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Washington, D.C.

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 Emergency Reconstruction and Rehabilitation Project - Lebanon - Loan 3562 - P005336
 Correspondence - Volume 1

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1090911

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CLOSE-OUT SHEET

This File Covers The Period From November 1980 To August 1991
For Further Correspondence, See Vol. 2

OFFICE MEMORANDUM

E 10/11
Leb - Urban Dev Sector
(Recovery / Reconstruction)

DATE: August 26, 1991

TO: Karen Rasmussen, Sr. Financial Analyst (EM3IN)
and Youssef Choucair, Sr. Urban Planner (EMTIN)

FROM: Alastair McKechnie, Chief (EM3IN)

EXTENSION: 33047

SUBJECT: Republic of Lebanon: Meeting with Government
Officials - Terms of Reference for Mission

1. The Government of Lebanon has requested your participation in the preliminary review of the first phase of the study undertaken by Bechtel and Dar Al Handasah entitled "Recovery Planning for the Reconstruction and Development of Lebanon". You will arrive in Cairo on or about September 7, 1991 for a period of three days to attend these meetings with officials from the Council of Development and Reconstruction. On September 11, 1991, Ms. Rasmussen will proceed to Yemen, and Mr. Choucair will proceed to Algeria under separate terms of reference.

2. The focus of your discussions with Lebanese officials and their consultants would be to comment and provide advice on the scope and content of the studies, with a view to ensure that the final output may be better tailored to facilitate possible project identification and preparation activities.

3. On your return to headquarters, you will prepare a brief Back-to-Office report on your discussions and the findings of the mission.

cc: Messrs. Chopra (o/r), Zulfiqar (o/r), Tyler (EM3DR), Voyadzis (EM3CO), Bhargava (EM3IE), Keare (EM3PH), Garg (EM3AG), Pellegrini (EMTIN); Ms. Le (EM3IN)

KRasmussen

COUNCIL FOR DEVELOPMENT & RECONSTRUCTION

BEIRUT - LEBANON

Leb - Urban Dev Sector
(Recovery / Reconstruction)

No. 290/1

Beirut, 26 August, 1991

Mr. Alastair J. MCKECHNIE
Division Chief
Infrastructure
Country Department III
Europe, Middle East and North Africa
The World Bank
1818 H Street, N.W.
Washington, D.C. 20433

INFRASTRUCTURE DIVISION - CD3

Date Rec'd 8/26/91

Date Ack'd _____

Assigned to: McKechnie

Rasmussen - please draft reply

to

Log No. Fax - LEB - 789

Dear Mr. McKechnie,

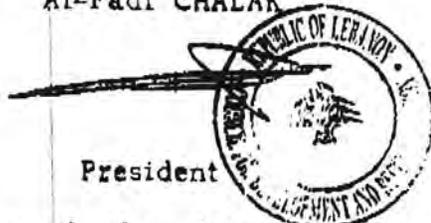
Subject : Recovery Programme for Lebanon .
Informal Discussion between World Bank and
Bechtel/Dar team in Cairo .

During my recent visit with the World Bank in Washington, I had proposed that a joint informal meeting be held between the World Bank and our consultant's team (Bechtel/Dar).

I understand that Miss Karen RASMUSSEN will be visiting this area during the first week in September . In this respect I would suggest that she also pays a visit to Cairo where our consultants are presently working on the project, to keep abreast with the progress of the study. A representative from the Council for Development and Reconstruction will also attend .

Kindly advise if Miss RASMUSSEN will be able to make such visit .

Al-Fadl CHALAK



President

Council for Development
and Reconstruction

NOTE

August 22, 1991

Mr. McKechnie

Alastair:

Lebanon - Ms. Rasmussen's B-t-O of August 7

I have read Karen's very comprehensive report. I would like to follow up my brief conversation with you with the following comments:

- (a) As we discussed, I support the emergency reconstruction lending approach. However, I do not support an Iran type sequential approach in which an economic assessment is completed first and then lending begins. I would recommend a parallel track approach in which lending and economic assessment move side by side with the objective of delivering both to the Board in about six months time from the start;
- (b) as regards the proposed sectoral coverage (para 25) I would suggest that the project identification mission should include a telecommunication specialist also. In my view lines of credit for housing or anything else is likely to be problematic. However, there may be room to maneuver under emergency lending policies. This will require analysis; and
- (c) as I have said before we should use UNDP resources to start work now. The first step for this is a project document preparation. I trust this is being done. We would be happy to assist on anything concerning our sectors.



Vinay Bhargava

cc: Messrs./Mmes. Chopra (EM3DR), Voyadzis, Erim, Fazel (EM3CO), Rasmussen (EM3IN), Kolan (EM3IE), Keare (EM3PH), Venkatraman (EM3AG)

Address Book

Emena files

The World Bank
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

1818 H Street, N.W.
Washington, D.C. 20433
U.S.A.

(202) 477-1234
Cable Address: INTBAFRAD
Cable Address: INDEVAS

LE - Urban Dev Sector
(Recovery/Reconstr.
Project)

August 21, 1991

Mr. Al-Fadl Chalak
President
Council for Reconstruction and Development
Rayess Street, Salha Building
P.O. Box 116/5351
Beirut, Lebanon

Dear Mr. Chalak:

Thank you for your letter addressed to Mr. Conable dated August 8, 1991 concerning the Government's interest in the resumption of Bank activities in Lebanon. I have followed with great interest your discussions at the Bank last month, and the findings of the recent UN Needs Assessment Mission to Lebanon in which the Bank participated.

The starting point for reactivation of Bank involvement in the Government's nation rebuilding program would be through undertaking an assessment of the current economic situation and medium-term development prospects. The official request UNDP has recently received from you for assistance in the collection and preparation of economic data would pave the way for a World Bank economic assessment mission to Lebanon. During the next few weeks, we will be working with UNDP to finalize the arrangement for the economic data mission, with a view to fielding the mission by end October 1991. The main economic assessment mission could then take place towards the end of the year; as you have suggested, we will of course consult with the IMF to determine the most appropriate timing for such a mission.

As you may appreciate, the timing of the main economic assessment mission will depend upon not only the findings of the first mission, but also upon a continued improvement in the restoration of security and peace throughout the country. This would ensure that Bank staff can travel safely and without restrictions in Lebanon.

Meanwhile, the Bank may be of assistance, if requested, in reviewing with Government officials the recommendations of the study on recovery planning for the reconstruction and development of Lebanon that is under preparation by Bechtel and Dar Al Handasah. This would not only help the Bank in broadening its knowledge and understanding of the challenges confronting the Government, but would help to ensure that the identification, design and packaging of projects may be better tailored to meet the potential needs of bilateral and multilateral aid donors and other financiers. This approach could also lead to

the more timely and efficient completion of project preparation activities, as well as ensuring that economic and social policy issues are given adequate attention.

I should like to conclude by saying that my colleagues and I look forward to assisting the Government in the social and economic reconstruction of the country.

Sincerely yours,



Parvez Hasan
Acting Vice President
Europe, Middle East & North Africa Region

cc: Mr. Fawzi Al-Sultan
Executive Director, World Bank

Mr. Mohamed Finaish,
Executive Director, IMF

Cleared with and cc: Messrs. Chopra (EM3DR), Voyadzis (EM3CO), McKechnie (EMTIN)

bcc: Messrs. Wapenhans (o/r), Blanchi (o/r), Fox (EMNVP), Zulfiqar (o/r), Tyler (EM3DR), Kohli (EMTDR), Bhargava (EM3IE), Garg (o/r) (EM3AG), Keare (EM3PH), Boonma (EM3CO), Bjorgung (o/r) (EMTPR)

 KRasmussen

Mr. Al-Fadel Chalabi
 personal tlex No. (923) 42545
 011-873-1450234

AK:
 Spiros will
 be in touch with
 you re the attn.
 Blotis

FORM NO. 709
 (8-84)

THE WORLD BANK/IFC

ROUTING SLIP		DATE: 8/9/91
(ACTING) FROM THE REGIONAL VICE PRESIDENT		
NAME		ROOM NO.
Mr. Chopra		
APPROPRIATE DISPOSITION	NOTE AND RETURN	
APPROVAL	NOTE AND SEND ON	
COMMENT	PER OUR CONVERSATION	
FOR ACTION	PER YOUR REQUEST	
INFORMATION	PREPARE REPLY	
INITIAL	RECOMMENDATION	
NOTE AND FILE	SIGNATURE	
REMARKS:		
Please prepare response by Aug. 22		
FROM: Parvez Hasan, Acting EMNVP		

copy

ELECTRONIC LOGGING AND ROUTING SYSTEM
SENIOR VICE PRESIDENT OPERATIONS
Routing and Action Transmittal Sheet

Priority : PRIORITY 1

Friday, 09-Aug-1991

TO: ** W. A. WAPENHANS, EMNVP

CC: ENZO GRILLI, EAS
CC: HANS WYSS, CODDR
CC: DAVID BOCK, OPNSV1

From : OPNSV, SENIOR VICE PRESIDENT OPERATIONS

DOCUMENT Reference:

Item No : 1991080912101818, [OPNSV]
Previous Reference : 1991080800900000

FROM : Al-Fadl Chalak
TO : bbc
DOC DATE : 08-Aug-1991

SUBJECT : To inform: the Gov't. of Lebanon has designated the Council
Dev & Reconst. as the agency responsible for planning, secur

ACTION Requested:

- Please handle
- For Information
- Review & Recomend
- Prepare Response for _____ Signature
- Approval/Signature
- Forwarding To _____
- Discuss With _____
- OTHER _____

Due Date
23-Aug-1991

REMARKS:

Leb - Urban Dev. Sector
(Recovery / Reconstruction)

8/9/91



Record Removal Notice

File Title Emergency Reconstruction and Rehabilitation Project - Lebanon - Loan 3562 - P005336 - Correspondence - Volume 1		Barcode No. 1090911		
Document Date 09 August, 1991	Document Type Memorandum			
Correspondents / Participants To: Sherif Hassan (LEGEM) From: Spiros Voyadzis (EM3CO)				
Subject / Title Lebanon: UN Inter-Agency Needs Assessment Mission - Back-to-Office Report				
Exception(s) Attorney-Client Privilege				
Additional Comments		The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.		
		<table border="1"><tr><td>Withdrawn by Sherrine M. Thompson</td><td>Date July 25, 2017</td></tr></table>	Withdrawn by Sherrine M. Thompson	Date July 25, 2017
Withdrawn by Sherrine M. Thompson	Date July 25, 2017			



Record Removal Notice

File Title Emergency Reconstruction and Rehabilitation Project - Lebanon - Loan 3562 - P005336 - Correspondence - Volume 1		Barcode No. 1090911		
Document Date 08 September, 1982	Document Type Memorandum			
Correspondents / Participants To: Roberto M. Fernandez, Division Chief, EM2DC From: David M. Goldberg, Assistant General Counsel, Operations				
Subject / Title Lebanon				
Exception(s) Attorney-Client Privilege				
Additional Comments		The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.		
		<table border="1"><tr><td>Withdrawn by Sherrine M. Thompson</td><td>Date July 25, 2017</td></tr></table>	Withdrawn by Sherrine M. Thompson	Date July 25, 2017
Withdrawn by Sherrine M. Thompson	Date July 25, 2017			

OFFICE MEMORANDUM

DATE: August 7, 1991

TO: Mr. Alastair McKechnie, Chief (EM3IN)

FROM:  Karen Rasmussen, Senior Financial Analyst (EM3IN)

EXTENSION: 33056

SUBJECT: **Republic of Lebanon: UN Inter-Agency Needs
Assessment Mission - Back to Office Report**

1. In accordance with the terms of reference dated July 8, 1991, I participated in the UN Inter-Agency Needs Assessment Mission to Lebanon as an observer. The main purpose of the UN mission was to assess, in a general way, Lebanon's immediate and longer term technical assistance and capital needs which would form the basis of an appeal for international assistance for the development and reconstruction of the country. The mission was received by H.E. Elias Hrawi, President of the Republic of Lebanon. The main points touched upon by His Excellency are highlighted in a separate memorandum (see Attachment 1). A list of key officials met and UN Agency participants in the mission are provided in Attachments 2 and 3, respectively¹. A list of documents and various reports provided to the mission and the sectoral background briefing papers prepared by each UN agency is shown in Attachment 4. The information contained in these sectoral notes should be read with a degree of caution given the paucity of reliable data.

2. The Council for Development and Reconstruction (CDR) was the main interlocutor of the mission, and arranged a comprehensive program of meetings with sectoral ministries, other agencies and private sector organizations. Although the scope of these discussions merely scratched the surface concerning the present status, immediate and longer-term technical assistance needs and capital requirements envisaged by each agency, they provided an opportunity to establish contact with the Lebanese authorities. Field trips to the Beirut commercial district and to the Lebanon Mountains helped to put into perspective the order of magnitude of physical destruction that has taken place during the past decade and a half of civil war.

3. There was an overwhelming interest and preoccupation with the potential role of the Bank in assisting the country in its reconstruction efforts. Government officials voiced a keen interest to re-establish a relationship and reactivate a policy dialogue with the Bank. There was general recognition that the Bank could play a critical role in the rehabilitation and reconstruction of basic infrastructure (water supply, electricity and telecommunications) as a means of rekindling economic activity. More

¹ In addition to attending meetings on private sector development, non-governmental organizations, the economy and infrastructure, and the water supply, housing and telecommunications sectors, I met separately with the Minister of Electricity and Hydraulic Resources, the Minister of Telecommunications, the Minister of Housing, the Minister of Agriculture, the Minister of Public Works and Transportation, and senior officials from the Ministry of Finance, the Central Bank, and the President of CDR. I also participated in a meeting of the High Council for Economic Coordination (the Prime Minister's advisory committee) attended by the Governor of the Central Bank and six Ministers, and highlighted the importance the Bank attached to undertaking an economic assessment as a basis for reactivating a dialogue with the Government on macro-economic and social policies, and designing a country assistance strategy, including the scope and type of lending vehicles.

importantly, the Bank's presence would help to bolster the country's global image and credibility, and would serve as a catalyst for attracting international support from aid donors and for encouraging private investment.

4. The following paragraphs summarize the Bank mission's observations on: (i) the process of political reconciliation; (ii) the main challenges confronting the Government in nation rebuilding; (iii) the formulation of a national recovery program; and (iv) a Bank approach to assist the Government in laying the foundation for the reconstruction of Lebanon. The main conclusion reached is that Bank consideration should be given to reactivating operational activities in Lebanon following a step-by-step approach, starting with an economic assessment. A recommendation is also made that, based on progress in preparation of the economic report, the Bank should consider preparation of an emergency recovery assistance loan targeted to the water supply, electricity and housing sectors.

The Political Process of National Reconciliation

5. The October 1989 Taif Accord has provided a basis for national reconciliation and a blueprint for reform of the political system in Lebanon. It has also outlined a process for the gradual elimination of political sectarianism. The main components of the Taif Accord, incorporated as constitutional amendments in September 1990, have significantly modified the structure and balance of the political system by shifting the responsibility and power of decision making from the President and Prime Minister to the Cabinet. Parliamentary powers have been reinforced, and the new "Unity Government" has appointed 40 deputies to fill the vacant Parliamentary seats and to reach the goal of Christian and Muslim parity. There are now 108 instead of 99 seats, and 54 Muslim and 54 Christian deputies instead of the pre-Taif formula of 54 Christian and 45 Muslim deputies. This shores up equal partnership of the two main religious communities. A dozen new ministerial positions (Minister of State without portfolio) have been created in an effort to incorporate all factions into the political process. The present Government is viewed as a transitional administration that will remain until general elections take place (probably within the next 2-4 years) on the basis of equal Christian-Moslem representation. Following elections of the first Parliament on a national and non-confessional basis, a Senate is to be created to represent all of the religious sects.

6. Restoration of Government Authority. Though positive steps have been made towards a national consensus, overcoming the tension and stress of the political system will undoubtedly be an arduous and lengthy process. In the near term, politics will continue to be dominated by the necessity to ensure that the delicate political-sectarian balance is maintained. Moreover, the Government is dependent on Syria to provide a blanket of security throughout the country. At the same time, the Government is struggling to regain power and authority after 16 years of civil war which has, inter alia, wreaked massive destruction to physical assets, caused human deprivation and a precipitous decline in the level and quality of social services, undermined the social fabric of the country, led to the disintegration of institutions and left the economy weak. Recent government initiatives are under way to overhaul the fiscal system, enhance resource mobilization, restore and rejuvenate the civil service administration and absorb the militias into the national military service and other civilian positions. A contract has also been signed with Bechtel and Dar Al Handasah to undertake a study aimed at defining a conceptual framework for the reconstruction of Lebanon and identifying and prioritizing specific rehabilitation and reconstruction projects (see paras. 16-18).

7. Internal Security. Substantial progress has also been made towards eliminating the physical conflicts between various political factions, particularly in Greater Beirut and Mount Lebanon, though there are still sporadic incursions mainly in Southern Lebanon. Most militias have been dismantled and disarmed of at least their heavy weapons. The Taif Accord has also legitimized the presence of Syrian troops who have been instrumental in implementing the Government's objective of extending its authority over the whole of Lebanon. The Taif Accord also states that two years from the ratification of the national accord charter (which took place in September 1990), Syrian forces are to be redeployed to the Bekka Valley. However, the Taif Accord does not provide for a specific timetable for the total withdrawal of Syrian forces from Lebanese territory.

8. Two other recent events that augur well for Lebanon have been the signing of a Lebanese-Syrian accord and the promising prospects of a Middle East peace conference. On May 22, 1991, Lebanon entered into a Treaty of Brotherhood, Coordination and Cooperation with Syria which defines the scope of bilateral relations between the two countries in the areas of politics, economics, security, culture and science. The treaty marks the first time that Syria has openly recognized Lebanon as a sovereign nation. On the regional level, both Syria and Israel have expressed readiness to enter into peace negotiations, and the United States and Soviet Union have called for a peace conference in October 1991.

Nation Rebuilding: Key Challenges Confronting the Government

9. The Government faces numerous challenges that touch upon virtually all aspects of planning, managing and implementing a national recovery program. Government officials spoke very candidly about many of the nationwide shortcomings which need to be addressed, including:

(i) Economic and Financial Planning and Management: re-examining Lebanon's comparative advantage in the trade and services sectors and developing a strategy for growth and development, defining macro-economic and social policies which would provide the framework for nation rebuilding, including formulation of a national reconstruction program (and prioritizing specific investments on an inter- and intra-sectoral basis); domestic resource mobilization and fiscal reform; matching local resources and foreign financial assistance with investment needs, taking into account financial and institutional absorptive capacities;

(ii) Role of the Public Sector: defining the Government's role in terms of the size of the public sector and its scope of activities, particularly with respect to the provision of social services (health, education and housing) in light of the significant portion of the population which has been left displaced and dispossessed. The private sector is less apt to focus on social equity issues, and a proper balance in the roles of the public and private sectors will need to be determined;

(iii) Institutional and Human Resource Development: revitalizing dilapidated institutions (ministries, local administration, public utilities, etc.) to ensure their long-term sustainability to manage and administer, and to operate and maintain programs and facilities; providing technical assistance, training and retraining of administrative and technical staff; installing modern management information systems and re-equipping agencies, etc.;

(iv) Paucity of Current Data and Statistics: the country's statistical base at the macro and micro level has been seriously impaired, and reliable data has not been

published for more than a decade (the last census was taken in 1932 and the Bureau of Statistics has been inactive since 1977); there is also a need to install modern, automated information systems, for example for public finance and external debt management, and for the management and operation of revenue generating entities (public utilities), etc.;

(v) Civil Service Reform: Over the past 15 years, the Government machinery has been operating in a constrained environment, with structures and operations either totally paralyzed or absent. This was compounded by a weakening of employee morale, absenteeism and the erosion of public salaries. It is reported that about two-thirds of civil service positions are vacant. A comprehensive program of administrative development and reform is presently under discussion at the Council of Ministers, including rationalizing overall organizational structures, defining manpower training needs, developing appropriate management systems (rationalization of the financial and budgetary systems), upgrading and strengthening institutions responsible for administrative and managerial training, etc; and

(vi) Conducive Climate for Private Investment: re-establishing conditions necessary to encourage and facilitate private investment, mainly from Lebanese living abroad (maintenance of a free enterprise economic system and floating exchange rate are essential, but also restoring investor confidence), restoring financial stability, reimposing the proper regulatory framework (including banking sector reform), the provision of basic infrastructure (water, electricity and telecommunications, etc.). Government officials have voiced an interest in pursuing privatization opportunities, particularly in the telecommunications, water supply and electricity sectors. Once these public utilities become autonomous entities (and are weaned away from under the direct control of the relevant ministries), and able to provide an appropriate level of service to their respective customers, privatization or private management contracts may be a viable option.

A National Recovery Program

10. The Government is emerging from 16 years of conflict that led to the disintegration and decay of institutions, the reduction and loss of economic activity and production, the drainage of human and capital resources, massive damage to infrastructure (compounded by an absence of maintenance and repair), and a significant deterioration in social conditions. The civil war has had debilitating consequences on economic and social development. Given the overwhelming tasks of nation rebuilding, the Government has placed priority to addressing the immediate rehabilitation and reconstruction needs in the water supply, electricity and telecommunications sectors as a means of fostering economic activity. The conceptual framework for national recovery and an emergency reconstruction plan is being undertaken with assistance from Bechtel and Dar Al Handasah (see paras. 16-18).

11. In addition to restoring critical public infrastructure as a means of jump-starting the economy, the major themes of the Government's recovery program are balanced regional growth, attention to social equity issues and encouraging private investment, particularly from Lebanese nationals living abroad. The physical reconstruction of damaged and destroyed infrastructure and superstructure addresses only one facet of the country's recovery program. The magnitude of social hardship and human deprivation, as well as the disintegration and decay of institutions cannot be overlooked. Hence significant attention will need to be paid to human development, the provision of social services (health, education and housing), and institution rebuilding and strengthening (including manpower planning and development as well as the provision of hardware and software).

12. The Role of the CDR. The Council for Development and Reconstruction was resurrected in January 1991 under Decree No. 5 of 1977. CDR was originally established in 1977 to replace the Ministry of Planning, but has been dormant over the past four years. CDR has been vested with broad sweeping powers for planning, financing, executing and monitoring of the Government's reconstruction program. The rationale for re-establishing CDR was to ensure that greater attention would be paid to nationwide planning with emphasis on economic rather than political considerations, and to improve inter-ministerial coordination on all aspects of the Government's reconstruction program. The CDR reports directly to the Council of Ministers via the Prime Minister. This administrative arrangement is aimed at reducing bureaucratic bottlenecks within the ministries.

13. The question of the interface between CDR and the line ministries was raised separately in all of the Bank's individual meetings with Ministers. There was general consensus that CDR should, and was expected to play an important role in planning at the national level, coordination amongst ministries and aid coordination. However, there was unanimous consensus that project execution should remain the responsibility of the line ministries.

14. Concerning CDR's financing function, the mission was informed that the Parliament must approve the contracting of all debt and grants (a law that hitherto has not been enforced). As for its role in execution, CDR stated that the line ministries would be responsible for physical implementation though some tasks (such as centralizing all procurement activities and monitoring the supervision of execution of projects) would be handled under CDR's purview².

15. CDR is also taking a lead role in planning for the reconstruction of the Central Beirut District, or about 1.3 million square meters of prime downtown area including a substantial landfill site at the adjoining seafont. A law is presently under preparation to create a real estate company for the project, which is estimated to cost in excess of \$ 2 billion. This highly visible and high risk endeavor will require the approval of the Parliament.

16. The Role of the Bechtel and Dar Al Handasah Study. In June 1991, the CDR signed a \$7 million contract with Bechtel and Dar Al Handasah for a study entitled, "Recovery Planning for the Reconstruction and Development of Lebanon". During the first phase (to be completed in 4 months or by October 1, 1991), the study would aim at formulating the conceptual framework for a national reconstruction program, collecting available data and commencing assessment studies. An action plan for emergency recovery is to be prepared, including the identification of goals and objectives and definition of assessment studies. The second phase of the study (of 8 months' duration) would aim at preparing a development strategy, organizing and managing emergency operations, and preparing a portfolio of priority reconstruction projects. There is a third and optional phase to formulate an overall development strategy in a physical master plan to meet the country's long-term development objectives.

17. One of the main concerns that has been expressed by the Bank to both the Government and Bechtel in relation to Phases 1 and 2 of the study, is that the definition of projects may fall short of the requirements that bilateral and

² In 1977, the Bank approved a loan of \$50 million to Lebanon for a Reconstruction Project (Loan 1476-LE). The loan was made to the Government (not to CDR), and the three components for ports, telecommunications and water/sewerage were executed by the relevant Ministries and agencies. These implementation arrangements were appropriate and satisfactory.

multilateral aid donors and other financiers would need in order to be able to appraise and eventually finance investment projects. For example, additional preparatory work is likely to be required (i.e., feasibility studies, detailed designs, assessment of other technical, financial, and institutional aspects, etc.). Though the Bechtel study plans to assess the physical implementation capabilities of government agencies, it was pointed out that the Bank and other donors would also be interested in the long-term sustainability of agencies to administer, operate and maintain services. These project preparation activities will take time, particularly given the detrimental effect of the civil war on institutional capacities and manpower capabilities. Moreover, grant funds or concessional aid should be sought to undertake these studies.

18. The CDR (and Bechtel) have requested Bank assistance in reviewing the various reports that will be prepared at the end of each of the first two phases. It is recommended that the Bank provide such guidance as it will help to ensure that the outputs, including policy recommendations but particularly the identification, design and packaging of projects, would be better tailored to meet the potential needs of bilateral and multilateral aid donors and other financiers. This constructive approach may also lead to the more timely and efficient completion of project preparation activities, as well as ensuring that economic and social policy issues are given adequate attention. The Bank could also provide assistance to the Government in identifying grant funds and/or bilateral aid to carry out project preparation activities.

Bank Support for the Reconstruction of Lebanon

19. A recurrent question posed during the mission's visit by virtually all government officials related to Bank resumption of lending in support of the Government's reconstruction needs. I explained that one of the key elements of Bank assistance to its borrowers was an assessment of the current economic situation and medium-term development prospects. An economic assessment would not only lead to a meaningful dialogue on macro-economic and social policies, but would also lay the groundwork for determining the type of Bank assistance, for example in sector work and in the scope and type of lending operations. The economic assessment was particularly important in the case of Lebanon given the hiatus of Bank involvement for almost a decade. In addition, the reconstruction of Lebanon could not be formulated in isolation of the macro-economic and social policy setting.

20. It is recommended that the Bank consider the following approach (which has been discussed within the Department), to reactivate Bank operational activities in Lebanon on a step-by-step basis:

(i) Economic data gathering mission (to be financed by UNDP and executed by the Bank). UNDP is supportive of this approach and is awaiting a formal Government request expected by mid-August 1991. A project document would need to be prepared by the Bank, including the recruitment of consultants (and possibly the identification of Bank staff) to participate in the mission. The tentative timing of the mission is for the end of September 1991;

(ii) Bank assistance to the Government in the review of the first phase of the Bechtel/Dar Al Handasah study which is to identify a core list of emergency projects. Desk reviews of the various reports would be followed by a visit to Cairo (Bechtel's headquarters) around mid to end September 1991;

(iii) a Bank economic mission to Lebanon tentatively scheduled for November/December 1991; the precise timing would be confirmed following consultation with the IMF which is also tentatively planning to send technical assistance missions to Lebanon; and

(iv) In parallel with the Bank economic mission, the possibility of sending a small exploratory/identification mission for an emergency lending operation should be considered.

21. If this is an acceptable approach, it is recommended that the Bank inform the Government authorities of our willingness to mount an economic mission by the end of this year, commencing with an economic data gathering mission which could take place this Fall. Secondly, on numerous occasions, the Bank has highlighted the importance of designating a core team of Lebanese officials to serve as counterparts to the Bank economic mission and subsequent project identification missions. It is recognized that CDR has been designated as the Bank's interlocutor for discussions concerning the Government's reconstruction program, as well as the planning and programming of lending and sector work, aid coordination and collaboration with the line ministries in project execution. However, since the development of a dialogue on economic policies will have an impact on formulation of the Government's reconstruction program, a wider audience for discussing economic policy would be beneficial. The Bank should support the suggestion voiced by a number of Government officials that the High Council for Economic Coordination (the Prime Minister's advisory committee), including representation of CDR, be the focal point for macro-economic and policy discussions.

22. There has been significant progress towards political reconciliation, restoration of Government authority and sovereignty of the state throughout the country. In order to enable the Bank to develop a meaningful dialogue on economic and social policies, institutional development and reform, it is important that there be continued improvements in the reassertion of Government control over the economy, restoration of financial stability and the enforcement of laws and regulations. In addition, the maintenance of internal security would ensure that Bank staff can travel safely and without restrictions throughout Lebanon in the course of normal project preparation and supervision activities. One of the main lessons learned from the Bank's involvement in preparation of a reconstruction project in 1983 was that our efforts (including execution of two ongoing Bank operations) were seriously undermined because of the deteriorating political and economic environment and the security situation. Though the present situation in Lebanon is very different, continued progress in maintaining peace and stability would help to ensure that Lebanon's reconstruction program would have a greater degree of international support.

23. Rationale for Emergency Reconstruction Lending. The range of Bank lending instruments was explained to Government officials, with emphasis on emergency recovery assistance, traditional investment operations and loans for technical assistance. Lebanon is emerging from the turmoil wrought by 16 years of civil war, with a critical need to restore basic services. Hence the preparation of an emergency lending operation in Lebanon would be the most expeditious approach for the following reasons: (i) an emergency loan would allow for the accelerated implementation, over a 2-3 year period, of a critical program for the rehabilitation and reconstruction of basic infrastructure; (ii) the project would have an immediate impact on restoring assets and productivity and would regenerate economic activity much faster than say, one or even a number of traditional investment projects prepared simultaneously; and (iii) this high profile approach is likely to attract greater support from bilateral and multilateral aid donors (Government officials expressed interest in the Bank playing a prominent role in aid coordination).

24. Sectoral Coverage. It is recommended the Bank limit the coverage of an emergency reconstruction project to three sectors, rather than spreading limited funds over too many sectors. Secondly, project implementation arrangements (and including the number and specialty of Bank staff required for supervision) should be kept as simple and manageable as feasible.

25. The Bank may wish to consider water supply, electricity and housing (lines of credit for housing repair and reconstruction) as the sectoral components of an emergency operation. The Government has stated that the three most pressing sectors requiring immediate reconstruction and rehabilitation are water supply, electricity and telecommunications. Undoubtedly, the rehabilitation of key infrastructure in these sectors will help to reignite economic activity. However, another critical element of Lebanon's recovery program, which cannot be ignored, is the human and social dimensions of rehabilitating and restoring the social fabric of society. Secondly, the Bank should consider providing assistance in those sectors where it has a comparative advantage and where it would not displace other concessional aid, export credits or private investment (as is probable for telecommunications).

26. According to Government estimates, about 800,000 inhabitants (or one-third of the country's population) are displaced and dispossessed, most of whom are occupying houses in the Greater Beirut Area that are owned or rented by absent tenants. The mission was also informed that 3,000 to 4,000 villages in rural areas had been decimated. The lack of adequate housing facilities means that more than one family is sharing small apartments, thus creating additional social stress. The main constraint in the housing sector has been inadequate allocation of funds to the Housing Bank (loans for repair and reconstruction), a multi-faceted problem which has been exacerbated by negative interest rates and high rates of inflation. This has given rise to the question of affordability of housing to medium and low income-level groups. The Bank mission discussed with the Minister of Housing and other officials the importance of the replicability of the housing finance system. The Minister of Housing was in general agreement with the principles of variable mortgage rates and explicit, quantifiable subsidies for the poor.

Budgetary Implications

27. It is estimated that about 165 staffweeks would be required in FY92 (including 25 staffweeks to be financed by UNDP), in order to proceed with re-activating operations in Lebanon as outlined in paras. 19-21. This would include the following activities:

(i) preparation of UNDP project document and mounting an economic data gathering mission: 25 staffweeks (to be financed by UNDP);

(ii) Bank economic mission and preparation of a country economic memorandum: 80 staffweeks;

(iii) Bank assistance to the Government in the review of the Bechtel study on Recovery Planning for the Reconstruction and Development of Lebanon: 10 staffweeks; and

(iv) identification and preparation of an emergency lending operation: 50 staffweeks.

The above staffweek estimates do not take into account preparation of a country strategy paper, preparation of other operations, or the prominent role the Bank is expected to play in aid coordination.

Attachments

cc: Messrs/Mesdames: Chopra (o/r), Zulfiqar (o/r), Tyler (o/r) (EM3DR), Voyadzis (EM3CO), Bhargava (o/r), Sawaya (EM3IE), Keare (EM3PH), Garg (o/r), Venkatraman (EM3AG), Makharita (EM3TC), Pellegrini (o/r) (EMTIN), Kreimer (ENVPR)

EMENA

The World Bank
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

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July 5, 1991

H.E. Dr. Ali El-Khalil
Minister of Finance
Ministry of Finance
Beirut, Republic of Lebanon

Your Excellency:

As promised in our Aide-Memoire dated April 26, 1991, I am pleased to enclose two documents, one entitled "Note on Country Economic Assessment" and the other "Emergency Recovery Assistance". Both will be helpful in preparing for the proposed activities which the World Bank officials mentioned during your recent discussions in Washington.

The economic assessment forms a key element of the Bank's assistance to borrowing countries and usually precedes other operations and prepares the ground for them; especially when there has been a hiatus in Bank lending. We attach considerable importance to this exercise. As you know, we are discussing the possibility of carrying out such an assessment in collaboration with IMF and UNDP, and will inform you of further developments. Meanwhile, we would appreciate it if the Lebanese authorities prepared for the review which will follow the outlines given in the enclosed Note.

Equally important will be the timely preparation of projects. We look forward to receiving the results of the CDR study now under preparation with the help of the consultants Bechtel and Dar-Al-Handasah, and hope to support some of the activities they will recommend. The note on Emergency Recovery Assistance describes one of the main tools the Bank has used in assisting borrowers in dealing with the results of emergencies. For your information, a brief note describing other types of lending, not necessarily related to emergencies has also been included (attachment to the note on Emergency Recovery Assistance.)

The paper on Emergency Recovery Assistance provides an overview of the Bank's approach to, and operational guidelines for, extending emergency assistance, rather than a prescription for specific actions to be undertaken. While its contents are applicable to most countries requiring such assistance, particular reference to Lebanon is made where appropriate, to reflect the Bank's current limited knowledge of the conditions in Lebanon. A specific approach to Bank assistance to Lebanon would be formulated following agreements reached between the Government and the Bank on the areas where the Bank has a comparative advantage within the overall framework presented in this paper and the proposal that will be put forward by the CDR. As you know Ms. Karen Rasmussen, Sr. Financial Analyst in our Infrastructure Sector Division will visit Lebanon (commencing July 14, 1991) as an observer in the UNDP mission and would be pleased to discuss and answer any questions the authorities may raise on the paper, and on project preparation steps in general.

On various occasions we have suggested that the Government may wish to set up a central point for communicating with the Bank and coordinating Bank's activities in Lebanon. Given that the operational plans will impose considerable work load when they commence, I reiterate this suggestion.

With my best regards,



Isik Erim

Acting Division Chief

Country Operations Division - Department III
Europe, Middle East & North Africa Region

Attachments (2)

cc: Messrs. Al-Sultan, Shamsedin (EDS)

NOTE ON COUNTRY ECONOMIC ASSESSMENT

Purpose and Scope

1. The economic assessment forms a key element of the Bank's assistance to its borrowers. It would be designed to provide a thorough understanding of the country's development problems, of the need for and availability of external financing, and of the analytical framework for evaluating development strategies and donor assistance activities. An economic assessment report would thus provide a basis for (a) discussions with, and recommendations to, the country on its development problems and policies; (b) the design of Bank assistance strategy; and (c) external resource mobilization and coordination.

2. An important objective of an economic assessment would be to inform the Bank and its member countries of the situation, prospects and creditworthiness of a borrowing country. Thus, attention would be given to policies affecting domestic resource mobilization, the efficiency of resource use, the external sector, and external debt management. However, as the long-term quality and sustainability of development also depend on other factors, a country economic assessment would also attempt to explore such questions as the causes, manifestations, and treatment of poverty, the efficacy of economic institutions, and the environmental effects of alternative policy options.

3. An economic assessment report will generally, as a minimum:

(a) provide a comprehensive but focused background on the country's socio-political conditions, and its natural setting and resource endowments;

(b) describe the structure of the economy, including its population and labor force, principal economic sectors and activities, the sources and disposition of domestic and national product, the composition and direction of foreign trade, the size and structure of external debt, public finances, the monetary aggregates, facilities and institutions, and the state of social services and infrastructure;

(c) review trends in output, employment, prices, investment, savings, the balance of payments, fiscal balance, external debt, income distribution and poverty, identifying the principal exogenous and policy factors explaining those trends, and highlighting significant changes over the years;

(d) discuss, to the extent possible and quantifiable, the evolving pattern of incentives in the economy, as evidenced by the structure of prices, interest rates, the exchange rate, real wages, etc., highlighting recent changes and their main causes;

(e) project and evaluate the country's medium-term prospects, including external capital requirements and likely sources, and discuss creditworthiness and the downside risks stemming from possible deterioration in the external environment, failure to mobilize the required external financing, or inadequate government policies; and

(f) underscore key policy issues arising from (c), (d) and (e), summarize known government response to those issues, and recommend further government action as needed.

Analytical Framework

4. A basic analytical method usually underlies the section which is devoted to a review of economic developments. Such a section constitutes the main analysis of the current economic situation, covering (a) trends in aggregate and sectoral output and investment; (b) the key macroeconomic balances and how they are evolving; (c) a more detailed discussion, where appropriate, of domestic finance and external payments; and (d) the principal incentive and performance indicators. The section clarifies the interrelationships among the various macroeconomic trends (e.g. links between savings and investment and the external current account balance) using, as an illustration, data organized as in Attachment 1.

5. For some countries, in particular those emerging from prolonged civil unrest, the economic assessment will need to elaborate on domestic finances, especially the determinants of shifts in the public sector deficit; monetary developments; and the external payments situation in the context of the evolving external environment, that is, commodity prices and terms of trade, interest rates, access to commercial loans, debt reschedulings, etc.

6. While a first round of assessment may not dwell at length on economic policy issues, some discussion of the most pressing or glaring issues is called for. Such issues may include, as examples, large fiscal deficits, excessive inflation, deep distortions in pricing of public utilities, extreme social deprivation, etc. The discussion would usually aim to offer concrete recommendations for policy action or further study. Such discussion is particularly appropriate for integrating and bringing to the attention of central economic authorities the relevant analyses and conclusions of detailed damage assessments, sector investigations and other special studies that may have been conducted.

7. A standard framework, modified to suit data availability and audience, is also used to describe and assess the medium-term prospects, and to point out policy and financial measures that might be required to counter potential external shocks and to illustrate the costs of failure to implement critical policy changes. The central concerns of a section on medium-term prospects are to project the external accounts, the financing needs and gaps, and the implications for the country's debt and creditworthiness.

Statistical Data

8. Basic economic and social statistics are needed usually to substantiate the descriptions and to support the analysis contained in an economic assessment report. As a minimum, nine to ten different time series of varying detail are compiled and appended to the report. Such a statistical appendix serves as a source of reference in the descriptions and analyses presented in the main assessment report. Attachment 2 lists common titles of tables in a statistical appendix to give some idea of the type of data and time series needed to prepare an economic assessment report.

ECONOMIC ASSESSMENT REPORT

Specimen of Table analyzing Macroeconomic BalancesMACROECONOMIC BALANCES
(Percentage of GDP)

	1980	1985	1986	1987	1988	1989	1990
--	------	------	------	------	------	------	------

1. Foreign Savings
 - Balance on Current Account
excluding Net Official Transfers
2. Private Sector
 - 2.1 Gross Domestic Investment
 - 2.1.1 Fixed Investment
 - 2.1.2 Change in Stocks
 - 2.2 National Savings
 - 2.3 Investment minus Savings
3. Public Sector
 - 3.1 Gross Domestic Investment
 - 3.1.1 Fixed Investment
 - 3.1.2 Change in Stocks
 - 3.2 National Savings
 - 3.2.1 Current Revenues
 - 3.2.2 Current Expenditures
 - 3.3 Investment minus Savings
4. Public and Private
 - Investment minus Savings

Memorandum Item:

Share of Gross Domestic Investment
financed by Foreign Savings (%)

Notes:

- a. Gross Domestic Investment is at current market prices.
- b. Where stock changes are not split into private and public, the total change in stocks should be included under the private sector.
- c. The public sector definition used (i.e., whether central government only, or general government, or the preceding plus public enterprises) should be specified.

ECONOMIC ASSESSMENT REPORT

Common Titles of Statistical Appendix Tables

Series 1. POPULATION AND EMPLOYMENT

- 1.1 Population by Sex and Age in various census years and annually over last five years or so
- 1.2 Urban and Rural Population in various years as above
- 1.3 Birth, Death, Migration and Net Growth Rates of Population
- 1.4 Labor Force by Sex, Economic Sectors, etc. various years
- 1.5 Employment by Sex, Economic Sectors, Professions, etc.

