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UNIVERSITY OF DURHAM

# The Informal Economy in Lebanon

Dangers and Benefits

Nicholas Rossis

2010

SUPERVISION BY RODNEY WILSON

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## Abstract

This thesis investigates through situational and empirical analysis the beneficial and detrimental characteristics of the informal economy in Lebanon and its impact on the public and state interest through its socio-economic associations. The informal economy is a polymorphous entity, and in order to determine its versatile contribution, has been separated into four different variables or key drivers. The four key drivers constitute the determinant variables of the informal economy.

The main method used to explore the four determinant variables is the Force Field analysis. The first key driver is informal remittances as they represent a significant fraction of the informal economic activity in Lebanon and make a major contribution to Gross Domestic Product. The second driver is corruption, as this involves massive economic transactions on a daily basis, with an enormous impact at both the microeconomic and macroeconomic levels. The third key driver is the informal employment and commerce sector, as the unpaid VAT and corporate and income tax evasion results in a huge annual loss of government revenue in Lebanon. The fourth and last key driver is the illegal networks, as Lebanon represents an international hub for smuggling, drug and people trafficking and money-laundering, with strong links with, and implication for, its sectarian constituents. The current situation in Lebanon fuels the creation of a chaotic socio-economic environment where it is impossible to estimate accurately the significance of the informal economy, or indeed the size of the overall economy.

As far as possible in this research all the key drivers have been independently and collectively evaluated through the data collected from the primary sources (users/public opinion, government officials and academics) and secondary material in order to assess each key driver's input to the informal economy. Subsequently the thesis provides an estimation of the beneficial and detrimental contribution of the informal economy in Lebanon, as well as the overall perceptions of each of the respondent groups. Lastly, the primary and secondary materials are collectively assessed from a single perspective to build, using an inductive approach, a theoretical model of the factors which fuel and perpetuate the informal economy in the country. The present thesis may constitute the foundation for future analysis of the informal economy in Lebanon by providing unconventional recommendations. It is an attempt to present the possibility of an alternative approach to the informal economy, by stressing its merits and advantages, while also recognising the dangers and challenges it poses for both the state and the society.



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## **CHAPTER 1 Introduction**

### **Introduction**

This thesis investigates through situational and empirical analysis, the beneficial or detrimental characteristics of the informal economy in Lebanon and its impact on the public and state interest through its socio-economic associations. The informal economy is a polymorphous entity and in order to determine its versatile contribution, I have divided it into four (or more) key drivers, as proposed by the Force Field analysis (which is explained in full in chapter seven. The four key drivers constitute the determinant variables of the informal economy. The first key driver is the informal remittances as they may represent a significant fraction of the informal economic activity on Lebanon and a significant percentage of the Gross Domestic Product. The second driver is corruption as it represents massive informal economic activity on a daily basis, with significant impact on the micro-economic and macro-economic level. The third key driver is the informal employment and the commerce sector, as the unclaimed VAT, the tax evasion constitutes the basis of the annual revenue losses in Lebanon. The fourth and last key driver is the illegal networks, as Lebanon represents an international hub of smuggling, trafficking and money-laundering with strong association and implication of its sectarian constituents.

All the key drivers will be individually and collectively assessed through the data collected from the primary and secondary material in order to present the overall evaluation of the beneficial or detrimental contribution of the informal economy in Lebanon. Also with the association of primary and secondary material a theoretical assessment will be displayed regarding the factors which fuel and perpetuate the informal economy in the country.

### **Background and statement of the problem**

The question of informal economy throughout the world resembles the Hydra from the Greek mythology, where when one of the heads is cut off another one emerges. In other words, whenever you attempt to deal with one of the effects of informal economy another aspect of it somewhere else emerges, probably stronger than before.

The web of informal economy is a theatre of deception, illusion and survival. Deception, as it involves a great deal of ‘behind the scenes’ speculation. All things considered, in most cases it entails illegal actions or practices not acceptable in most of the licit and formal economic functions. Illusion as due to its apparent informality, it operates

behind a vague curtain, not allowing monitoring of the transactions and dealings with accuracy. As a result, the countries that heavily rely on the informal economy have proved rather difficult in presenting a holistic and precise estimation on with regard to their economic performances and indicators; usually, the estimations are far from the truth, giving us completely inaccurate impressions. Last but not least is survival. Apart from the aforementioned, it is part and parcel with the struggle of the working class to sustain a decent livelihood. In many countries, the informal economy is entrenched in the mindset of the population as the only way or at least the main way of conducting business.

In a less philosophical way a similar triptych regarding informality has been identified by Portes, who also mentions survival. Even though Portes is mainly referring to informal labor, those distinctions are valuable for an overall understanding. Survival for Portes is the direct production or sale of goods and services, but it is something more than that. It is the process of the underprivileged people to maintain their living standards to the lowest tolerable level of endurance. Also according to Portes the second parameter is exploitation, which is the increasing managerial flexibility and the decreasing labor costs through informal hiring and subcontracting. The last parameter is growth through capital accumulation by small firms using connections and social acquaintances.<sup>1</sup> This triptych is the quintessence of informal economy throughout the world. In the two shores of the Mediterranean region however, you can easily descry that those practices are well maintained. Even in the north shores of the Mediterranean, where someone would have expected that as part of the European Union, and being well-established in a globalised open-market economy, the inclination of those countries towards the informal economy would be less extensive. The countries of the European Union enlargements of 1981 (Greece) and 1986 (Spain, Portugal and Italy) notably have the highest rates of informal economy activity in the European Union prior to the enlargements 2007.<sup>2</sup> These four Mediterranean states only lost their lead on the informal economy levels when there was the accession of Bulgaria and Romania to the European Union. Needless to say, those four countries, still maintain an inconveniently high position in the charts.

The situation in the southern shores of the Mediterranean is very similar in terms of the intensity of the informal economy penetration. The Mashreq and the Maghreb countries

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<sup>1</sup> Martin Baldwin-Edwards – Joaquin Arango (eds) *“Immigrants and the informal economy in Southern Europe”* Frank Cass, London/Portland: 1999, p.5

<sup>2</sup> [www.nationmaster.com](http://www.nationmaster.com)

are sharing and –not surprisingly- surpassing their northern neighbors in the degree of “informality” as the informal economy is playing a drastic role in their GDPs.<sup>3</sup> Besides, from an anthropological perspective the peoples of the Mediterranean basin may have a cognitive characteristic – whether they are Christian or Muslim- that enables them to conduct business in a more unconventional manner than other cultures (particularly the traditional ‘west’).<sup>4</sup> Probably this view is associated in the popular images with the idea of a stereotypical Mediterranean society;<sup>5</sup> however it is undeniable that the informal economy is a very important element in both shores of the Mediterranean.

As Toufic Gaspard supports, “for over 40 years Lebanon has been the only *laissez-faire* economy in the developing world. As such, it provides a singular case study of the effectiveness of the market strategy for development that is advocated by mainstream economics.”<sup>6</sup> In addition, of all the markets in the Mediterranean, Lebanon is one of the highest ranking countries in terms of informal economy dependency.<sup>7</sup> The aforementioned coupled with its historical economic presence in the Mediterranean rendered Lebanon a prime sample for exploring the paradoxes involved with the successes and failures of the informal economy over time (i.e. from medieval bartering systems through to current international radical and illegal networks). In that perspective Lebanon is unique. It is one of the most important crossroads that brought Islamic economy and western economy into a mutual synergy, despite the decades of unrest.<sup>8</sup>

Someone may suggest that Lebanon is the ultimate nexus of the two shores of the Mediterranean. It is a unique mosaic of religious, economic and social divergence. Lebanon has a long history of commercial activity and it has enjoyed higher standards of living in comparison to other Middle Eastern countries, serving as a centre of commerce and finance.<sup>9</sup>

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<sup>3</sup> Friedrich Schneider “*Size and Measurement of the informal economy in 110 countries around the world*” World Bank, July 2002, p.8-9

<sup>4</sup> For more details look in W.V. Harris “*Rethinking the Mediterranean*” Oxford University Press: 2004 pp.xii,55,272

<sup>5</sup> Ibid, p.55 See also Peregrine Horden and Nicholas Purcell “*The corrupting sea: a study of Mediterranean history*” Blackwell, Oxford: 2000 p.300

<sup>6</sup> Toufic K. Gaspard “*A Political Economy of Lebanon, 1948-2002: The limits of Laissez-faire*” Brill, Boston: 2004, p. xix

<sup>7</sup> Friedrich Schneider “*Size and Measurement of the informal economy in 110 countries around the world*” World Bank, July 2002, p.8-9 also look at [www.bi-me.com](http://www.bi-me.com) the article “Remittances are major asset for some Arab countries”

<sup>8</sup> Contrary to Max Weber’s beliefs that Islam and capitalism are mutually exclusive entities Lebanon, -highly likely due to its multicultural synthesis- allows to Islam to coincide with a modern capitalist system. See more details in Bryan S. Turner “*Max Weber: From History to Modernity*” Routledge, London: 1992, p.282

<sup>9</sup> Andersen, Roy – Seibert, Robert - Wagner, Jon “*Politics and Change in the Middle East*” Prentice Hall, Englewood Cliffs, 1993, p.360

The literature stresses that Lebanon has a laissez-faire economic orientation, meaning more market rather than state led, however the reality is a bit more complex. As Milton-Edwards mentions, the lack of natural resources and the large amount of immigrant population contributed to the development of economic practices based on the services sector. Unfortunately the economy collapsed due to the perennial problem of corruption and due to the devastating civil war,<sup>10</sup> undermining the ideal cross-section of the oriental and the occidental symbiosis.

The informal economy in Lebanon represents a way of life. It is a live entity which supports and caters to the majority of the social strata, from the peasants to the bourgeoisie elites and the nouveau riche class. The same people that despise it are the same people that utilize it. There is a social inertia towards this trend as it serves the micro-interests of everyday life and the accumulation of wealth of several political and/or criminal elites. In the long run, however it damages the state, depriving from it funds and sustainable development, disrupting the economy and perpetuating a situation that possibly benefits a few. It is probably the lack of financial maturity and the lack of sense of punishment due to the weak state structures. It is an irregularity that turned into a norm, the informality that became formality, the malpractice that obtained legitimization.

However, the taking of extreme measures –such as the sanctions after September 11- to balance out some of the parameters of the informal economy has proven disastrous even for the West.<sup>11</sup> The informal economy is too important for Lebanon to simply abolish, but on the other hand it is a descending path. At the end of the day informality is part of the cognitive financial behaviour in Middle East, but this is simply not enough to legitimise it. The triptych of Portes, as mentioned earlier can be absolutely applied to the case of Lebanon, nevertheless, this country has all the potential- based on its history- to act like a modern hub between East and West and re-introduce itself into a phase of modernity and successful economic performance. Many may invoke the political imbalance of the country and war for the poor economic performance, and up to a certain degree this is true. However, positive economic output does not require necessarily robust regimes but collective yearning for improvement. The sad truth is that Lebanon may have signs of reflex from its oblivion but it

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<sup>10</sup> Milton-Edwards, Beverley “*Contemporary Politics in the Middle East*” Polity, Cambridge , 2001, p74

<sup>11</sup> As a precautionary measure, Islamic banks have withdrawn their money from American and European banks. These withdrawals have reached approximately \$1 billion. Raphaeli, Nimrod “The Marginalization of OPEC’s Pricing Power” November 18, 2001 *Middle East Economic News Report* - No. 12, Available also at <http://memri.org/>

is extremely hard to discard these peculiarities. They are in all probability part of Lebanon's identity.

As it can be seen from the above analysis, the role of the informal economy is not adequately understood in the context of Lebanon. Its scope, operation and beneficial or detrimental values are yet to be determined. The perceptions of the society, the government and of the academia are in a constant flux regarding the nature and input of the informal economy in Lebanon. All these aspects generate a problem, because the government and the society are unable to regulate or stop abusing the informal economy. This situation fuels the creation of a chaotic socio-economic environment where it is impossible to resolve the significance of the informal economy in Lebanon.

### **Aims and Objectives of the Study**

The primary objective of this thesis is to establish the balance of the informal economy into the Lebanese state and society through a situational and empirical research. Which displays the beneficial and detrimental aspects of the informal economy for the Lebanese state and population and at the same time is attempting to establish the conceptual parameters of what is informal and not. In other words, the thesis is attempting to establish what is informal and the way it is fuelled and if the informal economy in Lebanon functions as an accelerator or a decelerator for growth, development, social stability and economic sustainability with the use of the situational and empirical data gathered over a period of two years, through a diverse sample in terms of location, education, employment and income.

The secondary objectives will ultimately shed light on the willingness and symmetry of the Lebanese society and the state apparatus to abandon or maintain the informal economy. However, can Lebanon really abandon informal economy? Or is it an integral part of the country's identity and *modus vivendi*? Or perhaps it is just a catalyst for the adversities of the country? How important are the beneficial characteristics of the informal economy and how much are they disadvantageous?

The secondary objectives of the research will attempt to explore the overall perceptions of the three groups of the respondents and examine the theoretical and historical background of the informal economy in Lebanon. Also, the secondary objectives will shed light on the settings of the operation of the informal economy and provide a sound understanding of its components. Additionally, the secondary objectives include the assessment of the contribution of the informal economy in Lebanon with some emphasis

placed on the macroeconomic level, and project the determination of the interconnections of the components of the informal economy with the state and the society. Lastly the determination of the theoretical framework on which the informal economy expands and fuels its operation will be analysed via the loose implementation of the grounded theory and the association of analytical methods of the thesis.

The literature review coupled with the interviews section clarified and projected the conceptual interpretations or misinterpretations of the key drivers. The thesis' purpose is to determine if the informal economy in Lebanon functions as an accelerator or a decelerator for growth, development, social stability and economic sustainability. The use of the situational and empirical data, directed the present thesis into the formulation of certain results. Potentially the result did not provide a one-sided outcome or an answer with a single perspective. Besides, the implicated parties cannot be represented via a monocular outcome. The informal economy is not a black or white notion, nor a simply good or bad element. The primary objective of this thesis has been fulfilled as it revolves around a comprehensive conception of the informal economy, responding to each parameter of the Lebanese state and society. The secondary objectives have also been achieved to a satisfactory extent. Indeed, all the respondent groups provided a diverse and sometimes conflicting view regarding the key drivers and the entire informal economy, as shown in the cross tabulation of the responses in Chapter 9.

The overall results, as explained in chapter 9 and briefly described in chapter 10, of the thesis could be summarized in the following paragraph:

The informal economy in Lebanon is a catalytic and complimentary mechanism for most of the adversities that stem from the complex socio-political situation. The theoretically injurious nature of the informal economy represents an indispensable tool for the effective juxtaposition of the social and economic insolvency of Lebanon. The informal economy contributes to the endurance of the Lebanese society in the face of adversity, however it undercuts every beneficial input, as the synchronised burden that imposes on the society and economy is unbearable.

The beneficial characteristics are vastly important and imperative as they support the survival of significantly large parts of the society. However the detrimental characteristics may undermine the entire state structure and render the whole nation unsheltered and desolate. Lastly the formulation of a theoretical framework formulated by the primary and secondary data regarding the factors which enable the informal economy in Lebanon resulted

in the drafting of 3 key factors: 1) The systemic factors which pertain to the organised establishments of the state, foundations and institutions. Those systemic factors affect the civic system itself, the market, the economy and the society as whole. 2) The cognitive factors which refer to the mental processes of perception, judgement and reasoning of the society, as contrasted with their emotional and their volitional behaviours. Those factors deal with the innate social tendency to defy the authority, the laws and the regulations of the state and 3) The criminal factors pertain to the sphere of the disapproved or not permitted -for moral or ethical reasons- actions, which as a rule involve crime and illicit transactions. The lack of effective appliance of the legislation coupled with disorganised governmental and judicial agencies, results in the expansion of the criminal factors within the informal economy.

### **Brief description of the orientation of the study (chapter outline)**

In order to effectively analyse the circumstances of the informal economy in Lebanon, the thesis was divided into ten chapters. Each chapter is summarised below with a brief description of the content of each. Chapter 2, 3, 4 and 5 represent the core of the literature review of the thesis and in association with Chapter 6 constitute the theoretical basis and the necessary historical background regarding the informal economy and its four key drivers and their input in the wider politico-socio-economic framework. The synergy of those chapters is shown in Chapter 9 where the evaluation of the primary and secondary material is presented. Chapter 8 and 9 represent the core of the primary research. However the necessary exegesis of those associations and the overall research methods are explained in Chapter 7. The brief description of the chapters is as follows:

- Chapter 1 Introduction

This chapter constitutes the necessary prologue of the thesis. It provides a brief description of the analytical method and then briefly explains the background of the problem, the problem statement, the aims and the objectives of the thesis. In the last section of the chapter I briefly outline each chapter's content and purpose.

- Chapter 2 Key Driver One: Informal Employment and Commerce Sector

This chapter examines the various theoretical representatives of the informal employment and commerce sector, as well as the rationale and motives that encourage people to seek refuge



behind the parapet of informal employment and informal trade in two independent sections; the theoretical and the pragmatic. The chapter focuses on the debate between normality versus criminality and attempts to project if the informal sector operates as a criminal factor or if it has obtained a certain degree of legitimacy, as has become the norm in several countries. Additionally this chapter assists the determination of the informal employment and commerce sector as a beneficial or detrimental element in a given country. This chapter provides the necessary theoretical background regarding the informal employment and commerce sector for a wide and in depth understanding. The first part identifies the theoretical framework which the entirety of the informal sector is based upon. It projects the theoretic components which classify the predispositions and perceptions in the informal labour and trade sector, though a conjectural spectrum. The theoretical section provides the analysis of the three dominant schools of thought. These schools are the dualist, the structuralist and the legalist. Generally the chapter focuses on the impact of the informal sector on the informal workers and sometimes on the formal as well. Additionally, the second part of the chapter projects the impact on the economy and its associations with several crucial social aspects such as education, the role of immigrants within the society, the formation of wages and the identification of the social groupings and their occupation grading, as affected or shaped by the informal movement in various countries, with the weight placed on Lebanon.

- Chapter 3 Key Driver Two: Remittances

The primary aim of this chapter is to shed light on the vast importance of the remittances towards developing and underdeveloped countries and how instrumental and facilitating the informal methods of remitting may be. The vast majority of the bibliography studies remittances in a theoretical and a deterministic perspective or from a developmental angle, attempting to demonstrate the broadness of remittances contribution to the public's and state's welfare. As a result, I have divided the literature into three sub-categories; books that apply a more theoretical approach, material with a more developmental perspective and material that focuses mostly on the informal side of remittances. Also the chapter notes the potential links of the informal remittances with other key drivers. Specifically noting the association with the various illegal networks which used –and still use- the attributes of the informal transfers systems in order to shift and launder their illegally obtained capital.

- Chapter 4 Key Driver Three: Corruption

This chapter outlines the two types of corruption (petty and grand) and portrays the motives of corruption and the geographical occurrence. It also establishes the various forms of corruption and in the second half of the chapter provides the less theoretical aspects of the secondary material. Additionally, the chapter stresses the twofold nature of the contribution of corruption to the wider macro-economic concept and analyses the impact of corruption as a faction of the informal economy, impacting on the socio-economical life but not as a political tool. In general the chapter divides the bibliography into an all-encompassing theoretical section and a less theoretical situational section which examines the pragmatic components of corruption in conjunction with the informal economy.

- Chapter 5 Key Driver Four: Illegal Networks

This chapter deals with those networks which inevitably operate within the framework of the informal economy due to their illegal or controversial status. The aim of this chapter is to identify the existence and the level of contribution of those illegal networks in the economy as well as the level of integration within the state and the degree of association with the state apparatus. This enables a conclusion on whether this economic activity generated through those networks has beneficial or detrimental value. This chapter observes all the major economic activities involving illegal economic dealings. In some cases, the services or goods will be illegal, such as the sale of narcotics; whilst in others, the merchandise will be otherwise legal goods but sold illicitly to avoid tax payments or licensing requirements, such as unregistered firearms. Also the chapter attempts to establish an acceptable or politically correct definition regarding the illegal networks, as Hezbollah for most of the secondary resources and significant percentage of the Western academia is perceived as a terrorist organisation, while the Lebanese view is that it is a legitimate political entity, without really judging the extensions of its operations.

Once again the chapter divides the bibliography between theoretical and pragmatic concepts. The pragmatic concepts deal with tangible aspects of the illegal networks such as prostitution, trafficking and money laundering, while the theoretical part of this chapter, uses econometric papers and other theoretical secondary material, which shows the lack of regulatory framework and the intense interconnections of those networks with the state. The chapter establishes that the criminal practices the illegal networks use, such as prostitution, smuggling, illegal arms sales and drug trafficking are multi-billion dollar businesses with extended associations into other ideologically radical networks.

- Chapter 6 Analysis of the secondary material on Lebanon

This chapter represents an integral part of the analysis, as it provides the chronological settings of informal economy in Lebanon. The first section of this chapter analyses the historical background of Lebanon in order to establish the necessary sequential framework which contributes to the better understanding of the political, societal and economic complexities of Lebanon that paved the way for the adoption of a laissez-faire economy, after the “proper” independence of the country. The second section analyses the elements of Lebanon’s past and present, which assisted the formation and expansion of the country’s sizeable informal economy and also briefly displays several causes that facilitated this expansion. The last section of the chapter focuses on the contemporary aspects of the informal economy in Lebanon giving support to the argument that the country maybe is not the champion of the informal practices in the world, but displays some very unique features. This chapter shows the long-lasting fermentations of traditional and modern ways which produced the current volatile and capricious politico-economic environment which is susceptible to corruption, defiance of the rule of law and the informal ways.

- Chapter 7 Research Methodology

This chapter primarily explains the analytical method which I used for the deduction of the results. The focus of this chapter is to explain the research methodology of this thesis, which assisted in the elaboration of the secondary and primary data. The basic analytical tool which links all the chapters together is the Force Field Analysis. In order to establish all the objectives of the research, I have disbanded the informal economy into four different variables. Each variable or key driver stimulates the core of the Force Field Analysis in proportion to its input. By assessing the components (key drivers) of the informal economy independently someone may also assess the informal economy as a whole and determine the positive and negative aspects that it may have to offer in a given situation.

This chapter also explains the size of the sample and the irregularities I faced in the process of the research. Also included are the schematic tables with the details regarding the sample and describes the primary material research procedure, including the data collection methods.

- Chapter 8 Interviews

This chapter deals with the primary research material gathered over a period of two years. The interviews project the views of the diverse sample of respondents regarding each key driver individually concerning the input, the participation and the significance of those components in the informal economy matrix of Lebanon. The sample groups are constituted

by directly involved individuals of the informal economy and indirectly involved such as academics or members of the public without personal involvement. The entire sample is predominantly constituted by the users or the public opinion and in a complimentary level by government officials and academics. This chapter provides the bulk of the opinions, outlook and situations which constitute the informal economy in Lebanon according to the diverse sample I have examined, coupled with my personal encounters with the informal practices in the country.

- Chapter 9 Results

The findings of this research were presented in this chapter and they are divided into three areas, namely the contribution of each individual key driver of the informal economy at the socio-economic level, the contribution of the informal economy in total, as assessed by the overall input of the four key drivers and the theoretical conceptualisation of the three factors which fuel the informal economy in Lebanon. Specifically, the first section separately analyses the responses of the interviewed regarding the positive or negative participation of each key driver in the social and economic development, the second section funnels all the responses of each key driver, in a single spectrum in order to provide an overall image of the informal economy's beneficial or detrimental values. Finally the third section assesses the three foremost ingredients of the informal economy's emergence and development and places them into a theoretical context.

- Chapter 10 Conclusion

The final chapter presents a synopsis of the findings of the thesis and the major conclusions of the research as shown in chapters 8 and 9. Also it presents some brief recommendations regarding the future of the informal economy in Lebanon and its importance. Additionally the chapter explores areas for further research on the topic and a critical assessment of my own work, that is to say, the extent to which the objectives have been achieved. Lastly, the chapter projects the significance and contribution of the study regarding the issue of the informal economy in Lebanon and considers the potential scientific contribution of this present thesis to the wider academic community.

## CHAPTER 2 Informal Sector; Employment and Commerce

### Introduction

Usually when someone refers to informal economy they are referring to the millions of underground, informal transactions that take place on every street and all of the unofficial labour that is offered or demanded. The heart and soul, the lifeblood, the backbone of informal economy within any given society lays in the presence of the thousands of street vendors, home workers and illegal immigrants in the streets and homes of every city and village. The questions that arise from this are manifold. The informal sector contracts with many themes and various academic distinctions and schools of thought. The three prevailing schools of thought regarding the informal sector will be analysed in this section.

One of the key questions in the practices of the informal sector is the matter of legality. Is it legal or illegal? Is it a normative process or a criminal offence? Is it connected to corruption or does it have legitimate grounds? And what are the causes which lead people towards informal economy? In this section, I will also examine the various theoretical representatives of the informal sector as well as the rationale, and the motives that encourage people to seek refuge behind the parapet of informal employment and informal trade (with emphasis placed on the shores of the Mediterranean basin). Additionally, I will examine the debate between normality versus criminality. The question is, if the informal sector operates as a criminal factor or if it has obtained a certain degree of legitimacy as it has developed into the norm in several countries. Lastly, this review will function as a guide to assist the analysis in order to determine whether the informal employment and commerce sector is beneficial or detrimental in a given country. This section will provide the necessary theoretical background regarding the informal sector for a wide and in depth understanding. What follows is a summary that projects the ways that the informal sector is linked or not to the formal sector and the purposes it serves.

The presence of the informal sector as a key driver is tremendously important in this paper. In opposition to remittances and corruption, it is probably associated with the majority of the population, in most of the under-developed and developing countries and it holds a significant portion of presence in many developed countries. The generation of capital even though it is hard to calculate it accurately, is vast and the proportional involvement of people in it is staggering. For example, according to a joint International Labour Organization (ILO) and World Trade Organization (WTO) study, 93% of India's workforce is employed in the

informal sector—the largest percentage of working population for any country in private unregistered enterprises.<sup>12</sup> The levels of informal employment vary substantially across the countries, ranging from as low as 30% in some Latin American countries to more than 80% in certain sub-Saharan and South Asian countries.<sup>13</sup> According to another ILO study informal employment is estimated to make up 48% of non-agricultural employment in North Africa, 51% in Latin America, 65% in Asia, and 72% in sub-Saharan Africa. If agricultural employment is included, the percentage rises, in some countries like India and many sub-Saharan African countries beyond 90%. Estimates for developed countries are around 15%.<sup>14</sup> Also it is something that in most countries of the world cannot be avoided or eliminated. The impact of this sector is so important that many studies present the informal employment and commerce sector as a synonym of the informal economy as a whole.

Axiomatically I can suggest that everyone at least once will be exposed to it. There is no city or village in the world without unlicensed street vendors, or unsecured workers or sellers of goods with no invoice or receipt or any other formal recognition. Corruption can be rejected or avoided - even though in many cases, it proves to be inescapable- and remittances are not channelled for everyone. However, informal employment or trade has a certain status within any society. Definitely the interconnection of the informal sector with the other key drivers is important and noticeable. Firstly the inadequacy, or the lack of remittances reception as shown in Chapter 2 in combination with other changeable circumstances such as the inability to work in the formal sector, may encourage or compel someone to work in the informal sector. Secondly to maintain the status and presence in the informal sector more than likely will resort to certain practices thoroughly explained in Chapter 3 like bribing officials i.e. to be granted a licence, or look the other way for unregistered workers or tax evasion. Certainly corruption in the informal sector is an integral component for its sustainability and functionality. Thirdly, the various illegal networks as I will also depict in the following chapter, need the nebulous informal sector as the main channel of the distribution of the contraband, pirated goods and all the products they deal with. In the long term maybe the effects of the other key drivers can and do affect the general population and the economy etc, but the informal employment and commerce sector is in every corner. It

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<sup>12</sup> Jumrani, Jaya “The link between informal labour market and deficits” *The Financial Express*, Monday, Oct 19, 2009, also available at <http://www.financialexpress.com/news/column-the-link-between-informal-labour-market-and-deficits/530240/>

<sup>13</sup> Ibid

<sup>14</sup> “Men and Women in the Informal Economy” International Labour Organisation. 2002 Also available at [http://www.ilo.org/employment/Areasofwork/lang--en/WCMS\\_DOC\\_EMP\\_ARE\\_GEN\\_EN](http://www.ilo.org/employment/Areasofwork/lang--en/WCMS_DOC_EMP_ARE_GEN_EN)

also swallows individuals that belong to the formal sector exercising practises like moonlighting; meaning having a second untaxed job besides the official one.<sup>15</sup>

It is also characteristically difficult to determine which informal practice of employment or trading is illicit. In a naive and simplistic explanation we might accept that whether all informal practices might be generally against the law, the ones that assist survival can be socially accepted but those who deal with criminal activities can be totally objectionable. Although that slips into the fields of criminology, I will deal with it further down. Lastly, I would like to point out that employment and commerce in this paper are perceived as a unit, as people who engage in informal employment and commerce have the same motives. As I will depict further down, these fall into the same violations and go through the same difficulties and hardship. In most cases, at the end of the day it is probably the same individual who harbours behind the virtual haven of the informal sector. If someone is for example a street vendor, he or she will be described as someone who is (self) employed in the informal sector buying or selling his or her goods probably from the informal sector too.

It is also suggested that the informal sector tends to expand during periods of turmoil and general instability. This is quite self explanatory, as during those periods the state apparatus is disrupted and normality dysfunctions. It is an excellent opportunity for *arrivistes*, black marketeers to expand their operations and sometimes it can be inescapable as the disruption that crops up may be only by-passed if people succumb to informal acts. For this reason Lebanon is an appropriate example, as its transmutation from peace to war and from periods of relative stability to instability effusively displays the succession of more or less informality in its society.

### **Theoretical Framework (Schools of Thought)**

According to Martha Alter Chen, Joann Vanek and Marilyn Carr, over the years the various debates regarding what gives rise to the informal sector, its defining characteristics and its links to the formal sector or the regulatory system have been packed into three main schools of thought.<sup>16</sup> These schools are the dualist, the structuralist and the legalist. According to the authors the structuralist and the legalist can be explained in contemporary context as different

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<sup>15</sup> See details in Mattera, Philip “*Off the books: The rise of underground economy*” St Martin’s, Ney York: 1985

<sup>16</sup> Alter Chen, Martha, Vanek, Joann, Carr, Marilyn “*Mainstreaming informal employment and gender in poverty reduction: a handbook for policy makers and other stake holders*” The Commonwealth Secretariat, London : 2004, p16

components of the informal economy, on the other hand they characterise the dualist perspective as rather outdated. Indeed, certain aspects of the dualist view may be simplistic; however they do express adequately the foundations of the informal sector in several developing countries like Lebanon or Egypt. Probably the obsolete social and political processes of those countries render it still valid. Those schools examine the informal sector in very different perspectives. The dualist looks upon the relationship of formal and informal sector as two different entities. Structuralism, analyses how subordinate the informal sector can be to the formal and the legalist deals with regulatory dimension of the informal sector. In the next three sections I will describe the three dominant schools of thought, as each one is shaped by (at least) two of their main academic voices.

### Dualist view

The dualist theory was largely publicised by S.V. Sethuraman and a specialised agency of the United Nations that deals with labour issues called the International Labour Organization (ILO) in the early 1970s.<sup>17</sup> The dualist school of thought expresses the notion that the informal sector is completely separate from the formal, comprised mainly by marginal activities, and it operates as a safety net in times of crisis.<sup>18</sup> Also this theory suggests that the perseverance of the foretold marginal activities is due to the fact that there is:

- a) lack of adequate employment opportunities for the workforce in supply,
- b) economic underdevelopment,
- c) overpopulation,<sup>19</sup>

Lebanon acutely displays all of the three categories. Regarding the lack of adequate employment opportunities according to Sabri, Lebanon is a unique case, as it is the only Arab state which is importing and exporting labour at the same time, but the value of exporting is more than the value of importing.<sup>20</sup> However, despite the labour exchanges Lebanon is still charted 80<sup>th</sup> in the unemployment charts. The surprising element however, is the massive

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<sup>17</sup> See relevant details in [www.ilo.org/global/lang--en/index.htm](http://www.ilo.org/global/lang--en/index.htm) and in Sethurman, S.V. (ed) “*The Urban informal sector in developing countries: employment, poverty, and environment*”, International Labour Office Geneva: 1988. S.V. Sethuraman apart from a dualism advocate also has a large body of work regarding women in the informal sector.

<sup>18</sup> Alter Chen, Martha, Vanek, Joann, Carr, Marilyn “*Mainstreaming informal employment and gender in poverty reduction: a handbook for policy makers and other stake holders*” The Commonwealth Secretariat, London : 2004, p16

<sup>19</sup> See in *ibid*, also in [www.wiego.org/about\\_ie/definitions%20and%20theories.php](http://www.wiego.org/about_ie/definitions%20and%20theories.php)

<sup>20</sup> Sabri, Nidal Rashid “Financial Markets and Institutions in the Arab economy” Nova Science, New York: 2008, p.27



drop of Lebanon's unemployment in 2009 from 20% to 9.2%.<sup>21</sup> The economic underdevelopment, I suppose can be taken as a given, but due to Lebanon's reconstruction period the real growth has increased from -4.3% in 2006 to 6.8% in 2008.<sup>22</sup> Of course, those figures reflect only the formal economic activities and therefore they cannot provide an accurate outlook of the economic performance including informal activities in the thriving sector of tourism for example. Besides, despite the increased growth rate, the levels of inflation have sky-rocketed within a year up to 10%, offsetting by default several of the advantages that it may have occurred from growth.<sup>23</sup> Also, Lebanon was never considered as an overpopulated country, but despite conventional wisdom, it suffers from severe overpopulation in the coastal areas, mainly in the Greater Beirut Area and due to the various conflicts, displacements caused imbalance in population distribution, causing overpopulation in urban areas.<sup>24</sup> However, due to the lack of a formal census since 1932, the figures are only estimated via a mixture of studies, surveys and projections. All these parameters have fostered a flourishing informal sector in Lebanon.

Another conveyor of this school is Keith Hart who also looks in the fields of economic anthropology. Hart explicitly derived his analysis from Weber's theory of rationalisation, which refers to the growing scope for bureaucratic organisation and calculation of rewards in the history of Western economic institutions.<sup>25</sup> Hart used a typology that apart from the basic distinction of formal/informal sector features a variation between illegitimate and legitimate activities within the informal sector.<sup>26</sup> Also in his article he emphasises that the typology refers to activities and roles and not to individuals and he provides us with a list of the formal and informal income opportunities depicting the foretold distinctions in a triptych:

- a) Formal income opportunities, which include: public and private sector wages and transfer payments such pensions and benefits
- b) Informal income opportunities (legitimate), which include: primary and secondary activities (farming, tailors), enterprises with large capital input (housing, transport), small scale distribution (petty traders, street vendors), other services (musicians, shoe shiners, photographers) and private money transfers (gifts, borrowing, begging)

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<sup>21</sup> [http://www.indexmundi.com/lebanon/unemployment\\_rate.html](http://www.indexmundi.com/lebanon/unemployment_rate.html) and <https://www.cia.gov/library/publications/the-world-factbook/>

<sup>22</sup> Ibid

<sup>23</sup> Ibid

<sup>24</sup> <http://www.un.org/esa/agenda21/natlinfo/countr/lebanon/social.htm>

<sup>25</sup> Hart, Keith "The informal economy" available in <http://thememorybank.co.uk/papers/informal-economy>

<sup>26</sup> Hart, Keith "Informal Income Opportunities and Urban Employment in Ghana" *The Journal of Modern African Studies*, Vol. 11, No. 1 (Mar., 1973), pp. 61-89, p.68

- c) Informal income opportunities (illegitimate), which includes: services (prostitution, smuggling, protection rackets, drug-pushing, loan sharking) and transfers (petty theft, larceny, gambling and confidence tricksters).<sup>27</sup>

A similar categorisation is presented by Sethuraman; however for him all the ventures of informal economy are encompassed in small scale economic activities. Meaning that he excludes all the possible businesses that produce considerable incomes.<sup>28</sup> Of course, the majority of the non-criminal informal ventures tend to be small scale, but we cannot overlook the successful ones.

Hart also mentions the dilemma of legal – illegal status of the informal sector. He makes another distinction between illegitimacy and illegality. However, the examples he provides cannot produce a certain holistic outcome, as the social processes of Ghana cannot be transferred elsewhere or at least in most of the Western European and North American countries. To be more specific, a “cop-killer” is perceived differently in countries with authoritarian suppressive regimes than in democratic liberal states; on the one hand he is a hero and on the other a ruthless criminal. Another example is prostitution; in some countries it is illegal and in some others absolutely legal and accepted as a norm. In different societies the same informal activity can be legal or illegal, negative or positive. Thus the line between Hart’s views of the illicit or not activities of informal sector is extremely thin. Nevertheless, I do have to mention that Hart is not as absolute on the dualist theory as many of his critics assume, nevertheless Andrew Long judges Hart’s work as limiting.<sup>29</sup> On the other hand, Hart does actually recognise the so-called moonlighting and he acknowledges the fact that (at least in his case study in Ghana) rarely is a family dependent on a single source of income. In general, Hart adopts a more underwhelming stance towards the informal sector’s contribution to economy.<sup>30</sup> And that alone renders Hart outdated.

Another important representative of the dualist school of thought is Viktor Tokman. In his work, apart from being an advocate of dualism, he supports the distinction of the Periphery and the Center as economic indicators regarding the informal sector’s performance and behaviour towards informal economy. This distinction, however, has to be attributed to Raul

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<sup>27</sup> Ibid, p.69

<sup>28</sup> Sethuraman, S.V., “*Gender, Informality and Poverty: A Global Review Gender bias in female informal employment and incomes in developing countries*” World Bank/WIEGO, Geneva, 1998, p.24-26

<sup>29</sup> Long, Andrew “Goods, knowledge and beer: The methodological significance of situational analysis and discourse” pp.147-170 in Long Ann – Long Norman (eds) “*Battlefields of knowledge: the interlocking of theory and practice in social research and development*” Routledge, London: 1992, p.148

<sup>30</sup> See details in Hart, Keith “*The informal economy*” available in [thememorybank.co.uk/papers/informal-economy](http://thememorybank.co.uk/papers/informal-economy)

Prebisch who divided the world into the economic "centre", consisting of industrialised nations such as the U.S., and the "periphery", consisting of primary producers.<sup>31</sup> Tokman, used that distinction but he chose two case studies situated on the two extremes of highs and lows, to project Prebisch's dynamic insufficiency of peripheral capitalism.<sup>32</sup> On the one hand, we have the labour intensive Latin America and on the other the capital intensive United States of America. He displays that in the under-developed Latin America we have an increase of unregistered businesses and workers as those countries have a certain inability to incorporate technical progress and that in the USA exactly the opposite happens. Of course, due to the era (early 20<sup>th</sup> century) Tokman examines that the two regions are even further apart in terms of the rates of development, growth and potential. Tokman also focuses on productivity, and he provides a complex outcome, as during the era in question Latin America and the USA had very contradictory statistics regarding low and high productivity on the primary, secondary and tertiary sectors. First of all, if nowadays the statistics of those countries are debatable, I cannot imagine how accurately they could estimate productivity 100 years ago and secondly there is no worthwhile comparison on formal or informal industrial productivity between the two case studies in our time, as figures are so extraordinarily far apart.<sup>33</sup> Lastly, worth-mentioning is Tokman's monocular and obsolete perception of the informal sector as he adopts Prebisch's term "inferior technical stratum" for the informal sector as a whole.<sup>34</sup> Of course, productivity is not an area of concern for this study, however, Lebanon's labour costs, licensing, tax rates and underutilized capacity are significantly negatively affecting productivity levels, which proportionally to other MENA countries have an average level.<sup>35</sup>

In conclusion the dualist model suggests that the informal activities –whether that is employment or trading- are completely isolated from the formal sector and they mainly articulate small scale economic performance.

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<sup>31</sup> Prebisch Raúl, *"The Economic Development of Latin America and Its Principal Problem"*s, United Nations. New York: 1950

<sup>32</sup> Tokman, Victor "Economic Development and Labour Markets Segmentation in the Latin American Periphery" *Journal of Interamerican Studies and World Affairs*, Vol. 31, No. 1/2, *Special Issue: Latin America at the Crossroads: Major Public Policy Issues* (Spring - Summer, 1989), pp. 23-47

<sup>33</sup> Ibid, p.24

<sup>34</sup> Ibid

<sup>35</sup> Razzak, Weshah *"An Empirical Glimpse on MSEs: Four MENA Countries"* API/WPS 0909, The Arab Planning Institute, Kuwait, p.12

### Structuralist view

On the other hand, the structuralist model, in opposition to the dualist model, acknowledges the interconnection between the state and formal firms with various informal activities as well as the presence of large scale production and income. The main representatives of this model are Caroline Moser and Alejandro Portes. According to Martha Alter Chen, Joann Vanek and Marilyn Carr the structuralist school “*subscribes to the notion that the informal sector should be seen as subordinated economic units (micro-firms) and workers that serve to reduce input and labour costs and, thereby, increase the competitiveness of large capitalist firms*”<sup>36</sup> While they expand on Portes study, who argues that in the particular model “*different modes and forms of production are seen not only to co-exist but also to be inextricably connected and interdependent*”<sup>37</sup>, they also suggest that development structured within capitalist modes of production assists the emergence and perseverance of the informal activities.<sup>38</sup>

This view provides a more tangible theoretical explanation of the informal sector, without excluding or undermining the definite contribution or actual application of the dualist school, despite the latter -as I mentioned above- being rather obsolete.

According to Portes and Castells, the informal sector is the sum of unregulated economic activities by the institutions of society, in a legal and social environment in which similar activities are actually regulated.<sup>39</sup> Portes makes probably one of the most important distinctions regarding informality. He divides it into three categories, which are:

- a) *Survival*, which occurs through direct production or sale of goods and services
- b) *Dependent exploitation*, meaning the increasing managerial flexibility and the decreasing labour costs through informal hiring and subcontracting and
- c) *Growth*, which is the capital accumulation by small firms, using connections.<sup>40</sup>

Those three categories summarise the motives, the energy of the informal sector and they surpass the limits of the three schools, as they are applicable in the whole wide range of the informal employment sector, independently of the school of thought someone may belong to

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<sup>36</sup> Alter Chen, Martha, Vanek, Joann, Carr, Marilyn “Mainstreaming informal employment and gender in poverty reduction: a handbook for policy makers and other stake holders” The Commonwealth Secretariat, London : 2004, p16

<sup>37</sup> Ibid

<sup>38</sup> Ibid

<sup>39</sup> Portes, Alejandro - Castells Manuel – Benton, Lauren, (eds) “*The Informal Economy. Studies in Advanced and Less Developed Countries*”.. Johns Hopkins University Press, Baltimore: 1989, p.12

<sup>40</sup> Portes A.(1989) citation taken from Baldwin-Edwards, Martin – Arango, Joaquin “*Immigrants and the informal economy in Southern Europe*” Frank Cass, London/Portland: 1999, p.5

or examine. Also they suggest, the industrialists and more generally the firm owners, are in a power struggle with the state, seeking further “informalisation” in order to decrease the trade unions influence, avoid further taxation and gain access to reduced labour costs, payment of benefits, VAT payments and in order to dodge taxation.<sup>41</sup> Similarly to Tokman (dualist), they also suggest that in the Periphery, the population is more likely to turn to unofficial employment, as in most cases, it is the only viable option. In the following section dealing with the pragmatic factors, I will describe why people may choose to work in the informal sector.

Another major parameter that Portes and Castells mention, which absolutely fits with the structuralist view as well, is the trend of subcontracting, where larger firms assign smaller ones to complete production and tasks that they were contracted to do. It is enormously widespread, and Lourdes Beneria presented several examples describing the increasing competition of the subcontractors and the lengths they are willing to go, in order to obtain a subcontract.<sup>42</sup> However, as I found out in my interviews the sub-contracting fashion is not only constrained to large, medium or small businesses only. I have discovered that it is exceptionally common even for individuals and self-employed entrepreneurs to assign to a third –drastically less paid- party to the task. It may occur not only in semi-skilled operations like construction, but in specialised labour like computer programming. Lastly, Bryan Roberts focuses on lower class households that simultaneously exist in both sectors. Roberts explains that in many households at least one member of the family works in the formal sector in order to gain access to the social security system, while the others work informally.<sup>43</sup> In my research I came across such examples. I found families in Beirut, with one member working in the public sector, where all the other members of the family used the same dispensary for transcriptions and medical care.

The editors however, in their conclusions present a rather grim outlook for the informal sector. They suggest that the informal employment sector boosts the industrialist exploitation of the working classes and as they seek for a cheaper and more flexible workforce, simultaneously this shrinks the wages and annuls the vested rights of workers gained following bloody clashes throughout the years.<sup>44</sup> Despite the negative outcome of

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<sup>41</sup> See more in *ibid*, p.29

<sup>42</sup> Beneria, Lourdes “Subcontracting and Employment Dynamics in Mexico City” pp.173-188 in *ibid*.

<sup>43</sup> Roberts, Bryan “Employment Structure, Life Cycle, and Life Chances: Formal and Informal Sectors in Guadalajara” in *ibid*, pp.41-59

<sup>44</sup> *Ibid*, p.310

their study they point out that it is almost impossible to record the complete dynamics of the informal sector's input.

The second major representative of the structuralist model is Caroline Moser, who quite fiercely dismisses dualism's theoretical framework as of limited utility and for putting forward utopian recommendations.<sup>45</sup> In her anathema towards dualism, Moser also mentions that the ILO focused its analysis on the wrong aspects of the informal sector and she criticises it for putting emphasis on major policy objectives aimed specifically at the unemployment problem rather than at the economic growth per se.<sup>46</sup> Also she emphasises the debate regarding the informal sector's potential to generate employment and whether it is an independent component or a subordinate one. However, in opposition to Portes and Castells who include in their study smaller and larger enterprises, she mainly focuses on smaller scale enterprises and the social characteristics of the petty traders.<sup>47</sup> In general the article examines how the proletariat, meaning the working class, due to the difficulty in antagonising the penetration of large formal firms, tends to lose even more ground and becoming exceedingly poorer and more marginalised. Nevertheless, she also recognises that the particular issue is also associated with the subject of income and resources redistribution and the infiltration of such a problem to capitalistic economies which are using advanced social models and policies, like Sweden and Germany.<sup>48</sup> Regarding the failing economic infrastructure and performance Moser found in her case studies in Zambia and in the Philippines that "a major source of vulnerability has been the labour market; a decline in the share of formal sector employment, and increased insecurity and instability in the informal sector have all contributed to declining household income."<sup>49</sup> However, according to Moser the only way to partially counter-balance the effects of the foretold vulnerability in the labour market is by the overseas remittances from migrant family members and by employment in the growing

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<sup>45</sup> Moser, Caroline "Why the Poor Remain Poor: The Experience of Bogota Market Traders in the 1970s", *Journal of Interamerican Studies and World Affairs*, Vol. 22, No. 3 (Aug., 1980), pp. 365-387 also look in Moser C. "Informal sector or petty commodity production: dualism or dependence in urban development?" *World Development* 6, September/October 1978, pp.1041-1064

<sup>46</sup> Moser C. "Informal sector or petty commodity production: dualism or dependence in urban development?" *World Development* 6, September/October 1978, pp.1041-1064

<sup>47</sup> Moser, Caroline "Why the Poor Remain Poor: The Experience of Bogota Market Traders in the 1970s", *Journal of Interamerican Studies and World Affairs*, Vol. 22, No. 3 (Aug., 1980), pp. 365-387

<sup>48</sup> Moser indeed recognises the problem of income and resources distribution in modern economies however, since it is not the focus point of her analysis she does not go into depth. For further details regarding this subject look into Muresan, Sorin, "Social Market Economy. The German Model" *Journal for Economic Forecasting*, Institute for Economic Forecasting, vol. 2(3), 2005, pp.65-90

<sup>49</sup> Moser, Caroline "Confronting Crisis: A Comparative Study of Household Responses to Poverty and Vulnerability in Four Poor Urban Communities" Environmentally Sustainable Development Studies and Monographs Series ; No. 8, World Bank, Washington, D.C., 1996, p.17

informal sector.<sup>50</sup> In other words, the one parameter that contributes to the negative economic climate is actually the same parameter which tolerates the adverse economic situation that in reality it creates. This paradox provides for most of the Lebanese people the quintessence of the everyday economic life. It is a vicious circle.

Therefore, in conclusion the structuralist model investigates the association and the links of businesses and enterprises of all sizes and individual workers in the informal sector with formal firms, examining the degree of subordination of the former to the latter.

### Legalist view

This model has appeared in the mid-1980s and early-1990s in the work of the Peruvian economist Hernando de Soto, who in his two books argues that the informal sector is constituted by various entrepreneurs who willingly operate in the margins in order to avoid the costs, time and effort of formal registration.<sup>51</sup> According to de Soto, micro-entrepreneurs will continue to operate informally as long as government procedures are costly and complicated and in most -if not all- of the Third world and ex-Soviet countries, highly corrupt. In his research he found that in Peru in order to obtain planning permission you need 207 bureaucratic stages, or in order to obtain a legal title deed you need 728 bureaucratic stages and years of waiting.<sup>52</sup> For de Soto, operating legally is as difficult as to be illegal. In reality, legality is actually the margin as illegality and informality have been the rule.<sup>53</sup> However, de Soto also pointed out that this situation in some cases could be conventional wisdom for the micro-entrepreneurs as being “extralegal” may prove more costly and troublesome than being legal.<sup>54</sup> But still, even if that is the case without significant changes in the way the state apparatus works, being extralegal will be inevitable. Indeed, according to Weshah Razzak the only hope for micro-entrepreneurs in Lebanon is to increase their productivity and in order to achieve that, they resort to all the aforementioned practices. Consequently, Small or Medium Sized businesses (SMEs) frequently shutdown because they fall into various violations and the need for legal compliance of the firms makes the

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<sup>50</sup> Ibid, p.18

<sup>51</sup> See details in de Soto, Hernando, “*The Other Path: The Invisible Revolution in the Third World*”, New York HarperCollins, 1989, and de Soto, Hernando, “*The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else*”, Basic Books, New York: 2000.

<sup>52</sup> Ibid, p.51 (from the Greek version)

<sup>53</sup> Ibid, p.54 and 61

<sup>54</sup> Ibid, p.142

productivity and output plummet.<sup>55</sup> Nevertheless, de Soto probably displayed the most shallow yet more accurate guideline to distinguish legality and illegality. Being legal within the context of informal economy is privilege only for those with political and economic power and the illegality is only a burden for the poor.<sup>56</sup>

In the same school of thought, even if some prefer to place it as whole new category, William Lewis mentions the parasitic nature of the informal sector. He argues that it is “a means to gain unfair advantage in the competition with formal counterparts.”<sup>57</sup> He characterises informal practices as parasitic since they do not pay any taxes and the burden falls heavily on the legitimate businesses.<sup>58</sup> While de Soto links informal unemployment with the lack of legal titles of the workers’ de facto properties, Lewis argues “the lack of capital is seen as the key constraint in the expansion of formal employment.”<sup>59</sup> Indeed, this argument could not be more relevant, especially today, with the financial crisis infesting households all over the world and the lack of capital being the main predicament in most of the countries. Lewis holds the lack of capital mainly responsible for the high degree of tax evasion, as he observed it in his case studies in the USA and in Brazil, which happens for a variety of reasons, which he does not expand on.

Similarly to Lewis, William Maloney supports the idea that the informal micro-entrepreneurs, mostly the self-employed, work informally in order to avoid taxes, electricity payments, rental fees, and other costs of operating formally and they have no intention whatsoever to alter their current situation.<sup>60</sup> Meaning that for those people, the pitfalls of being employed in the informal sector are not as important as someone would expect. Also in parallel with Bryan Roberts the formal sector is only preferable due to its access to social security, but as Maloney mentions, the costs of being in a formal job is counter-balanced by the unavoidable taxes, therefore the informal sector wins over the formal on all fronts

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<sup>55</sup> Razzak, Weshah “*An Empirical Glimpse on MSEs: Four MENA Countries*” API/WPS 0909, The Arab Planning Institute, Kuwait, pp.10-12

<sup>56</sup> See details in de Soto, Hernando, “*The Other Path: The Invisible Revolution in the Third World*”, New York HarperCollins, 1989

<sup>57</sup> Lewis, William, “*The power of productivity: wealth, poverty and the threat to global stability*” Chicago, Chicago University Press: 2004. Quotation taken from the Jütting Johannes - de Laiglesia, Juan R (eds) “*Is informal normal?: towards more and better jobs in developing countries*”, OECD: 2009, p.73

<sup>58</sup> Lewis, William, “*The power of productivity: wealth, poverty and the threat to global stability*” Chicago, Chicago University Press: 2004, p.17

<sup>59</sup> Jütting Johannes - de Laiglesia, Juan R (eds) “*Is informal normal?: towards more and better jobs in developing countries*”, OECD: 2009, p.73

<sup>60</sup> Maloney, William “*Informality revisited*” Policy Research Working Paper 2965, The World Bank: January 2003, p.2-3



according to his surveys.<sup>61</sup> Also, on top of the aforementioned the informal sector functions as a safety net for older workers, recently retired or dismissed. However, I find it odd that Maloney suggests that formal occupation, especially for older workers, may be too arduous and consequently they abandon it for an informal and less arduous one, when in reality at least half of the informal jobs tend to be labour intensive, thus such an argument may be flawed. Also Maloney, apart from underlining the surprising desirability for the informal sector, points out the comparative advantage in terms of the payments calculating the gains at 25% more.<sup>62</sup> Of course, he explains that those figures are meaningless as the nature and quality of the work might be unimaginable and the percentage of failure of small businesses in his case studies is extra-ordinarily high, rendering the informal sector and self-employment attractive but risky.<sup>63</sup> On the other hand, regarding informal employment as a salaried status his observations are still very positive but in a more moderate manner. However, he still finds informal salaried workers benefited by the usually high turnover rates of their employers and the tendency of being occupations being short-term particularly due to their young age.<sup>64</sup> Maloney continues that they might be less paid in some cases by their formal counter-parts, but due to the flexibility and autonomy they still prefer it.<sup>65</sup>

Generally, I find Maloney's views extremely optimistic on informal employment, as there is no panacea for poverty and he brings up at the end the only , the tangible benefits of the informal sector as being dignity and autonomy, but this is also debatable. Besides, apart from the self-employment cases, informal employment is usually preferred by the employers due to the lower wages, thus I think the idyllic conditions that Maloney describes only apply to very specific cases. In Lebanon, there are cases, which are in accordance with Maloney's arguments, meaning happy self-employed micro-entrepreneurs who enjoy higher than average income and a certain degree of independence, but in most cases the call for cheap labour assists the existence of a backbreaking low-paid informal sector. Also, the existence of cheaper labour fosters an over-reliance on it, meaning that people will only assign the laborious tasks to informal workers as they are significantly cheaper. For example, in

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<sup>61</sup> Ibid, pp.9-10

<sup>62</sup> Ibid, p.4

<sup>63</sup> Ibid, pp.4-7

<sup>64</sup> Ibid, p.15

<sup>65</sup> Ibid.

