

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

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... I kept thinking about the Artisanat building at the end of the Corniche, the elegant grace of its arched pillars framing the blue sea beyond. Throughout the war, it had remained undamaged, and to me it stood as a fragile symbol of hope, the one thin strand connecting me with my lost memory. Yet, though it had survived the war, it did not survive the peace that followed.¹

Transparency, accountability and good governance may be new terms in Lebanese politics, but corruption, nepotism and conflict of interest certainly are not. Unlike neighbouring 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. 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. Perceptions and the politics of corruption remain distorted and often mixed with hostile assumptions of the other.²

Bearing in mind that corruption is neglected in the academic literature on post-war reconstruction,³ exorbitant corruption seems to be an omnipresent factor in post-war reconstruction situations. Studying corruption in post-war reconstruction as a pattern is a new field, and covers many cases in varying stages of development that could contribute to our knowledge of the systemic functioning of post-war corruption in order to design adequate strategies and tools to reduce it. The unfortunately high number of countries going through a post-conflict stage can enrich the study of the new field by providing sufficient indicators and variables for the development of relevant theory. The regrettable fact that the number of countries going into wars or attempting to recover from them remains high makes the need for such theories and research even more pressing.

This paper is an initial attempt to analyse corruption in post-war reconstruction as a pattern, through exploring consensus politics in Lebanon. After covering the historical background to the war and the post-war settlement, it explores the institutional dimensions of reconstruction before considering public reactions to

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¹ Helen Khal, 'Old Beirut comes alive in art installation', special commentary in the *Daily Star*, 14 July 2003, referring to a publicly owned building that was leased and turned into a restaurant after its traditional design was heavily altered. The lease was processed amidst numerous allegations of corruption, and the ensuing prosecution of the investor.

² Charles Adwan, 'Wasta (nepotism): Between Youth and Society', in *Creative Leadership and Innovation through Integrity and Transparency* (in Arabic), (Beirut: Third Arab Administration Conference Report, 1 October 2002), p. 339.

³ See Daniel Large, 'Introductory Survey: Corruption in Reconstruction After War', in this report.

corruption. It does not present any solutions or suggestions about curbing corruption in post-war reconstruction in general. Rather, it limits itself to examining how corruption was manifested through institutions in the case of post-civil war Lebanon. The institutional approach to corruption employed here will help prepare the ground for future comparative work.

The Consensus Reconstruction

It is widely declared that it is easiest to introduce drastic changes and reforms after major crises such as wars,⁴ a conclusion reached by Machiavelli in relation to the ‘renovation’ of states in his *Discourses*. However, in negotiating the end of hostilities, and after war, countries often reach agreements that lead to deadlocks, the reason being that they try to find win-win situations and consensus-based resolutions of conflict. Parties to the war would have too many demands to stop it and would only settle by having them satisfied, as evident, for example, in the Taef Agreement in Lebanon, the Good Friday Agreement in Northern Ireland and the Dayton Agreement in Bosnia-Herzegovina. The concept of consensus is usually considered a positive objective to be reached in situations of conflict; its negative implications are often ignored, especially at micro levels. Consensus may be essential to end war, but it may be too costly to sustain peace. On a national, macro-political level, as the concept of ‘national consensus’ was intended in Lebanon, consensus may lead to stability; making it a rule to be applied in every aspect of the state and its institutions often resulted in deadlock, crisis, or corruption.

The system of consensus is not new in Lebanon. Consociational politics have always been translated at all levels: rents are distributed to communities, then to leaders of communities and their followers. However, such a system of rent seeking and distribution was already in place before the war. The Taef Agreement imposed yet another level, and raised the application of consensus to all aspects of politics and public life. In other words, it gave equal powers to all actors in the political game.⁵ A system that requires consensus provides great legitimacy to its achievements, yet these are few and costly in terms of efficiency and compromises.

