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McNamara Papers

Travel
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Archives

The World Bank Group

Travel briefs, Lebanon

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REPUBLIC OF LEBANON : Country Briefing

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* Material prepared January 1972, except if otherwise specified

A

ITINERARY IN LEBANON

<u>Arrival</u>	February 7, 1973	Beirut (Hotel St. George)	BA 756	1645 hrs.
	February 7, 1973	7-9 p.m.		Reception, Bankers Association (Hotel St. George)
	February 8, 1973	Morning		Visit Litani/Beqa'a area site of irrigation scheme being considered by the Bank. Accompanied by Chairman of Litani River Authority, Kamal Khoury.
		Lunch	Host:	Joseph Skaff, Minister of Hydraulic and Electric Resources
		Afternoon		Return to Beirut making a detour to visit the ruins of temple complex in Baalbek.
		7:30 p.m.		Meet with the President of the Republic, S. Frangieh
		Dinner	Host:	President Frangieh
	February 9, 1973	Morning		Visit to a public housing site, and to the ancient town and ruins of Byblos. Return to Beirut.
		Lunch 1:30 p.m.	Host:	Fouad Naffah, Minister of Finance
<u>Departure</u> (from Beirut)	February 9, 1973		KU 532	1830 hrs.

January 29, 1973

Lebanon

Thursday February 8

Leave the Hotel	at 9.00
Arrive in Safda	" 9.30
Visit Lebaa Center & the Agricultural Station-Litani Project	9.30 to 10.00
Visit the Roum Dam	10.30
Visit the Karaoun Dam	11.00 to 11.30
Visit site Bekaa irrigation Project	11.30 to 12.00
Arrive in Shtoura (Mrs. Ms Namara & Ladies arriving directly from Beirut)	13.00
Luncheon at Shtoura Park Hotel	13.00 to 14.30
Arrive in Baalbeck	15.00
Visit Baalbeck Ruins	15.00 to 16.00
Return to St. Georges-Beirut	about 17.30 to 18.00
Meeting with the President Frangieh	19.30 to 20.30
Dinner at the Palace	20.30

*Notes for
Drool invest - long
agri. stud.
Spec. deficit
back of long-term cap. mkt for govt & private invest.*

Friday February 9

Leave the Hotel	at 9,00
Arrive in the popular housing area	" 9,20
Leave the popular housing area	" 9,50
Arrive in Byblos	" 10,30
Leave Byblos	" 11,30
Arrive in Jeita (optional)	" 12,00
Leave Jeita back to Beirut (optional)	" 12,50
Arrive in Beirut	" 13,15
A Luncheon at the Minister of Finance Residence .	" 13,30

The first part of the paper
 is devoted to a general
 survey of the subject
 and to a discussion of
 the various methods
 which have been
 employed for the
 purpose of determining
 the true value of
 the constants involved
 in the problem.
 The second part
 is devoted to a
 detailed description
 of the apparatus
 used in the
 experiments and
 to a description
 of the method
 employed for
 the determination
 of the constants
 involved in the
 problem. The
 results of the
 experiments are
 given in the
 following table.
 The third part
 is devoted to a
 discussion of the
 results of the
 experiments and
 to a comparison
 of the results
 with the results
 obtained by other
 investigators.
 The fourth part
 is devoted to a
 discussion of the
 theoretical
 aspects of the
 problem and to
 a comparison
 of the results
 obtained in the
 present work
 with the results
 obtained by
 other investigators.
 The fifth part
 is devoted to a
 discussion of the
 practical
 applications of
 the results
 obtained in the
 present work.
 The sixth part
 is devoted to a
 discussion of the
 conclusions
 which have been
 drawn from the
 results of the
 experiments and
 to a comparison
 of the results
 obtained in the
 present work
 with the results
 obtained by
 other investigators.
 The seventh part
 is devoted to a
 discussion of the
 literature on
 the subject and
 to a comparison
 of the results
 obtained in the
 present work
 with the results
 obtained by
 other investigators.
 The eighth part
 is devoted to a
 discussion of the
 conclusions
 which have been
 drawn from the
 results of the
 experiments and
 to a comparison
 of the results
 obtained in the
 present work
 with the results
 obtained by
 other investigators.
 The ninth part
 is devoted to a
 discussion of the
 practical
 applications of
 the results
 obtained in the
 present work.
 The tenth part
 is devoted to a
 discussion of the
 conclusions
 which have been
 drawn from the
 results of the
 experiments and
 to a comparison
 of the results
 obtained in the
 present work
 with the results
 obtained by
 other investigators.

The results of the
 experiments are
 given in the
 following table.

B

The first step on a series of visits
to Middle Eastern States during
which I will discuss the Poles
increasing activity in the Arab
world.

Since 1968 we have both initiated borrowing
programs from these countries &
vastly expanded our lending &
technical assistance programs.
During that period we have borrowed
a total of \$400 million from States of
the region - the latest borrowing
program being the sale of \$275
million (\$25 million) here in Lebanon
two weeks ago.

And in the 5 fiscal years ending next
June our lending will exceed \$1 billion
for over 60 projects in 11 countries.
That total is 4 to 5 times as high
as the figure for the previous 5 years
of equal significance is the number
of economic & other technical
assistance missions, uninitiated
projects - these will exceed 50.

So the scale of our interest & the
level of our operations in the
M.E. is large & growing.
The purchase of foreign assets is
clear how we can serve the area better.
In Lebanon I shall be particularly
interested in learning of your development
program & of those investment projects
within it, especially infrastructure.

+ those relating to achieving economic
projects, for which you will
be seeking long-term funds, the
type supplied by the World Bank

REMARKS AT AIRPORT UPON ARRIVAL IN BEIRUT - LEBANON

This is my first visit to Lebanon and I am delighted to be here. During my stay I will have the opportunity to learn about the problems of development and the progress which has been made. I expect to discuss Lebanon's developmental needs with those in the public and private sectors concerned with direction of the economic and social development effort.

Our recently approved education project, which will assist Lebanon in implementing a comprehensive reform and development program for primary and secondary education, marks the initiation of a new relationship between the Republic of Lebanon and the World Bank. I do hope that this visit will lead to greater understanding and collaboration in the laudable efforts to develop your country's infrastructure, and that the World Bank Group's assistance will reach all the most important parts of the economy for the benefit of all sections of the people.

The year 1972, in a sense, is a landmark in the growing relations between the Arab World and the Bank Group. Our lending to the Arab countries in the Middle East and North Africa reached a record level of \$210 million in that year. It was more than 16 times our annual lending average in the years 1964-68. Increase in our lending in the area has been accompanied by notable changes in the scope and complexity of our operations -- changes designed to contribute most to development. It was the first year which brought to fruition many years of efforts to establish an active relationship with the Arab countries. I am confident that within our overall lending program, we will continue to move forward in the years ahead.

I am very pleased about the recent placement of World Bank bonds with commercial banks in Lebanon. This transaction, which was successfully concluded only about two weeks ago was our first contact with the Lebanese market. It will channel funds available in the commercial banking sector

into the World Bank's development efforts while at the same time confirm and enhance Beirut's position as an important international financial center. I hope this and possible future operations will contribute to the endeavors which are on the way in Lebanon to develop activity in the capital market and to set up local institutions which are to transform available short-term capital for use in the country's long-term development needs .

Lebanon is known for its tolerance, freedom of enterprise and democratic institutions. It is clear that the Government and the people of Lebanon are determined to promote the economic development of the country, placing a premium on self-reliance. With its favorable financial situation, Lebanon might also find opportunities to play a part in the world-wide development effort. The Bank Group stands ready to work closely with you in every aspect.

January 26, 1973

I N T R O D U C T I O N

Since Mr. McNamara's visit to the oil rich countries is of special significance, particularly in the context of the different characteristics of the leaders, their objectives and the political and economic circumstances of the region, we should think in terms of being more elaborate in our approach to the problems of the individual.

Since Lebanon will be the first point of contact on this mission to the Middle East and since Beirut boasts of a relatively sophisticated media covering the entire Arab world, Mr. McNamara should go beyond his usual country arrival statements.

In fact his arrival statement at Beirut should be oriented to the region as a whole (rather than to a country) and thus serve as a "curtain-raiser" to the whole mission.

Given the sensitivities of the leaders of the regions and the political systems, our approach for more funds should be to the heart rather than to the head.

We should indicate the Group's readiness to assist economic development in the poor countries of the Arab world as a true partnership in the development process.

We should indicate our readiness to serve as a channel through which the rich countries of the Arab world can assist their poor brethren.

We should indicate our readiness to engage in joint operations, on the lines of the Sweden-IDA model, to assist development.

Perhaps we should avoid to direct a reference to the wealth of the rich countries and how and where they should invest their funds. On the other hand Mr. McNamara should emphasize that he is looking for a true partnership, a cooperative endeavor that is mutually advantageous (benefits accruing from investment of long term Bank Bonds and the increasing activities

of the Group in the Arab world.

A deep bow to the countries in the region that have chosen the Bank as a channel for investing funds in one of the noblest causes of human history -- helping to improve quality life of the poor.

LEBANON

Has a flourishing economy. The situation has been further assisted by the fact that the country is an "important banker" for the rich countries in the Middle East. This position will remain unchanged as long as political stability in the country and in the area continue.

The Lebanese are talented and understand the language of "business" and "commerce". So any effort to attract funds from this source should be a blend of "animal" (return on "AAA" bonds) and philosophical levels (the Koran enjoins a Muslim not to lend money for an usurious rate of interest).

Any effort to attract more funds from the "oil rich" should be sugar coated with the thesis that it will help us to lend more to the Arab world.

A slightly "controlled" press "conference" in Beirut is in order. Perhaps we should prepare two or three questions and "plant" it among journalists in Beirut airport. Mr. McNamara can always decline to answer question that he would not like to. This is nothing unusual in press conferences. If he were in a position to say that he is discussing with the Government the establishment of a Bank Office for the region, it would have considerable impact.

KUWAIT

The situation in Kuwait did not change much since Mr. McNamara's last visit in 1969. The same officials and more favorable understanding of the Bank's role. Mr. Atiki, Minister of Finance, and Alhamad, Director of the Kuwait Fund still are the key men in the Kuwaiti investments activities. Also, Sheikh Elgaber, the Prime Minister is a kind of 'god-father' to Kuwait Bank relations.

A general discussion with the Amir will be very pleasant. Mr. McNamara may wish to touch the Bank's long relations with Kuwait and titles of the projects which have been jointly financed by the Bank and Kuwait Fund in the other Arab countries. Also, Mr. McNamara may wish to mention the Bank's projects in Egypt, Iraq, Syria, Sudan and the Yemens.

With the Prime Minister, Mr. McNamara may wish go into some detailed figures and to explain the scarcity of IDA money.

Mr. McNamara may wish to go a step further than telling the Kuwait Fund officials we would be happy to have many more projects. He may tell them that the Bank will identify more projects to be operated jointly ... or some projects already being appraised.

Mr. McNamara may wish to ask the Prime Minister and Atiki directly, whether Kuwait is interested to extend their financing to development projects in some Islamic countries, i.e. (Pakistan, Indonesia, Mauritania, etc...).

SAUDI ARABIA

King Feisal is a straightforward, modest, diplomat. We should not by any means underestimate his intelligence. Perhaps he is the schrewdest

"operator" around the M.E. who is fully aware of political realities of Saudi Arabia and the M.E. Naturally he knows the Bank's mission objectives.

Mr. McNamara may wish first to tell His Majesty that the Bank Group has been prepared to respond to any expression of interest in Bank advice or assistance from the Saudis. Following the Saudis' 1971 request for Bank help with a transportation survey, five Bank missions have been mounted.

The fact that increasing cooperation between the Bank Group, Saudi Arabia and the other oil rich countries in the area will realize.

- a) direct benefit to the investing state in respect of the revenues of medium and long-term bonds of the Bank;
- b) benefiting from technical assistance of the World Bank accruing from its large-scale activity in the developing countries over the past 27 years;
- c) provision of international contacts and in depth studies carried out by the Bank's reports which would be of considerable assistance to the economic planning of these countries;
- d) increased activities of the Bank in the poor Arab countries.

Mr. McNamara may wish to tell the King the major contributors in IDA are, ... , and Kuwait and in brief touch upon the Kuwait involvements with the Bank. Then, the Bank's projects in the poor Arab countries, i.e. Jordan, Yemen, Egypt and Syria. He may also wish to say that many projects could be identified in these countries if more funds were available on IDA terms.

Perhaps we should re-examine the question whether Mr. McNamara should raise with the King the issue of the volume and range of Saudi Arabia's assistance to Egypt and Jordan. This is an emotional issue which we should try to avoid.

Mr. McNamara may wish to tell the King that the Bank Group stand ready to be the channel for Saudi Arabia development aid or if the King prefers joint operations (à la Sweden/IDA), the Bank Group would go all the way.

The King is highly influenced by two of his advisors ... Anwar Ali (Pakistan) and Zaki Saad (Egyptian). Mr. McNamara may wish to tell the King that the development aid has nothing to do with the International Monetary issue and it will be internationally welcomed that Saudi Arabia is helping the development cause in the region and in the other countries.

Special attention is recommended for Dr. Fayez Badr, Vice President of the Central Planning Organization... who was constantly complaining on the very slow process; and the long time it takes the IBRD to study the proposed projects. He also, severely criticized the EDI .

ABU DHABI and QATAR

Mr. McNamara may avoid the technicalities in his dialogue with both His Highness Sheikh Zayed Bin Sultan, President of U.A.E., and His Highness Sheikh Khalifa Bin Hamad, Ruler of Qatar. Mr. McNamara

may wish to tell them the Bank's total lending to the poorer countries and the Arab countries share in the last year. He may also express his confidence that within the Bank's lending program, we will continue to do more in the years ahead.

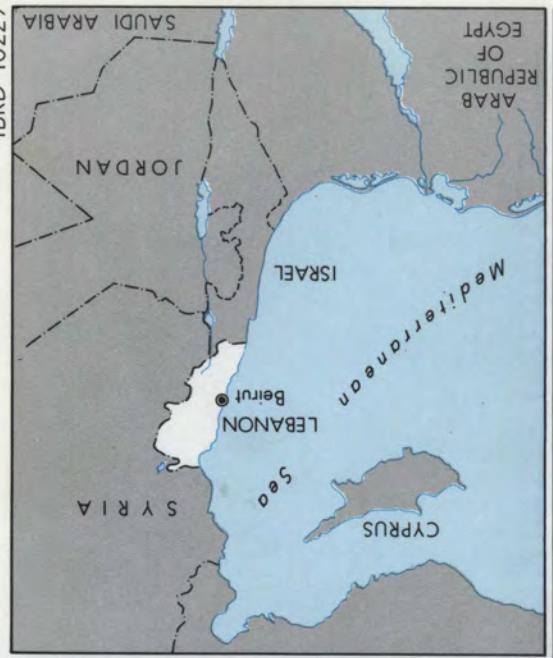
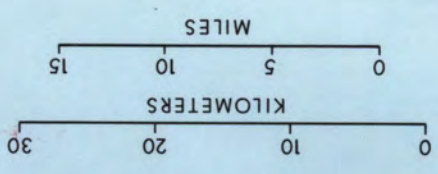
Sheikh Zayed of Abu Dhabi is under the influence of Mr. Hasan Abbas Zaki, his economic advisor and who has an easy access to him. He is also the Abu Dhabi Fund Vice President.

C



LEBANON
TRANSPORTATION INFRASTRUCTURE

- EXISTING HIGHWAYS:
 International
 Other
- HIGHWAY PROJECT ELEMENTS:
 Feasibility Studies
 Detailed Engineering
 Construction
- OTHER INFRASTRUCTURE:
 Railways
 Ports
 Airports
 Pipelines
- 1000
 Contour Lines in Meters
 Cliffs
 International Boundaries



The boundaries shown on this map do not imply endorsement or acceptance by the World Bank and its affiliates.

Centimetres
 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19

Inches
 1 2 3 4 5 6 7 8 9 10 11 12

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Blue
 Cyan
 Green
 Yellow
 Red
 Magenta
 White
 3/Color
 Black



LEBANON EDUCATION PROJECT

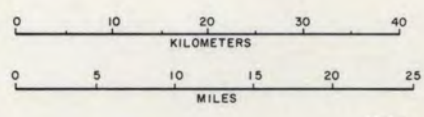
- Primary teacher training school
- Middle teacher training school
- Lower secondary school -- capacity 320
- Lower secondary school -- capacity 560
- Lower secondary school -- capacity 1,120
- Primary school -- capacity 240
- Primary school -- capacity 480
- Primary school -- capacity 960

POPULATION: Persons per square mile

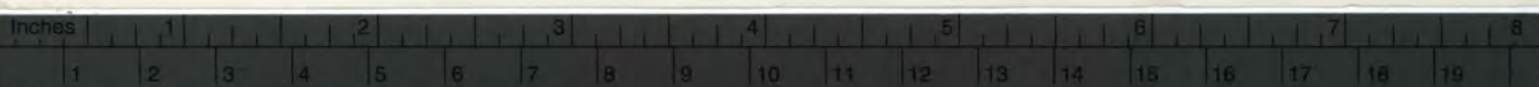
- More than 20,000
- 1,500 -- 2,000
- 1,000 -- 1,500
- 500 -- 1,000
- Less than 500

(Population density figures are based upon statistics compiled by the Ministry of Planning as of January 1, 1965)

- Roads
- Railways
- Provincial boundaries
- Department (Mahafazat) boundaries
- International boundaries



The boundaries shown on this map do not imply endorsement or acceptance by the World Bank and its affiliates.



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REPUBLIC OF LEBANON

BACKGROUND NOTES

Population: 2.9 million (1972 est.)

Capital: Beirut

Lebanon, situated on the eastern shore of the Mediterranean Sea has an area of approximately 4,000 square miles, slightly smaller than Connecticut. It is bounded on the north and east by Syria and on the south by Israel. Its principal topographic features are a narrow coastal plain behind which are the high Lebanese Mountains, then the fertile Beqaa Valley, and finally the Anti-Lebanon Mountains extending to the Syrian border. It is estimated that 64 percent of the land is desert, waste, or urban; 27 percent agricultural; and 9 percent forested.

The Litani River, which flows into the sea north of Tyre, is the main river and is the only purely national river in the Middle East. The Hasbani River, which is one of the sources of the international Jordan River, rises within Lebanon.

The climate is typically Mediterranean, resembling that of southern California. Temperatures rarely exceed 90° F. during the hottest months, but humidity is high.

Lebanon's flag consists of three horizontal stripes—a wide white band in the middle, with narrower red bands above and below—and a green cedar tree centered on the white.

THE PEOPLE

Lebanon's 1972 population is estimated at 2.9 million—between 600 and 700 persons per square mile. The rate of population growth is 2.4 percent annually. Beirut, the capital, has more than 1 million inhabitants.

The population is almost evenly divided between Christians and Muslims. There is a great variety of Christian sects represented in Lebanon, including the Maronites, Greek Orthodox, and Armenian. The Maronites, who are affiliated with Rome, make up the largest Christian group. Muslims include members from the Sunni and Shi'ite sects. Adherents to the Druze sect constitute another large minority.

The official language is Arabic, but Armenian is spoken by the 6 percent of the population who constitute that ethnic minority. French and English are also widely spoken. The literacy rate is 86 percent, the highest in the Arab world.

HISTORY

Lebanon is the historical home of the Phoenicians. Its mountains supplied a Christian refuge for centuries, and the Crusaders established several strongholds there. Following the collapse of

the Ottoman Empire after World War I, five Ottoman provinces making up present Lebanon became a French mandate. The country gained its independence in 1943, and French troops were withdrawn in 1946.

Lebanon's recent history is written largely in terms of its Presidents: Shaikh Bishara-el-Khoury (1943-52), Camille Chamoun (1952-58), Fouad Chehab (1958-64), Charles Helou (1964-70), and Sleiman Frangie (1970-). The ends of the terms of the first two Presidents were marked by political turmoil. During the last months of President Chamoun's term in 1958 an insurrection broke out, intensely aggravated by external factors. On July 15, 1958, in response to the Lebanese Government's appeal, U. S. forces were sent to help the country safeguard its independence. These forces were completely withdrawn by October 25, 1958, after the inauguration of President Chehab and a general improvement in the international aspects of the Lebanese situation.

On August 17, 1970, Sleiman Frangie was elected President of Lebanon. Exercising the considerable authority vested in the office of the Lebanese presidency, President Frangie has moved vigorously to deal with the problems that face this democratic, multireligious Republic.

GOVERNMENT

Lebanon is a parliamentary Republic whose governmental system is based on the Constitution of May 26, 1926. However, a series of amendments has substantially altered the content of the original document. Article 95 provides that the confessional (religious) communities of Lebanon shall be equitably represented in public employment and in the composition of the Cabinet but that such a measure is not to impair the general welfare of the state. This article supplements the National Covenant of 1943, an unwritten agreement which laid the political foundations of modern Lebanon. The covenant provides that public offices shall be distributed among the recognized religious groups, and the three top positions in the governmental system shall be distributed as follows: the President is to be a Maronite Christian; the Prime Minister, a Sunni Muslim; and President of the Chamber of Deputies, a Shi'ite Muslim. The Constitution and National Covenant provide the framework for a centralized democracy.

The President (Chief of State and Head of Government) has a strong and influential position.



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He is elected for a 6-year term by a simple majority of the Parliament sitting as an electoral college. The President appoints a Cabinet of Ministers and designates one of them as Prime Minister. Members of the Cabinet may or may not

be drawn from Parliament, but the Cabinet is subject to a vote of confidence by that body. The President has the authority to promulgate laws passed by Parliament, issue supplementary regulations to insure the execution of laws, negotiate

and ratify treaties, and propose new laws to Parliament.

The unicameral Parliament, Chamber of Deputies, has 99 members elected for 4-year terms. They are elected by universal adult suffrage based on a system of proportional representation for the religious groups of the country. Deputies do not represent political parties as they are known in the West, nor do they form Western-type groupings in the Parliament. The Chamber forms political blocs based either on confessional and local interests or on personal allegiance, but not on political affinities. There is little internal discipline within the blocs, and Deputies associate themselves with any of these blocs, depending on the issue involved and the personal interest of the Deputy. The Chamber plays a significant role in financial affairs since it has the responsibility for levying taxes and passing the budget. It also exercises political control over the Cabinet through formal questioning of Ministers on policy issues and by requesting a confidence debate. By the use of either method, the Chamber can act on the policies of the President and his government.

Lebanon's judicial system is based on that of France. Juries are not used. There are three levels of courts in the Lebanese system: Courts of First Instance, Courts of Appeal, and the Court of Cassation. There is also a system of confessional courts which have jurisdiction only within their own communities.

