



Corruption in Reconstruction: The Cost Of National Consensus in Post-War Lebanon

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During Lebanon's civil war, local warlords and militias replaced unifying public institutions as the basis of government and social services. The extension of wartime elites into the post-war political system, a common feature in post-conflict countries, resulted in a system ostensibly designed to promote cooperation among competing factions but which, in reality, removed all checks and balances and facilitated the diversion of state resources for private financial and political gain. Government mismanagement combined with the elements of reconstruction – large public works projects, inflows of international assistance, privatizations – provides a recipe for systematic, organized, and almost legitimized corruption. In Lebanon, initial anti-corruption efforts floundered whether they came from elected leaders, the media, international pressure, or civil society because the political system in Lebanon, designed to compel political actors to choose between either consensus or deadlock, may have prevented the resumption of fighting but only at the cost of endemic corruption.

Transparency, accountability, and good governance may be new terms in Lebanese politics, but corruption, nepotism, and conflict of interest certainly are not. Unlike in neighboring countries, discussing corruption in Lebanon has rarely been a taboo. On the contrary, accusations and allegations of corruption have often been excessive and not well founded. However, despite a growing international body of literature on corruption, research on this phenomenon in Lebanon remains scarce, and there is a particular deficit of work on methods of dealing with corruption. Studying corruption in Lebanon in the context of post-conflict reconstruction provides additional insight into designing adequate strategies and tools to reduce it. Evidence indicates that post-war politics often increase corruption and protect the corrupt from accountability. The case of Lebanon provides valuable lessons for other nations, as the high number of countries going through a post-conflict stage makes the need for an institutional approach to reducing corruption even more pressing.

Background

Over a period of 16 years, between 1975 and 1990, the Lebanese civil war not only destroyed property and infrastructure, but also severely undermined public institutions. The army had split along religious lines. Parliament was disintegrating, and its surviving members were at the mercy of militias controlling their areas and lives. The judiciary also came under the control of political or military power holders. The institutions undermined most were those of the public administration. In addition to the historical corruption entrenched in them, the war helped turn most of these institutions into small fiefdoms for warlords and their protégés. Most dangerous was the paralysis of the control agencies, including the different disciplinary bodies, the Civil Service Board, the Court of Audits and the Central Inspection Agency.

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Another major victim of the war was the Lebanese economy. In addition to suffering under perpetual crisis, the Lebanese market bore further damage as confidence withered away along with hopes for a full recovery. Inflation levels soared year after year, and economic and fiscal policies were reduced to crisis management maneuvers. As foreign and diaspora investment declined, local capital fled at a faster rate. As well as the kleptocratic channels of embezzlement and corruption that were constructed out of the administration, treasury, and state-owned enterprises, parallel institutions were created to fulfil the needs of more warlords and militias. Some militias reached the point of having their own ports, airports, services, taxes, and taxation systems.

Conditions in Post-War Lebanon

The civil war came to an end in 1990 after an agreement was reached among the various political actors. The Taef Agreement changed the official structure of the government from a presidential system to a system of government dominated by the Council of Ministers. The reconciliation agreement was designed in the typical integrative win-win style. It was supposed to include all political actors and give them equal powers that would be jointly exercised. Although not stated explicitly, the agreement implied that decisions should be taken in a consensus manner, or at least it was promoted as such.

Given that such a system would naturally produce deadlocks, it necessitated either negotiations or the intervention of external actors. The decision-making process often depended on the balance of power at a given moment and deals arranged by members through a practice called *Muhasassa*, which literally translates as “apportionment” or the “distribution of shares.” In the absence of agreement through such means, threats of resorting to voting would arise amidst accusations of undermining “national consensus.”

Thus, the agreement entrusted the Council of Ministers with executive authority, which would theoretically ensure the representation and participation of all parties in the decision-making process. Reality, however, has been distant from theory. The collegial system of the Council of Ministers was replaced by a troika system for the three highest positions in the state, whose holders also perceived themselves as equals in power. Obviously, these conditions often led to deadlocks, prompting calls for the intervention of Syria, the main power broker on the Lebanese political scene.

