

**AGENCY FOR
INTERNATIONAL
DEVELOPMENT**



CDSS

Small Program Statement

1981-1987

LEBANON

**DEPARTMENT
OF
STATE**

JUNE, 1979



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COUNTRY DEVELOPMENT STRATEGY STATEMENT (CDSS) FY 1981-85 - LEBANON

SUMMARY

The FY 1981-85 CDSS for Lebanon recommends a Proposed Assistance Planning Level (PAPL) of \$10.0 million for FY 1981. No recommendation is made for FY 1982-85 in recognition that external influences which act upon Lebanon's security, economy, politics, etc., cannot be adequately accounted for beyond FY 1981.

The recommended PAPL is a minimum level* needed to support the basic CDSS objective of indicating, in a highly visual way, U.S. support of an independent and unified Lebanon as a key element in the establishment of greater political and economic stability in the Middle East.

The PAPL relates to meeting both humanitarian needs and supports a major Government of Lebanon (GOL) reconstruction effort. The provision of modest amounts of humanitarian and reconstruction assistance is consistent with the proposition that FY 1981-85 are transitional years for Lebanon. In certain areas of Lebanon it should be possible for the GOL to mount a reconstruction program, but elsewhere the country may be unstable. The situation here can improve or deteriorate drastically in a very short time.

The projects to be proposed within the PAPL will recognize that the security situation in Lebanon limits AID staff and its mobility, and, therefore, projects will generally be implemented by proven intermediaries, while still identifying the U.S. with the assistance, and using less complex programming mechanisms. Projects will be designed with short

*as defined by MOB, "The level below which it is not feasible to continue AID operations because no adequate contribution can be made toward achieving the goal."

disbursement periods so drastic changes in the size of the program, directions, scope, etc., can be accommodated quickly.

LEBANON ECONOMY

Domestic Section

Statistics of Lebanon's economy since 1974 have not been assembled on an official basis. Crude estimates have been made of gross domestic product (GDP) and its components for 1977 and work has begun on similar estimates for 1978.

Table 1 contains basic data for 1973 and 1977. In nominal terms GDP is seen to have grown from LL 7,103 million in 1973 to LL 8,200 million in 1977 or by 15.4 percent. However, as producer prices rose by approximately 70 percent over this four-year period, real GDP in 1977 was probably no more than 65 percent of its level in 1973. At its lowest point in 1976 domestic production of goods and services may have slumped to as little as 55 percent of the 1973 figure. Little more than this can be said about the extent of the retreat in levels of economic activity because data on price changes, employment and income distribution are either imprecise or unavailable. It seems clear, however, that the large decline in production and incomes was very unevenly shared.

While GDP grew in nominal terms by 15.4 percent between 1973 and 1977, the total use of goods and services for consumption and investment grew by 30.4 percent. This growing gap between domestic production and use of goods and services had to be filled by drawing more heavily on external

sources to meet domestic needs. Hence, the nation's excess of imports over exports grew from LL 1,286 million in 1973 to LL 2,743 million in 1977, or by 113.3 percent. It is estimated that over this period imports rose by nearly 30 percent while exports actually declined by perhaps 25 percent. In real terms it is likely that import volume was no greater in 1977 than it was in 1973 while export volume was drastically lower being little greater than 50 percent of the 1973 level.

The maintenance of imports and the decline in exports resulted in a reduction in the real volume of goods and services available for use by 20 percent in 1977 from its 1973 level, even though the decline in domestic production was 31 percent (see Table 2 for price assumptions). However, the need to maintain minimum standards of living limited the fall in real consumption, and the decline occurred in investment. Hence consumption, while up in nominal terms by 33.2 percent was probably down in real terms by 20 percent. Gross investment, however, was up by only 17.3 percent in nominal terms and certainly was lower in real terms by about 30 percent. Moreover, much of the investment in 1977 was directed to replacement of destroyed infrastructure and equipment.

Even in early 1979 the productive capacity of the nation remains substantially below that available in 1973, and much of the capacity that is in place has deteriorated seriously in terms of productive efficiency and competitiveness in the international market place. It is a major purpose of the nation's reconstruction program to remedy these deficiencies.

International Situation

Data on Lebanon's balance of payments since 1974 are estimates, and without details. Since the abolishment of the Central Statistical Office of the Government in 1976, no official agency has taken responsibility for national income or trade accounting. Table 3 presents the estimates available through 1978.

Foreign exchange reserve figures are published regularly by the Bank of Lebanon. Reserves, which increased 32 percent between 1974 and November, 1978 appear to have declined slightly in 1979. The Government links Lebanon's economic revival with the maintenance of an uncompromised international trust in the strength and convertibility of the currency. The Treasury has therefore sought to accumulate foreign exchange holdings rather than intervene actively to stabilize the pound exchange rate. Table 4 displays Lebanon's foreign exchange growth since 1970. Gold, which is carried at \$42.2222 an ounce, is estimated to represent 16-18 percent of current holdings.

