

Public Means to Private Ends: State Building and Power in Post-War Lebanon

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Introduction

For many years Lebanon may have featured as a textbook case of civil war and sectarian conflict, but it is less likely to get an entry in a manual of desirable strategies for post-war recovery. Some would argue that given the sheer scale of destruction to which the country woke up to in the early 1990s, any step towards normalisation and recovery should be regarded as an impressive achievement.² From this perspective, the dramatic improvement of the country's security conditions, facilitated by the reconstitution of the Lebanese Army, perhaps qualifies as the biggest achievement. Moreover, despite of its many flaws, the post-war reconstruction programme has certainly improved general living standards. But many Lebanese feel such achievements came at too high a price. Perhaps the most frequently expressed grievance in this respect has been directed against political corruption. Following the Ta'if Accords of 1989 and the birth of Lebanon's 'Second Republic', corruption has come to be perceived as so endemic that it is thought to permeate the entire state, from its lowest-ranking servant straight up to its higher echelons. Consider, for example, a daily monitored poll held and published by the daily *An-Nahar* in September and October 1998. Of the nation's "most urgent problems", corruption (*fasad*) consistently received a second ranking, only coming after the Israeli occupation of the south. But political elites, too, acknowledged the problem. Recurring political rows between political leaders in the several governments after Ta'if were often entirely fought out by exchanging allegations over corruption. Such shouting matches reached a climax at the end of 1994 when even the president of the Republic abandoned his customary 'impartiality' and branded some of his opponents as corrupt in response to accusations directed against himself. Individual denials were as frequent, but, taken together, the accusations were tantamount to an embarrassing *mea culpa* by Lebanon's political elites. This confirmed to many Lebanese what they had suspected all the way through: The supposed reconstruction of Lebanon brought an unacceptable degree of corruption with politicians grabbing as much as possible public resources for their own private or political gain. This essay presents an assessment of political

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² This is, in essence, summarizes Prime-Minister Hariri's argument. See: Hariri, R., *Pouvoir et responsabilité, Cout de la paix, perspectives d'avenir*, (Beirut: 1999).

corruption in post-war Lebanon and an explanation for its pervasiveness. We shall contend that, while old forms of corruption continued unabated, a new politics of corruption has emerged associated with the country's post-war constellation of elite forces and its profound effects on institution-building.

As Lebanon is not the only country sustaining high levels of corruption, we do not stand alone in trying to understand the phenomenon. Until the late 1970s, a handful of social scientists working on corruption bitterly complained about their colleagues' lack of interest in their field of study, occasionally even blaming them for a "conspiracy of silence [preventing] the dissemination of knowledge about [corruption]".³ But today we can fall back on a growing body of literature on the phenomenon.⁴ To organise our investigation, we will start with a very simple model of corruption derived from the prevailing paradigm of the 'New Political Economy' or neoclassical economy.⁵ Many other variations aside, political corruption has here usually been defined as the use or influence of public office for private ends resulting in private gains, whether material, financial or otherwise.⁶ Subsequently, the decision to engage in corruption can be analysed by using two organising concepts, 'opportunity' and 'willingness'.⁷ Opportunity pertains to bureaucratic or administrative environments delimiting the range of options available to politicians and state officials. Depending on the bureaucratic environment, such opportunities include: (1) a high degree of discretionary power; (2) a low risk of 'getting caught' and; (3) loopholes and regulatory contradictions, ambivalences and intransparent procedures. Willingness to pursue corrupt practices refers to behavioural patterns and individual motives ranging from 'greediness' to perceptions of one's own responsibility and corrupt activities by others. But whereas most 'new' political economists end their analysis at this stage, we suggest a complementary analysis of more structural factors to account for changing levels of 'opportunity' and 'willingness'. This will lead us to disentangle some fundamental causes of political corruption as embedded in Lebanon's peculiarities

³ Andreski, S., "Kleptocracy as a System of Government in Africa", reprinted in: Heidenheimer, A.J. (ed), *Political Corruption*, (New Jersey: 1978), p. 347 (text originally published in 1968).

⁴ For an overview see: Heidenheimer, *Op. Cit.* and the special edition on corruption of *Third World Quarterly*, Vol 20, No 3, 1999.

⁵ The reference is here to the 'principal-agent' model of corruption currently fashionable in the 'New Political Economy' or neo-liberal economics. See in particular: Rose-Ackerman, S., *Corruption, A Study in Political Economy*, (New Haven: 1978); Werner, S., "New Directions in the Study of Administrative Corruption", in: *Public Administration Review*, No 43, 1983; Klitgaard, R., *Controlling Corruption*, (Berkeley/Los Angeles: 1988).

⁶ The phrasing of political corruption in public/private terms has undergone no major changes since Nye's classic definition of the phenomenon. See: Nye, J.S., "Corruption and Political Development: A Cost-Benefit Analysis", in: Heidenheimer, A.J. *Op. Cit.*, p. 347 (originally published in 1968).

⁷ The following borrows heavily from: Manzetti, L. & Blake, C.H., "Market Reforms and Corruption in Latin America: new

in state building and the ways power and conflicts crystalized. From this perspective, our analysis can thus also be read as a critique of the narrow, neoclassical approach.

I. An Assessment of Post-War Corruption

'Hard' facts are a rare commodity in most developing countries and fully reliable data on political corruption is probably even harder to obtain. The obstacles to embark on such an assessment are twofold and deserve to be spelled out.

Firstly, there exists no consensus on how corruption should be best measured or observed, even when an agreement is reached on its definition. Research on corruption has often been based on polls measuring *perceptions* of the prevalence of corruption.⁸ But such perceptions do not necessarily measure the real occurrence of corruption. Among other problems, it can not be simply assumed that respondents in such polls understand 'corruption' in the same way as the researchers do, even when they are first asked whether they agree with the poller's definition. Moreover, there seem to be no obvious criteria as to *whose* opinions should be included in such polls and whether all opinions should weigh equally, or that some opinions should be considered as more 'authoritative' than others. Other researchers have therefore resorted to an assessment of corruption in terms of its assumed *economic costs*.⁹ Such an approach may at first sight appear more exact. But closer inspection reveals that, in its most accurate version, such a methodology implicitly assumes an 'ideal' or 'optimum' economy against which the 'costs' are calculated; Societies are thus judged on the basis of an *a priori* or mentally constructed 'equilibrium' that can not be empirically demonstrated. The remaining approach, therefore, seems a *qualitative* or case-by-case assessment of corruption which, for its part, is bound to be incomplete and risks misrepresenting the overall level of corruption. Nor can the findings of the latter approach be easily compared with corruption in other countries. Keeping all these problems in mind, we have therefore decided to pursue all three methodologies simultaneously, assuming that their specific distortions will into some extent balance each other out in together providing an overall assessment of corruption.

This leaves a second major obstacle to obtaining data on corruption; the controversial and political nature of the phenomenon. This can pose the researcher for huge problems, for the obvious reasons that administrators and politicians do not like to advertise their own shady deals that others may classify as corruption. Their opponents, on the other hand, may have a clear interest in exaggerating reports on corruption or fabricate them altogether in an attempt to discredit their rivals. The tasks for the researcher on political corruption are made even more difficult as he or she

⁸ This methodology is used by the international NGO against corruption, Transparency International (TI), for its world-wide 'Corruption Perceptions Index' (CPI). See: *Transparency International Corruption Perceptions Index 1998*, (Berlin: 1998, 1999, 2000), taken from the TI website: <http://www.transparency.de/>. Note that Lebanon has so far been excluded from the Index as of lack of data. See: Interview with TI representative Nihal Jayawickrama in *The Daily Star*, 13 June 1999.

⁹ This approach is mainly associated with the theory of 'rent-seeking' wherein 'rent' is defined as those activities that cause a difference between an 'efficient' market optimum and existing equilibria. This, of course, implies that 'rent' may include forms of political activity other than 'corruption' per se, like perfectly legitimate political lobbying; for this excessively pessimistic view on politics, the theory of 'rent-seeking' has been rightly criticized. For an overview see: Colander, D.C. (ed.), *Neoclassical Political Economy, The Analysis of Rent-Seeking and DUP Activities*, (Cambridge, Mass.: 1984).

(or his or her informer) is not only confronted by the standards on verifiable analyses held highly by academic colleagues, but also by real or potential actions (including threats, intimidation, violence or libel suits) taken by the policy-makers or their supporters he believes to have been involved in corruption. Also in Lebanon messengers of implicating reports on corruption have rarely received a warm welcome. For example, several libel suits have been filed against Lebanon's most fervent anti-corruption campaigner and member of parliament Najah Wakim whose book *Al-Ayadi as-Sawd* ('black hands') stirred a political storm when it appeared in 1998. Attempts to silence his reports since 1990 only faltered because of Wakim's parliamentary immunity and, as some suspect, because of his excellent relations with Syrian policy-makers and security officials. Another critic of corruption in Lebanon, World Bank economist Ishaq Diwan, was less fortunate. Speaking at a World Bank-sponsored conference in Marrakesh on regional development, Diwan blamed rampant corruption in Lebanon, real or alleged, for the lack of foreign aid channelled to this country's reconstruction efforts.¹⁰ A few weeks later, Diwan, a Jewish Lebanese national, found himself the target of accusations by several Lebanese media and local religious leaders of having channelled proceeds of the sale of private property in Sidon to the 'Israeli enemy'.¹¹ Such incidents may or may not deter the researcher on corruption, but the data he or she will obtain from informers and written sources (like press articles), even when scrutinised on internal consistency and checked with other sources, are likely to reflect the controversial and risky nature of debating corruption in the first place. For this reason, all the corruption cases mentioned below come with the rather obligatory adjectives like 'allegedly' and 'reportedly', thereby testifying to the sorry state of 'corruptology' as a science.

- Perceptions of Corruption

Three polls have measured perceptions of corruption in Lebanon's 'Second Republic'. The most comprehensive poll, carried out by Information International (a Lebanese consultancy agency) and funded by USAID, drew a statistically representative sample of the Lebanese population and presents a bleak picture of the (perceived) level of corruption.¹² Perhaps little surprisingly, virtually all respondents agreed that "there is corruption in Lebanon". More interestingly, 85.7 percent

¹⁰ See: *The Daily Star*, 8 September 1998.

¹¹ Attempts to confiscate property belonging to his family urged Diwan to take legal action. However, given the political controversies surrounding the case, no lawyer was prepared to come to his assistance. Interview with attorney Muhammad al-Mughrabi in Beirut, 14 October 2001.

¹² See: Information International, *Lebanon Anti-Corruption Initiative Report & Benchmark Polls on Corruption in*

considered the “degree of corruption of the political system in Lebanon” as “very high”. Other highlights of the poll include the perception of Lebanese that “the whole state” is corrupt (24.3 percent), that “all politicians” are corrupt (27.2 percent), that corruption in public utilities is high (61 percent), and that public employees are “ready to accept gifts and invitations” (59 percent). Another sizeable part of the population (40.4 percent) thought that electoral candidates resorted to buying votes, offering an average of US\$ 130 per vote. From the perspective of the briber or ‘corrupter’ him- or herself, many respondents admitted to “usually resorting to bribery” (27.2 percent) and not regularly paying their taxes (50 percent), mainly citing reasons of “intentional fraud”. A second part of the Information International poll concerned perceptions among 120 members of Lebanon’s “business and professional population”.¹³ The most striking result here was that 74 percent of respondents “do not expect to secure any business contractual agreement or profit from any public institution without paying commissions”.

