

**Country Development  
Strategy Statement  
Small Program Statement  
FY 1984**



**LEBANON**

January 1982

Agency for International Development  
Washington, D.C. 20523

BEST AVAILABLE

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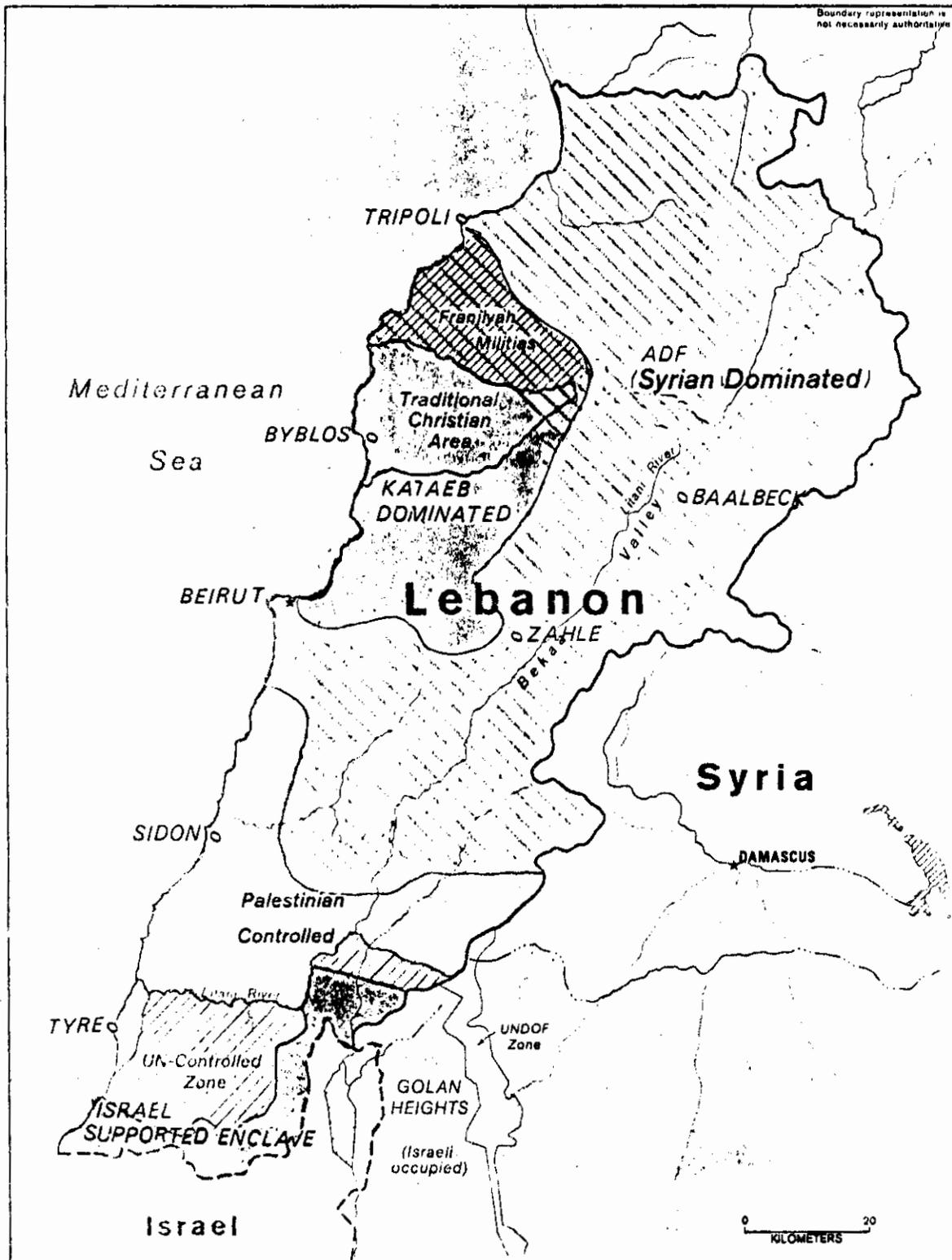
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I. INTRODUCTION AND SUMMARY

After nearly seven years of violence and turmoil, there are no clear signs that Lebanon is on the way to political stability and rapid economic recovery. Achievements in reconstruction and development, while far short of the hopes envisioned for Lebanon when its civil war nominally ended five years ago, have probably contributed as much as anything else to holding the society and State precariously together. The gains have also constituted tangible evidence of the abilities of a government, which is for the most part feeble and demoralized, to carry out some essential functions.

However, discord and violence continue to wrack the country. Many Lebanese argue that they have learned their lesson from the civil war and could solve their internal problems and build peace and prosperity if only the outsiders would leave Lebanon alone. The point is moot. Lebanon has become a stage for venting many of the sharpest internal conflicts of the Middle East. Hundreds of thousands of dollars pour in from many countries each year to arm and sustain the Lebanese and non-Lebanese who defend and assert the competing causes and interests.

As episodes get played out, the Government of Lebanon is rarely the enemy, which is one reason its reconstruction and development work has moved forward. It is a positive sign that Lebanon's rival factions generally believe that a stronger government is necessary for national reconciliation

and eventual stability. An important test for the reinstatement of stronger central authority will come in the summer of 1982 with the election of a new President of Lebanon when the incumbent's six-year term expires. If, following the elections, there seems a reasonable likelihood that Lebanon may be embarking on a period of improved stability, the United States may want to contribute more support to an accelerating reconstruction effort than the amounts shown in this Small Program Statement for the FY 1983-1987 period.

The Office of the AID Representative/Lebanon is submitting a Small Program Statement for FY 1983-FY 1987 at an \$ 8 million a year level. The program is based on shifting from prime reliance on Private Voluntary Organizations to an even balance between support of PVO and Government of Lebanon (GOL) activities. It will be managed in conjunction with Lebanon's Council for Development and Reconstruction (CDR), the Government's main planner and implementor of the reconstruction effort.

The program is designed to support principal U. S. foreign policy objectives for Lebanon -- strengthening the capability of the central government and extending its authority and influence; promoting national cohesion; and alleviating the hardship of war and disruption. Since U. S. aid to Lebanon stems from political as well as economic and humanitarian considerations, the United States could decide to raise or lower the size of

the program significantly, based on political developments in Lebanon and the Middle East. Consequently, while planning for a program over the next five years at a modest annual level of \$ 8 million, AID Rep/L was aware that U. S. interest in the pace and nature of Lebanon's reconstruction could increase sharply at any time. The program outlined in the SPS is thus flexible enough to permit a significant increase fairly quickly. It could likewise be reduced fairly rapidly if developments warranted.

Consistent with a programming posture wherein it seems desirable to stay loose but be prepared for a possible increase, the SPS includes a section containing brief sector profiles. These cover both economic and development topics and could serve as a backdrop and starting point for future decisions on the Lebanon program.

## II. BACKGROUND AND RATIONALE

### A. Continuing Political Instability

Since its emergence from the French mandate as an independent nation in 1943, Lebanon has attempted to maintain a balance of various social, religious and political factions which make up its society. It did so reasonably well until the 1970s. In maintaining this balance, the government adopted a laissez-faire policy toward the private sector which took the strong lead in the economic development of the country. Lebanon's strategic

position between the West and a substantial part of the Arab world, its high level of education, its small population and its historic competence in commercial and financial activities enabled the country soon to reach a high level of self-sustained growth. "Point IV" was active in Lebanon for a decade from 1952, disbursing a total of \$ 80 million. In 1962, Lebanon was officially "graduated" from AID ranks, leaving only a small AID office to handle residual matters and regional funds made available for scholarships to the American University of Beirut.

In the early 1970s, the political balance that had kept Lebanon together and provided the conditions for growth in the private sector began to erode. The Muslims wanted change in the formula the French had left giving a Parliamentary majority and the Presidency to the Christians. The steady inflow of Palestinian refugees added to the uneasiness. The Palestinian Liberation Organization (PLO), unable to establish itself in Jordan, came to Lebanon in 1971. South Lebanon became the scene of frequent conflict between Israeli and Palestinian forces, leading thousands to seek safety and jobs to the north, particularly in the expanding slums surrounding Beirut, which came to be known as "the misery belt".

The Lebanese civil war began in earnest in April 1975. Although it quieted down by November 1976 after Syrian intervention,

fighting continued at reduced intensity through 1977. In early 1978, conditions again worsened. An Israeli invasion and heavy fighting in Beirut between the Arab Deterrent Forces (ADF), brought in as a peace keeping force and composed mainly of Syrians, and the Kataeb, the major Lebanese Christian militia in East Beirut, put the country in turmoil. A truce was reached but intermittent periods of calm and violence continued.

Security conditions deteriorated again in the spring of 1981. Bitter fighting rocked Beirut and Zahle, mainly pitting Syrian and "leftist" forces against the "rightist" Kataeb. A fragile cease-fire was agreed to in June, aided by President Reagan's special envoy, Ambassador Philip Habib, but not before confrontation between Israel and Syria over placement of SAM missiles on Lebanese soil had led commentators in the world press to speculate on the very existence of Lebanon as a state. A month later, as the exchange of rocket attacks across the Lebanon-Israel border escalated, Israel bombed Palestinian targets in Beirut and Sidon. Two-thirds of the early 1,000 casualties were Lebanese civilians. Ambassador Habib returned to the area and negotiated yet another cease-fire.

In February 1982, both cease-fires which Mr. Habib helped to arrange in June and July of 1981 were still holding, though the buildup of arms on both sides of the Israeli border heightened mounting tensions. No serious clashes between predominantly Christian and predominantly

Moslem forces had taken place for eight months. However, fighting among Moslem factions escalated. Acts of terrorism also continued. A rash of car bombings plagued the main cities through the fall, and assaults on diplomats increased. The French Ambassador was murdered outside his West Beirut home in September. The Iraqi Ambassador died along with 60 others when the Embassy was blown up in December.

In the always unpredictable and uncertain Lebanon setting, two dates now surface frequently as impending benchmarks of Lebanon's survival. One is April 25, 1982, the date Israel completes withdrawal from the Sinai according to the Camp David Agreement. Although there has been no declared warfare between the Israelis and the Palestinians since the July cease-fire, the country is tense with fear that Israel may soon invade southern Lebanon. The second important date is September 23, 1982, when Lebanon's next president is to be inaugurated. The elections are to take place this summer. Fulfilling the process of a free election is seen as essential to the integrity of the country, and people are apprehensive that a candidate acceptable to the dominant Lebanese interest groups and to Syria may not be found.

B. Proliferation of Security Forces

Seven years of divisive fighting have left Lebanon's central government unable to perform the normal functions of defending the nation

and maintaining internal order. While nominally in command of the Arab Deterrent Forces, the Government has no real authority over the Syrian troops comprising this force. The Lebanese army, never a threat or deterrent to its neighbors, split along sectarian lines during the 1975-76 war. Although the Government, with U.S. assistance, has made progress in rebuilding the army with equitable confessional representation, it is not the dominant armed force in the country.

The Lebanese army controls very little territory. Of its 23,000 troops and officers, about 1,200 are located in the UN-controlled area in the South. The rest of the army is scattered about the country, mainly at the Presidential Palace, the port, the airport and in isolated pockets in Tripoli, the Bekaa, Sidon and West Beirut. The army is further handicapped by its reluctance to enter into situations where sectarian issues are at stake.

