

FACTORS AFFECTING THE GEOGRAPHICAL DISTRIBUTION
OF COMMERCIAL BANKS IN LEBANON—
AN ANALYSIS OF THE NEED FOR
FURTHER BRANCH BANKING
IN ALEY

by

Ghada Chammas

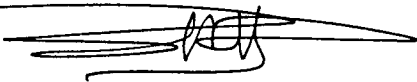
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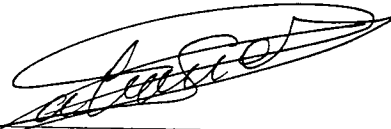
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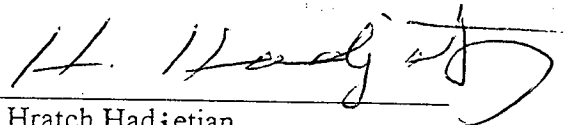
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ABSTRACT

FACTORS AFFECTING THE GEOGRAPHICAL DISTRIBUTION
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FURTHER BRANCH-BANKING
IN ALEY

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This research assesses the economic justification for establishing additional commercial bank branches in the Caza of Aley. The study is limited to the top-ten rating commercial banks in the country, which are determined according to specific criteria. The geographical centralization of commercial banks in Beirut and its suburbs is evaluated given population and economic activity. Besides, factors encouraging the geographical spreading of economic activity over the Lebanese territory are considered. As to the economic potential of Aley, it is analyzed in light of the return of the displaced and the regaining of economic activity. And finally, the attitude toward branching in Aley is probed through questionnaires distributed to the leading commercial banks.

(132 pages)

CHAPTER I.

AN OVERVIEW OF COMMERCIAL BANKING ACTIVITY IN LEBANON

The economic role of commercial banks

The financial system and its various financial institutions

Financial institutions are basic providers of economic prosperity and are vital to future growth in a market-oriented economy. In recent years, the financial institutions sector and the services sector as a whole were among the most rapidly-growing components of the U.S. economy as well as of the economies of other industrialized nations.

The loans of financial institutions are the major source of credit for all units in an economy; namely businesses, households, and governments. And the liabilities of these institutions are the chief means for payments for goods and services. Banks are defined in general as institutions that deal in money and money substitutes and provide other financial services as well. In short, banks accept deposits and make loans, then they derive a profit from the difference between paid and charged interest rates (the interest "spread"). (The Encyclopaedia Britannica, 1994, p. 870)

There are two types of financial institutions: intermediaries and brokers. Financial intermediaries acquire the IOUs which are issued by borrowers; these IOUs are called primary securities. On the other hand, such intermediaries sell their own IOUs to savers, and these are called secondary securities. For instance, a commercial bank accepts a saver's financial assets—checking or savings account—as debt, or secondary security. Then it may use this secondary security to make loans and investments by accepting IOUs, or primary securities, from borrowers. (Rose and Fraser, 1988, pp.3-

5) In the US, commercial banks are one of the major types of financial intermediaries beside credit unions, savings banks, savings and loan associations (S&Ls), money market funds, life insurance companies, pension funds, real estate investment trusts, and leasing companies. (Rose and Fraser, 1988, pp.5-6)

The other financial institutions are security dealers, investment bankers, mortgage bankers, and numerous other firms offering one or a small number of financial services like short-term credit for consumer purchases or savings accounts. These financial brokers do not create their own IOUs or secondary securities as do real financial intermediaries. Rather, they simply pass securities that are issued by other institutions along to other investors. (Rose and Fraser, 1988, pp.5-6)

Financial intermediaries and other financial institutions constitute a part of the financial system that serves the public. This system is composed of financial markets, institutions, businesses, households, and governments that interact together to define its operation. The basic function of the financial system is to channel loanable funds from savings-surplus units (mainly households), to savings-deficit units (mainly business firms and governments). (Rose and Fraser, 1988, pp.5-6)

In the financial system, central banks act as bankers to governments and frequently make healthy profits for them through various fees and security transactions. Also, central banks are responsible for regulating commercial banks by prohibiting excessively risky loans, auditing their financial records, supervising their management, and lending money to banks facing a crisis, as a last resort. Furthermore, in recent decades, central banks have become active as agents, and very often designers, of economic policy, by stabilizing foreign exchange markets and controlling the volume and expansion of money supply and credit availability.

The role of the financial system in any nation's economy is most vital, since the services it provides are very essential to the functioning of a modern economy. First, the financial system supplies credit to fuel purchases of goods and services, as well as to finance capital investment (in infrastructure, for example). Of course, investment enhances the standard of living of a nation's citizens through increasing the productivity of its resources.

Second, the financial system constantly develops innovative means for making payments. Such services contribute much to the simplification as well as to the sophistication of dealings between an economy's components.

Third, the financial system makes possible the creation of money that serves in all its forms nowadays as a medium of exchange, standard unit of account, and store of value. In modern economies, all types of money are debt, or IOUs, issued by a financial institution or a unit of government. For example, the checking account—very much in use in most industrialized nations—stands for a promise to pay by a bank.

Last, the financial system provides much incentive for the public to save, that is, to lend their surplus funds to borrowers and earn income in the form of interest, dividends, capital gains, and other. Moreover, the financial system sends out signals to savers through interest rates that reflect borrowers' present needs for additional funds. (Rose and Fraser, 1988, pp. 6-8)

There are different methods of moving loanable funds from lenders to borrowers in the financial system. This transfer occurs in both money and capital markets through either direct, semi-direct, or indirect financing techniques. Definitely, in direct financing, borrowers and lenders communicate without the aid of a financial intermediary or any other financial institution. Here, the borrower hands the lender stocks, bonds, or notes (or any financial asset) proving a claim against the borrower's

resources or income in exchange for money.

However, in semi-direct financing, borrowers and lenders rely on the intervention of brokers, dealers, investment bankers, or mortgage bankers to complete the lending process. Certainly, this serves to reduce transaction and information costs and improves the liquidity and marketability of securities through the growth of secondary, or resale, markets. Therefore, new potential investors may readily buy a borrower's "second-hand" security at the broker's or dealer's whenever the initial investor decides to reacquire the tied funds. Still, for reasons of safety (minimal default risk), liquidity (minimal money risk), accessibility (minimal denominations of savings amounts), and greater convenience, investors generally prefer the IOUs of a financial intermediary (indirect finance), namely a local banking institution. (Rose and Fraser, 1988, pp. 8-11)

In fact, financial intermediaries perform today many kinds of intermediation: denomination intermediation, by accepting small amounts of savings from individuals and others and pooling such funds to lend in large denominations to corporations and governments; default-risk intermediation, by lending to risky borrowers and simultaneously issuing safer and more liquid securities that attract savers' loanable funds; maturity intermediation, by lending borrowers on a long-term basis while borrowing relatively short-term funds from investors; information intermediation, by supplying fresh and relevant information about market conditions to the saver who comparatively lacks time and contacts; and risk pooling, by taking advantage of economies of scale in their activities. The latter means that greater stability in earnings and cash flow is achieved by investing in assets with a wide variety of risk-return ratios. Moreover, the operating costs per unit of an expanding intermediary tend to decline. Such advantages can hence be passed on to the public who benefits from

continually updated and competitive financial services. (Rose and Fraser, 1988, pp. 11-12)

There are different types of financial intermediaries despite that they all basically perform the same function—accepting primary securities from borrowers and issuing secondary securities to lenders. For example, contractual intermediaries, like life and property-casualty insurance companies and public and private pension funds, enter into contracts with customers for the purpose of saving and/or securing financial protection against loss of life or property.

Another group of financial intermediaries offers the public perpetuities or highly liquid securities to suit investors' preferences. This group includes mutual stock funds, bond funds, and money market funds.

For present interests, the functioning of commercial banks is especially important. Commercial banks are intermediaries of deposit-type, along with credit unions, S&Ls, and savings banks. Most of the secondary securities or sources of loanable funds of such depository intermediaries consist of deposits received from businesses, households, and governments.

Normally, inflows and outflows of cash concerning contractual and investment intermediaries can be more easily forecasted in contrast with those of depository intermediaries. And this is an advantage to the former, which are therefore permitted to minimize short-term liquid investments and stretch out for longer-term investment assets with more competitive yields. (Rose and Fraser, 1988, pp.12-14)

It is necessary to note that commercial banks are stock intermediaries as to ownership. That is, the owners of a commercial bank are its shareholders, and they are entitled to a share of any net earnings. Also, they have the power to elect the board of directors and to vote on any issues that are material to the whole organization.

As to depositors, they are the creditors of the bank; they receive interest on their deposits and have first claim against the institution's assets in case of liquidation. Most property-casualty insurance companies and finance companies are equally stockholder-owned corporations.

The characteristics of stock intermediaries are in contrast with those of mutual intermediaries. The latter are owned by their customers (depositors) who receive a share of net earnings in the form of dividends. Each depositor has a vote in any crucial decision affecting the institution (such as a merger or reorganization). Most savings and loan associations are mutuals, and so are savings banks and life insurance companies. (Rose and Fraser, 1988, pp.14-15)

Whatever the goals of a financial institution, it is always sound for management to be permanently attentive to new opportunities to increase the net interest-margin between yields on its assets and the return it pays to investors. The ways to do this are through reducing expenses: effectively using advanced technology, increasing the organization's size to reach economies of scale, or improving internal operating efficiency. New sources of revenue can be found as well by developing innovative services or penetrating new markets (maybe foreign).

In fact, reducing labor costs and overhead expenses by substituting capital for labor, as in automation, is within the area of management decision making, unlike reducing interest costs, which are exogenously determined in the regional or national savings market. Perhaps another relevant issue is the reduction in the need for more "physical" branch offices where unnecessary, either through mergers and consolidations of financial intermediaries, or through the "virtual bank"—automated financial services, such as widely distributed teller machines.

In any case, nevertheless, the key to a financial institution's success today is a focus on researching customer needs. Advertising, customer relations, prices of services, and the location of office and other facilities must be sensibly coordinated to reach customers and to satisfy their needs both efficiently and competitively. (Rose and Fraser, 1988, pp.16-21)

By definition, a business firm combines inputs such as land, capital, labor, and managerial skills to produce the demanded output. Financial intermediaries, in all their forms including the deposit-type—such as commercial banks—, are no exception here: they, too, seek to provide the adequate location and framework where labor and capital can be intelligently mixed with other resources in order to produce “products” specific to the industry—various financial services. This clearly reflects a two-stage production process: First, land, capital, labor, and managerial skills are applied to the sources-of-funds stage where interest-bearing deposits, insurance policies, safety boxes, and pension plans (to name a few) are designed to attract savings. Second, a certain amount of loanable funds is used mainly to make loans and different investments after the intermediary has put aside a percentage of its inflows in reserves to honor short-run demands for cash. This is the uses-of-funds stage, the principal function of a financial intermediary.

The economic problem involved is not too difficult to define: management seeks to raise funds from savers at the lowest possible cost (interest on deposits) while attempting to acquire various assets with the highest possible return rate, keeping in mind organizational goals and other regulations.

As far as goals are concerned, some financial intermediaries aspire for a larger share of the local market (for savings, loans, and investments). Others hope to grow and expand the range of their services to the public. Still, more aggressive institutions

head for maximizing profits in order to maximize shareholders' wealth. (Rose and Fraser, 1988, pp.15-16)

The commercial bank

Commercial banks are required to keep only a portion of total deposits as cash and near-cash, which includes short-term, safe, and liquid instruments such as treasury bills, commercial paper, and deposits at central or other commercial banks. Also, commercial banks make loans generally by crediting borrowers with an addition to their checking accounts, which are in effect approved overdrafts. Afterwards, most payments generated by the loan actually return to the banking system as deposits. (The Encyclopaedia Britannica, 1994, p. 870)

Definitely, the list of financial services offered by commercial banks is expanding continually to include automated transfers of funds between checking and savings accounts, ATMs, discount brokerage services, installment credit to customers who want to purchase durable goods and cover household expenses, real estate credit to finance the construction and purchase of homes, offices, buildings, etc., and extension of leases for businesses. As to the more innovative services that many commercial banks wish to apply around the globe, they are following: to acquire full authority to sell life and property-casualty insurance policies through branches, and to offer a wide range of brokerage services. However, there is intense competition in such financial fields, and monetary authorities, on the other hand, are reluctant to grant permission for commercial banks to perform such ambitious activities as they might unnecessarily increase risk exposure, leading to escalating numbers of bank failures. (Rose and Fraser, 1988, pp. 171-175)

Commercial banks are very influential indeed in the economy and are the most important type of financial intermediaries offering services to the public for the following reasons: First, they hold more assets than any other financial institution. Second, they transfer national economic (especially monetary) policy to the rest of the economy: Fluctuations in the availability and cost of bank credit imply changes in spending, employment, and inflation. In fact, this is logical since bank deposits represent the primary constituent of a nation's supply of money.

In addition, the access of consumers, businesses, and government units to bank credit and various bank services is particularly essential. To specify, first, most consumer credit is supplied by commercial banks, either directly (through loans and credit cards) or indirectly, through loans to retailers of various consumer goods. And such indirect facilities can be passed on to purchasers in the form of discounts, installments, and various other marketing policies.

Second, businesses normally refer to a bank first especially to finance purchases of inventory, payments of taxes, or general maintenance through short-term funds. And finally, governments borrow from the banking system when tax revenues prove insufficient to cover on-going expenditures. (Rose and Fraser, 1988, pp. 163-164)

A wide variety of financial institutions are nowadays known as banks. Namely, there are investment banks that purchase corporate and government securities and then resell them in the open market for a certain profit. This is called underwriting. Also, there are industrial banks; they accept consumer savings deposits in small denominations and normally make cash loans to wage earners. Moreover, savings banks receive their funds especially from individual and family savings, and invest such funds principally in mortgages and corporate bonds (sometimes in common stock).

However, traditional banking services are not merely offered by institutions named “banks”, but also nowadays by many insurance companies, brokerage firms, and mutual funds. Examples are liquid money market savings accounts as well as transaction accounts (checkable deposits).

Nevertheless, the exact meaning of a bank is a financial institution offering two major services to the public. The first service is current (transactions, or checkable) accounts, and the second is direct loans to individuals, businesses, etc. A commercial bank most closely fulfills this definition: its checking accounts are publicly accepted as money, and its principal assets are loans (although it can invest in securities such as corporate and government bonds).

Beside regular checking accounts, other deposit facilities are offered by commercial banks as well, such as interest-bearing draftable accounts (NOW accounts in the US, standing for negotiable orders of withdrawals), savings deposits, interest-bearing time deposits, and money-market deposits. (Rose and Fraser, 1988, pp. 164-165, 171)

Expanding money supply in the economy through making loans and investments is a major function of commercial banks. Indeed, commercial banks create a larger volume of funds than they receive from their depositors due to the proportional cash reserve requirement.

A commercial bank can also provide trust services to assist individuals, businesses and other organizations in the economy in managing their properties. Modern bank trust departments around the world depend upon the skills of economists, financial analysts, and lawyers in order to secure maximum benefits to customers when managing portfolios of stocks, bonds and other assets for individuals and businesses.

More specifically, when acting under the power of attorney, a trust department can borrow money, pay bills, cancel or renew insurance policies, lease or purchase real property, and endorse legal documents on behalf of a customer. For a corporation, a trust department can retire securities, organize and run pension funds, distribute dividends to stockholders, maintain mortgaged property, etc. And bank trust departments can protect the assets of a deceased person and liquidate them to reimburse creditors and heirs, if appointed by a court of if specified in the deceased's will. Furthermore, parents can place stocks or bonds under the discretion of a trust department until their children reach an age when they need substantial funds.

To add, commercial banks provide essential financial services for business customers involved in international trade and finance, such as credit guarantees for importing firms. Also, banks can lend foreign governments and multinational corporations that wish to construct new plants and succeed in acquisitions. Further, banks can provide valuable information about foreign markets and investment opportunities. And of course, they can make use of technical expertise and long-term experience to buy and sell foreign currencies on behalf of their customers. (Rose and Fraser, 1988, pp. 170-174)

Because the role of the commercial bank is so influential in the community, all its activities are closely regulated and supervised by monetary authorities with which it is expected to cooperate: The expansion of money and credit should stay in harmony with macroeconomic goals of full-employment, economic growth, a certain degree of price-level stability, and balance-of-payments equilibrium.

A commercial bank also has serious social commitments: its practices of lending, investing, and other business activities must be executed in a sensible and careful way so as not to jeopardize the safety of depositors' funds or shake public confidence in the

nation's financial system. (Rose and Fraser, 1988, pp. 175-176) Banking, in effect, depends entirely on public confidence in the soundness of the financial system: no bank can instantly reimburse all its depositors. This is why commercial banks usually stick to short-term lending, which involves less risk.

As briefly mentioned earlier for financial institutions in general, the key goals for a commercial bank are one or more of the following items: a) satisfactory or maximum profitability; b) increased growth rate in assets, sales, funds sources, or credit accounts; c) better service to the community; d) maintenance of adequate capital; e) greater share of target markets; f) greater efficiency and productivity in resource employment; and g) greater diversification in services offered and in market areas served.

For growth- and market-share-oriented financial institutions, the basic argument is that what proves better service to the community is faster growth and an expanding share of the local market. This is a benefit for society: there will exist much larger institutions with a stronger resource base to offer new services, acquire new subsidiaries, and build more up-to-date facilities.

And for maximum-returns-oriented institutions, it is again particularly satisfactory and competitive service to customers that leads to increasing operations and greater net earnings. (Rose and Fraser, 1988, p. 197-198)

The role of commercial banks in the Lebanese economy since the Independence

Development stages of commercial banking in Lebanon before the 1975-1991 war

Foreign banks have always occupied a dominant position in the Lebanese banking system. In fact, in 1945, five of the only nine banks in the country were foreign, and

another one was locally incorporated under non-Lebanese Arab control. Roughly speaking, on the eve of the Intra crash in 1966, there were 90 banks of which 60 were Lebanese; the rest were either foreign banks (incorporated outside Lebanon) or jointly-held banks incorporated in Lebanon, with a usually dominating foreign interest in their capital. However, this “rest” accounted at the time for 63 percent of total deposits in the country. By the end of 1968, the number of banks had fallen to 73, of which only 34 were purely or predominantly Lebanese. These dropped to 29 in 1974 (the total number of banks in the country remaining the same as in 1968), due to foreign acquisition. (Hoss, 1974, p. 18)

Prior to the Intra crash in 1966, some banks in Lebanon engaged extensively in long-term investments, including real estate and equity investments. However, after the Intra crash, and under pressure from the Banking Control Commission that was formed in 1967, they returned to the more traditional scope of banking activity. And many banks that were obviously practicing unorthodox operations were liquidated under the reform program, which was executed after the Intra failure.

Still, many banks have legally continued to supply medium-term credit under the guise of short-term advances rolled over at maturity. In fact, individual banks have lent their prime customers for up to 8 years of maturity.

Commercial banks have also played a major role in some international issues floated in Lebanese pounds, since 1972: they took a minor portion of the issues of the European Investment Bank and Renault, but almost the whole issues of the World Bank and of the State Bank of India loan. (Hoss, 1974, pp. 32-33)

The role of banks in medium-term lending was reinforced by an amendment of the Money and Credit Law of November 1973. This amendment empowered the Central Bank to extend one-year loans, renewable if needed against 3-year paper originating in

industrial, agricultural, public-works, or export operations. Given that commercial banks were already engaged in medium-term (roll-over) financing, the newly approved introduction of medium-term paper only formalized the going practice. (CEPRA, 1995, p.85)

Lebanon had focused for long on trade, banking, and services, and it relied on its economic relationships with neighbor-countries in order to secure a sufficiently large market for its 200 silk-reeling factories built in the 19th century. Soon Europe saw in Beirut a door to the Middle East, and powerful Lebanese merchants and bankers imposed their role as mediators. In the 1920s, Lebanon's territory was enlarged and entered in economic union with Syria under French supervision. The National Pact of 1943 then implied that a partnership of Maronite and Sunni merchants, bankers, and landowners would rule Lebanon and define it as an Arab state within the Middle eastern economic order to be established after the Second World War. Before then however, ties with the Arab world had intensified and Lebanon had become a significant exporter of key commodities such as cement and textiles. Hence, by the Independence, Lebanon outweighed the Arab East in terms of per capita income, literacy, infrastructure, and the share of manufacturing in national income (despite its uninterrupted emphasis on banking and services). Maintaining and expanding that regional economic role gained therefore increasing importance among post-war goals. (Barakat, 1988, pp.27-29)

Over 25 years starting from 1950, the Lebanese economy expanded rapidly, at an average yearly rate of 7 percent. Accounting for population increase, growth was at a rate of 3 to 4 percent per capita. This expansion was only intermitted by the recession following the Intra Bank crash in 1966 and the Middle Eastern war of 1967. The contribution of the tertiary sector (trade, banking, and services) increased from two-

thirds to almost three-quarters mainly because Beirut's financial institutions refuged and recycled Arab capital. In fact, Lebanon's banks increased from 9 in 1945 to 93 in 1966. C. Dubar and S. Nasr estimate that nearly two-thirds of the Gulf's oil surpluses passed through Lebanese hands between 1956 and 1966, and A. Badre believes that 60 percent of inflowing Arab money was invested in real estate. In effect, Lebanon's large import surpluses were paid for by its financial and other services. (Barakat, 1988, pp.33-34)

During the 1943-50 period, national income continued to rise, 381 new plants were added to the 220 that were established between 1939 and 1945, and prices started falling after the war-related inflation, all despite many potentially hazardous developments. In fact, the investment of accumulated wartime profits and the country's ability to share the advantages of economic growth in neighbor-countries (namely Syria and oil-exporting Gulf countries) had offset such difficulties as the end of the Anglo-French military spending, the shortage of hard currencies (especially dollars), post-war unemployment, the loss of the Palestinian market as of 1948, and the inward movement of about 150,000 Palestinian refugees.

