for the most part, and is readily available.

ANNEX II

FY 78 LEBANON
SHELTER REPAIR AND RECONSTRUCTION
IN SOUTH - Project No. 268-0310
6C(2) - PROJECT CHECKLIST

Listed below are, first, statutory criteria applicable generally to projects with FAA funds, and then project criteria applicable to individual fund sources: Development Assistance (with a subcategory for criteria applicable only to loans); and Security Supporting Assistance funds.

CROSS REFERENCES: IS COUNTRY CHECKLIST UP TO DATE? IDENTIFY. HAS STANDARD ITEM CHECKLIST BEEN REVIEWED FOR THIS PROJECT?

A. GENERAL CRITERIA FOR PROJECT.

1. App. Unnumbered; FAA Sec. 653(b)

   (a) Describe how Committees on Appropriations of Senate and House have been or will be notified concerning the project; (b) is assistance within (Operational Year Budget) country or international organization allocation reported to Congress (or not more than $1 million over that figure plus 10%)?

   (a) An Advice of Program Change has been submitted to Congress for this project.

   (b) Fundingis within appropriation limits for Lebanon for FY 78.

2. FAA Sec. 611(a)(1). Prior to obligation in excess of $100,000, will there be (a) engineering, financial, and other plans necessary to carry out the assistance and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?

   (a) Yes.

   (b) Yes

3. FAA Sec. 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance?

   No further legislative action is required

4. FAA Sec. 611(b); App. Sec. 101. If for water or water-related land resource construction, has project met the standards and criteria as per Memorandum of the President dated Sept. 5, 1973 (replaces Memorandum of May 15, 1962; see Fed. Register, Vol 38, No. 174, Part III, Sept. 10, 1973)?

   N.A.

5. FAA Sec. 611(e). If project is capital assistance (e.g., construction), and all U.S. assistance for it will exceed $1 million, has Mission Director certified the country's capability effectively to maintain and utilize the project?

   N.A.

A.

6. FAA Sec. 209, 619. Is project susceptible of execution as part of regional or multilateral project? If so why is project not so executed? Information and conclusion whether assistance will encourage regional development programs. If assistance is for newly independent country, is it furnished through multilateral organizations or plans to the maximum extent appropriate?

No.

7. FAA Sec. 601(a); (and Sec. 201(f) for development loans). Information and conclusions whether project will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions.

N.A.

8. FAA Sec. 601(b). Information and conclusion on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

U.S. private industry will provide the goods and related services required for the project to the maximum extent possible.

9. FAA Sec. 612(b); Sec. 636(h). Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized to meet the cost of contractual and other services.

The Host Country contribution to the project, including contributions in kind, will exceed 25% of the total project cost to A.I.D. U.S. owned local currencies are not available for contract support use. (See 10 below).

10. FAA Sec. 612(d). Does the U.S. own excess foreign currency and, if so, what arrangements have been made for its release?

No.

B. FUNDING CRITERIA FOR PROJECT

1. Development Assistance Project Criteria

a. FAA Sec. 102(c); Sec. 111; Sec. 281a. Extent to which activity will (a) effectively involve the poor in development, by extending access to economy at local level, increasing labor-intensive production, spreading investment out from cities to small towns and rural areas; and (b) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions?

Since Project is funded under Security Assistance these criteria are not applicable.

B1

This Page Not Applicable

(5) [107] by grants for coordinated private effort to develop and disseminate intermediate technologies appropriate for developing countries.

c. FAA Sec. 110(a); Sec. 208(e). Is the recipient country willing to contribute funds to the project, and in what manner has or will it provide assurances that it will provide at least 25% of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or has the latter cost-sharing requirement been waived for a "relatively least-developed" country)?

d. FAA Sec. 110(b). Will grant capital assistance be disbursed for project over more than 3 years? If so, has justification satisfactory to Congress been made, and efforts for other financing?

e. FAA Sec. 207; Sec. 113. Extent to which assistance reflects appropriate emphasis on; (1) encouraging development of democratic, economic, political, and social institutions; (2) self-help in meeting the country's food needs; (3) improving availability of trained worker-power in the country; (4) programs designed to meet the country's health needs; (5) other important areas of economic, political, and social development, including industry; free labor unions, cooperatives, and Voluntary Agencies; transportation and communication; planning and public administration; urban development, and modernization of existing laws; or (6) integrating women into the recipient country's national economy.

f. FAA Sec. 231(b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government.