A second poll was conducted by Sami Atallah for the Lebanese Centre for Policy Studies (LCPS) and comprised a sample of 250 firms in Lebanon’s four main economic sectors (agriculture, banks, manufacturing, and tourism).¹⁴ The most interesting aspect of the poll is that it is based on an approach developed by the World Bank in a survey in 69 countries, so that its results can be put into comparative perspective.¹⁵ Aimed at measuring and assessing institutional bottlenecks to private business and the degree of uncertainty created by state action, the poll points at the alarming role of variables directly and indirectly related to corruption. Generally, most firms (60 percent) considered the government as suffering from a “lack of credibility” (measured by their disbelief that the

Lebanon 1999, (Beirut: 1999).

¹³ Quite apart from the small size of the sample, it is left unclear what stratum or group the rather heterogeneous category “business and professional population” exactly represents. By lumping together several professions, the category includes individuals working in both the public and private sector. No less important, it is hard to imagine on what basis of experience teachers (who were included in the poll), for example, could express an opinion on issues like the amount of bribes paid to facilitate business contracts with public agencies.

¹⁴ Atallah’s survey consisted of questionnaires sent out to 800 companies, 250 of whom responded. Needless to say, the small number of companies polled and the low response are likely to have affected the results of this survey. For example, only firms with strong opinions about the subject may have returned the questionnaire. Furthermore, it is not clear why “firms” were approached to express opinions and not individual entrepreneurs or employees. One could for example argue, as this author often encountered, that while some firms adopt a policy not to pay any bribes, individual employees of those firms do. See: Atallah, S., *Roadblocks to Recovery. Institutional Obstacles Facing the Private Sector in Lebanon*, (Beirut: forthcoming).

¹⁵ See: World Bank, *World Development Report, The State in a Changing World*, (New York: 1997). Atallah also compares his poll with the Institutional Country Risk Guide for the Middle East prepared by the Economic Research Forum in Cairo. This project included an index on corruption for the region based on individual researcher’s personal assessments. (For more details see below). One could object that comparing Lebanese businessmen’s perceptions on corruption with their counterparts elsewhere in the Middle East does not necessarily reflect the greater incidence of corruption in Lebanon but rather the greater freedom to talk about these issues than in other, mainly authoritarian countries in the region.

government will implement its declared policies), thereby scoring considerably worse than their counterparts in the Middle East at large and Latin America. More specifically, 62 percent of the firms admitted paying bribes to public servants, compared to 35 percent of their counterparts in other Middle Eastern countries. Of these entrepreneurs, 60 percent feared that, once they had resorted to bribing, they would be asked by officials for more money. Finally, when the firms were asked to rank various obstacles to the growth and future operations of their business, corruption scored highest.

In the Autumn of 1996, the daily *An-Nahar* commissioned Statistics Lebanon Limited, a Lebanese research bureau, to conduct a poll on “the causes of and remedies for corruption” by drawing a sample of 600 Lebanese adults representative in terms of income, gender, region, and confession.¹⁶ The results are congruent with the polls discussed earlier. Asked whether the respondent had personally witnessed any form of corruption when dealing with the public administration over the past six months, 62 percent answered affirmatively. When asked about the responsibility for corruption in general, 77 percent held “ministers” directly responsible, as contrasted to other factors or groups including “the war”, “public servants” and “the citizens”. Another 39 percent of respondents blamed corruption in particular on “the appointment of former party- and militia-leaders as ministers and their tendency to shelter supporters in their ministries”, while 38 percent thought so too but “less strongly” (*naw'an*). Of the respondents 77 percent thought that “corruption had increased under the former government” (the Hariri-government II, May 1995-October 1996) while only 17 percent believed that the next government (Hariri III, dissolved in December 1998) would in this respect improve its record.

Another way to assess perceptions of corruption is by looking at ‘authoritative opinions’, for example perceptions held by those whose daily task consists of auditing and inspecting the public administration. The periodical reports by the Central Inspection Board (*Ha'iyat at-Taftish al-Markazi*) and the Court of Accounts (*Diwan al-Muhasaba*) consistently passed devastating judgements on the extent of corruption in general.¹⁷ Both auditing institutions repeatedly listed problems related to widespread petty corruption among state officials, rigged tendering, and the ‘squander’ (*hadr*) of public resources. Such “widespread administrative deviation”, argued the

¹⁶ See: *An-Nahar*, 25 October 1996.

¹⁷ See in particular: Court of Accounts, “At-Taqrir as-Sanawi ‘an ‘am 1998”, in: *Al-Jarida ar-Rasmiya*, Appendix 29, 25 June 1999; Central Inspection Board, “Taqrir Ra'is Ha'iyat at-Taftish al-Markazi ‘an ‘Amal Ajhizat at-Taftish al-Markazi fi khilal al-'Am 1993”, in: *al-Jarida ar-Rasmiya*, Mulhaq kha'ss No 30, 28 June 1994; Central Inspection Board, *Taqrir Ra'is at-Taftish al-Markazi ‘an ‘Amal at-Taftish al-Markazi khilal al-'Amayn 1996/1997*, (Beirut, 25 July 1998).

Board's president Fawzi Hubaysh, proves there is "a strong desire among civil servants to gain wealth, prestige and power".¹⁸ The Board also pointed out that would it not have been for its little resources and authorities, the number of public employees caught and penalised for corruption would be much higher.

An 'authoritative opinion' has also been expressed by researchers of the Cairo-based Economic Research Forum (ERF).¹⁹ Their assessment of corruption in Lebanon -and elsewhere in the region- is based on various evaluations compiled by international 'country-risk' agencies and research groups like Political Risk Services and the Economist Intelligence Unit. Although this methodology suffers from certain weaknesses (e.g. what exactly can a desk-bound researcher based in London tell us about corruption in Lebanon?), the ERF study may be carefully considered as an 'inter-subjective' assessment among 'experts'. Accordingly, the ERF found that on a scale of 0 (lowest corruption) to 10 (highest corruption), Lebanon scored 8 in 1992, falling back to 4 in 1995, but then increasing to the worst possible level (10) in 1998 (in line with Columbia but ahead of Indonesia and all other countries in the Middle East and North Africa). The ERF study also suggested that corruption levels in Lebanon were rising faster than anywhere else in the world.

- *The Costs of Corruption*

Even when some economists still contend that corruption has some beneficial effects on the economy (e.g. by greasing the wheels of stifling bureaucracy), most researchers on the topic now argue to the contrary. That corruption has its economic and financial costs, seems also readily proven by post-war Lebanon. As shown above, Atallah already pointed at entrepreneurs' perceptions in this respect, indicating that corruption depletes their resources (and time) which they would otherwise have invested productively. The highly publicized walk-out by some foreign investors who faced high levels of red tape and corruption seems to underline the same point.²⁰ However, measuring the exact financial costs of corruption is a difficult if not impossible task. Perhaps for this reason, there exist few such estimates.

In the study by Information International cited above, reference is made to a so-called

¹⁸ Cited in: *An-Nahar*, 1 August 1995.

¹⁹ See: Economic Research Forum, *Economic Trends in the MENA Region*, (Cairo: 1998); *The Daily Star*, 8 September 1998.

²⁰ For example, in 1998, Habtoor, a large investor from the United Arab Emirates, pulled out of Lebanon due to a "discouraging investment climate" and "red tape". See: *The Daily Star*, 11 March 1998.

Corruption Measurement Indicator (CMI).²¹ Based on assessments of the costs of corruption in a limited set of state activities, it computed a total cost of US\$ 317m per year, i.e. roughly two percent of GDP. Perhaps a more accurate but still rather shaky estimate is based on the assumption that particularly public capital expenditures -mostly spent on reconstruction projects- are prone to 'commissions', bribes, and other forms of 'waste' favoring private contractors overcharging the state. According to Marwan Barakat, head of research of the prominent and otherwise circumspect Bank Audi in Beirut, such corrupt payments fluctuate around 20 percent of total contract value.²² All other variables kept equal, one could thus argue that 20 percent of the nearly US\$ 5.4bln spent by the Council for Development and Reconstruction (CDR)²³ between 1992-1999 has been 'wasted' accordingly, i.e. around US\$ 1.08bln. If we then accept that the CDR 'only' channelled 80 percent of *total* public capital expenditure,²⁴ we come to the astronomical amount of US\$ 1.35bln which would have been spent on bribes, commissions or inflated budgets. Obviously, this offers a far from reliable estimate as it is based on a rather impressionistic assessment of such individual commissions in the first place. But it is congruent with general perceptions of the high incidence of corruption.

- A Qualitative Assessment of Corruption

In the final analysis, corruption manifests itself not by perceptions or costs but by the detailed circumstances of its occurrence. In the period 1990-1999, many allegations over corruption cases have been raised in a wide range of sources: the media, a few books,²⁵ well-documented reports by NGOs, private consultancy agencies,²⁶ and the World Bank,²⁷ several reports prepared by some

²¹ The CMI simply lumps together some corrupt practices perceived as particularly draining state resources, including income tax evasion, illegal exploitation of coastal resorts, car registry bribery, and bribery for telephone connections. Apart from the obvious objection that these practices certainly fail to cover Lebanon's entire spectrum of corrupt practices, it should also be noted that the 'costs' computed per "indicator" are based on extremely dubious sources, including unnamed 'experts', or are not backed up at all.

²² Interview with Marwan Barakat, head of research at Audi Bank, in Beirut, 15 June 1999. Barakat's percentage estimate of commissions is more conservative than what the Lebanese population at large perceives businessmen to pay. See: Information International, *Op.Cit.*, p. 72.

²³ Republic of Lebanon, Council for Development and Reconstruction, *Progress Report*, (Beirut: March 1999), p. 75.

²⁴ Figure mentioned by Wafa Sharaf ad-Din, CDR spokesperson, in a talk held at the American University in Beirut (Centre for Behavioral Research), 8 December 1998. The expenditures referred to exclude payments on public sector salaries and debt servicing.

²⁵ See: Wakim, N., *al-Ayadi al-Sud*, (Beirut: 1998); Shams al-Din, M.I., *Mugharat al-'Imar, bi al-Haqa'iq wa al-Arqaq*, (Beirut: 1999); Naba, R., *Rafic Hariri, Un homme d'affaires premier ministre*, (Paris: 1999).

²⁶ Such reports deal mainly (directly or indirectly) with alleged corruption cases concerning environmental issues. See for example: Hamdan, F. (Greenpeace Mediterranean), *Waste Trade in the Mediterranean. Toxic Attack against Lebanon. Case One: Toxics from Italy*, (Malta: August 1996); Dar al-Handasah, *A Nation-Wide Study of Quarries*, (Beirut: January 1996), Volume I & II.