Lebanon is administratively divided into five Provinces: Beirut, North Lebanon, South Lebanon, Mount Lebanon, and the Biqa. Each Province is headed by a Governor who is appointed by presidential decree. Each Governor rules through a Provincial Council which is composed of members automatically seated because of their predominate position within the Province and others who are appointed to serve as members.

POLITICAL CONDITIONS

In addition to its own indigenous political groupings, Lebanon contains branches of perhaps all the other political parties to be found in the rest of the Arab world. These cover the entire political spectrum from far left to far right—from totally secular in orientation to wholly religious in character. The Arab Christians and Muslims generally look to particular political parties and leaders, depending on the sect to which they belong. The Armenians, who are non-Arab, are organized into at least three political groupings. The Palestinian refugees, numbering around 300,000 and who are predominantly Muslim, constitute an important and sensitive minority domestically and in Lebanon's foreign relations. Arab guerrilla organizations (including al-Fatah, the strongest single grouping) exist in Lebanon, drawing their strength from the Palestinian refugees.

Lebanese political parties are unlike the huge umbrella organizations found in the United States. Rather, they are generally vehicles for powerful leaders whose followers are often of the same

religious sect. The interplay for position and power among these leaders and groupings produces a political tapestry of extraordinary complexity for the Western observer. However, the system works to produce a healthy democracy.

The Muslim-Christian balance in Lebanon remains delicate, but responsible groups who have vivid memories of the 1958 crisis are believed to feel that their interests are best served by preservation of that balance and by insuring that future political changes take place peacefully. The present Chamber of Deputies was brought into being as the result of orderly and democratic elections held in April 1972. It is representative of all important religious and geographic factions and appears to have widespread public support.

The next presidential and parliamentary elections are scheduled for April 1976; however, they may be held at any time if the President dissolves the Chamber of Deputies.

ECONOMY

In 1972 Lebanon's gross national product (GNP) was estimated at more than U.S. \$1.5 billion, or a per capita income of well over \$500. The majority of the Lebanese still derive their living from agriculture while the urban population, concentrated mainly at Beirut and Tripoli, is noted for its commercial enterprise. Lebanon contains a higher proportion of skilled labor than anywhere else in the eastern Arab world.

Lebanon's economy is based on private enterprise with few controls exercised by the Government. Two-thirds of the GNP is drawn from services, primarily banking, commerce, and tourism. Lebanon depends heavily on transit trade for its existence. Beirut is the focal point for trading activity in the Middle East and acts as an important gold and foreign exchange market. Many U. S. and European firms have located their regional headquarters at Beirut. Modern port facilities and a large modern international airport contribute materially to the trade and tourist sectors of the economy.

A good communications network has improved with the completion of an earth satellite station and a cable linking Lebanon and France. Further improvements are under active consideration. Lebanon, with Beirut as a publishing center, has more than 50 privately-owned daily or weekly newspapers, hundreds of periodicals, three radio stations, and two television stations.

Except for a few large oil refineries and cement plants, industrial establishments in Lebanon are predominately small and heavily concentrated in and around Beirut. Major industrial activities include food processing, manufacturing of textiles and other light industrial goods, and the production of building materials. Although Lebanon is dependent on imports for an important part of its food supply, agriculture is also a basic part of its economy. Principal products are cereals, vegetables, fruits, and livestock.

The United States has been a major contributor of bilateral foreign assistance to Lebanon (\$92 million, 1946-70). France, Kuwait, and other major contributing nations have given approximately \$35 million in the same period and international organizations have extended \$43 million in loans and grants.

The health of the basic sectors of the Lebanese economy depends to a large part on the political situation in the Middle East in general. Tourism, industry, and banking have registered marked improvements in 1971-72. This increased activity has permitted Lebanon's citizens to continue to enjoy a standard of living that is high for the Middle East.

Exports, which consist primarily of fruit, other foodstuffs, and textiles, totaled \$360 million in 1971. Imports in 1971 amounted to \$700 million. They included foodstuffs, machinery, and metals, primarily from the United States and Western Europe. U.S. exports to Lebanon in 1971 amounted to \$85.9 million and U.S. imports from Lebanon in 1971 amounted to \$13.3 million. Lebanon also receives imports from West Germany, France, the United Kingdom, and Syria. Her exports go to Iraq, Syria, Saudi Arabia, and Jordan.

FOREIGN RELATIONS

Lebanon's basic foreign policy goal is to maintain good relations with numerous countries. It is fundamentally pro-West and follows a more or less neutral line in its relations with the Communist countries. The People's Republic of China has recently opened an Embassy in Beirut.

As an Arab state, Lebanon seeks to maintain the best possible relations with all other Arab states. In 1972, Lebanon's relations with these states improved. Although it did not participate in the 1967 Arab-Israeli war, Lebanon sides with other Arab states on the question of a Middle East peace settlement. Lebanon's southern border with Israel is uncontested and generally quiet. However, there have been incidents on the border as a result of Fedayeen (guerrilla) raids across the border into Israel and Israeli military retaliatory raids into Lebanon.

The Christian half of the country has traditionally looked westward and is especially interested in friendly ties with Western countries, particularly the United States. But the National Covenant of 1943 requires the Christians to forego seeking foreign protection or attempting to bring Lebanon under foreign control or influence. At the same time the covenant requires the Muslims to forego any attempt to bring Lebanon into any form of Arab union. Lebanon is an active member of the United Nations and several of its specialized agencies and adheres to the Arab League.

Lebanon's foreign policy reflects its size, its geographic location on the sea, the composition of its population, and its need to trade in order to prosper. The totality of these factors makes Lebanon a bridge between the West and the Middle East.

U. S. POLICY

The United States has a special interest in Lebanon as a haven of economic freedom and political democracy and stability in the Middle East. Without becoming identified with individuals or factions in Lebanon, the United States seeks to maintain its traditionally close ties with Lebanon, to help preserve its independence and integrity, and to promote that country's political stability and economic development. The United States believes that a peaceful, prosperous, and stable Lebanon can make an important contribution to stability and peace in the Middle East.

The Agency for International Development (AID) program in Lebanon is very small, consisting of Public Law 480 (Food for Peace) agreements. Approximately \$7.5 million in PL480 credits were programmed for Lebanon in FY 72.

PRINCIPAL GOVERNMENT OFFICIALS

President—Sleiman Frangie
Prime Minister; Minister of Interior—Saeb Salam
Deputy Prime Minister; Acting Minister of Education—Albert Moukheiber
Minister of Foreign Affairs—Khalil abu Hamad
Minister of Economy—Anwar Sabbah
Minister of Finance—Fu'ad Naffa'
Minister of Tourism—Michel Sassine
Minister of Health—Nazih Bizri
Minister of Justice—Bashir Awar
Minister of Post, Telephone, and Telegraph—Jamil Kebbe
Minister of Information—Khatchik Babikian
Minister of Planning—George Saadeh
Minister of Hydroelectric Resources—Joseph Skaff
Ambassador to the U.S.—Najati Kabbani
Ambassador to the U.N.—Edouard al-Ghorra

Lebanon maintains an Embassy in the United States at 2560 28th Street, N.W., Washington, D.C. 20008.

PRINCIPAL U. S. OFFICIALS

Ambassador—William B. Buffum
Deputy Chief of Mission—Robert B. Houghton
Chief, Political Section—Robert B. Oakley
Economic Counselor—Robert O. Waring
Consul—William Morgan

The U.S. Embassy in Lebanon is located on the Corniche at Ain Mreisseh, Beirut.

READING LIST

American University, Area Handbook for Lebanon. Washington, D.C.: U.S. Government Printing Office, 1969.
Binder, Leonard. Politics in Lebanon. New York: Wiley, 1966.
Hitti, Philip K. Lebanon in History. New York: St. Martin, 1957.
Hudson, Michael C. The Precarious Republic: Political Modernization in Lebanon. New York: Random, 1968.
Qubain, Fahim I. Crisis in Lebanon. Washington, D.C.: Middle East Institute, 1961.

D

To Anders - Returned by M. K. H.

Thank you for this -

² To Anders,
I have
xeroxed &
returned to
Mrs. McK. B.

I must have a copy of these
news & Bios for my files - as its impossible
for me to write thank yous, & know
who I have written to.

I still wonder who actually
writes letters for R.S. after each trip -
I feel they must be carefully reviewed
if they are not Briefed in some way
unless they were there. -

Eg. The reception given us by the
Pres of the Bankers Association - was it
really Mr. Mr. Teepea - ?? - shouldn't
the real person with us be doing this -

I just think it should be checked as
its so insulting if we don't write
properly or we miss people.

I meet these people later at annual
meetings & its important that Im
cluded in -

I like to have Background articles
Background Papers on Country & People -
But I dont need it on the projects per say.
Other wise I turn out to be too uninformed.

also men who gave the money

I need name of man who saw the Prince in Ribad -
" " " " " who was at Bank & NIK is all the time

M. K. H.

LEBANON

Sleiman Frangie

President

CABINET

Saeb Salam

Prime Minister
Interior

Albert Moukheiber
(Also Acting Education Minister)

Deputy Prime Minister
Minister of State for
Housing and Cooperatives

Khatchik Babikian

Information

Pierre Helou

Minister of State for
Petroleum Affairs and
Industry

George Saadeh

Planning

Sabri Hamade

Public Works

Majid Arslan

Defense

Joseph Skaff - Hosted Lundy in Shbeura
on way to Baalbeck.

Hydroelectric Resources

Kazem Khalil

Labor & Social Affairs

Suleiman 'Ali

Agriculture

Bashir Awar

Justice

Nazih Bizri

Health

Khalil abu Hamad - [?] she spoke excellent English -
He understood

Foreign Affairs

Jamil Kebbe

Post, Telephone & Telegraph

Fu'ad Naffa' - My hostess - lovely woman
brayed up in a rage

Finance

Michel Sassine

Tourism

Anwar Sabbah

Economy

January 18, 1973

Source: United States Department of State

OTHER PERSONALITIES

DR. KHALIL SALEM

He was born in 1928, is a Greek Orthodox, and speaks English and Arabic. Has been Director General of the Ministry of Finance (highest administrative rank, non-political appointment) for about seven years and the main contact with the Bank for a number of years. As Alternate Governor for the Bank, he attends Annual Meetings regularly.

Dr. Salem has had extensive academic experience. He received his M.A. from the American University in Beirut and his Ph.D. from Vanderbilt University, in political economy. He has written three books on the Lebanese economy, as well as numerous articles. Before entering the Government he was professor of political economy at the American University in Beirut. He has worked closely with the Ford Foundation on their program for tax reform in Lebanon. Dr. Salem, still a bachelor, is known for his ability and honesty, though, at times very bureaucratic and slow in correspondence.

KAMAL KHOURY

Mr. Khoury was Minister of Public Works and Transport and is Director of the National Office for the Litani, which means that he will be closely involved with the South Beqa'a project being considered by the Bank. Mr. Khoury is a Maronite, was born in 1932, and is very wealthy personally. He graduated from the American University in Beirut and did graduate work at Yale. He has a good reputation as an engineer and public servant, and represents one of the best of the technocratic class.

KAMEL AL AS'AD

President, Chamber of Deputies

Holds most important political position allotted to Shi'is. Supporter of Frangie. About 50 years old. Comes from feudal family in South Lebanon. Intelligent and arrogant.

PROMINENT BANKERS

ELIAS SARKIS

Mr. Sarkis is Governor of the Central Bank of Lebanon and Governor of the IMF. Mr. Sarkis was a candidate for President of the Republic in the last elections (August 1970). He was born in 1924, is a Maronite, and speaks French and Arabic. Mr. Sarkis did his university studies in Paris and took a law degree from St. Joseph University in Beirut.

Mr. Sarkis is one of the most powerful men in Lebanon's politics. In the early 1950, while in his position on the Audit Council of the Government, he caught the eye of Pres. Chehab who invited him to serve in the

Presidential Office. Mr. Sarkis was Director General of the Presidential Office for a number of years, including the first two years of the Presidency of Pierre Helou. Mr. Sarkis is considered to be very pro-French.

DR. SALIM AHMED HOSS

Dr. Hoss is Chairman of the Banking Control Commission of the Central Bank. Much of the credit for the success of the Commission in restoring confidence in Lebanese Banking and in reducing the number of banks from over 100 to around 73 is due to the ability of Dr. Hoss, who is a quiet, self-effacing man. He was born in 1929 and speaks English, French and Arabic. Dr. Hoss received his Ph.D. from Indiana University and was for a number of years a professor of economics at the American University in Beirut. He has been a member of Lebanon's delegation to Bank/Fund Annual Meetings several times. Dr. Hoss is Financial Advisor to the Kuwait Fund of Arab Economic Development.

Dr. Hoss is Chairman-General Manager-designate of the new development finance company (Bank for the Development of Industry and Tourism) which the Government is in the process of establishing (see section E of this briefing book).

JOSEPH GEAGEA *They gave us a Receipt*

He is Chairman of Bank Geagea and President of Bankers' Association. Well connected in government and symbolizes, though from a very small bank, the local versus foreign-owned banks. Colorful figure. He played the key role in our recent bond issue (see Section E, Prospective Borrowing operations).

JEAN ABOU-JAOUDE

Mr. Abou-Jaoude is Treasurer of the Lebanese Bankers' Association and one of the leading Lebanese bankers. He is General Manager of Banque Libanaise pour le Commerce and on the Board of the quasi-Governmental agriculture, industrial and real estate bank, namely, Banque de Credit Agricole, Industriel et Foncier. Mr. Abou-Jaoude is 60 years old, a Maronite, and speaks Arabic and French.

NAAMAN AZHARI

Mr. Azhari is Vice President of the Lebanese Bankers Association and General Manager of Banque du Liban et d'Outremer S.A.L., and is considered to be one of the most able bankers in the country. He is a Sunni Moslem of Palestinian origin, and speaks French and Arabic, with some English. Mr. Azhari has been very forthright in his support of efforts to find ways for the Government to encourage foreign investment in Lebanon, even though this has not always been a popular position to take.

PIERRE EDDE

He was born in 1921, is a Maronite, married with three children, and is fluent in French, English and Arabic. He graduated from St. Joseph University in Beirut and took a law degree at the University of Lyon. Mr. Edde is a prominent banker, wealthy businessman, and influential politician. He was formerly a Member of Parliament, a Minister of Finance, a Minister of Education, and President of the Lebanese Bankers Association. He was Minister of Finance at a critical time following the Intra-Bank crash, when he brought some order out of chaos and passed an austerity budget through the Government.

Mr. Edde founded the Beirut Riyad Bank. He is presently Chairman of the Board of the most important French language newspaper in Lebanon. Because of his deep involvement in the banking community, he has attended at least five Bank/Fund Annual Meetings in the past.

SAMI YOUSEF AL-ALAMI

Mr. Al-Alami is General Manager of the Arab Bank branch in Beirut. This institution is the largest Arab-owned bank in the Middle East, and has its headquarters in Amman, Jordan. Mr. Al-Alami was born in Gaza in 1924 and graduated from the American University in Beirut. He is considered to be highly influential in the top banking circles. He has two brothers who are professors at the American University.

February 2, 1973

KUWAIT

CABINET

Amir Sabah, Sabah al-Salim al-
Prime Minister Sabah, Jabir al-Ahmad al-
Min. of Awqaf & Islamic Affairs Farhan, Rashid'Abdallah al-
Min. of Commerce & Industry Adasani, Khalid Sulayman al-
Min. of Defense Sabah, Sa'd al-Abdallah al-
Min. of Education Marzuq, Jasim Khalid al-
Min. of Electricity & Water Resources..... Ghanim, Abdallah Yusif al-
Min. of Finance & Oil Atiqi, 'Abd al-Rahman Salim al-
Min. of Foreign Affairs Sabah, Sabah al-Ahmad al-Jabir al-
Min. of Information & Guidance(Acting)..... Sabah, Sabah al-Ahmad al-
Min. of Interior Sabah, Sa'd al-'Abdallah al-Salim al-
Min. of Justice Hamad, Muhammad Ahmad al-
Min. of Posts, Telephone & Telegraph Sar'awi, 'Abd al-'Aziz'Abdallah al-
Min. of Public Health 'Adwani, 'Abd al-Razaq Mishari al-
Min. of Public Works..... Nusif, Hamud Yusif al-
Min. of Social Affairs & Labor..... Ayyar, Hamad Mubarak al-
Min. of State for Cabinet Affairs Husayn, 'Abd al-'Aziz

January 8, 1973
Source: EMENA Region

QATAR
CABINET

Amir	Thani, <u>Khalifa</u> ibn Hamad Al
Prime Minister	Thani, <u>Khalifa</u> ibn Hamad Al
Min. of Agriculture & Industry	Thani, <u>Faysal</u> ibn Sani Al
Min. of Commerce & Economy	Thani, <u>Nasir</u> ibn Khalid Al
Min. of Defense	Thani, <u>Khalifa</u> ibn Hamad Al
Min. of Education and Youth Welfare	Thani, <u>Qasim</u> ibn Hamad Al
Min. of Electricity and Water Resources	Thani, <u>Qasim</u> ibn Muhammad Al
Min. of Finance and Oil	Thani, <u>Abdel Aziz</u> ibn Hamad Al
Min. of Foreign Affairs	Thani, <u>Suhaym</u> ibn Hamad Al
Min. Of Information	Kuwari, <u>'Isa</u> Ghanim al-
Min. of Interior	Thani, <u>Khalid</u> ibn Hamad Al
Min. of Justice	Thani, <u>'Abd al-Rehman</u> ibn Saud Al
Min. of Labor and Social Affairs	'Ansari, <u>'Ali</u> ibn Ahmad al-
Min. of Municipal Affairs	Thani, <u>Muhammad</u> ibn Jabr Al
Min. of Public Health	Mani', <u>Khalid</u> Muhammad al
Min. of Public Works	Atiya, <u>Khalid</u> ibn' Abdallah al-
Min. of Transportation and Communication	Suwaydi, <u>'Abdallah</u> ibn Nasir al-

EMENA Region
January 25, 1973

UNITED ARAB EMIRATES

CABINET

President of State	Nuhayan, <u>Zayid</u> ibn Sultan Al
Prime Minister	Falasa, <u>Maktum</u> ibn Rashid
Dep. Prime Minister	Falasa, <u>Hamdan</u> ibn Rashid al-
Min. of Agriculture and Fish Wealth	Sharki, <u>Hamad</u> ibn Muhammad al-
Min. of Communications	Na'imi, <u>'Abd al-'Aziz</u> ibn Rashid al-
Min. of Defense	Falasa, <u>Muhammad</u> ibn Rashid al-
Min. of Economy	Falasa, <u>Hamdan</u> ibn Rashid al-
Min. of Education	Tiryam, <u>'Abdallah</u> ibn 'Umran
Min. of Electricity	Qasimi, <u>Abdallah</u> ibn Hamud al-
Min. of Finance	Falasa, <u>Hamdan</u> ibn Rashid al-
Min. of Foreign Affairs	Suwaydi, <u>Ahmad</u> Khalifa al-
Min. of Health	Mu'alla, <u>Sultan</u> ibn Ahmad al-
Min. of Housing	Salman, <u>Sa'id</u> ibn 'Abdallah ibn
Min. of Industry	Falasa, <u>Hamdan</u> ibn Rashid al-
Min. of Information	Nuhayan, <u>Ahmad</u> ibn Hamid Al
Min. of Interior	Nuhayan, <u>Mubarak</u> ibn Muhammad Al
Min. of Justice	Qasimi, <u>Ahmad</u> ibn Sultan al-
Min. of Labor and Social Affairs	Harib, <u>Thani</u> ibn 'Isa ibn
Min. of Planning	Kindi, <u>Muhammad</u> al-
Min. of Public Works	Qasimi, <u>Muhammad</u> ibn Sultan al-
Min. of Youth & Sports	Humayd, <u>Rashid</u> ibn
Min. of State	Suwaydi, <u>Muhammad</u> Habrush al-
Min. of State for Affairs of the Council of Ministers	'Utayba, <u>Utayba</u> ibn 'Abdallah al-
Min. of State for Affairs of the Supreme Council	Qasimi, <u>'Abd al-Malik</u> al-
Min. of State for Affairs of the Union and Gulf	Mulla, <u>Muhammad</u> Sa'id al-
Min. of State for Financial and Economic Affairs	Sulayim, <u>Ahmad</u> ibn Sultan ibn

D. LIST OF CABINET MEMBERS AND BIOGRAPHICAL DATA

* King.....Sa'ud, Faysal ibn 'Abd al-'Aziz Al
 Prime Minister.....Sa'ud, Faysal ibn 'Abd al-'Aziz Al
 Dept. Prime Minister.....Sa'ud, Khalid ibn 'Abd al-'Aziz Al
 * 2nd Dep. Prime Minister.....Sa'ud Fahd ibn 'Abd al-'Aziz Al
 Min. of Agriculture & Water.....Mishari, Hasan
 Min. of Communications.....Tawfiq, Muhammad 'Umar
 Min. of Defense & Aviation.....Sa'ud Sultan ibn 'Abd al-'Aziz Al
 Min. of Education.....Shaykh, Hasan ibn 'Abdallah Al al-
 * Min. of Finance & Natl. Economy.....Sa'ud Musa'id Abd al-Rahman Al
 Min. of Foreign Affairs.....Sa'ud Faysal ibn 'Abd al-'Aziz Al
 Min. of Health.....Hujaylan, Jamil
 Min. of Information.....Anqari, Ibrahim al-
 Min. of Interior.....Sa'ud, Fahd ibn 'Abd al-'Aziz Al
 Min. of Justice.....Harkan, Muhammad ibn 'Ali al-
 Min. of Labor & Social Affairs.....Aba al-Khayl, 'Abd al-Rahman
 * Min. of Petroleum & Mineral Wealth.....Yamani, Ahmad Zaki
 Min. of Pilgrimage Affairs & Religious Trusts.....Kutbi, Hasan Muhammad
 Min. of Trade & Industry.....Awadi, Muhammad al-
 Min. of State.....'Abd al-Wasi', Abd al-Wahab Ahmad
 Min. of State.....Qurayshi, 'Abd al-'Aziz ibn Zayd al-
 Min. of State.....Husayn, Salih ibn 'Abd al-Rahman al-
 * Min. of State and Head, Central Planning Organization.....Nazir, Hisham Muhyi al-Din
 Min. of State for Financial Affairs & National Economy.....Aba al-Khayl, Muhammad
 Min. of State for Foreign Affairs.....Saqqaf, 'Umar al-

Biographical notes (provided by the State Department) on the King and on those members of the Council of Ministers whom Mr. McNamara is most likely to meet officially (asterisked) are attached, together with a biographical note on Prince Saud ibn Faisal Al Sa'ud, Deputy Minister of Petroleum Affairs, who called on Mr. McNamara in July, 1972. We have no personal knowledge in the Bank of any of these officials.