Series 2. NATIONAL ACCOUNTS

- 2.1 GDP by Industrial Origin at Current Prices, 1980-90
- 2.2 GDP by Industrial Origin at Constant Prices, 1980-90
- 2.3 GDP by Expenditure at Current Prices, 1980-90
- 2.4 GDP by Expenditure at Constant Prices, 1980-90

Series 3. BALANCE OF PAYMENTS AND TRADE

- 3.1 Balance of Payments, 1980-90
- 3.2 Composition of Merchandise Exports, Volume and Value, 1980-90
- 3.3 Composition of Merchandise Imports, Volume and Value, 1980-90
- 3.4 Direction of Trade Statistics, 1980-90

Series 4. EXTERNAL DEBT AND CAPITAL

- 4.1 Medium and Long-term Debt, Bilateral Creditors, 1980-90
- 4.2 Medium and Long-term Debt, Multilateral Creditors, 1980-90
- 4.3 Medium and Long-term Debt, Suppliers' Credits, 1980-90
- 4.4 Medium and Long-term Debt, Private Banks, 1980-90
(The above debt tables should each show annual commitments, disbursements, amortization, interest payments and value of debt outstanding at the end of respective years.)
- 4.5 Disbursements of Capital Grants by various donors, 1980-90

Series 5. PUBLIC FINANCE

- 5.1 Public Sector or General Government Budgetary Operations, 1980-90
- 5.2 Composition of Public Revenues, 1980-90
- 5.3 Economic Classification of Public Current Expenditures, 1980-90
- 5.4 Functional Classification of Public Current Expenditures, 1980-90
- 5.5 Composition of Public Capital Expenditures, 1980-90

Series 6. MONEY AND BANKING

- 6.1 Monetary Survey, showing Assets and Liabilities of the Consolidated Banking System, 1980-90
- 6.2 Structure of Interest Rates, latest and a few previous periods
- 6.3 Deployment of Monetary Instruments (e.g. reserve requirements, other liquid assets ratios, etc.) showing prescribed levels, latest and a few previous periods
- 6.4 Volume and Distribution of Commercial Bank Lending, 1980-90
- 6.5 Volume and Distribution of any Specialized Bank Loans, 1980-90

Series 7. AGRICULTURE

- 7.1 Production of Major Agricultural Commodities, 1980-90
- 7.2 Consumption or Purchase or Sale or Imports of agricultural inputs (e.g., fertilizers, seeds, pesticides, machinery), 1980-90

Series 8. INDUSTRY, TRANSPORT AND POWER

- 8.1 Volume of main Industrial Production, 1980-90
- 8.2 Length of various grades of Roads, latest and a few recent years
- 8.3 Volume of Cargo handled at various ports and airports, latest and a few recent years
- 8.4 Volume of Passengers handled at various ports and airports, latest and a few recent years
- 8.5 Electricity Production and Consumption or Sales, 1980-90

Series 9. PRICES AND WAGES

- 9.1 Consumer Price Indices, 1980-90
- 9.2 Average Retail Prices of Selected Basic Commodities, 1980-90
- 9.3 Wage and Salary Rates in Public and/or Private Sector, 1980-90

Series 10. EDUCATION AND HEALTH

- 10.1 Number of various types of Schools, 1980-90
- 10.2 Students and Teachers in various types of Schools, 1980-90
- 10.3 Number of various types of Health facilities, 1980-90
- 10.4 Number of various types of Health professionals, 1980-90

EM3CO
May 15, 1991

WP Document Name: M:\SHARED\LEB\ECSSMTNT

EMERGENCY RECOVERY ASSISTANCE

Background Note

This background note has been prepared to describe, in general terms, the types of assistance the World Bank (the Bank) can provide in emergency recovery. The paper is divided into the following five sections: (i) an overview of the Bank's approach to emergency recovery assistance; (ii) the elements of possible Bank recovery assistance; (iii) special considerations in designing Bank emergency recovery loans; (iv) the processing timetable for emergency recovery lending; and (v) lessons learned. This paper is intended to provide an overview of the Bank's approach to assisting countries in recovering from emergencies or disasters and of the related preparatory process, rather than a prescription for specific actions to be undertaken. While its contents are applicable to most countries requiring such assistance, particular reference to Lebanon is made where appropriate, to reflect the Bank's current limited understanding of the Lebanese situation. A specific approach to Bank assistance to Lebanon will be formulated following agreements reached between the Government and the Bank on the areas where the Bank has a comparative advantage within the overall framework presented in this paper.

In the Bank's usage, an emergency is defined as an extraordinary event of limited duration, such as a war, civil disturbances or a natural disaster (e.g. earthquake, flood, etc.), which causes serious dislocation to a country's economy and human and capital assets, and calls for a quick response from the Government. Judgment is necessary as to whether slow-onset disasters, such as drought or civil disturbance, require the quick response of emergency recovery lending, or the more thorough preparation of one or more normal investment projects (see Attachment 1 which briefly describes the range of Bank lending instruments). For example, an emergency recovery loan may be appropriate to ensure rapid recovery of agricultural production following a drought, or to get the economy functioning quickly again to serve basic needs (water, electricity, telecommunications, transport, etc.) after the cessation of hostilities.

I. An Overview to the Bank's Approach to Emergency Recovery Assistance

Since the early days of its establishment, the Bank has responded to emergencies by providing advice and financial support to affected governments, mostly through: (i) modifications to the ongoing project portfolio (reallocating the uncommitted and undisbursed amounts of existing loans) and to projects under preparation; and (ii) the design of new, free-standing emergency loans including technical assistance. Over the past two decades, the Bank has financed about 100 operations targeted to emergency reconstruction and rehabilitation following disasters such as earthquakes, floods, hurricanes, droughts, volcanic eruptions and civil wars. In fiscal 1988 and 1989, about \$1.5 billion was devoted to emergency lending.

The Bank has financed a wide variety of economic and social recovery programs after disasters aimed at restoring productivity, particularly by rebuilding physical structures, and in some instances, financing urgently needed imports. Though the Bank's approach to emergency assistance has evolved over many years and is tailored to the countrywide situation and the nature and

circumstances of the disaster, the two governing principles are that the Bank: (i) finances productive activities and investment, rather than relief activities or consumption'; and (ii) focuses on areas where it has a comparative advantage.

II. The Elements of Possible Bank Recovery Assistance

As noted above, the scope and extent of Bank support to Governments in need of emergency assistance varies depending on the nature and circumstances of the disaster, the Government's needs, as well the scope of the Bank's ongoing economic and sector dialogue and lending program in the affected country. The following paragraphs highlight five main areas where the Bank has provided emergency recovery support to affected Governments, with relevance to possible Bank assistance to Lebanon.

(A) Country Economic Assessment. It is crucial that a national reconstruction and rehabilitation program be formulated within the context of the Government's overall economic strategy for recovery. The Government's macroeconomic and social policy framework will help to determine the objectives and priorities of the reconstruction program (both national and sectoral investment priorities) and the longer term development efforts that are required to restore economic activities.

Although the Bank enjoyed an excellent working relationship with the Lebanese authorities and various sector agencies, the Bank has not undertaken any economic or sector work in more than a decade; nor has it been involved in any project lending/supervision work since the early 1980s. Hence, as a first step, the Bank could contribute significantly through undertaking a review of the current economic situation in Lebanon and the medium-term development prospects. A separate paper entitled "Note on Country Economic Assessment" has been prepared on this topic, and provides details on the purpose, scope and content of an economic assessment of the country. The paper highlights that the economic assessment would provide a basis for: (i) discussions with, and recommendations to, the country on its development problems and policies; (ii) the design of a Bank assistance strategy; and (iii) external resource mobilization and coordination.

(B) Assessment of Overall Economic Impact and Sectoral Damage and Needs. The evaluation of the economic impact, overall damage and specific sectoral needs provides a basis for defining the scope and priorities for recovery. Damage assessment entails an evaluation of the direct, indirect and cumulative impacts of the disaster on the economy and the public sector investment program. The

1/Immediate relief activities following a natural disaster, such as search and rescue, evacuation, food and water distribution and emergency health care are best carried out by other agencies, non-governmental organizations (including the Red Cross and Red Crescent, and the United Nations Disaster Relief Organization). The Bank is not equipped to undertake emergency relief, but rather focusses on broader economic recovery activities including reconstruction and rehabilitation of physical and social assets.

Bank often assists its borrowers in these endeavors². It should also be mentioned that in the case of natural disasters, the Bank frequently assists governments in making the transition between relief and reconstruction activities.

(C) Formulation of a Recovery Strategy and Overall Reconstruction Program.

The design of a comprehensive, national recovery program should match needs and resources and ensure the adoption of consistent inter-sectoral policies. While the recovery program should reflect the multi-sectoral nature of the emergency and help to ensure that no sector is ignored, it should also realistically reflect the country's implementation capacity, as well as available domestic resources and foreign capital assistance³.

(D) Institutional Arrangements for Managing a National Recovery Program.

Emergencies often involve politically sensitive issues, complex logistical problems, new and differing sources of funds, and highly visible actions. Certain problems are common to reconstruction after sudden-onset disasters and wars, such as the scarcity of information and the short time for assembling data. In the case of sudden impact disasters, institutions may be weakened by many demands but may still remain relatively intact. Hence, reconstruction can be better undertaken through existing institutions with technical assistance to help them function more effectively. However, prolonged wars often disrupt society, and institutions are apt to function poorly (for example, there may be a shortage of technical staff due to migration). Therefore, along with physical reconstruction, significant institution rebuilding may be required. The displacement of inhabitants affects the pool of skills available for recovery. The construction sector, so critical to reconstruction, may also be seriously weakened since it tends to be inactive in times of civil strife.

A crucial aspect in designing a national recovery program is the establishment of an appropriate institutional framework for its overall management and execution. In some cases, inappropriate decisions may be adopted (i.e. the relocation of inhabitants to sites far from employment and services or the creation of entirely new organizations). Thus a rapid and realistic identification of institutional capacity and the design of an effective management structure are critical decisions that need to be taken. Direct access to the highest decision-making levels by the designated national unit that oversees and coordinates recovery assistance often ensures efficient adoption and rapid implementation of both relief and recovery measures.

The Bank can help to assess the institutional and organizational arrangements, at the national and sectoral levels, and make recommendations on ways to strengthen specific agencies, with the aim of ensuring efficient coordination and implementation of a government's overall recovery program.

2/ The Bank has been informed that in June 1991, a contract was signed between the Council for Development and Reconstruction and Bechtel and Dar Al Handasah to undertake this task in Lebanon.

3/ The Bank has been informed that the Bechtel/Dar Al Handasah study also aims at formulating a recovery program, including an analytic framework for establishing priorities and organizing and managing emergency operations.

(E) Aid Donor Coordination. Often disasters not only galvanize the country's efforts, but also attract the attention of many donors. The Bank can serve as a catalyst to encourage the participation of donors and assist in the coordination of multi-donor efforts, where donors provide assistance according to their comparative advantage.

III. Special Considerations in Designing Bank Emergency Recovery Loans. The following represents a list of important considerations that the Bank generally takes into account in designing emergency recovery loans extended to its borrowers.

Early Involvement of Bank Staff. Most governments have limited experience in dealing with infrequent or large-scale emergencies. The Bank's main contributions often lie in: (i) responding rapidly to the request of the central government for assistance at the early post-disaster stage when initial decisions are taken; (ii) quickly assessing government's response to the situation; (iii) estimating damage and reconstruction needs; (iv) identifying the skills required in post-disaster situations, and assembling staff and consultants; (v) assisting in the design of a recovery program (including an emergency reconstruction project of priority works to be completed within a 2-3 year period); and (vi) reviewing the existing Bank portfolio to identify resources which could be reallocated to recovery activities.

Country and Sector Relationships. Where Bank staff are knowledgeable and have well-established contacts with local authorities, the Bank can play a major role. A prior working relationship with the country and the sector agencies involved in recovery is advantageous since it allows Bank staff to start project preparation on short notice.

Government Commitment and Access to the Highest Levels of Government. Even more critical than in normal investment operations, is a strong commitment to the recovery program at the highest decision-making levels of the Government so as to ensure prompt decisions and expeditious implementation of emergency recovery projects. Confusion of mandates, overlapping jurisdictions, and the complex politics of recovery efforts make it essential that the project manager have direct access to key decision makers.

Limited Objectives and Realistic Time Schedule. Multiple objectives and the introduction of major innovations in emergency recovery projects have been found to be inappropriate in a country facing a severe crisis. Emergency recovery projects should focus on key emergency problems and be limited normally to a disbursement period of two to three years. If time schedules are unrealistic and implementation stalls for a long period, the rationale for an emergency recovery project disappears and normal investment operations become more appropriate.

Recovery Strategy and Program Scope. The socio-economic impact of a disaster and the Bank's comparative advantage should determine whether a sectoral, multi-sectoral, or time-slice approach to project design is adopted. Emergency recovery projects focusing on a single sector are appropriate when the

task is the rapid restoration of a specific economic asset, such as road infrastructure. Multi-sectoral emergency recovery projects require rapid agreement with the government on a broad recovery strategy and the timely preparation of a comprehensive recovery program. They are more appropriate when damage is widespread in a densely populated area, or affects the entire economy. A time-slice approach finances an initial phase of a longer-term comprehensive recovery program involving multiple sectors and requires definition of criteria for sub-projects to be eligible for Bank financing, so that investments across sectors can proceed as soon as they are ready. In the latter case, it is critical to have a strong central agency that is adequately staffed to appraise individual operations proposed by the sectoral/implementing agencies.

Cost Recovery. Subsidized services or free distribution of goods may be appropriate for immediate relief in the aftermath of a major disaster. However, the recovery period should be viewed as a transition from relief to the normal functioning of the economy, and standard cost recovery practices should be restored quickly. Where extreme distortions in cost recovery policies exist, the Bank may decline to finance specific elements of the recovery program unless there is a long-term commitment to improving cost recovery.

Implementation Arrangements. In traditional investment operations, the Bank is reluctant to make special arrangements outside the borrower's normal administrative structure since investment lending should aim at strengthening implementation capacity over the long-term. In an emergency recovery project, the Bank's perspective is somewhat different, with immediate recovery as the first objective, and not long-term development of institutional capacity. Emergency recovery loans may provide financing for temporary units which coordinate the recovery program and for the incremental recurrent costs of implementation, including procurement management and sub-project supervision. However, efforts should be made to make full use of existing institutions, and to keep implementation arrangements as simple as possible. The private sector, non-governmental organizations, and community groups may deserve a wider role in an emergency recovery project because of their knowledge of the local situation, flexibility, action-oriented staff, effectiveness in enlisting local volunteers, and ability to mobilize funds for disaster relief and reconstruction.

Design Standards. In most situations, emergency recovery projects aim at restoring infrastructure or services to their pre-emergency conditions. However, if such design standards were below minimal acceptable levels or not disaster-resilient, it may be appropriate to fund reconstruction beyond pre-emergency conditions to mitigate or prevent recurrences of the disaster. However, investments that do not require an accelerated Bank response are more appropriately implemented through normal investment operations.

IV. Processing Timetable for Emergency Recovery Lending

A compacted project processing schedule may be applied to project cycle activities (identification, preparation, appraisal and negotiations) for emergency recovery operations depending upon: (i) the status of the country economic and sector dialogue; (ii) the nature of the disaster and whether speed is essential; (iii) the existence of a resident mission; and (iv) the involvement

of other donors. In several instances, Bank emergency recovery operations have been identified, appraised, negotiated and approved by the Board of Executive Directors within a six month period.

A thorough appraisal by the Bank of the following key aspects of the operation must be undertaken: (i) the emergency event, economic impact, assessment of damages by sector, government response, and recovery strategy; (ii) the rationale for and objectives of the proposed emergency recovery loan and other Bank emergency assistance; (iii) a description of the government's overall recovery program and project components, including technical assistance; (iv) assessment of the organizational and management arrangements at the central government and sectoral/agency levels; (v) donor coordination mechanisms; (vi) project issues and actions; and (g) major benefits and risks.

All Bank emergency recovery loans made in connection with natural disasters include a hazard mitigation and prevention component. For example, this might include the design of resilient structures and the improvement of building codes in areas susceptible to earthquakes, or the installation of early warning systems for the population at risk in flood prone areas.

V. Lessons Learned

The Bank has learned some valuable lessons in its 30 years of supporting emergency recovery measures, including the importance to project success of: (i) simplicity in project scope and design; (ii) a strong commitment by the government to the project and access of project management to key decision makers; (iii) the adoption of an appropriate institutional framework for managing and implementing emergency recovery activities; (iv) strengthening the institutions that exist in a country rather than creating new ones; newly created institutions seem to fare worse than existing (even feeble) ones, with the exception of housing reconstruction; (v) simplifying and consolidating procurement and disbursement procedures; (vi) assembling and acquiring land in advance of moving ahead on a project; and (vii) full cooperation and frequent communication between the borrower and the Bank, including frequent supervision missions.

Attachment

DESCRIPTION OF WORLD BANK
LENDING INSTRUMENTSSpecific Investment Loans

Conditions in this, the largest, category of Bank lending are designed to assure the technical, economic and financial viability of the investment. Economic and financial viability, for example, is safeguarded by covenants relating to financial rates of return, cost recovery, and output prices and tariffs, and by government undertakings to provide budgetary or other financial support where appropriate. Operational agreements typically relate to time-specific output targets (e.g. levels of service delivery, staffing, maintenance, etc.) and especially to institutional arrangements. Understandings on institutional questions may, for instance, cover the organization of the project entity and its mode of operation, and such other issues as senior managerial appointments, the use of external experts, counterparts and training.

While conditions for specific investment loans are mainly focussed on the projects which they support, they may also address sector-wide issues where an effective use of resources by project agencies or their financial position is affected crucially by the economic and financial policies of the government.

Sector Operations

(a) Sector Investment and Maintenance Loans. The main objective of these loans is to improve the capacity of the borrower to formulate and implement sound sectoral policies and to manage the relevant sector's capital and human resources effectively. Loan conditions thus tend to concentrate on three issues. First, sector loans are usually conditional on the borrower establishing satisfactory criteria and methods for project identification, selection and appraisal, thereby using the loan to improve the allocation of public expenditure for rehabilitation, maintenance or new investment throughout the sector. Second, most loans have understandings regarding the policy framework of the sector. These may include issues such as tariffs and user charges, and the level and composition of sectoral public investment and financing. Third, these loans characteristically incorporate detailed agreements about the institutional arrangements for key public institutions in the sector -- for example, about organization of executing agencies, project preparation capacity, monitoring and evaluation, and in particular staff development and training for the sector as a whole.

(b) Loans to Financial Intermediaries. Conditions for this category of lending are similar to those described above, but typically focus on the institution channeling the funds to the investor. Thus financial and economic criteria and clientele definition (size of farm or enterprise, for example) are emphasized in project selection for on-lending. Policy issues addressed relate to matters such as on-lending interest rates, since financial intermediaries supported by Bank loans complement other financial institutions in the country.

Institutional conditions concentrate on strengthening particular development finance companies or rural credit agencies, for example, or in the case of "apex" loans may be aimed at the structure and interrelationship of institutions in relevant financial sub-sectors.

(c) Sector Adjustment Loans. Sector adjustment loans are the most comprehensive Bank vehicles for addressing sector policy and institutional constraints. A sequence of such loans would address the government's medium-term program of sectoral policy and institutional reform in the sector. The first loan in the series is likely to concentrate on the most urgent issues and on the initial measures to be taken as part of the multi-year program. Compared to sector investment loans, sector adjustment conditions place greater emphasis on policies and economic incentives affecting all economic participants in the sector. The sectoral coverage characteristically is broad, covering, for example, policies and institutions in the entire industrial sector, in contrast to a sectoral investment and maintenance loans which might concentrate on public investment in a particular industrial sub-sector such as fertilizers or telecommunications.

Such loans support programs whereby the key elements of sectoral reform are implemented according to a specific timetable of monitorable actions. Bank conditions are thus linked to successive stages of reform, for example by gearing Board presentation, loan effectiveness, tranche release and the processing of subsequent loans to the attainment of specific agreed reform objectives.

As with other loans, conditions for sector adjustment loans reflect differences in their sector- and country-specific content. However, the approach tends to be similar. Particular attention usually is focused on the incentives facing producers in the sector: specific agreements are therefore sought on matters such as procedures and policies affecting producer prices and links with international markets. Specific actions supported by such loans often also address key institutional problems, for example, re-structuring programs for public enterprises in the sector, strengthening of marketing and credit institutions and associated policies, and reform of excessive administrative regulation and the competitive environment. Finally, loan conditions typically address the level, composition and phasing of public investment in the sector as well as the maintenance effort and the level of recurrent expenditure. In some cases, the institution of suitable mechanisms for programming, allocating and monitoring such investment are included.

In some cases the "sector" in question may not be a branch of productive activity in the usual sense. For instance, a loan may deal with the public sector as a whole, or a series of particular public enterprises. Here, appropriate conditions would concentrate on investment issues, on the efficiency of operations on a commercial basis, on the government's policy framework for public enterprise and on restructuring proposals for specific important enterprises. Or, the loan may deal with the trade regime where the focus is on eliminating biases against exports, increased efficiency of import substituting

industries, reductions in excessive levels of protection and disparity of protection as between sectors.

Structural Adjustment Loans

Structural adjustment loans have been extensively discussed in recent documents. Given the economy-wide coverage of SALs, program design and specification of appropriate conditions are exceptionally demanding. As in the case of sector adjustment loans, conditions in SALs are based on a medium-term program of change and translate the structural reform objectives into concrete actions, to be taken during loan implementation. Specific macroeconomic and sectoral reform measures are therefore carefully chosen and phased over the duration of the SAL, and appropriately linked to the stages of loan processing and disbursement. In particular, clear links are demonstrated between the major economic objectives and policy reforms supported by the loan and the detailed measures through which these can be implemented and monitored. These loans thus require particularly close and detailed consultation with the borrower in analyzing the measures necessary for success.

The reform strategy embodied in the government's Letter of Development Policy thus characteristically focuses on broad issues of trade policy, resource mobilization and allocation, efficiency and institutional reform, but also sets out specific measures such as adjustment of leading prices in the economy (for example for energy or agricultural production); agreements on trade regimes in order to improve the capacity of the domestic economy to respond to changing circumstances; and action on key fiscal, monetary and public investment issues. Where there is inadequate information or analysis to merit specific actions, terms of reference are agreed upon for studies as a basis for subsequent operations. On the institutional side, the concentration is on improving government capacity to make and execute economic policy, and may include measures to strengthen debt management, public investment programming and implementation, budgeting, public enterprise performance and the administration of the trade regime.

OFFICE MEMORANDUM

DATE: July 19, 1991

TO: Files

FROM: ~~KR~~ Karen Rasmussen, Sr. Financial Analyst (EM3IN)

EXTENSION: 33056

SUBJECT: Meeting with H.E. Elias Hrawi,
President of the Republic of Lebanon

1. In accordance with the terms of reference dated July 8, 1991, I participated, as an observer, in the United Nations Assessment of the Development and Reconstruction of Lebanon (UNARDOL) mission in Lebanon from July 14-26, 1991. The purpose of the mission was to provide, in general terms, an initial assessment of priority needs and programmes of technical assistance aimed at supporting the reconstruction and sustainable development requirements of Lebanon. The findings of the mission are intended to form the basis of an appeal by the UN Secretary General for assistance to Lebanon from the international community.
2. On July 15, 1991, the mission was received by H.E. Elias Hrawi, President of the Republic of Lebanon. H.E. Hrawi, a Maronite Christian who was elected on November 24, 1990, spoke spontaneously for one hour. The main points His Excellency touched upon, as translated into English by an interpreter, are elaborated upon below. Mr. El-Fadi Chalak, President of the Council for Reconstruction and Development (CDR), was the only other Lebanese official present during the meeting.
3. In his opening remarks, the President welcomed the UN Inter-Agency mission and added that he placed importance on the mission's report to the UN since it would help to mobilize international support for Lebanon's reconstruction efforts. In this context, His Excellency made a specific reference to collaboration with the World Bank in meeting the long term development objectives of the country. His Excellency also made a point of stating that Lebanon had a relatively low external debt position (a figure of US \$350 million was mentioned), while recognizing there was a sizeable budget deficit.
4. With the termination of emergency relief and humanitarian assistance, the Government was identifying immediate short-term needs that would rekindle economic activity. His Excellency stated that the priority sectors which required urgent rehabilitation and reconstruction were water supply, electricity and telecommunications. He added that the inadequate quantity and the poor quality of potable water were posing health hazards, notwithstanding the environmental degradation caused by a combination of a lack and/or intermittent provision of sewerage services. His Excellency added that, in addition to physical rehabilitation and reconstruction of the country, emphasis would be placed on: (i) the social aspects of reconstruction, including the restoration of basic needs (health, roads and agricultural development); and (ii) manpower development (including training and institution building).
5. His Excellency remarked that the private sector was expected to play an important role in the country's reconstruction efforts. Proposals to establish

public/private sector joint ventures or mixed companies in the water, electricity and telecommunications sectors were under consideration. The mission was requested to discuss these proposals with the CDR. His Excellency noted that the private sector was also expected to share in housing construction and development. However, given the severe housing shortage and requirements to repair damaged dwellings, the significant number of displaced inhabitants and the cost of meeting the demand for housing, the assistance of donors would be sought. In this connection, reference was made to the establishment of a housing fund (follow-up on this matter will take place with the Ministry of Housing).

6. In closing, His Excellency commented that in June 1991, a contract had been signed with Bechtel and Dar Al Handasah to provide a framework for economic recovery, including the definition of emergency rehabilitation and reconstruction needs. The study aimed at providing a strategy for development in all sectors of the economy (which presumably could serve as a basis of soliciting support from aid donors).

cc: Messrs. Chopra, Zulfiqar (EM3DR), Banerjee, McKechnie (o/r) (EM3IN), Voyadzis (EM3CO), Bhargava (EM3IE), Keare (EM3PH), Garg (EM3AG)

THE WORLD BANK/IFC/MIGA

OFFICE MEMORANDUM

DATE: July 19, 1991

TO: Files

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EXTENSION: 33056

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cc: Messrs. Chopra, Zulfiqar (EM3DR), Banerjee, McKechnie (o/r) (EM3IN), Voyadzis (EM3CO), Bhargava (EM3IE), Keare (EM3PH), Garg (EM3AG)

U.N. NEEDS ASSESSMENT MISSION TO LEBANON
July 14-26, 1991

List of Key Officials Met by the World Bank

Republic of Lebanon

H.E. Elias Hrawi, President

Council for Development and Reconstruction

Mr. Al Fadl Chalak, President
Mr. Boutros A. Labaki, Vice President
Mr. Ibrahim Chamseddine, Vice President
Dr. Imad Chatila, Member of Board of Directors
Mr. Nohad Baroudi, Secretary General

Ministry of Justice

H.E. Khatchik Babikian, Minister

Ministry of Telecommunications

H.E. Georges Saade, Minister
Mr. Elie Eid, Director General of Equipment and Construction

Ministry of Finance

H.E. Ali Al-Khalil, Minister
Dr. Habib Abou Sakr, Director General

Ministry of Hydraulic and Electric Resources

H.E. Mohamed Youssef Beydoun, Minister

The Central Bank

H.E. Michel Khoury, Governor
Dr. Marwan Ghandour, Third Deputy Governor

Ministry of Economics and Commerce

H.E. Marwan Hamade, Minister

Ministry of Agriculture

H.E. Mohsen Dalloul, Minister
Dr. Sultan Haidar, Adviser
Mr. Rashid Idriss, Adviser

Ministry of Public Works and Transportation

H.E. Nadim Salem, Minister

Ministry of Housing

H.E. Mohamad Beydoun, Minister

Mr. Joseph Sessine, Governor of the Housing Bank

Mr. Elie Manna, Housing Bank

Mr. Ali Youssef, Housing Bank

Mr. Ahmed Assi, Housing Bank

Mr. Soubra Hassan, Housing Bank

Mr. Antoine Chamoun, Director General of Cooperatives

U.S. Embassy

Ambassador Ryan Clark Crocker

Hariri Foundation

Mr. Mouhib H. Itani, Director General

Mr. Mohamed Sammak

Mr. Hyam Mallat, Court Lawyer

Dr. Samir Makdisi, Economist

Mr. Michel Majdalani, Consultant, Water and Soil Engineering

Dr. Samir Nasr, Economist, ECE Consulting

Mr. Marco Ayoub, Industrialist (RCDL)

Dr. Fouad El Khager, President, Contractors and Bankers

Association

Dr. Nabil Ladki, Director, Association of Lebanese Industrialists



**LIST OF PARTICIPANTS ON THE OPENING OF THE
INTER-AGENCY NEEDS ASSESSMENT MISSION
14-24 JULY 1991**

NAME	AGENCY
Mr. M. A. NOUR	TEAM LEADER
Mr. G. ABU-JAWDEH*	UNDP/UNARDOL
Mr. C. ELFVERSON*	UNDP
Mr. J. HENDRA*	UNDP
Mr. B. KIA*	UNDP
Ms. I. CHAKRAVARTTY*	UNARDOL
Mr. C. DE CLERCO*	UNARDOL
Dr. F. EL-SAMANI	UNICEF
Mr. A. LATHAM	UNICEF
Mr. T. WORKU	UNESCO
Mr. M. AL-HAFEDH	UNIDO
Mr. G. ANESTIS	UNIDO
Mr. R. SAIDI	UNHCR
Mr. J. KRAML	UNDRO
Mr. M. RAMBOURG	UNDTCD
Mr. A. N. CORTAS	FAO
Mr. A. BAILLE	FAO
Mr. M. ABOU CHACCRA	ICAO
Mr. C. MANTON	ILO
Mr. N. KISRAWI	ITU
Mr. M. A. JALLOUL	WFP
Dr. A. RAHMANI	WHO
Ms. K. RASMUSSEN	WORLD BANK
Mr. A. K. KHALIL	UNRWA
Mr. M. MOHSEN	ESCWA
Mr. L. ABDUNNUR	ESCWA
Mr. N. ABU-DARGHAM	UNIC
Ms. S. ZEIDAN	FAO
Ms. L. BEYHUM	UNDP
Ms. M. YOUNIS	UNDP
Ms. M. ABILLAMA	UNDP

* Mission Secretariat

U.N. NEEDS ASSESSMENT TO LEBANON
LIST OF DOCUMENTS COLLECTED

1. Terms of Reference for the UNARDOL Inter-Agency mission to Lebanon
2. U.N. Needs Assessment Mission: Draft Programme
3. U.N. Inter-Agency Mission to Lebanon: Schedule of Meetings
4. Composition of the New Lebanese Government (a list)
5. U.N. Selected Issues for Consideration and Discussion by the Mission
6. C.D.R. Strategy for Economic Recovery and Development (an outline)
7. Review of UNDP Technical Assistance Projects
8. Rebuilding for Peace: Strategy for the 1992-1996
9. Annual Report of the Chamber of Commerce and Industry in Beirut, 1990.
10. Situation Analysis of Lebanese Children and Women, June 1991
11. The State and the Management of the Environment in Lebanon, dated December 1990 (in French)
12. C.D.R. National Waste Management Plan Summary
13. Centre-ville (Beirut Central District): The Details of Financial Organization (in French)
14. Directory of Personnel of United Nations Organizations in Lebanon
15. Decree No. 5 of 1977 Establishing C.D.R.
16. C.D.R. Organizational Chart
17. The Lebanese Non-Governmental Organizations Forum, July 19, 1991
18. Report on Mission to Lebanon: Status of Civil Aviation System and Assessment of Urgent Requirements for its Rehabilitation, December 1990
19. UNDP: Preparatory Assistance Document
20. The Impact of the Gulf Crisis on the Economy of Lebanon
21. Lebanon: The Gross Domestic Product and Gross National Product for 1988
22. Lebanon & UNDP 40 Years of Partnership that Inspires Rejuvenation
23. U.N. Agency Sectoral Briefing Notes

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NO. 3060162499 P. 5

OGER LIBAN



08/08/91

FAX N° : 202-4473537	LOCATION: WASHINGTON	DATE: 8/8/91
TO : MR. EZZEDDINE CHAMCEDDINE	SENDER : MR. FADL CHALAK	
ATTN. : MR. BARBER B. CONABLE /	DEPT. :	
MR. RAN KUMAR CHOPRA /	CC: _____	
Calc. off. / MR. EZZEDDINE CHAMCEDDINE		
REF. :	N° OF PAGES : 1 + 6	
garbled, please call 96-1-1-862206		Tlx 42343/43343, OGER LIBAN

Please transmit the following papers
to MR. Barber B. CONABLE (2) and to
MR. RAN KUMAR CHOPRA (4 papers)
immediately.

Thank you

**COUNCIL FOR DEVELOPMENT & RECONSTRUCTION
BEIRUT - LEBANON**

①

No. 232/1
Beirut, 8 August 1991

Mr. Barber B. Conable
President
The World Bank
701, 19th Street, N.W.
Washington, D.C. 20433

Dear Mr. Conable,

I refer to the letter dated 8 June 1991 addressed to you by H.E. the Minister of Finance of Lebanon requesting urgently needed Bank assistance in the reconstruction of the country and the rehabilitation of the economy. We in Lebanon are greatly encouraged by your able perception of our needs and the Bank's readiness to address them, as indicated in your letter dated 19 June 1991.

As you may have been informed by your senior staff, I have just completed a round of fruitful discussions with them, which I am certain will soon materialize in the World Bank Group taking a leading role in the economic and social reconstruction of Lebanon. We are very much looking forward to that moment.

I should like to take this opportunity to inform you that the Government of Lebanon has designated the Council for Development and Reconstruction (CDR) as the agency responsible for planning, securing finance for, and executing national recovery programmes. Activities within such programmes, once approved by the Council of Ministers, will be conducted in close coordination with the line Ministries concerned. For operational purposes the CDR will be the focal point for communicating with the Bank and other international, regional and bilateral donors in all matters pertaining to the reconstruction and development of Lebanon. In my capacity as President of the CDR, I am happy to reiterate my Government's request for active and speedy involvement of the Bank in the reconstruction process.

I understand that a prerequisite for the resumption of the Bank's operations in Lebanon is an assessment of the economy and of priority reconstruction needs in key sectors. We are, therefore, looking forward to welcoming a Bank Economic Assessment mission at the earliest possible time. This task, together with the exercise being now undertaken jointly by Bechtel and Dar-Al-Handasah in recovery planning for the reconstruction and development of Lebanon, should constitute a sound base for resuming Bank and other international assistance to our country.

COUNCIL FOR DEVELOPMENT & RECONSTRUCTION

(2)

-2-

In order to prepare for the Bank Economic Assessment mission, we have requested the United Nations Development Programme to send to Lebanon as soon as possible a UNDP-financed mission to assist the Lebanese authorities in the collection and preparation of data necessary to pave the way for the Bank mission. A copy of that request is being addressed, under separate cover, to Mr. Ram Kumar Chupra, Director, Country Department III, Europe, Middle East and North Africa Regional Office.

We are also aware of a recent request by the Governor of the Lebanese Central Bank to the International Monetary Fund for an early Fund consultation mission to Lebanon. A joint Bank/Fund mission may then suit us well, if it is at all convenient to you.

Finally, I am sure you will agree with me that there are very pressing needs for emergency reconstruction work in basic economic and social infrastructure that cannot await normal operational procedures.

In conclusion, I would again thank all the senior managers of the World Bank Group that I have had the privilege of meeting during my visit to Washington. Looking forward to your response, I remain,

Sincerely yours,

Al-Fadi Chalal
President

COUNCIL FOR DEVELOPMENT & RECONSTRUCTION

BEIRUT - LEBANON

Leb. Urban Dev. Sector

(Recovery / Reconstruction)

No . 231/1

Beirut, 8 August 1991

Mr. Ram Kumar Chopra
Director, Country Department III
Europe, Middle East and North Office Regional Office
The World Bank
600, 19th Street, N.W.
Washington, D.C. 20433

Dear Mr. Chopra,

I should like to convey to you and to the senior staff in your Department my thanks and appreciation for the fruitful discussions we conducted recently in Washington, which I am certain will soon materialize in the World Bank Group taking a leading role in the economic and social reconstruction of Lebanon. We are very much looking forward to that moment.

I understand that a prerequisite for the resumption of the Bank's operations in Lebanon is an assesment of the economy and of priority reconstruction needs in key sectors. We are, therefore, looking forward to welcoming a Bank Economic Assessment mission at the earliest possible time.

In order to prepare for the Bank Economic Assessment mission, we have requested the United Nations Development Programme to send to Lebanon as soon as possible a UNDP-financed mission to assist the Lebanese authorities in the collection and preparation of data necessary to pave the way for the Bank mission. Please find enclosed a copy of that request.

Thanking you again for the warm welcome I received in the Bank, I remain,

Sincerely yours,


Al-Fadl Chalak
President



Leb - Urban Dev. Sector
(Recovery/Reconstruction)

COUNCIL FOR DEVELOPMENT & RECONSTRUCTION
BEIRUT- LEBANON

No. 209 /1

Beirut, August 2, 1991

Dear Mr. Abu-Jawdeh,

As a follow up to our discussions with UNDP and World Bank representatives in the UN Needs Assessment Mission which visited Lebanon between 14 and 27 July 1991, the Council for Development and Reconstruction hereby requests that a UNDP-financed mission be sent to Beirut as soon as possible with the following terms of reference: assist the Lebanese Authorities in the collection and preparation of data necessary, as outlined in the attached list, to pave the way for a World Bank Economic Assessment mission in Lebanon.

Thank you for your prompt assistance in this important matter.


Al-Fadl Chalak
President



Mr. George Abu-Jawdeh
Officer-in-Charge
UNARDOL

cc.: Mr. Ram Kumar Chopra, Director, Country Department III
Europe, Middle East and North Africa Regional Office
The World Bank

WORLD BANK ECONOMIC ASSESSMENT REPORT

Common Titles of Statistical Appendix Tables

Series 1. POPULATION AND EMPLOYMENT

- 1.1 Population by Sex and Age in various census years and annually over last five years or so
- 1.2 Urban and Rural Population in various years as above
- 1.3 Birth, Death, Migration and Net Growth Rates of Population
- 1.4 Labor Force by Sex, Economic Sectors, etc. various years
- 1.5 Employment by Sex, Economic Sectors, Professions, etc.

Series 2. NATIONAL ACCOUNTS

- 2.1 GDP by Industrial Origin at Current Prices, 1980-90
- 2.2 GDP by Industrial Origin at Constant Prices, 1980-90
- 2.3 GDP by Expenditure at Current Prices, 1980-90
- 2.4 GDP by Expenditure at Constant Prices, 1980-90

Series 3. BALANCE OF PAYMENTS AND TRADE

- 3.1 Balance of Payments, 1980-90
- 3.2 Composition of Merchandise Exports, Volume and Value, 1980-90
- 3.3 Composition of Merchandise Imports, Volume and Value, 1980-90
- 3.4 Direction of Trade Statistics, 1980-90

Series 4. EXTERNAL DEBT AND CAPITAL

- 4.1 Medium and Long-term Debt, Bilateral Creditors, 1980-90
- 4.2 Medium and Long-term Debt, Multilateral Creditors, 1980-90
- 4.3 Medium and Long-term Debt, Suppliers' Credits, 1980-90
- 4.4 Medium and Long-term Debt, Private Banks, 1980-90
(The above debt tables should each show annual commitments, disbursements, amortization, interest payments and value of debt outstanding at the end of respective years.)
- 4.5 Disbursements of Capital Grants by various donors, 1980-90

Series 5. PUBLIC FINANCE

- 5.1 Public Sector or General Government Budgetary Operations, 1980-90
- 5.2 Composition of Public Revenues, 1980-90
- 5.3 Economic Classification of Public Current Expenditures, 1980-90
- 5.4 Functional Classification of Public Current Expenditures, 1980-90
- 5.5 Composition of Public Capital Expenditures, 1980-90

Series 6. MONEY AND BANKING

- 6.1 Monetary Survey, showing Assets and Liabilities of the Consolidated Banking System, 1980-90
- 6.2 Structure of Interest Rates, latest and a few previous periods
- 6.3 Deployment of Monetary Instruments (e.g. reserve requirements, other liquid assets ratios, etc.) showing prescribed levels, latest and a few previous periods
- 6.4 Volume and Distribution of Commercial Bank Lending, 1980-90
- 6.5 Volume and Distribution of any Specialized Bank Loans, 1980-90

Series 7. AGRICULTURE

- 7.1 Production of Major Agricultural Commodities, 1980-90
- 7.2 Consumption or Purchase or Sale or Imports of agricultural inputs (e.g., fertilizers, seeds, pesticides, machinery), 1980-90

Series 8. INDUSTRY, TRANSPORT AND POWER

- 8.1 Volume of main Industrial Production, 1980-90
- 8.2 Length of various grades of Roads, latest and a few recent years
- 8.3 Volume of Cargo handled at various ports and airports, latest and a few recent years
- 8.4 Volume of Passengers handled at various ports and airports, latest and a few recent years
- 8.5 Electricity Production and Consumption or Sales, 1980-90

Series 9. PRICES AND WAGES

- 9.1 Consumer Price Indices, 1980-90
- 9.2 Average Retail Prices of Selected Basic Commodities, 1980-90
- 9.3 Wage and Salary Rates in Public and/or Private Sector, 1980-90

Series 10. EDUCATION AND HEALTH

- 10.1 Number of various types of Schools, 1980-90
- 10.2 Students and Teachers in various types of Schools, 1980-90
- 10.3 Number of various types of Health facilities, 1980-90
- 10.4 Number of various types of Health professionals, 1980-90

EM3CO
May 15, 1991

WP Document Name: M:\SHARED\LEB\ECSSMTNT

OFFICE MEMORANDUM

Leb - Urban Dev Sector
(Recovery / Reconstruction)

DATE: July 31, 1991

TO: EMENA Files

FROM: Imelda F. Sevilla 

EXTENSION: 37002

SUBJECT: Transmittal of Documents

Attached are the following documents for Lebanon:

- ✓ 1. Draft Damage Assessment Study, June 18, 1991
- ✓ 2. Staff Report for the 1990 Article IV Consultation
- ✓ 3. CDR: Recovery Planning for the Reconstruction & Development of Lebanon — Doc # 39667
- ✓ 4. Memo: Visit of Mr. El-Fadl Chalak, President of the Council for Development & Reconstruction
- ✓ 5. Memo to File: Meeting with H.E. Hrawi, President of Lebanon
- ✓ 6. WB letter to Ministry of Finance, July 5, 1991

Attachments

General Plan

June 18, 1991

DRAFT DAMAGE ASSESSMENT STUDY

Technical Guidelines

Mr. Banerjee:

I have read the above mentioned draft report and would like to offer the following comments. In general, there is a great deal of information in the report, but it needs to be restructured and tightened up before we send it to the Government. The reports needs to be better focussed -- for example, its difficult for the reader to get a sense of timing, order of priorities amongst various activities, how or who will organize/oversee the damage assessment on a national basis, and what is the eventual output of this work (presumably to form the basis of a reconstruction program). Specific comments follow:

Introduction - The objectives need to be more clearly stated. For example, b) appears unnecessary (outdated or incomplete information to be identified) and confusing to me. A review of the situation should be undertaken with a view of identifying more detailed surveys/studies where required. Is the purpose of the damage assessment to develop a data base for specific projects, or to help in the design of an overall rehabilitation/reconstruction program? The rest of the introduction focusses on the transport sector and the absorptive capacity of the construction industry, both which are separate issues (the transport sector is not covered in this paper).