The Lebanese economy after the onset of fighting in 1975 entered a period of reduced governmental controls. Laissez-faire conditions enabled it to survive the war damages of 1975-76 and 1978, but the price has been a loss of tax base including customs receipts, persistent government deficits, and high inflation. Because the pace of economic activity in Lebanon is determined by internal security conditions rather than by internal or external economic forces, it cannot be accurately predicted on

the basis of economic factors such as interest rates, exchange rates or monetary policy. Internal security conditions are unpredictable, and statements projecting economic trends in Lebanon are to be treated with care.

OTHER DONOR ASSISTANCE

Table 5 lists a total of LL 1,100 million in loans negotiated or renegotiated by the GOL for reconstruction purposes in 1977-78 from other than U.S. sources. These funds, with the exception of LL 16.2 million spent from one of the IBRD loans before the events, are available for reconstruction.

In addition, during 1978 Lebanon received grant assistance for technical (\$19.9 million) and emergency (\$62.6 million) programs totalling some \$32.5 million from the UN, bilateral donors and Private Voluntary Organizations (See Table 6)

With public sector external financing requirements of LL 6,430.0 million, Lebanon has need for resources from a variety of sources. The continuation of meetings begun in October 1978 in Baghdad with chiefs of states of Arab countries are most likely to result in external financing of the magnitude required by Lebanon. At the Baghdad meeting it was agreed that the finance ministers of the principal participating Arab States would meet by January 1979 to consider the means of financing the reconstruction of Lebanon in the amount of \$500-600 million annually. Although the GOL prepared a reconstruction program for consideration by the Arab finance ministers, the meeting had not taken place by mid-1979. The meetings with Arab leaders cannot be regarded as a "pledge" in any formal sense, but they represent

an expression of intent which the GOL is actively pursuing. The timing of Arab assistance will of course depend upon the political situation in the region, the security conditions in Lebanon, the ability of the GOL to formulate and execute major projects, and the policies of the prospective donors.

RECONSTRUCTION EFFORT

The enormity of the reconstruction task facing Lebanon led the GOL to concentrate the responsibilities for planning, financing and monitoring of reconstruction and development programs and projects in the Council for Development and Reconstruction (CDR). Established in June 1977, the CDR was granted powers unprecedented for a governmental body in Lebanon to undertake the task of reconstruction.

CDR began operation in years marked by varying degrees of instability including periods of complete paralysis. As a consequence, it was not possible to launch a coherent reconstruction program, nor was international funding available to support one. The CDR succeeded, however, in functioning better than most GOL Agencies over the last two years, and it established a reputation for financial integrity and non-partisanship, and some notable achievements:

1. The CDR assumed responsibility for the reconstruction of the Beirut Port in 1977, created a Port Committee to supervise the task, and negotiated funding for the project.
2. The CDR assisted in the financing of the Jieh Thermal electricity plant.

3. CDR launched what is known as the Agenda Paper Exercise leading to the staff preparation of a series of papers on policies and objectives of GOL in key economic and social sectors. The end result of the Exercise, now postponed, will be a summary document stating the GOL social and economic objectives, priorities and policies as a basis for development planning.

4. In 1978, CDR negotiated a syndicated loan on the Euro-dollar market of \$150 million as bridging financing in order to get the GOL reconstruction program underway until external credits on more favorable terms become available.

5. CDR has formulated a comprehensive reconstruction program, "The Reconstruction Project", dated December 1978.

6. In April 1979, a road rehabilitation project and a project concerning the supply of potable water to Beirut were submitted by CDR to the Council of Ministers for approval. Initial funding for both projects will be from the syndicated loan.

7. In May 1979, a General Assembly on Health was convened by the CDR to define the GOL's policies and goals in the Health sector and to plan developmental expenditures.

8. CDR arranged for the financing of two large incinerator units in West Beirut.

9. CDR developed a solid waste disposal master plan for Beirut.

Under the circumstances this is a creditable record for CDR, but it falls short of initial expectations that CDR would launch a major reconstruction effort in a short period of time. As persistent instability continues in

in Lebanon, CDR will devote relatively more effort to working closely with GOL Agencies on reconstruction projects, and relatively less to longer range policy and planning. It is anticipated that most, if not all, of the \$1.0 million in technical assistance provided CDR by A.I.D. will be used to strengthen CDR's ability to support GOL ministries in two principal ways: by helping them prepare and implement projects, and by arranging for the necessary financing for projects.