LEBANON

Sleiman Frangie

President

CABINET

Saeb Salam

Prime Minister
Interior

Albert Moukheiber
(Also Acting Education Minister)

Deputy Prime Minister
Minister of State for
Housing and Cooperatives

Khatchik Babikian

Information

Pierre Helou

Minister of State for
Petroleum Affairs and
Industry

George Saadeh

Planning

Sabri Hamade

Public Works

Majid Arslan

Defense

Joseph Skaff *Hosted Luncheon 2/8
Blond 70s. Wife*

Hydraulic and Electric Resources

Kazem Khalil

Labor & Social Affairs

Suleiman 'Ali

Agriculture

Bashir Awar

Justice

Nazih Bizri

Health

Khalil abu Hamad

Foreign Affairs

Jamil Kebbe

Post, Telephone & Telegraph

Fu'ad Naffa' *Host Luncheon 2/9
4 children - She Poetry -*

Finance

Michel Sassine

Tourism

Anwar Sabbah

Economy

January 18, 1973

Source: United States Department of State

BIOGRAPHICAL DATA

Sleiman Frangie - President of Lebanon

Sleiman Frangie, (pronounced Franjiyyeh), a tough mountain clan chief and a shrewd political moderate, was elected Lebanon's fifth President during a stormy session of Parliament on 17 August 1970. Frangie's election broke the 12-year hold the Shihabists had had on the Presidency. The President enjoys the respect of many followers of both Shihab and ex-President Camille Chamoun, but he is tied to neither.

Frangie is friendly with US officials and has consistently advocated close ties with the United States. Frangie and his entire family are strongly pro-American.

Sleiman Frangie was born in Ehdin in the Zgharta district of North Lebanon on 14 June 1910. He received a French education from the Lazarist College of 'Ayn Turah and the College des Freres Maristes at Tripoli.

Frangie was named Minister of Posts, Telephones and Telegraphs in the Saeb Salam Cabinet of August 1960. In a Cabinet reshuffle of May 1961 Frangie added the Agriculture portfolio to his duties. Frangie was named to the important post of Interior Minister in the 'Abdallah al-Yafi transitional Cabinet of February 1968 and held the post of Minister of National Economy. He was directly responsible for ensuring that the parliamentary elections held that spring were free. Frangie worked hard to assure free elections and maintain public order.

Frangie has traveled in the Middle East and in Europe. He is a devout Christian and dedicated Lebanese nationalist. He lacks intellectual breadth and sophistication, but his integrity, determination and tenacity have earned him an enviable reputation. He recognizes the limits of his intelligence and is willing to learn from qualified sources.

President Frangie is a medium-built man with thinning silver hair and bright blue eyes. He is personally polite and charming. His temperament is generally amiable - sometimes excitable and fiery. He speaks French and Arabic. He is married to the former Iris Hindali, a gracious unpretentious Lebanese woman whose family lived in either Greece or Egypt for many years. They have five grown children, three daughters and two sons. One of his sons, Anthony Frangie, was recently elected to his father's seat in the Chamber of Deputies from Zgharta and heads a small group of Young Deputies who tend to be somewhat critical of old institutions and government efforts in the face of structural social problems.

January 18, 1973

Source: United States Department of State

Saeb Salam - Prime Minister of Lebanon

Saeb Salam, a perennial contender for the Prime Ministership, was named to that post by his friend, President Sleiman Frangie on 6 October 1970. Salam has been Prime Minister on three previous occasions (1952, 1953 and 1960-61). Salam, a successful Sunni Muslim landowner and businessman, gained his notoriety as the leader of the Beirut rebels against former President Camille Chamoun during the 1958 insurrection.

Salam has always been on most friendly terms with Americans. He is extremely proud of his schooling at the American University of Beirut and has been active in alumni groups. In recent years Salam has been highly critical of the US support of Israel, but his personal relations remains consistently good.

Saeb Salam was born on 10 January 1905 in Beirut. His family were relatively prosperous merchants who migrated to Beirut from Acre, Palestine, two generations before his birth. Salam attended the American University of Beirut and the London School of Economics. He does not hold a degree from either institution.

Saeb Salam has traveled widely during his long public career. He has visited the United States several times, both for business and as his country's representative. In September 1960 Salam headed the delegation to the 15th Session of the General Assembly. Salam is an extremely ambitious man who considers himself to be the outstanding Muslim leader in Lebanon. He is an aggressive, experienced executive and displays considerable skill as a politician and parliamentarian. He is charming and witty, but is sometimes vain and greedy for praise.


Salam and his wife, Tamima, have been married for 28 years. The Salams have five children - twin daughters, and three sons. Saeb and his brothers (there are at least six) are associated in various business enterprises. It may be interesting to note that his wife's nephew, Mr. Usamah Dabbagh is a staff member in the Bank's Administrative Services Department. ←

Khalil Abouhamad

Minister of Foreign Affairs

The appointment of the young (36) Khalil Abouhamad to the post of Foreign Minister in October 1970 came as a general surprise. He was probably named at the recommendation of former President Helou, who knew and respected him. Abouhamad, who reportedly converted from Syrian Catholic to Greek Catholic in order to become eligible for his ministerial post, received a French education at schools in Lebanon, including a law degree from Beirut's St. Joseph University. At the time of his appointment he had a successful private law practice.

Since his appointment, doubts about the wisdom of naming such an inexperienced person as Foreign Minister have largely disappeared. Abouhamad has shown himself an indefatigable worker and quick learner. He soon earned the respect of the Foreign Office professionals and has increasingly gained the confidence and respect of President Frangie (who didn't know him at the time of his appointment).

We believe that Abouhamad has now become a major influence in the formulation of foreign policy and is one of the architects of the policy of rapprochement with Syria. He also knows that Lebanon cannot put all its eggs in one Arab basket and that good relations are also necessary with the UAR, which he visited April 27-29. 

Abouhamad is very pro-West and most favorably disposed towards the United States.

Abouhamad understands English quite well and can express himself adequately but is self-conscious about speaking it and prefers French. He is married and has a daughter.

January 18, 1973

Source: United States Department of State

Fu'ad Naffa'

Minister Of Finance

Maronite Christian, born in the Kesrouan district of Mount Lebanon in 1925. He received a law degree from Beirut's French - language St. Joseph University in 1946. He subsequently taught constitutional law at Lebanese University for a number of years. He was elected to Parliament from Kesrouan in 1960. He didn't run in the 1964 elections and was defeated in 1968. He was elected to Parliament in 1972 and was appointed Minister of Finance in the second Salam Government.

Naffa' has for some time been fairly close to President Frangie and takes credit for having written his inaugural address. He has great faith in the present Lebanese system and its ability to reform itself sufficiently to allay popular discontent. Naffa' gives the impression of being reasonably intelligent but unimaginative. He is pleasant and friendly but a trifle pompous and self important.

Naffa' speaks Arabic, French and fair English. He is married to the former Abayde Sfayr. They have four children, three sons and daughter.

January 18, 1973

Source: United States Department of State

Albert Moukheiber

Deputy Prime Minister,
Minister of State for
Housing and Cooperatives
Acting Education Minister

Greek Orthodox, 58, has been almost continually in Parliament since 1957. A popular figure, he was only candidate to win against strong opposing list in Metn. Has previously been Minister of Health and Minister of Foreign Affairs. Is intelligent, sharp and witty. Independent, but close to Raymond Edde. He is a medical doctor.

Khatchik Babikian

Information

Armenian Orthodox, about 50, was several times minister. Intelligent and smooth; speaks Arabic and French.

Pierre Helou

Minister of State for
Petroleum Affairs and
Industry

Maronite, 43, is highly successful businessman in Parliament for first time, but has already shown political skill. Intelligent aggressive and apparently reform-minded. Independent, member of Alley Bloc. Designated as Minister in a new Ministry of Petroleum Affairs and Industry to be established after Parliamentary approval.

George Saadeh

Planning

(None available)

Sabri Hamade

Public Works

Many times Speaker of Parliament, 70, Shia. Is a leading feudal figure backward Baalbek District. A skilled politician, but only semi-literate, has reputation for concentration on advancement personal and clan/regional interests. Leader Baalbek Bloc.

Majid Arslan

Defense

67, returns to Defense Ministry where he has previously served without distinction on many occasions. A traditional figure but intellectually very weak, he will be a passive Minister. Leader segment Druze community and Aley Bloc.

January 18, 1973

Source: United States Department of State

Joseph Skaff

Hydraulic and Electric Resources

50, is one of Lebanon's largest landowners who has reportedly gone deeply in debt to support his passion for politics. Likable but without strong convictions, he likely will work to preserve status quo and advance personal and regional interests. Leader Zahle Bloc.

Kazem Khalil

Labor & Social Affairs

Khalil is one of the leading Shia figures in South Lebanon and traditional rival of Kamel As'ad. Alert and active at 71, he still thinks in terms of the past and unlikely promote reform. Chamounist.

Suleiman 'Ali

Agriculture

Sunni, 67, is one of biggest landowners in 'Akkar District. One of country's least developed and seething with peasant unrest. Twice Minister Economy (1951, 1960) he performed without distinction amid rumors of widespread corruption. Poorly educated, inarticulate and narrowminded, has been politically allied with Chamoun and now close to Pres. Frangie.

Bashir Awar

Justice

60, is former Judge, former Governor of North Lebanon. In Parliament almost continuously since 1951 he is a political independent, but friendly to Chamoun.

Nazih Bizri

Health

57, is Medical Doctor, former Minister of Health and Minister of Economy. Won a narrow victory in recent elections over a leftist rabble-rousing opponent in Sidon District. Reportedly intelligent and dedicated, he is ally of Saeb Salam.

Janil Kebbe
(None available)

Post, Telephone & Telegraph

January 18, 1973

Source: United States Department of State

Michel Sassine

Tourism

Greek Orthodox, 44, first elected to Parliament in 1968 and was surprise victor as Deputy Speaker of Parliament 1970. Immensely popular in his Beirut constituency, friendly and gregarious, he is intellectual lightweight. Pro-Chamoun.

Anwar Sabbah

Economy

Shia, 36, is an Engineer who first entered Parliament in 1964, lost in 1968 and won in 1972. Follower of Kamel As'ad from whose shadow he has yet to emerge.

January 18, 1973

Source: United States Department of State

CURRICULUM VITAE

of the

UNDP ACTING RESIDENT REPRESENTATIVE, BEIRUT

NAME HENNET, Johannes

NATIONALITY: Austria

DATE OF BIRTH: 8 October 1913

MARITAL STATUS: Married
1 child

LANGUAGES: German
English
French
Spanish
Portuguese) some
Italian)

EDUCATION: 1925-1933 Kalksburg College and Teresianum, Vienna - Matriculation
(Classical Studies)
1934-1940 University of Vienna - Ph. D. (Anthropology and African
languages)

JOBS: Oct. 1972- present Acting Resident Representative of the UNDP in Beirut, Lebanon
1969-1972 Representative of the UNDP in Nouakchott, Mauritania
June 1968- Dec. 1968 Deputy Resident Representative of the UNDP in Yaounde, Cameroon
Nov. 1964- May 1968 Deputy Resident Representative of the UNDP in Mexico City,
Mexico
1964 Member of the Board of Directors, Mexican Branch of a
European Insurance Company
1963-1964 Financial and Economic Adviser for European clients
and for private Brazilian Trade Group in Mexico
1951-1963 Austria Trade Commissioner for Mexico, Central America
and the West Indies
1948-1951 Head of Section for Spain, Portugal and Latin America,
Foreign Trade Department, Federal Chamber of Commerce,
Vienna, Austria
1946-1948 Austrian Treasury Department, Service for the Province
of Carinthia

OTHER PERSONALITIES

DR. KHALIL SALEM

He was born in 1928, is a Greek Orthodox, and speaks English and Arabic. Has been Director General of the Ministry of Finance (highest administrative rank, non-political appointment) for about seven years and the main contact with the Bank for a number of years. As Alternate Governor for the Bank, he attends Annual Meetings regularly.

Dr. Salem has had extensive academic experience. He received his M.A. from the American University in Beirut and his Ph.D. from Vanderbilt University, in political economy. He has written three books on the Lebanese economy, as well as numerous articles. Before entering the Government he was professor of political economy at the American University in Beirut. He has worked closely with the Ford Foundation on their program for tax reform in Lebanon. Dr. Salem, still a bachelor, is known for his ability and honesty, though, at times very bureaucratic and slow in correspondence.

KAMAL KHOURY

Mr. Khoury was Minister of Public Works and Transport and is Director of the National Office for the Litani, which means that he will be closely involved with the South Beqa'a project being considered by the Bank. Mr. Khoury is a Maronite, was born in 1932, and is very wealthy personally. He graduated from the American University in Beirut and did graduate work at Yale. He has a good reputation as an engineer and public servant, and represents one of the best of the technocratic class.

KAMEL AL AS'AD

President, Chamber of Deputies

Holds most important political position allotted to Shi'is. Supporter of Frangie. About 50 years old. Comes from feudal family in South Lebanon. Intelligent and arrogant.

PROMINENT BANKERS

ELIAS SARKIS

Mr. Sarkis is Governor of the Central Bank of Lebanon and Governor of the IMF. Mr. Sarkis was a candidate for President of the Republic in the last elections (August 1970). He was born in 1924, is a Maronite, and speaks French and Arabic. Mr. Sarkis did his university studies in Paris and took a law degree from St. Joseph University in Beirut.

Mr. Sarkis is one of the most powerful men in Lebanon's politics. In the early 1950, while in his position on the Audit Council of the Government, he caught the eye of Pres. Chehab who invited him to serve in the

Presidential Office. Mr. Sarkis was Director General of the Presidential Office for a number of years, including the first two years of the Presidency of Pierre Helou. Mr. Sarkis is considered to be very pro-French.

DR. SALIM AHMED HOSS

Dr. Hoss is Chairman of the Banking Control Commission of the Central Bank. Much of the credit for the success of the Commission in restoring confidence in Lebanese Banking and in reducing the number of banks from over 100 to around 73 is due to the ability of Dr. Hoss, who is a quiet, self-effacing man. He was born in 1929 and speaks English, French and Arabic. Dr. Hoss received his Ph.D. from Indiana University and was for a number of years a professor of economics at the American University in Beirut. He has been a member of Lebanon's delegation to Bank/Fund Annual Meetings several times. Dr. Hoss is Financial Advisor to the Kuwait Fund of Arab Economic Development.

Dr. Hoss is Chairman-General Manager-designate of the new development finance company (Bank for the Development of Industry and Tourism) which the Government is in the process of establishing (see section E of this briefing book).

JOSEPH GEAGEA *They gave us a Reception - Blonde wife*

He is Chairman of Bank Geagea and President of Bankers' Association. Well connected in government and symbolizes, though from a very small bank, the local versus foreign-owned banks. Colorful figure. He played the key role in our recent bond issue (see Section E, Prospective Borrowing operations).

JEAN ABOU-JAOUDE

Mr. Abou-Jaoude is Treasurer of the Lebanese Bankers' Association and one of the leading Lebanese bankers. He is General Manager of Banque Libanaise pour le Commerce and on the Board of the quasi-Governmental agriculture, industrial and real estate bank, namely, Banque de Credit Agricole, Industriel et Foncier. Mr. Abou-Jaoude is 60 years old, a Maronite, and speaks Arabic and French.

NAAMAN AZHARI

Mr. Azhari is Vice President of the Lebanese Bankers Association and General Manager of Banque du Liban et d'Outremer S.A.L., and is considered to be one of the most able bankers in the country. He is a Sunni Moslem of Palestinian origin, and speaks French and Arabic, with some English. Mr. Azhari has been very forthright in his support of efforts to find ways for the Government to encourage foreign investment in Lebanon, even though this has not always been a popular position to take.

PIERRE EDDE

He was born in 1921, is a Maronite, married with three children, and is fluent in French, English and Arabic. He graduated from St. Joseph University in Beirut and took a law degree at the University of Lyon. Mr. Edde is a prominent banker, wealthy businessman, and influential politician. He was formerly a Member of Parliament, a Minister of Finance, a Minister of Education, and President of the Lebanese Bankers Association. He was Minister of Finance at a critical time following the Intra-Bank crash, when he brought some order out of chaos and passed an austerity budget through the Government.

Mr. Edde founded the Beirut Riyad Bank. He is presently Chairman of the Board of the most important French language newspaper in Lebanon. Because of his deep involvement in the banking community, he has attended at least five Bank/Fund Annual Meetings in the past.

SAMI YOUSEF AL-ALAMI

Mr. Al-Alami is General Manager of the Arab Bank branch in Beirut. This institution is the largest Arab-owned bank in the Middle East, and has its headquarters in Amman, Jordan. Mr. Al-Alami was born in Gaza in 1924 and graduated from the American University in Beirut. He is considered to be highly influential in the top banking circles. He has two brothers who are professors at the American University.

February 2, 1973

E

LEBANON

TOPICS FOR DISCUSSION

Background

The Bank's attempts to maintain operations in Lebanon, after our first loan in 1955, have not been successful essentially due to the Government's conservative borrowing policies, its heavy reliance on the private sector, and its unclear infrastructure investment policies. In recent years other factors have been political turbulences and the shortages of local funds available to the government. The Government has also been reluctant to borrow at the Bank's interest rates when cheap, though short-term funds are available in the commercial banks. However, recent discussions ^{and events} - signing of our loan for education in January 1973 and the renewed progress of the highway project (Section G, Prospective Operations), that we have been examining off-and-on for four years - indicate a change in attitude towards borrowing from the Bank, as part of the six-year Plan effort to intensify public infrastructure investment (see Section F, Economic Situation).

Lebanon is also a lender to the Bank (see Section F, Special Brief). However, unlike other subscribers to Bank Issues in the Middle East, whose funds are derived from oil royalties, Lebanese funds are likely to come from private deposits with commercial banks that do not reveal exact sources, due to a very strict banking secrecy law modeled after Swiss legislation. It is attributed to private local savings, deposits by residents, who brought back their money to the country as confidence in its banking system was regained, and foreign deposits from unspecified sources, mainly from the Arab world. With rising oil revenues in the region, liquidity would prevail as long as political stability and confidence in the banking environment endure.

Our lending strategy in Lebanon is likely to change in view of the Government's recent intentions to be more active in public investments, and of their "rapprochement" to the Bank. We might then finance about a project a year focusing on: projects that serve improving income distribution and reducing disparities between the urban and rural population; social services projects such as education and health; projects crucial to maintaining adequate infrastructure and urbanization to preserve the enterprise and initiative of the private sector in tourism, industry and provision of services; and projects which would be instruments of resource mobilization and contribute to creating a capital market.

Therefore, Mr. McNamara might wish to raise the following topics with the Lebanese authorities:

Prospective Borrowing Operations

A paper on the Lebanese capital market and the description of the Bank's recent bond issue of LL 75,000,000 are given in Section F, 6(a) and (b).

Future borrowing operations of the Bank in the Lebanese market would take essentially the same form as our first issue, i.e. a private placement with commercial banks. Mr. Geagea, (short Bio-data in Section D2), who

managed our recent issue envisages a series of consecutive 5-year issues which would, after the first ^{four} year make available to the banks bonds ranging from 1 to 5 years maturity. This gives buyers a wider choice and thus helps to create a market between banks. This would, in effect, resemble our efforts with 5-year dollar issues in the U.S. market.

A lengthening of the terms of our bond issues in Lebanon beyond five years will be difficult until the presently considered amendment to the money and credit law is adopted (next item in this Section). Even then the immediate expectations are only for a stretching of terms to say seven years. There is one prospect for the Bank to obtain a longer term in the near future and this is a placement with the government controlled pensions and employees funds, which might accept a placement with a 7-year term. Indications in this direction were given by Dr. Khalil Salem (Director General for the Ministry of Finance, (short Bio-data in Section D2), who is responsible for the investment policy of these funds. He promised consideration of such an operation in the future; however, he wanted it clearly separated from our recent placement in the private sector. A follow-up on this question would seem very important and Mr. McNamara may wish to raise this topic. Mr. McNamara might also touch on the topic of creation of an underwriting syndicate for our future issues ^{which} would be highly desirable. Mr. Geagea has successfully placed our recent issue but his bank is too small to guarantee such issues. This question is highly sensitive in the Lebanese circumstances where most of the large banks, which would be the obvious choice for such a syndicate, are foreign owned. (See List of Banks participating in the recent issue Section F6(c)). Mr. Geagea was able to perform his manager functions because he is the President of the Lebanese Bankers Association and is considered close to the present government. For this reason the large banks did not want to question his role; however, they would have strongly objected to a more than nominal compensation of Mr. Geagea for his managing efforts.

naval with Salem

The fact that the recent issue was oversubscribed by LL 10,000,000 would indicate that the prospects for a future issue are good although it would probably be advisable to wait with such an issue for another six months to a year.

The private banks, who are potential subscribers to our issues, seem to lack a clear picture of what the World Bank is and what its objectives are. Since no prospectus was required, no such information was made available in the context of the recent issue except for the publicity at the time of signing. Any efforts in this direction would be very important and might pay off in the future.

Mobilization of Funds for Medium- and Long-Term Investments

Mr. McNamara may wish to ask what steps are being taken to mobilize adequate medium and long-term funds for public and private investments envisaged in the 1972-77 Plan (Section F, Economic Situation, paras. 8 and 9). The Lebanese banking system is highly liquid. Yet most of the financial resources are available only for short-term credits particularly to the private

sector. There is no capital market, and a distinct shortage of medium- and long-term credit for either the private or the public sector. The private sector circumvents such difficulties by resorting to rolling over of short-term credits with the tacit approval of the commercial banks. After long discussions on its ownership, a Bank for Industry and Tourism to provide medium- and long-term credit to private sector has recently been established (51% Government, 49% private). Its public majority was opposed by the private banking sector until Dr. Selim Hoss (see Bio-data Section D) was appointed by the Government as General Manager. He is a highly respected and well connected personality, and presently heads the banking and control commission in the Lebanese Central Bank. This bank must now get operational in the shortest possible time. However, it alone is not adequate. The Central Bank should be given authority to discount selected medium term development securities and generally to adopt more of a leadership role. This can be partially achieved by expeditiously passing into law an amendment of the present Banking and Credit Law, which is now restrictive and limits the powers of the Central Bank. This amendment has been pending, under discussion and revision, for the past three years.