B1

This Page Not Applicable

g. FAA Sec. 201(b)(2)-(4) and -(8); Sec. 201(e); Sec. 211(a)(1)-(3) and -(6). Does the activity give reasonable promise of contributing to the development: of economic resources, or to the increase of productive capacities and self-sustaining economic growth; or of educational or other institutions directed toward social progress? Is it related to and consistent with other development activities, and will it contribute to realizable long-range objectives? And does project paper provide information and conclusion on an activity's economic and technical soundness?

h. FAA Sec. 201(b)(6); Sec. 211(a)(5), (6). Information and conclusion on possible effects of the assistance on U.S. economy, with special reference to areas of substantial labor surplus, and extent to which U.S. commodities and assistance are furnished in a manner consistent with improving or safeguarding the U.S. balance-of-payments position.

2. Development Assistance Project Criteria (Loans only)

a. FAA Sec. 201(b)(1). Information and conclusion on availability of financing from other free-world sources, including private sources within U.S.

b. FAA Sec. 201(b)(2); 201(d). Information and conclusion on (1) capacity of the country to repay the loan, including reasonableness of repayment prospects, and (2) reasonableness and legality (under laws of country and U.S.) of lending and relending terms of the loan.

c. FAA Sec. 201(e). If loan is not made pursuant to a multilateral plan, and the amount of the loan exceeds $100,000, has country submitted to AID an application for such funds together with assurances to indicate that funds will be used in an economically and technically sound manner?

d. FAA Sec. 201(f). Does project paper describe how project will promote the country's economic development taking into account the country's human and material resources requirements and relationship between ultimate objectives of the project and overall economic development?

6C(3) - STANDARD ITEM CHECKLIST

Listed below are statutory items which normally will be covered routinely in those provisions of an assistance agreement dealing with its implementation, or covered in the agreement by exclusion (as where certain uses of funds are permitted, but other uses not).

These items are arranged under the general headings of (A) Procurement, (B) Construction, and (C) Other Restrictions.

A. Procurement

1. FAA Sec. 602. Are there arrangements to permit U.S. small business to participate equitably in the furnishing of goods and services financed?	Yes. Small Businesses will be advised of the opportunities to participate, particularly in the furnishing of goods, in this project.
2. FAA Sec. 604(a). Will all commodity procurement financed be from the U.S. except as otherwise determined by the President or under delegation from him?	Yes.
3. FAA Sec. 604(d). If the cooperating country discriminates against U.S. marine insurance companies, will agreement require that marine insurance be placed in the U.S. on commodities financed?	Yes.
4. FAA Sec. 604(e). If offshore procurement of agricultural commodity or product is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity?	N.A.
5. FAA Sec. 608(a). Will U.S. Government excess personal property be utilized wherever practicable in lieu of the procurement of new items?	If suitable, U.S. owned excess property will be utilized.
6. MMA Sec. 901(b). (a) Compliance with requirement that at least 50 per centum of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S.-flag commercial vessels to the extent that such vessels are available at fair and reasonable rates.	Grant Agreement will contain this requirement.
7. FAA Sec. 621. If technical assistance is financed, will such assistance be furnished to the fullest extent practicable as goods and professional and other services from private enterprise on a contract basis? If the facilities of other Federal agencies will be utilized,	Yes.
	No use of facilities of other Agencies is contemplated.

A7

are they particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?

8. International Air Transport. Fair Competitive Practices Act, 1974 — N.A.

If air transportation of persons or property is financed on grant basis, will provision be made that U.S.-flag carriers will be utilized to the extent such service is available?

B. Construction

1. FAA Sec. 601(d). If a capital (e.g., construction) project, are engineering and professional services of U.S. firms and their affiliates to be used to the maximum extent consistent with the national interest? — N.A.

2. FAA Sec. 611(c). If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable? — N.A.

3. FAA Sec. 620(k). If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed $100 million? — N.A.

C. Other Restrictions

1. FAA Sec. 201(d). If development loan, is interest rate at least 2% per annum during grace period and at least 3% per annum thereafter? — N.A.

2. FAA Sec. 301(d). If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights? — N.A.

3. FAA Sec. 620(h). Do arrangements preclude promoting or assisting the foreign aid projects or activities of Communist-Bloc countries, contrary to the best interests of the U.S.? — N.A.

4. FAA Sec. 636(i). Is financing not permitted to be used, without waiver, for purchase, long-term lease, or exchange of motor vehicle manufactured outside the U.S. or guaranty of such transaction? — N.A.