In practice, most of the country is controlled by the Syrian-dominated ADF, the Kataeb, the armed Palestinians, and the Israelis through their client Christian militia in the South commanded by Major Haddad. In addition, there are 35 to 40 private militias representing an array of Lebanese and foreign interests, such as the National Movement (an assortment of twenty-plus leftish-oriented groups active in West Beirut); the Christian Franjyah militia in the North; and AMAL, the Shiite militia which is strong

in the Bekaa and the South. The United Nations has maintained a peace-keeping force in South Lebanon since the 1978 Israeli invasion. The United Nations Interim Forces in Lebanon (UNIFIL) comprise 6,000 troops from Fiji, Ghana, Holland, Ireland, Nepal, Nigeria, Norway and Senegal. France, Italy and Sweden provide logistical support.

While the men who serve in these armies and militias are widely visible and maintain patrols and checkpoints on their turf, ordinary life and commerce continue among Lebanon's civilian population, though with occasional incidents of harassment from members of some of the armed groups.

C. U. S. Interests in Lebanon

The United States must be concerned with Lebanon for many reasons, here touched on only briefly.

First, the volatile situation in Lebanon constitutes a threat to regional and world peace. Major fighting could resume at any time and spread; Syria and Israel have intervened openly already; and, obviously, direct Soviet/U. S. confrontation is always a possibility.

Secondly, the Soviets are active in Lebanon behind the scenes. Although few people of the world seem less susceptible to Marxism, the Lebanese communist party, and its militia, have gained followers in recent years. Further, the Soviet Union has played a major role in arming

the P. L. O., and particularly its more radical groups, and has considerable influence within the Palestinian movement. A complete collapse of central government authority could easily lead to the partition of Lebanon - something that would remove a generally moderate and pro-Western influence from the Middle East scene and work to the advantage of the Soviet Union and its radical local allies.

Thirdly, the United States and Lebanon have strong historical, philosophical, social, cultural and commercial ties. Lebanon is important to the U. S. because of what it represents. Before the present crisis, Lebanon was the Arab world's only functioning democracy. Its open elections, vigorous free press, high regard for education and new technologies, and strong commitment to private enterprise have closely paralleled our own. Most Americans in the U. S. of Middle East ancestry have Lebanese roots. Lebanon has been a major base for U. S. business and banking. The American University of Beirut and other American-linked educational institutions in Lebanon continue to graduate young Arab men and women exposed to the same knowledge, values, and perspectives offered at first-rate schools in the United States. A stable and recovered Lebanon would see these shared values flourish again.

D. U. S. Assistance Since 1977

In January 1977, with the civil war seemingly over, Lebanon created the Council for Development and Reconstruction to plan and supervise

the rebuilding of the country. The United States responded quickly to a request from President Sarkis for assistance, sending out study teams and putting together packages to meet both humanitarian and urgent reconstruction needs. Assistance of \$ 41.5 million was provided in FY 1977, including \$ 11.5 bilateral, \$ 15 million in PL 480 and disaster relief, and a \$ 15 million housing guarantee loan to repair and rebuild homes. In FY 1978, a similar package totalled \$ 47.6 million, with the bilateral component doubled to \$ 22.5 million.

By FY 1979, the pipeline was large and the AID staff small. Also, major 1978 Syrian-Kataeb clashes in Beirut and the Israeli invasion of South Lebanon had markedly slowed both private and government reconstruction progress. The U.S. approved \$ 7.8 million for FY 1979, targetted to PVO activities. In FY 1980, with no significant improvement in security, U.S. funding was limited to a \$ 0.5 million grant urged by the House Foreign Affairs Committee for the Armenian General Benevolent Union's small business recovery program in a suburb of Beirut. By FY 1981, with little in the pipeline and PVO efficiency proven, the U.S. supplied \$ 4 million. All went to PVOs that had managed earlier funding well, except for \$ 300,000 for CDR. This was the first replenishment of CDR support since FY 1978, and AID Rep/L reported that CDR could effectively utilize about \$ 1 million annually over the next three years to support its increased internal activity and project planning.

During the FY 1976-1981 period, AID also continued providing funds to institutions in Lebanon through the ASHA program - principally AUB - and utilized disaster declaration funds several times and twice in FY 1981.

For FY 1982, at least \$ 6 million in bilateral funding is slated for Lebanon, including \$ 1 million for CDR strengthening and most of the balance for private and non-profit organizations working in Lebanon.

In the years since U. S. economic assistance to Lebanon was resumed after the civil war, the United States has frequently restated its basic foreign policy objectives with respect to Lebanon. While the statements have varied in expression and emphasis depending on the occasion and circumstances, the U. S. has consistently expressed its desire to help Lebanon:

- re-establish central government authority throughout the country;
- enhance national reconciliation and unity;
- assure the country's territorial integrity, sovereignty and independence; and
- relieve the suffering of Lebanese affected by the fighting.

AID's projects have been chosen and designed to assure consistency with these aims and to support directly those objectives that lend themselves

to economic assistance. Clearly, however, wide latitude is available in AID's program and project choices.

E. Reconstruction and Donor Support

In December 1978, CDR issued a Reconstruction Program document which had been under development and preparation for the preceding two years. It envisaged a total investment of \$ 5 billion (or a little over \$ 7 billion at current prices). The program gave priority to restoring private business; repairing homes; re-establishing basic services including hospitals, schools, and water supplies; and reconstructing basic infrastructure, including roads, ports, and the Beirut International Airport. About half the funding would come from the public sector, mainly through foreign aid, and about half from the private sector, spurred by credits from the government.

Unfortunately, the Reconstruction Program document proved to be somewhat dated when issued. The battling which broke out earlier in 1978 between Syrian and rightist forces in Beirut and Israeli and Palestinian forces led donors to hold back on assistance and forced CDR to alter planning both with respect to revenues and reconstruction investments.

In this sense, the Reconstruction Program document became then, and has remained since, a kind of rolling plan, updated from time to time, reflecting what is most desirable and practical based on reduced funding, shifting priorities, and uncertain security.

In November 1979, seven oil-producing Arab states, meeting in Tunis, pledged to provide Lebanon with \$ 400 million annually over a five year period, with half of the funds to be allocated to the South. By the end of 1981, Lebanon had received \$ 371 million for 1980 and 1981, about half the amount which could have been expected in the first two years had the pledges been pro-rated.

In addition to Arab government aid, Lebanon has received reconstruction assistance from the U. S. (\$ 66 million) and UNDP (\$ 14 million), all in the form of grants. Further, Lebanon has received reconstruction assistance totalling more than \$ 766 million, largely in loans, from a number of sources, including the World bank; a syndicate of international commercial banks; EEC; the Arab Fund; the Kuwait Fund; the Abu Dhabi Fund; the Islamic Bank; and the governments of France, Holland, Belgium, and the United States. (The latter reflects a Housing Guarantee loan of \$ 15 million).

By 1981 the government had channelled nearly \$100 million in credits to private sector activities to repair homes, industries, hotels, hospitals, and schools and to assist farmers and small businessmen. The private credit program was augmented by nearly \$25 million in January 1982.

In the public sector, priority-setting has been limited to the art of the possible. The rebuilding of the central commercial district of

Beirut, a vast task of major symbolic as well as practical importance, was scheduled to begin in August 1978. The first bulldozer has yet to rumble, however, because of the constant threat of sniping and shelling.

Among significant public sector accomplishments has been the reopening and rebuilding of the Port of Beirut. This sometimes hazardous undertaking was carried out by a special committee of experts formed and directed by the CDR for the task. It is not yet finished, but cargo now flows through smoothly when security permits.

Other important beginnings have been made in the areas of airport repair and extension, road rehabilitation, telecommunications, hospitals and health facilities, and technical and vocational training. Also, a national waste management plan is being readied for initial implementation. These achievements are not to be exaggerated; they are but a beginning, but a significant beginning under the circumstances prevailing since 1977.

Special attention has been paid to the South where citizens are almost daily subject to harassment and danger from armed activity. Despite the difficulty of working in the South, CDR has launched a major repair program for schools, health facilities and potable water supplies using UNICEF, with its recognized expertise and neutrality, as implementing agency. It is a unique arrangement, designed for a unique situation.

CDR is currently drawing up another interim plan, to be completed in the spring of 1982, for reconstruction investments for the next 12-month period.

### III. ECONOMIC AND SECTOR DEVELOPMENTS

#### A. Introduction

The main purpose of this section, as the heading indicates, is to provide information on economic and sector developments in Lebanon. The section would also provide at least a broad, if somewhat impressionistic, starting point for consideration of possible areas of new AID involvement or investment.

Good statistics have been rare in Lebanon since it became an independent country in 1943. There has not been a census in 50 years. The Government's national statistical institute, never an important force, was dismantled early in the war. In a few areas, such as banking, detailed statistics are available. But by and large statistics are and always have been a highly sensitive subject. Objective poll-taking by private entrepreneurs has not taken root in Lebanon, and a weak government has little cause to undertake sample surveys among a generally suspicious and heavily armed population.

The sector information is drawn from the best sources available, aided by a contract with a reputable local economic consultant firm. Because AID/Lebanon possesses neither the data nor resources for the task, no serious effort at macro-economic analysis is attempted. Qualitative and impressionistic statements are included where reliable data are unavailable.

Generally, each sector discussed below covers a ten-year period and highlights the pre-war picture and the impact of the war on the current situation.

We have not discussed AID assistance in these profiles. Past and present assistance is covered amply in other documentation. The profiles should, however, serve as a useful backdrop for understanding broad sector trends over the past decade. Dollar figures, when used, represent the pound to dollar conversion rate prevailing at the time, unless otherwise indicated. Some of the profiles focus on sectors where AID contribution's would likely be unnecessary or inappropriate, such as banking and trade, while others review sectors which match AID's established areas of emphasis.

The sector treatments are contained in Appendixes 1 through 12 and are summarized in the Overview section which follows.

B. Pre-War and Current Overview

Lebanon's laissez-faire economic system has bred sharp anomalies in its social, economic and political structures. Wide differences permeate its religious and social mosaic, shaped by a highly inequitable distribution of income and the lack of a comprehensive tax system.

Since independence, a major incentive for political involvement has been personal financial gain. With many exceptions, of course, political figures were largely motivated by their pursuit of a share of the country's modest but easily accessible riches.

On the economic level, the limited role of the state and the virtual absence of regulation gave full rein to a rich and influential business class comprising all sects. With the 1975 - 76 war, the state's role diminished further. A new elite grew alongside the pre-war powerful to share the gains that the collapse of the political and economic systems provided.

Post-war recovery was mainly spearheaded by the private sector. In absence of any authority, however, private business turned to smuggling and evasion of taxes and customs duties. There was a marked recovery in the private sector beginning in 1977, aided by relative calm. In 1978, production slumped as a result of renewed fighting. In 1979, economic activity picked up again and the recovery continued in 1980, however without attaining the 1974 level in real terms. This trend was observed in most sectors. Only banking activity registered uninterrupted expansion since 1977. Productive sectors of the economy faced problems that included shortages of skilled labor, higher production costs, segregation in the domestic market, and lack of labor mobility. Some sectors have recovered to pre-war levels but remain far below the levels which would have been reached had it not been for the war.

As a result of the war, Gross Domestic Product (GDP) dropped at current prices from \$ 3.5 billion in 1974 to \$ 3.3 billion in 1975 and \$ 1.4 billion in 1976. With the return of relative calm, GDP at current prices

is estimated to have doubled in 1977 to reach \$ 2.7 billion, but then rose only slightly in 1978 - with renewed fighting in the latter half of the year - to \$ 3.0 billion. In 1979, GDP was estimated at \$ 3.8 billion and in 1980 it stood at \$ 4.1 billion, 26 % and 36 % respectively higher than the 1978 level. In real terms however, GDP only rose from \$ 715 million in 1976 to \$ 1.1 billion in 1979, and about the same in 1980. The consumer price index rose considerably between 1976 and 1980. The average annual inflation rate has been estimated at 20 %.

