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Remittances and Post-conflict Development in Lebanon

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All shortcomings of this paper, however, remain my own.



Table of Contents

Introduction	5	
1 Remittances - general questions	7	
Importance of remittances	7	
Remittances and growth	8	
Negative impacts of remittances	9	
Potential empirical problems	9	
2 Lebanese migration and conflict in perspective	10	
Historical overview of Lebanese migration	10	
Post-conflict reconstruction in Lebanon	11	
Reasons for emergence of remittances	12	
3 Post-conflict reconstruction and remittances	14	
Remittances in Lebanon	14	
Remittances and government	15	
Remittances and private sphere	16	
4 Proposal for further research	18	
Conclusion	19	
Bibliography	20	
Appendices	23	
Figure 1	Origin of remittances sent to Lebanon	23
Figure 2	Debt in Lebanon after the conflict	24
Figure 3	Remittances as a share of GDP	25
Figure 4	Official and calculated remittances in Lebanon	26
Figure 5	Remittances and FDI	27
Figure 6	Savings in Lebanese Banks	28
Table1	Correlations	29



Abstract

After the Taif Agreement signed in late 1989, the reconstruction of Lebanon started. Although large amounts of money were spent on the reconstructing the country, large portion of the population would not have survived unless the income from remittances entered the country. Remittances form up to 15% of the country's GDP nowadays. Their origin is mainly in the Western developed countries but remittances from the African countries are present too. Lebanon is an ideal country for a large amount of remittances to come, thanks to its large and loyal diaspora and relatively stable economic situation in the country. The remittances have helped the country to avoid a balance of payments crisis during the post-war period, but failed to impact the investment in the country. The government relying on remittances has not made necessary reforms. Attempts to tap systematically into migrant's sources via diaspora bonds were unsuccessful. Therefore, although remittances did not contribute to the investment, they helped the country's population to sustain itself. In macroeconomic terms, constant inflow of hard currency helped the government to sustain Lebanon's economy.



“The long-awaited recovery has not occurred. The tourists, the banks, the businesses have only returned in disappointing numbers, and only romantics still believe that the Beirut of old, the crossroads and entrepot may be recreated. Overseas Lebanese, curious and sentimental visitors to their homeland once the fighting stopped, ran up land prices, enjoyed the mezze and araq, and then went home. Few productive investments were made”

Augustus Richard Norton¹

Introduction

It was a warm July 2008 evening and I was enjoying wonderful views across green valleys in Baabda while driving to Beirut when I realized that villages are extremely diverse. There were small houses next to large villas, able to provide a comfortable accommodation to three generations. Surprisingly for me, the level of inequality did not vary between villages but also hugely in their midst. Most striking, however, was the fact that most of those opaque villas seemed to be unoccupied or under occupied. A friend of mine who had been already living in Lebanon before I was even born, told me a simple sentence “That’s all because of the money from outside”. After the civil war, when the country faced unimaginable destruction, the Lebanese abroad helped to rebuild their homeland. Since that July evening, I was intrigued by this wonderful movement.

Lebanon is not the only Middle Eastern country undergoing major reconstruction and neither is it the only country with high amount of remittances entering the country. However, there are few countries where the two meet. High inflow of remittances to Lebanon is a major trend in the contemporary Middle East economy. In both relative and absolute terms, Lebanon is in the lead. Impressive numbers show that Lebanon is the seventh largest remittances recipient in the world in absolute terms and third largest one in terms relative to its GDP. A destructive civil war which swept Lebanon in the period 1975-1989 has created a need for reconstruction. How do the remittances help the post-conflict reconstruction in Lebanon?

For the purposes of the paper, I decided to limit the time span to the period from 1989 to 2006. I am aware of the serious methodological issues which are connected with the short time span such as a low number of observations for needed statistical analysis of data or inability to run a reasonable time series analysis. Nevertheless, for the purposes of this paper, I consider this limited time span sufficient in that it allows for the analysis of the post-conflict reconstruction period. On October 22, 1989, the Taif Agreement ending the civil war in Lebanon was signed (it was ratified two weeks later). In 2006, the destructive war between Hezbollah and Israel took place and the new need for reconstruction occurred. Therefore, the period in between can be considered to be a period of the post-civil war reconstruction. Although there is also a significant outflow of remittances from Lebanon (mostly from guest workers), these are not dealt with in this paper for the reason of space and almost complete lack of data. For the purpose of this paper, the term reconstruction means post-conflict recovery laying foundations for future productive economic development. In this paper I am not concerned with political reconciliation (although politics occurs here and there).

¹ Norton, 2000, p.43



Research Paper 1/2009

Remittances and Post-conflict Development in Lebanon

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The present paper is based on the broad literature review, datasets from the World Bank, the International Monetary Fund, the UN Development Program and an on-line interview with Mr. Nassib Ghobril, an expert on Lebanon's remittances.

In the paper, I will address the issue in three chapters. At first, I will offer a broad theoretical overview of remittances, their importance, features and problems associated with the study of remittances. This overview is important because many of the features addressed there can be addressed on the Lebanon's example and will later re-occur in the paper. In the second chapter, addresses the origins of Lebanese diaspora and as well as the process of post-conflict reconstruction in Lebanon in order to give a more precise idea of the circumstances in which the phenomenon of remittances will be studied. In this chapter I will also largely discuss why remittances emerged as a source of finance in Lebanon using the Lucas² criteria for remittances to emerge as a substantial source of finances. The third chapter, analyzing the impact is sub divided into three parts. In the first one, I will scrutinize the size of remittances sent to Lebanon. In the second one, the impact of the remittances on the government policies will be studied and in the third one, I will deal with the community development and remittances in Lebanon and also offer some general notes on their impact. In conclusion, I will answer the question how have remittances contributed to the post-conflict reconstruction in Lebanon.



1 Remittances - general questions

Importance of remittances

In the past years, remittances have become what Devash Kapur called “development mantra”³. Thanks to their nature and size, remittances became an important source of development financing. In this chapter, I will briefly describe why remittances are special and what makes them important. I will also introduce several problems connected with research on remittances.

Remittances have been defined by Kapur⁴ as “unrequited transfers”, but in his analyses, he also adds migrant transfers and compensation for employees, i.e. the funds send back home by temporary workers. Especially the unrequited nature makes the remittances different from foreign direct investment (FDI) and debt, which of course require certain returns. Statistically (and logically), higher migration translates into higher remittances⁵.

Remittances are higher than official flows and private non-FDI flows on a global level and are second to the FDI among the foreign sources of finance in developing countries (remittances are globally equal to 42% of the FDI, although this varies from country to country)⁶. Generally speaking, remittances represent a higher share of GDP and imports in low-income countries than in middle-income countries⁷.