5. Will arrangements preclude use of financing:

a. FAA Sec. 114. to pay for performance of abortions or to motivate or coerce persons to practice abortions? **Yes.**

b. FAA Sec. 620(c). to compensate owners for expropriated nationalized property? **Yes.**

c. FAA Sec. 660. to finance police training or other law enforcement assistance, except for narcotics programs? **Yes.**

d. FAA Sec. 662. for CIA activities? **Yes.**

e. App. Sec. 103. to pay pensions, etc., for military personnel? **Yes.**

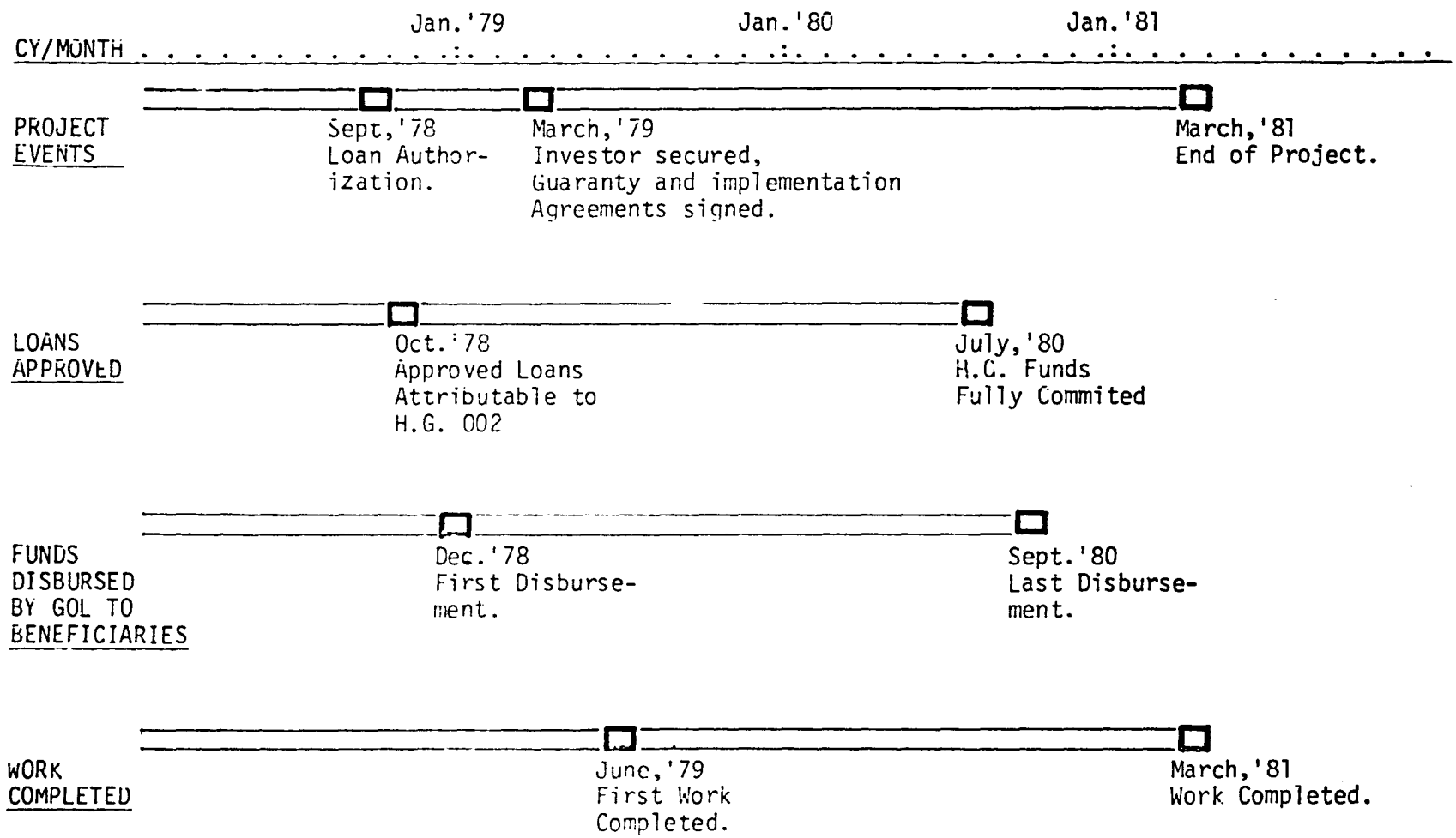
f. App. Sec. 106. to pay U.N. assessments? **Yes.**

g. App. Sec. 107. to carry out provisions of FAA Sections 209(d) and 251(h)? (transfer to multilateral organization for lending). **Yes.**

h. App. Sec. 501. to be used for publicity or propaganda purposes within U.S. not authorized by Congress? **Yes.**