²⁷ See: Kimberley, P., *Trade Efficiency for Lebanon, Debrief on the World Bank Funded Project*, (Beirut: 3 May 1999);

ministries, the state's auditing and inspection agencies, attorneys and, albeit to a lesser extent, the judiciary. The most important alleged corruption cases are listed in the appendix. A few remarks are in order. Firstly, it can not be overemphasized that, at this stage and in this format, all these allegations are just that; *allegations*. We have been able to some extent to scrutinise them on internal consistency and cross-checked them with other sources, interviews and documents, but these accusations -which mostly received coverage in the press- remain to be proven in court (which, in turn, highlights the importance of judiciary independence discussed elsewhere in this volume). Secondly, we have strictly applied our definition of political corruption given above. This means that some 'corruption' allegations are not included. For example, Wakim's interpretation of Solidere's offering of shares to foreigners as a sale-out of the Beirut Business District (BCD) to "the Jews" may or may not be a legitimate concern, but it does not equal 'corruption' as Wakim seems to believe.²⁸ Moreover, when allegations over corruption failed to provide any details or references to documentation, we also decided not to include them in the table. Finally, some attentive observers of Lebanese politics may have noticed that some allegations which were detailed and documented have not been included. As we noted in our observations on the draw-backs of qualitative research on corruption, this may simply be by omission. But in some cases, like alleged bribery in granting a contract for the rehabilitation of Radio Great Lebanon,²⁹ our analysis of provided documentation made us believe that these allegations were too hastily made or contradicted by the 'facts' on which they were said to be based. In order to demonstrate how corruption allegedly 'worked' in practice, we only have space here to give two examples and then even in a very condensed format: The case of Solidere and a contract granted by the Port of Beirut to a private company to clear the port of shipwrecks and debris.

Case study 1: Alleged Corruption & the BCD

The establishment and operations of a stock-holding Real Estate Company (REC), later named Solidere, for the rebuilding of the BCD has been surrounded by allegations over corruption.³⁰ The

World Bank, *Staff Appraisal Report Lebanese Republic National Roads Project*, (World Bank, Washington: 13 June 1996).

²⁸ See: Wakim, *Op. Cit.*, pp. 148 ff.

²⁹ For Wakim's allegations on the contract for Radio Great Lebanon, see: Wakim, N., *Op. Cit.*, p. 100; *An-Nahar*, 13 November 1998 & 20 November 1998; *The Daily Star*, 13 November 1998 & 20 November 1998. For details on the tender, see: Republic of Lebanon Ministry of Information, *Al-Muqarana al-Maliya li-al-'Urud al-Muqadima min as-Shirkayat li-al-Idha'at Lubnan al-Kubra*, (Beirut: 1996); *An-Nahar*, 24 May 1996.

³⁰ For a general discussion of the REC, Solidere, and the rationales of privatizing the reconstruction of the BCD see: Kabbani, O., *The Reconstruction of Beirut*, (Oxford: September 1992); Khalaf, S. & Khoury, P.S. (eds), *Recovering*

accusations include the bribery of Mps to pass Law 117 (7 December 1991) that made the project possible³¹, granting exceptions to well-positioned politicians from strict regulations on self-recuperation of their properties,³² and the undervaluation of property rights held among the 120 thousand original owners and tenants which were transferred to the REC.³³ Curiously, much less publicity was given to another transaction - the 'privatization' of public infrastructural works to Solidere- which was at the core of the entire scheme. In accordance with Law 117, Solidere reached an agreement with the CDR and the Council of Ministers in September 1994 to finance and carry out infrastructural works at an estimated cost of US\$ 475m.³⁴ The state would "compensate" the company in kind by granting Solidere the right to own and exploit half of reclaimed land gained from a landfill in the BCD and an additional surface of publicly owned land in the area. In addition, Solidere was exempted from paying any taxes for a period of ten years. The extent into which the deal between the state and Solidere can be considered as 'fair' to both sides is, of course, an extremely complicated question, foremost because the expected gains from the landfill and additional surface in the BCD granted to *Solidere* could in 1994 only be estimated. However, it is now possible to roughly assess into what extent the privileges granted to the company weighed up against the services provided. According to Solidere's own calculations, the revenues generated from the landfill will be roughly US\$ 900m.³⁵ For the additional surface acquired in the traditional BCD, revenues will amount to US\$ 237m.³⁶ Both amounts add up to US\$ 1.137bln in revenues.³⁷ Thus, even when the company's "compensation" is assumed to allow for profits (Law 117 does not make that clear), the profit-margin on the entire operation can still be said to have been huge; nearly

Beirut: Urban Design and Post-War Reconstruction, (Leiden: 1993); Corm, G., *al-'imar wa al-Maslaha al-'ama*, (Beirut: 1996); Schmid, H., "Solidere, das Globale Projekt: Wiederaufbau im Beirut-Stadtzentrum", in: *INAMO, Berichte & Analysen sur Politik und Gesellschaft des Nahen und Mittleren Ostens*, No 20, Winter 1999.

³¹ See: Wakim's allegations in a letter to *An-Nahar*, 13 December 1994; Wakim, N., *Op. Cit.*, pp. 130-137, 145-152; Naba, R., *Op. Cit.*, p. 42. Both Solidere and Hariri (through Fu'ad Siniora) strongly denied the allegations. See: *An-Nahar*, 15 & 21 December 1994.

³² See: Eddeh, H., *Le Liban d'ou je viens*, (Paris: 1997), pp. 236 ff.; *Al-Anwar*, 8 January 1993.

³³ See: *Al-Baqan*, October 1995; letter by Beirut-attorney Muhammad al-Mughrabi, *Li-Janib Majlis al-Qada' al-'Ali*, 18 October 1995.

³⁴ See: Solidere, *Annual Report*, (Beirut: 1995), p. 23.

³⁵ 300 thousand square meters (i.e. half of the landfill's total surface) x 3 (i.e. the average number of floors per square meter) x US\$ 1,000 (expected sales price per square metre based on average current prices) = US\$ 900m. Figures provided by Munir Dwayde, head of corporate finance at Solidere, in an interview in Beirut, 9 October 2000.

³⁶ 79 thousand square metres (total surface) x 3 (the average number of floors per square metre) x US\$1,000 (expected sales price per square metre based on average current prices) = US\$ 237m.

³⁷ It may be argued that actual profits will be somewhat less, given the costs incurred on Solidere by having to finance the period bridging the payment of contractors on the one hand and revenue inflows on the other (for the landfill, for example, selling will only begin from 2005). Such costs, however, are unlikely to weigh up against the profit margin on the project. Moreover, Solidere could temporarily lease land (as it has done) before it is sold and gain additional revenues as to exceed

140 percent.

Solidere's defence is unconvincing, to put it mildly. According to the company's finance department, the real costs of Solidere's operations carried out on behalf of the state amounted to US\$ 900m (i.e., far more than the US\$ 475m budgeted).³⁸ The company's profits therefore would not exceed US\$ 237m. Apart from the question whether such amount of profits can be said to be 'fair', this reasoning seems flawed, for two reasons. Firstly, the original agreement between the company and the state stipulated that "Solidere undertook to implement at its own expense and responsibility the [...] works *whatever their actual costs* [...]".³⁹ Secondly, the company's finance department includes the costs incurred by the eviction of 'squatters' from the BCD (US\$ 250m) in its calculation of total expenses made on "infrastructure works". This makes no sense as neither Law 117 or the bilateral agreement of September 1994 considered such expenses to be part of the costs incurred by the company's "infrastructure works".⁴⁰ The fundamental flaw in the state's delegation of public works to Solidere therefore comes down to a serious mismatch between the value of infrastructural works carried out and the estimated revenues the company was expected to generate from both the landfill and the acquired land in the BCD. Obviously, this went directly at the expense of public resources the state held in kind. Solidere's head of corporate finance argues that at the time of the agreement struck in 1994 such estimate was not even made and that the deal was simply concluded in good faith. But as will be shown below, there is a thin line between 'good faith' and serious conflicts of interest.

Case study 2: Alleged Corruption and the Port of Beirut

A second example concerns a contract granted by the *Commission d'exploitation et de gestion du Port de Beyrouth* to a British joint venture, between SAR Marine General and Mowlem International Ltd (Sar-Mowlem) to clear the Port's waters of sunken vessels, debris and explosives left behind during the war. Following a highly competitive tender, the contract was granted in May

the sum mentioned here.

³⁸ Interview with Munir Dwayde in Beirut, 9 October 2000.

³⁹ Solidere, *Op. Cit.*, p. 23. (Italics added).

⁴⁰ The 1994 agreement explicitly mentions a whole range of "infrastructure works" but does not refer to costs incurred by the evictions. See: *Ibid.* The eviction of 'squatters' from the BCD was organized via a compensation scheme implemented by the Fund for the Displaced and financed by Solidere. According to the Fund itself and many press reports, claims for compensation were inflated or handed in by fictitious families. Such practices especially occurred in Wadi Abu Jamil, earning it the nickname 'Wadi ad-dhahab' (valley of gold). See: Eddeh, *Op. Cit.*, pp. 247 ff; *An-Nahar*, 26 October 1994, 12 November 1994, 5 May 1995; *Al-Liwa'*, 20 October 1994.

1996 for a value of US\$4.385m, later renegotiated to US\$ 4,7m to cover additional works.⁴¹ The works commenced in December that year.

In October 1997, the port's director-general Muhib Itani suddenly stopped all payments. This was at a time that 105 vessels had been removed and works on the removal of the last shipwreck, 'the Ba'albak', had nearly completed. Itani argued that the company had violated the contract by failing to meet its deadlines. He ordered its employees to leave the port immediately. After the company's refusal to give in to Itani's orders, the latter sent in the Civil Port Guard to seize the company's vessels and equipment. When the crew of Sar-Mowlem still refused to leave, their equipment was taken away and the port's guards fired with water canons at the company's vessels, even provoking the company's crew to send a 'Mayday' broadcasted from their board radio. In what increasingly looked like a siege, Sar-Mowlem called for assistance from the Court for Summary Proceedings (*Mahkamat al'Umur al-Musta'jala*) that immediately sent an investigator to observe the situation in the port. The latter issued his report on 21 April 1998, confirming that the company had removed all 105 shipwrecks except for some remaining parts of the Ba'albak.⁴² Subsequently, the Civil Court (*an-Niyaba al-'Ama*) sent an official to recover the 'stolen' equipment, but he was refused entry to the site by the port's guards. Orders by the court to hand over the company's equipment were similarly ignored. Backed by public statements of Minister of Transport 'Umar Misqawi accusing the company of "piracy", Itani kept blaming the company for violating the contract and "illegally occupying public property".⁴³ But even among high port officials, Itani's approach raised some eyebrows, especially when the director-general announced that he had arranged a new "tender" to complete the removal of the shipwrecks.⁴⁴ Itani instructed a Lebanese company, Arab-Express, owned by Harut Sufian, to remove "the Baalbak".⁴⁵ The terms of this 'tender' have been unclear, if it was held in the first place. Initially, Itani declared that Sufian would be paid between US\$ 250 thousand and US\$ 300 thousand to finish the work within 45 days.