Remittances are more stable than private capital flows and may be even counter-cyclical. In times of crises, the remittances are likely to be stable or even increase, while private sources of finances are fleeing the country. This is not the case only for the remittances meant for consumption, but also for those meant for investment, as shown by Ratha⁸. The authors also claim that remittances are significantly higher than capital flows in high-risk countries with their debt high relative to the GDP⁹. This makes the remittances functioning as a “critical insurance mechanism”¹⁰ and all the more in the conflict areas¹¹. Kapur in his research proved that after capital shocks, the remittances usually increase and their share of private consumption can increase up to five-fold¹². Lucas also argues that even families who do not receive remittances from abroad in the end benefit from them, due to increase demand by the receiving families¹³.

There are certain factors which can influence the amount of remittances sent home from abroad. Generally, the amount increases if the reason for migration is economic (opposed to social and political reasons), if migrants are away only for a limited period of time and if

³ Kapur, 2003

⁴ Ibid., p.2

⁵ Lucas, 2008, p.149

⁶ Ibid., p.146

⁷ Ibid., p.148

⁸ Ratha, 2005b, p.26

⁹ Ibid, p.29

¹⁰ Kapur, 2003, p.15

¹¹ Fagen & Bump, 2006, p.1

¹² Kapur, 2003, p.15

¹³ Lucas, 2008, p.155



they are young but married with families left behind¹⁴. Faini also claims that remittances decline with increasing share of migrants with tertiary education¹⁵. Moreover, the presence of large migrant diasporas abroad encourages further migration and remittances¹⁶.

Empirical results from Philippines show that beneficiaries are mostly from the top income deciles¹⁷. We cannot conclusively say if remittances decrease or sharpen inequality – while Adams' data from Pakistan and Egypt show that remittances sharpen inequality¹⁸, in Mexico remittances helped to marginally decrease inequality¹⁹. Today, the main concern in respect to remittances remains to divert the informal remittances to the formal channels.

Remittances and growth

Mere inflow of remittances however does not necessarily mean higher investment and thus economic growth. In fact, the debate whether remittances enhance investment or consumption is present in the literature until today. While traditional thesis in 1980s had been that remittances are used for conspicuous consumption, Ratha challenged this view, arguing (that on the opposite) a significant portion of remittances is used for investment²⁰. There is evidence on country level that in some cases (Egypt or Mexico) remittances may contribute to high GDP growth. Haas asserts that “migrant households often tend to have higher propensity to invest”²¹ and he names several studies which showed that remittances do not have to lead to passivity, but may also result in increased economic activity. He also claims that in the long run, remittances thus contribute to increasing economic prosperity. Another proof that remittances are not just spent on conspicuous consumption is Adams' research²² where he proved that positive exchange rate shocks which render remittances more valuable in real terms do not result in increased expenditure on food. Instead, Adams argues, this leads to increased investment in education and to decrease of working hours for male children.

However, on a global level, there is no proof that remittances positively impact the GDP or output growth²³. Spatafora and Chami et al. argue that increased income from remittances decreases willingness to participate in labor force and to save.

Lucas instead urges to scrutinize three often neglected points when trying to find out whether the remittances create additional investment²⁴. Firstly, it should be scrutinized whether remittance-receiving families save more (remittances contribute to the family budget in the same way as other sources of income and it is therefore almost impossible to distinguish between the use of regular income and remittances). Secondly, it should be acknowledged that spending on education, housing and land is also a form of investment. Thirdly, the

¹⁴ Black, 2003 in Lucas, 2008, p.184

¹⁵ Faini, 2002 in Lucas, 2008, p.185

¹⁶ Fagen & Bump, 2006

¹⁷ Lucas, 2008, p.189

¹⁸ Adams, 1991 and 1998 in Lucas, 2008, p.189

¹⁹ Taylor and Wyatt, 1996 in Lucas, 2008, p.189

²⁰ Ratha, 2005, p.29

²¹ Haas, 2005, p.1274

²² Adams, 2006, p.6

²³ Chami, Fullenkamp & Jahjah, 2005 ; Spatafora, 2005

²⁴ Lucas, 2008, p.155



investment for a family does not have to be an investment for the country (e.g. buying an already existing house). These three points underscore the difficulties of empirical work on remittances²⁵. Even the migrants who return with their fortunes from abroad back home are not the same – Adams illustrates this on Egyptian migrant workers’ “entrepreneurship”. For the 70% of workers who are literate, it is the length of their stay abroad which decides whether they are going to start their new business. On the other hand, for the 30% of the workers who are illiterate, it is their accrued savings which matter.

Nevertheless, the significance of remittances is not limited to a micro level. On a macroeconomic level, they are often a significant source of hard currency and help to prevent balance of payments crises²⁶, as was case in Lebanon in the post-Taif era.

Negative impacts of remittances

Besides numerous positive aspects, there are also downsides to remittances²⁷. As already stated, remittances can have negative incentive effects on the population. High remittances can create empty “migration-villages” with impressive villas, which are vacant because their owners live thousands of kilometers away. Remittances can influence the exchange rate and lead to Dutch disease effects on the economy. The theory behind the Dutch disease says that economies with rapidly increasing incomes from natural resources (but also foreign assistance or FDI) de-industrialize because of the increasing exchange rate which in turn renders the manufacturing sector less competitive²⁸. Most importantly, however, remittance can harm the economy because it may create reliance on remittance rather than exports as a source of hard currency. It is hardly surprising that it is much easier to rely on remittance than on exports – exports necessitate institutions and infrastructure, which are costly to build. Moreover, since the remittances provide enough liquidity as to prevent balance of payments crises, they also help the politicians to postpone necessary fiscal reforms. Later in the paper I will show that the same problem occurred in Lebanon.

Potential empirical problems

One of the main issues linked with the research on remittances is the difficulty to measure them. The main source of data on remittances, the IMF, receives only reported remittance inflows, which are, of course, lower than the real ones. They do not include the transfers in kind and finances brought in through informal channels²⁹. In the war-affected regions, the remittances are even more difficult to track³⁰. In addition, the methodology of banks is not the same everywhere, and thus some banks try to include also the value of goods and cash brought by migrants in informal ways, why other rely only on the official flows³¹.