The emerging leadership of the post-war era consisted largely of businessmen, warlords, militia leaders and wartime Syrian allies. They perceived themselves as the victors of the war and claimed the fruits of their struggle through rent seeking, the means used to compete for control over the remnants of existing state institutions and the acquisition of emerging ones. The Taef Agreement brought many more stakeholders and categories of actors, old and new, into the political game of post-war Lebanese politics. They all had demands and the ability to achieve them, one way or another. In other words, “consensus” had to apply not only in politics, but also on the ground, in the administration, in the institutions, in the diplomatic corps, in privatization, in awarding contracts and in all other profit-making enterprises. These processes resulted in a manifold increase in corruption.

During the war, militias built constituencies by providing security and services, which made them important actors in the peace-building process. Ironically enough, they were as important for peace as they were for war. However, their participation was not without a price: they wanted their share of the profits of the war, and the peace for that matter. Once one militia had access to these profits, all the victorious militias would want their share as well. On the other end of the equation lies their expected entitlement to immunity from being held accountable for any wrongdoing as a sign of gratitude, which means comprehensive reform is impossible. As a matter of fact, it was cooperation between the bureaucrats and the militias that contributed to the disintegration of the public administration and the spread of corruption during the war.

Rebuilding Institutions

The tail end of the civil war rendered the Lebanese state in need of being rebuilt from scratch. Distributing state assets and institutions among as many of the warlords as possible was the interpretation of national reconciliation adopted after the war. It would seem a natural consequence of handing the militia leaders political authority that they issued themselves a general amnesty covering all war crimes. As mentioned above, their ambition extended from the existing institutions to the ones to be set up within the reconstruction and reconciliation process. The Central Fund for the Displaced, the Council of the South, and the Council for Development and Reconstruction were created or turned into tools of nepotism and rent seeking. Reconstruction started looking like an appealing enterprise or

investment where one would be able to invest in an institution, a fund, or a ministry, and collect profit in both political and financial currencies.

Although militia leaders did not have very strong formal proportional representation in government, they did, however, control the hens laying the golden financial and political eggs of the state. Such institutions would be either autonomous, independent, or beyond the reach of control mechanisms. The extension of wartime elites into a post-war political system is not an uncommon feature. Many countries, including examples in the Balkans, have witnessed such a phenomenon. Another common factor is that these elites attempted to siphon off state assets during the process of post-war privatisation. The post-war “deal” in Lebanon involved very few and weak institutional control mechanisms, which were most often politically controlled. The consequence was the replacement of checks and balances with political mutual consent, where the benefit of the majority of politicians leads to tolerance of each other. These conditions set the framework of post-war politics that dominated the public sphere for over ten years. The unprecedented spread of corruption throughout the agencies of the state was a natural consequence.

A major reason for the increase of corruption after the war was the growth of the state and its role in the economy. This growth of approximately 100 percent (up to 50 percent of GDP) largely took the form of capital expenditures on reconstruction, which was highly vulnerable to corruption because of the magnitude of the projects involved, the multitude of intermediaries, and the different phases of implementation. Another pursuant reason for increased corruption was the growth of the public administration in particular, which came partly as a natural response to the growing needs of society, and a related need for a greater governmental role. Another part was more cancerous: the transition of institutions taken over by militias or informal organisations during the war into the public sector, which again, in many of the cases, involved the absorption of those militias. This incorporation of the militias into the public administration and security forces also led to the spread of a new type of “gangster” corruption, which is closer to extortion, a form of income generation used during the war and justified as a legitimate entitlement militias had for defending the people around them.