Syria hoped to constitute with Lebanon a united front to the strong economic French hegemony, but when Lebanon passed its own monetary law independently in May 1939, Syria formed its own currency as well, and Lebanese-Syrian economic relations degraded. The customs union broke up in 1950 and Syria; the most important external market for Lebanese commodities stopped importing Lebanon's industrial and agricultural products (but trade was less jeopardized) until 1952. In 1953, the Lebanese government felt the need to further enlarge its market base and ratified two important economic treaties set by the Arab League in order to foster trade, commercial payments, and the movement of capital among member states. And

despite the prevalence of a generally liberal regime between 1948 and 1952, holdings of foreign currencies were still rationed so as to purchase only necessities from abroad.

In 1964, Lebanon was finally able to establish its own Central Bank. A French mission from the Institut de Recherche et Formation en Voie de Développement Harmonisé (IRFED) coached the issuing in 1965 of the First Five-Year Development Plan. (Barakat, 1988, pp.29-33)

In reality, the banking system in Lebanon has undergone a long evolutionary process that led to its strength. The first bank in Lebanon was established back in 1876. After the Second World War the mixture of external factors with the very favorable Lebanese legislation permitted the creation and development of a strong banking sector with an internationally renown image, both during prosperous and difficult times. The particular reasons that fostered the Lebanese banking sector's success are in part the following: a) The totally unrestricted freedom of exchange and transfer of capital. As of the Lebanese Independence in 1943, absolute liberalism has reigned banking-wise, and in 1948 a special law had confirmed it. This regime was maintained despite all constraints imposed by the 16-year-old war; b) The law of September 3, 1956, concerning complete banking secrecy even in the face of administrative, fiscal, military, and judicial authorities—secrecy is almost only broken at the customer's written request or in the event of his bankruptcy; c) The possibility of opening a numbered account (or renting a safety box), the holder of which is known only by the bank manager or his designated officer; d) The possibility of opening a joint account that can function by any one of the two depositors' signatures (the bank keeps the secret about heirs in case of decease); e) The exemption of savings accounts (and recently all current accounts) from taxation. Interest on physical persons' debts, plus-values, repayments to creditors and shareholders, and interest on Lebanese Treasury

bonds are also tax-exempt; and f) Foreign-currency deposits are tax-exempt and also freed from the obligatory reserve and the downpayment for deposit security. (Nasr, 1995, p.188)

Effects of the 1975-1991 war on commercial banking in Lebanon

Since the October 1973 Middle-East war, the already defined services-oriented character of the Lebanese economy has been reaffirmed. Finance especially occupied center stage and was first among commerce, transport, communications, and other services. The factors that led to this phenomenon were: the increase in oil prices, the rise in the Arab oil exporting countries' financial resources, the improved climate of peace and stability in the Middle East, and the shift to more liberal policies in countries like Egypt and Syria (although competing with Lebanon), vis-à-vis foreign investments. (Hoss, 1974, p. 6)

Following the Intra crash, a five-year ban on the establishment of new banks was announced in the banking reform law of May 1967 (Law 28/67). The ban was also extended for another five years to follow the first expiry.

Since October 1973, all banks (domestic and foreign) had to be regulated and supervised, for major upheavals occurred since that year on the international banking scene, naturally affecting the Lebanese banking sector. And the situation was worsened by the closure of the US National Bank of San Diego in October 1973 and of I. D. Herstatt (one of the largest private German banks) in June 1974, and the virtual collapse of the New York bank, Franklin National, as news of its enlarging foreign exchange losses started to spread in May 1974. Since foreign banks were dominant in Lebanon, the situation was more difficult to control because such banks were ultimately managed abroad. (Hoss, 1974, pp. 22, 24)

The Banking market has greatly changed in structure relatively to what it was like before the 1970s. During the long 16 years of war in the country, foreign banks slowly retrieved from the Lebanese banking sector. Lebanese-owned banks were not affected until the severe Lebanese-Pound depreciation that marked the 1980s. Inflation, the loss of confidence in the country and its currency and banking system, the devaluation of the capital of banks denominated in Lebanese Pounds, the loss of investments caused by destruction and the stillness of the economy, and the difficulty in attracting resources, all threatened Lebanese banks. On the other hand (and since exchange controls were nonexistent), Lebanese depositors placed their money abroad for safety; logically, the foreign-owned banks (with foreign-currency capital) that stayed in the country have largely benefited from the prevailing situation.

Therefore, a few local banks have followed their customers abroad and developed international networks. But the other Lebanese banks were overwhelmed with negative factors and their limited (often family-owned) capital could not help consolidate their position.

Adding to the former, management errors and the weakness of existing monetary authorities further weakened trust in the system. The Central Bank had hence to intervene many times to sustain falling banks by lending them capital over the long term. However, when even this failed, financially sound banks were allowed to undergo liquidation. As a consequence, the Central Bank adopted strict measures of control especially through the Banking Control Commission. (Nasr, 1995, p.189)

Opportunities after the 1975-1991 war

The sources and uses of banks' funds during 1995 showed that the Lebanese banking sector is on the right track of modernization and on the way to recuperate its

position in the country's economic life. However, local as well as regional challenges demand the following measures for a promising future: a) To reorganize internal structure so as to raise efficiency and productivity: new customer-specialized departments should be created and manpower constantly recruited; b) To plan and develop customer-oriented programs that fit organizational objectives; c) To keep track of modern economic studies and financial information as well as technological and sectorial research; d) To engage in private banking (trust departments) and corporate finance; e) To create and launch new services and attractive savings/investment instruments; f) To change long-kept attitudes and participate in solving the country's social and economic problems: without being charitable institutions, banks that hold national savings are considered by the public as committed to economic and social well being; and h) To improve collaboration with monetary and financial authorities in order to devise programs that progressively untie neutralized capital at the Central Bank and/or the public Treasury in order to reorient them towards the financing of highly productive socio-economic activities such as housing, industry, tourism, large-scale infrastructure projects, and small and medium-sized enterprises. (13. Sanan, 1996, *Le Commerce du Levant* 5375, p.34)

Branching over the different parts of the country is also a major post-war opportunity for commercial banks. In fact, targets of performance micro-wise would justify performance on macro levels: Indeed, branching properly done would be one of the vehicles for successful micro performance, through increasing deposits (market share), loans (assets), and net income. Such developments would be balanced with increased capitalization (the major new trend of commercial banks in Lebanon) so as to keep ratios of solvability sound. In parallel, on a macro level, the different emerging markets of the country would start having the required financial infrastructure basic to

post-war development.

Within a framework of fierce competition in the banking sector, not to act means to regress for every single institution...

According to a market study by the Financial Funds Advisors, the sectors that will mostly benefit in the future from the growth in the Lebanese economy are tourism, construction, and banking. (Le Commerce du Levant 5375, 1996, p.36) Recently, significant investments were placed in banking institutions in Lebanon, mainly for the purpose of enlarging their capital base, and some foreign banks have opened new branches in the country. (Morcos, 1996, Le Commerce du Levant 5375, p. 56, January 4)

After the war years, the banking market is now reshuffled, but healthier. Overall, by September 1995, 79 banks were operating in the country, and commercial banks were, and still are, the most numerous; however, they unequally share the market: The first 10 banks in 1994-95 held over 61% of the market, and the first 20 contributed in about 80% of the aggregated banks' balance sheet. This marked concentration is especially due to the exploitation conditions that prevailed during the war years.

The Lebanese banking sector has experienced a pronounced evolution over the past few years, both quantitatively and qualitatively, after a strong contraction between 1983 and 1990. From 1990 to 1993 and to 1994 respectively, banking activity as measured by the aggregated commercial banks' balance sheets rose from \$5.6b to \$10.99b, to \$14.75b (a yearly average progress of at least 40%). (Nasr, 1995, pp.186,188-9) The consolidated balance sheet figures kept rising from about \$19b end-1995 to about \$23b end-1996 and totaled more than \$24b by end of February 1997. (The Lebanese Bankers' Association: Internal Publication, February 1997, p.36)

According to the Governor of the Central Bank, Mr. Riad Salamé, the banking sector in Lebanon is healthy: Capitalization vs. total assets increased from 2.6% in 1994 to 4.2% in September 1996. Besides, the Lebanese banking sector is among the most liquid in the world, and it has overstepped the 8% required ratio of solvability by far. (Le Commerce du Levant 5397, 1996, p.26)

As an example of post-war opportunities open to commercial banks nowadays in Lebanon, four major commercial banks in the country (Audi, Byblos, Crédit Libanais, and Méditerranée SAL) have launched long-term obligations on the international financial markets in order to participate actively in the Lebanese post-war economic process of reconstruction in the broad sense. Such successful efforts are to foster image both locally and abroad as well as to equip these banks to lend over the long-term for various consumption and investment purposes on the local scene. Certainly, the awaited Peace Process would further enhance the creditworthiness of the individual borrowing intermediary and of the Lebanese banking system as a whole and it would raise investors' confidence in the political and economic situation in the country. (Francis, 1997, Le Commerce du Levant 5401, pp.50-51, January 9)

Over the past three years, bank loans to the public sector amounted between 28 and 30% of consolidated assets in the banking sector; as to loans to the private sector, they grew from 32 to 36% of consolidated assets. To elaborate on customer-oriented products contributing positively in solving the country's post-war socio-economic issues, it is relevant to mention that the Central Bank has decided to assist banks that extend housing loans through exemptions on their mandatory reserves, and it has issued a memorandum to organize housing-savings programs. Other memorandums have also organized the promotion of a medium-term credit market that would raise profits for the banking sector. Given that the Lebanese government has limited means

concerning any comprehensive housing policy, it will have to involve the private sector in such a policy, i.e. banks, financial institutions, and/or even housing and construction businesses. The government can simply subsidize interest rates on housing loans. (Le Commerce du Levant 5397, 1996, pp.22-26)

Under the heading of post-war opportunities, it is imperative to mention that foreign capital will be needed in the Lebanese post-war development process, for the forecasted domestic investment required exceeds domestic savings anticipated for the coming years. As to the motives for capital inflows into the country, they are: a) a greater political, monetary, and economic stability, and b) a high marginal efficiency of capital (due to the small size of capital available in the country).

Therefore, the Lebanese financial markets should be developed in order to: a) act as a channel for capital inflows, and b) move Beirut towards regaining its renown “regional financial sector” function.

Moreover, financial markets should be organized so as to fulfill their multidimensional role of: a) pooling risk, cost, and resources; b) availing the required information and transparency for investors and lenders (especially foreign); and c) securing greater liquidity through creating secondary markets and transforming non-liquid assets into marketable securities.

Bank lending in Lebanon (the main source of corporate finance other than retained earnings and internal sources of funds) has been concentrated in callable overdraft facilities which will be eventually replaced with marketable securities. The banking sector and financial markets with their related services constitute important sectors in the economy: they contribute in over 40% of GDP (Gross Domestic Product). They also employ a considerable fraction of the labor force. Hence, the expansion of these sectors would enhance real economic activity. Therefore, the banking system should

provide corporate finance, investment banking, and asset management services. Instead of providing bank debt and lending to their corporate borrowers, banks should arrange finance through debt and equity issues on the securities market.

Financial markets would channel capital flows toward medium and long-term productive investments, avoiding in the process any inflationary pressures on real estate and Treasury bills prices and the appreciation of the real-exchange rate which reduces external competitiveness. Financial markets can support the future privatization of the public sector and provide funding for an awaited series of mergers and acquisitions in the corporate sector. And finally, Beirut's financial markets should mobilize and channel capital back into the Middle-East region in which countries seek funds to support their rebuilding, reform, privatization, and liberalization.

Lebanon can develop a comparative advantage as a regional financial market thanks to: a) Beirut's strategic and central geographical location; b) Beirut's long-practiced tradition as an international banking center along with proficiency in law, accounting, and auditing; c) a low level of personal and corporate taxation, particularly concerning the absence of discriminatory tax barriers to foreign investments; d) unrestricted currency convertibility; e) the absence of capital controls; and f) a liberal financial policy combining bank secrecy with flexible exchange rates, currency convertibility, and uninhibited capital movements.

However, the legislative infrastructure pertaining to financial markets and the banking sector needs revision with a view to adopt modern trading systems and technology and applying international regulatory and supervisory norms. This would be addressed through a sound capital markets legislation and a largely autonomous Beirut Capital Markets Board (BCMB) and Commission (BCMC). (CEPRA, 1995, pp.13-23)

Maybe the single most important category of major capital-market institutions is commercial banks, because: a) they are major mortgage-lending institutions; b) their trust departments manage large pensions as well as portfolios of individuals and estates; c) their loans are direct competitors and alternatives to capital-markets financing; d) they are the most influential of all financial institutions in the local economy, and any development of capital markets should rely on them at least during initial stages; e) they also already have the experience in financial analysis, and their reputation inspires investors' confidence, so they may prove to be the most effective investment bankers; f) they constitute virtually the only segment of the Lebanese financial market that is presently reasonably well-developed; g) they have very high liquidity and capital-adequacy ratios, and many of them are very profitable as well; h) they have a history of close relations with foreign banks to the extent that several international banks have expressed interest in establishing activity in the country, and a number of them are already operating in Lebanon; and i) they have launched after the war new, promising financial products aimed at meeting customer needs.

Still, the post-war restructuring of the banking sector remains a priority: a) The international position of Lebanese banks should be reinforced (through higher solvency ratios, mergers, and the issuance of new stocks); b) Banking operations and structures should be legally investigated in terms of doubtful debts, the process of dollar-economy, the role of the Banking Control Commission, and other operational aspects; and c) Commercial banks particularly should reshuffle their "uses vs. sources" of funds so as to become the leading financial intermediaries, participating actively in the development of the private sector and the financing of productive projects. (CEPRA, 1995, pp.81-84)

It is important to note, however, that the Code of Money and Credit does not define such financial services as portfolio management, counseling, and financial engineering within the scope of activities of Lebanese banks. Therefore, amendment is necessary. (CEPRA, 1995, p.86)

Lebanese commercial banks can foster capital markets both directly and indirectly. The direct approach would be through investment in joint-stock companies (within legal boundaries), participation in stock-exchange transactions (with the approval of the Central Bank), underwriting (with the assistance of specialized banks), the support of increased sales of government or municipal bonds (either by purchasing or encouraging customers to buy them), as well as the support of public companies in issuing debentures, and encouraging long-term deposits (reserve requirements may be inversely proportional to maturities).

Indirect measures through which commercial banks can expand capital markets are, for example, to convince the public of the advantages to purchasing stocks, to initiate advertising campaigns, and to offer to act as trustees in transactions involving shares. Knowing that such direct and indirect efforts will adversely affect banking intermediation, particularly on the sources side (deposits will drop), financial intermediaries will have to borrow on the financial markets... (CEPRA, 1995, pp.86-87)

The geographical centralization of commercial banks in Lebanon

The distribution of branches of commercial banks among the various Lebanese regions

In 1994, a remarkable geographical expansion took place within the network of active banks in the country: the number of branches (including the main) increased. (Le Commerce du Levant 5378, 1996, pp.42-5) Geographically, Beirut is always the major destination of bank credits. (Chammas-Megarbané, 1996, Le Commerce du Levant 5381, p.24, March 28) In 1994, for instance, Beirut and suburbs contributed in 74.5% of total deposits and 84.9% of total credits. (Banque Audi SAL: 1994 Performance Highlights, 1995, p.4)

At the end of 1995 there were 80 banks in the country, 74 of which commercial banks and the rest specialized. As to the number of branches, they were 596 in total, of which more than 56% located in Beirut and its suburbs and more than 17% in Mount Lebanon. The remaining 27% were divided among the Bekaa and in the North and South. (From end-1994 to end-1995, the total number of branches increased by 17: 8 were added to the region of Beirut and 3 to each of the other Mohafazats.) (Sanan, 1996, Le Commerce du Levant 5375, p.30, January 4) More detailed information can be found in Tables 1 and 2. Table 1 shows the number for each type of banks in Lebanon, and Table 2 shows how many bank branches are located in each Mohafazat.

TABLE 1: Structure of Banking Sector—1995

CATEGORIES OF BANKS	NUMBER
Lebanese SAL	46
Arab-Controlled Lebanese SAL	10
Foreign(non-Arab)-Controlled Lebanese SAL	5
Arab	5
Foreign	8
TOTAL Commercial Banks	74
Specialized Private	3
Specialized Mixed	3
TOTAL	80

(Sanan 96, Commerce 5375, p.30)

TABLE 2: Geographical Distribution of Branches—1995

MOHAFAZATS	NUMBER	Percent
Beirut and Suburbs	335	56
Mount-Lebanon	102	17
North-Lebanon	65	11
South-Lebanon	51	9
Bekaa	43	7
TOTAL	596	100

(Sanan 96, Commerce 5375, p.30)

*: Percentages were not calculated in the original document.

By June 1996, there were in total 81 active banks, with 628 active branches in the country, according to the Lebanese Bankers' Association, with 58% of branches in Beirut and suburbs (an obvious centralization) and 17% in Mount-Lebanon. Table 3 presents more insight into the latest documented geographical distribution of active banks and their branches among Mohafazats in Lebanon (Sanan, 1997).

Looking into Table 3, it quickly appears that branches are agglomerated in the highly active coastal cities. Within Mount-Lebanon, the coast extending from Zouk to Jounieh, in addition to Jbeil, alone takes up more than 50% of branches in the region. Tripoli has more than two-thirds of branches in the Northern Mohafazat. Saida and Tyr score the bulk in the South. For the Bekaa, an in-land Mohafazat, the traditionally prosperous cities of Zahle and Chtaura house more than half of bank branches.

depositor) are weighty in banks, unlike in other countries where savings are distributed among a host of institutions and financial products. (L'Orient-Le Jour, October 24, 1996, pp.2-3)

Central Bank regulations relevant to branch-banking in Lebanon

Following are some important items from articles governing the opening and closing of branches, issued by the Central Bank on February 22, 1992 (signed by Governor Michel Khoury).

First, any bank wishing to open a branch should get prior approval from the Central Bank's Central Council and present an application to the Governor of the Central Bank, along with three documents: a) a study (according to a special format described shortly); b) legal documents proving the decision to open a branch according to formal procedures; and c) audited reports of no more than 3-months old (according to the format presented by the Central Bank).

The Governor presents the application and legal documents attached to the Control Committee and the Administration of Affairs ("Moudiriyat el Kadayat") for opinion. The Central Bank approves on the application provided the following conditions are met: a)* the economic benefits of opening the branch are worthwhile; b)* the bank proves capable of handling the burdens of opening the new branch; c) the bank operates according to the Code of Money and Credit and related bank laws, and its management and financial situation are healthy; d) the bank operates according to the directives of the Central Bank and the Control Committee; e)* the bank has sufficient capital for opening the new branch; f) the general management of the bank can support the new branch and has a comprehensive internal audit system; and g)* six months

have passed after the last approval on, and launching of, the last newly-opened branch, unless otherwise allowed by the Central Council.

If any branch causes serious burdens on the overall situation of the bank, the Central Council can retrieve the initial approval on its opening, based on the suggestion of the Bank Control Committee.

The expression “branch to be established” or any other similar expression should not appear in any documents, publications, or advertisements prepared by the bank before the Central Council approves on the opening of the new branch. Moreover, the bank should not start preparing the new branch before formal approval, or else the application will be declined and punishment measures taken as seen by the Supreme Banks’ Order. Furthermore, the approval on the application will be declined if the bank does not operate the new branch within a delay of one year from the date of approval.

It is important to note that take-over operations are considered as openings of new branches and are governed by the laws related to opening a new branch. However, the Central Council can relieve the acquirer bank of some conditions, procedures, and deadlines whenever seen appropriate for general interest. And were a bank to shift a branch from one location to another, the laws governing the opening of new branches apply.

All sub-items with a star do not apply if the bank were to shift the location of a branch situated in Beirut and suburbs (extending to Khalde south, Baabda east, and Nahr el Kalb north), Tripoli, Saida, Tyre, Zahle, Baalbeck, or Jounieh, to another location on the same street, a directly-related street, or to other Lebanese regions within a 1-Km radius.

The format of the study, as presented by the Central Bank, requires to supply the following information (among other): a) economic data about the location selected, including monetary income, social and economic statistics, and growth potentials; b) bank branches already existing in the selected region, and their proximity to the proposed location of the new branch; c) important official, commercial, industrial, agricultural, or other establishments situated in the selected region and their addresses; d) reasons for establishing the new branch, including expected deposits and the expected development of the branch; e) detailed information about the new location, including address, the status of occupation (i.e. rent or purchase, relation between landlord and bank, date of establishment, purchase price or annual rent, repair expenses, and evacuation compensation in the case of rent), and architecture (i.e. surface, number of floors and space, location of floors in the building, space specified for customers, and distribution of remaining space); f) bank policy concerning the branch, i.e. whether it is going to be only a place to accumulate deposits or it is going to extend loans, and what the branch manager's authority will be; g) staff, i.e. their number, ranks, salaries, the name of the branch manager and his/her qualifications; h) general management capacity to absorb and control the accounting and machinery system, the audit and control system, telecommunication, and the management of the network of branches; i) expenses of opening the branch, specifically the costs of local, various decoration fees, furniture, and equipment of all sorts; j) expected volume of operation as of the date of opening the branch, other than deposits to be transferred from existing branches of the bank to the new branch, for the 3 coming years (year by year, end-of-year), concerning the expected deposits (in LBP and in foreign currencies calculated in USD) and the expected credit to be extended (in LBP and in foreign currencies calculated in USD). (Banque du Liban, 1992)

The conditions pertaining to the establishing of a local or foreign bank in Lebanon are treated in the first four sections of the third chapter in the Code of Money and Lending as well as its relevant modifications. In general, the Central Bank's Central Council (Article 128) should authorize the establishing of a Lebanese bank or of a foreign bank's branch in the country. And for a foreign bank to open an agency in Lebanon, it should devote to it a certain minimal part of its total capital, as assessed by the Banque du Liban's Central Council.