The consociational system of imposing cooperation among heterogeneous, incoherent, and even conflicting parties – too many parties with too much power – often leads to stalemates and inefficiency, elements of waste themselves, in addition to causing further waste in the resolution of conflicts. Such resolutions entail compromises that are translated into benefits, rents and shares in whichever pie is being sliced at that moment. Both elements of consensus – wide inclusion and conflict resolution – provide incentives to regenerate conflict, militarily or otherwise, in attempts by participating parties to be better ‘included’. The most attractive means of inclusion is securing a stable share of the political system, a phenomenon manifested best through institutional capture.

⁴ Adnan Iskandar et. al., *Public Service Accountability in Lebanon* (unpublished paper by the American University of Beirut and the John F. Kennedy School of Government, Harvard University, 1996), p. 5.

⁵ One way to describe this system is to compare it to a UN Security Council where all members had the power of veto.

The Cost 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'.⁶ For example, based on capital expenditure figures and Lebanese experts' estimates of the percentage of corruption in contracts, corruption's share varies between 20⁷ and 70 per cent,⁸ amounting to US \$1.5 billion for nine years (1992-2000), or US \$1.5 billion per year (2000) respectively.

There are, of course, methods of measuring corruption in non-financial terms. Economically speaking, corruption may significantly increase the risk of globalisation hindering the ability of a country to absorb its beneficial aspects. This is caused by a decrease in foreign direct investment into a country with high levels of corruption.⁹ 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.¹⁰ In addition to these costs, there are reputation or perception costs, which can be measured by comparative methods of indexing and combining indices.¹¹

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, such as in 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. In Lebanon, the war is always referred to when difficult questions are asked. Informally, or publicly in the media, citizens, professionals and politicians alike say that stability has a price, or that the distribution of spoils is necessary for consensus building. It is also said that the Lebanese consociational system needs the inclusion of all confessional parties to run smoothly. The Lebanese often call 'national consensus' the practice of including as many confessional leaders in any particular deal as possible. In political and economic

⁶ Paulo Mauro, 'Why Worry About Corruption?', *Economic Issues* 6 (International Monetary Fund, 1997), p. 1.

⁷ 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).

⁸ Author's interview with a researcher in a statistics firm, 13 March 2003.

⁹ Shang-Jin Wei, 'Why is fighting corruption so crucial for embracing globalisation?', in Robin Hodess (ed.), *Global Corruption Report 2001* (Berlin: Transparency International, 2001), p. 289.

¹⁰ Michael Johnston, 'Corruption and Democracy: Threats to development, opportunities for reform'. January 2000. p. 2, available on <http://people.colgate.edu/mjohnston/MJ%20papers.htm>.

¹¹ Such methods include Transparency International's Corruption Perception Index and Bribe Payers Index, and the PricewaterhouseCoopers Opacity Index. See the *Global Corruption Report 2001*, pp. 276-278.

terms, if this inclusion means systemic graft and institutional capture, how much is consensus costing the public?

Historical Background

The consociational system in Lebanon often led to deadlocks. Before and during the war, there were cases where deadlocks led to serious crises, such as the inability to deploy the Lebanese Army in 1958 and at the start of the civil war in 1975. However, the predominance of the prerogatives of the President made this weakness less apparent in the political system. The distortion in the Lebanese case comes from another transition. In the second half of the nineteenth century, Lebanon witnessed a similar transition from being a set of provinces under the Ottoman Empire to an autonomous entity of two cantons (Christian and Druze) in what, after the French mandate, became independent Lebanon. Even independence was reached after a similar consensus agreement, although this involved fewer players. Consensus was always reached by political compromise, but also by distributing the spoils of the new entity.