Lebanon according to the BBC due to the mass influx of Syrian workers in some parts of the country, like the Bekaa Valley, people have grown to rely on the cheap imported labour.<sup>66</sup>

Therefore, as de Soto mentions, working at the informal level was the only way for the “extra-legals” to arrange their lives and transactions. Being an illegal on that level has no anti-social tendencies, those illicit actions are only for the achievement of ordinary, daily goals.<sup>67</sup> So, once again we notice that the theme of inescapability is recurring and the need for survival is apparently unrelenting, constituting the informal employment sector as an inseparable element in most of the world’s economies.

In conclusion regarding the legalist view, the model focuses on those informal units (individuals or micro-enterprises), that choose to operate in the informal sector and their relationship with the state apparatus and its normative/regulatory framework. In the next section, I will provide the literature that examines the informal sector unconventionally.

## Pragmatic Framework

No matter which model someone chooses to examine the links of informal employment sector and the formal, there are always two common denominators among the parameters, and they are survival and exploitation. Those two parameters, I might add, are not mutually exclusive. As Chen et al, points out “*given the heterogeneity of the informal economy, there is some truth to each of these perspectives*”.<sup>68</sup> None of the three schools of thought should be dismissed, but the truth is that independently of how academically obsolete or contemporary those schools are, it is very difficult to determine where “real” situations fit. Occasionally it might be a straightforward answer, but in most cases only a combination of the theories can provide the theoretical foundations to analyse a certain state of affairs. For this reason, I swept the bibliography to discover situations apart from those the theorists presented in their case studies, in order to provide a spherical view of the bibliography and build a basis that accurately shows the strengths and weaknesses of the informal employment sector.

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<sup>66</sup> Usher, Sebastian “Lebanon still faces tense future” Tuesday, 26 April, 2005, Available at [http://news.bbc.co.uk/2/hi/middle\\_east/4485735.stm](http://news.bbc.co.uk/2/hi/middle_east/4485735.stm)

<sup>67</sup> de Soto, Hernando, “*The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else*”. Basic Books, New York, 2000, p.150 (from the Greek version)

<sup>68</sup> Chen, Martha Alter “*Rethinking the Informal Economy: Linkages with the Formal Economy and the Formal Regulatory Environment*” p.7 available at [www.un.org/Docs/ecosoc/meetings/2006/forum/Statements/Chen's%20Paper.pdf](http://www.un.org/Docs/ecosoc/meetings/2006/forum/Statements/Chen's%20Paper.pdf)

In the “real world” context, we can assume that Portes still provides a realistic analysis of the nature of the informal sector. The World Bank distinguishes the informal sector into two categories similar to Portes’ motives:

- a) Coping strategies meaning activities that assist a sustainable survival, like casual jobs, temporary jobs, unpaid jobs, subsistence agriculture and moonlighting and
- b) Unofficial earning strategies meaning illegality in business like tax evasion, avoidance of labour regulations and other government or institutional regulations, no registration of the company and other criminal activities, with which I will deal in the next section.<sup>69</sup>

One of the most vulnerable social groups, with the higher percentage of involvement in the informal sector are immigrants. As Iosifides and King mention, immigrants are subdued to super-exploitation. This term according to Baldwin depicts their willingness to tolerate significantly lower wages, tougher working conditions and sub-human living arrangements. This situation is derived from two conditions. Firstly, from the desperate situation in the migrant’s home country; meaning that despite the hardship in the host country it is still preferable and secondly, from the immigrants’ possible illegal status in the hosting country, which forces them to no other option than working in the informal sector.<sup>70</sup> The aforementioned situation differs dramatically from Maloney’s idealised informal sector. In other words, exclusion and inequality are terms inclusive to the notion and nature of the informal sector. The degree of this assumption varies according to the society it applies, as described in this section’s introduction. Similarly to that, Basudeb Guha-Khasnobis and Ravi Kanbur emphasize the decisive role of informal labour markets in allowing countries to successfully adjust to the forces of globalisation, also their case studies were focused on the various problems associated with the expansion of informal employment, such as poor working conditions, the lack of worker protection and irregular wages in terms of quantity and frequency.<sup>71</sup> Chen et al, also explains that informal employment entails hidden costs, such as under-employment, meaning an involuntary irregularity in working hours and payments, the seasonality of work. Meaning that “*to earn a living it is often necessary for*

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<sup>69</sup><http://lnweb90.worldbank.org/eca/eca.nsf/Sectors/ECSPE/2E4EDE543787A0C085256A940073F4E4?OpenDocument>

<sup>70</sup> Baldwin-Edwards, Martin – Arango, Joaquin “*Immigrants and the informal economy in Southern Europe*” Frank Cass, London/Portland: 1999, p.224

<sup>71</sup> Guha-Khasnobis, Basudeb – Kanbur, Ravi (eds) “*Informal Labour Markets and Development*” Palgrave Macmillan, 2006

workers in informal employment to have two or more jobs simultaneously or from season to season”, additionally the occupational hazards render the workers vulnerable to health issues as they are all uninsured.<sup>72</sup>

According to the OECD 2008 Employment Outlook, the higher informal wages are often associated with the lower wages in the formal sector for a similar job. However there are countries like Korea that do not function in that way and the informal sector wages are usually equal or higher than the formal sector’s for a specific task; of course this may be the exception that confirms the rule.<sup>73</sup> The real life associations of the informal sector with the formal are multiple. The two sectors are highly interconnected, as policy changes, taxation alterations impact directly on the ways the informal sector moves and behaves, rendering it in a status of constant flux. A simplistic example would be that a sudden increase in the taxation might cause increased labour costs, and therefore that causes incentives for hiring or working unofficially.<sup>74</sup> In most cases, it seems that the informal sector behaviourally adopts the inclinations of the formal sector. However, de Soto suggests that sometimes the formal sector tends to adjust to the informal, as happened in the 19<sup>th</sup> century USA, where the US government had no other option than to implement the informal practices of the “pioneers” into the state apparatus.<sup>75</sup> This is a primitive but characteristic example of informality’s shift from a marginal activity to a normative legal process.

While Iosifides and King describe the informal sector and the problem of Albanian migration to Athens, someone may easily draw parallels with the situation in Beirut for example. Beirut may not have the multinational panel of informal and formal workers as Athens, but definitely it is heterogeneous in terms of religious fragmentation. Despite the fact that Lebanon is generally ethnically unified, the religious differences are sharp. So when King et al, project Athens as a place with a long-established, heterogeneous informal sector which interconnects with the formal, based on a seemingly high rate of self-employment and that the atomisation of production and services based on one-person or small family enterprises (such as shops, stalls, restaurants, workshops, building trade activities, removal firms which are embedded in the socio-economic fabric of the city and have long experience

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<sup>72</sup> Alter Chen, Martha, Vanek, Joann, Carr, Marilyn “*Mainstreaming informal employment and gender in poverty reduction: a handbook for policy makers and other stake holders*” The Commonwealth Secretariat, London : 2004, pp.45-47

<sup>73</sup> OECD Employment Outlook 2008, p.88

<sup>74</sup> Ibid

<sup>75</sup> de Soto, Hernando, “*The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else*”, Basic Books, New York: 2000, pp.173-244 (from the Greek version)

of dodging the depredations of the regulated economy), someone may easily picture in his mind the streets of Beirut.<sup>76</sup> The surprising parameter is that Greece is supposed to be a capitalist long standing member of the European Union and Lebanon is a perceived war infested middle-eastern country; the comparison is remarkable, but in any case valid. Immigrants fit easily into such a framework according to Iosifides and King as helpers, assistants and unskilled manual employers. Also, even though in Lebanon the levels of education are not the same as in Europe, the relatively higher levels of education cause high expectations in employment away from manual and low status employment.<sup>77</sup> Education and expertise have inexorable links with formal and informal employment as stated above. According to Gaspard, skills were always the comparative advantage and strength of the Lebanese economy as it resided in the skilled manpower. Contrary to that statement though, Gaspard cites two different surveys which portray that this assumption is not the case any longer as the two surveys regarding national manpower prove the aforementioned stereotypical perception to be incorrect. Also the surveys claim that the quality of education has dropped. Specifically, the surveys show that in 1970 the participation in primary education –meaning up to the 12<sup>th</sup> year of age- was 80%, when in 1997 the participation was 45.2%. However, in 1970 universities hosted a rather small 4.3% when in 1997 they attracted a 16.2%.<sup>78</sup> Generally, Gaspard supports the notion that Lebanon was slightly overestimated in the consciousness of people, however in comparison to other regional countries was indeed in a better position, in terms at least of economic performance.<sup>79</sup> Those figures show that the informal sector was fed by the additional uneducated output of the primary education and maintained by the increased percentage of higher education recipients who tend to avoid laborious jobs. However the surveys do not depict which is the estimated percentage of higher education students who actually ended up in informal occupation.

On the other hand, for McLaughlin the informal sector is a pool of rather unskilled workers usually unable to use sophisticated machinery.<sup>80</sup> However, McLaughlin is in

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<sup>76</sup> See relevant in Iosifides – King “Socio-spatial dynamics and exclusion of three migrant groups in Athens conurbation” pp.205-229 in Baldwin-Edwards, Martin – Arango, Joaquin “*Immigrants and the informal economy in Southern Europe*” Frank Cass, London/Portland: 1999, p.224

<sup>77</sup> Ibid

<sup>78</sup> Toufic K. Gaspard “*A Political Economy of Lebanon, 1948-2002: The limits of Laissez-faire*” Brill, Boston: 2004, p.83

<sup>79</sup> Ibid, p.98

<sup>80</sup> McLaughlin, S. "Skill training for the informal sector: analyzing the success and limitations of support programmes", in Turnham, D., Salome, B., Schwartz, A. (eds) ,*The Informal Sector Revisited*, OECD, Paris: 1990

concurrence with Maloney regarding the high flexibility of the sector coupled with the usually precarious style of work. McLaughlin also points out the creativity of the informal sector as it has the ability to improvise on products and services from scrap materials. Of course that is in detriment of the quality of products and consequently it only provides a means of subsistence through the production of goods and services on a small scale.<sup>81</sup> The truth is that the vast majority of informal trade and employment is represented by small scale ventures, as it was quite obvious from the above mentioned studies. However the bibliography, as I have stated earlier, tends to overlook the larger endeavours in the informal sector which keenly avoid the spotlight, as they usually have criminal elements at their core. For this reason, I attempted to include in my analysis, further on, informal activities of larger scale enterprises, including some undeniably illegal ones. The correlation of this section with the following is rather important as the informal sector is a pool for members, distributors and facilitators for the various illegal networks that usually operate in the margins.

Conclusively, we can assume that given the heterogeneity of the informal sector, a tremendous assortment of situations and individuals become integrated. As Chen et al, mentions “conditions of work and earnings differ markedly among those who scavenge on the streets for scrap and those who provide services and products via sub-contracting.”<sup>82</sup> Also the pre-supposed assumptions, whether the informal sector has a beneficial or detrimental impact on economy, are definitely a 'catch-22'. It can create jobs and offer opportunities to individuals who were unable to work or find a satisfactory occupation in the formal sector, but at the same time it can lead to a loss of jobs and opportunities and create an imbalance among the workforce, especially amongst the ageing and the retirees.<sup>83</sup> Lebanon according to the D&B Country Report “unlike most of its Arab neighbours, has an ageing population. Apart from the direct impact on the labour market structure, this may exacerbate the issue of pension provision in the long term.”<sup>84</sup>

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<sup>81</sup> Ibid

<sup>82</sup> See more in Alter Chen, Martha, Vanek, Joann, Carr, Marilyn “*Mainstreaming informal employment and gender in poverty reduction: a handbook for policy makers and other stake holders*” The Commonwealth Secretariat, London : 2004, p.80-81

<sup>83</sup> Ibid

<sup>84</sup> “*D&B Country Report: Lebanon 2009-2010*” D&B, Marlow: 2009, pp.26-27

## Conclusion

Thus, in conclusion the bibliography was separated into two different sections, the theoretical and the pragmatic. The first part identifies the theoretical framework which the entirety of the informal sector is based on. It projects the theoretic components which classify the predispositions and perceptions in the informal labour and trade sector, though a conjectural spectrum. The theoretical dealt with the three prevailing models of the informal sector and they were identified as follows. The dualists argued that the informal has no or limited linkages to the formal economy and it operates as a distinctly separate sector of the economy, and that informal workers comprise the less-advantaged sector of the labour market. The structuralists perceived the informal and formal sectors as intrinsically linked. To increase output, capitalist firms in the formal economy are keen to reduce their labour costs, by endorsing informal production and employment relationships with subordinated SMEs and individuals. The legalists focused on the relationship between informal entrepreneurs or enterprises and the formal regulatory environment, which excludes formal private firms, meaning that it mostly characterises the association with the state. The three schools and the other secondary sources, from the pragmatic section that I have used, have projected the status of the informal sector; they have also expressed the essence of this particular sector, along with its impact on the informal workers and sometimes on the formal as well. Additionally the section has shown the impact on the economy and its associations with several crucial social aspects such as education, the role of immigrants within the society, the formation of wages, and the identification of the social groupings and their occupation grading as affected or shaped by the informal movement in various countries, with weight placed on Lebanon. The next section will deal with the role of informal and solely illegal activities in the economy and their impact as a determinant on the informal economy and society.

## CHAPTER 3 Informal Remittances

### Introduction

This literature review is an integral part of the analysis and also serves a dual purpose. It not only reviews the sources available for the topic in question but scrutinises the key drivers that direct the methodological tool used in this research. The chosen key drivers have to be analysed in order to determine in which category of the forcefield analysis structure they will fall. Remittances for example - as it will be shown further down - will be purely a positive; a green key driver, as it facilitates both the state and the public interest. However, during the collection of my data, it was obvious that on certain occurrences remittances can vary as a debatable influence in the economic structure of a society. Those debatable connotations of remittances will be dealt with in the following chapter (money laundering and other illegal activities). The primary aim of this chapter is to shed light on the vast importance of remittances towards developing and underdeveloped countries and how much informal methods of remitting act as instrument and facilitator of this process.

The bibliography on remittances is vast. Remittances are also undoubtedly linked with migration. Most of the books and articles examine remittances in connection with this. The vast majority of the bibliography studies remittances in a theoretical and a deterministic perspective. Or taken at the developmental angle, it attempts to demonstrate the broadness of remittances contribution to the public's and state's welfare. Very few books closely look at remittances as part of the informal economy. The books gathered in this research constitute an eclectic mix of references on remittances. As a result, I have divided the literature into three sub-categories; books that apply a more theoretical approach, material with a more developmental perspective and material that focuses mostly on the informal side of remittances. Of course, each book or article that fell into a certain category could also fit into one of the others; however for the sake of balance I placed the material according to where the weight of analysis was heaviest.

### Theoretical Approaches

Most of the theoretical approaches use a mathematical model or a typology. Usually it is an attempt to determine them, as Ramesh Subramanian exemplifies by presenting a model of determinants of urban to rural remittances transfers in developing countries.<sup>85</sup> Similarly West and Brown more creatively categorize remittances expenditure and they make a useful

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<sup>85</sup> Ramesh Subramanian "A Theory of Remittances" Discussion Paper Series, University of St Andrews, No.9406



distinction of their determinants between endogenous factors and exogenous.<sup>86</sup> More specifically they render as endogenous factors the individual (i.e. someone's behaviour) and the structural (i.e. the composition of the community) and as exogenous something that can effectively change the endogenous (i.e. economic policies in host or home countries, wages and interest rates)<sup>87</sup> The first paper simply attempts to mathematically determine them, but the second which focuses on behavioural aspects categorises them and then determines them.

On the other hand Richard Adams stresses the lack of analysis on the impact of these financial transfers on poverty and investment. He claims that most of the bibliography is based on the assumption that most of the remittances are spent on consumption. This could be characterised as conventional wisdom, however it is not necessarily incorrect. Adams identifies three factors for this failing; firstly the lack of remittance data, which is partly true as remittances are extremely hard to trace especially when they stem from informal channels, secondly the lack of poverty data. However in most countries, empirical examination can easily project the depth of poverty and World Bank mechanisms can produce fairly accurate estimations, and lastly it is relatively unknown how exactly remittances are used or spent. This is closely linked with the first factor since it is hard to trace them and it also hard to observe how they are actually funnelled from the recipient. Adams, using an econometric model produced three key findings, which emerged from the analysis of the impact of internal and international remittances on poverty and investment in Guatemala. However it must be noted that Adams does not explain how he surpassed the aforementioned pitfalls and produced his outcome. The first finding of Adams suggests that remittances may indeed reduce poverty in depth, level and severity. The second suggests that the majority of remittances are not actually spent on consumption goods. However, he based his study on comparing recipients and non-recipients of remittances and then he compared the percentage of the expenditure of the two, only to realise that non-recipients spent 58.9% on consumption goods and recipients spent between 54.2% and 55.9% of their money on such goods.<sup>88</sup> Therefore both spent more than half of their money anyway and the difference is marginal. It is also logical if we suppose that recipients due to their slightly enhanced income can simply afford to save or invest. The 4% difference is indeed negligible between recipients and non-

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<sup>86</sup> Adrian Walker – Richard Brown “*The Uses and Determinants of Remittances Interpreting Tongan and West Samoan sample survey data*” Discussion Paper No.174, University of Queensland, April 1995, p.7

<sup>87</sup> Ibid, p.19

<sup>88</sup> Adams, Jr. Richard “Remittances, poverty and investment in Guatemala” pp.53-80 in Ozden Caglar – Schiff, Maurice (eds) “*International migration, remittances and the brain drain*” World Bank/Palgrave Macmillan, New York: 2006, P.78

recipients if we take into consideration that the augmented income of the recipients allows them to direct some of their capital to alternative commodities. Thus the distribution and the comparison of the income on equal terms seem rather unbalanced. However Adams had no clear indication of the quantity of the income between the recipients and the non-recipients. Therefore he did not make his comparison based on specific quantity of money or an average of per capita income. Meaning that, the 100% of the income of a recipient can be much more actual (spending) money of the respective 100% of a non-recipient. The third finding suggests that if recipients view remittances as a temporary stream of income they tend to spend more on investment.<sup>89</sup> Temporary though, is a vague term, as it could easily mean several years, enough time for example to finance the construction of a house. Indeed theoretically, injections of income may stimulate spending as both the multiplier effect and the accelerator effect influence the responses of capital. On the one hand the multiplier effect is easier to be established as it is directly involved with deposits and reserves. However, due to the lack of data regarding remittances is almost impossible to calculate their impact in association with the multiplier effect. I suppose a rough estimation on the formal transfers could be possible based on the deposits but it would neglect the biggest stream of remittances which is funnelled via informal channels. On the other hand the accelerator effect is more substantial or self-explanatory as it suggests that the increase of income accelerates capital accumulation. Spending on consumption or investment it does engage anyway development and additional investment. Nevertheless, the lack of data constitutes rather difficult such macroeconomic estimations. Besides, the spending behaviour, as it will be discussed further down tends to be very partial and relative to certain individual circumstances and situations.

In opposition to Adams, de Haas, suggests that, “empirical evidence indicates that remittances are a comparatively stable, less volatile and counter-cyclical source of income and that the relation between migration duration and remittances is not linear”<sup>90</sup>. However, in my opinion this is mostly linked to the aforementioned exogenous and endogenous factors. For example in Albania after the mass emigrational exodus of the mid-nineties most Albanians invested their remittances into the notorious pyramid schemes,<sup>91</sup> on the other hand

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<sup>89</sup> Ibid

<sup>90</sup> de Haas, Hein “*The impact of international migration on social and economic development in Moroccan ending regions: a review of the empirical literature*” Working Papers, Paper 3, International Migration Institute, University of Oxford, 2007

<sup>91</sup> Korovilas, James “Remittances and pyramid investment schemes in Albania” pp175-192, in Maimbo Munzele, Samuel – Ratha, Philip “*Remittances: Development impact and future prospects*” World Bank Publications, 2004

in other countries like Somalia remittances are -generally speaking- an absolute necessity of livelihood for some families and there is no excess for investment. Actually such a perspective for some may sound extremely farfetched.<sup>92</sup> Also, in contradiction with Adams' argument are Yang and Martinez as they suggest that remittances' effects can be really broad and even affect in a positive way families without migrant members. This is what they call favourable spill-overs, which is quite valid to occur as economic activity amplifies. However, the main core of their article pays more attention to exchange rates and especially in the shocks caused by the 1997 Asian financial crisis.<sup>93</sup> The crisis caused a serious spiral effect throughout the world even resulting in the significant drop of the oil price. The exchange rates also suffered significantly as the devaluation of several currencies seriously affected the survival and living standards of millions of recipients and senders. For example, the change in the Thai baht was -40.2% and in the Indonesian rupiah -83.2 from July 1997 to July 1998.<sup>94</sup> Undoubtedly the pressures and the dependence on the unstable formal economic system pushed many senders towards alternative -perhaps less safe- but more stable in terms of exchange rates transfer systems.

In this point it may be relevant to mention that the non-conformity of de Haas and Adams regarding the impermanence of remitting is strongly linked with the remittance decay hypothesis and how it is perceived. This hypothesis suggests that migrants with the intention of return, remit more than those who intend to stay permanently in the host country. The logic behind that is the fact that those who intend to return invest back to the home country for something better than those who have no intention to return and therefore no need to create savings or build a house, but just to help their families. It could also be because temporary remitters are attempting to use the opportunity to earn more money abroad and thus increase their transfers back home. Whereas permanent remitters feel that time is not as restrictive and they can even out the amount of spending they commit to remittances. Maimbo suggests that the decay could stem from the loosening of the ties as the migrant incorporates more into the host country. Maimbo also notes that the remittance decay indeed occurs and remittances indeed decline but the flow of money never actually stops completely, and even if that occurs

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<sup>92</sup> From interview

<sup>93</sup> Yang, Dean – Martinez, Claudia ‘‘Remittances and poverty in migrants’ home areas: evidence from the Philippines’’pp.81-122 in Ozden Caglar – Schiff, Maurice (eds) ‘‘*International migration, remittances and the brain drain*’’ World Bank/Palgrave Macmillan, New York: 2006,

<sup>94</sup> Cheetham R ‘‘Asia Crisis’’ Paper presented at conference US-ASEAN-Japan policy dialogue. John Hopkins University, June 7-9 1998

the remittance volume might show a sharp rise in the income levels.<sup>95</sup> De Haas mentions that “remittances tend to increase in the first two decades after migration, and the subsequent ‘remittance decay’ is more delayed and the slope of this decline is much flatter than previously assumed”.<sup>96</sup> However, Ratha suggests in a recent World Bank report that remittances tend to be resilient when a financial crisis occurs and they are more stable than private flows in economic downturns.<sup>97</sup> Also, because remittances are sent not only by new migrants but from settled ones, maybe relatively financially secured as well, this makes them persistent over time.<sup>98</sup> This means that only a large break of emigrational influx might hinder remittances flows over a certain depth of time, for example the tightening migration policies of the US and the EU can affect those trends.<sup>99</sup> However, slowdowns are inevitable not only because of the decay hypothesis but due to the unprecedented loss of jobs in the EU and especially in the US, such as in the construction sector where most of the migrants are traditionally absorbed. In a following chapter, for example I have gathered interviews of several families who lost their jobs due to the crisis and demonstrate how this affected their remittance habits.

### Developmental approaches

The majority of books dealing with developmental issues linked with remittances also attempt to provide trends or determinants and they also examine the interaction of migrants with development and illicit tendencies. However illicit operations will be discussed further down.

Aviva Chomsky, in a more journalistic way, bases her case on Latin Americans in the US. She stresses the fact that remittances are more effective than foreign aid, however her analysis is based upon a utopian approach generalizing and unifying problems that cannot be universally applied, perhaps not even within her own case study. For example the suggestion to send remittances to local associations that are involved in different types of development projects contradicts her cornerstone argument that resources that go directly to the person in

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<sup>95</sup> Maimbo Munzele, Samuel – Ratha, Philip “*Remittances: Development impact and future prospects*” World Bank Publications , 2004, p.5

<sup>96</sup> de Haas, Hein “*The impact of international migration on social and economic development in Moroccan ending regions: a review of the empirical literature*” Working Papers, Paper 3, International Migration Institute, University of Oxford, 2007

<sup>97</sup>Ratha, Dilip – Mohapatra, Sanket – Xu, Zihmei “*Outlook for remittances flows 2008-2010*” Migration and Development Brief, Migration and Remittances Team, Development Prospects Group, World Bank, November 11, 2008, p.12

<sup>98</sup> Ibid

<sup>99</sup>Ibid

need are more effective than foreign aid. However it expands the idea for a more utilitarian use of remittances than just general consumption. For example in Guanajuato in Mexico there is a programme of joint ventures with home town associations producing clothes for export. However, US companies use this town as a site for building factories because most families rely on remittances and they are able to pay even less wages than in other parts of Mexico.<sup>100</sup> This shows clearly how fragile the balance is between a more centralised and organised structure (government or local association) and the actual recipient (end-user) of the remittances.

In a similar manner, Yang and Martinez point out the significance of remittances in comparison to official development aid or even foreign direct investments. For example in 2002, remittances receipts of developing countries amounted to 79 billion dollars while official development aid in total was 51 billion dollars and FDIs approximately 189 billion dollars.<sup>101</sup> Indeed, looking from a recipient's point-of-view foreign aid will not obviously contribute to build a house or buy a car. Foreign aid is aimed at macroeconomic and sustainable development-on a theoretical basis, at least- not on the immediate improvement of everyday life. Besides, in most countries a large part of the aid never reaches the point to finance the actual project it was supposed to assist. According to Sabri, remittances are also the major source of revenue for most Arab non-oil states. The figure he presents is far spectacular. Lebanon for example was the highest recipient of remittances in 2006 which accounted 5.6 billion US dollars.<sup>102</sup> Sabri also focuses his attention on the problems, the policies and the measures of home countries on fund transfers, stressing the same fact as Adams, that the lack of published official data and the degree of flows through informal channels constitutes the main problem of examining remittances.<sup>103</sup>

On the other hand, as a counter-argument for the aforementioned, Maimbo and Ratha have a more optimistic view on remittances as they argue that remittances may complement efforts by governments. They also point out that they cannot be a substitute for sustained development.<sup>104</sup> Ratha also draws attention to the counter-cyclical attributes of remittances

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<sup>100</sup> Chomsky, Aviva *"They Take Our Jobs"* Beacon Press, Boston: 2007, pp.46-49

<sup>101</sup> Yang, Dean – Martinez, Claudia "Remittances and poverty in migrants' home areas: evidence from the Philippines" pp.81-122 in Ozden Caglar – Schiff, Maurice (eds) *"International migration, remittances and the brain drain"* World Bank/Palgrave Macmillan, New York: 2006, p.81

<sup>102</sup> Sabri, Nidal Rashid, *Financial Markets and Institutions in the Arab economy*, Nova Science, New York: 2008, p.47

<sup>103</sup> Ibid

<sup>104</sup> Maimbo, Samuel-Munzele, Ratha, Dilip (eds) *"Remittances; Development Impact and Future Prospects"* Washington D.C., World Bank, 2005, p. ix

when an economy is on recession as a country could be enabled by the large capital inflows to pay for imports, repay foreign debt and at the same time improve the living standards of the recipients on a long term basis, as they can gain access to better education etc.<sup>105</sup> In other words remittances can be beneficial for both the state and the public, even during a period of turmoil. Maimbo and Ratha, in general provide a very thorough examination on remittances as they cover every possible aspect. Very often they have a fixed convergence and alignment with Hernando de Soto's views, but their book definitely constitutes a certain kind of manual regarding remittances. They have covered every possible aspect of remittances but sometimes the book seems that it neglects to merge them with other variables apart from migration and state policies. They divide the book into five themes, dealing respectively with trends and determinants, development, formal infrastructure, transparency in the informal channels and the interplay of remittances, migration and development. The book explores policy options for enhancing the poverty easing impact of remittance money in recipient countries, and acknowledges fears about the increasing migration and inequality. It also looks at new technologies that allow remittance service providers to reduce direct transaction costs and open new ways of making life easier for remitters and improving levels of transparency and accountability for regulators and policy makers. However, this is not necessarily the case as the lack of transparency is probably the fuel for remitting, nevertheless the deduction of the costs is something extremely important for those whose choose more transparent and possibly safer ways to send money to their families (as a great deal of money is being lost on the way by commissions and fees). They also point out that lack of data may be a problem as even developed countries like Denmark refuse to report any figures regarding remittances; however on a smaller more local scale the strength of the spill over effect of this extra income in certain communities is so evident and noticeable that it becomes very easy to record, at least on an empirical basis. Ratha and Maimbo also mention that in areas where remittances have been reportedly decreased, as in Sub-Sahara Africa, living standards have deteriorated.<sup>106</sup> This argument is also supported by Micheal Reid, who notices that the decline in house-building and tougher immigration policies for a first time showed a general drop in remittances especially in Latin America. Nonetheless, remittances would still act as a cushion for several countries but they will no longer fuel economic growth.<sup>107</sup> Besides, Hernando de Soto asserts that economic growth will not be achieved as long as houses and property are

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<sup>105</sup> Ibid, p.3

<sup>106</sup> Ibid

<sup>107</sup> "Homeward dollars" Reid Michael, *The Economist: The world in 2008*, p.66

only a shelter and not a means to produce capital, a tool that will enable people to enter in Braudel's glass bell.<sup>108</sup>

### Informal Remittances

This category might be superfluous as remittances have an informal nature given the lack of transparency in the way they are earned, remitted and spent even when they funneled through official channels. Remittances certainly have a dual impact. On the one hand they affect the individual and local level and on the other hand, the state's development. On the individual and local level, communities are now able to afford basic goods such as food, and there is an overall improvement of their living standards and possibly enhanced investment. These transfers support lives in ways that are not easily captured by statistical evidence.<sup>109</sup> Also due to the increase of the purchasing power, there are better chances for the lower classes to receive education, as the children do not to work to contribute financially to the family and the child death rate is reduced.<sup>110</sup> On the other hand, according to Richard Adams, this situation has worsened the income distribution. However in contradistinction from Adams, Feiler argues that remittances improve the income distribution particularly for the unskilled migrant workers.<sup>111</sup> The downside of this is the fact that the surplus capital is not usually directed to savings and investment but to flagrant and luxurious consumption.<sup>112</sup> Another area that the surpluses were heavily directed is real estate. Gil Feiler points out that the high levels of real estate investments in the Middle East is a fact that led to the dramatic increase of land prices.<sup>113</sup> On the state level the situation is clearer. The proportions of Middle Eastern

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<sup>108</sup> See De Soto, Hernando "The Mystery of Capital" Athens, Printa: 2003 (Greek translation: Το Μυστήριο του Κεφαλαίου)

<sup>109</sup> Toufic K. Gaspard "A Political Economy of Lebanon, 1948-2002: The limits of Laissez-faire" Brill, Boston: 2004, p.178

<sup>110</sup> Swanson, Jon "Emigration and Economic Development: The case of Yemen" Boulder, Westview Press, 1979, p.65 and Economist "Monetary lifeline" July 29<sup>th</sup>, 2004

<sup>111</sup> Feiler, Gil "Economic Relations Between Egypt and the Gulf Oil States, 1967-2000" Brighton / Portland, Sussex Academic Press, 2003, p.109

<sup>112</sup> Adams, Richard "The Effects Of International Remittances On Poverty, Inequality and Development in Rural Egypt" International Food Policy Research Institute, Report 86, 1991, p53 However, savings would be a form of hoarding, nevertheless Lebanon is not a predominantly Muslim country and for this reason this situation is more noteworthy.

<sup>113</sup> Feiler, Gil "Economic Relations Between Egypt and the Gulf Oil States, 1967-2000" Brighton/Portland, Sussex Academic Press, 2003, p.113 Also for more details regarding the use of remittances see at Niblock, Tim and Wilson, Rodney "The Political Economy of the Middle East; International Economic Relations, Vol.II" the article "Jordanian Migrant Workers in the Arab Region: A Case Study of Consequences for Labour Supplying Countries" Keely, Charles – Saket, Bassam pp.250-263

remittances in 1982 reached 10% of all international official money transfers.<sup>114</sup> As Jeremy Scott-Joynt mentions, “for the foreseeable future it seems clear that remittances will play an increasing role in the finances of poorer states”<sup>115</sup> The biggest asset the remittances offer to the state’s economy is that they constitute one of the main sources of foreign currency. Apart from easing the foreign currency shortages, remittances also assist on the recovery of the balance of payments as I mentioned in the previous section. The overall external trade balance continues to rely on workers’ remittances.<sup>116</sup> The importance of remittances for the state is also portrayed by the fact that governments aware of the necessity, promoted migration.<sup>117</sup> To be more specific, in Lebanon -which are the clearest example- remittances in 1951 formed 6% as part of the GDP, in the years 1971-1973 this increased to 16% and after 2000 is well over 20%. Of course it is difficult to calculate due to the large amount of errors and omissions.<sup>118</sup> The figures suggest the over-reliance of Lebanon on remittances, this could foster idleness among those who benefit and also push up the value of the currency.<sup>119</sup> Moreover, as Charles B. Keely, who scrutinizes the negative aspects of remittances, states that they “provide a transition to an otherwise unsustainable development but increase dependency and contribute to political and economic instability and development distortion and lead to economic decline that overshadows a temporary advantage for a fortunate few.”<sup>120</sup> Following the same train of thought Hernando de Soto suggests the developing states cannot possibly continue living under the confusion and chaos of the informal economy. However, de Soto says that the current situation of most of the developing countries in the Third World and the former-soviet countries is just a phase of transition similar to the one Western Europe had during the industrial revolution or the USA at the beginning of the 19<sup>th</sup> century. In other words, according to de Soto, those countries at the moment are going through a transitional phase, a very difficult phase of re-establishing their economies, their mind-sets and the

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<sup>114</sup> Ibid, p.113 and Table 3.10 (p.114) for more details. However, all the figures above are result of the official transfers meaning there is a vast percentage of capital flows in the Middle East that cannot be accurately calculated. Gil Feiler mentions, that the unofficial total remittance transfer might be double than the official.

<sup>115</sup> Scott- Joynt, Jeremy “*The remittance life-line*” Available at <http://news.bbc.co.uk/1/hi/business/3516390.stm>

<sup>116</sup> Toufic K. Gaspard “*A Political Economy of Lebanon, 1948-2002: The limits of Laissez-faire*” Brill, Boston: 2004, p.200

<sup>117</sup> Feiler, Gil “*Economic Relations Between Egypt and the Gulf Oil States, 1967-2000*” Brighton/Portland, Sussex Academic Press, 2003, p.116

<sup>118</sup> Toufic K. Gaspard “*A Political Economy of Lebanon, 1948-2002: The limits of Laissez-faire*” Brill, Boston: 2004, p.96

<sup>119</sup> Also referred as “Dutch Disease” see in *Economist* “*Monetary lifeline*” July 29<sup>th</sup>, 2004

<sup>120</sup> Keely, Charles – Bao Nga Tran “*Remittances from labor migration: evaluations, performance and implications*” *International Migration Review* Vol.23, No.3 (1989) pp.500-522



societal structure like Europe did 200 years ago.<sup>121</sup> De Soto has minimal references on the actual remittances; however he thoroughly explains why the developing countries are failing to embrace capitalism. He founded his answer mainly on the fact that most of the developing countries have no formal or unified apparatus of recognizing and registering the private and state property. As a result, with no official proof and legal recognition, people cannot convert their houses to capital (meaning mortgages, loans etc) and all the transactions are carried out at the small local informal level. In that way those countries have vast amounts of dead capital, unable to finance and ensure their welfare and development.<sup>122</sup> I will deal with this book more in depth in the following chapter which deals with corruption. As I mentioned previously, remittances have an informal nature. Most of the figures mentioned in the chapter were a result of the official transfers, meaning there is a vast percentage of capital flows in the world that cannot be accurately calculated. Gil Feiler mentions, that the unofficial total remittance transfer might be double than the official.<sup>123</sup> Which are these networks that are capable of moving large amounts of money from one place to the other in a global framework? In the next section, I will describe Hawala, this ancient banking system, which allows almost instantly transferring money all over the globe. However, returning back to the pros and cons of remittances Savvina Choudhury comes in opposition to Keely and his generic views of the negative aspects of remittances, for instance she writes that in Egypt from 1974 to 1985 the economy grew at a rate of 8% per annum. This unprecedented growth had been fuelled by the return of Sinai oil fields, the higher oil prices, the re-opening of the Suez Canal as well as from the massive influx of foreign exchange from the remittances.<sup>124</sup> While, in the period from 1986 to 2003 due to the fall of foreign exchange receipts from the petroleum sector, the Suez Canal and from the decline of remittances the inflation increased from 13% in 1986 to 31% in 1987.<sup>125</sup>

Being from a Mediterranean country myself I found staggering similarities in the way that people in many Middle Eastern and other developing countries conduct business. The common grounds were more than obvious. It seemed like that the tendency to defy the law was innate (maybe with less extremity in Greece). Initially I was under the impression that

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<sup>121</sup> See De Soto, Hernando "The Mystery of Capital" Athens, Printa: 2003 (Greek translation: Το Μυστήριο του Κεφαλαίου)

<sup>122</sup> Ibid, p.14 and p.75-120

<sup>123</sup> Feiler, Gil "Economic Relations Between Egypt and the Gulf Oil States, 1967-2000" Brighton/Portland, Sussex Academic Press, 2003, p.115

<sup>124</sup> Choudhury, Savvina "Everyday Economic Practices; The hidden transcripts of Egyptian voices" Routledge, New York: 2007, p.70

<sup>125</sup> Ibid, p72

something cultural was involved. However, it is evident that this kind of behavior is more than usual to most of the developing countries, as also shown further down by Hernando de Soto. However, a certain cultural nearness does exist, probably due to the geographical proximity. Also due to the cultural interaction in the Mediterranean when I came across the economic Islamic principles this alleged proximity became probably vaguer. Those principles are the following:

- The principle of Tawheed and Brotherhood. This principle “teaches the man how to relate and deal with other men in the light of his relationship with God”<sup>126</sup> In other words; it links up our duties to men with our duties to God. It places emphasis on social justice, which actually emanates from the Quran. As Choudhury simplifies the term; it is the principle of equality and co-operation.<sup>127</sup> Also Tawheed eliminates *riba*, the Arabic term for interest, and *israf* which is excessive and wasteful consumption. Generally Islamic banking disapproves the presence of interest in economic transactions.
- The principle of Work and Productivity. This principle reminds me of the 1977 reformation of the Soviet constitution, which was actually stating the same thing. Independently of the Islamic and Communist similarities, which do not end here, Work and Productivity means that an individual’s wages must be proportionate to the amount of labour performed by him.
- The principle of Distributional Equality. This principle gives the right to society to redistribute private property. The objective of that is to increase the productive transformation of national income and wealth to the employment and welfare citizens. For example, “the early Muslim refugees evicted from Mecca...and found refuge to Medina were treated on equal terms and not confined to camps...”<sup>128</sup>

Those principles refer to something more insubstantial than in real life economic activity or at least to something that cannot completely describe Islamic economic activity from the bank to the pavement. Nevertheless, cultural similarities had no important significance. First of all, all these certain aspects of informal economic activity can be found apart from in the Mediterranean, in the former Soviet countries, in Latin America and in most of the Third world countries. Hernando de Soto mentions that “the difference of wealth between the West

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<sup>126</sup> Choudhury, Masudul Alam “*Principles of Islamic Economics*” in Niblock, Tim and Wilson, Rodney “*The Political Economy of the Middle East; Vol III Islamic Economics*” Cheltenham, Elgar Publ., pp.1-11

<sup>127</sup> Ibid

<sup>128</sup> Ibid, p.3

and the rest of the world is so immense, that it cannot be explained by using only civilization as a criterion. Japan and Switzerland or the USA are entirely different countries culturally from Estonia, Mexico and Lebanon, however the former have succeeded miracles when the latter live in poverty and corruption.<sup>129</sup> Informal money transfers are not a feature found only in the Middle East or in Latin America. Hawala also referred to as “hundi”, was initially developed in Calcutta (India) around 1770, established before the introduction of western banking practices, and is currently a major remittance system used around the world.<sup>130</sup> It is but one of several such systems; another well known example is the “chop”, “chit” or “flying money” system indigenous to China, and also, used around the world. Even American soldiers during the Vietnam War were exposed to hawala through the operations of Indian merchants in Saigon.<sup>131</sup> Hawala is an alternative or parallel remittance system. It exists outside of, the “traditional” banking or financial channels. Meaning it bypasses these systems which are often referred to as “underground banking”; this term is not always correct, as they often operate in the open with complete legitimacy, and these services are often heavily and effectively advertised.<sup>132</sup> The components of Hawala and other informal transfer systems distinguish from other formal remittance systems because of mutual personal trust and the extensive use of connections such as family relationships or regional affiliations. Unlike traditional banking Hawala makes a minimal - and in many cases no use of any sort - of negotiable instrument. Transfers of money take place based on communications between members of a network of Hawaladars, or Hawala dealers.<sup>133</sup> What is more Hawala recognizes no borders, as it says “you can arrange a delivery of cash anywhere in the world -Hong Kong, Johannesburg, New York, Paris - it will be done in a maximum, of eight hours.”<sup>134</sup> For further understanding of what Hawala and most of the informal transfer systems are and how they work I quote the following example from the same article:

*To move money to New York, for instance, Ali will accept payment in Indian rupees from a client in Delhi. Then he'll call associates in Dubai, who in turn contact their man in*

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<sup>129</sup> Ibid

<sup>130</sup> The term was also used historically in public finance during the Abbaside period to refer to cases where the state treasury could not meet the claims presented to it and it directed the claimants to occupy a certain region for a specified period of time and procure their claims themselves by taxing the people.

<sup>131</sup> “The Hawala alternative remittance system and its role to money laundering” Available at [www.interpol.int/public/financialcrime/moneylaundering/hawala/default.asp#9](http://www.interpol.int/public/financialcrime/moneylaundering/hawala/default.asp#9)

<sup>132</sup> Ibid

<sup>133</sup> Ibid

<sup>134</sup> Ganguly, Meenakshi “A Banking System Built for Terrorism; 'Hawala' can move millions of dollars around the globe with no paper trail and no questions asked” Available also at [www.time.com](http://www.time.com)

*New York. The client in Delhi is given a code, usually the numbers from a currency note, which is passed on to the recipient. When the phone rings in New York, both messenger and recipient will read back alternate digits from the password. Identity thus established, the recipient would be paid in dollars.*<sup>135</sup>

Another more illuminating but more complicated example is when A gives \$5000 to B to be transferred to D. B communicates with needs C (mediator) to pay the \$5000 that he has given for D. B then can do this by invoicing a shipment \$20,000 worth of telecom devices but invoice C only for \$15,000. Then C pays B the \$15,000 and the extra value (the \$5000) finally end to D.<sup>136</sup> Cronin mentions, that money is transferred into other commodities (such as diamonds in Sierra Leone and the Democratic Republic of Congo, and tanzanite from Tanzania) easily from all over the world.”<sup>137</sup> Apart from that the transactions as we saw are fast and they do not necessarily need the existence of information technology.

A recent Economist article mentions that the vast majority of Hawala transactions legitimately help the Muslim poor, but some certainly did finance al-Qaeda.<sup>138</sup> Indeed, it is a system that no names are kept and your background or the intentions of your transaction do not concern the medium or the Hawaladar. However, apart from that, what makes Hawala so preferable not only amongst the poor?

Hawala in comparison to the modern reliable, technologically advanced systems of banking seems at least unreliable, risky, and obsolete and lacks recognised regulations and transparency. Meaning if something does not go according to plan the likelihood of being able to accuse those responsible and expose the fraud is limited. As I foretold on the one hand, Hawala seems untrustworthy but in fact it is quite the opposite. According to an Interpol research, there are six reasons that compose Hawala’s and all the similar informal funds transfer systems prolongation; the reasons are as follows:

- The primary reason is cost effectiveness. Meaning that, as Hawala does not use the bank exchange rate, the rate occurs after negotiations with the Hawaladar, as a result saving significant amounts of money.

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<sup>135</sup> Ibid. Meaning, a debtor passes on the responsibility of payment of his debt to a third party who owes the former a debt.

<sup>136</sup>This example is a “simplified” version of the Hawala explanation from [www.interpol.int/public/financialcrime/moneylaundering/hawala/default.asp#9](http://www.interpol.int/public/financialcrime/moneylaundering/hawala/default.asp#9). Look also to E.Qorchi, Mohammad “Finance and Development” 39/4 December 2002 Available at [www.imf.org/external/pubs/ft/fandd/2002/12/elqorchi.htm](http://www.imf.org/external/pubs/ft/fandd/2002/12/elqorchi.htm)

<sup>137</sup> Cronin, Audrey “Behind the Curve, Globalisation and International Terrorism” *International Security* Vol.27, No.3 pp. 30-58

<sup>138</sup> “Still Flush” *The Economist* September 5<sup>th</sup> 2002

- Secondly is efficiency and speed. A Hawala transaction needs from a couple of hours up to two days to be conducted. From my own personal experience a simple bank transfer needs at least three days.
- The third reason is reliability. Complex international transactions, which might involve the client's local bank, its correspondent bank, the main office of a foreign bank and a branch office of the recipient's foreign bank, have the potential to be problematic.
- The fourth reason is the lack of bureaucracy. People with expired visas, illegal migrants or people who lack adequate identification, generally people who cannot open a bank account use Hawala. This is one of the reasons that terrorists use Hawala.
- The fifth reason is the lack of a paper trail. Meaning these transactions are anonymous and intractable.
- The sixth reason is tax evasion. In South Asia, the “black” or parallel economy is 30%-50% of the “white” or documented economy. Money remitted through official channels might invite scrutiny from tax authorities - Hawala provides a scrutiny-free remittance channel.<sup>139</sup>

On top of those attributes Hernandez-Coss adds

- Versatility and resilience. Remittances can survive civil wars, economic crises and sanctions and other events that can affect formal economy.
- Secrecy and anonymity. No I/D is usually required nor any record keeping exists
- Cultural familiarity. Out of comfort and familiarity they prefer informal systems and also every corner shop is a potential agent of making informal transfers meaning that language barrier maybe surpassed.<sup>140</sup> For example, in Athens (and in most of the large Western cities) where most of central districts have buffers of a certain nationality or ethnic group, and shops spring out all over those areas and operate as mini markets of goods from the country of origin, they usually act as informal banks as well.

Therefore, Hawala or whichever informal system of remittances is the quintessence of informal remittances. The stereotype of the average migrant from an underdeveloped region

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<sup>139</sup> “The Hawala alternative remittance system and its role to money laundering” Available at [www.interpol.int/public/financialcrime/moneylaundering/hawala/default.asp#9](http://www.interpol.int/public/financialcrime/moneylaundering/hawala/default.asp#9). See more on reasons to E.Qorchi, Mohammad “Finance and Development” 39/4 December 2002 Available at [www.imf.org/external/pubs/ft/fandd/2002/12/elqorchi.htm](http://www.imf.org/external/pubs/ft/fandd/2002/12/elqorchi.htm)

<sup>140</sup> Hernandez-Coss, Raul “A Proposed framework to analyze informal fund transfer systems” pp.243-274 in Maimbo, Samuel-Munzele, Ratha, Dilip (eds) “*Remittances; Development Impact and Future Prospects*” Washington D.C., World Bank, 2005, p.264

usually depicts young men who are more than likely illiterate and possibly not able to obtain a bank account. Those are the main users of this system. Those are the people who really need it. It is definitely the technique to transfer remittances quickly and reliably without red tape obstacles. However the positive aspects of Hawala act like a Delphic sword, a double-edged weapon for its own future. The intractability of Hawala and all the other informal fund transfer systems allow illegal transfers to be conducted such as money laundering. After 9/11 the efforts to limit Hawala have been inadequate and in some cases detrimental. The most common recommendation regarding the restriction of Hawala was the creation of a regulatory framework. 300 bankers and law enforcement specialists attending a conference in Abu Dhabi, the capital of the United Arab Emirates, said regulation was the key. In antithesis of the American stance against Hawala suggesting abolition, opposed by Nikos Passas (Professor at the Temple University) who argued that “this system has worked for ages; instead of killing it, we need to learn from this successful business model”<sup>141</sup> Indeed Hawala, is much faster and possibly has the same reliability as modern banking apparatus'. Besides, the “West” utilizes transfer techniques which were paved by Hawala , like the Western Union. Back to the regulation problematic, the central bank of the United Arab Emirates has started to tighten regulations on the informal money transfer system in an attempt to curb money laundering. The bank said it would start registering and certifying Hawala brokers,<sup>142</sup> however it is possible that tighter regulation of the Hawala transfers might be harmful for the remittance dependent economies. Generally speaking, the suggested registration will allow the monitoring of flows towards illegal operations. Only recently Reuters mentioned that it has been discovered that Taliban have as a main source of income - not money from opium trade as previously thought - but money informally transferred from “certain Gulf states”. In any case though, the analysis here is not about the regulation of the informal transfers systems but for their existence, utility and role. The downside of the informal fund transfer system is the problem resolution. In the happen-stance, of non-reception of the funds for example, no one is accountable for the loss. However, according to Koning - Bielefeld “even when formal channels are used, the level of genuine assistance provided to resolve problems has often been criticised.”<sup>143</sup> Other problems might be “unexpected fees” or unexpected and

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<sup>141</sup> “Call to regulate ancient banking system” Available at <http://news.bbc.co.uk/1/hi/business/1993346.stm>

<sup>142</sup> “UAE tightens ‘terror money’ rules” Available at <http://news.bbc.co.uk/1/hi/business/2396645.stm>

<sup>143</sup> Koning, Antonique – Bielefeld, Norbert “International remittances: fair value” pp. 193-208 in Maimbo, Samuel-Munzele, Ratha, Dilip (eds) “*Remittances; Development Impact and Future Prospects*” Washington D.C., World Bank.; 2005, p.195

unjustifiable delays,<sup>144</sup> but whatever the problems are that might appear, informal banking systems still remain an acceptable, trustworthy and efficient worldwide medium of fund transfers.

## **Conclusion**

The bibliography in general recognises the positive input of formal or informal remittances in the economy. Definitely there are some negative elements in the whole process, such as the potential over-reliance of parts of the society and possibly states as well and their lack of perspective to sustainably support the economy. However their overall input is inexorably associated with the safeguarding of the livelihood of thousands of people in the developing world. Probably the most problematic aspect of the informal remittances and their informal transfer systems is the association with the various illegal networks which used –and still use– the attributes of those systems in order to transfer and launder their unlawful gains. This situation has led to a strong debate regarding the future of those informal transfer systems, rendering the situation extremely delicate as millions of recipients will be negatively affected as happened in Somalia after the September 11<sup>th</sup> incidents of the regulation framework becoming tighter and stricter. Nevertheless the links of Hawala and remittances with money-laundering will be adequately analysed in a following chapter.

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<sup>144</sup> *ibid*

## CHAPTER 4 Corruption

### Introduction

There is an axiom often applied to those with political ambitions: Power corrupts; absolute power corrupts absolutely. And Pittakos once said that a man's true character is only displayed when you bestow power upon him.<sup>145</sup> Corruption is the second key driver to examine in relation to informal economy. Etymologically speaking, corruption stems from the Latin verb "rumpo" which means to burst, to tear, to force open and to interrupt; to interrupt a circuit of normality I would add, to suspend the order of a status. This may be occasional and opportunistic in certain societies but in some cases it can become the status quo itself. The normality is substituted with abnormality. When instead of following the designated path you choose circumvention.