²⁵ Adams, 2006, p.6

²⁶ Haas, 2005, p.1277

²⁷ Kapur, 2003, p.20

²⁸ Ebrahim-zadeh, 2003

²⁹ Adams and Page, 2005, p.1645

³⁰ Fagen & Bump, 2006, p.3

³¹ Adams, 2006, p.4



In order to compensate for the lack of precision in data, Page and Plaza proposed a formula to calculate the real flow of remittances³². The authors claim that if no remittance data is reported and or if remittances as a share of nation's GDP are much slower than the share of migrants of a total population, then their formula is to be used to predict total remittances. Authors underline that with larger black market premium, the amount of remittances channeled officially will be lower. Authors also acknowledge that some studies show that educated people remit more, although this contradicts Faini's thesis mentioned above.

2 Lebanese migration and conflict in perspective

In order to understand properly why have remittances emerged as an important source of finances in Lebanon and why the need for reconstruction has been so pressing in past decades, it is important to get a brief overview of Lebanese migration and also of the challenges and failures of the post-conflict reconstruction in Lebanon. This will allow us to understand the state of Lebanese economy and thus also the importance of remittances.

Historical overview of Lebanese migration

The emigration from Lebanon is not a recent phenomenon. While there are some who trace its origins to Phoenicians in ancient times, it is more reasonable to set the beginnings to the 19th century. In 1860s, the Lebanese started to migrate to Egypt and later to America, partially to escape compulsory military service and partially due to the population pressures. However, as Widmer puts it, many were motivated by "a laudable ambition for a more of the better things in life"³³. Those migrants, however, often had an intention to return. Until the beginning of the 20th century, approx. 120,000 left from the territory of the whole of Syria. After the First World War, the emigration from Lebanon increased for a variety of reasons, prominent among them being famine, epidemics and of course the economic disaster of the war. After the Second World War, it was the economic downturn and layoffs caused by the withdrawal of the British and French troops and administrators from the area, which encouraged the migration³⁴.

It is impossible to generalize the occupations of the migrants from Lebanon. As Hourani mentions³⁵, in the early periods, most of them were artisans, skilled laborers and peasants. In the 1950s and 1960s, teachers, technicians, craftsmen and building contractors took over, most importantly because of the change of their primary destination (oil economies of the Gulf). When the civil war started, the migrants' ranks were enriched by engineers, businessmen, doctors, bankers, craftsmen and qualified manpower in general. After the Taif Agreement in late 1989, the migrants from Lebanon were mostly young and educated. In addition, the gender structure, originally dominated by males, started to change and females can be increasingly found among the migrants. All areas of Lebanon are today represented

³² Page & Plaza, 2000, p.269

³³ Widmer, 1936

³⁴ Hourani, 2006, p.93

³⁵ *ibid.*, p.94



among the migrants. Until recently, however, the migrants did not represent the true spectrum of Lebanese society. Most of the migrants have been Christians while the number of Muslim migrants started to increase significantly only in the recent past³⁶.

Lebanese migrants can be found everywhere – in addition to current OECD countries and the Gulf (which are the two most popular migrant destinations in the world), vibrant migrant communities can be found in Latin America and Western Africa too. The communities in Latin America and Western Africa are older ones. As Peleikis mentions³⁷ in her study of transnational villages in Ivory Coast, many of the west-bound travelers (who all went through Marseille), realizing that they didn't possess enough money to go to the US or that could not get through the travel restrictions, decided to continue their voyage to Dakar in Senegal and later to Ivory Coast. Although the popularity of these countries later decreased, it saw a rapid increase again in 1975.

The Lebanese diaspora is therefore sizeable, old and well-placed in their respective countries and thus is able to send also large amount of remittances back to their homeland. It is worthwhile to mention that already in 1924, the US consul in Beirut mentioned that remittances were equal to 19 million US dollars while exports from Lebanon equaled only 17 million US dollars. To give a better idea of the size, Widmer mentioned that remittances were roughly equal to 40% of a family income in Lebanon before the Great Depression. This huge amount of money that was sent to Lebanon helped to create a “culture of dependency”³⁸ which paid off badly during the Great Depression.

Post-conflict reconstruction in Lebanon

When the 15-years long fighting ended in 1990 after the implementation of the Taif Accord, Lebanon and its economy were in dismay. The GDP per capita was one third of the pre-war GDP per capita, lost output was estimated at 24 billion US dollars and approximately same size of physical stocks was destroyed. Human losses were high and the physical infrastructure such as electricity, water or road network was largely destroyed³⁹. The state of public affairs was so dire, that the government was not able even to calculate the GNP⁴⁰. In 1992, the government of Rafiq Hariri took power and set to implement a major reconstruction strategy “Horizon 2000”. 85% of the funds for the post-conflict reconstruction were meant for the reconstruction of the physical networks (water, roads, electricity) while only 9% was to be spent on housing and resettlement⁴¹. The government decided that the financial and exchange rate stability was a key to attract foreign capital for the reconstruction program⁴². Lebanon also decided to keep its economic openness which was considered crucial for its service-oriented economy. One of the key elements of the post-Taif economic reconstruction in Lebanon was steep increase of the public debt (Figure 2). As Corm notes,

³⁶ *ibid.*, p.91

³⁷ Peleikis, 2000, p.4

³⁸ Widmer, 1936

³⁹ Dibeh, 2005, p.1

⁴⁰ Najem, 2000, p.90

⁴¹ *ibid.*, p.79

⁴² Dibeh, 2005, p.1



45% of the state expenses (equivalent to 70% of the state income) were spent on debt service⁴³.

Norton notes that three problems were characteristic for the post-conflict reconstruction in Lebanon: heavy debt burden, dim economic prospects and rampant nepotism and “[stunningly blatant]” corruption⁴⁴. One of the few areas which were almost untouched by the war was the educational system, which continued to produce qualified graduates thanks to the Lebanese traditional dedication to education. However, as Norton notes, government showed during the post-conflict period “an extraordinary disregard to the needs of its own citizens”⁴⁵ in order to serve Syrian interests⁴⁶. Long-awaited recovery did not happen, according to Norton. Norton mentions that large portions of population wouldn’t be able to survive without remittances. Government does not provide any safety net for the poor, partly because the state cannot afford welfare spending due to high debt service⁴⁷. This is also one of the reasons why groups like Hezbollah are so successful in gaining their popularity.

In addition, the post-conflict reconstruction programme was built on economic expectations (growth 8% p.a.) which were completely unrealistic. Lebanon lost its comparative advantages by the war and its neighbors in the region were becoming increasingly more competitive⁴⁸. The underlying theory was that of positive spillover, and thus the reconstruction process clearly favored Beirut over other parts of the country. Unfortunately, the positive spillover did not happen. As Höckel asserts⁴⁹, the reconstruction failed to bring about stability because it was based on the assumption that reconstructing the capital city can save the country. In addition, the international community was in the same period occupied also with the rebuilding of the post-communist Central and Eastern European countries, which also competed for the favor of the Western donors. One of the particular problems in the rebuilding of Lebanon is a difficulty to distinguish private and public finance – the two were often interconnected⁵⁰.