Commercial banking activity has registered exceptional growth since 1977. Rapidly increasing deposits with banks led to excessive liquidity while credit extension, tempered by caution and a policy of prudence among banks, grew at roughly their pre-war rate. Sudden splurges of speculation, in real estate and in gold and silver, prompted Central Bank measures to restrain growth in credit between August 1979 and November 1980. To dampen liquidity, the Bank of Lebanon devised gradual increases in statutory reserve requirements and invited subscription by banks to successive issues of Treasury Bills.

Government finance was probably the sector most seriously affected by the war. The Government's inability to collect taxes and customs duties has reduced its revenues sharply. Expenditures, however, required for reconstruction plus regular needs, continue to grow. The resulting deficit is financed by borrowings from commercial banks and the public, in the form of Treasury and Development bonds; from the Bank of Lebanon, in the form

of special credits to the Treasury; and from abroad, in the form of commercial loans and foreign assistance. Arab and foreign aid has fallen short of levels originally expected, and this has contributed to delays and revisions in the implementation of the reconstruction program. The public budget deficit increased from \$ 210 million in 1978 to \$ 435 million in 1980.

Pre-war trade patterns remained unchanged. Exports rose, at current prices, from \$ 790 million in 1977 to \$ 1.2 billion in 1980 with the recovery of most of the pre-war markets, but grew at a slower rate than imports which rose from \$ 1.5 billion in 1977 to \$ 2.9 billion in 1980. The trade deficit of \$ 1.7 billion in 1980 was offset, as in previous years, by net capital inflows and remittances from Lebanese workers abroad. The balance of payments surplus was estimated at \$ 435 million in 1980 and \$ 395 million in 1979.

Industry, which until 1974 had made significant progress and developed export markets in the Arabian Gulf, has faced serious difficulties since the war. Higher operating costs, shortages of labor and credit and lack of protection all have hindered the restoration of productive capacity. At current prices, industrial exports increased from \$ 275 million in 1977 to \$ 530 million in 1980, which in real terms is still less than the 1974 level.

The shadow economy, one of many disturbing post-war problems, stems from the absence of government authority. Smuggling, fraud and

tax evasion abound. Arms, goods and cash flow in for the PLO and the militias. The cultivation of hashish for export has taken over 80% of the northern Bekaa agricultural fields. In some localities, the dominant party carries out government-type functions beyond policing, including tax collection, welfare needs, and upkeep of public services.

A major contributory factor to Lebanon's widening trade deficit is the increasing cost of oil imports from \$ 170 million in 1977 to \$ 420 million in 1980. In order to economize, the Government, therefore, has reduced its pre-war subsidy.

Shortage of housing has been a major post-war problem. Although illegal building has prospered in the absence of state authority, Lebanon still suffers from insufficient housing due to war destruction, large scale community displacements, prohibitively high rents and the absence of a comprehensive rental law.

Agriculture suffers from a mixture of pre-war and war-related problems. Credit shortages and lack of assistance to small farmers are immediate impediments to higher agricultural production. However, export of fruit and other crops is back to pre-war levels.

While war damage to hospitals has generally been repaired, many doctors and health personnel who fled the country have yet to return. Private doctors dominate the health scene. There is some evidence that infectious

diseases may be increasing, though not yet to epidemic proportions, and growing concern that health status could deteriorate further if the decay and breakdown of water and sanitation systems are not reversed.

The war and continuing violence have not diminished the great importance of education to Lebanese parents of all backgrounds. Primary school attendance exceeds 90% for both boys and girls, with two-thirds attending private schools. Illustratively, when relief workers canvassed the neighborhood in West Beirut that had been devastated by an Israeli bomb attack in July 1981, a foremost concern of survivors was money to make the first tuition payments for their children in the upcoming school year. There has been increasing demand since the war for technical education for young adults, including women, reflecting both the changing job market and the impact on families of inflation.

Finally, 1982 represents a turning point for Lebanon with respect to political stability. The Presidential election could mark the beginning of serious attempts to consolidate and reinstate Government authority and to make a start towards national reconciliation. A failure of the election process could lead to unpredictable crises, perhaps including the break-up of the country.

C. Profile of the Poor

Phenomena usually associated with Third World poverty, including malnutrition, starvation, high infant mortality, widespread unemployment, high illiteracy, and rapid population growth are not generally evident in Lebanon. For example, there is no evidence of a decline in nutritional intake, which FAO estimated at 2,500 calories and 67.5 grams of protein daily per person before the war. The American University of Beirut, with strong departments of medicine and public health, well-attuned to Lebanon's needs, has never had to gear up to address nutrition problems. Neither infant mortality nor the natural mortality rate of the poor have increased since the war, though as estimated 108,000 people from all backgrounds have been killed by the fighting since 1975.

Several factors have prevented significant unemployment from growing. These include the tendency in Lebanon's major ethnic groups to spread the work among community members in need and, importantly, the departure of some 250,000 - 300,000 Lebanese to jobs mainly in the Gulf region since the war; the money they send home reaches families of all economic stations. Literacy in Lebanon is the highest in the Arab world; over three-quarters of those above 15 years of age are literate; primary school enrollment exceeds 90% for both boys and girls. Population growth among Lebanese living in Lebanon is estimated to be no more than 2.8% though the Shiite Moslem population, with the highest prevalence of poverty, is also the fastest-growing.

Despite such statistics, however, Lebanon was not without significant poverty problems ante bellum. Pre-war pockets of rural poverty continue to exist, particularly in the South, the northern Bekaa Valley, and the Akkar area north of Tripoli. In particular, an estimated 25% of Lebanon's approximately 3.3 million people could be classified as "poor" in the very real sense that their levels of income are at or around subsistence, i. e., they have enough food to eat, access to some sort of health care, education and shelter, but not enough money to save or invest. While subsistence living existed before the war, it has certainly worsened as a result of the war, both qualitatively and quantitatively.

Pre-war poverty in Lebanon was rooted mainly in rural to urban migration. Low farm yields in rural areas, especially in the South, prompted the mainly Shiite villagers to move to Beirut and other urban centers in pursuit of better opportunities. Such migration drove farm yields still lower. It also tended to drive down real wages in the cities. A contributing factor in the migration was the Government's general neglect of the rural areas and failure to provide adequate infrastructure and social services. Since 1970 the rural South has lived with the added misery of regular Israeli raids in retaliation for Palestinian commando attacks from Lebanese territories.

On the positive side, Lebanese migrants have typically maintained close ties with their native villages. Some, benefiting from their extended

families, succeeded in diversifying their sources of income by having family members, usually the mother, daughters and younger sons, stay behind to work the land, when the security situation permitted, while the father and the older sons took up jobs in Beirut. The migrants to Beirut's suburbs tended to mix with more than 300,000 Palestinian refugees, Armenians, and other non-Lebanese minorities such as the Kurds and Assyrians to form a pool of cheap labor for nearby industries.

Hostilities have, of course, worsened conditions for the traditional migrants and have created whole new classes of migrants. Entire communities and villages have been uprooted. Thousands of migrants have fled from both sides of the capital. These new migrants became targets simply because they were not members of the sect wishing to take control of the area. A particular example will give the flavor; in 1976 an estimated 300,000 Shiites fled from the low-income industrial and slum areas of Naba'a, Bourj Hammoud, Maslakh, Karantina and Tal Zaatar located just north of the Beirut port. Escaping the Christian forces who sought to expel the PLO and secure the ~~East side~~, these Shiites joined members of their sect on the West side. In retaliation, the Christian agricultural communities of Damour and Saadiyat, small coastal towns about 14 miles south of Beirut, were sacked by the leftist and Palestinian forces. More than 50,000 Christians escaped north by boat to safety in Christian-controlled suburbs. Such problems were compounded in 1978 when Israel invaded the South and waves of new refugees streamed into Beirut.

Economic and living conditions for these war-generated migrants have been severe. When not finding relatives with whom to stay, they occupied vacant apartments, built shelters on other people's property and sought protection from the local party militia. Many of the displaced - the fortunate employed ones - have found work as vendors, watchmen, restaurant workers, garbage collectors, etc., with average yearly wages of \$2,000 to \$3,500, in a country whose cost of living is high and whose recent inflation rate has been in the 20% range.

Employment opportunities within Lebanon are not great. Although Lebanon has a severe labor shortage in certain categories such as nursing and construction workers, most refugees do not have the skills required for the work. The Gulf states present job opportunities, but these generally require skilled or semi-skilled credentials.

Women widowed by the fighting are an especially disadvantaged class. The Institute for Women's Studies in the Arab World conducted a pilot study on the socio-economic status of war widows in the South. The report shows that widows of unskilled workers now find themselves the sole supporters of large families. Illiterate and untrained, they earn a little by sewing, giving medical injections and doing menial jobs. Such widows indicated they wanted help in substitute care for children and vocational training. They were especially eager to have their daughters receive vocational training. In brief,

the women's socio-economic situation, low before the war, is even worse now, particularly after the partial or complete destruction of their homes and loss of husbands.

In summary, the 1975-76 war and its aftermath increased the suffering of the marginally poor - especially among the Shiites from the South, including women widowed by the fighting. A large proportion of these poor people have lost their jobs, homes and, in some cases, their villages. As a result of the dislocations, slum areas have mushroomed in Beirut and elsewhere, and housing conditions and basic social services throughout the country have deteriorated. Before significant reverse migration can take place, houses must be reconstructed, water systems repaired, land restored and schools and other social services rebuilt. Through the efforts of CDR and private organizations, some progress has been made, but a great deal remains to be done.

Finally, any discussions of war-generated hardship would be incomplete without noting that many of the middle and upper classes have also suffered dislocation, loss of life, property and income. Although their access to money has given them more options for dealing with the results of the fighting, they should be counted among the war disadvantaged. Many have had to accept a lower standard of living and adjust to both real and opportunity losses. The seven years of strife have taken a heavy toll on Lebanese of all backgrounds and regions.

A large unknown, so far as the future is concerned, is the lasting effect of the fighting on Lebanon's young. Some of the immediate effects are obvious. Schooling and family life have been disrupted for thousands. Many parents who can afford it send their children abroad to school. With the frequent shutdown of classes, students are performing less well. In 1981, 25 % passed the high-school Baccalaureate instead of the normal 35 %. Many young adults pass from school into militias, earning around \$ 150 a month. Lebanese worry that the breakdown of traditionally close family life, in a setting of high tension and poor law enforcement, has contributed to the sharp rise in drug use and crime among the young.

#### IV. AID PROGRAM FOR LEBANON

##### A. Progress towards Meeting Objectives

##### 1. Strengthen Central Government Authority

Progress in strengthening the capacity of the Government to reconstruct the country and regain authority and respect has been erratic and slow, but steady. AID strategy has been to help develop the capabilities of CDR to administer the Government's reconstruction program and to provide direct support for a few projects which have a good chance of succeeding and are manageable by Government agencies. This approach has been mostly successful, as CDR continues to gain stature and some

public services have been restored. For example, Tripoli Hospital has reopened; the Municipality of Beirut has resumed ambulance services; parts of the Dekwaneh Vocational Training Institute are functioning; a rudimentary ~~epidemiological~~ epidemiological study illuminated aspects of health status; community-based health/social service centers are more or less functioning; damaged and destroyed water supplies have been repaired; and hundreds of Lebanese have received assistance to rebuild their homes.

In sum, we think AID has made good progress in helping to restore Government services given the limited resources we have provided and the capability of a weakened and demoralized Government to use these resources. Where AID's activities with the Government have moved haltingly, the difficulties can be traced in nearly every case to the relative strictness of AID's programming requirements and a particularly ineffectual and weakly staffed department of government, e.g., key wings of the Ministries of Agriculture, Housing, and Health.