Little aid was channelled into Lebanon due to regional politics and the hostile position of many donors toward the country. Instead, the government resorted to borrowing, and corruption was ongoing. In May 1995, planning was made on the assumption that GDP per capita was going to double in 1996. Borrowing to finance infrastructure accordingly took place. A salient characteristic distinguishing Lebanon from other post-war environments and models is that the bulk of the wasted money was not aid money but rather domestic revenues and foreign and domestic loans. This contrasts with the emphasis usually placed upon the role of international donor assistance in funding post-war reconstruction that potentially provides opportunities for corruption. On the other hand, this characteristic coincides with the conclusion of a World Bank report on aid coordination in the West Bank and Gaza, which stated that “the real source of corruption in post-conflict entities appears to lie in the misuse of domestic revenues, direct cash transfers (made on the side by donors and/or the diaspora), customs revenues, taxes, and monopoly rents.”¹

Corruption and rent seeking were not the only characteristics of post-war governance: mismanagement and short-sightedness were omnipresent features. Once the public institutions were running, it was impossible to stop, much less control, them. Not only did they duplicate much of the work, but they were also beyond the reach of formal control agencies. Furthermore, many were financed from outside the budget through international loans or grants, making financial auditing impossible. Debt was rising at exponential rates. According to the Lebanese Ministry of Finance, the net public debt as a percentage of estimated GDP increased from 46 percent in 1992 to 97 percent in 1997 and 170 percent in 2002. Servicing an increasing debt in a stagnating economy joined other factors contributing to the debt including an oversized bureaucracy, corruption, and waste of public resources.

The reconstruction effort did not seem fully-fledged until 1992, with the appointment of Prime Minister Rafik Hariri, a Lebanese-Saudi billionaire, who made reconstruction a focal point of his platform. In initially trying to rally the country under his reconstruction plan, Hariri attempted to institute a program of administrative reform. He gave redundant public employees the option of resigning before the government conducted a comprehensive purge, and this resulted in more than 3,000 resignations. Subsequently, around 600 civil servants were dismissed for corruption, and 1,800 more were dismissed for permanent abstention from their jobs. This reform was undertaken by the Civil Service Board and the Central Inspection Agency, which had been dormant during the civil war, and whose

main functions were to counter corruption, mismanagement, and failure to comply with existing rules within the bureaucracy.

The reform program came under great criticism because no high-ranking officials were dismissed and certain institutions were spared from the reform project due to confessional and political considerations. The dismissed officials appealed to the Council of State and prevailed. Combined with other failures, the reversal of the purge made Hariri give up on institutional reform and turn instead to setting up structures parallel to the official administration that were loyal to him. These structures would design and sometimes implement the plans he would impose through the regular political structures on which he had an increasingly strong grip.

The Costs of Corruption in Reconstruction

Although it has been much talked about and many estimates have been offered, no satisfactory method has been devised to calculate the cost of corruption in the Lebanese reconstruction process. As a matter of fact, there is no accurate method to put a dollar sign next to corruption. The difficulty lies in the reality that corruption is mostly clandestine: it is "notoriously hard to measure, and empirical economic research on the question is very meagre."² For example, based on capital expenditure figures and Lebanese experts' estimates of the percentage of corruption in contracts, corruption's share varies between 20³ and 70⁴ percent, amounting to US\$1.5 billion for nine years (1992-2000), or US\$1.5 billion per year (2000) respectively.

Generally, there are, of course, methods of measuring corruption in non-financial terms. Economically speaking, corruption may threaten a country's ability to access the benefits of a global economy. This is caused by a decrease in foreign direct investment in a country with high levels of corruption. An example of the political cost corruption imposes on citizens is surrendering the freedom of political choice. Citizens give up their right to hold their officials accountable and become enslaved by them in return for services. The practice of corruption also ignores the value of good politics itself. In addition to these costs, there are reputation or perception costs, which can be measured by comparative methods of indexing and combining indices.

However, it is more difficult to measure the cost of corruption when corruption is considered to be, in itself, the cost of peace, reconciliation, reconstruction, and politics in general, as is the case of Lebanon. Reconciliation and reconstruction rents are often called "political money." When looking for the cost of corruption, it is sometimes necessary to ask whether corruption is the price of stability. Some international donors acknowledge this and ask if corruption is an acceptable price in the pursuit of peace. However, donors can use corruption politically and sometimes as a pretext not to deploy unavailable, yet promised, aid.