General Comments

I think greater coverage of the organizational and institutional aspects are required, on a national basis as well as by sector. Reconstructing and repairing will not help if there are not qualified staff to operate and maintain the assets being replaced. How is the damage assessment going to be managed on a national level? By CDR? Who is to oversee procurement and recruitment of consultants?

Concerning the housing and public buildings chapter, why is damage assessment being undertaken of private housing? And why does the report recommend ignoring damage assessment to industrial buildings?

I also think a reference to economic restructuring should be made somewhere in the text, as the two are linked.

Sectoral Sections

I believe that the sectoral data should be structured following a pro forma outline of topics to be covered in each sector. For example:

a. Background information on the sector (and indicating the source of this information)

b. Physical damage assumptions

c. Institutional assessment: physical and institutional (by institutional I mean, for example, does the water or electricity authority have a cadre of staff presently working? Are they capable of undertaking operation and

maintenance activities? Do these public utilities have customer records, adequate billing systems in place? Are they able to collect revenues? Are there cost recovery and maintenance policies in effect?

d. Action plan - steps to be undertaken to organize and carry out specific sectoral tasks and an indication of the time required for each. Some thought should be given to making a distinction between emergency needs (for which execution could be completed within a short period of time (6-12 months, or 1-3 years, versus longer term development needs). The rationale for taking a particular approach to damage assessment, including the composition of teams (need for consultants and counterparts) should be explained. For example: what's the reasoning for the 3 phases in the power sector -- they all appear to overlap -- then the preparatory phase is mentioned. Secondly, the reader doesn't get a good perspective on the number and composition of damage assessment teams for the telecoms sector. Given the high tech nature of this sector and that it has been 15 years since an assessment has been undertaken, it may be better to replace the system by new equipment.

I'd like to suggest the following Action Plan outline:

- (i) Damage Assessment Team Composition (number of persons and specialities -- foreign and local counterpart staff);
- (ii) Terms of reference for the team and desired output; and
- (iii) Duration of assignment.

The output, by sector, could also be put in a similar format:

- (i) Assessment of Sectoral damage broken down into: (i) emergency rehabilitation needs (works to be completed within 1-3years); and (iii) longer term rehabilitation and reconstruction requirements (including timeframe for completion of feasibility/design and other studies). Sub projects should be ranked in order of priority and include rough cost estimates (local and foreign breakdown); and
- (ii) Organizational setting of each sector: recommendations on implementation of the emergency rehabilitation phase and longer term rehabilitation/ reconstruction needs with respect to the organizational and, administrative and managerial aspects (i.e., which executing agencies will need technical assistance, and what type)

I am not able to comment on the technical data for each sector. We may wish to pass it around to the relevant SODs for comment.

Karen Rasmussen

**FOR
AGENDA**

*Order
File*

SM/91/21

CONTAINS CONFIDENTIAL
INFORMATION

January 30, 1991

To: Members of the Executive Board
From: The Secretary
Subject: Lebanon - Staff Report for the 1990 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1990 Article IV consultation with Lebanon, which is proposed to be brought to the agenda for discussion on Wednesday, February 27, 1991.

Mr. Knöbl (ext. 8821) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

LEBANON

Staff Report for the 1990 Article IV Consultation

Prepared by the Staff Representatives
for the 1990 Consultation with Lebanon

Approved by A. Shakour Shaalan and M. Edo

January 29, 1991

I. Introduction

The 1990 Article IV consultation discussions with Lebanon were held in Paris during December 10-12, 1990. The Lebanese representatives included three deputy governors of the Bank of Lebanon, the Director General of the Finance Ministry, and the Chairman of the Banking Control Commission, as well as senior officials from these institutions and representatives of the private sector. 1/

The last Article IV consultation was concluded by the Executive Board on November 2, 1988. Interim Article IV consultations were held during November 27-30, 1989. A summary of relations with the Fund is provided in Appendix I. 2/ Lebanon continues to avail itself of the transitional arrangements of Article XIV. The World Bank Group has recently been inactive in Lebanon.

II. Background

A civil conflict has been raging in Lebanon for 15 years. In addition to the human losses, the economy has suffered as a result of the destruction of physical assets, outflows of labor and capital, and financial instability. 3/ Nevertheless, sectors such as agriculture and industry have proved resilient, and free market pricing of almost all goods and services has allowed entrepreneurs to respond flexibly to

1/ The mission was composed of Messrs. A.S. Shaalan (Head), A. Knöbl, M. Zavadjil, and A. MacArthur (all MED). Mr. M. Finaish, Executive Director for Lebanon and/or Mr. M. Chatah, Advisor to the Executive Director, also attended the policy meetings.

2/ Basic data on economic, social, and demographic indicators are shown in Table 1. Tables 2-4 include data on fiscal operations, domestic currency liquidity growth, and the balance of payments. Statistical issues are outlined in Appendix II.

3/ Analysis of macroeconomic developments is complicated by the poor quality and limited availability of national income and employment data, and by the lack of detail in the balance of payments statistics.

changing business conditions. Thus, improved external competitiveness and security resulted in rapid expansion of both output and exports in 1987-88. However, renewed intense fighting in 1989 caused an estimated 15 percent drop in economic activity.

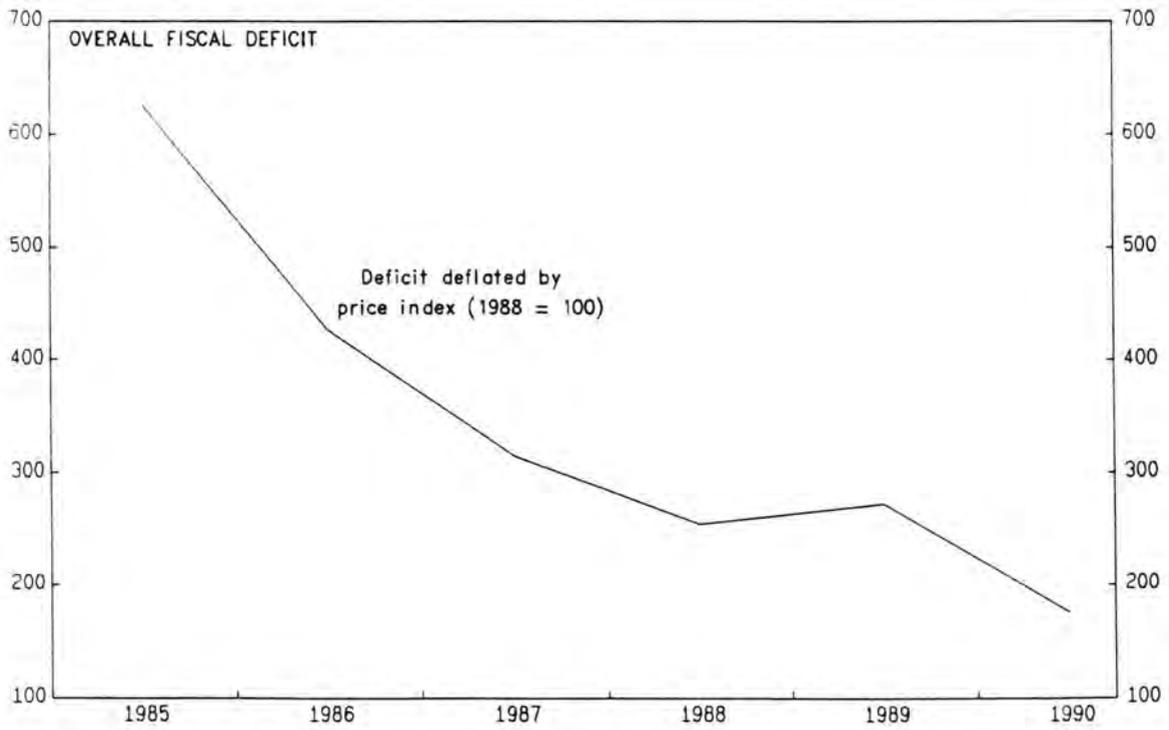
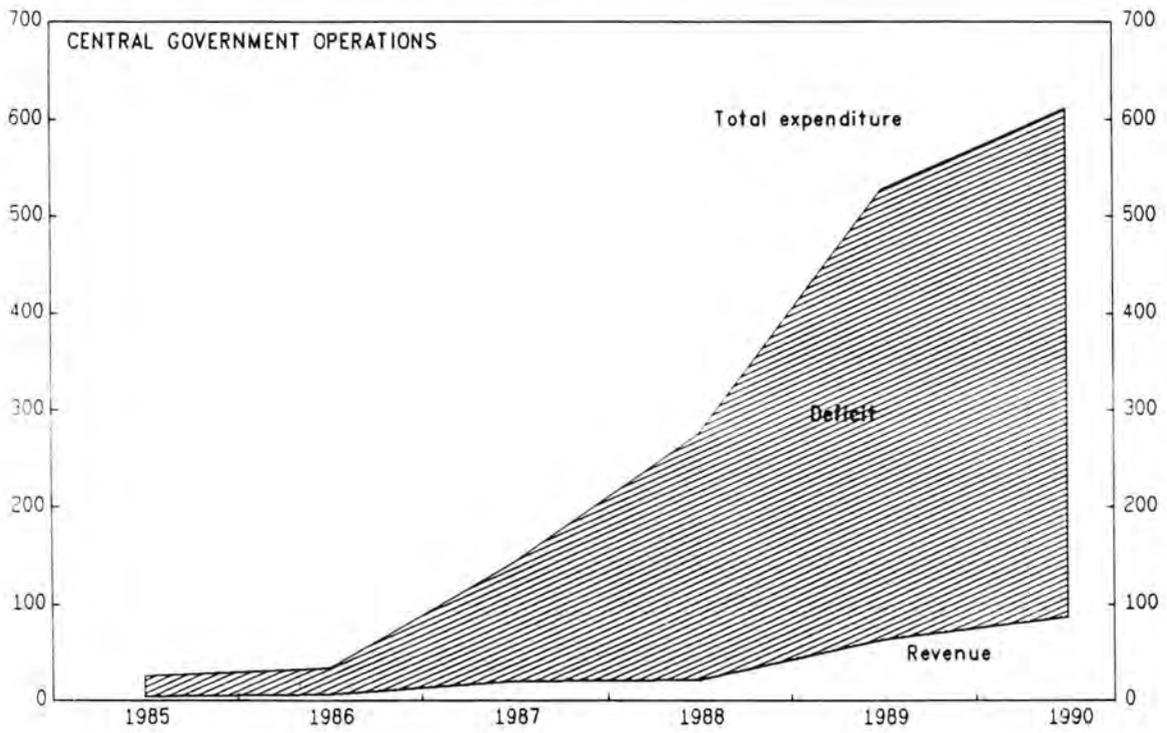
The lack of central government authority has seriously undermined public sector finances, the banking sector, and confidence in the Lebanese pound. The Central Government collected only minimal revenues (2 percent of estimated GNP in recent years), while attempting to provide basic public services and subsidies for energy, flour, and some public utilities (Chart 1). Thus, the public sector deficit exceeded 17 percent of GNP during 1988-89, despite substantial drops in outlays in real terms, and was financed largely through bank borrowing. In the absence of adjustments to official interest rates (18 percent per annum on three-month treasury bills (TBs)) since 1986, the Bank of Lebanon attempted to limit the growth of the Lebanese pound component of money (M2LL) through increases in the requirements of commercial banks to hold TBs. ^{1/} Nevertheless, M2LL expanded at an average of 90 percent per annum in 1986-89; given the large share of foreign currency in broad money (M2), this aggregate has largely reflected exchange rate movements.

The condition of the Lebanese banking system has deteriorated as a result of the war-related weakness of many borrowers, the lack of bank supervision, lax lending standards, and in some cases management fraud. The capital/assets ratio has fallen to below 1 percent (compared with the statutory requirement of 3 percent) in large part reflecting the rapid increase in banks' foreign currency assets in Lebanese pound terms due to the depreciation of the pound; capital is largely denominated in pounds. Although the banking system as a whole was liquid, in early 1989 the Bank of Lebanon started to provide assistance to some banks that were experiencing unmanageable deposit outflows.

The expansion of M2LL and the general lack of confidence engendered by the security situation have been the underlying sources of pressure on the exchange rate, which has depreciated from an average of LL 16 per U.S. dollar in 1985 to about LL 500 in 1989. During this period there have been sharp swings that have largely reflected changing expectations with regard to the security situation and the prospects of peace. As a result of the openness of the economy, consumer price movements have largely reflected (with a lag) exchange rate changes. After reaching 487 percent per annum in 1987, consumer price inflation decreased to 70 percent in 1989 (Charts 2 and 3).

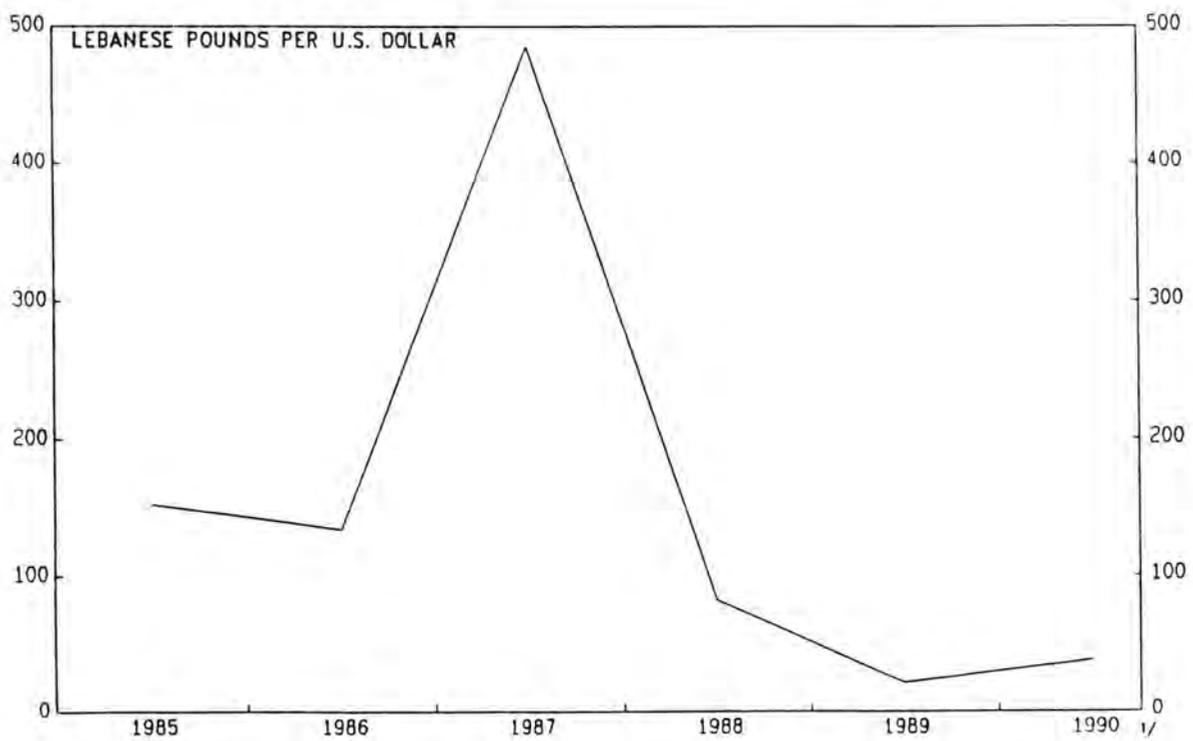
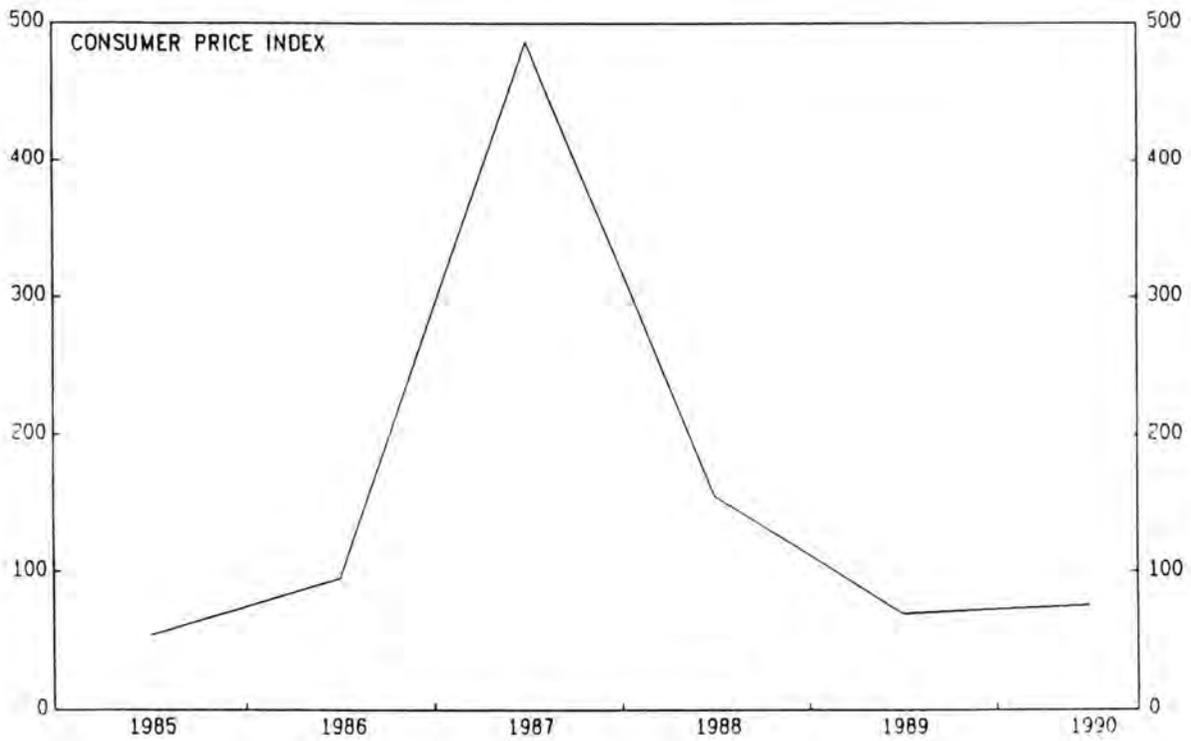
^{1/} Banks are currently obliged to hold about 60 percent of their Lebanese pound deposits in TBs, in addition to a 13 percent reserve requirement.

CHART 1
LEBANON
FISCAL TRENDS, 1985-90
(In billions of Lebanese pounds)



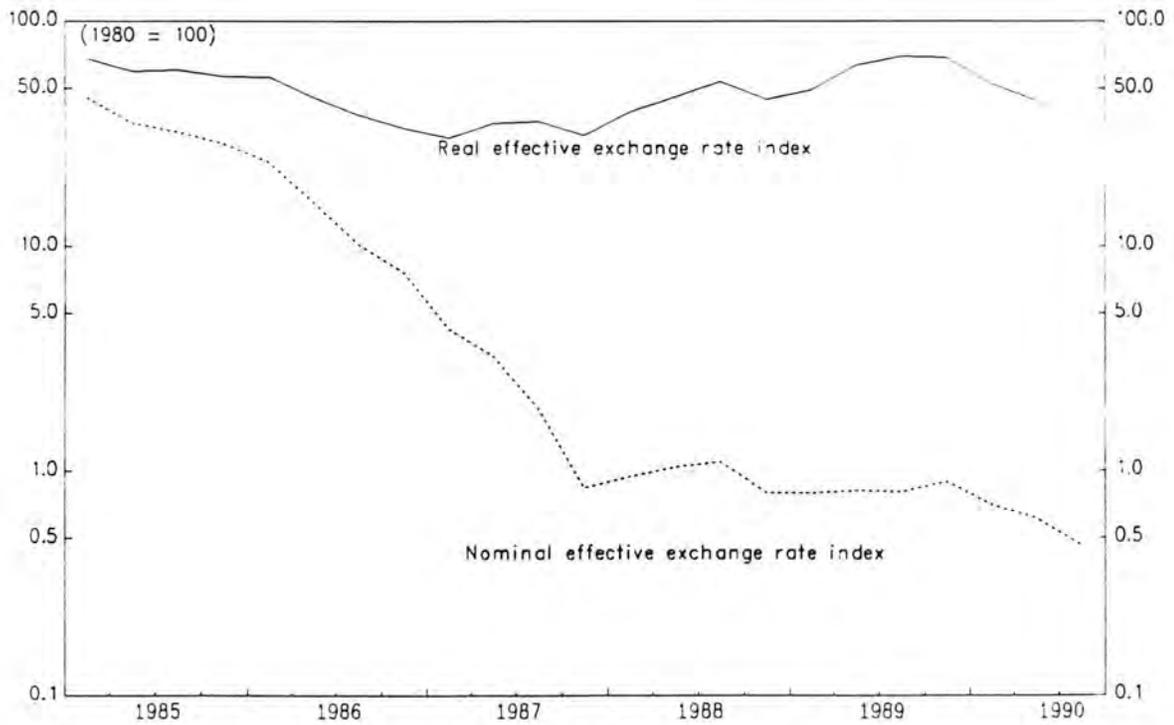
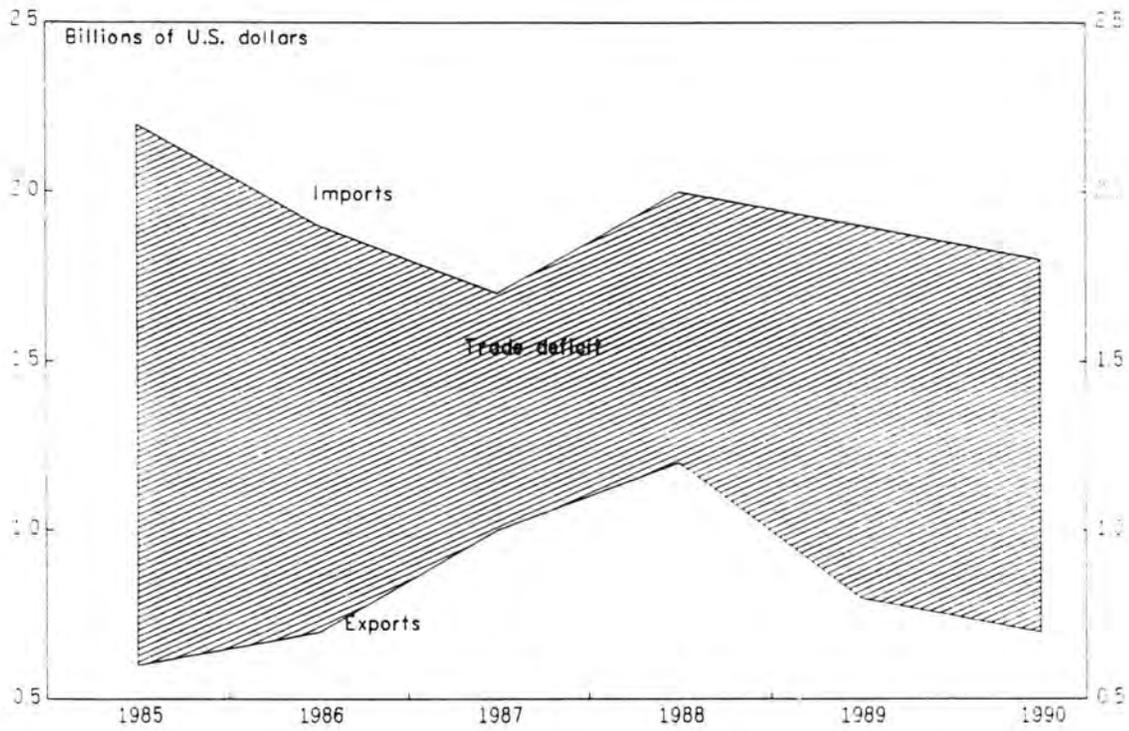
Source: Ministry of Finance.

CHART 2
LEBANON
INFLATION AND DEPRECIATION OF THE LEBANESE POUND, 1985-90
(Percentage change)



Sources: IMF, International Financial Statistics, and Consultation and Research Institute, Beirut.
1/ Eleven months.

CHART 3
LEBANON
EXPORTS, IMPORTS, AND EXCHANGE RATE MOVEMENTS, 1985-90



Sources: Bank of Lebanon, and Fund staff estimates.

Table 1. Lebanon: Selected Economic, Social and Demographic Indicators, 1985-90 (concluded)

	1985	1986	1987	1988	1989	1990
	(Percentage changes)					
Monetary developments						
Money and quasi-money (M2)	56	172	354	48	13	53 ^{2/}
Lebanese pound component of M2 (M2LL)	47	29	48	252	72	18 ^{2/}
U.S. dollar value of residents' foreign currency deposits with Lebanese banks	-12	20	15	6	-2	-5 ^{2/}
Net pound claims on public sector	49	36	29	183	179	52 ^{2/}
Credit to private sector	25	136	317	39	19	101 ^{2/}
Lebanese pound component of credit to private sector	14	52	33	32	67	43 ^{2/}
External sector						
Exchange rate (annual averages) (appreciation +)						
Nominal effective exchange rate	-58	-60	-82	-62	-14	-30 ^{3/}
Real effective exchange rate	-39	-29	-24	39	37	5
	(In billions of U.S. dollars)					
Balance of payments						
Exports	0.6	0.7	1.0	1.2	0.8	0.7
Imports	-2.2	-1.9	-1.7	-2.0	-1.9	-1.8
Other items, net	2.0	0.9	0.7	1.4	0.8	0.7
Overall balance ^{4/}	0.4	-0.6	-0.2	0.6	--	-0.2
Central bank reserves						
Foreign exchange reserves (end of period) ^{5/}	1.1	0.5	0.4	1.0	0.9	0.7 ^{6/}

Sources: IMF, International Financial Statistics for 1988 population. World Bank and International Finance Corporation, Social Indicators of Development 1987 and 1988, for other social and demographic indicators. Ministry of Finance, Bank of Lebanon, Beirut Chamber of Commerce and Industry, and Fund staff estimates.

^{1/} Except for population (1988), refers to various years before 1975.

^{2/} Change in first nine months.

^{3/} Percent change in average for first ten months of 1990 over the same period in the previous year.

^{4/} Excluding valuation changes to Bank of Lebanon's net foreign assets.

^{5/} Excluding gold holdings which have been constant over the period at 9.2 million fine troy ounces.

^{6/} End-November 1990.

In concluding the 1988 Article IV consultation with Lebanon, Executive Directors noted that the economic situation remained grave and that the rapid growth of domestic currency liquidity could further intensify exchange market pressures and consequently inflation. They called for continued efforts to reduce the fiscal deficit and to slow the growth of domestic currency liquidity, as well as for the maintenance of attractive yields on pound assets. Directors welcomed the Bank of Lebanon's determination to avoid large-scale sustained intervention in the foreign exchange market in support of the pound.

III. The Policy Discussions

The policy discussions took place in the context of an improving outlook for a political settlement to the conflict in Lebanon as a result of parliamentary approval for constitutional changes in August 1990 the fall of an alternative government in East Beirut in October, and the consequent withdrawal of the militias from the Greater Beirut area. Reflecting this optimism, the Lebanese pound appreciated during October-November and economic activity showed signs of reviving, although the recovery was tempered by difficulties in forming a Government in December. ^{1/} However, this improvement followed a sharp decline in output in the first half of 1990 when most financial and industrial activity in Beirut was severely affected by intense fighting. A 10 percent decrease in output is estimated for 1990 following an estimated 15 percent fall in 1989, with inflation averaging 75 percent for the year as a whole. The Middle East crisis exacerbated the difficult economic situation through the loss of export markets and remittances, and added to pressure on the pound which fell to record lows in September 1990.

The discussions focused on the challenges the Lebanese authorities would face in managing the transition to a peace economy. As viewed by the staff, the fiscal imbalance would need to be reduced substantially at a time when there would be increased demands for reconstruction and public services expenditures. In addition, immediate measures were required to restore confidence in the weakened banking sector which traditionally has played a key role in the Lebanese economy. The appropriate stance of monetary and exchange rate policies was also discussed.

^{1/} Since the conclusion of the discussions, the recently formed government has been facing political difficulties, and coupled with the outbreak of war in the Middle East, a mood of gloom has again set in. As a result, the pound has depreciated by almost 30 percent since mid-December.

1. Fiscal policy

There was an improvement in the fiscal position in 1990 largely due to a nonrecurrent fall in real outlays. The overall deficit was estimated to have fallen to 14 percent of GNP (from 20 percent in 1989) and bank financing to 54 percent of M2LL (down from 73 percent) (Table 2). The modest growth of the overall deficit in absolute terms reflected the containment of expenditure growth to only 16 percent. Revenues were estimated to have risen by 37 percent due to increased transfers of profits by the Bank of Lebanon, but from a very low base.

The mission noted that some of the factors that had contributed to the containment of expenditures in 1990 were temporary in nature and would burden the fiscal position in 1991. In particular, domestic interest payments fell due to a shift in government borrowing from TBs to an overdraft account with the Bank of Lebanon (with an interest rate of only 1 percent), and an extension in the maturity of TBs which pushed interest payments forward into 1991. This reduced interest payments from 8 percent of estimated GNP in 1989 to 2 percent in 1990.

The discussions of fiscal prospects for 1991 were based on the assumption that there would be some improvement in the security situation, though a high degree of uncertainty remained. For this reason, the Lebanese representatives considered, and the mission agreed, that a quantification of these prospects would not be useful at this stage. Nevertheless, the mission stressed that even with a large rise in revenues from their very low base, pressures for additional expenditures in the event of peace pointed to a substantial deterioration in the fiscal position unless strong measures were taken.

Revenues would depend crucially on the collection capacity of the Central Government. Customs duties had the greatest potential if collection could be improved through government control of all ports (currently a large portion of imports enters through ports controlled by the militias). The Lebanese representatives said their objective was eventually to use the market exchange rate for levying customs duties (currently the customs rate is LL 6 per U.S. dollar), but in the next six months the customs rate could only be raised to LL 100-150 per U.S. dollar so the impact on revenues could be assessed before further increases were undertaken. The mission considered that the best prospects for revenue diversification at this stage were through increases in some indirect taxes and fees and charges that could be easily collected; even before the conflict, direct taxes had been a limited source of revenue due to collection difficulties. Since the return of the mission, the Lebanese authorities have requested Fund fiscal technical assistance to help them develop a strategy for improving revenue generation and collection. The staff is currently looking into how best to provide such assistance.

Table 2. Lebanon: Summary of Fiscal Operations, 1985-90
(In billions of Lebanese pounds unless otherwise indicated)

			Estimated		Actuals	
	1985	1986	1987	1988	1989	1990
Receipts ^{1/}	4.3	6.1	20.1	21.4	63.8	87.4
Of which: Bank of Lebanon profits	1.0	2.5	11.1	3.9	28.5	48.4
Total expenditures	25.6	34.3	143.5	275.8	527.7	612.4
Of which: Salaries and wages	4.4	6.7	20.6	61.6	96.9	215.0
Chapter II (capital expenditures)	2.1	1.4	5.1	18.5	32.7	34.5
Domestic interest	5.8	10.7	23.5	78.8	151.5	56.4 ^{2/ 3/}
Petroleum subsidy	5.8	5.1	46.8	39.6	99.3	12.0
Extrabudgetary advances ^{4/}	2.1	3.8	36.5	48.3	61.1	156.0
Overall deficit (from banking and financial statistics)	20.0	33.4	101.8	241.6	464.1	525.0
Foreign financing (net)	-0.2	--	...	-2.1	-2.0	-10.0 ^{3/}
Domestic financing (net)	20.2	33.4	101.8	243.7	466.1	535.0
Treasury bill sales to nonbanks	3.1	1.1	3.0	73.5	66.5	25.0
Banking system	17.1	32.3	98.8	170.2	399.6	510.0
Bank of Lebanon ^{5/}	(0.5)	(27.0)	(86.4)	(-101.1)	(120.4)	(...)
Commercial banks ^{6/}	(16.6)	(5.3)	(12.4)	(271.3)	(279.2)	(...)
Memorandum items:						
Growth (percent per annum) of:						
Receipts	75	42	229	6	198	37
Total expenditures	91	34	318	92	91	16
Public sector deficit as a percent of total expenditures	78	97	71	88	88	86
Domestic bank financing as percentage of Lebanese pound component of money and quasi-money (beginning of period)	31	40	95	110	73	54

Sources: Ministry of Finance; Bank of Lebanon; and Fund staff estimates.

^{1/} Excluding drawings by the Government on the Bank of Lebanon's foreign exchange revaluation account, which is treated as financing by the Bank.

^{2/} Due to refinancing of TBs of three-month maturity with TBs of one-year maturity, and the recording of interest payments as they come due, interest payments fell in 1990, but will rise in 1991.

^{3/} External debt service payments of LL 19 billion previously unrecorded have been split evenly between interest and amortization payments.

^{4/} Mainly payments to municipalities and other public sector entities arising from subsidies such as that for bread.

^{5/} Data have been adjusted to exclude valuation changes resulting from the effect of the depreciation of the Lebanese pound on public sector foreign currency deposits.

^{6/} Including Societe Financiere du Liban.

Some of the areas in which pressures for substantial additional expenditures could arise were highlighted by the mission. First, increased outlays to repair infrastructure and lay the basis for economic recovery were badly needed. Second, the need for expanded provision of public services could require an increase in government employment. At the same time, low government wages brought into question whether employees could be recruited, or even retained, unless substantial raises were granted (particularly if expansion of private sector activity was reflected in large pay rises). Third, the rise in domestic interest payments in 1991 could have a potentially devastating impact on the budget, particularly if a large part of the fiscal deficit was to be financed through TBs (a requirement for a more active monetary policy). If the overdraft with the Bank of Lebanon was repaid, and all new financing was through TBs, interest outlays could reach LL 375 billion (equivalent to 10 percent of estimated CNP in 1990).

The Lebanese representatives were aware of the growing expenditure pressures, but felt that spending in most categories could be contained. Specifically, an improvement in security and greater confidence in the Lebanese pound would allow a reduction in interest rates and would lessen pressures for wage increases. Also, the petroleum subsidy had already been reduced from LL 100 billion in 1989 (5 percent of estimated GNP) to LL 12 billion, as all products (except fuel oil for the public electricity company) were now imported by the private sector and freely priced. In addition, if security was restored, and the electricity company began collecting charges, the subsidy for electricity could be reduced sharply given the recent tenfold increase in tariffs. The Lebanese representatives also believed that the bread subsidy (estimated at LL 70 billion in 1990) could be removed as it was not benefiting the consumer but various intermediaries. They noted that unless there was a further large depreciation of the Lebanese pound, removal of the subsidy would not be a heavy burden on the consumer, although it would still require a difficult political decision. Noting that only 15 percent of the paid government workforce was currently able to report to work, the representatives said that enhanced public services could be provided through better utilizing existing employees rather than new employment.

The Lebanese authorities were in the process of introducing tighter budgetary procedures. After a number of years without a budget (when spending had been on the basis of the previous year's budget with considerable extrabudgetary spending), committees were preparing the budget for 1991. Clear guidelines had been established with regard to which officials could approve spending above certain limits. Thus, the Lebanese representatives expected that extrabudgetary expenditure would be curtailed in 1991, although some of the outlays now classified as extrabudgetary would enter the budget. Finally, the representatives hoped that the overwhelming portion of capital expenditures could be financed from foreign sources, particularly grants.

The mission considered that the overall deficit would rise substantially in 1991, as the recovery of revenues was likely to take time. In addition, it was difficult to assume that the entire reconstruction effort could be financed through foreign sources as some international institutions required significant domestic cofinancing. Moreover, foreign financed domestic expenditures could also put pressure on domestic resources. The mission added that while increased confidence in the Lebanese pound would lead to increased demand for pounds by the public, and thus temporarily alleviate the inflationary impact of the fiscal deficit, continued liquidity injection would lead to renewed depreciation of the pound and accelerating inflation.

2. Monetary policy and the condition of the banking system

The growth of M2LL slowed to 18 percent during the first nine months of 1990 (Table 3). This was due to less rapid growth of credit to the Government, reflecting the apparent improvement in the fiscal position noted above, and substantial official exchange market intervention in support of the pound which resulted in a reduction in the net foreign assets of the Bank of Lebanon equivalent to 29 percent of the opening money stock. Official interest rates remained unchanged. Indeed, the earlier policy of increasing the share of the fiscal deficit financed by the commercial banks and the nonbank public through TBs was reversed in 1990. The Lebanese representatives noted that, as the interest costs of borrowing exceeded revenues, greater interest payments linked to TBs were financed through advances from the Bank of Lebanon, thus tending to defeat the purpose of issuing securities outside the Bank of Lebanon.

The mission accepted the authorities' position on interest rate policy under current circumstances, but stressed that a more active policy was imperative once the security and fiscal situations improved. A smaller fiscal deficit would allow less inflationary finance through the Bank of Lebanon, and greater reliance on market-related borrowing. Interest rate management by the Bank of Lebanon could be used to control domestic liquidity, reverse dollarization, and contribute to the stabilization of the exchange rate. Lower exchange rate volatility would also provide a basis for developing medium- and long-term capital markets.

The lower growth of M2LL in 1990 did not result in a weakening of inflationary pressures, as the willingness to hold Lebanese pounds was undermined by the difficult security situation and by the uncertainties facing the banking system as a whole. In addition to the reluctance to hold Lebanese pounds, there was movement of foreign currency assets out of Lebanon. Thus, foreign currency deposits in the domestic banking system fell by 5 percent in U.S. dollar terms in the first three quarters of 1990, contributing to a substantial rundown of commercial banks' foreign assets.

Table 3. Lebanon: Factors Affecting Lebanese Pound
Component of Domestic Liquidity, 1985-90

(In percent of Lebanese pound component of
liquidity at beginning of period)

	1985	1986	1987	1988	1989	Jan. 1	Sept. 30
Lebanese pound component of liquidity (M2LL)	47.2	29.2	48.4	252.3	71.8		17.5
Bank of Lebanon net foreign assets due to balance of payments	10.6	-30.2	-33.1	165.4	-3.9		-28.8
Lebanese pound claims on public sector (net)	31.3	32.1	85.6	81.4	71.2		36.7
Lebanese pound claims on private sector	8.7	24.9	18.4	16.2	12.7		7.9
Other items (net)	-3.5	2.5	-22.6	-10.7	-8.1		1.7
Memorandum item: Total liquidity (M2)	56.1	172.0	354.2	47.8	13.1		53.1

Sources: Bank of Lebanon; and staff estimates.

The decline in confidence in Lebanese banks in 1990 was due to the closure of several small- and medium-sized banks and fears about difficulties in the banking system as a whole. Four smaller banks (out of a total of some 80 banks) are currently unable to return depositors' funds, and have closed their doors through the device of a workers' strike. Another 11 banks have had significant recourse to Bank of Lebanon financing to replace deposit outflows. The Lebanese representatives also noted that a third group of banks, whose difficulties were not as severe, were nevertheless considered to be at risk.

The authorities' initial response to the banking crisis was to extend Bank of Lebanon credit to replace deposit outflows, with shareholders' real estate serving as collateral. Bank of Lebanon claims on commercial banks had reached LL 145 billion in September 1990 (equivalent to 31 percent of reserve money). However, a more permanent approach had yet to be developed. The authorities were also considering several further schemes, with differing distributions of the losses

between depositors, bank shareholders, and the Government. The mission urged that a comprehensive package of responses to the banking crisis be developed immediately and announced in order to help restore confidence. The package needed to be formulated to meet the following objectives. First, public confidence in Lebanese banks had to be bolstered to avoid the crisis spreading to sound institutions. Second, any program to bail out banks in difficulty should be designed with adequate controls to prevent abuse by other banks. Finally, such a program must include incentives and controls to prevent future problems from arising. Elements of this package should include: (1) closing of insolvent banks; (2) loss of capital by shareholders; and (3) prosecution of managers in cases of fraud. To prevent future problems, bank supervision had to be strengthened, which would require strong political support for the Banking Control Commission. In this context, the authorities' intention to raise bank capital to the levels set out in the Basle standards by 1993 was welcome, but for this to be meaningful, doubtful loans needed to be provisioned and written off. Under consideration was a plan whereby the banks would revalue their real estate assets (reportedly valued at only a fraction of their market price) and credit the counterpart to their capital account. In order to qualify for this increment in capital, the banks would have to add cash in an amount equal to the revaluation of the real estate. The mission cautioned that revaluing assets already in the books did not provide new resources to strengthen the solvency and liquidity positions of banks, although it was not inconsistent with the Basle standards.