It is clear that the Government sees the urgency of restoring services as a major way to restore public confidence in Lebanon's institutions. Port and airport expansions; improvements in telecommunications, water supplies, and electric-power; opening of major highway links; reconstruction of South Lebanon's schools, health centers, and village water systems; initiation of the national waste management plan are all manifestations of the Government's determination to press ahead with nation-building activities.

As the Government moves forward, we plan to direct relatively more of our financing than in the past to government-sponsored programs. We recognize, however, that United States modest funding levels and sometimes lengthy processes may limit U.S.'s ability to bolster the Government in the next few critical years.

2. Promote National Cohesion and Unity by Providing Economic Opportunities and Social Assistance

As far as we can tell, AID's projects with Private Voluntary Organizations have contributed modestly but effectively to Lebanon's nation-building needs. Efforts focussed on restoring economic opportunity have been administratively successful and generated favorable comment and appraisal. These include a rural credit project with Save the Children (SCF), a vocational training project with YMCA/Lebanon, and a small loan program with the Armenian General Benevolent Union (AGBU). The SCF and YMCA projects, which have each brought direct benefits to several thousand people throughout the country, have been carefully administered to assure equitable ethnic and geographical balance. The AGBU project is targeted to a particular Beirut suburb, hard-hit by shelling during the war and since, which is about 75% Armenian. Hence most of the loan recipients are also Armenian.

Some twenty major social institutions, mainly hospitals and schools, have been repaired or improved through an AID project with Catholic Relief Services (CRS). Signing and inauguration ceremonies have

received wide and positive media attention. Like the YMCA and SCF projects, the CRS program to restore private institutions has been carefully managed to avoid regional or religious bias. A CRS evaluation completed in December 1981 indicates that of the 20 institutions, 11 have been Christian and 9 non-Christian. About 65 % of the people immediately benefiting from the restorations have been non-Christian.

3. Alleviate Hardship and Suffering through Humanitarian Assistance

Many of AID's projects, including all those with PVOs, have a humanitarian dimension to the extent they help individuals and families overcome hardship brought on by war and strife. In addition, disaster assistance has been invoked on several occasions, including twice in 1981, to help alleviate the immediate suffering caused by heavy bombardments and shelling. Our observations and inquiries indicate that these emergency funds have been generally well used by the hospital, relief, and civic authorities through whom they were channelled.

B. Projected Five-Year Assistance Planning Levels

Given Lebanon's volatility and highly uncertain future, we are projecting a modest bilateral AID level of \$ 8 million per year for the FY 1983-87 period. As noted in discussing the rationale for U.S. assistance, however, we believe there is a reasonable chance that developments during

the period may prompt the United States to decide to raise or lower this projected annual level. Accordingly, it is appropriate that A. I. D. should undertake such preparatory work as it can, particularly for a decision to increase the AID level, since more lead-time is required to program effectively for an increase than for a decrease.

We believe that this preparatory work should include a considered review of Lebanon's record in utilizing concessional aid. Gains in reconstruction and development since 1977, while far short of immediate postwar hopes, constitute the most tangible evidence of the government's ability to perform. These gains are manifestly more substantial, for example, than the Government's progress in reasserting control over law and order and national defense. The government gets good marks, too, for balancing private and public sector needs in its reconstruction actions and for investing in projects where the incidence of loss or damage from subsequent warfare has so far proven to be low.

While one can envision many scenarios for Lebanon prompting consideration of higher or lower aid levels, one plausible possibility, consistent with overall U. S. foreign policy efforts, is a gradual improvement in security accompanied by the incremental restoration of central government control in the country. This could open the way for accelerated reconstruction

and development, with the private sector and market forces dominating the effort. Should such a scenario begin to take shape, we believe the U.S. may decide to inject additional aid for a period of perhaps three to four years to help support and give direction to the massive costs of reconstruction and redevelopment. Such transitional assistance would have the dual purpose of (1) supporting private and public sector investments as Lebanon gathers and deploys its own resources for the effort and (2) helping to rebuild and strengthen public sector institutions so that Lebanon could enter an era of stability and growth with better balance than obtained before the war between one of the weakest governments in the world and private interests that comported with an insufficient sense of national responsibility.

Such a show of support would cohere with CDR's view that U.S. financial participation in projects can be valuable in mobilizing other funds. CDR expects that, when the situation improves, the flow of Arab aid may depend importantly on the degree to which the U.S. participates in Lebanon's reconstruction. It believes that U.S. leadership in aiding Lebanon immediately after the war was perceived as a vote of confidence in Lebanon's future by moderate Arab states which soon followed with larger commitments than the U.S. could provide.

Preparatory work for expanded U.S. participation in Lebanon's recovery can proceed at the AID levels proposed, utilizing a mix of bilateral and central funds. It is possible some preparatory work could have potential

utility apart from future U.S. assistance decisions. A policy dialogue on the ultimate strength and shape of Lebanon's public institutions in the economic, developmental, and financial realms is a case in point. This is an extraordinarily complex and sensitive subject involving much more than restoring status quo ante patterns. Not all Lebanese officials would welcome such a dialogue. And fewer still would enjoy the anatomical drudgery that would need to precede informed judgments on whether there was a proper role for outsiders. But one intuitively senses areas where the U.S. has something to offer. One example is the field of direct taxes and how to organize for the assessment and collection of tax revenues.

In choosing not to assume or advocate a more ambitious AID strategy during the 5-year period, we note that the NE Bureau in its CDSS/SPS guidance recommended against doing so unless we believed the situation and outlook in Lebanon had significantly changed from the spring/summer of 1981. While some signs are positive, including the relative calm that has prevailed along the Beirut confrontation line since July 1981, Lebanon faces an unusually high degree of uncertainty in 1982.

To summarize and emphasize, special factors looming in 1982, atop the other developments that have fractured authority and unity in Lebanon, are whether (1) the scheduled Israeli withdrawal from Sinai in **April** can be accomplished without an Israeli incursion into South Lebanon;

(2) the principal forces can agree on a candidate for Lebanon's Presidential election in the summer; and (3) a President and Council of Ministers will emerge commanding the needed support and respect to advance national reconciliation and governmental authority. Closely tied in with election of a new President will be the appointment of new leadership to run the CDR, the agency with which we consult and coordinate on all principal policy and program issues. This, too, creates uncertainties, even though CDR has performed extremely well under the circumstances.

A few months from now, depending on the outcome of major events in 1982, we may have sufficiently clearer notions about the future to project different levels for the outyears from those shown here. If Lebanon emerges from 1982 intact and with more confidence, and particularly if there are tangible signs that momentum is with the Government in acquiring more control over law and order and other national needs, we believe U. S. interests would probably justify an expanded assistance program.

C. General Description of Planned Program

1. Balancing PVO and Government Portfolio

We see a program at the \$ 8 million level as dividing roughly 50/50 between PVOs and the Government of Lebanon during each of the five years. The ratio could shift markedly one way or the other, depending on

developments we cannot predict. However, in the first years of the period at least, we project an approximately equal balance.

A sizable PVO component offers several attractions in the Lebanon setting. In support of U. S. foreign policy objectives and AID's criteria for assistance, PVO projects:

- can be administered with equitable geographical and ethnic balance;
- serve ordinary people who have suffered losses, including opportunity losses, because of the war and continuing unrest;
- address mainstream problems, like rural credit and job training, and evolve workable formulas that can be applied on a larger scale by government and commercial enterprises;
- are efficiently and honestly administered and present few serious implementation problems the PVOs themselves cannot handle;
- enable AID to move and manage funds well without increasing staff too much; security considerations necessitate lean U. S. staffing in Lebanon .

There are also good reasons for assisting the Government directly. Channelling funds through Government entities:

- directly serves the prime U.S. foreign policy objective of strengthening the capability of Lebanon's national government to serve the people's needs;

- reinforces other U. S. foreign policy efforts to bolster central authority;
- strengthens the capacity of the CDR to make informed decisions and manage the total reconstruction effort effectively;
- permits assistance to units of government or sectors of activity where there is promise of efficient performance and beneficial results;
- allows the pursuit of such attractive strategic objectives as linking capital assistance from the Arab countries with technical assistance from western and international donors;
- gives AID an entree into reconstruction policy deliberations.

In managing the PVO and Government components of U. S. assistance, we will encourage constructive opportunities for interaction. It has been AID policy since the resumption of U. S. assistance after the Lebanese war to keep CDR informed on all of AID's PVO activities. Beginning in FY 1983, we intend to start a project under which at least a portion of U. S. assistance for PVOs will be co-managed by AID and CDR. While serious design work will not get underway until the spring/summer of 1982, it is our hope that a project will emerge which preserves the main advantages of PVO programming and advances other worthwhile objectives

as well. Involving CDR more systemically in the management could bring about, for example: a) more credit to the government for PVO achievement; b) greater governmental inclination to examine and apply the results of successful PVO innovations; c) utilization of competent and qualified PVOs (including indigenous organizations) not now receiving U. S. funds; d) increased financing for PVO activities from government agencies, local communities, other bilateral and international donors, and PVOs themselves; and e) decreased processing time of proposals within AID. Depending on how rapidly this project moves, we would intend during the five-year period to channel a substantial portion, say at least half, of AID's PVO funding through this mechanism.

## 2. Flexibility in Sectorial Choices

For both government and PVO assistance, sectorial concentration is less relevant for Lebanon than other considerations, including management capability and the extent to which programs serve U. S. foreign policy objectives in Lebanon. Again, the main themes are strengthening legitimate authority; promoting national cohesion; restoring institutions and services; and alleviating hardship. Lebanon's reconstruction and development needs are substantial in nearly every sector. The sectorial discussions contained in Appendixes indicate the wealth of developmental activities

available for consideration at an \$ 8 million level or at a substantially higher level should the United States decide to increase its participation in Lebanon's reconstruction.

As a practical matter, some degree of concentration is inevitable at an \$ 8 million level. It seems likely that technical assistance to the CDR itself, and to special programs it initiates, will continue throughout the period. The U.S. has been the prime consistent donor from the outset to the building of CDR's capabilities; and both sides are satisfied with results. Beyond this, planned assistance to start in FY 1983 to Lebanon's National Waste Management Plan would leave little for other government activities, at least until later in the period. Assuming an average of \$ 4 million a year for government activities, U.S. assistance will probably emphasize technical assistance, training, and support costs, including start-up funds to give momentum to investment requirements to be largely funded from other sources.

For sectorial coverage through PVO funding, this is one of the issues that will need to be addressed in drawing up criteria for grant awards under the new PVO project with CDR, discussed above. In our judgment, provided the activity is consistent with Agency sectorial guidance and Lebanon's needs, the sector per se is less important in the weighting than ethnic and geographical considerations, the needs of the intended beneficiaries, the cost of the benefits, the institution-building impact, and management considerations.

Supplementing the \$ 8 million bilateral level, central bureau assistance will doubtlessly be sought as opportunities arise. Likely areas are population and health from S & T, and possibly energy and agriculture. The human rights account might be an appropriate vehicle to help Lebanon reinstitute its juridical processes. From FVA, assistance may be required from the central PVO office. Particularly if a period of stability leads to progress toward normality in Beirut, an active role for the Bureau for Private Enterprise and the Trade and Development Program could evolve, giving U.S. business some headstarts toward the huge commercial opportunities that a peaceful Lebanon will bring. The instruments of the Housing Office hold promise if Lebanon can achieve stronger consensus on a national housing policy. Assistance through the ASHA will presumably continue for the American University of Beirut and possibly such other interested institutions as Beirut University College, International College, and Haigazian College.