Although the informal economy is often associated with the informal employment sector; informal remittances and the black market. It also includes other processes of economic activity as well as social characteristics. There is need to identify and analyse all the aspects of informal economy that are often neglected in similar studies. Any unregulated exchange of capital or services is a fraction of the informal economy. Corruption facilitates both and examination is absolutely needed to fulfil the comprehensive and global analysis of this paper on informal economy. Without corruption in the equation an immeasurable amount of informal economic activity will be ignored. Corruption as a key driver constitutes a developmental anathema not only in Lebanon as a developing country, but in the entire international stage. Lebanon is not a unique case regarding corruption; however in the words of Maha Al-Azar corruption in Lebanon is a fact of life.<sup>146</sup> Undeniably, both shores of the Mediterranean basin suffer from a high degree of corruption. The literature I have used and the academia in general are -more or less- concurrent with the notion that corruption acts as a negative factor in sustainable development and restrains real economic growth. However, my empirical data on Lebanon projected a more moderate attitude. Perhaps it was from those who have benefited from corruption in terms of extra income or those who successfully used it to achieve something probably unachievable through the legal channels of bureaucracy. However, a satisfied minority cannot outperform the staggering macro-disadvantages of

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<sup>145</sup> Pittakos of Mytilini (650-570BC) was an ancient Greek strategist and politician. He was one of the seven wise men of Antiquity. Many however attribute, by mistake, this saying to Thucydides. "APXH ANΔPA ΔEIKNYΣI"

<sup>146</sup> Al-Azar, Maha "Lebanon: Reporter's Notebook" <http://report.globalintegrity.org/Lebanon/2007/notebook>



political and economic corruption in a given state. Therefore corruption will be marked as a “red” key driver.

According to Moe Farida and Fredou Ahmadi-Esfahani, “it appears that corrupt practices in Lebanon are at the core of the political system to the extent that even the most optimally designed institutions might fail in combating corruption as society’s norms appear to rationalise taking bribes, and the country’s elites regard politics as an arena for self-enrichment.”<sup>147</sup>

The bibliography on corruption is based on a triple axis. Colin Leys identifies the literature in historical studies, inquisitional and sociological; he also mentions that in English bibliography there is no general study on the matter.<sup>148</sup> Once again, I have used a diverse combination of books, articles and online resources to provide a literature review on corruption, and avoiding to be distracted by an irrelevant categorization, as informal economy coupled with corruption is only a small fraction of total corruption. In this review instead of categorizing the literature and analysing it according to the discipline it serves, I have split corruption into components and I have applied the relevant bibliography, more like a structured article. For although I am keen to categorise it was impossible to do that as the present bibliography was rarely part of a single category. Firstly I am presenting the theoretical and explanatory components of corruption and secondly I am presenting the pragmatic factors of corruption in Lebanon and other developing countries that project whether it is favourable or damaging to growth whilst displaying the linkages with informal economy.

The aim of this chapter is to shed light on the significance of corruption as part and parcel of the informal economy in the international stage, as well as, in Lebanon and to demonstrate, if corruption hinders developmental and economic advancement whilst simultaneously being a useful tool for everyday people to utilise (as this may be the only way to surpass irrational liabilities usually within a state’s apparatus).

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<sup>147</sup> Farida Moe and Ahmadi-Esfahani, Fredou “Corruption and economic growth in Lebanon” from Australian Agricultural and Resource Economics Society 52nd Annual Conference, February 5-8, 2008, Canberra, Australia

<sup>148</sup> Leys, Colin “What is the problem about corruption” pp. 59-76 in Johnston, Michael – Heidenheimer, Arnold (eds) “*Political Corruption: Concepts and contexts*” New Jersey, Transaction Publ.: 2009 , p.59

## Theoretical Framework; Descriptive examination

### Definitions

I found it extremely challenging to find a satisfying definition for corruption to match the perspective and view which I applied to my analysis. Transparency International (TI) defines corruption as thus:

*“The misuse of entrusted power for private gain. Transparency International further differentiates between “according to rule” corruption and “against the rule” corruption. Facilitation payments, where a bribe is paid to receive preferential treatment for something that the bribe receiver is required to do by law, constitute the former. The latter, on the other hand, is a bribe paid to obtain services the bribe receiver is prohibited from providing.”*<sup>149</sup>

However, TI focuses the definition of corruption on bribery, neglecting to define all the other elements that it may constitute. On the other hand, Nick Duncan perceives corruption as an element of dual nature. One part is tax evasion and the second part is the production that is not part of the GNP.<sup>150</sup> I suppose in the word production Duncan also includes the innumerable informal daily transactions, otherwise this definition would overlook a gigantic fraction of corruption's components within a society. In addition, Michael Johnston describes corruption as the abuse of public roles or resources for private benefit.<sup>151</sup> Generally the literature provides multiple explanations of what political or economic corruption is. It seems certain that none of the explanations provide adequate clarity on what actually constitutes corruption and without doubt none of the definitions offer a broad description to encapsulate of all the aspects of corruption. For this reason, William Miller states that it is preferable to avoid defining corruption given its non-fixed nature.<sup>152</sup> John Gardiner follows Miller's train of thought and he goes a step further by pointing out that corruption is perceived differently by public opinion and differently by the authorities. However, even though he also states that it is preferable to avoid definitions, he provides us with an extensive catalogue of definitions. Nevertheless, Gardiner is extensively based on Michael Johnston's works. The distinctions between public, private and government are

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<sup>149</sup> [http://www.transparency.org/news\\_room/faq/corruption\\_faq#faqcorr1](http://www.transparency.org/news_room/faq/corruption_faq#faqcorr1)

<sup>150</sup> Duncan, Nick “The non-perception based measurement of corruption” pp.131-160 in Sampford, Charles – Shacklock, Arthur – Connors, Carmel and Galtung, Fredrik (eds) “*Measuring Corruption*” Aldershot, Ashgate: 2006 p.153

<sup>151</sup> Johnston, Michael “*Syndromes of Corruption: Wealth, power and democracy*” Cambridge, Cambridge University Press: 2005, p.12

<sup>152</sup> Miller, William “Perceptions, experience, lies; what measures corruption and what do corruption measures measure.” pp. 163-188, In Sampford, Charles – Shacklock, Arthur – Connors, Carmel and Galtung, Fredrik (eds) “*Measuring Corruption*” Aldershot, Ashgate: 2006, p.164

Johnston's hypotheses; even the distinctions between which activity is corrupt and which is not.<sup>153</sup> Still, I found it unusual that Gardiner doubts the level of corruption in situations that corruption essentially assists public interest in such as during World War Two Germany when Jews were forbidden by law to emigrate and a passport inspector for 1000 DM would approve the departure.<sup>154</sup> As I mentioned above corruption is not only about bribery, fraud and nepotism, it is also there to facilitate services as TI's definition cites. Since the inspector did not approve the departure free of charge it was not out of selflessness, the humanitarian factor was eliminated. Certainly using an example from that era enhances the argument as it triggers compassion. However, would the reader feel the same if the example was an African trying to emigrate in Europe, possibly for similar reasons? Unbiased corruption does exist though. Occasionally there are instances whereby for no apparent reason and for no obvious personal gain that someone looks the other way. An example from my personal experience; a tax auditor in Athens, rather than give me a large fine for not being punctual with my VAT responsibilities and presenting –to him- insufficient paperwork, he gave me an extraordinary -off the record- extension so I could deal with it, without being pressured. He did this twice. Even this bureaucratic deviation can be seen as a form of corruption.

### **Petty and grand corruption**

In this point it is relevant to classify corruption for a better understanding. Corruption is generally divided into two categories; the petty corruption and the grand corruption. According to Elisabeth Harrison, petty corruption is the everyday corruption that takes place where public officials meet the public. It is also referred to as routine corruption when people give small bribes to obtain a speedy completion of a bureaucratic procedure or to avoid a fine by a traffic policeman.<sup>155</sup> As Uslaner mentions, people come to terms with petty corruption, (the small payments they make to doctors, clerks etc).<sup>156</sup> Uslaner suggests that petty corruption is less tolerable than inescapable and it actually helps a large number of people to cope with broken public and private sectors. Also he does not regard petty corruption as unlawful and because it involves small amounts of money it does not engender jealousy and

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<sup>153</sup> Johnston, Michael "Syndromes of Corruption: Wealth, power and democracy" Cambridge, Cambridge University Press: 2005, p.11

<sup>154</sup> Gardiner, John "Defining corruption" pp25-40 in Johnston, Michael – Heidenheimer, Arnold (eds) "Political Corruption: Concepts and contexts" New Jersey, Transaction Publ.: 2009 , p.30

<sup>155</sup> Harrison, Elizabeth "The cancer of corruption"pp.135- 149 in Pardo, Italo "Between morality and law" Aldershot, Ashgate, 2004, see also in Experts Meeting "National Action for Fighting Corruption in Lebanon" January 22, 2001, Available in <http://www.mafhoum.com/press/corruption/summary.html>

<sup>156</sup> Uslaner, Eric "Corruption, inequality and the rule of law" Cambridge, Cambridge University Press: 2008, p.44

people do not associate it with inequality.<sup>157</sup> This actually exactly stands in opposition of my empirical findings. As we will observe further down, more often than not large sums of money are involved and feelings of inequity are quite widespread amongst the population. Lastly due to its accommodating nature in everyday life Uslaner suggests that it is actually wrong to think that petty corruption is wrong.<sup>158</sup> I quite understand that, as his research is based on the “real” world. However even though he portrays a clear picture on how useful it can be and how inevitable petty corruption is, his rhetoric in places is quite deifying for petty corruption, as he assumes that the money to be given is negligible and everyone can afford do it to help themselves. It reminds me of the signs on the Greek motorways which inform drivers that the tarmac is dangerous and worn. The state goes through the trouble to invest money on signs rather than actually repair the road because that way it is cheaper and easier. It is similar with Uslaner, petty corruption is helpful for everyday transactions and there is nothing anyone can do about it, even if it is dire for society and the economy. So if you cannot beat it, join in it. Similarly, Van Vuuren, according to a survey, highlights “the fact that a large number of citizens do not know how to report corruption and many are afraid of the consequences of whistle blowing. The belief that reporting corruption will not change anything is also of concern.”<sup>159</sup> Also according to Van Vuuren, petty corruption gifts and favors are not perceived by many as a form of corruption. In any case petty corruption is generally overlooked as an area of concern in the public debate.<sup>160</sup>

On the other hand is grand corruption, which usually involves large amounts of money and more senior officials dealing with infrastructure contracts, arms deals, passing laws that serve specific interests or simply using governmental money for personal gain.<sup>161</sup> Uslaner obviously suggests that grand corruption is the exact opposite of petty, sociologically at least as I see it. People are not so blasé about grand corruption and even the smallest amounts of money are perceived as morally evil.<sup>162</sup> Of course, this situation occurs as people usually condemn to others their own disadvantages. Meaning, petty corruption is acceptable

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<sup>157</sup> Ibid, p.11

<sup>158</sup> Ibid, p.10

<sup>159</sup> Van Vuuren, Hennie “Small Bribes, big challenge: Extent and nature of petty corruption in South Africa”, Institute for Security Studies, *Crime Quarterly*, No 9 2004. Available in <http://www.issafrica.org/pubs/CrimeQ/No.9/VanVuuren.htm>

<sup>160</sup> Ibid

<sup>161</sup> Harrison, Elizabeth “The cancer of corruption”pp.135- 149 in Pardo, Italo “*Between morality and law*” Aldershot, Ashgate, 2004

<sup>162</sup> Uslaner, Eric“*Corruption, inequality and the rule of law*” Cambridge, Cambridge University Press: 2008, p.44

as it helps the family but grand is not because it helps a certain official to build a larger palace. Definitely there is more of a moral dilemma there than an incidental or a social one, which affects the economy. For Uslaner corruption is generally dealt with like something that needs to be conserved rather than to be fought and fixed, as I mentioned above. In contrast, Susan Rose-Ackerman mentions that grand and petty corruption in essence shares certain features, and both can be deeply destructive of state functioning, bringing the state to the edge of failure and undermining the economy.<sup>163</sup> Even a state's legitimacy can be undermined especially in cases when it becomes quite obvious that a narrow set of powerful private and public figures control the state. This is the case of bilateral monopoly.<sup>164</sup> Regarding the state's legitimacy, Lebanon is a clear case in point. For example, Transparency-Lebanon reports in a press release published the day following the elections that several candidates gave money to voters in exchange for their vote: a vote is worth 800 dollars in Zahle (Bekaa province), between 60 and 100 dollars in Saida (south) and can reach 3000 dollars in Zghorta (north).<sup>165</sup> This is a very distinctive case of corruption, in terms of labeling it at least, as the citizens voluntarily undermine the fragile democratic institutions. However, they expect favors after the elections which operate as a compensating factor. As a final point, Ackerman handles corruption realistically throughout the book, seeking for long-term solutions and focusing on the economic challenges using various case studies. In general most of the literature agrees that corruption, grand or petty, has profound in-egalitarian effects,<sup>166</sup> and the most damaged parties are usually the poor, whether they have been (usually) voluntary victims of petty corruption or involuntary victims of grand corruption.

### **Reasons for corruption and geographical incidence**

Which countries are more prone to corruption though? Conventional wisdom would suggest that countries with centralized governments and chaotic bureaucracies might be more inclined. However the literature is indisputably divided on that. Some academics feel that it is not even necessary to have a chaotic state apparatus and a centralized or authoritarian government at the same time to be more corrupt than others. Case studies prove that even economic liberalization and democratization processes might be reinforcing for corruption. Mark Robinson quotes Harris-White and White who suggest "economic liberalization could

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<sup>163</sup> Rose-Ackerman, Susan (editor) "*International handbook in the economics of corruption*" Cheltenham, Edward Elgar Publishing: 2006 , p.xix

<sup>164</sup> Ibid, p.xx

<sup>165</sup> "Corruption made in Lebanon" Available in <http://observers.france24.com/en/content/20090612-scene-corruption-made-lebanon-michel-murr-akary>

<sup>166</sup> Robinson, Mark "*Corruption and development*" Oxford, Frank Cass: 1998, p.131

displace, refine and lead to more corruption according to China's and Korea's examples"<sup>167</sup> and Robinson also adds that in Tanzania the same processes actually have enhanced corrupt tendencies.<sup>168</sup> According to the World Development Indicators Database the top forty or fifty scoring countries with the highest corruption levels are what we consider as Third World countries, and almost all of them suffer from serious democratic deficit (in this case they were predominantly ex-soviet nations).<sup>169</sup> Also according to the World Bank's Corruption Perception Index the top lowest scoring countries are usually democratic with economic stability but the bureaucracy level might be debatable.<sup>170</sup> Supportive to that evidence are Alberto Ades and Rafael Tella who propose that corruption is higher in countries with economies dominated by a small number of firms or where anti-trust regulations are effective in preventing anti-competitive practices. Also economies with sheltered domestic firms from foreign competition tend to be more corrupt.<sup>171</sup> Obviously the result of their paper is that opening up a country's domestic economy to foreign trade makes domestic firms more competitive and less corrupt. However, from my own understanding, the opening up of certain sectors like shipping or dairy farming in Greece caused the formation of cartels against the foreign firms with behind the scenes assistance from the government. In theory, Greek seas for example were open for any firm to provide transport services –mainly UK based ones- but in practice all efforts were incomplete as the local ex-rivals allied to render the status in a condition acutely unattractive for the foreign firms to enter. The same thing happened with dairy farming firms and telecommunications. No wonder Greece slipped four places in 2009 alone, to 71<sup>st</sup> in the Global Competitiveness Index Report released by the World Economic Forum.<sup>172</sup> Similarly in Lebanon, the lack of government transparency and reliable contract enforcement ensured that private sector investors only entered a market if they had cut deals with governing elites. It is not surprising that the UN reports that over 43% of foreign companies in Lebanon "always or very frequently" pay bribes and another 40% "sometimes" do."<sup>173</sup> Anwar Shah in concurrence with Ades and Tella suggests that countries

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<sup>167</sup> Ibid, p148

<sup>168</sup> Ibid, p144

<sup>169</sup> [http://www.nationmaster.com/graph/cor/cor\\_of\\_man\\_sur\\_ran\\_thi\\_as\\_a\\_maj\\_bus\\_con-surveyed-ranking-major-business-constraint](http://www.nationmaster.com/graph/cor/cor_of_man_sur_ran_thi_as_a_maj_bus_con-surveyed-ranking-major-business-constraint)

<sup>170</sup> [http://www.transparency.org/news\\_room/in\\_focus/2008/cpi2008/cpi\\_2008\\_table](http://www.transparency.org/news_room/in_focus/2008/cpi2008/cpi_2008_table)

<sup>171</sup> Ades, Alberto – Tella, Rafael “*Competition and Corruption*” Applied Economics Discussion Paper, No 169m April 1995, Institute of Economics and Statistics, University of Oxford, p.1

<sup>172</sup> [http://www.ekathimerini.com/4dcgi/\\_w\\_articles\\_economy\\_0\\_09/09/2009\\_110526](http://www.ekathimerini.com/4dcgi/_w_articles_economy_0_09/09/2009_110526)

<sup>173</sup> Farida Moe and Ahmadi-Esfahani, Fredou “Corruption and economic growth in Lebanon” from Australian Agricultural and Resource Economics Society 52nd Annual Conference, February 5-8, 2008, Canberra,

with weak governance advocate the emergence of systems of rent extraction.<sup>174</sup> Weak governance does not exclude of course democratic, developed and capitalistic states from the equation like Italy and Greece. For Jain, corruption is an issue of political health and it is synonymous with bribery. However Jain focuses mostly on grand corruption and not so much at the parochial level. Corruption for Jain is layered in three levels; policy, go-between and society and it is widely attributed to a morally failing society in the way Uslaner advocated it. The book however, despite the sum of contributions, fails to analyze low level corruption.<sup>175</sup> Goldem and Picci have a more holistic view on the matter. Corruption is everywhere. It occurs in any given state or society even in those with high honesty indices. Every official elected or appointed will deal eventually with corruption in a benevolent or malevolent manner.<sup>176</sup>

Thus the literature provides three main views on why and where corruption occurs habitually. Firstly, it is easier to arise in Third World and developing countries with low infrastructure and possibly authoritarian regimes, secondly it arouses in most countries (democratic and authoritarian) yet it is more predisposed in states with weak governance and looser institutions and thirdly it is universal.

### Forms of corruption

Much of the attention regarding corruption is concentrated on bribes. However, bribery is only one of the forms corruption takes. Nick Duncan applies a quantitative measurement of corruption and he identifies five forms.

- Monetary rent; under that category would fall bribery, extortion fraud, favouritism in contracts etc. Also bribes can obtain prices at the market clearing price.
- Social obligations; mostly common in petty corruption examples but frequent in grand corruption as well. Nepotism would fit perfectly under this banner.
- Value/supply chain distortion; for example enforcing certain purchases from certain suppliers. Extremely widespread and very often it takes the form of social contract

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Australia, p.4 Moe and Esfahani are examining the Lebanon's corruption with a specific model to capture the effect of corruption on economic growth via incorporating corruption with the multifactor productivity in a Cobb-Douglas production function.

<sup>174</sup> Shah, Anwar (editor) "*Performance accountability and combating corruption*" Washington DC, The World Bank: 2007, p.7

<sup>175</sup> Jain, Arvind (editor) "*The political economy of corruption*" London, Routledge: 2001

<sup>176</sup> Goldem, Mirian-Picci, Lucio "Corruption and the management in public works in Italy" pp.457-483 in Rose-Ackerman, Susan (editor) "*International handbook in the economics of corruption*" Cheltenham, Edward Elgar Publishing: 2006, pp. 457-458

especially around the Mediterranean when personal rivalries, social correctness, might impose anti-competitive tendencies and irrational behaviours.

- Product or service gain; for the example the transaction is for 1 tonne of cement, to deliver 100KG in my truck. Interviews I had with truckers, verified this certain form of corruption, but I will develop that further in a following chapter.
- Acquisition of non-monetary personal trappings of power; social dominance in various guises for example: fear, security, sexual behaviour, prestige.<sup>177</sup>

On the other hand, Matsoso identifies four forms of corruption and he places as a common denominator between grand and petty corruption, embezzlement. He explains that embezzlement is undisclosed amounts of government funds and procurement of illegitimate profits from public service for personal gain. He also mentions it -in a less descriptive approach than Duncan- as separate forms extortion, bribery and nepotism.<sup>178</sup> For Matsoso corruption is a pandemic which impacts on society, it diminishes democracy and razes the states' budgets. On the same level Girling mentions as well as Matsosso that corruption is damaging to democracy and its institutions and he divides it into three dimensions: functional to development (economic) corruption, dysfunctional (political) corruption, and corruption that is offset by normative strengths, as in civil society. Generally he talks about corruption in a more theoretical, political level, mentioning Aristotle several times.<sup>179</sup> Despite his philosophical pursuit, he makes a very interesting distinction. He describes corruption as interactive between democracy and capitalism and he distinguishes corruption in both a broad and narrow sense. "In the broad sense it signifies the perversion of principles upon which a political system is founded and in narrow the secret form of social exchange by which administrative power holders make a living".<sup>180</sup> I saved for last the opinion that generates the most controversy. From the point of view of analysts, economists, political theorists, what is more important is economic efficiency and political stability in a state. Provided that corruption has a positive effect on those two variables, no one is rushing to condemn

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<sup>177</sup> See in Duncan, Nick "The non-perception based measurement of corruption" pp.131-160 in Sampford, Charles – Shacklock, Arthur – Connors, Carmel and Galtung, Fredrik (eds) "*Measuring Corruption*" Aldershot, Ashgate: 2006 p.134 also see in for a relevant analysis in Vito Tanzi *Corruption Around the World: Causes, Consequences, Scope, and Cures* Staff Papers - International Monetary Fund, Vol. 45, No. 4 (Dec., 1998), pp. 559-594

<sup>178</sup> Matsoso, Borotbo "Corruption in Lesotho" pp.85-98 in Sarre, Rick- Das, Dilip – Jorg-Albrecht, Hans (eds) "*Policing corruption: international perspectives*" Oxford, Lexington Books: 2005, p.89

<sup>179</sup> See in Girling, John "*Corruption, capitalism and democracy*" London, Routledge: 1997

<sup>180</sup> Ibid, p.6



corruption.<sup>181</sup> Lockley Miller, Grødeland, and Koshechkina refer to Samuel Huntington and Nathaniel Leff who suggest that corruption maintains the stability of an autocratic regime but at the same time it could be functional in the same way that reform is. They also say that corruption and reform can be the equivalent of a revolution. For example corruption assisted as, they mention, to lubricate the creaky old machine of communism. On other side, de Soto quotes Joseph Reid who mentions that regimes have collapsed because the extent of corruption divided people between those who can deceive the system and to those who cannot.<sup>182</sup> For Lockley Miller et al, corruption helped people to make relations between state and the population less inhuman; however they do recognise that it is a second best solution, with the first being the reorganisation and improvement of governance.<sup>183</sup> Lastly they refer to corruption as potentially democratic as it offers opportunities to people otherwise excluded. However, even if this is true, in my opinion it pushes meritocracy into obscurity as other people more capable might be now excluded. In general, I think Miller, Grodeland and Koshechkina refer to the principle of effectiveness; we don't care how you do it, as long as you can do it, in plain words. The reality is that if such long term changes are impossible to take place, corruption is the only way out. However, Tanzi and Davoodi state that literature has replaced the romantic view of corruption and economy with a more realistic one. According to this new view, the payment of bribes is not a panacea for overcoming red tape and cumbersome government regulations.<sup>184</sup>

Hernando de Soto mentions that corruption is replacing the legal procedures, since it might be fairer this way.<sup>185</sup> Normality is substituted, sometimes in detriment of the rule of law and legitimacy, by institutions out of the ordinary. In some other cases as de Soto argues, people resorted to corruption and became outlaws -in a way-, because the state would not allow them to operate inside the legal framework.<sup>186</sup> Of course, de Soto as well as Jain recognises that they are not criminals, they only try to achieve ordinary goals, such as to obtain a driver's licence. That "prohibited normative" which people resort to is probably the

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<sup>181</sup> Lockley Miller, William - . Grødeland, Åse and Koshechkina Tatyana "A culture of corruption?: coping with government in post-communist Europe" Budapest, Central European University Press: 2001 , p.9

<sup>182</sup> De Soto, Hernando "The Mystery of Capital" Athens, Printa: 2003 (Greek translation: *To Μυστήριο του Κεφαλαίου*), p.168

<sup>183</sup> Lockley Miller, William - . Grødeland, Åse and Koshechkina Tatyana "A culture of corruption?: coping with government in post-communist Europe" Budapest, Central European University Press: 2001 , p.9

<sup>184</sup> Tanzi Vito – Davoodi, Hamid "Corruption, Growth and Public Finances" pp.89-107 in Jain, Arvind (editor) "The political economy of corruption" London, Routledge: 2001, p.89

<sup>185</sup> See in De Soto, Hernando "The Mystery of Capital" Athens, Printa: 2003 (Greek translation: *To Μυστήριο του Κεφαλαίου*), p.61

<sup>186</sup> Ibid, p.148

only viable option in many cases. He continues that when the law is in opposition and there is antagonism with the laws that people in real life abide by and follow, corruption, poverty and violence are inevitable.<sup>187</sup>

### **Pragmatic components; Corruption and Informal Economy**

Corruption as an act is an abstract meaning. Corruption takes flesh and blood with money. Jain argues that corruption makes itself visible as an economic transaction, but it would not exist if political institutions were able to apply their influences and controls.<sup>188</sup> Stating the same thing with Jain but looking at it from the reverse point of view Rashid Sabri, identifies the link of political corruption with economic corruption in the Arab World; the high degree of government corruption leads to inefficiency in driving economic plans for development.<sup>189</sup> De Soto as well as Heinzen, believes that corruption and informal economy are two elements interconnected and interdependent.<sup>190</sup> Ades and Tella also provided a simple model for corruption which renders it a profit sharing entity.<sup>191</sup> For example, a bureaucrat can obtain rights and therefore he receives bribes to overlook violations, grant licences etc. If the bureaucrat exercises his control properly then the profits are zero for the recipient and the donor.

Ultimately, capital flow under the banner of corruption is tax free, it is not part of any GNP, and therefore it signifies that corruption is one of the building blocks of informal economy. De Soto mentions that in Peru the operating cost of an unregistered business includes the 10% to 15% of the annual turnover directed to bribes and procurements.<sup>192</sup> It is not much less in several countries for a legally operating business. These are vast sums of capital that stay in the shadow. In Lebanon, for example, a replacement driving licence

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<sup>187</sup> Ibid, p.156

<sup>188</sup> Jain, Arvind (editor) “*The political economy of corruption*” London, Routledge: 2001

<sup>189</sup> Sabri, Nidal Rashid ‘*Financial Markets and Institutions in the Arab Economy*’ Nova Science, New York: 2008, p.47

<sup>190</sup> De Soto, Hernando “*The Mystery of Capital*” Athens, Printa: 2003 (Greek translation: *To Μυστήριο του Κεφαλαίου*), p.143 and Heinzen, James *The Art of the Bribe: Corruption and Everyday Practice in the Late Stalinist USSR* *Slavic Review*, Vol. 66, No. 3 (Fall, 2007), pp. 389-412

<sup>191</sup> See more in Ades, Alberto – Tella, Rafael “*Competition and Corruption*” Applied Economics Discussion Paper, No 169m April 1995, Institute of Economics and Statistics, University of Oxford, p.4-5

<sup>192</sup> De Soto, Hernando “*The Mystery of Capital*” Athens, Printa: 2003 (Greek translation: *To Μυστήριο του Κεφαλαίου*), p.141-142

requires a US \$7 bribe, car registration US \$27 and passport renewal almost US \$70. The *baksheesh* for a building permit for a residential house can cost more than US \$2,000.<sup>193</sup>

The everyday dealings are innumerable and the most sizeable capital flows which occur in the grand corruption ranks are sometimes laundered, but in most cases the funds follow underground passages being part and parcel with informal economy. If we exclude the personal gain and perhaps the assistance and humanisation of the inflexible state apparatuses, corruption constitutes an unsustainable suggestion to growth. Maybe parts of the literature suggest otherwise but in the end, it recognises that it is short-lived or just a second best solution in a desperate environment. Informal economy thrives with corruption and many make a living out of it. I have certain examples from my interviews regarding a postman who financed the construction of his house only via the extra informal income he made by small bribes and tips. Some countries thought this could be easily resolved. As Vitti Tanzi mentions

*“There has been some speculation in the theoretical economic literature that high wages may reduce the number of corrupt acts, while they may lead to demands for higher bribes on the part of those who continue to be corrupt. The reason is that high wages raise the opportunity cost of losing one's job, while they do not eliminate the greed on the part of some officials. Thus, while the number of corrupt acts is reduced, the total amount of corruption money paid may not necessarily fall.”*<sup>194</sup>

As Ades and Tella point out, it is difficult to overstate the economic and social significance of corruption as the lack of reliable data kept corruption out of the research agenda. This allowed speculation of whether corruption is beneficial or harmful to growth.<sup>195</sup> The debate still remains the same. Pierre-Guillaume Méon and Khalid Sekkat concur with this view. They discovered as well as others that corruption has a negative impact on growth,

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<sup>193</sup> Sfakianakis, John and Reinoud Leenders “*Global Corruption Report 2003*” Regional report for the MENA countries pp.203-214, Also available in Transparency International website.

“Obtaining a construction permit is one of the most difficult bureaucratic procedures in post-war Lebanon. If you are a foreign investor, the Investment and Development Authority of Lebanon will take care of the mountains of paperwork at a fixed cost. But the average citizen has to rely on specialist brokers, no matter how simple the case, because obtaining a permit involves five different institutions and several departments within each. It can take up to a year to acquire a permit at prices almost double the official rate. Some stages may be undertaken for free, but the paperwork can be held up for years without money to speed up the process. Distinguishing between what is an official and unofficial fee is difficult because of the misleading instructions given by state employees.

<sup>194</sup> Vito, Tanzi “Corruption Around the World: Causes, Consequences, Scope, and Cures” Staff Papers - International Monetary Fund, Vol. 45, No. 4 (Dec., 1998), pp. 559-594, p.573

<sup>195</sup> Ades, Alberto – Tella, Rafael “*Competition and Corruption*” Applied Economics Discussion Paper, No 169m April 1995, Institute of Economics and Statistics, University of Oxford, p.3

independently from its impact on investment.<sup>196</sup> Maybe this is the source of the debate. They support that some managed to grow out of bribes, but as with other authors, who I mentioned further up, they found corruption more detrimental to growth and economy when the governance is poor.<sup>197</sup> However in opposition to Sekkat and Tanzi's findings, Moe and Esfahani using Lebanon as a case study and supported by substantial bibliographic references, report that the connection between corruption and investment is negative.<sup>198</sup>

Generally, Meon and Sekkat base their article on two hypotheses; a) the grease on the wheels hypothesis and b) the sand in the wheels of growth hypothesis. In both instances, despite the pros and the cons of each hypothesis, the common denominator is that corruption impedes economy and growth whilst it skyrockets informal economy and tax evasion. On the topic of Lebanon, Moe and Esfahani concluded that corruption reduces Lebanon's standard of living as measured by the real GDP per capita.<sup>199</sup> Those two hypotheses allow us to establish that those who are benefited from corruption could be the ruling elites, the bureaucrats but the general population as well. Probably the general population greases the wheels as in this way is able to bypass the rigid red tape and complete successfully the smallest transactions which otherwise would be extremely time consuming or even impossible. In this way the petty clerk for example may extract some personal benefits from the established corruption. It does cause a vicious circle of petty clientelism and micro-bribery from civil servant to the public and vice-versa. Someone may even suggest that this actually sands the wheels as it maintains and feeds a rather unethical way of conducting business or simple bureaucratic transactions. Of course, to a large extent this must be attributed to social propinquity or even kinship where in countries like Lebanon for example due to the strong ties and size of the extended family is more than frequent to find a relative in a bureaucratic position. Kinship of course is evident in the ruling elites as nepotism is one of the most frustrating elements among the social web. Public positions tend to be hereditary and the lack of meritocracy nourishes upheaval, political movements and even migration. However, it is the ruling elites within the government and the business circles that harvest the most. Political corruption deprives the legitimacy in governments, investments and the whole wide

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<sup>196</sup> Sekkat, Khalid Méon, Pierre-Guillaume "Does Corruption Grease or Sand the Wheels of Growth?" *Public Choice*, Vol. 122, No. 1/2 (Jan., 2005), pp. 69-97, p.69

<sup>197</sup> Ibid, p.71

<sup>198</sup> Farida Moe and Ahmadi-Esfahani, Fredou "Corruption and economic growth in Lebanon" from Australian Agricultural and Resource Economics Society 52nd Annual Conference, February 5-8, 2008, Canberra, Australia

<sup>199</sup> Ibid

state apparatus. It does sand the wheels in such extent where social frustration is eminent and potentially dangerous for the stability of the state. Usually the utilization of the rents results in even more corrupt tendencies as we can see in Lebanon for example where a handful of ruling elites controls pretty much everything. As shown earlier and as it will be discussed further down it is highly unlikely that the rents extracted by corruption will be redirected to beneficial activities for the social web or the state. Generally speaking the embezzled funds or the rents are channelled to private accounts for the enrichment of certain elites and the deeper establishment of this capability.

As a general rule literature is abound in citations, stories and examples of petty and grand corruption transactions. I will not refer to any of those stories here as I will mention a plentiful example in a following chapter. However, there are limited references, counter to the remittances bibliography, regarding the funnelling and usage of those funds. Apart from several speculations on investment as Meon and Sekkat mention, in total, the bibliography misses a holistic study on the usage of corruption money. Robert Wade points out the obvious. Corruption is “channelling resources out of the hands of the clients of the bureaucracy and the state treasury, into their own [meaning those who receive bribes etc] and that, those informal transfers are not just one small part of administrative mechanics. They are at the very centre of the system of bureaucratic surplus extraction.”<sup>200</sup> At the end of the day as Michael Johnston mentions, corruption by nature is a secretive process in most cases, with all who know of illicit dealings having an interest in concealing them.<sup>201</sup>

Corruption is macro-economically regressive. According to Vitti and Davoodi it also affects the structure of taxes; this also may in part explain the predominant share of indirect taxes in total tax revenues.<sup>202</sup> Another example is an unusual practice, applied in Greece regarding corruption. It is what I call pre-emptive taxation. The state recognises that all businesses will evade taxes and it enforces an increased taxation –out of the regulated frameworks sometimes- especially to small and medium businesses as a payment in advance or deposit for the future income that a businessman will “definitely” conceal. Of course, that extends from my personal experience-those who can afford it- to increase bribes to the tax office for exclusions and deliberate typing errors. Nevertheless manifold MENA countries -

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<sup>200</sup> Wade, Robert Corruption: Where Does the Money Go? *Economic and Political Weekly*, Vol. 17, No. 40 (Oct. 2, 1982), p. 1606

<sup>201</sup> Johnston, Michael “*Syndromes of Corruption: Wealth, power and democracy*” Cambridge, Cambridge University Press: 2005, p.5

<sup>202</sup> Vito – Davoodi, Hamid “Corruption, Growth and Public Finances” pp.89-107 in Jain, Arvind (editor) “*The political economy of corruption*” London, Routledge: 2001, p.106/

including Lebanon- have progressed in anti-corruption measures, as Sfakianakis and Leenders suggest, however, none of the promising effort seems to be adequate to control the problem.<sup>203</sup> The Global Corruption Barometer “lays out the situation pretty starkly for residents of Arab world countries and especially Lebanon.” The article mentions that despite several efforts to curb corruption, it still remains one the most important challenges in Lebanon.<sup>204</sup>

## Conclusion

To sum up, corruption has proven to be a golden opportunity for those who can benefit from it, whether they are recipients of a service or of a favour, or they are recipients of a bribe or procurement. But for others it is an untamed and uncontrollable beast because, for multiple reasons, they could not turn the cogwheels of this system and they were excluded and marginalized. In a more long range view, corruption can be, according to specific circumstances, beneficial for certain economic factors like investment –according to several authors- but in the vast majority of the occasions it is regressive and harmful to economic growth and welded to informal economy. In Lebanon, as Moe and Esfahani suggested, corruption reduces Lebanon’s standards of living, and investment as well as human capital productivity. It also creates increased inefficiencies in the government expenditure, and as a consequence, reduces its effectiveness. However, there are insufficient grounds to suggest that corruption alters the quality of foreign aid.<sup>205</sup> Also in a more social perspective the spectre of corruption in Lebanon seems to be so invincible that the people of Lebanon as Al-Azar mentions have become resigned to the problem.<sup>206</sup> Last of all, Transparency International asserted that in Lebanon and in most of the Arab states “the issue of combating public sector corruption has gained momentum and legitimacy, and is now being addressed openly as a principal obstacle to development.”<sup>207</sup>

In this review, I have analysed the impact of corruption as a single element of the informal economy, impacting on socio-economic life and not as a political tool. This review lays the ground for further exploration of Lebanon’s hectic informal economy and corrupt

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<sup>203</sup> Sfakianakis, John and Reinoud Leenders “Global Corruption Report 2003” Regional report for the MENA countries pp.203-214, Also available in Transparency International website.

<sup>204</sup> Article available in [http://www.dailystar.com.lb/article.asp?edition\\_id=10&article\\_id=102644&categ\\_id=17](http://www.dailystar.com.lb/article.asp?edition_id=10&article_id=102644&categ_id=17)

<sup>205</sup> Farida Moe and Ahmadi-Esfahani, Fredou “Corruption and economic growth in Lebanon” from Australian Agricultural and Resource Economics Society 52nd Annual Conference, p.18

<sup>206</sup> Al-Azar, Maha “Lebanon: Reporter's Notebook” <http://report.globalintegrity.org/Lebanon/2007/notebook>

<sup>207</sup> Iyer Raman “*Lebanon comes 102nd in corruption index, despite efforts*” 09/25/2008 –Available in <http://www.topnews.in/law/lebanon-comes-102nd-corruption-index-despite-efforts>

practices. However, several questions have occurred. How does corruption specifically work for Lebanon? What role does corruption play during the manifold wars in Lebanon? Is corruption necessary for the general population, despite the proven macro-economic disruption that it impose

## CHAPTER 5 Illegal networks

### Introduction

In the previous chapter I discussed the difference of illegality and criminality. Hernando de Soto made the distinction between those who are privileged within the context of informal economy and those who can actually operate unhindered and unrestricted due to their political or economic ties and those who have no privileges whatsoever and therefore are more vulnerable to legal prosecution. Also I have dealt with the need for informality. The vast majority of the population in developing countries lives and breathes in an informal world for its survival, when an “influential” minority brightly bestirs in the shadowy path of exploitation and criminal activity. Even corruption (petty) given the inadequacies of any given state can be a means of survival, but at the same time it can be an instrument for extortion and blackmailing on a large scale. Also in Chapter 3 I have analysed the informal remittances’ flows as a beneficial fraction for society and economy. However, numerous illegal networks use all those informal mechanisms for their own benefit, in order to achieve their goals. Those goals can be funding of specific paramilitary or even terrorist organisation and money laundering processes which are absolutely needed in order to legitimise the illegitimate capital and in general to facilitate the whole economic activity generated by criminal activities like embezzlement, black markets, drug trafficking, illegal arms sales, smuggling and others.

The present chapter will deal with those networks which inevitably operate within the framework of the informal economy and due to their size and impact are capable of being of significant influence and dynamics, even in a cross-border level. The aim of this chapter is to identify the existence and the level of contribution of those illegal networks to the economy as well as the level of integration within the state and the degree of association with the state apparatus, before finally coming to a conclusion on whether this economic activity generated through those networks has beneficial or detrimental value. This section is tackling the fourth key driver of the analysis which plays an important role on the final determination of the informal economy’s status as a parameter of benefit or as a parameter of loss. Those illegal networks come to fill the blanks on a probably favourable impression regarding the informal economy’s input.

In this chapter all the major economic activities will be observed involving illegal economic dealings. In some cases, the services or goods will be illegal, such as the sale of



narcotics; in some others, the merchandise will be otherwise legal goods but sold illicitly to avoid tax payments or licensing requirements, such as unregistered firearms. Generally speaking regarding the operation of those illegal networks, apart from the moral issues that they impinge on such as the exploitation of human life, they are an unfavourable ingredient for growth.

Also due to the inclination of those funds to be deposited in different countries than the ones that the activity has been committed in and due to the tendency of this capital to be hoarded in various tax havens and not in the vaults of commercial conventional banks, the overall benefits of the existence of such large amounts of money are actually eliminated, at least for the “host” country of the activity or operation. Indeed, as Alexandro Pansa writes when the funds enter the commercial circuit they are usually spent in different areas or countries from those the money was produced in.<sup>208</sup>

One of my major concerns is the fact that apart from very blatant illegal organisations and activities, a large fraction of the economic activities has to be attributed to terrorist organisations. Generally, after the events of September 11<sup>th</sup> 2001 the thorough inspection of the finances of specific organisations came to the fore. For example Al-Qaeda is irrefutably characterised as a terrorist organisation and all the assets linked to Al-Qaeda were systematically scrutinised. However, speaking for other specific organisations the characterisation “terrorist” might be proven academically difficult. This situation probably stems from the “*uber-cliche*” motto “one man’s terrorist is another man’s freedom fighter”, or from the Metternichian attitude of the Western world towards the various reactionary and radical organisations.<sup>209</sup> However, no matter the shifting political attitudes towards the various groups or the conventional perceptions of a given group or organisation, giving the brand of “terrorist” to an individual or an organisation -for me at least- is extremely complicated.<sup>210</sup>

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<sup>208</sup> Pansa, Alexandro “Money-laundering in Italy” in Williams, Phil – Vlassis, Dimitrios (eds) “*Combating transnational crime: concepts, activities, and responses*” Frank Cass, London: 2005, pp.251-258

<sup>209</sup> Klemens Wenzel, Prince von Metternich was the archetypal practitioner of 19th-century diplomatic realism, being deeply rooted in the postulates of the balance of power. As a member of the Austrian cabinet from 1809 to 1848, due to his reactionary opinions and major influence, he became extremely unpopular among revolutionary movements as the “Holy Alliance” he promoted virtually banned every liberation process via conflict in Europe, including the Greek War of independence against the Ottoman Empire. A fight that still creates bitter feelings between the two nations.

<sup>210</sup> For example During World War II, the Malayan People’s Anti-Japanese Army was allied with the British, but during the Malayan Emergency, members of its successor (the Malayan Races Liberation Army), were branded “terrorists” by the British or Ronald Reagan and others in the American administration frequently called the Afghan Mujahideen “freedom fighters” during their war against the Soviet Union yet twenty years

Nevertheless, if an organisation operates in underground and illegal channels, terrorist or not, it still produces an illegal economic activity. For example Hezbollah in Lebanon, is perceived by many in the Western world as a purely terrorist organisation due to its extensive guerrilla fighting -via its military wing called Islamic Resistance- in South Lebanon mainly and due to the debatable links with other radical organisations and also due to the several hijackings, bombings and kidnappings that took place in the previous years.<sup>211</sup> However Hezbollah at the same time is co-governing party in the alliance of several political factions in Lebanon currently holding 13 seats in the parliament out of 57 held by the 8<sup>th</sup> March coalition that it participates in the current government, in the total of 128 parliamentary seats.<sup>212</sup> Hezbollah, apart from the aforementioned is often characterised as a state-within-the-state organisation due to its provision of social services, including the operation of schools, hospitals, and agricultural services for thousands of Lebanese Shiites and due to the fact -as Robert Rabil writes- that over the years Hezbollah has developed within the public sector strong informal ties.<sup>213</sup>

A major problem that I came across, derived mainly by the feelings the September 11<sup>th</sup> attacks have created and the on-going War on Terror, is that a respectable amount of the bibliography it seems is rather biased and potentially hyperbolic in the views toward Hezbollah and other comparable organisations like the PKK (Kurdistan's Workers Party). Meaning that, those organisations can be easily condemned (or praised) in a rather disproportionate manner. Without the slightest intention to diminish or exaggerate any event or incident that one of those organisations may have participated in, I have encountered with the over-jealous attempt of some of my primary and secondary evidence to typify *a priori* several situations and individuals. This situation renders the present analysis extremely delicate in the approach. However it must be noted that despite the constant characterization of Hezbollah as integral part of the informal economy -and excluding the political representation in the parliament-, I must acknowledge the existence and operation of various organizations linked with Hezbollah that operate within the framework of formal economy.

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later, when a new generation of Afghan men are fighting against what they perceive to be a regime installed by foreign powers, their attacks are labelled "terrorism" by George W. Bush.

<sup>211</sup> For more details look into the *Council for Foreign Relations* in <http://www.cfr.org/publication/9155/hezbollah.html?breadcrumb=%2F>

<sup>212</sup> For detailed analysis of the members of the parliament from each party specifically look in the <http://nowlebanon.com/NewsArchiveDetails.aspx?ID=97943>

<sup>213</sup> For additional reading look into Rabil Robert "Hizbollah and Lebanon: the curse of a state" 22 May 2008 available in <http://www.opendemocracy.net/article/hizbollah-and-lebanon-the-curse-of-a-state> and additional information in <http://www.cfr.org/publication/9155/hezbollah.html?breadcrumb=%2F> and in <http://www.washingtonpost.com/wp-dyn/content/gallery/2006/08/18/GA2006081800840.html>

For example the Bayt Al Mal which utilises the Yousser Company for Finance and Investment to secure loans, the Jihad Al Bina which the real estate foundation of Hezbollah responsible for the reconstruction efforts in Lebanon and of course the radio station of Hezbollah Al Nour and the TV station Al Manar.<sup>214</sup> Also Hezbollah apparently through the parliamentary decision making process, supports all most if not all the governmental efforts for economic regulation and improvement. However, as all the political parties in the world there are some contradictory aspects, without necessarily undermining the democratic processes. Also it must be noted that after the Lebanon Israel conflict in 2006, Hezbollah dispensed tens of millions of dollars to the displaced Lebanese people of the South as well as of Beirut's southern suburbs. This small boost to some extent according to several economists and bankers will affect positively but not extensively the inflation and slightly relieve the economy.<sup>215</sup>

Another problem that I came across is the complete lack of a specific study regarding the matter. Most of the secondary material deals with the impact of terrorism (as an act) on the economy or with the finances of terrorism in terms of origin and process, for the reason that it is probably more contemporary to deal with those aspects. Also apart from that, there are no specific studies regarding the finances of other illegal networks, let alone specifically in Lebanon. Apparently due to the secretive ways and their criminal status, it is quite understandable to be difficult to acquire that information; but in any case the purpose of this section is not to look into the economics of very specific illegal organisations but to the overall input in the ranks of the informal economy. Of course there are some articles dealing with the issue but their approaches are more predictive based on rather vague estimations. Also there is no adequate theoretical or analytical framework to base this chapter upon; however there are some more generic studies dealing with the issue of illegal networks, which might help to evaluate the level of incorporation of those networks into the state, the society and the economy.

## **Theoretical Concepts**

All the illegal networks make use of the informal remittances channels, like hawala to transfer the unlaundered capital and they are part and parcel with corruption, as it assists to

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<sup>214</sup> [www.almanr.com.lb](http://www.almanr.com.lb)

<sup>215</sup> Habib, Osama "Hizbullah deluges economy in dollars" Thursday, August 24, 2006 available at [www.dailystar.com.lb](http://www.dailystar.com.lb)

achieve their goals - since the authorities will look the other way - and informal trade by the use of black market and other informal trade deals. In order to achieve that level of amalgamation it means that those networks are not a separate entity, completely detached from the state apparatus, as in some cases it may act as a facilitator or even collaborator of those networks.

As Josiah McConnell Heyman writes, the state does not conspire with the illegal networks but in many cases it certainly lays the ground for more favourable conditions. This “structuralist” perception explains the symbiosis of crime with the state and that the lack of governmental transparency acts like a buffer for the expansion of those networks and their practices.<sup>216</sup> Heyman’s examines the phenomenon of why some states launch law enforcement crusades when others tolerate illegality and closely collaborate with criminals.<sup>217</sup> Generally Heyman often looks at the issue from a rather philosophical point of view, but in several occasions he offers some very sharp examples displaying that in many cases the state itself could act as an illegal network.<sup>218</sup> He also stresses that in the day to day illegal engagement with illegal practices the state workers are particularly important as they are needed in order to bend the law to fit various decisions and conditions.<sup>219</sup> Alan Smart is in agreement with Heyman as he also suggests that the illegal networks need to include state officials in their ranks.<sup>220</sup> Smart is dealing mostly with the varieties of bribery and he demonstrates several categories of briberies such as if an illegal dealing is on a continuing basis or if it happens every now and then.<sup>221</sup> The point is that the illegal networks cannot survive or exist without the assistance of the government or the state in general. Tim Newburn, from the criminologist’s point of view describes Seattle’s crime network which includes financiers (solicitors, accountants), politicians (mayors, councilmen), businessmen (restaurant owners, club owners, and pawnshop owners), law-enforcement officers and the various racketeers (usurers, pimps, drug distributors).<sup>222</sup> It is quite noticeable that in order for an illegal network to operate successfully it needs a wider ring of collaborators. The interconnection and interdependence of most of the illegal networks throughout the world is common.

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<sup>216</sup> Heyman, Josiah (editor) “States and Illegal Practices” Berg, Oxford: 1999, p.4

<sup>217</sup> Ibid, p.11

<sup>218</sup> See relevant in ibid, p.14

<sup>219</sup> Ibid, p15

<sup>220</sup> Ibid, p.100

<sup>221</sup> Ibid, p.100-106

<sup>222</sup> Newburn, Tim “*Criminology*” Willan Publishing, Cullompton: 2007, p.416

As I mentioned earlier, some states have different responses towards those networks. According to Jessica Piombo, the location of the finances of those networks is situated within the informal economy; states that are more conflict-prone or heavily relied on their informal economies like Sudan or Somalia take little or no measures against the various illegal networks because they are unable to do so or because they are partly reliant on them.<sup>223</sup>

Piombo exhausts her analysis mainly on the fact that anti-money laundering regimes (AML) and counter-terrorist finance (CTF) weapons are not that welcomed in East Africa because firstly they might be harmful to the local population who relies on the informal economy's mechanisms and secondly because the governments assume that they will be ineffective. To be more specific, Somalia for example, has had no formal banking system for several years;<sup>224</sup> meaning the shutting down of Somalia's Al Barakaat<sup>225</sup> hawala office – due to alleged connections to Al-Qaeda- in the United States as a result of the Executive Order 13224 was devastating.<sup>226</sup> Hawala and all the other informal transfer systems are very essential, for the low-paid workers, who in their majority are mostly illiterate and cannot formally open an account in a bank or they cannot afford different transfers systems.<sup>227</sup> The remittances for the Somali economy have vital importance, thus depriving those from a state that had already suffered from the various conflicts and serious economic under-development was extremely damaging. On top of that, as Ibrahim Warde writes, the Al-Barakaat was set up to address the needs of Somali immigrants who sent, on a weekly or monthly basis, a significant part of their earnings to their families." Warde continues "that the whole operation was based on wrong assumptions and at the end the US government accusations turned out to be false."<sup>228</sup> Remarkably other states or regions had been dealt with in a dissimilar attitude.