In 1994, all banks had to secure sufficient amounts of capital in order to fulfill the following conditions: a) LBP 1,000 m for the head office, and b) LBP 100 m for each of the branches or agencies in the country. (Nasr, 1995, pp.26-7)

In 1996, the Central Bank proposed higher minimum levels of capital for both headquarters and branches of banks in Lebanon: a) LBP 5b would be required for the headquarters; b) LBP 3b would be required for each of the branches located in Beirut and the main cities; and c) LBP 1b would be required for each branch in other regions of the country. (Sanan, 1996, *Le Commerce du Levant* 5381, pp. 28-30, March 28)

Most recently, however, the Central Bank has issued a memo stipulating that in 1997, every bank operating in Lebanon should devote a minimum capital of: a) LBP 10b for its headquarters, and b) LBP 250m for each of its branches. (*Le Commerce du Levant* 5397, 1996, p.26)

This research assesses the economic justification for establishing additional commercial bank branches in the Aley Caza, and it is limited to the top-ten rating commercial banks in Lebanon. The research will therefore determine the demand for geographical decentralization in banking services in Lebanon in order to reach Aley in particular, via branch-banking, and then to analyze the attitude of the leading

commercial banks in Lebanon to such a decision. Therefore, the apparent geographical centralization of banks and their branches and services in Beirut and suburbs should be studied, the potential of Aley as an inviting region for branching has to be tested, and the top commercial banks in Lebanon must be identified according to generally accepted criteria.

The geographical centralization of commercial banks in Beirut and its suburbs is evaluated given population and economic activity. Besides, factors encouraging the geographical spreading of economic activity over the Lebanese territory are considered. As to the economic potential of Aley, it is analyzed in light of the return of the displaced and the regaining of economic activity. And, finally, the attitude toward branching in Aley is probed through questionnaires distributed to the leading commercial banks.

Chapter I was an overview of commercial banks in general and in Lebanon in particular. Chapter II elaborates on the role of and need for commercial bank investments in the Lebanese post-war development process. Chapter III details the research objectives, which are, in brief: a) Searching criteria for ranking commercial banks in Lebanon and identifying top banks; b) Determining the demand for geographically decentralized banking services, namely in Aley; and c) Analyzing the attitude of leading commercial banks toward new branching in Aley. Afterwards, Chapter IV holds the methodology by which objectives will be met, Chapter V summarizes the research results, and Chapter VI concludes with a comment on the results achieved, the beneficiaries of the research, and the limitations of the work.

CHAPTER II.

THE ROLE OF AND NEED FOR COMMERCIAL BANKS IN THE LEBANESE
POST-WAR DEVELOPMENT PROCESSThe relation between investment and GDP (Gross Domestic Product) in an economy

The Keynesian macroeconomics model best explains the relationship between investment and national (also domestic) income. There is in fact a certain link between investment and total income in an economy, called the multiplier effect. This notion is based upon two premises. The first is that the economy is characterized by repetitive and continuous flows of expenditures and income, so that the amount of money spent by a certain unit is received as income by another. Secondly, and as empirically observed, any variation in income causes both consumption and savings to change according to the same direction as, and by a fraction of, the initial change in income. The combined effect of these two premises is that an original change in the rate of spending (for present purposes, investment spending) will cause a “chain reaction” of successively diminishing spending in the economy, leading eventually to a multiple change in total income—reflecting thereby a multiple change in total product (also in gross domestic product). (McConnell, 1987, pp.248-9)

The role of commercial banks in stimulating investment (and GDP) in Lebanon
in general, and in Aley in particular

The banking sector and financial markets in Lebanon, along with their related services, share in more than 40% of GDP. They also employ a considerable fraction of the labor force. Their expansion would therefore promote real economic activity.

(CEPRA, 1995, pp.13-23)

A brief discussion of pre-war investment activity

To state a couple of examples, first, bank lending to the industrial sector reached 20% of total bank credit to the economic sectors in the country in 1975. (Nasr, 1995, pp.130-3) This standard is much higher than today; however, only 12% of all industrial plants that exist in the country today were established before the 1970s. (Nasr, 1995, p.138) Second, as to the touristic sector, it used to contribute close to 20% to GDP. (Nasr, 1995, pp.160-2)

The demand for investment in the Lebanese post-war development process

According to Dr. Nohad Baroudi, General Secretary of the CDR (Center for Development and Reconstruction), total investment is expected to reach \$60b to \$70b between 1995 and 2007, leading to a growth of 6.3 to 6.8% per year.

Investment, both pre-war and post-war, has been largely due to private-sector activities. In fact, private investments have always been larger than public investments by four to five times; the private sector's contribution in Lebanon has always exceeded 85%. (Baroudi, 1997, *Le Commerce du Levant* 5401, pp.14-15, January 9)

February 1997 figures, exhibited in Table 4, show bank lending to the various economic sectors in Lebanon as follows: the trade and services sector took priority with 46.4% of bank credit, construction 21.2%, industry 13%, individuals 11.8%, financial intermediaries 2.5%, the miscellaneous sector 3.6%, and agriculture 1.6%. (The Weekly Local Economic Report, Week 16, 1997, p.2)

TABLE 4: % Distribution of Bank Credit Among Sectors— February 1997

Economic Sectors	% of Credit
Trade and Services	46.4%
Construction	21.2%
Industry	13.0%
Individuals	11.8%
Financial Intermediaries	2.5%
Miscellaneous	3.6%
Agriculture	1.6%

(The Weekly Local Economic Report, Week 16, 1997, p.2)

The commercial sector is therefore still getting the largest chunk of credit at the expense of the other productive sectors, and the banking sector is therefore still lending mainly over the short term and at low risk.

The Central Bank has noticed the exaggerated concentration of bank credit and began encouraging banks to lend to minor customers, namely for consumer purchases. In fact, this concentration is not only geographical, as mentioned earlier, but also sectorial, to the advantage of trade and at the expense of agriculture and industry. However, this can be explained by the fact that banks work with volatile resources of very short term. Moreover, bank credit is concentrated in terms of beneficiaries: 1.2% of total borrowers take 40% of total credit facilities, each facility being larger than LBP5b. (Sanan, 1995, *Le Commerce du Levant* 5370, pp.40-41, October 26)

By January 1997, commercial banks' aggregate lending to the private sector reached LBP 12,880 b against LBP 12,687 b in December 1996 and LBP 10,320 b in December 1995. On the other hand, loans to the public sector were LBP 12,144 b in January 1997, LBP 12,060 b in December 1996, and LBP 7,949 b ending 1995. In terms of the consolidated balance sheets for the periods mentioned, commercial banks would have lent both sectors out of their aggregate total assets: 63% in December 1995, 66.55% in December 1996, and 67% in January 1997. (The Lebanese Bankers'

Association: Internal Publication, February 1997, p.36)

Industry:

During the Lebanese war, industrial investment declined remarkably due to political and economic upheavals and also because of the insufficient financing capacities, both internally and externally. Before 1992, measures to financially support the Lebanese industrial production included the creation of specialized credit institutions that were supposed to extend credit at preferential rates and within advantageous conditions to the local industrial sector, as well as the protection of investments in the industry against non-commercial risks through the National Institute for the Protection of Investments. (Nasr, 1995, pp. 129-130)

Between 1990 and 1994 (and especially as of 1992), over 7,000 industrial units were created (57% of the total number of units existing in 1994). In the first half of 1994 alone, more than 1,800 units were established. (Nasr, 1995, p.138)

During 1994, the measures employed to financially sustain the Lebanese industrial activity included the reactivation of industry-financing banks so as to lend over the long term, as well as the reform of the statutes of the National Bank for Industrial and Touristic Development. Such encouragement was also accompanied by the creation of a private industrial leasing institution grouping Fransabank (by 30%), the Crédit Agricole (by 25%), and the IFC (International Finance Corporation, by 15%), and the rest of which is financed by Lebanese businessmen. This Lebanese leasing company can lend up to \$25m in order to facilitate purchases of equipment and machines. (Nasr, 1995, pp.129-130)

Industrial investment englobes bank credit, investment in machines and equipment, and the creation of new factories. The banking sector's lending to the Lebanese

industry progressed from 8.71% of total bank credit to all economic sectors in 1992 to 8.99% in 1993, and to 10% in 1994, as in Table 5a. (In the Appendix section, Table A1 shows capital invested in new factories in 1994, and in imported machines between 1991 and 1994. Table A2 displays industrial exports between 1991 and 1994.) (Nasr, 1995, pp.130-133)

TABLE 5a: Bank Loans to Lebanese Industry as a % of Bank Loans to all Economic Sectors Between 1975 and mid-1994

Year	Percent
1975	20
1980	19.5
1985	14
1990	10
1992	9
1993	9
mid-1994	9

(Nasr, 1995, pp. 130-1)

During 1995, the Lebanese industrial sector englobed more than 23,500 productive units and employed almost 18% of the local labor force (160,000 employees). Still, according to UNDP (United Nations Development Program) statistics, the sector decreased its contribution to GDP from 20.5% in 1988 to 14.3% in 1990-1, to 12% in 1994. (Nasr, 1995, p.130)

Tourism:

In 1994, tourism in Lebanon represented 12% of GDP and is expected to experience a boom as of the final approval over the Middle-East peace process. In fact, any investment in the touristic field (as well as the construction sector) can only be very promising and profitable—investments are already multiplying. Investments are indeed very needed in this sector, namely in the hotel industry in which only 88 out of the 569 hotels are of the 4*B category and above... (Nasr, 1995, 160-2)

According to the President of the Hôtelières' Syndicate, Mr. Pierre Achkar, the first major problem in the Lebanese hotel industry is the lack of two- and three-star hotels. The second major problem is that Lebanon has not yet been "sold" in the touristic market in "package" (i.e. 1-week tours), which is both less expensive and more attractive to tourists, given that our hotels are of high caliber and at competitive prices. Mr. Achkar continued that government should budget the restructuring of hotels and that a touristic bank should be initiated to finance small and medium hotel institutions at preferential rates and over periods of 12 to 15 years. Accordingly, new two- and three-star hotels would be constructed and old hotels renovated. International hotel chains should also be launched to reassure tourists. Besides, meaningful touristic programs should be well designed and major quality-tourist exporters targeted, namely countries like England, Germany, France, Italy, and the Arab countries, especially the Gulf. Gradually, Far-East countries would be interested in what Lebanon has to offer despite the distance to be covered. Touristic campaigns all over the world would be very helpful in this regard as well, especially given that over the four last years, not one tourist has complained about services available in the touristic sector (namely in hotels).

The contribution of tourism in national income is of 7.5% today, and it was about the triple back in 1975. Given that tourism not only enriches the hotel industry but all other economic sectors as well, it is worth developing in Lebanon.

In 1975 there were 18,000 hotel rooms in the country; in 1996 there were 10,600. However, with new hotel constructions and rehabilitation works, especially in Beirut, the country is expected to total about 22,000 hotel rooms.

In 1995, 9 million tourists visited the Middle East. Eleven million are expected in 2000, and 18 million in 2010. Lebanon's share of visitors in the region was 500,000 in

1995. A million and a half tourists are expected in 2000, and 2.5 million in 2010. (Francis, 1997, *Le Commerce du Levant* 5401, pp.59-60, January 9)

Permits accorded to restaurants and other snacks, coffee shops, bars, nightclubs, etc. reached 223 between 1991 and 1996, with restaurants ahead of the list. As of 1975, 1390 establishments of the same categories as above were licensed. Of course, touristic investment regressed until 1991, after which it sprang up by 159%.

In effect, restaurants and similar businesses are estimated at 5,000 today. Obviously, the difference between this number and the number of licenses mentioned above is due to the existence of many unlicensed shops. Still, about 90,000 people are employed in this sector, despite the emigration of qualified labor to Arab countries (especially the Gulf) during wartime. In fact, 90% of graduates from the *Ecole Hôtelière* have left the country for better opportunities outside.

The owners of old restaurants are also facing the problem of rehabilitation and re-equipping that would require \$70,000 at least per establishment; on the other hand, international food chains are expanding in the country... (Hatem, 1997, *Le Commerce du Levant* 5393, p.62, September 12)

As to restaurants specifically, Lebanon counts today about 4,000, of which only 10% are licensed. On average, each year their 24m customers spend between \$1m and \$2m, that is between \$25 and \$50 per customer. Investments in this sector are considered profitable. (Morcos, 1997, *Le Commerce du Levant* 5406, pp.28-29, March 20)

The Lebanese and French governments and the UNDP have financed the cost of a study on developing tourism in Lebanon. The study took place within the premises of the Ministry of Tourism and was carried out by French experts and officials in a number of Lebanese ministries, in collaboration with Lebanese consultants, the WTO

(World Trade Organization), and the UNDP. The purpose of the study was to define short, medium, and long-term comprehensive strategies aiming at developing tourism in the country.

The WTO has proposed a strategy that would resist the challenges of the coming era; it consists of creating new, diversified products and services that invite local communities to participate through investing in the environment, improving promotion and tourist-orientation, and preparing a particularized image. Three parameters should be worked on: number of tourists, duration of stay, and expenses per day. Besides, tourism should be categorized as follows: tourism of Arabs and Lebanese emigrants, tourism of Western expatriates in Arab countries, and cultural tourism. Tourism can also be developed according to the various geographical locations in the country.

It is well-known that Lebanon has very strong points as a touristic country, due to geographical variety within a relatively small territory, old experience in the art of hospitality, the availability of basic infrastructures, and political will. Another primary advantage is the investment capacity of the private sector, coupled with a liberal economic regime and low taxation.

All in all, selective and qualitative tourism should be encouraged; it is most appropriate given Lebanon's riches as well as its natural and human potential.

(Megarbané, 1996, *Le Commerce du Levant* 5394, pp.83-86, November 7)

Construction:

According to estimates in early 1995, the financing of construction in Lebanon depended greatly on individual capital supported by traditional bank loans. (Nasr, 1995, p.144) This sector attracts much local and Arab capital. (At the end of 1995, construction permits related to 27million m², and investments in hotel constructions or

rehabilitation reached \$350m). (Morcos, 1996, *Le Commerce du Levant* 5375, p.56, January 4) Table 5b summarizes the banking sector's lending to construction between 1987 and 1993; the figures can also be viewed as an approximation for today's situation, that is about 10% of bank lending to economic sectors.

TABLE 5b: Bank Loans to Construction as a % of Bank Loans to All Other Sectors

Year	Percent
1987	6
1990	7
1991	10
1992	8
1993	9

(Nasr, 1995, p. 144)

The construction sector has regressed in 1996 in terms of meters square authorized compared to the preceding years, by 67.9% (20,947,677m²) vs. 1995 and 49.4% (9,650,095m²) vs. 1994. Regression was most pronounced in the South, where authorized construction areas decreased by 84.1% (5,035,421m²). In the North, regression was of 77.4% (266,184m²), in Beirut 49.9% (864,707m²), in Mount-Lebanon 65.2% (12,629.130m²), and in the Bekaa 75.1%. Construction formalities were 62.5% less than in 1995. This decrease is largely due to lower demand for residential units and to an excessive supply of 70,000 apartments estimated at about \$7b. However, the decrease is also more obvious concerning luxury constructions (exceeding 150m² per unit) valued at more than \$100,000 per unit. Smaller units (of 120m²) costing less than \$70,000 are especially sought after, namely due to the greater possibility of obtaining bank credit to finance their purchase. (Hatem, Rosy, 1997, *Le Commerce du Levant* 5401, p.56, January 9)

Agriculture and food products:

At least half of the Lebanese population is still living out of agricultural produce, either directly or indirectly. And even 37% of the territory of the most booming Mohafazat, Mount-Lebanon, is agricultural.

The Lebanese agricultural sector has been neglected for 50 years, and this has contributed to two kinds of migration: rural-urban and expatriation.

Agriculture's contribution to GDP in Lebanon is barely 8% today; it should be at least 25%. Still, government does not have the funds required for agriculture. (Fakhoury, 1997)

Especially since 1994, a net improvement has been noticed in the Lebanese economic activity. Investments have been on the rise and significant capital is returning to Lebanon; however, such flows are not equally divided among the different economic sectors and large gaps exist between one activity and another. As *Le Guide de l'Investisseur 1995* put it, no system was really devised for the financing of the agricultural sector. In fact, this sector was borrowing from the following sources during 1995: a) the National Union for Cooperative Credit—the amount lent depends on the extent of cultivators' capitalization; b) the suppliers of agricultural inputs—when debt is amortized in installments, these suppliers higher their selling prices by 30% or even 40%, and the interest rates they charge vary between 4 to 8% monthly, overstepping the banking sector's rates; c) the Green Plan—although it did not interrupt its restoration work, its budget is limited; and d) commercial banks—they lend the agricultural sector only 2% (rarely more) of their total loans. It is to be noted that the Banque Nationale du Développement Agricole (created in 1977) decided to return to its activities but was still studying its program in 1995.

Therefore, there is much room for improvement since Lebanon imports 70% of its alimentary needs (according to 1995 estimates, this amounts to \$520.2m compared to only \$53.2m's worth of exports). (Nasr, 1995, pp.124-6)

As a consequence, the Ministry of Agriculture has started development projects in cooperation with international organizations such as the FAO (Food and Agriculture Organization), the UNDP, and the IFDA (International Fund for the Development of Agriculture), directly or through the intermediation of the CDR. (Nasr, 1995, 127-8)

According to the General Manager of the FAO, Dr. Jacques Diouf, Lebanon has to finance its agricultural sector from internal sources, for external aides will only support projects under way. The Minister of Agriculture, Mr. Chawki Fakhoury, believes that reactivating the agricultural sector can solve a good part of economic and social problems in the country. In fact, human and financial capital has shifted to cities, and agriculture was neglected over the past 50 years. However, the capital is continuing to suffer both socio-economically and environment-wise. Work opportunities are decreasing, and production is diminishing progressively in cities and virtually vanishing in villages. The Minister continued that new motivations should attract part of the Lebanese population toward agricultural activities, for our alimentary security is 80% in default and we import \$1.4b worth of agricultural products each year.

The FAO, IFDA, and World Bank are assisting Lebanon mostly in providing and paying for expertise concerning agricultural projects. As far as the financing of operations is concerned, French experts advise that private banks handle credit to agriculture while the Central Bank encourages them to utilize part of their obligatory reserves to this end. (External grants are awaited, but amounts are still unknown).

The Agricultural policy would tackle the following objectives: a) protecting national production; b) extending credit to agriculture; c) encouraging scientific research to create new cultivation; d) expanding the practice of modern agriculture; e) fostering agricultural cooperatives; f) finding solutions to irrigation; g) exploiting new lands; h) encouraging agro-alimentary industries; and i) assisting cultivators in decreasing their production costs.

Moreover, other areas of concern are nutrition, reforestation, the rehabilitation of arable lands, and the extension of help to southern cultivators after the incidents of April 1996. (Dagher, 1997, *Le Commerce du Levant* 5401, pp. 48-49, January 9)

The creation of a National Bank for the Development of Agriculture would bring very poor profitability, according to the assessment of the founding committee itself. Moreover, the private sector did not make any use of its 80% participation quota in the said institution for fear of uncertainty and government intervention in decision making (government quota is 20%). Therefore, the Minister of Agriculture, Mr. Chawki Fakhoury, has proposed to the Council of Ministers the amendment of the law related to launching such an establishment. An alternative would be, according to a delegated staff member in the Banque du Crédit Agricole-France, an Agricultural Production and Export bank, "APEX". The specialist, Mr. Raphaël Debbané, was interviewed by *Le Commerce du Levant* to give his own assessment concerning APEX.

As Mr. Debbané proposed, the Lebanese government can supply the more than 70 Lebanese banks with funds at reasonable interest rates by subsidizing interest rates to agricultural credit and allowing a medium credit term of three to five years. According to Mr. Debbané, our banks are well equipped to approach cultivators with their 650 branches or so, spread all over the Lebanese territory. However, they should be more cultivator-oriented. A better understanding of cultivators' needs can be achieved

through coordination among banks or between the Association of Banks and the ASSPLANT association (founded in 1965 and grouping firms that serve agriculture in Lebanon and know it in depth). Members of the ASSPLANT can prepare technical documents about all kinds of agricultural production and estimate their profitability. Already over the past four years, many banks were convinced to extend three-year credit to green-house plantations of bananas where output was triple that under normal conditions.

In parallel, as Mr. Debbané suggested, extra production should be programmed and geared to neighboring countries, free of taxes, through governmental efforts. For example, 100 million tons of bananas can be sold to Syria, yielding about \$50 million. Moreover, agro-alimentary industries can be better organized in cooperation with the Ministry of Agriculture. Furthermore, family-owned and managed agricultural businesses are very profitable, since they consider one-third of their costs, labor, as profit. They should thus be extended with credit.