Urbanization in Beirut

Mr. McNamara may wish to ask the Lebanese what steps they are taking to increase investment in urban infrastructure, particularly in Beirut, and whether they would welcome Bank involvement and finance in this sector. A relatively high rate of population growth, widespread internal migration and intensity of concentration of transit traffic of both goods and passengers to and from the Arab World, have led to rapid urbanization and have strained the urban infrastructure. This is nowhere more evident than in Beirut, a city where over one-fifth of the population live and where a large portion of GDP is achieved, but where power cuts are frequent, where water is rationed part of the year, where a proper sewerage system is effectively non-existent, and where slum areas are still substantial. With growth of the city and the concentration of industry on the coastline, the beaches and tourist attractions on the nearby mountains are beginning to show signs of pollution. An urban planning program, focusing on Beirut in the year 2000, has recently been launched in the Ministry of Public Works and Transport, but it is half-hearted and excessively focused on highways. However, a small group of planners and architects is reported to be working independently of the official government effort, under the guidance of Kamal Khoury (see Bio-data Section D) whose interest was aroused when he was Minister of Public Works. The Bank's involvement in the urban sector might be of help to the Lebanese authorities particularly in recommending a package study of housing (see subject brief on Public Housing attached to Section F), water, sanitation and transportation and in preparing and appraising a number of projects designed to improve urban infrastructure.

The Bank now has two projects under consideration related to this question: the Second Highway Project (see Prospective Operations) might include construction of a bypass around Beirut to ease urban traffic congestion.

A possibility of assistance in an old Beirut Water Supply Project has recently been brought to the attention of the Bank, as two projects: the bulk supply pipeline and the purification plant first, and later the district network.

Selection of Bank Projects in Lebanon

Mr. McNamara may wish to ask the Government to assume a more serious participation in project selection and to keep us informed of changes that affect projects under our consideration promptly. The Bank has experienced difficulties in the past in attempting to identify appropriate projects which the Government wishes to carry out and to have financed by the Bank. As the renewed Bank relationship with Lebanon strengthens, each will no doubt get to know the other's method of operation better. The importance of agreeing on projects promptly should be stressed, however, so that staff can be assigned in good time and without undue risk that the project may later be delayed or cancelled, with a resultant gap in credibility and inefficiencies in the use of limited Bank staff.

Liaison with the Government

Mr. McNamara may wish to suggest that a small full-time liaison office be established by the Government at an appropriate central and high level to expedite Bank relations. It would most effectively be located in the President's Office or, if this proved impossible, in the Ministry of Finance. This would cut down the continuing and excessive delays on the part of the Government in providing routine information for processing of lending operations. Although a certain amount of delay is endemic to language difficulties at the lower levels, preoccupation and work pressure at higher levels and the existing political and bureaucratic situation, the practicality of our present plans for lending to Lebanon depends in large measure on their improved efficiency.

January 26, 1973

LEBANON

TOPICS WHICH MAY BE RAISED BY THE LEBANESE

IDA Funding of Projects

The Lebanese may bring up the question of IDA funding for certain projects such as the one for rehabilitation of the south mentioned below. In spite of Government explanations, commercial banking circles in Lebanon and some political personalities have disapproved of the Government's willingness to borrow only on Bank terms when there is excess liquidity in the banking system. We have repeatedly made it clear to the Government that IDA funds would not be available, given their scarcity, and Lebanon's enviable reserve position and overall economic situation as described in the Country Data Sheet, the last CPN and the attached note on the economic situation (debt service ratio of less than 2%, large reserves, and per capita income of about \$618 in 1971). If necessary, these points should be reiterated.

Rehabilitation of the South

The Lebanese may attempt to follow up Minister of Finance Naffah's discussion with Mr. McNamara during the last Annual Meeting (see Mr. de Lusignan's memo in Section G) concerning a possible reconstruction loan (or preferably an IDA credit) to rehabilitate the southern part of Lebanon which has been heavily damaged both by Israeli incursions and by clashes between the Palestinian guerillas and the Lebanese armed forces. At that time Minister Naffah insisted on sending Mr. McNamara information on the nature and extent of damage to the region, but this has not yet been received. Should the Lebanese request the Bank to consider such a lending operation further, Mr. McNamara could emphasize the continuing fluid nature of the situation in the south. A lending operation for reconstruction would be more appropriate when the region returns to normal and when there is little danger of further disruption. The Lebanese should be discouraged from sending further information to the Bank at this stage.

South Beqa'a Irrigation Project

President Frangieh is known to be very interested in this project, now scheduled for appraisal in March, which is discussed under Prospective Operations in Section G.

Tyre Infrastructure Tourism Project

The Lebanese may raise the Tyre Tourism Infrastructure project, which is discussed under Prospective Operations in Section G where Mr. McNamara's suggested response is indicated.

January 26, 1973

F

LEBANON
LENDING PROGRAM TO BE PROPOSED IN NEXT CPN (To be reviewed Feb 22)

	<u>FY 1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>Total</u> <u>1974-78</u>
Education I							
Education I	6.6						
Education II			10.0				
Highways I	29.0						
Highways II			25.0				
S. Beqa'a Irrig.		12.0					
Unallocated				20.0			
"					20.0		
"						20.0	
Operations Program	35.6	12.0	35.0	20.0	20.0	20.0	107.0
	2	1	2	1	1	1	6
Lending Program	35.6	15.0	25.0	15.0	15.0	15.0	85.0
	2	1	2	1	1	1	6

85.0
6
19 m/20

January 31, 1973

CONFIDENTIAL

January 24, 1972

COUNTRY PROGRAM NOTE

LEBANON

		<u>IBRD Lending Program (\$ Million)</u>		
		<u>FY 64-68</u>	<u>FY 69-73</u>	<u>FY 73-77</u>
1971 Population: about 2.6 million	IBRD	-	10	42
1970 per capita GNP: \$610	Total	-	<u>10</u> ^{1/}	<u>42</u>
Current Population Growth Rate: 2.5% p.a.	Operations Program		<u>10</u>	<u>57</u>
Current Exchange Rate: LL3.18 = US\$1.00	Annual Average Per Capita (\$)		0.77	3.23
	IBRD			

A. COUNTRY OBJECTIVES (Substantially modified and updated in Section F)

1. The election of President Frangieh in August 1970 confirmed Lebanon's adherence to constitutional rule. It marked the end of the so-called "chehabist" regime which, under Presidents Chehab and Helou, had healed the bitter divisions caused by the 1958 civil war and aligned more closely Lebanon to other Arab countries, especially Egypt. Although the election entailed the opposition of chehabist groups in Parliament and changes in political personnel, it has not altered the system of Government by compromise between the many political, religious and business forces which shape up Lebanese politics. The Cabinet formed in October 1970 by Premier Salaam includes mostly young technocrats but has not raised the breadth and efficiency of the administration much above those of purely political cabinets. Taking advantage of the suppression of the Palestine guerillas in Jordan and of the conciliatory attitude of President Asad in Syria, President Frangieh has, with the full backing of the army, succeeded in checking the guerillas in Lebanon and in restoring internal security. Though the guerillas were allowed to control a stretch of Lebanese territory on the South-eastern borders, rule the refugee camps throughout the country and make occasional incursions in Israel, they are unlikely to threaten the Lebanese system, as they did in 1968-70, as long as they do not regain the weight in Arab politics which they commanded until 1970. In the past year, the Lebanese people have thus been able to revert to their main preoccupations: business, domestic politics and an unbridled use of the freedom which they are the last to enjoy in the Arab world. The spring 1972 parliamentary elections loom large on the political scene and it is unlikely that, in the year to come, the Government will do much to give to the public sector part of the dynamism and efficiency of private business, which remains the prime mover of the country.

^{1/} Lending Programm approved at last year's Country Program Review was \$55 million.

Economic Development (Substantially modified and updated in Section F)

2. The Lebanese economy has grown at about 6 percent per year in average during the last decade and GNP per capita has risen to an estimated \$610 in 1970. This relatively high level of development, which is due to the dynamism of the business community and the tradition of economic liberalism, is based on a rather unusual economic structure. Service activities, mainly trade, banking, tourism, transport and government account for about two-thirds of GDP, while agriculture, industry and construction contribute between 8 and 15 percent each although they employ together over half of the active population. The different economic weight among sectors is accompanied by inequalities in regional development and income distribution. There is also a considerable foreign trade deficit (\$380 million in 1970) which, however, is generally offset by net receipts from services and transfers from Lebanese emigrants. The tradition of government non-intervention and the weakness of public administration have hindered the development of public services and improvements in the fiscal system. Since 1967, the shortage of public revenues and the resulting stagnation of public investments have also created inadequacies in infrastructure.

3. The predominance of service activities makes the economy highly dependent on Arab and international developments. The failure of Intra-Bank in October 1966 was followed by the June 1967 war, the Israeli attack in Beirut airport in 1968, and a confrontation with the Palestinian commandos in 1969. Although the economy showed remarkable resilience and adaptability to these circumstances -- industrial production and industrial exports increased by over 20 percent annually and transit trade also expanded rapidly, fostered by the closure of the Suez Canal -- overall growth of economic activity slowed down during 1967-69. Net foreign capital inflow declined in 1967 and grew slowly through 1969, and investments fell as a proportion of GDP from an estimated 23 percent in 1966 to about 15 percent in 1969.

4. Economic activity picked up in 1970 and showed significant gains in most sectors in 1971 particularly in tourism, construction and industry, and the growth of GDP is estimated at 8 - 9 percent, a rate close to the pre-1966 average. Net foreign capital inflow amounted to \$150 million in 1970 and to a further \$200 million during the first nine months of 1971.

5. While the capital inflow and bank deposits increased, the Government continues to have difficulties in mobilizing resources. The collection of direct taxes improved in 1971 but current expenditures, 20 percent of which is for defence, also rose and, as a result, investments stagnated. There is strong opposition, mainly in the banking sector, to Government borrowing both domestically and abroad and Treasury deficits have so far been modest (about 10 percent of total expenditures). In September 1971, the Government had to rescind a decree raising custom duties on imports following strong opposition from the commercial sector. A reform of the direct tax system which would add to public resources remains in the planning stage. The 1972 draft budget, however, projects a 77 percent increase in investments and a trebling of the Treasury deficit to LL 200 million. To meet such a deficit the ceiling on Treasury borrowing from the Central Bank

was raised and the Government sought authorization to issue up to LL 200 million in Treasury bonds.

6. In October 1970 the Government announced a program of reforms aiming at accelerating growth and reducing economic and social disparities, mainly through improvements in planning in the public sector, fiscal policy and the educational system. A health insurance plan went into effect in February 1971 and in April the Government announced (subject to Parliamentary approval) a six-year public investment program amounting to LL 1,000 - LL 1,400 (\$310 - \$440 million). Besides defence (LL 200 million) the program gives priority to agriculture (LL 192 million), education and health, and to a Government controlled bank for industrial and tourism development (for which legislation was passed in December 1971). It is still to be seen whether Parliament will approve the program and, if so, whether its implementation will not be checked by the Government's limited ability to prepare projects and to mobilize resources.

7. Uncertainties about the political situation in the Middle East make any projection highly tentative. However, assuming peace in the area is maintained, it is likely that a sustained growth at a higher rate than during 1966-71 (which averaged about 4 percent) could be achieved, but this would require a recovery of investments to the pre-1967 rates (about 20 percent of GDP). A growth rate of 5 percent or more can be assumed. Since the defence burden and delays in implementing fiscal reforms may hinder the recovery of public savings, the need for public internal borrowing and external financing could well increase.

MACRO-ECONOMIC PROJECTIONS (1977)

<u>Indicator</u>	<u>Unit</u>	<u>Current Level</u> (1970)	<u>Bank Projection</u>	
			<u>Absolute</u>	<u>Growth Rate</u>
GDP (at 1970 market prices)	\$bln.	1.52	2.1	5%
Population	mln.	2.5	3.0	2.7%
GNP per capita	\$	610	710	2.3%
Exports of goods	\$mln.	285 ^{1/}	490	8%
Imports of goods	\$mln.	630 ^{1/}	980	6.5%
Net service receipts ^{2/}	\$mln.	300 ^{3/}	450	6%
Debt service ratio	%	1-2	4-5	-

^{1/} Estimate, excluding gold.

^{2/} Excluding transfers which averaged \$26 million a year during 1967-69.

^{3/} Estimate.

8. The net capital inflow recovered in 1970 from the low 1969 level (\$65 million) and contributed to increase foreign reserves; gross reserves of the Central Bank increased from \$347 million at the end of 1969 to \$442 million at the end of September 1971 and the net foreign assets of the commercial banks rose from \$262 million to \$512 million in the same period. Most of the capital inflow is private and is largely made up of transfers and short-term capital; long term capital inflow has fluctuated between \$10 million and \$20 million per year. Because of the low level of past borrowing, the external public debt (including undisbursed) amounted to only \$96 million at the end of 1969 (of which \$17.6 million from IBRD, for the 1955 Litani power project, \$31 million from Kuwait and \$20 million from France) and the debt service ratio is less than 2 percent of foreign exchange earnings. The increase of government investments may now result in higher public borrowing but the country has considerable scope for such borrowing on conventional terms.

9. Despite the often apparently haphazard or even passive public management of the economy, Lebanon has, however, followed judicious and consistent policies whenever the country's key interests were at stake. In the monetary field the gold-backed and freely convertible Lira has been allowed to float for decades (and prior to 1966 has appreciated against the dollar) thus supporting Lebanon's role as a refuge for capital and attracting sufficient services and inflows to offset the chronic deficit of the balance of trade. Investments in the Beirut port and airport, airlines, power, and telecommunications have been made in time to preserve Lebanon's advance over other Arab countries as the main business and transit center in the Middle East; on the other hand the main trunk roads have been outgrown by traffic but large sums have been spent to keep pace with rapidly expanding transport and urbanization needs in Beirut. External borrowing has been resorted to for these projects when funds were available on soft terms (e.g. from France and Kuwait). Even in the social field, electrification, water supply and roads have been extended to nearly the whole country and helped check migration, while the social security system attempts to bridge the wide disparities in incomes. Thus, while the laissez-faire policies of the Government have permitted the private sector to display its full dynamism, they have not prevented Government intervention and investment when these were considered crucial. The lack of systematic and comprehensive planning and the reluctance to maximize public savings and investments are probably inherent in Lebanon's political and economic structure and do not basically affect the clean bill of health which Lebanon deserves. But over the past two years, they have drastically curtailed the possibility of any large scale Bank involvement in the country.

B. BANK/IDA PLAN

10. The Bank's efforts to become active in the Middle East in the early 50's resulted in the loan for the Litani project in 1955. These efforts were not resumed in Lebanon until President Chehab in 1962 and President Helou in 1967, at meetings with Mr. Black and Mr. Woods, sought Bank assistance on a large scale. Government priorities and project identification efforts led to the selection of three key sectors for Bank involvement: development finance, irrigation and highways. Until 1970, while project preparation

was actively pursued in these areas and identification started in other sectors (education, water supply and tourism) the Government failed to take the decisions to implement the projects (dfc), or to raise the resources needed for local financing (highways). Feasibility studies required by the Bank delayed consideration of the South Beqaa irrigation project. President Frangieh reasserted in 1970 the desire to resort to Bank lending, although the new Government substantially modified the priorities established by previous administrations. The expectation that the new Government would pursue more actively Bank financial assistance for its investment program has not materialized.

What is their attitude now

11. So far the Government has shown a positive interest in resorting to Bank financing and taken action only in the fields of education and irrigation. In striking contrast with the diversified and relatively advanced private (and often foreign-backed) educational facilities, public education in Lebanon is poor. The educational system is rigid, facilities are inadequate (most of primary schools are placed in rented buildings) and in certain areas insufficient. The Government intends to concentrate its efforts over the period 1972-1976 at the primary, lower secondary and technical levels with a view to (i) improving the quality of primary and lower secondary education through structural reform and replacement of rented school buildings; and (ii) expanding the technical education facilities according to the growing needs. This effort deserves Bank support and responding to the Government's request the Bank identified a project which has been recently prepared with the assistance of the UNESCO/IBRD Cooperative Program and which will be appraised early in calendar year 1972. However, the Minister of Education recently asked whether IDA financing could be considered for the project and we will have to reassert that Bank lending only is contemplated in Lebanon and obtain the Government's confirmation that it is prepared to accept Bank funds for education before appraisal can take place.

12. Irrigation has been put to us as the second priority sector for Bank financing but Government's action to prepare projects in this field has been slow. Preparation of the South Beqaa irrigation project, which was identified in 1967, is being carried out under the supervision of the FAO/IBRD Cooperative Program and has not yet been finalized. Its economic justification has been questioned by the Agriculture Projects Department and the FAO/IBRD Cooperative Program is currently discussing the project with the consultants and the agency responsible for its implementation (ONL) to reformulate the project and finalize the feasibility study. In any case, because of the workload of the Agriculture Projects Department in FY 1973 and the element of doubt about the justification of the project it was agreed to postpone it until 1974 and to pursue it only if a review of the final project report is satisfactory. In view of the long-involvement of the Bank and FAO in the project, of its possible impact on the Bank-financed Litani hydroelectric project (which uses the same waters) and of the limited possibilities for Bank lending in Lebanon, it is essential that this review be as thorough as possible. In particular, we should

carefully study the factors which have led to questioning the economic justification of the project. We should, before taking a final decision on possible Bank financing, explore means whereby project costs could be reduced (e.g. the substitution of gravity irrigation to sprinklers which represent a large portion of the cost).

13. The Versant Ouest irrigation project is also being prepared by the Government with UNDP assistance but may not take shape in time for Bank financing in FY 1974 as contemplated in last year's lending program; the Kuwait Fund was initially approached for the financing of this project but has given no firm commitment to consider it. A feasibility report on another irrigation project (Koura-Zgharta) has been prepared under the auspices of UNDP and has been sent informally to the Bank for comments; a preliminary review of the document raises serious doubts as to its economic justification, mostly in view of its high cost (\$4,000/ha.) and of doubts about its suitability for intensive citrus cultivation. Finally, the Plan Vert (a public body responsible for agricultural development) has recently expressed interest in Bank financing for agricultural credit and this is being explored in a preliminary way.

14. Projects in other sectors which have been under consideration for Bank financing are now in abeyance. The highway project was appraised in 1967 but negotiations which were invited in April 1968 did not take place as the Government (which was then facing serious disturbances caused by the Palestine guerillas) could not raise the resources needed to finance the local currency cost of the project. Subsequently, the new Government replaced the head of the Agency responsible for the project (with whom the Bank had good relations), downgraded the latter's priority and is now reportedly considering its financing through contractors' credits and tolls, a solution against which the Bank had advised initially.

15. The politically oriented reorganization of the autonomous agencies that the new Government has been carrying out, has resulted in the case of the Beirut Water Supply Project in failure to undertake the necessary preparatory studies recommended by the Bank, and no further interest in this project has been shown by the Lebanese authorities, despite our repeated efforts to bring it to fruition.

16. As regards the development finance company, a project on which we have had discussions for years and which was considered of high priority, the Government has finally set up a dfc along lines which differ from our previous recommendations (e.g. it has a Government majority) and has not so far requested Bank assistance. It is not known yet to what extent the private sector will accept to participate in its capital and management.

17. Finally the Tyre tourism project which was previously included in the lending program for FY 1975 is at a standstill as the Government is now unable to remove the existing refugee camps in the area and to plan for large scale tourism close to the Israeli border.

I. F. C.

18. Lebanon's investment climate in 1970/71 improved considerably and the very dynamic private sector, in the absence of sufficient local sources of long-term capital has shown interest in IFC financing of new projects and of expansion projects which would not be entirely self-financed. In calendar year 1971, IFC has received proposals for a number of projects in Lebanon, appraised four of them and approved its first two investments in that country. IFC's \$0.93 million loan to Filitex SAL was approved in April 1971 to finance a \$2.4 million cotton spinning mill; in June 1971, IFC approved a loan of US \$1.2 million to the Lebanese Ceramic Industries Co. SAL for a \$2.2 million project to modernize and expand the company's wall tiles manufacturing facilities.

19. Given the overriding preponderance of the private sector in the Lebanese economy, IFC's role in the overall Bank Group assistance to the country may be substantial. Projects under consideration or for which an IFC investment is likely to be requested include two textile projects, a dry dock project and flatware glass project. All these projects are still in a preliminary stage of consideration.

Conclusions and Recommendations

20. In the light of the above developments, it is necessary to recast the tentative lending program proposed last year. It is recommended that the Bank should restrict its present involvement in Lebanon to the education project scheduled for FY 73 (provided the Government confirms its request for Bank rather than IDA funds) and to the South Beqaa project in FY 74 if it is finally found suitable for Bank financing. An indicative operations program of \$57 million and a lending program of \$42 million reflecting the appropriate level of lending in principle, are proposed for FY 73-77. It is also proposed that commitment of staff to new projects be contingent upon a reasonable degree of assurance that the Government will follow through with the actions necessary to bring the projects to the implementation stage and to undertake their preparation in accordance with Bank standards. Although the rate of attrition in lending operations may remain high, a positive factor is that Bank assistance in project preparation - as evidenced by the highways or irrigation projects during recent years - can result in much sounder projects than would have been the case without such assistance, even though the projects may eventually be implemented without Bank financing. In view of the public savings performance and the relatively sound balance of payments situation, no local currency financing is contemplated for the above projects.