Spoils distribution was the normal state of affairs since the emerging state was a new entity governed by families and taken by force from foreign colonisers. The family and tribal dimension is very important. The sense of collectiveness in the family leads to confusion between the public and the private, and thus to the justification of the transfer of assets from the state to the politician, and then to his or her relatives. The existence of the coloniser is another antagonistic dimension. It leads to a sentiment opposite to that of confusion: alienation. The fact that the state is a foreign entity, and has been so for a very long period of time, leads to strong alienation between the private and the public. This alienation provides a moral justification for cheating the government, through bribing officials to evade taxes for example. Alienation and confusion, although they seem opposing forces, interact together in a dialectic leading to more corruption and impunity in emerging states.¹²

The Lebanese Civil War

The toll of the Lebanese civil war can hardly be accounted for through a census of damaged institutions or destroyed property. Between 1975 and 1990 more than 144,000 people were killed, more than 184,000 were wounded, more than 13,000 were handicapped, around 13,000 were kidnapped and at least 17,000 disappeared.¹³ Moreover, an estimated 90,000 families, with an average of just over seven members each, were internally displaced until after the war ended, and many more were temporarily displaced. The vast majority of these people were either not able or not allowed to return to their homes due to security conditions and/or feuds within their neighbouring environments. Over 45,000 households were either partially or completely destroyed during the war. Seventy-one towns and villages were completely destroyed and 103 were partially destroyed over the entire territories.¹⁴

¹² For a lengthy discussion of the issue, see Adwan, 'Wasta', pp. 322-325.

¹³ According to Lebanese security sources cited by researcher Amal Makarem in the introduction to 'Memory for the Future', proceedings report of a conference held in Beirut on 30-31 March 2001 (Beirut: Annahar, 2002).

¹⁴ Feghali Kamal, *Displacement in Lebanon: the Strategy of Return and Development* (in Arabic), (Beirut: The Lebanese Center for Policy Studies, 1997).

Most Lebanese roads were destroyed, and the rest of the infrastructure was severely damaged. The Beirut central district, once the commercial centre of the country, was completely erased.

Over a period of sixteen years, the Lebanese civil war not only destroyed property and infrastructure, but also severely undermined the public institutions of the state. 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.

Another major victim of the war was the Lebanese economy. In addition to perpetual crisis, confidence in the Lebanese market 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 manoeuvres. 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.

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 mentioned above. 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 the 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 privatisation, 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 peacebuilding 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.¹⁵

Institutional Reconstruction

The tail end of the civil war rendered the Lebanese state in need of being rebuilt from scratch. Distributing state assets and institutions amongst as many of the warlords as possible was the interpretation of national reconciliation adopted after the war. It would only 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 (explained in 'The Reconstruction Process' below). 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,¹⁶ 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

¹⁵ Nabil Beyhum, 'Reconstruction and Public Interest', in *Sociology and Culture: the Meaning of the City and its Inhabitants* (in Arabic). (Beirut: Al-Jadid Press, 1995), p. 139.

¹⁶ Leenders, 'The Political Economy of Corruption in Post-War Lebanon', presentation at the conference 'Distributive and Normative Processes in the Arab Countries and the Mediterranean', Cairo, 24-26 February 1999.

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 per cent (up to 50 per cent of GDP) largely took the form of capital expenditures on reconstruction, which suffered 'from a qualitative vulnerability to corruption' due to the large projects involved, the multitude of intermediaries and the different phases of implementation.¹⁷ 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 towards 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.¹⁸ 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'.¹⁹

Corruption and rent seeking were not the only characteristics of post-war governance: mismanagement and short sightedness were omnipresent features. Once the aforementioned public institutions were running, it was impossible to stop, much

¹⁷ Ibid. p. 2.

¹⁸ 'The Third Report of The Council for Reconstruction and Development: Financing the Economic Recovery Plan', *Addyar*, 6 May 1995.

¹⁹ World Bank Operations Evaluation Department, 'Aid Coordination and Post-Conflict Reconstruction: the West Bank and Gaza Experience', *Précis*, No. 185, spring 1999.