Same situation like in the post-Taif era occurred after the June 2006 war between Hezbollah and Israel, when the government had no comprehensive development strategy, what allowed groups such as Hezbollah to gain ground.

Reasons for emergence of remittances

There are many other countries in the world with sizeable diasporas that receive nowhere as much remittances as Lebanon. Why is this so? In this part of the paper, I will scrutinize determinants put forward by Lucas⁵¹ as those which are conducive to the increased flow of

⁴³ Corm,n.a., p.2

⁴⁴ Norton, 2000, p.43

⁴⁵ Norton, 2000, p.39

⁴⁶ Here we should note that until 2005, Syria was militarily present in Lebanon and exercised heavy influence over the Lebanese politics.

⁴⁷ Höckel, 2007, p.9

⁴⁸ *ibid.*, p.8

⁴⁹ *ibid.*, p.2

⁵⁰ Najem, 2000, p.132

⁵¹ Lucas, 2008, p.152



remittances. I will thus demonstrate why remittances emerged as an important source of finances in Lebanon.

The first condition put forward by Lucas is altruistic attitude towards the kin. This is indeed highly present in Lebanon. They are not only willing to help their kin and family⁵², but also thus help to shape transnational networks and villages⁵³. Since the start of the civil war in 1975, the chain migration was rekindled in Lebanon⁵⁴ too, which is another proof of these altruistic attitudes.

The second condition is the intention to return among the migrants and the third one is status enhancement. The two can be demonstrated by one phenomenon. Peleikis mentions⁵⁵ (and a brief personal observation confirms) that the Lebanese countryside, once full of small flat-roofed houses, is now turned into a landscape of grandiose villas, often vacant, with their landowners living far away. The villas do not only demonstrate the intention to return (at least partially), but also aim at maintaining and enhancing one's status in the society.

The fourth determinant is the amount of migrant's income, which of course varies. But high number of highly educated immigrants from Lebanon can partly explain this phenomenon. In addition, the Lebanese migrants usually move fast upwards on the social ladder in their new homeland⁵⁶.

Fifthly, Lucas mentions that refugees are less likely to remit than immigrants. This is indeed a positive sign for Lebanon – although there was a large-scale internal displacement, few of the migrants were actually refugees.

Sixth determinant is according to Lucas macroeconomic stability in both sending and receiving country. With sizeable portions of migrants in relatively stable countries (OECD and Gulf Countries) and with economically relatively stable environment in Lebanon, this is indeed favorable for Lebanon. Lebanese currency is currently pegged to US dollar and after shakes the inflation was curbed in early 1990s. Banking sector is highly dollarized, with approx 85% loan dollarization and 66-77% deposit dollarization⁵⁷.

Seventh and eighth determinants also concern inflation (increase and fluctuation) as destabilizing effects. As already mentioned, the inflation in Lebanon was very well dealt with and does not pose significant threats to the economy.

⁵² Hourani, 2006, p.96

⁵³ Peleikis, 2000

⁵⁴ Hourani, 2006, p.94

⁵⁵ Peleikis, 2000, p.10

⁵⁶ FEMIP, 2006, p.109

⁵⁷ Bank Audi, 2008, p.9



3 Post-conflict reconstruction and remittances

Remittances in Lebanon

Gathering data on remittances in Lebanon is difficult. The Lebanese national bank, Banque du Liban (BdL), provides data only for years 2002 through 2005; although these largely coincide with the data calculated by the World Bank staff (see Figure 4). Remittances are defined by the BdL as "all current transfers carried out between migrants working in their new economy - where they are considered as residents [...] - and their country of origin, provided the residence period in the new economy is one year at least"⁵⁸. The estimates of BdL are made on the number of incoming and outgoing persons, their average monthly salary and savings ratio based on the working position (blue or white collar job). Since 2003, BdL includes data on remittances also from International Transaction Report System. As we can see in Figure 3, the remittances were almost always a significant source of foreign exchange. In fact, the Figure 5 shows that with one exception, the remittances were a larger source of foreign exchange than the FDI.

Although it is extremely difficult to measure exactly the amount of remittances entering Lebanon, Ratha & Shaw have estimated⁵⁹ the amount of remittances that entered Lebanon in 2006 to 5.72 billion US dollars, which is a sizeable portion of Lebanon's 22 billion USD GDP. As Figure 3 shows, the volume of remittances as a share of country's GDP have been almost always more than 10%, often above 15%. This means that Lebanon is a remittance-dependent country.

The origin of Lebanese remittances according to Ratha & Shaw data⁶⁰ can be found in Figure 1. This estimate, based on migrant stocks, host country incomes, and origin country income show, that the largest portion of the money comes from the US with more than one fifth of all remittances, with Canada, Australia and Germany also above the share of 10%. The problem in this case is that with an exception of Saudi Arabia, the Gulf countries where many Lebanese work, are not treated separately in their research (but are all lumped under "Others (South)").

Despite developed banking structure in the country, most of the remittances enter Lebanon through money transmitters such as Western Union and Money Gram, according to the FEMIP study⁶¹. Although the study is based on only 41 interviews and was primarily focused on the Germany-Lebanon remittance channel, it offers a unique insight into the transfer of remittances to Lebanon. According to the president of the American Lebanese Chamber of Commerce Salim Zenni, Lebanon receives between € 5 to 8 billion of remittance income (formal and informal) per year⁶². This means that the amount received through official and unofficial channels is roughly the same. The most important informal channels

⁵⁸ Banque du Liban, 2006, p. 5

⁵⁹ Ratha & Shaw, 2007, dataset

⁶⁰ Data: Ratha & Shaw, 2007

⁶¹ FEMIP, 2006, p.110

⁶² FEMIP, 2006, p. 111



of transmitting money is of course bringing the cash in person or using systems such as hawala⁶³. There are currently no obstacles on the movement of capital in Lebanon⁶⁴. Two major reasons account for the extraordinary volume of remittances – the liberal financial system and the stable exchange rate, virtually unchanged to dollar since 1999. Also the interest rate in Lebanese banks is almost 2.3 % higher than the global interest rate, what makes them attractive⁶⁵. Lebanon is also one of the 17 countries in the world with no black market for foreign exchange.⁶⁶

Remittances and government

The importance of remittances in Lebanese economy can hardly be overestimated. Hourani mentions⁶⁷ that remittances are the main source of hard currency in Lebanon, higher than FDI or tourism. More importantly, when remittances are taken into account, the creditworthiness rating of Lebanon is increased by 130 basis points (from B- to B+)⁶⁸. Thanks to remittances, which are probably as high as Lebanese exports, Lebanese economy was able to avoid balance of payments crisis⁶⁹. On the whole, remittances form 22% of the Lebanese households' incomes and 88% of the savings⁷⁰.