### 3. Assistance to American University of Beirut

Further to AUB, the violence and instability of the last seven years have exacerbated its financial problems, even as it has remained an oasis of order and civility in heavily armed and generally lawless West Beirut. AUB has been seeking special help from the United States as well as from other potential contributors, including wealthy alumni and Gulf states. AID/Lebanon has been supporting efforts to strengthen the financial well-being

of AUB, to maintain its American character in providing high-quality education, to increase its contribution to Lebanon and the region, and to enable the AUB Medical Center to continue to offer American standards of treatment and hospital care to persons in need.

However, it is our expectation that any emergency U.S. support for AUB and its Medical Center would be provided through central or regional channels, as with the ASHA and NE bureau scholarship programs, and not be ascribed to the Lebanon bilateral program. Hence the proposed \$ 8 million level does not include support for AUB. In our view, incidentally, any emergency assistance to the University should, to the degree feasible, be substantively linked to the analytical and technological needs of Lebanon and the region and to a viable University plan for reducing costs and increasing revenues.

D. Projected Five-Year Staffing Requirements

Current AID Rep/Lebanon staffing consists of three U. S. professionals, five Lebanese direct-hire, and one Lebanese contract clerk-typist. The Lebanese direct-hire include two professionals, a budget assistant, a secretary, and a driver. We receive conscientious legal and financial backstopping from the RLA/Amman and USAID Controller/Damascus, who each make brief trips to Beirut about five times a year.

The present staff is not sufficient for the workload at hand.

While both security and budget considerations dictate minimal staffing in Lebanon, current numbers are not adequate to oversee some 20 discrete activities, several of which, like assistance to CDR, have many parts; satisfy AID/W documentation and reporting requirements; conduct responsibilities for program and project design, development, implementation, and evaluation with due attention to quality and timeliness; initiate needed actions and responses involving AID/Washington and the Government; maintain an acceptable frequency of field visits to monitor projects, anticipate problems, and hear ideas; receive a growing number official visitors; follow important issues and activities outside the bilateral program, such as AUB matters, centrally-funded activities, or the programming of emergency assistance; provide appropriate service and analysis for the Ambassador on economic assistance matters; give necessary care to all administrative, fiscal, and management imperatives; maintain full interchange with the Embassy on matters of common concern; and carry on a purposeful dialogue with government agencies and principal donors on other than operational issues.

Following discussions with senior NE bureau management, we recently proposed a fourth U.S. position - probably to be filled by a junior/middle-level officer who can operate across-the-board in handling tasks appropriate to his or her experience and capability. With a projected

bilateral level of \$ 8 million, roughly half for the government, we will make every effort to get by with a USDH staff of four. This will require strong support from AID/Washington in fielding TDYers and consultants for program needs and well-defined delegations of authority to the AID Representative. It may become necessary, depending in part on staffing actions on the Lebanese side, to add as a fifth USDH an American secretary. The AID Rep Office had a U. S. secretary until the summer of 1981, who served over a two-year period when the Office was less subject to normal USAID requirements than it has since become. While our bias is towards using Lebanese to the greatest extent possible, the advantages of a U. S. secretary cannot be overlooked. All U. S. staff reside close to the Embassy and are less vulnerable than most Lebanese to unplanned absence, tardiness, and other disruptions forced by Beirut's disorder. Secondly, classified matters would require less time of U. S. professional staff with an American secretary on the staff. Continuing poor security would make it impractical to depend on a resident American hire for this purpose.

In planning Lebanese staff requirements at an \$ 8 million level, two additions may be necessary in the near-term. The first is a clerk-typist, which we would probably fill by contract if it is decided not to add a direct hire American secretary. The second is a technically qualified professional to help backstop AID's involvement in the National Waste Management Plan.

A person with experience and skills in the planning, design, and/or engineering work associated with waste control systems will be required by FY 1983 if AID's three-year \$ 6.5 million project in this area is to be properly managed and monitored. We intend to explore whether this can be arranged through a PSC or if direct hiring will be required for the talent needed.

Should a significant increase in the AID level for Lebanon at any point appear likely, AID/Beirut and AID/Washington will need to analyze and decide as far in advance as possible, in consultation with the Embassy, the U.S. and FSN staffing implications. The same holds for a significant decrease in the planned \$ 8 million level.

BANKING

Pre-War Situation

At the outbreak of fighting in 1975, Lebanon had 76 commercial banks. A total of 40 foreign banks had local representation. Local banks had a network of almost 500 branches serving most areas of Lebanon. The total consolidated balance sheet of commercial banks stood at nearly \$ 5 billion at the end of 1974. Deposits with commercial banks exceeded \$ 4 billion, nearly 30 % above the previous year's level. Commercial bank credit to the economy amounted to \$ 2.4 billion.

Post War Activities and Situation

Since 1975, private banking activity in Lebanon has been characterized by phenomenal growth in deposits, leading to excess liquidity, and restrained growth in credit extension caused by political instability. Public monetary policy sought to achieve three objectives: monitor and control credit activities of private banks; stabilize the value of the Lebanese pound through the use of foreign exchange reserves; and curb inflation largely caused by excessive liquidity through increases in reserve requirements.

General insecurity in 1975-76 led to an outflow of capital to some European countries, mainly France and Britain. Much of this outward movement of funds was offset by increased inflows of remittances as well as funds from Arab countries to finance the war. As a result, deposits with

commercial banks dropped only slightly between 1975 and 1976, from \$4.2 billion to \$4.1 billion. The total consolidated balance sheets of commercial banks, after rising 18% in 1975 to \$5.9 billion, remained almost unchanged in 1976. Commercial bank credit to the economy rose only slightly in 1976, from \$2.9 billion to \$3.1 billion, reflecting the war's impact.

Deposits in commercial banks have increased more than 20% annually. Deposits increased from about \$3.5 billion in 1977 to \$7.5 billion by mid-1981. In recent years, a marked increase in the proportion of deposits in foreign currencies has been a worrisome development with the proportion rising from 24% in 1978 to 46% by mid-1981.

Commercial bank credit nearly doubled between 1977 (\$2.7 billion) and 1980 (\$4.0 billion). By mid-1981, total commercial bank credit stood at \$4.0 billion, 17% higher than the end of 1980. The largest share of commercial bank credit went to the trade sector (52%), with industry and construction sharing 21% and 12% respectively.

Reflecting overall growth in commercial banking activity, the total of their consolidated balance sheets doubled between 1977 and 1980 to \$8 billion. Similarly, commercial bank claims on the private sector doubled between 1977 and 1980 and, by mid-1981, rose further to \$4 billion.

Claims on the public sector, on the other hand, quadrupled, reaching **\$500 million by 1980**. On the liability side, private sector deposits rose sharply, reaching \$ 7 billion by 1981. Public sector deposits, mainly deposits by the National Social Security Fund, grew slowly to \$ 150 million at the end of 1980.

Since the war, and particularly in 1979-80, Lebanon's monetary policy has been aimed for the most part at reducing pressures on the Lebanese pound in the domestic foreign exchange market and on the general price level. These attempts have faced serious difficulties because of the need to finance the Government's budget deficit. Immediately after the war the Central Bank exempted commercial banks from reserve requirements to stimulate recovery, but, with pressure on the pound, reserve requirements were instituted. These requirements have steadily increased to 15% and increases in the rediscount rate followed, reaching 10% by the end of 1980.

#### Major Problems

1. Continued instability limits the amount of risk commercial banks are willing to assume and their participation in reconstruction, i. e., credit is made available largely for speculative purposes such as land and short-term investments.
2. With a limited tax base, the Central Bank comes under increasing pressure to tap its gold reserves, a major source of confidence in the future of Lebanon.

PUBLIC FINANCE

Pre-War Situation

Total allocations under the 1974 Government budget were \$ 530 million which were increased to \$ 700 million in 1975, or by 31%. Recurrent expenditures made up nearly 70 % of the total in both years. Revenues, on the other hand, stood at \$ 435 million in 1974, to which indirect taxes contributed \$ 210 million, or nearly half. Direct taxes brought in another \$ 140 million, or 32 %.

Post War Activities and Situation

Plummeting tax revenues and rapid growth in public expenditures needed to finance reconstruction have led to persistent deficits in the public budget since 1975. The deficit rose from about \$ 100 million to about \$ 400 million by 1980. The deficit for 1981 is estimated at \$ 325 million and, in recent years, public revenues did not even cover recurrent expenditures.

The principal reasons for revenue shortages are the sharp drop in the collection of custom duties at the official ports, growth of illegal ports, and tax evasion. To finance its operations, the Government has resorted to borrowing from commercial banks, the Central Bank and external sources in the form of commercial loans.

Since 1977 the Government has increased public expenditures at an average annual rate of 33 % reaching \$ 1.1 billion by the end of 1980. In recent

years the share of recurrent expenditures out of the total budget has fallen from 95 % in 1976 to 68 % in 1980. Capital expenditures, on the other hand, have doubled since 1977 to \$ 275 million in 1980--mainly for reconstruction.

Having risen 29 % in 1974, Government revenues dropped sharply during the war years reaching only \$ 50 million in 1976. With the relative recovery in 1977, revenues rose 13 % above the 1974 level. Most of the increase was due to operating profits of the Central Bank, while the share of taxes and customs receipts dropped sharply. Customs receipts have persistently remained below projected levels and in 1981 they registered their lowest level since 1977, slightly over \$ 100 million.

Supplementary budgets for the postal service, national lottery and the Sugar Beet and Grain Office were in surplus until 1976, in deficit in 1977, and have been in balance thereafter, although all three benefit from Government support.

Since 1977, the public debt to the commercial banks has consisted mainly of Treasury Bills. The value of these Bills reached \$ 153 million in 1977 and climbed to \$ 574 million by the end of 1980. Various factors have reversed the public sector's position as a net creditor in 1975-76 to a net debtor of nearly \$ 553 million by the end of 1980, a fourfold increase over the 1977 level.

Heavy public sector borrowing from the Central Bank started with the war. In 1975, the public sector was a net creditor to the Central Bank of nearly \$ 320 million but a net debtor of \$ 150 million by the end of 1980. However, if foreign exchange gains (about \$ 650 million in 1979 and 1980) are considered as deposits the situation changes to the public sector being a net creditor of over \$ 25 million in 1980. Interest payments on the public debt to the Central Bank amounted to \$ 17 million in 1979 and \$ 20 million in 1980.

The public sector position in terms of the entire banking system has moved to a debtor position since 1976, reaching over \$ 700 million by the end of 1980. The total public debt in this regard represented one-third of the Government's budget in 1977, but rose sharply to 75% in 1980.

#### Major Problems

Effective tax and duty collection systems are among the most persistent post-war problems.

FOREIGN TRADE

Pre-War Situation

Lebanon's foreign trade sector was characterized by a chronic deficit in the trade balance and a sizable surplus in the balance of payments; this was due to the favorable position Lebanon has always enjoyed on capital account, which resulted from a net inflow of capital and remittances.

Between 1970 and 1974, Lebanese exports registered remarkable growth, due mainly to the rapid increase in industrial exports which traditionally accounted for 70 to 80 % of total exports and the growth in marketing outlets, mainly in the Gulf. By 1974, the value of exports stood at \$ 750 million.

Imports, on the other hand, increased steadily and almost quadrupled from 1964 to 1974, from \$ 485 million to \$ 1.8 billion. The deficit of over \$ 1 billion in the trade balance was offset by the inflow of capital and remittances and a net surplus on the services balance. A surplus of over \$ 600 million was achieved on the balance of payments in 1974.