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<sup>223</sup> Piombo, Jessica "Terrorist Financing and Government Responses in East Africa" in the Giraldo, Jeanne – Trinkunas, Harold (eds) "*Terrorism financing and state responses: a comparative perspective*" Stanford University Press, Stanford : 2007, p.194

<sup>224</sup> "*Fears over US Hawala crackdown*" Available at <http://news.bbc.co.uk/1/hi/business/1993346.stm>

<sup>225</sup> Somalia was largely supported by that charity group, Al-Barakaat, which accounted for "about half of the country's \$500 million remittances. From Kilkenny, Allison "*Al-Barakaat: the little charity that could have saved Somalia*" *Saturday, May 16th, 2009* Available in <http://www.jwharrison.com/blog/2009/05/16/al-barakaat-the-little-charity-that-could-have-saved-somalia/>

<sup>226</sup> Basile, Mark "*Going to the source: Why Al-Qaeda's Financial Network Is Likely To Withstand The Current War On Terrorism Financing.*" *Studies in Conflict and Terrorism* Volume 27, 2004 p.176

<sup>227</sup> "UAE tightens 'terror money' rules" Available at <http://news.bbc.co.uk/1/hi/business/2396645.stm>

<sup>228</sup> According to Warde the Al-Barakaat assumed a significant role in the Somali government. Warde adds that at the time of the September 11 attacks Al-Barakaat was Somalia's largest business group with "subsidiaries involved in banking, telecommunications, and construction. The closing of Al-Barakaat had devastating effects on Somalia. International telephone service to 25,000 people was cut off. For additional reading look in Warde, Ibrahim "*The Price Of Fear: al-Qaeda and the truth behind the financial war on terror*" I.B. Tauris, London: 2007 p.93

For example Dubai<sup>229</sup> which acts as a hub of many of the Hawala activities, dealt with completely different behaviour. As an economist states Dubai is described privately by American officials as a centre for trade-based money laundering.<sup>230</sup> Nevertheless, returning back to Piombo's analysis, an important element of her study is the suggestion that those two efforts of tracking down the trail of terrorist money has created a tidal wave of informality and that it forced those networks to shift almost completely out of the formal sector and go deeper into the informal economy.<sup>231</sup> Nevertheless, as Costigan and Gold suggest, there are still strong ties with the formal sector as a large percentage of the capital is still circulated through official channels and various legitimate businesses.<sup>232</sup>

The overall premise of the bibliography dealing with the finances of informal networks is that the studies are by large focused on terrorism and the material that looks with a more theoretical perspective is actually a call for further regulation. Thomas J. Biersteker and Sue E. Eckert for example are on a constant call for regulation, even though they debate its effectiveness.<sup>233</sup> Also they support Piombo's view that especially after September 11<sup>th</sup>; all the illegal networks have almost abandoned operating within the framework of formal economy. But one of the most interesting theoretic divisions Jeroen Gunning drew in the same book is the differentiation of the various illegal networks-terrorist or not- to socially embedded ones and non-socially embedded, meaning the ones having a lesser amount of welfare orientation.<sup>234</sup> For example, Hamas or Hezbollah in Lebanon as I mentioned above since they provide social services and their power stems from the popular support are more socially, economically and politically embedded. On the other hand, Al Qaeda is a transnational network that has no social emphasis and minimal local accountability, while it is rather focused on armed activity.<sup>235</sup> This particular distinction stands for all the types of illegal networks such as the various Mafias for example. From this distinction we also may

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<sup>229</sup> Dubai is a free trade zone with no limitations on the movement of goods or currency. In the absence of laws expressly prohibiting the practice of hawala, it is difficult to track and arrest the offenders. See more at Gangul. Meenakshi Gangul. Meenakshi "A Banking System Built for Terrorism; 'Hawala' can move millions of dollars around the globe with no paper trail and no questions asked" Available also at [www.time.com](http://www.time.com)

<sup>230</sup> "Still Flush" *The Economist* September 5<sup>th</sup> 2002

<sup>231</sup> Piombo, Jessica "Terrorist Financing and Government Responses in East Africa" in the Giraldo, Jeanne – Trinkunas, Harold (eds) "*Terrorism financing and state responses: a comparative perspective*" Stanford University Press, Stanford : 2007, p.185

<sup>232</sup> Costigan, Sean - Gold David "*Terronomics*" Ashgate, Aldershot: 2007, p.17

<sup>233</sup> Biersteker, Thomas J – Eckert, Sue E. (eds) "*Countering the financing of terrorism*" Routledge, Oxford: 2008, pp.1-12

<sup>234</sup> Gunning, Jeroen "Terrorism, charities and the diasporas" in the Biersteker, Thomas J – Eckert, Sue E. (eds) "*Countering the financing of terrorism*" Routledge, Oxford: 2008, pp.93-125

<sup>235</sup> Ibid

draw results regarding the economic input of those networks. For example when an illegal network directly affects social groupings in terms of their location, beliefs, interests etc, it is highly likely to be socially embedded or -at least- accepted since some people are actually benefited. However, when we deal with introvert illegal networks, meaning those that keep the profits for themselves and for their few leaders, the local impact is rather limited and feelings of resentment are more widespread amongst the society. In any case, part of the sustainability of those networks must be attributed to petty crime and drug trafficking as well as the legal means of funding like donations. This is another example of the immense interconnection of various illegal networks with others and in some cases with terrorist ones.<sup>236</sup>

Apart from the vast majority of the literature that deals with finances of terrorism or with the “potentially” terrorist organisations, I found several specific studies that deal with the other factions of illegal networks like drug trafficking and corruption. One of the models I came across was Fabio Méndez’s study dealing with the effects of corruption on illegal economic activities. Mendez suggests that a potential increase of bribing very specific official may contribute to an overall reduction of illegal economic activities. Specifically Mendez’s model shows that an increase in the level of corruption may lead to greater regulation compliance and less unofficial economic activity. Mendez’s ideas come in opposition of the greater bulk of the bibliography that suggests a greater degree of regulation. Of course Mendez recognizes that the regulatory compliance might be complex for his theory and that his mathematical model has several variables that they could render it outdated as they might cause opposing reactions. Mendez mentions *“the level of corruption was measured by the fraction of corrupt public officials and the level of illegal economic activity was measured by both, the level of regulation compliance and the size of the unofficial or shadow economy. This paper, however, ignores the links that may exist between the monitoring efforts of a corrupt official and the level of corruption in general.”*<sup>237</sup> Apart from the flaws Mendez himself recognises the model has no further application in any other forms of illegal economic activities.

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<sup>236</sup> Comras, Victor “Al-Qaeda Finances and funding to affiliated groups” in Giraldo, Jeanne – Trinkunas, Harold (eds) *“Terrorism financing and state responses: a comparative perspective”* Stanford University Press, Stanford : 2007, pp.115-133

<sup>237</sup> Méndez Fabio *“Can corruption help reduce illegal economic activities? A simple model with unusual results”* University of Arkansas, Department of Economics May 25, 2007, pp.1-11

A different model dealing with the financial side of drugs is the Manolis Galenianos - Rosalie Liccardo Pacula – Nicola Persico’s model for the market of illegal drugs. The paper suggests that “the drug economy crowds out the incentives to join the formal sector” and that trade in illicit drugs gives rise to an underground economy. However, I find irrelevant the authors’ suggestion that the particular kind of participation in the informal economy promotes violence, crime and addiction and it elevates the incarceration rates. Those statements are not supported in the end by the model and they are extremely generic and absolute. The paper suggests, as well as others, the need for further regulation but the whole study is limited by virtue of the fact that the retail market of the illegal drugs leaves out of the equation the “big business”.<sup>238</sup>

Gary Becker, Kevin Murphy and Michael Grossman present another study, dealing with drugs but as a case study this time, which also includes the large scale trade and production. The paper concentrates on both the positive and normative effects of efforts to reduce quantities by making production illegal, and then punishing producers who are apprehended. The article also examines the added value of the endeavours to fight the illegal production and the illegal activities. It suggests that when the demand is inflexible, quantity reductions through enforcement against illegal producers is very costly, and it can be disastrous.<sup>239</sup> The overall effects of the enforcement endeavours over drug trafficking in association with the economic output of the drugs are briefly explained by the fact that *“enforcement cuts consumption by raising costs of suppliers mainly because they risk imprisonment and other punishments. The increase in costs leads to higher prices, which in turn induces lower consumption. But if demand is inelastic - as the demand for drugs seems to be - then higher prices leads to an increase in total spending on these illegal goods”*<sup>240</sup> Also the authors note that any avoidance of inspection is partly because of the fact that state officials are bribed through the vast sums of money that are accumulated through this practice. Another paper which presents its recommendations on a similar basis of the aforementioned article is Dennis M. Lormel’s White Paper on terrorist finance. The specific

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<sup>238</sup> Persico, Nicola – Pacula, Rosalie Liccardo – Galenianos, Manolis “A Search-Theoretic Model of the Retail Market for Illicit Drugs” Pennsylvania State University RAND Corporation, New York University, February 13, 2009, pp.1-6

<sup>239</sup> It must be noted that the demand for drugs is assumed to depend on the market price of drugs that is affected by the costs imposed on traffickers through enforcement and punishment. Becker, Gary – Murphy, Kevin - Grossman, Michael “The Market for Illegal Goods: The Case of Drugs” *Journal of Political Economy*, Vol. 114, pp. 38-60, February 2006

<sup>240</sup> Ibid



paper, even though it is concentrated on terrorism networks, provides an analogous recommendatory framework, intrinsically linked with various regulatory and enforcement institutions in the United States. However it becomes apparent that the assessment of the paper is produced by non-academic purposes, therefore, even though the recommendations are of a certain value the paper taken as a whole is a rather unspecific in opinion.<sup>241</sup>

Independently of the state responses towards the various illegal networks, their association with the state is indisputable and unreserved as it also depicted by the previously mentioned literature. In some cases like in Lebanon or Palestine, it seems that those networks have the capacity to replace the state in many aspects. In some other cases the wealth they accumulate and circulate is the lifeblood of the state's economy, whereas on other occasions they are just parasitic elements, corrupting the society and the well-being of the economy.

Generally the theoretical part of the literature provides a rather mixed outlook on the illegal networks. Definitely, the literature recognises that the lack of a certain regulatory framework and the apparent lack of legal compliance are questions that are difficult to be addressed adequately, due to the intense interconnections of those networks with the state and other networks. Also due to the enforcement of compliance with certain regulations especially after September 11<sup>th</sup>, the existence of the networks feeds the informal economy at an unprecedented rate. Presumably, due to the illicit and unstable nature of those networks and the morally questionable practices they use, the basic hypothesis is that their overall contribution to the economy is, if not harmful, probably not accommodating for sustainable growth.

### **Pragmatic Concepts**

It is absolutely necessary to go beyond the limitations of the theoretical concepts regarding the illegal networks as this issue is embedded within the societal web. Those networks constitute a phenomenon which is impossible to describe and address only through wise recommendations. This is the reason I need empirical secondary material which stems from the street experience of journalists and academics with insight. The basic disciplines which will be examined in this section compose the core of more-or-less all of the illegal networks, not only in Lebanon but throughout the world. Those disciplines are smuggling, drugs, illegal

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<sup>241</sup> Lornel, Dennis "Terrorist Financing: Balancing the benefits and burdens of reporting requirements" IPSA International. Available in [www.moneylaundering.com](http://www.moneylaundering.com) and [ww.complianceadvantage.com](http://ww.complianceadvantage.com)

arms sales and weaponry, trafficking, terrorism and the link of all the above - money laundering.

### Prostitution

One of the most characteristic occurrences of the illegal networks operations is the trafficking of sexual workers and prostitution. Prostitution, the so-called oldest profession in the world is probably the most common illegal practice deeply entrenched within the informal economy. The academic views on prostitution vary. According to Lena Edlund and Evelyn Korn prostitution apart from its unusual feature, meaning that, “it is well paid despite being low skill, labour intensive and it is a multibillion dollar business that employs millions of women worldwide”<sup>242</sup> Also a recent study by the International Labour Office estimated that in Indonesia, Malaysia, the Philippines, and Thailand, between 0.25 and 1.5 percent of the female population work as prostitutes and that the sex sector accounts for between 2 and 14 percent of the gross domestic product.<sup>243</sup>

Lebanon is no stranger to the mentioned above practices. First of all Lebanon is a haven of freedom and liberation in comparison to other Middle Eastern societies. One of the reasons for this quite apparent difference is the legality of prostitution. While illegal in most countries of the region and many other countries of the world, prostitution is actually legal in Lebanon. However, most of the prostitution occurs illegally.<sup>244</sup> Apart from the often occurrences in the refugee camps in the South, it is quite widespread as an integral part of the nightlife in Beirut. It must be noted that the principal motivation that leads those women to prostitution are various socio-economic factors with poverty being the main one.<sup>245</sup> The vast majority of the women are objects of exploitation through rings of organised crime. Another derivative of the high degree of corruption in Lebanon regarding trafficking of sex workers is the fact that the particular women arrive in the country under the guise of a legal “artist visa,” which of course is aided by the corruption of government officials.<sup>246</sup> Given that the status of most of these women is often slavery, sometimes the argument that at least they make a

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<sup>242</sup> Edlund Lena - Korn Evelyn “A theory of prostitution” *Journal of Political Economy*, 2002, Vol.110, No.1, pp.181-214

<sup>243</sup> Ibid

<sup>244</sup> 2008 Human Rights Report: Lebanon Available in <http://www.state.gov/g/drl/rls/hrrpt/2008/nea/119120.htm>

<sup>245</sup> Office of the High Commissioner for Human Rights “Trafficking in people: The human rights dimension” in the Williams, Phil – Vlassis, Dimitrios (eds) “*Combating transnational crime: concepts, activities, and responses*” Frank Cass, London: 2005, pp.237-242

<sup>246</sup> Lee, Hayeon “Buying sex in the city: On Labor Day, the oft-hidden lives of foreign sex workers in Lebanon are told” May 1, 2009 Available in <http://www.newstin.com/tag/us/119003467>

living is eliminated. However, one of the most common excuses of the women involved is that they are “resigned because of financial need, abuse and fear of what people will say”<sup>247</sup> There are occurrences where women do not belong to an illegal network but this is extremely hard to be recorded or traced. Also a common reason for conflict between the networks is the possibility of a girl moving to another competitive network.<sup>248</sup> According to a spin off article of the latter, Lebanon has a certain hierarchy in prostitution on the top are situated the “various illegal networks promoting girls to nightclubs and their well-off clientele. Lebanese, Egyptian, and other Arab sex workers come next, many working the seedier places such as the older bars of Hamra. Further down the ladder are the less known facets of prostitution (child prostitution i.e.) and even further down are involved the family aspects of the business”<sup>249</sup> Regarding the interconnection of prostitution with the illegal networks and the vast financial input in the informal economy, the same article notes that “overlooking, encouraging, taking bribes, setting visa categories, and perpetuating the deprived conditions makes the oldest profession in the world one of the most flourishing businesses in Lebanon.”<sup>250</sup>

However, despite the few selected individuals who are financially advantaged from this practice there is the view which suggests that for the deprived areas, other aspects of informal economic activity constituting a major resource in areas where resources are in short supply.<sup>251</sup> Of course, the authors of this actual policy shaping article suggest that apart from employment in illegal trades such as drugs and prostitution there is also the other forms of informal employment as describe in a previous chapter, which they are capable of contributing to in the “coping” strategies of geographically specific areas.<sup>252</sup> Nevertheless, this article at the end suggests the long standing point of view of Alejandro Portes regarding informal economy as means of survival but as a more localised theme.

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<sup>247</sup> “The dark side of tourism in Lebanon” Available in <http://www.ioltravel.co.za/article/view/5156156>. It must be noted that the principal motivation and the most basic factor that leads those women to prostitution

<sup>248</sup> Ibid

<sup>249</sup>“the even darker side of prostitution in Lebanon” Available at <http://besidebeirut.wordpress.com/2009/09/16/the-even-darker-side-of-prostitution-in-lebanon/>

<sup>250</sup> Ibid

<sup>251</sup> This is regarding the Stephen Syrett and Mel Evans research paper regarding the overriding aim of government policy in the area of eradicating benefit fraud and tax evasion. Stone-Lee, Ollie “Black economy. Not all a bad thing” Available at [http://news.bbc.co.uk/2/hi/uk\\_news/politics/3573240.stm](http://news.bbc.co.uk/2/hi/uk_news/politics/3573240.stm). Also for additional details regarding the work of Evans and Syrett on the matter look into “The economies of deprived neighbourhoods” Department for Communities and Local Government, in [www.communities.gov.uk](http://www.communities.gov.uk)

<sup>252</sup> Ibid

### Smuggling, black markets and weaponry

While prostitution rings are usually concentrated in more localised constituencies, the illegal import-export business thrives in a cross-border level dealing with all sorts of goods, drugs and arms. Russia, Liberia and to a great extent many of the Middle Eastern countries participate in a world-wide network of illegal trade; from petty-crime illegal contraband transfers, to cross-border smuggling of oil and weapons. In Afghanistan it is believed that more than a quarter of the foreign trade must be attributed to smuggling.<sup>253</sup> In the Middle East the problem is particularly prominent due to the presence of various free trade zones where the existing regulatory framework has little effect due to the manifold *de jure* liberties (investment incentives and tax holidays)<sup>254</sup> they enjoy, and due to several *de facto* practices such as corruption as a means of business (sometimes the purposely even slower bureaucratic processes). Throughout the Mediterranean basin the situation in customs and ports is similar. In Lebanon, with its two free trade zones (one in Beirut port and one in Tripoli) the situation is chaotic. Due to the various incentives offered by the government to attract foreign and domestic firms and the tactic of operating on a Build Operate Transfer (BOT) basis, the lack of transparency and the need of investment combined, provided an explosive mix of black marketing.<sup>255</sup> As I will show in a following chapter, the harbour and the customs etiquette of workers and business as well as the free trade zones, have a heart of their own.

The old view mostly in the 1970s regarding smuggling, especially for small countries like Lebanon, was predominantly favourable as they thought that smugglers circumventing tariffs sold their goods at lower rates therefore it was good for the welfare.<sup>256</sup> However this view was quickly abandoned, as they soon connected smuggling with

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<sup>253</sup> Bhagwati, Jagdish - Hansen, Bent "A Theoretical Analysis of Smuggling" *The Quarterly Journal of Economics*, Vol. 87, No. 2 (May, 1973), pp. 172-187

<sup>254</sup> Promoted by the Investment Development Authority of Lebanon several incentives have been drafted such as an easing of restrictions on work permits for foreigners and a two-year income tax holiday for listing 40% of a company's equity on the Beirut Stock, a 50% reduction in income taxes and taxes on project dividends for a period of five years or more if beneficial and total income tax relief for ten years (twelve if listed on the BSE) and total tax relief from project dividends for ten years. For more details Knowles, Warwick "D&B Country Report, Lebanon" D&B, Marlow: 2009, p.45  
Exchange (BSE).

<sup>255</sup> BOT: Build Operate Transfers. For more details on Lebanon and its free trade zones look at Kish Trade Promotion Centre publications at [http://www.kishtpc.com/Free-En/free\\_lebanon.htm](http://www.kishtpc.com/Free-En/free_lebanon.htm)

<sup>256</sup> For representative examples look into Gray, Peter – Walter, Ingo "Smuggling and Economic Welfare" *The Quarterly Journal of Economics*, Vol. 89, No. 4 (November, 1975), pp. 643-650 as well as in the Bhagwati, Jagdish - Hansen, Bent "A Theoretical Analysis of Smuggling" *The Quarterly Journal of Economics*, Vol. 87, No. 2 (May, 1973), pp. 172-187, and for more descriptive details look in the Reinert, Kenneth - Rajan, Ramkishan (eds) "The Princeton Encyclopaedia of the World Economy" Vol.I,A-H, Princeton University Press, Princeton., 2009, p.1002

corruption, intimidation of the rule of law and vast revenue losses for the state.<sup>257</sup> However, there are still advocates of this notion like Marie Thursby, Richard Jensen and Jerry Thursby who suggest that “the market price is below the price when all sales are legal, so smuggling improves welfare if the price effect outweighs excess smuggling cost” they continue that “the welfare effect is directly related to the degree of competition”.<sup>258</sup> On the other hand Jagdish Bhagwati and Bent Hansen provided a study which shows that when smuggling has no local representation it is not beneficial for the welfare of the country that experiences smuggling.<sup>259</sup> Also Joossens and Raw write that when the product (cigarettes i.e.) is not of an illegal nature like drugs or arms, the final beneficiary is not the smuggler or the informal sector’s middlemen but the firm that produces the goods, as this technique is an alternative market entry strategy.<sup>260</sup> The correlations with the informal sector do not stop here as many unlicensed street vendors as described in a previous chapter, constitute one of the main channels of distribution of those goods. As we will see in a following chapter it is quite interesting that in a rather close-minded way people deliberately choose to buy something – usually software or other pirated goods- via an illegal street vendor as a reaction to the corporate world. According to Janet MacGaffey, from an anthropological point of view, especially in the Middle East and Africa, smuggling was the only way to practice bartering techniques used prior to the colonisation of those regions. Janet MacGaffey also suggests that smuggling is the source of capital for a nascent bourgeoisie that enjoys a middle-class lifestyle.<sup>261</sup> The truth is that in Lebanon as well as in other Mediterranean countries the dream of most people is to get a job in the government to enjoy the gains of the relative safety of insurance and to exploit and influence the informal sector’s gains, or to resort to an illegal profitable but risky endeavour. As I have discovered in my interviews the need for a less arduous and exploitative way of making money is extremely widespread to the point of worry, as the vast majority states that if legal repercussions (especially for the societal humiliation) were not the issue they would have joined an illegal network or would conduct unlawful business.

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<sup>257</sup> Ibid

<sup>258</sup> Thursby, Marie – Jensen, Richard – Thursby, Jerry “Smuggling, Camouflaging, and Market Structure”, *The Quarterly Journal of Economics*, Vol. 106, No. 3 (August 1991), pp. 789-814

<sup>259</sup> Bhagwati, Jagdish - Hansen, Bent “A Theoretical Analysis of Smuggling” *The Quarterly Journal of Economics*, Vol. 87, No. 2 (May, 1973), pp. 172-187

<sup>260</sup> Joossens Luk - Raw Martin, “Cigarette Smuggling in Europe: Who Really Benefits?” *Tobacco Control*, Vol. 7, No. 1 (Spring, 1998), pp. 66-71

<sup>261</sup> MacGaffey, Janet “*The real economy of Zaire: the contribution of smuggling & other unofficial activities to national wealth*” James Currey, London: 1991, p.21

However, no matter how academically obsolete the welfare contribution idea is, the reality indicates otherwise. For example in Lebanon, thousands of farmers heavily relied on the production and smuggling of drugs, such as cannabis. After the governmental restrictions, farmers who returned to the production of fruits and vegetables faced poverty due to the collapse of the prices in exports. Also the grants Lebanon received for the assistance of those farmers satisfied only 5% of them.<sup>262</sup> Officially the government is strongly committed to prevent a return to illegal crop growing, however silently they no longer take the initial strict measures. From one of my interviews, an ex-farmer claimed that in an event of a wild-fire the fire department would cautiously look after the crops that make the most money first. On the other hand, the various illegal networks are the main beneficiary of this re-emergence, because they act as the central middleman. Similarly in Afghanistan the remarkable comeback of opium production has devastating effects. According to a recent BBC article “Afghanistan produces 92% of the world's opium, with the equivalent of 3,500 tonnes leaving the country each year”. According to Antonio Maria Costa “*the Afghanistan/Pakistan border region has turned into the world's largest free-trade zone in anything and everything that is illicit - drugs of course, but also weapons, bomb-making equipment, chemical precursors, drug money, even people and migrants.*”<sup>263</sup> He also mentions the direct involvement of various international illegal networks as well as “*the direct Taliban involvement in the opium trade which allows them to fund a war machine that is becoming technologically more complex and increasingly widespread.*”<sup>264</sup>

Consequently the various illegal networks with a more precise ideological orientation may use the accumulated wealth to purchase arms in order to achieve specific political goals, while other illegal networks solely cope with the trade of arms and weapons throughout the world. What is more, it must be noted that arms deals also take place through formal defence companies or through government-to-government deals and despite the possible absence of illegal networks in the affair they entail a relatively high degree of informal practices and a rather impressive show of a lack of ethics as well as a rather notable profit for the buyers side and the various middlemen.<sup>265</sup> Of course there are more complex

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<sup>262</sup> Hack, Christopher “Lebanon's growing drug worries” Available in [http://news.bbc.co.uk/2/hi/middle\\_east/191154.stm](http://news.bbc.co.uk/2/hi/middle_east/191154.stm)

<sup>263</sup> “Afghan opium fuels global chaos” Available in [http://news.bbc.co.uk/2/hi/south\\_asia/8319249.stm](http://news.bbc.co.uk/2/hi/south_asia/8319249.stm). Also for specific details on the matter look in the UNODC “*World Drug Report*” for 2009

<sup>264</sup> Ibid

<sup>265</sup> Sfakianakis, John “Gray money, Corruption and the Post-September 11 Middle East” *Middle East Report*, No 222 (Spring 2002), pp.32-39

implications regarding the armament of various groups and organisations like Al-Qaeda or the military wing of Hezbollah, as the situation is not a simple seller-buyer scenario. For example, complexities occur with situations like the train derailed by PKK guerrillas in Turkey which was bound from Iran to Syria full with arms allegedly headed for the arsenal of Hezbollah.<sup>266</sup> In another occasion Syria “*struck a procurement deal with a Russian company to acquire SA-18 air-defence systems. Unbeknown to the Russians, Syria allegedly plans to transfer the shoulder-fired antiaircraft missiles to Hezbollah*” or according to UN officials in another case “*Lebanese authorities stopped a truck carrying Soviet-made Grad missiles bound for Hezbollah in the Bekaa Valley near Baalbek.*”<sup>267</sup> In the happenstance of governmental involvement, as I mentioned above, informal practices may also lead to detrimental situations and radical changes. A quite representative example is Iran in the 1970s which bought millions of dollars of arms from the USA as an element of regional stability and to maintain mutual friendly status with the US, but according to Keller and Nolan “*outrageous government expenditures led to spiralling inflation and, in the eyes of the Iranian public, about the only people making a decent living were corrupt government officials skimming off defence contracts and American technical advisers*” and they concluded that “*even when arms sales were crafted within the confines of foreign policy, the results were not always predictable*”.<sup>268</sup> Also I mentioned earlier, Stohl suggests that rebel groups and terrorist organisations take advantage of these illegal networks and use the profits from these commodities to purchase weapons and fund their operations. Another vibrant example is the Revolutionary Armed Forces of Colombia (FARC) which earns roughly \$500 million US through its drug operations, much of which is in turn spent on weapons. Between 1995 and 2001, Colombia’s military seized more than 15,000 small arms that were circulating in its black market, along with 2.5 million rounds of ammunition.<sup>269</sup> Also Stohl recognises that crossing into the world of the black market, these arms become part of a much wider shadow economy in which weapons are just one of many commodities.<sup>270</sup>

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<sup>266</sup>“Turkey recovers Iranian arms from Syria-bound train raided by Kurdish guerrillas”  
<http://ww4report.com/node/3984>

<sup>267</sup> “In Lebanon, Hezbollah arms stockpile bigger, deadlier” Available in [www.iranfocus.com](http://www.iranfocus.com)

<sup>268</sup> Keller, William – Nolan, Janne “The Arms Trade: Business As Usual?” *Foreign Policy*, No. 109 (Winter, 1997-1998), pp. 113-125

<sup>269</sup> Stohl, Rachel “The Tangled Web of Illicit Arms Trafficking” Report for the Center for American Progress. Available at [www.cdi.org/pdfs/terrorinshadows-stohl.pdf](http://www.cdi.org/pdfs/terrorinshadows-stohl.pdf)

<sup>270</sup> Ibid

Generally it is hard and maybe impossible to estimate the input of those transactions in the informal economy. Nonetheless, according to a recent survey due to the vested interests of thousands of people in the process, the informal economy obtains a rather robust dynamic at least in terms of usage and it is definitely facilitated by the whole structure. The same survey in order to make the previous point more valid also mentions that Afghanistan in the early nineties was sustained due to the support of Iran, Russia and Pakistan but largely due to sub-economy of weapons trade and opium.<sup>271</sup> With regard to the other illegal networks that deal in small and big arms the principle is the same. They use the same channels of distribution and the same outlets of corruption, probably the clientele is also similar and those who are specifically engaged in selling or buying drugs or arms will need extra cash rewards to offset the risks. Thus as Samuel Brittan suggests there is no early end to corruption in the foreseeable future other than measures to reduce the size of the trade by operating on the side of either demand or supply, or preferably both.<sup>272</sup> The problem once again stems from the symbiosis which can be observed between political insurgency, contraband trade, and arms proliferation.<sup>273</sup> Instead of a conclusive remark I will quote R.T. Naylor who writes that “*the general result of the combination of new arms dealers and the spread of underground economic activity is that covert arms deals are likely to take place within a matrix of black-market transactions. Weapons might be sold for cash; bartered for teakwood, hostages, heroin, or religious artifacts; or countertraded for grain and oil. The deals can be transacted by go-betweens who are equally at home in smuggling gold to India, trafficking in counterfeit computer chips to the United States, or shipping toxic waste to Somalia. The ships hauling the arms are probably registered in a flag-of-convenience country boasting commercial secrecy, low registration fees, and the opportunity for rapid name and ownership changes. The payments can move through a series of coded bank accounts in the name of a global network of ghost companies and are protected by the banking and corporate secrecy laws of one or several of the many financial havens around the world.*”<sup>274</sup> This quote lays the ground for the analysis in the following section regarding the details of the capital flight and the association of the various illegal and more ideologically radical networks.

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<sup>271</sup> “Far East and Australasia 2003” *Regional Surveys of the World*, 34<sup>th</sup> Edition, Routledge, London: 2003

<sup>272</sup> From speech of Brittan, Samuel called the “Some economic aspects of the arms trade” in the Transparency International Conference in Cambridge on the 5<sup>th</sup> April, 2001

<sup>273</sup> Naylor, R.T. “*Wages of Crime: Black Markets, Illegal Finance, and the Underworld Economy*”: Cornell University Press, Ithaca: 2002

<sup>274</sup> Naylor, R.T “The Rise of Modern Arms Black Market and the Fall of Supply Side Control” in the Williams, Phil – Vlassis, Dimitrios (eds) “*Combating transnational crime: concepts, activities, and responses*” Frank Cass, London: 2005, pp.209-236



### Terrorism and money laundering

Another kind of illegal network which may integrate all the mentioned above practices is the various ideologically radical organisations and groups. As I mentioned earlier on, it is rather challenging to characterise a group or organisation as “terrorist”. First of all, I suppose the term is accurate only when the group or organisation is actually self-proclaimed as terrorist, but the Al Qaeda, the Shining Path, the Grey Wolves, the 17<sup>th</sup> November none of them actually guilty in their rhetoric of accepting the term terrorist, nevertheless they all are actually underlying terrorists. Apparently they are proscribed by the international bodies as they demonstrate certain behaviours that fit criteria defined as terrorist since various international laws were passed in the wake of 9/11.

Other organisations like Hamas or Hezbollah even though they are officially recognised as political movements, are by significant parts of the bibliography identified as primarily terrorist organisations. Of course the frequent use of violence through their military fractions is often more than controversial, however for the sake of political correctness I prefer the term “ideologically radical”. Additionally the usage of such a term for movements like Hezbollah is more than derogatory and especially in Lebanon, it would be characterised as at least inappropriate.

The financing of those networks stems from various sources. Those sources may be legal as legitimate businesses, illegal as all the mentioned above practices as well as direct or indirect funding from certain states or charitable funds. A characteristic example is Al Qaeda which according to Mark Basile is built on an extensive financial structure which secures the interests of the organisation. Basile also adds that Al Qaeda operates a significant financial network, approximated at over \$300 million in value, dispersing between \$30 and \$40 million per year.<sup>275</sup> The three financial factors that support Al-Qaeda are the following:

- *Firstly, Al Qaeda has built a strong network of financiers, operatives and businesses legitimate (honey trading) or illegitimate (diamond trafficking)*<sup>276</sup>
- *Secondly, it has learned to effectively leverage the global financial system of capital markets. Small financial transfers, under regulated Islamic banking networks and informal*

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<sup>275</sup> Basile, Mark “Going to the source: Why Al-Qaeda’s Financial Network Is Likely To Withstand The Current War On Terrorism Financing.” *Studies in Conflict and Terrorism* Volume 27, 2004 pp.169-185. Also online at [www.tandf.co.uk/journals](http://www.tandf.co.uk/journals)

<sup>276</sup> Ibid, p.172

*transfer systems throughout the world make it almost impossible to stop Al Qaeda from moving money, and*

- *Thirdly, Al Qaeda has built a significant base of Islamic charities. Saudi Arabia's royal family funds the largest.*<sup>277</sup>

Al Qaeda in much the same way as other radical organisations is managing their revenues. Charities are also a very important factor as they may have a legitimate structure and legal objectives of support; however like most of the charities it is controversial if the gathered funds are used for the purpose of the charity. Generally Naylor suggests, referring to the sustainability of the Grey Wolves in Turkey via charities by the Turkish Diaspora in Germany, that the ethno-religious solidarity plays a vital role as a sponsor. Another example is Hezbollah, which raises funds through *zakat* and *sadaqah* contributions as well as direct funding from Iran, estimated about 60 – 100 million dollars per year. It must be noted that donations are largely anonymous. In addition Hezbollah receives money from the Shiite Lebanese Diaspora in West Africa and North America and the Triple Frontier, meaning the junction of Paraguay, Argentina and Brazil. In the Triple Frontier, due to the absence of effective border control, the zone is a haven for drug and arms trafficking, which undoubtedly go some way in raising funds for Hezbollah.<sup>278</sup> Naylor is in agreement with Basile as he suggests that the regional and global networks based on extended family or ethno-sectarian loyalties can exercise their strategies more efficiently than less homogenous ones.<sup>279</sup> Costigan and Gold recognise the vital importance of charities and the diversion of funds from legitimate businesses to the vaults of the various organisations, however they stress that raising funds through illegitimate activities still represents the bulk of the funding resources.<sup>280</sup>

On the other hand Wannenberg suggests that radical organisations like Al Qaeda only resort to illegitimate practices like smuggling etc, as a second best solution due to the tightening of the regulation framework after the 11<sup>th</sup> September attacks and the loss of

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<sup>277</sup> See *ibid* p.169 and p.173, See also “Still Flush” *The Economist* September 5<sup>th</sup> 2002 and “Links to bin Laden among America's friends in the Gulf” Available at [www.telegraph.co.uk/news/main.jhtml](http://www.telegraph.co.uk/news/main.jhtml)

<sup>278</sup> Madani, Blanca “Hezbollah's Global Finance Network: The Triple Frontier” *Middle East Intelligence Bulletin*, Vol.4, No.1 January 2002. Also available in [www.meib.org](http://www.meib.org) Also look for details in Comras, Victor “Al-Qaeda Finances and funding to affiliated groups” in Giraldo, Jeanne – Trinkunas, Harold (eds) “*Terrorism financing and state responses: a comparative perspective*” Stanford University Press, Stanford : 2007, pp.115-133

<sup>279</sup> Naylor, R.T “The Rise of Modern Arms Black Market and the Fall of Supply Side Control” in the Williams, Phil – Vlassis, Dimitrios (eds) “*Combating transnational crime: concepts, activities, and responses*” Frank Cass, London: 2005, p.225

<sup>280</sup> Costigan, Sean - Gold David “*Terronomics*” Ashgate, Aldershot: 2007, p.17

Afghanistan as a safe haven. Wannenberg focuses on the fact that the authorities have a disjointed view regarding intrinsic links of those groups with smaller petty crime networks.<sup>281</sup> This becomes quite apparent due to fact that despite the stricter regulation framework, organisations like Al-Qaeda still have plenty of cash.<sup>282</sup> The nexus of those organisations with the aforementioned illegal activities like smuggling and trafficking is also strenuously identified by Tom Diaz and Sharon Meltzer. Diaz mentions that according to the former US Treasury official Matt Levitt, up to 60 percent of terror organisations are suspected of having some ties with the illegal narcotics trade.<sup>283</sup> On the other hand Meltzer focuses on cigarette smuggling basing her case study on a North Carolina Hezbollah cell that used this particular practice to raise money.<sup>284</sup>

Apart from the indubitable nexus of those organisations with other illegal networks and illegitimate practices and the deep-seated links with informal economy, we must calculate the added or “subtracted” value of terrorism as an incidence. Besides the given revenue loss on behalf of the state we must estimate the actual financial damage or gain caused by the acts of those networks. The bibliography on that seems to be on pretty much absolute consensus. Apart from the actual informal input originated from the networks, there is a macroeconomic impact associated with their actions and the general formal and informal economic activity. Generally economic activity is impaired and possibly diverted to more informal norms by conflict. According to Blomberg et al, apart from the social disturbance the illegal networks may cause, they are to be blamed for several economic disruptions to the point of reallocation of the economic activity away from productive resources.<sup>285</sup> They also add that “*the incidence of terrorism may have an economically significant negative effect on growth, albeit one that is considerably smaller and less persistent than that associated with either external wars or internal conflict.*”<sup>286</sup> On a similar macroeconomic scope Adam et al, add that the effects are proportionate, for each society, to the resilience of the individuals, the

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<sup>281</sup> Wannenberg, Gail “Links Between Organized Crime and Al-Qaeda” *South African Journal of International Affairs*, Volume 10, Issue 2, Spring 2003

<sup>282</sup> “Still Flush” *The Economist* September 5<sup>th</sup> 2002

<sup>283</sup> Diaz, Tom “Terrorist Organizations like Hezbollah finding big money in drug-trafficking” Available at <http://tomdiaz.wordpress.com/2009/03/25/terrorist-organizations-like-hezbollah-finding-big-money-in-drug-trafficking/>

<sup>284</sup> Meltzer, Sharon – Shelley, Louise “The Nexus Between Organized Crime and Terrorism: Trafficking in Cigarettes” Paper presented at the annual meeting of the American Society of Criminology (ASC), Los Angeles Convention Center, Los Angeles, CA, Nov 01, 2006. Also Available at [www.allacademic.com/meta/p125435\\_index.html](http://www.allacademic.com/meta/p125435_index.html)

<sup>285</sup> Blomberg, Brock - Hess, Gregory - Orphanides, Athanasios “The macroeconomic consequences of terrorism” *Journal of Monetary Economics* No.51 (2004) pp.1007–1032

<sup>286</sup> Ibid, p.1030

market or the regional economy. Also they mention that the potential political costs that may occur can contribute to further economic fragility.<sup>287</sup> For example in Lebanon the frequent status of turmoil facilitated an on-going financial disruption, placing formal and informal economic practices in a continuous entanglement.

The primary channels that sponsors use to transfer the supporting funds, according to Costigan and Gold is shell banks and offshore facilities in Europe and various other informal banking systems like Hawala in the Middle East and Asia, while in the US the situation became more difficult for most of the arguable entities.<sup>288</sup> The abuse of remitting systems like Hawala creates a lot of controversy regarding the measures that will deteriorate money laundering and dubious transfers without harming the innocent remittances. Of course, the task is clearly easier said than done. Also, since money laundering consists of three phases: placement, layering and integration, Hawala as a remittance system can be used at any phase. Many Hawaladars also speak of a certain distinction between the Hawala transactions, white Hawala for remitting and black Hawala for illegal businesses; this might be the basis of the much desired regulation on the informal dealings.<sup>289</sup> This situation is indeed a Delphic sword, as on the one hand the informality is part of the cognitive financial behaviour in the Middle East with the potential to bring forth notable results, however on the other hand it is vulnerable to illegal involutions with severe security and social implications.

As portrayed above, the various illegal networks are intrinsically linked with various financial havens which can facilitate the manoeuvring of the informal capital. All illegal networks in most cases need to legalise the funds raised via smuggling, drug trafficking, arms deals, extortion, embezzlement etc. Without money laundering techniques the illegal networks cannot flourish as Arlacchi suggests.<sup>290</sup> According to Sfakianakis the laundered capital could reach one trillion dollars per year while the lower estimate is roughly equivalent to the total annual economic output of Spain.<sup>291</sup> Money laundering is probably the key

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<sup>287</sup> Rose, Adam – Oladosu, Gbadebo – Liao, Shu-Yi “Regional economic impacts of a terrorist attack on the water system of Los Angeles: A computable general disequilibrium analysis” pp.291-316 in the Ward Richardson, Harry - Gordon Peter - Moore, James “*The Economic Costs and Consequences of Terrorism*” Edward Edgar Publishing, Cheltenham: 2007

<sup>288</sup> Costigan, Sean - Gold David “*Terronomics*” Ashgate, Aldershot: 2007, p.17

<sup>289</sup> “The Hawala alternative remittance system and its role to money laundering” Available at [www.interpol.int/public/financialcrime/moneylaundering/hawala/default.asp#9](http://www.interpol.int/public/financialcrime/moneylaundering/hawala/default.asp#9)

<sup>290</sup> Arlacchi, Pino “The dynamics of Illegal Markets” in Williams, Phil – Vlassis, Dimitrios (eds) “*Combating transnational crime: concepts, activities, and responses*” Frank Cass, London: 2005, p.11

<sup>291</sup> Sfakianakis, John “Gray money, Corruption and the Post-September 11 Middle East” *Middle East Report*, No 222 (Spring 2002), pp.32-39

operation in the informal economy which glues together all the financial transactions of the illegally gained money in a single spectrum.

Lebanon was probably one of the first countries to implement an anti money laundering enactment but despite several initial positive results it seems that it was more like a show of good faith towards the international community. For example, Sfakianakis writes that during the Lebanese civil war the Bekaa valley generated more than (500) five hundred million dollars annually from the production of opium and cannabis, and it still produces remarkable quantities of drugs,<sup>292</sup> nevertheless Interpol praised Lebanon for its efforts in combating organised crime because Lebanese authorities raided a house in the village of Kensa near the city of Baalbek in eastern Lebanon, seizing three kilograms of cocaine.<sup>293</sup> This is but a drop in the ocean. Also as a supporting argument, the anti money-laundering laws, as Ruehsen mentions, had several gaps in their interpretation.<sup>294</sup> However, Ruehsen recognises that despite Lebanon's "spotty" enforcement records, they are nonetheless more impressive compared to other states in the region.<sup>295</sup> However, despite the minimal steps forward, according to Sfakianakis, Lebanon due to its Swiss-style banking secrecy has achieved notoriety for its money-laundering facilitations. Sfakianakis also mentions that Lebanon, acts like a hub for drug trade and due to its competitive yield on dollars, it attracts lucrative clients. Much of the embezzled funds from political elites from Africa and suspicious profits from gold and diamond businesses have been invested in Lebanon since the 1950s.<sup>296</sup>

But despite the wide-spread presence of money laundering, which is the actual consequences of its incidence? An International Monetary Fund factsheet suggests that "*money laundering and terrorist financing activities can undermine the integrity and stability of financial institutions and systems, discourage foreign investment, and distort international capital flows.*"<sup>297</sup> Alexandro Pansa subjoins on that view and he suggests that money laundering causes destabilising effects in other sectors too, like the labour sector and business

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<sup>292</sup> Ibid

<sup>293</sup> Panossian, Joseph "Interpol praises Lebanon for role in fighting drugs, organized crime" *AP Worldstream*, May 30, 2002. Available at <http://www.highbeam.com/doc/1P1-53307348.html>

<sup>294</sup> De Moraes Ruehsen, Moraya "Arab Government Responses to the threat of terrorist financing" in Giraldo, Jeanne – Trinkunas, Harold (eds) "*Terrorism financing and state responses: a comparative perspective*" Stanford University Press, Stanford : 2007, p.164

<sup>295</sup> Ibid, p.170

<sup>296</sup> Sfakianakis, John "Gray money, Corruption and the Post-September 11 Middle East" *Middle East Report*, No 222 (Spring 2002), pp.32-39

<sup>297</sup> "The IMF and the Fight Against Money Laundering and the Financing of Terrorism" Factsheet, September 1, 2009. Available at [www.imf.org/external/np/exr/facts/aml.htm](http://www.imf.org/external/np/exr/facts/aml.htm)

markets and he stresses the fact, as Joosens did earlier, that money-launderers exploit criminal resources to gain access to new markets.<sup>298</sup> Pansa mentions with regard to the effect of money-laundering on financial and legal systems, that those two sectors are set on a never-ending shift of regulations, rules and initiatives and he also suggests that the analysis of money laundering, from a financial perspective only, would not be adequately comprehensive.<sup>299</sup> Pino Arlacchi agrees with Pansa on the constant legislative alterations but he focuses on the fact that money laundering may cause market disruptions and facilitate other “criminogenic asymmetries” like corruption, as well as take advantage of cracks between state rules and the committing of crimes without law violation.<sup>300</sup> This is probably one of the most significant parameters of regime and elite corruption where under the guise of legitimacy and the lack of transparency they carry out manifold scandalous financial dealings while they keep the appearances. Josiah McConnell Heyman as mentioned earlier points out that state agents and ruling elites are more than often the culprits of extended corruption or leaders of illegal organizations. For example in Lebanon, the ruling elites, even prime figures like Rafik Hariri have been accused for money laundering and various other unlawful activities, extremely harmful for the public welfare. John Sfakianakis for example makes quite clear the involvement of Hariri into various economic scandals and portrays him as the conductor behind business deals in the detriment of the state. Also it is quite widespread amongst several well interconnected illegal networks that launder not only the illegally gained capital through legal gaps but the criminal activity itself. According to Sfakianakis in the Middle East this is even more deep-rooted as the line dividing legal and illegal money-making activity is quite indefinable and the extensive and unchanging patronage system is clandestine and lacking in accountability.<sup>301</sup> Arlacchi suggests that the flow of this money into the legitimate economy harms real economic growth.<sup>302</sup> In parallel to Arlacchi is Fernando Romero who proposes that the financial input of illegal networks contribution is a drag on the formal economy and it actually prolongs poverty by allowing the

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<sup>298</sup> Pansa, Alexandro “Money-laundering in Italy” in Williams, Phil – Vlassis, Dimitrios (eds) “*Combating transnational crime: concepts, activities, and responses*” Frank Cass, London: 2005, pp.251-258 and Joosens Luk - Raw Martin, “Cigarette Smuggling in Europe: Who Really Benefits?” *Tobacco Control*, Vol. 7, No. 1 (Spring, 1998), pp. 66-71

<sup>299</sup> Ibid

<sup>300</sup> Arlacchi, Pino “The dynamics of Illegal Markets” in Williams, Phil – Vlassis, Dimitrios (eds) “*Combating transnational crime: concepts, activities, and responses*” Frank Cass, London: 2005, p.25

<sup>301</sup> Sfakianakis, John “Gray money, Corruption and the Post-September 11 Middle East” *Middle East Report*, No 222 (Spring 2002), pp.32-39

<sup>302</sup> Arlacchi, Pino “The dynamics of Illegal Markets” in Williams, Phil – Vlassis, Dimitrios (eds) “*Combating transnational crime: concepts, activities, and responses*” Frank Cass, London: 2005, p.11

economy to go unfed.<sup>303</sup> In the same train of thought with Arlacchi is Brent Bartlett who suggests that, even though it is impossible to quantify the effects of money laundering, “*allowing money laundering activity to proceed unchallenged is not an optimal economic-development policy because it damages the financial institutions that are critical to economic growth, reduces productivity in the economy's real sector by diverting resources and encouraging crime and corruption, and can distort the economy's international trade and capital flows to the detriment of long-term economic development.*”<sup>304</sup> With a more dramatic perception is Baker, who suggests that “*money laundering drains hard currency reserves, heightens inflation, reduces tax collection, worsens income gaps, cancels investment, hurts competition, undermines free trade and saps growth while It leads to shortened lives for millions of people and deprived existences for billions more.*”<sup>305</sup> Baker despite his cataclysmic standpoint generally looks on the macroeconomic effects of money laundering focused on its impact in the North America region.

Money laundering is, as shown, intrinsically linked with terrorism and the debate has become even more popular after the events of September 11<sup>th</sup>, however the vast majority of the laundered capital stems from drug related capital which may or may not be linked with organisations other than just criminal, with the utter goal of immense quick profits. Definitely the associations are many, however no one should neglect the manifold illegal networks that infest the state apparatus and hamper the economy. The vast majority of literature agrees on the same thing that apart from all the microeconomic and macroeconomic challenges mentioned above, the overall assumption is that growth is impaired by money laundering and sustainable development has another obstacle to overcome.

## Conclusion

In the theoretical part of this chapter, the bibliography by the use of econometric papers and other theoretical secondary material has shown that the lack of regulatory framework and the intense interconnections of those networks with the state, are the basic parameters that need to be addressed. Also the bibliography established the negative input of the illegal networks

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<sup>303</sup> Romero, Fernando “*Hyperborder: The contemporary US-Mexico border and its future*” Princeton Architectural Press, New York: 2008, p.153

<sup>304</sup> Bartlett, Brent “*The Negative Effects of Money Laundering on Economic Development*” Economic Research Report, For The Asian Development Bank Regional Technical Assistance Project No.5967 Countering Money Laundering in The Asian and Pacific Region, May 2002, p.33

<sup>305</sup> Baker, Raymond “*Dirty Money and its Global Effects*” *International Policy Report*, January 2003 Available at [www.ciponline.org/dirtymoney.pdf](http://www.ciponline.org/dirtymoney.pdf)

on the formal and informal economic level and at the same time it ascertained the not so accommodating nature of those networks for sustainable growth. The secondary material that dealt with the resources dedicated itself to more pragmatic disciplines of the networks, which has shown similar results. The bibliography established that the criminal practices the illegal networks use such as prostitution, smuggling, illegal arms sales and drug trafficking are multi-billion dollar businesses with extended associations with other ideologically radical networks, with a rather diverse outlook on the status of their interpretation. The combination of all the variables in this chapter leads to the unanimous conclusion that despite the potential micro-interests of certain individuals the input of the illegal networks has, apart from the proven devastating effects on any state's economy and sustainable growth, significant impact on the stability and welfare of the social web. Also their infiltrating capacity on the political system, with the addition of the unseen added value of other minor or major effects which cannot be estimated or resolved sufficiently, is overwhelming.



## CHAPTER 6 Analysis of secondary material on Lebanon's informal economy

### Introduction

In order to fully establish the links of the previous chapters with the rest of this project, and after examining the literature surrounding the main key drivers of the informal economy in its wider scope, additional analysis of the secondary material has focused exclusively on Lebanon. This is significant and necessary in order to comprehend the deeply entrenched roots of informal economy in the country and provide the historical and analytical foundations for the following research.

The first section of this chapter will briefly investigate the historical background of Lebanon in order to establish the necessary chronological framework which contributes to the better understanding of the political, societal and economic complexities of Lebanon that paved the way for the adoption of a laissez-faire economy after the “proper” independence of the country. The second section analyses the elements of Lebanon's past and present, which assisted in the formation and expansion of the country's sizeable informal economy and also briefly displays several causes that facilitated this expansion. The last section focuses on the contemporary aspects of the informal economy in Lebanon giving support to the argument that the country is possibly not the champion of how informal practices can compliment development in the world but does exhibit some unique features.

The process of attempting to theorise Lebanon's historical and contemporary formal and informal economic framework in this chapter paves the way for the following empirical research and analysis of the informal practices in Lebanon. This will fully determine the genuine significance of the informal economy in the country as it puts in context all the following testimonies, anecdotal evidence and records.

### A brief historical overview

The extensive trade links throughout the known world and Lebanon were as Braudel pointed out “an early example of world economy”.<sup>306</sup> The latter is a characteristic of the fact that Lebanon managed to maintain through time its population, which is still noted for its commercial enterprise.<sup>307</sup> Lebanon in its present form emerged out of the ashes of the

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<sup>306</sup> Braudel, Fernand “ *The perspective of the world: Civilization and capitalism 15<sup>th</sup>-18<sup>th</sup> cent*” University of California Press, Berkeley, 1992 , p.39

<sup>307</sup> [www.dosfan.lib.uic.edu/ERC/bgnotes/nea/lebanon9410.html](http://www.dosfan.lib.uic.edu/ERC/bgnotes/nea/lebanon9410.html)

Ottoman Empire. The Ottoman military defeat by the –initially- Triple Entente during the First World War produced a radical power balance shift in the Middle East. Owen writes that the victorious powers carved up the ex-Ottoman provinces and Lebanon as well as the ‘new’ Syria came under French control,<sup>308</sup> which, according to Rafailides, already had a significant and influential presence in the region since 1736, when French missionaries settled there,<sup>309</sup> while Fish suggests that France had a special position in Lebanon -even earlier- since the ninth century.<sup>310</sup> On the 1<sup>st</sup> of August 1920 the new state of Lebanon was proclaimed, as Field states, after tempestuous negotiations and plots.<sup>311</sup> However, it remained a protectorate of France and it would remain one until 1943, when Lebanon became an independent state and abolished its status as a French mandate. Nevertheless, the French presence and influence has remained in Lebanon.

Lebanon is a special (change special to a synonym that is more objective) country with unique characteristics. Maintaining till the present day the strong commercial and trading features of the ancient Phoenicians, Lebanon of the present is constituted by a multi-religious mosaic in its demographics. Some scholars may suggest that Lebanon is probably facing an identity crisis, since it is not the stereotypical Arab or Middle Eastern country, neither a conventional Western influenced country, nor an Asian one. Lebanon is an eclectic mix of various religious groups and sects with vast social divergences. Maronites, Orthodox and Catholic Christians along with Sunni, Shiite and Druze Muslims constitute the basis of the Lebanese population divisions. However, there is a notable presence of Palestinians in the country. According to Baraka, almost half of the Palestinians live in refugee camps in the South of Lebanon, while the remaining ones are scattered throughout the country.<sup>312</sup> It must be noted that the Palestinian presence is characterized by the obscurity regarding their status within the country and by the various obstacles for their social integration.

Muhammad Faour writes that the allocation of governmental positions in Lebanon is driven by the demographic prevalence of the dominant communities. The Maronite Christian community (the most populous group) controls the most important public positions while the

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<sup>308</sup> Owen, Roger “*State, Power and Politics in the making of the Modern middle East*” Routledge, London, 2003 p.8 and p68

<sup>309</sup> Rafailides, Vasilis “*The people of the Middle East*” (Οι Λαοί της Μέσης Ανατολής), Eikostos Protos, Athens: 1998, p.296

<sup>310</sup> Fish, W.B. “The Lebanon” *Geographical Review*, Vol. 34, No. 2 (Apr., 1944), pp. 235-258

<sup>311</sup> Field, Michael “*Inside the Arab world*” John Murray, London, 1994, p.35-37

<sup>312</sup> Baraka, Hoda “*Palestinians in Lebanon: Chains of Misery (Bound by the Law and the Market)*” FMRS Working Paper No. 9, February 2008, p.6-8

other sects occupy the remaining positions on 6 to 5 ratio. Meaning that for every six Christian public officers there must be five Muslim ones appointed.<sup>313</sup> Most of the literature recognizes this complex situation in the term of confessionalism, which is the system of government that distributes political and institutional power according to the relative demographic composition of religious groupings in a society.<sup>314</sup> However, the Maronite dominance in Lebanon is persistently challenged due to the absence of a formal census since 1932,<sup>315</sup> and of course, because of the continuous power struggle between the groups; which has been exacerbated by the high degree of political corruption and the historically embedded differences. An estimation in 1956 showed that in a total population of 1,411,416, Christians accounted for 54% and Muslims, 44%. Expectedly, the estimate was contested because it was based on figures derived from a government welfare program that tended not to include Muslims in areas distant from Beirut.<sup>316</sup> Consequently, the census became an exceedingly vital political issue in Lebanon, because it constituted the apparent basis for communal representation. Even though there is no strong race consciousness, as mentioned in earlier chapters, the religious differences are sharp, constituting the foundations for political perception.<sup>317</sup>

However, it is perhaps those differences that constitute extremely difficult a unanimous resolution in manifold critical affairs within Lebanon. The conflicting interests – not necessarily within the state apparatus- seem to undermine the state’s capacity to deal with the emergence of miscellaneous issues concerning the economy and the society.