Countries with large diasporas may use the diaspora bonds as a source of finance. The Lebanese government, however, lacks any systematic approach to tapping money from the diaspora. As Ketkar & Ratha state⁷¹, there is anecdotal evidence that Lebanese diaspora has contributed some capital to the government. The authors also state that indirect evidence can be that “Lebanon’s government bonds are priced higher than the level consistent with the country’s sovereign credit rating.”⁷² In their presentation on the positives of diaspora bonds, Ketkar & Ratha mention Lebanon as an ideal country to use such bonds for diaspora. The authors mention four conditions, when diaspora bonds can be successfully issued: absence of civil strife, minimum governability, ability to meet SEC registration requirements and sizeable first-generation diaspora⁷³. Lebanon is able to meet all of them, although the degree is debatable. In 1991 the diaspora contributed 35 million US dollars to a special treasury account targeted at the migrants. In June 2000, the economy minister Georges Corm proposed a creation of so-called “0% bonds” with a 30-year maturity to which the migrants could subscribe and consequently receive a Migrant Medal. The final outcome was however a failure and only 225,000 US dollars were raised⁷⁴. Compared to tens of billions US dollars leveraged by the Israeli government through the diaspora bonds, the outcome of the Lebanese diaspora bond programme must be disappointing.

⁶³ Tohme, 2004

Hawala is an informal way of transmitting money. The general model is following: a customer in country of origin gives money to be transferred to a money broker. Money broker contacts a money broker in the destination and instructs him about giving money in the local currency to the desired recipient. Whole system is largely based on trust. This operation is virtually immediate. Cf. El-Qorchi, 2002

⁶⁴ FEMIP, 2006, p.113

⁶⁵ Tohme, 2004

⁶⁶ Schachmurove, 1999, p.3

⁶⁷ Hourani, 2006, p.101

⁶⁸ Ratha, 2005a, p.1

⁶⁹ Hourani, 2006, p.22

⁷⁰ Ghobril in Hourani, 2006, p.102

⁷¹ Ketkar & Ratha, 2007, p.3

⁷² Ibid, p.3

⁷³ ibid., p.17

⁷⁴ Hourani, 2007, p.18



It therefore appears that the Lebanese government has become complacent about the amount of remittances that enter the country and ceased to implement policies that would encourage channeling or better use of remittances⁷⁵. Another explanation for this passivity may be the lack of financial resources that the government would run into if it embarked on a matching program a government wanted to dispatch a matching program similar to programs that are currently working in other countries (such as Mexico), it would probably lack the means for financing.

All in all, the Lebanon's government has been called on several times by the experts to encourage the flow of remittances, increase the transparency and to improve the investment climate⁷⁶. These observations go together well with the theoretical assumptions made at the beginning that high amount of remittances can lead to a impasse of economic reforms in a country.

Remittances and private sphere

Lebanese émigrés abroad have kept strong relations to their homeland and especially their native regions. Nowadays, with multiple possibilities to keep contacts between the community abroad and community at home, the transnational communities emerge. Peleikis in her study of transnational community of emigrants from Zrarie to Ivory Coast states that events in Abidjan are discussed in Zrarie as if they happened in Zrarie⁷⁷. These transnational networks allow the emigrants to partially fund projects at home. They can do this through informal ways, but also through formal channels – charities, non-governmental organizations, lobby organizations etc⁷⁸. The expatriates are active not only in the society through lobbies or other means, but also account for a sizeable portion of the foreign direct investment in Lebanon in financial and real-estate business⁷⁹ (those are not considered in the present paper).

When talking about the impact of the remittances on the private sphere, the anecdotal evidence shows substantial impact – in abovementioned case of the village of Zrarie⁸⁰ or southern Lebanon in general, the villages with a sizeable share of population abroad were continuously rebuilt with help of the migrants from Western Africa⁸¹. Diaspora philanthropic feelings have helped to maintain 24 institutes in Lebanon, direct assistance to families, helping in their villages building social and physical infrastructure, assisting in re-building health sector⁸². Hourani mentions at least 7 hospitals and 3 orphan villages, in addition to other social services such as elderly houses.

However, there has been only very little research done on the use of remittances by the Lebanese families. Few papers studied the transnational links between Lebanese villages and partially dealt with economic consequences (e.g. study of the village Zrarie by Peleikis,

⁷⁵ Ghobril, 2009

⁷⁶ Ghobril in FEMIP, 2006, p.116

⁷⁷ Peleikis, 2000, p.4

⁷⁸ Hourani & Sensenig-Dabbous, 2007, p.46

⁷⁹ ECSWA, 2008, p.15

⁸⁰ Peleikis, 2000

⁸¹ Norton, 2000, p.44

⁸² Hourani, 2007, p.9



2000). Hussain A. Amery has undertaken a PhD dissertation where he studied the impact of remittances on two villages in Lebanon and subsequently published an article dealing with the subject⁸³. The only study on remittances and impact on the Lebanese economy has been undertaken by Nassib Ghobril but the study is not publicly available.

Amery in his dissertation found that the remittances are mostly spent on building houses and not so much in agricultural land development, but even this has only a limited impact on the village's economy, because the workers usually came from neighboring villages⁸⁴. However, the preoccupation with the construction is understandable, because Amery did his field research in 1989, when the conflict was underway. The case of Zrarie is similar – the construction of new houses occurred, but here it was also accompanied by purchase of agricultural land or community development projects such as building mosques or roads. Although these results are impressive, we cannot conclusively say that the migrants helped the community development. Ghobril⁸⁵ states that cases when expatriates finance development projects are strictly on “ad hoc and individual basis” and have no signs of any systematic approach.

According to Ghobril, majority of the remittances are spent on household consumption, followed by the investment and the least part is spent on job creation⁸⁶. The remittances are however not spent conspicuously, but rather used for normal household tasks such as buying food, payments for medical treatment or clothing, paying bills. Also, the remittances help to purchase durable goods or build a house⁸⁷. Building houses is, as I have already mentioned, a means to keep a connection with the home but also a sign of success abroad.