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 per cent in 1992 to 97 per cent in 1997 and 170 per cent in 2002.²⁰ 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 when a new Prime Minister Rafik Hariri, a Lebanese-Saudi billionaire, was appointed and 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 3000 resignations. Subsequently, around 600 civil servants were dismissed for corruption, and 1800 more were dismissed for permanent abstention from their jobs. This reform was undertaken by the Civil Service Board and the Central Inspection Agency, whose main functions were to counter corruption, mismanagement and failure to comply with existing rules within the bureaucracy, and which had been dormant during the civil war. The reform program came under great criticism, since 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.²¹ 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 that he was having an increasingly stronger grip on.

The Reconstruction Process

Reconstruction in post-war Lebanon came to mean several forms of public efforts to rehabilitate the destroyed country and to reflect various forms of corruption and rent seeking. Although diverse, the reconstruction projects can be classified into four categories: the reconstruction of Beirut, reconstruction and welfare in South Lebanon, reconstruction and return of the displaced in Mount Lebanon, and the reconstruction of public infrastructure throughout the country. Each of these categories was dominated by an institution and controlled by one or more of the actors that emerged from the war as 'partners' in the consensus to be built. Although the custodians' qualifications were diverse and overlapping, these mainly consisted of Syrian support and confessional or regional interests. In addition to many small warlords, provincial leaders, and/or business people, the main players of the reconstruction consensus game were Rafik Hariri, Nabih Berri, Walid Jumblatt and Hezbollah. The latter three represent active wartime militias, while the fortune and relations of Hariri largely determined his role.

²⁰ Official Lebanese Ministry of Finance website: www.finance.gov.lb/main/govfin/overview.htm.

²¹ Charles D. Adwan, 'Reform in Independent Lebanon: the Roller Coaster of Trial and Error', (unpublished paper).

The Reconstruction of Beirut

Hariri's original plan for reconstruction was called 'Horizon 2000' and, in addition to IMF-style macroeconomic stabilisation through currency revaluation, it was predicated upon building an entirely new central business district for Beirut. It was thought that this could serve as a symbol for reconstruction and house Lebanon's reborn financial sector that would stimulate further economic development. In doing so, rebuilding Beirut was given precedence over the rest of the country and, through the establishment of the mechanisms to meet this demand, the Lebanese state, which was in need of reform most, experienced a downward spiral. As a function of this reconstruction plan, former Hariri employees were initially placed in charge of critical state institutions such as the Central Bank, the Ministry of Finance and the governorship of Mount Lebanon. The Council for Development and Reconstruction (CDR), which had been set up in 1977 as an independent government agency for publicly financed reconstruction projects, was given more powers and was placed in charge of commissioning road building, public works and all other critical services.²²

Hariri's primary interest lies in Beirut, the city that gives most legitimacy to a Prime Minister not only because it is the capital but also due to its significant Sunni constituency. The focus of his plan was rebuilding the Beirut Central District. This was accomplished through setting up a private company, Solidere, which was established as a result of Law 117 passed in December 1991 amid accusations that Members of Parliament were bribed to pass the legislation. It became a privately owned company in 1994 and was subsequently listed on the Beirut Stock Exchange. By governmental decree, it expropriated all of the property of the Beirut Central Commercial District in exchange for shares in the company. The constitutionality of this decree has often been questioned, as Solidere has operated with state-like powers, and includes many governmental officials, including Hariri, as shareholders. At a later stage, the CDR awarded a contract to Solidere for the execution of infrastructure works estimated at US \$475 million in return for an extra piece of land which has been designated as a landfill, and which would generate over US \$1 billion dollars in estimated revenues, according to Solidere's own data and calculations.²³

The establishment and work practices of Solidere is an example of the post war 'deal' in action, reached through compromises, and leading to abuse and corruption. Although Solidere assumed public privileges and responsibilities, it was a private company subject only to commercial laws. Being a publicly listed private company did not impose any strict standards of transparency, disclosure, or protection of minority shareholders and stakeholders rights on Solidere. This position, at the border between the public and private, allowed Solidere control over its jurisdiction while escaping the control and accountability of the public oversight agencies and mechanisms. Solidere's shady status nurtured the confusion between the public and the private that already existed in Lebanon, leading to flagrant cases of conflict of interest and abuse of public office. From another perspective, it could be viewed as