ANNEX III

COUNTRY	PROJECT NO.	PROJECT TITLE: Low Income H.G.	DATE
Lebanon	H.G. 002	Shelter Repaid/Reconstruction	9/78



ANNEX IV

ENVIRONMENTAL DETERMINATION

PROJECT TITLE AND NUMBER:

Lebanon 268-HG-002 (pending)

LOCATION

Lebanon (various locations)

ENVIRONMENTAL DETERMINATION/DECLARATION: [illegible]

ON THE BASIS OF THE ATTACHED INITIAL ENVIRONMENTAL EVALUATION, I RECOMMEND THAT YOU MAKE THE FOLLOWING THRESHOLD DECLARATION:

__x__ 1. THE PROPOSED OPERATIONAL ACTIVITY IS NOT A MAJOR FEDERAL ACTION, WHICH WILL HAVE A SIGNIFICANT EFFECT ON THE HUMAN ENVIRONMENT (NEGATIVE DETERMINATION).

____ 2. THE PROPOSED AGENCY ACTIVITY IS A MAJOR FEDERAL ACTION, WHICH WILL HAVE A SIGNIFICANT EFFECT ON THE HUMAN ENVIRONMENT (POSITIVE DETERMINATION); AND:

____ A. AN ENVIRONMENTAL ASSESSMENT WILL [illegible]

____ B. AN ENVIRONMENTAL IMPACT STATEMENT [illegible]

____ 3. THE PROPOSED AGENCY ACTIVITY, [illegible] CLARIFICATION [illegible] UPON:

SUPPORTIVE MATERIALS PREPARED BY:

Eric N. Peterson, Consultant, SER/H

APPROPRIATE OFFICIAL CONCURS [illegible] APPROVE: Peter Kenin 1/24/78

for

ASSISTANT ADMINISTRATOR DEC[illegible] APPROVE: Selig A. Taubenblatt 7/27/78

Selig A. Taubenblatt, Director
Office of Project Development
Bureau for Near East

BEST AVAILABLE COPY

INITIAL ENVIRONMENTAL EXAMINATION

The Home Repair and Reconstruction Program II does not vary in any material respect from the House Repair and Reconstruction Program for which the Assistant Administrator, Near East Bureau, approved a Negative Determination on August 31, 1977, a copy of which is attached.

ENVIRONMENTAL THRESHOLD DECISION SHEET
(Initial Environmental Examination)

PROJECT TITLE and NUMBER:

LOCATION:

ENVIRONMENTAL DETERMINATION
AND RECOMMENDATIONS:
(Check One)

On the basis of the Initial Environmental Examination (IEE) referenced above and attached to this memorandum, I recommended that you make the following determination:

k __X__ 1. The proposed Office of Housing action is not a major Federal action which will have a significant effect on the human environment (Negative Determination).

_____ 2. The proposed agency action is a major Federal action which will have a significant effect on the human environment (Positive Determination), and:

_____ a. An Environmental Assessment is required; or

_____ b. An Environmental Impact Statement is required.

_____ 3. Our environmental examination is not complete. We recommend the following action be taken:

IEE PREPARED BY: Eric N. Peterson DATE: 15 JULY, 1977
Eric N. Peterson, Consultant, SEP/H

MISSION DIRECTOR OR
APPROPRIATE OFFICIAL CONCURRENCE: Thomas C. Irvin
Thomas C. Irvin

ASSISTANT ADMINISTRATOR'S DECISION:
APPROVED: Joseph C. Wheeler August 31, 1977
Joseph C. Wheeler Date
Assistant Administrator
Near East Bureau

INITIAL ENVIRONMENTAL EXAMINATION

The Home Repair and Reconstruction Program does not establish higher environmental standards than those previously in effect, but enforces those standards by excluding buildings which do not meet local zoning and code regulations. A certificate of conformance is required before a GOL repair loan can be granted.

The program does not affect densities or uses except to restore housing and settlements to their former condition. The GOL has effective regulations governing repair or construction which might affect antiquities. This program does not bypass such regulations.