Last, Mr. Debbané noted that when the Ministry of Agriculture bears the responsibility of protecting national production against haphazard imports, the former becomes more attractive for bank credits over the medium and even long term. (Dagher, 1996, *Le Commerce du Levant* 5397, pp.36-37, November 7)

As to food products, according to 1994 statistics, there were 4,910 businesses producing alimentary products in Lebanon. However, production only covers 35.8% of local consumption needs. A part of production is also exported to 40 countries, especially Arab and European. During the war, exports have almost doubled, in spite of all difficulties: they were of \$25.6m in 1973, \$52.2m in 1993, and \$47.4m in 1994. As to imports, they were of \$58m in 1973, \$386m in 1993, and \$486m in 1994. (Morcos, 1997, *Le Commerce du Levant* 5401, pp. 52-53, January 9)

Trade and Services:

This sector attracts most investments in the country. In fact, investment is an integral part of the rapidly-moving cycle of buying and selling both durable and perishable consumption goods. Bank loans extended to trade and services amount to \$3b. (Morcos, 1996, *Le Commerce du Levant* 5375, p.56, January 4)

Health and sanitation:

The public dispensaries that are spread among Lebanese regions are supposed to constitute the basic infrastructure for sanitary services and primary citizen needs. However, only 13 out of the 169 existing public dispensaries are functional. Government support to dispensary services represents only 20% of the total, and 80% of funds needed are supplied by the private sector. (Hatem, Rosy, 1997, *Le Commerce du Levant* 5401, p.53, January 9)

Concerning the Public Health sector, 40% of the total cost of \$349.1m to proposed projects of construction and rehabilitation have been supplied. Some of these projects are still completely non-financed and their sources of financing unidentified. The areas in which such projects are to be implemented are Baalbeck, Batroun, Beirut, Chahar Gharbi (Aley), Choueifate (Aley), Dahr el Bachek, Hasbaya, Hermel, Jbeil, Jdeidé, Jezzine, Kesrwan, Kherbet Anafar, Koura, Kobeyat, Saïda, Tebnine, Tripoli, Tyr, Zahle, and Zghorta. (*Le Commerce du Levant* 5401, 1997, p.54, January 9)

All in all, the different policies adopted by commercial banks as a whole have a major effect on the performance of the economy. In fact, commercial banking activity is a determinant of GDP both directly, through micro operations performed at every

single commercial banking institution, and indirectly through the stimulation of investment in various sectors of the economy.

The contribution of the industrial sector in GDP has regressed in comparison with figures before the war. However, it is a sector of high added value in the economy.

Tourism, as a fraction of GDP, was three times what it is today; and it is a highly promising sector. Health and the social sector are also in need of credit. As to agriculture, it is in bad condition financially speaking. Nevertheless, projects and proposals abound.

Trade and services as well as construction are booming in Lebanon. Nevertheless, a balanced economy would require balanced allocation of funds for the various productive sectors.

The role of high-quality branch banking in decentralizing economic development in Lebanon—a focus on Aley

Establishing new branches (or shifting some existing branches) to newly emerging or reemerging regions of the country should be one of the main concerns of competitive commercial banks. In reality, many rich long-term benefits are to arise from investing in those regions' infrastructure, constructions, trade, industries, tourism, and/or agriculture. Besides, those regions' populations would surely welcome a dependable hand lending them credit of varying maturities to suit their various needs, from short-term financing of consumer purchases to long-term credit for housing or the acquisition of other durable goods (cars, home appliances, etc.).

Surely enough, this planned geographical expansion would help accelerate the spread of development to all the country's territories and to even-out structural discrepancies and gaps. Moreover, the standards of living in the different regions

would be upscaled and equilibrated among all Mohafazats and Cazas: Literacy levels would increase as rural schools are re-energized, mortality rates would decrease as different medical facilities become within reach, etc.

Another socioeconomic advantage: the creation of “near-by” employment opportunities would alleviate traffic jams to a great extent as well as enhance worker productivity, organizational performance, and thus overall economic activity. All these and other potential embetterments would turn all or very many Lebanese regions, rural and urban, each with its own distinct features, into very attractive targets for local and foreign investments.

If many (or most) large-scale development projects are being taken by huge investors and financiers, commercial banks still have a great role to play. They can grow by searching for both the individual citizen’s needs as well as the needs of growing establishments of different economic and social nature, and by adapting their services to meet such needs.

CHAPTER III.

RESEARCH OBJECTIVES

The objectives of this research are to determine the demand for geographical decentralization in banking services in Lebanon in order to reach Aley in particular—via branch-banking—, and then to analyze the attitude of the leading commercial banks in Lebanon toward such a decision. For this purpose, the apparent geographical centralization of banks and their branches and services should be studied, the top commercial banks in Lebanon must be identified according to generally accepted criteria, and the potential of Aley as an inviting region for branching has to be tested.

A- Searching criteria for ranking commercial banks in Lebanon

1. Criteria: What are the criteria on which to base the ranking of commercial banks in Lebanon?
2. Identifying the leading commercial banks in Lebanon according to the said criteria.

B- Determining the demand for geographically decentralized banking services, namely in Aley

1. Finding out the reasons for the clustering of commercial banks in the capital:

Is there any geographical clustering? What are the underlying reasons: population, age distribution, average income, economic activity (residential, commercial, industrial, educational, touristic, etc...), distance from economically strategic cities and centers, etc...?

2. Studying post-war factors pushing commercial banks towards geographical decentralization (displaced returning, competition, traffic jams, etc.):

If there are any, what are they, and what are their relative weights?

3. Further reasons for the selection of the Aley Caza for the study:

Are there any valid reasons for commercial banks to choose branching in Aley particularly?

C- Analyzing the attitude of leading commercial banks in Lebanon toward new
branching in Aley

New and high-quality bank branching translates into added operating expenses but especially into careful delegation of responsibility. Thus, are top commercial banks in Lebanon ready to face such challenges and engage in new branching in Aley? Will their management consider benefits worth the costs?

CHAPTER IV.
METHODOLOGY

Comparative Search

1. Searching in financial textbooks and magazines to investigate about the criteria to ranking

In order to assess the performance of commercial banks, three principal indicators are important: the liquidity ratio, solvency ratio, and profitability ratio. (Le Commerce du Levant 5378, 1996, p.45) Also, the volume of deposits, or deposits market share, should be considered.

Liquidity: having sufficient cash available when it is needed. The closing of accounts, various operating expenses, and sound requests for credit all mean cash drainage from a financial institution. Liquidity can be measured in different ratios: a) $(\text{Cash} + \text{Deposits due from other institutions}) \times 100 / \text{Total Assets}$; b) $\text{Government Securities} \times 100 / \text{Total Assets}$; c) $\text{Money-market Assets} \times 100 / \text{Money-market Liabilities}$ (Money-market assets include Treasury bills, government loans, repurchase agreements in which securities are temporarily purchased, commercial paper, and Eurodollar loans. Money-market liabilities include borrowing from government funds and Eurodollar markets, repurchase agreements in which securities are temporarily sold, and sales of large (\$100,000 and over) negotiable CD's-Certificates of Deposit.); d) $\text{Total Demand Deposits} \times 100 / (\text{Total Time} + \text{Savings Deposits})$; and e) $\text{Large Negotiable CD's} \times 100 / \text{Total Deposits}$ (Rose and Fraser, 1988, pp. 212-4)

(For the whole Lebanese banking industry, the average Lebanese-Pound liquidity ratio rose to 97% ending 1994 and dropped to 92.2% ending 1995. As to liquidity pertaining to foreign currencies, it decreased from 64.5% ending 1993 to 56.5%

ending 1994, then it rose again to 59.2% in September 1995.) (Le Commerce du Levant 5378, 1996, p.45)

Solvency (and risk of failure): Risk for a financial institution means the probability of heavy losses on loans and investments and the threat of failure.

Solvency can be tested by different ratios as well: a) Total Equity Capital x100/Total Assets; b) Total Equity Capital x100/Total Deposits; and c) Total Equity Capital x100/Total Loans. (One measure of *insolvency* is Bad Debt x100/Total Loans.) (Rose and Fraser, 1988, pp.215-6)

Internationally, the minimum accepted solvency ratio has increased from 8% to 12%. (Sanan, 1996, Le Commerce du Levant 5375, p.28, January 4) The average solvency ratio of banks in Lebanon overstepped 8%. (The ratio improved by 2.78% ending 1994 and by 3.3% ending 1995.) (Le Commerce du Levant 5378, 1996, p.45)

Profitability: Profitability is measured by ROE, the return-on-equity ratio, which is a direct measure of returns to stockholders. ROE is strongly influenced by the capital structure of a financial institution (i.e., how much it employs equity financing in relation to debt financing). Management can boost ROE by increasing financial leverage, the ratio of debt to equity capital. Still, undercapitalized financial institutions are viewed as more risky and their stock price is likely to fall.

$$\text{ROE (\%)} = (\text{Net Income After Taxes}) \times 100 / \text{Total Equity Capital}$$

Whenever a commercial bank's ROE is falling, the following alternative formula would help depict where the problem lies:

$$\text{ROE} = \text{Profit Margin} \times \text{Asset Utilization} \times \text{Equity Multiplier}$$

This can be respectively detailed as:

$$\frac{\text{NI (after taxes)}}{\text{Equity Capital}} = \frac{\text{NI (after taxes)}}{\text{Operating Inc.}} \times \frac{\text{Operating Income}}{\text{Total Assets}} \times \frac{\text{Total Assets}}{\text{Equity Capital}}$$

(Rose and Fraser, 1988, pp. 200-1)

(The profitability ratio of banks in Lebanon rose from 31.14% ending 1993 to 47% ending 1994 in spite of banks' sustained efforts during the period to increase their equity capital in order to increase savers' confidence in their institutions. In fact, the 163.5% increase in profits over the year as well as the reduction in taxes and the favorable overall economic stability contributed greatly to a better ROE.) (Le Commerce du Levant 5378, 1996, p.45)

Deposits Volume: Banque du Liban et d'Outre-Mer SAL is the largest among commercial banks operating in the country in terms of deposits volume. (Sanan, 1996, Le Commerce du Levant 5375, p. 28, January 4)

Other criteria may be: a) net profits; b) net interest margin; c) total assets; d) general operating expenses; e) loans; f) equity; g) net financial income = $(\text{Profits} - \text{Expenses}) \times (1 - \text{Tax Rate})$; h) loan loss provisions / total loans (the higher the ratio the better the provision); and i) general operating expenses / net financial income (the lower the better).

In the present document, ranking is averaged among seven main criteria, as shown in the table 6a according to the following order (performance data dating end-1995): a) total assets; b) total loans and discounts; c) total deposits; d) total equity; e) net income; f) solvency, expressed under total equity / total assets, total equity / total deposits, and total equity / total loans & discounts; and g) profitability, expressed

under net income / total equity.

The number of branches is not considered as a performance criterion; it is more of a tool for competitive operation. Of course, many leading banks aim to increase their branches in order to enlarge their market share, and it is interesting to compare the number of branches among these banks.

Liquidity ratios are not mentioned. Nevertheless, this fact becomes trivial when noting that the liquidity of the Lebanese banking sector is very high.

2. Ranking commercial banks in Lebanon according to the said criteria

The Final Rank column in Table 6a displays the following: 1) Banque de la Méditerranée; 2) Banque Libano-Française; 3) Banque Audi and Banque du Liban et d'Outre-Mer; 4) Byblos Bank and Fransabank; 5) Banque de l'Habitat; 6) Banque Nationale de Paris Intercontinentale; 7) Arab Bank and Société Générale Libano-Européenne de Banque; 8) Bank of Beirut and the Arab Countries; 9) Banque du Crédit Libanais; and 10) Beirut-Riyad Bank.

(Table 6a continued)

BANK	Rnk	T. A.	Rnk	Ins.&%	Rnk	Deposits	Rnk	Equity	Rnk	N. I.	TE/TA	SOLVENCY				PROFITABILITY		AVG		FINAL		Bich	Rnk			
												Rnk	TE/Dep	Rnk	TE/Ins	Rnk	Solvency	Rnk	N.I/T.E	Rnk	RANK			RANK	Rnk	Rnk
United B of Saudi&Leb																										
Bekaa																										
AlMadina																										
Al-Moughareb																										
Jordan Natl*																										
Sie Bancale du Lib.																										
M.E.&Africa																										
Orient Credit																										
Pharaon & Chihia																										
Metropolitan																										
Intercontinental																										
N.Afr. Com'l																										
Syrian Leb. Com'l																										
Habibati			45.97		3.657		0.181	7	31.130		4.377	67.72%	1	17199%	1	851%	1	6039%	1	14.1%	13	7.000		5	3	13
N.East Com'l																										
Federal of Leb.																										
Essor Econ. Lib.																										
Financement																										
Leb. & Kuwait																										
Saderat Iran*																										
Arab Afr. Int'l*																										
Crédit Nat'l																										
Al Baraka																										
J. Lail & Fils																										
Unibank																										
J. Geagea																										
Habib Ltd*																										
Rafidain*																										
Com'l Facilit.																										
Lilex																										
TOTAL			18,868.73		5,937.40		15567.902		724,527		686.8															

Notes:

1. * = not SAL's
2. Figures in \$ millions
3. Only active branches were counted. (Reference: The Lebanese Bankers' Association, 1996. The Almanach of Banks in Lebanon 1996-1997.)
4. The number of branches was not considered as a performance criterion. Besides, it is based on 1996 data.

These 13 top-ten banks, which are all commercial (except Banque de l'Habitat) will be surveyed (as mentioned under Objective C). Three representatives in each bank will be interviewed personally or sent questionnaires both to form a unified opinion and to validate survey results.

In Table 6b, commercial banks are ranked based on total assets, total deposits in FX, total loans in FX, and net profit in the year 1996. Therefore, no solvency or profitability ratios could be derived as in Table 6a (for end-1995 performance results).

Nevertheless, Table 6b compares both rankings for purposes of inquiry.

BANK	T. A.	Rk	Deposits	Rk	Loans	Rk	Net Profit	Rk	AVG	FINAL	Bankrank	Brch	Rk
									RANK	RANK	1995		
BLOME	4,701,562	1	2,628,180	1	1,052,230	2	41,963	4	2.000	2	3	31	3
MEDITERRANNEE	4,352,564	2	1,741,599	2	1,405,142	1	49,449	2	1.750	1	1	22	8
AUDI	2,862,729	3	1,261,346	3	742,292	4	30,714	6	4.000	4	3	23	7
LIBANO-FRANCAISE	2,503,039	4	1,164,685	4	817,695	3	51,772	1	3.000	3	2	19	9
BYBLOS	2,219,840	5	907,073	8	644,828	6	37,500	5	6.000	5	4	29	5
FRANSABANK	2,174,571	6	900,761	9	535,675	7	42,070	3	6.250	6	4	33	2
SOGE	1,921,231	7	920,062	7	664,110	5	26,000	7	6.500	7	7	30	4
BNPI	1,665,439	8	1,139,320	5	500,131	8	23,666	8	7.250	8	6	5	11
ARAB	1,574,623	9	1,087,818	6	389,690	9	15,315	9	8.250	9	7	10	10
CREDIT LIBANAIS	1,395,373	10	461,755	12	197,619	16	5,536	18	14.000	13			
BBAC	1,218,004	11	515,426	11	245,788	13	13,338	10	11.250	10	8	28	6
Lib. Pr le Commerce	1,138,969	12	419,211	15	281,181	12	13,300	11	12.500	12			
SARADAR	935,086	13	576,145	10	347,152	10	7,238	14	11.750	11			
BEIRUT RIYAD	834,944	14	390,938	16	298,774	11	6,257	16	14.250	14			
Bey. Pr le Commerce	801,175	15	270,103	18	148,986	18	6,341	15	16.500	16			
BEIRUT	717,854	16	422,237	14	193,669	17	7,990	13	15.000	15			
BBME	655,382	17	441,631	13	208,991	15	11,041	12	14.250	14			
ABN AMRO	589,316	18	390,852	17	240,400	14	5,841	17	16.500	16			
TOTAL	32,261,701		15,639,142		8,914,353		395,331						

Rk = Rank

Brch = Branches

Notes:

1. Figures in LBP millions.
2. Deposits and loans in FX only.
3. Only active branches were counted. (Reference: The Lebanese Bankers' Association, 1996.)
4. The number of branches was not considered as a performance criterion. Besides, it is based on 1996 data.

Based on: Le Commerce du Levant, 1997. pp.44-48. April 17.

Data Collection and Analysis

Local financial magazines and reports to find out if there is any geographical clustering of commercial banks in the capital, the underlying reasons, and what post-war factors would induce geographical decentralization

First, the demographic and economic distribution must be examined. To start, the demographic distribution is studied.

The Lebanese urban population in the large cities—Saida, Tripoli, Zahle, and Beirut constitutes 80% of the total according to 1994 estimates. As to the population of Beirut and suburbs alone, it was estimated at 1,200,000 in the same year—over 36% of the total: 3,300,000. (Nasr, 1995, p. 48)—Table 7 below compares the population of Beirut and suburbs to that of the rest of Lebanon.

TABLE 7: Population Distribution—1994

	Beirut&sub	Other Regions	Total
Number	1,200,000	2,100,000	3,300,000
Percent*	36	64	100

*: Percentages were not calculated in the original document.
(Nasr, 1995, p. 48)

In 1996, IMF (International Monetary Fund) statistics estimated the Lebanese population at 2.9m, while the CDR estimated it at 3.9m. According to a statistical study on the Lebanese population, which began in 1994 in coordination between the Ministry of Social Affairs and the United Nations, Lebanon counted 3.1m residents by mid-October 1996, and 86.4% of the population were literate (population aged above 45 recorded highest illiteracy levels). As to population distribution according to regions, Beirut alone accounted for 13.1%, Mount-Lebanon for 36.8%, the Bekaa for 12.9%, the North for 21.6%, the South for 9.1%, and Nabatiye for 6.6%, as shown in Table 8.

TABLE 8: Regional Population Distribution—1996

Region	Beirut	Mt-Lebanon	Bekaa	North	South	Nabatiye
% Distribution	13	37	13	22	9	7
Nbr Distribution in millions (Total = 3.1m)	0.4	1.1	0.4	0.7	0.3	0.2

(based on "The Weekly Local Economic Report", Week 41, 1996, p.2)

Concerning age distribution, according to the study, population under 18 of age constituted 29.2%; 63.8% were between 15 and 64, and 6.9% were above 65. (The Weekly Local Economic Report, Week 41, 1996, p.2)

As to the distribution of economic activity, it is assessed below for industry, tourism, and construction.

Industrial plants are not equally distributed either among the different Lebanese regions. Table 9 below shows the distribution of industrial plants among Mohafazats.

TABLE 9: Distribution of Industrial Plants—1995

MOHAFAZATS	Total	Percent*
Beirut&sub	2,849	12
Mount-Lebanon	10,532	45
North-Lebanon	4,585	19
South-Lebanon	2,054	9
Bekaa	2,260	10
Nabatiye	1,237	5
Total	23,517	100

*: Percentages were not calculated in the original document.
(Nasr, 1995, pp. 136-7)

Referring to Table 9, by 1995 Mount-Lebanon housed more than 10,532 plants by itself out of the total of 23,517 (this is nearly 45%). Moreover, 26 out of the total of 40 large-scale plants of the country (this is 60%), employed each more than 250 employees. To add, close to 58% of the total number of industrial workers in the country live in this Mohafazat. (Nasr, 1995, pp. 136-7)—Table 9 can be used as an approximation for the present.

In 1994, the statistics of the Ministry of Tourism concerning the hotel sector in the country showed that Mount-Lebanon had the largest share by far than all the other Lebanese regions in terms of the number of hotels. (Nasr, 1995, p.162)

According to the index of hotels prepared by the Ministry of Tourism, in 1996 there were 229 hotels in Lebanon, comprising about 10,650 rooms and 18,500 beds. More than 140 hotels are situated in Mount-Lebanon (more than 60% of the total), where 19 new hotels were added during 1996; and more than 55% of total hotel rooms are in this region. After Mount-Lebanon comes Beirut and suburbs with 42 hotels; the North with 32; the Bekaa with 11; and the South with 4. Details about hotel classification can be found in Tables 10 a and b. (Ramli, 1996, *Le Commerce du Levant* 5395, pp.22-24, October 10)

TABLE 10 a: Hotels in Lebanon—1996

Category	Beirut&sb			Mt-Lebanon		
	Nbr	Rooms	Beds	Nbr	Rooms	Beds
International	1	153	211	5	304	546
A****	6	797	1174	7	437	727
B****	10	930	1558	10	1108	1904
A***	11	611	955	21	1017	1727
B***	4	253	338	17	717	1313
A**	8	242	366	25	946	1646
B**				30	977	1921
A*	2	43	72	19	415	789
B*				7	138	270
Total	42	3029	4674	141	6059	10843
Category	North			South		
	Nbr	Rooms	Beds	Nbr	Rooms	Beds
International	3	59	117			
A****	1	65	84			
B****						
A***	1	40	85	2	28	36
B***	2	67	128			
A**	5	185	372	1	216	400
B**	10	315	688			
A*	7	130	311	1	19	39
B*	3	79	154			
Total	32	940	1939	4	263	475

(Table 10a continued)

Category	Bekaa			TOTAL		
	Nbr	Rooms	Beds	Nbr	Rooms	Beds
International	1	80	111	10	596	985
A****				14	1299	1985
B****				20	2038	3462
A***				35	1696	2803
B***	2	80	145	25	1117	1924
A**	2	28	51	41	1617	2835
B**				40	1292	2609
A*	5	100	205	34	707	1416
B*				10	217	424
Total	10	288	512	229	10579	18443

(Ramli, 1997, Le Commerce du Levant 5395, pp.22-24)

TABLE 10 b: Distribution of Hotels Among Mohafazats—1996

Mohafazats	Number	%
Beirut&sub	42	18%
Mount-Lebanon	141	62%
North	32	14%
South	4	2%
Bekaa	10	4%
Total	229	100%

(% calculated based on Table 10 a)

Concerning the Lebanese construction sector, it is currently the fastest growing of all the others in the country. (Indeed, construction permits increased between 1992 and 1994 among the different Lebanese Mohafazats as shown in Table 27—Appendix) (Nasr, 1995, p.140)

Now, the statement of geographical centralization for commercial banks must be accepted or rejected. To begin, a useful method would be to divide the number of branches over total population, both globally and by region, as in Table 11:

TABLE 11: Population to Branches Ratio

	Beirut	Mount-Leb	Bekaa	North	South	Total
Population / Branches	1,596	11,685	8,611	9,356	10,217	5,455
Population '93	534,665	1,191,863	370,253	608,162	521,071	3,251,245
Branches '95	335	102	43	65	51	596
	Beirut	Mount-Leb	Bekaa	North	South	Total
Population / Branches	1,212	11,184	9,300	10,302	9,543	5,201
Population '96 (%)	13.1	36.8	12.9	21.6	15.7	100
Population '96	406,100	1,140,800	399,900	669,600	486,700	3,100,000
Branches '95	335	102	43	65	51	596
	Beirut	Mount-Leb	Bekaa	North	South	Total
Population / Branches	1,122	10,865	9,089	10,629	9,013	4,936
Population '96 (%)	13.1	36.8	12.9	21.6	15.7	100
Population '96	406,100	1,140,800	399,900	669,600	486,700	3,100,000
Branches '96	362	105	44	63	54	628

Population '93, for all fields = Avg. of 3 estimates in Table 29

Branches '95 taken from Table 2

Population '96: "The Weekly Local Economic Report", Week 41, 1996, p.2.