Attachments: 1. Actual and Proposed Lending through 1977
2. Indicators of Developments
3. Economic Work Program

Europe, Middle East and
North Africa Department

January 24, 1972

Population (1971): About 2.6 million
 Per Capita Income (1970): \$610

Attachment 1

LEBANON - ACTUAL AND PROPOSED LENDING THROUGH FY 1977

(US\$ Million)

		FISCAL YEARS							Total 1964-68	Total 1969-73	Total 1973-77
		Through 1971	1972	1973	1974	1975	1976	1977			
Irrigation -											
South Beqaa	IBRD				12.0						
Education I	IBRD			10.0							
Education II	IBRD					15.0					
Power 1/	IBRD	27.0									
Unidentified I	IBRD						10.0				
Unidentified II	IBRD							10.0			
Operations Program	IBRD		-	10.0	12.0	15.0	10.0	10.0	-	10.0	
	No.		-	1	1	1	1	1		5	
Lending Program	IBRD	27.0		10.0	12.0	10.0	5.0	5.0		10.0	
	No.	1	-	1	1	1	1	1	-	5	
IBRD Loans Outstanding											
including undisbursed		17.6	16.9	26.5	38.0	47.5	52.0	56.5			
excluding undisbursed		17.6	16.9	16.4	16.6	18.8	25.0	33.2			
IBRD Gross Disbursements		-	-	0.2	1.0	3.0	7.0	9.0			
IBRD Net Disbursements		-	-0.7	-0.5	0.2	2.2	6.2	8.2			
IBRD Net Transfers		-	-0.8	-1.3	-0.6	1.3	4.8	6.7			

1/ Loan made in FY 1956

EMEDA
 January 24, 1972

LEBANON

INDICATORS OF DEVELOPMENT

		<u>Annual Average</u>				
		<u>Unit</u>	<u>1951-60</u>	<u>1961-65</u>	<u>1966-69</u>	
<u>I. ECONOMIC & STRUCTURAL INDICATORS</u>						
1.	Gross Domestic Product (in constant prices)	% change	n.a.	n.a.	3.8 /a	
2.	Manufacturing Output	% change	n.a.	5.1	3.8 /a	
3.	Agricultural Output	% change	n.a.	7.1	2.9 /a	
4.	Imports of Goods	% change	n.a.	10.0	5.8 /a	
5.	Exports of Goods and net NFS	% change	n.a.	10.2	11.0 /a	
6.	Domestic Price Level (wholesale price index)	% change	n.a.	0.7	3.0	
			<u>1950</u>	<u>1961</u>	<u>1965</u>	<u>1968</u>
7.	Gross National Savings	% GDP	n.a.	n.a.	5.0	7.6
8.	Resource Gap	% GDP	n.a.	15.6	12.3	7.4
9.	Net Factor Payments Abroad	% GDP	n.a.	n.a.	-3.3	-3.7
10.	Gross Domestic Investment	% GDP	n.a.	17.9	22.1	17.9
11.	Debt Service	% exports			n.a.	0.9
12.	Central Government Revenue	% GDP		17.2/b	13.8	13.5
13.	Central Government Deficit	% GDP		2.6/b	1.2	0.7
14.	Public Exp. on Social Services	% GDP		3.0/b	3.3	3.1
15.	Military Expenditure	% GDP		3.9/b	2.6	3.0
16.	Manufacturing Output /c	% GDP	n.a.	n.a.	13.1	12.7
<u>II. SOCIAL INDICATORS</u>						
17.	Population Growth Rate /d	%	2.5		2.5	2.5
18.	School Enrollment: Primary & Secondary	% school-age population	n.a.	65.0	n.a.	67.0 /e
19.	Literacy Rate	% adult popln.	n.a.	n.a.		86.0
20.	Population per hospital bed	Number		n.a.	n.a.	250 /e

/a 1966-1968

/b 1962

/c Value added as percent of GDP at current market prices

/d Latest population census in 1932

/e 1967

LEBANON: ECONOMIC WORK PROGRAM

<u>Date</u>	<u>Economic Mission</u>	<u>Sector Review</u>	<u>Other</u>	<u>Department Responsibility</u>
<u>FY 1973</u>				
7-72	Updating			EME
<u>FY 1974</u>				
5-74	Current ^{1/}			EME
<u>FY 1975</u>				
5-75	Updating			EME

^{1/} Including Chief, general economist, agricultural (irrigation) specialist and a transport economist.

CONFIDENTIAL

LEBANON

COUNTRY PROGRAM NOTE

Postscript

Lebanon's Country Program Note was reviewed at a meeting with Mr. Knapp on January 31, 1972.

The proposed operations and lending programs for FY 1973-77 were approved. It was also pointed out that thanks to its enterprising private sector Lebanon had good potential for expanding IFC activity.

Europe, Middle East and
North Africa Department

February 10, 1972

COUNTRY DATA - LEBANON

<u>AREA</u>		<u>POPULATION</u> ^{1/}	<u>DENSITY</u>
10,400	km ²	2.8 million (mid-1971)	269 per km ²
		Rate of Growth: 2.5 (from 1960 to 1971)	716 per km ² of arable land

POPULATION CHARACTERISTICS

Crude Birth Rate (per 1,000) 35-40
 Crude Death Rate (per 1,000) 10-14
 Infant Mortality (per 1,000 live births)

HEALTH (1969)

Population per physician 1,320
 Population per hospital bed 240

INCOME DISTRIBUTION (year)

% of national income, lowest quintile ..
 highest quintile ..

DISTRIBUTION OF LAND OWNERSHIP (1966)

% owned by top 10% of owners 57
 % owned by smallest 10% of owners 1

ACCESS TO PIPED WATER (1968)

% of population - urban 85
 - rural ..

ACCESS TO ELECTRICITY (year)

% of population - urban ..
 - rural ..

NUTRITION (year)

Calorie intake as % of requirements ..
 Per capita protein intake ..

EDUCATION (1970)

Adult literacy rate % 69.0
 Primary school enrollment % 87.6

^{2/}
GNP PER CAPITA in 1971 : US \$ 618

GROSS NATIONAL PRODUCT IN 1971 ^{3/}

	US \$ Mln.	%
GNP at Market Prices	1,748	100.0
Gross Domestic Investment	317	18.1
Gross National Saving	271	15.5
Current Account Balance ^{4/}	46	2.6
Exports of Goods, NFS	585	33.5
Imports of Goods, NFS	692	39.6

ANNUAL RATE OF GROWTH (% constant prices) ^{5/}

	1960-65	1965-70	1971
	6.0	4.1	7.4
	..	1.3	3.6
	..	5.9	18.3
	10.2	7.1	17.8
	10.0	3.7	12.7

OUTPUT, LABOR FORCE AND PRODUCTIVITY IN 1970

	Value Added		Labor Force		V. A. Per Worker	
	US \$ Mln.	%	Thous.	%	US \$	%
Agriculture	136	9.1	101.8	17.8	1,336	48
Industry	304	20.4	136.2	23.8	2,232	81
Services	1,048	70.5	300.4	52.5	3,488	126
Unemployed	.	.	33.3	5.8	.	.
Total/Average	1,488	100.0	571.7	100.0	2,764	100

GOVERNMENT FINANCE

	General Government ^{6/}			Central Government		
	(L.L. Mln.)	% of GDP		(L.L. Mln.)	% of GDP	
	1971	1971	1969-71	1971	1971	1969-71
Current Receipts	1,020.7	18.7	18.3	768.0	14.1	13.6
Current Expenditure	837.8	15.4	15.6	637.3	11.7	11.9
Current Surplus	182.9	3.4	3.0	130.7	2.4	1.7
Capital Expenditures	132.1	2.4	3.1	59.3	1.1	1.2
External Assistance (net)	17.0	0.3	0.3			

1/ Estimate of the World Bank Atlas

2/ World Bank Atlas conversion

3/ Provisional estimates

4/ Not comparable with Balance of Payments statistics

5/ Since national accounts at constant prices are not available, following rates of growth are estimates.

6/ Includes Central Government, annexed and autonomous budgets; excludes municipalities and some minor accounts.

.. not available
 . not applicable

COUNTRY DATA - LEBANON

MONEY, CREDIT and PRICES	1965	1969	1970	1971	August	
					1971	1972
		(Millions of L.L. outstanding end period)				
Money and Quasi Money	3,216	3,717	4,265	5,344	5,005	6,119
Bank Credit to Public Sector	-186	-91	-60	-154	-99	-214
Bank Credit to Private Sector	2,393	2,201	2,211	2,715	2,490	3,060

(Percentages or Index Numbers)

Money and Quasi Money as % of GDP	91.3	81.4	87.7	98.1		
General Price Index (1963 = 100) (retail price)	97.3	107.7	107.7	109.4	107.4	111.5
Annual percentage changes in:						
General Price Index	2.8 ^{1/}	4.6	-	1.6 ^{2/}	.	5.4
Bank credit to Public Sector	.	.	.	.	.	.
Bank credit to Private Sector	18.0	4.7	-	22.8	.	22.9

BALANCE OF PAYMENTS

	1969	1970	1971
	(Millions US \$)		
Exports of Goods, NFS	469	522	644
Imports of Goods, NFS	575	627	757
Resource Gap (deficit = -)	-106	-105	-113
Interest Payments (net)	42	43	50
Workers' Remittances	29	31	23
Other Factor Payments (net)	-9	-10	
Net Transfers	.	.	.
Balance on Current Account	-144	-141	-140
Direct Foreign Investment	11	12	14
Net MLT Borrowing	4	5	5
Disbursements	..	..	..
Amortization	..	..	..
Subtotal	15	17	19
Capital Grants	-	-	-
Other Capital (net) ^{3/}	65	149	235
Other items n.i.e. ^{4/}	21	23	25
Increase in Reserves (+)	+57	+148	+239
Gross Reserves (end year)	838	1011	1337
Net Reserves (end year)	579	727	966

MERCHANDISE EXPORTS (AVERAGE 1969-71)

	US \$ Mln	%
Fruits and Vegetables	29	14
Machinery	22	11
Foodstuffs, Beverages, Tobacco	19	9
Textile products	19	9
Chemical products	19	9
Metal products	18	9
Transport equipment	15	7
Dairy and animal products	13	6
All other commodities	53	26
Total	207	100

EXTERNAL DEBT, DECEMBER 31, 1971

	US \$ Mln
Public Debt, incl. guaranteed	73.0 ^{5/}
Non-Guaranteed Private Debt	..
Total outstanding & Disbursed	..

DEBT SERVICE RATIO for 1971^{6/}

	%
Public Debt, incl. guaranteed	1.6
Non-Guaranteed Private Debt	..
Total outstanding & Disbursed	..

RATE OF EXCHANGE ^{7/}

Average - 1970
 US \$ 1.00 = L.L. 3.27
 L.L. 1.00 = US \$ 0.306

Average - 1971
 US \$ 1.00 = L.L. 3.23
 L.L. 1.00 = US \$ 0.310

Average - 1972 through September
 US \$ 1.00 = L.L. 3.06
 L.L. 1.00 = US \$ 0.327

IBRD/IDA LENDING, NOVEMBER 30, 1972 (Million US \$):

	IBRD	IDA
Outstanding & Disbursed	15.3	-
Undisbursed	-	-
Outstanding incl. Undisbursed	15.3	-

^{1/} Based on wholesale price index^{2/} This figure is subject to wide margins of error^{3/} Short-term private capital, including net errors and omissions^{4/} Unrequited transfers^{5/} Including \$9.8 millions undisbursed^{6/} Ratio of Debt Service to Exports of Goods and Net Non-Factor Services^{7/} Average of free market rates

.. not available

.. not applicable

(This section substantially modifies para. A1 of the January 24, 1972 CPN.)

LEBANON

POLITICAL SITUATION

The Republic of Lebanon has a parliamentary system, and its constitution gives wide powers to the executive branch. Its unicameral 99-seat Chamber of Deputies reflects the religious division of the country with six Christian seats for every five Muslim ones, and with a Christian President and a Muslim Prime Minister.

Lebanon has witnessed various political crises in the last 15 years, such as the 1958 crisis precipitated by President Chamoun's pronounced pro-western policies, the attempted coup late 1961 by the Syrian National Party aimed at creating a "Greater Syria", the regimes under Presidents Chehab, Helou, and Frangieh aimed at a more moderate stance and at bringing Lebanon closer to other Arab countries particularly Egypt and Syria and finally the 1967 war between Israel and the Arab countries. The Palestinian guerillas emerged as a military and political force in Lebanon by their settling in parts of Southern Lebanon, aggravating the problems of the Lebanese Governments. In 1969, differences over Lebanon's attitude toward these guerillas and its position in the Arab Israeli conflict led to a crisis when the country had no cabinet for over eight months and the Army assumed responsibility for internal security. In November 1969, agreement in Cairo between Palestinian organizations and the Lebanese authorities enabled the formation of a coalition Government.

In August 1970 Mr. Frangieh was elected President. In October 1970 Premier Saeb Salaam formed a new Cabinet mainly of technocrats from outside parliament in an attempt to modernize the administrative machinery and enhance its efficiency. Disagreement among the cabinet members on a reform program led Premier Salaam, after the regular parliamentary elections in April 1972, to form a more traditional Cabinet composed almost exclusively of elected deputies. In an attempt to move in the right direction, the Ministry of Economy had two ministries split off from it: Petroleum Affairs and Industry, and Housing and Cooperatives. These ministries are not yet operational, however.

The delicate checks and balances embodied in the Constitution, particularly those relating to the different weights attached to religious groups, the logical extension of these delicate balances to the Cabinet and the Civil Service, and the lack of desire to revise the system, coupled with apprehensions of inhibiting the initiative of the private sector, have all led to a rather weak and ineffective Government. Perhaps the Lebanese system is unique in that it managed to produce a totally neutral government. Cabinet and senior government posts, as well as to some extent parliamentary seats, are sought for their attraction as they provide possibilities of financial

reward in the very tolerant and commercial minded Lebanese context. These, however, rarely amount to more than "commissions" rather than serious bribes that would deform the overall system. Yet, throughout its recent history, Lebanon has adhered very closely to constitutional rule, with political and religious liberty and business freedom to an extent that is exceptional in the Middle East and elsewhere.

January 26, 1973

This section substantially modifies Para A2 to 9 of January 24, 1972 CPN.

LEBANON

ECONOMIC SITUATION

Economic Structure

1. Lebanon's meagre resource base, its small size, geographical position in the Middle East and the talents of its people have, since World War II, contributed to the emergence of an economy based on services, particularly banking, real estate, tourism, transport, commerce and transit trade. The Government's basic free market philosophy, assigning a leading role to private enterprise, adhering to free trade policies, a free foreign exchange system and the adoption of financial policies aimed at maintaining monetary stability and enhancing confidence in the Lebanese pound, have ensured the continuing growth of the services sector. In spite of its inevitable involvement in the troubles of the area, Lebanon has emerged over the past two decades as the most important financial and entrepot center in the Middle East and was, therefore, able to attract substantial inflows of foreign capital and realize large foreign exchange earnings on services. The services sector typically generates about two-thirds of gross domestic product. Commerce alone contribute 31% of GDP. On average, the services sectors have grown by over 8% per year. Private investment, which accounts for between 80% and 86% of total investments, went predominantly into the services sectors (75%) while the share of industry averaged about 15% and agriculture about 10%. While growth of the services sectors have enabled the country to enjoy a relatively high standard of living, it has also created concentration in Beirut and the coastal areas and caused discrepancies in income levels of the various classes and geographic regions.

2. Agriculture and industry, together produce less than one-third of GDP. Except for the Beqa'a plain that lies between two ranges of mountains in a small area, the physiogeographic structure of the country makes terracing and irrigation necessary for efficient use of difficult land. Agricultural production stagnated between 1964 and 1971, when its contribution to GDP declined from 12% to about 8%. However, the industrial sector has grown by 8% annually between 1966 and 1971^{and} accounts for about 16% of GDP. Industrial activity is concentrated in many small firms mainly in light manufacturing, such as food processing, textiles and construction materials. It provides employment for about 18% of the population compared to no more than 19% employed in agriculture.

3. The financial structure and effective institutions including commercial banks are geared to the needs of the services sectors. There are no specialized credit institutions to mobilize savings and short-term funds and extend medium- and long-term capital to industry and agriculture. The capital market is small, unorganized, and is not suited to money management, private or public.

Recent Economic Performance

4. In the decade ending in 1966, the Lebanese economy grew at over 6% in real terms. However, between 1967-70, there was a noticeable slowing down of economic activity, brought about by a combination of adverse circumstances: the Intra Bank crisis, the war with Israel and internal political instability. Gross investment declined from 24% of GDP in 1966 to 19% of GDP in 1971 while national savings grew from 11.5% to 14.2% of GNP. Real growth in GDP averaged about 3% per year and per capita income virtually stagnated. Return of political order in late 1969 and relative calm in the region led to new capital inflows from abroad, stimulated, also, by new agreements favorable to the oil-producing countries and by monetary instability in the developed countries. This led to marked economic recovery in 1971, when GDP grew by over 7% spear-headed by particularly rapid growth of tourism (32% increase in receipts), industry and a marked upswing in the construction sector. Indications are that the recovery has continued and gained momentum in 1972.

5. Lebanon's balance of payments is characterized by high imports, and a trade deficit, which is more than offset by receipts from tourism and transportation including oil transit dues, and by a large inflow of short-term capital and remittances from Lebanese working abroad. This surplus has resulted in the growth of foreign exchange reserves and net foreign assets held by commercial bank. These increased by 26% in 1970, 33% in 1971 and almost 20% till August 1972 when they reached LL 3,690 million (US\$1.2 billion) equivalent to 18 months of imports. (See basic data sheet).

6. Since 1968, the return of confidence in the recently cleaned-up banking system resulted in increase in deposits by residents of 18% annually between 1969 and 1971, and by non-residents of about 10% annually over the same period. In spite of some expansion of short-term domestic credit (24% in 1971 and 13% till August 1972) total deposits increased by 17.5% in 1970, 26.4% in 1971 and 14% till August 1972, creating excess liquidity in the banking system, and inducing the Central Bank to increase from 5% to 7% the reserves commercial banks are required to maintain with the Central Bank. However, Lebanon's free trade policies helped in holding inflation down to an average increase of about 2% per year in prices over the past five years. However, more rapid inflation has been reported in the recent months.

7. The Central Government has always regulated its expenditures both current and development, to its small resources, though this has limited the role of the public sector in Lebanon. Public sector ^{about LL 180 million} investments have ^{annually} been financed from the current surpluses in the government budget and those of public enterprises as well as by small issues of public notes.

Development Plan and Prospects

8. In 1972, the Government adopted a Six Year Plan (1972-77). It reaffirms the basic free market orientation and the prominent place of private sector in the development of the country. It emphasizes that the private investments, mainly in the productive sectors, of LL 5460 million, will have to be undertaken if the Plan's objectives are to be achieved. The plan then concentrates exclusively on the public sector projects which are

estimated to cost LL 1740 million over the Plan period. The main objectives are: to maintain the country's 7% annual growth rate, to improve further the distribution of income and education, to maintain a high rate of employment, to encourage balanced development of the different regions of the country and to diversify the economy so as to reduce its heavy dependence on trade and services by providing infrastructure and some investment to modernize agriculture and speed up industrialization. Of the total public investment, 21% has been allocated to transport and communications, 20% to health and other social services, 15% to agriculture and irrigation, 14% to education and 10% to electricity and power.

9. The Plan envisages development expenditures by the public sector totalling LL 1740 million (an average of about LL 290 million a year), to be financed mainly from increased surpluses of the Central Budget (LL 300 million), and of autonomous agencies (LL 490 million), further improvement in computing and collecting present taxes (LL 290 million), new taxes (LL 300 million), and a moderate level of local and foreign borrowing (LL 360 million). Both the volume of investment and sources of funds are optimistic, since administrative efficiency and coordination that have contributed to slowing down past development expenditure, are likely to be a major constraint to this large increase in public investment in the future. Only a few other projects in the Plan are well prepared and ready for implementation. Furthermore, the plan does not discuss policies to mobilize the liquidity of the banking system (with short-term funds) for medium- and long-term investments for both public and private sectors. This, and the weakness of the Ministry of Planning within the government, have diminished from the Plan's credibility, and led to some deviations from it in the investment program of 1972 and 1973 Annual Budget and procedures of certain ministries including Finance.

10. Given the dynamism, large size and inventiveness of the private sector, the Plan's growth target could be feasible; however, it is unlikely that it would make a considerable impact on the structure of the economy, and on the differences in rate of growth of the different sectors. On this premise the following medium-term macroeconomic projections are calculated, which still suggest considerable improvement by the end of the Plan period.

Macroeconomic Objectives 1977

Indicator	Unit	Current level (1971)	1977			
			Country targets		Bank targets	
			Absolute	Growth rate	Absolute	Growth rate
GNP (constant 1969 prices)	LL mln	4725	8117	7.0	8117	7.0
Population	millions	2.66 ^{1/}	3.16	2.2	3.27	2.6
GNP per capita	LL	1776	2569	4.7	2482	4.3
Investment	LL mln	882	1460	6.5	1406	6.0
Savings	LL mln	660	1475	10.6	1140	7.1
Export (goods & non factor services)	LL mln	1380	2700	8.7	2594	8.2
Import (goods only)	LL mln	1762	2967	6.7	3142	7.5
Debt Service ratio		1.6	-	-	-	-

^{1/} World Bank Atlas figure

This section substantially modifies Para. 8 of January 24, 1972 CPN.

LEBANON

FOREIGN ASSISTANCE AND DEBT

Recently, the Lebanese Government has been reluctant to incur large amounts of foreign long-term debt. Apart from a small amount of debts mainly of a short-term nature from US suppliers and private banks, Lebanon has borrowed from the IBRD, the United States, France and Kuwait. The IBRD has made two loans to Lebanon: \$27 million for an irrigation project in 1955, that has been fully disbursed, and \$6.6 million for an education project in January 1973, that is not yet effective. The Kuwait Fund for Economic Development has made loans in Lebanon, and these have been fully disbursed.

Total public external debt outstanding at the end of 1971 was US\$73 million of which about US\$10 million was undisbursed but will be fully disbursed by 1974. Debt service payments were estimated at US\$10.1 million in 1971 equal to 1.6% of exports of goods and net non factor services. Lebanon's debt servicing record is good and the country remains credit-worthy for borrowing substantial amounts on conventional terms.

January 25, 1973

LEBANON CAPITAL MARKET

The Lebanese capital market is characterized by a basic imbalance between the monetary sector which is flush with funds and the medium- and long-term sector which suffers from a scarcity of capital. This contrast reflects the traditional orientation of the Lebanese economy toward trade and commerce and the role of Beirut as an international financial center for the Middle East.

The institutional framework for the capital market is provided by the commercial banks. There are about 75 banks operating in the country which vary greatly in size and represent a variety of foreign interests aside from strictly Lebanese banks. Beirut's privileged position as a financial center (free movement of capital, free exchange market, bank secrecy law patterned after Swiss banking law) has attracted a large volume of foreign capital especially from Arab countries. A large number of the financial activity assumes the form of transactions in Euro currencies between the banks in Beirut or between them and foreign financial centers. The local currency market in Lebanese pounds assumes broadly speaking the form of call money transactions and also transactions in time deposits with a bias towards the shorter end of the maturity spectrum, generally not exceeding the one year limit. One peculiarity of the banking sector is the strength of foreign banks: on the basis of available statistics foreign banks accounted for about 50% of total deposits, Lebanese banks under foreign control for about 25% and the remaining 25% of total deposits were held by other Lebanese banks. A weakness of the banking sector is the great number of small banks: more than 50% of the banks in Lebanon account for less than 10% of the total deposits in the country; it is clear that mergers would be a solution that would ultimately strengthen the banking sector if traditional "family" ownership and pride can be overcome.