²² Kari Norkonmaa, 'The Reconstruction of Lebanon', Proceedings of the conference 'Ethnic Encounter and Culture Change', Joensuu, Finland, June 1995. Center for Middle Eastern and Islamic Studies, University of Bergen, www.hf.uib.no/smi/paj/Norkonmaa.html.

²³ Reinoud Leenders, 'Public Means to Private Ends' in Kienle (ed.), *Politics from Above, Politics from Below*.

an extreme case of apportionment where the custodian of the institution actually appropriated it instead of just exercising political control through appointed staff. Solidere was a revolutionary way of circumventing the public administration by selling a piece of the capital city to a company, mostly owned by public officials, instead of simply creating a parallel institution, and epitomised the view that the reconstruction process was a lucrative investment.

The Council for Development and Reconstruction

Whilst little publicly available evidence exists for corruption, mismanagement and waste of public resources, there was a general conviction in Lebanon by 1998 that corruption was rampant throughout the nation's institutions. In an article on Solidere in October 1999, *The Daily Star*, Lebanon's leading English daily newspaper, reported that the CDR had agreed with Solidere that the latter would pay more than US \$3 million dollars in salaries to the judges responsible for the evaluation of the property to be expropriated to Solidere. In other words, a private company was expected to hire judges as private consultants in order to make binding decisions arbitrating between the company's interests and those of others. There are numerous other instances involving conflict of interest, but one is particularly noteworthy: at the negotiations of the agreement for the aforementioned contract for the infrastructure work, the parties involved were Solidere's board of directors, in which Hariri is heavily represented as a majority shareholder, on the one side, and Hariri as Prime Minister and CDR's chairman, a former director at Hariri's corporation, on the other.²⁴

In addition to its role in facilitating the establishment and the functioning of Solidere, the CDR emerged from the war as the main tool for implementing infrastructure reconstruction and rehabilitation. As a self-appointed custodian of the reconstruction process, Hariri had full control over the CDR, and through it, the whole chain of related services in the country. A system was soon set up where the exchange of services for political allegiance determined the rules of the game. With time the CDR's authority started to extend towards the ability to borrow, negotiate funding, and request that the Central Bank issue bonds single-handedly and outside of the national budget. Because of its *ad hoc* status, the CDR consistently escaped official accountability mechanisms and functioned in a secretive manner.²⁵ Much of the waste and the squandering of public resources have been blamed on the physical reconstruction of infrastructure through the CDR. Although the government blames the enormous debt on the war and reconstruction, the full cost of infrastructure reconstruction is estimated at no more than US \$4 billion.

Beirut's Southern Suburb

Reconstructing Beirut's southern suburb proved to be more difficult. The plans designed for the suburb by Hariri's private urban planning office involved demolishing more than 300 hectares of illegally built neighbourhoods and replacing them with modern residential units and commercial compounds. The southern suburb attracted Hariri's interest mainly because of its proximity to the national airport. That

²⁴ Ibid.

²⁵ Reinoud Leenders, 'In Search of the State: The Politics of Corruption in Post-War Lebanon', (draft paper, August 2000).

same suburb, however, is largely a residential area populated mainly by Shiite Muslims, most of whom were displaced from South Lebanon or voluntarily migrated because of rural underdevelopment. Many are supporters of the Shiite Islamist party, Hezbollah, but also meet the interest and ambitions of the Shiite Speaker of the House, Nabih Berri.