Branches '96 taken from Table 3

The following main deductions can be made: a) the density of branches relative to Lebanese population is about 5,000 people to every branch; and b) the ratio of population to branches in Mount-Lebanon is practically about 10 times that in the capital alone. And if Beirut and suburbs, with 36% of total population, were considered (as in Table 7), the ratio becomes greater than 3 times. (Branches for Beirut and suburbs are put, because communication-wise, they can be considered as one.)

Thus, according to the population criterion, banks and bank credit are obviously concentrated in the region of Beirut and Mount-Lebanon. This follows from the concentration of the country's economic activity in this particular zone. (Sanan, 1995, *Le Commerce du Levant* 5370, p.40, October 26).

Beirut and its suburbs account for 85% of total credits. (*L'Orient-Le Jour*, October 24, 1996, p.2). By September 1996, Beirut and its suburbs absorbed 81.5% of bank credits; Mount-Lebanon's share was 13.8%; the North received 2.8 %; the Bekaa and the South took 0.9% each (the rest, 0.1%, went to non-residents). (*The Weekly Local Economic Report*, Week 35, 1996, p.2). Please refer to Table 12

(showing rounded figures). Figures for 1995 are displayed for comparison.

TABLE 12: Distribution of Credits and Deposits among Mohafazats

	Beirut&sb	Mt-Leb	Bekaa	North	South
Credits '96 (%)	82	14	1	3	1
Credits '95 (%)	84	6	3	4	4
Deposits '95 (%)	74	8	5	7	6

Figures for '95 are taken from "Banque Audi SAL: 1995 Performance Highlights", 1996, p.4.

Based on criteria of economic activity, Table 13 compares the distribution of banks with the distribution of population, industries, hotels, and constructions among the Lebanese Mohafazats. The various percentages in the table reflect that Mount-Lebanon is the leading Mohafazat in Lebanon not only in terms of population concentration, but also in the number of industrial plants, hotels, and the scope of construction. Still, Beirut and suburbs rank higher in terms of the concentration of bank branches—by up to 40 percentage points, that is even higher than the percentage differences between Beirut and suburbs and Mount-Lebanon concerning population, industries, hotels, and constructions.

TABLE 13: % Branch Distribution vs. % Distribution of Population, Industries, Hotels, and Construction

MOHAFAZATS	% Branches '95	% Population '93	% Population '96	% Industries '95	% Hotels '96	% Construction '94
Beirut&sub	56	B:16%; B&sb:36%	B:13%; B&sb:36%	12	18	8
Mount-Lebanon	17	37	37	45	62	67
North-Lebanon	11	19	22	19	14	4
South-Lebanon	9	16	9	9	2	15
Bekaa	7	11	13	10	4	5
Nabatiye			7	5		

NOTES:

1. % of population = average of the three % estimates in Table 29. (GB:36% taken from Table 7)
 2. Nbr of branches in '95 = 596 (from Table 2)
 3. Nabatiye and South data can be summed in columns where specific Nabatiye data is not available.
 4. As can be found in Table 3, the same trend in the distribution of banks' branches has remained for 1996.
- *: The compilation of data in this table was only done for the present research.
(Data gathered from Tables 2, 7, 8, 10 b, 28 and 29)

Therefore, comparatively speaking, the volume of residing population, industries, touristic centers, etc. does not justify the concentration of banks and their branches in Beirut and suburbs. Rather, this concentration must be due to the strong commercial activity undertaken there, and for which about half of bank credit is targeted as shown earlier in Table 4.

In fact, and as previously shown in Table 12, about 82% of bank credit goes to Beirut and suburbs, and about 75% of deposits are generated there. This stands in sharp contrast with other Mohafazats, even the economically prosperous Mount-Lebanon.

Given that Beirut (&sub) is a well-acknowledged trade center, that about half of bank credit goes to commercial activity, and that Beirut absorbs more than 80% of bank credit and about 75% of total deposits, it can be correctly concluded that the principal motive behind the establishment of bank branches in Lebanon is to extend loans to trade, financed over the short term.

Besides, it is highly important to note that Beirut is not only the country's commercial center; it is also the house of most government and administrative departments in addition to major local and international organizations, which makes it practical for conducting banking business. It is interesting here to notice how the top-ten rating commercial banks in Lebanon have their main branches (sometimes there is more than just one main branch for a single bank) situated in Beirut and suburbs, as shown in Table 14 below.

TABLE 14: Geographical Centralization of the Branches of Leading Banks in Beirut and Suburbs

Bank	Branches*	Beirut&Suburbs	%	Main Branch
Méditerranée	22	12	55%	Verdun
Libano-Française	19	10	53%	Hamra
Audi	23	14	61%	Achrafieh
BLOME	31	23	74%	Hamra

(Table 14 continued)

Bank	Branches*	Beirut&Suburbs	%	Main Branch
Byblos	29	13	45%	Dora
Fransabank	33	17	52%	Hamra, Bauchrieh, Saida, Tripoli, Zahle
Bque de l'Habitat	3	3	100%	Dora
BNPI	5	3	60%	Achrafieh
Arab	10	5	50%	Riad el Solh
Société Générale	30	12	40%	Sin el Fil
BBAC	28	9	32%	Clémenceau
Bque du Crédit Libanais	37	21	57%	Dora, Hamra, Chtaura
Beirut Riad Bank	10	7	70%	Riad el Solh

*: Only branches active in Lebanon were counted.

(Based on: The Lebanese Bankers' Association, 1996)

Following the same logic, other Mohafazats are also economically active within their own framework, especially Mount-Lebanon, though most commercial activities are being pursued in the capital. It appears from Table 3 that bank branches tend to be concentrated in the main coastal cities and their suburbs, except for the in-land Bekaa. Similar in function to the capital, these cities are clusters for residence, economic activity of all sorts, and government representation.

Still, commercial banks ought to assert their role as developers of economic potential by stretching their presence geographically in order to extend their services to other rapidly emerging local regions.

Now that more than 6 years have passed since the end of the events in the country, many factors are encouraging, or better, creating the need for decentralization in economic activity. This is in great part fostered by the stabilization of the political situation and the return of the Lebanese displaced to their initial homes (either from abroad or from other regions in Lebanon) that have been practically deserted throughout many years of war. Moreover, foreigners have begun regaining confidence in the stability of the political situation of the country, and many are coming to settle in various parts of it as well in order to inaugurate businesses with high-expected profits.

The infrastructure has, for a certain while now, undergone many positive changes at the level of roads and the extension of various basic facilities such as water, electricity, and communication. However, traffic jams and other technical hindrances are still taking place on a daily basis and hence causing communication and contact inefficiencies among the different regions of the country. Meanwhile, competition is intensifying at all levels, including, very naturally, competition within the banking sector, and between it and other financial institutions (such as insurance companies) and huge modern corporations. And if commercial banks do not adapt to such changes quickly enough, a slow but definite disintermediation process will crowd them out... Furthermore, industries have been growing in number and scale, trade figures multiplying, construction booming, and tourism reactivated, and so in all over the country. In other words, today's trend is expansion and geographical decentralization. Competitive commercial banks should go along with the tide by diversifying their financial instruments, but especially, by spreading geographically in order to reach the newly-emerging and/or reemerging local markets. After all, isn't it a door to increased activity levels and higher returns? And isn't it a principal role for commercial banks to best serve the public by catering to its different needs for funds? Aren't commercial banks committed through their investments to push the whole country to its highest possible production and productivity levels, as well as overall living standards?...

Economic reports about the Aley Caza

Overall, Mount-Lebanon is a prosperous and promising Mohafazat. However, this does not mean that all its Cazas share such prosperity equally. Aley is the least populated, with about 105,744 inhabitants if the three proposed estimates of the year 1993 are averaged. Please refer to Table 15.

Table 15: Population Distribution in Mount-Lebanon—1993

MOUNT-LEBANON	LEB-UNI ESTIM		USJ ESTIM		SAUDI-AID ESTIM	
	NBR	%	NBR	%	NBR	%
Jbeil	60,741	1.91	119,260	3.9	60,100	1.71
Kesrwan	115,440	3.63	133,560	4.36	142,500	4.06
Metn	345,582	10.86	325,850	10.65	396,700	11.3
Baabda	368,582	11.59	395,320	12.91	356,600	10.15
Aley	55,910	1.76	128,720	4.21	132,600	3.78
Chouf	153,284	4.82	119,880	3.92	164,900	4.7
Total	1,099,600	34.57	1,222,590	39.94	1,253,400	35.69

Estimates by the Lebanese University, the USJ, and Saudi-Aid.

Percentages on the last row show the estimated percentage of Mount-Lebanon population from total population.

(Nasr, 1995, p. 51)

Aley's otherwise chunk of economic development was distributed among neighboring regions, such as Baabda and Metn, during times of distress when its population and overall activity was at lowest levels. And now that its people (to say the least) are coming back to it, they have to compete for investors' funds, which they will need for multiple purposes...

In order to spread post-war economic development equitably among all Mohafazats, the work should start by minimizing gaps between each Mohafazat's subunits, i.e. lifting standards among Cazas. Given that Mount-Lebanon is the leading Mohafazat, Aley could qualify as a starting point.

In fact, Within the Mohafazat of Mount-Lebanon, the three Cazas of Aley, Baabda, and Chouf suffered from desertion by their populace due to long years of war. (For Aley and Chouf, a major wave of departure was during 1983.—Labaki and Abou Rjeili, 1993) This contributed greatly to the unbalanced population distribution among rural and urban regions. Moreover, purchasing power decreased sharply because people lost their sources of survival, investments and capital. Besides, unemployment rose and many business owners started to work for others at much lower income.

Emigration opened the way to the famous “brain drain”.

Agriculture-wise, lands were neglected for long periods, productive trees were cut, burned, or stolen; agricultural projects were damaged and arable lands were abused mostly through construction and illegal exploitation.

As to industry, operation froze. Factories and workshops were subject to pillage and destruction. Those factories that remained productive were illegally captured and managed by others, including some displaced to such areas. (Ministry of Displaced, 1996, pp.9-12)

Tables 16 to 21 describe aspects of economic life in Aley, Baabda, and Chouf. Table 16 shows the sources of income for families, Tables 17 to 20 show economic losses up till 1983, and Table 21 describes the extent of physical destruction in villages.

Table 16 shows that farming constitutes the main source of income for the three Cazas. The category of business owners is only at 4%, surely due to the long-lasting unfavorable environment for investment and the development of other productive sectors in the said regions.

Table 16: Families by Sources of Income in Aley, Baabda, and Chouf—1996

Occupation	Families #	%	Rnd
Farmer	26,036	55.19%	55%
Farm employee	426	0.90%	1%
Independent business owner	1,686	3.57%	4%
Employee	4,319	9.15%	9%
Daily worker	7,233	15.33%	15%
Free lancer	1,340	2.84%	3%
Public-sector employee	2,598	5.51%	6%
Soldier	3,464	7.34%	7%
Militia element	75	0.16%	0%
Total	47,177	100.00%	100%

(Return of the Displaced in Lebanon, Ministry of Displaced, 1996, p.11)

Table 17 explains the losses in agriculture and animal husbandry in the three Cazas until 1983, and Table 18 assigns a monetary value to such losses.

TABLE 17: Losses in Agriculture and Fauna in Aley, Baabda, and Chouf Until 1983

Planted land	43,530 acres
Barren land	16,953 acres
Poultry farms	64
Raising poultry heads	560,000
Cattle	2,228
Cattle farms	16
Pigs	2,980

(Return of the Displaced in Lebanon, Ministry of Displaced, 1996, p.11)

TABLE 18: Annual Losses, in US\$, to Agriculture (and Fauna) by Caza, Until 1983

Caza	Agriculture	Fauna
Aley	58,910,000	
Baabda	39,415,000	
Chouf	101,585,000	
TOTAL	199,910,000	50,370,000

(Return of the Displaced in Lebanon, Ministry of Displaced, 1996, p.11)

Table 19 not only shows lost productive establishments in the three Cazas, but it also informs about the types of industries and handicraft businesses that were most numerous there. It seems that Aley, Baabda, and Chouf housed a large number of factories for food processing and the production of household goods, in addition to other agro-industries and handicraft services. Such kinds of establishments are likely to re-emerge now.

TABLE 19: Handicraft & Industrial Establishments Lost in Aley, Baabda, and Chouf Until 1983

Black Smith workshop	171
Carpentry workshop	111
Car mechanic workshop	224
Rock sawyer's plants (lapidary)	73
Factories for household goods and food processing (molasses, pine)	274
Flour mills	69
Olive-oil presses	91
Concrete gravel factories	95
Floor tile factories	40
Other establishments (mineral water)	1
Total	1,149

(Return of the Displaced in Lebanon, Ministry of Displaced, 1996, p.11)

Table 20 is useful in describing the regression in daily commercial activities (most of which directly linked to subsistence needs) such as those of grocery stores, butcheries, clothing stores, and gas stations due to war and displacement. It is easy to explain, therefore, the loss in other “secondary” activities such as those of restaurants and hotels.

TABLE 20: Commercial Establishments Lost in Baabda, Aley, and Chouf Until 1983

Grocery stores	1192
Butcheries	233
Clothing stores	219
Gas stations	120
Other stores	199
Hotels	104
Sports clubs	14
Cafes and restaurants	167
Total	2,248

(Return of the Displaced in Lebanon, Ministry of Displaced, 1996, p.11)

It appears from Table 21 that about three-quarters of villages in the Caza of Aley were damaged either completely or partially; same for Chouf. Damage in Baabda was much less.

TABLE 21: Villages Damaged and Destroyed in Aley, Baabda, and Chouf

Caza	# of Villages	Damaged	% of Caza	Compl. Destr.	Partly Destr.	% Comp. Dest
Aley	68	48	71%	13	35	19%
Baabda	56	10	18%	7	3	13%
Chouf	95	67	71%	24	43	25%
TOTAL	219	125		44	81	20%

(Return of the Displaced in Lebanon, Ministry of Displaced, 1996, p.12)

In 1992, a special ministry was formed to supervise the affairs of the displaced, and a private fund was instituted to finance the projects of the return of the displaced. The return plan starts with those regions where solutions are comparatively easier so as to secure initial success and strengthen public confidence. (Aley qualified as one of these regions because many of its villages and towns met the required infrastructure,

social, and economic criteria. Details about the return of the displaced in the Caza of Aley can be found in Table 24 a and b at the end of this section.)

Regional studies showed that the infrastructure, economic sectors, health and sanitation, and residential framework (in addition to the political condition) need to be reformed. Therefore, a strategy was drawn to ensure correct and permanent return.

The first goal in the strategy is to rehabilitate construction sites through removing the rubble from towns and villages. By March 1996, 61 villages and towns, among which some belong to the Aley Caza, were cleared.

The second goal is to rehabilitate the infrastructure. Projects were executed and supervised by the CDR in 70 villages and towns, some of these situated in the Caza of Aley.

The third goal is to vacate those residences that are illegally occupied and to restore and reconstruct those residences that are partially or completely destroyed. Aley was involved in the process with 4926 housing units compensated for restoration by March 1996 (Aïdoun, 1996—2). It is to be noted that families established during displacement were added to the category in need of housing (and providing for such a need will require \$200m).

The fourth and fifth goals are to rehabilitate the economic and social sectors. In July 1994, the Ministry of Displaced inaugurated a project known as “Aïdoun” in cooperation with the UNDP in order to achieve these two goals. (The sixth goal is of political nature and is to achieve local reconciliation in the areas of return; progress has been reported.) (Ministry of Displaced, 1996, pp.16-26, 29)

Rehabilitating the social sector translates into the development of educational services of both public and private nature, through equipping the educational establishments, providing technical education adequate to the job-market demands, and

encouraging additional educational activities. Health and sanitation services should also be secured through the restoration of health centers and their replenishment with the required equipment and skills. Additionally, local organizations such as those aiming to create job opportunities for the defenseless (physically handicapped, widows, aged people, orphans, etc.) should be promoted. (Aïdoun, 1996—2, 5)

As to the economic sector, it is one of the most serious guarantees for the definite return of the displaced. However, the Ministry has limited funds and cannot ensure the returnees economically if left alone. Hence, both the public and the private sectors are encouraged to contribute in the investment of their capacities in the program (Aïdoun, 1996—2). Agriculture and traditional handicrafts need to be renovated and energized. In fact, regaining normal life in the regions of displacement depends greatly on the constant availability of income sources.

The Ministry of Displaced prepared a program that guarantees about 2000 jobs, requiring a budget of \$30m to form small and middle-size enterprises. Moreover, 350 commercial, touristic, and industrial corporations that used to operate in 150 villages need to be re-encouraged, costing \$50m. Furthermore, \$20m is estimated for the refurbishment of the physical infrastructure necessary for a satisfactory agricultural development; another \$20m will be needed to enhance agricultural projects. (It is important to remember that agriculture is a primary traditional source of income in Lebanon and a principal source of income for the areas of return.) (Ministry of Displaced, 1996, pp. 29)

Aïdoun gave attention to the economic support of the returnees with respect to income generation, credit provisions (most importantly), agriculture, and craftsmanship. For the guaranteeing of income sources, Aïdoun engaged to: a) research the nature and sectors of income resources as well as the job opportunities; b)

encourage the beneficiaries of credit to create productive firms so as to stimulate investment in the reinsertion villages; c) encourage the creation of cooperatives for manufactured products; and d) train and rehabilitate small and medium-range firms in management and technical operation.

For the creation of credit provisions, Aïdoun planned to: a) identify subjects (including firms) who need credit most; b) specify the amount of credit needed; and c) encourage public and private institutions to participate in credit allocation.

For the development and consolidation of agriculture, Aïdoun thought of: a) identifying cultivators' needs in the reinsertion areas; b) supporting and creating agriculture cooperatives; c) exerting the availability of funds needed for the execution of projects; and d) thrusting the restoration of agricultural infrastructure in cooperation with authorities concerned.

For the development and support of craftsmanship, Aïdoun decided to: a) identify the needs of craftsmen in the reinsertion areas; b) classify the types of craftsmanship special to each area and community; and c) support the marketing process of manufactured products. (Aïdoun, 1996—6)

Nevertheless, Aïdoun is not limited to socio-economic projects, it also intervenes in planning the reconstruction of the rural cities and villages and in protecting the traditional character of such constructions. Moreover, Aïdoun exerts the organization of cleaning campaigns and waste management in the public places, in addition to reforestation. (Aïdoun, 1996—6)

Concerning the financing of projects, Aïdoun undertakes to: a) prepare detailed files about the needs of the rural cities or villages as well as the costs and best means of responding to such needs; b) identify the financial sponsors and classify them according to the projects they engage to fund; c) institute communication with the financial

sponsors through providing them with periodic progress and cost reports; d) answer the inquiries of entities concerned; and e) supervise the field work of projects financed. (Aidoun, 1996—6)

In the heart of the Aley Caza, the city of Aley took priority among towns and all villages involved in the return and rehabilitation program of the Ministry of Displaced and the Central Fund for the Displaced. This urgency was justified by the economic and geographic properties of the city and by its cultural diversity. It is well known that many owners of high-priced property in Aley City are Arabs, especially from the Gulf countries, so have been its major summer visitors during times of peace. In fact, Aley City is one of the most important Lebanese summer resorts and a significant source of tourism for the country; thus, it is a basic income factor in the national economy. Specifically, the city houses about 6,000 families including, on the whole, at least 25,000 individuals. Besides, 100,000 persons, on average, come to spend the summer; out of these 68 Arab families.

The city of Aley is surrounded by Aïn el Jdideh and Al Aabadieh east, Bsous and Kahhalé north, Souk el Gharb and Aïn el Remmané (of Aley) south. The city is 850 meters above sea level and 17 Km away from Beirut. And three roads lead to it: one from the Road of Damascus, the second from Khalde, and the third from Deir el Kamar.

The Minister of Displaced, Mr. Walid Joumblat, had asked the Bureau of Statistics and Documentation to prepare an extensive report on the actual state of the city and on its needs and the means to fulfill these needs. This report was issued in July 1995; by then, residences were returned to their owners, whether Lebanese or Arabs. And as of that time, financing means have been sought after for the various projects of the return plan. (The latest progress, dated Summer 1996, was detailed earlier in this

document, based on data published by Aïdoun and the Ministry of Displaced.) (Bureau of Statistics and Documentation, 1995, pp.8-9)

Five years as of the end of the war, summer resorts stretching from Aley City to Chemlane, to Doha, to Souk-el-Gharb, to Aynabe, to Bchémoun (etc.), all within the Aley Caza, including many other villages and small towns, have regained interest.