BASIC ASSUMPTIONS UNDERLYING RECOMMENDATIONS

The PAPL request relates to both humanitarian needs and the requirements of Lebanon's reconstruction program. It assumes that there will be a perceptible increase in the power and control of the central government as a result of continued development of the army and the evolution of the political process. Sporadic domestic instability can, however, be expected to continue, as will the destruction of Lebanese lives and property resulting from non-Lebanese conflicts prosecuted on Lebanese soil.

The general objectives supporting the PAPL request are assumed to be the following:

1. The reconstruction of a dynamic, free Lebanese economy and the development of more equitable patterns of distribution of incomes and services are a necessary prerequisite for establishing and maintaining political security in Lebanon and overall stability in the Middle East.
2. The alleviation of suffering and the rehabilitation of those who suffered injury or lack of occupational preparation as a result of the conflict.
3. The maintenance or expansion of the U.S. share of the Lebanese market for durable producer and consumer goods.

PAPL RECOMMENDATIONS

The \$10.0 million PAPL is an indicative minimum level, subject to an annual review of U.S. political and economic objectives for Lebanon, that is both adequate in terms of demonstrating U.S. support of Lebanese political leadership and consistent with maintaining a minimum A.I.D. profile in Lebanon. The PAPL recommendation does not seek to make a definitive contribution to the reconstruction of Lebanon as the scope of this effort is beyond our immediate political objectives and is best left to consortium approaches under regional leadership. The provision of modest levels of U.S. assistance will, however, demonstrate U.S. support and confidence in Lebanon's government and reconstruction effort and will encourage similar actions by other donors.

Humanitarian Assistance

Humanitarian assistance will be needed for the refugees, both temporary and permanent, in South Lebanon, and to assist the mainly rural population which is still without adequate social services owing to damage to both private and public infrastructure.

\$5.0 million in grant funding is requested to continue U.S. and local Private Voluntary Organizations (PVO) programs of established merit that will meet immediate humanitarian needs and focus GOL attention on the fact that housing, health education and welfare services can be effectively delivered to Lebanese at the low end of the spectrum.

Reconstruction Assistance

1. \$5.0 million in concessional loan assistance is requested for a Commodity Import Program (CIP) which would be channelled through CDR to support high priority public sector reconstruction projects by making available a line of credit to procure U.S.-manufactured goods. In addition to serving as a means of reviving Lebanese markets for U.S. products, expansion of the transfer of advanced U.S. technology in the public sector could assist materially in the rebuilding of Lebanon.

2. \$1.0 million Reimbursable Development Program (RDP) loan to CDR is requested to continue the A.I.D. program of technical assistance to CDR which will help provide needed expertise to plan and manage the GOL reconstruction program.

TABLE 1 *
Availability and Uses of Goods and Services - Lebanon
 (1973 and 1977)

	<u>LL Million</u>		<u>Percent Increase</u>
	<u>1973</u>	<u>1977</u>	
<u>I. Sources of Goods and Services:</u>			
Gross Domestic Product	7,103	8,200	15.4
Imports less exports	<u>1,286</u>	<u>2,743</u>	113.3
Total	8,389	10,943	30.4
 <u>II. Uses of Goods and Services:</u>			
Consumption	6,924	9,225	33.2
Gross Investment	<u>1,465</u>	<u>1,718</u>	17.3
Total	8,389	10,943	30.4
 <u>Per Cent</u>			
<u>I. Sources of Goods and Services:</u>			
Gross Domestic Product	84.7	74.9	
Imports less exports	<u>15.3</u>	<u>25.1</u>	
Total	100.0	100.0	
 <u>II. Uses of Goods and Services:</u>			
Consumption	82.5	84.3	
Gross Investment	<u>17.5</u>	<u>15.7</u>	
Total	100.0	100.0	

*\$1 = LL3, information based on data provided by the Council for Development and Reconstruction.

Note: Export and Import Data Excludes Gold.

TABLE 2 *

Price Assumptions, 1973 and 1977 - Lebanon

	<u>Price Indexes</u>	
	<u>1973</u>	<u>1977</u>
Gross Domestic Product	100	170
Imports Less Exports	100	150
Total	100	164
Consumption	100	164
Investment	100	164

*Information based on data provided by Council for Development and Reconstruction and based on discussions with knowledgeable people. The price indexes are not rigorously derived.