As we already saw, Ghobril's results are that most of the remittances are spent on consumption and Norton's stated that remittances helped large portions of Lebanese society to survive. A simple test of these two was done by a correlation of the household spending and remittances inflow a first temporal difference⁸⁸. The temporal span was used to avoid the issue of autocorrelation, although this cannot be totally rejected. For these purposes I used the data from World Development Indicators for household spending and the World Bank data for remittances. While correlation cannot show us any direction or causality, it is nevertheless useful to show the relation between the two variables. There was however no correlation between the household consumption and the remittance inflow ($p > 0.05$ (2-tailed), $r = 0.445$, $N = 15$). This can be due to several reasons, chiefly short time span. Another reason might be that the data does not reflect the reality too closely, because the reported amount of remittances for a quarter of the period are reported as non-changing which certainly is not precise.

Another means of using the money, albeit marginal, are savings, which can be subsequently turned into investment by banks. Ghobril's study asserts that the remittances form approximately 22 % of incomes of Lebanese families and up to 88% of households'

⁸³ Amery & Andersen, 1995

⁸⁴ Amery in Hourani, 2006, p.102

⁸⁵ Ghobril, 2009

⁸⁶ FEMIP, 2006, p.114

⁸⁷ Ghobril, 2009

⁸⁸ The remittances inflow change between R_y and R_{y-1} were correlated with change in household consumption C_{y+1} and C_y [y meaning a given year]



savings⁸⁹. Many economic analysts attribute the increase in deposit rate to the increasing remittances⁹⁰ and although the data include both deposits of residents and non-residents and we can by no means conclude that any of the numbers is equivalent to remittances, the deposits were sharply increasing in foreign currencies and also in Lebanese Pound.

Hourani and Sensenig-Dabbous also mention⁹¹ that although there have been no conclusive studies on the subject, it is reasonable to expect that the Lebanese abroad also support the educational undertakings of the students in Lebanon.

Remittances function in Lebanon also as an important buffer in times of crises – the situation after the 2006 Summer War between Israel and Hezbollah serves as an important example. More than one third of the residents in Lebanon reported that the remittances they received were higher after the war than before the war and almost one fifth of the emigrants claimed that the sum sent back home increased because of the war⁹². The migrants also supported the homeland through NGOs and INGOs. As the authors mention, the Lebanese diaspora communities helped to raise sums ranging from hundreds of thousands to millions US dollars for Lebanon at war. While these can by no means be considered to be remittances, the finances demonstrate the commitment of the community to their homeland.

4 Proposal for further research

Currently available data are of debatable quality (as discussed above) and the government-supplied data is insufficient for a serious analysis of the effect of remittances in Lebanon. More empirical research should be done on the impact and use of remittances in Lebanon, focused on gathering more quantitative data suitable for further data analysis. For the moment, there is only one empirical study (Amery's dissertation) about the impact of remittances.

Similar surveys were conducted in numerous countries of the world. Most of such studies are conducted as household surveys⁹³. A study on Lebanon is urgently needed, because it is one of the most important remittance-receiving countries and the phenomenon is severely under-researched. A study on remittances in Lebanon should focus on several parts of the country (including, not limited to, Mount Lebanon, Bekaa and the South), across the religious groups and social strata. Focus on the use for entrepreneurial purposes, agriculture or investment will be useful for the purposes of comparison with other studies done in different countries. Data on land ownership could be checked by local authorities, as was done by Adams in his study on rural Egypt⁹⁴.

⁸⁹ Hourani, 2006, p.102

⁹⁰ Perry, 2009

⁹¹ Hourani and Sensenig-Dabbous, 2007, p.44

⁹² *ibid.*, p.47

⁹³ Such as Adams, 1989; 1998; 2005

⁹⁴ Adams, 1989



Conclusion

In the present paper, I have addressed the issue of remittances and post-conflict development in Lebanon. The initial section described remittances as a means of income for developing countries. Despite all its positive signs, there are numerous drawbacks, such as possibility to harm economy by creating reliance on remittances as an easy source of hard currency. Remittances which can flow into countries through both formal and informal channels are also potentially problematic for scientists, because there is hardly any possibility to measure them precisely. In the second section, the paper deals with particularities of Lebanese migration and especially asserts that neither migration nor remittances are new phenomenon in the Lebanese society. While the migration began in the second half of the 19th century, already in early 20th century the remittances were an important source of finances in Lebanon. The government-led post-conflict reconstruction in Lebanon failed, due to the internal political struggles and flawed government strategies. The remittances in Lebanon are an important source of finances for the post-conflict reconstruction. The remittances of the expatriates, the largest source of foreign hard currency, helped the government to prevent the crisis of balance of payments. However, the government failed to engage with the Lebanese diaspora abroad to leverage larger amount of the finances for development purposes. In the private sphere, the remittances are largely used for the consumption and only their small portion is used for investment or savings. The Lebanese diaspora financed some development projects in the country, but those were only on the ad hoc basis. The remittances are often spent on status-enhancing goods or services, such as gargantuan villas.

To answer the question I asked at the beginning, the remittances in Lebanon helped to sustain the livelihood of the population in the country. However, due to the inaction of government in the field of diaspora bonds or larger initiatives to engage the diaspora, the remittances were not used on a larger scale for development such as in Mexico. The development projects in Lebanon have been financed by the emigrants but only on ad hoc basis. No systematic approach has been taken by either the Lebanese government or the non-governmental sector to systematically tap the remittances. The remittances have helped the population to survive because they were used for the consumption purposes.

However, the remittances allowed the Lebanese economy to weather the period of political and social crises after the Taif accord, with several domestic crises. In this respect, we can say that the remittances had an important stabilizing effect and allowed the population of Lebanon to sustain them. It seems safe to conclude that the primary function of the remittance income in Lebanon is to stabilize, not to develop.



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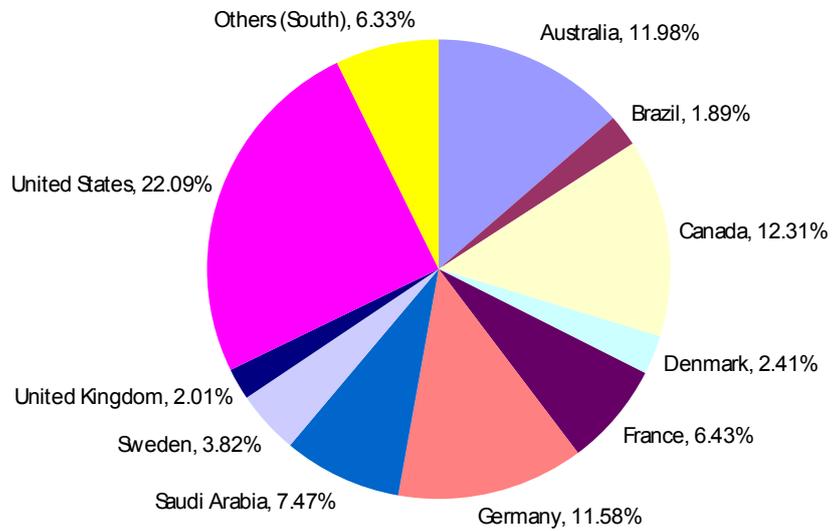
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Appendices