Regarding compensation for depositors of the failed banks, the mission noted that confidence in the banking system was at risk and losses by depositors could lead to runs on healthy banks. Government support would be needed even if only a part of deposits was to be repaid, ^{1/} but the difficult fiscal situation militated against such a course of action. Any decision would certainly need to be based on the authorities' perception of depositors' behavior. To the extent that depositors had already adjusted their portfolios to reflect reduced confidence in Lebanese banks, a bailout was not necessary to prevent further losses of deposits. However, as depositors had largely been compensated in previous cases of bank failure in Lebanon, a new precedent could have an unfavorable impact on the banking system over the medium term.

3. External policies

The trade deficit is estimated to have remained unchanged in 1990 with both exports and imports declining by US\$100 million. ^{2/} These declines, which came on top of reductions in both categories in 1989,

^{1/} The small deposit insurance scheme did not have the capacity to perform this function.

^{2/} Full balance of payments data for Lebanon are not available, so the analysis is limited to the categories shown in Table 4. Due to the absence of a full balance of payments, as well as the uncertainty with regard to the security situation, it has not been possible to prepare medium-term balance of payments scenarios.

were the result of heavy fighting in Beirut which disrupted activity in industry and in the country's main port. Thus, despite their strong competitiveness, exports (in U.S. dollar terms) in 1990 were estimated at less than 60 percent of their 1988 level. A decrease in commercial banks' net foreign assets by US\$250 million in 1990 had resulted from residents moving their foreign exchange deposits out of Lebanese banks in response to difficulties encountered by some of these banks. At the same time, there was a nonbank private sector capital outflow of US\$400 million. Reflecting intervention by the Bank of Lebanon to slow the depreciation of the pound at various times during 1990, the overall balance of payments was estimated to have recorded a deficit of US\$150 million.

Given the very limited balance of payments data, the Lebanese representatives could provide little quantification of the impact of the Middle East crisis. Nevertheless, they felt the country had been severely affected. Based on estimates subject to confirmation, exports to Iraq and Kuwait had constituted 40-50 percent of total exports, and exports to Jordan had also been affected by the economic slowdown in that country. Some 40,000-50,000 Lebanese (mainly artisans and small businessmen) had returned from Kuwait, having lost most of their assets (estimated at US\$500 million). Another 15,000 may have returned from Iraq. Annual remittances from Lebanese workers in Kuwait were very roughly estimated at US\$150 million. Additionally, higher oil prices could cost Lebanon annually US\$250 million.

The Lebanese pound has been highly volatile during 1990 despite substantial intervention by the Bank of Lebanon both in selling and buying foreign exchange. From end-1989 to August 2, the pound depreciated from LL 505 to LL 670 per U.S. dollar. ^{1/} Almost US\$400 million in foreign exchange reserves were sold in defending the pound, reducing reserves to about US\$540 million. After the invasion of Kuwait, the authorities judged that the pressure on the Lebanese pound could not be resisted considering the low level of reserves remaining, and the pound fell to a low of LL 1,250 in September. Late in September, the Bank of Lebanon re-entered the market to defend a rate of approximately LL 1,200 per U.S. dollar as it was felt that pressures for further depreciation had lessened and the social cost of further depreciation was very high. Subsequently, the pound appreciated to about LL 700-800 per U.S. dollar, at which rate there was some rebuilding of reserves. Two events were crucial in first stabilizing and subsequently appreciating the rate: (1) word of a grant of US\$100 million from Saudi Arabia and (2) the fall of the alternative government in East Beirut on October 13.

^{1/} Movements in the nominal and real effective exchange rates are shown in Chart 3.

Table 4. Lebanon: Estimated Balance of Payments, 1985-90

(In millions of U.S. dollars)

	1985	1986	1987	1988	1989	1990
Trade balance	<u>-1,600</u>	<u>-1,200</u>	<u>-700</u>	<u>-800</u>	<u>-1,100</u>	<u>-1,100</u>
Exports	600	700	1,000	1,200	800	700
Of which: industrial exports	(372)	(478)	(690)	(850)	(500)	(450)
Imports	-2,200	-1,900	-1,700	-2,000	-1,900	-1,800
Commercial banks' net foreign assets (- increase) <u>1/</u>	6	-336	-186	17	266	250
Private nonbank short-term capital (net) <u>2/</u>	-159	-452	-326	138	-40	-400
Other items (net)	1,950	899	732	1,410	791	700
Overall balance	<u>356</u>	<u>-637</u>	<u>-154</u>	<u>627</u>	<u>-43</u>	<u>-150</u>
Bank of Lebanon's net foreign assets (- increase) <u>1/</u>	-356	637	154	-627	43	150

Sources: Bank of Lebanon; Ministry of Finance; IMF, International Financial Statistics; Beirut Chamber of Commerce and Industry estimates; and staff estimates.

1/ Differs from changes in end-period stocks by excluding estimates of exchange rate valuation changes.

2/ Data on the flow of international bank lending to nonbank residents of Lebanon and on the flow of deposits by residents of Lebanon with international banks are derived from the IMF's International Banking Statistics stocks, adjusted for variations in U.S. dollar/nondollar exchange rates. These data are highly provisional, since there are particular difficulties for international banks in distinguishing between residents of Lebanon and persons of Lebanese nationality resident outside Lebanon. In addition, there may be some double-counting between these items and others identified in the accounts.

The Lebanese representatives said that the main objective of the Bank of Lebanon in intervening in the exchange market was to reduce short-term volatility. While there had been no attempt to maintain a particular rate, intervention had also taken into account the social impact of devaluation, the maintenance of confidence in the Lebanese pound and, in the case of pressures to appreciate, the competitiveness of the traded goods sector. Concerning the last point, it was estimated that an exchange rate of LL 400-500 per U.S. dollar would continue to ensure profitability. The mission noted that intervention to support the pound had on several occasions resulted in a rundown of foreign reserves to very low levels, including in 1990. Market perception of the authorities' inability to intervene further may have contributed to exchange rate volatility during these periods.

As noted above, the Lebanese authorities hoped to finance the overwhelming part of any reconstruction effort from foreign sources, particularly grants, though this may prove to be overly optimistic. The mission noted that some limited additional foreign borrowing could be accommodated in view of Lebanon's relatively low debt burden; the stock of external official debt was estimated at US\$280 million at end-1990, indicating that significant repayments had taken place in recent years. However, new borrowing should be undertaken with a view to maintaining a sustainable balance of payments position and avoiding excessive domestic liquidity creation. The mission also cautioned that the recording of foreign borrowing had not been centralized, leading to uncertainty over the size of outstanding debt and scheduled debt service payments. A mechanism for centralizing the recording, monitoring, and control of the external debt was needed.

IV. Staff Appraisal

The year 1990 was one of the worst years for the Lebanese economy since the conflicts began in 1975. As a result of heavy fighting, economic activity declined sharply; the budgetary situation continued to be very weak; the progress made in 1988-89 in curbing inflation halted; and at times the Lebanese pound came under heavy pressure. The Middle East crisis exacerbated these developments through the loss of important export markets and remittances, which in turn intensified the pressure on the pound.

Against this unfavorable background, some cause for optimism appeared in late 1990 with improved prospects for domestic political stability. These developments are welcome as they provide the proper setting for re-establishing control over the economy and restoring financial stability and growth. This is a daunting challenge, however. It will require a broad package of macroeconomic policies aimed at reconstruction within the constraints of domestic resource availability and of foreign financing on terms consistent with maintaining a sustainable balance of payments. However, of immediate concern is that the fiscal situation is in danger of deteriorating substantially in 1991

unless strong measures are taken, as political uncertainty could continue to constrain revenue collection in the short term, while strong pressure to increase government expenditure to rebuild the economy and improve public services will arise. Moreover, the spill-over of interest expenditures deferred from 1990 to 1991 on account of the lengthening of maturities in TBs will add to the fiscal imbalance.

In view of the uncertainties over fiscal revenues, the Government will have to resist pressures to increase expenditures. In this context, the re-emergence of the petroleum subsidy should be avoided through continued market pricing. The subsidy on electricity could be eliminated or greatly reduced with an improvement in the collection of charges. Since the wheat subsidy is not benefiting consumers but various middlemen, it should be eliminated. Given the likely substantial pressures for pay and employment increases, civil service pay should be limited to those actually reporting to work. This could provide substantial help in limiting the pay bill. The reinstatement of the budget process is welcome, as is the tightening of spending approval procedures. The objective, however, should be to eliminate all extra-budgetary expenditures. In the area of capital expenditures, the authorities' intention to finance the overwhelming portion from foreign sources may prove overly optimistic. Moreover, even if foreign finance for the domestic component of expenditures were available, care will need to be taken that domestic spending does not strain available resources.

Over the medium term, the only way to reduce the fiscal deficit and provide an increased level of public services is through an intensified revenue effort. In particular, the customs valuation rate will need to reflect fully the market exchange rate as soon as the authorities establish control of the ports. In addition, as the political situation stabilizes, revenues need to be diversified, although reliance on indirect taxes and user charges will probably have to continue given the historical difficulties of collecting direct taxes.

Some Lebanese banks have recently been facing serious solvency and liquidity problems that could spread to the rest of the banking system. A comprehensive package of measures to deal with these difficulties needs to be announced and implemented immediately if public confidence is to be enhanced and such problems are to be avoided in the future. The latter in particular requires enforcement of current laws and regulations and improvement of bank supervision. In addition, the intention to raise bank capital as set out in the Basle standards by 1993 is welcome. Regarding the compensation of depositors of the failed banks, the Lebanese authorities are in the best position to decide to what extent it is necessary to avoid further losses of deposits by banks. In the event of such a bailout, consideration could be given to issuing tradable government securities to control liquidity creation.

In recent years, use of an active monetary policy has been severely constrained by the excessive fiscal deficit, and by the large share of foreign currency deposits in broad money. In the future, if the security situation continues to improve and the fiscal deficit becomes manageable, monetary policy should be made an important tool in overall economic management. An active interest rate policy will be crucial in attracting greater nonbank financing of the budget deficit, thereby reducing inflationary pressures, and helping to reverse the process of dollarization.

The rapid expansion of Lebanese pound liquidity and lack of confidence have been the underlying sources of pressure on the exchange rate in recent years. In these circumstances, any intervention should be limited to, at most, smoothing day-to-day fluctuations in the market, while not resisting any sustained trend toward depreciation. Resistance of such trends has proved fruitless in the past, and by depleting reserves and reducing the authorities' capacity to intervene may have exacerbated exchange rate variability. When market sentiment favors the pound, the authorities should rebuild official foreign exchange reserves and prevent an excessive appreciation that would undermine external competitiveness. In a more stable political environment, however, fiscal and monetary policy should be used to achieve greater stability in the exchange market.

The small size of the Lebanese external debt is a favorable factor in looking at the future. There is room for a limited amount of foreign borrowing, but it should be undertaken with a view to maintaining a sustainable balance of payments position.

Lebanon maintains an exchange system which is free of restrictions on payments and transfers for current international transactions, except for a restriction on transfer of balances outstanding under a bilateral payment agreement with Poland, which is subject to Fund approval under Article VIII, Section 2(a). In the absence of a schedule for the elimination of restrictive features of the agreement, the staff does not recommend approval of this restriction at this time.

Lebanon is on the bicyclic consultation cycle, and the next full Article IV consultation is to be completed within 24 months.

Lebanon: Fund Relations

(As of December 31, 1990)

(In millions of SDRs, unless otherwise indicated)

I. Membership Status

- (a) Date of membership: April 14, 1947
- (b) Status: Article XIV

A. Financial Relations

II. General Department (General Resources Account)

- (a) Quota: 78.7
- (b) Fund holdings of Lebanese pounds: 59.9 (76.1 percent of quota)
- (c) Fund credit: --
- (d) Reserve tranche position: 18.8
- (e) Current operational budget: --
- (f) Lending to the Fund: --

III. SDR Department

- (a) Net cumulative allocation: 4.4
- (b) Holdings: 6.9 (157.4 percent of net cumulative allocation)
- (c) Current Designation Plan: --

IV. Country has not used Fund resources to date.

B. Nonfinancial Relations

V. Exchange Rate Arrangement

The Lebanese pound has been floating since 1952. The Bank of Lebanon intervened persistently in the exchange market during 1983-84, spending US\$1.9 billion in reserves. Subsequently, the size of the foreign reserves did not permit large-scale intervention in support of the pound, and with some exceptions Bank of Lebanon intervention was limited to moderating short-term fluctuations. On the other hand, when the pound was appreciating, the Bank has intervened to rebuild its reserves and stabilize the appreciating pound.

VI. Last Article IV Consultation

The last full consultation was concluded by the Executive Board on November 2, 1988 (SM/88/211). Interim consultation discussions were held during November 27-30, 1989.

VII. Technical Assistance

None since 1988.

VIII. Resident Representative/Advisor

None.

Lebanon--Statistical Issues

1. Outstanding statistical issues

a. Real sector

Trade and national accounts data are not compiled by the authorities at present. The Bureau of Statistics is engaged in correspondence with the Bank of Lebanon concerning the possible use of privately collected consumer price indices.

b. Government finance

No data are reported for IFS

c. Balance of payments

Lebanon does not report balance of payments data to the Bureau of Statistics. The authorities are not in a position to compile full balance of payments statistics, although some partial indicators are available.

2. Coverage, currentness, and reporting of data in IFS

The table below shows the currentness and coverage of data published in the country page for Lebanon in the November 1990 issue of IFS. They are based on reports sent to the Fund's Bureau of Statistics by the Bank of Lebanon, but the data are generally not current and incomplete.

Status of IFS Data

		Latest IFS in Jan. 91
Real sector	- National accounts	n.a.
	- Prices: CPI/WPI	n.a.
	- Production	n.a.
	- Employment	n.a.
	- Earnings	n.a.
Government finance	- Deficit/surplus	n.a.
	- Financing	n.a.
	- Debt	n.a.
Monetary accounts	- Monetary authorities	Sept. 1990
	- Deposit money banks	Dec. 1989
	- Other financial institutions	n.a.
Interest rates	- Discount rate	Oct. 1990
	- Bank lending/deposit rate	n.a.
	- Bond yields	n.a.
External sector	- Merchandise trade: Values	Sept. 1990 <u>1/</u>
	Prices	n.a.
	- Balance of payments	n.a.
	- International reserves	Nov. 1990
	- Exchange rates	Nov. 1990

1/ Data are derived from Direction of Trade Statistics.

Emma Jago

July 21/91

FACSIMILE TO: USA 202 477 0348

(SEVEN PAGES INCLUDING COVER PAGE)

TO: MR. ARUN BANERJEE, ACTING CHIEF, EM3IN

FROM: KAREN RASMUSSEN, SR. FINANCIAL ANALYST
BRISTOL HOTEL
BEIRUT, LEBANON

PLEASE FIND ATTACHED A BRIEFING NOTE (6 PAGES) FOR MR. CHOPRA'S MEETING WITH MR. EL-FADL CHALAK, PRESIDENT OF THE COUNCIL FOR DEVELOPMENT AND RECONSTRUCTION SCHEDULED FOR JULY 23, 1991.

THE UN MISSION HAS EXTENDED ITS STAY THROUGH FRIDAY, JULY 26 IN ORDER TO COMPLETE ITS TASKS. IF YOU HAVE NO OBJECTION, I INTEND TO STAY UNTIL JULY 26, IN ORDER TO PARTICIPATE FULLY IN THE MISSION. IF YOU AGREE, COULD YOU PLEASE ARRANGE THAT MY HOTEL RESERVATIONS IN LONDON FOR JULY 24 AND 25 ARE CANCELED. I SHALL MAKE MY OWN TRAVEL ARRANGEMENTS FROM HERE AND WILL PLAN TO RETURN TO THE OFFICE NEXT TUESDAY.

WOULD APPRECIATE CONFIRMATION OF RECEIPT OF THIS FAX.

July 20, 1991

TO: Mr. Arun Banerjee, Acting Chief (EM3IN)
(to be copied to Messrs. Chopra and Voyadzis)

FROM: Karen Rasmussen, Sr. Financial Analyst

**SUBJECT: Visit of Mr. El-Fadl Chalak, President of
the Council for Reconstruction and Development**

1. The purpose of this note is to provide a brief overview of the status of the UN mission, outline the main Government priorities for reconstruction, and highlight a number of topics that Mr. Chopra may wish to discuss during Mr. Chalak's visit scheduled for July 23, 1991. Mr. Chalak is a mechanical engineer by profession and spent many years under the employ of Dar Al Handasah. He was the Project Manager of the Greater Beirut rehabilitation project (undertaken by the Hariri Foundation), that was implemented immediately following the 1982 damages caused by the Israeli incursions. He is seen as a man of action who can get the job done.

2. In a nutshell, the UN mission is proceeding very well. CDR is the main interlocutor of the mission, and has arranged a comprehensive program of meetings with all of the sectoral ministries. Two hour sessions with each sector ministry/agency and on a variety of other topics (private sector development, NGO activities in Lebanon, etc.) took place this week. Although the scope of these discussions has merely scratched the surface concerning the present status, immediate and longer term technical assistance and capital requirements envisaged by each agency, they have provided an opportunity to establish contact with the Lebanese authorities. In each meeting I have attended, there has been an overwhelming interest and preoccupation with the potential role of the World Bank in assisting the country in its reconstruction efforts. Attached, for your information, is a copy of the minutes of the meeting held with His Excellency Elias Hrawi, the President of Lebanon.

3. In broad generalities, the Government has stated that priority would be placed on immediate rehabilitation and reconstruction of the water supply, electricity and telecommunications sectors to rekindle economic activity. The major themes of the Government's recovery program are balanced regional growth, attention to social equity issues and stimulation of private sector investment, particularly from Lebanese nationals living abroad. It should be noted that the rehabilitation and reconstruction of infrastructure and superstructure due to physical destruction addresses only one facet of the country's recovery program. The magnitude of social hardship and the rebuilding of institutions cannot be ignored. Significant attention will need to be paid to human development, the provision of social services, civil service reform and institution building. For example, UNICEF estimates that the 16 years of prolonged civil strife has resulted in about 800,000 permanently displaced persons in Lebanon, and almost a quarter of the children in the country have not been attending schools. WHO estimates that NGOs have been providing about three-quarters of the country's health services.

The Council for Development and Reconstruction (CDR)

4. The Council for Development and Reconstruction was resurrected in January 1991 by the reinstatement of Decree No. 5 of 1977 (this decree was rescinded in 1987 and CDR was dismantled at that time). CDR has a broad mandate for planning, aid coordination, financing and execution. One of the justifications for the re-establishment of CDR is to ensure that greater attention is paid to nationwide planning, with emphasis on economic rather political considerations. The CDR reports directly to the Council of Ministers via the Prime Minister. This administrative arrangement is aimed at reducing bureaucratic bottlenecks within the ministries.

5. With respect to CDR's financing function, the mission was informed that the Parliament must approve the contracting of all debt and grants (a law that had not been enforced in CDR's earlier days). Concerning its role in execution, CDR stated that the intent was for project implementation to be undertaken by the line ministries and agencies; however, procurement (preparation of tender documents, bid evaluation, award of contract, etc.) would be handled by CDR. Secondly, a commission to supervise execution of projects (including staff from CDR and the relevant ministry/agency) would be established under CDR's purview. The role of CDR in financing and execution needs further clarification, and will be pursued during our discussions next week.

Meeting with Mr. El-Fadl Chalak, President of CDR

6. Mr. Chalak has indicated that he may raise the following matters during his meeting with Mr. Chopra:

(i) Bank assistance for Lebanon's reconstruction program. A major question posed during the mission's visit relates to Bank resumption of lending operations in Lebanon. I have been circumspect on this point in terms of the timing, scope and type of Bank lending assistance. I have highlighted that the first priority of the Bank would be to undertake an economic assessment along the lines outlined below. The Bank's emergency recovery assistance, typical investment projects and loans for technical assistance have been explained to Mr. Chalak and his colleagues. Mr. Chalak will undoubtedly mention the importance of aid donor support (the Bank in particular) in Lebanon's reconstruction program. The presence of the Bank and other donors is expected to act as a catalyst for stimulating private investment flows. In line with discussions with Mr. Voyadzis prior to my departure (and based on Mr. Voyadzis' discussions with Dr. Nour of UNDP), the following approach has been outlined, though I have indicated that any decision on these matters will be taken by the Bank's senior management:

- need to undertake an economic assessment of the current economic situation and medium term development prospects as a basis of reactivating a dialogue with the Government on macro-economic and social policy issues. An economic assessment would lay the groundwork for discussion on the Bank's country assistance strategy, including the scope and type of lending vehicles.

- first step could be economic data gathering mission (to be financed by UNDP and executed by the Bank) maybe as soon as end September 1991. This approach was outlined in a letter from Mr. Voyadzis to Dr. Nour of UNDP;

-second step would be the mounting of a Bank economic mission maybe as early as November or December 1991.

-in parallel with the economic mission, the Bank might be prepared to consider an exploratory/identification mission for an emergency lending operation if there are continued improvements in the security and political situation.

I have highlighted that the preparation of an economic report and discussions on its findings and recommendations will take time, and hopefully in the interim, there will be greater strides towards the restoration of central government authority and internal security. These steps would help to lay the foundation for identifying future Bank actions.

(ii) Bank assistance in reviewing the Bechtel Report. Mr. Chalak may request Bank assistance in commenting and reviewing the Bechtel/Dar Al Handasah report. The first phase of the report, which focusses on identifying immediate rehabilitation and reconstruction needs, is targeted for completion in October 1991. It is recommended that we provide such assistance in order that the output of the report may better serve the needs of both the Bank and other aid donors. For example, four comments on the first phase of the study are:

(a) Institution building is only briefly mentioned but not fully developed. It is important that an assessment of the institutional capacity of each agency be undertaken, not just the physical implementation capabilities, but the long-term sustainability of agencies to administer, operate and maintain services. Technical assistance and training should be identified and defined to the extent feasible. The financial viability of revenue generating agencies (particularly water supply, electricity and telecommunications) must also be addressed;

(b) The report will identify or define projects, but additional work such as feasibility studies and detailed design for new construction and detailed scope of works for rehabilitation may be required, and this will take time. It is also important that new reconstruction, particularly for services, take into account the existing and projected demographics and regional population movements.

(c) In addition to the report's emphasis on the physical conditions of social services, reference to the social equity aspects of the country's recovery program, including the affordability of services and of housing needs will require greater attention; and

(d) the report is silent on the sources of funds, i.e. domestic resources, donor aid (including concessional and grants) and the private sector.

(iii) Request for technical assistance on environmental issues. The lack of any sewage treatment in Lebanon, and of proper management of solid and liquid wastes over the past decade and a half has resulted in serious environmental degradation and pollution. Mr. Chalak is expected to request assistance, from the METAP and GEF in order to begin to address environmental issues. It is

recommended that the Bank support these initiatives.

7. In addition to CDR's pivotal role in the country's reconstruction efforts, Mr. Chopra might like to highlight the following points in his meeting with Mr. Chalak:

(i) Core Team for Coordination with the Bank. The mission has been informed that CDR has been designated as the focal point for Bank discussions on all aspects of the Government's recovery program. Given the importance the Bank places on establishing a meaningful dialogue on macro-economic and social policy, Mr. Chopra may wish to suggest the establishment of a core team of CDR staff and representatives from selected ministries (in particular, the Ministry of Economy and commerce and Ministry of Finance).

(ii) The social dimension of Lebanon's rehabilitation and reconstruction program. Mr. Chalak is likely to state that the three sectors of key importance for reconstruction and rehabilitation are (in order of priority) water supply and sewerage/solid waste, electricity and telecommunications. Undoubtedly, rehabilitation of key infrastructure in these sectors will reactivate economic activity. However, another important aspect of the Lebanon's recovery program will be focussing on human development as a means of rehabilitating and restoring the social fabric of society. You might also wish to ask Mr. Chalak what steps, in the short term, the Government has in mind to tackle the social dimensions of recovery. This is particularly relevant since there has been heavy reliance over the past 16 years on NGOs for the delivery of basic services to the majority of the population. The Government will need to reassess national policies and its role in the provision of social services (health, education and housing in particular) for lower income level groups.

Attachment (2 pages)

Leb - Urban Dev. Sector
(Recovery / Reconstruction)

7/23/91

THE WORLD BANK GROUP
PROJECT IMPLEMENTATION INDEX FILE LOG

Date Sent to Info. Center 7/23/91

Project Name LEBANON RECONSTRUCTION	Project Code 5LEB	<input type="checkbox"/> LN. <input type="checkbox"/> CR. No.:
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ITEM	SECTION (see reverse)	DOCUMENT DESCRIPTION (Title, Author, Type - i.e. memorandum, report, study, etc.) ** Write the corresponding item number on each document you list below **	FOR INFO. CENTER USE
1	VII	B. Conable letter to Ministry of Finance, Lebanon ✓	
2	II	Draft Terms of Reference of Inter-Agency Mission to Lebanon ✓	
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Project Implementation Index File

Organization and Contents

<i>Section</i>	<i>Contents</i>
I.	Supervision Missions <ul style="list-style-type: none">- supervision reports- Supervision Plan, historical/planned schedules- key people met
II.	Execution of the Project <p>Reports on the progress of all project components, including</p> <ul style="list-style-type: none">- physical works- implementation schedules- changes in cost estimates- studies undertaken as part of the project- technical assistance- training
III.	Operating Results and Forecasts <p>Reports on</p> <ul style="list-style-type: none">- the operations of the project organization or entity- financial position of revenue-earning enterprises with the latest operating, financial, and cashflow statements, audit reports- traffic volumes- project output- maintenance operations
IV.	Organization Management and Performance of the Borrower <p>Reports on</p> <ul style="list-style-type: none">- significant developments affecting project management and the accomplishment of the project's objectives for institutional development- structural reorganization- streamlining of administrative procedures- progress in staffing and training- borrower's procurement performance and monitoring arrangements
V.	Performance of Consultants <p>Reports on the quality of the work being carried out by consultants retained by the borrower</p>
VI.	Policies and Investment Plans <p>Information on</p> <ul style="list-style-type: none">- the borrower's macroeconomic, sector, and subsector policies and performance- the borrower's investment plans- specific problems and issues which have an immediate bearing on the identification, preparation, and appraisal of prospective projects
VII.	Other <p>General correspondence</p>

THE WORLD BANK
Washington, D.C. 20433
U.S.A.

BARBER B. CONABLE
President

June 19, 1991

H. E. Ali El-Khalil
Minister of Finance
Ministry of Finance
Beirut
Republic of Lebanon

Your Excellency:

Thank you for your letter of June 8, 1991, inviting the Bank to be active again in Lebanon, to assist the Government in its urgent reconstruction effort.

Let me assure you that we at the Bank remain keenly interested in seeing the economy of Lebanon fully revitalized, to play its prominent role in the region. We are aware that, at present, reconstruction in critical segments of the economy is an essential step towards that end, and the Bank Group could make a significant contribution in that effort. I am glad to know that the security situation in the country has steadily improved over the last several months, to allow reconstruction works to progress. These new conditions will also enable the Bank and other UN agencies' staff to visit Lebanon as necessary. With these positive developments at hand, the Bank will be happy to resume its activities in Lebanon.

As you will appreciate, Your Excellency, a resumption of the Bank's lending operations in Lebanon, after so many years of inactivity, will require certain prior knowledge of the economy, including priority reconstruction needs in various key sectors. Accordingly, the Bank, at present, is in the process of programming its approach to deal with these requirements and is coordinating its plans with those advanced by others, notably, the UNDP and the Arab aid agencies.

In April 1991, we had an opportunity to discuss our requirements and prospective plans with a number of senior Government representatives from Lebanon, on which Mr. Voyadzis, Chief of the Bank's Country Operations Division dealing with Lebanon, has written to you on May 23, 1991. Your invitation to the Bank, on behalf of the Government of Lebanon, for us to resume our assistance to the country, will be an important step in the current process. Please be assured that, in consultation with your Government and in collaboration with the UNDP, Arab and other aid agencies, the Bank will be glad to support your Government's efforts to reconstruct the country.

With best wishes.

Sincerely,

H. E. Ali El-Khalil

June 19, 1991

bcc: Messrs. Fawzi Hamad Al-Sultan,
Executive Director

Ezzedin M. Shamsedin,
Advisor to the Executive Director

cc: Messrs. Quereshi, Wapenhans, Chopra, Voyadzis (o/r)

OCalka/jtc
<M:\SHARED\LEB\ELKHAULLET>

U N D P

Imam Files
LEB

FACSIMILE TRANSMITTAL FORM
REGIONAL BUREAU FOR ARAB STATES
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TO: MR. RAM CHOPRA FAX NO: (202) 477-1482
DIRECTOR - COUNTRY DEPARTMENT III (EM3)
THE WORLD BANK

FROM: MOHAMED A. NOUR
ASSISTANT ADMINISTRATOR
REGIONAL DIRECTOR
RBASE

M.A. Nour

DATE: June 28, 1991

NUMBER OF PAGES (INCLUDING THIS SHEET): 5

URGENT

UN assistance for the Recon + Dev of Leb

SUBJECT: UNARDOL NEEDS ASSESSMENT MISSION TO LEBANON

Further to our meeting of last week, the Inter-Agency Working Group met yesterday under the chairmanship of Under-Secretary-General for Political and General Assembly Affairs and Secretariat Services Ronald I. Spiers and it was confirmed that there will be a UNARDOL Needs Assessment Mission going to Lebanon from 14-24 July 1991.

As indicated to you last week by both fax and in person, it is my pleasure in my capacity as Team Leader to invite the World Bank to send one participant in this very important mission.

I have attached for your information and review a copy of the terms of reference that were jointly prepared by RBASE/UNDP and Mr. Spiers' office. These terms of reference will provide the basis for the mission but I did indicate yesterday that if any Agency did have any comment on them they should submit proposed changes by Wednesday July 3 to either Ms. Indu Chakravartty, Office of the Under-Secretary-General for Political and General Assembly Affairs and Secretariat Services (fax no: 212-963-5065; telephone no: 212-963-5573) or Bahman Kia/John Hendra of RBASE/UNDP (fax no: 212-906-5487; telephone nos: Kia 212-906-5461; Hendra 212-906-5484).

It would be greatly appreciated if you can confirm the name of the World Bank participant as soon as possible. Each Agency is

/...

responsible for paying for their participation on the mission and for making their own flight and accomodation arrangements. The Secretariat for the Mission (UNARDOL/UNDP) will be staying at the Bristol Hotel and it is highly recommended that other participants consider staying there as well.

Once your participant's flight details and accomodation needs have been determined, we would request that you cable his/her ETA directly to our Officer-in-Charge in Beirut, George Abu-Jawdeh, sending a copy of the cable to RBASE and to Mr. Spiers' office.

If you have any questions regarding the mission, please do not hesitate to contact us and again I would like to say how happy I am that the World Bank will be a part of the UN team.

Warmest regards.

cc. Ms. Chakravartty

INTER-AGENCY MISSION TO LEBANON

DRAFT TERMS OF REFERENCE

A. BACKGROUND

A.1 Present Situation

After 16 years of civil strife, Lebanon is now determined to rebuild its war-torn economy and provide its people with the opportunity to again participate in the development of their country.

The task ahead is complex but at the same time it provides the opportunity to take advantage of new and innovative ideas and approaches. The existing statistical data is highly inadequate but available information indicates that the situation in the country has deteriorated greatly throughout the period following the commencement of the civil war in 1975 and in particular during the last two years. Before the outbreak of war, Lebanon's economy was one of the strongest in the region, with vibrant industrial, agricultural and financial sectors. Beirut was the banking and financial centre for the Middle East. The Government's involvement in economic affairs was minimal and the private sector was vibrant.

Since the inception of the war, much of the industrial, tourist and agricultural sectors have been destroyed. Service industries, especially banking, have relocated abroad. The country has been drained of its best trained and educated people. The national infrastructure and social services have by necessity been neglected and have fallen into disrepair. The quality of life and human opportunities have suffered enormously in the past 16 years and today Lebanon ranks 88th out of 130 countries in terms of UNDP's Human Development Index.

The war economy has produced its own economic realities and informal economic activities have replaced the strong industrial and service-based sectors with the parallel economy dominating many sectors. Public sector spending has jumped; before the war it contributed to 12% of the GDP while the World Bank estimated that by 1983 it stood for approximately 25%.

Higher public/defense spending and a loss in tax and other revenues has resulted in an external debt which by the end of 1990 was estimated at US\$ 517 million. Continued strife, personal insecurity, low public revenues, high domestic and foreign debt and minimal external development assistance has limited the government's ability to commence with reconstruction and rehabilitation. Now the Government of Lebanon is seeking external assistance and the active participation of the private sector to join in rebuilding the country.

A.2 Mandate for Mission

In December 1990 the Government of Lebanon informed the Secretary-General of its success in establishing control over Greater Beirut area and requested UN assistance in the task of rehabilitation and reconstruction. Following this and further developments, a UN Security Mission was fielded to Lebanon which resulted

in the lowering of the United Nations security rating from Phase V to Phase I making reactivation of efforts and prospects for the staging of a UNARDOL Inter-Agency Mission a reality.

Based on the above and General Assembly Resolution 45/225 of 21 December 1990 as well as previous resolutions for assistance for the reconstruction and development of Lebanon, the Secretary-General of the United Nations intends to field a mission to gauge the immediate and longer-term needs of the country and to launch an appeal for international assistance for the social and economic rehabilitation and development of Lebanon.

B. TERMS OF REFERENCE

B.1 Mission Output

A report providing an initial needs assessment that will outline priority needs and programmes for the rehabilitation, reconstruction and sustainable development requirements of Lebanon. The report will constitute a framework focusing primarily on the immediate needs of the country with a view toward long term development and with the active participation of the private sector. This framework will provide estimated costing and is intended to form the basis for an appeal by the UN Secretary-General to the international community.

The document will provide an overall needs assessment seen from a joint UN System perspective, thereby complementing any other sectoral or specialized evaluations which may be planned or in the process of being carried out by other entities. In a second phase, more specialized or technical assessments may be carried out, in close cooperation with other donors or private sector initiatives, thus reinforcing the global reconstruction and development efforts.

Relevant specialized UN agencies are invited to partake in this exercise through the initial needs assessment, followed up by, as required, specific assessment missions in co-ordination with UNARDOL.

B.2 Mission Activities

To prepare the framework the mission will, inter-alia, undertake the following:

- 2.1 Review the country's overall socio-economic situation, in the light of the effects of the civil war and developments in the region;
- 2.2 Review all existing reports/available information on urgent rehabilitation/reconstruction needs (list of available reports in Annex I which is currently under preparation);
- 2.3 Discuss with the relevant government authorities the current situation in Lebanon and immediate and longer-term national priorities, policy framework and strategies;
- 2.4 Assess immediate reconstruction and rehabilitation requirements, inter-alia: reconstruction of essential services and utilities; rehabilitation

of public administration; re-establishment of a statistical base and support to the private sector;

- 2.5 Review plans, strategies and policies in all priority sectors;
- 2.6 In light of the above, assess longer-term reconstruction and rehabilitation requirements and capital investment needs; identify the role of public and private sector investment in meeting the needs expressed;
- 2.7 Assess in broad terms technical assistance requirements for sustainable development in areas such as: employment creation, human resources development including training and education; management development and civil administration reform including review of institutional structures and policies, programmes for revenue generation and taxation, and training of public administration staff; long-term planning; promotion of private sector, trade and other productive sectors including agriculture; strengthening services including health, education, housing, and the environment; provision of services to the most vulnerable especially children, elderly, disabled and displaced; and ensuring full integration of women in all phases of the development process.

B.3 Mission Methodology

The Mission's methodology will be discussed with officials of the Government of Lebanon, in particular the Council for Reconstruction and Development (CDR) who will serve as focal point for the Mission. The Mission plans to initiate its work as a group with a one day briefing and information exchange and then proceed over the next two days with a number of policy meetings with senior Government officials (i.e. President, Prime Minister, Minister of Foreign Affairs, Minister of Planning, Minister of Finance) and with senior officials dealing with most affected areas such as water supply/sewerage, telecommunications, power and basic health requirements. The next three to four days, the Mission will break up according to specialization and will conduct site and field visits as appropriate.

As the broad umbrella framework is established and available data gathered, the Mission will converge as a group to assess what gaps need to be filled in the remaining timeframe of the Mission. The remaining time of the Mission will be used to complete individual specialized area assessments and an annotated outline for the full report.

Although participants will be designated by Agencies, each participant will be a specialist on this mission to get "on-the-ground" estimates of needs and costs in their respective area of expertise. In order to maximize work, each participant should also be provided with a full-time counterpart for the duration of the mission. During its last few days, the Mission in its entirety will come to a consensus on the outline of the report.

It should be noted that the Mission's output will comprise an initial needs assessment that could be followed up by the elaboration of specific assessments and formulation of detailed technical/capital assistance programmes by the Government of Lebanon, United Nations Agencies and the private sector.

C. MISSION PARTICIPANTS

- C.1 Mission Leader: Dr. Mohamed A. Nour, Assistant Administrator and Director, Regional Bureau for Arab States and Europe, UNDP
- C.2 Representative (s) of the Under-Secretary-General Ronald I. Spiers/UNARDOL
- C.3 Bureau for report preparation: UNARDOL/UNDP
- C.4 Agencies and participants (to be confirmed after IAWG meeting of 27 June 1991)
- C.5 Logistical/administrative arrangements to be co-ordinated by UNDP Beirut with assistance from other Agencies and programmes

D. TENTATIVE TIMETABLE

14 July : Arrival in Beirut

15-17 July: Meeting with the Government of Lebanon including the President, Prime Minister and other key Ministers and relevant private sector and NGO representatives

18-21 July: Field visits

22-24 July: Compiling of detailed outline of report and de-briefing with the President of Lebanon

24 July : Depart Beirut

15 August : Finalization of report

LE - Urban Dev. Sector
(Recovery / Reconstruction
Project)

07/23/91

THE WORLD BANK GROUP
PROJECT IMPLEMENTATION INDEX FILE LOG

Date Sent to Info. Center
7/23/91

Project Name LEBANON RECONSTRUCTION	Project Code 5LEB	<input type="checkbox"/> LN. <input type="checkbox"/> CR. No.:
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ITEM	SECTION (see reverse)	DOCUMENT DESCRIPTION (Title, Author, Type - i.e. memorandum, report, study, etc.) ** Write the corresponding item number on each document you list below **	FOR INFO. CENTER USE
1	VII	Bechtel Technical Paper Proposal to CDR <i>-H39667</i>	<i>DOC #</i>
2			
3			
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Project Implementation Index File

Organization and Contents

<i>Section</i>	<i>Contents</i>
I.	Supervision Missions <ul style="list-style-type: none">- supervision reports- Supervision Plan, historical/planned schedules- key people met
II.	Execution of the Project <p>Reports on the progress of all project components, including</p> <ul style="list-style-type: none">- physical works- implementation schedules- changes in cost estimates- studies undertaken as part of the project- technical assistance- training
III.	Operating Results and Forecasts <p>Reports on</p> <ul style="list-style-type: none">- the operations of the project organization or entity- financial position of revenue-earning enterprises with the latest operating, financial, and cashflow statements, audit reports- traffic volumes- project output- maintenance operations
IV.	Organization Management and Performance of the Borrower <p>Reports on</p> <ul style="list-style-type: none">- significant developments affecting project management and the accomplishment of the project's objectives for institutional development- structural reorganization- streamlining of administrative procedures- progress in staffing and training- borrower's procurement performance and monitoring arrangements
V.	Performance of Consultants <p>Reports on the quality of the work being carried out by consultants retained by the borrower</p>
VI.	Policies and Investment Plans <p>Information on</p> <ul style="list-style-type: none">- the borrower's macroeconomic, sector, and subsector policies and performance- the borrower's investment plans- specific problems and issues which have an immediate bearing on the identification, preparation, and appraisal of prospective projects
VII.	Other <p>General correspondence</p>

July 21, 1991

Leb = Urban Dev Section
(Recovery / Reconstruction)

FACSIMILE TO: USA 202 477 0348

(SEVEN PAGES INCLUDING COVER PAGE)

TO: MR. ARUN BANERJEE, ACTING CHIEF, EM3IN

FROM: KAREN RASMUSSEN, SR. FINANCIAL ANALYST
BRISTOL HOTEL
BEIRUT, LEBANON

PLEASE FIND ATTACHED A BRIEFING NOTE (6 PAGES) FOR MR. CHOPRA'S MEETING WITH MR. EL-FADL CHALAK, PRESIDENT OF THE COUNCIL FOR DEVELOPMENT AND RECONSTRUCTION SCHEDULED FOR JULY 23, 1991.

THE UN MISSION HAS EXTENDED ITS STAY THROUGH FRIDAY, JULY 26 IN ORDER TO COMPLETE ITS TASKS. IF YOU HAVE NO OBJECTION, I INTEND TO STAY UNTIL JULY 26, IN ORDER TO PARTICIPATE FULLY IN THE MISSION. IF YOU AGREE, COULD YOU PLEASE ARRANGE THAT MY HOTEL RESERVATIONS IN LONDON FOR JULY 24 AND 25 ARE CANCELED. I SHALL MAKE MY OWN TRAVEL ARRANGEMENTS FROM HERE AND WILL PLAN TO RETURN TO THE OFFICE NEXT TUESDAY.

WOULD APPRECIATE CONFIRMATION OF RECEIPT OF THIS FAX.



July 20, 1991

TO: Mr. Arun Banerjee, Acting Chief (EM3IN)
(to be copied to Messrs. Chopra and Voyadzis)

FROM: Karen Rasmussen, Sr. Financial Analyst

SUBJECT: Visit of Mr. El-Fadl Chalak, President of
the Council for Reconstruction and Development

1. The purpose of this note is to provide a brief overview of the status of the UN mission, outline the main Government priorities for reconstruction, and highlight a number of topics that Mr. Chopra may wish to discuss during Mr. Chalak's visit scheduled for July 23, 1991. Mr. Chalak is a mechanical engineer by profession and spent many years under the employ of Dar Al Handasah. He was the Project Manager of the Greater Beirut rehabilitation project (undertaken by the Hariri Foundation), that was implemented immediately following the 1982 damages caused by the Israeli incursions. He is seen as a man of action who can get the job done.