⁴¹ Interview with Fadi Saqr Ruhana, lawyer for Sar-Mowlem, Beirut 1 June 1999; Republic of Lebanon, Gestion et exploitation du Port de Beyrouth, *Tender and Contract Documents for Port de Beyrouth Shipwrecks Removal*, (Beirut: 5 December 1996); Saqr, F.R., *Mudhakira Shamila Muqaddima min al-Madda'ia al-Shakhsiya ba'd Khatam al-Tahqiq al-'Ula*, (Beirut: 1999).

⁴² The report was prepared by an expert engineer, Khayr Allah, who was dispatched by the court: See: Saqr Ruhana, *Op. Cit.*, p. 11.

⁴³ See: *The Daily Star*, 27 April 1998.

⁴⁴ Sources at the port say this tender never took place and that the contract to Arab Express was awarded following a mutual agreement between the company and Itani. Interview with a high official at the port who requested his name to be withheld.

⁴⁵ See: *Ad-Diyar*, 29 April 1998.

But later it turned out that Sufian was awarded US\$ 1.4m to do the job.⁴⁶ According to Sar-Mowlem, the removal of the Ba'albak could not have cost much more than a few thousand dollars as it had nearly completed the work. This fed suspicions that the difference had been conveniently divided between Itani and Sufian. But even if the shipwreck had to be entirely removed, Sufian's reward would still have been excessive. Sar-Mowlem's contract had stipulated that the total costs for removing the entire wreck of the Ba'albak alone amounted to only US\$ 341,681.⁴⁷ Moreover, strong allegations were made that Itani enabled Sufian to use Sar-Mowlem's wire-cables to dispose of the wreckage off-shore, whilst Sufian claimed that the exceptionally strong cables had been salvaged from a sunken ship and therefore belonged to the port.⁴⁸ In the end, it took Arab Express more than nine months to remove the remaining parts of the Ba'albak. This time, however, the delay failed to provoke any protests from the Commission's director.

II. Explaining 'Opportunities'

We have seen in the above section that levels of political corruption -measured by perceptions, costs and documented allegations- have been considerable and likely witnessed a sharp increase in post-war Lebanon. According to the 'principal-agent' model referred to in the introduction, the answer to why this occurred should be sought in opportunity structures produced by administrative or bureaucratic environments. The dominance of this type of analysis is illustrated by the fact that the World Bank has made it into its official view on the causes of and remedies for corruption in the countries it operates.⁴⁹ Unsurprisingly, also the Office of the Minister of State for Administrative Reform (OMSAR), created in 1993 and boosted by World Bank funding in 1995,⁵⁰ made the 'principal-agent' model, which it rephrased as "a managerial perspective on corruption", into its official policy. OMSAR argues that "[b]ad management principles and systems create bureaucratic possibilities to corrupt".⁵¹ The causes of corruption are not so much laid in issues like individuals'

⁴⁶ See: Saqr, F.R., *Op. Cit.*, p. 15; *The Daily Star*, 13 January 1999.

⁴⁷ See: Republic of Lebanon, Gestion et exploitation du Port de Beyrouth, *Op. Cit.*, "Bill of Quantities".

⁴⁸ A Lebanese contractor who is familiar with the technical operations in removing the Ba'albak dismissed this version. He pointed out that the heavy-duty cables used in the operation could only have been those belonging to Sar-Mowlem because such cables are neither sold on the local market nor used by other contractors in Lebanon. See: *The Daily Star*, 13 January 1999.

⁴⁹ See: World Bank (1997), *Op. Cit.*, pp. 103 ff.

⁵⁰ In August 1995, the Lebanese government accepted a World Bank loan of US\$ 20m to undertake administrative reforms to be spearheaded by OMSAR. For the text of the agreement, see: *As-Safir*, 30 August 1995.

⁵¹ Republic of Lebanon, OMSAR, *A Managerial Perspective on the Problem of Corruption: Proposals of the Managerial Solution*, paper delivered at a workshop on "corruption and means of combating it", Beirut, November 1997. All following citations are taken from this paper. See also: OMSAR, *Muhasarat al-Fasad, li-Tanmiyat al-'idara*, (Beirut:

dishonesty, OMSAR contends, but in “managerial dysfunction which creates an administrative setting that is favorable to corruption”. Most of the variables that we grouped under ‘opportunities’ can be found in OMSAR’s discourse on corruption. Thus, OMSAR acknowledges high levels of discretionary powers in the Lebanese administration by emphasizing the lack of “simple and clear performance appraisal systems”. A low risk of ‘getting caught’ is similarly recognised as a problem in that the administration lacks “clear and connected accounting systems [which] allow [for] the early detection of fraud [and] conviction of the guilty”. Administrative loopholes and regulatory ambivalences are also given attention by OMSAR witnessed by its stated concern with “the vague allocation of duties to civil servants which opens the way for those to act irresponsibly while performing their jobs”. Furthermore, OMSAR notes opaque and intransparent management and control policies and systems which result into “loopholes and alternative mechanisms which foster and conceal corrupt practices”. Equipped with all these notions, OMSAR prepared a general assessment of “managerial” problems in the Lebanese state administration and put forward proposals to address these obstacles.⁵²

We could easily agree with the analysis by OMSAR -and by implication the World Bank- of Lebanon’s administrative structures and the ‘opportunities’ these produce to use public means to private ends. But a great deal of its appeal does not come from an interesting or penetrating explanation but from the fact that the approach equals a tautology: ‘Corruption occurs because individuals have the opportunity to be corrupt.’ Void of any analysis or explanation of historical, political, or socio-economic dimensions of the problem, the “managerial approach” has very little explanatory value indeed. This lacuna may be explained for its part by the World Bank’s limited mandate concerning all matters considered ‘political’ and OMSAR’s equally handcuffed mission of ‘administrative reform’.⁵³ Whilst enjoying the luxury of not having to comply to such restrictive agendas, we can and should therefore ask: Where do these ‘opportunities’ come from, how and why did they change, and which factors can be ultimately held responsible for creating them? Before trying to suggest some general answers to these questions, let us, by way of illustration, first

1998).

⁵² See: OMSAR, Institutional Development Unit, *Interim Strategy Report*, (Beirut: April 1997).

⁵³ The World Bank’s ‘depoliticized’ discourse on ‘good governance’ and corruption urged some political scientists to assert that such issues are indeed about politics. The absurdity of having to make such an obvious point says a great deal about the quality of the ‘good governance’ and corruption debate in the first place. See: Hawthorn, G., “How to Ask for Good Government”, in: *IDS Bulletin*, Vol 24, No 1, 1993. OMSAR’s reluctance to deal with the political aspects of ‘administrative reform’ is perhaps best illustrated by the fact that during our interviews with its staff-members, the tape-recorder had to be switched off every time the discussion became ‘too political’.

reconsider the institutional 'opportunities' in our first case-example of alleged corruption.

Case study 3: Building 'Public-Private' boundaries & the BCD

The 'opportunities' for corruption resulting from the REC scheme for rebuilding the centre of Beirut, the BCD, are highly complex and take us to the heart of the demarcation between 'public' and 'private' domains which is often taken for granted in neoclassical economic theory. Solidere was created to take charge of the reconstruction of the heavily destroyed BCD. The architects and proponents of the scheme alluded that the private company would this way remove two main obstacles that would have seriously delayed reconstruction or even have made such an undertaking entirely impossible. Firstly, the state was fiscally in no shape to take on yet another burden and finance the expropriation and rebuilding of real estate and infrastructure in the area. The private real estate company would circumvent this problem and take financial responsibility. Secondly, ownership in the BCD was so fragmented, that without a centralized initiative the rebuilding process would be unacceptably delayed or never come of the ground. As CDR-president Fadil Shalaq put it: "If we don't build the centre of the capital now, it will become like a wasteland with Dick, Tom and Harry (*bu'ra mal'iya bi-ma hab wa dab*) turning it into a political and social time bomb [...]"⁵⁴ A share-holding company with an efficient and firm management would overcome this problem of collective action and spurt the BCD into the global economy of the 21st century. At first sight, then, the project seemed somehow justified in the light of pressing fiscal and economic problems. However, closer inspection reveals how issues like accountability and a clear separation of public and private interests were readily sacrificed. This is particularly apparent from the ways the boundaries between public and private became messed up in a highly ambivalent framework.

The main institutional ambivalence evolved from the quasi-expropriation of the original owners and tenants of the BCD in favor of the private real estate company (REC). Law 117 stipulated that their property rights would be transferred to the REC after being evaluated by appraisal committees which would be especially established for this purpose. The original rights-holders would in compensation receive shares in the REC for a total value which equaled that of their property. The problem, however, was that neither the Constitution or Lebanese property law allow for private property to be expropriated *in favor of another private party*.⁵⁵ Such restriction, of course, has

⁵⁴ Interview with Fadil Shalaq in: *Al-Hayat*, 11 July 1991.

⁵⁵ The economic system, the Constitution reads, "guarantees [...] private property" which "is protected by law" and "no one can be expropriated except if such serves the public interest (*utilite publique*), in cases specified by law, and in return for a

been enshrined in the Constitution for good reason as unlimited forms of expropriation could easily result in abuse of power, or the use of public office for private benefit. However, lawyers who subsequently expressed strong reservations against the scheme were countered by the advocates of the REC who first argued that the constitutional conditions for expropriation (*istimlak*) had been respected by the REC and then, curiously, proceeded by claiming that expropriation had not at all occurred. Accordingly, the REC's defence claimed that the scheme for the BCD was in the 'public interest' and that the original property-holders were granted a 'fair compensation'.⁵⁶ But, all the same, the original property-holders had not been 'expropriated' because they retained their rights via their shares in the REC and because they had been given a 'choice' to either join the REC or redevelop their properties themselves, i.e. the transfer of their properties to the REC had been 'voluntarily'. When we look at how the 'expropriation' was actually pushed through, each of these arguments can be separately refuted, thereby suggesting that the word 'expropriation' is indeed the appropriate word to describe the transaction concerned.⁵⁷ But even more striking is the clear

fair and prior compensation". (*Constitution Libanaise, Textes et Commentaires et Accord de Taef*, 21 September 1990, ed. B. Menassa (Beirut: 1995), Preamble F & Article 15). Accordingly, Lebanese property law specifies that ownership can be transferred in three ways: a) by voluntary transaction; b) by inheritance; and c) by expropriation by the state.

⁵⁶ As Fadil Shalaq pointed out: "The importance of reconstructing the BCD transcends that of the question of [private] property rights, knowing that [the project] will revitalise economic life in the whole of Lebanon." Cited in: *As-Safir*, 21 July 1991.