TABLE 3
Lebanese Balance of Payments
(In Millions of Lebanese Pounds)

	<u>1973</u>	<u>1974</u>	<u>1975 (E)</u>	<u>1976 (E)</u>	<u>1977(E)</u>	<u>1978(E)</u>
<u>Goods</u>						
Exports	1,776	2,100	1,425	550	2,365	1,929
Imports	3,518	4,224	3,850	1,800	4,500	5,100
Balance	-1,742	-2,124	-2,425	-1,250	-2,235	-3,171
<u>Services</u>						
Total	+1,295	+1,491	n.a.	n.a.	n.a.	n.a.
Balance	- 447	-633	n.a.	n.a.	n.a.	n.a.
Transfers/ Remittances	+130	+170	n.a.	n.a.	n.a.	n.a.
Current Account Balance	-317	-463	n.a.		+230*	+600**

Note: Exports and Imports Include Gold

* Reported by central Bank official The Arab Economist, May 1979

** Stat_ement by Governor of Bank of Lebanon January 12, 1979

TABLE 4
Government of Lebanon
Foreign Exchange Reserves
(In Millions of Dollars)

<u>Year</u>	<u>Gold</u>	<u>IMF</u>	<u>FX</u>	<u>Total</u>	<u>Percent Change</u>
1970	287.5	2.3	95.7	385.5	
1971	350.0	2.5	194.5	547.0	
1972	350.0	2.5	322.4	674.9	
1973	389.2	2.7	469.7	861.6	
1974	394.9	2.8	1276.0	1673.7	
1975	377.5	2.7	1199.0	1579.2	- 5.5
1976	374.7	2.6	1300.0	1677.3	+ 6.2
1977	391.9	2.8	1566.0	1960.7	+16.9
1978 Nov.	410.5	2.9	1801.9	2215.3	+13.0

Source: IMF, International Financial Statistics, Bank of Lebanon

TABLE 5

RECONSTRUCTION REQUIREMENTS - LEBANON
(LL Million in 1978 Prices)

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Project	Years					Total Cost	Financing Available	External Financing Required	Total Counterpart
	1	2	3	4	5				
1. <u>Housing</u>									
1.1 Repair and Reconstruction	600	600	600	-	-	1,800	-	1,350	450
1.2 Relief Program for the South	100	100	-	-	-	200	-	150	50
1.3 Low Cost Housing Program	275	325	400	450	500	2,500	-	1,875	625
2. <u>Beirut International Airport</u>	140	140	125	125	125	655	88	427	140
3. <u>Port of Beirut</u>	86	86	86	-	-	258	150	-	108
4. <u>Roads and Highways</u>									
4.1 Repair and Maintenance	165	150	150	-	-	465	-	349	116
4.2 North and South Highway	345	230	138	126	253	1,092	-	819	273
5. <u>Electricity</u>									
5.1 Jieh Thermal Plant	100	75	110	-	-	285	90	145	50
5.2 Zouk Thermal Plant	90	90	90	80	-	350	-	262	88
6. <u>Water Resources</u>									
6.1 Jitani-Wali Potable Water	-	-	-	-	-	170	-	127	43
6.2 Jabal Anel Potable Water	-	-	-	-	-	35	-	26	9
6.3 Al-Asai Irrigation	-	-	-	-	-	100	-	75	25
6.4 Iklim El-Kharrub Potable Water	-	-	-	-	-	27	-	20	7
7. <u>Telecommunications</u>	150	150	150	150	140	740	-	555	185
8. <u>Beirut Central District</u>	-	-	-	-	-	393	-	295	98
9. <u>Schools, Training, Health (Public)</u>	-	-	-	-	-	30	-	22	8
10. <u>Schools, Training, Health (PVO)</u>	-	-	-	-	-	60	-	-	-
<u>Total Public Sector</u>						<u>10,060</u>	<u>1,100</u>	<u>6,430</u>	<u>2,530</u>
<u>Total Private Sector</u>						<u>4,000</u>	-	<u>3,000</u>	<u>1,000</u>
<u>Total Reconstruction</u>						<u>14,060</u>	<u>1,100</u>	<u>9,430</u>	<u>3,530</u>

Data from "The Reconstruction Project" dated December 1978, Council for Development and Reconstruction

15.

TABLE 6

GRANT DONOR ASSISTANCE TO LEBANON - 1978
((\$000))

<u>Technical Assistance</u>	<u>\$ 19,939</u>
Agriculture	3,542
Education	7,858
Economic & Social Planning	1,023
Health	6,452
Labor	30
Other Social Projects	952
Transportation	82
<u>Emergency Assistance</u>	<u>\$ 62,623</u>
UN	11,948
France	1,807
U.S.	20,932
Japan	500
Canada	2,646
Brasil	10
Switzerland	1,405
Spain	185
EEC	13,156
India	12
UK	895
FRG	3,816
PVOs	2,289
ICRC	3,022

Above data obtained from very preliminary information provided by UNDP/Lebanon, and should be considered in terms of order of magnitudes rather than a final compilation of data.