2. In a nutshell, the UN mission is proceeding very well. CDR is the main interlocutor of the mission, and has arranged a comprehensive program of meetings with all of the sectoral ministries. Two hour sessions with each sector ministry/agency and on a variety of other topics (private sector development, NGO activities in Lebanon, etc.) took place this week. Although the scope of these discussions has merely scratched the surface concerning the present status, immediate and longer term technical assistance and capital requirements envisaged by each agency, they have provided an opportunity to establish contact with the Lebanese authorities. In each meeting I have attended, there has been an overwhelming interest and preoccupation with the potential role of the World Bank in assisting the country in its reconstruction efforts. Attached, for your information, is a copy of the minutes of the meeting held with His Excellency Elias Hrawi, the President of Lebanon.

3. In broad generalities, the Government has stated that priority would be placed on immediate rehabilitation and reconstruction of the water supply, electricity and telecommunications sectors to rekindle economic activity. The major themes of the Government's recovery program are balanced regional growth, attention to social equity issues and stimulation of private sector investment, particularly from Lebanese nationals living abroad. It should be noted that the rehabilitation and reconstruction of infrastructure and superstructure due to physical destruction addresses only one facet of the country's recovery program. The magnitude of social hardship and the rebuilding of institutions cannot be ignored. Significant attention will need to be paid to human development, the provision of social services, civil service reform and institution building. For example, UNICEF estimates that the 16 years of prolonged civil strife has resulted in about 800,000 permanently displaced persons in Lebanon, and almost a quarter of the children in the country have not been attending schools. WHO estimates that NGOs have been providing about three-quarters of the country's health services.

The Council for Development and Reconstruction (CDR)

4. The Council for Development and Reconstruction was resurrected in January 1991 by the reinstatement of Decree No. 5 of 1977 (this decree was rescinded in 1987 and CDR was dismantled at that time). CDR has a broad mandate for planning, aid coordination, financing and execution. One of the justifications for the re-establishment of CDR is to ensure that greater attention is paid to nationwide planning, with emphasis on economic rather political considerations. The CDR reports directly to the Council of Ministers via the Prime Minister. This administrative arrangement is aimed at reducing bureaucratic bottlenecks within the ministries.

5. With respect to CDR's financing function, the mission was informed that the Parliament must approve the contracting of all debt and grants (a law that had not been enforced in CDR's earlier days). Concerning its role in execution, CDR stated that the intent was for project implementation to be undertaken by the line ministries and agencies; however, procurement (preparation of tender documents, bid evaluation, award of contract, etc.) would be handled by CDR. Secondly, a commission to supervise execution of projects (including staff from CDR and the relevant ministry/agency) would be established under CDR's purview. The role of CDR in financing and execution needs further clarification, and will be pursued during our discussions next week.

Meeting with Mr. El-Fadl Chalak, President of CDR

6. Mr. Chalak has indicated that he may raise the following matters during his meeting with Mr. Chopra:

(i) Bank assistance for Lebanon's reconstruction program. A major question posed during the mission's visit relates to Bank resumption of lending operations in Lebanon. I have been circumspect on this point in terms of the timing, scope and type of Bank lending assistance. I have highlighted that the first priority of the Bank would be to undertake an economic assessment along the lines outlined below. The Bank's emergency recovery assistance, typical investment projects and loans for technical assistance have been explained to Mr. Chalak and his colleagues. Mr. Chalak will undoubtedly mention the importance of aid donor support (the Bank in particular) in Lebanon's reconstruction program. The presence of the Bank and other donors is expected to act as a catalyst for stimulating private investment flows. In line with discussions with Mr. Voyadzis prior to my departure (and based on Mr. Voyadzis' discussions with Dr. Nour of UNDP), the following approach has been outlined, though I have indicated that any decision on these matters will be taken by the Bank's senior management:

- need to undertake an economic assessment of the current economic situation and medium term development prospects as a basis of reactivating a dialogue with the Government on macro-economic and social policy issues. An economic assessment would lay the groundwork for discussion on the Bank's country assistance strategy, including the scope and type of lending vehicles.
- first step could be economic data gathering mission (to be financed by

UNDP and executed by the Bank) maybe as soon as end September 1991. This approach was outlined in a letter from Mr. Voyadzis to Dr. Nour of UNDP;

-second step would be the mounting of a Bank economic mission maybe as early as November or December 1991.

-in parallel with the economic mission, the Bank might be prepared to consider an exploratory/identification mission for an emergency lending operation if there are continued improvements in the security and political situation.

I have highlighted that the preparation of an economic report and discussions on its findings and recommendations will take time, and hopefully in the interim, there will be greater strides towards the restoration of central government authority and internal security. These steps would help to lay the foundation for identifying future Bank actions.

(ii) Bank assistance in reviewing the Bechtel Report. Mr. Chalak may request Bank assistance in commenting and reviewing the Bechtel/Dar Al Handasah report. The first phase of the report, which focusses on identifying immediate rehabilitation and reconstruction needs, is targeted for completion in October 1991. It is recommended that we provide such assistance in order that the output of the report may better serve the needs of both the Bank and other aid donors. For example, four comments on the first phase of the study are:

(a) Institution building is only briefly mentioned but not fully developed. It is important that an assessment of the institutional capacity of each agency be undertaken, not just the physical implementation capabilities, but the long-term sustainability of agencies to administer, operate and maintain services. Technical assistance and training should be identified and defined to the extent feasible. The financial viability of revenue generating agencies (particularly water supply, electricity and telecommunications) must also be addressed;

(b) The report will identify or define projects, but additional work such as feasibility studies and detailed design for new construction and detailed scope of works for rehabilitation may be required, and this will take time. It is also important that new reconstruction, particularly for services, take into account the existing and projected demographics and regional population movements.

(c) In addition to the report's emphasis on the physical conditions of social services, reference to the social equity aspects of the country's recovery program, including the affordability of services and of housing needs will require greater attention; and

(d) the report is silent on the sources of funds, i.e. domestic resources, donor aid (including concessional and grants) and the private sector.

(iii) Request for technical assistance on environmental issues. The lack of any sewage treatment in Lebanon, and of proper management of solid and liquid

wastes over the past decade and a half has resulted in serious environmental degradation and pollution. Mr. Chalak is expected to request assistance, from the METAP and GEF in order to begin to address environmental issues. It is recommended that the Bank support these initiatives.

7. In addition to CDR's pivotal role in the country's reconstruction efforts, Mr. Chopra might like to highlight the following points in his meeting with Mr. Chalak:

(i) Core Team for Coordination with the Bank. The mission has been informed that CDR has been designated as the focal point for Bank discussions on all aspects of the Government's recovery program. Given the importance the Bank places on establishing a meaningful dialogue on macro-economic and social policy, Mr. Chopra may wish to suggest the establishment of a core team of CDR staff and representatives from selected ministries (in particular, the Ministry of Economy and commerce and Ministry of Finance).

(ii) The social dimension of Lebanon's rehabilitation and reconstruction program. Mr. Chalak is likely to state that the three sectors of key importance for reconstruction and rehabilitation are (in order of priority) water supply and sewerage/solid waste, electricity and telecommunications. Undoubtedly, rehabilitation of key infrastructure in these sectors will reactivate economic activity. However, another important aspect of the Lebanon's recovery program will be focussing on human development as a means of rehabilitating and restoring the social fabric of society. You might also wish to ask Mr. Chalak what steps, in the short term, the Government has in mind to tackle the social dimensions of recovery. This is particularly relevant since there has been heavy reliance over the past 16 years on NGOs for the delivery of basic services to the majority of the population. The Government will need to reassess national policies and its role in the provision of social services (health, education and housing in particular) for lower income level groups.

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July 20, 1991

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Attachment (2 pages)

OFFICE MEMORANDUM

DATE: July 19, 1991

TO: Files

FROM: Karen Rasmussen, Sr. Financial Analyst (EM3IN)

EXTENSION: 33056

SUBJECT: **Meeting with H.E. Elias Hrawi,
President of the Republic of Lebanon**

1. In accordance with the terms of reference dated July 8, 1991, I participated, as an observer, in the United Nations Assessment of the Development and Reconstruction of Lebanon (UNARDOL) mission in Lebanon from July 14-26, 1991. The purpose of the mission was to provide, in general terms, an initial assessment of priority needs and programmes of technical assistance aimed at supporting the reconstruction and sustainable development requirements of Lebanon. The findings of the mission are intended to form the basis of an appeal by the UN Secretary General for assistance to Lebanon from the international community.
2. On July 15, 1991, the mission was received by H.E. Elias Hrawi, President of the Republic of Lebanon. H.E. Hrawi, a Maronite Christian who was elected on November 24, 1990, spoke spontaneously for one hour. The main points His Excellency touched upon, as translated into English by an interpreter, are elaborated upon below. Mr. El-Fadi Chalak, President of the Council for Reconstruction and Development (CDR), was the only other Lebanese official present during the meeting.
3. In his opening remarks, the President welcomed the UN Inter-Agency mission and added that he placed importance on the mission's report to the UN since it would help to mobilize international support for Lebanon's reconstruction efforts. In this context, His Excellency made a specific reference to collaboration with the World Bank in meeting the long term development objectives of the country. His Excellency also made a point of stating that Lebanon had a relatively low external debt position (a figure of US \$350 million was mentioned), while recognizing there was a sizeable budget deficit.
4. With the termination of emergency relief and humanitarian assistance, the Government was identifying immediate short term needs that would rekindle economic activity. His Excellency stated that the priority sectors which required urgent rehabilitation and reconstruction were water supply, electricity and telecommunications. He added that the inadequate quantity and the poor quality of potable water were posing health hazards, notwithstanding the environmental degradation caused by a combination of a lack and/or intermittent provision of sewerage services. His Excellency added that, in addition to physical rehabilitation and reconstruction of the country, emphasis would be placed on: (i) the social aspects of reconstruction, including the restoration of basic needs (health, roads and agricultural development); and (ii) manpower development (including training and institution building).

5. His Excellency remarked that the private sector was expected to play an important role in the country's reconstruction efforts. Proposals to establish public/private sector joint ventures or mixed companies in the water, electricity and telecommunications sectors were under consideration. The mission was requested to discuss these proposals with the CDR. His Excellency noted that the private sector was also expected to share in housing construction and development. However, given the severe housing shortage and requirements to repair damaged dwellings, the significant number of displaced inhabitants and the cost of meeting the demand for housing, the assistance of donors would be sought. In this connection, reference was made to the establishment of a housing fund (follow-up on this matter will take place with the Ministry of Housing).

6. In closing, His Excellency commented that in June 1991, a contract had been signed with Bechtel and Dar Al Handasah to provide a framework for economic recovery, including the definition of emergency rehabilitation and reconstruction needs. The study aimed at providing a strategy for development in all sectors of the economy (which presumably could serve as a basis of soliciting support from aid donors).

cc: Messrs. Chopra, Zulfiqar (EM3DR), Banerjee, McKechnie (o/r) (EM3IN), Voyadzis (EM3CO), Bhargava (EM3IE), Keare (EM3PH), Garg (EM3AG)

OFFICE MEMORANDUM

Leb - Urban Dev. Sr. br
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SUBJECT: **Meeting with H.E. Elias Hrawi,
President of the Republic of Lebanon**

1. In accordance with the terms of reference dated July 8, 1991, I participated, as an observer, in the United Nations Assessment of the Development and Reconstruction of Lebanon (UNARDOL) mission in Lebanon from July 14-26, 1991. The purpose of the mission was to provide, in general terms, an initial assessment of priority needs and programmes of technical assistance aimed at supporting the reconstruction and sustainable development requirements of Lebanon. The findings of the mission are intended to form the basis of an appeal by the UN Secretary General for assistance to Lebanon from the international community.

2. On July 15, 1991, the mission was received by H.E. Elias Hrawi, President of the Republic of Lebanon. H.E. Hrawi, a Maronite Christian who was elected on November 24, 1990, spoke spontaneously for one hour. The main points His Excellency touched upon, as translated into English by an interpreter, are elaborated upon below. Mr. El-Fadi Chalak, President of the Council for Reconstruction and Development (CDR), was the only other Lebanese official present during the meeting.

3. In his opening remarks, the President welcomed the UN Inter-Agency mission and added that he placed importance on the mission's report to the UN since it would help to mobilize international support for Lebanon's reconstruction efforts. In this context, His Excellency made a specific reference to collaboration with the World Bank in meeting the long term development objectives of the country. His Excellency also made a point of stating that Lebanon had a relatively low external debt position (a figure of US \$350 million was mentioned), while recognizing there was a sizeable budget deficit.

4. With the termination of emergency relief and humanitarian assistance, the Government was identifying immediate short term needs that would rekindle economic activity. His Excellency stated that the priority sectors which required urgent rehabilitation and reconstruction were water supply, electricity and telecommunications. He added that the inadequate quantity and the poor quality of potable water were posing health hazards, notwithstanding the environmental degradation caused by a combination of a lack and/or intermittent provision of sewerage services. His Excellency added that, in addition to physical rehabilitation and reconstruction of the country, emphasis would be placed on: (i) the social aspects of reconstruction, including the restoration of basic needs (health, roads and agricultural development); and (ii) manpower development (including training and institution building).

5. His Excellency remarked that the private sector was expected to play an important role in the country's reconstruction efforts. Proposals to establish public/private sector joint ventures or mixed companies in the water, electricity and telecommunications sectors were under consideration. The mission was requested to discuss these proposals with the CDR. His Excellency noted that the private sector was also expected to share in housing construction and development. However, given the severe housing shortage and requirements to repair damaged dwellings, the significant number of displaced inhabitants and the cost of meeting the demand for housing, the assistance of donors would be sought. In this connection, reference was made to the establishment of a housing fund (follow-up on this matter will take place with the Ministry of Housing).

6. In closing, His Excellency commented that in June 1991, a contract had been signed with Bechtel and Dar Al Handasah to provide a framework for economic recovery, including the definition of emergency rehabilitation and reconstruction needs. The study aimed at providing a strategy for development in all sectors of the economy (which presumably could serve as a basis of soliciting support from aid donors).

cc: Messrs. Chopra, Zulfiqar (EM3DR), Banerjee, McKechnie (o/r) (EM3IN), Voyadzis (EM3CO), Bhargava (EM3IE), Keare (EM3PH), Garg (EM3AG)

OFFICE MEMORANDUM

YEM - W.S + Sewerage Sect

Leb - Urban Sector
(Reconstruction)

DATE: July 8, 1991

TO: Karen Rasmussen, Senior Financial Analyst (EM3IN)

FROM: Robert Bonney, Acting Chief (EM3IN) *RB*

EXTENSION: 33052

SUBJECT: Terms of Reference for Mission to:
the Republics of Yemen and Lebanon

1. You will arrive in Sana'a, the Republic of Yemen on July 10, 1991 to participate in the Country Implementation Review meetings between IDA and the Ministry of Planning and Development and the Ministry of Electricity and Water on the status of the ongoing water supply portfolio. During your stay, you will assist senior management as required, including in drafting the conclusions of these meetings.
2. On July 13, 1991, you will proceed to Lebanon to participate in the UNDP mission from July 14-24, 1991 (see attached terms of reference of the UNDP mission and the Bank's comments on the scope of work to be undertaken). While in the field, you will provide assistance to UNDP on institutional issues related to formulating an emergency reconstruction program for Lebanon. You should also explain to Government officials the Bank's approach to emergency recovery lending.
3. You should pay particular attention to the current situation and status of the Government's plans for reconstruction and economic recovery. You should also establish preliminary contacts with various ministries and agencies.
4. Upon returning to headquarters you will write a Back-to-Office Report on the findings of your mission.

Attachment

cc: Messrs. Chopra (o/r), Zulfiqar (o/r) (EM3DR), McKechnie (o/r) (EM3IN), Voyadzis (o/r), Erim (o/r), Chalika (CON) (EM3CO), Bhargava (EM3IE), Keare (EM3PH), Garg (EM3AG), Hassan (LEG), Pommier (CODOP); Mesdames. Kreimer (o/r) (ENVPR), Le, Judkins (EM3IN)

KR KRasmussen:is

THE WORLD BANK/IFC/M.I.G.A.

Headquarters: Washington, D.C. 20433 U.S.A.

Tel. No. (202) 477-1234 // Fax Tel. No. (202) 477-0348 // Telex No. RCA 248423

FACSIMILE COVER SHEET AND MESSAGE

DATE July 2, 1991

NO. OF PAGES 2

TO MR. JOHN HENDRA, AREA OFFICER, REGIONAL BUREAU FOR ARAB STATES
UNITED NATIONS DEVELOPMENT PROGRAMME
ONE UNITED NATIONS PLAZA
NEW YORK, NEW YORK 10017

FROM MR. ROBERT BONNEY, ACTING CHIEF, EM3IN 

SUBJECT TERMS OF REFERENCE FOR THE UNARDOL NEEDS ASSESSMENT
MISSION TO LEBANON, JULY 14-24, 1991

I wish to acknowledge, with thanks, Dr. Mohamed A. Nour's fax dated June 28, 1991, inviting the World Bank to participate in the above mentioned mission and attaching the mission's terms of reference. Dr. Nour also requested that the Bank provide, directly to you, our comments on the draft terms of reference for the Inter-Agency Mission to Lebanon.

As indicated to Dr. Nour during his visit to the Bank on June 20, 1991, and in Mr. Chopra's letter to Dr. Nour dated June 27, 1991, Ms. Karen Rasmussen, Senior Financial Analyst, will be able to participate in the mission as an observer. You should have already received a copy of her travel itinerary which was sent to Mr. George Abu-Jawdeh, Officer-in-Charge in Beirut.

We have read with interest the comprehensive draft terms of reference for the mission, and should like to offer the following observations.

We are pleased that the terms of reference have focussed on two key activities, namely: (i) to solicit the Government's views on the immediate and longer-term national priorities, policy framework and strategies, including the roles of the public and private sector in meeting these needs; and (ii) to gather existing reports and information on urgent reconstruction and rehabilitation needs. It would also be useful to identify information gaps that need to be filled in order to complete the assessment of reconstruction and rehabilitation needs on a nationwide basis.

The terms of reference also focus on another important task of assessing the technical assistance requirements for sustainable development in a number of areas. In this context, the mission may also wish to discuss with the CDR and various line ministries and agencies, their views on the organizational arrangements for implementation of a national recovery program and technical assistance requirements both at the national and sectoral levels.

Our main concern with the terms of reference is that they appear to be overly ambitious in light of the extensive coverage proposed and the limited time of the mission's visit to Lebanon. For example, we do not believe it would be feasible during field visits of 3-4 days to assess both the immediate and longer-term rehabilitation and reconstruction requirements and capital investment needs in all priority sectors, and including their costs, as well as undertaking a review of the socio-economic situation in the country, other than in a very general way.

Finally, it may be useful to prepare and agree on a tentative outline of the report (headings of main topics to be covered) prior to the mission's departure. This outline could serve as a basis of discussion with the CDR on the desired final output of the mission (paragraph B.3). When the mission has completed its report, we assume that the Government of Lebanon would have the opportunity to review and provide its comments prior to its finalization and issuance.

I trust you will find these comments useful. We would greatly appreciate receiving a final version of the terms of reference as well as a list of agencies and staff participating in the mission.

Transmission authorized by Robert Bonney, Acting Chief, EM3IN



~~If you experience any problem in receiving this transmission, inform the sender at the telephone or fax number listed above.~~

1884 (2-90)

Cleared with and cc: Messrs. Zulfiqar (EM3DR), Garg (EM3PH), Erim (EM3CO), Bjorgung (EMTPR)

cc: Messrs. Chopra (o/r) (EM3DR), Voyadzis (o/r) (EM3CO)

U N D P

FACSIMILE TRANSMITTAL FORM
REGIONAL BUREAU FOR ARAB STATES
(FAX NO. (212) 906-5487)
One United Nations Plaza, New York, N.Y. 10017
Telephone (212) 906-5000

TO: MR. RAM CHOPRA FAX NO: (202) 477-1482
DIRECTOR - COUNTRY DEPARTMENT III (EM3)
THE WORLD BANK

FROM: MOHAMED A. NOUR
ASSISTANT ADMINISTRATOR
REGIONAL DIRECTOR
RBASE

M/Am
DATE: June 28, 1991

NUMBER OF PAGES (INCLUDING THIS SHEET): 5

URGENT

VN assistance for the Recon + Dev of Leb

SUBJECT: UNARDOL NEEDS ASSESSMENT MISSION TO LEBANON

Further to our meeting of last week, the Inter-Agency Working Group met yesterday under the chairmanship of Under-Secretary-General for Political and General Assembly Affairs and Secretariat Services Ronald I. Spiers and it was confirmed that there will be a UNARDOL Needs Assessment Mission going to Lebanon from 14-24 July 1991.

As indicated to you last week by both fax and in person, it is my pleasure in my capacity as Team Leader to invite the World Bank to send one participant in this very important mission.

I have attached for your information and review a copy of the terms of reference that were jointly prepared by RBASE/UNDP and Mr. Spiers' office. These terms of reference will provide the basis for the mission but I did indicate yesterday that if any Agency did have any comment on them they should submit proposed changes by Wednesday July 3 to either Ms. Indu Chakravartty, Office of the Under-Secretary-General for Political and General Assembly Affairs and Secretariat Services (fax no: 212-963-5065; telephone no: 212-963-5573) or Bahman Kia/John Hendra of RBASE/UNDP (fax no: 212-906-5487; telephone nos: Kia 212-906-5461; Hendra 212-906-5484).

It would be greatly appreciated if you can confirm the name of the World Bank participant as soon as possible. Each Agency is

/...

responsible for paying for their participation on the mission and for making their own flight and accomodation arrangements. The Secretariat for the Mission (UNARDOL/UNDP) will be staying at the Bristol Hotel and it is highly recommended that other participants consider staying there as well.

Once your participant's flight details and accomodation needs have been determined, we would request that you cable his/her ETA directly to our Officer-in-Charge in Beirut, George Abu-Jawdeh, sending a copy of the cable to RBASE and to Mr. Spiers' office.

If you have any questions regarding the mission, please do not hesitate to contact us and again I would like to say how happy I am that the World Bank will be a part of the UN team.

Warmest regards.

cc. Ms. Chakravartty

INTER-AGENCY MISSION TO LEBANON

DRAFT TERMS OF REFERENCE

A. BACKGROUND

A.1 Present Situation

After 16 years of civil strife, Lebanon is now determined to rebuild its war-torn economy and provide its people with the opportunity to again participate in the development of their country.

The task ahead is complex but at the same time it provides the opportunity to take advantage of new and innovative ideas and approaches. The existing statistical data is highly inadequate but available information indicates that the situation in the country has deteriorated greatly throughout the period following the commencement of the civil war in 1975 and in particular during the last two years. Before the outbreak of war, Lebanon's economy was one of the strongest in the region, with vibrant industrial, agricultural and financial sectors. Beirut was the banking and financial centre for the Middle East. The Government's involvement in economic affairs was minimal and the private sector was vibrant.

Since the inception of the war, much of the industrial, tourist and agricultural sectors have been destroyed. Service industries, especially banking, have relocated abroad. The country has been drained of its best trained and educated people. The national infrastructure and social services have by necessity been neglected and have fallen into disrepair. The quality of life and human opportunities have suffered enormously in the past 16 years and today Lebanon ranks 88th out of 130 countries in terms of UNDP's Human Development Index.

The war economy has produced its own economic realities and informal economic activities have replaced the strong industrial and service-based sectors with the parallel economy dominating many sectors. Public sector spending has jumped; before the war it contributed to 12% of the GDP while the World Bank estimated that by 1983 it stood for approximately 25%.

Higher public/defense spending and a loss in tax and other revenues has resulted in an external debt which by the end of 1990 was estimated at US\$ 517 million. Continued strife, personal insecurity, low public revenues, high domestic and foreign debt and minimal external development assistance has limited the government's ability to commence with reconstruction and rehabilitation. Now the Government of Lebanon is seeking external assistance and the active participation of the private sector to join in rebuilding the country.

A.2 Mandate for Mission

In December 1990 the Government of Lebanon informed the Secretary-General of its success in establishing control over Greater Beirut area and requested UN assistance in the task of rehabilitation and reconstruction. Following this and further developments, a UN Security Mission was fielded to Lebanon which resulted

in the lowering of the United Nations security rating from Phase V to Phase I making reactivation of efforts and prospects for the staging of a UNARDOL Inter-Agency Mission a reality.

Based on the above and General Assembly Resolution 45/225 of 21 December 1990 as well as previous resolutions for assistance for the reconstruction and development of Lebanon, the Secretary-General of the United Nations intends to field a mission to gauge the immediate and longer-term needs of the country and to launch an appeal for international assistance for the social and economic rehabilitation and development of Lebanon.

B. TERMS OF REFERENCE

B.1 Mission Output

A report providing an initial needs assessment that will outline priority needs and programmes for the rehabilitation, reconstruction and sustainable development requirements of Lebanon. The report will constitute a framework focusing primarily on the immediate needs of the country with a view toward long term development and with the active participation of the private sector. This framework will provide estimated costing and is intended to form the basis for an appeal by the UN Secretary-General to the international community.

The document will provide an overall needs assessment seen from a joint UN System perspective, thereby complementing any other sectoral or specialized evaluations which may be planned or in the process of being carried out by other entities. In a second phase, more specialized or technical assessments may be carried out, in close cooperation with other donors or private sector initiatives, thus reinforcing the global reconstruction and development efforts.

Relevant specialized UN agencies are invited to partake in this exercise through the initial needs assessment, followed up by, as required, specific assessment missions in co-ordination with UNARDOL.

B.2 Mission Activities

To prepare the framework the mission will, inter-alia, undertake the following:

- 2.1 Review the country's overall socio-economic situation, in the light of the effects of the civil war and developments in the region;
- 2.2 Review all existing reports/available information on urgent rehabilitation/reconstruction needs (list of available reports in Annex I which is currently under preparation);
- 2.3 Discuss with the relevant government authorities the current situation in Lebanon and immediate and longer-term national priorities, policy framework and strategies;
- 2.4 Assess immediate reconstruction and rehabilitation requirements, inter-alia: reconstruction of essential services and utilities; rehabilitation

of public administration; re-establishment of a statistical base and support to the private sector;

- 2.5 Review plans, strategies and policies in all priority sectors;
- 2.6 In light of the above, assess longer-term reconstruction and rehabilitation requirements and capital investment needs; identify the role of public and private sector investment in meeting the needs expressed;
- 2.7 Assess in broad terms technical assistance requirements for sustainable development in areas such as: employment creation, human resources development including training and education; management development and civil administration reform including review of institutional structures and policies, programmes for revenue generation and taxation, and training of public administration staff; long-term planning; promotion of private sector, trade and other productive sectors including agriculture; strengthening services including health, education, housing, and the environment; provision of services to the most vulnerable especially children, elderly, disabled and displaced; and ensuring full integration of women in all phases of the development process.

B.3 Mission Methodology

The Mission's methodology will be discussed with officials of the Government of Lebanon, in particular the Council for Reconstruction and Development (CDR) who will serve as focal point for the Mission. The Mission plans to initiate its work as a group with a one day briefing and information exchange and then proceed over the next two days with a number of policy meetings with senior Government officials (i.e. President, Prime Minister, Minister of Foreign Affairs, Minister of Planning, Minister of Finance) and with senior officials dealing with most affected areas such as water supply/sewerage, telecommunications, power and basic health requirements. The next three to four days, the Mission will break up according to specialization and will conduct site and field visits as appropriate.

As the broad umbrella framework is established and available data gathered, the Mission will converge as a group to assess what gaps need to be filled in the remaining timeframe of the Mission. The remaining time of the Mission will be used to complete individual specialized area assessments and an annotated outline for the full report.

Although participants will be designated by Agencies, each participant will be a specialist on this mission to get "on-the-ground" estimates of needs and costs in their respective area of expertise. In order to maximize work, each participant should also be provided with a full-time counterpart for the duration of the mission. During its last few days, the Mission in its entirety will come to a consensus on the outline of the report.

It should be noted that the Mission's output will comprise an initial needs assessment that could be followed up by the elaboration of specific assessments and formulation of detailed technical/capital assistance programmes by the Government of Lebanon, United Nations Agencies and the private sector.

C. MISSION PARTICIPANTS

- C.1 Mission Leader: Dr. Mohamed A. Nour, Assistant Administrator and Director, Regional Bureau for Arab States and Europe, UNDP
- C.2 Representative (s) of the Under-Secretary-General Ronald I. Spiers/UNARDOL
- C.3 Bureau for report preparation: UNARDOL/UNDP
- C.4 Agencies and participants (to be confirmed after IAWG meeting of 27 June 1991)
- C.5 Logistical/administrative arrangements to be co-ordinated by UNDP Beirut with assistance from other Agencies and programmes

D. TENTATIVE TIMETABLE

14 July : Arrival in Beirut

15-17 July: Meeting with the Government of Lebanon including the President, Prime Minister and other key Ministers and relevant private sector and NGO representatives

18-21 July: Field visits

22-24 July: Compiling of detailed outline of report and de-briefing with the President of Lebanon

24 July : Depart Beirut

15 August : Finalization of report

UNITED NATIONS
DEVELOPMENT PROGRAMME

WORLD
DEVELOPMENT

U N D P

117
LE - Urban Dev. Sector
(Recovery / Reconstruction
Project)

FACSIMILE TRANSMITTAL FORM
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TO: MS. KAREN RASMUSSEN FAX NO: 445
SENIOR FINANCIAL ANALYST - INFRASTRUCTURE
COUNTRY DEPARTMENT III (EM3)
THE WORLD BANK
(202) 477-0348

FROM: JOHN HENDRA DATE: July 1, 1991
AREA OFFICER
COUNTRY PROGRAMMES DIVISION
RBASE

NUMBER OF PAGES (INCLUDING THIS SHEET): 7

URGENT

SUBJECT: UNARDOL NEEDS ASSESSMENT MISSION TO LEBANON

06/28/91
Further to this morning's telephone conversation, please find attached a copy of the fax that Dr. Nour sent to Mr. Ram Chopra along with the draft terms of reference for the Mission to Lebanon.

Our current Officer-in-Charge in Lebanon is Mr. George Abu-Jawdeh and the office's telex number is 21226 UNDP LE (cable address: UNDEVPRO BEIRUT, LEBANON). As discussed, the Secretariat for the Mission (Dr. Nour, UNDP/UNARDOL) will be staying at the Bristol Hotel and it would be best if you cable Mr. Abu-Jawdeh directly indicating your ETA and accomodation needs.

Best regards.

INFRASTRUCTURE DIVISION - CD3

Date Rec'd 7/1/91

Date Ack'd _____

Assigned to: Borghes

Rasmussen

Je

Log No. Fax - LEB - 716

cc. Ms. Indu Chakravarty

Rose - Please see Elaine 15/6/91

Leb-Urban Dev Sector
(Recovery/Reconstruction)

July 1, 1991

15

I received a call from Mr. Sy Taubenblatt, Exec. Representative with Bechtel Corp in Wash. Michel Pommier suggested RC meet with Mr. Fadl Chalak, President of Council for Dev. in Reconstruction (CDR) to discuss Lebanon reconstruction planning.

He will be visiting Washington the last two weeks of July. we suggested July 22 - 10:00 a.m.

Perhaps someone from COD should join, Spiros or whomever is knowledgeable on Lebanon

Let me know if that day and time is ok and I will call and confirm.

Thanks,

Rose

23rd - 11

Bechtel

1015 Fifteenth Street, N.W. Suite 700
Washington, D.C. 20005-2605
(202) 393-4747
Fax: (202) 785-2645
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S. A. Taubenblatt
Executive Representative
Bechtel Group, Inc.



Bechtel

8618 Westwood Center Drive, Suite 300
Vienna, Virginia 22182-2282
(703) 761-7232
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Frank J. Cain
Senior Vice President
Bechtel Corporation



FORM NO. 75
(6-83)

THE WORLD BANK/IFC

ROUTING SLIP		DATE:
		7/22/91
NAME		ROOM NO.
Miss E. Hubert, Acting Chief		H10-045
(EM3CO)		
APPROPRIATE DISPOSITION	NOTE AND RETURN	
APPROVAL	NOTE AND SEND ON	
CLEARANCE	PER OUR CONVERSATION	
COMMENT	PER YOUR REQUEST	
FOR ACTION	PREPARE REPLY	
INFORMATION	RECOMMENDATION	
INITIAL	SIGNATURE	
NOTE AND FILE	URGENT	
REMARKS: LEBANON - The attached pages are a copy of a fax message sent by K. Rasmussen.		
FROM:	ROOM NO.:	EXTENSION:
A. Banerjee	H10-007	33051

FACSIMILE TO: USA 202 477 0348

SU 011

(SEVEN PAGES INCLUDING COVER PAGE)

TO: MR. ARUN BANERJEE, ACTING CHIEF, EM3IN

FROM: KAREN RASMUSSEN, SR. FINANCIAL ANALYST
BRISTOL HOTEL
BEIRUT, LEBANON

PLEASE FIND ATTACHED A BRIEFING NOTE (4 PAGES) FOR MR. GADFA'S MEETING WITH MR. EL-PADL CHALAK, PRESIDENT OF THE COUNCIL FOR DEVELOPMENT AND RECONSTRUCTION SCHEDULED FOR JULY 23, 1991.

THE UN MISSION HAS EXTENDED ITS STAY THROUGH FRIDAY, JULY 26 IN ORDER TO COMPLETE ITS TASKS. IF YOU HAVE NO OBJECTION, I INTEND TO STAY UNTIL JULY 26, IN ORDER TO PARTICIPATE FULLY IN THE MISSION. IF YOU AGREE, COULD YOU PLEASE ARRANGE THAT MY HOTEL RESERVATIONS IN LONDON FOR JULY 24 AND 25 ARE CANCELLED. I SHALL MAKE MY OWN TRAVEL ARRANGEMENTS FROM HERE AND WILL PLAN TO RETURN TO THE OFFICE NEXT TUESDAY.

WOULD APPRECIATE CONFIRMATION OF RECEIPT OF THIS FAX.

Thanks
Karen Rasmussen

INFRASTRUCTURE DIVISION - CD3

Date Rec'd 7/22/91

Date Ack'd _____

Assigned to: Banerjee
la

Log No. fax-LEB-737

FAX USA 202 477 0348

July 20, 1991

TO: Mr. Arun Banerjee, Acting Chief (EM3IN)
(to be copied to Messrs. Chopra and Voyadzis)

FROM: Karen Rasmussen, Sr. Financial Analyst

SUBJECT: Visit of Mr. El-Fadl Chalak, President of
the Council for Reconstruction and Development

1. The purpose of this note is to provide a brief overview of the status of the UN mission, outline the main Government priorities for reconstruction, and highlight a number of topics that Mr. Chopra may wish to discuss during Mr. Chalak's visit scheduled for July 23, 1991. Mr. Chalak is a mechanical engineer by profession and spent many years under the employ of Dar Al Handasah. He was the Project Manager of the Greater Beirut rehabilitation project (undertaken by the Hariri Foundation), that was implemented immediately following the 1992 damage caused by the Israeli incursions. He is seen as a man of action who can get the job done.

2. In a nutshell, the UN mission is proceeding very well. CDR is the main interlocutor of the mission, and has arranged a comprehensive program of meetings with all of the sectoral ministries. Two hour sessions with each sector ministry/agency and on a variety of other topics (private sector development, NGO activities in Lebanon, etc.) took place this week. Although the scope of these discussions has merely scratched the surface concerning the present status, immediate and longer term technical assistance and capital requirements envisaged by each agency, they have provided an opportunity to establish contact with the Lebanese authorities. In each meeting I have attended, there has been an overwhelming interest and preoccupation with the potential role of the World Bank in assisting the country in its reconstruction efforts. Attached, for your information, is a copy of the minutes of the meeting held with His Excellency Elias Hrawi, the President of Lebanon.

3. In broad generalities, the Government has stated that priority would be placed on immediate rehabilitation and reconstruction of the water supply, electricity and telecommunications sectors to rekindle economic activity. The major themes of the Government's recovery program are balanced regional growth, attention to social equity issues and stimulation of private sector investment, particularly from Lebanese nationals living abroad. It should be noted that the rehabilitation and reconstruction of infrastructure and superstructure due to physical destruction address only one front of the country's recovery program. The magnitude of social hardship and the rebuilding of institutions cannot be ignored. Significant attention will need to be paid to human development, the provision of social services, civil service reform and institution building. For example, UNICEF estimates that the 16 years of prolonged civil strife has resulted in about 800,000 permanently displaced persons in Lebanon, and almost a quarter of the children in the country have not been attending schools. WHO estimates that NGOs have been providing about three-quarters of the country's health services.

The Council for Development and Reconstruction (CDR)

4. The Council for Development and Reconstruction was resurrected in January 1991 by the reinstatement of Decree No. 5 of 1977 (this decree was rescinded in 1987 and CDR was dismantled at that time). CDR has a broad mandate for planning, aid coordination, financing and execution. One of the justifications for the re-establishment of CDR is to ensure that greater attention is paid to nationwide planning, with emphasis on economic rather than political considerations. The CDR reports directly to the Council of Ministers via the Prime Minister. This administrative arrangement is aimed at reducing bureaucratic bottlenecks within the ministries.

5. With respect to CDR's financing function, the mission was informed that the Parliament must approve the contracting of all debt and grants (a law that had not been enforced in CDR's earlier days). Concerning its role in execution, CDR stated that the intent was for projects implementation to be undertaken by the line ministries and agencies; however, procurement (preparation of tender documents, bid evaluation, award of contract, etc.) would be handled by CDR. Secondly, a commission to supervise execution of projects (including staff from CDR and the relevant ministry/agency) would be established under CDR's purview. The role of CDR in financing and execution needs further clarification, and will be pursued during our discussions next week.

Meeting with Mr. El-radl Chalak, President of CDR

6. Mr. Chalak has indicated that he may raise the following matters during his meeting with Mr. Chopra:

(1) Bank assistance for Lebanon's reconstruction program. A major question posed during the mission's visit relates to Bank resumption of lending operations in Lebanon. I have been circumspect on this point in terms of the timing, scope and type of Bank lending assistance. I have highlighted that the first priority of the Bank would be to undertake an economic assessment along the lines outlined below. The Bank's emergency recovery assistance, typical investment projects and loans for technical assistance have been explained to Mr. Chalak and his colleagues. Mr. Chalak will undoubtedly mention the importance of aid donor support (the Bank in particular) in Lebanon's reconstruction program. The presence of the Bank and other donors is expected to act as a catalyst for stimulating private investment flows. In line with discussions with Mr. Voyadzis prior to my departure (and based on Mr. Voyadzis' discussions with Dr. Nour of UNDP), the following approach has been outlined, though I have indicated that any decision on these matters will be taken by the Bank's senior management:

- need to undertake an economic assessment of the current economic situation and medium term development prospects as a basis of reactivating a dialogue with the Government on macro-economic and social policy issues. An economic assessment would lay the groundwork for discussion on the Bank's country assistance strategy, including the scope and type of lending vehicles.

- first step could be economic data gathering mission (to be financed by UNDP and executed by the Bank) maybe as soon as end September 1991. This approach was outlined in a letter from Mr. Voyadzis to Dr. Nour of UNDP;

-second step would be the mounting of a Bank economic mission maybe as early as November or December 1991.

-in parallel with the economic mission, the Bank might be prepared to consider an exploratory/identification mission for an emergency lending operation if there are continued improvements in the security and political situation.

I have highlighted that the preparation of an economic report and discussions on its findings and recommendations will take time, and hopefully in the interim, there will be greater credence towards the restoration of central government authority and internal security. These steps would help to lay the foundation for identifying future Bank actions.

(ii) Bank assistance in reviewing the Bechtel Report. Mr. Chalāk may request Bank assistance in commenting and reviewing the Bechtel/Har Al Handasah report. The first phase of the report, which focusses on identifying immediate rehabilitation and reconstruction needs, is targeted for completion in October 1991. It is recommended that we provide such assistance in order that the output of the report may better serve the needs of both the Bank and other aid donors. For example, four comments on the first phase of the study are:

(a) Institution building is only briefly mentioned but not fully developed. It is important that an assessment of the institutional capacity of each agency be undertaken, not just the physical implementation capabilities, but the long-term sustainability of agencies to administer, operate and maintain services. Technical assistance and training should be identified and defined to the extent feasible. The financial viability of revenue generating agencies (particularly water supply, electricity and telecommunications) must also be addressed;

(b) The report will identify or define projects, but additional work such as feasibility studies and detailed design for new construction and detailed scope of works for rehabilitation may be required, and this will take time. It is also important that new reconstruction, particularly for services, take into account the existing and projected demographics and regional population movements.

(c) In addition to the report's emphasis on the physical conditions of social services, reference to the social equity aspects of the country's recovery program, including the affordability of services and of housing needs will require greater attention; and

(d) the report is silent on the sources of funds, i.e. domestic resources, donor aid (including concessional and grants) and the private sector.

(iii) Request for technical assistance on environmental issues. The lack of any sewage treatment in Lebanon, and of proper management of solid and liquid wastes over the past decade and a half has resulted in serious environmental degradation and pollution. Mr. Chalāk is expected to request assistance, from the METAP and GEF in order to begin to address environmental issues. It is

recommended that the Bank support these initiatives.