During the 1940's and 50's, these regions attracted families of summer tourists from Arab countries (Egypt, Tunisia, and the Gulf), who had constructed many mansions and houses there and have rarely sold their properties away. These regions were attractive geographically, socially, touristically, climatically, as well as for their proximity to the capital and to the international road to Damascus.

Since 1994 especially, remarkable improvements were reported in the said regions, along with the displaced starting to return and the rehabilitation of infrastructure in a broad sense (electricity, water, telephone, roads, schools, and other basic facilities). In addition, expatriated Lebanese have invested large amounts in the construction and hotel sectors (investments amounted to \$300m by the first quarter of 1996). Hence, residential and touristic resorts have multiplied spectacularly in these regions.

Aley City is in the center of the reconstruction site, even reaching its minor roads and squares. This construction activity has led to a pronounced increase in prices, especially in Ras-el-Jabal, in areas close to the Arab highway and to the Damascus road, as well as next to the main road and its upper side, all around the hotels and residences. Residential centers have begun multiplying over the past 3 years, and most apartments have been selling off the chart, thereby allowing promoters to reinvest continually in the same sector. Besides, both wealthy Lebanese and Arabs have bought property in large values so as to turn them into summer resorts; Arab princes and sheikhs have all repaired their castles and residential mansions to spend summers in

Lebanon. To add, a \$2.2m grant was offered by Lebanese expatriates for the development of the city, and it will be devoted to several main projects, namely a sports stadium of 50,000m² situated near the Arab main road, and to the embellishment of roads and public squares.

Concerning Chemlane (Aley), infrastructure and construction projects are being pursued (e.g. the “Panoramic” project stretching over 1,500m² and costing \$1.5m, as well as other residential projects aiming at attracting summer-resort visitors and costing \$750 on average per m².) Villas and motels as well as residential resorts are being constructed simultaneously, and most houses and castles are already rehabilitated.

As to the Aramoun, Doha, and Bchémoun regions—all in the Aley Caza—, hundreds of residential buildings are constructed to attract the inhabitants of Beirut, especially after the completion of the highways project. A number of Lebanese-Arab construction firms were constituted with the specific purpose of investing in this sector, namely in projects of residential resorts with swimming pools, gardens, and maintenance services. (Le Commerce du Levant 5380, 1996, p.26)

Within the scope of organizing productive sectors, the Lebanese government is redefining and reorganizing industrial zones all over the country. A special committee has been assigned to study existing and potential zones. With the start of March 1995, the Council of Ministers decided to create 11 industrial zones.

Although Greater Beirut and Mount-Lebanon keep being the most attractive for some industries (in spite of high real-estate prices), other regions also have numerous interesting features, namely low real-estate prices partly due to excess supply, a high supply of labor, new or developing highways, and particular fiscal measures. These regions are distributed among the North, South, Bekaa, and Mount-Lebanon.

Looking in depth at Mount-Lebanon (stretching from Antélias north to Damour south, and surrounding the suburbs of Beirut), it is very attractive to several industries due to the presence of banks, administrative services, infrastructure facilities (seaport and airport), and qualified labor.

Concerning regions in Mount-Lebanon situated to the south of Greater Beirut, the Chouf region offers low-price real-estate opportunities (between \$10 and \$30 per m²). In addition, three new zones of almost 20 hectares are planned for Chouf.

Overlooking Greater Beirut and situated above an industrial base, new areas of medium size (30 to 50 hectares) are to be prepared in the city of Aley as well as in Naamé (Chouf), Amchit, Mazraat Yachouh, Nahr Ibrahim, and Hosrayel (Jbeil).

Moreover, a significant pole of more than 400 hectares was created in Choueifat-Bchémon-Kfarchima (Aley region and borders with Beirut suburbs), extending the existing nucleus. This region is attractive due to its location in the heart of a transportation network, and to relatively cheap real-estate prices (\$300/m²).

Fifteen new sites were chosen for creating industrial zones based on the following criteria (among others): a) distant from main cities, so as to create employment in rural regions and deter rural-urban migration; b) close to main roads and electricity / telephone lines; c) devoid of woods and non-agricultural; d) away from archeological and touristic zones; e) far from springs, rivers, and maritime coasts; f) plain, with no significant upheavals, and unexposed to extreme climatic conditions; g) wide, of at least 200,00m² each so that supply exceeds demand and lowers prices; and h) spread all over the country, so as to ensure an equilibrated development of the regions.

It is worthy to note that administrative formalities to obtain a license for creating a factory will be made easier and issued by the Ministry of Industry within a specified period. (Morcos, 1996, *Le Commerce de Levant* 5382, pp.22-24, 26, April 11).

The presence of banks in the Caza of Aley in comparison with the rest of the Mount-Lebanon Mohafazat is displayed in Tables 22 and 23. The following information can be derived:

In the Caza of Aley, there are 17 branches of banks—13 are active and 4 are closed. These 17 branches belong to 13 different commercial banks (the number between brackets indicates the rank from 1 to 10 according to Table 6a displayed earlier): a) Al-Mawarid Bank—1 branch in the city of Aley; b) Arab Bank (closed) {7}—1 branch in Bhamdoun; c) Banque Audi (closed) {3}—1 branch in Bhamdoun; d) Banque de Beyrouth pour le Commerce—1 branch in Qabr Chmoun; e) Fransabank {4}—1 branch in Aley; f) Bank of Beirut and the Arab Countries {8}—2 branches in the city of Aley, 1 branch in Choueifat, and 1 branch in Qabr Chmoun; g) Beirut-Riyad Bank {10}—1 branch in the city of Aley; h) Crédit Libanais {9}—1 branch in Bhamdoun; i) Federal Bank of Lebanon—1 branch in the city of Aley, and 1 branch in Bhamdoun; j) First National Bank—1 branch in the city of Aley; k) Banque de la Méditerranée (closed){1}—1 branch in Choueifat; l) Banque Misr Liban—1 branch in the city of Aley; and m) Rafidain Bank (closed)—1 branch in Bhamdoun.

Six out of the 13 operating branches in Aley belong to banks rating between 1 and 10 according to Table 6a. However, the branches of Arab Bank and Banque Audi in Bhamdoun are closed at present, so is the branch of Banque de la Méditerranée in Choueifat.

The branches are distributed as follows: a) 8 active branches in the city of Aley; b) 2 active branches and 3 inactive branches in Bhamdoun; c) 1 active branch and 1 inactive branch in Choueifat; and d) 2 active branches in Qabr Chmoun. No main branches of banks are found in Aley.

There are, all in all, 196 active branches in Mount-Lebanon. The leading Caza in

(Table 22 continued)

MON/FI/CAZ/T	M		O		U		N		T		L		E		B		A		N		O		N		Meh		Kestwan																																	
	AB	MB	CB	MB	CB	MB	CB	MB	CB	MB	CB	MB	CB	MB	CB	MB	CB	MB	CB	MB	CB	MB	CB	MB	CB	MB	CB	MB	CB																															
CAZAS																																																												
BANKS	Aley	Biml	Cham	QCH	ARI	Badi	B B	CH	Hadi	Hm	Hm	Hzm	Kadi	Badi	Chm	Dm	Eqd	Isi	Rmch	Aho	Bvd	Ani	Bau	B M	B CH	BK	B H	Bm	Dev	Dey	D CH	Els	J D	Jud	Mns	Mks	Naik	Rad	S F	Zik	Asd	Al	Giz	Jr	Ksi	Qst	Stra	Z M	Z Ms											
S.A.'s																																																												
Middle East and Africa Bank																																																												
Near East Commercial BK																																																												
North-Africa Commercial BK																																																												
Orient Credit BK																																																												
RIF BK																																																												
Saudi-Lebanese BK																																																												
Security BK of Lebanon (EX-BBC)																																																												
SIB Banque du Liban																																																												
FOREIGN																																																												
ABN-AMRO BK (Dutch)																																																												
American Express Int BK																																																												
Arabic African Int BK (Empl)																																																												
Arab BK Limited (Jord)																																																												
Banca di Roma																																																												
BK Sacertati Iran																																																												
Banque Nationale de Paris Intercont																																																												
The British BK of the Middle-East																																																												
Crédit Lyonnais																																																												
Habib BK Limited (Pakist.)																																																												
ING Bank N.V.																																																												
Jordan National BK s.a																																																												
Rafidain BK (Irak)																																																												
Saudi National Commercial BK																																																												
TOTAL = 80 BANKS																																																												

* stands for the main branch, and -1 stands for a temporarily closed branch.

** Banks that specialize in medium and long-term lending instead of commercial lending (5).

Banks coloured in grey (the darker color) have no branches in Mount-Lebanon, and banks in bold have branches in Aley. Banque de la Mediterranee and Lebanese Canadian Bank have branches in the International Airport of Beirut.

One new branch in Sin el Fil (Meh) was added for Banque Audi.

One new branch was added in Aley (Aley) for Fransabank.

(Globe) = Globe Bank SAL (no 102) was removed from the list of banks on February 19, 1997 (The Weekly Local Economic Report, Week 41, 1996, p.2).

Compiled from: *Investor's Guide 1995*, Samir Naser, pp. 281-290, AND

The Almanach of Banks in Lebanon 1996 - 1997, pp. 284p.

Division of CAZAS and Sub-Regions according to:

a. *Liban, Guide Stephan*, Bureau G. et K. Stephan, 60p.

b. *The Almanach of Banks in Lebanon 1996 - 1997*, The Lebanese Bankers' Association, 284p.)

(The entry of the First National Bank branch in Hazmieh (Baabda) was documented by *Le Commerce du Liban*, 1996. The "First National Bank" inaugurates a Third Branch. In Hazmieh, p. 69, November 26)

Table 23: Summary of Table 22

CAZA	AB	MB	CB	Total
Aley	13	0	4	17
Baabda	39	1	0	39
Chouf	12	0	1	13
Jbeil	16	0	0	16
Meh	69	9	0	69
Kestwan	47	1	0	47
TOTAL	166	11	5	201

AB= Active Branches

MB = Main Branches (included in AB)

CB= Temporarily Closed Branches

Note: If the regions of Greater Beirut were removed from Aley, Baabda, and Meh, total branches for Mount-Lebanon becomes 122, 118 active (6 main) and 4 closed.

The data would therefore read, respectively according to Table 23, as follows: Aley-12, 0, 3, 15; Baabda-2, 0, 0, 2; and Meh-29, 4, 0, 29.

This is because Chouf would be removed from Aley, only Hammana would be considered in Baabda, and Meh would include only Beit-Mery, Beit-Chesab, Bikaya, Broumana, Dhur-Chouer, Eysaar, Mansourieh, Mekles, Nakkache, and Rahbi.

In Tables 22 and 23, the administrative territory of Mount-Lebanon at large is considered because as communication and other facilities become more and more available, the economic activity on the coast would spread to the upper regions.

48 sub-regions appear below the CAZAS in the following order: Aley, Baramoun, Chouf, Qabr-Chouf, Aqab-Remmaneh, Baabda, Bouj-el-Begine, Chouf, Hadith, Haret-Haik, Hammana, Hazmieh, Knaife, Bakoune, Chim, Damour, Bikaya, El-Manasser, Amchit, Akayeh, Bylos, Amelias, Sauchen, Bek-Mery, Bek-Chesab, Bikaya, Bouj-Hammoud, Broumana, Dekkeme, Dmayeh, Dhour-Chouer, Eysaar, Jal-el-Dio, Idelde, Mansourieh, Mekles, Nakkache, Rahbi, Sin-el-Fil, Zeika, Adonis, Aitoun, Ghazir, Jourheth, Kasik, Qalaa Sarba, Zouk-Mikrael, Zouk-Mosbeh.

terms of the number of branches is Metn, with 69 branches; then come in order Kesrwan (47), Baabda (39), Jbeil (16), Aley (13) and Chouf (12).

The following leading banks do not have any branches in Aley: Banque Libano-Française {2}, Banque du Liban et d'Outre-Mer {3}, Byblos Bank {4}, Banque de l'Habitat {5}, Banque Nationale de Paris Intercontinentale {6}, and Société Générale Libano-Européenne de Banque {7}.

Concerning the return of the displaced in Aley, Table 24 a reports the progress achieved by 30/9/96. Table 24 b summarizes progress by 30/6/97. The cumulative figures and most striking differences or progresses showing in Table 24 a follow.

In the Caza of Aley, there are overall 22,258 housing units. 7,952 families were displaced, and 1,206 of them returned (15%); 3,897 out of the 6,533 housing units for rehabilitation were rehabilitated (60%); 1,377 out of the 2,199 housing units to be constructed were constructed (63%); and the cumulative number of housing units rehabilitated and constructed is at least 5,092.

Within the Caza of Aley, there are the following 6 sectors: Nabea al Safa, Bhamdoun, Aley (Al Hay Al Gharbi), Souk el Gharb, Chartoun, and Al Chahar Al Gharbi. What follows is a brief summary of the return of the displaced and overall preparations progress in each of these sectors.

Nabea al Safa contains 805 housing units. 55% of displaced families returned. Moreover, 93% of units for rehabilitation were rehabilitated. All in all, cumulative work on housings was for 502 units. Within Nabea al Safa, Ain Dara (the largest, with 600 housing units) was rehabilitated by 100%, so was Aghmid (to which 93% of the displaced returned).

Bhamdoun contains 2,806 housing units. 29% of displaced families returned. Moreover, 55% of units for rehabilitation were rehabilitated; and 66% of units for

Table 24 a: The Return of the Displaced in Aley, Reported on 30/9/96

ALEY CAZA*														
Number of Towns & Villages	Area in Hectares	Altitude (meters)	Km-Beirut	Housing Units	Families Displaced	Returnees by 30/9/96	%	Units Requiring Rehabilitation	First Execution	%	Need for Construction	First Execution	%	Cumulative 1st Execution
48				21,548	7,832	1,206	15%	6,533	3,897	60%	2,017	1,195	59%	5,092
55				22,258	7,952	1,206	15%	6,533	3,897	60%	2,199	1,377	63%	4,353

NABEA AL SAFA SECTOR

Town/Village	Area in Hectares	Altitude (meters)	Km-Beirut	Housing Units	Families Displaced	Returnees by 30/9/96	%	Units Requiring Rehabilitation	First Execution	%	Need for Construction	First Execution	%	Cumulative 1st Execution
Town/Village														
Aghmid	300	1,160	38	130	46	30	65%	66	66	100%				66
Bmehey	2,350	1,200	41	75	83		0%	40		0%				-
Ain Dara	2,700	1,250	34	600	108	100	93%	436	436	100%				436
TOTAL	5,350			805	237	130	55%	542	502	93%	-	-	-	502

BHAMDOUN SECTOR

Town/Village	Area in Hectares	Altitude (meters)	Km-Beirut	Housing Units	Families Displaced	Returnees by 30/9/96	%	Units Requiring Rehabilitation	First Execution	%	Need for Construction	First Execution	%	Cumulative 1st Execution
Town/Village														
Bhandoun village	502	1,100	25	700	700	163	23%	1,000	329	33%	400	172	43%	501
Bhandoun station	191	1,075	23	1,100	200	105	53%	700	649	93%				649
Bisrine	70	850	34	120	120	4	3%	40	40	100%	118	118	100%	158
Batoun	231	1,050	28	75	91	5	5%	120	120	100%	131	131	100%	251
Taazanleh	100	1,020	29	50	79	12	15%	52		0%	9		0%	-
Habrammoun	60	600	37	25	72	1	1%	82		0%	75	75	100%	75
Rwasset el Naaman	300	1,050	34	125	182	3	2%	107	1	1%	95	95	100%	96
Sebeal	90	1,025			30	1	3%	1		0%	23		0%	-
Ain el Jdideh	133	350	21	350	149	250	168%	293	259	88%				259
Ain el Halzoun	60	850	33	50	50		0%				13		0%	-
Ain el Fridiss		930	31	11	3		0%				1		0%	-
Ain el Marj	90	1,100						2		0%	72		0%	-
Mansourieh	300	1,090	28	200	248	22	9%	159		0%	83	83	100%	83
TOTAL				2,806	1,924	566	29%	2,556	1,398	55%	1,020	674	66%	2,072

ALEY-AL HAY AL GHARBI SECTOR

Town/Village	Area in Hectares	Altitude (meters)	Km-Beirut	Housing Units	Families Displaced	Returnees by 30/9/96	%	Units Requiring Rehabilitation	First Execution	%	Need for Construction	First Execution	%	Cumulative 1st Execution
Town/Village														
Behwara	125	760	24	12	12		0%							-
Bkrechey	145	820	21	220	140	150	107%	187	187	100%	10	8	80%	195
Raimeh	105	800	24	50	144		0%				146	146	100%	146
Aley-Al Hay Al Gharbi	854	800	19	5,200	1,510	30	2%	1,400	581	42%	150	150	0%	581
TOTAL	1,229			5,482	1,806	180	10%	1,587	768	48%	306	154	50%	922

Table 24 a: The Return of the Displaced in Aley, Reported on 30/9/96

(Table 24 a continued)
SOUK EL GHARB SECTOR

Town/Village	Area in Hectares	Altitude (meters)	Km-Beirut	Housing Units	Families Displaced	Returnees by 30/9/96	%	Units Requiring Rehabilitation	First Execution	%	Need for Construction	First Execution	%	Cumulative 1st Execution
Bechemoun	246	450	18	350	77		0%							-
Bmekine	111	700	21	75	70	50	71%	150	106	71%				106
Deir Koubel	260	200	15	175	44		0%							-
Souk el Gharb	252	760	22	500	248	75	30%	500	338	68%				338
Chemlane	125	700	25	130	71	25	35%	243	153	63%				153
Choueifat	1,797	140	12	5,500	1,320	75	6%							-
Aitaf	243	690	23	290										-
Ain el Remmane	44	700	19	20	15	6	40%	60	21	35%				21
Ain el Sayde		700						20		0%				-
Ain Joueig		530		95	95	5	5%	50		0%				-
Ain Aanoub	408	490	19	475	128		0%							-
Ainab	350	750	28	200	60		0%	200		0%				-
Kmatieh	90	650	20	500										-
Keitoun	180	800	25	900										-
TOTAL				9,210	2,128	236	11%	1,223	618	51%	-	-		618

CHARTOUN SECTOR

Town/Village	Area in Hectares	Altitude (meters)	Km-Beirut	Housing Units	Families Displaced	Returnees by 30/9/96	%	Units Requiring Rehabilitation	First Execution	%	Need for Construction	First Execution	%	Cumulative 1st Execution
Rachmaya	752	630	33	400	343	40	12%	460	460	100%				460
Renley	360	650	34	150	23	17	74%	22	8	36%				8
Chartoun	300	720	31	240	291		0%				550	325	59%	325
Ain Traz	280	650	32	30	30	15	50%							-
Ktraamey	200	700	28	75	129	20	16%	143	143	100%	141	42	30%	185
Mazraet el Nahr	30	530	39	25	25	2	8%							-
TOTAL	1,922			920	841	94	11%	625	611	98%	691	367	53%	978

Table 24 a: The Return of the Displaced in Aley, Reported on 30/9/96

(Table 24 a continued)
AL CHAHAR AL GHARBI SECTOR

Town/Village	Area in Hectares	Altitude (meters)	Km-Beirut	Housing Units	Families Displaced	Returnees by 30/9/96	%	Units Requiring Rehabilitation	First Execution	%	Need for Construction	First Execution	%	Cumulative 1st Execution
Baawerta	645	540	29	220	220									
Dfoun	400	550	31	120	120									
Aabey	420	750	39	400	156									
Aaramoun	1,288	430	20	900	108									
Ain Drafil	275	470	43	50	50									
Ain Ksour	190	710	26	85	60									
Kfarmatta	1,150	680	41	550	182									
Kleillah			330											
TOTAL				2,325	896	-	-	-	-	-	-	-	-	-

Notes:

* = First row contains totals for Aley Caza, calculated from figures in this table.

Second row contains totals according to the reference.

Families Displaced = families who used to own residences in the said regions, but not necessarily having always resided in them.

Percentage and Cumulative 1st Execution columns for sectors are calculated in this document only.

Source: Aidoun (Ministry of Displaced-Lebanese Republic & the UNDP), 1996. *Demographic Report on the Return Activity*.

Damour, September 30, pp.1, 15-20.

Table 24 b: The Return of the Displaced in Aley, Reported on 30/6/97
ALEY CAZA

Number of Towns & Villages	Area in Hectares	Altitude (meters)	Km-Beirut	Housing Units	Families Displaced	Returnees by 30/9/96	%	Units Requiring Rehabilitation	Paid	%	Need for Construction	Paid	%	Paid Cumulative
40				18,643	6,904	1,160	17%	7,949	6,283	79%	1,933	1,779	92%	8,062

Sectors in italics:

<i>Bhandoun</i>	Families Displaced	Families Returned	%
<i>Village / Town</i>			
<i>Bhamdoun Village</i>	700	96	14%
<i>Bhamdoun Station</i>	700	45	6%
<i>Mansourieh</i>	248	28	11%
<i>Aley Al Charar Al Gharbi</i>			
<i>Village / Town</i>			
<i>Aley</i>	1,510	40	3%
<i>Rajmeh</i>	144	9	6%
<i>Souk el Gharb</i>	Families Displaced	Families Returned	%
<i>Souk el Gharb</i>	248	55	22%

Source: Kossaity, Hiam, 1997. The Return of the Refugees Between the Government Plan and the Vision of Christians and Their Role. *An Nahar*. Wednesday, July 23, p.7

construction were constructed. All in all, cumulative work on housing was for 2,072 units. Within Bhamdoun, Ain el Jdideh witnessed a 168% return. That is, all displaced families returned, plus any families established during displacement and/or families displaced from other villages and towns (most probably neighboring Ain el Jdideh). Moreover, 88% of rehabilitation work was done. Moreover, Bhamdoun Station (the largest, with 1,100 housing units) had a 53% return of the displaced, and it was rehabilitated by 93%. Furthermore, Bissrine and Batloun were 100% rehabilitated and constructed; however, the return of the displaced there was less than 5%.