Figure 1 Origin of remittances sent to Lebanon

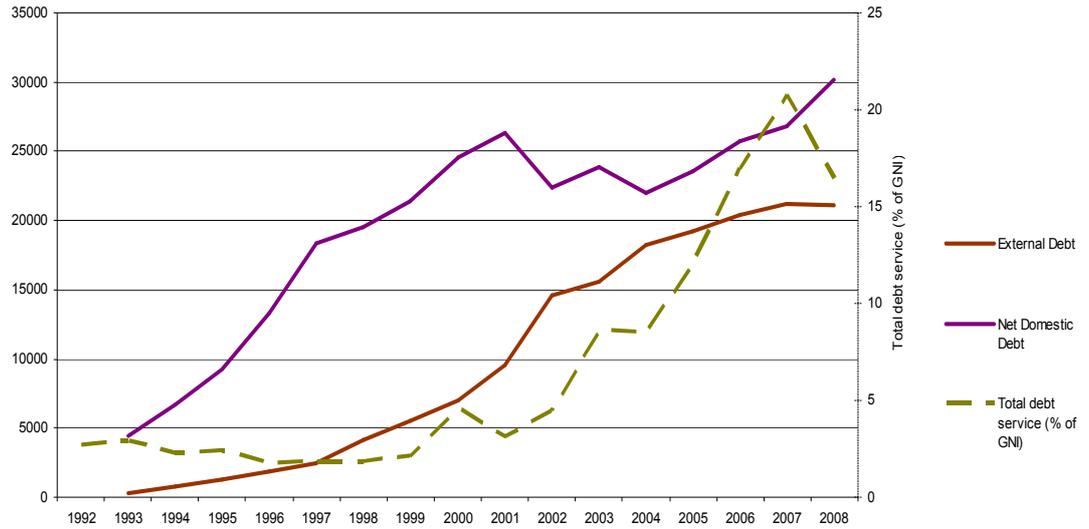


Source: Ratha & Shaw, 2007

Note: countries with share lower than 1% were disregarded; the percentages thus do not add up to 100%



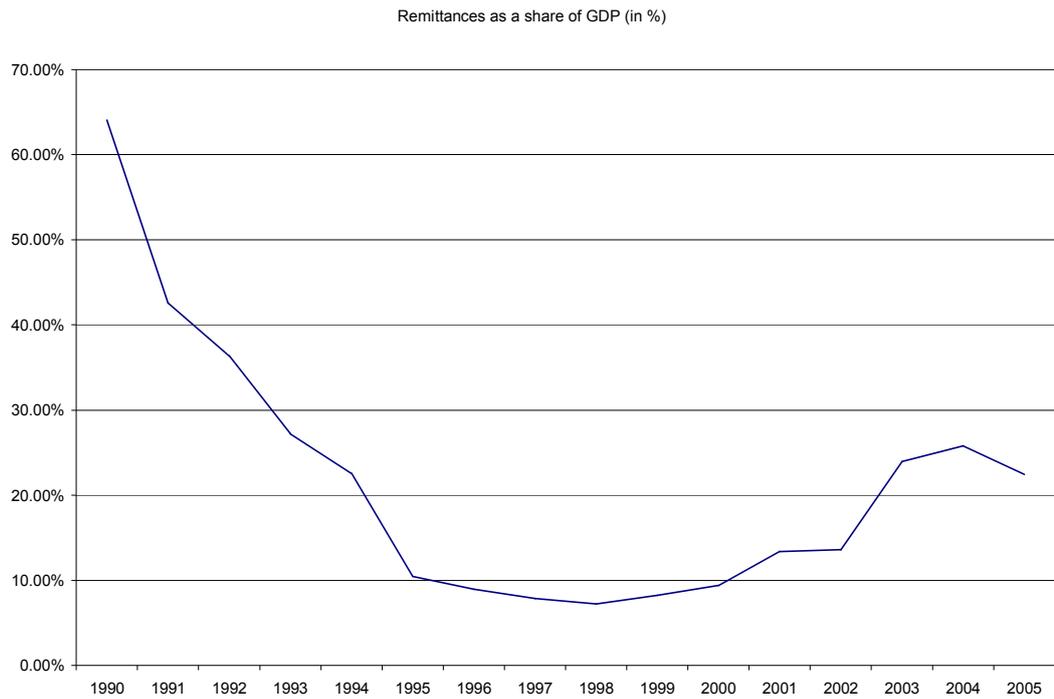
Figure 2 Debt in Lebanon after the conflict