Hezbollah and Berri prevented Hariri from privatising the reconstruction of the suburb and succeeded in negotiating the establishment of Elyssar, a public agency responsible for the reconstruction. Its board of directors included four members appointed by the government, in addition to a representative from Hezbollah and another from Berri's Amal Movement Party.²⁶ In the case of Elyssar, a deal could not be reached, hence the 'consensus' had to be implemented at a lower level – through its board of directors – leading to extended deadlocks or crises. More than ten years after the end of the war, no progress is apparent in the southern suburb.

Reconstruction, Resistance and Development in the South

Because of its occupation by and proximity to Israel, South Lebanon attained a position of high strategic value for both Israel and Syria, together with their direct allies. South Lebanon is a predominantly Shiite area of historic poverty and underdevelopment that witnessed fierce battles during the war. All these factors make the region appealing to Shiite politicians who seek to establish leadership in their community, channel political and financial profits, and secure and enjoy unlimited Syrian backing. Through his party/militia, Speaker Nabih Berri could deliver the political infrastructure that Syria could use in pursuit of its geopolitical objectives. In return, he wanted to assume control over the Council of the South (COS), the vehicle that channels emergency aid, reconstruction, poverty alleviation and development projects to the South. Although the COS has been notorious for wide-scale looting and disappearance of funds, rarely has evidence been published on the matter. In addition, the COS is known to often engage in projects with high contractual returns but with little value-added, such as schools in underpopulated areas that attract neither students nor teachers. When confronted with criticisms regarding corruption, COS officials admitted the waste and blame it on lack of coordination among the various public agencies.²⁷

Mount Lebanon: Reconstruction, Return and Reconciliation

The Lebanese war caused the displacement of more than two thirds of the Lebanese population, a number that exceeds two million people, over 600,000 of whom were permanently displaced. The most dramatic and lasting displacement happened in 1983 as a consequence of the 'War of the Mountain'. Battles between Christian and Druze militias, the two predominant communities of the region, with a varying role played by the Israeli Army, resulted in the Druze eventually getting the upper hand and 'cleansing' the southern part of Mount Lebanon of its Christian residents. After the

²⁶ Mona Harb, 'Urban Governance in Post-War Beirut: Resources, Negotiations, and Contestations in the Elyssar Project', in S. Shami (ed.), *Capital Cities: Ethnographies of Urban Governance in the Middle East* (Toronto: Toronto University Press, 2001), pp. 111-133.

²⁷ Warren Singh-Bartlett, 'Beirut is still a world away for many Southerners', *The Daily Star*, 25 May 2001.

end of the war, there was a need for reconciliation, reconstruction and the return of the displaced.²⁸

Druze militia leader Walid Jumblatt was named minister of the newly established Ministry of the Displaced (MOD), which was to be responsible for the process. A plan was designed and a Fund created to finance the process. The Central Fund for the Displaced (CFD) started in 1994 with a credit account of US \$543,000,000.²⁹ Although the MOD had political custody of the return process, the CFD was responsible for the implementation and disbursement of funds. Because the displaced were not only in Mount Lebanon, and because there were many displaced squatting in property in Beirut, the process was of direct interest to Prime Minister Hariri. In the same way that most such cases were treated in the post-war settlement, Jumblatt was given control over the MOD and Hariri handed the CFD. Things could only proceed smoothly with the consent of both politicians. However the process, which was expected to last three years and cost no more than US \$5.5 million, has taken ten years, cost over US \$1 billion, and most of its objectives have not been reached.³⁰ The MOD and the CFD came under continuous attack for being misused or abused for private (political and financial) ends. The vast majority of funds were spent compensating the residents who had occupied the property of the displaced in order to evacuate them. In 1999 a newly appointed chairman of the CFD came to publicly confirm the claims of mismanagement and squandering of resources, publicising figures and examples of his predecessor's practices, and the fact that only 15 per cent of the displaced had been returned.³¹ He also declared in the local press that most of the US \$814,500,000 spent thus far on the displaced was not spent where it should have been. He gave examples of villages where more than 1000 evacuations were paid for when in reality there would be no more than 180 houses in the village, and cases where for every house sheltering a family, three would be registered.³²