Post-War Corruption in Lebanon

Rampant, expanding corruption in the post-war period built up public resentment and discontent. The Lebanese media played a pioneering role in uncovering corrupt deals, rent-seeking patterns, dereliction, and squandering of public funds. An *An-Nahar* newspaper poll in late 1998 identified corruption as the nation's second most urgent problem after the former Israeli occupation of the south. During this period, there was a major public outcry regarding corruption, largely shouldered by the media, that also featured complaints regarding corruption by figures inside and outside of government and by leading members of civil society. An interesting indication of public disgruntlement was manifested in the high sales of a book by the Member of Parliament (MP) Najah Wakim, which described corrupt deals and thefts by government officials.

Civil society movements started burgeoning and rallying support for an anti-corruption movement, in conjunction with the efforts of other organizations. The Lebanese Transparency Association (LTA) and similar civil society groups were formed. Business associations began to act against the spread of corruption that was hampering their investments and reducing their competitiveness. International organizations such as the United States Agency for International Development launched large media awareness campaigns, and the United Nations launched a pilot integrity project through the Centre for International Crime Prevention and the National Integrity Steering Committee. The European Union and the World Bank exerted pressure on the government to introduce structural reform and improve institutional legislation. By 1998, members of the same cabinet would accuse each other of chronic corruption, embezzlement, and abuse of authority.

This movement paved the way for the election of a president on a platform of reform and curbing corruption. Very soon after Emile Lahoud was inaugurated President of the Republic in November

1998 and Dr. Salim el-Hoss was appointed Prime Minister, they embarked on a reform program centered on eliminating corruption and even set up an office to deal with citizen complaints. This included the placement of suggestion boxes in front of state ministries and the presidential palace. The new administration quickly opened up files on corruption during the previous decade. Examples included customs fraud, embezzlement of reconstruction funds and contract breach involving bodies such as the Port Authority of Beirut; embezzlement and fraud at the Ministry of Post and Telecommunication and its parallel government agency, the Telecommunication Managing Agency; and irregularities, over-spending, and illegal sales of state-subsidized oil at the Oil Ministry, in collaboration with private sector refineries and oil importers, that resulted in the arrest of Minister of Oil Resources Shahe Barsoumian on corruption charges. The Oil Ministry scandal alone involved fraud that was estimated to have cost the treasury over US\$1 billion between 1992 and 1998.

The anti-corruption activities of the new Lahoud government were accompanied by a concentrated ouster of high-ranking civil servants from the bureaucracy and independent public agencies. The objective was to dismantle and restructure the independent public agencies that had high levels of corruption and that duplicated the work of other public institutions run directly by close associates of the very influential leaders of the war and the post-war reconstruction era. Not long after being launched, the campaign collapsed amid opposition pressure, accusations of selectivity and vindictiveness, and the protection of powerful officials. Soon after, most allegedly corrupt officials were either released or returned to their positions.

In the summer of 2000, national elections were held, ushering in the return of Hariri as head of the Council of Ministers with larger support and increased legitimacy, despite his being the main target of the anti-corruption campaigns. At the beginning of 2001, he launched significant economic and structural reforms that also came to a halt soon after their inauguration. The pressure of the debt and from donor states and institutions had pushed him toward these reforms, but after September 2001, when the focus of international actors shifted from economic to security issues, the whole reform movement was shelved. Soon after, corruption charges started re-emerging amid cross-accusations by politicians that the administration protected corrupt officials. The political cohabitation of a President and a Prime Minister from opposing political camps led to more deadlocks and crises at every turn of public life. The appointment of diplomats and senior civil servants were subject to fierce and long bargaining. Privatization deals would be blocked unless powerful politicians benefited. Most "lucrative" political decisions were taken in bundles so that apportionment could be satisfactory to more actors.