Post-War Activities and Situation

A sharp decline in industrial and agricultural production after the war brought exports down, at current prices, to \$ 775 million in 1977, i. e., only 65 % of the 1974 level. Renewed fighting in 1978 led to a further decline in exports to \$ 665 million. In 1979 and 1980, exports rose to \$ 835 million and \$ 1.2 billion, respectively, but remained short of the 1974 level in real terms.

Imports on the other hand were \$ 1.5 billion in 1977, 10% more at current prices in the 1974 level. They reached \$ 1.7 billion in 1978, \$ 2.3 billion in 1979 and \$ 2.9 billion in 1980. The depreciation of the Lebanese pound has inflated the country's import bill which, in 1980, was still below the value of imports in 1974 in real terms.

Since 1975-76, Lebanon's trade deficit has risen sharply and in 1979 it exceeded the value of the country's exports. In 1974, for example, the trade deficit was only 60% of the value of exports. Official reserves covered only 15 months of deficit in 1980 compared with 33 months in 1974.

Remittances from Lebanese workers abroad and capital inflows, mostly from Arab countries to finance ongoing rivalries in Lebanon, offset the trade deficit and tipped the balance of payments in Lebanon's favor.

Remittances and capital inflows are estimated at \$ 2.2 billion in 1979 and \$ 2.6 billion in 1980. The balance of payments surplus reached \$ 435 million in 1980, compared with \$ 190 million in 1978 and \$ 650 in 1979. In real terms, the surpluses were \$ 553 million in 1980 and \$ 395 million in 1979.

#### Major Problems

1. Persistent and increasing trade deficit brought about largely by a still weakened industrial and agricultural base.
2. Heavy reliance on remittances of skilled and semi-skilled workers who have fled the country, and on capital inflows to finance continued fighting, to maintain a favorable balance of payments position.

INDUSTRY

Pre-War Situation

In the first half of the 1970s, Lebanese industry evolved rapidly, encouraged by favorable patterns of credit extension, a strong Lebanese pound, cheap and abundant labor, subsidized fuel and electrical power supplies and promising export potentials in Gulf countries.

By 1975, Lebanon had over 9,500 industrial establishments employing 20 or more workers. Employment in this sector was 125,000 workers or 20% of the total work force. Lebanese industry was characterized by small operations based on processing imported raw materials and local agricultural products. Notable exceptions include cement, iron and steel, and fertilizers.

Lebanese industrial exports saw remarkable growth just before the war, doubling almost annually beginning in the early 1970s. In 1975, despite disruptions caused by initial fighting, the value of industrial exports reached nearly \$ 275 million, 74% higher than in 1974.

Post-War Activities and Situation

Estimates differ on the losses suffered by industry from the war, but they range up to \$ 970 million in total losses. Some 250 industrial establishments, capitalized at \$ 435 million, were destroyed, and the sector

lost 20% of its fixed capital. Productivity dropped sharply, reaching levels as low as 13% of 1974 levels in some industries. Over 50,000 skilled and semi-skilled industrial workers fled to other countries.

Industrial recovery has been slow and only in 1980 did industrial production attain its pre-war level. Proprietors have been reluctant to assume the risk of rebuilding plants, skilled labor is scarce, and increasingly higher operating and labor costs have resulted in fewer industrial export opportunities.

Lebanon perhaps has about 7,000 industrial establishments today employing 20 workers or more, a decline of 2,500 from the estimated number in 1975. In 1979, 138 industrial establishments were newly licensed with a combined capital of \$ 250 million. Machinery and equipment investments added another \$ 140 million. In 1980, however, only 77 industrial establishments were licensed with an investment in machinery of \$ 55 million.

Industrial exports, on the other hand, reached \$ 555 million in 1980, more than double the 1974 level, and \$ 475 million in 1981. In real terms, the value of these exports is believed to be still short of pre-war levels. Lebanon's industrial exports are largely made up of cement, non-metallic mineral products and metallic products destined for Arab countries.

In late 1981, Lebanon's major industrialists mounted a campaign warning the government and the media of massive closures if their problems

continued unchanged. They pleaded for loans, subsidies, and protection.

While a Cabinet committee was created to study their grievances, observers disagreed on the severity of their plight.

Major Problems

1. Lack of protection on local markets from illegal imports.
2. Shortages in skilled and semi-skilled manpower which has led to high wage bills. Also, continued insecurity has prevented factories from operating at full capacity.
3. Industry owners claim that little public assistance is available (concessional credit, subsidies, special tax exemptions, etc.) to help share or reduce the risk of reopening industrial establishments.

SHADOW ECONOMY

Since 1975-76, Government control has been absent from most of Lebanon. In many places the Government has been virtually replaced and various militia groups have formed their own mini-Governments and economies. Main developments, each adverse from a different perspective, have been as follows:

Smuggling

Both direct and excise taxes are currently being collected to finance the military requirements and community projects by mainly Christian militia authorities. By far the major source of revenues for this group, however, is approximately 14 illicit ports scattered along the sea coast, mostly but not all in Christian-held territory. Overall, total custom "duties" collected by the various militia groups are estimated at \$ 125 million annually. Tax collection operations might add another \$ 10 - \$ 15 million annually to these illicit proceeds.

Hashish Production

Hashish has become a principal cash crop for farmers in the Ba'albeck and Hermel regions of the Bekaa. An estimated 80% of the arable land in these regions is used for the cultivation of hashish. The annual value of this crop is estimated to be more than \$ 500 million.

External Financing of Militia Operations

The value of cash, arms, and goods flowing to armed groups operating in Lebanon has been unofficially estimated to be in the range of \$ 300 million annually.

ENERGY

Pre-War Situation

In the mid-seventies, around 90% of Lebanon's energy requirements were provided by imported hydrocarbons. This proportion has not changed significantly since then.

Two refineries were in operation in the country in 1974, one in Tripoli (north) and the other at Zahrani (south) which were not sufficient to meet local demand. Imports of gasoline were 27,000 tons in 1973 and 48,000 tons in 1974. In addition, the Tripoli refinery was supplied with crude from Iraq and the Zahrani refinery with crude from Saudi Arabia. These refineries also served as oil export terminals.

Almost all the population had access to electrical energy transmitted from main distribution stations, made up of eight thermal generating plants and seven hydraulic stations.

Post-War Activities and Situation

Problems facing the Lebanese economy have been compounded in recent years by the continuous increase in the size of the oil import bill. The growing size and value of these imports have been a major contributor to the widening gap in the balance of trade.

In 1976, pumping of crude to the Tripoli refinery from Iraq was discontinued, and it was only in December 1981 that pumping resumed. This,

together with the increased demand for both crude and refined products, raised the oil import bill from \$ 165 million in 1977 to \$ 500 million in 1981.

Since 1976, the cost of Lebanon's oil imports has increased in line with world prices; further, the Government subsidized the retail price of refined products. By the end of 1980, these subsidies resulted in an accumulated deficit of some \$ 325 million. An additional deficit of \$ 170 million has been projected for 1981.

With respect to electricity, damage to the power network has been estimated at \$ 17 million and output capacity dropped 45 % in 1976. Partial repairs in 1977 enabled restoration of the system to 1975 levels with capacity increasing thereafter. In 1980, the electricity authority unveiled a \$ 360 million restoration program to be completed in 1983 which will include five new turbine generators with a capacity of 100,000 kwh. There is also a seven-year \$ 500 million expansion program under study to meet generating capacity needs in the Eighties.

#### Major Problems

1. The theft of power (about \$ 55 million in revenues lost between 1975-80) is expected to continue until the Government is able to impose its authority over the country.
2. The continuously increasing size of the oil import bill is expected to be a major contributor to sluggish growth of the economy and inflationary

pressures. The Government is giving thought to doubling the capacity of its Tripoli refinery and the cost could be in the \$ 300 - \$ 400 million range.

3. Solar energy is a promising alternative to oil imports but the predominance of rented apartments and antiquated rental laws will hinder widespread use as landlords are unwilling to bear initial installation costs. However, small flat plates used to collect solar energy can now be seen in parts of Beirut. Due to the scarcity of wood in Lebanon, the main source of nonelectric energy is fuel oil, an expensive source of heat. Although not yet introduced to the rural areas, these disks are a future source of savings for homes and institutions wishing to install them for heating water.

HOUSING

Pre-War Situation

The total number of dwellings in 1970 was estimated at 484,000 of which 396,000 were primary dwellings, 51,000 were secondary and 37,000 vacant. By 1975 Lebanon had only increased its stock of primary dwellings to 460,000, largely made up of luxury apartments. About 40% of the total households lived in dwellings of one or two main rooms only. Furthermore, 56% of the population lived in houses with more than two persons per room.

Housing shortages in 1975 stemmed largely from the insufficiency of dwellings and a very high occupancy rate. Assuming 1.3 occupants per room to be an acceptable ratio, and a population of 2.1 million, the total theoretical housing requirements amounted to 1.6 million rooms, Lebanon, however, had only 1.2 million rooms available in 1975.

Post-War Activity and Situation

Lebanon's housing shortages were exacerbated by the war. Whole neighborhoods and communities were destroyed. Immediate housing requirements, mainly replacement of war-wrecked dwellings, were estimated at 20,000 until 1982. The Government, however, felt constrained to place emphasis on the repair and reconstruction of damaged homes.

With the Israeli invasion of South Lebanon in 1978 and subsequent destruction in the region, the housing crisis grew worse. The Government

launched another housing program specifically for the South which, by 1980, provided some \$ 30 million to help repair over 10,000 housing units and about 800 shared facilities.

A Housing Bank was established by the Government in 1977 but its operations have been hampered by under-capitalization; also, loan ceilings (\$ 36,000 and later \$ 47,000) are too low for most families caught in the housing bind. In 1980, the Government passed legislation for the construction of 20,000 residential units over a three year period, but implementation has been slow.

High rental rates, together with unwillingness of many landlords to rent apartments because of antiquated rental laws, have made it practically impossible for many low and middle income families to find suitable dwellings. Such families cannot afford to buy houses because of continuously escalating house and land prices. The widespread "squatting" in war-vacated homes and construction of shelters on unattended private and public property provide limited temporary relief but add to already serious problems in the future.

#### Major Problems

Lack of a coordinated shelter policy within the Government to increase the stock of residential housing despite a general recognition by top policymakers that inadequate housing is a critical need in Lebanon.

AGRICULTURE

Pre-War Situation

Although agricultural land comprises only 25% of Lebanon's total area, the diversified topography and climate permits the production of a wide variety of crops. The major agricultural area (43% of the total) in the Bekaa Valley, which produced wheat, barley, potatoes, sugar beets, vegetables and grapes. Tobacco was important in the south and dairy in the north. Poultry production was a more recent widespread activity, and citrus fruits and olives were important in coastal areas and nearby higher elevations. Agriculture contributed \$ 270 million in 1973 to aggregate production, or 11% of the total for all sectors. Employment in the sector was 13.5%, down from 30% in 1965. Poultry and livestock production contributed between 25-40% of total agricultural output between 1970-75, with the rapidly expanding poultry industry leading the way.

Post-War Activities and Situation

Agricultural losses from the war are estimated at \$ 130 million. Major losses were sustained by poultry farms (90% put out of operation), destroyed agricultural equipment and neglect of orchards. The dairy herd was largely destroyed (60% of the dairy cows and 40% of the sheep and goats). Agricultural production gradually recovered after the war with fruit, grapes, potatoes and poultry production reaching or exceeding pre-war levels by 1977.

Production of sugar beets, wheat and livestock has rebounded less well. While commercial operations have been fairly successful in restoring operations, small holdings are believed to be operating substantially below pre-war levels.