Aley-Al Hay Al Gharbi contains 5,482 housing units. 10% of the displaced returned. Moreover, 48% of rehabilitation work was done, and 50% of construction needs were executed. All in all, cumulative work on housing was for 922 units. Within this sector, the city of Aley-Al Hay Al Gharbi (the largest, with 5,200 housing units) received 2% of its displaced families back. Rehabilitation was by 42%; no construction of housing units was done. In addition, Bkhechthey scored high figures: 107% of the displaced returned, 100% of rehabilitation was done, and 80% of the construction program was performed.

Souk el Gharb contains 9,210 housing units. 11% of the displaced returned, and rehabilitation was by 51%. All in all, 618 housing units were worked on. Within Souk el Gharb, Choueifat (the largest city, with 5,500 housing units) witnessed little return activity, by 6%. Bmekine had a 71% return rate for the displaced, and the same rate for rehabilitation (however, it is much smaller than Choueifat in terms of housing units.)

Chartoun contains 920 housing units. 11% of the displaced returned. Moreover, rehabilitation was by 98%, and construction by 53%. All in all, 978 units were worked on. Within Chartoun, Rachmaya and Kfaraamey received at the most 16% of their displaced back, and 100% of rehabilitation work was executed. Besides, Remley had a

74% score of return of the displaced, and 36% of rehabilitation work was done.

Al Chahar Al Gharbi contains 2,325 housing units, but information on the return of the displaced in addition to rehabilitation/construction activities is not available. (Aidoun, 1996, pp.1, 15-20)

In Table 24 b, it appears that overall, 17% of the displaced returned to Aley Caza by June 30, 1997—an increase by 2 percentage points over September 1996. Moreover, there has been progress in rehabilitation and especially in construction.

Within the Aley Al Hay Al Gharbi sector, the return of the displaced to Aley City increased by one percentage point and remains at 3% only. The return of the displaced to Rajmeh is now at 6% compared to zero percent in 1996. Within the Bhamdoun sector, the return of the displaced to Mansourieh increased by 2 percentage points and is now at 11%. However, it seems that many returnees to Bhamdoun village and Bhamdoun Station left their main addresses for another time: cumulative percentages of the return of the displaced declined for each of the two regions. The same happened for Souk el Gharb within its sector.

According to the statistics of the Ministry and as published in An Nahar on July 23, 1997, provisions for rehabilitation in Aley were allocated to 6,375 beneficiaries, and these allocations amounted to about LBP 56b. As to provisions for construction, they amounted to about LBP 26b and were allocated to 1,780 beneficiaries. (Kossaify, Hiam, 1997, An Nahar: July 23, p. 7)

Interpretation of the data in Tables 24 a and b

Souk el Gharb, the largest sector in terms of total housing units, witnessed a rate of return of the displaced less than the average for the Aley Caza (11% as compared to 15% respectively), in spite of its high rehabilitation score. This is due to the final

departure of much of the population as a result of the famous long-lasting struggle in the region. This explains why Choueifat, the largest in the sector, had only a 6% return of the displaced. (However, Bmekine—relatively small—had promising scores.)

Aley Al Hay Al Gharbi also had a below-average score of return of the displaced. This is because the largest in the sector, Aley Al Hay Al Gharbi, had a very poor percentage return figure. Nevertheless, in the same sector, Bkhechtey had very high scores on each of return of the displaced, rehabilitation, and reconstruction, although the sector had only average rates on the last two items.

Chartoun had a below-average return of the displaced as well, though the sector is practically all rehabilitated and about three-quarters of the displaced returned to Remley.

The sector with the highest rate of return of the displaced is the smallest, Nabea al Safa. The rehabilitation score there is almost complete. Most remarkable in the sector are Aïn Dara and Aghmid.

Bhamdoun had an above-average score of return of the displaced because it was mainly induced by Bhamdoun Station (the largest in the sector), due to its high advanced rehabilitation and nearly complete construction work. However, figures for the return of the displaced in Bhamdoun village and Bhamdoun Station had dropped by June 30, 1997. Aïn el Jdideh also had a noticeable percentage return of the displaced. It seems, however, that Bissrine and Batloun are still waiting for their displaced to come back after a 100% rehabilitation and reconstruction. It is necessary also to mention that Bhamdoun had the highest number of units rehabilitated and reconstructed, mainly due to its size.

The information presented above leads to three main deductions. First, scores of the return of the displaced go usually hand in hand with those of rehabilitation and

reconstruction. This observation is in harmony with common sense. Second, whenever a gap occurs between the score of the return of the displaced and the score of rehabilitation and reconstruction, it is usually that of rehabilitation that is higher. This is because the displaced normally await encouraging progress in rehabilitation and reconstruction before they decide to return for good. This helps explain why despite advancement in the material work in a certain region, the rates of return of the displaced may still drop later (as for Bhamdoun Station). And third, individual villages, towns, and cities do not always follow the sectorial tendency. That is, even in sectors where return of the displaced is below average and rehabilitation-reconstruction nothing more than ordinary, a single entity might have surprising rates on the three criteria. One example of this is Bkhechtey in the sector of Aley Al Hay Al Gharbi.

Recent developments in projects related to the return of the displaced

After a pause in the return projects, the Ministry of the Displaced announced lately that due to the continuation of reconstruction works in 30 villages and towns in Aley and Chouf, 9% of those whose houses were destroyed have completed construction despite that the payment of reconstruction compensations has not yet been completed in any of these regions. Moreover, 79% of beneficiaries from compensations started construction and invested the compensations for their original purpose; they are waiting for the remaining funds so their houses become fully ready (however, 21% of beneficiaries have not yet started construction). In Aley, 1,375 beneficiaries received the first payment and 472 got the second. It is to be noted that 7% of beneficiaries completed construction on their own account. This proves the desire for a rapid and permanent return to the homeland. (Kossaify, Hiam, 1997, An Nahar: July 24, p.7)

The Vice-President of the Central Fund for the Displaced, Mr. Abdel Hamid Nasser, declared that the Fund will resume its 1997 plan within the coming weeks, after the approval on the loan designed to it. He also called those waiting to benefit from compensations to secure the technical conditions and administrative formalities so that the Fund can provide the compensations. Nasser added that compensations would also cover infrastructure works under contracts, and he concluded with the confidence that the return regions will witness a considerable construction site within the coming months. (Kossaify, Hiam, 1997, An Nahar: July 26, p.7)

Validity of the data in Tables 24 a and b, and different points of view on the issue of the return of the displaced

Percentages in Tables 24 a and b were supplied by Aïdoun (Bureau of the Displaced), Ministry of Displaced. These percentages have been debated recently. Besides, according to the Maronite Patriarch Cardinal Nasrallah Sfeir, the displaced are returning very slowly, mainly due to the incapacity of the Central Fund for the Displaced in financing the vacating, construction, and rehabilitation. In fact, the Central Fund for the Displaced has paid more than \$550m on all regions where its projects have been under implementation; however, only 27% of the displaced returned permanently to the Cazas of Aley, Baabda, and Chouf (according to statistics published by the Ministry of Displaced - Kossaify, Hiam, 1997, An Nahar: July 23, p.7). Cardinal Sfeir sees that a full return of the displaced would take at least ten more years if the financial politics remains the same, for in addition to construction and rehabilitation, basic facilities such as schools, dispensaries, handicraft shops, agriculture works, and even religious sites should be secured.

Cardinal Sfeir continued that beside the 27% rate of permanent return of the displaced, there is only a seasonal or weekend return activity, because the daily facilities are available in the regions to which the displaced had moved... The public and private sectors should hence work together on developing and financing a program for the return of the displaced: the returnees are getting discouraged from the slow rhythm of return and lack of essential facilities and they are transforming the houses they rebuilt into summer resorts or selling their properties to get established in Beirut or abroad. (Kossaify, Hiam, 1997, An Nahar: July 23, p.7)

Cardinal Sfeir also mentioned that the church was the first to react positively to the problem of the displaced, especially through "Caritas". The displaced have been assisted in the construction of at least one room per family and in the preparation of pre-manufactured houses that can be moved to the return regions. The church is even selling land at low prices to the disadvantaged displaced so they can return and build houses in their homeland. (Kossaify, Hiam, 1997, An Nahar: July 23, p.7) More precisely, Reverend Fouad El Hajj recalls that "Caritas" has spent \$16m since the end of the war in 1990, including grants and housing loans through which many displaced could complete their construction, beside compensations distributed by the government and other developmental loans. In addition to pre-manufactured houses, about 135 residential units, distributed among a number of regions, were provided.

All in all, "Caritas" helped about 5,000 families in the rehabilitation of their houses between 1993 and 1997, especially in the regions where green light was given to initiate programs for the return of the displaced. On the other hand, "Caritas" extended developmental and agricultural loans that have been used to open handicrafts, industries, and trade shops, in addition to ambulant dispensaries with scheduled services, free of charge in public schools. The loans were over three to four years so

that other returnees could re-use the funds. With the help of loans, animal husbandry projects, small workshops, and stone extraction industries proliferated. Loans even assisted housewives in acquiring sewing machines. (Kossaify, Hiam, 1997, An Nahar: July 26, p.7)

Coming back to the issue of delay in the return of the displaced, Ex-Minister Mr. Joseph El Hachem pointed in a press conference on Saturday, July 26, 1997, that the rate of the return of the displaced has not exceeded 5% as a whole, and that the allocation of LBP 12m to 30m per family does not even suffice to build the bases of a housing construction. He added that alleged high rates of return of the displaced, by 40%, do not refer to actual statistics on the return of displaced families based on field survey; they are rather based on construction works accomplished. Moreover, Mr. Hachem referred to “leakages” in the funds, unused for their initial purposes. He commented on the slow rhythm of the return of the displaced, asking the government to secure the necessary financial resources (from the European Union) and to devise a 2-year agenda for the preparation of the return regions. (Kossaify, Hiam, 1997, An Nahar: July 26, p.7).

Ex-Representative Mr. Pierre Helou believes that the vacating process was unsystematically spent on; the displaced families did not receive funds equitably. Mr. Representative of the Chouf District, Mr. Nabil Boustani, pointed that expenditures need to be controlled and that the return of the displaced needs to be programmed. In reality, programming the return is very important because the aged want to return, but the young (the most needed) prefer to stay in Kesrwan, Ain el Remmané, and Achrafieh: they have adapted to their new setting. A few of them consider the return as another displacement. Still, if a specific date for return can be assigned, they would be motivated and would refrain from selling their properties.

Mr. Helou added that the return of the displaced is rather limited to weekends because return regions are being developed one far from the other, i.e. one return region can be found among a number of deserted villages. He noted as well that the return of the displaced to Rachmaya was completed because all the displaced came back to it four years ago, unlike those of Al Chahar Al Gharbi who lost hope from waiting.

Mr. Helou further noted that there are favorable circumstances inducing the return of the displaced, mainly the expensive rent prices in Beirut: The displaced who have not spent winters for a long time in their homelands will be prompted to return as soon as the basic facilities are secured. For the rates of the return of the displaced have been declining in all villages due to the discouragement of not finding elementary factors such as electricity, water, infrastructure, schools, and dispensaries.

According to Mr. Wadih Akl, Representative of the Aley District, low compensations are causing returnees to invest in the constructed or rehabilitated residences for commercial purposes rather than for purposes of definite return to the homeland. To add, Mr. Antoine Andraos pointed that properties have been selling recently in Souk el Gharb. (Kossaify, Hiam, 1997, An Nahar: July 24, p.7)

Reverend George Khodr expressed that the return of the displaced is motivated by their desire to produce in the homeland, the culture that a part of income should come from agriculture. He stressed that returnees are poor in general and there is no solution to keep them attached to their homeland other than the establishment of a bank to extend credit for the completion of residential rehabilitation and construction. He commented, however, that people outside the regions of return do not seem ready to make such a commitment. Still, schools, dispensaries, and a normal life atmosphere should be secured for a definite return of the displaced. In fact, as Reverend Tanios

Khoury expressed, how can someone be convinced to return to Nabea al Safa to take care of his land when the region suffers from water shortage, inhibiting him from irrigating it?... (Kossaify, Hiam, 1997, An Nahar: July 25, p.7).

To conclude, according to Attorney Mr. Elie Aoun of the Maronite Association, the discouragement from returning is due to a number of factors that can be summed in two. First, mandatory and undifferentiated vacating (based on Decree no. 81 issued on 4/1/1997) does not distinguish between the refugee and the occupant (unlike Decree no. 25 issued on 23/2/1994), therefore depriving refugees from their shelters without any vacating compensation. Besides, LBP 370b out of the LBP 450b allocated to programs for the return of the displaced were spent on vacating and reconciliation only. And second, such return programs have not been financed since end-1995 (the government has newly declared the availability of financing sources). (Aoun, Elie, Att., 1997)

Finally, after having exposed the different sources of statistics on the return of the displaced, it can be concluded that, despite the debate on the statistics, some return has occurred. In any way, the parties evaluating the rates of the return of the displaced (supplied by the Ministry of Displaced) as inflated are encouraging a unison in public and private initiatives to consolidate the return process and ensure that displaced from all backgrounds receive equal opportunities in returning to their homeland. Thus, the statistics of the Ministry of Displaced, which, as commented by other sources, are rather based on construction and rehabilitation works accomplished to date, will still be adopted in this research since they eventually show the potential effective rates of the return of the displaced.

Field Survey

1. Survey with the 13 leading banks (all of them commercial, except Banque de l'Habitat). Interviews will be based on questionnaires tailored to those having active branches in Aley, those having inactive branches in Aley, and those having no branches in Aley. (Please refer to Appendix B.)
2. Simple tabulation will be employed for the data. Answers will be summarized into standard expressions.
3. Coding is not used in the questionnaire so as not to lead into a predefined choice of reply.

CHAPTER V.

RESEARCH RESULTS

The various policies followed by commercial banks have a major aggregate effect on the performance of the economy. In effect, the commercial banking activity is a determinant of GDP both directly, through micro operations performed at every single commercial banking institution, and indirectly through the stimulation of investment in the different economic sectors.

Moreover, the micro objectives proper to each commercial bank would lead it into a course of action whereby macroeconomic objectives are met. Branching is one of these micro objectives, or at least a vehicle to achieve them. It follows that a carefully-studied geographic stretching would bring generous benefits to both the individual institution, in line with its own targets, and to the economy in various respects.

Branching is, in fact, a post-war opportunity for each institution with the growth objective on the strategy list. It was proved in this research, in line with the first statement, that the branches of commercial banks are geographically centralized in Beirut and its suburbs on a first level, and on a second level in one or two main cities within each Mohafazat.

However, it was also proved, in line with the second statement, that the post-war situation is currently encouraging geographic spreading, for economic and social activity and the improvement of infrastructure are widening to reach the long-time margined regions of the country. This is mainly determined by the launching of new, grand-scale construction. The Aley Caza, represented by its villages and cities, is one of leading among such regions, especially concerning Aley City, Aramoun, Bchémoun, Chemlane, Choueifat, Doha, Kfarchima, Souk-el-Gharb, and others.

One example is the creation of a significant industrial pole in the area of Choueifat-Bchémoun-Kfarchima, due to its location in the heart of a transportation network and to relatively cheap real-estate prices.

In the present research, the Caza of Aley was proposed as a choice for the geographical distribution of branches proper to leading commercial banks in the country. And the third research statement that Aley would qualify for new branching, due to the return of the displaced and the reactivation of the economy, is approved rather than rejected. The explanation follows:

Aley qualified as one of the regions where the 1992 return plan of the Ministry of Displaced and the Central Fund bore highest expected success. This is because many of its villages and towns met the required infrastructure, social, and economic criteria. (The city of Aley took priority in the overall return plan due to its diversified culture, its touristic vocation, and the availability of basic economy, infrastructure and social knit.)

From then on, much progress has been achieved concerning the cleaning of rubble due to destruction, rehabilitation of infrastructure and residential units, and construction.

As to the rehabilitation of the social sector and the reactivation of the economy, both public and private financiers are strongly encouraged to contribute: Many programs are waiting for implementation.

Specifically concerning the rehabilitation of the economic sector, agriculture and traditional handicrafts need to be renovated and energized. In fact, regaining normal life in Aley depends greatly on the constant availability of income sources.

The returnees are to be supported concerning income generation, credit, and the re-energizing of agriculture and craftsmanship (their traditional occupation).

In order to guarantee income sources, productive sectors of employment are being researched, beneficiaries of credit are being encouraged to invest in the establishment of productive firms, the marketing of goods through cooperatives is being planned, and even training in management and operation provided for.

For the creation of credit provisions, fund-deficit entities are being identified, needs assessed, and public as well as private fund-surplus entities encouraged to invest.

For the development and consolidation of agriculture, handicrafts and industries, information can now be made available about the various needs and the volume of funds required. Moreover, transparency is ensured for the investor as often as necessary.

Similarly, the financing and organizing of construction and rehabilitation projects is being carefully planned, with continuous communication and feedback with investors as a base.

It is well acknowledged that the human factor and infrastructure are primary indicators of any economy. The most interesting findings of the analysis of the return process and of the progress in rehabilitation and reconstruction relative to the Aley Caza return process are: a) Nabea al Safa is a promising sector, mainly driven by Aïn Dara and Aghmid; b) Bhamdoun Station and Aïn el Jdideh are also remarkable in the Bhamdoun sector; and c) Bkhechtey, in Aley Al Hay Al Gharbi, is very advanced in return and housing activity.

As to the distribution of branches of commercial banks in Aley, it is summarized as: a) 8 active branches in the city of Aley; b) 2 active branches and 3 inactive branches in Bhamdoun; c) 1 active branch and 1 inactive branch in Choueifat; and d) 2 active branches in Qabr Chmoun.

Therefore, if commercial banks are to enter the reemerging markets in the areas of

return, rehabilitation, and reconstruction, they have to reconsider their distribution charts. As seen from the summary of distribution of branches in the Caza of Aley, the cities of Aley and Bhamdoun had been well known for their flourishing touristic vocation in the past. So traditionally, branches of commercial banks have been mostly represented in these two cities in the Aley Caza.

However, the war has brought many changes; this is reflected, for instance, in the closure of 3 branches in Bhamdoun. But numerous changes have also occurred as of the end of hostilities, namely in the most permanently-damaged regions. This is shown by the proliferation of new, huge construction projects and industrial poles in Aramoun, Bchémoun, Chemlane, Choueifat, Kfarchima, Souk el Gharb, and others to come... These regions are parallel to the coast of Aley Caza, and therefore, they have an advantage as a link between the suburbs of the capital, the coastal highway, and the newly emerging regions higher on the mountains of the Caza.

Commercial banks now have the non-recurrent option of branching in these regions as well as those mentioned as most progressive in terms of return, rehabilitation, and construction, while diversifying their services in the traditional cities of Aley and Bhamdoun. Getting feedback on the subject from the leading commercial banks through questionnaires is therefore necessary in this stage.

Hence, all in all, 42 questionnaires were prepared: 5 were filled during interviews, and 37 were sent by fax or mail, usually after being translated into Arabic or French. However, 5 out of the 13 banks did not contribute to the survey: a) Banque Libano-Française, because “questions targeted the internal policies of the bank”; b) BNPI, because it is “a foreign bank and no statistics can be supplied to researchers concerning the Lebanese market”; c) Crédit Libanais, because management is busy selling the bank; d) Fransabank, because “no questions about the new branch in Aley can be

answered before one year,” i.e. July 1998; and f) Banque de l’Habitat, because “there are currently no prospects to expand the bank, and any decision of the sort will be published at its time”. That is, 17 out of the 37 questionnaires that were sent were not returned, leaving 20 more questionnaires.

Still, among the 8 banks that contributed to the survey, a maximum of 2 staff members in each, instead of the planned 3, answered the questionnaires or were interviewed in person. This is either because many considered that the questions will be answered similarly within each bank, or because staff were too busy to answer or devote time to an interview. Thus, the total number of questionnaires available for study is 11.

Two banks having active branches in Aley contributed to the research: Bank of Beirut and the Arab Countries, and Beirut-Riyad Bank. Four banks having no branches in Aley contributed to the research: Arab Bank (categorized as having a working office in Aley, and therefore having no branches at all, rather than having an inactive branch); Banque du Liban et d’Outre-Mer, Byblos Bank, and Société Générale Libano-Européenne de Banque. And two banks having inactive branches in Aley contributed to the research: Banque Audi and Méditerranée. Findings are exhibited in Table 25.