Paradoxically it is this complex synthesis of its population which has constituted the basis of its relative economic evolution, and it can be speculated that this is the base of its downfall as well. As Ayubi pointed out, the Maronites – assisted by the strong relations with the Vatican and France- established a prosperous political economy and therefore managed to maintain a relative autonomy towards their Ottoman rulers. This opening westward and their commercial accomplishments reinforced their self-image of Phoenician trading origins.<sup>318</sup>

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<sup>313</sup> Faour, Muhammad “The Demography of Lebanon: A Reappraisal” *Middle Eastern Studies*, Vol. 27, No. 4 (Oct., 1991), pp. 631-641

<sup>314</sup> Gates, Carolyn “*The historical role of political economy in the development of modern Lebanon*” Centre for Lebanese Studies, Oxford: 1989, p.3

<sup>315</sup> Faour, Muhammad “The Demography of Lebanon: A Reappraisal” *Middle Eastern Studies*, Vol. 27, No. 4 October 1991, pp. 631-641

<sup>316</sup> After the 1950s, the government statistical bureau published only total population estimates that were not subdivided according to sect. See more details in <http://www.country-studies.com/lebanon/population.html>

<sup>317</sup> Fish, W.B. “The Lebanon” *Geographical Review*, Vol. 34, No. 2 (Apr., 1944), pp. 235-258

<sup>318</sup> Ayubi, Nazih “*Over-stating the Arab state*” I.B. Tauris, London, 1995, p.116

What is more, Lebanon is undeniably characterized by the constant conflicts. During the intervals of relative peace and stability, the country was able to show its potential for swift reconstruction and exceptional economic performance, despite the domestic and regional socio-political restraints that never cease to affect the country and its economy. It was and still is during these peaceful intervals that Lebanon earned a reputation as a financial haven and gave the impression of a “progressive” Middle Eastern country. In the next section, I will analyze the roots of the informality in the Lebanese economy and society.

## Back casting the informality

### From the end of 19<sup>th</sup> century to the threshold of the Second World War

It was arguably inevitable that Lebanon would be exposed to informal economy practices. According to Estellie Smith, from an anthropological point of view, informal economy thrives during conflicts, famine and scarcity of goods and products.<sup>319</sup> Lebanon throughout its history meets all of the criteria when it comes to the unfortunate combination of these events, which it has experienced several times in the last century. According to Andersen et al, Lebanon has a long history of commercial activity and it has enjoyed higher standard of living in comparison to other Middle Eastern countries, serving as a center of commerce and finance.<sup>320</sup>

Lebanon, as I mentioned in the Introduction has always been laissez-faire, meaning market rather than state led. As Milton-Edwards mentions the lack of natural resources and the large amount of immigrant population contributed to the development of economic practice based on the services sector, a view also supported by Fish who suggested this as a recommendation for the “newborn” Lebanon’s future in his 1944 article. Nevertheless, the economy collapsed due to the perennial problem of corruption and of course due to the devastating civil war.<sup>321</sup> However, which specific stages in Lebanon’s history characterized its course along with the financial ups and downs? Which factors contributed to these economic highs and lows and led to today's informal economy structure in Lebanon?

An important aspect is that Lebanon even during the “golden years”, when it acquired the nickname “pearl of the orient” and it was perceived as a hub between East and West, was

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<sup>319</sup> Smith, Estellie “The Informal Economy” pp.292-317 in Plattner, Stuart (editor) “*Economic Anthropology*” Stanford University Press, Stanford: 1989

<sup>320</sup> Andersen, Roy – Seibert, Robert - Wagner, Jon “*Politics and Change in the Middle East*” Prentice Hall, Englewood Cliffs, 1993, p.360

<sup>321</sup> Milton-Edwards, Beverley “*Contemporary Politics in the Middle East*” Polity, Cambridge , 2001, p74

strongly characterized by informal practices. Of course, most of the Mediterranean countries had high levels of informal economy and still do, suggesting that informal practices could be part of the stereotypically perceived Mediterranean – Middle Eastern behaviour. Nevertheless, Lebanon given some favorable circumstances in an undeniably unfavorable framework projected a short-term but robust economic boom and an unexpected resilience towards the current economic crisis.

According to Gaspard, the second half of the 19<sup>th</sup> century is the actual beginning of modern Lebanon's economic history. Towards the end of the 19<sup>th</sup> century, when the conflict between the Druze and the Maronites started to settle down and the Ottomans provided a relative autonomy to the region, the various religious groupings focused on economic and cultural development. For example, as Gaspard writes, in late 19<sup>th</sup> century we have the appearance of the *mugharasa*, a form of contract which allowed the farmers within 5 to 10 years to acquire a quarter or even half of the land they were using. The farmers though were still reinforced by the continuous remittances from emigrant relatives. It must be noted that since the 19<sup>th</sup> century, remittances were an important economic phenomenon. The relative industrial growth –hugely supported by French capital in Lebanon- was partly derived by the massive silk industry. Gaspard also notes that almost 10%-15% of the population lived off the activity centered around silk.<sup>322</sup> According to Gaspard who quotes Issawi, it is because of this that Lebanon at the end of the 19<sup>th</sup> century had relative economic prosperity with a rather small percentage of poverty coupled with a small percentage of rich people. Issawi suggests that Lebanon at that time was one of the most equalitarian countries in the world.<sup>323</sup>

Between 1860 and 1914, a quarter of the population (approx. 100.000 people) emigrated to Egypt, the Americas and West Africa. Predominantly this was due to high population density, secondly the low agricultural productivity and thirdly the desire to escape from the Ottomans.<sup>324</sup> After the Great War the decline of silk trade and emigration (due to policy restrictions) led to a fall of remittances, however the output significantly increased due to access to better education, communications and the absence of capital shortages.<sup>325</sup> Agriculture still occupies a relatively large percentage of the working force but the overall national economic contribution is minimal, as stated in Chapter 4. Gaspard writes that the

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<sup>322</sup> Toufic K. Gaspard "A Political Economy of Lebanon, 1948-2002: *The limits of Laissez-faire*" Brill, Boston: 2004, p.103

<sup>323</sup> Ibid, p.46

<sup>324</sup> Ibid, p.48

<sup>325</sup> Ibid, p.54

economic expansion of Lebanon without being an exclusively capitalist economy may be imputed to the fact that the country had capital abundance because of the French element. This was coupled with strong foreign demand, the advance of the industrial sector due to mechanization of production processes and capital transfers domestically and overseas, particularly for the lower income groups. Gaspard additionally notes that the extended family institution (and all the unrecorded benefits that it may entail) has vastly contributed to the augmentation of the Lebanese economy during the end of the 19<sup>th</sup> century until the beginning of the Second World War.<sup>326</sup>

In a more sociological approach, Lebanon has advocated clientelism to the point that it is regarded as a matchless case by some scholars.<sup>327</sup> Clientelism has been used to describe informal ties in which services and goods are exchanged between people of unequal status.<sup>328</sup> It is extremely widespread in both shores of the Mediterranean basin; Ayubi particularly makes an excellent and inclusive reference on Lebanon regarding that matter as he views the Lebanese state and its sectarian and informal politics as an incomplete capitalism with a less-than-mature class structure. He also suggests that the state operates as a “financial caste” aligning itself with the forces of political feudalism.<sup>329</sup> Nevertheless, he also mentions that clientelism of this kind must not be perceived as a Lebanese or a Middle Eastern peculiarity as it has been exercised even in the most developed countries in the world, however it is in Lebanon that it is perceived as a mainstream device.<sup>330</sup> Additionally, Lebanon is facing –as a remnant of its hybrid feudal system- a large degree of nepotism. It is so widespread that it acts as a counter-motive, especially among the young people, even for higher education. Some of which believe that there is no point in pursuing senior positions or government careers as jobs are taken even before they are advertised.<sup>331</sup> Therefore, the aforementioned exchange of favors gradually led to an absence of civic conscience and as aforementioned, the lack of financial maturity coupled with the ever-existing virulent corruption, has contributed to the chaotic result of today's Lebanon.

As Gaspard notes, this period is also characterized by the break of the feudal system while according to Rafailides it became the starting point of the creation of a Western type economy interlocked with the capitalist modes of production, and an Eastern type economy

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<sup>326</sup> Ibid, p.99

<sup>327</sup> See details in Ayubi, Nazih “*Over-stating the Arab state*” I.B. Tauris, London, 1995, p.169

<sup>328</sup> Ibid

<sup>329</sup> Ibid

<sup>330</sup> Ibid, p.168

<sup>331</sup> From interview

associated with the Asian modes of production. Which Karl Marx describes the economies as that have not been through the stage of the Western type feudal development?<sup>332</sup> The economic paradox of Lebanon has to be attributed to the coexistence of the two economic models. However, whether this paradox has negative or positive result is a matter of the individual's point of view, possibly even related interests. On the one hand Gaspard and others interpret the situation as a complex combination that showed endurance and resilience over the years, while Rafailides deduced that Lebanon is a noncommittal and vague environment which clearly is an indication that this coexistence is detrimental. The reality is that it is impossible to inherit one of the two conditions as both hypotheses have certain aspects of truth. Both conditions apply to Lebanon as both are a simultaneous result of complex, arduous and lengthy processes that have shaped the present status of Lebanon.

### **From the rejoice of independence to the sorrow of civil war**

Since the proclamation of the Lebanese entity in the 1920s, the establishment of a laissez-faire economy became more conspicuous as the industrial resurgence created a new environment of demand. According to Gaspard, post Second World War the Lebanese economy faced the vigorous opening up of the economy but some less favorable developments also occurred.<sup>333</sup> Gaspard writes that, especially in the period between 1958 and 1964 when Fuad Chehab's regime provided a more efficient framework for the functioning of the market, Lebanon's liberal economic and political environment was unique among the other Arab countries.<sup>334</sup> However, for Owen and Pamuk, despite Chehab seriously trying to alter the economic orientation of Lebanon and restore the socio-economic inequalities, several powerful individuals and the conflicting interests stemming from this reform, did not consent to the developments and the potential adjustments.<sup>335</sup>

In any case, it was a period where trade and specifically transit trade, increased due to the improvement of the Beirut harbor and its free zone. The adoption of a laissez-faire economic direction, according to Gaspard was a natural choice due to the multifaceted socio-political panel that constitutes the ruling elites. Despite that fact, the particular choice also allows Lebanon to operate in a looser framework where rules and regulations have the least

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<sup>332</sup> Rafailides, Vasilis *"The people of the Middle East"* (Οι Λαοί της Μέσης Ανατολής), Eikostos Protos, Athens: 1998, p.298

<sup>333</sup> Toufic K. Gaspard *"A Political Economy of Lebanon, 1948-2002: The limits of Laissez-faire"* Brill, Boston: 2004, p.56

<sup>334</sup> Ibid, p.143

<sup>335</sup> Owen, Roger – Pamuk, Sevket *"A history of the Middle East economies in the 20<sup>th</sup> century"* I.B. Tauris, London: 1998, p.159

possible restrictions. It can be argued that this fact is the “certified” foundation stone of the establishment of informal practices on behalf of the state in the future. The unstable regulatory framework lays the ground for further corruption, money laundering, smuggling and the canonization of informal economic practices and transactions. As Carolyn Gates suggests, deregulation and liberalization were among the top priorities of the Lebanon’s government soon after its independence.<sup>336</sup> It is De Soto that suggests that only a full informalization of the economy can cure the stagnant Latin American economies. Similarly Lebanon fifty years before De Soto’s theory implemented a progressively free exchange market in order to harness the flourishing black market. The relevant legalization of the black market exchange, as Gates mentions, allowed Lebanese capital to move freely throughout the globe.<sup>337</sup> However, the result, as history depicted, was not successful. Neither Lebanon’s laissez-faire model achieved sustainable development, nor the informal economy harnessed. As Gaspard mentions, during the favorable period of 1950-1974 the economic growth of the laissez-faire was not as remarkable as it claimed to be, when in comparison to the performance of other Less Developed Countries or other countries in the region. This situation seems to be even more disappointing according to Gaspard, if it is taken into consideration that Lebanon was in a higher level of income, skills and capital in the post Second World War period than the other regional countries.<sup>338</sup>

Despite the aforementioned, according to Carolyn Gates, by 1951 30% of all private international gold trade went through Beirut.<sup>339</sup> In 1956 the adoption of the Swiss style Bank Secrecy Law, allowed Lebanon to attract –legally and illegally gained- vast amounts of capital. Lebanon due to this development attracted wealthy Arab immigrants and the inflow of capital, which augmented Beirut’s reputation as a financial safe haven.<sup>340</sup> Additionally, according to Owen and Pamuk, the Gulf elites preferred to invest their newly gained capital with the assistance of Lebanese middlemen whom they trusted more than the bankers in London or in New York. Also the closure of the Suez Canal diverted trade through Beirut, expanding even further the capital accumulation in the country and amplifying illegal

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<sup>336</sup> Gates, Carolyn “*The merchant republic of Lebanon: rise of an open economy*” I.B. Tauris, Oxford: 1998, p.86

<sup>337</sup> Gates, Carolyn “*The historical role of political economy in the development of modern Lebanon*” Centre for Lebanese Studies, Oxford: 1989, p.19

<sup>338</sup> Toufic K. Gaspard “*A Political Economy of Lebanon, 1948-2002: The limits of Laissez-faire*” Brill, Boston: 2004, p.98

<sup>339</sup> Gates, Carolyn “*The historical role of political economy in the development of modern Lebanon*” Centre for Lebanese Studies, Oxford: 1989, p.15

<sup>340</sup> Ibid, p15



practices in the free zone. Despite the huge influx of capital in Lebanon, the general population was not in a corresponding level of income. As Gates writes, the main beneficiaries of the status quo were approximately one hundred families of the ruling elites. Those families monopolized the state resources, while the population faced poverty and even lack of basic goods.<sup>341</sup> While the ruling elites fostered political corruption to unprecedented levels, establishing a monstrous bureaucracy which in turn incubated a flourishing informal economy on all the ranks of the state apparatus, other levels in the social stratification also embraced informal economy as a result of this oligarchy. This situation coupled with the constant tendency of the ruling elite not to officially measure the state's capital and resources, suggests a vast amount of capital slipped the official channels under the table.<sup>342</sup>

It can be deduced with confidence that even though the period following Lebanon's independence is not to be held entirely responsible for the country's informal sector, it surely acted as a facilitator of a cognitive process that was assisted by the constant turmoil in the country throughout the 20<sup>th</sup> century. It may have also constituted the foundation for the emergence of a bureaucracy which left little room for other more normative options on behalf of the population and state officials. Meaning that, it probably was the *coup de grace* to an already weary politico-socio-economic environment. However, the Lebanese economy was hit by the additional blow of the civil war which inevitably led to -as any war to does- an additional expansion of the informal norms.

### **From turmoil to reconstruction**

The 1975-90 civil war seriously damaged Lebanon's economic infrastructure and it cut the national output by half. What was perceived as a cultural, financial and trade center of the Middle East almost ceased to exist. Also as Owen and Pamuk note, the inflation skyrocketed with more than a million people migrating the only compensation for the dramatic reduction of income and output was the continued remittances.<sup>343</sup> As happens during any war, the scarcity of products and the inability of the government to provide certain supplies led to an additional expansion and further establishment of the black market and the informal economy. The massive loss of skilled manpower coupled with the diverted expenditures to the military, along with the massive subsidizing of necessities like wheat and petrol, also supported the entrenchment of the informal sector and corruption. This situation was further

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<sup>341</sup> Ibid, p.32-33

<sup>342</sup> For more specific details regarding the national income estimations look in the Owen, Roger – Pamuk, Sevket “*A history of the Middle East economies in the 20<sup>th</sup> century*” I.B. Tauris, London: 1998, p.158

<sup>343</sup> Ibid, p.160

exacerbated by the increased unemployment and the exploitation tendencies that flourished due to the circumstances of the period. According to Gaspard, the “government power weakened and the tax base eroded in favor of numerous illegal ports that were scattered along the coastline of the country and citizens were forced indirectly to pay illegal taxes that were being levied by various militias on commercial transactions”.<sup>344</sup> This whole situation led firstly to the complete lack of auditing because of the weak governance and secondly, coupled with the general turmoil, led to the de facto creation of a new status quo in the way everyday transactions and official bureaucratic engagements are conducted.

The unrest in Lebanon invited the Syrian military presence. The Syrian presence in Lebanon as described in Chapter 2 is also associated with significant informal employment levels, especially in the northern territories. According to Meir Javedanfar, “Syria's presence in Lebanon had a number of positive and negative impacts on the Lebanese economy. On the positive side this “included the availability of cheap Syrian labor which allowed some Lebanese businesses to produce goods at lower costs. Cheap Syrian imports also provided savings to the Lebanese consumer as they had to pay less to purchase their needed goods. Furthermore Syrian businessmen and laborers are believed to hold close to five billion dollars in savings and deposits in Lebanese banks.”<sup>345</sup> However, the downside was that “Syria's leaders -meaning the Assad family- bought the loyalty of Syria's intelligence organization, top generals and businessmen by offering them influence and business opportunities in Lebanon's economy. Therefore in many cases the Syrian officials abused their influence in Lebanon by conducting deals and passing laws which were to their interest and at the expense of the Lebanese economy.”<sup>346</sup> In general Javedanfar notes that the informal economy in Lebanon -a great part of which had Syrian involvement- was damaged by the loss of tax income for the Lebanese government which is estimated to be between \$25- \$30 billion over the last 29 years.<sup>347</sup>

Despite the catastrophic results of the fifteen years of war, occupation, internal strife and financial collapse, Lebanon showed vital signs for its reconstruction. The reconstruction was also assisted by the remittances, which by the end of the war in 1990 and until the present day account for around a fifth of Lebanon's economy. Its robust banking sector has

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<sup>344</sup>Toufic K. Gaspard “*A Political Economy of Lebanon, 1948-2002: The limits of Laissez-faire*” Brill, Boston: 2004, p.189

<sup>345</sup> Javedanfar , Meir “Forecast of the Lebanese economy in the post Syrian occupation era” 01/06/2005 Available at [www.meeepas.com](http://www.meeepas.com)

<sup>346</sup> Ibid

<sup>347</sup> Ibid

also acted as a major pillar for state finances and hugely supported the recovery after the war. Additionally the resilience of the small and medium size business assisted the recovery process; however the debate is ongoing whether this resilience is a result of the Lebanese flexibility or as a result of the informal economy interconnections. Besides this the basic economic structure of Lebanon, based on a long tradition of free market economy, was even after the war still strong enough to support a firm recovery. As Kari Norkonmaa mentions, the undisputed informality of the Lebanese economy coupled with the acknowledged assets located in the low level of personal and corporate taxation, along with the absence of discriminatory tax barriers to foreign investments, the unrestricted currency convertibility and the absence of capital controls has acted as the driving force of the remarkable ability of the country to re-emerge after problematic phases.<sup>348</sup> As Gaspard notes similarly to Norkonmaa, Lebanon proved to be a strong attractor of people and capital against a background of political instability and economic dirigisme.<sup>349</sup> Once again the informal economy in Lebanon appears to be a paradox. On the one hand we may assume that it facilitated the economic downfall especially during the various phases of unrest and turmoil, and on the other hand it can be assumed that it assisted the reconstruction after those periods.

Generally, Lebanon exhibited extraordinary resilience towards hardship and financial crises. Perhaps, it occurred due to the well tested economy, because of the frequent conflicts – which the population became somewhat sensitized to - the general political instability and the constant high risk economy. Lebanon absorbed rather stoically, the after-shocks of the global economic meltdown after 2008.<sup>350</sup> As the IMF states, “the Lebanese economy, despite its vulnerabilities, has shown a remarkable macroeconomic performance. Lebanon’s public debt-to-GDP ratio remains very high, its large banking system is highly exposed to the sovereign and dependent on nonresident deposit inflows, and the country lies at the crossroads of regional political tensions.”<sup>351</sup> Additionally, remittances were seriously hit because of the crisis, but they remained a vital injection to the Lebanese economy maintaining the vast percentage of input they have obtained since the 19<sup>th</sup> century. However,

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<sup>348</sup> Norkonmaa, Kari "The reconstruction of Lebanon" From the third Nordic conference on Middle Eastern Studies: Ethnic encounter and culture change Joensuu, Finland, 19-22 June 1995. Citation found at [www.smi.uib.no/paj/Norkonmaa.html](http://www.smi.uib.no/paj/Norkonmaa.html)

<sup>349</sup> Toufic K. Gaspard "A Political Economy of Lebanon, 1948-2002: The limits of Laissez-faire" Brill, Boston: 2004, p.143

<sup>350</sup> Antelava, Natalia "Lebanon 'immune' to financial crisis" Available at [http://news.bbc.co.uk/2/hi/middle\\_east/7764657.stm](http://news.bbc.co.uk/2/hi/middle_east/7764657.stm)

<sup>351</sup> IMF Executive Board Concludes 2009 Article IV Consultation with Lebanon, Public Information Notice (PIN) No. 09/49 April 17, 2009. Available at [www.imf.org/external/np/sec/pn/2009/pn0949.htm](http://www.imf.org/external/np/sec/pn/2009/pn0949.htm)

the IMF also states that despite Lebanon's success in recent years, the wrong set of circumstances could easily translate into severe financial troubles. This projects that Lebanon apart from the exceptional flexibility that it displays, can also be extremely -if not vulnerable- sensitive to international and domestic economic variations and downturns. It is certain that it was not sheer luck that assisted Lebanon through the various crises but the knowledge that the likelihood of future shocks was a possibility and avoiding an over-reliance on the factors that have preserved Lebanon.

Conclusively, there is no breakpoint between the early informal practices and the current experiences of informality. The continuation of those practices is deeply entrenched in the mindset, not only of the Lebanese people but almost in the entirety of the Mediterranean nations. In general all the foretold events and processes, shaped Lebanon's economic present and determined the intensity of the current informal economy levels.

The conflicting interests throughout the state apparatus and the societal web seem to have undermined the state's capacity to deal with the emergence of miscellaneous issues concerning the economy and the society. They also led to the various conflicts and the emergence of robust political mobilization and the establishment of social, political and perhaps confrontational movements like Hezbollah.

In the next section, I will briefly analyze the current status of the Lebanese informal economy, displaying the elements that nourish its expansion.

## **The informal economy in Lebanon and its components: Conceptions and misconceptions**

In earlier chapters I analysed the four key drivers of the informal economy as they are presented in the wide-reaching context by international literature. Those four key drivers constitute the core of the informal transactions in any given state. Even though, glimpses from Lebanon's point of view on those key drivers have been referred to, this section will solely look at the aspects of the informal economy in Lebanon from a contemporary perspective. The following analyses the components of Lebanon's informal economy whilst clarifying the potential conceptions and misconceptions regarding the informal practices and transactions in the country. This section draws its content from secondary material and it will provide the foundation for the following research chapter which analyses the same key drivers and aspects of the informal economy by the primary material gathered.

So, what characterises contemporary Lebanon in terms of the informal economy? Lebanon over the years has developed various names and distinct reputations. Most of those characterisations were not for reasons that someone would regard as flattering, however despite its consecutive wars and upheavals Lebanon has shown a remarkable capacity for rapid reconstruction. In the previous sections of this chapter, I have examined the reasons behind the emergence and expansion of the informal economy in Lebanon. In this section light will be shed onto the intensity and nature of the four key drivers as referred to in the previous chapters. Also I will attempt to analyse the various micro-components of those key drivers. Those micro-components can be traced for example in the implication of the diverse social stratification of the country in the wider informal structure.

In Lebanon today, officially one in four people are below the poverty line.<sup>352</sup> However, those figures can be extremely misleading since there is no accurate consensus and Lebanon is probably among the first recipients of formal and informal remittances. As mentioned in the remittances chapter, Sabri estimates that the total remittances transferred in 2004 which were approximately 188 billion dollars, makes Lebanon the probable biggest recipient with 5.6 billion dollars in 2006.<sup>353</sup> According to an article of Robert Worth, the Lebanese Diaspora supplies Lebanon with about fourteen hundred (1.400) dollars per capita every year, which is one of the highest rates of remittances in the world. Worth also adds that those transfers are one of the pillars sustaining the consumer economy, but they do not contribute to the country's soaring public debt or to the lack of long-term investment here.<sup>354</sup> Also, according to Gaspard the overall external trade balance continues to rely on the workers' remittances. He continues that many lower income groups complement their low incomes and therefore avoid joining the ranks of waged employment.<sup>355</sup> This also demonstrates the ease by which many Lebanese workers are able to join the ranks of the informal employment and commerce sector without being worried about the risks and the potential disadvantages. Their livelihood is maintained by the support of the remittances and the tax-free income earned through their involvement in the informal sector. However, this is not the case for all the remittances recipients but it is a rather characteristic example of the

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<sup>352</sup> [www.nationmaster.com/graph/eco\\_pop\\_bel\\_pov\\_lin-economy-population-below-poverty-line](http://www.nationmaster.com/graph/eco_pop_bel_pov_lin-economy-population-below-poverty-line).

<sup>353</sup> Sabri, Nidal Rashid "Financial Markets and Institutions in the Arab Economy" Nova Science, New York: 2008

<sup>354</sup> Worth, Robert "Home on Holiday, the Lebanese Say, What Turmoil?" *Beirut Journal* December 24, 2007. Also available at [www.nytimes.com/2007/12/24/world/middleeast/24lebanon.html](http://www.nytimes.com/2007/12/24/world/middleeast/24lebanon.html)

<sup>355</sup> Toufic K. Gaspard "A Political Economy of Lebanon, 1948-2002: The limits of Laissez-faire" Brill, Boston: 2004, p.200 and 226

reliance which parts of the society adopt which lead to greater economic good. Apart from that, as Kapur mentions, remittances acted as an insurance mechanism especially during the civil war when inflation, black market and the vast job losses significantly affected large parts of the society.<sup>356</sup> The informal remittances, which are largely transferred through unconventional transfers systems like hawala, have been funnelled by the recipients to various causes as described in chapter 2. However they also provide the necessary means for further involvement in the informal practices, as many in the population see remittances as constituting the needed income for bribes and unavoidable petty corruption. Understanding the size of informal remittances is mind boggling, as according to Sander and Maimbo, remittances can even reach 85% of the total receipts.<sup>357</sup>

The vitality of informal remittances for Lebanon can be also explained by the fact that due to frequent upheavals when the formal apparatuses are disturbed, informal channels are the only system that can still operate unhindered. Also as shown in chapter 2 remittances entail macroeconomic and microeconomic effects. The macroeconomic effects cannot be seen clearly as the lack of specific figures for most of the indicators in Lebanon, is a major problem. However, as mentioned above as well as in chapter 2 the macroeconomic effects of the remittances constitute a battlefield for the literature as some authors identify a certain lack of long term contribution whilst others foresee contribution at least regarding the balance of payments. On the other hand, the microeconomic effects in Lebanon have vital importance as the remittances are mostly channelled directly to the maintenance and support of the households. Not only in terms of basic needs and goods but also in terms of unscheduled financial needs, that frequently occurs due to the insubstantial state apparatus and the inability to access services without strengthening the existing informal patterns.

Which brings us to another major component of the Lebanese informal economy; corruption. Despite the relatively open economic environment and capitalistic façade of Lebanon's economy, the fathomless levels of corruption in the country comprise a serious restraint to sustainable development and an obstacle to the investment opportunities which do not wish to adopt bribery practices. According to Brownsberger, sociological and cultural factors such as customs, family ties and high levels of clientelism, also constitute potential

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<sup>356</sup> Kapur, Devesh "Remittances: The new development mantra" in Maimbo Munzele, Samuel – Ratha, Philip "*Remittances: Development impact and future prospects*" World Bank Publications, 2004, pp.331-360

<sup>357</sup> Sander, Cerstin – Maimbo, Munzele Samuel "Migrant remittances in Africa: A regional perspective" in *ibid*, pp.53-79

sources of corruption which has found acceptance in the social psyche and behaviour.<sup>358</sup> Corruption in Lebanon is deeply entrenched to each and every aspect of daily life. Corrupt practices stem from every level of the social stratification, from political scandals involving the ruling elites to small facilitating bribes which can be engaged by almost any citizen. The problematic case of Lebanon stems exactly from the aforementioned fact. Some countries which are perceived as corrupt have a relatively high degree of grand corruption, meaning state officials exploit the state's resources for particular interests. Other countries have higher levels of petty corruption. Lebanon portrays extremely high levels on both types of corruption.

The numerous scandals revealed over the last few years damaged the credibility of Lebanon on the world stage, but they have potentially attracted back door investment opportunities which would otherwise be lost. However, since there is credible data to make these estimations it is rather debatable if the overall input can offset the official losses in terms of state revenue and long term returns from the actual growth. Unfortunately most of the scandals do not contribute to the overall growth, not even marginally, as they represent pure losses on behalf of the state. For example, the loss of money at the state-run Electricite du Liban or the mismanagement at the financially unstable Al-Madina Bank,<sup>359</sup> as well as specific examples of political corruption even involving top officials like the Prime Minister Rafik Hariri who allegedly –according to Sfakianakis- used the banking system to launder money from his foreign-based companies and facilitated deposits from his close friends.<sup>360</sup> An intermediate situation stems from the state contracts and licences as both the ruling elite and senior and junior state officials could be involved. For example, for a state construction or licensing contract this could be arranged by the regime elites, but the in-between dealings involving suppliers etc are dealt with by lower state officials who draw on state funds or grants and loans received through international bodies. The situation becomes more dramatic if we consider that according to Transparency International, Lebanon's economy heavily relies upon foreign aid and support for post-war reconstruction.<sup>361</sup> Those two elements are grey areas for financial abuse and embezzlement. For example according to Sfakianakis the

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<sup>358</sup> Brownsberger William "Development and Governmental Corruption - Materialism and Political Fragmentation in Nigeria" *The Journal of Modern African Studies*, Vol. 21, No. 2 (Jun., 1983), pp. 215-233

<sup>359</sup> Thomas, Luke "Survey on global corruption hurts Lebanon" *Digital Freedom Network* 10<sup>th</sup> September, 2003, Also available at [www.dfn.org/dfn\\_news.shtml](http://www.dfn.org/dfn_news.shtml)

<sup>360</sup> Sfakianakis, John "Gray money, Corruption and the Post-September 11 Middle East" *Middle East Report*, No 222 (Spring 2002), pp.32-39

<sup>361</sup> "National Integrity System Study: Lebanon 2009" The Lebanese Transparency Association: 2009, p.11

accumulated funds regarding the mobile network licensing was more than 2.3 billion dollars and the main beneficiaries were the ruling elite, several businessmen and some bankers. Sfakianakis also notes that one of the two licences was eventually awarded to the son of the minister of defence who is married to Hariri's stepdaughter.<sup>362</sup> This situation is also assisted by the lack of government transparency and the lack of rule of law. According to Yacoub private sector investors would only enter a market if they had cut deals with governing elites.<sup>363</sup> Moe and Esfahani mention that according to the UN over 43% of foreign companies in Lebanon "always or very frequently" pay bribes and another 40% "sometimes" do.<sup>364</sup> As the National Integrity System Study mentions "the perennial concern as regards law enforcement in Lebanon is that those in power will use it as a political tool to protect the interests of the elites: sectarianism, as in all parts of the political process, is embedded into the leadership positions of security agencies."<sup>365</sup> Nevertheless, sectarianism is a widespread problem in Lebanon enhancing the clientelism, favouritism and nepotism in the country, to the extent of becoming a social problem as meritocracy due to this situation is almost non-existent.

The situation is quite similar when it comes to petty corruption in Lebanon due to the aforementioned sociological aspects - as explained by Brownsberger earlier - contribute to the light hearted views on corruption and the extensive use of it by the Lebanese population. As Moe and Esfahani note, it seems that most Lebanese, regardless of their religion, social status, location, political affiliations or wealth, are unwilling to change the present system, not because they are ignorant of its consequences, but because they have developed a stake in maintaining it.<sup>366</sup> This is the result of the relative convenience that corruption offers within a state that portrays vast inability to provide essential bureaucratic services. On the other hand, in a more social perspective as Al-Azar mentions, the beast of corruption in Lebanon seems to be so invincible that the people of Lebanon have become resigned to the problem.<sup>367</sup> Most

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<sup>362</sup> Sfakianakis, John "Gray money, Corruption and the Post-September 11 Middle East" *Middle East Report*, No 222 (Spring 2002), pp.32-39

<sup>363</sup> Yacoub, G. "Lebanon Security Dilemma: A Strategic Reading into Lebanon's Political History" *Global Integrity*, 68, Washington DC: 2005. Citation found in Farida Moe and Ahmadi-Esfahani, Fredou "Corruption and economic growth in Lebanon" from Australian Agricultural and Resource Economics Society 52nd Annual Conference, February 5-8, 2008, Canberra, Australia

<sup>364</sup> Ibid, p.3

<sup>365</sup> National Integrity System Study: Lebanon 2009" The Lebanese Transparency Association: 2009, p.80

<sup>366</sup> Ibid

<sup>367</sup> Al-Azar, Maha "Lebanon: Reporter's Notebook" <http://report.globalintegrity.org/Lebanon/2007/notebook>



of the surveys conclude that in Lebanon vast amounts of money being spent on bribes,<sup>368</sup> constituting corruption is probably the most -hard to be dealt with- negative component in the informal economy. It is no wonder how Lebanon leaped from the 102<sup>nd</sup> position to the 130<sup>th</sup> in the 2009 Corruption Perception Index drafted by Transparency International. The major problem seems to be that even though the general population arranges daily transactions in that particular manner, the whole situation leads to a further expansion of exploitation and enhances the establishment and application of those practices. I will not provide specific examples from the daily encounters with corruption as in the research chapter I have gathered a significant amount of first hand evidence which will offer a convincing outlook on the current situation in Lebanon. Instead of a conclusive remark I will quote Moe Farida and Fredou Ahmadi-Esfahani as I did in the literature review chapter which dealt with corruption. "...corrupt practices in Lebanon are at the core of the political system to the extent that even the most optimally designed institutions might fail in combating corruption as society's norms appear to rationalise taking bribes, and the country's elites regard politics as an arena for self-enrichment."<sup>369</sup>

On a similar notion, based more or less on the same motives as described above, Lebanon over the years developed a rather strong base of informal, small and medium businesses or formal businesses. Which informally occupy workers and an even larger base of self-employed who constitute the foundation for the informal employment and commerce sector, possibly the backbone of the entire economic structure of Lebanon. A significant number of the Lebanese workforce works and functions in the informal sector according to the ILO, 61% of Lebanese workers work informally.<sup>370</sup> This is another attribute which participates in the informal economy structure in the similar twofold perspective as corruption. On the one hand, employers save money through tax evasion and administration fees while the state loses significant revenue, impacting on the quality of social security - which in the informal sector is non-existent- which in extension does not really trouble the population as they think that the state - due to the high levels of corruption - will spend the money on irrelevant ventures anyway. Of course, according to an ILO study the majority of the concessions stem from the workers who are obliged "to accept lower terms and conditions

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<sup>368</sup> <http://www.nowlebanon.com/NewsArticleDetails.aspx?ID=128060>

<sup>369</sup> Farida Moe and Ahmadi-Esfahani, Fredou "Corruption and economic growth in Lebanon" from Australian Agricultural and Resource Economics Society 52nd Annual Conference, February 5-8, 2008, Canberra, Australia

<sup>370</sup> "Country Brief: Advancing Women's Employment in Lebanon: ILO in Action" International Labour Organisation, Regional Office for Arab States, Available at [www.ilo.org.lb](http://www.ilo.org.lb)

of work as they are forced to compete with foreign migrant workers. Additionally they cannot rely on the various trade unions, which are fragmented and consumed in political party struggles”.<sup>371</sup> However, the situation becomes even more complex as a significant percentage of the informal workforce in Lebanon is self-employed, therefore employer and employee are simultaneously the “exploiter” and the “exploited”. Of course, those self-employed people (and partly the waged ones) are also divided between those who work in the informal sector because of their reliance on remittances or because they already have a job in the formal sector (moonlighting), and those who work in such a manner because it is the only means of survival.

Another parameter that supports the expansion of the informal sector is the legislation vacuum regarding the Palestinian refugee presence. Many authors support the notion that Palestinians are regarded as second class citizens. The reality is that they are not even citizens. It was not until 2005 that Palestinian refugees had official rights to work in Lebanon. There was clear projection of discrimination as the Palestinians thrived during the golden years of Lebanon as bankers and entrepreneurs by supporting the economy with a massive influx of capital.<sup>372</sup> Evidently, it goes without saying that Palestinians are actually barred from getting jobs in the state bureaucracy.<sup>373</sup>

As a result, the majority of the Palestinian workforce in Lebanon increasingly resorts to the informal economy as the only means of support. The problem in Lebanon regarding the Palestinians can be partly attributed to the principle of reciprocity.<sup>374</sup> Apart from the aforementioned principle, the legislation vacuum offers very limited options to the Palestinians. According to Baraka, those options are firstly to work by membership in a syndicate which is practically impossible because Lebanese nationality is a prerequisite and only a small minority of Palestinians are granted one. Secondly, to work by attaining a work permit, but the extensive level of the bureaucracy involved and the relatively high cost of obtaining one makes the procedure unapproachable. Lastly, there is the obvious option of

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<sup>371</sup> Ibid

<sup>372</sup> Baraka, Hoda “*Palestinians in Lebanon: Chains of Misery (Bound by the Law and the Market)*” FMRS Working Paper No. 9, February 2008, p.3

<sup>373</sup> [http://almashriq.hiof.no/general/300/320/327/fafo/reports/FAFO177/5\\_2.html](http://almashriq.hiof.no/general/300/320/327/fafo/reports/FAFO177/5_2.html)

<sup>374</sup> The principle of reciprocity means that the Lebanese will grant foreign workers their rights in Lebanon in accordance to what right would be granted to Lebanese workers in their respective countries. The problem is that the Palestinians have no official state. More details in Baraka, Hoda “*Palestinians in Lebanon: Chains of Misery (Bound by the Law and the Market)*” FMRS Working Paper No. 9, February 2008, p.3.

working in the informal sector where no permits are granted or laws exist.<sup>375</sup> Palestinian involvement in the informal sector is also assisted by the fact that the Palestinian Authority which was responsible for the maintenance and financial support of the refugee camps, in which almost half of the Palestinian presence in Lebanon lives, has been deteriorated and coupled by the minimal contribution of the Lebanese state, these people seek refuge in the ranks of the informal economy.<sup>376</sup>

Palestinians constitute an important part of the Lebanese working force regardless of the fact that their contribution will not be included in any formal economic assessments. This situation does not seem to improve despite efforts to simplify the issue. However, lately certain moves on behalf of the government seem to head towards a more elastic arrangement.

The last major component of the informal economy is criminal activities. Of course, as mentioned in previous chapters the informal economy as a whole could be characterised as illegal, however since a strong element of survival is involved, there are some sociological and possibly psychological concessions made. Consequently criminal activities are only perceived as those actions performed by organised crime organisations, terrorist groups and other illegal and legal networks which carry out questionable transactions. Lebanon due to its laissez-faire economy managed to attract throughout the years, various dubious figures which used the country for necessary capital flight in order to launder their ill gotten gains or base their illegal activities since it always acted as a hub for those transactions. Also, as shown in previous chapters, money-laundering and drug trafficking along with smuggling comprised a significant part of the informal labour and commerce industry, therefore contributing significantly on the survival of various social groups and exploding the informal economy activities, which consequently cost the state absurd amounts of revenue. Of course the situation is still assisted by state officials and the intensive interconnection of the state with groups and organizations of specific ideological orientation, practising illegal or corrupt activities. Hezbollah for example, despite how the Lebanese view them, is perceived by a sizeable portion of the literature and several international actors as a radical Shiite organization with nefarious connections with Iran. The Hezbollah case is special as it has combined, as David Thaler mentions, political participation with armed resistance and

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<sup>375</sup> Ibid, also look in the Al Natour, Suheil, "The Legal Status of Palestinians in Lebanon" in *Journal of Refugee Studies*, 1997, Vol. 10, No. 3.

<sup>376</sup> [http://almashriq.hiof.no/general/300/320/327/fafo/reports/FAFO177/5\\_2.html](http://almashriq.hiof.no/general/300/320/327/fafo/reports/FAFO177/5_2.html)

terrorism,<sup>377</sup> but the peculiarities of such statement were discussed in the illegal networks chapter. However, as Karazik and Bernard support, Hezbollah is a beneficiary of the drug business and specifically from poppy crops in the Beqaa valley.<sup>378</sup> Generally, Karazik and Bernard continue that all the illegal networks capitalise on cigarette, diamond or weaponry smuggling, and many organizations are involved from Lebanon –including Hezbollah- as bank accounts have been discovered linking those groups with the particular activities.<sup>379</sup> Of course, all the aforementioned criminal activities use the sophisticated formal and informal banking systems in Lebanon to launder their capital, taking advantage of the status of Lebanon as a safe haven for such activities. Also they are attracted by the relative ease which state officials will look the other way for the correct price. Apparently the role of Hezbollah is not restricted on those activities. As explained in the following chapters, Hezbollah play s a prominent role in the political scene of Lebanon and also acts as a provider of social services. It is probably the systemic inadequacies within Lebanon that promote the emergence of radical social -or not- movements like Hezbollah and compel them to step in and replace the partial and insufficient governmental capacity to provide. However, it is not uncommon for a social benefactor or a charitable entity to be involved in rather shadowy affairs.

Additionally, apart from the aforementioned criminal activities, which in their majority portray a transnational predisposition, there are the manifold local criminal networks which drive the prostitution rings, the extortion networks. Especially for night clubs and similar businesses and the common thievery networks including the dealers of stolen goods. Of course Lebanon does not behold the reputation of Dubai, for example, which is the main attractor of smugglers, traffickers, and terrorists as well as transnational organised crime groups since the use of the alternative transfer system like hawala is widely acceptable. Nevertheless, on a similar basis Lebanon is a well established “washing machine”. In a probably deliberate manner the state allows the existence of such activities within Lebanon as certain interests are served.

It is quite apparent from this that despite the positive or negative aspects of the informal economy components, one feeds the other in a perpetual vicious cycle. Remittances are vital but the use of informal transfers systems assist radical groups and facilitate money

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<sup>377</sup> Thaler David “The Middle East: The cradle of the Muslim world” pp.69-144 in the Rabasa, Angel – Bernard, Cheryl – Chalk, Peter – Karazik, Theodore – Lal, Rollie – Fair, Christine – Lesser, Ian – Thaler, David “*Muslim world after 9/11*” Rand Corporation, Arlington: 2004

<sup>378</sup> Karazik, Theodore and Benard, Cheryl “Muslim Diasporas and networks” pp.433-475 in *ibid*

<sup>379</sup> *Ibid*, of course this not the only proof the links those groups with the particular activities but only Karazik and Benard mention.

laundering processes. Additionally the informal employment and commerce sector on the one hand is assisted by the partial reliance on remittances and on the other by the legislative vacuums and high levels of corruption. This in turn also aids the progress, expansion and sustainability of many illegal networks which support the informal sector to some extent. It seems that the very features which assist the country for its rapid reconstruction and its remarkable ability to overcome serious socio-economic problems are the same features which undermine the country and feed its destabilising elements. For example Lebanon at the moment has significant cash abundance in the middle of the financial crisis. The presence of the various illegal networks coupled with the high degree of political corruption, assists the capital flight in the country. As an IMF survey notes the “remarkably stable deposit inflows, mostly from the large Lebanese Diaspora and foreign investors”<sup>380</sup> act as a shock absorber for the sudden economic disturbances in the international markets. However, as mentioned earlier this is not a sign of robust and sustainable economic performance.

This vicious circle has actually led to a series of conceptions and misconceptions regarding the effects of the informal economy. Chen et al in their book, illustrate the old and new views of informal economy. The dissection of the views they have attempted has been used by almost every scholar and author who deals with informal economy. Literally, it can be found in hundreds of references. In this section, I will reassign those views from the perspective of Lebanon.

The old view that the informal economy is obsolete and the technological advancements will weaken it, never applied in the case of Lebanon.<sup>381</sup> On the contrary, Lebanon throughout the years has projected an expansion of its informal economy. However, according to Chen, the contemporary view proposes that the informal economy is highly productive and it is a major provider of employment.<sup>382</sup> This is partly true, but only if we see the informal economy as a single entity. For the lower social strata, the informal economy is only marginally productive and it only provides the necessary means of survival. It mostly benefits the corrupt ruling elites and strengthens the illegal networks.

Also, Chen et al view the contemporary informal economy from a rather structuralist point of view, while the old view suggested a purely dualist perspective. In Lebanon, the

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<sup>380</sup> IMF Executive Board Concludes 2009 Article IV Consultation with Lebanon, Public Information Notice (PIN) No. 09/49 April 17, 2009. Available at [www.imf.org/external/np/sec/pn/2009/pn0949.htm](http://www.imf.org/external/np/sec/pn/2009/pn0949.htm)

<sup>381</sup> Alter Chen, Martha, Vanek, Joann, Carr, Marilyn “*Mainstreaming informal employment and gender in poverty reduction: a handbook for policy makers and other stake holders*” The Commonwealth Secretariat, London : 2004, p.20

<sup>382</sup> Ibid

society and the economy run in multiple speeds, as the socio-economic inequality is vast. Meaning that, there are manifold occurrences –usually on a small scale- where the informal economy in Lebanon projects a rather autonomous formal sector position, while in other cases it is part and parcel. Additionally, in Lebanon due to the lack of equal opportunities in the formal sector, many people resort to informal employment. However this does not suggest that there is a surplus of labour –as the old view suggests- or that Lebanon has been keen on informalization of previously formal employment relationships as the new view supports.<sup>383</sup> The reality legitimises both views as valid in Lebanon’s case.

What is more, the old-fashioned view suggested that the informal economy is solely consisted of street vendors and small scale producers.<sup>384</sup> In this instant, Lebanon is in absolute conformity with the new view which suggests that the informal economy is consisted of a wide range of informal occupations, as well as, the existence of the illegal networks which represent a huge fraction of the informal economy in the country. Nevertheless, another aspect of the new view proposes a rather limited percentage of illegal activities involved and it suggests that the informal economy is constituted mainly by the working class. However, as mentioned above and in previous chapters the illegal activities are abundant, and there is a rather significant presence of the ruling elites in the informal norms. In this instance Lebanon is a case in its own right, as it is not adequately represented by either of the two views, neither from the old perception nor from the newer one.

Lastly, the final distinction deals with the effect of economic policies on the informal economy. The old view suggests that since informal economy exists only for survival purposes, there are no underlying effects due to any economic policy alteration. While the new view suggests that the informal economy is not only for survival purposes but also grounds for stable enterprises and dynamic growing businesses, which is affected by most of the economic policies.<sup>385</sup> First of all, the informal economy is not solely reflected by the informal labour. Secondly, it can be argued that in both views potential economic policy alterations –if substantial- could affect the informal economy even if it was only a tool for survival.

Finally, the informal economy in Lebanon is not affected by any economic policies as corruption and the other illegal practices are for personal gain, thus no matter what the

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<sup>383</sup> Ibid

<sup>384</sup> Ibid

<sup>385</sup> Ibid

economic framework suggests, people will always be self-seekers. Even if we assume that the issue is stricter legislation and firmer regulation, the problem for the policy makers and the regulators is that the informal economy is stronger than the usually weak political decision. The informal economy has immediate application and effects of whatever it dictates within the society and the economy. The instantaneous results are the factors that make the informal economy being preferable, admirable and penetrative. People - even though they usually want to believe the empty promises that stem from the politicians - always take their own measures to support and prop up their livelihoods. This is in part because in their minds they know that promises will remain promises. Nevertheless, there is another view which suggests that even if the promises were not futile and Lebanon had a healthy state apparatus, the Lebanese population would still choose to function in the same way that they do now. This view will be discussed in a following chapter.

## **Conclusion**

Lebanon since ancient times was at the epicentre of the economic activity of the known world. With a long-standing tradition in commerce, the country managed throughout the years to be established as a focal point for financial services, trade, as well as trafficking and money laundering. Its laissez-faire economic orientation, assisted the formulation of a highly productive and profitable economic environment and yet an exceedingly failing corrupt state apparatus. This condition was assisted by long-lasting interventions of exogenous influences in the country (Ottomans, French), by the exorbitant sectarian status of its society and by the incessant conflicts and subsequent havoc. The latter particularly, probably constitutes the most fertile ground for the emergence of informal practices. The recurring theme of war and upheaval in the country crippled the state apparatus numerous times setting the clock of development back time and again. However, despite the regression that the various wars have inflicted on Lebanon, the country showed an astonishing resilience towards the global financial crisis from 2008 and on, which was preceded by another major conflict.

Generally, the present economic conditions in Lebanon along with its broad informal economy are the result of the long-lasting fermentations of traditional and modern which include the cultural characteristics of the region, coupled with the strong institution of the extended family and kinship. These antiquated characteristics, coupled with the extra complications set by the extensive sectarianism in the Lebanese society, provide a volatile

and capricious politico-economic environment susceptible to corruption, defiance of the rule of law and informal ways.

Although, Lebanon is certainly a unique case due to its complex socio-economic features it represents the archetypal model where all potential aspects of informal economic activity may occur. Lebanon is an eclectic mix in terms of societal divergence, economic balance and income distribution. Each of the four key drivers, which represent the mainmast of the informal economy, blends in Lebanon in a remarkably interconnected and interdependent way. In the next chapter I will closely look at the aspects of the informal economy in Lebanon as mentioned earlier via the primary material gathered.



## **CHAPTER 7 Research Methodology**

### **Introduction**

The focus of this chapter is to explain the research methodology of this thesis, which assisted in the elaboration of the secondary and primary data. The basic analytical tool, which links all the chapters together, is Force Field Analysis. In order to establish all the objectives of the research, I have disbanded the informal economy into four different variables. Each variable or key driver stimulates the core of the Force Field Analysis in proportion to its input. The input of each key driver is examined and analysed through the primary and secondary material of this research. This section, apart from the analytical methods of this paper also provides the data collection methods and the coding process and analyses the respondents groups according to their properties as well as the difficulties, which occurred in the process of the research mostly due to the delicate and controversial nature of the thesis.

The primary objective of this thesis is to establish the balance of the informal economy within the Lebanese state and society through a situational and empirical form of research, which displays the beneficial and detrimental aspects of the informal economy for the Lebanese state and population. Also the secondary objectives of the research explore the overall perceptions and theoretical background of the informal economy in Lebanon, which would acts as the base of the informality in the country. Furthermore this enables an understanding of the settings within which informal economy operates and provides a sound understanding of its components. Additionally, the secondary objectives include the assessment of the contribution of the informal economy in Lebanon and also consider the determination of the interconnections of the components of informal economy within the state and the society. Lastly the determination of the theoretical framework on which the informal economy expands and fuels its operation will be analysed via the loose implementation of the grounded theory, and the association of analytical methods of the thesis.

### **Analytical Method; Force Field Analysis**

In the beginning of my research I have gathered tons of material that needed classification. The vague idea of informal economy had to be dealt in various levels. I wanted to include all the important factors that influence the informal economy without being disoriented by less

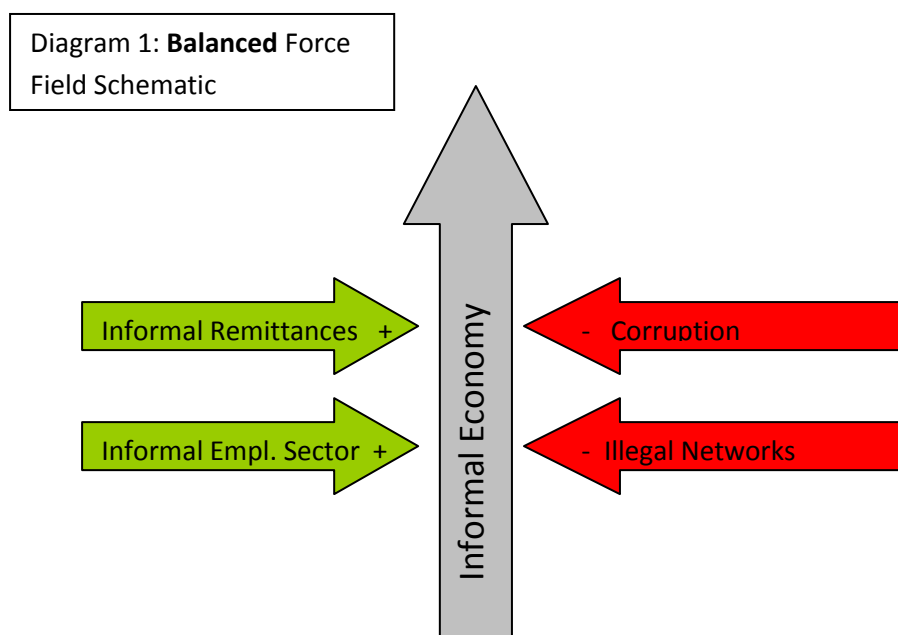
important ones while at the same time the analytical method will allow me to determine the beneficial or detrimental values of those components. Initially it was rather difficult to establish the importance and weight of each component or key driver. For example, in the initial stages of the interviews I was convinced that corruption in Lebanon is not so bad after all and that is actually needed. When I gathered all the material I divided the data into the respective key drivers. In the first phase were more than four. For example, a key driver named zakat (charities) was included in the spectrum. However, in the process it was proven that the zakat could not be a standalone key driver. The overall impact as an economic activity was not so significant to influence the entire economic structure. Thus it was briefly included in the appropriate sections. A preliminary bibliographical scan pretty much paved the way for the main key drivers. The main core of informal economy for most of the academia is situated in the informal modes of production, employment and trade. As those components are vastly interconnected employment and trade had to be investigated under the same banner. In the research, I realised the informal employment and trade could be a unique body of water. Informal workers could be traders at the same time. Therefore, in order to avoid confusion and the existence of two similar chapters in the literature review, the informal trade and employment is presented as a single chapter. It was obvious from the very beginning that remittances (informal or not) play a significant role in the Lebanese economy and they deserve to be a component on their own. Corruption also provided vast amounts of books and articles and during the field research the data gathered for corruption alone were overwhelming. The illegal networks were more complex as I ended up including Hezbollah into the same key driver and the variables within this category were manifold. The inclusion of an adequate sample of the illegal activities was probably one of the most arduous tasks in this thesis. However, for the sake of balance I managed to display the illegal organizations' and Hezbollah's dubious activities under the same banner.