7. In addition to CDR's pivotal role in the country's reconstruction efforts, Mr. Chopra might like to highlight the following points in his meeting with Mr. Chalak:

(i) Core Team for Coordination with the Bank. The mission has been informed that CDR has been designated as the focal point for Bank discussions on all aspects of the Government's recovery program. Given the importance the Bank places on establishing a meaningful dialogue on macro-economic and social policy, Mr. Chopra may wish to suggest the establishment of a core team of CDR staff and representatives from selected ministries (in particular, the Ministry of Economy and commerce and Ministry of Finance).

(ii) The social dimension of Lebanon's rehabilitation and reconstruction program. Mr. Chalak is likely to state that the three sectors of key importance for reconstruction and rehabilitation are (in order of priority) water supply and sewerage/solid waste, electricity and telecommunications. Undoubtedly, rehabilitation of key infrastructure in these sectors will reactivate economic activity. However, another important aspect of the Lebanon's recovery program will be focussing on human development as a means of rehabilitating and restoring the social fabric of society. You might also wish to ask Mr. Chalak what steps, in the short term, the Government has in mind to tackle the social dimensions of recovery. This is particularly relevant since there has been heavy reliance over the past 16 years on NGOs for the delivery of basic services to the majority of the population. The Government will need to reassess national policies and its role in the provision of social services (health, education and housing in particular) for lower income level groups.

Attachment (2 pages)

THE WORLD BANK/IFC/MIGA
OFFICE MEMORANDUM

DATE: July 19, 1991

TO: Files

FROM: *K* Karen Rasmussen, Sr. Financial Analyst (EM3IN)

REFERENCE: 33853

SUBJECT: Meeting with H.E. Elias Hrawi,
President of the Republic of Lebanon

1. In accordance with the terms of reference dated July 8, 1991, I participated, as an observer, in the United Nations Assessment of the Development and Reconstruction of Lebanon (UNARDOL) mission in Lebanon from July 14-26, 1991. The purpose of the mission was to provide, in general terms, an initial assessment of priority needs and programmes of technical assistance aimed at supporting the reconstruction and sustainable development requirements of Lebanon. The findings of the mission are intended to form the basis of an appeal by the UN Secretary General for assistance to Lebanon from the international community.
2. On July 15, 1991, the mission was received by H.E. Elias Hrawi, President of the Republic of Lebanon. H.E. Hrawi, a Maronite Christian who was elected on November 24, 1990, spoke spontaneously for one hour. The main points His Excellency touched upon, as translated into English by an interpreter, are elaborated upon below. Mr. El-Fadi Chalak, President of the Council for Reconstruction and Development (CDR), was the only other Lebanese official present during the meeting.
3. In his opening remarks, the President welcomed the UN Inter-Agency mission and added that he placed importance on the mission's report to the UN since it would help to mobilize international support for Lebanon's reconstruction efforts. In this context, His Excellency made a specific reference to collaboration with the World Bank in meeting the long term development objectives of the country. His Excellency also made a point of stating that Lebanon had a relatively low external debt position (a figure of US \$350 million was mentioned) while recognizing there was a sizeable budget deficit.
4. With the termination of emergency relief and humanitarian assistance, the Government was identifying immediate short-term needs that would rekindle economic activity. His Excellency stated that the priority sectors which required urgent rehabilitation and reconstruction were water supply, electricity and telecommunications. He added that the inadequate quantity and the poor quality of potable water were posing health hazards, notwithstanding the environmental degradation caused by a combination of a lack and/or intermittent provision of sewerage services. His Excellency added that, in addition to physical rehabilitation and reconstruction of the country, emphasis would be placed on: (i) the social aspects of reconstruction, including the restoration of basic needs (health, roads and agricultural development); and (ii) manpower development (including training and institution building).
5. His Excellency remarked that the private sector was expected to play an important role in the country's reconstruction efforts. Proposals to establish

... several joint ventures of mixed companies in the water, electricity and telecommunications sectors were under consideration. The mission was requested to discuss these proposals with the CDR. His Excellency noted that the private sector was also expected to share in housing construction and development. However, given the severe housing shortage and requirements to repair damaged dwellings, the significant number of displaced inhabitants and the cost of meeting the demand for housing, the assistance of donors would be sought. In this connection, reference was made to the establishment of a housing fund (follow-up on this matter will take place with the Ministry of Housing).

6. In closing, His Excellency commented that in June 1991, a contract had been signed with Bechtel and Dar Al Handasah to provide a framework for economic recovery, including the definition of emergency rehabilitation and reconstruction needs. The study aimed at providing a strategy for development in all sectors of the economy (which presumably could serve as a basis of soliciting support from aid donors).

cc: Messrs. Chopra, Zulfiqar (EM3DR), Ranjivee, McKechnie (o/r) (EM3ID), Vignola (EM3CU), Bhargava (EM3IE), Keare (EM3PH), Garg (EM3AG)

FACSIMILE TRANSMITTAL FORM
REGIONAL BUREAU FOR ARAB STATES
(FAX NO. (212) 906-5487)
One United Nations Plaza, New York, N.Y. 10017
Telephone (212) 906-5000

TO: MR. RAM CHOPRA FAX NO: (202) 477-1482
DIRECTOR - COUNTRY DEPARTMENT III (EM3)
THE WORLD BANK

FROM: MOHAMED A. NOUR
ASSISTANT ADMINISTRATOR
REGIONAL DIRECTOR
RBASE

M.A. Nour

DATE: June 28, 1991

NUMBER OF PAGES (INCLUDING THIS SHEET): 5

URGENT

VN assistance for the Recm + Dev of Leb

SUBJECT: UNARDOL NEEDS ASSESSMENT MISSION TO LEBANON

Further to our meeting of last week, the Inter-Agency Working Group met yesterday under the chairmanship of Under-Secretary-General for Political and General Assembly Affairs and Secretariat Services Ronald I. Spiers and it was confirmed that there will be a UNARDOL Needs Assessment Mission going to Lebanon from 14-24 July 1991.

As indicated to you last week by both fax and in person, it is my pleasure in my capacity as Team Leader to invite the World Bank to send one participant in this very important mission.

I have attached for your information and review a copy of the terms of reference that were jointly prepared by RBASE/UNDP and Mr. Spiers' office. These terms of reference will provide the basis for the mission but I did indicate yesterday that if any Agency did have any comment on them they should submit proposed changes by Wednesday July 3 to either Ms. Indu Chakravartty, Office of the Under-Secretary-General for Political and General Assembly Affairs and Secretariat Services (fax no: 212-963-5065; telephone no: 212-963-5573) or Bahman Kia/John Hendra of RBASE/UNDP (fax no: 212-906-5487; telephone nos: Kia 212-906-5461; Hendra 212-906-5484).

It would be greatly appreciated if you can confirm the name of the World Bank participant as soon as possible. Each Agency is

/...

responsible for paying for their participation on the mission and for making their own flight and accomodation arrangements. The Secretariat for the Mission (UNARDOL/UNDP) will be staying at the Bristol Hotel and it is highly recommended that other participants consider staying there as well.

Once your participant's flight details and accomodation needs have been determined, we would request that you cable his/her ETA directly to our Officer-in-Charge in Beirut, George Abu-Jawdeh, sending a copy of the cable to RBASE and to Mr. Spiers' office.

If you have any questions regarding the mission, please do not hesitate to contact us and again I would like to say how happy I am that the World Bank will be a part of the UN team.

Warmest regards.

cc. Ms. Chakravartty

INTER-AGENCY MISSION TO LEBANON

DRAFT TERMS OF REFERENCE

A. BACKGROUND

A.1 Present Situation

After 16 years of civil strife, Lebanon is now determined to rebuild its war-torn economy and provide its people with the opportunity to again participate in the development of their country.

The task ahead is complex but at the same time it provides the opportunity to take advantage of new and innovative ideas and approaches. The existing statistical data is highly inadequate but available information indicates that the situation in the country has deteriorated greatly throughout the period following the commencement of the civil war in 1975 and in particular during the last two years. Before the outbreak of war, Lebanon's economy was one of the strongest in the region, with vibrant industrial, agricultural and financial sectors. Beirut was the banking and financial centre for the Middle East. The Government's involvement in economic affairs was minimal and the private sector was vibrant.

Since the inception of the war, much of the industrial, tourist and agricultural sectors have been destroyed. Service industries, especially banking, have relocated abroad. The country has been drained of its best trained and educated people. The national infrastructure and social services have by necessity been neglected and have fallen into disrepair. The quality of life and human opportunities have suffered enormously in the past 16 years and today Lebanon ranks 88th out of 130 countries in terms of UNDP's Human Development Index.

The war economy has produced its own economic realities and informal economic activities have replaced the strong industrial and service-based sectors with the parallel economy dominating many sectors. Public sector spending has jumped; before the war it contributed to 12% of the GDP while the World Bank estimated that by 1983 it stood for approximately 25%.

Higher public/defense spending and a loss in tax and other revenues has resulted in an external debt which by the end of 1990 was estimated at US\$ 517 million. Continued strife, personal insecurity, low public revenues, high domestic and foreign debt and minimal external development assistance has limited the government's ability to commence with reconstruction and rehabilitation. Now the Government of Lebanon is seeking external assistance and the active participation of the private sector to join in rebuilding the country.

A.2 Mandate for Mission

In December 1990 the Government of Lebanon informed the Secretary-General of its success in establishing control over Greater Beirut area and requested UN assistance in the task of rehabilitation and reconstruction. Following this and further developments, a UN Security Mission was fielded to Lebanon which resulted

in the lowering of the United Nations security rating from Phase V to Phase I making reactivation of efforts and prospects for the staging of a UNARDOL Inter-Agency Mission a reality.

Based on the above and General Assembly Resolution 45/225 of 21 December 1990 as well as previous resolutions for assistance for the reconstruction and development of Lebanon, the Secretary-General of the United Nations intends to field a mission to gauge the immediate and longer-term needs of the country and to launch an appeal for international assistance for the social and economic rehabilitation and development of Lebanon.

B. TERMS OF REFERENCE

B.1 Mission Output

A report providing an initial needs assessment that will outline priority needs and programmes for the rehabilitation, reconstruction and sustainable development requirements of Lebanon. The report will constitute a framework focusing primarily on the immediate needs of the country with a view toward long term development and with the active participation of the private sector. This framework will provide estimated costing and is intended to form the basis for an appeal by the UN Secretary-General to the international community.

The document will provide an overall needs assessment seen from a joint UN System perspective, thereby complementing any other sectoral or specialized evaluations which may be planned or in the process of being carried out by other entities. In a second phase, more specialized or technical assessments may be carried out, in close cooperation with other donors or private sector initiatives, thus reinforcing the global reconstruction and development efforts.

Relevant specialized UN agencies are invited to partake in this exercise through the initial needs assessment, followed up by, as required, specific assessment missions in co-ordination with UNARDOL.

B.2 Mission Activities

To prepare the framework the mission will, inter-alia, undertake the following:

- 2.1 Review the country's overall socio-economic situation, in the light of the effects of the civil war and developments in the region;
- 2.2 Review all existing reports/available information on urgent rehabilitation/reconstruction needs (list of available reports in Annex I which is currently under preparation);
- 2.3 Discuss with the relevant government authorities the current situation in Lebanon and immediate and longer-term national priorities, policy framework and strategies;
- 2.4 Assess immediate reconstruction and rehabilitation requirements, inter-alia: reconstruction of essential services and utilities; rehabilitation

of public administration; re-establishment of a statistical base and support to the private sector;

- 2.5 Review plans, strategies and policies in all priority sectors;
- 2.6 In light of the above, assess longer-term reconstruction and rehabilitation requirements and capital investment needs; identify the role of public and private sector investment in meeting the needs expressed;
- 2.7 Assess in broad terms technical assistance requirements for sustainable development in areas such as: employment creation, human resources development including training and education; management development and civil administration reform including review of institutional structures and policies, programmes for revenue generation and taxation, and training of public administration staff; long-term planning; promotion of private sector, trade and other productive sectors including agriculture; strengthening services including health, education, housing, and the environment; provision of services to the most vulnerable especially children, elderly, disabled and displaced; and ensuring full integration of women in all phases of the development process.

8.3 Mission Methodology

The Mission's methodology will be discussed with officials of the Government of Lebanon, in particular the Council for Reconstruction and Development (CDR) who will serve as focal point for the Mission. The Mission plans to initiate its work as a group with a one day briefing and information exchange and then proceed over the next two days with a number of policy meetings with senior Government officials (i.e. President, Prime Minister, Minister of Foreign Affairs, Minister of Planning, Minister of Finance) and with senior officials dealing with most affected areas such as water supply/sewerage, telecommunications, power and basic health requirements. The next three to four days, the Mission will break up according to specialization and will conduct site and field visits as appropriate.

As the broad umbrella framework is established and available data gathered, the Mission will converge as a group to assess what gaps need to be filled in the remaining timeframe of the Mission. The remaining time of the Mission will be used to complete individual specialized area assessments and an annotated outline for the full report.

Although participants will be designated by Agencies, each participant will be a specialist on this mission to get "on-the-ground" estimates of needs and costs in their respective area of expertise. In order to maximize work, each participant should also be provided with a full-time counterpart for the duration of the mission. During its last few days, the Mission in its entirety will come to a consensus on the outline of the report.

It should be noted that the Mission's output will comprise an initial needs assessment that could be followed up by the elaboration of specific assessments and formulation of detailed technical/capital assistance programmes by the Government of Lebanon, United Nations Agencies and the private sector.

C. MISSION PARTICIPANTS

- C.1 Mission Leader: Dr. Mohamed A. Nour, Assistant Administrator and Director, Regional Bureau for Arab States and Europe, UNDP
- C.2 Representative (s) of the Under-Secretary-General Ronald I. Spiers/UNARDOL
- C.3 Bureau for report preparation: UNARDOL/UNDP
- C.4 Agencies and participants (to be confirmed after IAWG meeting of 27 June 1991)
- C.5 Logistical/administrative arrangements to be co-ordinated by UNDP Beirut with assistance from other Agencies and programmes

D. TENTATIVE TIMETABLE

14 July : Arrival in Beirut

15-17 July: Meeting with the Government of Lebanon including the President, Prime Minister and other key Ministers and relevant private sector and NGO representatives

18-21 July: Field visits

22-24 July: Compiling of detailed outline of report and de-briefing with the President of Lebanon

24 July : Depart Beirut

15 August : Finalization of report

June 27, 1991

*Lebanon Dev. Sector
(Recovery / Reconstruction)*

Mr. Mohamed A Nour
Assistant Administrator
Regional Director
Regional Bureau for Arab States
One United Nations Plaza
New York, New York 10017

Dear Mr. Nour:

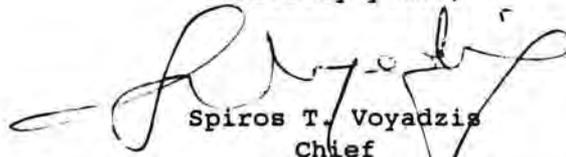
I am writing to acknowledge with thanks your fax dated June 19, 1991 to Mr. Pommier, regarding the proposed need assessment and economic study mission and the joint United Nations mission to Lebanon proposed by UN Secretary General. Let me first refer to the prospective UN mission.

On behalf of Mr. Ram Chopra who is away on leave, I would like to confirm that we will be pleased to participate in the joint United Nations Inter-Agency Needs Assessment Mission during the second half of July 1991. We understand that this mission, to be led by yourself, will form the basis for an international appeal on Lebanon's reconstruction needs which the UN Secretary General intends to make in September 1991. We are designating Ms. Karen T. Rasmussen, a Senior Financial Analyst in our Infrastructure Operations Division (Country Department III), to join the mission. Ms. Rasmussen, who will be able to participate in the mission's field work only, could assist you in evaluating the institutional aspects of the reconstruction effort in Lebanon. To assist us in programming Ms. Rasmussen's work schedule, I would appreciate it if you could inform us, as plans are made, of the mission's travel arrangements, together with relevant details concerning its composition and terms of reference.

With regards to the proposed need assessment and economic study mission, we are currently reconsidering the plans which we had discussed with you earlier. With due regard to the roles of the prospective UN mission and the recent contract signed between CDR and Bechtel for a physical damage assessment, our concern is that some of the "needs/damage assessment" work to be undertaken under the proposed UNDP project could duplicate the other missions' work. We also intend to discuss the Bank's role in this regard with H.E. Ali El-Khalil, the Minister of Finance of Lebanon, who will be visiting the Bank this week. We shall, of course, contact you thereafter, to discuss our conclusions and any new proposals regarding a UNDP/IBRD Preparatory Visit.

With best wishes.

Sincerely yours,



Spiros T. Voyadzis
Chief

Country Operations Division - Department III
Europe, Middle East & North Africa Region

cc: Messers. Pommier (cleared with)
Erim
Fazel
Ms. Rasmussen (o/r).

June 27, 1991
MC:adm
M:SHAREDLEB\LETTER.627

FACSIMILE TRANSMITTAL FORM
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(FAX NO. (212) 906-5487)
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Telephone (212) 906-5000

TO: MR. MICHEL POMMIER
EM3IN
THE WORLD BANK
FAX NO. (202) 477-0348

FAX NO: 429

Date Rec'd 6/20/91

FROM: MOHAMED A. NOUR
ASSISTANT ADMINISTRATOR/
REGIONAL DIRECTOR
RBASE

DATE: June 19, 1991

Assigned to: M. Pommier (O/R)

K. Rasmussen (O/R)

A. Banerjee (Act. Chief)

Copy Erim (EM3CO)

Leb-706

NUMBER OF PAGES (INCLUDING THIS SHEET): 2

Log No.

SUBJECT: EMERGENCY RECONSTRUCTION PROGRAMME FOR LEBANON - NEEDS
ASSESSMENT AND ECONOMIC STUDY MISSION

This is further to your June 14 1991 transmission of the revised Preparatory Assistance document for the emergency reconstruction of Lebanon which incorporated the initial verbal comments Ms. Merlin-Scholtes made to Mr. Erim.

We greatly appreciate both the urgency and the unique opportunity facing Lebanon at this time. Our decision on financing the above-noted preparatory assistance depends in part on consultations with the UN Secretary General's office as well as with our own senior management, the essence of which I would like to share with you now and during my visit to Washington tomorrow.

As Ms. Merlin-Scholtes has indicated to you verbally, the Office of the Secretary General of the United Nations has requested that UNDP lead a joint United Nations Inter-Agency Needs Assessment Mission to Lebanon during the second half of July 1991 which will form the basis of an International Appeal on the Reconstruction Needs of Lebanon to be made by the Secretary General in September 1991. I have been selected to personally lead this mission to be closely assisted by Mr. Elfverson, the UNDP Resident Representative-designate for Lebanon.

The Appeal that will be made by the Secretary General will most certainly contain elements of both technical and capital assistance. It is in this context that we would like to invite the World Bank to participate in this important mission as it is essential that the Appeal be a comprehensive framework that guides future assistance by all UN Agencies, bilateral donors and the Government of Lebanon.

Although the planning of the UN Mission is still at an early stage, the Joint UN Mission will be in the field for a duration of ten days from 16 July - 25 July 1991 with another 7 to 10 days for report writing in both Beirut and New York. It would be of course desirable that the Bank Mission can be in the field parallel to the Joint UN Mission and with some overlap. In this manner, initial observations/work from the Bank's assessment mission can be shared with the UN team through this overlap and of course through regular contact with the Bank representative on the Joint UN Mission.

Clearly a UN mission of this nature and duration will not be able to come up with much more than an initial framework appeal for what may be required for short-term reconstruction. Detailed terms of reference and mission specifics are still under discussion with the Secretary General's office. It is intended, however, that the UN Mission will serve as the basic umbrella framework for a preliminary appeal and will certainly not exclude further follow-up missions by the World Bank, UN Agencies and UNDP. Nor do we feel that the World Bank Assessment mission to be financed through preparatory assistance will be duplicative as its outputs in terms of general infrastructural priority needs in the priority areas of electricity, water/sewage and telecommunications will be incorporated into the Secretary General's broader appeal.

We are now finalizing the terms of reference; any suggestions you may have from your experience would be greatly appreciated.

For the above reasons, we would be ready to finance the preparatory assistance covering the Bank's needs assessment mission in the understanding that its outputs will be incorporated into the final report of the Joint UN Mission which will serve as the basis of the appeal by the Secretary General.

We trust to receive promptly the agreement of the Government of Lebanon so that you can field the mission on an urgent basis thereby enabling its work to feed into the Joint UN Mission starting in mid-July 1991.

I greatly look forward to meeting with you tomorrow to further discuss these issues.

FACSIMILE TRANSMITTAL FORM
REGIONAL BUREAU FOR ARAB STATES
(FAX NO. (212) 906-5487)
One United Nations Plaza, New York, N.Y. 10017
Telephone (212) 906-5000

TO: MR. MICHEL POMMIER
EM3IN
THE WORLD BANK
FAX NO. (202) 477-0348

FAX NO: 429
INFORMATION DIVISION

Date Rec'd 6/20/91

FROM: MOHAMED A. NOUR
ASSISTANT ADMINISTRATOR/
REGIONAL DIRECTOR
RBASE

Date Ack'd
DATE: June 19, 1991
Assigned to: M. Pommier (ok)
K. Rasmussen (ok)
A. Banerjee (Act. chief)
Copy Erim (EM3CO)
Leb-706

NUMBER OF PAGES (INCLUDING THIS SHEET): 2

SUBJECT: EMERGENCY RECONSTRUCTION PROGRAMME FOR LEBANON - NEEDS
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As Ms. Merlin-Scholtes has indicated to you verbally, the Office of the Secretary General of the United Nations has requested that UNDP lead a joint United Nations Inter-Agency Needs Assessment Mission to Lebanon during the second half of July 1991 which will form the basis of an International Appeal on the Reconstruction Needs of Lebanon to be made by the Secretary General in September 1991. I have been selected to personally lead this mission to be closely assisted by Mr. Elfverson, the UNDP Resident Representative-designate for Lebanon.

The Appeal that will be made by the Secretary General will most certainly contain elements of both technical and capital assistance. It is in this context that we would like to invite the World Bank to participate in this important mission as it is essential that the Appeal be a comprehensive framework that guides future assistance by all UN Agencies, bilateral donors and the Government of Lebanon.

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Clearly a UN mission of this nature and duration will not be able to come up with much more than an initial framework appeal for what may be required for short-term reconstruction. Detailed terms of reference and mission specifics are still under discussion with the Secretary General's office. It is intended, however, that the UN Mission will serve as the basic umbrella framework for a preliminary appeal and will certainly not exclude further follow-up missions by the World Bank, UN Agencies and UNDP. Nor do we feel that the World Bank Assessment mission to be financed through preparatory assistance will be duplicative as its outputs in terms of general infrastructural priority needs in the priority areas of electricity, water/sewage and telecommunications will be incorporated into the Secretary General's broader appeal.

We are now finalizing the terms of reference; any suggestions you may have from your experience would be greatly appreciated.

For the above reasons, we would be ready to finance the preparatory assistance covering the Bank's needs assessment mission in the understanding that its outputs will be incorporated into the final report of the Joint UN Mission which will serve as the basis of the appeal by the Secretary General.

We trust to receive promptly the agreement of the Government of Lebanon so that you can field the mission on an urgent basis thereby enabling its work to feed into the Joint UN Mission starting in mid-July 1991.

I greatly look forward to meeting with you tomorrow to further discuss these issues.

KR

CE - Urban Dev. Sector
(Recovery / Reconstruction
Project) *Environ*
FILES

LEB

Bechtel

8618 Westwood Center Dr., Suite 300
Vienna, Virginia 22182-2282

Frank J. Cain
Senior Vice President

Karen (012)

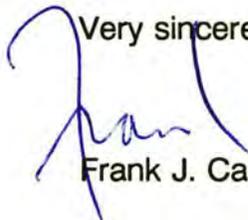
May 30, 1991

Mr Amazege
for your information
to prepare the
document about
the damage
Armenia &
reconstruction
program.

Mr. Michel Pommier
Division Chief, Infrastructure
Country Department III
Europe, Middle East & North Africa Region
The World Bank
1818 H. Street, N.W.
Washington, D.C. 20433

Dear Michel, DOC # H39667.

Attached is the technical paper of our proposal to CDR as promised in our meeting of yesterday, May 29, 1991. Please maintain this document in your personal confidence.

Very sincerely yours,

Frank J. Cain

me

ROUTING SLIP		DATE: 5-31
NAME		ROOM NO.
Mr. Pommier		
APPROPRIATE DISPOSITION	NOTE AND RETURN	
APPROVAL	NOTE AND SEND ON	
CLEARANCE	PER OUR CONVERSATION	
COMMENT	PER YOUR REQUEST	
FOR ACTION	PREPARE REPLY	
INFORMATION	RECOMMENDATION	
INITIAL	SIGNATURE	
NOTE AND FILE	URGENT	
REMARKS: Lebanon At Mr. Joradzis' suggestion, I am sending you a copy of my brief note to him. I am also giving a copy to Mr. Amuzghat.		
FROM: O. H. Calbe	ROOM NO.:	EXTENSION: 32070

Mr. Voyadzis:

Handwritten notes in Arabic and English, including "1/30", "L.P.", "Project", "Lebanon", "Urban Dev Sector", and "Recovery / Reconstruction".

KARON (circled)

May 30, 1991

Lebanon -- Mr. Sbaiti's draft UNDP Project Formulation Framework (PFF) re Reconstruction Needs Assessment

Leb. Urban Dev Sector (Recovery / Reconstruction)

1. Mr. Sbaiti's attached draft calls for a 10-week consultants' study, at a total cost of about US \$3 million, "to identify urgently-needed works" in the electricity, telecommunications, water and sewerage, health, education and housing sectors, together with preparation of terms of references for further sectoral, economic and financial studies for planning of long term reconstruction and development effort in each sector and for the economy as a whole. To facilitate identification of immediate reconstruction needs, Mr. Sbaiti proposes the use of satellite images of Lebanon. He envisages a meeting between the Bank staff and the Lebanese representatives shortly, to amend his draft PFF in the light of results of a current Beirut American University-sponsored seminar in Beirut (May 29 - June 1, 1991) on Lebanon's reconstruction needs.

2. My impression is that, unless executed in well-defined phases, Mr. Sbaiti's approach is too comprehensive, costly and time-consuming. It differs considerably from the Bank's approach which you had explained recently to a visiting Lebanese delegation at the Bank. The draft PFF raises issues such as:

- Does the Bank want to include in the same UNDP project a needs/damage assessment, and drafting of terms of references for subsequent reconstruction and development studies for each sector and for the economy as a whole?
- For an urgent reconstruction needs assessment, which sectors/subsectors the Bank would like to cover (the services, ports, education, health, housing)?
- Is the proposed satellite imagery method the best approach as a prelude to a needs/damage assessment?
- Is the Bank willing to act as the executing agency for the UNDP project? If so, how the Government, the UNDP and the Arab Funds would fit in the picture?
- The UNDP project cost estimates -- are Mr. Sbaiti's estimates acceptable?
- If the Bank is not going to be the executing agency, how the Bank's own reconstruction aid to Lebanon will fit in with the UNDP/ Arab Funds/ etc. preparatory work?

3. I understand that Mr. Kuros Amouzgar, a consultant hired by Mr. Pommier to assist in the Lebanon reconstruction programs, is now working on a much simpler UNDP project (PFF) which would provide for an early 4-week (2 weeks in Lebanon), 4-person needs assessment visit, at a total cost of around US\$ 50,000-60,000. A damage assessment team would follow this initial visit. Mr. Amouzgar will send us a copy of his draft PFF for comment.

4. In his UNDP-PFF covering note to you, Mr. Sbaiti says that he would be visiting the Bank shortly, on his way from Beirut to Dallas, to brief the Bank about the Beirut seminar results and to finalize his UNDP-PFF draft. Before his visit, you may wish to review with Mr. Pommier, Mr. Bjorgung and others the Bank's position and the next moves on Lebanon.


O. H. Calika

cc: Mr. Erim

Anders Björnung

1/2

**UNITED NATIONS
DEVELOPMENT PROGRAMME**

**WORLD
DEVELOPMENT**

UNDP

*Leb-Urban Dev. Sector
: (Recovery/Reconstruction)*

**FACSIMILE TRANSMITTAL FORM
REGIONAL BUREAU FOR ARAB STATES & EUROPE
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One United Nations Plaza, New York, N.Y. 10017
Telephone (212) 906-5000**

TO: Mr. Michel J. Pommier **FAX NO: 398**
Country Department III (EM3)
The World Bank
FAX No. 202-477-0348

FROM: Joana Merlin-Schiffes **DATE: May 29, 1991**
Acting Chief, CPD/REASE

NUMBER OF PAGES (INCLUDING THIS SHEET): 2

Please find attached a copy of Mr. Spier's memo to the UN Inter-Agency Working Group confirming the lowering of the security phase form V to I. I trust the World Bank will be represented at the Inter-Agency meeting being scheduled for 5 June.

I have given further thought to the document being prepared to cover the Needs Assessment Mission and would suggest, if time permits, that the plans of the second phase related to the reconstruction, be added to it. The document would thus become more comprehensive and clearer in its long-term purpose.

We are looking forward to our collaboration on this issue.
Kind regards.

INFRASTRUCTURE DIVISION - CD3

Date Rec'd 5/31/91

Date Ack'd _____

Assigned to: Pommier

KARER

Log No. Fax-~~718~~-678
LEB

URGENT

*⑤
pls cc to
Nancy Zuehliger
and Jofa
June 8's.*

2/0

UNITED NATIONS



NATIONS UNIES

INTEROFFICE MEMORANDUM

MEMORANDUM INTERIEUR

TO: Members of the Inter-Agency Working Group on
A: Assistance to Lebanon

DATE: 24 MAY 1991

REFERENCE: _____

THROUGH:
S/C DE:

FROM: Ronald I. Spiers
DE: Under-Secretary-General, SG/OPGS

ISIK

SUBJECT: Lebanon
OBJET: Lebanon

I would like to inform you that the Secretary-General has decided, in accordance with the recommendations of the United Nations Security Coordinator, to lift Phase V of the Security Plan, currently in force in Lebanon, and declare Phase I effective immediately to resume normal operations in that country with the following restrictions:

- 1) Lebanon should remain a non-family duty station;
- 2) All Staff assigned to Lebanon and all missions must have the prior clearance of the Designated Official with the concurrence of the Office of the United Nations Security Coordinator.

The Security Coordinator's Office, which sent a Security Assessment Mission to Lebanon on 14-18 May 1991, will undertake re-assessment of the situation at the end of September.

With this new development, I would like to convene an Inter-Agency Working Group meeting on Wednesday, 5 June 1991, at 10:30 a.m. in room S-3858 to discuss the next step of activities on the reconstruction and development of Lebanon, in particular an inter-agency needs-assessment mission which I intend to field as soon as possible.

It would be appreciated if you could forward to me, no later than 31 May 1991, a brief note stating whether your agency wishes to be considered to take part in the proposed mission and the roles your agency envisages in the future reconstruction and development process in Lebanon.

cc - Leb - Urban Dev. Sector
(Recovery / Reconstruction)
May 23, 1991

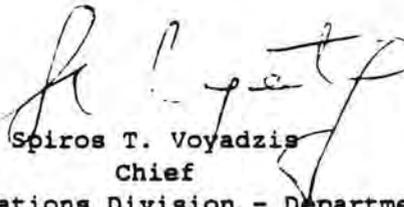
H.E. Dr. Ali El-Khalil
Minister of Finance
Beirut
Republic of Lebanon

Your Excellency:

Please find attached an Aide-Memoire which reflects the discussions that have taken place in Washington on the occasion of the visit of several officials from Lebanon to attend the Development and Interim Committee Meetings. We would greatly appreciate it if you could provide us with any comments you may have.

In view of their interest I am copying this letter and its attachment to Dr. Habib Abou Sakr, Director General of Finance and Alternate Governor of the World Bank, Dr. Mahfouz Skayne, First Deputy Governor at the Banque du Liban and Alternate Governor for Lebanon at the IMF, Dr. Marwan Ghandour, Third Deputy Governor at the Banque du Liban and Secretary of the Lebanon Government's Coordination Committee, and H.E. Dr. Mohamed Youssef Beydoun, Minister of Hydraulic and Electric Resources who also visited the Bank on May 10, 1991.

Sincerely yours,



Spiros T. Voyadzis
Chief
Country Operations Division - Department III
Europe, Middle East and North Africa Region

cc: Mr. Fawzi Al-Sultan
Executive Director

Mr. Ezzedin Shamsedin
Advisor to the Executive Director

AIDE-MEMOIRE

DISCUSSIONS WITH THE DELEGATION OF LEBANON AT THE WORLD BANK APRIL 26, 1991

1. On the occasion of their visit to Washington to attend meetings of the Development and Interim Committees, members of the Lebanese delegation took the opportunity to discuss with Bank and IFC staff on April 26, 1991 issues concerning the process of reconstruction and development in Lebanon as well as possible assistance by the Bank. The delegation consisted of Dr. Habib Abou Sakr, Director General of Finance and Alternate Governor of the World Bank, Dr. Mahfouz Skayne, First Deputy Governor at the Banque du Liban and Alternate Governor for Lebanon at the IMF, and Dr. Marwan Ghandour, Third Deputy Governor at the Banque du Liban and Secretary of the Lebanon Government's Coordination Committee. Mr. Ezzedin M. Shamsedin, Advisor to the Executive Director for Lebanon, accompanied the delegation. The Bank's staff who participated in the discussions included Messrs. Voyadzis (Chairman), Bhargava, Pommier, Erim, Fazel and Mmes. Rasmussen and Kolan. Mr. Hovaguimian (IFC), Ms. Scholtes (UNDP), and Mr. Sbaiti (Arab Fund for Economic and Social Development) were present.

2. Mr. Voyadzis welcomed the Lebanese delegation. He invited them to give their views on how the Bank could help Lebanon. Delegation members, noting with satisfaction the current rapid improvement in the security situation in Lebanon, stated that the Government now had to cope with several pressing economic problems and needed assistance. Inadequate revenue collections hampered the government's functioning; and a lack of basic services (electricity, water/sanitation, housing and telecommunications) adversely affected economic and social life of the nation. These were among the prerequisites for the country to stand on its feet. The government required technical assistance to augment the public revenues, stabilize the Lebanese pound, and reorganize the banking system. The Central Bank also needed assistance to strengthen its data collection and statistical department.

3. The delegation members explained that the Government had earlier planned to proceed speedily with the privatization of some public services (such as electricity). The purpose was to restore the public services quickly, while securing additional investment funds for the Government. However, the Government now preferred to pause in this effort, considering that some work on the relevant economic framework was needed before making privatization decisions on a sound basis. Nevertheless, the Government's ground work on privatization had been proceeding through a ministerial committee which was considering questions such as reactivation of the capital

markets and the requisite legal framework. The Government would welcome learning from the Bank about its experience elsewhere on privatization.

4. The Bank representatives said that the Bank would be glad to discuss with the Government its experience with privatization elsewhere. They noted, however, that the proposed technical assistance to the Government in the fields of increased revenue collections, improved monetary and credit policies, and central bank and commercial bank reorganization, fell more in the field of the IMF competence, and the Bank would discuss these matters with the IMF staff. The UNDP might be able to respond to the Central Bank's needs for data collection and processing hardware (ref. para. 8 below).

5. The members of the delegation stated that, aside from the foregoing technical assistance needs, the Government wanted to have the Bank to resume rapidly its lending activity in Lebanon. The country faced very serious economic and physical reconstruction problems and, as an IBRD member state in good standing, it required the Bank's urgent aid, technical as well as financial, to overcome some of these problems. The Prime Minister would shortly be sending a formal letter to the Bank's senior management to ask for Bank assistance on an emergency basis. Mr. Voyadzis said that the Bank would welcome such a request and, within its means, would be glad to respond. He then explained that, for the Bank to resume its lending activity in Lebanon, an essential step would be for the Bank to undertake an overall review of Lebanon's economic position and prospects. A Bank economic mission would visit the country to learn from the Government about its policies/plans regarding overall economic development and reconstruction activity in the medium-term. Preparatory work for an emergency lending operation can be undertaken simultaneously. Unfortunately, such on-the-spot reviews by Bank staff would not be feasible at this time, owing to the existing U.N. restrictions staff travels to Lebanon. In any event, data collection by the Lebanese authorities would be needed to prepare the way for such a Bank review (ref. para. 9 below). The delegation members stated that they have been aware of these requirements. Similarly, they expected to receive from the IMF a list of data which the IMF would require from Lebanon for its own review. The delegation members further stated that, for some time, preparatory work concerning the country's reconstruction plans had been in progress at the Government's Council for Development and Reconstruction (CDR). Some technical studies were already prepared, particularly concerning the electricity sector. CDR's proposals would be reviewed by the Cabinet and be subject to approval by Parliament. While CDR remained responsible for planning/programming, the line ministries would execute approved programs/projects. The delegation regretted that a CDR representative, who would have briefed the Bank staff on the status of the ongoing CDR work, was not included in the current visit to the Bank. Aside from the ongoing CDR planning/programming work, the delegation reiterated that the country at present faced some urgent needs for reconstruction (such as restoration of essential public services). These were obviously very high priority areas for investment and action on them needed to be taken without further delay.

6. The discussions then focussed on what could be done in Lebanon, between now and a waiver of the current U.N. travel restrictions, to prepare the ground for, and to expedite the work of future Bank economic and

sector/project missions to Lebanon. It was agreed that, on the basis of the Bank's data requirements, the Lebanese authorities (with possible assistance by the UNDP, the Arab Fund, the Kuwait Fund and any other aid-givers) would make as much progress as practicable on data collection (related to both economic situation and to sector/project issues) and take necessary action to meet the most pressing reconstruction needs. In this connection, Mr. Sbaiti representing the Arab Fund and Mr. Shamsedin, Advisor to the Executive Director for Lebanon, travelled to New York and met with Mr. Abdilatif Al-Hamad, Director General of the Arab Fund and discussed the modalities of assistance to Lebanon in the power sector. Mr. Al-Hamad gave assurances that the Arab Fund will consider favorably to lend for the rehabilitation of the power sector in Lebanon.

7. The Bank staff indicated that possible leads which the authorities might pursue at this time may include the following:

(a) a UNDP-financed "needs assessment" which could prepare the ground for a follow-up "damage assessment". (The Bank would be glad to discuss the scope of this study with the Lebanese authorities.); and

(b) UNDP, Arab Fund and the Kuwait Fund may provide assistance in preparatory work (detailed damage assessment) in anticipation of Bank and other external emergency reconstruction aid to restore the basic services (water, sanitation, electricity, telecommunications).

8. The IFC representative, assuring the delegation of the IFC's willingness to operate in Lebanon (parallel to the Bank's macroeconomic work) as soon as the current U.N. travel restrictions are waived, emphasized:

(i) the Government's need to choose the highest priority investments for necessarily limited IFC aid; (ii) availability of emergency plans for improved basic services; and (iii) assignment of a prominent role to the private sector in the country's reconstruction effort. He mentioned the possibility of IFC's assisting Lebanon in setting up a leasing company.

9. The UNDP representative, describing the UNDP's current plans to aid Lebanon, stated that a UNDP Resident Representative (already identified) would soon be active in Lebanon. A country program would be prepared in due course. The UNDP would be willing to finance a "needs assessment" of Lebanon. The UNDP may also be able to respond positively to the Government's/Central Bank's needs on improved data collection.

10. In the concluding session with the delegation, the following lines of action were discussed and agreed upon:

(a) as soon as practicable, the Bank's staff will provide the delegation with an Aide-Memoire covering the topics discussed with the delegation and the mutually agreed follow-up actions;

(b) the Government will assess its pressing needs for external assistance (including by the Bank) and will set priorities among them. The areas to be covered will include technical assistance needs, emergency reconstruction aid requirements to restore basic services, as well as longer-term macroeconomic and sector/project aid. The meeting endorsed a UNDP-financed "needs assessment" to facilitate the Government's work in this field;

(c) the Bank's staff will prepare and send to the Government, shortly, two documents: (i) the detailed program that the Bank follows to appraise an emergency aid project (including damage assessment techniques and institutional organization); and (ii) a check list on how the Bank undertakes a general economic assessment of a member country (data requirements, areas to be covered, etc.). In its covering letter, the Bank will propose a meeting date and place (outside Lebanon) for the Bank and the Lebanese Government representatives to come together, in about two week's time after the receipt of these documents, to review these documents and to plan the respective tasks by the Government and the Bank;

(d) to prepare the way for Bank assistance to Lebanon, the Government should set up a broadly-constituted senior-level multi-agency working team led by CDR, to undertake the necessary preparatory work in Lebanon and to be authorized to conduct substantive discussions with the Bank staff, as proposed above. The Government will also appoint a reconstruction coordinator to be the central channel for communications with the Bank;

(e) parallel to the foregoing lines of action, the Lebanese authorities are encouraged to approach other potential financiers, to secure their technical and/or financial assistance to help the Government to meet the country's most pressing technical and reconstruction aid requirements.

Post Script

11. Subsequent to the meeting with the Lebanese delegation, the Bank received information that the UN may soon waive the existing travel restrictions on Lebanon. The Bank's staff may then be able to visit the country and the proposed meeting between Bank staff and the Lebanese working team (para. 10) may take place in Beirut (instead of a location outside the

country), on a mutually convenient date. The Bank may also act as the executing agency for the proposed UNDP "needs assessment" project (or a "needs cum damage assessment" project) (para. 9). However, before any formal reaction by the Bank to assist Lebanon it is important for the Bank's senior management to receive from the Government a letter requesting resumption of Bank operations/activities in Lebanon.