Table 25: Survey Results

Questions	Banks Active in Aley	BBAC	Beirut-Riyad
Optimal distribution reached?	no		no
Exclusive, or better service in (service):	no service in particular		Dialbank, ATM, MasterCard, Visa
Sectors most serviced	trade, real estate, consumption, housing, industry		trade: short-term financing
Regions most serviced	Greater Beirut		Beirut
Potential regions to be serviced	Batroun, Jbeil, Akkar, Kilim, Nabatyeh, Baahdal, Bhamdoun,....		Saida, Tyr, Tripoli, Kaslik, Zahle, Chitaura, Nabatyeh
Customers mainly come from	various regions		Beirut
Staff mainly come from	various regions		
Projects for new services?	yes		yes
If yes, of what sort?	>consumption loans, credit cards, phonebanking, insurance, housing, retirement		Home Banking-Internet, Housing Loans
when?	phonebank: in 6 months' time		within 2 years
sectors to be most serviced	all		all, private sector
regions to be most serviced	Greater Beirut		Beirut (population)
potential regions to be serviced			other Lebanese cities
effect on competitive position	leading in "credit" cards, doctor's loans, and fixed interest rates on housing		retail banking is very demanded. With reduced commissions, it will lead to an increase in market share. Branches will be on-line.
If no, why?			
Purposes of presence in Aley	Druze ownership of bank; the main branches were first established there in 1965		
Services marketed in Aley	all (+ ATM)		all services mentioned
Comparison with competitors	leaders in volume and experience		on same level
Meeting current needs in Aley?	yes		yes; trying to innovate
Projects for new services in Aley?	already launched		Real-time banking
If yes, of what sort?	credit cards, ATM		1997-beginning 1998
when?	already launched		Aley city and surroundings
parts of Aley to be most serviced	Aley, Choueifat		
other parts of Aley to be serviced	Bhamdoun station + others with Arabs' return		
sectors to be most serviced	all		ordinary customers + trade
expected gains to the bank:	larger volume of operation		
If no, why?			
Projects for new branches in Aley?	no		not in the near future
If yes, where in Aley? why?			
when?			
services to be marketed			
gains to Aley as a whole			
expected gains to the bank			
If no, why?	saturated		
Projects for new branches elsewhere in Lebanon?	Akkar, South		yes
If yes, where? Why?			mentioned above
when?			1997-1998, then 2 to 3 new branches per year
services to be marketed	all		retail banking services
gains to the regions chosen	long-term loans		
expected gains to the bank	greater market share		more profit due to a larger volume of operation
If no, why?			

(Table 25 continued)

Banks with inactive branches in Aley		AUDI	MEDITERRANEE
Questions			
Optimal distribution reached?	no		no
Exclusive, or better service in (service):	cost effective investment banking		in westbank banking through sister banks
Sectors most serviced	trade construction, individuals		trade first, then industry, and construction
Regions most serviced	Greater Beirut (banking culture)		Greater Beirut
Potential regions to be serviced	internal parts of Capital, Bekaa, Tyr		main cities outside Beirut, as well as Bekaa and Mount Lebanon
Customers mainly come from	Greater Beirut		no particular distribution
Staff mainly come from	Greater Beirut and Mount Lebanon		no particular distribution
Projects for new services?	yes		yes
If yes, of what sort?	ATM's (also inside branches), phonebanking, PC banking software for stocks and bonds, housing loans		credit cards
when?	as of July 1997		during the second half of 1997
sectors to be most serviced	all individuals		individuals first, then firms
regions to be most serviced	Beirut and suburbs		Greater Beirut
potential regions to be serviced	Tripoli, Zahle, Saïda, Tyr		main cities outside Beirut
effect on competitive position	electronic banking will attract foreigners + Lebanese expatriates		more variety and effectiveness in financial services
If no, why?			
What were the purposes of branching in Aley?	Koweïl shareholders, exchange + cash transactions for Arab tourists...		all banking services
Services that used to be offered in Aley?	refer to previous answer		establish a new branch
Date when operation stopped in Aley; reason	1975, due to war		
Projects for reviving the branch (es) in Aley	no, but may install offices		
If yes, when	not in the near future		
where? (in the same location?)			
types of services to be marketed			all banking services
sectors to benefit most of the services			depending on the distribution of such sectors in the region
parts of Aley that will demand the services most			Aley city
other regions in Aley to demand the services			
expected gains to the bank			the operations of the branch will lift the volume of activity for the whole bank
If not, why?	poor in education, industry, business, health services; a summer resort only; religious biases		
Projects for new branches elsewhere in Lebanon?	yes		yes
If yes, where? Why?	Beirut: Bliss street, Zarif street, Sami Solh, suburbs, Zahle, Western Bekaa, Chouf, Tripoli		South, Bouj Hammoud, southern suburbs of Beirut, Aley region
when?	Zahle in two months		gradually, starting this year
type of services to be offered	all		all banking services
expected gains to the chosen regions	loans to individuals and traders; practicality of having a branch nearby		availability of financial services
expected gains to the bank	more profits out of interest spread, more deposits and customers...		the volume of operation for each new branch will lift Balance Sheet figures for the whole bank
If no, why?			

(Table 25 continued)

Banks having no branches in Aley				ARAB BANK	BLOME	BYBLOS	SOCIETE GENERALE
Questions							
Optimal distribution reached?	no						there exists no optimal distribution
Inclusive, or better service in (service):	no particular services: all banks offer the same services		no; active regions still unreached medium-term loans, investment banking, consulting		no: we should GO to our customers 4 yrs ago, exclusive in retail banking: now all banks are following same pattern		tailoring of products to needs of individuals+enterprises besides traditional commercial banking
Sectors most serviced	trade, tourism: pillars of Lebanese econ.		trade: high liquidity and turnover		all productive Lebanese		all, esp. industry + services
Regions most serviced	in the capital and principal regions where trade activity is concentrated		where branches are located		everywhere, especially in coastal cities		everywhere, especially in Beirut
Potential regions to be serviced	South: Tyr, Nabatiyeh, +others; southern suburbs of Beirut; Jouneih; Sin el Fil		will reach all regions based on demographic and economic levels		Bir Hassan and southern suburbs of Beirut (Marriott Hotel region)		South: Saïda, Nabatiyeh, Tyr
Customers mainly come from	Greater Beirut		Greater Beirut		regions where branches are located		everywhere
Staff mainly come from	Greater Beirut				regions where branches are located		especially eastern region (war)
Projects for new services?	yes		yes		yes		yes
If yes, of what sort?	linking among branches and with ATMs		for consumption		credit cards, agricultural loans		for individuals, construction, as well as treasury loans to enterprises
when?	in the near future		imminent, under study		in the near future		1997-98
sectors to be most serviced	all		salary earners		credit cards to all; agr. loans to farmers...		individuals and enterprises (large and small)
regions to be most serviced	in all branches		where branches are located		credit cards in cities (for trade)		Beirut: > business and consumption
potential regions to be serviced	improvement of current services		=> suppliers of all banking services		all of Lebanon		nothing specific, a bit everywhere
effect on competitive position					competition leads to better service		restructuring/ marketing approach
If no, why?							
Reasons for no branches in Aley	BDL approval not given (foreign bank)		not prioritary, considering population and economic activity		to avoid losses due to war... Now, the policy for all banks is to expand to all regions. For us, in Aley in particular		still not a potential market
Projects for a new branch in Aley	no		no		yes		
If yes, when			maybe in the future		end of 1998 (BDL regulations)		
where in Aley? why?					not known; study to be done		
other parts of Aley to be serviced					all from very first day		
type of services to be offered					all. we already have customers in Aley		
sectors to benefit most of the services					> market share+participation in economy		
expected gains to the bank							
If not, why?	Aley is currently poor in trade activity						still no economic justification
Projects for new branches elsewhere in Lebanon?	yes		yes		yes		yes
If yes, where? why?	southern suburbs of Beirut, and South		expand in all Lebanese regions to participate in activating their economic activity		towards Mount-Lebanon, but no particular priority, since new developments take place every 6 months		cannot declare
when?					plans already started		not before 1998
type of services to be offered	when BDL approves		first project within a few months		all Byblos Bank services		all
expected gains to the chosen regions	same as offered in all branches more economic activity through financial facilities		for consumers, industrialists, traders meeting financial needs of all sectors		branches will activate economic cycle		policy is to recruit from the chosen region => more employment, higher purchasing power, access to an int'l bank with wide facilities...
expected gains to the bank							
If no, why?	cannot be assessed from now				greater market share...		

The main conclusions to be derived from the table are, first, that no bank considers having reached the optimal geographic distribution of branches in order to cover the local market. All banks recognize the opportunity to expand geographically. Nevertheless, they justify the concentration of their branches in Beirut and its suburbs by referring to the economic activity of the region, its population density, as well as the financial and banking education among its residents. Therefore, many are seeking to establish still more branches there, namely in the booming southern suburbs and even in the center, where reconstruction is in its implementation stage.

Second, the eight banks are preparing to branch out in all direction starting no later than the year 1998. Plans show practically the same desired destinations for all banks: a) the North, mainly Tripoli; b) the Bekaa, including Zahle, Chtaura, and the Western Bekaa; c) Mount-Lebanon, including Baabdat; and d) the South, mainly Saida, Nabatiye, and Tyr.

Third, the services of the leading banks are primarily allocated to the trade sector, then to industry and construction. However, many banks are also prioritizing on the individual customer and salary earner, through ATM's and credit cards as well as various loans for consumption and housing. It is to be noted that Byblos Bank is planning to extend loans for agriculture.

Fourth, banks active in Aley have no plans to establish further branches there, at least in the near future. Within the Aley Caza, these banks market their services most heavily in the city of Aley and its surroundings, Choueifat, and Bhamdoun Station. They anticipate more activity with the return of Arabs and they see that tourism is the driving sector in Aley.

Fifth, banks active in Aley or having closed their branches there were motivated in the first place by their Arab shareholders, or shareholders residing in the area.

Sixth, only two banks have the intention to branch in the Aley Caza in the near future: Byblos Bank and Banque de la Méditerranée. However, locations are still under study. The other banks either estimate Aley as still immature, have other priorities on their branching agenda (such as Beirut and Mount Lebanon), or were not given approval from the Central Bank to establish branches in Aley.

Finally, the actual rewards from branching in Aley remain to be experienced by those banks planning to stretch their geographical network to reach it. The awaited presence of top-rated banks in Aley will certainly encourage many “follower banks” to review their expansion strategies, especially if the decision of the former proves to be wise. The mere opening of a respectable branch in the region will sustain the feasibility studies of interested investors and move them to a faster decision to pour their resources in a seemingly promising market. In effect, the economic cycle proper to the Aley Caza will be pushed forward to gain increasingly greater speed and to reach ever larger volumes.

CHAPTER VI.

CONCLUDING NOTES

A Brief Comment on the Results Achieved

The research proved that commercial banks are geographically concentrated in Beirut and its suburbs. Moreover, factors pushing toward geographical decentralization in economic activity were exposed. As to the economic potential of Aley, it was analyzed, and promising regions within Aley were determined given the return of the displaced and the reactivation of the economic cycle. Furthermore, the survey showed how the leading commercial banks are adapting their expansion policies to the current economic developments in the emerging regions of the country, with a focus on Aley.

The beneficiaries of the research

The beneficiaries of the research include all commercial banks in Lebanon, especially the leading, as well as the Central Bank. This research will also be of help to existing and potential investors, businesses, and social institutions. And finally, but of equal importance, researchers and students in the field can refer to the findings and follow the same methodology in their works.

Limitations of the work

The research does not evaluate all emerging local markets for reasons of scope, time, and other resources. Moreover, the research does not mention economically deprived local regions in which development could be launched by the establishing of efficient commercial bank branches. Only the emerging local market of Aley in particular is covered in this study.

Besides, and for practical purposes, questionnaires were prepared to survey the 13 leading commercial banks. However, only eight of these contributed to the research.

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APPENDICES

Appendix A—Tables

Appendix A

E 26: Capital Invested in Industry Between 1991 and 1994

Year	Imp. Machines	New Factories	# of Factories	Employees
1991	\$53m	na	na	na
1992	\$67.3m	na	na	na
1993	\$127m	na	na	na
1994	\$117m	\$47m	415	3,526

, 1995, pp. 130-3)

E 27: Industrial Exports Between 1991 and 1994

	LBP billions
1991	191
1992	360
1993	348
1994	372

, 1995, pp. 130-3)

E 28: % Distribution of Construction (m2) Among Mohafazats Between 1992 and 1994

Year	1992	1993	1994
(m2)	10,745,039	13,427,344	20,148,443
MOHAFAZATS (in %)			
North-Lebanon	10	9	8
South-Lebanon	65	72	67
Beqaa	18	14	15
Mount-Lebanon	6	4	5
Other-Lebanon	1	1	4

r, 1995, p.140)

E 29: Regional Population Distribution-1993

MOHAFAZATS	LEB-UNI ESTIM.		USJ ESTIM.		SAUDI-AID ESTIM.	
	NBR	%	NBR	%	NBR	%
North-Lebanon (Capital)	542,855	17.07	480,140	15.69	581,000	16.54
North-Lebanon						
North-Lebanon	NBR	%	NBR	%	NBR	%
North-Lebanon	60,741	1.91	119,260	3.9	60,100	1.71
North-Lebanon	115,440	3.63	133,560	4.36	142,500	4.06
North-Lebanon	345,582	10.86	325,850	10.65	396,700	11.3
North-Lebanon	368,582	11.59	395,320	12.91	356,600	10.15
North-Lebanon	55,910	1.76	128,720	4.21	132,600	3.78
North-Lebanon	153,284	4.82	119,880	3.92	164,900	4.7
North-Lebanon	1,099,600	34.57	1,222,590	39.94	1,253,400	35.69
Beqaa						
Beqaa	NBR	%	NBR	%	NBR	%
Beqaa	123,390	3.88	130,220	4.25	137,900	3.93
Beqaa	10,176	0.32	27,630	0.9	30,600	0.87
Beqaa	121,164	3.81	169,610	5.54	158,200	4.5
Beqaa	37,526	1.18	56,280	1.84	56,300	1.6
Beqaa	13,994	0.44	10,770	0.35	27,000	0.77
Beqaa	306,250	9.63	394,510	12.89	410,000	11.67
South-Lebanon						
South-Lebanon	NBR	%	NBR	%	NBR	%
South-Lebanon	302,343	9.51	226,430	7.4	317,200	9.03
South-Lebanon	108,126	3.4	175,710	5.74	169,800	4.83
South-Lebanon	52,154	1.64	42,480	1.39	62,500	1.78
South-Lebanon	74,734	2.35	37,460	1.22	75,100	2.14
South-Lebanon	14,947	0.47	13,230	0.43	19,800	0.58
South-Lebanon	49,611	1.56	37,170	1.21	45,600	1.3
South-Lebanon	602,006	18.93	532,480	17.4	690,000	19.65
South-Lebanon						
South-Lebanon	NBR	%	NBR	%	NBR	%
South-Lebanon	166,641	5.24	130,150	4.25	179,000	5.1
South-Lebanon	31,166	0.98	16,180	0.53	42,000	1.2
South-Lebanon	109,716	3.45	137,180	4.48	159,100	4.53
South-Lebanon	68,374	2.15	28,480	0.93	28,000	0.8
South-Lebanon	120,210	3.78	74,970	2.45	101,000	2.88
South-Lebanon	15,901	0.5	10,080	0.33	26,000	0.74
South-Lebanon	42,296	1.33	34,270	1.12	42,500	1.21
South-Lebanon	554,304	17.43	431,310	14.09	577,600	16.45
South-Lebanon						
South-Lebanon	NBR	%	NBR	%	NBR	%
South-Lebanon	75,689	2.38	0	0	0	0
TOTAL	3,180,704	100	3,061,030	100	3,512,000	100

Average of the 3 estimates:

3,251,245

This table shows both the numerical and percentage population distribution among the Lebanese Mohafazats according to estimates from the Lebanese University, the USJ, and Saudi-Aid. (r, 1995, p. 51)

Appendix A

TABLE 30: % Distribution of Bank Credit Among Sectors Between January and June 1996

Economic Sectors	% of Credit
Agriculture	1.64%
Industry	12.87%
Manufacturing	12.61%
Oil and Minerals	0.13%
Electricity and Gas	0.13%
Construction	20.93%
Trade and Services	47.64%
Retail Trade	28.11%
Wholesale Trade	10.48%
Transportation and Storage	2.98%
Real Estate	2.71%
Hotels and Restaurants	2.41%
Amusement	0.95%
Financial Intermediaries	2.67%
Miscellaneous	3.36%
Professional Associations	1.84%
Health and Social	0.94%
Public Administration & Defense	0.46%
Religious Organizations	0.05%
Households	0.06%
Individual	10.98%

(Source: Federal Reserve, Commerce 5397, p.51)

Appendix B—Survey Questionnaire

Questionnaire for Leading Banks That Have Active Branches in Aley

Date: _____

Bank: _____

Representative: _____

PART A

1. Your bank has active branches, out of them in Beirut and the rest in other regions. Do you think this is the optimal distribution you have reached to cover the Lebanese market? (Yes—Why? / No—Why?)

2. In what services you find yourself exclusive, or first-rated? Why?

3. What sectors of the economy constitute your largest market? Why?

4. Where are your services mostly marketed in Lebanon? Why?

5. What are other potential local markets for your services, if any? Why?

6. Where do your customers mainly come from?

7. Where do your staff mainly come from?

8. Any prospects for new services in general? (Yes / No)
If yes:

a. What kind of services?

b. When are they to be launched?

c. What economic sectors will benefit most from such services? Why?

d. Where in Lebanon do you think such services will be most demanded? Why?

e. Are there any other potential markets for such services in Lebanon? Where? Why?

f. How do you think your competitiveness will be enhanced, as a result, in the Lebanese banking sector?

If not, why?

PART B

In the Aley Caza, you have branches, situated as follows:

1. How does your presence in Aley help in achieving your overall targets?
2. What services are you offering in Aley?
3. How do you compare these services with those offered by other banks in Aley?
4. Do you think you are meeting current needs in Aley? (Yes—Why? / No—Why?)
5. Any prospects for new services to be offered in the future in Aley? (Yes / No) If yes:
a. What kind of services?
b. When are they to be launched?
c. Where in Aley will these services be most demanded? Why?
d. Other potential regions? Where? Why?
e. What economic sector in Aley will mostly benefit from such services? Why?
f. What will be the returns to your bank?
If not, why?
6. Any prospects for additional branching in Aley? (Yes / No) If yes:
a. Where in Aley? Why?
b. When?
c. What types of services will be offered? Why?
d. What will be the expected benefits to Aley in general?
e. What will be the expected benefits to your bank?
If not, why?
7. Any prospects for additional branching in other parts of the country? (Yes / No) If yes:
a. Where? Why?
b. When?
c. What type of services will be offered? Why?
d. How will these regions benefit?
e. What are the expected returns to your bank?
If not, why?

Questionnaire for Leading Banks That Have Inactive Branches in Aley

Date: _____

Bank: _____

Representative: _____

PART A

1. Your bank has active branches, out of them in Beirut and the rest in other regions. Do you think this is the optimal distribution you have reached to cover the Lebanese market? (Yes—Why? / No—Why?)

2. In what services you find yourself exclusive, or first-rated? Why?

3. What sectors of the economy constitute your largest market? Why?

4. Where are your services mostly marketed in Lebanon? Why?

5. What are other potential local markets for your services, if any? Why?

6. Where do your customers mainly come from?

7. Where do your staff mainly come from?

8. Any prospects for new services in general? (Yes / No)
If yes:

a. What kind of services?

b. When are they to be launched?

c. What economic sectors will benefit most from such services? Why?

d. Where in Lebanon do you think such services will be most demanded? Why?

e. Are there any other potential markets for such services in Lebanon? Where? Why?

f. How do you think your competitiveness will be enhanced, as a result, in the Lebanese banking sector?

If not, why?

Bank _____

PART B

In the Aley Caza, you have ... inactive branches, situated as follows:

1. What were your initial objectives behind branching in Aley?

2. What services were you offering in Aley?

3. When did you stop operating in Aley? Why?

4. Any prospects for reviving your branches in Aley? (Yes / No)
If yes:

a. When?

b. Where: In the same location or elsewhere? Why?

c. What kind of services will you offer?

d. What economic sectors in Aley will mostly benefit from such services? Why?

e. Where will your services be most demanded in Aley? Why?

f. Where else in Aley will your services be demanded? Why?

g. What are the expected returns to your bank?

If not, why?

5. Any prospects for additional branching in other parts of the country? (Yes / No)
If yes:

a. Where? Why?

b. When?

c. What services will you offer?

d. How will these regions benefit in general? Why?

e. What are the expected returns to your bank?

If not, why?

Questionnaire for Leading Banks That Have No Branches in Aley

Date: _____

Bank: _____

Representative: _____

PART A

1. Your bank has active branches, out of them in Beirut and the rest in other regions. Do you think this is the optimal distribution you have reached to cover the Lebanese market? (Yes—Why? / No—Why?)

2. In what services you find yourself exclusive, or first-rated? Why?

3. What sectors of the economy constitute your largest market? Why?

4. Where are your services mostly marketed in Lebanon? Why?

5. What are other potential local markets for your services, if any? Why?

6. Where do your customers mainly come from?

7. Where do your staff mainly come from?

8. Any prospects for new services in general? (Yes / No)

If yes:

a. What kind of services?

b. When are they to be launched?

c. What economic sectors will benefit most from such services? Why?

d. Where in Lebanon do you think such services will be most demanded? Why?

e. Are there any other potential markets for such services in Lebanon? Where? Why?

f. How do you think your competitiveness will be enhanced, as a result, in the Lebanese banking sector?

If not, why?

Bank: _____

PART B

1. You have no branches in Aley. Why?

2. Any prospects for branching in Aley?

If yes:

a. When?

b. Where in Aley? Why?

c. Will your services be marketed in other regions in Aley? Where? Why?

d. What types of services will be offered? Why?

e. What economic sectors will benefit most of such services? Why?

f. What are the expected returns to your bank?

If not: Why?

3. Any prospects for new branches in other regions of the country? (Yes / No)

If yes:

a. Where? Why?

b. When?

c. What types of services will be offered? Why?

d. How will these regions benefit?

e. What are the expected returns to your bank?

If not: Why?

VITA

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