Source: Banque du Liban, 2009 & World Development Indicators 2007



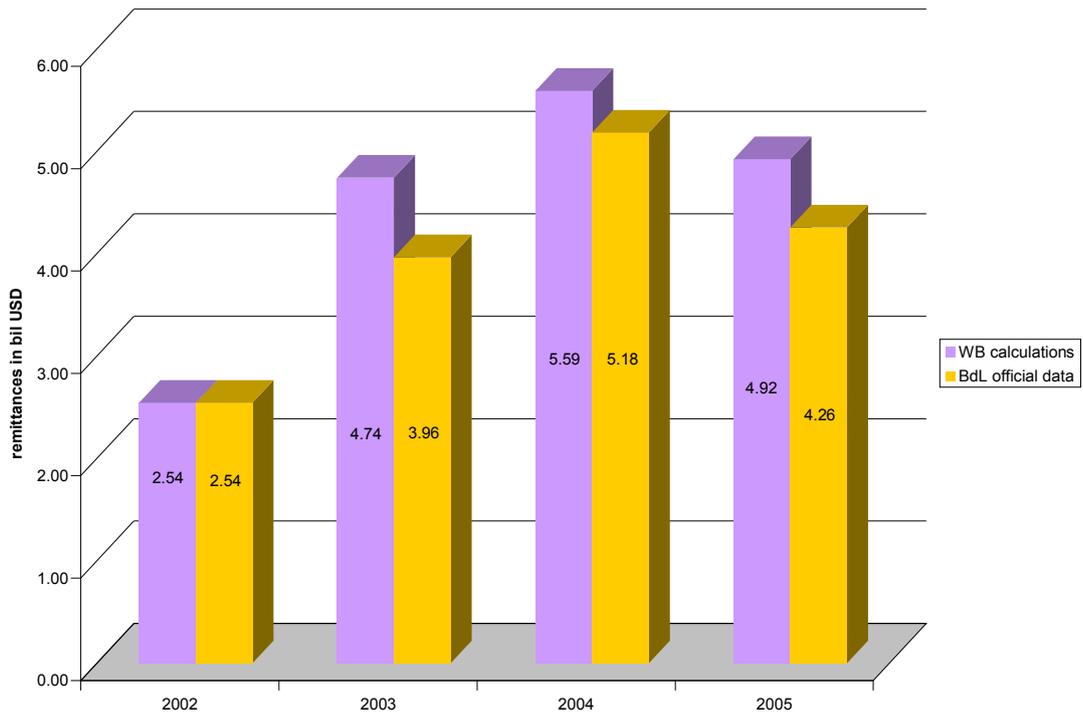
Figure 3 Remittances as a share of GDP



Source: World Bank, 2007 & World Bank, 2008



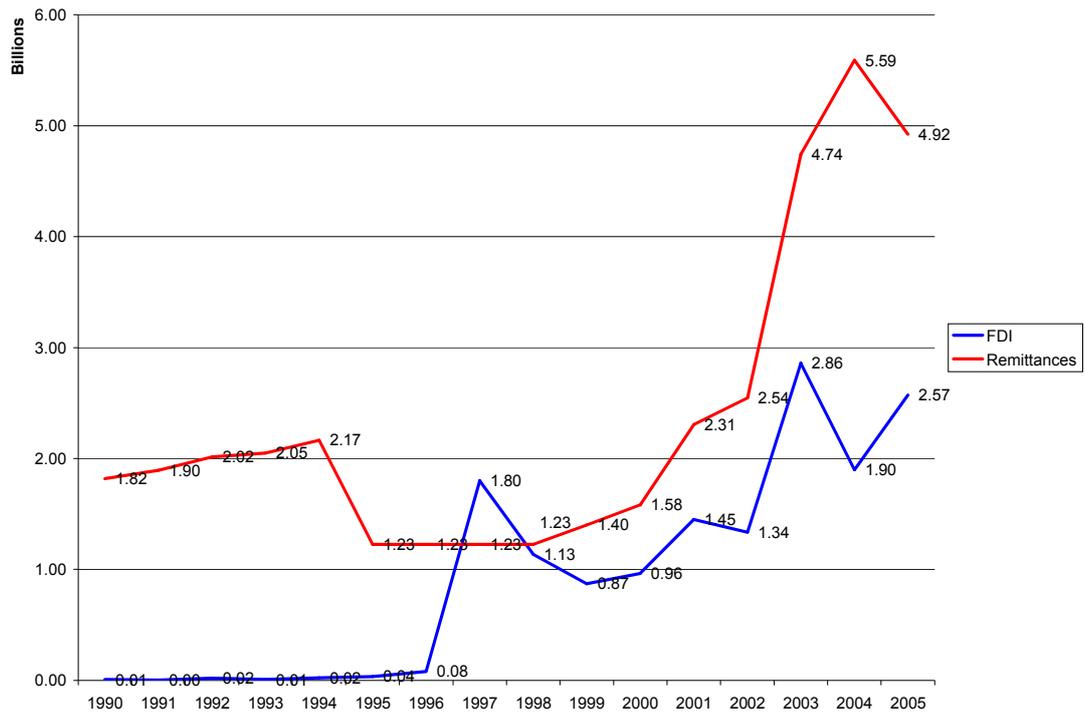
Figure 4 Official and calculated remittances in Lebanon



Source: Banque du Liban, 2005 & World Bank 2008



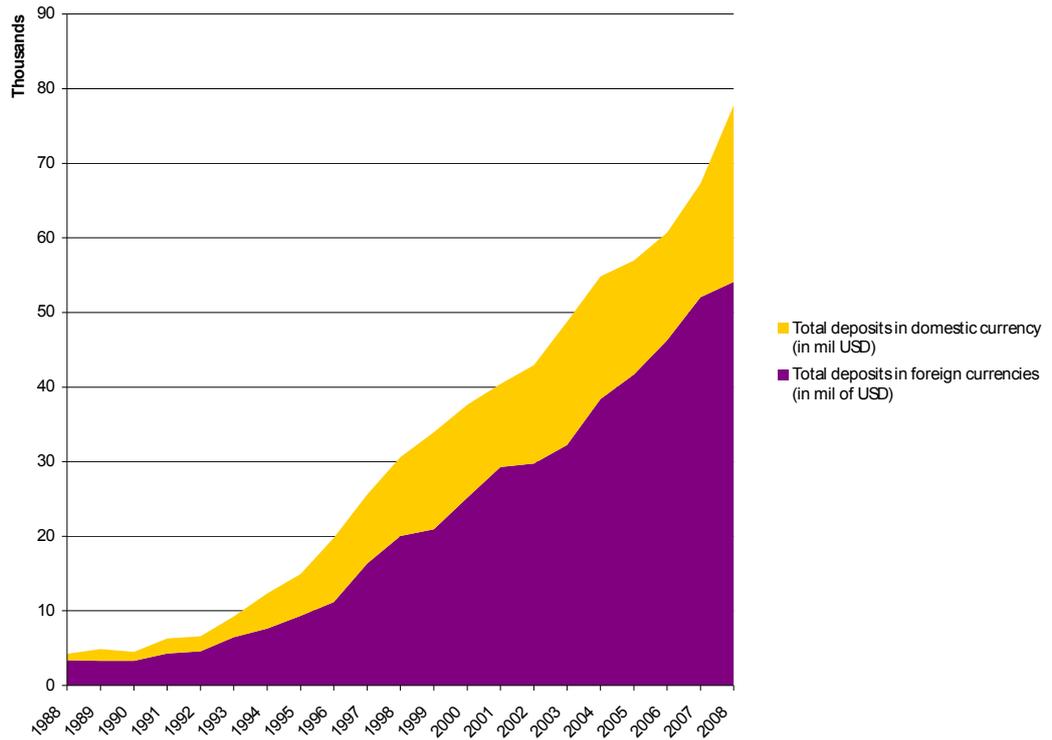
Figure 5 Remittances and FDI



Source: World Bank, 2007



Figure 6 Savings in Lebanese Banks



Source: Banque du Liban, 2009



Table 1 Correlations

		Correlations	
		Remittance	Household Consumption
Remittance	Pearson Correlation	1	.445
	Sig. (2-tailed)		.110
	N	14	14
Household Consumption	Pearson Correlation	.445	1
	Sig. (2-tailed)	.110	
	N	14	14

Data source: World Bank, 2007