A major post-war development in agriculture has been the expanded use of plastic green-houses for off-season crops, mainly vegetables and flowers. A large portion is destined for the Gulf markets with almost daily deliveries. In the northern Bekaa, hashish production has soared now that it can be grown without fear of penalty. By 1980, agriculture's contribution to GDP reached nine percent of aggregate output, with 13% of the work force employed in the sector.

#### Major Problems

1. Much arable land is under-utilized because of dislocations caused by the fighting.
2. Extension services, research, and infrastructure projects such as land reclamation and irrigation receive little attention.
3. Chronic pre-war problems have been compounded by the war; labor shortages are acute in some regions; operating costs have increased sharply; small farmers are hard-pressed to obtain credit.

HEALTH

Pre-War Situation

The Lebanese have always relied predominantly on private doctors and hospitals for health care. Only about 10 % of the hospital beds before the war were in public hospitals, utilized mainly by persons who could not afford private services. About 200 public dispensaries were in operation, but less than 15 % of these were located in the Bekaa and South. The doctor/patient ratio averaged 1/1,300 but was five times better in Beirut than the rural areas. Emphasis was on curative services, with little concerted attention to preventive health care. The National Social Security Fund provided workers with medical insurance.

Post-War Activities and Situation

Civil war losses in the health sector were estimated at \$ 3 million for private facilities and \$ 7 million for public ones. The private sector was able to restore damaged facilities fairly quickly so by 1978 the number of private hospital beds was 10 % over pre-war levels while public beds were 37 % below. Some 30 % of medical personnel left Lebanon because of the war; some have returned, to work mainly in urban areas.

With public sector services even weaker relatively than before the war, the Ministry of Health has had to rely heavily on the private sector in carrying out long-standing Government policy to provide free or subsidized health

care for persons in financial need. About 80% of the Ministry's 1980 budget was used to reimburse private health providers.

Four-fifths of Lebanon's private hospital beds are located in and around Beirut. Dispensaries, on the other hand, are more evenly distributed throughout the country. Both the number and distribution of dispensaries, 40% of which are public, have improved since the war, though qualified staff are in short supply.

Changes in health status since the war cannot be assessed, but there are some indications that infectious diseases may be increasing and worries that mounting public health hazards could lead to serious outbreaks of sickness and disease.

An estimated 35,000 Lebanese are physically handicapped, at least half because of the war. Treatment facilities, while concentrated in the Beirut area, are relatively good and improving.

#### Major Problems

With excellent hospitals like the AUB Medical Center no more than a three-hour drive (conditions permitting) from Lebanon's most far away villages, better curative services are available than in many countries. There are large problems in the health sector, however, including:

- maldistribution of facilities and staff
- disproportionate spending for curative services
- a weak and demoralized Health Ministry
- inattention to public and preventive health needs
- poor capacity for health surveillance and maintenance.

WATER / SANITATION

Pre-War Situation

At the outbreak of the war 60 % of the municipalities were supplied with spring water and the rest by wells. Nearly all the municipalities were connected to a water supply system and nearly all homes had access to piped water supplies--98 % in urban areas and 85% in rural communities. Approximately half the population were served by public sewer systems, but only 8% of the rural population were served by sewers.

Major problems in the distribution of water were usually related to inadequate supplies and water theft (about 35 % was lost on unreported water usage). Planned per capita potable water supplies were 200 cubic meters per day but only 125 cubic meters were supplied. The situation in Beirut was particularly acute with average interruptions of eight hours daily reported when water rationing was in effect during the summer dry season. Water treatment facilities were situated in mainly urban areas.

Liquid waste treatment plants were rare in Lebanon even prior to the war. Raw sewage was used directly in irrigation, and discharges polluted large water-supply springs near the coast or were dumped into the Mediterranean Sea. Drainage systems have existed over many years and flooding was usually a temporary problem. Solid waste disposal was believed to be a problem before the war with serious deficiencies in equipment, financing, personnel and organization.

### Post-War Activities and Situation

The war has had a two-fold effect on the availability of potable water and waste disposal practices. First, direct damage to facilities was substantial, with pumping stations destroyed, treatment plants put out of operation, and power supplies curtailed. Second, failure to maintain the infrastructure adequately has resulted in its rapid deterioration. Delays in improving water and disposal systems have placed additional pressure on already inadequate facilities. Further demands have been placed on the systems in urban areas, as displaced people seek refuge in centers such as Beirut and Sidon. In Beirut, for example, potable water supply requirements are estimated at 360,000 cubic meters daily of which 250,000 are being met.

Not a single liquid waste treatment plant is operating in Lebanon. Dislocations and lack of enforcement have resulted in random, uncontrolled solid waste practices. For example, a solid waste plant located in East Beirut is generally unavailable to West Beirut's population; and West Beirut's waste disposal practices have become legendary as garbage is accumulated in choice locations.

### Major Problems

It is clear that the extensive but inadequate potable water system that existed before the war has suffered substantial direct damage and maintenance has been poor at best. Quality maintenance problems probably are much worse,

since the filtration system was not kept in good operating condition. Currently, the government is emphasizing the repair of works damaged during the war and the start of major projects delayed in implementation because of the war. It is giving equitable attention to the restoration of rural water systems, including those in South Lebanon damaged by military action since the civil war ended. A major study on sanitation problems was completed in 1981. Based on a planning objective to provide adequate sewerage, treatment and disposal systems by the year 2000 for all communities with current populations of 5,000 or more, and for all communities presently containing sewer systems, the effort would cost about \$ 1 billion in 1981 prices.

EDUCATION

Pre-War Situation

Lebanon's adult literacy rate of 72% was the highest in the Arab world in 1975. Enrollment was 90% in primary schools; 38% in secondary schools (somewhat lower than in some other Arab countries); and 23% in institutes of higher education (highest in the Arab world).

The Lebanese education system was characterized by the limited role of the Government. Two-thirds of all students attended private schools that generally provided superior standards of education. The remainder were enrolled in public institutions.

Renowned in the region for its high enrollments, Lebanon's education system suffered some basic weaknesses even before the war: complete lack of an educational policy; excessive autonomy of some institutions which prevented coordination of activities; substandard school buildings, both public and private; shortage and high cost to parents of educational materials; non-qualified instructors, particularly in the primary and intermediate levels; wide differences between public and private standards; and slow promotion rates of students through the system.

Post-War Activities and Situation

Despite considerable damage to facilities, the educational system has emerged strongly since the war. By 1979-80, Lebanon had 2,458 general education schools with over 280,000 students. Hundreds of primary schools,

public and private, in crowded cities and towns are operating on two shifts. The country's 15 institutes of higher education have over 85,000 students, including nearly 30,000 non-Lebanese.

Despite a drop in the number of technical schools from 151 prior to the war to 130 in 1979-80, total enrollment rose from 25,000 to 28,000. The number of instructors reached nearly 3,000 in 1979-80, with over 1,100 in public institutions, slightly higher than in 1974. The majority of centers are located in Beirut, Sidon and Tripoli, where more than half the population reside.

#### Major Problems

1. A lack of a national policy for education, which can be effectively implemented, is believed to be a root cause of basic problems in the sector, many of which carry over from pre-war days.
2. Improvement of vocational and technical training is seen as an immediate need by many, including UNESCO, in such fields as the construction trades, agricultural technicians and health personnel.

POPULATION

Pre-War Situation

Studies indicate that Lebanon's mortality rate and fertility rate both declined in the three decades between independence and the war, due presumably to significant economic and social advances. At least 55% of couples were practicing family planning. Considerable differences in birth control practice and family size prevailed among the major faiths: the ordering of the groups from low to high fertility was non-Catholic Christians, Catholics, Druze, Sunnies and Shiites. When the wife was highly educated, however, religious differentials were insignificant. The same was true if the family was relatively well-off.

Post-War Activities and Situation

Various types of contraceptives are sold in drugstores and are readily available without prescription, notwithstanding anti-contraception laws dating from French rule. While the government takes no official position on family planning, at least three Ministries quietly provide funds to the Lebanon Family Planning Association (LFPA), which was established in 1969. LFPA operates in 130 villages in the South and the Bekaa, serving a large Shiite population, and is presently establishing a program in the North. LFPA relies mainly on local residents and has encountered no serious problems in servicing its clients.

According to the World Bank's 1981 World Development Report, Lebanon's crude birth rate and total fertility rate, respectively, were 34 per 1,000 population and 4.7 in 1979. The average number of living children was six. Life expectancy was 66 years. And population growth in urban areas was 2.8%.

The absence of an official census for 50 years, due to political and sectarian factors, is one of many population issues Lebanon must cope with.

TABLE I

Public Sector Position with  
Commercial Banks  
(LL. Million)

	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>
Claims on the Public Sector	36	16	10	474	982	1066	2027
- Discounts & Loans	22	16	10	5	-	-	-
- Treasury Bills	14	-	-	469	982	1066	1969
- Of Which Covering Legal Reserves	-	-	-	-	-	609	782
- Held at Central Bank	14	-	-	469	982	457	1097
- Other Claims	-	-	-	-	-	-	58
Deposits of the Public Sector	16	30	40	57	60	90	130
Deposits of the Public Administration	16	30	40	57	60	90	130
Net Debt Position							
( - )	- 20	+ 14	+ 30	- 417	- 922	- 975	- 1897
Deposits by National Security Social Fund	328	377	379	433	457	495	456
Total Debt of Treasury Bills	14	-	-	527	1054	1166	2476
Subscription by Treasury Bills on Non Financial Institutions	-	-	-	58	72	100	507

TABLE 2

The General State Budget - 1973 - 1981  
(L.L. Million)

	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
REVENUES	981.7	1369.8	798.7	152.0	1439.1	1635.1	1813.0	2502.0	3103.0
<u>Direct Taxes</u>	161.1	212.3	83.6	7.2	152.3	230.0	325.0	340.0	
(Income Tax and Taxes on Profits)	(100.0)	(141.7)	(48.5)	(6.8)	(118.7)	(120.0)	(180.0)	(150.0)	
<u>Indirect Taxes</u>	507.5	722.6	481.7	77.1	594.9	963.5	971.2	1104.4	
(Custom Receipts)	(363.2)	(476.9)	(335.1)	(64.5)	(482.2)	(700.0)	(700.0)	(800.0)	(900.0)
<u>Other Revenues</u>	313.1	334.9	233.4	67.7	691.9	442.6	516.8	1057.6	
(Duties and Stamps)	(141.4)	(170.0)	(118.7)	(12.7)	(183.2)	(213.1)	(209.5)	(239.5)	
EXPENSES	1020.1	1218.8	1021.4	642.2	2006.9	226.0	2805.9	3868.5	4489.1
<u>Current Expenses</u>	701.4	779.8	777.9	613.1	1405.7	1419.8	1834.7	2639.4	
(Salaries)	(464.5)	(521.3)	(567.4)	(516.3)	(682.2)	(481.2)	(1091.3)	(1192.6)	
<u>Current Capital Expenditures</u>	148.2	174.5	89.5	28.5	296.4	592.1	724.7	875.1	
<u>Capital Expenditures</u>	170.5	264.5	154.0	0.6	304.8	248.1	246.5	354.0	
<u>Current Account</u> * (1)	+132.1	+315.5	+68.7	-489.6	-263.0	-376.8	-746.4	-1012.5	
<u>General Budget</u> *	-38.4	+51.0	-222.7	-490.2	567.8	-624.9	-992.9	-1366.5	-1386.0

\* Surplus (+); Deficit (-)

(1) Current Account = Total Revenues - Minus Current Expenses

1973 - 1977 is actual Revenues and expenditures; 1978 - 1981 is approved **budget**.