⁵⁷ Concerning the 'public interest' the REC allegedly served, one could legitimately wonder *who* is to define the public interest; Certainly not, as it turned out, a private real estate company. Concerning the alleged 'voluntary' nature of the property transfer, it is worth mentioning that: (1) The conditions for original owners to recuperate their properties

contradiction in the claim that whilst the REC had honoured legal stipulations concerning expropriation, the latter had not occurred. It is exactly here where the institutional ambivalence of the REC originates.

themselves were excessively demanding to the effect that this 'choice' was, in fact, merely hypothetical; (2) The specific terms of the 'voluntary' transference of property, i.e. the 'compensation' received, were sanctioned by 'judicial committees' enjoying powers that equalled those of a court of last instance (see below), thus rendering the transaction obligatory rather than voluntarily. Concerning the claim that the original owners retained their rights via their sharehold in the REC, it deserves pointing out that: (1) When original owners and tenants were faced by eviction, they had to immediately finance housing elsewhere. Lack of financial resources forced many to sell their shares, thereby losing the opportunity to gain from price increases from which they would have benefited if they had been able to stay; (2) Even when some original owners had been able to hold on to their shares, they had been outmanoeuvred in translating their sharehold in real influence in the REC's General Assembly as Solidere's statutory meeting (May 1994) was held *before* all original owners had been designated their share holds -and thus their votes- in the REC. Having a say in corporate policies was thus effectively restricted to the execution of aims that were determined beforehand and that were to be carried out according to given internal rules and under the management of a board most had been given no opportunity to vote for.

The ambiguities surrounding the 'expropriation' of the BCD's original owners should not only concern legalists trying to split hairs. A serious and very real consequence of Law 117 was the creation of institutions that fused 'public' and 'private' domains to the extent that a clear separation between the two no longer applied. For instance, Law 117 leaves the impression that the special appraisal committees should be considered as an integral part of the state or, more precisely, the judiciary.⁵⁸ Accordingly, Solidere consistently referred to the committees as "Judicial Appraisal Committees".⁵⁹ However, in response to a query submitted by Beirut-attorney Muhamad al-Mughrabi, the General Assembly of the Courts of Cassation (GACC), which looks into disciplinary matters within the judiciary, ruled on 21 February 1994 that the committees should not be seen as an integral part of the judiciary.⁶⁰ One may suspect that the judiciary became concerned that it was getting involved in sanctifying massive 'expropriations' in ways that did not exist under the law. But whatever the motives of the GACC may have been, its ruling begged an answer to a couple of questions of fundamental importance. First, if these evaluation committees had no judiciary powers, how could they issue "final" and binding decisions? Secondly, if these committees were not considered to be part of the judiciary, how could the judges on the evaluation committees legally perform their tasks, given the statutory provision that judges are strictly banned from taking up positions or carrying out tasks outside the judiciary, let alone the private sector, in order to avoid conflicts of interest? Only when details of a long and simmering conflict between the CDR and Solidere leaked to a real estate magazine in July 1999, it became clear that Solidere had pledged to pay for the fees received by the judges and other 'experts' on the appraisal committees.⁶¹ Thus, a private company with a direct financial interest in the outcome of these judges' evaluations had been expected to award a fee to numerous prominent judges for their extra-judicial consultations. In other words, these judges had been involved in a serious conflict of interests, or, as some critics put it more provocatively, their salaries were tantamount to bribes.⁶² Of course, not all judges on the

⁵⁸ Firstly, the committees were presided by "judges". Moreover, after the decisions reached by the "committees of first evaluation" were endorsed by "higher evaluation committees" (also staffed by judges), the decisions were considered to be "final and not subject to any remedies at law". This suggests that these committees were granted the effective powers of a court and that they were thus part of the judiciary.

⁵⁹ See for example, Solidere, *Op. Cit.* (1995), p. 16.

⁶⁰ The GACC argued that since it had played no part in forming these committees it did not have any authority or responsibility vis-a-vis the appraisal committees. See: *Li aj-Janib Majlis al-Qada' al-'Ali*, Letter by Muhamad al-Mughrabi to the Higher Council for Judges, Beirut, 9 October 1995.

⁶¹ The conflict emerged when the CDR complained that Solidere had not fulfilled its obligation to pay the fees and costs of the evaluation committees, reaching US\$ 3.3m as had apparently been agreed on. A court of first instance had ruled on 1 June 1999 that Solidere had to pay this sum plus interest per immediate. See: *Al-Bayan*, July 1999.

⁶² See: Muhamad al-Mughrabi cited in: *An-Nahar*, 16 October 1999; Wakim, N., *Op. Cit.*, p. 151

appraisal committees can be accused of actually having used the 'opportunities' arising from this institutional framework. But if allegations over the systematic undervaluation of the BCD's original owners' property rights can be substantiated, the above should certainly be taken into consideration.

Finally, the juggling of notions of 'public' and 'private' also affected the outsourcing of public infrastructure works to the REC. This is apparent from the institutional environment of the scheme that allowed for serious conflicts of (public-private) interest to occur. According to Law 117, the amount of 'compensation' that the REC would receive for carrying out the public infrastructure works as specified in a 'Master plan' would be determined in a contract between the company and the CDR. This US\$ 2.5m 'Master plan' (adopted in October 1992, subsequently amended and finally approved in September 1994) had been prepared by a private consultant and was entirely financed by Hariri, then still in his capacity as a Saudi-Lebanese philanthropist.⁶³ The amount of the 'compensation' for Solidere was determined in September 1994. The participants in the 'negotiations' that produced this "agreement" were: the Board of Directors of Solidere (in which Hariri was heavily represented as major shareholder), the president of the CDR Fadil Shalaq (who is a former director of Hariri's Oger-Lebanon), and Hariri himself in his capacity as prime-minister.⁶⁴ In the murky institutional environment of Lebanon's largest reconstruction project in history, Hariri had thus basically 'negotiated' the contract terms with himself. But also in the implementation of the public infrastructure works, 'public-private' boundaries were further fused as Solidere unilaterally imposed all kinds of changes to the 'Master plan' and began acting as the *de facto* city planner in the BCD, obviously at the expense of several state institutions that had been created for this purpose.⁶⁵

⁶³ According to the chief architect who worked on the 'Master Plan', Henry Eddeh, Hariri and his associates personally intervened to press for certain changes including the increase of the build-up area in the BCD to the effect of making the project more profitable for the REC. In protest, Eddeh resigned in October 1992. See: Eddeh, *Op. Cit.*, pp. 236 ff.

⁶⁴ The prime-minister publicly declared that he subscribed to US\$ 125m in shares (about seven percent of Solidere's total capital). Hariri's formal representative on Solidere's 12-members' Board of Directors was Chairman and General Manager Nasir as-Sham'a (formerly head of Operations and Maintenance at Hariri's Oger company in Saudi Arabia). Other members on the board were either very close or sympathetic to Hariri: Sami' Nahas (he worked as a lawyer for Hariri), Basil Yarid (who is a manager with Groupe Mediterranee in which Hariri has a majority sharehold), Muhamad Ghaziri (technical advisor to Hariri and later minister of Post and Telecommunications), and three Saudi share-owners with whom Hariri established business relations during his stay in Saudi-Arabia. (See: *As-Safir*, 30 December 1992; *Al-Anwar*, 8 January 1993; *Al-Hayat*, 20 July 1993). Shalaq was appointed head of the CDR in June 1991. He had been director of Hariri's company Oger in Lebanon and board-member of the private charity 'the Hariri Foundation'. When Hariri was asked about allegations that many of his former employees were filling key positions while still taking salaries from him (a clear reference to CDR personnel), he merely replied by threatening to withdraw them from the public service. (See: *Al-Hayat*, 10 August 1998).

⁶⁵ Relevant state institutions that were side-tracked by Solidere include the Municipality of Beirut, the Higher Council for Urban Planning (*Majlis al-'Ula li-at-Tanzim al-Madani*), and the General Directorate for Urban Affairs. For details see: Rayes, C., "Voyage au bout de Solidere", in: *L'Orient Express*, November 1996. To its own admittance, the CDR has limited its role in the REC scheme to its early phase, leaving the infrastructure works to "the province of Solidere". See:

Lastly, no mechanisms were put in place to verify how Solidere had spent the public resources that 'compensated' for its works. In fact, the company had even been exempted from the financial auditing requirements imposed on all other private companies in Lebanon.

Clearly, it takes a lot of detailed analysis to track-down the exact institutional 'opportunities' for corruption, especially when it is realised that such baroque-shaped institutional frameworks show wide variations in each case. A common theme, however, is that in post-war Lebanon 'opportunities' for corruption arose because of the reluctance or inability to draw and consolidate a clear and unambiguous demarcation between 'public' and 'private' domains.⁶⁶ In our second case-study of alleged corruption, the Port of Beirut, high levels of 'opportunities' for using public means to private ends are strongly correlated with the fact that no legal entity has been created to run and manage the Port after it was transferred back to the state with the expiry of a private concession on 31 December 1990. The Commission that *provisionally* operated the Port was only meant to be 'temporary', awaiting a decision on the Port's final institutional status ('public', 'private' or 'mixed') that, ten years later, still has to be taken. As one journalist aptly described it, the Port became "the illegitimate son of the state".⁶⁷ This institutional formula -or lack thereof- had serious implications in terms of auditing, financial autonomy, appointment policies, and the distribution of authorities among relevant state institutions and ministries; all creating opportunities for corruption. Other institutions allegedly prone to corruption, like in the case of the Oil Ministry, were similarly marked by fluid or blurred boundaries between 'public' and 'private' spheres, albeit in again other ways. Here a *general* demarcation between 'public' and 'private' exists, at least nominally, but failed to be consolidated. The institutional mechanisms to specify and regulate the relations between the two domains have been left un- or ill-defined, were ambiguous, or lacked means of enforcement. Thus, opportunities for corruption arose when the state's claim to be the sole importer of oil failed to be effectuated and a "Specialised Agency" (*al-ajhiza al-mutakhissa*) to this effect never came of the

Republic of Lebanon, Council for Development and Reconstruction, *Progress Report*, (Beirut: August 1995), p. 66.

⁶⁶ We detailed more examples of such institutional 'blurredness' in articles (to be) published elsewhere. See: Leenders, R., "The Politics of Privatization in Post-War Lebanon: Studying 'Modes of Conflict' and 'Stateness' in Understanding Institutional Outcomes", in: Heydemann, S. (ed), *Economic Networks and the Politics of Fiscal Policy Reform in the Middle East*, (Florence/Columbia: forthcoming); "In Search of the State: The Politics of Corruption in Post-War Lebanon", in: Kienle, E. & Khawaga, D. (eds), *Political and Economic Liberalization in the Arab Mediterranean*, (London/Cairo: forthcoming); "Auf der Suche nach dem Staat: Korruption im Libanon", in: *Inamo, Berichte & Analysen sur Politik und Gesellschaft des Nahen und Mittleren Ostens*, Vol 5, No 20, Winter 1999.

⁶⁷ *Ad-Diyar*, 16 December 1997.

ground.⁶⁸ Again, matters were 'organised' provisionally with the Ministry of Oil granting import licences to private companies at will and lacking an institutional framework to define clear criteria for such licensing, set up effective auditing procedures, and unambiguously formulate rights and duties of all the parties involved. In conclusion, the 'opportunity' structures alluded to by the World Bank and OMSAR touch upon a fundamental aspect of institution- or state-building; the establishment of an order wherein a 'public' and 'private' sphere appear to stand apart from each other, in the sense of a binary opposition enabling, guiding and limiting political and economic practice.⁶⁹ In post-war Lebanon very little has been achieved in drawing and/or consolidating this binary opposition, thereby defying neoliberal discourses on 'the state' and 'the market' as conveniently distinct aggregates. Hence, constellations of 'public' and 'private' are far from 'givens'; They are political to the core and should be analysed in terms of the ways in which power and conflicts have marked Lebanon's 'Second Republic'.