The case of the MOD can be considered the ultimate manifestation of the post-war '*modus operandi*', the literal and publicly declared strategy of distributing 'political monies' to buy off consent. Inflated sums of money were spent in sensitive areas, justified by the claim that such practices would create incentives for people to live together. Although such funds would be distributed politically, through the mutual consent of mediating politicians, amongst the previously warring factions, they would still be considered and accounted for as reconstruction funds. The sums for rebuilding or rehabilitating property would be multiplied between three and ten times according to the sensitivity of the situation or the conflict. Reconstruction funds were used for conflict resolution, as a means to build consensus. The reconciliation process was designed in stages, starting with easier cases and moving up the scale of villages ranked according to battles, massacres, or deep-rooted feuds.

²⁸ See Naila Naufal, 'Lebanon's Internally Displaced: The Problematique of Return and Reconciliation', in B. Roberson (ed.), *Lebanon: The Shifting Landscape of Internal and Regional Politics* (forthcoming).

²⁹ Lebanese Republic, Ministry of Displaced, *The Achievements (1993-1997) and the Requirements for the Completion and Consolidation of the Home Return of the Displaced* (Damour: Ministry of Displaced, January 1998), p. 174.

³⁰ Interview with Kamal Feghali, former official at the Central Fund for the Displaced, 19 March 2003.

³¹ See, among others, an interview with Shadi Massaad, President of the FFD in *Al-Bina* magazine, issue 970, 1 May 1999. Also see CFD's report of 1999, 'The current administrative situation of the Central Fund for the Displaced' as quoted by Nicholas Nassif in *An-Nahar*, 15 March 1999.

³² Naufal, 'Lebanon's Internally Displaced'.

Left to the discretion of politicians brokering the reconciliation efforts, compensation often depended on the benefactors' assurances of political allegiance. The money in the CFD would be frozen or mobilised according to political circumstances. Periods preceding elections witnessed overspending, and reconciliation in non-supportive villages was ignored. Allegations of corruption, squandering, and abuse of MOD and CFD funds were common, and were often voiced by Hariri himself when he was on bad terms with Jumblatt. In such cases, the Prime Minister would demand that 'political spending' stop as the growth of the public debt prevents the continuation of existing practices.³³

Reactions to Post-War Corruption

Rampant, expanding corruption in the post-war period built up public resentment and discontent. The active Lebanese media played a pioneering role in uncovering corrupt deals, rent seeking patterns, dereliction and squandering of public funds.³⁴ 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, but also featuring 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 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 organisations. The Lebanese Transparency Association was formed, in addition to other groups. Business associations began to act against the spread of corruption that was hampering their investments and reducing their competitiveness. International organisations 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 centred on eliminating corruption, and even set up an office to deal with citizens 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

³³ 'Attempt to reconcile Hariri and Jumblatt fails because Prime Minister insists on stopping "Political Money"', *Ad-diyar*, 3 July 1998.

³⁴ *The Daily Star* established a desk with phone and fax numbers dedicated to taking complaints and calls regarding corruption and, with *An-Nahar*, even published a 'Rough Guide' to *baksheesh* (bribery), which listed the amounts of bribes to be paid at the port and other government bureaus.

funds and contract breach involving 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 sale of state-subsidised oil at the Oil Ministry, in collaboration with private sector refineries and oil-importers, which resulted in the Minister of Oil Resources, Shahe Barsoumian, being arrested 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 ousting of high-ranking civil servants within the bureaucracy and independent public agencies. The objective was to dismantle and restructure the independent public agencies that had high levels of corruption and duplicated the work of other public institutions, which were 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 amidst 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 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 towards 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 amidst cross-accusations by politicians of protecting corrupt officials. The 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. Privatisation deals would be blocked unless powerful politicians were benefiting. 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 Committee³⁵ and the public prosecutor's office with no clear convictions, leading to suspicions that powerful politicians were involved in the scandal.³⁶ Although the media gave prominence to the scandal, trying to investigate hidden leads and push for publishing the names of involved politicians, no such links were made public by the authorities.