12. On May 10, 1991, His Excellency Mohamed Youssef Beydoun, Lebanese Minister of Hydraulic and Electric Resources, visited the Bank. He met Messrs. Voyadzis, Bhargava and Pommier. Mr. Shamsedin accompanied him. The Minister gave to Bank staff detailed information regarding the most pressing reconstruction and development needs in Lebanon's electricity, drinking water, irrigation water, sanitation, ports and telecommunications services. The Bank's staff welcomed this information. They promised that possible Bank staff or consultants' missions to Lebanon would pay particular attention to the construction needs in these sectors.

THE WORLD BANK
INTERNATIONAL FINANCE CORPORATION
MULTILATERAL INVESTMENT GUARANTEE AGENCY

May 20, 1991

Mr. Michel Pommier

Lebanon

Per our discussion this afternoon I have just received the attached fax but have not read it. The idea for us as you know is to prepare a UNDP-type project with the Bank or the Government as executing agency for a needs assessment.

Spiros T. Voyadzis

cc: Mr. Calika

Leb-Urban Development Sector
(Recovery/Reconstruction)

Date: Monday, May 20, 1991

To: Mr. Spiros Voyadzis
Division Chief
Country operations
EMENA III
The World Bank

Fax. No. 1-202-477-1603

Your Ref.

From: A.A.SBAITI *as*

Fax.No. 214-490-0864

Our Ref.

Pages Transmitted (including this page)--21--

In case of incomplete or unclear transmittal, please
call us at 214-458-7633

Message:

As per Attached
Proposed agreement agreeable in general. Have few clarifications to
ask on Monday. But Please go ahead and prepare agreement for
signature.

Ahmad A. Sbaiti
2820 Knollwood Dr.
Plano, Texas 75075

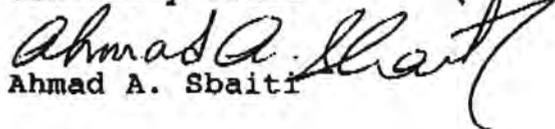
Mr. Spiros Voyadzis
Division Chief
Country Operations Division
EMENA III
The World Bank
1818 H Street, N.W.
Washington, D.C. 20433

May 20, 1991

Dear Mr. Voyadzis,

It was a pleasure to talk with you on the phone the other day. As promised, please find enclosed herewith the PFF-document for the proposed UNDP-funded study on Lebanon. I suggest that we finalize this document in the light of the seminar to be held on this topic in Beirut. I plan to pass by the Bank on my way to Dallas to brief you. I shall fax you my arrival date later. I look forward to working with you.

Sincerely yours


Ahmad A. Sbaiti

UNITED NATIONS
DEVELOPMENT
PROGRAMME

PROGRAM AND PROJECTS MANUAL

ANNOTATED FORMAT
PROJECT FORMULATION FRAMEWORK

Country: Lebanon
Date: May 17, 1991
Project No. Proposed title: Emergency Reconstruction Programme for Lebanon (including preparation for the planning of long-term reconstruction and development),

Estimated duration: Ten weeks
Tentative UNDP + Cost-sharing contribution: US \$2.85 million
Estimated counterpart cost: US \$0.2 million equivalent
Sources of funds: ?

A. Development Problem(s) Intended to be Addressed by Proposed Project

1. At Sectoral or Subsectoral Level

1.1 Immediately upon Lebanon's independence from France in 1946, the Lebanese government instituted two actions that set the economy on the road to a free market economy and laissez-faire-ism: 1) it removed restrictions on international transactions and the movement of capital and persons into/out of the country; and 2) it gradually unified the monetary exchange rates. The Lebanese economy has stayed on this course to date, and grew continuously, even through some years of the civil war that raged in the country between 1975 and 1990.

1.2 Estimates of Lebanon's national income started in 1950. There are some reliable and consistent series for the period 1950-1958. Continuous and consistent estimations, up to the present, started in 1964. These estimates show that the economy grew, in real terms, at 7% annually in the 1950s, at slightly less than that in the 1960s and early 1970s, and at about 6% annually for the entire period 1950-1975.

1.3 The growth stated above was manifest in three major areas:

(II) The economic activity in Beirut and Mount Lebanon, coupled with the lack of employment opportunities and the necessary infrastructure in the other, mainly rural areas, caused a large number of people in those areas to migrate to Beirut and its environs. Those people were mostly laborers earning low wages and had to struggle to eke out a living in Beirut. They huddled in inadequate and unhygienic housing on Beirut's periphery, known as the Belt of Misery. Those suburbs became festering grounds for discontent, and their residents were the main recruits for the various militias that carried on the civil war for fifteen years.

(III) Such were the failings of the Lebanese economic experience that, even without the civil war, Lebanon needed to address and remedy this malaise. But to do so required drawing up and implementing adequate development plans over some years. One such plan in fact was drawn up by the then-existing Ministry of Planning in 1972. Regrettably, however, the plan was never executed, and the ministry was abolished when the Council for Development and Reconstruction was created.

(IV) The civil war that raged throughout the country for fifteen years has destroyed all infrastructure and the economy itself. After fifteen years of warfare, the entire country now suffers from the lack of electricity, water and sewerage, telecommunications, health, education and adequate housing facilities, proper road network, port and airport, as well as mostly damaged industrial and agricultural sectors. In addition, the purchasing power of the Lebanese currency has been eroded.

Evidence

(I) From 1950 to 1975, the evolution of Lebanon's major economic activities was centered in and around Beirut, mainly in the Mount Lebanon area; the rest of the country remained under- or undeveloped. As a result, the picture of the country's economic development emerged as follows:

1. The infrastructure required to set economic activity in motion was in place in Beirut and its environs; however, the infrastructure was inadequate in pockets in these two areas as well as in most of the country, especially in areas the most remote from Beirut, which generated little or no economic activity. A survey of sectoral development reveals that Beirut and environs had the best developed facilities in the country (roads, ports, airport, telecommunications, electricity, water and sewerage, hospitals, housing, and schools and universities). For instance, the North, South and East were 88% dependent upon the poorly-regarded public schools in 1988 - reflecting their middle-to low-income status - while Beirut and Mount Lebanon

had 50% of the country's private schools. South Lebanon, with one third of the population, had perhaps four public hospitals that were inadequately equipped and staffed.

2. The migration from rural areas to Beirut caused the agricultural sector to decline and created housing shortages in Beirut. It also strained the city services - water and electricity supplies.

(III) Other areas of evidence are:

1. Skewed income distribution
2. An inadequate state-run educational system
3. Inproperly distributed and maintained health, telecommunications, water and sewerage, electricity and road systems.
4. highly over-priced housing that is beyond the means of most Lebanese.

(IV) The civil war that ravaged the country from 1975 to 1990 destroyed virtually the entire infrastructure and the economy itself, along with the Lebanese themselves! First to be destroyed was the service sector (banks, hotels, restaurants and other tourist centers), followed by the physical infrastructure (ports, airport, electricity, telecommunications, water and sewerage systems). Finally, basic services were instituted by the militias, which totally replaced the government in providing these services; this denied the government the income it could have generated from supplying these services. As such, the war destroyed everything, inadequate as it may have been.

B. Concerned Parties/Target Beneficiaries

1. The need to reconstruct the country had weighed heavily on the mind of the successive Lebanese governments since the start of the civil war. In January 1977, after the so-called Two Year War of 1975 and 1976, the government created the Council for Development and Reconstruction (CDR) to plan for, and assist the line ministries in, reconstructing the country. It also created the Economic Advisory Committee, composed of the president of CDR, the governor of Lebanon's central bank, and the Minister of Finance. The Committee's task was to coordinate reconstruction and monetary and fiscal policies. Both the CDR and the Committee are still in existence .

1.2 From the inception of the reconstruction effort, Lebanon enjoyed tremendous support from the international community of donors: the World Bank, the Arab and regional funds and banks, the EEC and EJB, US AID, as well as from the countries of the

-5-

world. This support was manifest in loans and grants given to Lebanon throughout the past fifteen years by many of these donors.

1.3 The Lebanese government, because of its concern for the reconstruction of the country and the support it enjoyed and received worldwide, has been engaged in the reconstruction process since 1978. Many reconstruction projects and annual investment programmes were prepared and approved by the government and donors. And many projects contained in those programmes were launched; some were implemented completely, while others are still in the pipeline. As such, the reconstruction effort never really stopped. Even as battles were further destroying some areas, reconstruction went on in others where there was no fighting.

1.3 The target beneficiaries are the entire Lebanese population. Even without the war, many Lebanese - those with low incomes or those in rural or remote areas, needed to be targeted for development and improvement of living standard. Now that the war has virtually wiped out the country's middle class, the entire population will be the beneficiary of this project.

C. Pre-Project and End-of-Project Status

1. The present or pre-project situation is as follows:

1.1 The economic sectors and the economy itself are marked by rampant and pervasive destruction and virtual collapse. This has caused enormous suffering among the population at large, particularly the low-income groups - which now make up the majority of the population. This is especially true for the sectors that directly affect the daily lives of the people: Electricity, water and sewerage, telecommunications, health, housing, and education.

1.2 The lack of infrastructure has caused many businesses and services to come to a standstill. In particular, the lack of electricity and water has caused the shutdown of many industrial plants.

1.3 The above gave rise to a very difficult economic situation in which runaway inflation is matched only by the running away of skilled and semi-skilled people out of the country seeking employment elsewhere. It is reported that some one million Lebanese have left the country since 1975.

1.4 The economic squeeze above gave rise to a financial squeeze manifest in a drastic decline in the purchasing power of the Lebanese currency and the virtual 'dollarization' of the economy.

2. Situation Expected at the End of the Project

It is expected that at the completion of this "project study", the following will ensue:

1. An emergency recovery programme will be prepared for the implementation of urgent projects in electricity, water and sewerage, telecommunications, health, education and housing. This programme will not only list projects of emergency nature in each of these six sectors but will also develop, in conjunction with the Lebanese authorities, criteria to prioritize those sectors and projects therewithin such that implementation will proceed on the basis of available funds for the most urgent projects while, at the same time, efforts could be expended to procure funds for the other projects in the programme.
2. As argued in Section A above, the Lebanese economy had needed restructuring and development even without the civil war. Therefore, it is intended that the proposed "project study" will gather enough data and information to prepare terms of reference for sectoral planning studies for the long term reconstruction and development of each sector of the economy as well as the economy itself and the government finances and fiscality. The completion of such plans will enable the country to rebuild on sound and equitable bases. Such plans should present the short-, medium- and long-term reconstruction and development requirements of the country, the timing and costing thereof, and the proposed priorities and implementation schedules.

D. Special Considerations

The "project study" will have a tremendous economic impact on the country. This impact will be strongest on the low-income groups. Consider the following effects:

1. This "project", a series of studies to identify urgently needed works in the six sectors that affect the daily lives of the population the most, is itself urgently needed to start work in all of those sectors on an emergency basis to help alleviate the suffering of the population at large, and the low-income groups -by now, the majority of the Lebanese people- in particular.
2. The "project study" as well as its subsequent implementation would provide added employment to people, and would also fuel

-7-

the machinery economic sectors. For instance, electricity fuels the machinery of industrial plants that are all small to medium size and run on electricity.

3. The "project study" will further enable planners to set the terms of reference for sectoral planning for the long term reconstruction and development of the sectors of the economy as well as, the restructuring of the economy and government finance and fiscality.

4. The "project study", once completed, will help engage non-government organizations and other private donors, as well as international multi- and bilateral donors, in the implementation of the projects emanating from that study.

5. The selection of the consultants will be made by UNDP in consultation with the Executing Agency and in accordance with the World bank guidelines. These terms of reference and short list of consultants will also be finalized by UNDP and in consultation with the Executing Agency.

2. Identify any negative impact which the project may have on the environment or on particular groups

2.1 The project and the resultant implementation works from it will not have any negative impact on the environment. The only negative impact this project may have is that, by helping alleviate the misery of the low-income groups, members of these groups will find it less and less attractive to resort to violence in their daily lives. This kind of negative impact would be most welcome by all.

E. Other Donors, Programmes Active in the Same Subsector

1. The "project study" and the subsequent implementation of projects emanating therefrom, will have an automatic linkage with other sources of external assistance for all sectors and subsectors. For instance, the Arab and regional Funds may participate in defraying the costs of the study, if approached by the government of Lebanon.

2. For implementation, the World Bank Group as well as those Funds and other multi- and bilateral donors could finance the projects to be implemented, as well as the proposed sectoral and macro-economic studies for the long term reconstruction and development of the country.

F. Developmet Objective and its Relation to the Country Programs

1. The principal objective of the government now, as it is declared in speeches and actions of its members at large, the Prime Minister and his Economic Advisory Committee, and the establishment and activities of the Council for Development and Reconstruction (CDR), is to start the rebuilding of the country along reconstruction and developmental lines.
2. The "project study" is aimed at providing an emergency recovery program of projects to be implemented urgently because they drastically affect the daily lives of the population. At the same time, enough data and information should be gathered during the study for the writing of terms of reference for sectoral and economic planning studies.
3. The high priority sectors that affect the daily lives of the population, and in which emergency recovery work is direly needed are: 1) Electricity, 2) Telecommunications, 3) Water and Sewerage, 4) Health, 5) Education and, 6) Housing.
4. The CDR, in association with the American University of Beirut, has prepared some position papers on the needs assessment of various sectors. Those papers will be discussed in the forthcoming seminar on reconstruction of Lebanon to be held in Beirut from May 29 to June 1, 1991. It is suggested here that UNDP and the World Bank meet with representatives of the Lebanese government, either in Beirut-if travel restrictions are lifted- or in another place-Cyprus, for instance- to discuss those papers and the results of the seminar such that this PFF-document could be revised in the light of the results of this meeting.

G. Major Elements

(If there is more than one objective, a separate sheet should be used for each. Please refer to the outline of the project document in subsection 2.2, below, for the layout.)

Immediate objective one:

How can it be determined if and when this objective has been achieved (i.e. , success criteria)

1. The study envisages the identification, preparation and adequate detailing of projects urgently needed in the six sectors: Electricity, telecommunications, water and sewerage, health, education and housing. By adequate it is meant here that each project's magnitude and preliminary costs could be assessed.

on successful completion of the study.

2. The various substudies under the UNDP project are outlined in detail under outputs in the next paragraph.

completion of detailed surveys and studies.

3. Outputs	Activities	Party Responsible for Activity
(I) <u>Overall damage survey</u>	<u>Satellite imaging and interpretation; Satellite pictures of the country could be purchased from the US-Geological Survey and given to one of many firms specialised in satellite-imaging and interpretation to give an overall overview of the damage that befell the entire country over the last fifteen years.</u>	In all cases, a group of expatriate and local consultant(s) (with identified technical and managerial skills), in collaboration with major input from the CDR and line ministries, would be responsible for the studies
(II) <u>detailed imaging damage</u>	Ask the US Geological Survey to direct one of its satellites to zero-in on each sector to be surveyed, to produce a detail-image of that sector for interpretation by specialist firms for an order of magnitude damage assessment, and to guide consultants as to which aspects of each sector have been damaged and where.	same as above
(III) <u>Individual survey of each sector</u>	Armed with the above images, the consultants will then zero-in on the damaged aspects of each sector and ascertain the extent and nature of the damage.	----do-
(IV) <u>Project preparation</u>	<u>identification and preparation of projects of an emergency nature in each of the six sectors: Electricity, telecommunications, water and sewerage, health, education and housing. The preparation includes the prioritization of projects within each sector and among sectors. That is, an emergency recovery program for these sectors would be prepared.</u>	----do-

(V) Project costing	preparation of costs for projects identified within each sector, including cost of all the project works and environmental aspects.	---do---
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Immediate objective two:

How can it be determined if and when this proposed objective has been achieved (i.e., success criteria)?

1. The 'project study' envisages the gathering of data and information about each and every sector of the Lebanese economy and the economy itself as well as government fiscality and finances such that the consultants can write terms of reference for sectoral, economic and financial studies for the planning of long term reconstruction and development of each sector and the economy and monetary systems. on successful completion of the study.
2. The various substudies under the UNDP project are outlined in detail under outputs in the next paragraph. completion of detailed surveys and studies

3. Outputs	Activities	Party responsible for the activity
(I) As in (I) above (II) As in (II) above (III) As in (III) above		<u>In all cases, a group of expatriate and local consultants (with identified technical and other necessary expertise) in collaboration with major input from the CDR and line ministries, would be responsible for the studies.</u>
(IV) <u>Terms of reference</u>	<u>For each sector, prepare the terms of reference for a planning study for the long term reconstruction and development of that sector. The same should be prepared for a macro-economic study as well as for a study to put the finances of the government in order.</u>	Same as above
(V) Cost Estimates	Prepare cost estimates for the studies --do-- proposed above. Costs to be broken down into those to be borne by the government and those to be borne by foreign donors.	

H. Project Strategy

1. Who are the people and/or institutions who would benefit in the first place from the proposed outputs, and activities of the project (i.e., the direct recipients)?

1.1 The immediate beneficiaries from the project studies shall be the CDR and line ministries in Lebanon as well as the regional and international donors. The first group will benefit from the studies by obtaining a list of projects that are urgently needed to be implemented to help alleviate the misery of the population at large. As such, those agencies can move with this list in asking for outside assistance for implementation. At the same time, the output of this study will accord those beneficiaries a first hand knowledge of the damage sustained

by the country and the terms of reference required to launch studies for the long term reconstruction and developmental efforts. Furthermore, the donors will benefit from those outputs by selecting certain projects therefrom for financing, as well as scheduling the financing of some of the sectoral studies.

2. The target beneficiaries and the direct recipients of the project are not likely to be the same. Describe how the benefits proposed to be delivered to the direct recipients will lead to the benefits intended for the target beneficiaries (i.e., the project strategy)

2.1 Upon completion of the study, the government wants to ask for help in the immediate implementation of the emergency recovery program resulting from that study. The World Bank and the Arab and Regional funding institutions could conceivably be interested in providing financial and other forms of assistance to the government in this regard. Furthermore, the implementation of the emergency recovery program will improve the standard of living of the Lebanese people by providing electricity, water and other amenities and services essential for their livelihood.

3. Describe the implementation arrangements proposed for the project

3.1 It is proposed that the UNDP finance the "project study". It may consider asking for the participation of one or more regional funding agency such as the Arab Fund for Economic and Social Development. It may also consider utilizing the World Bank or other UN agencies as executing agencies. Finally, the government of Lebanon's agencies will have to be drawn into this exercise; the line ministries as well as the CDR. After all, all data and information available on this study as well as first hand knowledge of, and experience in, the various sectors will have to come from them.

4. Identify any alternative project strategies and/or implementation arrangements which have been considered, and why they have been rejected in favour of the one(s) chosen.

4.1 None of the above was considered.

I. Host Country Commitment

1. Describe the indications which show that the Government or other host country institutions concerned will provide the counterpart necessary for the project's successful operation and to sustain its results. Depending on the nature of the project, this may include such matters as the provision of full-time professional and lower level project staff, premises, office and other type of equipment including vehicles, consumable supplies, etc.

1.1 The government intends to present a formal request to UNDP to finance this study. This request should be forthcoming after the meeting between the UNDP and World Bank staff with representatives of the Lebanese government, which is suggested to take place after the AUB/CDR-sponsored seminar on reconstruction to be held in Beirut between May 29 and June 1, 1991. In this meeting, and the subsequent request, the government's commitment and details thereof should become known.

2. Describe any legal arrangement necessary to assure that staff trained by the project will remain in their posts for a fixed period after their training.

Not applicable for this "project study" at this stage.

J. Risks

(the instructions for heading F of the project document format refer. (see instruction 2.3, heading F, below.))

List below all those significant risks which could seriously delay or prevent the achievement by the project of its outputs and objectives.

K. Inputs

1. Skeleton budget: Provide a summary of estimate of costs by major budget category.

	<u>National Inputs</u> (specify currency and UN exchange rate) <u>1/</u>	<u>External Inputs</u> (US dollars)
Personnel	US\$ 500,000 equiv.	US\$ 2,000,000
Sub-contracts:		
Imaging and interpreta- tion of satellite images		US\$ 250,000
Miscellaneous	US\$ 50,000 equiv.	US\$ 50,000
	Subtotal	US\$ 2,300,000
	Totals	US\$ 2,850,000 <u>2/</u>

2. Comment on any proposed inputs which may raise policy issues on which headquarters guidance is sought (e.g., high equipment component, payment of local and recurrent costs, incentive payments).

No specific issues.

**Person(s) primarily responsible
for this formulation framework: -----**

Name: A.A. Sbaiti
title: Consultant

1/ Exchange Rate: US\$ 1: LL 950

2/ details of local and foreign cost estimates are shown in the next page.

Emergency Reconstruction Program for Lebanon
Cost Estimates
Foreign Costs (US\$ million)

S.N.	Item of work	Cost Estimates
1.	Purchase and interpretation of satellite images	0.25
2.	Consulting Fees	1.80
3.	Miscellaneous	0.05
4.	Contingencies	0.20
	Subtotal	2.30

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Emergency Reconstruction Program for Lebanon
Cost Estimates
Local Costs (US\$-equivalent)

Local cost estimates are computed on the basis of being 25% of foreign costs for consultants and contingencies, no local costs for satellite imagery and interpretation, and equal to the miscellaneous foreign costs.

December 6, 1990

*Leb - Urban Dev Sector
(Recovery / Reconstruction)*

H. E. Dr. Ali El-Khalil
Minister of Finance
Ministry of Finance
c/o Bristol Hotel
Beirut, Lebanon

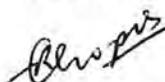
**Subject: Assessment Study Entitled the
Council for Development and Reconstruction**

Excellency:

Thank you for sending to the Bank a copy of the above mentioned study which was read with keen interest. We have reviewed the report and its recommendations and are encouraged that the Government is assessing a number of options and the resultant legal and organizational actions required to establish an appropriate institutional framework for implementing a national recovery program.

Attached, for your information, are a number of general and specific comments we should like to offer for your consideration. I look forward to hearing from you if we may be of further assistance.

Sincerely,



Ram K. Chopra
Director
Country Department III
Europe, Middle East & North Africa Region

Attachment

Cleared with and cc: Messrs. Voyadzis (EM3CO), Pommier (EM3IN)
cc: Messrs. Bhargava, Garg, Keare, Makharita

bcc: Messrs. Al-Sultan, Shamsedin (o/r) (EDS), Wapenhans (EMNVP); Ms. Kreimer
(ENVPR)

KRasmussen

Comments on the Assessment Study Entitled:
Lebanon - Council for Development Reconstruction (CDR)

General

1. The study's analysis of CDR's shortfalls are valid and a re-examination of the optimal institutional framework for reconstruction in Lebanon during the 1990s is justified.
2. The Bank was involved with the Council for Development and Reconstruction under Loan 1476-LE, a \$50 million Reconstruction Project to the Republic of Lebanon which was approved in fiscal year 1978. A second reconstruction project involving CDR was appraised in 1983, but loan processing came to a halt due to a worsening of the security situation. Many of the points raised in the study are in line with the Bank's assessment of CDR's institutional weaknesses prevailing in the early 1980s. In particular, CDR was vested with broad-sweeping powers for planning, financing, implementing and monitoring the reconstruction program. This led to an overlap of responsibilities with executing agencies and ministries which was also exacerbated by the lack of clear delineation of lines of authority and responsibility between CDR and public sector agencies. In addition, the reconstruction effort was overshadowed by civil hostilities, political and sectarian problems and a deteriorating economic situation. Attached for information, is a copy of sections of a Bank report which describes CDR's operations and outlines measures recommended in 1983 to improve its efficiency (Annex 1)¹.
3. The main comments on the study concern: (i) the institutional framework for managing and implementing a national recovery program and the need to examine an additional, or fifth option to those presented in the study; and (ii) broader issues such as the macro-economic policy framework and the country's strategy for recovery, which are prerequisites to designing and implementing a national recovery program. These topics are described in greater detail below.

The Institutional Structure for Reconstruction Programming and Implementation

4. The study presents four possible alternatives for establishing an appropriate institutional framework for all aspects related to the planning, financing, managing and implementing a national recovery (reconstruction/ rehabilitation) program. The study recommends the adoption of Alternative II, the establishment of two new and separate agencies: the National Planning and Development Council (NPDC), which ostensibly would replace the CDR, and would handle planning and financing functions, and the Council for Implementation of Reconstruction

¹/ Excerpts from the World Bank Report entitled, "Lebanon - Reconstruction Assessment Report (No. 4434-LE) dated March 25, 1983.

Projects (CIRP) which would be responsible for project implementation².

5. Bank experience in almost two decades of emergency recovery lending has shown that strengthening existing organizations and working through a coordinating and policy unit has met with greater success than creating entirely new organizations to manage and implement reconstruction programs. For example, the establishment of two new centralized agencies in Lebanon, the NPDC for planning, financing and project monitoring, and the CIRP for implementation, will not cure the chronic shortage of skilled manpower highlighted in the study, but rather, could exacerbate the existing manpower constraints and weaknesses in the civil service administration. Moreover, this approach will lead to the duplication and overlap of functions since the responsibilities of the CIRP, in particular, will cut through ministerial lines of command. The study is also silent on how and when the transition would be made from the CIRP to a resumption by ministries of their normal activities.

6. A principal objective should be to adopt the most efficient organizational structure which builds upon the strengths and capabilities of existing agencies. Hence, a fifth alternative ought to be considered to the options presented in the study. This alternative would recognize the importance of distinguishing between the institutions responsible for: (i) the planning process and nationwide coordination on multi-sectoral and inter-disciplinary issues; (ii) specific project preparation and physical implementation of recovery projects; and (iii) contracting debt and monitoring disbursements. It also recommends that a "restructured CDR" become the country's policy formulation body for the reconstruction effort, with the technical ministries responsible for execution of specific rehabilitation and reconstruction projects. In particular:

- (i) The CDR should be restructured (and renamed³) as a policy making body, with a view to clearly define and limit its roles and responsibilities for three key tasks:
 - (a) planning: including aggregation of sectoral damage assessment evaluations on a nationwide basis, establishing criteria to determine national and sectoral investment priorities in line with government macro-economic policy (i.e. restoring critical public infrastructure needed for key economic activities, reparation to damaged institutions and physical structures, etc.) integrating sectoral programs with a view to develop a

²/ Alternative I proposes the establishment of one organization to handle all aspects of the national reconstruction program (planning, financing and project management, monitoring and assessment); Alternative III suggests setting up two establishments, one responsible for planning and the other concerned with financing (monitoring and assessment functions would be divided between the two establishments); and Alternative IV recommends the creation of three agencies which would handle, separately, the tasks of planning, financing and project implementation.

³/CDR could be renamed in order to disassociate CDR's former image and responsibilities from its revised mandate.

nationwide recovery program, preparing a financing plan and annual investment budgets in collaboration with the Ministry of Finance and other relevant ministries (taking into account physical and financial constraints), developing simplified procurement procedures to be followed during the recovery period, etc.;

- (b) monitoring implementation of the nationwide reconstruction program: including coordinating implementation activities of various line ministries and agencies; identifying and providing assistance in overcoming intra- and inter-sectoral implementation bottlenecks; monitoring of annual investment budgets, generating and managing statistical data on a national and sectoral basis; and
- (c) aid donor coordination: including mobilizing external financial assistance and coordinating with donors and local investors, preparing reports for discussion with potential donors, etc.

The study (paragraphs 5.14 and 5.15) refers to the International Fund for Lebanon, which we understand is an organization similar to a Consultative Group. We support the study's recommendation that the policy body, or "restructured CDR" be responsible for coordination with the International Fund for Lebanon. We also agree with the points raised in the study that the relationship between the International Fund for Lebanon, the Ministry of Finance and the "restructured CDR" be clarified.

- (ii) The preparation and implementation of specific reconstruction/rehabilitation projects should be undertaken by existing line ministries and agencies. This may require substantial technical assistance to strengthen the managerial, administrative and technical capabilities of each ministry.

The Government may wish to consider assessing, as soon as feasible, the technical assistance requirements of key ministries and executing agencies. The objective would be to take steps to strengthen the institutional capacities of these agencies so that they are better prepared to assume responsibility for execution of specific rehabilitation and reconstruction projects when the national recovery program is launched.

- (iii) The borrowing function should remain with the Ministry of Finance (the restructured CDR should not be empowered to contract external debt). If centralization of financial aspects of the reconstruction program is deemed useful, an APEX account could be established (possibly in the Central Bank) to channel loans and grant funds and to provide a mechanism for monitoring disbursements. Coordination with the "restructured CDR" would be required in line with its responsibilities for aid coordination, matching investment needs with the availability of foreign and local financial resources, preparing

a national financing plan and annual investment budgets, etc.

7. Some of the key points to be considered in drafting the legal and organizational parameters of the "restructured CDR" include: (i) clarifying its objectives, defining the limits of its responsibilities and spelling out its relationship with ministries and executing agencies; (ii) designing a detailed organizational and administrative structure including the preparation of job descriptions which indicate lines of authority and responsibility; (iii) appointment of a high level official as Chairman of the restructured CDR; and (iv) employment of all staff on a full-time basis. Many of these points are highlighted in the study. CDR's managing board should include senior government officials and possibly representatives from the private sector. Given the complexity of tasks, consideration should also be given to the recruitment of a management consulting firm to assist in various activities, particularly comprehensive planning and the creation and maintenance of statistical data bases.

Macro-economic Policy Framework and Strategy for Recovery

8. It is important to highlight that the institutional framework for reconstruction (the focus of the study) cannot be viewed in isolation of the country's overall economic strategy for recovery. Economic policy will set the stage for determining the objectives and priorities of the reconstruction program (both national and sectoral investment priorities) and longer term development efforts that are required to restore economic activity. This is particularly relevant given the magnitude of physical damage to major urban areas, the substantial sectoral damage to housing, health, industry and public services, and deferred investments particularly in operations and maintenance.

9. It is recommended that priority also be given to formulating a macro-economic and public financial policy framework for Lebanon during the 1990s. This will include measures aimed at fiscal and monetary reform, enhancing the role of the private sector, improving the efficiency of public sector agencies, and defining export promotion incentives, etc. Macro-economic policy formulation could be undertaken by the Ministry of Planning or, as the study recommends, by a "Supreme Economic Policy Coordinating Committee" chaired by the Prime Minister and including a small body of key ministers and other high level officials.

10. One of the main lessons learned from the Bank's involvement in Lebanon was that reconstruction and project execution efforts were seriously undermined because of the security situation and deteriorating political and economic environment.⁴ Hence, a reconstruction program in Lebanon would have a greater chance of success and international support if it were initiated when government authority is restored, and the security and political situation is stabilized.

Attachment: Annex 1

⁴The Bank has extended three loans to Lebanon for an Education Project (Loan 877-LE), a Highways Project (Loan 944-LE), and a Reconstruction Project (Loan 1476-LE).

III. The Reconstruction Effort

Institutional Framework

33. The Government of Lebanon began planning its reconstruction effort in 1977, and to that end established the Council for Development and Reconstruction (CDR). The CDR, created by Decree Law 5 of 1977, was granted broad powers. First, it replaced the Ministry of Planning and was made responsible for preparing a general plan as well as programs for reconstruction and development, and for recommending appropriate economic, financial and social policies to the Cabinet. In the context of planning reconstruction and development, the CDR was also made responsible for maintaining relations with external aid agencies regarding economic and technical assistance. Secondly, it was empowered to contract domestic and external loans to finance development projects. The Government agreed to guarantee these loans up to LL 300 million per year in the 1977 through 1979 period, and up to fifteen percent of the total government budget thereafter. Thirdly, the CDR was given the authority to lend for specific programs with the authorization of the Cabinet. Lastly, the CDR was empowered to set up project implementation units whenever the Cabinet requested it. Thus, the CDR was not only charged with planning reconstruction, but was also given functions which are normally associated with the Ministry of Finance (borrowing), with line ministries (project execution) and with development banking (credit programs). This broad authority reflected the Government's concern over the ability of the public sector to handle the task of reconstruction.

34. Until February 1983, the CDR had twelve members on its executive board. ^{1/} Of these, four were permanent members. In addition, it had approximately 10 professional staff. During the past four years, the CDR took a number of specific "ad hoc" actions designed to program and implement reconstruction. It prepared a "Reconstruction Project" in 1978; contracted some studies, notably the national waste management plan; began implementation of a road rehabilitation program; organized a commission to supervise the execution of the rehabilitation of the Port of Beirut and acted as a channel for reconstruction lending to housing, industry, hotels and hospitals.

35. In line with its own objectives, CDR should now focus on the medium-term Reconstruction program where its primary role would be planning, setting of priorities, and monitoring of implementation. During this reconstruction phase, every effort should be made to strengthen the ministries and executing agencies so that they can assume the responsibility for assessing intra-sectoral priorities and preparing and executing the longer term development projects. In order to effectively carry out its planning role, CDR needs to strengthen its overall staff by recruiting additional qualified staff and by obtaining technical assistance as outlined in Chapter VI. Such technical assistance would also be available to help the ministries and executing agencies prepare and execute projects without the need for direct involvement on the part of CDR.

Policies for Reconstruction

36. The CDR enunciated in the context of the 1978 Reconstruction Project and in other documents the policies which the Government would pursue in

^{1/} A proposed new organisational structure of the CDR is under consideration by the Government.

reconstructing Lebanon. Because of subsequent events, most of these policies were never translated into action. The policies, which are listed below, are still generally valid.

- (i) The private sector would continue to be the principal generator of productive activity.
- (ii) The public sector would increase its role in providing education, health and social services.
- (iii) The Government would provide incentives for decentralizing economic activity from Beirut to other parts of the country.
- (iv) The taxation system would eventually be revised to become more equitable and to yield greater revenues.
- (v) Reconstruction would be financed largely by external loans and grants. The stated policy is that the Government would provide 20-25 percent of total requirements on average over the duration of the reconstruction process.
- (vi) The Government would counteract the anticipated inflationary pressures resulting from the reconstruction effort by rapid expansion of the construction industry and housing supply, introducing intensive technology and training for skills while simultaneously stimulating domestic savings and the importation of the goods and services needed to overcome bottlenecks.

The CDR's Reconstruction Project

37. In 1978, a "Reconstruction Project" was prepared by CDK on the basis of 20 detailed agenda papers, each dealing with a sector of the economy. It was initially prepared for a meeting of the Finance Ministers of the principal Arab States. Although this special meeting never took place, the Arab States pledged to grant Lebanon \$2 billion over five years for Government executed reconstruction projects at the Tunis Meeting of Heads of Arab States in November 1979. One half of the Arab funds were to be used for reconstruction of the South. As of December 1982, \$417 million had actually been transferred to Lebanon.

38. Initially, the CDR considered the Reconstruction Project as a preliminary estimate and not as a definitive program. Nonetheless, the CDK still regards this "Project" as largely valid and its current estimates of reconstruction requirements are based on an update of the 1978 costs. The 1978 project was designed to address public sector investment requirements that go beyond the bare replacement of accumulated damage sustained during the years of conflict. As presented, the 1978 project aimed at meeting the requirements arising from delayed maintenance and investments as well as from destruction.

39. In the document, the CDR set forth criteria which would guide it in establishing the priorities for investment. Projects which would enjoy priority were those which: (i) would relieve human misery such as the repair of damaged housing; (ii) were required to enable the reconstruction process to move forward, such as port expansion; (iii) have a long gestation period such as the Beirut water supply project; (iv) have a large multiplier effect; (v) were located in secure areas; (vi) could be given to contractors to carry out; and (vii) did not require large numbers of skilled workers. Although the CDK set forth the criteria to determine investment priorities, it did not rank

projects according to these criteria. The CDR in fact concluded that all projects in the Reconstruction document were of equal priority, a position which it has maintained throughout the past five years.

40. It is recognized in the 1978 document that there were a number of ways to eliminate the constraints caused by the administrative weakness of the Government and shortage of labor through training and reform. However, few specific recommendations were made and little has been done over the past five years to accelerate training. To obviate the problem of attempting to strengthen existing structures, the CDR undertook project execution directly (e.g. road rehabilitation), a practice which should be avoided in the future.

41. The 1978-82 tranche of the 1978 Reconstruction Project amounted to about LL 7.4 billion in current prices (Table 2, page 21). No data are available on actual expenditures. The tentative proposed financing envisaged that foreign funds would account for less than 40 percent, of which the main contribution was to come from the Tunis pledge. The Treasury was expected to advance LL 1 billion. Because the budget is in deficit, the bulk of domestic financing would consist of borrowings from the Central Bank and sale of Treasury bills to the banking system.

Reconstruction Plan

42. The only detailed assessment of reconstruction requirements available at the present time is that developed by the CDR which estimates that about LL 70 billion in 1982 prices would be necessary over the coming five to eight years to repair the damages sustained by Lebanon in all sectors during the past eight years and to make those investments which had to be deferred because of the events in the country. This global estimate is basically an updated version of earlier estimates contained in the 1978 "Reconstruction Project". It also includes CDR's estimates of the damages caused by the hostilities in 1982 (LL 7.2 billion). No attempt is made to break down either estimate between what is required for reconstruction per se and what is required for development purposes because the CDR believes, with considerable logic, that this would be no more than an academic exercise with no inherent value. To the war-related physical destruction must be added the widespread deterioration due to eight years of neglect or minimal maintenance and the need to accelerate the implementation of a number of development projects which, because of civil disorder, could not be funded or executed, but which are essential for the speedy recovery of the economy and the return of the country to normalcy.

43. The CDR is in the process of revising the Reconstruction Project. In order for this revised plan to serve as a blueprint for reconstruction, it will be necessary to include the following:

- (i) details on the scope of projects, costs, financing plan, and status of preparation (the aim should be to have studies with enough detail to permit a calculation of rates of return and for design or works);
- (ii) measures that need to be taken to meet a predetermined schedule of implementation;
- (iii) assessment of the financial impact of the program; and
- (iv) policy actions that are required to make projects viable.

To assist in this task, the mission prepared an inventory of projects in cooperation with the Government. This subject is discussed in the next chapter.

VI. Reconstruction Programming and Development Planning

101. As already indicated, the Government of Lebanon established the CDR to carry out the function of planning the reconstruction and development efforts necessary for the full resumption of economic activity. The reconstruction effort is a medium-term function: to repair the damage caused during the last eight years to institutions and physical structures of the Lebanese economy by civil strife and wars. The development effort, by contrast, is a long-term function which transforms the economy and its institutions beyond the reconstruction phase. At present, and for the next 2-3 years, the highest priority should go to reconstruction of the economy's infrastructure to enable resources and products to flow freely once again and to restore the shattered frame of operation of the Lebanese economy. The reconstruction of the directly productive activities should be left to the private sector, but with sectoral objectives and policies to be defined by the Government.

102. It was also pointed out that it would be best to operate on the premise that the reconstruction effort is to be formulated within the development framework. Restoration of productive capacity, especially in infrastructure, should not be designed with the same technologies and specifications as they were prior to the damage. Buildings, structures, roads, water and sewerage networks, ports, equipment, etc. should now be restored for long-term development. This is a critical point to keep in mind at the conceptual and design phases of the reconstruction effort. The logical way to proceed would be to establish an indicative plan for physical reconstruction that would distribute expected outlays spatially and clarify the locations and interrelations of various investments. The objective of such a plan would be to provide policy-makers at the outset with an integrated picture of the magnitude of the necessary physical tasks to be undertaken during the next few years.

103. With the economy's statistical base seriously impaired, and its data flows interrupted, a priority is to progressively define a macroeconomic framework for the flows of resources throughout the economy but, most importantly, a public finance framework. Revenue sources need to be assessed; the departments entrusted with government revenue collection should be examined immediately to determine their staffing requirements as well as their needs for technical assistance. Simultaneously, there is a need to formulate a comprehensive program of reconstruction expenditures, compatible with both the indicative plan for physical reconstruction and available financial resources. Such a program should be divided into annual budgets to monitor the deficit financing closely and also to establish responsibility and accountability for the executing agencies.

104. As a second priority, revenue-earning entities, presently or potentially autonomous, should also be assisted to enhance their ability to generate financial flows which, over the medium term, would be necessary to cover both their current operating costs, and an increasing proportion of their capital costs.

105. Operating in this fashion would enable the CDR, the Ministry of Finance, and the Central Bank to provide the necessary inputs for the deliberations of the the Bureau for Economic Policy Coordination. The Bureau will have to play a key role to prepare, for the Government's approval, coordinated measures and policies to implement the reconstruction effort without creating grave disruptions in public finance.

106. Further activities include development planning within a macroeconomic framework. To do this will require that the Department of Statistics be strengthened and given proper working capabilities; the mission suggests the attachment of this Department to the CDR. This action could ensure the prompt generation and management of the needed statistical information on the sectoral and overall performance of the economy. Experience from several countries suggests that administrative separation and autonomy of the planning and statistical generating functions often result in the weakening of the former.

107. The approach to defining, preparing, and implementing reconstruction projects should follow an iterative path. In the first round, along the lines of this Report's methodology, a small number of high priority projects should be identified by the CDR and prepared in conjunction with the executing ministries/agencies with adequate studies which would assist in the design and implementation of the subsequent tranches. In the second round, the same areas covered in the first round would be looked at in greater detail, while new areas of lesser priority are brought into the active domain of the CDR.

108. The scope of work of the CDR may thus be conceptually divided into several related activities: assessing damage to the infrastructure (with specialized agencies); contributing to the public finance framework (with Ministry of Finance and Central Bank); planning and coordinating the preparation of reconstruction projects (with executing agencies); and monitoring implementation of the reconstruction program.

109. Assessing damage to the infrastructure would require:

- (a) surveying the physical and institutional damage to public infrastructure;
- (b) establishing sectoral priorities for reconstruction;
- (c) sorting through the inventory of existing studies and projects from the last reconstruction planning effort (1977-78) and defining the tasks necessary for updating those retained; and
- (d) identifying new projects to fill gaps between country-wide needs and the existing pipeline of projects.

110. CDR's contribution to the public finance framework involves helping the Ministry of Finance to estimate the level of public finances available for the reconstruction effort; this requires in particular:

- (a) preparing an overall financing plan and annual investment budgets;
- (b) monitoring the public sector's investment financing.