The technique of Force Field Analysis as developed by Kurt Lewin,<sup>386</sup> belongs to the family of soft analytical techniques that have originated from social and psychological sciences. The approach permits a 'situation', individual or area of interest to be examined by analysing the forces or key drivers of change that impact on the condition of the subject. These drivers of change can be innumerable, and will depend solely on the analyst's requirements in considering the subject space. It is said to represent a 'tug of war' type

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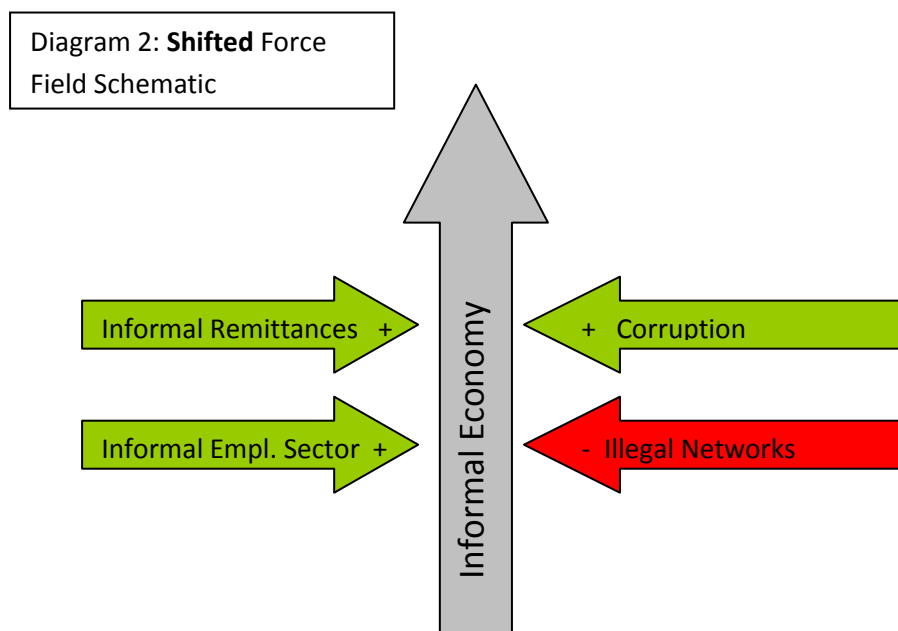
<sup>386</sup> For further information regarding force field analysis please refer to Lewin K "Defining the Field at a Given Time." *Psychological Review*, 50: 1943 pp.292-310, Republished in *Resolving Social Conflicts & Field Theory in Social Science*, Washington, D.C.: American Psychological Association, 1997

system whereby positive and negative factors hold the subject in balance (see diagram 1). By shifting one or more of these balancing factors the subject area changes, changing the equilibrium, and thus reflecting a new environment (see diagram 2). The similarities of Force Field analysis with the qualitative factor analysis are not from first glance staggering. However, why using this method over a more well known one? First of all, this was the main reason. I wanted to use a tool that looks like qualitative factors analysis; it has most of its advantages and most importantly most of its disadvantages. Also the lack of association of the force field analysis with mathematical models really suited the rather informal approach I used in the field research and the lengthy literature review. I thought that Force Field would be an appropriate method to model such an intangible and subjective area. Also Force Field analysis provides a relative autonomy in the examination of the key drivers as some of them could be disconnected from each other but intrinsically connected with the main theme. Force field analysis really complements my theoretical background and interests and I felt really comfortable and liberated using it.



With regard to the scenario development the process has been taken forward an extra step by the British Ministry of Defence. Rather than focusing on the balance of power the interest

shifts to the changing nature of the subject once the forces have altered. This produces a new dynamic to the force field and thus permits the analyst to consider alternative futures based on the key drivers of change, modifying the balance (see diagram 2). This can be done as many times as necessary and on many levels of granularity, or until the analyst has exhausted the number of changes possible using the drivers. Additionally, it has proven useful to ensure that some assumptions are also laid down; these assumptions may focus on a global situation, regional considerations and for a specific country, the force field would consider the assumptions made regarding the internal situation. These assumptions then allow the analyst to consider the probability of the scenario taking place; a recommendation is to refer to the language of probability.<sup>387</sup>



By previously considering the key drivers and what their changing nature may result in, a narrative can be produced using the subject as the nucleus (this will of course be supported by extensive research into the subject area by use of subject matter experts and other sources of information). Other means by which Force Field Analysis can be used is by:

- investigating the balance of power involved in an issue

<sup>387</sup> <http://www.eps.harvard.edu/people/faculty/schrag/publications/CV55.pdf>

- identifying the most important players (stakeholders) and target groups involved in an issue
- identifying opponents and allies
- identifying how to influence each target group (driver)

## **Secondary Material Research**

The secondary material in this research represents an active component of the analysis and evaluation, as it not only provides the theoretical development and literature review of the project but also offers a dynamic input into the findings and results of the research. The available literature provides the necessary tools for the deep understanding of the informal economy and its key drivers in the international stage as well as in Lebanon. Also, as shown in Chapter 6, it also provides the theoretical background for the detection of the foundations of the informal economy in Lebanon and assists in the production of the findings in alliance with the primary material as shown in Chapter 9. The range and diversity of the secondary material was not only used throughout the thesis to support the author's analysis, but also to provide an extensive understanding of the theoretical concepts of the informal economy.

## **Primary Material Research**

### **Direct and indirect respondents**

The primary research included individual and collective interviews of the different respondent groups. The respondents –independently of the group in which they belong- are divided into two different categories:

- Direct Respondents

This category represents all the respondents who were actively involved in the informal sector of Lebanon. It predominantly includes the fifty six (56) members of the public since they were the primary users, but also includes ten (10) government officials who openly stated that they have participated in one or more of the key drivers of the informal economy. Also apparent in this category are included those who have firsthand accounts of informal practices.

- Indirect Respondents

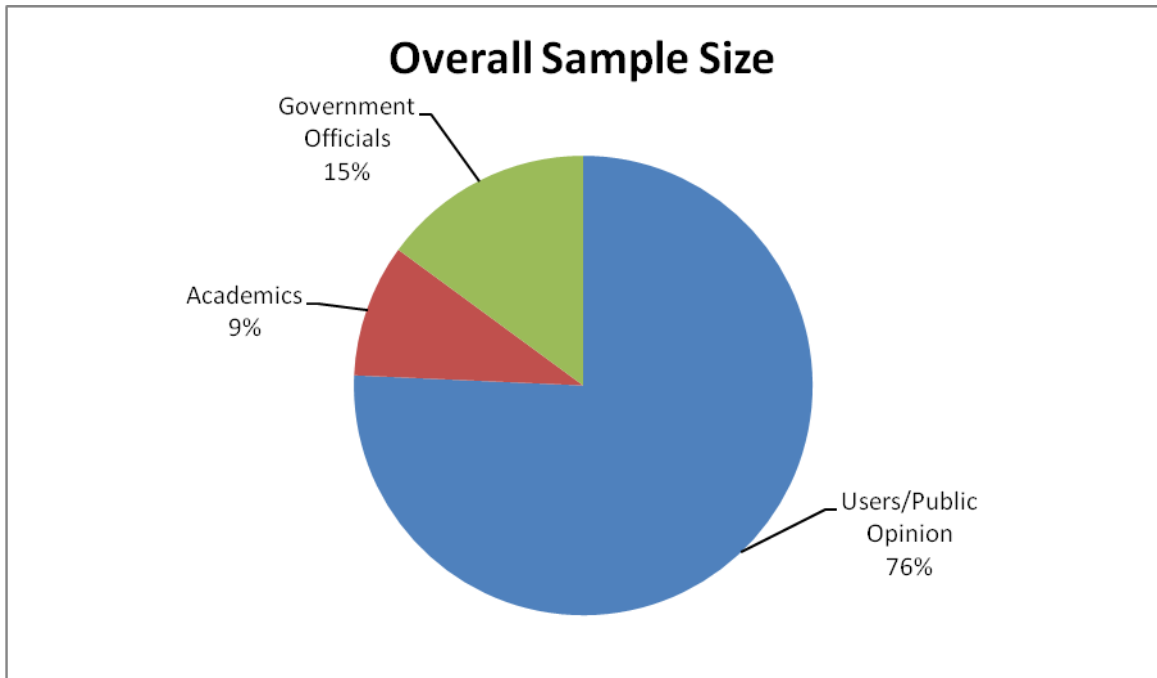
This category includes all (10) the academics, and six (6) of the government officials who had no direct involvement in the informal economy of Lebanon. Their involvement could be theoretical or literally indirect as they might be exposed (or be in close proximity) to informal

practices, as their input in this research stems from their academic capacity or from their close involvement in the wider context of the Lebanese state apparatus. Also in this category are included the members of the public opinion who have participated in this research through other people's situational accounts and examples of which there are approximately twenty five (25), while some of them provided me with firsthand as well as second-hand accounts. Therefore, I placed in this category a few individuals who also provided firsthand accounts, but judging by their overall contribution the second-hand accounts were probably more prevalent.

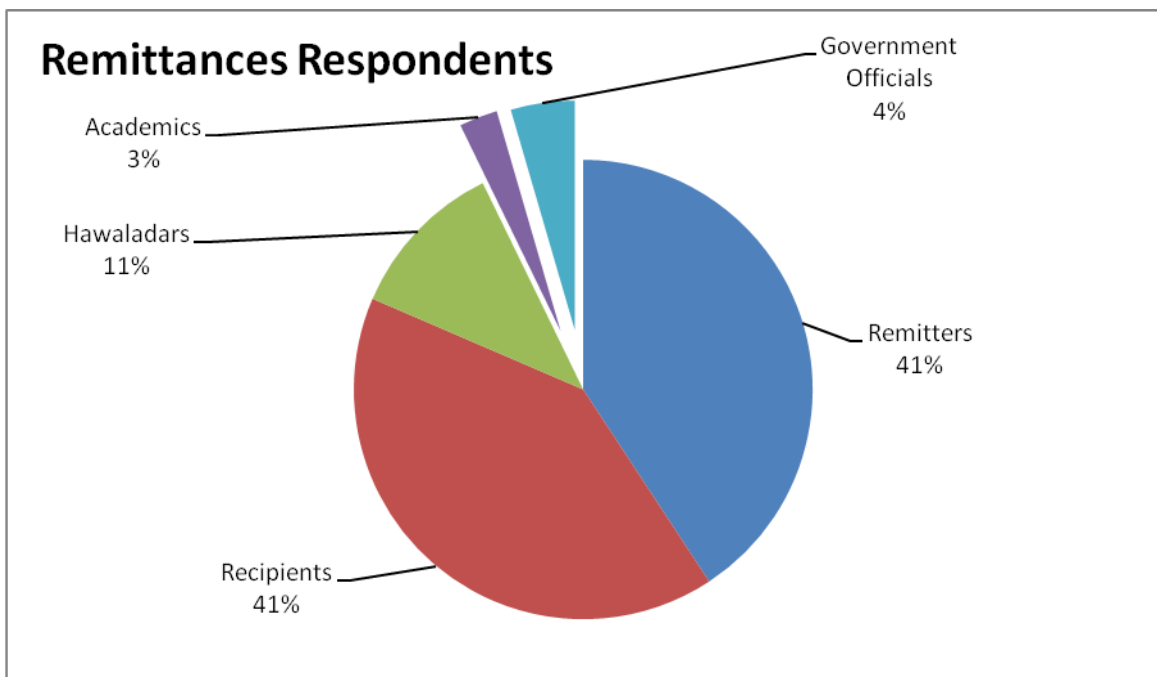
#### *Size of sample*

The data was collected in London (UK), in Athens (Greece) and in Beirut (Lebanon). Although relatively small in comparison to other studies, given the circumstances and the nature of the research, it may be considered adequate. The sample in this thesis consists of one hundred and seven respondents (107). Eighty one (81) of them were users or members of the public, ten (10) were academics or of academic background and sixteen (16) were government officials. A considerable percentage of the public opinion remained anonymous for two reasons. The first was because they were simply afraid to reveal their identities due to the sensitivity of the research and the responses, especially in the sections regarding corruption and the illegal networks. The second reason was due to the casual approach of the interviews. Some of the interviews were literally conducted in the middle of the road, or in a spontaneous and random manner and consequently some respondents were not ready to be subjected to an interview like that. Also several interviews were abruptly interrupted for multiple reasons, thus I was unable to properly register them. All the academics agreed that their names could be disclosed in this research, apart from one who works in the British Ministry of Defence and kept his/her anonymity for security reasons. Also several of the government officials, especially those who are still on duty in Lebanon kept their anonymity for obvious reasons. In the following charts I display the participation of the sample in each key driver.

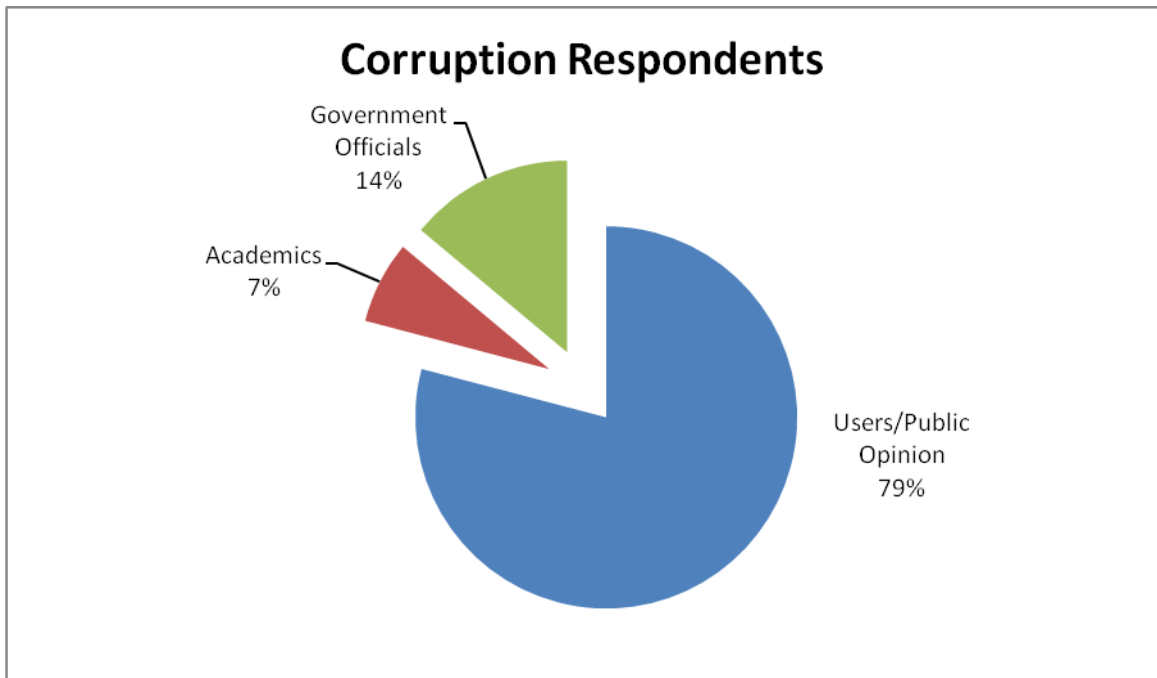
**Chart 1: Overall sample size**



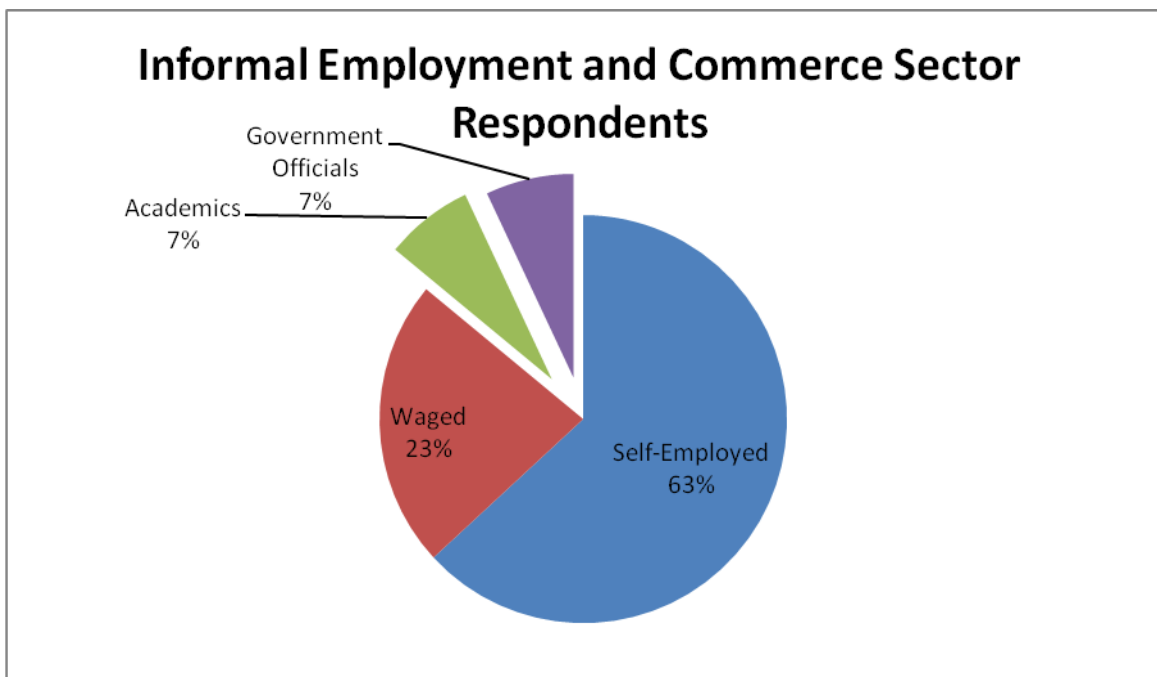
**Chart 2: Remittances Respondents Analysis**



**Chart 3: Corruption Respondents Analysis**

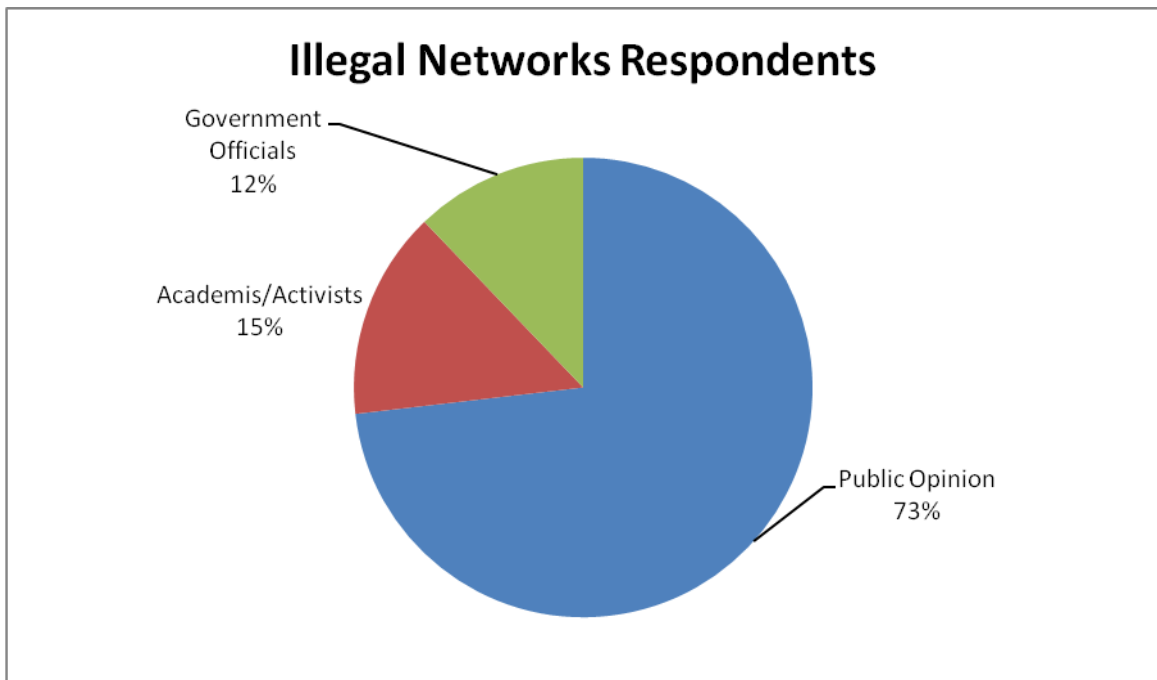


**Chart 4: Informal Employment and Commerce Sector Respondents Analysis**

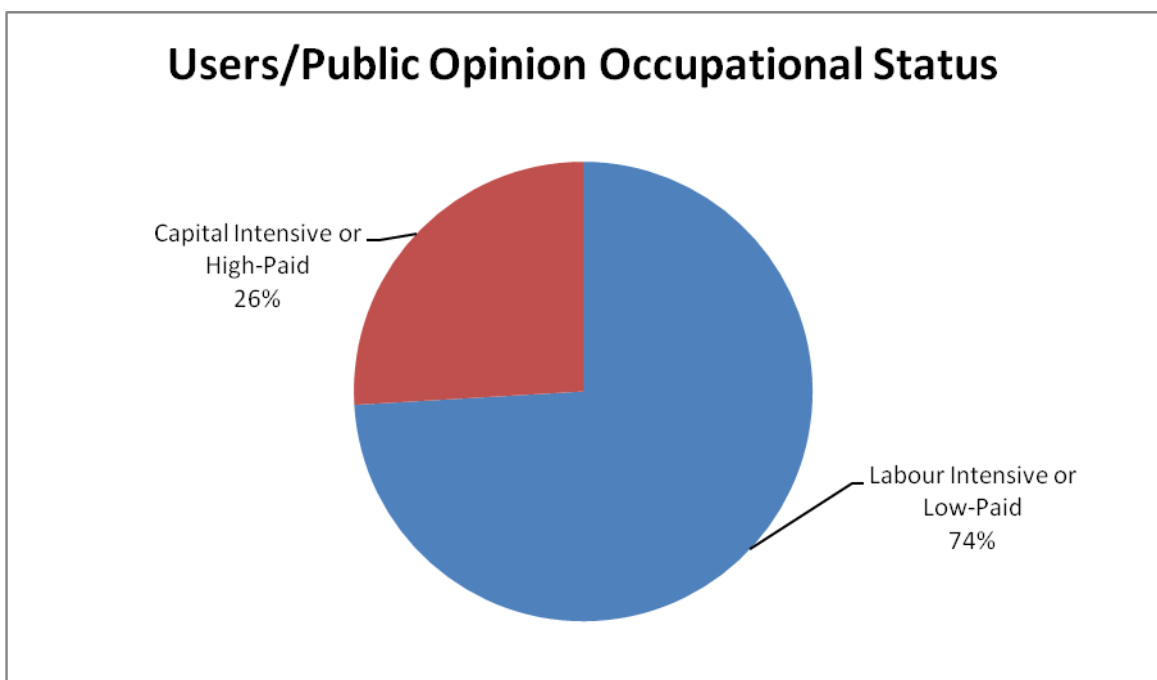




**Chart 5: Illegal Networks Respondents Analysis**



**Chart 6: Income or Occupational Status of the Users/Public Opinions Respondents**



## **Primary Research Procedure**

### **Questionnaire design**

The variable and frequently erratic circumstances of each interview would have rendered the use of a structured hand-out questionnaire inefficient, despite the post-event realisation that the use of a structured questionnaire would have been much more preferable in terms of the data analysis. Nevertheless, the interviews were based on a fixed core of questions which depending on the case, was shifting, expanding and maybe becoming more penetrative and indiscreet.

The core questions included the predilection on each key driver, the effectiveness of each key driver, also the links with the other key drivers and the impact of each key driver and the informal economy as a whole to their living standards, to the society and towards the macroeconomic level and the state. All the other questions were situational and depending on the degree of willingness of the respondent to participate in the research.

In other words the majority of the remaining questions had an overall direction towards the objectives of the research with a few improvised queries -each time- depending on the case, the individual situation of the respondent, the time available and the interview location.

### **Translation - Language**

The interviews with respondents in the UK were exclusively in English as all the respondents had a basic grasp of the language, however the interviews in Greece had to take place in some broken English, Greek and Arabic with the assistance of two trusted interpreters. The pre-arranged interviews in Lebanon were by large in English, while the street interviews and the personal encounters took place in Arabic with the use of one the two interpreters from Greece, who accompanied me to Lebanon. My fellow interpreter or I, in turns wrote down the majority of the responses in notes mostly during the interviews. Sometimes the written down responses would undergo a brief revision right after the interview to add elements I may have neglected to note. All the notes were taken in Greek or English.

### **Sampling and difficulties**

The respondents due to the diversified data collection approach had multileveled contributions in this research. Meaning that, some of the respondents provided a very

marginal or unclear input into the research due to their unwillingness to participate or to provide derogatory and controversial information to a foreigner like me or they would simply be uncommunicative. For example, from the total number of public opinion/users respondents on the informal employment and commerce sector only a few of them fully participated in the whole process of the interview. Many of the respondents only provided snippet answers and they did not answer all of the relevant questions. Also the indirect responses, with the emphasis on the government official and the public opinion, as Nick Duncan mentions, were more likely to be subject to inflation through perceptions.<sup>388</sup> Furthermore, I frequently encountered disbelief and rejection as the would-be respondents distrusted my motives regarding this research or were suspicious of my origin and intentions.

The criterion for the sample choice was pure randomisation regarding the initial steps of the data collection on the public opinion and users' sample. However, since the preliminary selection was concentrated in one area of London and Athens, the first thirty (30) respondents were labour intensive and low paid workers. Especially for the remittances key driver (and possibly corruption), such a prospect would have provided a rather monocular outcome on the predilection and use of the additional income. Later on, in order to balance the social stratification of the sample I selected respondents based on the income in order to provide a holistic societal outlook on the subject. As a result, in the later stages of the sample selection I was excluding people, who were underpaid or unemployed, in order to acquire the perceptions of people with admittedly low and high income and maintain the balance. The only criterion for their financial background was their occupation and their potential avowal of their returns, since I had no other obvious signals for their financial status. (See Chart 6.)

Additionally, based partly on the grounded theory of qualitative research, the categories and some of the classification of the respondents emerged in the process of the interviews or in the process of the theoretical development of the research in the literature review, for example the self-employed category and the waged category in the interviews of the informal employment and commerce sector.<sup>389</sup>

The main categories of the sample are:

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<sup>388</sup> Duncan, Nick "The non-perception based measurement of corruption" pp.131-160 in Sampford, Charles – Shacklock, Arthur – Connors, Carmel and Galtung, Fredrik (eds) "*Measuring Corruption*" Aldershot, Ashgate: 2006, p.146

<sup>389</sup> More details on grounded theory in Charmaz, Kathy "*Constructing Grounded Theory: A practical guide through qualitative analysis*" SAGE, London: 2006

a) The actual users or the public opinion, which represents the end users of each key driver which constitutes the informal economy in Lebanon and reflects the core of the Lebanese society perception on informal economy;

b) The government officials who were divided in Lebanese and non-Lebanese officials, which represent the governmental input of the informal economy. Also the Lebanese officials are potential users of the informal economy, therefore more prone to biased responses. For this reason, I have included few non-Lebanese government officials as they may well have the adequate knowledge on the issues of the research, but without the bias and the risk of their position;

c) The academics, which represent the notional and estimated primary input in this research as the predominant indirect respondents on the informal economy. For this reason, they also represent the most impartial and neutral group of the respondents in this research.

#### **Data collection methods**

Even though the methodology has certain inductive characteristics, unlike Singleton's et al suggestions, my situational and empirical approach detaches the notion of "situation" from "reality".<sup>390</sup> Meaning that, the situation as described by the respondent is not necessarily the truth. Therefore, I had to substantiate the credibility of the responses, by trying to validate the data with another respondent. If the process of this validation was unfruitful more than likely, I would have to exclude the responses of the particular respondent from the analysis. As Silverman suggests the direct involvement attempts to "grasp reality at its accomplishment."<sup>391</sup> However, my direct involvement was only partial as I was present at several informal transactions as an observer and even fewer as a participant. However, this approach offered me invaluable data and allowed me to confirm the validation of manifold previous data "from the horse's mouth".

Given the sensitivity of the subject, the extraction of the data needed a very careful and delicate approach. According to William Miller the obtainment of data regarding sensitive issues like corruption should not contain a strict definition of my objectives, but it should provide manifold clear and explicit questions on the topic in order to locate the

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<sup>390</sup> Singleton, Chris - Beech, John "*The psychological assessment of reading*" Routledge, London: 1997 citation found in Silverman, David "*Doing qualitative research: a practical handbook*" SAGE, London: 2005, p.85

<sup>391</sup> Silverman, David "*Doing qualitative research: a practical handbook*" SAGE, London: 2005, p.84

possible inconsistencies.<sup>392</sup> I partly followed Miller's approach; however soon I realised that Duncan's approach was rather preferable as the questions had to be indirect and general. Still, the questions should be manifold for cross-referencing of the reliability, but Duncan stressed that people in the public sector should not be approached, as their perceptions will be challenged.<sup>393</sup> Indeed, the public officials were the most problematic group of the respondents regarding their credibility, but the responses that qualified as persistent were extremely valuable for the arrival at a safe conclusion.

The initial approach exclusively included the public opinion, meaning the actual users of the informal economy. Due to the casual approach of the sample, I used no questionnaire or tape recorder. I was always carrying a digital recorder but in most cases the use of it, was declined by the respondent as too time-consuming, too official, too permanent. Besides, in many cases the sample was interviewed in their working environment thus time was of the essence. The initial data was collected by random visits to Lebanese owned shops and restaurants in Central London to locate and discuss with potential respondents. Some of the visits were repetitive, which allowed to me additionally validate some of the responses. The objective was to establish a network of respondents with potential extensions to Lebanon. I followed exactly the same procedure in Athens and by the end of this process I had assembled a respectable network of contacts, which paved the way for my first visit to Lebanon and meet the corresponding contacts of my initial sample. Also, with the invaluable assistance from members of the Greek Arab Chamber of Commerce and personal contacts from the Ministry of Foreign Affairs in Athens, I managed to arrange contact with key individuals in Lebanon, something that provided me with delicate and important data regarding sensitive aspects of the research.

In Lebanon, more or less I applied the same random approach in shops, bazaars, restaurants etc. However, in order to expand the network of the respondents in Lebanon, I resorted to the use of other medium, which contributed significantly on the establishment of further extremely important contacts in Lebanon, which allowed me a closer insight into the state apparatus of Lebanon. After all, according to Harvey Russell Bernard, direct observation –without being completely false proof- does provide more accurate results than

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<sup>392</sup> Miller, William "Perceptions, experience, lies; what measures corruption and what do corruption measures measure." pp. 163-188, In Sampford, Charles – Shacklock, Arthur – Connors, Carmel and Galtung, Fredrik (eds) "*Measuring Corruption*" Aldershot, Ashgate: 2006, p.164

<sup>393</sup> Duncan, Nick "The non-perception based measurement of corruption" pp.131-160 in Sampford, Charles – Shacklock, Arthur – Connors, Carmel and Galtung, Fredrik (eds) "*Measuring Corruption*" Aldershot, Ashgate: 2006

the reported one.<sup>394</sup> Also the use of websites of social networking offered a rapid expansion of my sample as I managed to arrange group meetings in Beirut. Most of the sessions took place in the Cherry Pub in Beirut, where I managed to extract a large bulk of my data and develop additional contacts, who eventually escorted me to various public institutions and introduced me to additional contacts, who represented the core of the government officials sample and the academic sample from Lebanon.

Most of the non-Lebanese respondents situated in Athens and London, who represented members of government institutions and academics were formally approached according to their field of expertise and the relevant involvement in the objectives of the research.

### **Data coding**

The questions were not designed to include the coding of the data, as most of the questions were improvised in each session, apart from the basic core, which was in constant flux as well. Of course, the lack of a structured questionnaire rendered the coding process rather difficult, as I had to approximately formulate a hypothetical fixed structure of questions in order to proceed to the coding process without neglecting any of the data. The coding process would be done later, to guarantee that the qualitative information would be in the analysis. Apparently, due to the application of the coding breakdown in the latter stages of the thesis, the use of computer software was inapplicable; therefore the coding process took place in a manual and time consuming mode.

### **Conclusion**

This chapter clearly outlined the research methodology used. It explained the analytical methods used and exactly how this was done. It also outlined the methods that I have utilised to collect the primary material in order to filter it through the Force Field Analysis, which in turn aided the accomplishment of the objectives as described in the introduction.

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<sup>394</sup> Bernard, Harvey Russell “*Social Research Methods: qualitative and quantitative approaches*” SAGE, London: 2000, p.395

## CHAPTER 8 The Interviews

This chapter deals with the primary research material gathered over a period of two years. The interviews project the views of a diverse sample of respondents regarding each individual key driver concerning the input, the participation and the significance of those components in the informal economy matrix of Lebanon. This section provides the bulk of the opinions, outlook and situations which constitute the informal economy in Lebanon according to the diverse sample I have examined and my personal encounters with the informal practices.

Throughout the chapter the respondents are represented in three categories. Originally, I interviewed the individuals who are actively engaged in all four key drivers, possibly with the exception of the fourth key driver; the illegal networks. Those individuals are the actual users or the directly involved groups with the informal practices as represented by the Forcefield analysis in the previous chapter and they represent the public opinion views. This category probably offers the most contradictory set of views on the informal economy, as the general public is influenced by a wide range of biases regarding the informal practices. The public opinion is highly vulnerable to distinct indoctrination, ideologies and personal micro-interests which affect the objectivity of their judgement. However they are all based on true life events and situations; therefore are highly important.

The second category is represented by government officials. Those officials are divided between Lebanese state officials and foreign officials directly involved with Lebanon. The Lebanese officials demonstrated a tendency to offer rather vague and contradictory statements, perhaps due to the danger of being misjudged and exposing derogatory aspects of Lebanon. However, the Lebanese ex-officials who are detached from the perils of misconduct provide a rather more convincing outlook regarding the informal practices in Lebanon. The foreign officials similarly, selectively expose certain aspects of Lebanon's informal tendencies according to the depth of their involvement in the processes of the country's formal and informal mechanisms. They often resort to inconsistency in order to safeguard their status and position by altering circumstances, however occasionally the validity is restored and their point is still worthwhile.

The third category of the respondents has a predominantly academic background. The academics and the researchers, probably represent the most objective group of respondents since there are no conflicting interests involved. The purely academic respondents due to

their remote association with the four key drivers provide factual knowledge on the issues. Some of the researchers had certain ideological orientations and active involvement in opinionated organizations; however they were still able to provide accurate estimations on the questions regarding the informal economy in Lebanon.

Each driver's subsection structure is formulated according to the responses and the issues emerged by the interviewees. The only exception is the illegal networks interviews which are structured according to the respondents' background. In this instance the first category's respondents –meaning the informal economy users- represent only the views of the public opinion as affected by the networks and not as actual members of those networks.

## **Interviews on informal employment and commerce sector**

### **Introduction**

Lebanon for a country predominantly Arabic and Middle Eastern has a significantly less obvious amount of illegal street vendors and various other informal sellers of goods. However, the more someone draws away from central Beirut or the mainstream coastal roads, the chances to meet or to be approached by someone who wants to sell you something increases dramatically. In the bazaars the situation is more or less similar as in any country in the Mediterranean; harassment towards the naive Westerners, endless haggling and of course total absence of receipts of the transactions.

In my attempt to check out and to deal as much as possible with the state apparatus and its rules I endeavoured to get the VAT from my purchases reimbursed. The goods that could fit in the luggage, if followed by a receipt signed by the seller with his address and his VAT registration number and with the completion of a form you could potentially have your VAT reimbursed at the airport.<sup>395</sup> However, obtaining a receipt was merely impossible. The most common excuse was that the final price is below the cost and therefore, it is outrageous to ask for a receipt as well. Those few who reluctantly agreed to provide me a receipt mentioned that now I should pay for the VAT and they would approximately charge me an extra 20-25%, even when I mentioned that I am aware of the fact that the VAT rate in Lebanon for retail goods is 10%. After a point, especially at the places I have re-visited, the avoidance, the suspiciousness and the cold shoulders I received was astonishing. Also there are selectively situated - especially around mosques - hundreds of beggars who are given alms, sometimes very generously, depending on the commerciality of their spot. Generally

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<sup>395</sup> Another parameter for the VAT reimbursement is that the receipts provided should not exceed the value of 200 US dollars per day.



speaking, the levels of tax evasion and the informality in employment and trade are extremely high.

This section deals with the primary material gathered from interviews from various shop assistants, labour workers and my personal observations in the streets of Beirut, as well as the material collected by the interviews of three academics. The first part of the section identifies the peculiarities of the employment sector in Lebanon and the second part displays the informal practices applied in the formal and informal commerce sector. This section will attempt to project whether the informal sector is indeed beneficial for the public interest and detrimental for the state. Of course this is a paradox as in the long run, the state will project an additional inadequacy to meet the expectations of the public. According to George Pavlopoulos, the informal sector generally has adverse consequences on the economic structure of any given state. Even though, the resolution of this situation will be presented in the following chapter, the impact of the informal sector is not purely economic but intensively social too, as will be highlighted further down.

### **Informal employment sector**

The informal employment sector in Lebanon is rather diverse. The informality is intensified due to the high levels of corruption and the relative lack of the rule of law in various segments of the society, where proper auditing never takes place. In other words, it is relatively easy for a civil servant to hold two or more positions (moonlighting) in the public sector and sometimes in the private as we saw in the corruption interviews with the doctor. However the majority of informal labour is primarily divided among those who work for themselves and those who work informally under a waged status in formal or informal businesses. The secondary categorization is only for analytical purposes since all of the workers ultimately belong to one of the two primary categories.

The situation in Lebanon is more complicated as there is an undisclosed amount of refugees and immigrants for Palestine and Syria who in their majority work informally. According to George Pavlopoulos, informal employment boosts the estimations for the long term unemployed workforce figures, obviously because they work in the shadow. Lastly, there are those who as their main profession have certain illegal activities. Therefore, they could be included in the informal employment section too, as another additional parameter of tax evasion. Also, unregistered workers who do not participate apparently in the taxation system, with the exception of course, of the criminal elements who operate with the aid of a

legal facade. Those elements will be discussed in the following part with the illegal networks interviews.

### *Primary employment divisions*

#### *Self-employed*

The basic core of the primary material regarding the self employed informal workers was drafted by the use of a house keeper, two builders, a bazaar seller and an informal used cars trader. The other participants had only a marginal –but vital- contribution in the process of the interviews. The most crucial problem for all the self-employed workers is the lack of social insurance. Of course, the impression that the self-employed workers in their majority have significantly lower income is not necessarily truthful. Several occupations provide a remarkable income, especially in their informal status. Indeed the lower income workers face the expected predicaments as described in Chapter Two, especially those who are not in the privileged position of receiving remittances.

As in most of the informal practices the main reasons of operating in the informal stages of employment are focused on the two parameters as explained by Portes;<sup>396</sup> survival and exploitation. The house keeper, who works on an irregular level in various houses, is completely insecure regarding what the future holds. The total lack of social insurance poses a major problem regarding her pension and the irregularity of her occupation challenges the sustainability of her livelihood. Similarly, the builders have an additional problem, which is generated by the harsh competition which stems from the Syrian builders mostly. Even though many of the Lebanese builders work informally, there is an unwritten law which suggests that the locals have slightly higher day-work pay than the immigrants.

Therefore, the foreign informal workforce poses, for them at least, a constant threat which puts downwards pressures on the already low wages. The only salvage for them, at the moment, is situated on the fact that due to the never-ending reconstruction in Lebanon and the manifold construction projects, the demand for builders is still quite elevated. The prospect of joining an organised group of builders under a contractor does not attach any additional security. The contractors tend to use informal builders as well and the pay is not improved. Also formal and informal construction firms tend to under-report the number of employees and the hours they worked.

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<sup>396</sup> Portes, Alejandro - Castells Manuel – Benton, Lauren, (eds), *The Informal Economy. Studies in Advanced and Less Developed Countries*, Johns Hopkins University Press, Baltimore: 1989

The street vendor likewise prefers to stay in the informal level, since as he suggested his turnover did not allow him to obtain the necessary permits, and he evades taxes for the same reason. Besides, it is quite acceptable to operate near open air markets for example without paying the fee of participating in one, even though it is illegal. On the other hand, the informal car trader has enough revenue to join the formal ranks; however the car trader suggested that there is no reason to lower his income by paying taxes or by maintaining a car dealership since business is good as it is. Also when I suggested if the practice of operating in the informal level offsets the benefits of being formal, he fiercely objected by pointing out that “formal or informal he would still have to bribe the customs agents and the other bureaucratic middlemen”. Perhaps, he would have to be less corrupt and spend less on bribes if he was a formal car salesman, but he still prefers to pay an extra “baksheesh” than dealing with the bureaucracy.

The other respondents were rather uncommunicative and I was unable to make clear estimations on how much they could earn and what are their motives and purpose of being in the informal sector. However, a young shoe shiner, after a generously paid shoe-shine, claimed that he adopts an almost ragged appearance and background story to appeal to his customers and especially the tourists. His earnings vary from day to day but they are just enough for his cigarettes and his contribution to the family. His involvement to the informal sector stems from his lack of education and the need to work from an early age. It seems that, as in the formal sector, the earnings are dependent on the type of work. The more business-related jobs apparently offer an increased revenue, for example the car dealer had a more than adequate income while the labour intensive jobs like the almost beggar shoe shiner have a marginal income. Nevertheless, the motives of the low paid self-employed workers are unclear. Besides the survival purposes which are clear, not one of the respondents could provide a solid answer regarding his or her involvement in the informal sector. Probably the clearest answer came from a man who was quilting carpets, who said that it is the only thing that he knows how to do.

### *Waged*

The other dominant informal employment type is working under a waged status. Unsurprisingly, manifold informal workers could be potentially occupied in the public sector like most of the cleaning personnel in the Ministry of Transportation. The primary respondents regarding waged informal employment were a delivery van driver and a sales

representative from a formal electronics business, a nurse from an informal clinic for the care of elderly people and a waiter in a restaurant of unknown status.

Even though all the informal occupations of the respondents had legitimate status, none of them were registered, licensed or insured. Specifically the two employees of the electronics firm were actually told that they were insured. When they asked after several months of work for the details regarding their national insurance the truth was revealed but due to the lack of an alternative they were both obliged to maintain their positions indefinitely uninsured. This is a clear example of exploitation; however the sales representative who was aware of the financial status of the small company mentioned that the business was potentially incapable of having its workers insured due to the limited turnover. The business, even though was properly registered and licensed most of its staff was informally occupied. Nevertheless, the driver and the sales representative have satisfactory salaries and especially the salesman could afford to pay for private insurance. Even though they are both unhappy for being unregistered, as long as they can adequately sustain their families they will remain in the particular company. Even supposing that they could search for a formal job they assume that the pay would probably be less. Indeed, the equivalent pay for a van driver was approximately 15%-20% lower than in the informal sector. On the contrary, the pay for the nurse would be significantly higher if she was occupied in the formal sector; however that seems to be an impossible prospect given the corruption regarding nursing positions in the formal sector. The working hours are above the weekly average and the working conditions are revolting. However, since she cannot rely on the remittances from her siblings in the UK, she needs to complement her income by using the first aid training she had from school. Similarly the waiter has a steady income –even though paid on various days of the month- from the restaurant owner and during the summer months he almost earns double because of the tips. However, the waiter realising the negative prospects of his occupation, in order to accomplish his ambitious plans for his future and his family, needs the security of a formal job. Nevertheless, despite his attempts to join the formal ranks his efforts were unrewarding. The only viable prospect is to join the public sector; however the process of acquiring a permanent position there would almost exclusively be a product of bribing, especially for a man without any particular skills. His family is actually saving up in order to bribe a government official they know via vague kinship ties for a position that he did not wish to reveal to me as part of his prejudiced beliefs.

Also, without having the chance to speak to the actual people, one of my most trustworthy sources from the Ministry of Transportation, claimed that the majority of the ministry cleaners are unregistered. Of course, this is not a product of an outrageous governmental policy but a result of the highly corrupt status within the Ministry. The official also claimed that the administrators, who are responsible for the management of the cleaning personnel, embezzle huge amounts of state funds with this practice. On the one hand they extort money in order to hire them and on the other they embezzle the funds with fake certifications. He also mentioned that other state agencies use similar methods to embezzle the state's resources but in a rather more complex manner in order to be less observable. Nevertheless, at the end I managed to partly substantiate those allegations as relatives of the interviewed had indeed worked under informal status in the public sector as handymen and maintenance staff for years.

### *Secondary employment divisions*

#### *Moonlighters*

Another common practice with manifold levels is moonlighting. There are numerous examples in Lebanese society with people who have one formal and one informal occupation. For example, as I discovered from the contacts I made when I was examining corruption in the Port, one of the employees from the Port of Beirut, was also the underground owner of a restaurant in central Beirut. Since there was a legal incompatibility with his occupational status in the Port and other private endeavours, he would illegitimately own and work in the restaurant which was registered to a third trustworthy person.

Similarly other government officials or members of the public might be subletting businesses (a bar for example) in order to enhance their income. As Nazi Richani mentions “a plumber or a taxi driver could be employed in one of the Progressive Socialist Party offices or recruited in the army and at the same time practice his profession in his spare time. One example of this phenomenon is provided by the Office of the Secretary-General of the PSP. In the summer of 1987, at least 15 employees worked in that office, 10 of whom had other jobs after hours. Party officials confirmed that holding two jobs is typical of most of the party's rank and file.”<sup>397</sup>

In another case, a senior manager of the Electricité du Liban electric company was an undercover and informal representative for the Central Bank of Lebanon regarding

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<sup>397</sup> Richani, Nazi “The Druze of Mount Lebanon: Class Formation in a Civil War” *Middle East Report*, No. 162, Lebanon's War (Jan. - Feb., 1990), pp. 26-30

foreclosures. His job was to secretly bid on behalf of the bank on confiscated properties and commodities in order to ensure an uncertain repossession. Due to the extensive clientelistic and corrupt modes of Lebanon's public sector, similar examples are ordinary. However, the burden of moonlighting seems marginal in comparison to the ostensible size of the informal labourers, the illegal immigrants and the refugees.

### *Immigrants*

In the same way that Lebanese civilians work in the informal sector either as self-employed or waged workers; the thousands of illegal immigrants would work in similar manners. For the Lebanese people the immigrants are a twofold constituent of the informal economy. On the one hand immigrants could potentially deprive jobs from the locals and push the wages downwards, however on the other hand people show some specific preference to foreign workers due to the lower demands.

One very characteristic example, as described by an owner of a farm in Beqaa valley, is the caravans of buses from Syria during periods of the orange harvests and other agricultural products. Also the same happens during the season of collecting illegal products like cannabis or poppy. For the duration of the harvest, hundreds of Syrian cheap labourers would flood the few fertile plains of Lebanon and the Beqaa valley in order to offer their cheap labour. As a result of this practice, it is almost impossible for a Lebanese worker to participate in this process but on the other hand the production and the profits have increased due to the lower costs.

The same situation stands for the regular jobs also, as described in the previous sections. The conventional wisdom in the streets of Lebanon suggests that the foreign working hands are of inferior quality, however due to high levels of poverty the preference of unskilled labour for potentially skilled jobs is prevalent.

Since the situation in Lebanon regarding the Palestinians refugees is extremely hazy as described in a previous section and the difficulties of obtaining legal work permits for all the foreigners are usually impervious, thousands of immigrants are forced to live in Lebanon illegally. This creates a workforce that will accept the most insecure working conditions as well as lower salaries. Nevertheless, we cannot neglect those entire sections of the Lebanese economy which base their profits on the exploitation of these people like building companies, restaurants, textiles, and agriculture.<sup>398</sup> This is probably the dark side of the informal economy's beneficial attributes. However, according to George Pavlopoulos, this is another

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<sup>398</sup> Huntington, Samuel "The Clash Of Civilizations" London, Simon & Schuster, FP: 1996

example of Lebanon's pluralism and liberal economic theory. Despite this progressive view, in my opinion, Lebanon's situation -including the peculiarities stemming from the Palestinian presence- is no different from any other country with heavy foreign labour existence.

### *Criminals*

According to Sabine Elharouny, from a theoretical point of view, the workforce occupied into criminal activities is impossible to be estimated. However, there are thousands of people who find waged employment in illicit activities. Despite the risks, according to Elharouny's study, there are large segments of the Lebanese society, especially males under 28 years of age, who would willingly participate in criminal activities given the opportunity. The lack of faith and expectations, among the younger generations, has created a wide-spread concept of tolerance and desire towards illegal activities. Apparently the ease of generating untaxed profits and the indirect display of repugnance towards the state which is unable to universally provide sustainable sources of revenue and employment, is attractive to them.

Also according to Elharouny, Lebanon is the dominant paradigm of an extended nouveau riche social stratification. This situation is also administered by the extended corruption and the immense amounts of informal and illegal revenue of large parts of the society. Especially to rural areas which are more poverty stricken, when someone has an incomparably enhanced income of unknown origin in comparison to the other locals, there is a prospect that his income may be supported by illegal activities like the cultivation of cannabis. Besides, the locals - due to the small size of the communities - are aware the wrong-doings of their limited society. According to the same farm owner from the previous section, the local fire brigade initially protected the land of a local benefactor who was renowned for his extensive poppy farms.

In this instance due to the lack of adequate primary and realistic data, we can only assume the magnitude of the actual input of the criminal employment into the informal economy. However, it must be noted that this chapter is predominantly referring to business activities which do not completely comply with all the tax and regulatory obligations and not to exclusively criminal enterprises.

### **Informal commerce sector**

The informal trade in Lebanon is not a means to an end, but the end itself. Apart from those who are involved in the informal sector for their survival, the majority of the respondents function in the informal trade sector mostly due to circumstantial reasons. The informal trade

embraces a broad spectrum of attributes. On the one hand, it is an additional component of the informal economy's survival features, at irregular intervals vital for the welfare of certain parts of the societal range, even during the frequent escalations of violence, when the state apparatus stalls or procrastinates. On the other hand, it constitutes the necessary smokescreen for severe law violations, tax evasion and for the amplification of the bonds between the public sector, the informal sector and the illegal networks under the prism of corruption. According to Ibraheem Khlel's study, the informal trade distorts healthy competition and pressures the market prices upwards, however according to the public opinion; informal trade generally offers cheaper products with the exception of the various periods of severe conflicts. Also the majority of the public suggested that they cannot possibly imagine their lives without informal trade.

#### *Informal trade via unlicensed street vendors*

According to formal shop owners around Beirut, the presence of street vendors who offer pirated goods is a scourge. The sale of pirated software, replicas of expensive bags and clothes and various other accessories is increasingly problematic. According to a shop owner, occasionally those street vendors will sell their goods right next to the shop which sells the originals. Lebanon showed a remarkable resilience towards the financial crisis and the market for luxury goods maintained its high performance. However, the presence of street vendors and shops with counterfeit products sold as originals represents one of the most crucial problems of the market in Beirut.

From a theoretical point of view Frago Kourandi suggests the existence of informal trade and the street vendors is harmful to not only the shop owners and formal production firms but for the consumers too, since the quality levels deteriorate and the companies lose significant market shares affecting the competition levels. However, this is not necessarily the case as many of the respondents perceive that the presence of informal trade in the streets of Lebanon is in their interest, despite the unlawful extensions that this situation might entail.

According to the Greek-Arab Chamber of Commerce, street vendors represent the main channel of distribution of contraband. The street vendors could be potentially unaware of the illegality of the products they sell, despite the fact that they largely operate without a license and more than likely they have an unlawful status. Street vendors exist in every corner; their majority is unregistered and apart from the tax evasion and all the fees, such as stamp duties, Commercial Register fees and notary costs that the state loses, are entangled in corrupt schemes with the local law enforcement. For example, when a shop owner protests



against their presence, the police would scare them away, however the moment the police disappear, the street vendors will return to their previous positions. In many cases, the unlicensed street vendors maintain their hotspots with the tolerance of the police; a tolerance which is actually bought. However, this tolerance is occasionally provocative as the police do nothing to stop them or dismiss them. Additionally street vendors, apart from a major channel of distribution for contraband and smuggled goods, constitute the core of the advocates of the black market in Lebanon. Especially during periods of turmoil and while certain products are in scarcity, those black marketeers provide those products in abundance. Of course, the costs will be considerably increased, however the street vendors-black marketeers sometimes settle for a barter transaction, usually something else in scarcity or a valuable object.

Nevertheless, purchasing products from the bazaars and the various street vendors could be proven rather advantageous since the products could be notably cheaper. Therefore those vendors make available -to the lower strata as well- products of inferior quality but potentially of an advanced stylistic approach, which is much desired in the nouveau riche Beirut. Thus the street vendors evade the taxes and they enhance the petty corruption practices while constituting a scourge for formal retailers; however they offer a relief for some parts of the society with lower incomes. Finally being a street vendor is occasionally the only employment option as described in the previous section.