³⁵ A special committee, created within the Central Bank in April 2001 in response to international pressures from the OECD Financial Action Task Force, whose main responsibility is pursuing money-laundering cases.

³⁶ Charles D. Adwan and Mina Zapatero, 'Lebanon Country Report', *The Global Corruption Report 2004* (Berlin: Transparency International, 2004), p. 211.

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 public 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.³⁷

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, organised and almost legitimised corruption or, in other words, a kleptocracy.

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, minimising dissent and distributing benefits amongst 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 the mediation of 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 need external mediators.

³⁷ Ibid., p. 212.

Second, the consensus approach could be more useful on a macro-political level where the subject of negotiation and hence consensus involves a national dimension, rather than on a micro-political and administrative level where the subject of negotiation is power or profit related. Consensus and inclusion on a macro-political level ensure greater legitimacy for the newly set up governing system. However, on a micro-political level, establishing consensus as a precondition for the functioning of the governing system leads to a precarious balance where players are constantly trying to reshuffle the cards hoping to get better shares. This result challenges the interpretation of consensus as a safety valve securing stability. The only incentives for stability are in fact the rents collected from the system or an external deterring power imposing peace. Consequently, on the one hand, the consensual, inclusive model in post-war settlements has the benefit of ending the war and giving legitimacy to the ensuing political settlement. On the other hand, its application on managerial, long-term levels leads to paralysis, corruption, inefficiency, and possibly, instability.

The high relevance of the political settlement does not alleviate the importance of limiting the vulnerability of the other three variables to corruption and abuse. Reconstruction programmes should be well designed and based on real social priorities with a long-term vision of sustainable developmental needs. They should also be subject to official control, public scrutiny and accountability mechanisms. International donors should monitor the channelled funds, imposing conditions of transparency and good governance on reconstruction projects and institutions implementing them. These donors should also disburse funds in response to the needs of recovery, the ultimate end, rather than fund disbursement itself. Due importance should be given to institutional and capacity building of public institutions according to modern professional standards, and to the establishment of control mechanisms within and between them. Such institutional building is a prerequisite for the reconstruction process and the absorption of corresponding funds.

Implementing consensus at all levels of the political process in post-war Lebanon is a paramount example of how consensus can fail. The combination of its consociational model and other factors conducive to a corruption ridden political system made systemic corruption in post-war Lebanon inevitable. Reconstruction was short-sighted and served narrow agendas. Endogenous financing prevented the possibility of monitoring by international actors. Institutions were undermined, appropriated, and turned into rent-making fiefdoms instead of being rebuilt and empowered. The consensus model replaced accountability by deal making and the exchange of favours, thus protecting and covering for corruption. Lebanon always had a kind of consensual system dominating its governance structures, however such a system was quite broad and access to the consensus was rather limited. The expansion of the consensus to include more actors after the war exacerbated its weaknesses, especially given that most newly integrated actors were former warlords accustomed to collecting the rents of their militancy during the war. Such an extension of wartime elites into post-war politics seems to be a common post-war feature. Their abuse of power, capture of state institutions, and appropriation of public assets seems to be an additional common factor.

The justification for consensus in post-war Lebanon has been stability, and legitimacy by the inclusion of minorities. The results have been inefficiency, corruption and state capture by former warlords or well-connected millionaires. Stability has actually been maintained by corruption and by an external actor, Syria.

Such intervention has discredited the system, and undermined its legitimacy. As a consequence, corruption of such magnitude seems to be too high a price to pay for such fragile stability and legitimacy. This begs two difficult questions. Should a post-war political settlement look for a balance between legitimacy and stability on the one hand, and efficiency and good governance on the other? Or should the political settlement rather allow alternation amongst actors ensuring broader participation and accountability?