111. Planning and coordinating the preparation of reconstruction projects, in collaboration with the executing agencies/ministries, would require:

- (a) identifying high priority projects and the public institutions which would be entrusted with executing and operating them;
- (b) establishing criteria to select priority projects over the horizon of the reconstruction plan;

- (c) developing terms of reference for these projects;
- (d) commissioning consulting firms (when necessary) to carry out feasibility studies for the identified projects;
- (e) estimating capital and manpower requirements to execute and operate these projects;
- (f) estimating the financial and economic viability of these projects;
- (g) assessing the needs of such institutions for technical assistance inputs to ensure prompt project execution and/or operation;
- (h) coordinating technical assistance needs with offers from various donors; and
- (i) formulating a finance plan and identifying external sources of financing for each priority project.

112. Monitoring the implementation of the reconstruction program would involve:

- (a) establishing with the executing agencies an implementation schedule for contracted projects;
- (b) developing a system to monitor the implementation of priority projects by specialized agencies; and
- (c) devising procedures for selective intervention by Government with implementing agencies or external funding sources to ensure proper and prompt execution of projects.

113. In order that the above tasks proceed on firm grounds, it is essential to develop the statistical and physical data base of the country which would include:

- (a) reviewing the presently existing data base and identifying gaps (statistics and base maps);
- (b) arranging for preparation of base maps (aerial photos, landsat, etc.);
- (c) undertaking quick sample surveys to provide some base line data to answer urgent questions;
- (d) preparing terms of reference for other studies and surveys to be executed outside the Department of Statistics; and
- (e) setting the groundwork for a medium to long-term statistical work program which is essential for any sustained analytical or executive functions.

114. Concurrent with the preparation of the statistical and physical data base, development of a fully operational Department of Statistics is a high priority. To this effect, several tasks need to be carried out, and they include the following:

- (a) assessing the skilled personnel in the Department of Statistics, including the group attached to the CDR;

- (b) aligning Department of Statistics priorities with those of the CDR to ensure compatibility of objectives and modus operandi;
- (c) defining the priority areas which require data generation; and
- (d) estimating skill requirements to accomplish the data generation tasks stated in (c) above, and determining skill gaps to be filled by consultants.

115. In order to undertake the considerable tasks outlined in the paragraphs above, the staff of the CDR will have to be substantially strengthened. The range of these tasks and their complexity are clearly beyond the capability of the currently small staff of CDR. Even with additional staff, it is proposed that the CDR secure the assistance of a reputable international consulting firm to assist its staff in discharging their functions. Such a consulting firm would be expected to provide, under the leadership of an experienced development planner, a multidisciplinary resident expert team, whose size will vary from five to seven. This team will require backstopping from the firm's home office in terms of short-term field visits of specialists and detailed research/analysis. The role of the consulting firm should, of course, decrease as CDR's staff acquires more experience.

November 21, 1980

LB - 3562

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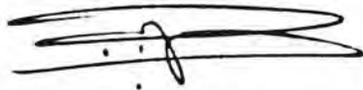
Dr. Mohamad Atallah, President.
Council for Development and
Reconstruction
Beirut, Lebanon

Dear Dr. Atallah,

Please find enclosed the English translation of the Legislative
Decree No. 2981 of May 9, 1980 as requested by you.

This translation is outside the scope of our proposal and should
not, in any way, be considered as a legal translation of the
above mentioned decree.

Very truly yours,
TOUCHE ROSS, SABA & Co.



by Issa F. Nasser

ARABIA HOUSE - 131 PHOENICIA STREET - BEIRUT - LEBANON
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Associated Firms

North, South and Central America, Europe, Middle and Far East, Australia, New Zealand, Africa, Bahamas, Bermuda and Caribbean

The Financial System of the Council for Development and Reconstruction

The President of the Republic,
in accordance with the constitution,
in accordance with the Legislative Decree No. 5 dated 31-i-1977
(creation of the Council for Development and Reconstruction),
Having consulted the State Council,
In accordance with the recommendation of the Minister of Finance,
and after the approval of the Council of Ministers dated 19-iii-1980,

Decreases the following:

Part One

General Provisions

Article 1 The financial and accounting transactions in the Council for Development and Reconstruction are subject to the provisions stated in this decree, taking into consideration the provisions of the Legislative Decree No. 5/77 dated 31-i-1977 comprising the creation of the Council and all other systems developed in accordance with its provisions.

Article 2 In this system, the following mean:

- "Creation of the Council Law" : Legislative Decree No. 5 dated 31-i-1977.
- "Council": The Council for Development and Reconstruction.
- "Board of Directors" ; The Board of Directors of the Council for Development and Reconstructions.
- "President" : The President of the Board of Directors.
- "Office" ; The Office of the Council.
- "Secretary General" : The Secretary General of the Council.

- "Government Commissioner" ; The Government Commissioner with the Council.
- "Audit Department" : Financial and Administrative Audit Department in the Government Commissariat.

Article 3 The Council Budget consist of:

1. Regular Budget which includes regular revenues and expenses necessary for the Council's operations and is prepared on a yearly basis.
2. Operating Budget which includes the revenues and expenses necessary to ensure the execution of projects listed in the General Plan and subsequent plans as well as other projects.

This budget is not prepared on a yearly basis and its allocated funds have the same properties as committed funds which stay open until the project to which these funds have been allocated, is completed.

3. Ad Hoc Budget which is concerned with the project or projects to be executed by the Council and has or have specific funding sources. Its application follows the same procedures set for the Operating Budget.

Article 4 The Council's Regular Budget is prepared for each financial year starting on January 1st and ending on December 31st of the year.

Article 5 Errors can be adjusted by a decision, of the President based on a recommendation from the Secretary General and a request from the Chief Accountant.

Article 6 The Regular Budget is divided into two parts:

1. Expenses part which includes funds opened to meet these expenses.
2. Revenues part which includes revenues allocated to cover the funds.

Article 7 The funds are of two types;

1. Basic which are opened on the approval of the Budget.
2. Additional which are added to the Basic Funds after the approval of the Budget. The Additional Funds are of two kinds:
 - i Complementary which are opened to meet a deficit in a specific item.
 - ii Exceptional which are opened to meet an expenditure not provided for previously in the Budget.

Article 8 Funds are not opened except within the framework of the concerned year's Budget. Nevertheless, exceptionally, a fund can be opened in a certain year's budget prior to its approval on the condition that it will be recorded.

Part Two

Budget Preparation, Approbation and Acceptance

Chapter I - General Provisions

Article 9 Regular Budget

- a. The Office undertakes the preparation of the Regular Budget with the collaboration of the concerned units in the Council Administration.
- b. The Office presents to the Board of Directors, before October 1st. of each year, an estimation of the Council expenses and revenues for the following year along with the documents, statistics and explanations necessary to justify the estimates.
- c. The Government Commissioner undertakes the preparation of the expenses relative to the Commissariat in the Regular Budget and sends it to the Council of Ministers through the

Office of the Council which includes it in the Regular Budget proposal. The Government Commissariat represents a part of the Council's Regular Budget.

Article 10 Operating Budget

The Office undertakes the preparation of this Budget according to the directives issued by the Board of Directors.

Article 11 Budget Approbation

1) The Regular Budget

- a) The Board of Directors approves the Regular Budget proposal within one month from the date of its presentation to the Board and submits it to the Council of Ministers for acceptance.
- b) The council of Ministers has the right to effect any amendments to the Budget proposal as it sees necessary after listening to the President and to the Government Commissioner if the amendments concern the Commissariat's Budget.
- c) The Council of Ministers accepts the proposal in its final form within one month from the date of its submission.

2) Operating Budget

- a) The Board of Directors approves the Operating Budget proposal within two months from the date of its submission.
- b) The proposal is submitted, immediately after its approval to the council of Ministers which effects any necessary amendments after listening to the President; the proposal is then accepted in its final form.

Chapter II - Expenses

Section One - Regular Budget

Article 12 The Expenses part in the Regular Budget comprises the regular allocations necessary to run the Administration like salaries, remunerations, etc..., and includes specifically:

- 1) President and Board members' remunerations.
- 2) Salaries, wages and fringe benefits
- 3) General administrative expenses
- 4) Fixtures and constructions maintenance, renovation and depreciation expenses.
- 5) Other regular expenses
- 6) Government Commissariat expenses.

Article 13 The Expenses part is divided into sections and the sections into items each relative to expenses of the same nature or of similar natures, and if necessary, the items are divided into sub-items.

Article 14 A separate section in the Expenses part is reserved for the regular debts due and another section for the contingent expenses reserve. Also, a separate section in the Expenses part is reserved from which are paid those amounts ordered by a Court of Justice or the value of reconciliations unbudgeted for in the concerned items. This section is financed by transfer from the total fund allocated to the continged expenses reserve section in accordance with the provisions of the following article.

Article 15 A fund is allocated to a contingent expenses reserve section for use in the financing of those budget items whose funds have been exhausted or to open new funds.

No expense is paid directly from this fund but it is transferred from it, when needed, to any item in the Expenses part.

Article 16 The Salaries and wages items determine the number of permanent, temporary and contractual employees and workers as well as their grades, individual and total salaries and wages and their related indemnities.

Article 17 Additional and exceptional funds are opened by a Board of Directors resolution subject to the acceptance of the Council of Ministers. Funds transfer from one section to another or from item to another is done by a Board of Directors resolution without the need for acceptance by the Council of Ministers.

These funds are covered by transfer from other items or from the contingent expenses reserve, by the drawing from the cash reserves or by new revenues.

Article 18 Funds are deferred from a certain year's budget to the next year's budget by a decision of the Board of Directors.

Section Two - Operating Budget

Article 19 The necessary funds to execute the projects listed in the General Plan and subsequent plans as well as other projects are allocated to the Expenses part of this Budget.

Any expenditure with allocated funds in the Regular Budget should not draw on funds allocated to the Operating Budget.

Article 20 A separate item is reserved for each project and each item can be divided into sub-items if need be.

There should be no transfer from a fund allocated to a certain project to another project except within the following conditions:

- After contracting the execution of the work provided that at least fifteen percent of the original fund is maintained.
- After the project is completed and the payment made. The transfer is also possible in case the project has been partially or totally cancelled.

Chapter III - Revenues

Article 21 The Council's revenues consist of the following:

1. Provisions in the General Budget.
2. Taxes and fees levied or transferred.
3. Loans
4. Investments' revenues.
5. Other revenues provided by special provisions
6. Treasury loans with amounts and payment facilities determined by a Decree of the Council of Ministers.

7. Grants donations and aid.
8. Revenues from sale of Council's current and fixed assets.
9. Drawings from the Cash Reserves.

Article 22 The revenues determined in the previous article are distributed among the Council's Budgets by a decision of the Board of Directors during the preparation of the Budgets.

Article 23 The Revenues part of each Budget is divided into sections each concerned with a class of revenue types and the section is divided, when necessary, into items each concerned with a determined revenue.

A separate section in the Revenues part of each Budget is reserved for the recording of drawings from the Cash Reserves. This section is divided into two items, the first for drawings to finance the Budget, and the second for drawings to cover those amounts paid by Court orders and settlements.

A separate section is also reserved for the recording of amounts paid out unduly or by mistake and recovered by the Council.

Part three
Budget Execution
Chapter I - Revenues Execution
Section One - General Provisions

- Article 24 The Council's revenues are collected on the basis of Receipt Orders issued by the President or any authorized officer or Administrative staff member
- Article 25 The collection operations are Restricted to the Council's Chief Accountant and his assistants.
- Article 26 The collected amounts are recorded entirely in the Revenues part of the Budget. In no circumstance should an expenditure be substracted directly from the collected revenues.
- Article 27 The Receipt Order can be challenged at the appropriate Court of Justice in the challenger's place of residence and that within two months from the date the debtor has been notified personally or at his place of residence. The challenge however does not stop the execution of the Receipt Order unless the Court so rules whether wholly or partially.
- Article 28 The Receipt Orders and then relative documents are kept for a period of ten years.
- Article 29 The Chief Accountant maintains a separate account for each type of revenues showing the amounts realized, collected and the remaining balances. Every six months he has to present the Secretary General with a statement of uncollected amounts and the reasons for not collecting them.

The Secretary General takes the necessary actions regarding the uncollected balances and informs the Board of Directors and the Government Commissioner about their status and the actions taken in that respect.

Article 30 The Council's debts are written-off after a time lapse of a decade. The time lapse period starts on the date the debt was contracted. The time lapse is halted when an individual prosecution has begun and a warning is considered the beginning of a prosecution on the condition that the concerned party be notified of the warning personally or at his place of residence.

Section Two - Special Provisions for Accepting

Grants, Donations and Aid and for Selling Council's Assets

Article 31 Grants, donations and aid are accepted by a Board of Directors resolution and, if they are restricted, funds are opened in the Expenses part for their value. The approval of the Council of Ministers is a prerequisite for the acceptance of grants, donations and aid.

Article 32 The Council's assets including financial bills and bond, real estate and shares are sold by any appropriate legal mean whether through auctions, quotations requests or mutual agreement after the approval of the Council of Ministers.

Article 33 Current assets are evaluated by a committee appointed by a decision of the President.

Chapter II - Expenditures Execution

Article 34 There are four phases for the execution of expenditures namely:
The commitment, regularization, approbation and payment.

Section One - Expenditure Commitment

Article 35 An expenditure commitment is an undertaking that results in a debt on the Council.

Article 36 The expenditures related to the Operating and Ad Hoc Budgets are committed by the Board of Directors. The expenditures related to the Regular Budget are committed by the office of the Council unless otherwise stated in the decree

Article 37 No expenditure is committed unless it is provided for in the Budget. In exceptional cases, and to ensure the continuity of the execution of the General Plan and subsequent plans, the Board of Directors has the right to commit expenditures of some programs and projects before the necessary funds are allocated after securing the approval of the Council of Ministers and on the condition that the necessary funds be allocated in the subsequent Budgets.

Article 38 The undertaking of commitment for the Regular Budget for works, materials and services expenditures are stopped on the 30th of November of each year. Nevertheless commitments can be made during December if its execution is possible before the year end or in urgent cases to be evaluated by the Board of Directors.

Article 39 No expenditure in the Regular Budget of a certain financial year is committed before the beginning of that year. Except that, as of October 1st of each year, those permanent expenditures which continuation is a necessity can be committed for the coming year and that within the limits of the funds allocated to them in the current year's Budget. Also these expenditures can be committed during the period prior to the publishing of the Budget after the beginning of the year within the limits of their allocated funds in the previous year's Budget.

Article 40 The 12 months Budget is prepared on the basis of the permanent funds allocated in the previous year's Budget taking into consideration the added or cancelled permanent funds.

Article 41 A Fund Reservation Request is attached to each formality leading to an expenditure commitment. This request is prepared and signed by the employee entrusted with Management Accounting in the Council or an authorized assistant.

Article 42 The Fund Reservation Requests are prepared:

- For the whole year if they concern salaries, monthly compensations, wages or any employees or workers expenditure.
- For three or six months if they concern the other permanent expenditures.
- A separate request is prepared for other expenditure.

A provisional request can be prepared, in total, to reserve the necessary fund for those permanent expenditures whose nature does not permit the preparation of a separate request each time.

Article 43 The expenditure commitment is reviewed by the Government Commissioner with the Council for Development and Reconstruction in order to ensure the following:

- The availability of the expenditure's fund and its proper allocation.
- The conformity of the formality with the laws and regulations in force.

The party entrusted with the review has **no right** to interfere in the appropriateness of the expenditure commitment.

Article 44 The authorized party for the commitment can request an increase or decrease in an expenditure previously committed provided that the amendment request is properly documented.

Article 45 The Government Commissariat should decide upon an expenditure commitment for formality and return it to its originator within a maximum of three working days from the date of its reception. If the three days period expires before a decision is reached, the concerned originator has the right to retrieve the formality and to execute it on the responsibility of the Commissariat.

If the Commissariat needs to request written clarifications from the concerned originator, a one time extension of two days is granted from the date the clarifications are received.

Section Two - Expenditure Regularization

Article 46 Expenditure regularization is confirming the debt on the Council, determining its amount and maturity and ensuring that it is not written-off due to lapsed time or to any other reason.

Article 47 The regularization is undertaken by the employee entrusted with Management Accounting in the Council or an authorized assistant.

Article 48 The regularization is done automatically, otherwise, it is done at the creditor's request. The latter has the right to request from the regularizator a certificate showing the date his request was submitted and the details of the submitted papers.

Article 49 The regularization is based on the documents confirming the debt. These documents are determined, for each type of expenditure, by decision of the President and on the basis of a recommendation from the Secretary General.

The President may only require a statement certified by the Head of the Unit which executed the expenditure if it does not exceed a certain amount determined in the authorization.

Article 50 The regularizator should complete the regularization within a maximum of five days from the time he receives the concerned supporting documents.

Section Three - Expenditure Approbation

Article 51 Expenditure approbation is the issuance of a Payment Order this allowing the payment.

Article 52 The expenditure approbation is ordered by the Office member responsible for the Department that executed the expenditure after ensuring that it has been properly committed and regularized.

Article 53 The approbation of the financial year's expenditures may extend until January 31 of the following year provided that they are recorded on December 31 of the year on account of which the approbation was made.

Article 54 The amounts due on the Council to third parties during a certain financial year for which the approbation was not made, whatever the reasons may be, before the end of January of the following year are considered previous years' expenditures.

Article 55 The Payment Order should not be issued before ensuring the following:

1. The appropriateness of the expenditure commitment.
2. The appropriateness of the expenditure regularization.

Article 56 The Payment Order is prepared in the creditor's name even though he has appointed an agent or a representative to receive the payment, or in the name of the heirs in the case of his death. It is prepared in the name of the Central Accountant if the Government is the creditor.

If the creditor is a municipality or a public organization the Payment Order is prepared in the name of the concerned accountant in the above mentioned administrations.

Article 57 The Payment Order can be prepared:

1. In the name of the person authorized to receive the payment and appointed by the president or the Government Commissioner, each concerning his own administration, in order to enable him cash the Board of Directors and Government Commissioner's remunerations, the employees and workers' salaries, and their bonuses and aid. The person authorized to receive the payment is subject to the same conditions governing the duties of the Cashier as specified in this decree.
2. In the name of the employee who paid the amount out of his own pocket regarding transportation and other petty cash expenses.
3. In the name of the petty cash custodian regarding amounts paid out of the petty cash.

Article 58 The impoundment decisions and waivers concerning debts due on the Council are transmitted to the approbator who should answer the party notifying him of the impoundment decision within the legal period and must register the impoundment or waiver on the Payment Order before issuing it.

Article 59 After its issuance the approbator sends the Payment Order to the Chief Accountant to effect the payment.

Section Four - Expenditure Payments

Article 60 The amount of the Payment Order is paid by a cheque signed by the Chief Accountant and the President of the Board or any authorized office member.

Article 61 The chief Accountant studies the formality. He refuses to prepare and sign the cheque and returns the Payment Order to its originator with the reasons for rejection duly expressed in the following cases:

1. If the Payment Order is not signed by the approbator.
2. If the supporting documents are incomplete, illegal or inconsistent with the Order.
3. If the creditor's name, details or amount of the expenditure are not consistent with the details in the supporting documents.

The chief accountant should complete the formality and put the cheque at the disposal of the concerned party in the Council within a maximum of three days from the date of reception.

Article 62 The cheques are paid from the bank account specified by the Board of Directors.

Article 63 Expenditures are paid after the service has been provided. Nevertheless advance payments can be made against bank guarantees. If such a guarantee cannot be obtained, the advance becomes subject to the approval of the Board of Directors.

Section Five - Expenditure Payment Without Advance Payment Order

Regular Budget Petty Cash

General Provisions

Article 64 Some expenditures can be paid without an advance Payment Order provided it is prepared later for reconciliation proposes.

The expenditures which may be paid as above are: permanent administrative, urgent, petty cash and other expenditures which nature or conditions do not permit their payment through the direct regular method.

Article 65 The expenditures mentioned in the previous article are paid through permanent or contingent by petty cash and are subject to the following provisions:

Article 66 The permanent petty cash is given to an administrative unit to ensure the continuity of current year's expenditures whereas the contingent petty cash is given to an administrative unit or to a certain person to ensure an expenditure that might not recur.

First Item: Permanent Petty Cash

Article 67 The permanent petty cash is managed by a Petty cash Custodian appointed by the President of the Council or his delegate on the basis of the concerned unit Head's suggestion. This decision specifies:

- The amount of the petty cash which should be basically equivalent to three times the expected monthly expenditures
- Type of expenditures to be paid out of the petty cash.

- The maximum period to submit the expenditures supporting documents and to replenish the petty cash fund provided it is before January 10 of the following year.
- Name, position and location of the Petty Cash Custodian and the type and amount of the guarantee he might be asked to provide.
- The fund or funds from which the petty cash will be allocated and the serial number or numbers of the Fund Reservation Request on basis of which the funds have been reserved.

Article 68 The Petty Cash Custodian should settle only those expenditures which have been committed and regularized in accordance with the provisions of this system.

Article 69 The Chief Accountant pays the amount of the petty cash to the Custodian through a Payment Voucher prepared on the basis of the decision to create the petty cash fund.

Article 70 The Petty Cash Custodian receives the petty cash, ensures the payments, collects the supporting documents and presents them regularly, at the end of each month, to the approbator and maintains the petty cash account according to procedures set by the President of the Council or his delegate.

Article 71 The expenditures paid out of petty cash are settled by Payment orders in the name of the Custodian and the replenishment is made by the amount paid out of the petty cash in accordance with the Payment Orders.

The permanent petty cash cannot be replenished and a new petty cash cannot be created if the settlement is not done within the predetermined period.

Article 72 The regularization and approbation formalities are done according to the supporting documents presented by the custodian.

Article 73 The permanent petty cash which amount exceeds a certain limit determined by the party creating the fund should be deposited in the names of the Custodian in one of the banks approved by the Board of Directors and specified in the decision to create the petty cash fund.

Article 74 The payments are made by the Custodian on the basis of withdrawals signed by him and drawn on the bank where the petty cash fund has been deposited. The Custodian should not make a withdrawal in his own name.

Article 75 The procedures for petty cash payments are determined by a decision from the President or his delegate after taking the opinion of the Chief Accountant.

Second Item: Contingent Petty Cash

Article 76 The contingent petty cash fund is created by an office of the Council decision determining: The amount and type of expenditures, the fund from which the petty cash will be allocated and the Fund Reservation Request serial number, the name of the Custodian and the maximum period to submit the supporting documents for the settlement of the petty cash provided that it is before January 31st of the following year.

Article 77 The contingent petty cash is paid on the basis of a Payment Voucher issued by the Council's Chief Accountant according to the decision to create the Petty Cash fund.

Article 78 The settlement Payment Orders are prepared in the name of the Custodian.

Third item: Common Provisions to Permanent and Contigent Petty Cash Funds

Article 79 The petty cash is not to be used for purposes other than those specified and its usage is subject to the legal and organizational provisions in force.

Article 80 The petty cash is settled by returning its cash amount to the council or by presenting documents supporting the expenditures or by both methods, and that, within the predetermined period stated in the decision to create the Petty cash fund.

Article 81 The Petty Cash Custodian is liable with his personal funds for the petty cash amount and, whenever asked, he has to account for it either in cash or by supporting documents for the amount spent from it.

Article 82 The Chief Accountant should ensure that the petty cash accounts are audited at least once every six months. He has the right to deduct directly from the salary and compensations of the Petty Cash Custodian those amounts unaccounted for or the ones paid in excess of the value of the due expenditures or the ones unsettled in the proper dates. He also has the right to request from the Custodian's direct superior to take any additional legal action against the Custodian in order to ensure the return of the above mentioned amounts.

Article 83 Any party committing an expenditure is responsible with his personal funds for each expenditure he commits that exceeds its budgeted amount and any person or persons having a hand with the expenditure commitment, approbation or payment shares with him the responsibility and are all prosecuted by the Government Accounting Bureau.

Article 84 The funds allocated for the Regular Budget and not committed before December 31 of the year are cancelled.

The funds committed but not approved before December 31 of the year are deferred to the following years' Budget.

The decision to defer the funds is taken by the President of the Council or his delegate within a period not exceeding end of February of the following year.

Article 85 The amounts the Council pays out or unlawfully by mistake and which are recovered during the same year can be added to the fund of the concerned item by decision of the Council Presidency within a period not exceeding December 31 of the same year.

Article 86 The debts that have not been regularized, approved or paid by December 31 of the fourth year after the year the debt was created are written off and cancelled in favor of the Council due to time lapse unless the delay was caused by the Administration or legal proceedings.

The time lapse is stopped every time a written request to regularize has been presented and has been properly recorded in accordance with the system. In this case the time lapse does not start again unless the Administration takes a clear decision concerning the creditor's request.

Article 87 All other debts due on the Council outside the frame work of the Budget funds are considered regular debts where the time lapse of a decade is applied as stated in the Liabilities and Contracts Law.

Article 88 The previous years' expenditures that have not been written off due to time lapse are approved from funds deferred for this purpose to the current year's Budget.

These expenditures can be approved as well from funds in the current year's Budget if the condition of these funds so permits.

Article 89 The President of the Council has the right, if he deems necessary, to suggest to the Board of Directors to stop using some funds allocated in the Budget and the Board of Directors can decide to accept the suggestion if present conditions permit taking such an action.

Article 90 The Management Accounting maintains separate accounts for all expenditures committed, regularized and approved while the Chief Accountant maintains a separate account for expenditures paid.

Chapter III

Provisions Regarding Works, Materials and Services Expenditures

Article 91 The works, materials and services expenditures are executed through deals concluded by the Council with third parties or directly undertaken by the Administration or with the participation of others.

Section one - Works, Materials and Services' Deals

General Provisions

Article 92 The works, materials and services deals are made through public tenders, restricted tenders, bid requests, mutual agreement (de gré à gré) or on basis of a statement or invoice depending on the decision of the Board of Directors.

Article 93 The deal must not be subdivided unless the party authorized to commit the expenditure sees that the Nature of the works materials or services to be contracted requires so.

First item: Public Tenders

Article 94 The public tender (herein called tender) is conducted either on the basis of a price offered by the supplier or on the basis of a certain percentage reduction on the estimated price.

Article 95 Standard general specifications are set for all deals conducted through public tender and are approved by the Board of Directors. Individual specifications including the special conditions necessary for the execution are set for each deal by the concerned Unit and signed by the party authorized to conclude the deal.

Article 96 Each tender is advertised in the official Gazette and in at least three daily newspapers 15 days prior to the date specified for giving the contract.

This period may be reduced to at least five days when tender is repeated or when necessary, provided that the reduction is approved by the party authorized to conclude the deal.

According to the same rules, each amendment to the specification after publishing the tender should be advertised.

Article 97 The tenders are conducted by special committees appointed by a decision of the Office of the Council.

Article 98 The contract is awarded temporarily to the least price offer or to the best offer if the specifications require the consideration of elements other than price, provided that offers submitted for products made in Lebanon have priority over the offers for foreign products by the same rate as applied in other public administrations. This is conditional to that the national products and their specification should be determined by a decision from the Board of Directors in order to take advantage of the priority.

The contract should not be awarded at unreasonably low prices and the conditions for applying this paragraph are determined by a Board of Directors resolution.

Article 99 If the offers are equal, after giving the Lebanese products the priority by the rate mentioned in the previous article, the tenders is repeated between those who submitted these offers only during the same hearing and by using the closed envelope way. If they refuse to submit new offers or if their offers remain equal, the contractor is then appointed by drawing lots among the equal offers.

The tenders procedures are determined by a system prepared by the Board of Directors.

Article 100 The deal is concluded by the Board or the Office of the Council by the former's authority.

The deal is not finalized before the approval is transmitted to the contractor through the administrative channels.

Article 101 Deals should not be concluded before all legal procedures that enable the Council to claim the locations have been completed except that the contract awarding formality may be started before these procedures are completed provided that the deal is not approved and the contract or notified except after the above mentioned locations have been acquired.

Article 102

If, during the execution, the contractor becomes indebted to the Council the latter has the right, in accordance with provisions of the specifications' book, to deduct the amount from the guarantee and to invite the contractor to complete it within a set period. If he fails to do so, he is considered in breach of contract and the Council reawards the contract through bid requests or undertakes the direct execution of the deal. If the new contract or the direct execution result in a saving on costs, the savings are kept by the Council and if they result in an additional costs, the Council asks the infringing contractor to bear the additions.

In all cases the guarantee is confiscated temporarily until the deal is liquidated according to the provisions of this article.

Article 103

The contract between the Council and a bankrupt contractor is automatically broken and the following procedures are followed:

1. The guarantee is temporarily confiscated to the Council's benefit.
2. The concerned unit evaluates the executed works, materials or services and the stocked materials prior to the bankruptcy and prepares a statement by the amount. The amount is then temporarily deposited for safekeeping with the Council.
3. The remaining works, materials or services can either be executed directly by the Council or rewarded to another contractor through a bid request. If the new tender or the direct execution result in a saving on the costs the savings are kept by the Council and the guarantee and the amount of the statement mentioned in the previous paragraph are paid to the bankruptcy agent. If they result in a higher cost, the increase is deducted from the guarantee and from the amount of the above mentioned statement and the rest is paid to the bankruptcy agent.

If this is not enough to cover the total increase, only the guarantee and the statement amount are kept

Article 104 The value of the deal is not to be paid before its execution except that the Office of the Council, on the suggestion of the President, can give advances to the contractors against bank guarantees; if such guarantees are impossible to get, the giving of advances without a guarantee becomes subject to the Board of Directors approval.

Repayment of the advances is done by deducting a certain percentage, determined in the specifications book, from the value of each payment due to the contractor when payment is on account.

The amount of the advances is deducted entirely from the contractor's dues if the deal is paid in full.

Article 105 If the specifications book so provides, payments not exceeding 9/10 of the total due amount can be paid against executed services and the remaining tenth is blocked with the Council until final delivery.

The blocked amounts are released upon final delivery, if the specifications book does not specify a guarantee period for works, materials or services, and after the contractor has settled any debit that might have accumulated according to the provisions of the specifications book.

The party authorized to commit the expenditure may stop blocking 1/10 of the amounts when it sees that the amounts held have reached the necessary level of guarantee.

The party authorized to commit the expenditure may also decide to substitute Bank guarantees issued by acceptable banks for blocking 1/10 of the amounts.

Article 106 The works, materials and services are received by committees appointed by a decision of the Office of the Council. The committee includes three Council employees one of which should belong to the unit concerned with the contracting while the other two are from other units.

Article 107 If the contractor contravenes the provisions of the individual specifications book or the general specifications book while executing the deal the Office of the Council has the right to take any necessary action against him which would safeguard the Council's rights.

Article 108 The guarantee is returned to the contractor on the basis of a memorandum from the party authorized to commit the expense after a maximum of one month from the date of the final reception. Nevertheless it is possible for the Council to return all or part of the guarantee to the contractor upon his request prior to the completion of the execution or after the temporary reception if the condition of the works so permits.

Article 109 The contractor whose work has been executed by the Council or reawarded to another is suspended from bidding according to the provisions of this decree or to the provisions of the general specifications book as follows:

- For three months if it is his first penalty.
- For a whole year if it is his second penalty within 12 months.
- Indefinetely if it is his third penalty within five years.

The above mentioned periods become effective as of the date of the first decision placing the works under the direct execution of the Council or reawarding the contract to another contractor.

Second item: Restricted Tender

Article 110 The restricted tender method is used among a limited number of contractors having the required financial, technical and professional qualifications to satisfy the nature of the deal. These qualifications are determined in details in the individual specifications book with specifications of the required works or materials.

Article 111 The same provisions applying to the public tender apply also to the restricted tender.

Third item: Bid Requests

Article 112 The same provisions applying to the public tenders are applied to bid requests taking into consideration the following provisions.

1. The advertisement may be eliminated by sending the necessary information to the qualified professionals chosen by the authorized party to execute the deal in a fast and secured way.
2. Bid requests are undertaken by a committee appointed by the party authorized to finalize the deal.

Article 113 Deals by bid requests are approved by the same party approving the deals by public tender.

Fourth item: Mutual Agreement

Article 114 Mutual agreements can be made whatever the amount of the deal is if they apply to:

1. Materials, works or services that cannot be put for bidding because of their secret nature provided that it is specified by a decision of the Board of Directors.
2. Additional materials, works and services that should be given to the original contractor so as not to delay the execution if a new contractor is brought in during the execution of the deal. This is done:

- If the materials, works or services were not expected when the first bid was made and are considered as a continuous part of that bid.
 - If the materials, works or services should be executed through special machinery and equipment used by the contractor on site on the condition that they were not expected when the first bid was made and are considered a continuous part of that bid.
3. Things which the inventor has the exclusive right to produce.
 4. Things owned by one person.
 5. Materials, art works or technical services that can be entrusted only to technicians, specialists, artists or industrialists renowned for their abilities.
 6. Materials or works done by needy handicapped people licensed to work by the Ministry of Works and Social Affairs and provided that their prices do not exceed the market price.
 7. Entertainment and courtesousy expenses and the likes of representation expenses.
 8. Materials, works or services for which the Council has performed:
 - two consecutive tenders
 - two consecutive bid requests
 - a tender followed by a bid request.Without reaching a positive result.

In this case the mutual agreement should not result in a price higher than the best one offered during the bidding process except in exceptional circumstances explained by the party authorized to commit the expenditure in an explanatory report.

9. Materials, works and services provided by public institutions and municipalities.
- 10 Materials and works provided by the Administration through international organizations.
- 11 Materials, works or services given, after the approval of the Council of Ministers, to foreign countries or institutions controlled by those governments. In this case the Board of Directors may exempt the contractor from the conditions covering place of residence the guarantees, fines or delivery before payment.
- 12 Other exceptional cases decided by the Board of Directors

Article 115 Mutual agreements can be reached in one of the following ways:

1. A contract between the authorized party and the contractor
2. A written pledge by the contractor on the bottom of the individual specifications book.
3. An offer by the contractor approved by the authorized party.
4. Written correspondence between the contractor and the authorized party.

Article 116 Mutual agreement contracts are effected by:

- The President, if the amount does not exceed L.L. 300.000
- The Office of the Council if the amount exceeds L.L. 300.000 but is less than L.L. 600.000.
- The Board of Directors in the other cases.

Article 117 Mutual agreements are subject to the general specifications book and could have an individual specifications book if necessary. In addition, these agreements are subject to the provisions of articles 104 through 108 of this decree.

Fifth item: Technical Services Deals

Article 118 Mutual agreements for technical services (studies, design of specifications books, following-up on execution of works etc...) can be effected for whatever value on condition the knowledge required is not available in the Council.

These deals are subject to the following provisions:

1. The contract should only go to those who have the necessary technical qualifications determined by a study of the Office of the Council before the deal is approved.
2. The contract could be awarded, when necessary, after a contest between those who have the necessary qualifications
3. These deals are subject to the other provisions governing mutual agreements.

Sixth item: Deals through Statement or Invoice

Article 119 Deals through statement or invoice can be made:

- a) If their value does not exceed L.L. 100,000 when concerning studies or supervision of execution or if it does not exceed L.L. 50,000 when concerning other deals.
- b) And in all cases:
 - If the prices of the materials to be bought are fixed in a tariff issued by a government body, municipality, public institution or a recognized international body and it is impossible to get a lower price.
 - or if the deal is concerned with renting of public works' equipment and the rental fee has been determined by a specific official party and it is impossible to get a lower price.

These deals are effected by the Office of the Council. The works materials and services subject of this item are received by a special committee appointed by a decision of the Secretary General.

Section Two - Works Done Directly by Council

Article 120 Works done directly by the Council are the works executed by the Council's own workers.

Article 121 The works done directly by the Council are approved by:

- The Office of the Council if their value does not exceed L.L.500.000.
- The Board of Directors in the other cases.

The normal procedures are applied for the purchasing of the necessary material to execute these works.

Article 122 The Board of Directors appoints a special committee to control the execution of the works done directly by the Council. This committee does not take part in the execution of the works.

Article 123 The president of the above mentioned committee has to present to the concerned unit, upon completion of the works, a detailed statement of the executed quantities and the different amounts paid.

A copy of the above mentioned statements is sent to the Government Commissariat with the Council.

Part Four

Council Accounting

Chapter I - General Provisions

Article 124 The payment and collection operations carried out by the Chief Accountant are registered in accounts maintained according to a general design for the accounts approved by the Board of Directors.

The Council's assets are deposited in the National Bank for the Development of Industry and Tourism, the Central Bank or any other bank approved by the Board of Directors.

Article 125 The accounts are closed at the end of each financial year and during the first three months of the following year the Chief Accountant prepares:

- Annual Budget Administrative Account.
- General Trial Balance as of 31 December of the year
- Profit and Loss Account for investments.
- Analytical List of the accounts results
- Balance Sheet.

He includes with these statements a general stock taking statement for the materials on 31 December of the previous year prepared with the assistance of the materials general custodian.

Section One - Chief Accountant Authorities and Duties

Article 126 The Chief Accountant undertakes all the collection and payment operations necessary for the execution of the Council's Budget and the management of its accounts.

Article 127 The Chief Accountant presents, in his name and at his responsibility, his accounts to the government Accounting Bureau through the Finance Division Head within the determined periods and according to a general design of the accounts devised by the Office of the Council

Section Three - Cashier Authorities and Responsibilities

- Article 132 Keeping and handling of money is restricted, to the cashiers legally appointed by the Council. The cashiers' appointment take into consideration the closes governing the appointment of the petty cash custodians.
- Article 133 The cashiers present guarantees which amount is determined by a Board of Directors decision on the basis of a suggestion from the Secretary General.
- Article 134 The guarantee is returned to the Cashier upon termination of his tasks and on the basis of an order from the Chief Accountant and after ensuring the corectness of the cash accounts.
- Article 135 Before payment, the cashier should ensure at his responsibility, the identity of the creditor, the validity of his signature and his capacity if he represents a natural or legal entity.
- Article 136 If the due amount is for a deceased person the Cashier should ask the hiers to present the legal documents proving their claim. A certificate from the area or village Mayor is sufficient if the amount does not exceed L.L. 500.
- Article 137 If the creditor is illeterate or unable to sign, the thumb print will suffice provided that it is certified by the Cashier and two witnesses. If the cheque amount exceeds L.L. 1000, the Cashier has the right to have the print notarized.
- Article 138 The maximum amount of the balance to be kept by each Cashier is determined by the Board of Directors on the bases of the Chief Accountant suggestions and approval the Secretary General.

Article 139 The registers, receipts and invoices are prepared on predetermined forms approved by a decision of the Secretary General after the consent of the Chief Accountant.

Article 140 The Cashier prepares for every amount collected a receipt in duplicate, the first copy in ink and the second a carbon copy. The first copy is given to the concerned party and the second is kept in the register. The two copies should not be prepared separately.

Article 141 Any rewriting on a receipt issued by the Cashier or on any of its copies for whatever reason is considered done with bad intentions and the responsible person will be liable under articles 461 and 462 of the Penal Code.

When a mistake occurs in the preparations of a receipt, it should be cancelled by a special stamp and its two copies kept in the register.

Chapter II - Provisions Regarding Certain Accounts

Article 142 The following accounts are subject to the following provisions:

One: Cash Reserve

Article 143 Cash reserve is made of the excess of the Regular Budget's revenues over its expenses.

The Chief Accountant maintains this account

Article 144 The cash reserve is used to:

- cover deferred allocations
- cover the Budget's defect
- cover additional allocations
- cover and finance the exceptional expenses depending on their nature and all within the limitations of the Decree creating the Council and all other relative laws and regulations.

Article 145 No amount should be taken from the cash reserve except by a decision of the Board of Directors and any amount taken should be immediately recorded in the accounting books.

Two: Deposits and Guarantees

Article 146 The deposits and cash guarantees are handed to the Cashier according to a request by the appropriate party against a receipts that include the reasons for the deposit. They are only returned to their owners after a request from the appropriate party and after the return the receipts.

Article 147 If the deposits and cash guarantees receipts are lost, they are substituted by a pledge from their owners to accept any damage that might arise from a misure of the lost receipt. The Council may also ask the concerned party to present a guarantee from an acceptable bank to that effect.

Three: Cash Advances

Article 148 Cash advances are payments effected from the cash fund:

1. To supply the stores with materials and equipment required by the Council's operations.
2. To purchase storable materials for usage during the current or subsequent year.
3. To finance any project approved by the Board of Directors and the Loans allocated by the Council to a public institution, municipality or mixed or private institution.

- Article 149 The cash advances are given by a decision of the President of the Council after the approval of the Board of Directors and on the basis of a request from the concerned party.
- Article 150 The advance decision should mention the party receiving the advance, its custodian, purpose, amount, payment means repayment conditions and other conditions deemed necessary by the appropriate party.
- Article 151 The cash advance is paid on the basis of an order issued by the Chief Accountant referring to the decision that approved it.
- Article 152 The Chief Accountant controls the repayment of cash advances according to the conditions specified in the decision to grant it.
- Article 153 The advance is to be used for the purpose it was given for.
- Article 154 The Chief Accountant has the right to deduct directly from the custodian's salary those amounts the latter cannot account for their usage or those he does not repay on time. The Chief Accountant has also the right to take against the Custodian any other legal action to secure the return of these amounts.
- Article 155 He includes in the Administrative Account a statement of the Cash advances given according to article 148 of this decree and of what has been repayed during the Budget year.
- Article 156 This decree is published and notified when necessary and becomes effective as soon as it is published in the Official Gazette.

Issued by the President of the Republic
the Prime Minister
Signed: Salim Al. Hoss

Baabda May 9, 1980
Signed: Elias Sarkis

Finance Minister
Signed: Ali Al-Khalil