TABLE 3

Supplementary Budgets 1973 - 1981

(L.L. Million)

	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
REVENUES	119.7	145.5	155.1	329.8	81.4	329.8	297.9	524.5	962.2
<u>Grains &amp; Sugar Beet</u>	5.3	3.4	24.6	199.2	6.9	47.6	43.5	266.5	345.5
<u>Lottery</u>	29.7	48.0	38.5	9.0	19.4	52.2	65.5	69.0	85.0
<u>Posts, Telegram and Telephone</u>	84.7	94.1	92.0	121.6	55.1	130.0	188.9	189.0	531.7
EXPENSES	105.4	124.0	82.8	35.3	137.1	229.8	297.9	524.4	962.2
<u>Grains &amp; Sugar Beets</u>	5.8	2.5	0.9	0.7	2.3	47.6	43.5	366.5	345.5
<u>Lottery</u>	28.2	46.1	32.3	0.8	32.8	52.2	65.5	69.0	85.0
<u>Posts, Telegram and Telephone</u>	71.4	75.4	49.6	33.8	92.0	130.0	188.9	189.0	531.7
Surplus (+ deficit (-))	+ 14.3	+ 21.5	+ 72.3	+ 294.5	- 45.7	-	-	-	-

1973 - 1979 is actual Revenues and expenditures; 1978 - 1981 is approved budget.

TABLE 4

Selected Indicators of Economic Activity  
By Sector - 1973 - 1980

	Unit	1973	1974	1975	1976	1977	1978	1979	1980
- 1 Fruits Exports	(000) tons	371	338	-	-	309	250	333	334
Apples	"	213	188	-	-	180	126	179	182
Citrus	"	139	121	-	-	92	75	79	87
- 2 Industrial Exports									
Volume	(000) tons	415	1180	978	-	354	-	-	-
Value	(Million LL)	446	836	624	-	836	779	1265	1819
- 3 Electricity									
Total Production	(Million KW/hr)	1791	1975	1826	1009	1839	1979	2316	2771
Consumption accruing to EDL	"	1498	1679	1554	858	1525	1687	1887	2325
EDL's Production	"	1115	979	877	265	677	744	1303	1334
- 4 Cement									
Production	"	1659	1744	-	-	1172	1356	2050	2227
Local Sales	"	1275	1329	-	-	704	570	1070	646
Exports	"	-	508	-	-	646	1071	985	1597
- 5 Construction Licences									
No	No	5371	4858	-	-	2832	1950	3000	-
Area	m <sup>2</sup>	2752	3461	-	-	2036	1577	-	-
- 6 Beirut Port									
Unloaded cargo	(000) tons	2819	3412	3434	-	2047	1445	2374	2732
Loaded Cargo	"	717	668	395	-	140	133	226	847
Transit	"	735	932	914	-	367	175	153	110
- 7 Tripoli Port									
Loaded Cargo	(000) tons	459	587	704	443	796	826	925	625
Unloaded Cargo	"	314	249	145	52	36	77	81	62

Selected Indicators of Economic Activity (Cont'd)

By Sector - 1973 - 1980

	Unit	1973	1974	1975	1976	1977	1978	1979	1980
8 Beirut International Airport									
Arrivals	(000)	866	1095	-	-	670	604	709	746
Departures	"	879	1115	-	-	682	685	742	785
Transit	"	511	534	-	-	66	117	120	107
9 Vehicle Registration									
Cars	No	25651	37508	16921	505	34890	12590	35146	46883
Trucks	No	2482	2509	1585	25	3123	1828	4080	5502
10 Beirut Hotels									
Occupants	(000)	494	646	-	-	122	109	118	136
No. of Nights	"	1793	2306	-	-	416	412	469	586
11 Statistics of Foreign Trade									
Commodity Import	(Million L.L.)	3618	4200	3850	1800	4500	5100	7500	10000
Commodity Export	"	1293	1740	1425	800	2364	1930	2700	4160
12 Customs Receipts	"	363	477	335	65	480	541	682	683
13 Exports Registered at Chamber of Commerce & Industry in Beirut	"	-	-	-	-	1537	1253	1754	2465

TABLE 5

## Balance of Payments

1974 - 1980

(LL. Million)

	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>
A - <u>Trade Balance</u>	- 2123	- 2228	- 370	- 2326	- 2751	- 4963(1)	- 5840 (4)
Exports (1)	3462	2589	1441	1978	1849	2285	4160
Imports (2)	5585	4817	1811	4304	4600	7248	10000
B - <u>Net Services</u>	1491	1400	800	1310	1280		
C - <u>Transfers and Capital</u>							
<u>Movements Incl. E.O.</u>	2125	1178	78	3420	2027	7042(1)	8964(1)
TOTAL A, B, & C	1493	350	508	2404	556	2079	3124
D - <u>Monetary Movements (increase in assets - decrease in assets)</u>	- 1493	- 350	- 508	- 2404	- 556	- 2079	- 3124
1 - Net Official Reserves of Gold	- 1644	- 54	- 1040	- 909	- 801	+ 425	- 945
Reserves with I M F				- 1	- 1	+ 1	- 28
S D R S						- 5	+ 6
Foreign Currency	- 1718	+ 114	- 138	- 588	- 493	+ 1080	- 923
F.C. Gain or Loss (2)	74	- 168	- 902	- 320	- 307	- 651	
2 - Net Foreign Trade Assets	+ 151	- 296	+ 532	- 1495	+ 245	- 2504	- 2179
Short Term Assets (3)	( )	- 986	+ 1148	- 1025	+ 104	- 2309	
Short Term Liabilities	( )	- 779	+ 341	+ 472	- 466	- 368	
Net Short Term Assets	(+ 112)	- 207	+ 807	- 1497	+ 570	- 2041	
Long Term Assets (1 year & above)	( )	- 48	+ 324	+ 69	- 227	- 282	
Long Term Liabilities (1 year & above)	( )	+ 93	+ 55	+ 19	- 35	- 41	
Net Long Term Assets	( )	- 141	+ 269	+ 50	- 192	- 241	
F.C. Gain or Loss	+ 39	+ 52	- 544	- 48	- 133	- 222	

Balance of Payments - Cont'd

1974 - 1980

(L.L. Million)

Footnotes:

- (1) Provisional figures
- (2) Foreign exchange gains (+) or losses (-)
- (3) Increases (decreases) in liabilities are deducted from (added to) the increase in assets.
- (4) Estimates

Sources

Central Bank

Beirut Chamber of Commerce

IMF Reports

TABLE 6

Projected 5 Year Assistance Program

<u>On-Going Projects</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>
313 - CRS	-	-	-	-	-
317 - SCF	2060	-	-	-	-
318 - YMCA	750	-	-	-	-
319 - CDR	1000	1000	-	-	-
320 - Health	-	-	-	-	-
 <u>New Projects</u>					
321 - Waste Water	2500	2000	2000	-	-
322 - PVO - Umbrella	1690	2000	2000	-	-
 <u>Uncommitted</u>		3000	4000	8000	8000
 TOTAL	8000	8000	8000	8000	8000

TABLE 7

AID To Lebanon - 1976 - 1981 (\$ Million)

<u>SECTOR</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>Total</u>
<u>Funded as Bilateral Projects</u>							
Health	-	-	11.494	2.860	-	0.300	14.654
Agriculture	-	1.200	0.768	1.600	-	0.111	3.679
Education	-	-	1.700	2.500	-	0.560	4.760
Housing	-	5.200	6.232	-	-	-	11.432
Harbor and Transport	-	5.000	-	-	-	-	5.000
Economic and Social	-	-	1.300	0.840	0.500	2.729	5.369
Family Planning	-	-	0.006	0.050	-	0.039	0.095
Development Administration	-	<u>0.100</u>	<u>1.000</u>	-	-	<u>0.300</u>	<u>1.400</u>
	-0-	11.500	22.500	7.850	0.500	4.039	46.389
							Sub-Total
<u>Funded from Central or Non-Project Accounts</u>							
1/ ASHA (American Schools and Hospitals Abroad)	5.800	5.100	5.000	4.500	4.678	5.375	30.453
2/ HIG (Housing Investment Guarantees)	-	15.000	15.000	-	-	-	30,000
3/ Disaster Assistance	10.400	4.385	2.125	1.050	-	1.055	19.015
PL 480 Title I & II	-	<u>10.700</u>	<u>8.000</u>	<u>2.300</u>	-	-	<u>21.000</u>
	<u>16.200</u>	<u>35.185</u>	<u>30.125</u>	<u>7.850</u>	<u>4.678</u>	<u>6.430</u>	<u>100.468</u>
TOTALS:	<u>16.200</u>	<u>46.685</u>	<u>52.625</u>	<u>15.700</u>	<u>5.178</u>	<u>10.469</u>	<u>146.857</u>

1/ ASHA grants have gone only to AUB until FY 1981. For FY 1981, the approved levels were AUB - \$ 4.5 million; International College (IC) - \$ 500,000; Beirut University College - \$ 375,000.

2/ These are non-appropriated loans to the Government of Lebanon which guarantee repayment of funds made available by the U. S. savings and loan industry. The GOL has fully utilized the 1977 loan but has not commenced use of the 1978 loan.

3/ These have been provided through several mechanisms. In FY 1981, for example, \$ 1 million came from State's Emergency Refugee and Migration account in response to ICRC's worldwide emergency appeal for Lebanon; \$ 55,000 came from AID's emergency reserve after the Ambassador invoked his special disaster authority in May 1981 and again in July.

TABLE 8

Active AID/Lebanon Projects (As Of 9/30/81)  
(\$ Million)

Project Title	Years Of		Total Obligations	Total Disbursements	Pipeline
	Obligations	Obligations			
Agricultural Rehabilitation & Credit System (Save the Children Federation)	1977, 1979, 1981	4.800	4.800	4.800	-0-
Vocational Training in Building Trades (YMCA of Lebanon)	1978, 1979, 1981	2.480	2.480	2.480	-0-
Reconstruction of Private Institutions (Catholic Relief Services)	1979, 1981	5.685	5.685	5.685	-0-
Health Sector Rehabilitation	1978, 1979	5.260	3.216	3.216	2.044
a. Social Medical Centers		1.000	1.000	0.350	0.650
b. Tripoli Hospital		2.260	2.241	2.241	0.019
c. Emergency Medical Services		1.000	1.000	0.017	0.983
d. Municipality of Beirut		0.300	0.300	0.300	-0-
e. Disease Surveillance		0.100	0.100	0.078	0.022
f. Environmental Sanitation		0.200	0.200	0.055	0.145
g. Vocational Rehabilitation		0.400	0.400	0.175	0.225
Potable Water (UNICEF)	1978	6.500	6.500	6.500	-0-
Restoration of Ministry of Agriculture 1/	1978	0.768	0.768	0.768	-0-
Technical Assistance (Council for Development & Reconstruction)	1978, 1981	1.300	1.300	0.896	0.404
Technical Education	1978	1.500	1.500	1.100	0.400
Rehabilitation of Bourj Hammoud (Armenian General Benevolent Union)	1978, 1980	1.000	1.000	1.000	-0-
Housing Repair and Technical Assistance Services Grant 2/	1977	4.500	4.485	4.485	0.015
Health Education (YMCA/Lebanon and Ministry of Education)	1981	0.175	0.104	0.104	0.071
TOTAL:	\$ Million	33.968	31.034	31.034	2.934

1/ Government of Lebanon will refund \$ 0.545 million which will be reprogrammed for other agricultural services.

2/ In addition, a \$15.0 million Housing Investment Guarantee Loan, approved in FY 1978, remains available for use by Government of Lebanon.

3/ Of this \$ 4,485,000, \$17,500 was deobligated because the funds were reserved for consultant services that were no longer needed.