Pursuant to the guidelines established for preparation of the Initial Environmental Examination, the following elements are judged to be unaffected by the program:

A. PROGRAM/PROJECT IMPACTS ON THE ENVIRONMENT

Natural Environment

1. Potential Major Effect on Existing Water Resources
2. Potential Loss or Damage to Environmentally Sensitive Areas
3. Potential Significant Influence on Existing and/or Future Land Use Activities and Development Patterns Which May Affect
4. Potential Significant Ecological Consequence from Introducing New or Different Technological Systems in Conjunction with Community Infrastructure and Services

Human Environment

1. Potential Social Disruption or Change to Traditional Customs and Socio-Cultural Conditions

2. Potential Significant Change to Established Housing Concepts and Practices

3. Potential Significant Effect on Public Health and General Well-Being

B. LOCATIONAL FACTORS POTENTIALLY IMPACTING PROGRAM/ PROJECT

1. Presence of Significant Natural Hazards

2. Existence of Major Environmental Health Problems

3. Availability and Capacity of Basic Community Infrastructure and Services

4. Urban/Regional Growth and Land Use Considerations

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D. C. 20523

OFFICE OF
THE ADMINISTRATOR

ANNEX V

GUARANTY AUTHORIZATION

Provided From: Housing Investment Guaranty Authority

THE REPUBLIC OF LEBANON: The Ministry of Housing and Cooperatives

Housing Guaranty 268-HG-002

Pursuant to the authority vested in the Administrator, Agency for International Development, by the Foreign Assistance Act of 1961, as amended (FAA), and the delegations of authority issued thereunder, I hereby authorize the issuance of guaranties pursuant to Section 221 of the FAA of not to exceed fifteen million dollars ($15,000,000) in face amount, assuring against losses (of not to exceed one hundred per centum (100%) of loan investment and interest) with respect to loans by eligible U.S. investors (Investor) acceptable to guaranty shall be subject to the following terms and conditions:

1. Term of Guaranty: The loan shall extend for a period of up to thirty years (30) from the date of disbursement of the first installment of the loan including a grace period on the repayment of principal to be negotiated with the Investor. The guaranty of the loan shall extend for a period beginning with the first disbursement of the loan and shall continue until such time as the Investor has been paid in full pursuant to the terms of the loan.

2. Interest Rate: The rate of interest payable to the Investor pursuant to the loan shall not exceed the allowable rate of interest prescribed pursuant to Section 223 (f) of the FAA and shall be consistent with rates of interest generally available for similar types of loans.

3. Republic of Lebanon Guaranty: The Republic of Lebanon shall provide a full faith and credit guaranty to A.I.D. in United States dollars assuring against any and all losses to A.I.D. by virtue of A.I.D.'s guaranty to the Investor or from non-payment of the guaranty fee.

4. Fee: The fee of the United States shall be payable in dollars and shall be one half of one per centum (½%) per annum of the outstanding guarantied amount of the loan plus the fixed amount of $150,000 to be paid as A.I.D. may determine upon disbursement of the loan.

5. Other Terms and Conditions: The guaranty shall be subject to such other terms and conditions as A.I.D. may deem necessary.

Peter Scott

9/21/78
Date

DEPARTMENT OF STATE

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON

ANNEX VI

THE ADMINISTRATOR

PROJECT AUTHORIZATION
AND REQUEST FOR ALLOTMENT OF FUNDS

PART II

Name of Country: Lebanon

Name of Project: Shelter Repair and Reconstruction in South Lebanon

Number of Project: 268-0310

Pursuant to Part II, Chapter 4, Section 532 (Security Supporting Assistance Funds) of the Foreign Assistance Act of 1961, as amended, I hereby authorize an amendment to the Grant Agreement between the United States of America and the Government of Lebanon (the "Cooperating Country") dated June 23, 1977 for Emergency Housing Repair and Reconstruction to increase the amount of the Grant by Two Million Eight Hundred Thousand United States Dollars ($2,800,000) for a total of Seven Million Three Hundred Thousand United States Dollars ($7,300,000) to continue to finance foreign exchange costs and to help finance local currency costs of goods and services required for the amended project, as described in the following paragraph.

Funds provided under this amendment will assist the Cooperating Country in financing and carrying out its program of repair and reconstruction of low income housing with particular emphasis on providing minimal "core" housing -- 1 bedroom, kitchen, sanitary facility -- for families in South Lebanon.

I hereby authorize the initiation of negotiation and execution of the Grant Agreement Amendment by the officer to whom such authority has been delegated in accordance with A.I.D. regulations and Delegations of Authority, subject to the following essential terms and covenants and major conditions as A.I.D. may deem appropriate:

a. Condition Precedent to Disbursement Under the Amendment

Prior to any disbursement or the issuance of any commitment documents under the project to finance repair and reconstruction loans or grants of the Grantee with funds added by this amendment, an Implementation Plan shall have been mutually agreed upon between the Grantee and A.I.D. governing all disbursements under the Amendment.

b. Covenant

The Grantee shall covenant:

That if the condition specified in paragraph a. above shall not have been met by November 30, 1978, or such later date as A.I.D. may agree to in writing, A.I.D., at its option may terminate the Grant Agreement Amendment by written notice to the Grantee.

9/29/78

Date