The year 2003 witnessed the Al-Madina Bank scandal. A number of the bank's managers were accused of misappropriation, fraudulent practices, and failing to apply proper accounting procedures, with losses in the region of US\$350 million. Al-Madina Bank had long been suspected of facilitating money laundering. The case was transferred back and forth between the Special Investigative Committee and the public prosecutor's office with no clear convictions, leading to suspicions that powerful politicians were involved in the scandal. Although the media gave prominence to the scandal, and tried to investigate hidden leads and push for the names of involved politicians to be published, no such links were made public by the authorities.

On another level, former Agriculture Minister Ali Abdullah and several senior members of his ministry were prosecuted and later arrested for embezzlement and squandering public funds in September 2003. He had allegedly allocated funds to fictitious cooperatives owned by his own relatives. Despite plenty of documentary evidence implicating Abdullah, made available as early as June 2002 by the MP Elie Skaff, no judicial action was taken, nor was there any official reaction to the allegations. At a later stage the former minister was expelled, for separate reasons, from the Amal Movement Party, effectively stripping him of political protection. After he was dropped from the cabinet of the new government announced in April 2003, his successor (also from Amal) personally undertook to press for charges of corruption, embezzlement, and squandering of public funds against Abdullah.

Conclusion

Evidence indicates that post-war politics often increase corruption and protect the corrupt from accountability. Reconstruction is a process that can be lucrative if abused and, as a result, is very vulnerable to corruption. Furthermore, post-war situations witness massive inflows of funds to finance recovery from international donors or through large-scale borrowing. The institutional infrastructure in post-war countries is either weakened or simply destroyed by years of pressure and violence. Finally, wars are often ended or followed by political agreements either built on the inclusive consensus model or given the appearance of being so. The coincidence and abuse of these four elements form

the ingredients of a recipe for a political system based on systematic, organized, and almost legitimized corruption.

Bearing in mind that reconstruction after war is necessary, requires considerable funding to be implemented, and that institutional capacity to implement or control the work is limited, the most flexible variable remaining seems to be the post-war political framework. Although consensus in the settlement of violent conflict is considered desirable from a conflict resolution perspective, from a functional perspective, the consensual, integrative approach seems to lead to deadlock and corruption when implemented at a systemic level.

Two possible interpretations could clarify such a discrepancy. First, win-win and consensus methods succeed when applied punctually to a situation of conflict leading to its resolution. Based on a long and complicated process of negotiations through mediation, it integrates the interests of conflicting parties, minimizing dissent and distributing benefits among them. Such methods may not be as successful when extrapolated to extended processes involving continuous decision-making and execution. One such process is running the affairs of state on an executive level; another is post-war reconstruction. Chronic negotiations, deadlocks, and mediation by external actors lead to paralysis and inefficiency in the whole system. Additionally, such systems often serve the aims of external actors who promote them under the banner of consensus, while they, in fact, are sterile rent-seeking systems doomed to dependence on external mediators.

When corruption is widespread because of political deadlocks, private sector participation in reconstruction efforts is crucial. The business community has a direct interest in creating a corruption-free environment by limiting the role of the state in the economy, reforming inefficient public administration, and introducing transparency and accountability reforms. In post-war Lebanon, corruption was recognized as a problem of profound importance and an obstacle to attracting investment and foreign assistance needed for rebuilding, but effective strategies to combat it were lacking. In the midst of public quarrels among political figures and daily exchanges of corruption accusations, LTA brought a new perspective to combating corruption. By channelling attention away from political debates on corruption and instead concentrating on its damaging economic costs, LTA and other organizations have not only helped push the reforms forward, but also exposed a wider civil society role in reconstruction.

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1 "Aid Coordination and Post-Conflict Reconstruction: the West Bank and Gaza Experience." World Bank Operations Evaluation Department, Precis, #186, Spring 1999.

2 Paulo Mauro, "Why Worry About Corruption," Economic Issues 6 (International Monetary Fund, 1997), p1.

3 Reinoud Leenders, "Public Means to Private Ends, State Building and Power in Post-War Lebanon," in Eberhard Kienle (ed.), Politics from Above, Politics from Below: The Middle East in the Age of Economic Reform (London: Saqi Books, 2003).

4 Author's interview with a researcher in a statistics firm, March 13, 2003.