There are at present no other institutions outside the banking sector in Lebanon which could effectively mobilize and channel capital to productive use. The Beirut exchange (founded in 1920) has never achieved a very significant role. The Intra Bank crisis and the political situation in the late 60's further reduced its importance: in 1969 the total turnover of the exchange for the year was LL 2 million (about \$660,000 equivalent); the volume has since increased again to LL 14 million in 1971 but the importance of the exchange remains insignificant mainly due to the lack of appropriate material attractive to investors and to a general investor reluctance to invest on a long-term basis.

The present situation of the banking sector is characterized by a very high liquidity (the liquidity ratio reached over 50% by the end of 1971). Deposits with commercial banks reached about LL 6 billion (roughly \$2 billion equivalent) by the end of 1972. Investor confidence has apparently recovered from the Intra Bank crisis and is strengthened by the greater internal political stability in the country and the strength of the Lebanese pound. The fall in interest rates in the world money markets was a further inducement to repatriate funds to Lebanon. The higher savings propensity and the flow back of capital from abroad were not matched by an increase

in the short-term credit volume of the banks and led to their high liquidity.

The present problems of the capital market are of a structural nature and their solution requires more than strictly technical improvements but rather a change in the institutional framework. There have been efforts in this direction by the Government, for example through the establishment of a development bank (National Bank for Industry and Tourism) with a government majority. This bank would provide longer term capital than is presently available in the banking sector. Furthermore, amendments to the monetary and credit law are under consideration which would provide greater security and ease for commercial banks to extend longer term credits. In a third area the Lebanese banks have begun to make use of their high level of liquidity to make longer term loans to outside borrowers. The first such loan was made to the State Bank of India last November and the loan to the World Bank, which was signed today, falls into the same category.

January 24, 1973

OFFICE MEMORANDUM

TO: Mr. Anders E.E. Ljungh

DATE: January 25, 1973

FROM: H.C. Hittmair

SUBJECT:

1. Lebanon Capital Market

The statistical evidence for capital flows is scarce. Whatever we can see from the statistics of the Bank of Lebanon reflects basically the Lebanese market but not the funds that flow through Lebanon elsewhere. The banking secrecy law and the free capital and foreign exchange market would make it doubtful that reliable gross figures on capital movements can be obtained (for example, I talked to Mr. Munir Haddad, a highly respected Lebanese banker who had the representative office of the Dresdner Bank for the Near Eastern region; he represents one of the important outlets of the Dresdner Bank for World Bank bonds and has placed over the years a sizable volume of such bonds. His activities do not, of course, directly show up in the banking statistics.)

A good indication for the size of the local market and its potential are the deposits held by commercial banks (see Attachment 1). The table shows the effects of the Intra Bank crisis of 1966 and the war of 1967 which seriously affected investor confidence and led to an outflow of capital which is only now returning due to the lessening of political tension, the strength of the Lebanese pound, the decline of interest rates in world markets in 1972 and the control measures in some markets which make investments by non residents difficult.

The attached Table 2, covering the period 1969 to 1971 offers a breakdown of deposits by residents and non residents in the banking sector and also of the currencies of these deposits. It shows that deposits of non residents in Lebanon amounted to about 15 to 17% of total deposits for the period and that deposits by residents represented an increasing proportion of the total. It is unlikely that this reflects the true picture of actual capital flows through Beirut as an international financial center.

2. Raising funds in the Arab world

For the present fiscal year we had planned a bond issue in Kuwait for KD 25 million in early February. The timing is now however questionable because Mr. Al Hamad of the Kuwait Investment Company, our underwriters, claims that the Lebanese issue had created competition through its short maturity which would make it very difficult for him to place a long term issue in Kuwait. He had promised me in Beirut, where I talked to him, that he would contact us at the end of January after his return to Kuwait and after canvassing the market for the purpose of this issue.

Our only other expectation for funds from the Arab countries would be as subscribers to our Two Year bond issue on March 15, 1973.

HCHittmair:mb

DEMAND, TIME AND FOREIGN CURRENCY DEPOSITS OF RESIDENTS
IN LEBANESE COMMERCIAL BANKS

(in millions of Lebanese Pounds)

	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>	1972 (August)
Demand deposits	962	894	782	909	787	830	1,101	1,138
Time and for- eign currency deposits	<u>1,705</u>	<u>1,891</u>	<u>1,784</u>	<u>1,721</u>	<u>2,062</u>	<u>2,590</u>	<u>3,322</u>	<u>3,995</u>
	<u>2,667</u>	<u>2,785</u>	<u>2,566</u>	<u>2,630</u>	<u>2,849</u>	<u>3,420</u>	<u>4,423</u>	<u>5,133</u>

Source: IFS

DEPOSITS CLASSIFIED BY RESIDENCE, CATEGORY
AND DENOMINATION

(in millions of Lebanese pounds)

End of period	1969			1970			1971		
	In Lebanese pounds	In foreign exchange	Total	In Lebanese pounds	In foreign exchange	Total	In Lebanese pounds	In foreign exchange	Total
<u>Deposits of residents</u>									
Demand	787	285	1,072	830	290	1,120	1,101	275	1,376
Time	77	47	118	89	40	129	132	31	163
Savings	<u>1,112</u>	<u>547</u>	<u>1,659</u>	<u>1,487</u>	<u>684</u>	<u>2,171</u>	<u>2,229</u>	<u>655</u>	<u>2,884</u>
Subtotal	1,970	879	2,849	2,406	1,014	3,420	3,462	961	4,423
<u>Deposits of non-residents</u>									
Demand	88	57	145	88	60	148	108	72	180
Time	5	21	26	6	25	31	5	23	28
Savings	<u>146</u>	<u>284</u>	<u>430</u>	<u>158</u>	<u>369</u>	<u>527</u>	<u>224</u>	<u>346</u>	<u>570</u>
Subtotal	<u>239</u>	<u>362</u>	<u>601</u>	<u>252</u>	<u>454</u>	<u>706</u>	<u>337</u>	<u>441</u>	<u>778</u>
TOTAL	2,209	1,241	3,450	2,658	1,468	4,126	3,799	1,402	5,201

Note: The monetary statistics classify non-resident deposits, regardless of denomination, as foreign liabilities; resident demand deposits in Lebanese pounds are treated as a component of the money supply, and all other deposits of residents as quasi-money.

Source: Bank of Lebanon

DOCUMENT OF
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

NOT FOR PUBLIC USE

FOR
EXECUTIVE
DIRECTORS'
MEETING

For consideration
on January 16, 1973

R73-10

FROM: The President

January 15, 1973

PROPOSED 6-7/8% LEBANESE POUND BONDS OF 1973, DUE 1978

1. The attached Draft Resolution (Annex I) authorizing the issuance and sale by the Bank of a principal amount not to exceed LL 75,000,000 of 6-7/8% Lebanese Pound Bonds of 1973, due 1978, will be considered by the Executive Directors at their meeting on Tuesday, January 16, 1973.
2. The principal terms of the proposed issue would be as follows:
 - (a) Maximum Principal Amount: LL 75,000,000 (US\$ 24,916,944 equivalent)*
 - (b) Term: 5 years, non-callable. Entire issue repayable at par on January 22, 1978.
 - (c) Coupon Rate: 6-7/8% per annum from January 22, 1973, payable annually.
 - (d) Price and other Terms: The Bonds would be sold to the subscribing banks at par.

There would be a broker's fee of 0.25% resulting in net proceeds to the Bank of 99.75% of par. The proceeds will be payable on January 22, 1973.

The Banque du Liban would act as Fiscal Agent for the Bonds.

The cost to the Bank (after all costs payable by the Bank) would be 6.82%.

*Based on Lebanese Pound market rate of U.S. \$1 = LL 3.01 as of January 12, 1973.

Distribution:

Executive Directors and Alternates
President
Senior Vice President, Operations
Vice Presidents, Bank, and Officers of IFC
Directors and Department Heads, Bank and IFC

(e) The Purchase Agreement and the Fiscal Agency Agreement would be signed on January 18, 1973.

3. The proposed issue would be charged against the FY73 borrowing program of \$1,575 million. The amount borrowed to date in FY73 would be \$975.9 million (see Annex II), including the amount of the proposed issue in Lebanese pounds.

Robert S. McNamara
President
by J. Burke Knapp

6-7/8% LEBANESE POUND BONDS OF 1973

List of Subscribing Banks and Principal Officers

		Amount in Thousands of <u>LL</u>
1.	<u>Societe Nouvelle de la Banque de Syrie & du Liban S.A.L.</u> Directeur General: <u>Mr. Jean-Pierre de Calbiac</u>	<u>7,000</u>
2.	<u>Bank of America</u> Manager: <u>Mr. Lawrence J. Warner</u>	<u>6,500</u>
3.	<u>The British Bank of the Middle East</u> Directeur: <u>Mr. D.W. Paterson</u>	<u>6,500</u>
4.	<u>Banque G. Trad (Credit Lyonnais) S.A.L.</u> Directeur General: <u>Mr. Marcel Lind</u>	<u>6,000</u>
5.	<u>The British Bank of the Lebanon S.A.L.</u> Directeur General: <u>Mr. Zaki Audi</u>	<u>6,000</u>
6.	<u>Banco di Roma</u> Directeur: <u>Mr. Luciano Conjiu</u>	<u>5,000</u>
7.	<u>Banque Byblos S.A.L.</u> Directeur General Adjoint: <u>Dr. Francois Bassil</u>	<u>5,000</u>
8.	<u>Banque Nationale de Paris (Intercontinental)</u> Directeur du Group: <u>Mr. Gauvin</u>	<u>3,000</u>
9.	<u>Banque Libanaise pour le Commerce S.A.L.</u> Directeur General: <u>Mr. Jean Abi-Jaoude</u>	<u>3,000</u>
10.	<u>RIF Bank S.A.L.</u> Directeur General: <u>Mr. Jeffery Clayton</u>	<u>2,500</u>
11.	<u>Banque Francaise pour le Moyen-Orient S.A.L.</u> Directeur General Adjoint: <u>Mr. Yves Rivoalen</u>	<u>2,000</u>
12.	<u>Banque Sabbag S.A.L.</u> President Directeur General: <u>Mr. Paul-Marie Cronier</u>	<u>2,000</u>
13.	<u>Beirut Riyad Bank S.A.L.</u> Directeur General: <u>Mr. Hussein Mansour</u>	<u>2,000</u>
14.	<u>Societe Generale Libano-Europeenne de Banque S.A.L.</u> Directeur General: <u>Mr. Gerard Glorieux</u>	<u>2,000</u>
15.	<u>Arab Bank Limited</u> Directeur General: <u>Mr. Sami El-Alami</u>	<u>1,500</u>
16.	<u>Banque du Liban et d'Outremer S.A.L.</u> Directeur General: <u>Dr. Naaman Azhari</u>	<u>1,500</u>
17.	<u>Algemene Bank Nederland N.V.</u>	<u>1,000</u>

		Amount in Thousands of <u>LL</u>
18.	Banque Arabo-Africaine	1,000
19.	Banque de l'Industrie et du Travail S.A.L.	1,000
20.	Banque du Credit Populaire S.A.L.	1,000
21.	Banque Libano-Bresilienne S.A.L.	1,000
22.	Banque Libano-Francaise S.A.L.	1,000
23.	Banque Misr-Liban S.A.L.	1,000
24.	Continental Development Bank S.A.L.	1,000
25.	First National Bank of Chicago (Lebanon) S.A.L.	1,000
26.	Jordan National Bank	1,000
27.	Moscow Narodny Bank Limited	1,000
28.	Banque de la Mediterranee S.A.L.	500
29.	Bank of Nova Scotia	500
30.	Habib Bank Overseas Limited	500
31.	Banque Joseph Geagea S.A.L.	450
32.	Credit Libanais S.A.L.	300
33.	Societe Bancaire du Liban S.A.L.	<u>250</u>
	Total	<u><u>75,000</u></u>

LEBANON

PUBLIC HOUSING

Until recently the Government has not expressed sufficient concern for the need for public housing. In September 1972, the Council of Ministers unanimously approved decrees organizing the Ministry of Housing and Cooperatives. Mr. Albert Moukhaiber, Vice President of the Council, is the new Minister holding this portfolio. (see Biographical Data Section D2). His assistants include Omar Messeike, Carlos Khoury, and Sara Hussomi. Since 1962, the public housing program had been under the Ministry of Social Affairs which reportedly had completed only 40 public housing units during that time. During 1971, between 400 and 500 housing units were completed in Sour. It was suggested that this development was linked to the subsequent establishment of the Ministry of Housing and Cooperatives in 1972. Another such project was planned for Tripoli.

An urban planning program, primarily focusing on projections for Beirut until 2000, has recently been launched by the Directorate for Urbanism under the Ministry of Public Works and Transport. This effort has tended to focus on highway planning rather than the overall needs of urban infrastructure including housing. Characteristically, housing development has been almost entirely within the private sector, with very little control or guidance. Some of this private property development appears to have been for investment purposes only, since a number of new apartments in Beirut have been reported to be vacant due to excessively high rents. Furthermore, the power, water supply and sewerage systems serving these private developments, as well as the rest of the city, have not been adequate, and the planning and coordination by Municipal authorities for these needs appears to be poor.

These suggested weaknesses in the Government effort to provide low income public housing do not, of course, take into account the added large social and political burden presented by the inadequate housing of the Palestinian refugees within Beirut.

January 25, 1973

LEBANON

RECENT CORRESPONDENCE ADDRESSED TO MR. McNAMARA

FAAPI: Mr. Radi-Yammine of the Afro-Asiatic Real Estate Federation (with the French acronym of FAAPI) has recently written Mr. McNamara suggesting that the Bank collaborate with a bank which FAAPI is in the process of forming to be called Banque Afro-Asiatique de Developpement Immobilier. He is unknown in the Bank. A reply has been sent to him requesting further information on the objectives of this bank.

January 25, 1973

G

LEBANON

STATEMENT OF BANK AND IDA SUBSCRIPTION

	<u>Number</u>	<u>IBRD</u> <u>Amount</u> ^{1/}	<u>Percent of Total</u>
Shares	90	9000	.04
Paid-in capital		900	
Subject to call		8100	
Voting Power	340		.12

	<u>Number</u>	<u>IDA</u> <u>Amount</u> ^{2/}	<u>Percent of Total</u>
Subscription		450	.04
Supplementary		-	-
Total		<u>450</u>	
Voting Power	590		.23

1/ Expressed in thousands of US dollars of the weight and finess in effect on July 1, 1944. The amounts expressed in 1973 US dollars amount to 977 (thousand) for the paid in capital and 8.794 (thousand) for the amount subject to call.

2/ Expressed in thousands of US dollars of the weight and finess in effect on January 1, 1960. Expressed in 1973 dollars, the total of subscriptions and supplementary resources amounts to \$489 (thousand).

January 24, 1973

THE STATUS OF BANK GROUP OPERATIONS IN LEBANON

A. STATEMENT OF BANK LOANS
(as at December 31, 1972)

<u>Loan Number</u>	<u>Year</u>	<u>Borrower</u>	<u>Purpose</u>	<u>US\$ million</u>	
				<u>Amount (less cancellations)</u> <u>Bank</u>	<u>Undisbursed</u>
129	1955	Litani River Authority	Power	27.0	-
877*	1973	Republic of Lebanon	Education	<u>6.6</u>	<u>6.6</u>
		Total		33.6	6.6
		of which has been repaid		<u>11.7</u>	
		Total now outstanding		21.9	
		Amount sold	2.9		
		of which has been repaid	<u>2.9</u>	-	
		Total now held by Bank		<u>21.9</u>	
		Total undisbursed		<u>6.6</u>	<u>6.6</u>

B. STATEMENT OF IFC INVESTMENTS
(as at December 31, 1972)

<u>Year</u>	<u>Obligor</u>	<u>Type of Business</u>	<u>Amount of Loan</u> <u>(US\$ million)</u>
1971	Filitex, S.A.L.	Textiles	0.93
1971	Lebanese Ceramic Industries, Co., S.A.L.	Ceramic tiles	<u>1.20</u>
	Total gross commitments		2.13
	less cancellations, terminations, repayment and sales		<u>1.00</u>
	Total commitments now held by IFC		<u>1.13</u>
	Total undisbursed		<u>0.44</u>

*Not yet effective.

LEBANON

EXISTING PROJECTS

LITANI RIVER AUTHORITY POWER PROJECT (129-LE for \$27.0 million, signed on August 25, 1955): This project consisted of the construction of:

- (a) Karaoun Dam and Reservoir with a useful capacity of about 200 million M³;
- (b) Markobi Power Plan (about 42,500 KVA) and Tunnel;
- (c) Awali Intake and Tunnel; and
- (d) Awali Plant equipped with two 36 MW units.

Construction was completed in 1966, and performance under the loan was satisfactory. This loan has been fully disbursed, and there are no outstanding problems.

EDUCATION PROJECT (877-LE for \$6.6 million; signed on January 24, 1973): The Six Year Plan allocates about 14% of total public expenditure to the expansion and improvement of education in Lebanon. The Government has sought the help of the Bank and a first education loan of US\$6.6 million was approved by the Board in December 1972. This project consists of:

- (a) the design, construction, furnishing and equipping of 39 primary schools, 24 lower secondary schools and 3 primary teacher training institutes; ←
- (b) the extension, renovation, and equipping of one lower secondary teacher training institute; and
- (c) the provision of technical assistance to prepare for the reform of upper secondary education (which may result in a Second Education project - see Prospective Operations).

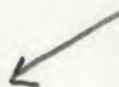
The total estimated cost is US\$15.9 million. A map of project schools is attached in Section C.

Project unit staff are now being selected, and the architectural briefs are being prepared. Implementation is expected to proceed satisfactorily and will be completed in accordance with the schedule and estimated cost given in the Appraisal Report.

January 25, 1973

LEBANON

PROSPECTIVE OPERATIONS

HIGHWAY PROJECT - \$29 million (IBRD): This is expected to be the Bank's next operation in Lebanon. It was appraised last September, negotiations are planned for February 21, 1973, and presentation to the Board in April. 


The major part of the population and economic activity in Lebanon is located along the coast, particularly in Beirut, which contains the biggest harbor of the country and its only civil airport. Beirut is the origin and destination of most international coastal transport as well as of transit transport and trade to and from Syria, Jordan, Iraq and other Middle Eastern countries. The main arteries of the transport system are the north-south transport corridor along the coast and the east-west transport corridor between Beirut and Damascus. Both corridors are served by highway and railway. There are no navigable rivers, domestic coastal shipping is negligible and the small size of the country leaves no scope for internal air transport.

Highways are the main mode of transport. The total length of the highway network is 7,100 km of which 5,800 km are paved. The network is generally adequate to meet present transport demand, but most of the roads were built without sound engineering and need improvement. In addition, serious congestion is developing on the coastal highway and on the highway between Beirut and Damascus. The main investments required in the transport sector is to expand the capacity of these routes.

The project consists of:

- (i) construction of a four-lane divided expressway between Tabarja and Tripoli (57.5 km), the northern section of the Beirut-Tripoli expressway;
- (ii) construction of a highway maintenance center in Batroun and purchases of maintenance equipment for the center;
- (iii) a feasibility study of the Beirut Bypass Highway (about 18 km) and detailed engineering of priority sections;
- (iv) detailed engineering of the Beirut-Syrian Border highway (about 60 km); and
- (v) studies of highway organization and maintenance, including the preparation of a highway improvement and maintenance program.

The total project cost is estimated at \$55.3 million equivalent (excluding \$12.0 million for right-of-way acquisition) with a foreign exchange component of \$29.0 million or 52% of total cost. A map is attached at Section C.

SOUTH BEQA'A IRRIGATION PROJECT, about \$12 million (IBRD): We have received the final feasibility study prepared by consultants supervised by the FAO/IBRD Cooperative Program. Further information on organization and water rights is promised by the end of January from the Office National du Litani (ONL) who would implement this project. A delegation from ONL would then come to Washington to discuss it about February 20. The project is then scheduled for appraisal in March, negotiations in September, and for submission to the Executive Directors in October 1973. 

Through the years, the importance of agriculture in Lebanon has declined and agricultural production stagnated since the mid-1960's, mainly because of the limited area of cultivable land and shortage of irrigation water. Introduction of terracing or irrigation or both have, in the past, accounted for increased productivity of the limited supply of arable land. Though agriculture contributes about 8% of GDP, it employs about 20% of the labor force in the poorer parts of the country and contributes to reducing the income disparities in Lebanon.

Land holdings are very small and fragmentation of land is still continuing. The smallness of the size of agricultural holdings has impelled the Lebanese farmers to raise the productivity of the small family farm. The modest growth in the production of fruits and vegetables has been mainly due to the intensification of agriculture rather than to the expansion of a cultivated area. Such intensification has been made possible by heavy investments in new terraces and increased use of fertilizers. However, the production of other agricultural goods (other than fruits and vegetables) has either stagnated or actually declined, e.g. wheat and barley, as land devoted to these products was progressively reduced. Except in the case of fruits and vegetables of which the country has an exportable surplus, Lebanon is a net importer of agricultural products. Of total export earnings, about 33% are composed of agricultural products and the import of agricultural products account for about one-fifth of total imports.

The Lebanese authorities are showing concern about the decline in agriculture, and the Six Year Plan addresses itself to agricultural development as one of the means to achieve diversification of the economy. 15% of total public sector expenditure is allocated to the development of agriculture and irrigation. The Plan notes that the present structure of the economy makes it vulnerable to any variables (which are generally outside the control of the Lebanese authorities) that might affect the prospects for tourism, banking and commerce. The development of agriculture is also in line with the Plan's declared objective of a more equitable distribution of income between classes and economic regions. One likely result of such a redistribution would be to provide larger markets for industrial products. This is particularly important in a country like Lebanon where the smallness of the market is further aggravated by a skewed income distribution by the standard of small but developed countries.

Despite the importance of agriculture to the future of the Lebanese economy, the Government's action to prepare projects has been slow. More recently the Government had indicated that irrigation has been given priority after the first education and highway projects. It has shown a strong desire to expedite the South Beqa'a Irrigation project which has been delayed since identification in 1967.

The project is a 23,000 ha. sprinkler irrigation scheme in an advanced agricultural area in the Upper Litani Valley in southern Lebanon. It would provide a government controlled system of water distribution to supplant the existing irrigation facilities owned by the private sector, with the purpose of: irrigating a greater area than exists at present (i.e. increase from 16,200 to 23,000 ha.); ensuring a more certain supply of water in dry years than exists at present; improving the efficiency of water use; and increasing the usable supply of water to make possible an increase in cropping intensities (from 96% to 133%). The reorganization of irrigation in the project area is also intended to provide control of the use of water in the Upper Litani Valley in order to safeguard potential developments in the lower part of the river basin. The total cost of the project is estimated at US\$43.8 million (US\$1,900 per ha.). The consultants estimate that the rate of return to the project is about 13%.