#### *Informal trade via unlicensed or unregistered enterprises*

Similarly to the street vendors, there are manifold unlicensed or unregistered businesses and entrepreneurs, like the unlicensed clinic for the elderly people which operates informally, as described in a previous section. Of course the quality of the care is by far inferior to other formal homes, but the cost of maintaining a disabled person or an elder is significantly less. To be more specific, according to a nurse who works in the clinic the cost --depending on the severity of the prospect patient- could even be 80% less than in any another similar average clinic. It goes without saying that the quality of the services is more than inappropriate.

Another very distinct example is the informal car trader as mentioned earlier on. The particular car trader, whose main profession is lorry driver, would frequently fly to Germany to bring used luxury cars acquired as a personal asset and then resell to a pre-arranged customer. Of course, the cars mileage more than likely would be altered. The car when it is officially imported into the country will be conveyed to the customer. In each trip, the informal trader would be accompanied by several friends who do exactly the same. Therefore

in every trip more than three cars will be imported in Lebanon; the average profit for each car is around (\$14,000) fourteen thousands US dollars. Apparently each car is marginally taxed via the corrupt practices in the Port of Beirut or Tripoli and sold without VAT charges and other relevant fees.

One more example illustrates the case of an unlicensed beautician, who was registered as a cosmetics retailer. Firstly, beauticians belong to a slightly different taxation scale than retailers and all the beauty services are shown to the tax office as sales of cosmetics products.<sup>399</sup> Secondly, all the legal transactions that were eventually taking place were only as a pretext to maintain a seemingly legal operation of the business and not to attract any tax auditors. In this case, we have a legally functioning business, with an additional informal activity. The formal activity provides a cover towards the informal. It must be noted that this irregularity was evoked due to a complicated legislation vacuum regarding officially trained and licensed beauticians. This hybrid situation is not unusual in Lebanon. Many small firms will take advantage of legislative vacuums in order to enhance their sustainability. Someone may suggest that they still operate under a hazy almost informal status, however this is not the case, those entrepreneurs are actually registered, they do pay taxes –even if it is in a tailored manner- and generally they do contribute to the economy and not just for themselves. Probably this is the most representative example of Portes’ third category of the informal economy which suggests growth of small firms even if it is based on corrupt practices.<sup>400</sup> However, according to Frago Kourandi, the major problem regarding this view is that none of those entrepreneurs or businesses are actually legal entities, therefore they are hardly ever able to borrow from formal credit institutions and banks and they usually resort to loan sharks with all the perils that this entails.

#### ***Informal trade via formal and informal businesses; undercharges and fake invoices***

All of the entrepreneurs I discussed with admitted that they frequently resort to undercharges of certain products and they also frequently issue fake invoices. This is slightly different than the Chinese invoice vendors, who offer receipts used for tax purposes. Such invoices, as China Daily writes, could cause huge losses in tax revenues and could feed illegal activities,

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<sup>399</sup> The law differentiates between daily employment and earnings from practicing a profession or trade. Salaries are taxed on a sliding scale. The tax rate varies from 2% to 20% depending on the size of income.

<sup>400</sup> Portes, Alejandro - Castells Manuel – Benton, Lauren, (eds) “*The Informal Economy. Studies in Advanced and Less Developed Countries*” .. Johns Hopkins University Press, Baltimore: 1989

such as smuggling, money laundering and corruption.<sup>401</sup> Nevertheless, the result for the state revenue for China and Lebanon is in parallel.

What many Lebanese entrepreneurs do after a buyer-seller agreement is to undercharge certain products in order to reduce the VAT charges. For example, whenever it is possible, the seller - usually after the request of the buyer - would offer a certain product at an undercharged price. The seller would also occasionally issue an invoice for another client who might be in need of fake purchases. The third party usually pays only the value of the VAT to the seller. Also it is more than common for small and medium sized businesses to sell goods without issuing an invoice at all. Of course, when the transaction is not arranged for cash upon delivery but on account payment, this situation entails risks when the seller needs to claim the money, since there is no proof of delivery. However, this practice is extremely wide-spread despite the risks. However, according to Frago Kourandi the practice of undercharging is also the starting place of the creation of certain cartels within the market in order to proceed into price fixing schemes, bypassing the commands of healthy competition.

Also there is another category with various businesses exchanging invoices, to avoid taxes and other annual charges, as well as exchanging cheques and cashing them in advance in various banks. Two entrepreneurs would exchange post dated cheques of thousands of dollars and they would cash them in advance at their respective banks on commission and interest. In other words, they were generating money out of thin air, since all the invoices were fakes which were instantly issued and then cancelled just to prove to the bank that it was not a fake transaction or money laundering. The only commitment is to pay each other's cheques on time; nevertheless it was quite frequent that one of the two parties or the bank would not honour the cheques and they would bounce.

### Summary

Officially, there is no clear estimation or body of statistics on the numbers of how many people are involved in the informal sector. Despite the efforts of the government to tackle the high informal levels in employment and trade, the results are very unrewarding. The informal employment sector is indeed a buffer -not necessarily for the labour surpluses, which vary from industry to industry-, for the unskilled workers of Lebanon, for those who cannot participate in formal ranks of employment and for the foreign workers who by an unwritten

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<sup>401</sup> [http://www.chinadaily.com.cn/bizchina/2009-12/30/content\\_9246925.htm](http://www.chinadaily.com.cn/bizchina/2009-12/30/content_9246925.htm)

law are usually paid less than the locals- especially the Palestinians or the Syrians that frequently come to Lebanon for harvesting etc. Lebanon has an abundance of street vendors and various self employed informal workers who show a rather surprising preference regarding their informal status. For example, the informal car dealer who prefers to pay an extra bribe than dealing with the state and paying taxes. On the other side, waged informal workers are wary of their status due to the uncertainty of the continuum of their employment and the lack of social security, however in many occasions they are more than certain for their employment as the employer could be the state itself, as it happened with the cleaning personnel in the Ministry of Transportation. Of course, those employees are more prone to exploitation but the difficulty to join the ranks of formal employment or the frequent unrewarding situation in the formal sector renders them almost permanently in their current situation and occupation. The most widespread dream among the younger generation, who desire to stay in Lebanon, usually is a position in the public sector. As they say, in the public sector you may have your stable salary; your social insurance –no matter how bad it may be- and then you can anything else you desire. However, the moonlighters, meaning those who occupy more than job in the formal or informal ranks are quite detested among the respondents. On the other hand, being a moonlighter is an ambition for most of the interviewed.

Characteristically those actively involved (users) in the informal sector proposed biased and unbiased opinions, which were in direct correspondence with the intensity of their personal interests. However, the views of the academics also had a distinct divergence regarding the input of the informal employment and commerce sector.

The motives of being involved in the informal sector are manifold. A distinct percentage would be join the informal sector as an informal worker –self employed or waged- due to the poor living standards and the lack of prospects and alternatives. Another reason could be the general frustration and dissatisfaction towards the corrupt state. This could potentially motivate someone to join the informal sector as a criminal element. However, apart from the criminals, other waged or self-employed workers perceive as beneficial and profitable their involvement in the informal sector. Also the working conditions are not always the stereotypically exploitative ones. Many self-employed workers, especially in Beirut, would enjoy admirable levels of income and working conditions. Possibly the most privileged category is the moonlighters who work simultaneously in two separate jobs, usually one in the formal sector and one in the informal. Unfortunately, the vast majority of

the informal workers are indeed employed under exploitative working regimes, they are underpaid and they work under dreadful working conditions, challenging even the health of the employee. This could also be the case for those operating in the organised crime. Some of the respondents admitted that it would appear as a business opportunity to work in the organised crime. The lack of expectations and opportunities among the younger generations has created a wide-spread concept of tolerance and admiration towards illegal activities. If someone wanted to use two words to describe the informal employment in Lebanon, those words would be: necessity and preference.

On the other hand the informal commerce sector is characterised by the aggregation of unlawful and corrupt practices in order to maintain a productive and potentially advantageous market alternative for the working classes, even though several academics would disagree. For example, the informal street vendors – unaware of their unlawful extensions- are harmful towards the mainstream shop owners, especially in Beirut, and definitely affect competition. Also the street vendors of Beirut represent the main channel of distribution for contraband. The state tolerance according to many of the shop owners is remarkable. The police seem to be indifferent towards them and do nothing to dismiss them or stop them. However, one policeman said to one of my protesting respondents that it is better in this way because if those people are caught or stopped in any way will eventually turn to crime. This is a clear projection of the failure of the all the systemic attributes and government efforts in Lebanon.

However, the methods they use and in particular the evasion of fiscal and regulatory obligations, including value-added taxes, income taxes and labour market obligations is an additional burden for the government. Nevertheless, several enterprises who offer services, for example, the unlicensed nursing home, despite the inferior quality of services they provide are way more affordable than the licensed ones, therefore more preferable. However, the most problematic issue is the association of those informal businesses not only with other formal firms but with the state itself. Many informal enterprises are seemingly legal as they do not attract auditors but when they do, the situation will be arranged with a small bribe. The state, due to its gigantic bureaucracy and corruption trends, could possibly facilitate the existence of informal employment and trade even within its underbelly. Even the situation with the post-dated checks, the undercharges and the fake invoices is indeed a scourge for the state revenue but it is also a practice commonly used from within the state agencies as described in the corruption sections. The links between the informal sector and the state in

Lebanon through corruption support the emergence of an unbreakable chain of interdependence and tolerance.

Generally, the informal employment and commerce sector affects the entire spectrum of the economy and society in Lebanon. The public opinion views it as a buffer for the underprivileged workers and most importantly as an access to commodities; however they do recognise that it affects the overall input to social welfare. The academics ascertain it as a distorting element for most of the economic indicators in Lebanon and as confusing factor for the standardization of the market conditions, while the government official admits that the tolerance of the state and the vast interconnections support every aspect of the informal employment and commerce sector.

## **Interviews on Remittances**

### **Introduction**

The collection of the primary material regarding the individuals involved with the remittances was based on a triple plus one axis. Firstly, I gradually came into contact with the actual remitters; the senders. Secondly, I contacted several businesses and individuals who acted as the informal transfer medium. Someone could characterise them as 'hawaladars', however none of them accepted the term. Besides, only a small percentage of them solely worked as a hawaladar. Most of them were owners of small sized businesses like kiosks, mini markets, telephone centres and only one was a restaurant owner. Thirdly, I got in touch with the recipients of the funds; the end users of the informally transferred capital. Lastly, I interviewed several representatives from the Greek-Arab Chamber of Commerce, the Greek Ministry of Foreign Affairs and the British Foreign Office. The reason behind the lack of Lebanese official contacts is based on the fact that I was unable to meet any relevant officials in Lebanon regarding this matter and on the fact that I needed an objective estimation and judgement regarding the factual impact of remittances on the Lebanese economy.

The basic hypothesis suggests that the informal remittances, despite their unofficial nature and the subsequent loss of the various taxes on behalf of the state, have a constructive effect on the individual level as well as on the state level. The secondary hypothesis regarding remittances is the notion that the remittances are preferably transferred through informal systems as opposed to the use of conventional banking systems due to comparative reliability. Plus the other comparative advantages as shown in chapter two.

### **The generic predilection and the consistency of the informal transfer systems (I.T.S.)**

This section establishes the relative preference and resilience of remittances via informal transfer systems to Lebanon. It also projects that despite the infrequent cases of counterfeit transactions, the general predisposition of the user is still in favour of those informal systems. The sample of remitters was constituted by 18 individuals of different social and occupational backgrounds. The majority of the interviewed senders were located in London and in Athens. Most of whom were occupied in labour intensive jobs as turn-spits in restaurants, cleaners, builders etc, while a few others, due to the extensive Lebanese banking and finance sector were shipping consultants, solicitors and financiers. Other immigrants are deprived of the luxury to practice their true profession in a host country. However, it must be noted that the senders who held capital intensive positions (in Athens mostly) were not immigrants but were legally installed by their respective companies. Of course, the need to send money back to Lebanon to family members (not necessarily of first degree kinship) was constant. In my endeavours to locate remittances senders to Lebanon I met several different nationalities from the Middle East such as Egyptians, Syrians, Palestinians and Algerians as well as (Eastern) Europeans which included Polish, Albanian, Bulgarians and Russians who extensively remit back to their countries. It must be noted that predominantly the Lebanese senders were occupied in higher profile jobs, particularly in Athens.

Most of the remitters in their initial attempts to send capital to Lebanon used official channels to transfer it. As soon as they felt settled, the need for easier and cheaper ways of sending remittances became evident for all the senders, independently of their background and income. Additionally, the red tape involved, the time consuming procedures and most importantly the high percentage of fees levied on the funds sent, vastly contributed to the decision to send the remittances through informal transfers systems like hawala. The informal transfer systems were also preferred due to the fact that apart from the remittances sent on a regular basis, impromptu transfers could be carried out any time of the day without any questions asked. Most of the senders agreed on the fact that the informal transfers bypass the queues, the occasionally excessive fees from the banks and most importantly the speed of the transfer is impeccable. If needed it could be instant, for the right price of course. Half of them also enjoy the fact that they bypass the official channels and therefore they do not support “the blood-sucking” institutions in any manner. In special emergency cases the remitter might use a more “specialised” hawaladar, who with the use of a mobile phone can execute the

transfer in seconds. Lastly, a matter that should not be overlooked, even though it was not projected as a major issue and many interviewees attempted to diminish -probably in order to maintain their prestige-, was the fact that most labour intensive workers who remit back to Lebanon did not speak the local language, Greek and English in particular. It was indeed ironic that several of the interviews were conducted in Arabic via an interpreter.

However, the majority of the senders prefer informal systems because of their inability to obtain a bank account, for the reasons that they usually work informally and a visit in the bank in the morning, especially in Greece, is almost impossible for them.<sup>402</sup> According to George Pavlopoulos, in Greece it is a quite common practice of many bank clerks to dismiss countless foreign immigrants in need of a banking service (like remitting) on the pretext that the system is not working, or the particular branch does not offer the specific service, in order to avoid the frustration of the problematic communication and possibly the demanding requests of those clients. Therefore, it is much easier to walk in their local phone centre or mini market and send money to any country than to visit a bank with its lengthy and costly processes. Lastly, it is also preferred by the recipients to receive their money from a designated shop or individual in the neighbourhood than in at any bank.

On the other hand, the recipients similarly to the senders might not have a bank account to facilitate any potential transfer. However, there is a distinct distrust amongst several banking institutions in Lebanon and due to the constant conflicts it seems more logical that there is a regular money transfer, based on the trust and personal familiarity between the sender, the informal transfer dealers and the recipient. Indeed, all the informal practices continue unhindered and are potentially enhanced during the periods of conflict. Therefore, the senders and the recipients feel immune from the frequent system crashes and the likelihood of a bank collapse during a war. Generally, both sides –senders and recipients- are of the same opinion regarding the main reason of preference of the informal transfer systems and that is the lower cost, meaning more money for the recipients to spend when the remittances will be received.

However, several of the recipients also show some inexplicable distrust towards their local hawala dealers. Some are convinced that they will be cheated in any case; whether that is from a conventional bank or a hawaladar. When faced with the notion that no matter which sort of channel of transfer they choose they will be surely deceived, they show specific preference to the system that deducts the least from the final amount of money; which is

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<sup>402</sup> The Greek bank working hours are from Monday to Friday from 8.30am to 14.00pm



usually hawala or something similar. However, regarding the reliability of those systems, at least half of the recipients never receive the money as expected. Sometimes it is the full amount that fails to reach its destination and sometimes only a percentage of the money sent. However, they still recognize the informal transfer systems as the preferable way of remitting. This particular tendency portrays that the preference of the informal transfers systems is not exclusively linked with the reliability. Even though the consistency is supposed to be one of the most praised attributes of the system, at least according to the literature as shown in Chapter Two, for most of the actual users it is not one of the comparative advantages.

The fact that despite the infrequent losses and “unintentional” errors, the system still constitutes a trustworthy alternative to the conventional banking transfers is noteworthy. Besides, several outrageous stories are circulated regarding transfers through official channels, involving recurring payments due to supposedly unexpected fees without receiving at the end the money at all. Of course, the reliability of those stories is debatable; however the doubts regarding the bankers and the banks are quite widespread, especially among the lower income classes. Also, the informal senders will occasionally use the official banking system to transfer funds to Lebanon; however this occurs only sporadically due to their alleged hectic lifestyle or lack of spare time.

Lastly, the entire sample of the senders and the recipients agreed on the fact that the remittances have not declined over the last five years or so. Even senders, who reside in countries which have been significantly affected by the economic crisis from 2008 have not reduced the amounts of money they monthly transfer. The rare occasions when remittances actually showed a certain decline, can be attributed to individual peculiarities and mishaps, such as the loss of a job due to personal fault and not due to obligatory redundancies as someone may have expected. In other words, even the low-paid labour intensive jobs especially in the construction sector, which were mostly affected by the crisis, managed to maintain the threshold of the monthly transfers. Situations like the aforementioned have actually been discussed during the various interviews; however the references were exclusively in regard to third parties, absent during the time of the interviews.

### **Actual and hypothetical use of the remittances**

Very early in the research process I came across the problem of the validity of data. In order to verify the credibility of the interviews it became obvious that I had to locate both the recipient and the sender of the remittances. However, this practice proved to be a very arduous task. Possibly the issue stemmed from the fact that I commenced the research by contacting the senders first. Some of the recipients were difficult to track down in Lebanon, as the locations of their residences were in areas that I was unable to visit for a variety of reasons. Also, some other recipients were unwilling to speak to me and lastly some other senders were generally unenthusiastic and declined my request to visit their relatives in Beirut. As a result I managed to interview only a fraction of the recipients that were directly linked with the senders from London and Athens. However, in order to fill the gap of the sample on behalf of the recipients I managed to locate several other remittance receivers in Beirut, without being in contact with their senders at all. This situation initially seemed to be uncomfortable due to the verification restrictions; however most of the interviews were surprisingly honest.

There are two basic categories of recipients, those who are in utter need of the remittances as their living standards are very poor or they have deteriorated due to various unfortunate circumstances, and those who have moderate need or (rarely) no need at all of the remittances as they represent a surplus to their income.

A crucial discovery regarding the receipt of remittances is recognized on the exaggeration and lack of truth regarding particular needs and the actual use of the money. Most of the senders claim that they remit in order to maintain the livelihood and to aid the survival of their families, relatives and sometimes of their friends. Only a small fraction admitted that the remittances –even though regular- were superfluous and marginally supplementary to the income. However, it was evident that in some cases this statement was a product of counter-productive pride and an attempt to safeguard the dignity of the family.

The vast majority of the senders are usually under the impression that the remittances are the tool for survival, a means for the purchase of basic commodities and potentially the only source of revenue. Even though, this is probably an accurate estimation, according to the sample of the recipients it is a widespread practice to ask for more than is actually needed, especially from the well-established immigrants. The presentation of a far more desperate condition in the home country is more than usual. It is also common practice to funnel -the otherwise needed- remittances to wasteful commodities and unnecessary purchases. For

example, one of the families I interviewed -where only the mother was working as a self-employed seamstress- would use the remittances for the regular purchase of luxurious groceries as well as for the continuation of an extravagant lifestyle, when it was evident that the money should be invested on the lacking education of their children and to complement their almost non-existent income. Another two examples demonstrated that the irregularity of the reception of uncertain amounts of money, led the families to spend the capital on luxurious and less necessary commodities, as they explained, this was the only time when they can slip out of their ordinary lifestyle and do something different or amusing. But even when the remittances were sent on a regular monthly basis, some of the recipients would still portray slightly careless consumption behaviour. In another case, which I was unable to confirm, the remittances were exclusively used to the modification and enhancement of the family car. Similarly, two other teenage recipients of respectable amounts of money for the Lebanese standards would almost exclusively spend the money on lavish lifestyles and entertainment. The behaviour towards the sender was unethically demanding, in my opinion, as the teenagers used a kind of emotional blackmail, however it proved to be exceptionally fruitful. According to other senders, this particular behaviour especially from younger generations is not uncommon. They usually claim that they have been abandoned or that they are victims of dereliction, however when they are actually invited to the host country they always plead that they cannot abandon their school, their friends or their way of life.

Generally, it was quite evident that those who exaggerate for the need of remittances, direct the money to lavish commodities and practices and they apparently lie as they are anxious for the reaction and approval of the sender. Of course, someone could say that they pose hyperbolic circumstances in order to trigger their relatives' pitiful and charitable emotions; however this was not the objective of the research, even though there were clear insinuations. Nevertheless, apart from those habitual cases, there are families who completely rely on the receipt of remittances for the payment of loans or other regular and irregular payments. For example, one family in West Beirut was heavily and exclusively reliant on the reception of remittances for the monthly payment of a foreign language teacher. Also, the remittances allowed to the family the additional income needed, which was funnelled towards the payment of certain bills (like mobile phones) and other irregular payments such as bribes and various other informal payments. This facilitated the acquisition of certain licences and paperwork necessary for the completion of a house in the outskirts of Tripoli. After the realisation that the extra income was important for the engagement with the bureaucracy, I

included the issue in my questions. Surprisingly, the vast majority of the recipients were in similar circumstances as it was common for the extra income to be used on analogous payments. Also, most of them were not fully aware of this fact. Meaning that, the realisation that the remittances are regularly spent on bribes and facilitating payments came only after I pointed it out.

The average amount of remittances sent to Lebanon, as I projected in Chapter Three, is relatively high in comparison to other countries in the world. However, Lebanon as a developing country is exceptionally expensive. Beirut particularly offers the basic commodities at much higher prices than in the rest of Lebanon. Also the prices do not correspond to the average income. As a result, profiteering is quite widespread and only remittances, for most of the interviewed families, offset the imbalance. Almost all the recipients agreed on the fact that without the remittances they would not be able to live a normal life.

The feeling of an unfair taxation and the constant need for informal payments and bribes is so extensive that those who cannot fully rely on remittances are obliged to resort to informal practices in order to avoid fees, taxes and other payments towards the state. Other families with marginal income attempt to combine remittances with other informal practices in order to retain their income.

Most of the remittances receivers, evidently funnel their remittances towards consumption and bribes. Others will split the money according to the monthly needs and circumstances. Those circumstances could be an addition on the household regular payments, the sponsoring of various activities and ventures, like house-building, starting or supporting a business, private education and other unexpected expenses like repairs or doctor fees. However, the tendency to save up and deposit the money into banks or other banking products is very limited. Only a very small percentage would use the remittances for investment purposes. This fraction without exception belongs to the minority who have no exclusive need for remittances, and therefore could afford to direct the capital towards other potentially more productive investments.

Also the minority that saves up and attempts to create a bulk of cash is divided in to two distinct categories. Those who intend to return back to Lebanon as soon as possible and start a new life there with the accumulated wealth and those who are permanently settled in the host country and support parts of the family back in the home country. This comes in opposition to those who stay in the host country for an undisclosed amount of time in order to

support the relatives in Lebanon, independently of their intention to return. In any case, it seems that even the deposited money will be ultimately funnelled towards informal payments or bribes as any undertaking has a “prerequisite”, unless the recipient decides to reinvest or keep the money deposited.

### **Non-Lebanese residents or citizens receiving remittances in Lebanon**

During the research process I have completely overlooked the populous Palestinian presence and the possibility that the Palestinians (refugees mostly) around Beirut and in South Lebanon could be recipients of remittances.

When I visited the Palestinian society of Athens which acts as an unofficial consulate for Palestinian immigrants, I realised that there are manifold Palestinian immigrants in Athens –of legal and illegal status- who frequently remit to family members who permanently reside in Lebanon.

Their majority uses informal transfer systems like hawala as most of them have illegal status in Greece or a semi-legal status as they are in middle of a time consuming process of obtaining political asylum seekers permit in the country. Due to the uncertain status of most Palestinian residents in Lebanon and the frequently illegal status of the Palestinians in Greece the use of an informal transfer system was inevitable. However, in the open discussion I held there, most of them agreed that they would prefer to use a more formal way of transferring money to Lebanon. Also some who have relatives in the various refugee camps, would send as a group, a prearranged sum of money in one go to their relatives via an independent medium usually outside of the camps. This tendency is perceived as a safer and more trustworthy way to remit instead of sending the remittances individually. However, I was unable to understand the rationale behind this statement due to time and linguistic restrictions.

Of course, I did not have the chance to visit the actual Palestinian receivers in their respective camps or residences. Therefore I could not examine whether the recipients have other needs than those stated to the senders, or to verify where exactly the Palestinian receivers spend the remittances. However, most of the senders strongly supported that the Palestinians, due to their unfavourable status in Lebanon and due to the stronger conviction that the Lebanese due to the institution of the extended family have very specific financial conditions, almost needlessly exaggerate on their needs. Despite this potentially partisan statement it seems that the Palestinian recipients would funnel their remittances in similar

directions as the Lebanese. Possibly the Palestinians are more prone to use the remittances for survival purposes and on the various bribes, not only towards the state but towards various, which were unidentified to me, in camp functions.

### **Lebanon as a remittances-exporting country**

Even though this paper is focused on the informal practices in Lebanon, several times I came across the fact that many Lebanese and non-Lebanese residents send remittances from Lebanon to other, usually, Middle Eastern countries. However it must be noted that despite the remittances exports, according to Manuel Orozco and Anna Ferro of the USAID, the 45% of the remittances sent in Lebanon actually stem from the Arab Gulf states.<sup>403</sup>

The obligation of the reference of such a practice is necessary as some of the remittances sent outside of Lebanon still extensively use the informal transfer systems. There is no available data in my research regarding the need and the use –factual or not- of the remittances sent to non-Lebanese destinations. However, it must be noted due to the use of informal transfer systems, which act as an additional attachment on the informal practices in Lebanon. Since Lebanon, as explained in a previous chapter, functions as a labour exporting as well as labour importing country, especially from neighbouring countries, it would go without saying that the rate for exporting remittances would be increased too.

However, it is probably easier to remit to other Middle Eastern countries –if necessary-for example, the United Arab Emirates which is more welcome to informal systems than any other country in the region. An interesting element is that those who remit to destinations like the U.A.E or Kuwait feel safer than to remit in other countries like Greece. Probably the links between European destinations are less fixed than in other countries, which can be more prone to this informal dogma, like Pakistan or the Gulf states. Nevertheless, it must be noted that this is not an actual fact but probably a more stereotypical impression of the users. However, statistically speaking, the users mention that there are less unfortunate examples regarding transfers through informal systems between countries of similar cultural background like –Lebanon to Kuwait and vice versa- than between other Western European states and Lebanon. However some other more objective interviewees suggested that this is not necessary and the quality of the transfer is not based on cultural or customary criteria but on personal fairness and impartiality.

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<sup>403</sup> See details Ferro, Anna – Orozco Manuel “Worldwide Trends in International Remittances” *Migrant Remittances*, July 2007, Vol.4, No.3 p.2

### **The informal transfers' susceptibility to non-benefaction purposes**

The sample of senders and recipients as well as the few hawaladars I have interviewed for obvious reasons, projected a completely oblivious attitude towards the question of the happenstance of illegal transfers potentially sent for other reasons than the usual remitting motives. All the users of the informal transfers systems I have interviewed rejected the use of force for any kind of ideological principles. However they all admitted that the ease and the lack of paper trail could render those methods extremely vulnerable to any individual who wishes to abuse the system's relative freedom.

Even though most of the interviewed use informal transfers systems to send remittances to Lebanon, few of them admitted that they have contributed money to certain – unnamed to me- charities. Especially the Palestinians, due to their organised base in Greece having collectively contributed to various charities. This is in order to support certain families in despair, the funding of certain educational purposes in camps in the South of Lebanon or to contribute to the medical expenses of certain individuals or in order to fund the function of certain refugee camps and particular social groupings.

On the other hand, the Lebanese I have interviewed showed significantly less charitable leanings. None of the Lebanese individuals I interviewed had ever participated in any charity. It was impossible to verify the truthfulness of their allegations, however none of them had obvious reasons to claim otherwise as the nature of the questions had an indirect hue.

However, as is the case in most charity, none of the contributors were in a position to be aware of the exact time of the reception of the funds as well as if the money will actually end up to the stated charitable purpose. The entirety of the charity contributors I spoke with admitted that they indeed have no clue if the money they contributed will actually reach the final destination. They do it anyway as people are in their need and they hope that the money they have sent is used for moral and honourable purposes. However they recognise that due to the involvement of inappropriate persons there is a strong chance that some of the money – if not all- could be potentially redirected to certain pockets or purposes.

Nevertheless, the aforementioned belong to the sphere of personal estimations. However, the observation that it is extremely easy to use the informal transfers systems for other purposes and that the system has a certain proclivity towards unclear transfers is apparent. In contrast to the mentioned above, when I interviewed the actual hawaladars and

whenever I was present at certain transactions I realised that the hawaladars try to extract the maximum possible information for the receiver, in order to protect and guarantee the success of the operation as they claimed. It seems that the local neighbourhood hawaladars since they allegedly make very small profit from those transactions and the corner shops they usually own are the epicentre of the local communities, attempt to safeguard the transfers for their own safety first. Despite the mentioned above, it seemed to me that it would be relatively unproblematic for the hawaladar to be approached by certain individuals and perform any kind of transaction without anyone ever finding out.

Generally, the whole affair is purposely preserved under a nefarious status regarding the processes and the specifics. Besides, it was common to deal with the reluctance and the suspiciousness of the interviewed despite the fact that in all the occasions I was escorted by someone the local community recognised.

#### **Remittances contribution hypothesis on a macroeconomic scope**

The basic hypothesis regarding remittances is focused on the claim that they represent a macroeconomic (and microeconomic) element of growth in the developing countries. Even though, this estimation has been challenged manifold times by the primary and secondary material, it needs to be established whether the benefits are adequate enough to counterbalance the disadvantages.

It is evident that the vast majority of the remittances recipients funnel the funds mainly towards consumption purposes, independently of the fact that the remittances could be the necessary means of survival or a just surplus to the family income.

The majority of the recipients suggest that despite the billions of dollars granted in Lebanon for its extensive reconstruction since the late 1990s, only a small fraction of the infrastructure has been adequately mended.<sup>404</sup> I cannot personally compare the infrastructure situation of Lebanon and particularly of Beirut prior to my visits, however it is obvious that for the money Lebanon supposedly received, the infrastructure could have been in a much better condition. Undoubtedly, a great deal of reconstruction has been achieved, but most of the recipients-especially the low-income- suggest that without the remittances it would be impossible to rely on the government compensations or on the extensive transformation of Lebanon, for the restoration and rebuilding of their properties or assets.

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<sup>404</sup> At least according to the governmental rhetoric over the years



Unquestionably the remittances supplement the family revenue and undoubtedly engage the public into expenditures and consequently enhance the supply and demand in the market. According to Hannah Charkour from the Greek-Arab Chamber of Commerce, the increased economic activity produced by the remittances, is so sizable and significant that it actually maintains and supports certain branches of the market and particularly the clothing sector and the construction sector.<sup>405</sup> Also she continues that the large capital inflows are sufficient to equipose the balance of payments of the state. Indeed according to Ferro and Orozco only the official remittances represent 25.8% of the Lebanese Gross Domestic Product.<sup>406</sup> Additionally, according to a manager from the Middle East Desk of the Foreign Office and according to most of the remittances senders, limited decline has been projected during the financial crisis and during the recent conflict with Israel. It is noteworthy though that small sized community pressures tend to occur especially in more rural areas where it is obvious who and who is not receiving extra income. However, this is mostly linked with personal rivalries and the income inequality caused by the inflows of the additional capital to certain families and individuals. Nevertheless, it is a challenging issue as it affects a very large segment of the population.

Furthermore, according to Nikos Sakkos from the Greek Ministry of Foreign Affairs, the rough estimation of the amount of the informal remittances sent from Greece to Lebanon is approximately three times higher than the bilateral construction contracts in Lebanon. However, there is no official data to support this estimation which according to other circles in the foreign ministry could be even higher. Nevertheless, even the rough estimations are quite indicative of the importance and the magnitude of the informal remittances in Lebanon. Evidently all the remittances, informal or not, represent a colossal percentage of the Gross Domestic Product, not only in Lebanon but in most of the developing countries and supplement the formal or informal economic activity in the country.

However, the potential over-reliance on remittances as discussed earlier in the chapter may lead, especially the younger generations, to a more selective process regarding their job opportunities, indirectly increasing the unemployment rates and whatever that may entail. However, this is not the case for all the recipient families and individuals of the sample, but is not uncommon either. Probably the need of the senders to offer better living standards to their

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<sup>405</sup> Estimations also based on the comparison of the turnover of the Papathymiopolos S.A (marble trade) , Toi & Moi, No Name (clothing) and Folie Folie Ltd (jewellery), which operate in Lebanon as well.

<sup>406</sup> See details Ferro, Anna – Orozco Manuel “Worldwide Trends in International Remittances” *Migrant Remittances*, July 2007, Vol.4, No.3 p.2

families sustains these patterns. Obviously families with immediate survival troubles would not tolerate such behavior,<sup>407</sup> although families with surpluses in their revenue frequently face similar problems.

Generally, the remittances have a direct input into the economy of Lebanon, in opposition to the government efforts and the various grants, contracts and the FDIs, as they can be immediately circulated into the market and bolster the economy; however they may also contribute cut-rate growth as well.

### **Summary of the remittances interviews**

The greater part of the sample, which was divided between senders, recipients and hawaladars of remittances, with the exclusion of the macroeconomic section, which was based on the views of certain officials, shows a considerable preference on the use of informal transfers systems for the remittances. According to the sample, the informal channels provide a comparatively vulnerable method of remitting as the formal channels. The only distinct difference is recognized on the fact that the informal channels are usually not interrupted during the periods of turmoil. Nevertheless, those informal channels display a certain propensity towards their abuse, meaning for purposes other than just the simple transfer of remittances.

The use of the remittances is divided between those with survival needs and those with the marginal need of a surplus to their income. However, the end users occasionally fabricate the intensity of the need of the remittances. The exaggeration of the need for additional income was not uncommon between the recipients I interviewed. In these occasions the funneling of the remittances was towards commodities not related with survival needs such as car modification or gadgets. It goes without saying that the sender usually is not aware of this situation. The remittances are predominantly funneled towards consumption or towards the defrayment of informal payments such as bribes among others. Very frequently it seemed that certain families cannot cope with the monthly duties without the additional income the remittances offered. In many occasions, the need for remittances was a facilitating payment towards the public sector, a hospital or even to get cheap cable TV. Also a respectable amount of remittances is sent into Lebanon from non-Lebanese citizens and particularly Palestinians. Additionally, Lebanon apart from being a primarily remittances-

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<sup>407</sup> As an exception to the rule, indeed one of the families even though faced distinct survival problems the only son would refuse to work.

import country is also a remittances-export country, especially towards its adjacent countries. The main vessel for informal remittances in Lebanon was hawala. Undoubtedly, there are thousands who use the conventional banking transfer systems but the use of hawala was staggering throughout the entire social stratification. However, the poorer families tend to use them more. The distrust between informal and formal ways of transferring is quite widespread in Lebanon. The predilection towards informal systems is due to the fact that is cheaper and quicker, as both systems are not fault proof.

Surprisingly though, Lebanon seems to be, apart from a major remittances receiving country, a significant remittances-exporting country especially towards the East. Capital also flies from Lebanon to countries like Yemen, Pakistan and the Gulf states. Still, the main vessel for those transfers is hawala-like systems. Also another aspect that came to the fore and is quite in opposition with the bibliography is the fact that the hawaladars seem to attempt to extract the maximum possible information regarding the sender and the receiver. The stream of remittances is so obvious and often that is not an exaggeration the suggestion that it really complements the governmental efforts for reconstruction and economic transformation throughout Lebanon. Independently of where the remittances are funneled the accelerator effect they impinge on the economy is not negligible. Of course, I had no hard evidence of clearly suggesting that the remittances are intrinsically linked with other than positive directions, however all the respondents suggested that they are vulnerable to abuse. It was also evident that most of the families adapt their lifestyle according to their fluctuating income, especially the families that had no standard amount of money coming in. Despite the obvious beneficial attributes to life style, reconstruction and economy the overreliance and overconsumption the remittances create a potentially lethargic new generation.

According to the users and the government officials the overall contribution of the remittances on microeconomic and macroeconomic level seems to be favorable; however there are certain pitfalls that should not be overlooked.

## Interviews on corruption

### Introduction

In order to project a holistic view on the issue of corruption as part of the informal economy in Lebanon it was necessary to approach a diverse sample of individuals. In order to formulate an adequate picture on the petty levels of corruption I predominantly used the same people as I used for the remittances interviews, meaning random ordinary individuals with no specific educational or occupational background as well as those relevant to the topic, academics and government officials. Additionally in order to establish a more specific framework regarding the grand corruption I have approached and included in the interviews, I have included individuals with particular authorities who are heavily involved in the state apparatus. Only a few of them were not Lebanese residents or citizens; however they had direct or indirect involvement into bilateral construction contracts and others held essential positions in the Port of Beirut, the Ministry of Transportation and other state agencies responsible for the planning permissions; health etc.

The societal environment and the economic situation from the moment I arrived in Lebanon was worse than expected and considerably more severe than its presentation in the literature as described in Chapter Four. Even though Lebanon has a selectively modern veneer which can be enormously deceiving, the moment you step out of the ordinary tourist locations the grim reality presents its self.

Nevertheless, the anomalous reality in Lebanon is receipted by a wide range of views and attitudes. This section projects the sheer size of corruption in Lebanon and displays the high levels of its penetration in every aspect of the daily life, constituting it the key component of all the informal economic activities throughout the country. The three other key drivers are inexorably linked with corruption as it usually functions as a catalyst for the engagement into other informal economic activities. Such as the informal transfer of capital, operating into the informal sector, developing clientelistic relationships or simply achieving ordinary daily tasks. According to the economist George Pavlopoulos, corruption and inflation augment the divergence in the distribution of income in the country and deteriorate the living standards. Moreover, according to Ibraheem Khlel corruption is also associated with human behaviour, as also shown in a previous chapter. The outrageous and stereotypical perception of the psychology of marketing theory which suggests that the closer you get to the equator the more corrupt a country is, even though extremely generic and unscientific, has an element of truth in it. It just so happens that most of the world's developing nations are in

the 'south', distinct from the western industrialised nations. This concept is also referred to in World System Theory as the periphery. Pavlopoulos as well as Khlel suggest the corruption in the levels of Lebanon dissolves and weakens any potential genuine policy planning. Besides, the majority of the respondents also suggest that no politician will shoulder the political costs (and risks) for tackling corruption. Additionally, the academics and the public opinion propose that the first objections for a substantial plan against corruption will emerge from various political circles first.

Undeniably, corruption is an everyday phenomenon in Lebanon. It is as familiar for the Lebanese as the air they breathe, which begs the question – is a western sense of corruption acutely different to that which is practiced with ease in Lebanon. For some it is a necessary evil and for some others a despicable habit. In the following section, various interviews are presented as are personal accounts regarding the wide range of corruption as part of an informal economic activity.

### **Corruption for non-financial objectives on behalf of the donor**

The wider span of corruption primarily involving bribes, gifts and facilitating payments is probably at the core of informal economy in Lebanon. Every engagement with the state bureaucracy seems to be exposed to a bribery-deal just in order to be completed or to be accelerated. Also bribes are exceptionally common just in order to receive a service which usually belongs, as Khlel among others suggested, to the vested rights of every citizen.

### ***Health sector***

According to several ex-patients who have been treated in hospitals in Beirut and two doctors who work now in the K.A.T.<sup>408</sup> hospital of Athens, the current situation in the public hospitals of Lebanon is appalling. There are approximately 25 public hospitals in Lebanon with extremely low bed capacity and around 170 private hospitals with average capacities.<sup>409</sup> The overflow of patients –which is constant- especially during periods of conflict, will be re-directed into one of the private hospitals at the expense of the government. In order to obtain a bed in the constantly full public hospitals, it will be almost exclusively the result of a series of bribes to the administration staff, the nursing staff and the doctoral staff. Even when the costs of care are supposedly (and fully) covered by the state, several fees will absolutely be

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<sup>408</sup> Stands for Centre for Injury Recovery, Kentro Apokatastasis Traumaton (Κέντρο Αποκατάστασης Τραυματών)

<sup>409</sup> The number of hospitals was verified in Lebanon in “Public Sector Health & Education Report” Available at <http://www.bi-me.com/main.php?id=84&t=1>

necessary especially towards the nursing staff, this is just in order to provide the prescribed medication to the patients and for the doctors to offer the necessary treatment or surgery on time. Most of the ex-patients concur on the fact that in the hospitals, there is a wide-spread prevalence of emotional blackmail, intimidation and extortion, in which bribes are absolutely necessary.

In one case, the ex-patient described that when he handed to the doctor an imprecisely prearranged bribe in order to perform a surgery for a life threatening condition, the doctor realised that the money was less than the amount he implied, and he threw the money back to the patient, saying that he should be ashamed for giving him such a low bribe, even though everything else was already paid for by the state and the insurance. In another case, the patient's discharge delayed by three months so the family could gather the prearranged fee for the surgery. The patient it must be noted that attempted to escape from the hospital twice with all the cables and tubes still hanging from her veins. It was also surprising that when I mentioned those stories to the two doctors I interviewed, they stressed that the conditions in the public hospitals are tragic and the pay for their input is rather low. In other words, there were no denials and those situations indeed occur and the doctors' behaviour is justified. Also in private hospitals a fee towards the surgeon -on top of the fee of the hospitalization- is customary in the fear that the doctors will eventually discover an additional condition in order to perform an unflinching but unnecessary surgery. Furthermore, the two doctors admitted that the squander and the waste of the hospital resources and the over-charges of certain medical equipment are outrageous. For example, a firsthand account suggested that a gastric band is marked up by 2500% and a pacemaker about 1000%. The graft and the commission will be re-distributed among the cliques of the doctors, the maker's representatives and the hospital's chief administration. The doctors however confessed that the senior doctors from various Departments daily take to a public relations spree in order to attract patients to their private practices or the private hospitals that they also work. Another account suggests that the Head of one the biggest public hospitals in Beirut, who was also involved in supplies scandals and also held other public essential positions in the government, was unable to count the money that he was receiving on a daily basis and instead he would weigh the cash on a scale. Needless to say, that he made no effort to conceal this outrageous practice and he would arrive to the hospital in an exceptionally luxurious British car.

Lastly, the public hospitals are hugely understaffed and underequipped due to lack of funding; as a result, the patients who can afford it are obliged to hire private –usually

untrained- night nurses for the serious cases and for the care of the patient's basic needs and frequently purchase themselves vital hospital provisions like gauzes, painkillers, bedpans etc. However, occasionally for a certain fee to the nurses, the lacking provisions can mysteriously appear. Even during the various periods of turmoil, a small bribe would resolve any problem that seemed unapproachable and inextricable.

### ***Bypassing the bureaucracy***

The state apparatus in Lebanon is by large, inflexible and monstrous. According to George Pavlopoulos, this type of corruption has become institutional in Lebanon and Ibraheem Khlel adds that the bribing in order to bypass the red tape is the dominant mind set in every transaction. The situation according to the economist Frago Kourandi, seriously affects the stability of the prices in the formal and the informal sector as well. Also, according to George Pavlopoulos the sustainability of the economy and the market is severely challenged. Ibraheem Khlel notes that the Lebanese tend to belittle the seriousness of their actions, as they assume that this practice has little effect on the overall economic structure. Indeed most of the respondents not only underestimate the gravity of their actions, but they also point out the inevitability of bribing. Without a doubt it is almost impossible to complete a transaction without bribing.

For example, one thorny aspect in the state mechanisms is the issuing of various licences and permits. Whether it is a driving licence or planning permission the protocol is almost the same. Any restriction is possible to bypass, overlook and be erased. Outside of the Ministry of Transport as well as in other public bureaus, there are a large number of individuals, who for a fee -dependent on the case- can circumvent the official channels and bypass the queues in order to obtain the paperwork or the permit someone may need, even when the particular need is illegal. For example, one of those individuals for a respectable fee (around two million Lebanese Pounds) managed to issue a vehicle registration card for a vehicle not officially registered in Lebanon yet. Prior to 2007 it was also very easy to obtain a diesel car and register it officially in the country, even though it was strictly prohibited. However, after 2007 the legislation became stricter and it was also banned for tourists to drive their own diesel cars into the country. Still, if someone is caught there are ways to avoid the penalty, usually by bribing the officer. As one of the interviewed mentioned, he avoided a fine by promising an officer two bottles of whisky. The officer indeed two days later went to the house of the "offender" to receive his alcoholic bribe.

Also for a non-specific price a driving licence can be sent to your door step. This could also happen via a driving instructor; however, due to their large number it is less easy to find one with the right (and cheaper) connections within the ministry. Also a professional (lorry) driving licence could be obtained even over the phone. In one specific case, the lorry driver phoned his friend (the driving instructor) stating his need of an upgrade for a larger lorry. Within the hour the instructor called back telling that for 3000 US dollars the upgraded licence will be immediately at his disposal. Another similar story as described by the lorry driver himself, suggested that he obtained his driving licence without passing the necessary tests as he was severely colour-blind.

Also due to the extensive reconstruction projects all the agencies involved in the town and urban planning as well as the Land Registry Agency, are obliged to issue multiple permits for a variety of purposes. In order to obtain a mortgage, for example, someone needs several permits, topographical maps, civil engineer's certifications etc. The gathering of all the necessary paperwork requires several days –if not months- to be obtained and manifold repeat visits to various different offices around Beirut. This process has certain stress inducing attributes and it is very time consuming. Therefore, those agencies are extremely prone to bribes in order to hasten the time consuming processes. For one signature or stamp for example someone may have to wait for over a fortnight. Even for the simplest request, it is common practice to enclose the fee when someone completes a form or an application and hands it over the clerk. According to a junior office clerk, who works now as waiter in an Edgware Road restaurant in London, his supervisor, responsible for planning permissions, would no longer ask for monetary bribes but he would demand various material assets. Over the years he acquired a motorbike, a caravan and less valuable objects such as televisions, hi-fis, cameras, watches, bicycles, gold coins etc. Of course, those gifts indeed could offset the wait and the formal fees required, but the nature of the request of those donations was awkward and demanding..

Once the paperwork is ready another circle of bribes commences usually involving the banks. A mortgage might be needed or the property could be potentially utilised, as de Soto explained in Chapter 3.<sup>410</sup> The banker could facilitate the reception of a mortgage or any other loan for a percentage usually taken from the loan. The banker can negotiate the terms, the interest as well as the payment of the mortgage in one instalment which is highly

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<sup>410</sup> De Soto, Hernando “*The Mystery of Capital*” Athens, Printa: 2003 (Greek translation: *Το Μυστήριο του Κεφαλαίου*)



unorthodox for the banking practices. In one particular case a manager of a very well known bank in Lebanon, even circumvented the minimum age threshold and offered a very large mortgage to a 20 year old man with a rather controversial credit score.

Generally the majority of the sample mentioned that in Lebanon it is almost impossible not to bribe someone in dealings with the state apparatus and occasionally with private agencies independently if they are associated with the state. Also during the war or other smaller scale conflicts when the state apparatus stalls, several people could still perform transactions and issue licences and permits and continue their dealings with the state as usual. Typically during the periods of unrest the most unusual, outrageous and illegal requests get through, even though the rates of a bribe, as a rule, increase.

### **Corruption for (passive and active) clientelistic objectives**

In Lebanon the relationships between certain parts of the political elites and the public could be characterised as an awkward mix of affiliations. Even though it is more frequent for the public to approach the various officials for favours, meddling etc, (passive) there are certain cases usually before the elections that the officials will move towards the public in order to be re-elected and offer them money or promises (active). Especially in the more rural areas of the South where the financial conditions are in a lower standard than in Beirut, the cost of rigging the vote is relatively low for the politicians. The vote of a family can be bought in the villages east of Sidon for the price of \$50 US. However, the more north you go the prices of affecting the voting preferences can be significantly higher, even in excess of five thousand (5000) US dollars. None of the interviewed had ever received money personally, however many of their immediate family members had indeed received moderate amounts of cash in order to vote a specific candidate and attempt to influence other members of their social circle to do the same. The academics also suggested that this practice is not unique to Lebanon, many developing countries with less corrupt governments resort to this particular practice.

The patron-client relationship is exceptionally entrenched in the mindsets of the Lebanese people. Those who actually have access to specific individuals with authority will solely deal with them for every problem they could possibly have. One of the interviewed was referring to the Member of Parliament he voted for at the last elections as “his MP”. However, even though many have the feeling of closeness and personal contact with an MP or other members of the political elite, their requests will be accomplished in a very selective

intensity. Naturally, this tendency is not only applied to people in high places but in everyone. From the neighbourhood bank manager to the last employee of any public or private organisation or even store.

All of the interviewed suggested that the most usual special favour that people would ask from the politicians is for a job. Also all the interviewed claimed that most of the people they know have also proceeded to similar requests. A very surprising parameter however shows that many of those visits do not always entail bribery. In one case, a Christian Orthodox mother would daily visit a senior manager in a stage coach company,<sup>411</sup> so her son would be hired as a bus driver. In every visit the mother would offer to the manager (also Orthodox) an icon of a different saint or food. In other cases, localism –apart from sectarianism- would be a vital element of acceptance in the initial stages and in the secondary stages the favour will be evaluated accordingly to the amount of the bribe. To be more specific, the assessment of an application for a position in the Ministry of Foreign Affairs was stalled for one of the interviewed. His family attempts to meet someone with influence on this matter were unfruitful. However, when by accident the particular official, that the family was trying to approach for months, overheard that they descend from his village in the North-East of Lebanon, all of a sudden the whole behaviour altered and the family managed to arrange a hearing. Needless to say, that for approximately ten thousand US dollars (\$10,000), everything was settled. Generally, the sample argued that localism is a powerful catalyst for favouritism and clientelism. It is also surprising that especially some people from older generations feel that the various state officials or the politicians they meet are obliged to put through their requests or demands, especially if they share the same religion or place of origin.

In a more municipal level, candidates will frequently use a door to door tactic as part of their campaign, even in Beirut. During those personal encounters they commit themselves to a series of various outrageous favours, all of which they will be incapable of conducting once they are eventually in office. In a particular case, the father of the candidate visited hundreds of houses in a suburb of Beirut, and claimed that if his son was elected, he will be significantly cheaper than his opponent.

The levels of clientelism as well as nepotism are extravagant in Lebanon. For example, several positions in various sections of the public sector had been advertised by the

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<sup>411</sup> It was unclear if she was referring to the state owned Office des Chemins de Fer et des Transports en Commun or the privately owned Lebanese Commuting Company

government in specific newspapers. The majority of those positions were already occupied weeks and months before the advertisement. Characteristic is the example, of another man who was expecting the advertisement of a particular position for two years. When the government announced that soon specific positions will open, he also found out that his cousin, who was involved in an informal dealing with some officials, was appointed to his much desired position even before it was advertised.

Generally, I was told many similar stories. Literally, every person I spoke with had an outrageous example to share. During my second visit to Beirut I sat in a traditional tea shop to have a chat with several people that my contact had gathered in order to discuss affairs, as soon as the other customers realised what we were talking about they joined in, citing their own stories of corruption and bribery as part of a patron-client relationship. Some of them claimed that in times of emergency (health problem) or in times of special needs (accepting an inheritance) more than their monthly wages would end up in facilitating payments.

Eventually, I have chosen only few of those stories as the most representative ones due to the limitations of this paper in size. I do broadly refer to the bulk and essence of the material gathered in the interviews in this section; however it was impossible to integrate the entire range of the interviews.

### **Corruption for financial advantages and the evasion of contractual obligations**

Although corruption has a wide range of applications and influence its most characteristic propensity is acknowledged on the personal gain and general evasion of penalties, taxes and other legislative and contractual obligations.

This subsection probably includes the most important elements of corruption in Lebanon. The following primary evidence suggests that the political corruption in the country is only the tip of the iceberg. It seems that every person who has the slightest authority or jurisdiction on his (or her) hands will almost certainly abuse it.

One of the thorniest aspects in Lebanon is the issue of state supplies, as also mentioned in an earlier section. One of my interviews provided a very characteristic and tangible example regarding the financial advantages. Mr Jad Daoud was a former senior employee in a multinational joint venture construction firm, which was responsible for the reconstruction of the paved road network in South Lebanon. Just before the initiation of the project he was approached by a team of managers from the Ministry of Public Works and several main suppliers of raw materials in order to discuss the specifics. The real purpose of the visit was

to discuss how they could re-allocate some of the raw materials in order to share the surpluses. The result was that each lane of a sixty three (63) mile (in total) stretch of tarmac was by one (1) foot narrower than the originally planned. On top of that Mr Daoud also agreed to accept a much more expensive offer than the competition could provide, in order to buy from a specific supplier. The amount of the informal commissions he received as well as the initial bribes, allowed him to purchase a property in Athens (where his brother lived) and launch their own information technology services company.

Another similar example according to Stephanie Aoun, is the background arrangements regarding the competitions for the undertaking of a project. The process of the selection of the most satisfactory offer is conducted in maximum three rounds. In every round the people responsible for the initial choice may declare the round incomplete due to the lack of an advantageous offer. When all the three rounds are declared as incomplete they have the authority to choose one of the disqualified participants. Usually it is the one who offered them the most. Also according to Aoun the timetables, the quality standards and the health and safety issues which are by large non-existent is not a matter of concern. It is relatively easy not to abide by the contractual obligations as various subterfuges could be presented in order to meet the contractual clauses which are unable to induce penalties. Every project seems to have a wide network of underground negotiations in order to squander the states resources and manipulate the funds provided from the state or other international sources.