⁶⁸ For details see: Mudawwar, A., *Dalil Qita' An-Naft fi Lubnan*, (Beirut: 1996), pp. 29 ff.

⁶⁹ Several political theorists emphasized the importance of and difficulties in grasping the 'grand dichotomy' of 'public/private' in order to conceptualize the state in various settings. See among others: Weintraub, J. & Kumar, K. (eds), *Public and Private in Thought and Practice, Perspectives on a Grand Dichotomy*, (Chicago/London: 1997); Mitchell, T., "The Limits of the State: Beyond Statist Approaches and Their Critics", in: *American Political Science Review*, Vol 85, March 1991; Mitchell, T. & Owen, R., "Defining the State in the Middle East", in: *MESA Bulletin*, Vol 25, 1991; Hibou, B. "De la privatisation des économies à la privatisation des états", in: Hibou, B. (ed), *La privatisation des états*, (Paris: 1999).

III. Conflicts, Power and State Building

Lebanon's post-war experience of state building has been riddled with fierce conflicts over where and how 'public-private' boundaries should be drawn and enforced. In most of the cases under study, the result was a high degree of ambivalence, 'temporary' stopgaps, improvisation, or the lack of an institutional framework altogether. Plenty of examples can be given.

In the Port of Beirut, the expiry of a private concession urged for the formulation of an alternative status and accompanying institutional framework. But sharp disagreements over this institution's status as either a utility (partly or fully) run and managed by the public sector or as a company enjoying a private concession rendered its institutional environment highly ambiguous. Initially, conflicts centred around the former chief of the Lebanese Forces (LF) militia and now Minister of State Elie Hubayqa who supported demands by the private shareholders of the Port Company to extend the concession. This triggered off demands by other former militia-leaders to get 'their' ports legalised too. When both scenarios were ruled out, the battle shifted to another level with the Minister of Electricity and Water Resources and the Minister of State for Transport each claiming authority over the Port. Meanwhile, a 'temporary' Commission was put in place staffed by appointees of all political currents, including Prime-Minister Hariri, President Hrawi and Speaker of Parliament Nabih Berri. As in many other institutions, the Port's daily operations thus began to be run by a 'mini-Troika'. But the conflict was far from over. Now Hariri's rivals frantically opposed plans to privatise the port, either partially or fully. Following numerous intrigues and recurring conflicts, the result was complete deadlock and paralysis of the port administration.

A similar scenario unfolded in the case of Middle East Airlines (MEA) and its major shareholder, the quasi-state owned Intra Investment Company. With his full control over Intra, Berri clearly hoped to dominate MEA. However, privatization plans backed by Hariri (who favoured a merger with privatised cargo-carrier Trans Mediterranean Airlines), spoiled Berri's quest to gain control over MEA. The conflict simmered on until 1997 when, urged by MEA's financial dire straits, the Central Bank stepped in and became the airline's largest share-owner. Berri was this way side-tracked but no institutional framework had been put in place to effectuate the new ownership structure. Unnecessary to say, the Central Bank does not exactly qualify as a suitable investor in aviation either; a role that clearly contradicts its limited mandate and independent status. The oil sector also witnessed fierce intra-elite conflicts with various politicians holding a direct stake in the private importing business. Consequently, their rivalries obstructed attempts to subject their activities to more stringent controls. A plan to formally privatise oil supplies via a BOT contract to

operate the country's defunct refineries, put forward by Hariri, was also here defeated. Continuing political jealousies prevented an institutional alternative from emerging. In the quarrying sector, coherent and unambiguous regulation -called for by environmentalists- failed to be taken up with ministers and MPs (some of them having direct interests in the business) falling over each other to demand 'their' share allocated in a 'Master Plan' prepared by private consultant Dar al-Handasah. Again, the result was muddling through with no clear-cut decisions taken.

The case of the REC and Solidere represents a special variation on the general theme of institutional ambivalence originating in intra-elite conflicts. Here institutions were deliberately designed to put the state administration on hold and facilitate a high degree of 'insulation' from the political arena -and its intra-elite conflicts. But the outcomes were very similar to our other cases: extreme fuzzy institutional boundaries, ambivalence and conflicts of interest. No wonder that opponents to the scheme considered the REC formula as "yet another lost chance in building a state of institutions".⁷⁰ Thus also here one could argue that intra-elite conflicts -or the anticipation thereof- shaped and complicated the demarcation between 'public' and 'private' domains. A corresponding argument applies to other such 'insulated' institutions, including the CDR and the Investment Development Authority (IDAL) which similarly juggled with the crucial notions of 'public' and 'private' on the pretext of serving thinly spread virtues such as 'efficiency' and result-oriented management. Here, too, high levels of discretionary powers and lack of adequate auditing mechanisms characterised administrative operations involving the spending of millions of dollars.⁷¹

With our proposition that the qualities of institutional boundaries are ultimately determined by fierce and unsettled rivalries among elites, we have come to the more familiar but unresolved question of the exact nature and stakes of Lebanon's (post-war) conflicts. Even a tentative answer to this question would require an essay in itself and will therefore be largely left to other contributors to this volume, mainly to those writing on 'politics, society and confessionality'. However, a few observations which are directly relevant to our enquiry should be made. In any society, the creation

⁷⁰ Tawfiq Shambur in: *An-Nahar*, 21 September 1991.

⁷¹ The CDR argued that state auditing of its operations was unnecessary as international donors and other sources of capital already carried out such controls. See: Interview with Fadil Shalaq in: *An-Nahar*, 18 October 1994; Interview with Nabil al-Jisr in: *As-Safir*, 30 October 1995. Even if it is accepted that auditing by foreign agencies can substitute for state auditing (and very few governments would accept this), this argument is only partly valid: Of the US\$ 5,4bln the CDR spent between 1992 and 1999, only US\$ 2,2 bln was financed by foreign sources. Hence, US\$ 3,2bln, mainly raised by issuing treasury bonds, were spent without any auditing, either by foreign agencies or by the state. See: Republic of Lebanon, Council for Development and Reconstruction, *Progress Report*, (Beirut: March 1999), p. 75.

of institutions and the demarcation between 'public' and 'private' are contentious issues. As the late 'institutionalist-economist' Douglass North explained: "Political institutions constitute ex ante agreements about cooperation among politicians".⁷² But as North also pointed out, institutions, and particularly those that are enshrined in a clear separation between 'public' and 'private' domains, often tend to outlive the agreements that created them. Of course, institutions change or become redundant, but mostly very slowly so and only after many conflicts and failed attempts to reform or get rid of them have been raised. In this sense, institutions - 'desirable' and 'undesirable' ones- can in general be said to be conservative or 'sticky'. In a fragmented society like that of Lebanon, these characteristics make institution-building particularly difficult to achieve because a highly heterogeneous group of elites fails to produce this 'ex ante agreement' every time when institutional frameworks have to be reshaped or specified, or when a new layer is added to the state. Furthermore, because institutions are so 'sticky', the very process of creating them risks solidifying the political clout of one's opponents on a quasi-permanent basis. Hence, Lebanese elites' preference for 'provisional' and 'temporary' arrangements in which there is less at stake and less to lose. Secondly, Lebanon's fragmentation of political elites has clearly increased following the war. Prior to the war, relations between the country's mainly confessional elites or *zu'ama* were far from harmonious. The pre-war *zu'ama* certainly failed to produce a stable political order, and they were already challenged from all sorts of directions, domestically and externally. But, as Hanf contends, their "forceful pursuit of the interests of their respective communities" [and of themselves, we should add], was mostly "coupled with a willingness to make concessions in the interest of compromise".⁷³ Following and partly because of the war, Lebanon's matrix of power resources has radically changed resulting in the extreme fragmentation of the political elite. The *zu'ama* have been on the wane but are still a force to be reckoned with,⁷⁴ former militia-leaders and party bosses have worked themselves up to lead ministries and chair Parliament,⁷⁵ other elites emerged solely by their

⁷² North, D.C., *Institutions, Institutional Change and Economic Performance*, (Cambridge: 1990), p. 50.

⁷³ Hanf, T., *Coexistence in Wartime Lebanon: Decline of a State and Rise of a Nation*, (London: 1993). A similar argument can be found in: El Khazen, F., *The Breakdown of the State in Lebanon 1967-1976*, (London: 2000). Johnson would probably largely agree too but emphasize the class-interests the *zu'ama* had in common to account for their relative consensual style of politics. See: Johnson, M., *Class & Client in Beirut, The Sunni Muslim Community and the Lebanese State 1840-1985*, (London: 1986).

⁷⁴ For details see: See: Bahout, J., "Les elites parlementaires Libanaises de 1996, Etude de composition", in: Bahout, J. a.o. (eds), *La Vie Publique au Liban, expressions et recompositions du politique*, (Beirut: 1997); El-Khazen, F., *Lebanon's First Postwar Parliamentary Election, 1992: An Imposed Choice*, (Oxford: 1998); Perthes, V., "Libanons Parlamentswahlen von 1996: die Akzeptanz des Faktischen", in: *Orient*, Vol 38 No 2, 1997. Kiwan, F., "Forces politiques nouvelles, systeme politique ancien", in: Kiwan, F. (ed), *Le liban aujourd'hui*, (Beirut/Paris: 1994).

⁷⁵ For details see: *Ibid*; Beyoghlou, K.A., "Lebanon's New Leaders: Militias in Politics", in: *Journal of South Asian and*

'virtue' of being "parachuted" by the Syrian government,⁷⁶ and a new 'expatriate' business-elite has converted its wealth into political power.⁷⁷ Finally, within this cacaphony, the odd 'technocrat' descending from 'Shihabist' times tried to get his voice heard too. Given this extreme splintering of its political elites, Lebanon emerges as the archetype of Migdal's unfortunate society "where conflict still exists over the framework of action".⁷⁸ More specifically, as we have seen in our discussion of state building in the post-war era, intra-elite discord rendered the state and its boundaries as its most prominent victims.

IV. Managing Fragmentation: 'Willingness' and Networks

Political elites and public servants do not necessarily put 'opportunities' for corruption to use. So where does the 'willingness' come from to grasp the occasions for corruption arising from ambivalent 'public-private' boundaries? When we asked this question to Lebanese intellectuals, policy-makers, journalists and entrepreneurs, we often received answers pointing at values and attitudes ingrained in Lebanese culture. Take, for example, the view of Elias al-Khury, journalist with *An-Nahar*, who emphasizes a "traditional" Lebanese mind-set dating back from Ottoman times and the *millet*-system.⁷⁹ The Ottoman state, Khury explains, collected taxes via intermediaries who pocketed part of the proceeds as their share of the cake. Such intermediaries, Khury added, were not only stealing from the people; they were expected to do so. Corruption thus emerges as the "continuation of the Ottoman exercise of power" in which the state "is generally expected to steal". Applying this argument to his own expertise on Lebanese literature, Khury observes:

This is why we don't have thrillers in our literature. To write a thriller, it takes at least a distinction between the police and the thief. But what if the police becomes the thief? Then the whole idea of a thriller becomes meaningless; it simply won't work. In the 1960s, An-Nahar's cultural supplement wrote out a competition inviting authors to write a thriller. Sure enough, the project was an utter disaster. Nobody won the prize.