President Frangieh is reported to be interested in this project. This is probably emphasized by the recent severe drought. This may have led to one of the ministries' concerned (probably Joseph Skaff, Minister of Hydraulic and Electric Resources) contacting the FAO/IBRD Cooperative Program in Rome to send the concerned technician to make the case to Mr. McNamara while he is in Lebanon. The FAO/IBRD CP will avoid sending anyone for this purpose but it is very likely that the Lebanese will raise this project with Mr. McNamara.

HIGHWAYS II - \$25 million (IBRD): This project is scheduled for FY 1975 (see Highway Project above).

Although no project has yet been identified, the feasibility study of the Beirut Bypass and detailed engineering of priority sections of the Bypass and of the Syrian Border highway, included in the first highway project, are expected to lead to a suitable project.

EDUCATION II - about \$10 million (IBRD): The education system in Lebanon is still largely patterned after the traditional French model. Primary education consists of a five-year cycle normally beginning at the age of six. General secondary education comprises a four-year lower and three-year upper cycle. Secondary technical education and training is offered primarily at the upper cycle in courses of up to four years. Primary school graduates who do not go on to lower secondary schools can get further training in private vocational schools, offering mostly commercial subjects, or in public vocational schools. Higher education is offered in courses of normally four to five years in universities, teacher training colleges and technical institutes.

This project, proposed for FY 1975, has not yet been identified, but it is probable that it will center around the reform of secondary education for which technical assistance was provided under the first Education Project in FY 1973 (see Existing Projects).

TYRE INFRASTRUCTURE TOURISM PROJECT - amount unknown (IBRD): This project was submitted to the Bank by Cheikh Michel El Khoury, President of the National Tourism Council in 1969. Mr. Khalil Salem also raised the issue with a Bank mission in Beirut in early December. It has not been scheduled.

This project envisages the implantation of tourist accommodation totalling 5,000 beds over a ten-year period along a five kilometer strip of beach south of Tyre. Consideration of this project was dropped several years ago upon the deterioration of the security situation as a result of clashes in the area between the Palestine guerillas and the Israeli armed forces. Although the general situation does not appear to have changed much, the Bank is prepared to resume consideration of this project if the situation in the region envisaged is normal.

January 25, 1973

LEBANON

LENDING PROGRAM TO BE PROPOSED IN NEXT CPN

	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>Total</u>
Education I							
Education I	6.6						
Education II			10.0				
Highways I	29.0						
Highways II			25.0				
S. Beqa'a Irrig.		12.0					
Unallocated				20.0			
"					20.0		
"						20.0	
Operations Program	35.6	12.0	35.0	20.0	20.0	20.0	107.0
	2	1	2	1	1	1	6
Lending Program	35.6	15.0	25.0	15.0	15.0	15.0	85.0
	2	1	2	1	1	1	6

January 26, 1973

OFFICE MEMORANDUM

TO: Memorandum for the Record

DATE: October 13, 1972

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

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

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

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

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

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

GdeLusignan/gp

Handwritten notes:
@ H. Naffah
@ C. de Lusignan
Meeting Lib Co
Office
Copy Lebanon
RLL
10/13/72

IFC'S INVESTMENTS IN LEBANON

IFC has made two loan investments in Lebanon in FY 1971. The first was to an expansion project in the country's most modern ceramic plant owned by Lebanese Ceramic Industries Co. and the second was in Filitex, a spinning plant to produce 1,400 tons of knit yarn. Arab African Bank of Cairo and UBAF have taken participations in these two loans. However, it was not possible to sell participations to financial institutions in Europe and the U.S.A. The main reasons were:

- (a) long-term financing without sufficient bank guarantee was considered risky in Lebanon;
- (b) Lebanese industrial ventures are less appealing because the local sponsors prefer to speculate on cheaper short-term borrowing than to accept the conventional cost of long-term financing.

IFC's investments in these two projects have triggered interest of U.S. banks who are now in Beirut market offering medium-term finance at relatively cheap cost. This new development in Beirut has created a difficulty for IFC to do more business during FY 1972 and was, in fact, the main reason for a Lebanese foundry company to decline IFC's offer for a loan of \$1 million at 9-1/2%.

There are only a few projects which are presently under consideration for IFC in Lebanon and they request long-term loans. The tax laws in Lebanon were the main reason for IFC to go into equity financing and the Government, in different instances, mentioned that it was reviewing the income tax laws in order to encourage the companies to declare dividends.

IFC Department of Investment

January 19, 1973

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Project number and title	Executing agency	Date approved	Estimated completion date	Estimated project cost (US dollar equivalent)	
				UNDP	Government counterpart contribution
<u>AGRICULTURE, FORESTRY AND FISHERIES</u>					
LEB-70-002 HYDROPONIC CULTURE	FAO	02/70	07/72	40,000	
LEB-70-003 TOBACCO CULTURE	FAO	03/70	01/73	34,000	
LEB-70-004 POTATO SEED PRODUCTION	FAO	08/70	03/73	43,000	
LEB-70-005 HOT HOUSE CULTIVATION	FAO	02/70	03/72	13,100	
LEB-67-514 NEAR EAST ANIMAL HEALTH INSTITUTES CO-ORDINATING UNIT, BEIRUT	FAO	06/67	01/74	632,292	281,809
LEB-67-515 ANIMAL HEALTH INSTITUTE (PHASE II)	FAO	06/67	07/73	1,166,600	950,324
LEB-68-007 LIVESTOCK PRODUCTION ECONOMIST	FAO	11/68	06/71	35,550	
LEB-68-513 HYDRO-AGRICULTURAL DEVELOPMENT	FAO	01/68	01/74	1,101,754	2,526,937
LEB-70-001 PASTURE AND FODDER DEVELOPMENT	FAO	04/70	07/73	68,000	
LEB-71-003 DRILLING TECHNIQUES	FAO	06/71	09/71	4,000	
LEB-71-524 HYDRO-AGRICULTURAL DEVELOPMENT OF SOUTHERN LEBANON	FAO	01/72	01/75	1,194,900	2,915,488
<u>CULTURE AND SOCIAL AND HUMAN SCIENCES</u>					
LEB-69-002 DEVELOPMENT OF LIBRARIES	UNESCO	11/68	08/72	9,625	
LEB-70-008 DOCUMENTATION	UNESCO	05/70	02/71	3,700	
<u>EDUCATION</u>					
LEB-70-007 EDUCATIONAL PLANNING	UNESCO	07/70	07/73	8,000	
LEB-70-019 SURVEY OF EDUCATION AND TRAINING IN LEBANON	UNESCO	12/70	06/71	20,000	
LEB-68-003 TEACHER TRAINING	UNESCO	11/68	02/72	42,100	
LEB-70-518 TEACHER TRAINING IN MATHEMATICS AND SCIENCE, BEIRUT	UNESCO	01/71	01/75	1,179,189	3,863,704
LEB-72-001 VOCATIONAL TRAINING FOR WOMEN	UNESCO	03/72	11/72	15,000	
<u>GENERAL ECONOMIC AND SOCIAL POLICY AND PLANNING</u>					
LEB-68-001 AGRICULTURAL STATISTICS	FAO	11/68	04/72	53,200	
LEB-70-006 DEVELOPMENT PLANNING	UN	03/70	06/71	10,000	
LEB-70-018 SCHOOL OF AGRICULTURE FOR SOUTH LEBANON	FAO	12/70	03/73	68,000	
LEB-71-006 COMPUTER USAGE	UN	12/71	02/72	4,000	
LEB-71-004 FLOW OF FUNDS	UN	08/71	05/72	10,000	
LEB-71-009 BUDGETARY CLASSIFICATION	UN	10/71	01/73	30,000	
<u>INDUSTRY</u>					
LEB-69-005 INDUSTRIAL DEVELOPMENT	UNIDO	10/69	04/71	6,000	
LEB-69-001 COOPERATION MANAGEMENT AND DEVELOPMENT	ILO	04/69	01/72	69,455	
LEB-70-013 CARPET WEAVING	ILO	06/70	01/73	67,600	
LEB-70-009 SUNFLOWER PRODUCTS AND BY-PRODUCTS	UNIDO	08/70	01/73	6,350	
LEB-71-005 WORKERS TRAINING FOR INDUSTRY	ILO	07/71	02/73	33,000	
<u>LABOUR, MANAGEMENT AND EMPLOYMENT</u>					
LEB-70-519 TRAINING OF PERSONNEL FOR THE HOTEL AND TOURISM INDUSTRIES	ILO	06/70	04/74	1,102,856	2,661,910
LEB-72-002 LABOUR LEGISLATION AND ADMINISTRATION	ILO	04/72	04/73	25,800	

II. COUNTRY PROJECTS
Approved as of 30 June 1972

LEBANON (continued)

Project number and title	Executing agency	Date approved	Estimated completion date	Estimated project cost (US dollar equivalent)	
				UNDP	Government counterpart contribution
<u>NATURAL RESOURCES</u>					
LEB-70-014 ADVISER IN GROUNDWATER AND CONNECTED SUBJECTS	UN	09/70	04/73	55,500	
LEB-70-015 EXPERT ON GROUNDWATER - SEA-WATER INTRUSION	UN	07/70	02/71	2,000	
LEB-71-008 NEUTRON ACTIVATION ANALYSIS	IAEA	11/71	05/74	62,975	
<u>SCIENCE AND TECHNOLOGY</u>					
LEB-68-517 NATIONAL INSTITUTE FOR TECHNICAL TEACHER TRAINING, BEIRUT (PHASE II)	UNESCO	06/68	01/72	167,095	338,171
<u>SOCIAL SECURITY AND OTHER SOCIAL SERVICES</u>					
LEB-70-011 SOCIAL SECURITY	ILO	06/70	07/71	12,000	
LEB-70-016 TOWN PLANNING	UN	09/70	07/73	26,800	
LEB-71-001 PHYSICAL PLANNING	UN	06/71	07/72	15,000	
<u>TRANSPORT AND COMMUNICATIONS</u>					
LEB-69-011 POLLUTION OF THE SEA BY OIL	IMCO	01/70	04/71	12,000	
LEB-68-004 CIVIL AVIATION	ICAO	11/68	08/74	273,250	
LEB-68-512 CIVIL AVIATION SAFETY CENTRE, BEIRUT (PHASE II)	ICAO	01/68	06/73	1,072,715	2,524,684
LEB-69-009 FREQUENCY CONTROL	ICAO	01/70	06/72	900	
LEB-69-010 ILS MAINTENANCE	ICAO	01/70	06/72	900	
LEB-71-523 CIVIL AVIATION SAFETY CENTRE, LEBANON (PHASE III)	ICAO	01/71	12/74	807,184	1,682,570
LEB-71-007 TELECOMMUNICATIONS	ITU	09/71	05/72	30,000	

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SPECIAL REPORTSANNUAL POLITICAL REVIEW: THE LEBANON

1972 Review

The second year of President Soleiman Franjeh's term in office was again punctuated by repeated Israeli attacks on South Lebanon and other areas. The Middle East stalemate was still a menace to Lebanon in 1972 just as much as it had been in the previous five years. When Jordanian King Hussein expelled the Palestinian commandos from his country in the summer of 1971, many of those came to Lebanon and Syria.

Since then, the Jordanian and Egyptian fronts remained quiet in accordance with the cease-fire that went into effect in August, 1970, but new clashes began, intermittently, on the Syrian and Lebanese borders. After the Munich affair, where 11 Israeli athletes were killed last September, it became Israel's policy to strike at the commandos wherever they may be and without provocation.

As a result of this policy, Lebanon became a victim of Israeli attacks. The Israelis constantly claimed that they were striking at Palestinian commando bases in South Lebanon. But as the year progressed, the Israeli attacks extended deeper and deeper into Lebanon until one day last October, Israeli planes bombed areas at Nahr Al Bared as far north as Tripoli, and in November, they struck at areas around the city of Sidon, south of Beirut.

Throughout the year, both the Lebanese authorities and the Palestinian commando leaders maintained, at least theoretically, the 1969 Cairo Agreement, which has since regulated their relationship. But as a result of the frequent Israeli attacks, the Lebanese authorities found it imperative to introduce slight (though not written) amendments into the agreement in such a way as to deprive Israel of excuses for attacking Lebanon.

It was subsequently agreed, therefore, that the commandos would pull out from the front-line areas, especially the Arqoub (formerly known as Fatah trail) and take up mobile positions elsewhere. It was after the massive Israeli attack on Lebanon last February that the commandos reduced their presence and the Lebanese Army quickly took over control of the Arqoub area.

As the situation stands now, neither the Lebanese authorities nor the Palestinian commandos are willing to engage in a confrontation. The South is predominantly controlled by the Lebanese army, and commando operations against Israel from Lebanese territory have dropped to a minimum. Every time a strain in Lebanese-commando relations occurred, the two sides tended to resort to negotiations instead of a confrontation.

Arab Relations. This policy by Lebanon appears to be supported by other Arab states including Egypt. In fact, Lebanese relations with the other Arab states fared quite well in 1972 as a result of the policy of openness pursued by Franjeh's Administration ever since the latter was inaugurated in October, 1970. Inter-Arab bickering (such as the ups and downs in Syrian-Jordanian relations) have certainly had an effect on Lebanon, but in general, Lebanese-Arab ties were good.

After his state visit to Kuwait last year, President Franjeh is now planning to make a tour of several Arab capitals starting with a visit to Egypt. The hitch which occurred in Lebanese-Jordanian relations last November, following the arrest in Beirut of a Jordanian diplomat saboteur, Hisham Youssef, did not bring about any deterioration in the overall relations between the two countries.

SPECIAL REPORTS, Cont'd.1972 Review

World Level. On the external level, Lebanon had extended its policy of openness and non-alignment by granting full diplomatic recognition to the People's Republic of China and East Germany. It had resumed diplomatic relations with West Germany after a break of about seven years. In addition to the already existing trade agreement regulating trade relations with the Soviet Union, Lebanon last year concluded a protocol for cooperation with the Soviets in the field of tourism.

Evidently, the improvement of relations with the socialist camp in the world has gone side by side with the rising power of the left-wing groups in Lebanon. Left-wing demonstrations and other public manifestations during the past year were relatively more than in previous years. This was perhaps a result of the revival of the left-wing alliance known as the Front of Progressive Parties and Organizations that groups the two rival Baath Parties, the communists, the Progressive Socialist Party of Deputy Kamal Jumblat and the Arab nationalists, including the rival Nasserite factions.

The strength of these groups became obvious on several controversial issues such as the government proposed bill regulating the status of political parties in Lebanon, the proposed rents law and the question of freedoms sparked off by labor issues.

Political Forces. The parliamentary elections held in Lebanon last March-April did not bring about any drastic changes in the constitution of political forces in the country. The Opposition continued to play its role within the framework of parliamentary rules, but has so far failed to bring down either of the two governments formed by Prime Minister Saeb Salam since he came to office in 1970.

Efforts are now being made by the opposition blocs to strengthen their stand and pool their resources in order to bring down the government. President Franjieh has always stressed that he would not dismiss a government as long as it continued to enjoy the confidence of Parliament. Premier Salam also said that he would not go as long as the majority of deputies in Parliament supported him.

Even the controversial issues which the Opposition tried to capitalize on, such as the frequent bomb explosions by unidentified saboteurs, and the inadequate public utilities in some parts of the country, have been insufficient to remove the present government. Leaders of the opposition include former Premier Rashid Karami, socialist Deputy Jumblat and the President's own son, Deputy Tony Franjieh.

Crotale Affair. Undoubtedly, the notorious "Crotale Affair" was the most outstanding subject that captured the attention of Lebanese public and official opinion for a large part of 1972. The sensational affair, which caused the loss of around 10 million francs to the State Treasury, brought to the open a wide range of questions about Lebanon's armaments, including the Mirage aircraft and radar deals bought from France under the former regime of President Charles Helou, as well as the recently concluded arms deals with a number of foreign countries in the eastern and western blocs.

Added to all of these problems, the Lebanese public, by the end of 1972, reached the point of impatience with the spiral rise in the cost of living. Only last week the government began to take serious steps for curbing the runaway inflationary pressures.

BUSINESS AND ECONOMIC SECTION, Cont'd.

Definitely, Hafez added, the Government should have foreseen this phenomenon since 1970. He said perhaps the immediate cause of the price inflation was the short-lived Decree No. 1943, which was issued in 1971 by the then Minister of Finance, Dr. Elias Saba, and was cancelled by the Government shortly afterwards.

The Deputy said that decree gave the first spark of the inflationary wave. He said although he was not against the reasons behind that decree and its objectives, the way the Government wanted to apply it to the consumer market encouraged the merchants and retailers to begin raising their prices. He recalled that the cancellation of that decree, even within a space of few weeks after its issuance, did not eliminate the negative effects of the move, because already the harm had been done as the merchants raised their prices and the consumer began to prepare himself, psychologically, for such a raise.

Govt. Measures. Deputy Hafez did not single out the current Government of Premier Saeb Salam for neglecting the interests of the Lebanese consumer. He said most of the previous Governments did the same in letting the price inflation grow to alarming proportions then launching a short-term drive to curb it. In a way, he said, all the succeeding Governments before Salam neglected this phenomenon, and whatever measures they took against rising prices consisted of abrupt, sometimes rash, steps against the retailers.

Instead of adopting a long-term policy to combat the roots of this phenomenon, Hafez said, the Governments here dealt with the superficial aspects of the inflation, by occasionally sending out squads to check retail prices without thinking of long-term solutions such as establishment of consumer and production cooperatives, encouraging free competition, and absorbing the bulk of the monetary inflation through internal loans.

On the present Government measures, Deputy Hafez pointed out that the control measures will affect, as usual, the small retailers, while the monopolistic whole-salers would not be touched. He was referring to the announcement that the Ministry of Economy has mobilized special squads to inspect retail prices. L'ORIENT-LE JOUR reported yesterday that these squads have already begun their activities, but have so far been unable to do anything in way of reducing commodity prices. The same paper reported that the Minister of Economy, Anwar Sabbah, was due to meet with his top aides yesterday to lay down a new drive on price inflation.

Solutions. Deputy Hafez stressed that such moves would end up in utter failure, simply because the authorities have still not made any effective move to deal with the roots of the inflation. As a solution to the phenomenon, the Deputy suggested the following: 1--Establishment of consumer cooperatives; but such projects cannot be launched before indoctrinating the Lebanese public in the effective use of the cooperatives. He said in this field, the Lebanese people should first be used to the idea of cooperatives; 2--Establishment of production cooperatives able to reduce industrial and agricultural production costs; 3--Curbing the liquidity inflation by issuing Treasury Bonds able to absorb a big part of the surplus deposits in the banks; 4--Putting an end to foreign loans and substituting them with internal borrowing from the banks; and 5--Creating an atmosphere of free trade competition.

SPECIAL REPORTS, Com'd.

Lebanon, Chronology, 1972

- Feb. 7: PPS has new leader: Masaad Hajal.
- Feb. 9: Lebanon, USSR conclude accord on tourism.
- Feb. 12: President Franjeh begins state visit to Kuwait.
- Feb. 15: Franjeh ends Kuwaiti visit; joint note issued. Abou Hamad visits Bahrain.
- Feb. 19: Top-level N.Korean team visits Lebanon--MOHARRER.
- Feb. 20: PPS rally held in Beirut suburb, while Nasserites mark 1958 UAR merger.
- Feb. 23: TASS editor in Beirut sentenced in Philby case.
- Feb. 25: Israeli forces invade S. Lebanon, occupy Arqoub area.
- Feb. 26: Security Council meets on Israeli invasion.
- Feb. 27: Israeli forces raid Palestinian refugee camp in Nabatiya.
- Feb. 28: Security Council calls unanimously on Israel to withdraw from S. Lebanon, Israeli forces withdraw from Arqoub; Lebanese Army moves into region.
- Feb. 29: Govt., commandos discussing "new situation" after Israeli invasion. Egyptian Deputy War Minister meets with Franjeh in Beirut. Official later due in Damascus. --5 Iraqis escaping from Cairo detained in Beirut.
- March 1: Israeli forces attack commando bases, S. Lebanese positions. --Detained Iraqis released by Beirut authorities.
- March 2: Bill regulating political parties, referred to Parliament, evokes leftist anxiety. --Commandos decide to avoid confrontation with Lebanon.
- March 4: Former Syrian Vice Premier Maj. Gen. Mohammed Omran assassinated in Tripoli. --Commandos embark on "dialogue" with Lebanon. Arafat and other leaders visit Lebanese personalities, including Salam, Chamoun and Gemayel.
- March 9: Israeli jets raid Southern villages. --Salam promises Govt. will not issue law on parties by decree.
- March 11: OPEC holds conference in Beirut.
- March 13: Salam-Jumblat conflict heightens as Premier calls PSP leader a "fraud."
- March 14: 3 Israeli soldiers held by South authorities--HA YAT.
- March 15: Franjeh warns against attempts to undermine Lebanon.
- March 16: Planning Minister Mousharrafieh resigns. Jumblat levels bitter attack at Salam.
- March 18: Dr. Salman named Health Minister; Fuad Naffah named Minister of Agriculture. --First Communist Chinese Ambassador arrives in Beirut for post.
- March 19: Israeli presence on Habbaria heights reported. --Massive right-wing rally held in Beirut by Phalangists, Chamounists.
- March 20: Hussein's emissary, Saad Jumaa, meets with Franjeh.
- March 21: Anti-Hussein demonstration staged in Beirut. --Jumblat barred by right-wing students from delivering lecture.
- March 22: Security officer, corporal killed in ambush set by Hermel outlaws.
- March 25: Explosion rocks house of Col. Nakhleh Moghabghab in Nabeh Al Safa. --Bonn's Wischnewski arrives in Beirut for talks on ties.
- March 26: Non-Lebanese barred from election rallies.
- March 27: N. Yemeni Premier Ainy arrives in Beirut for talks.
- March 28: Many injured in police-student clash in Beirut. --Franjeh receives credentials of Chinese Ambassador, Chu Ming.
- March 29: Jumblat visits Syria; PSP-Baath note attacks bill on parties. --Bank interest rates fixed by Association.
- March 30: Beirut, Bonn announce resumption of diplomatic ties. --Communist leader Shawi allowed to run in elections.
- March 31: Assistant to UN Secretary General, Roberto Guyer, in Beirut for talks.
- April 4: Visiting E. German official holds talks on ties in Beirut.
- April 5: Yugoslav Foreign Minister arrives in Beirut for talks. --MEDRECO said threatening to close refinery by April 15.
- April 6: Franjeh tells press certain candidates seeking assistance from abroad.
- April 8: 4 explosions rock Ras Beirut area. Mahmoud Doha, who allegedly planted bombs, is killed in one of the blasts. --8 wounded in Jezzine shooting incident.
- April 9: 4 more explosions rock Beirut. Premier Salam accuses "foreign quarters," and discloses case of man who surrendered to him.
- April 10: Lebanon, Qatar decide to establish diplomatic relations. --Man killed in Ras Beirut explosion said to have been Jordan agent.
- April 11: 3 killed, 3 injured in election clash at Fakha, near Baalbeck.
- April 16: First stage of Parliamentary elections held in Beirut, N. Lebanon. --2 killed in shooting incident at Kab Elias; reported attempt on Zahle candidate, Joseph Skaff, fails.
- April 17: Greek Orthodox uproar reported over election of Najah Wakim in Beirut. Salam says electoral system should be revised. --Arab tobacco conference opens in Beirut.
- April 19: Kidnap attempt by unidentified Arab Embassy in Beirut foiled--JARIDA. --Security Council agrees to increase UN observers for Lebanon.