Middle Eastern Studies, Vol XII, No 3, Spring 1989; Trabulsi, F., "At-Takawun at-Tabaqi li as-Sulta as-Siyasiya ba'd al-Harb", in: *Ab'ad*, no 6 May 1997; Picard, E., *The Demobilization of the Lebanese Militias*, (Oxford: October 1999).

⁷⁶ For details see: El-Khazen, F., "The Making and Unmaking of Lebanon's Political Elites from Independence to Taif", in: *The Beirut Review*, no. 6, Fall 1993; Maila, J., *The Document of National Understanding: A Commentary*, (Oxford: 1992), pp. 81-97; Maila, J., "Le Traite de fraternite: une analyse", in: *Les Cahiers de l'Orient*, No 24, 4th trimestre 1991; Perthes, V., *Der Libanon nach dem Buergerkrieg, Vom Ta'if zum gesellschaftlichen Konsens?*, (Ebenhausen: 1993), pp. 33-37.

⁷⁷ For details see: Bonne, E., *Vie publique, patronage et clientele: Rafic Hariri a Saida*, (Paris/Beirut: 1995); Naba, R., *Op. Cit.*

⁷⁸ Migdal, J., "The State in Society: Developing a State-in-Society Perspective", in: Migdal, J., Kohli, A., Sue, V. (eds), *State Power and Social Forces, Domination and Transformation in the Third World*, (Cambridge: 1994), fn.32, p. 32.

⁷⁹ Interview with Elias al-Khury in Beirut, 24 June 1999. Admittedly, Khuri added the lack of legitimacy of the Lebanese nation-state as a second reason for corruption. This would be more compatible with our approach.

For Khury, the willingness to engage in corrupt activities is thus grounded in prevailing attitudes towards statehood inherited from the Ottomans.⁸⁰ Others, however, would go even further back into history and suggest a link between corruption and Lebanon's legacy of having been a country of merchants and traders for centuries. Thus, for Dalia Shuqayr, former spokeswoman of OMSAR, the talent for "wheeling and dealing is in our blood," witnessing Lebanon's "chaotic system of trading ever since the Phoenicians".⁸¹ Michel Chiha's passionate defence of Lebanon's unique political economy of laissez-faire and merchandising is thus inverted by stressing the 'corrupt' mental disposition of its successful exponents. Hence, the Lebanese appreciation for 'cunningness' (*shatra*), to be 'smarter' than one's competitor, and 'crooks', instead of being arrested, becoming the object of admiration. Interestingly, others who do not share this 'Phoenician' view on the country's history, find a similar historical-cultural essence to corruption but in reference to 'traditional' Arab and/or 'Islamic' ways of doing things. The press, for instance, is full of such references, for example by denouncing alleged malpractices in the distribution of compensations to the 'squatters' of the BCD as "resembling an Arab *suf*" where cheating is apparently thought to be rampant.⁸² One Lebanese representative of a foreign company, to mention another example, was particularly fond of telling us how a minister expressed his exasperation when the latter's hints to facilitate a corrupt deal remained unanswered.⁸³ In a long and difficult meeting attended by himself and some non-Arabic speaking managers of the foreign company, the minister leaned with his elbow against the wall and began singing -in Arabic- a song by Umm Kalthum bemoaning the lack of response to a lover's overtures, much to the representative's embarrassment. Furthermore, Najah Wakim consistently describes Hariri in his book on corruption as "that Arab *Shaykh*" who justifies his alleged corrupt practices in reference to Islam and archaic 'Arab' customs.⁸⁴ However, all such variations aside, what culturalist views on corruption seem to have in common is a conviction that the willingness to

⁸⁰ Khury is not alone in believing this. In fact, in the Informational International poll discussed above, 45 percent of respondents traced corruption back to the Ottoman era. See: Informational International, *Op. Cit.*, p. 18.

⁸¹ Interview with Dalia Shuqayr in Beirut, 22 November 1998.

⁸² *An-Nahar*, 5 May 1995. Also note the reference to 'traditional' Arab culture in the title of Shams ad-Din's book on corruption: "the cave [of 'Ali Baba and the forty thieves] of reconstruction". See: Shams ad-Din, *Op. Cit.*

⁸³ Interview with a Lebanese entrepreneur who requested to his name to be withheld.

⁸⁴ For example, Wakim claims he confronted Hariri with his accusations that Mps had been bribed to pass Law 117. Wakim cites Hariri's answer in full: "God has blessed me with plenty of money and if the needy come to me to ask for help, shouldn't I give some to them?" When asked to identify the Mps who accepted money from him, Hariri allegedly replied by saying that "even the Prophet accepted presents". See: *An-Nahar*, 13 December 1994. Note that in Wakim's discourse, Hariri's 'Arabness' does not seem to (only) refer to *Lebanese* Arab culture but to Gulf Arabs. This enables Wakim to portray Hariri as alien to Lebanon's culture and at the same time present a self-criticism of adherence to such 'Arab'

engage in corruption should be explained by fundamental differences in moral dispositions of 'the' Lebanese and Westerners. The following remark by a Lebanese contractor may be less sophisticated than the views expressed above, but it captures this belief well. Being asked to elaborate on his view that most Lebanese are not averse to corruption, this contractor said:

*Let me give an example. Imagine a bathroom with the door locked and you're having a shower. Then suddenly you need to pee. What would you do? You people in Holland step out of the shower and pee in the toilet next to the bath tub because that's the proper thing to do. That's the way you were brought up. Not here. Here we piss straight in the bath.*⁸⁵

Explanations of corruption based on assumed 'cultural' or 'traditional' traits are not only proposed in Lebanon. In the social sciences, culturalist analyses of corruption are still considered, although less frequently so with the demise of 'modernization' theory at large.⁸⁶ We contend that most of these explanations, whilst sometimes containing a grain of truth, are exaggerated, often raise more questions than they answer, and are often misleading. Firstly, for our purposes, culturalists can not explain why corruption in post-war Lebanon has been on the rise. How can it be that the 'past' or 'tradition' suddenly weighs more heavily than before?⁸⁷ Moreover, how are some politicians apparently able to escape from Lebanon's cultural straightjacket by not being corrupt? Finally, if corruption is supposed to be socially acceptable as being an inherent part of 'tradition', what culture do those Lebanese represent who, for whatever reason, are genuinely disgusted by the phenomenon? Without intending to dismiss the cultural or moral disposition of corruption altogether, it is clear that our explanation of the 'willingness' to engage into corrupt activities needs a different starting-point.

Let us return to where we left our analysis of institution-building and intra-elite discord. The proposition that efficient and strong institutions under conditions of elite fragmentation failed to emerge, does not mean that 'political economy'- in the sense of the political struggle over the allocation and distribution of scarce resources- ends as there are no institutions to allocate resources

customs in Lebanon.

⁸⁵ Interview with Jihad Ibrahim, Beirut, 20 April 1999.

⁸⁶ See for example: Chabal, P. & Daloz, J.P., *Africa Works: Disorder as Political Instrument*, (Oxford/Bloomington: 1999).

⁸⁷ Interestingly, another 'cultural-ethical' approach to corruption would argue exactly the opposite: Corruption occurs because of the *demise* of 'traditional' values and attitudes. Consider for example the controversial book by Hubayqa's former bodyguard Robert Hatem ('Cobra'). In his expose, political corruption is mentioned in one breath with sexual perversion and subverting 'traditional' family-values. See: Hatem, R., *Lebanese Christian Blood Brokers*, (n.p.: 1999). The same logic was applied by some Lebanese media in their coverage of an alleged 'sex-drugs-corruption scandal' in 1996

authoritatively. Moreover, as we saw earlier, the effects of very loose or ambivalent boundaries between 'public' and 'private' may put into question the very autonomy of 'the state' as a separate entity. If the latter holds true, then the 'market' will be equally challenged in its autonomy. Thus, if 'the state' and 'the market' both lack the distance from each other that justifies treating them as distinct aggregates, we need another notion -different from 'the market'- to conceptualise the ways in which scarce resources are allocated and distributed. The notion of 'networks' can be considered as a strong candidate for such a conceptual alternative.⁸⁸ With Podolny and Page, we provisionally define a network "as any collection of actors ($n > 2$) that pursue repeated, enduring exchange relations with one another and, at the same time, lack a legitimate organizational authority to arbitrate and resolve disputes that may arise during the exchange".⁸⁹ In Lebanon's post-war institutional and structural environment of respectively blurred or unconsolidated 'public-private' boundaries and fragmented elites, networks have been used to both internally organise and position 'allies' and link up 'opponents' to partly substitute for, complement, and manipulate institutions. For example, Hariri pushed through and sustained his schemes for the BCD by counting on many individuals positioned in Solidere itself, the CDR, and the judiciary (see above), but also in the Municipality of Beirut, the Higher Council for Urban Planning, and the Ministry of Finance.⁹⁰ In this case, Hariri's network - also known as 'the bureau' - clearly functioned to enforce and sustain the BCD design, and suppress the contradictions arising from its institutional ambivalence. Other privatization schemes, such as the GSM contracts, have similarly been criticised for benefiting politicians and businessmen tightly linked up in networks.⁹¹ The use of networks has been so pervasive that political actors generally assume that their rivals already erected their networks in institutions that escape their full political control. For example, a long-serving official at the Port of Beirut critical of political intervention in his administration in general was approached by one minister close to Hariri and discretely asked which network he 'belonged' to.⁹² Apparently, within

involving (sons of) politicians and 'Miss Lebanon'. See: *Al-Afkar*, 15 July 1996.

⁸⁸ For an overview and critique of the analysis of 'networks' in mainly sociological and anthropological research see: Powell, W.W. & Smith-Doer, L., "Networks and Economic Life", in: Smelser, N. (ed), *Encyclopedia of Economic Sociology*, (Princeton: 1995).

⁸⁹ Podolny, J.M. & Page, K.L., "Network Forms of Organization", in: *Annual Review of Sociology*, Vol 24, 1998, p. 59.

⁹⁰ While the master plan for the BCD was drawn up, Mohamad Ghaziri (a close associate of Hariri) was appointed President of the Municipal Council of Beirut. Immediate relatives of the director of the Higher Council for Urban Planning were also said to have close relations to Hariri's private companies. See: Joseph Samaha in *Al-Hayat*, 20 July 1993; Kabbani, *Op. Cit.*, p. 22. In December 1994, it was Fu'ad Siniora (then Minister of State for Finance) who finally ordered the head of the Land Registry to transfer all properties in the BCD to Solidere.

⁹¹ Here networks are said to include Muhsin Dallul, Hariri and (relatives of) Syrian officials.

⁹² Interview with a high-ranking official at the *Commission de gestion et d'exploitation du Port de Beyrouth* who

the minister's perception of how institutions operate in general, this official's critical attitude could otherwise not make any sense.

Compared to institutions and their relative durability (see above), networks can be much easier altered, extended, scaled down, eliminated, and reconstituted; all depending on how elites perceive their utility in advancing their interests. In the words of one researcher, networks are in this sense "lighter on their feet".⁹³ Besides the negative traits this implies (like volatility), this is exactly why - under conditions of extreme elite fragmentation- networks are preferred above 'sticky' institutions. Obviously, much more research should be done on the exact workings and the effects of networks in post-war Lebanon to fully appreciate its implications (for example in terms of income distribution, class differences, and patterns of political exclusion). But for our more modest purposes of trying to understand the 'willingness' to engage into corruption, we have already made a step forward. Most importantly, when scarce resources are allocated and distributed via networks, the assumed moral and individual dilemma of 'to be or not to be' corrupt is replaced by very different and much more pressing concerns: 'How much progress have my opponents made in plotting their networks; have my allies changed sides; where do the decision-makers in Damascus stand; how can my interests be made to coincide with my opponents as to include them in my networks; how can I mobilise my constituency to enforce my position; how much revenues will I or my allies lose when networks break down?', etc. In this volatile and highly competitive game, those who take part in ever changing networks use public means to private ends *as a rule* to succeed where institutions failed, i.e. to direct the allocation and distribution of scarce resources. Under these circumstances, the mental disposition of the 'networker' is unlikely to escape the peculiar logic of network politics. Faced by unpredictability and the cluttered moves of and shifting alliances between his rivals, elites individually lose their sense of control and fail to appreciate their own contribution to this state of affairs. Hence, the repeated allusion to intrigues and plots (*mu'amara*), and the conviction that 'others' decide on how events will take their course. Having lost a self-perception of 'agency', the 'willingness' to engage in corruption is there without bearing a sense of individual responsibility. The outcome may be denounced or be justified by cultural dispositions, but the 'willingness' to strike corrupt deals is rooted in the ways in which Lebanon's political economy is organised and has changed, not in preconceived notions of the Lebanese or Arab 'mentality'.

requested his name to be withheld.

Conclusion

Corruption is not a new phenomenon in Lebanon. Studies of recurrent scandals and corruption prior to 1975 show how the problem has been inherent to a political system of 'top-down' patron-client relations and the domination of a relatively homogeneous elite derived from Lebanon's 'notables' or *zu'ama*.⁹⁴ Such patronage-related corruption and 'bureaucratic corruption' has continued unabated. 'Old' forms of corruption mainly showed during parliamentary elections held in the post-war era, witnessing the numerous reports and allegations concerning election fraud and bribery.⁹⁵ However, as we argued in this essay, the 'Second Republic' saw both an increase in the level and a change of quality of political corruption associated with new 'opportunities' to use public means to private ends. The forms of state- or institution-building suggests why this has been the case; 'opportunities' for corruption arose from the inability of post-war Lebanon's fragmented political elites to draw and/or consolidate a clear demarcation between 'public-private' domains causing both 'the state' and 'the market' to function in very different ways than their 'ideal-typical' notions suggest. The 'willingness' to take up these 'opportunities', in turn, can be understood when it is realised that post-war Lebanon's political economy has been based on a highly volatile, unpredictable and competitive system of networks organising and linking up the different components of an heterogenous elite. The use of networks turned the crossing of 'public-private' boundaries into

⁹⁵ Powell & Smith-Doerr, *Loc. Cit.*, p. 381.

⁹⁴ See among others: Kisirwani, M., *Attitudes and Behavior of Lebanese Bureaucrats: A Study in Administrative Corruption*, (unpublished PhD thesis Political Science Indiana University: 1971).

⁹⁵ For details see: Majid, Z., "Qira'a fi al-Intikhabat wa 'Amaliyat al-Tazwir al-Murafiqa li-al-Intikhabat al-Niyabiya", in: Abi Sa'b, F. (et.al), *al-Intikhabat al-Niyabiya 1996 wa Azmat al-Dimuqratiya fi Lubnan*, (Beirut: 1998); 'Atalla, T., *Tiqniyat at-Tazwir al-Intikhabi wa Sibul Mukafahatiha*, (Beirut: 1996).

common practice, thereby substituting for, complementing and/or manipulating profoundly weak institutions. Under these conditions, corruption becomes the rule rather than the exception, causing the assumed moral individual responsibility of the 'networker' to be overtaken by the everyday concerns of political survival and minimizing the costs of losing out in Lebanon's political economy.

This essay has not been designed to present blueprints instructing the Lebanese how to address the problem of corruption. However, our conclusions do shed some light on the failure of the government of Salim al-Hoss (December 1998-September 2000) to root out political corruption. Firing individual officials suspected of corruption, nor pressing for privatization is likely to reap of many results when the country's post-war elites continue in failing to produce a stable and viable political settlement of their differences. Such a viable settlement may require stringent measures and rules to the effect of *excluding* some political elites rather than incorporating them as suggested by the reconciliatory models of 'consociationalism' and other neo-liberal devices of 'conflict-resolution'. Obviously, Hoss was not given a mandate to take up such fundamental political reforms and even had to put up with the inclusion of political elites that happily took part in and contributed to the political order established by former governments. Now the technocrats of the Hoss-government have largely left the stage, networks are likely to be reconstituted and reshaped to organise the ever shifting but still fragmented constellation of forces. Pending far-reaching political and institutional reforms, business -and corruption- will likely be as usual.

Finally, we profess guilt in that this essay did not sufficiently deal with the international aspects of corruption in Lebanon. We therefore conclude with the following remarks. International financial institutions with some leverage in Lebanon, like the World Bank, have foregone many opportunities to press for fundamental remedies for corruption. Such may be explained by their own limited mandate and/or by a blind believe in the wisdoms of neoclassical economic models wherein 'the state' and 'the market' are simply assumed to be universal currencies. But praising the various messy and 'networked' Build-Operate-and-Transfer (BOT) schemes implemented since 1990 as an important step towards privatization to be emulated in other sectors does great injustice to the word 'private' in 'privatization'.⁹⁶ Moreover, the World Bank's pressure to further divest state enterprises will not solve the problem of corruption. 'Markets' are not necessarily or intrinsically less corrupt

⁹⁶ See: Wetter, J., "Public Investment Planning and Progress", in: Eken, S. & T. Helbling (eds), *Back to the Future:*

than 'states'; it all depends on the qualities of the institutional boundaries that separate them. Foreign companies have been even less critical of collusive business practices in Lebanon and, in many cases, happily tapped in on the country's networks to obtain lucrative contracts.⁹⁷ The international financing house Merrill Lynch -which played a crucial role in Lebanon's debt policies- even went as far to celebrate the conflict of interest in the BCD scheme by describing prime-minister Hariri's shareholding in Solidere as an "added advantage" to this private company.⁹⁸ On the other hand, as noted before, many other foreign companies can be assumed to have disapproved of the country's business environment (including corruption) by voting with their feet, and stay away from Lebanon.

Postwar Reconstruction and Stabilization in Lebanon, (IMF Washington, D.C.: 1999), pp. 9-10.

⁹⁷ Lebanon's legal requirement for foreign exporters to operate via Lebanese sole representatives may be generally resented but it is likely to have enabled these companies to adopt an ostrich attitude towards corruption and let their Lebanese agents deal with the Lebanese authorities.

⁹⁸ See: Merrill Lynch, *Solidere, Rebuilding Beirut: A unique investment opportunity*, (n.p.: January 1997), p. 11.

-APPENDIX-

Lebanon's Pandora Box of Alleged Corruption Cases (1990-1999)

(State) Institution(s) involved	Nature of the Allegation
Ministry and Fund for the Displaced	'wasting' resources on bogus compensation claims by 'squatters' and 'displaced', overpaying contractors for rubble removal and rebuilding works, use of Fund for electoral purposes, conflicts of interest related to election campaigning.
Ministry of Interior, <i>Muhafazat, gendarmerie & quarrying sector</i>	conflicts of interest leading to obstruction central regulation of quarrying, bribes for 'temporary' licenses, lack of law enforcement and bribery, illegal quarrying, disregard for technical/environmental requirements on quarrying.
Ministry of Environment & Ministry of Interior: toxic waste imports	Cover-up attempt and/or down-playing dimensions of the late-1980s illegal imports and dumping of toxic waste imported from Germany and Italy.
<i>Casino du Liban</i>	commissions on rebuilding contracts, contracts on subsidiary services by mutual consent instead of legally required tendering, 'wasteful' expenditure on hiring staff and services.
The Port of Beirut	commissions on 'unnecessary' hiring of container equipment etc, contracts by mutual consent instead of tendering, forced subcontracting/contract breach in works on shipwreck removal and 'theft' of private equipment.
Middle East Airlines	commissions and/or conflicts of interest in leasing Airbus planes.
Ministry of Oil	illegal licensing of oil-exports by private companies, overruling quality testing on oil-imports, conflicts of interest favouring some oil-importers over others, forging export manifests concerning crude oil exported and sold as 'residues'.
Ministry of Electricity and Water & <i>Electricite du Liban</i>	illegal connections, bill forgery, bribery, collusion and contract by mutual consent for network and power plant repairs.
Council of the South	misuse funds for electoral purposes, overpaying contractors, violating tendering requirements, expenditure on rebuilding Israeli-bombed villages but works never carried out
Ministry of Health	private hospitals inflating bills charged on the state, conflicts of interests Ministry officials and owners hospitals, misuse of funds allocated for rebuilding public hospitals, lack of law enforcement and bribery concerning imports and quality controls on pharmaceutical products, private hospitals dealing in pharmaceutical products imported under disguise of 'research' purposes.
Municipalities & Independent Municipal Fund	contracts by mutual consent violating tendering requirements, bogus pay claims for fictitious staff, mayor-level embezzlement municipal funds.
Ministry of Finance	forgery of fiscal stamps by low-ranking officials but with alleged involvement of politicians for funding electoral campaigning purposes and providing protection racket.
Customs	bribery, understating product values, fraud and smuggling, forgery of manifests.
CDR & Council for Grand Projects: road works	overpaying contractors leading to excessive costs road repairs per km, conflicts of interest, tendering violations and costs rises unaccounted for.
CDR & Sukleen/Sukkar: waste management	overcharging state for services provided, illegal use of public resources by private company, conflicts of interest, tendering violations.

CDR/Council of Ministers/Solidere	overpaying Solidere for public infrastructural works, conflicts of interest, undervaluation of properties 'transferred' to Solidere, abuse of authority by judiciary, bribing of Mps to adopt Law 117.
Investment Development Authority Lebanon (IDAL): airport-related (BOT) contracts and SportsCity commercial complex.	Conflicts of interest, suspiciously favourable contract conditions for private operators, stretching BOT maturity to 45 years.
Ministry of Transport & Municipalities: (Public) coastal properties	lack of law enforcement, bribery, illegal exploitation public properties, conflicts of interest.
Ministry of Telecom: GSM contracts	conflicts of interest, suspiciously favourable contract terms, monopolistic practices, exceeding max. no of subscribers, holding back payments to the state.