SPECIAL REPORTS, Cont'd.Lebanon, Chronology, 1972

- April 20: Rioting students on strike clash with police; many injured.
- April 22: Parties join striking students in massive demonstrations.
- April 23: Second stage of elections held in Bekaa, South Lebanon.
- April 24: AUB dismisses Prof. Halim Barakat.
--Lebanon, Italy sign arms protocol.
- April 25: Explosion rocks offices of AI. DASTOUR.
- April 26: Lebanese University students suspend 50-day strike.
- April 30: Third and final stage of elections held in Mt. Lebanon.
- May 1: May Day marked with festivities.
- May 3: 3 gendarmes killed and many wounded at Aitat in post-election clashes.
- May 6: Lebanon marks Martyrs Day.
- May 10: Franjeih receives resignation of Salam Govt.
--Cabinet approves bill on fixing new gold parity for Lebanese pound.
- May 11: Lebanon rejects Israeli charges on hijacking; Israeli attacks anticipated.
- May 12: Kamel Assaad reelected Parliament Speaker; accuses left of subversion.
- May 15: Lebanon, UK sign arms accord.
- May 16: East-West communications seminar opens at Beit Meri.
--Jordanian trucks ambushed at Wadi Al Hareer.
- May 18: Syrian authorities refuse to allow plane carrying Salam and his hunting party to land at Aleppo Airport.
- May 19: Raymond Edde, US Ambassador Buffum tour S. Lebanon.
- May 23: Information Minister Torbay attacks Jumblat in press conference.
- May 24: Franjeih asks Salam to form new Govt.
- May 25: Abou Hamad returns from visits to Brussels and Rome.
- May 27: Spy-ring working for Israel uncovered in Beirut; Briton, 2 Iraqis involved.
--Salam forms new Govt.
- May 28: 18-year-old Lebanese girl arrested at Rome Airport for carrying arms.
- May 29: AL BALAGH weekly publishes AUB "documents."
--New W. German Ambassador arrives in Beirut to take up post.
--Salam calls for "social covenant" after holding first cabinet meeting.
- May 30: Pakistani President Bhutto arrives in Beirut.
- May 31: Israel building case against Lebanon over Tel Aviv airport shooting.
- June 1: Phalangists, Tashnaks decide to joint new Cabinet.
- June 2: Franjeih tells press IPC assets will not be seized.
- June 4: Israelis kill Lebanese farmer in South. Israeli threats voiced. Abou Hamad denies receiving Israeli ultimatum.
- June 8: Premier Salam presents policy statement to Parliament.
- June 9: Man throws chisel at Premier Salam in front of Parliament, but misses.
--OPEC meets in Beirut on Iraq-IPC issue.
- June 10: OAPEC meets in Beirut; promises aid to Iraq, Lebanon and Syria.
- June 13: Salam Cabinet wins Parliament confidence by 77 votes.
R. Edde, at Parliament, urges cancellation of Cairo accord and exploitation of Hasbani River.
- June 14: Franjeih marks his 62nd birthday.
--Greek Premier Patakos arrives in Beirut after Damascus visit.
- June 16: Spanish Foreign Minister Bravo in Beirut on Arab tour.
- June 17: 2 sisters killed by their brother in Hasbaya for eloping with commando. Anti-commando demonstrations staged in Hasbaya. Gemayel calls for abrogation of Cairo accord with commandos.
- June 19: Beirut Airport slightly affected by IFALPA strike.
--Oil slicks approaching Lebanese coast.
--Saba says Lebanon has frozen arms deals. Salam issues denials later.
--Economy Minister begins drive against price inflation.
- June 20: Riyadh's Saqqaf holds talks in Beirut.
- June 21: Israeli forces attack South; bombard Hasbaya; kidnap 5 visiting Syrian officers.
- June 22: "Civil disobedience" declared in Hasbaya against commando presence.
--Lebanon, Kuwait signs economic accord.
- June 23: Israeli planes raid Deir Al Ashayer; kill 19. Salam rules out clash with commandos.
- June 25: Commando officer killed by Army near Khiyam. Clashes with commandos denied. Sادات contacts on Lebanese situation reported, while Arafat sees Assad in Damascus.
- June 26: PLO holds emergency meeting; Saiga, Jebreel group said against freezing raids.
- June 27: Security Council condemns Israel in European resolution. Salam-Arafat accord.
- June 28: League's Riad in Beirut to discuss King Hassan call for talks.
- July 2: Wandering Israeli officer said captured in Khiyam--report later denied.
- July 3: House Defense Committee backs new accord with commandos, steps against Israel. Abou Hamad demands restrictions on local press.
- July 4: Labour movement views boycott of US interests.
--Leyland team in Beirut offering to set up car assembly plant in Lebanon.

SPECIAL REPORTS, Cont'd.

Lebanon, Chronology 1972

- July 5: Lebanon, Syria ask for Security Council meeting for release of captured officers.
- July 7: Lebanon shelving Crotale missile deal with French firm--MOHARRER.
--Jordan's Rifai, Favez in Beirut on private Arab mission.
--Franjeh tells press Israeli danger persisting.
- July 8: PFLP's Kanafani and his niece killed in car explosion.
--BEIRUT offices rocked by explosion.
- July 12: NBC correspondent Hunt and his assistant Hishmeh detained. Hunt later released.
- July 13: Hishmeh detention linked to espionage case. Hishmeh later officially charged.
- July 15: Crotale case played up by Beirut press.
- July 16: Kuwaiti Ruler visits Franjeh in Ehden.
- July 17: Indictment on Omran's death case issued.
- July 20: Letter-bombs have hit Anis Sayegh, Rifbank official. Investigations ordered.
- July 21: Security Council renews call on Israel to release captured officers.
- July 22: NAHAR talks of another scandal involving French radar case.
- July 24: Emigrant youth congress opens in Beirut.
--Palestinian doctor escapes time bomb in car.
- July 25: HADAF's Bassam Abou Sharif hit by letter bomb.
- July 30: Salam returns from 3-week holiday in Italy. Hnein offers to resign.
- Aug. 2: British Ambassador gets threat over N.Ireland issue.
- Aug. 4: House Foreign Relations Body stresses Lebanon's right to exploit Hasbani River.
- Aug. 7: Hnein resignation as Education Minister accepted; later holds press conference.
- Aug. 9: Henry Edde named Education Minister to replace Hnein.
- Aug. 10: House Committees debate Crotale affair.
- Aug. 12: Crotale dispute with French firm settled as Govt. agrees to lose FF.9.5 million.
- Aug. 14: New spy-ring reported by BAYRAQ.
- Aug. 15: Emigrant youth congress ends in Ehden.
- Aug. 16: UN reports confirm Israeli presence in S. Lebanon.
- Aug. 17: Franjeh marks 2nd anniversary in office.
- Aug. 18: Benarre Deputy Tok wounded in attempt on his life.
- Aug. 19: OPEC, firms begin participation talks at Beit Mary. Speaker Assad says not against nationalizing IPC assets in Lebanon if this is necessary.
- Aug. 22: Lebanon signs Crotale settlement accord with Thomson-CSF.
- Aug. 29: Royal Bank of Canada robbed.
- Aug. 31: Court acquits 20 Saiqa commandos involved in Nahr incident.
- Sept. 1: Journalist Obeid arrested on case of forged documents linked to Crotale affair.
- Sept. 7: Israeli forces enter S. Lebanese village to search houses. Clash between Army and commandos reported.
- Sept. 8: Israeli forces raid refugee camps in Lebanon, Syria, many killed.
- Sept. 9: Franjeh issuing appeal to world countries. Beirut coordinating efforts with Syria.
- Sept. 12: Parliament approves bill on body to probe Crotale affair.
--Arab chambers meet in Beirut; urge reopening of Arab transit routes.
- Sept. 14: NAHAR carries Anderson article with report by Buffum on commandos.
- Sept. 16: Israeli land and air forces invade S. Lebanon; heavy casualties reported. Parliament and Govt. pay warm tribute to Lebanese Army. State of emergency declared.
- Sept. 17: Israeli forces withdraw after 40 hours of devastation. Ultimatum to commandos denied.
- Sept. 18: Riad in Beirut mediating between Lebanon and commandos.
- Sept. 20: State budget for 1973 approved by Cabinet.
- Sept. 21: Salam denies new accord with commandos after Riad talks. Israeli threats voiced.
- Sept. 22: Phalangist Party opens congress at Shtaura.
- Sept. 23: 3 brothers suffering from effects of Israeli poison gas rushed to AUB hospital.
- Sept. 25: Jumblat, in Moscow, seen seeking Cairo-Moscow summit.
--Lebanese-commando accord seen "total."
- Sept. 26: House adopts resolutions on defense. Salam tours South.
- Oct. 2: Education Minister Henry Edde dismissed by Govt.
- Oct. 4: State of emergency lifted except in South.
- Oct. 5: Explosion rocks Jordanian Embassy in Beirut.
- Oct. 6: Franjeh tells press Lebanon enmity to Palestinians is mere illusion.
- Oct. 7: Explosions rock PLO offices and Shatila refugee camps.
--Rogers has told Abou Hamad in N.Y. Israel would not attack if borders are quiet.
- Oct. 9: Health Minister says there is no cholera in Lebanon.
- Oct. 11: Deputy Amin Gemayel leaves for Peking.
- Oct. 12: Govt. conclave opens at Baabda Presidential Palace for administrative reforms.
--Hashem Jawad, of UNDP, killed by his former driver in Beirut.
- Oct. 15: Israeli jets raid outskirts of Sidon; destroy Fatah garage; 2 killed and many injured.
- Oct. 17: Kamel Assad reelected House Speaker by 82 votes.
- Oct. 18: Morgan Guaranty Trust said has bought 40 percent share in Al Mashreq Bank.
- Oct. 21: Conclave decisions announced.
--Lilli Saad detained for withholding information on Crotale affair.

SPECIAL REPORTS, Cont'd.Lebanon, Chronology, 1972

- Oct. 24: Former Zieme Bureau officials interrogated on charges of destroying documents, mis-use of Army funds and exceeding their powers.
- Oct. 25: Cabinet approves wage rise of 5 percent; minimum pay level raised to LL.205.
- Oct. 26: Salam averts confessional crisis by dropping proposal for new office hours.
--House investigating body questions former Army Chief Bustany on Crotale case.
- Oct. 27: Former Zieme Bureau officials detained on various charges.
- Oct. 28: Letter-bomb seized and defused by Beirut authorities.
- Oct. 29: Explosions rock two Maronite churches in Beirut.
- Oct. 31: Chamoun secures release of own assailant.
- Nov. 3: Franjieh tells press Israel embarking on genocide.
- Nov. 4: Salam Cabinet wins confidence vote. Salam-Lahoud row develops over arms deals.
- Nov. 7: Sectarian controversy looming over holiday issue.
- Nov. 8: SAYYAD carries controversial statements made by Salam. Salam issues denial.
- Nov. 11: Beirut-Alexandria marine cable inaugurated.
--Henry Edde says he has quit National Bloc.
--Ghandour factory workers, on strike, clash with gendarmes; 2 killed and 9 hurt.
- Nov. 13: AL HORRIYA resumes publication.
- Nov. 14: General strike staged by labour movement.
--Explosion rocks AL NAHAR offices.
--Kidnapped Jew, Selim Hanan, handed over by Syrian authorities.
--Banque de Syrie et du Liban robbed.
- Nov. 18: Arafat calls on Tony Franjieh in Tripoli.
- Nov. 19: Arrest warrant issued for Gaby Lahoud.
--Assistant to Jordan Military Attache captured "red handed" with explosives.
- Nov. 20: Abou Hamad leaves for Peking.
- Nov. 21: Newsmen stage demonstration in Beirut against press terrorism.
--Assistant to Jordan Military Attache handed over to Amman.
- Nov. 22: Lebanon marks Independence Day with parade displaying new weapons.
- Nov. 23: Jordan Military Attache recalled to Amman.
- Nov. 26: Champs-Elysees land sold to Govts. of Lebanon, Kuwait and Qatar.
- Nov. 27: Arab congress for support of commandos opens in Beirut.
- Nov. 28: Gaby Lahoud tells NAHAR he used to receive orders from Helou, Bustany.
Former Libyan Premier Ben Halim escapes kidnap attempt in Beirut.
- Nov. 29: Lebanon, China sign new trade accord at end of Abou Hamad's visit.
- Dec. 3: Beirut harbour crisis seen on way to solution.
- Dec. 6: SAYYAD carries Chehab's "remarks" on ex-officers of Zieme Bureau.
--House investigating body completes "Crotale" hearings.
- Dec. 8: Lebanese Army, commandos clash near Israeli border; heavy casualties reported.
--Explosion rocks offices of AL RAYAH.
- Dec. 9: Explosions rock Cedars resort as a result of Bsharre family feud.
--Salam makes frank statement, warning after clashes with commandos.
- Dec. 10: Salam announces accord with commandos after talks with Arafat.
- Dec. 11: Al Mashreq Bank grants loan to State Bank of India.
- Dec. 12: Beirut-London talks on supply of British tanks reported by NAHAR.
- Dec. 14: Ghandour factory management decides to close down plants.
- Dec. 16: Lebanon-EEC accord signed.
- Dec. 17: Lebanese-Saudi communique on 3rd refinery issued after Minister Helou's visit.
- Dec. 19: Ghandour factories reopen.
- Dec. 20: US Embassy attacked with rockets.
--Govt. decides to recognize E. Germany.
--FCI General Assembly held to discuss 1971 operations. Dahdah airs resignation.
- Dec. 23: House investigating body on Crotale issue condemns missile deal and blames Govt. for settlement accord with French firm.
- Dec. 27: Questions raised about helicopters bought from Italy. Defense Ministry gives explanation.
--Cabinet decides 5 percent wage increase for civil servants.
- Dec. 29: 3 sentenced to death in Shabbouh case.
- Dec. 31: Franjieh tells diplomatic corps peace efforts will be fruitful in 1973.

BUSINESS AND ECONOMIC SECTIONDROUGHT CAUSING SERIOUS DAMAGE TO LEBANESE CROPS

Lebanon

The current waves of frost and hail, coupled by an "alarming drought" during the past few months, have caused serious damages to Lebanon's agriculture. According to AL JARIDA yesterday, so far most of the important crops have been affected severely. Over 45 percent of the wheat crops, 50 percent of those of sugar beet and 80 percent of lentils have been destroyed.

Likewise, the paper said, the garlic and onions season is threatened by serious losses in all the agricultural regions this year. Most of the farmers interviewed by AL JARIDA agreed that this year's drought was "the greatest disaster ever witnessed in Lebanon since at least a hundred years." The vineyards have also been affected.

The farmers predicted that the drought will continue almost throughout the year, and will threaten next year's crops. Mostly in the Bekaa region, the lack of rains has since last month been coupled with waves of hail and frost, "killing" a big part of the crops.

Dry Seasons. This drought will inevitably result in the depletion of the artesian wells and the major water reservoirs that are usually kept for emergencies. Some farmers complained to the paper that already a number of artesian wells have been exhausted in the Bekaa plateau.

Other water resources are expected to run out in the coming months, the paper warned, unless the authorities took adequate measures to preserve or regulate water supplies. [It will be recalled that the first signs of the drought were felt in Beirut and other major cities late last week when drinking water stopped flowing to many areas. Several newspapers noted over the last weekend that many people were already complaining of an acute water shortage. An article in the French language newspaper, AS SAFA, last week warned that 1973 will be a "dry year" because of the lack of sufficient rainfalls during the winter season.]

Demands. AL JARIDA said there was a general consensus among the Bekaa farmers that the Government should take immediate measures to alleviate their losses. The paper added that the farmers will be asking the authorities to see to it that all the agricultural debts be frozen for some time until they could recover what they have lost this season.

Zahle Deputy Salim Maalouf also stressed that the Government should allow the farmers to freeze payment of their debts to the Agricultural Credit Bank. He added that the authorities should take a series of other measures to limit the farmers' losses. The Deputy noted that up to now the losses in the Bekaa region alone have reached the level of LL.4 million.

COST OF LIVING. Meanwhile, AL ANWAR, like other Beirut papers, yesterday carried a long study on the rising cost of living in Lebanon. It quoted Deputy Amin Al Hafez, Chairman of the Parliamentary Foreign Affairs Committee, as saying that the current price inflation has resulted from both economic prosperity and "Government negligence" and shortsightedness.

Hafez said in general, the price inflation is an international phenomenon, since the rise in commodity prices affected mainly the imported products. But on the local level, this phenomenon could have been held at check had the Government adopted a comprehensive, long-term, financial and monetary policy.

The rise in prices, he continued, was caused here by the inflation in liquidities which already reached alarming proportions last year. This monetary inflation had resulted from the atmosphere of prosperity in general and last year's record influx of capital from abroad.

BUSINESS AND ECONOMIC SECTION, Cont'd.

Definitely, Hafez added, the Government should have foreseen this phenomenon since 1970. He said perhaps the immediate cause of the price inflation was the short-lived Decree No. 1943, which was issued in 1971 by the then Minister of Finance, Dr. Elias Saba, and was cancelled by the Government shortly afterwards.

The Deputy said that decree gave the first spark of the inflationary wave. He said although he was not against the reasons behind that decree and its objectives, the way the Government wanted to apply it to the consumer market encouraged the merchants and retailers to begin raising their prices. He recalled that the cancellation of that decree, even within a space of few weeks after its issuance, did not eliminate the negative effects of the move, because already the harm had been done as the merchants raised their prices and the consumer began to prepare himself, psychologically, for such a raise.

Govt. Measures. Deputy Hafez did not single out the current Government of Premier Saeb Salam for neglecting the interests of the Lebanese consumer. He said most of the previous Governments did the same in letting the price inflation grow to alarming proportions then launching a short-term drive to curb it. In a way, he said, all the succeeding Governments before Salam neglected this phenomenon, and whatever measures they took against rising prices consisted of abrupt, sometimes rash, steps against the retailers.

Instead of adopting a long-term policy to combat the roots of this phenomenon, Hafez said, the Governments here dealt with the superficial aspects of the inflation, by occasionally sending out squads to check retail prices without thinking of long-term solutions such as establishment of consumer and production cooperatives, encouraging free competition, and absorbing the bulk of the monetary inflation through internal loans.

On the present Government measures, Deputy Hafez pointed out that the control measures will affect, as usual, the small retailers, while the monopolistic whole-salers would not be touched. He was referring to the announcement that the Ministry of Economy has mobilized special squads to inspect retail prices. L'ORIENT-LE JOUR reported yesterday that these squads have already begun their activities, but have so far been unable to do anything in way of reducing commodity prices. The same paper reported that the Minister of Economy, Anwar Sabbah, was due to meet with his top aides yesterday to lay down a new drive on price inflation.

Solutions. Deputy Hafez stressed that such moves would end up in utter failure, simply because the authorities have still not made any effective move to deal with the roots of the inflation. As a solution to the phenomenon, the Deputy suggested the following: 1--Establishment of consumer cooperatives; but such projects cannot be launched before indoctrinating the Lebanese public in the effective use of the cooperatives. He said in this field, the Lebanese people should first be used to the idea of cooperatives; 2--Establishment of production cooperatives able to reduce industrial and agricultural production costs; 3--Curbing the liquidity inflation by issuing Treasury Bonds able to absorb a big part of the surplus deposits in the banks; 4--Putting an end to foreign loans and substituting them with internal borrowing from the banks; and 5--Creating an atmosphere of free trade competition.

LEBANON'S INFORMATION MEDIA

Press in Lebanon is fully free, (given the constraints of fiscal and human resources). Although there are 45 newspapers, mainly in Beirut ... the leading newspapers are :

1. ALNAHAR, is a daily published from Beirut. Pro-western in a more rational way. Also, it maintains objectivity. It claims the largest circulation in Lebanon (60-70,000). It has a weekly economic supplement. Mr. Ghassan Toweini is the owner and the editor.

Other famous writers :

- Michal Abu Gouda, the able columnist in the Arab Press
- Fouad Matar, editor for the Arab Affairs
- Marwan Eskandar, editor of the Economic Supplement
- Abd Elkerim Abu Elnasr, Economic writer

2. ALANWAR, is the second large daily published from Beirut. Its circulation is around 50,000. It resembles the liberal Arab point of view. Some of its resources is from Kuwait and Abu Dhabi, therefore it is reluctant to criticize the Arab Emirates. Mr. Saeid Freiha is the owner and the chief editor. Messrs. Michal Raad, Wagih Elagouz and Elias Rababa are deputy editors and editorial writers.

3. ORIENT LE JOUR ... mainly read by the businessmen, bankers and embassies. Independent. Its circulation is around 11,000. Mr. Reneih Agouri is the chief editor.

4. LISAN ELHAL, is the evening newspaper. It is on the same track as Alnahar. Its circulation is around 20,000. Mr. Gobran Haiek is the chief editor.

5. DAILY STAR, is the sole English newspaper. It is more conservative and prowestern.

6. There are some minor newspapers; such as Algarîda which is financed by Jordan and Mr. Adel Malek is the chief editor. Elmouharir is pro Egypt and it resembles the non-academic Naserism.

7. ELHAWADETH, is a weekly newspaper. It tries to play a role of an objective Arab magazine. It is widely read. Its circulation is above 50,000. Mr. Salim Ellouzi is the chief editor and Galal Kisk is the editorial writer.

Radio :

The Lebanese Broadcasting Station (which is nationwide in its coverage) is within the surveillance of Ministry of Information. It transmits from Beirut in several languages, mainly Arabic, French and English.

Television :

There are two national companies :

- Lebanon Television company, with 2 channels in Arabic and French.
- Lebanon and Mashrek (East) company, owned by Lord Tompson.

Lebanon News Agency : is under the control of the Ministry of Information.

Minister of Information : Khatchik Babikian (Armenian)