One more problem regarding the corruption for personal gain lays on the fact that apart from those who bribe for their personal development, for example, bribing employees from the tax office in order to avoid inspections or affect assessments, there are certain state officials who operate like common blackmailers. For example, several small and medium sized business proprietors have mentioned that auditors from the tax office have visited them in their shops directly asking for money so that they will not intentionally notice any discrepancies. It seems fair for many people to bribe in order to complete a certain chore with the bureaucracy; however when the bribe is actually losing its customary nature it creates feelings of resentment and unfairness.

Of course, the taxation problem is not as one-dimensional as someone may assume. Corrupt tendencies alter the taxation scales and at the end no one actually pays tax corresponding to the personal income or the turnover of a business. Therefore every year several businessmen evade considerable amounts of tax and the tax office employees enjoy a relatively higher income than other civil servants and the state loses significant amounts of

revenue. Someone could also suggest that the tax evasion for the small and medium sized business could entail elements of a unique social welfare, since the profits are usually marginal; however, the tax evasion of larger firms has considerable effect on the finances of the state. For example, Josef Osman who is a chartered accountant in Beirut revealed to me that in 2008 the tax office performed an inspection to a very large refinery north of Beirut. During the inspection they discovered an unregistered tank full of crude oil. This meant to the state a \$3 million US loss per month for unclaimed V.A.T, meaning roughly \$36 million US per year just from VAT damages from a single tank from a particular refinery. The auditors were afraid for potential retaliation on behalf of the refinery owner and they eventually imposed only a symbolic fine to the refinery, approximately \$100.000 US, and the whole affair was covered. Mr Osman mentioned that the creation of an environment of intimidation is not unusual. Several auditors even received life threatening calls and were generally harassed by similar large firms. Therefore, the annual losses for the state are actually immeasurable; since nobody has the courage to report the inconsistencies of a similar magnitude and the number of the non-discovered irregularities cannot be estimated. However, other large firms would resort to less aggressive methods and simply bribe the auditors.

Lastly, there is the Port of Beirut where corruption thrives in an acute web of bribes and fraud. Even though, Lebanon has possibly one of lower levels ad valorem tax and import rates, luxury goods could be significantly taxed and electrical goods would be taxed according to their technological levels. Most of the commodities which are applicable to tariffs according to who is the importer could potentially have a preferential treatment. Also depending on the connections with other Port officials the various clearing agents in Beirut could alter the final value of a product (of a car in the particular case). Even though there are charts distributed among the shipping companies and the customs agents with fixed and pre-determined rates about the prices, the exploitation is prevalent. For the same car depending on the agent that someone may deal with the prices might significantly vary. Also another usual scheme is the alteration of the country of origin, for example within the port there are small manufacturing industries which they may re-label, remodel and remake various products. However, this practice is well known according to Frago Kourandi and constitutes a significant element of mistrust regarding the entry of companies in Lebanon or affects the investment attempts of the forged products manufacturers.

However, one of the most interesting aspects regarding corruption in the port is what one of the stevedores called the “pre-election periods of transparency”. Usually prior to the elections there is the climax of favouritism and of most of the scandalous transactions, however in the port it happens exactly the opposite. Habitually after each electoral confrontation the senior managers in the public sector are transferred or replaced. During the pre-election period all the informal mechanisms freeze to the disappointment of the dock workers, the truckers and the harbour masters who profit from the port’s illegal dealings. For example, one trucker mentioned that usually the average waiting time to load a container is 2 ½ hours, however just before the elections when everything is allegedly taking place according to the rules –and the general lack of bribes- the wait could be in excess of eight hours, while the lorries are queuing up for miles. Apparently when the politicians are trying to impress by making promises and favours, the Port managers should display their integrity in an attempt to safeguard their positions. Similarly all the informal dealings become inflexible and they will only return back to the normal daily routines when all the managerial replacements (if any) are confirmed. Nevertheless, several port workers would find ways of delaying certain profitable transactions until the whole elections affair is over, in order to receive the bribe. Meaning that there are cases where specific port services have been directly denied for the above mentioned reasons.

In general, most of the state officials and most of the politicians cope with the state agencies and the state funds and resources as though they were their own private shops. As Abubakar H. Kargbo mentioned in a conference “*many politicians and the government activities, require an elaborate centralized administration, financing important public works and welfare programmes; while the competitive growth of political parties involves increasingly costly electoral contests. This also increases the opportunities for private gain.*”<sup>412</sup> Although most of those corrupt practices involving the bribes and the gifts cannot be characterised as legal, there are other more terrifying and shadowy practices which entail ruthless criminal elements.

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<sup>412</sup> Kargbo Abubakar “Corruption: Definition and Concept Manifestations and Typology in the Africa Context”. A presentation at the Training for Members of parliament and members of Civil Society from English speaking West Africa: Gambia, Ghana, Nigeria, Liberia, and Sierra Leone, Bitumani Hotel, Aberdeen, 4<sup>th</sup> – 8<sup>th</sup> September 2006.

### Corruption for illicit objectives

Even though this section is more suitable for the following part of the interviews regarding the illegal networks, it must be noted that organised crime as well as other networks and politico-militant entities like Hezbollah, as a result of the high levels of corruption and the disobedience in the rule of law that this situation generates, are capable of expanding and establishing their capacity of their unlawful activities.

For example, Hezbollah managed to install a whole new secret underground telecommunications network throughout Lebanon.<sup>413</sup> The declaration of this parallel network of communications as illegal, sparked serious sectarian conflicts in Beirut, however a potential general escalation of violence was eventually averted.<sup>414</sup> The rumours within the society regarding this matter are many; however numerous accounts have suggested that the secret has been revealed due to the unsatisfied demands of certain individuals. Other versions suggest that the discovery was accidental, or exposed by the secret services of Israel, nevertheless the point is that due to the influential and highly corrupt state mechanisms a whole network of telecommunications was successfully and operationally installed throughout the country without obstructions.

Therefore it is not surprising, how several illegal networks manage to bribe to silence the police or other law enforcement agencies in order expedite their operations. One night-club employer in near Hamra Street, in central Beirut, claimed that his boss had regular visits by the insignificant local mobsters for protection payments. He eventually got away when he gave to them (as a loan, with no return) an unscheduled significant amount of cash in order to bail out of jail someone from their gang. As a display of gratitude the gang allegedly gave to the club several years' immunity to such payments. However, the police would not have the same gracious feelings and frequently would pay a visit to the club due to an anonymous complaint. In Lebanon, according to a police standing order, when a club receives three complaints within a month the police has the right to shut it down for more than ten days. According to the same employee, this usually happens when a night club has escaped the claws of the mobsters and the policemen are not receiving they shares.

The same club employer was later on caught red-handed with several grammars of cannabis in his pockets. He got away very lightly as the undercover policemen who caught him confiscated the cannabis, possibly for their own personal use and they let him go.

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<sup>413</sup> See more details in [http://yalibnan.com/site/archives/2007/09/hezbollahs\\_ille.php](http://yalibnan.com/site/archives/2007/09/hezbollahs_ille.php)

<sup>414</sup> <http://www.jihadwatch.org/2008/05/lebanon-declares-hizballahs-communications-network-illegal-nasrallah-says-war-has-started.html>

However, those particular stories since they stem from one individual are potentially truthful but impossible to verify, as not one of his co-workers (from the club) or any of his friends was able or willing to confirm the validity of his sayings. Nevertheless, I heard similar stories which circulate in Beirut by more respected people as well. The intensity of similar, less exciting but equally unlawful examples was extraordinary, to the point I felt rather insecure to walk around Beirut at night as I had completely lost my confidence and my trust in the relatively safe veneer of central Beirut.

Lastly, one trucker admitted his direct involvement in a smuggling ring of crude oil and he explained that the most profitable task is to be the first driver of the convoy who usually gets arrested and goes through all the unpleasant process that follows, or the scout who usually drives a regular car few miles ahead of the convoy to spot checkpoints and such. If the scout fails to warn soon enough the rest of the convoy, the first driver who would be the scapegoat would spend from one night in jail or up to four months depending on the corruptibility of the policemen or the judges. Over the last few years he had spent almost ten months in jail and this has allowed him to save up a significant amount of money which allowed him to recently start an informal business of importing used cars from the US and Germany. His connections at the port also offered him a significant tax reduction during the customs clearance and the cars would obtain less mileage or earlier year of production.

### **Summary of the interviews on corruption**

Undeniably as Maha Al-Azar mentions, corruption in Lebanon is a fact of life.<sup>415</sup> The structure of the state apparatus has been converted to an immense network of exchanging bribes. Bribing has exceeded the boundaries of just being a facilitating action and it has become habitual and obligatory. For example, in the health sector it goes without saying that a bribe or baksheesh is needed even for the smallest service. The scale of the problem is vast as psychological or emotional blackmail could be involved by the doctors, the nurses or even outside the health sector by any official with certain authority. Academics, government officials and users agreed that it is almost impossible to conduct a simple, let alone complex, bureaucratic transaction without participating in this informal arrangement. Services could be potentially refused or indefinitely postponed until the graft is deposited. Corruption in Lebanon is able to set in motion or terminate the whole spectrum of the country's means and

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<sup>415</sup> Al-Azar, Maha "Lebanon: Reporter's Notebook" <http://report.globalintegrity.org/Lebanon/2007/notebook>



capabilities. Corruption is able to buy the consciousness of the common people. However, it seems that people frequently desire to be bought off. The main argument of the respondents was that corruption is the only way to battle corruption, meaning that in order to bypass the corrupt state apparatus is to maintain it. It is impossible for corruption to achieve these levels of penetration without the tolerance and participation of the public. The downside is that it creates a perpetual environment of corrupt tendencies and it boosts the lack of meritocracy and undermines the capacity of people with real capabilities. Some respondents suggested that the relative ease to buy off your driving licence over the years has created fleets of really dangerous and reckless drivers. Also this situation has led to the monstrous and unstructured web of buildings in many areas throughout Lebanon as the permits was just an issue of money. It appears that every public contract is eligible for exploitation from the political elites and all the people directly involved in it. However, many respondents suggested that corruption may also attract capital in Lebanon, as it operates as a catalyst for certain firms and companies. Nevertheless, no one can argue that the same situation may also repel investments and contracts.

Efforts are actually made to improve the situation but nothing really substantial, as no politician will shoulder the political costs of eradicating corruption. Also the impression that even if someone decides to act as major actor against corruption the system, the regime and the elites will prevent it from happening as it will shake the foundations of the status quo within Lebanon. Unsurprisingly the public opinion views any attempt to tackle corruption as futile.

Also key institutions of the Lebanese economy have been converted to corruption havens like the Port. Due to the uncontrollable exercises and the lack of gravity the rules and law have, the Lebanese economy is losing immense daily amounts of revenue. For example, as mentioned earlier, a local refinery managed to hide a single silo-tank which caused to the state losses over 3 million dollars in VAT alone. It must be noted that when discovered the whole thing was covered up with a symbolic fine of 100 thousand dollars only. Profiteering and innumerable scandals regarding supplies and contracts in the public and private sector occur every single day. The construction and health sector according to the interviews tend to be the most prone sectors to abuse, embezzlement and profiteering.

Another parameter that occurred during the interviews was the potential of corruption to undermine practically the notion of democracy within Lebanon. The often occurrence of

candidates of buying off the voters has resulted that the richer candidate eventually gets the seat in the parliament or in the local council.

Lastly, corruption is partly responsible for the broad organised crime networks operation in the country, since both sides, meaning the illegal networks and the state, are tangled in a complex structure of interdependence and profit. Hezbollah is also intermingled in this spectrum as some of its functions are not perceived as entirely legal. Hezbollah for example managed to install an underground network of telecommunications throughout Lebanon. Apparently an endeavour of that size cannot be achieved clandestinely. Besides, as one respondent said jokingly everyone in Lebanon is guilty of corruption until proven otherwise.

On the macroeconomic level corruption in Lebanon results in loss of revenue and taxes, it enhances the inflation, alters the decision making process, undermines the democratic structures but also is an indispensable tool for the regular and normative operation of the state apparatus with the public. Interestingly though, among the respondents no one seems to be willing to admit his or her accountability on corruption. Everyone feels as the victim as the system and the state apparatus are established in such a way where it is impossible to act otherwise. The public tends to belittle its importance when they personally involved but when they are completely unrelated the faults tend to be political, bureaucratic and ascribed to the elites. The vast majority of the public when actually admits guilty of bribing, embezzlement etc shows no signs of remorse as they feel that they acted as they should since the system or the government owes them.

## **Interviews on illegal networks**

The size of organised crime and illegal networks in Lebanon is a component of economic, political and social disruption. Its implication and input in the informal economy has major significance and the growth of the networks seems to be relentless due to the inexorable links with corruption which allow further penetration and involvement in the economy and society.

Since it was practically impossible to approach people actively and admittedly involved with any illegal networks, I moved towards people with interest in the operations and function of the illegal networks like criminologists, activists and government officials. Meaning that, they dealt with the illegal networks but not at a primary level, for example being an actual member of an illegal organization. The interviews were directed at a more generic outlook of the illegal networks, overstepping the individual examination of the various subdivisions of organized crime like prostitution, smuggling etc.

In a separate level, I examined Hezbollah, as in the literature as well as in the conventional wisdom, it is mostly represented as a terrorist organization. However many Lebanese people –and not necessarily only Shiites – view Hezbollah as a para-state organization with the authority recognized by the government. Despite the enormously widespread acceptance in the Lebanese society it must be recognised that certain operations of Hezbollah do have a rather controversial gist. Illegal networks thrive within the Lebanese borders, under an all-encompassing spectrum of interdependent associations with the government, gangs and Hezbollah. My attempt to separate and uncouple the association of criminal activities with Hezbollah was unworkable. As explained in the literature review Hezbollah is a state within a state and that alone renders the particular organization vulnerable to the association and involvement in manifold dubious enterprises, however Hezbollah if disconnected from the dubious actions that it is involved in has certain re-distributional tendencies towards the base of support.

## **Illegal networks; Respondents intermingled with organised crime and illegal networks in a secondary level**

Due to the sensitivity of the topic, this section is not divided according to the disciplines or the categories of the particular key driver but it is based on the capacity and status of the respondents. I have divided the academics and the activists – researchers due to their potentially different approaches regarding the issue. The activists may provide a rather more

radical and less scientific outlook on the informal networks due to their direct participation in organised efforts for the control and deterioration of the operations of those networks.

### *Anti-organised crime activists and researchers in Lebanon*

According to Georges Mansour a Human Rights Watch part-time researcher, the organised crime networks in Lebanon, due to the corruption that characterises the country, have the ability to re-direct the political system and influence its decisions. With a covert reference to Hezbollah, he suggested that the way the media wields clout in the consciousness of the masses undermines democracy. This financial prowess of illegal networks was exceptionally influential in the past and still is, but at the moment, when they attempt to launder money, they are not anymore concentrated on the real estate market, but attempting to purchase banking institutions and companies. This is a display of the streamlining processes that the informal networks undergo, possibly faster than anything else in Lebanon. One of the respondents claimed that as soon as the construction of his over-luxurious house was completed, he received an offer from a local drug lord to purchase the newly built house in cash. Even though he was initially reluctant to refuse, he finally managed to avoid the dealing, without giving a straight answer and provoke any unfortunate situations as he felt rather intimidated by the whole affair. Those dealings are not unusual when local wealthy criminals wish to money launder some of their illegally obtained capital. However, when the amounts of the cash, which need to be laundered, increase they tend to resort to other techniques and habits, as shown in Chapter 5. Georges Mansour also added the illegal networks project an enormously successful financial performance probably representing the most dynamic and robust component of the economy. According to Mansour, the input of the illegal networks in the economy could be mathematically sizeable but the social benefit is minimum as nothing could possibly compensate for the kids who take drugs, the women who are hustled and the people who endure the humiliations imposed by the networks and their practices.

In opposition to Mansour is Aya Naji-Anderson, a member of an activist group, who suggests that without the participation and tolerance of the public, especially in the rural areas, the power of the illegal networks and the organised crime as a whole would have been significantly reduced. However, the involvement of the general public in the illegal networks affairs is usually triggered by the need for extra income, as farming or other agricultural activities provide a progressively deteriorating income. On the other hand, Aya Naji-Anderson continues, the involvement of the public in urban areas, apart from being impelled

by poverty, it may provide the means for social and economic eminence. Many impressionable youngsters are easy recruits and they are absolutely needed as they usually conduct all the legwork. Illegal networks' recruiters usually lure them with the promise of obtaining expensive cars, girls or by the indoctrination to certain ideologies. Lower income adolescents have the most ductile characters and pushed by the general frustration of the public, effortlessly join the ranks of the illegal networks. Indeed, Beirut is a place of extremes; the ironic sight of an elegant luxurious racing Italian car parked next to a blasted building could potentially set off feelings of injustice and outrage. It seemed so to me. In fact, Aya Naji-Anderson suggested that this very example could be the motivation for recruitment. The certainty of parts of the society that via the official channels and formal employment their personal progress is a farfetched ambition is rather prevalent.

### *Academics*

According to Jim Anastasopoulos the most problematical issue regarding the illegal networks in Lebanon is the general lack of apprehension for punishment, which characterises not only the criminals but large segments of the Lebanese society. The fear for punishment no longer constitutes a deterrent for criminal activities, as Cesare Beccaria argued in 1762.<sup>416</sup> The notion of equality and egalitarianism has been discarded and it is sought after by people through their involvement in the illegal networks and not by the use of legal means. Meaning that, it is easier for someone to enhance his (or her) income, for example, by the involvement in a criminal activity than actually working in formal job. The way of thinking of the Lebanese society views the segments of the society who have accumulated considerable wealth as the benchmark and they eagerly wish to emulate them. The main concern is that many seek this emulation via criminal activities or informal practices. This suggestion corresponds with William Brownsberger's view which suggests that high levels of clientelism constitute sources of corruption, a situation, which has found acceptance in the social psyche and behaviour.<sup>417</sup> Jim Anastasopoulos mentioned that it would not be an exaggeration to suggest that informal activities in Lebanon are deeply entrenched in the mind set of the population and any effort of the government or other international bodies to battle with corruption or the illegal networks is destined to fail.

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<sup>416</sup> Beccaria, Cesare "*Dei delitti e delle pene*" (English translation: On crimes and punishment by David Yound, Hackett, Indianapolis: 1986)

<sup>417</sup> Brownsberger William "Development and Governmental Corruption - Materialism and Political Fragmentation in Nigeria" *The Journal of Modern African Studies*, Vol. 21, No. 2 (Jun., 1983), pp. 215-233

According to Frago Kourandi the interconnection between sectarian concerns, corruption and the illegal networks is augmented by the governmental inadequacy or the indirect denial to substantially deal with those issues. Even if, certain measures for battling money laundering and the operation of those networks have been praised by international institutions, the size of the informal economy and the crime rate has actually increased, despite Lebanon's relative resilience to the global fiscal pressures emanated by the financial crisis. The association of the government and the army with the illegal networks also harms the macroeconomic and microeconomic environment of Lebanon. The re-distribution of income that potentially occurs, according to Frago Kourandi is, in all probability, overestimated. The socio-economic impact of the illegal networks on an economic level is that it marginally benefits consumption. The increased levels of –usually domestic goods- consumption, sooner or later, lead to higher prices and sweep along the prices of other products or services, which are not tradable or coordinated with import adjustment like rents. Since usually the average income improvement is overestimated and also frequently shows rapid saturation, the market as well as the population asphyxiates. Even if the aforementioned is deemed as hyperbolic, the beneficial attributes of increased consumption are enormously counter-balanced by the fact that the foretold association fends off potential investment in the country, and produces a climate of insecurity not only for the prospective foreign investors but for the society as whole.

Lastly, according to Ian Nicholson, Lebanon is a crime infested country, where ordinary economic activity is interrupted not only by the constant threat of war and the actual conflicts but from the deep penetration of the illegal networks in the society and the economic web. Surprisingly, Lebanon's economy still seems to grow. Maybe it is a result of those fermentations of the government and the illegal networks. However, Ian Nicholson points out the possibility that Lebanon could report unreliable budgetary statistics, like Greece did for example,<sup>418</sup> in order to project blown out of proportion statistics and reinforce the confidence of investors, which maintains the relative credibility that credit rating agencies attach to the country. For example, in 2009 Standard & Poor's raised Lebanon's credit rate from "B minus" to "B" due to the strength of country's public finances and banking system, despite the general political turmoil that characterised the country that year and the global financial downturn.<sup>419</sup> It must be noted that in 2008 the credit rate was "CCC" meaning

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<sup>418</sup> <http://www.spiegel.de/international/europe/0,1518,678205,00.html> "Lies, Damned Lies and Greek Statistics"

<sup>419</sup> Look for more details in [www.ameinfo.com](http://www.ameinfo.com) or in [www.reuters.com](http://www.reuters.com)

“vulnerable and dependent on favourable economic conditions to meet its commitments”.<sup>420</sup> Luckily, Lebanon is not subjected to the levels of monitoring that the Greek economy was, as the danger for unpleasant surprises is eminent.

### *Government officials*

Despite the fact that for a Lebanese government official it is a rather delicate and sensitive matter to speak for those issues, I managed to extract some information from them. However, the most important people I had arranged to talk to, cancelled literally minutes before the arranged interviews. Apparently when they realised the nature of my visit, meaning that it could potentially illustrate defamatory and derogatory aspects of Lebanon; they postponed our meeting with a rather inelegant manner, even if I out-rightly denied any ill intention for Lebanon’s reputation and stressed the fact that I only observe. Consequently I had to re-direct my research to the former acquaintances from the Port and the Ministry of Transportation. Additionally, I have contacted a potentially more objective government official strongly associated with the illegal networks, who works not for the Lebanese government but for the Greek Ministry of Foreign Affairs.

The Lebanese government officials stressed once more the high degree of corruption in the state apparatus which actually facilitates the operation of the illegal networks. Generally the state officials were rather reluctant to provide general information on the situation, or provide names and specific bureaus. They stated that it is preferable to enlighten me with the reference on specific –but harmless- examples which will characteristically depict the overall picture.

One of the examples is rather impressive. It seems that an insurance company, several ministry of transportation employees and few illegal car dealers, organized a network of grand theft auto. The insurance company would provide the information regarding the location of certain luxurious cars. The car dealers would steal the cars and transport them in secret locations. Once they actually concealed the cars into one of the ministry’s properties. Then the insurance company would compensate the owners to the minimum possible amount . A few weeks later the cars would resurface, but according to several contracts of the insurance company, the cars if stolen, compensated and then found, return as property of the insurance company and not to the rightful owners. In most cases, the owners never find out that the car is actually found. Then with the assistance of the ministry’s employees the cars

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<sup>420</sup> See relevant in [www.standardandpoors.com](http://www.standardandpoors.com)

are legally prepared for sale into neighbouring countries in most cases. Needless to say, that most of those involved in the scheme make personal use of one of the cars they obtained via the above-mentioned method.

According to a Greek government official, a Greek-Cypriot construction company which invested in Lebanon on the development of the water supply infrastructure in rural areas initially faced significant problems regarding the entry into the project as well as during the relatively easy process of establishing legal status in the country. The setbacks started from the very beginning in the Trade Department as the paperwork never seemed to be correct. The problems continued while waiting for the blue copy of the receipt of the registration fees which was absolutely necessary for the second step of the company's registration in the country. This required translated paperwork and a one-off installment to the Magistrates Mutual Fund. Despite the deposit of the necessary bribes to certain officials the whole process was stalled, even at those introductory stages. Eventually, after the falsification of some documents and the political intervention of government officials associated with the company's entry in Lebanon, the obstacles were eventually lifted. Initially, it looked as unexplained extortion of additional bribes, however after several months the company realized that the initial plans of the projects were in opposition to certain powerful Shiite individuals heavily involved in rather unlawful practices. The influence of those individuals, apparently had overwhelming potency as the illegal network was aware of the forthcoming government plans, and delayed not only the Greek company but the entire joint venture to commence the project. The intensity of influence encroached on the lowest levels of the state apparatus affecting even the slightest bureaucratic transaction regarding the project. Eventually, when suddenly all of the obstacles ceased to exist, the administrators of the Greek delegation realized that the whole affair simply stopped being against the interests of the particular illegal network. Nothing was clearly stated regarding the details of the situation, and I had certain reservations concerning the validity of the story. However, according to a source associated with the Greek-Arab Chamber of Commerce a Greek company indeed faced exactly the above-mentioned difficulties but it was not the specific company I was informed of in the beginning, as it was not a construction company. The source implied that sometimes sectarian disputes may affect the smooth functioning of the competition.

Lastly, the contact in Port of Beirut, mentioned that the Port is categorized amongst the most expensive ports in the Mediterranean and this is because of the incessant facilitating



bribes and the commissions extorted by various illegal networks which pump up the costs. Also he pointed out, that due to the illegal networks operation in the port and the clientelistic nature of the Lebanese government, the port employs thousands of unnecessary workers. Indeed throughout the public sector there are thousands of under-qualified and needless members of staff. On the one hand, some agencies and authorities are superfluous with employees without job description or objective like in the train company, which according to Bassam Abdel-Malek, chairman of the board of directors for the railway at the ministry of Transportation, still has two hundred former railway employees –according to others more than eight hundred- on its payroll,<sup>421</sup> while the last regular rail operation was in 1997. Practically the rail company has been defunct for over 20 years. On the other hand, there are other public - less advantageous - positions which are drained and starved of vital workforce, because they are unpopular or useless to the objectives of the various illegal networks.

### *Public opinion*

The interviews of the general public views on the illegal networks were overwhelming. When someone felt that he could express himself freely, his speech would have a torrential flow and he would be unstoppable. However, not all the cases fired libels against the government or the illegal networks as someone would have expected. Apparently the strong sectarian or ideological affiliations were obvious, but many were genuinely in favour of corrupt practices and the operations of various illegal networks.

The views of the respondents can be classified into three different schools of thought or perhaps three different perspectives. At the outset, many of the respondents posed a rather buoyant view regarding the operation of illegal networks in Lebanon, meaning that the operations of those networks indirectly have a say in the country but they do significantly contribute in socio-economic level. However, the younger generations –mainly- supported a rather pessimistic outlook as they felt that unless they become part of the networks or at least an active player in the unorthodox (for the Western point of view) practices in the country they would be excluded or deprived of certain opportunities. Lastly, a significant percentage of the respondents viewed that the function of the illegal networks in the country is essential, as they assist the governmental efforts for the rejuvenation of the country's economy and infrastructure and give a hand to the society to circumvent the obsolete –but legitimate- course of action for development, progression and even resistance, referring to Hezbollah.

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<sup>421</sup> Speetjens, Peter “The railways in Lebanon” *The Daily Star*, Fri Jul 17, 1998 (Available also at <http://almashriq.hiof.no>)

Generally, the entire sample of the public that I examined acknowledged the influence and impact of the illegal networks in the political, economic and social life. Many of the respondents perceive inevitability in the operation of the illegal networks in the country. Firstly, a significant amount of the respondents claimed that the income of the Lebanese residents that stems from their involvement in various illegal networks cannot be undermined or underestimated. The illegal networks may potentially absorb part of the underpaid workforce and that is remarkable. The corrupt governments are unable to control the networks as they are both interconnected. Besides, as many were proud to suggest, Lebanon historically seems to accumulate wealth via unlawful practices. Some of the respondents assumed that it is probably originated from the astuteness of the Phoenicians. Lebanon being at the crossroads of an extraordinary region is destined to be the nexus of all the peculiar circumstances. Even the smuggling and drug production in the fertile valleys of Lebanon, it would be impossible to be utilized without the presence of those networks. Meaning that, they assume that the networks provide the means for the stabilization of the society in the rural areas mostly.

However, the majority of the respondents stressed the destabilization attributes of the networks and the vast social disturbance they cause. It is frequent that the networks expose innocent people to skirmishes due to conflicting interests of the various drug lords and smugglers. During my interview sessions in the Cherry Pub in Beirut I have been asked by a group of young men, “Where the interest or the gain is for those people?” People are afraid to stand up and openly admit their disapproval of the current state of affairs and condemn those sordid practices. The frequent demonstrations cannot possibly alter or affect the deeply entrenched interests of the illegal networks in Beirut, they suggested. The people of Beirut are suffocated by the all-embracing corruption and the omnipresent operation of those networks. Indeed some people make a living since there are no other alternatives; however the social benefit of those few people cannot counter balance the unrest and the perpetual supply to the internal strife that these networks cause. It is more than obvious; they proposed that if you take a stroll in the rich suburbs of Beirut, you will see those who are actually enjoy the primary gains of the networks in Lebanon. The gain is not collective; it is rather personal and private. Another group of youngsters suggested that the exploitation of the illegal networks is so ruthless, they even say people who are actively involved in those networks are vastly intimidated and constrained like several prostitutes they frequently visit. Even by excluding the parameter of coercion regarding their involvement, the low ranked people

fused with the networks are vulnerable to the shifting attitudes and alliances of the networks. They are all potential scapegoats, like a group of young would-be mobsters who got arrested in the Corniche during their daily habit of smoking cannabis there.

On the other hand, several other respondents suggested that the existence and operation of the networks is rather indispensable due to the ability of the networks to avoid the erroneous decision making of the government, which is actually imposed by alien interests. The informal networks' operations have benevolent intentions, and in the case of Hezbollah all the allegedly ill gotten gains are ploughed back in for the protection of Lebanon and the enhancement of the sophistication of all the mechanisms that provide a solid (social) framework for the country. According to another man Hezbollah is a godsend institution. Without Hezbollah and other spin off operations the country would be in less advantageous position than it is now. However, even if I exclude Hezbollah from the equation, the approval of those networks by parts of the society is tremendous. Though, it is rather unclear if the levels of support stem from the imposed intimidation of the networks towards the society or because of the pressure that the government inflicts via legislation, policy making or the law enforcement agencies or from pure allegiance.

### **The paradox of Hezbollah**

As mentioned in previous chapters the role of Hezbollah is apparently not restricted on illegal activities. Hezbollah play s a significant role in the political scene of Lebanon and also acts as a provider of social services. The literature review suggested that the systemic inadequacies within Lebanon promoted the emergence of radical social -or not- movements like Hezbollah and compelled them to step in and replace the partial and insufficient governmental capacity to provide. However, it is not uncommon for a social benefactor or a charitable entity to be involved in rather shadowy affairs. Hezbollah indeed is characterized by many countries as a purely terrorist organization. Other states like the United Kingdom perceive as terrorist only the military wing of Hezbollah. Generally speaking, it is the commission of acts of violence that brand organizations like Hezbollah as terrorist groups in opposition to other legitimate political parties or resistance movements that do not engage in violence or armed struggle in an attempt to change governments.<sup>422</sup> According to Amy Zalman, Hezbollah is an integral and accepted Lebanese political element, although unlike other groups, they have not

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<sup>422</sup> Lerner, Lee – Lerner- Brenda (eds)“*Encyclopaedia of Espionage, Intelligence and Security*” Gacl, 2004

abandoned the use of violence as a political tool. There is little doubt left in the minds of those that study or are involved in some way with the political process in Lebanon, that Hezbollah has an extremist militant faction, and will remain so until it can fully adopt responsible political practices which avoid undermining the strengthening of civil society. That said, a question remains that has caused genuine concern for policy makers in the region – without Hezbollah, could Lebanon bounce back from the many conflicts it has suffered and in the resilient way that it has demonstrated? According to Catherine Harrison a defence analyst, Hezbollah tries to compete with the Lebanese government in the efforts of the reconstruction of the shattered areas.

As pointed out in this thesis' research, it is the nature of informal economy to bypass red-tape and bureaucracy, and mobilize quickly so that essential funds can reach their intended recipient. Hezbollah, according to Catherine Harrison, are masters at being able to utilize such a system. Predominantly this is for criminal means, forming the vital lifeline for continued operations. However, the group also provides funds and means for restructure, which many in Lebanon classify it as a form of charity. Indeed several members of the public mentioned –not to me, but to my assistant- that they had been frequently urged to participate in a *zakat* usually held in mosques in order to directly support the organization.

Also Catherine Harrison mentioned that under challenging conditions, where people do not receive support from the ruling political body in a timely or efficient manner, it is the informal networks that provide much needed services. This creates a support network from the populous but also makes it difficult for the government to crackdown on the group's activities as they become vital to the country. As mentioned in Chapter 5 Hezbollah is also a provider of social welfare services in South Lebanon, including organizing hospitals and schools and a charity fund for the families of suicide bombers.

However, this is not a phenomenon distinct to Lebanon and Hezbollah. Catherine Harrison projected certain similarities with another organization; Jamaat-ud-Dawa (JuD) which operates in Pakistan as having a similar modus operandi. JuD call themselves a charity; they provide vital finances to Pakistan, running Madrassas (more often than not the only means of education) and hospitals. Filling a void where the government has failed to provide. But like Hezbollah, JuD are linked to criminal activities, the most serious of which is acting as the umbrella organization for terrorist group Lashkar-e-Tayyibba, the militant group responsible for the 2008 terrorist attack in Mumbai.

Without a doubt, where the governments fail to provide, these groups are able to supply the means to deliver services to the poorest swathes of these countries. Catherine Harrison also mentioned that the unstable situation that these groups are able to operate in means that they can continue their respective illicit dealings (which grow exponentially without accountability) whilst garnering a growing support base from the electorates.

According to Catherine Harrison and another unnamed source (for security reasons) there is strong evidence to suggest that these countries cannot at present survive without these groups, nor are these government's presently willing to dismantle them. While these countries fail to provide the basic needs of welfare, health and education to their respective populations, these groups will continue to have an important role. Catherine Harrison also mentioned that until the Lebanese government takes difficult and brave steps to restructure how they provide to their citizens, these groups will undoubtedly become further entrenched in the system – making it more difficult in the long term to eradicate them. She added that this may be in part because the Lebanese government (and the Pakistani government as well) fear the repercussions of banning these groups. It may turn their populations against them and create a formidable enemy within their own countries. It would also mean that the governments would have to implement fast acting, widespread and effective policy to fill the services void left by these groups – something which presently seems to be anathema to these respective states. Therefore, as Catherine Harrison views it, these groups it seems have become not only important to the population, but also to the government, making it more unlikely that the group will be separated from and eventually targeted by the political body.

Other respondents claimed that Hezbollah regarding the various criminal activities enjoys a certain degree of immunity. They also claimed that the police in the efforts to tackle larceny or drug trafficking seemingly linked with Hezbollah, when they stumble upon arsenals and other necessary tools for the continuation of the struggle, consciously pay no attention to it and they ignore it . Other members of the public, who had also been examined in the corruption section, mentioned that other illegal activities take place in the rural areas of Lebanon, under the permission of Hezbollah as the revenue of those activities is partly re-directed to Hezbollah. Despite the protection that Hezbollah offers to the farmers, the need for bribes is constant in order to remain completely untraceable. However, apart from the intra-gang warfare, usually triggered by micro-interest conflicts or the clashes between the clans and cliques of organized crime, there also are atrocious conflicts with the army, like the brutal ambush of the Jafar family against an army patrol in the outskirts of Baalbak in April

2009.<sup>423</sup> Usually those conflicts are instigated by the power struggle over the wealth generating fields or due to the call for retaliation against the army or other adversaries.

In any case, it is frequently reputed that militant groups cooperate with criminal actors purely for financial reasons. According to another unnamed source, the amounts of the cash that the police confiscate through arrests and raids on a monthly basis are colossal, and the value of the products that have been intercepted by the authorities could exceed the one million dollars. Thus the monthly amassed capital that circulates freely only within the borders is immeasurable and irrefutably gigantic.

Apparently certain branches of Hezbollah should be included in this section as they are undoubtedly involved in illegal or potentially illegal activities. However the complementary role of Hezbollah in the lacking governmental efforts of reconstruction and in the attempts for social equality is certain. Hezbollah for some of the respondents is a necessary evil that carefully needs eradication. For some it is an openly terrorist organization that feeds from informal and illegal activities and that in a way the state allowed its existence. However, they seem to neglect the vast social acceptance as well as the need for representation and probably resistance that Hezbollah despite its occasional shadowy modus vivendi provides. The political diversity within Lebanon on the one hand detests the existence of Hezbollah as a factor of destabilization and to a large extent the international stage seems to concur with that, but on the other hand a significant part of the Lebanese society as well as of the international academia view Hezbollah as a dynamic and tangible actor of resistance and a vigorous political presence with vast social welfare extensions.

### **Summary of the interviews on the illegal networks**

The interviews due to the delicate nature of the subject were directed to individuals indirectly involved with the operations of the illegal networks. The first secondary level group of the respondents was anti organized crime activists. The activists suggested that the illegal networks display increased levels of sophistication in their modus operandi and that they are exceptionally thriving regarding their economic performance. Also the potential involvement of the public in such networks could be driven by poverty or the need for social advance. As Lebanon and specifically Beirut is a place of extremes. Wealth and poverty co-exist in a peculiar manner, for that reason impressionable youngsters are prone to be recruited in the

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<sup>423</sup> More details in Prothero, Mitchell “Drug barons face off Lebanese army” The National, April 4<sup>th</sup> 2009 or in <http://crimeconflict nexus.wordpress.com/tag/israel> or in Civilian Casualty Incidents Investigated by Human Rights Watch available in <http://www.hrw.org/en/node/10734/section/12>

various illegal networks or desire to enter one for a variety of unripe reasons. However, this also could be the drive for more prominent political motivation and involvement. Additionally, Lebanon according to the activists offers a fertile ground for money laundering activities as shown in the example with the luxurious estate and the offer by an alleged drug lord. Apparently the illegal networks in Lebanon project the most dynamic component of the economy not only due to their remarkable performance but due to the interconnections and interdependence with the state. On the other hand the academics suggested that the illegal networks' performance in the economic level is partly attributed to the lack of apprehension for punishment and partly on the subcutaneous tendency of the Lebanese people, in general, to operate in a disobedient framework. It seems for some academics that any effort to tackle the operation of those networks is destined to fail as the Lebanese are set to defy the law or the government. For some others, though this situation is fuelled by the governmental limitations to effectively deal with those issues. Generally, the impact of the networks could be overrated, but the discomfort of the public opinion is quite apparent in many occasions.

However, the macroeconomic and microeconomic impact of the networks from the academic point of view seems to be overestimated as mentioned above. On the other hand, it is potentially undersized, as many government officials suggested that it may constitute a factor of international isolation and certainly project demagnetizing features regarding investments. The government officials stressed the magnitude of the penetration of the illegal networks inside the state apparatus and their ability to overpower more or less any governmental decision. Lastly the views of the public were more diverse since the majority of the respondents condemned in a rather fierce manner the operation of those networks while others put forward the necessity of their existence and the important role they play in the economic development of the people as well as the state's and their contribution in the regional armed struggle. Generally though it was rather difficult to extract information from Lebanese government officials in this topic due to its sensitivity and I consulted several foreign governmental officials in Lebanon. Those officials gave a more holistic and objective view on the role of the networks on constructions projects, like the water supply project blocked by local interests as described earlier on or in the insurance fraud with the stolen luxury cars which ended up in the hands of the same insurance company executives.

Lastly the public opinion in Lebanon has a more varied attitude towards the networks. One part of the public opinion views them as a contributing element of the socio-economic web. Another part of the society reckons that unless you are part of the networks you shall be

excluded from certain opportunities, while another part of the respondents views the illegal networks as an essential element of the Lebanese reality.

At a separate level the input of Hezbollah was examined, due to the divergent responsibility and character it beholds in the international stage and within Lebanon. Hezbollah despite the active recognized parliamentary involvement in Lebanon still follows rather controversial methods for the achievement of its political plans and for the attainment of certain financial aspirations, in order to pursue certain political and social objectives. Hezbollah, despite the wide-spread similarities in the modus operandi with other illegal networks, is a provider of social welfare and energetic supporter of the interests of significant percentage of the Lebanese society. The systemic inadequacies within Lebanon promote the emergence of radical social -or not- movements like Hezbollah and compel them to step in and replace the partial and insufficient governmental capacity to provide. The complementary role of Hezbollah as a state agent is undeniable. Besides, as mentioned earlier, it is not uncommon for a social benefactor or a charitable entity to be involved in rather shadowy affairs.

Generally according to the respondents the illegal networks are directly responsible for evading profits on behalf of the government, monopolizing certain parts of the market, affecting competition and augmenting the social unrest and the economic inequalities; however they marginally contribute to the absorption of workforce surpluses, smooth (or obstruct) the progress of selected developmental plans and attempt to shield –sometimes very unsuccessfully- the agricultural areas economic sustainability, even if it is for subjective purposes.



## **CHAPTER 9 Results**

### **Introduction**

This chapter is divided into three sections. The first section separately analyses the responses of the interviewed regarding the positive or negative participation of each key driver in the social and economic development. This is in order to project the required variables for the following analysis concerning the quality of the overall input of the informal economy in Lebanon.

The second section funnels all the responses of each key driver into a single spectrum in order to provide an overall image of the informal economy's beneficial or detrimental values, and to ascertain whether the informal economy is an inseparable and indispensable aspect of the Lebanese social and economic life, or a superfluous practice and a stumbling block towards development. Due to the dissimilar involvement of each group of the sample in every key driver, initially I will assess the outlook of each group individually, before the concluding inference regarding the idiosyncrasy of the informal economy in Lebanon. This synopsis on the perceptions of each respondent group was drafted by the coding process as projected and categorised into Tables 1-4.

Lastly the third section will assess the three foremost ingredients of the informal economy's emergence and development as derived by the analysis of the data included in the primary and secondary material of this paper. The third section will attempt to put into theoretical context the three factors, which enable the Lebanese populace to endorse the informal economy to such unprecedented heights.

### **Evaluation of the contribution of each key driver of the informal economy in the wider socio-economic framework**

This section independently evaluates each key driver's responses in order to assess the beneficial or detrimental value of the ingredients of the informal economy in the wider socio-economic framework.

#### **Key Driver One: Informal Employment and Commerce Sector**

The impact of the informal employment and commerce sector in Lebanon has a dual nature. As also shown in Chapter Two it may offer jobs and opportunities to individuals who were unable to work or find a satisfactory occupation in the formal sector, but at the same time it may lead to occupational diversion (mostly due to the refugees and the workforce

import from Syria) and generate imbalances among the workforce.<sup>424</sup> Once again, the sample portrays certain peculiarities as the government officials could potentially be members of the informal sector as well. However, all of their responses, despite the peculiarity, are classified under their respective category without disregarding any of their input and opinions regarding the sector. The interconnection of the informal employment and commerce sector with corruption, renders the function in the informal zone evenly exposed to bribes and manipulation on behalf of state officials. On the one hand the state officials demand certain enticements to ignore particular practices in the informal (and formal) sector and on the other the implicated parties (users) offer bribes to encourage their smooth function in the informal sector unimpeded.

The contribution of the informal employment and commerce sector is concentrated on the fact that it represents a tangible and viable option for thousands of underprivileged workers. Conventionally, as also mentioned in Chapter Two the informal sector may constitute the buffer for the workforce surpluses. However as shown in Chapter Eight the surpluses are more than likely artificial as there are a manifold of skilled and unskilled positions unoccupied but which are subjected to the system of favouritism and clientelism that prevails in Lebanon. Therefore, the informal sector is not the absorbent for the superfluous workers of Lebanon, but for those who cannot join the formal sector due to various circumstances, or those who have illegal status in the country and those who participate in the informal sector out of choice.

In general, the informal sector is a pool for unskilled workers,<sup>425</sup> as also shown in Chapter Two however, despite the abundance of unskilled workers in Lebanon there are many skilled workers in the country employed in the particular sector. Those skilled workers under different circumstances would be characterised as overqualified, as they currently work in jobs which do not correspond to their capacity of expertise. The informal sector may provide wages matching the formal sector, and due to tax evasion and the general avoidance of fees, the income may be significantly enhanced or preserved to a satisfactory level. Also larger firms which predominantly employ informal workers, due to the lower costs improve their productivity and provide sustainable employment. Moreover, the informal sector may

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<sup>424</sup> See details in McLaughlin, S. "Skill training for the informal sector: analyzing the success and limitations of support programmes", in Turnham, D., Salome, B., Schwartz, A. (eds) ,*The Informal Sector Revisited*, OECD, Paris: 1990

<sup>425</sup> McLaughlin, S. "Skill training for the informal sector: analyzing the success and limitations of support programmes", in Turnham, D., Salome, B., Schwartz, A. (eds) ,*The Informal Sector Revisited*, OECD, Paris: 1990

make available to the lower strata of Lebanon, commodities in significantly affordable prices and provide the means of survival for large segments of the society.

The downside of the above mentioned however, is rather considerable. The strain that the informal sector places on the formal employment and commerce sector is immense. Due to the considerable presence of branded goods smuggled into the country and the significant operation of informal traders, the retail sector suffers substantial losses and the state loses vast amounts of VAT. Also due to the common practice of (formal and informal) businesses to occupy their workforce informally, the lower costs of production seriously affect the competition. Apart from the damages inflicted on the law abiding units, the loss of the contribution for social welfare eventually burdens the tax payer. This situation probably feeds the broad tax underpaying percentage in Lebanon. The widespread and almost habitual tax evasion contributes to the 'unbusinesslike' tendencies of many enterprises and pushes the situation towards its institutionalisation. As mentioned in Chapter Two, Lebanon unlike most of its Arab neighbours has an ageing population. Apart from the direct impact on the labour market structure, this may exacerbate the issue of pension provisions in the long term.<sup>426</sup>

On the other side, the informal workers have no social insurance or any other legal recognition, whilst they are usually still obliged to endure dire working conditions and tolerate exploitative behaviours. Additionally, they face the uncertainty regarding the permanence of their occupation as they are vulnerable to any socio-economic alteration, despite the general notion as mentioned in Chapter Two, that the informal sector functions as a safety net in times of crisis.<sup>427</sup> Generally, the informal sector is a factor that represents a relative convenience for the underprivileged social groupings of Lebanon, and a mechanism of additional enrichment of the nouveau riche industrial elites of the country, whilst the state is at a constant loss, despite the economic activity that the informal sector may supplement.

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<sup>426</sup> "D&B Country Report: Lebanon 2009-2010" D&B, Marlow: 2009

<sup>427</sup> Alter Chen, Martha, Vanek, Joann, Carr, Marilyn "Mainstreaming informal employment and gender in poverty reduction: a handbook for policy makers and other stake holders" The Commonwealth Secretariat, London : 2004, p.16

Table 1: Cross tabulation of the responses on informal employment and commerce sector

Informal Employment & Commerce	Users – Public opinion		Academics	Government Officials
	Self-Employed	Waged		
<b>On income apportionment</b>	-Labour intensive jobs usually underpaid -capital intensive depend on success	-in services frequently due to lack of social insurance above the average -poorly paid in constructions	Underpaid, especially the refugees	Underpaid but may vary according to type of involvement
<b>On I.E. predilection</b>	-illegal status -lack of alternatives -early age -turnover limited to be formal -profitable -makes no difference being formal	-illegal status -lack of alternatives -good pay -lack of opportunities -coerced or misled	-legislative vacuums for refugees -lack of alternatives	-incompatibility with formal occupation -profitable (for them)
<b>On resilience of the sector</b>	Trade diversion during conflict but generally unaffected	-completely circumstantial	N/A	N/A
<b>On productivity of the sector</b>	-may increase but minimal output -replicas, contraband, pirated goods	-productivity may increase due to low costs	-deteriorates productivity of formal firms	-main channel of contraband distribution
<b>On competition</b>	-ill-competition especially with formal shops	N/A	-distorts competition -affects prices	Ill competition, especially on trade
<b>On working conditions</b>	-mediocre in general -depends on job	-long working hours -dreadful conditions but may vary -intimidation by employers	-mostly insecure and negative	-equally mediocre with the formal sector
<b>Links with other key drivers</b>	-corruption -illegal networks	-corruption	-corruption -illegal networks	-corruption -illegal networks
<b>Main pitfalls of involvement</b>	-immigrants lower the income -insecurity for the future -lack of social insurance -working conditions -bribes	-irregular payments -lack of social insurance -working conditions -seasonal -lack of legitimacy	-underemployment -working conditions -exploitation -lower wages -illegal status	-legal perils
<b>Main advantages of involvement</b>	-enhances or preserves necessary income due to tax and fees evasion -lack of bureaucracy	-employment -probability of better wages	-social recognition (if combined with illegal networks) -defiance to the state	-significant financial or material gains
<b>Impact on economy</b>	-affect formal trade -offer cheaper products -tax evasion -scourge for formal businesses and firms	-tax evasion -affects formal workforce -entire sections of economy base operations on I.E & C.	-adverse consequences on the economic structure -tax evasion -creation of cartels -supporting unlawful agents (loan sharks)	-black market -banking sector affected -tax evasion -loss of revenue
<b>Overall estimation</b>	-buffer for unprivileged workers -allows access of poorer to commodities -contributes to the lives of the poor	-buffer for unprivileged workers -supports productivity of business operations etc -deduct significant input for social welfare	-distorts indicators of economic measurements, may support poverty stricken areas -perplexes the fault-finding market conditions	-tolerance of the state supports every aspect of I.E and C. sector

### Key Driver Two: Informal Remittances

Despite the popular suggestion, as shown in Chapter 3, that the informal remittances actually are a temporary stream of income,<sup>428</sup> with a high degree of saturation over time,<sup>429</sup> Lebanon has projected a remarkable stability in the informal inflows of remittances, since no particular decline has occurred during the recent periods of conflict and unrest, nor during the financial crisis which commenced in 2008. The broad-spectrum predilection on the informal transfers systems is principally manifested through lower income senders and to a lesser degree by more affluent senders. The principal reasons on the preference of the informal transfers systems, as shown in Chapter 3 and Chapter 8, are positioned on the comparative advantages of those systems against the formal channels which are speed, efficiency, lack of bureaucracy, lack of fees and taxes, resilience and cultural familiarity.<sup>430</sup> The formal channels also reveal an equal level of the ambiguity of the transaction. Also, more often than not, the informal systems are preferred as the variable circumstances of the senders force them to resort to those systems as a result of denied access to formal banking institutions, lack of linguistic capacity in the host country, or due to the lack of legal status of the recipient (i.e. Palestinian refugees, illegal networks). However, the informal systems are not totally immune against hazards of fraud, monetary loss, personal rivalries and other exogenous factors like financial crisis and war.

The contribution of the informal remittances to the economic activity of Lebanon is phenomenal. Apart from the remarkable size, these vast amounts of untaxed income circulating in the country boost the balance of payments since they potentially represent up to one fifth of the economy. The economic activity throughout Lebanon is significantly augmented as the remittances are funnelled towards a wide spectrum of commodities and services. Also the increased financial capacity assists the reconstruction efforts in the country

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<sup>428</sup> Adams, Jr. Richard ‘‘Remittances, poverty and investment in Guatemala’’ pp.53-80 in Ozden Caglar – Schiff, Maurice (eds) ‘‘*International migration, remittances and the brain drain*’’ World Bank/Palgrave Macmillan, New York: 2006, P.78

<sup>429</sup> Maimbo Munzele, Samuel – Ratha, Philip ‘‘*Remittances: Development impact and future prospects*’’ World Bank Publications , 2004, p.5

<sup>430</sup> ‘‘The Hawala alternative remittance system and its role to money laundering’’ Available at [www.interpol.int/public/financialcrime/moneylaundering/hawala/default.asp#9](http://www.interpol.int/public/financialcrime/moneylaundering/hawala/default.asp#9). See more on reasons to E.Qorchi, Mohammad ‘‘Finance and Development’’ 39/4 December 2002 Available at [www.imf.org/external/pubs/ft/fandd/2002/12/elqorchi.htm](http://www.imf.org/external/pubs/ft/fandd/2002/12/elqorchi.htm) and Hernandez-Coss, Raul ‘‘A Proposed framework to analyze informal fund transfer systems’’ pp.243-274 in Maimbo, Samuel-Munzele, Ratha, Dilip (eds) ‘‘*Remittances; Development Impact and Future Prospects*’’ Washington D.C., World Bank,: 2005, p.264

and compensates for the lacking infrastructure and lack of social welfare. Most importantly, the remittances in general also provide the necessary income for the defrayment of bribes and facilitating payments which constitute an integral part of every bureaucratic transaction and of any other public and possibly private engagement. Additionally, the informal remittances may provide the means for the needier segments of the society for better access to health care, education and other sectors prone to facilitating payments and bribing, as well as housing and lifestyle improvements. Also, the less deprived segments may complement their income and enhance the investments, the consumption of luxurious goods but also resort to frivolous spending as well.

The disadvantages of the remittances however are focused on the potential over-reliance of the recipients, which may impact on a reduction of capable and potentially skilled workforce from the employment sector. This may impact on sustainability of the remittances flows and threaten their beneficial aspects. Also, the income misdistribution the remittances cause could be a source of the vast continuous inequalities within the economy, the market and the society. Lastly, the association of the informal transfer systems with the illegal networks funding, constitutes probably the thorniest aspect of their weaknesses. The informal transfer systems are indeed linked with the funding of several illegal networks in Lebanon, however they are concentrated on very specific receivers and therefore disruption of these networks could presumably be an unproblematic task. However, the illegal networks in Lebanon is a rather complicated issue since there are strong sectarian ties amongst the receivers and the government, as well as the public due to mutual interests focused on economic sustainability, employment and social services.

Table 2: Cross tabulation of the responses on Informal Remittances

Informal Remittances	Users – Public Opinion			Academics	Government Officials
	<i>Senders (18)</i>	<i>Recipients (18)</i>	<i>Hawaladars</i>		
<b>On informal remittances predilection</b>	Preference on the grounds of the comparative advantages and lack of alternatives	Preference on the grounds of the comparative advantages	N/A	Senders dismissed by official channels	N/A
<b>Preference on ITS due to lack of alternatives or other problems</b>	- Major reason for poorer -Restricted for the wealthier	N/A	The exclusive reason for their clientele	Senders dismissed by official channels	N/A
<b>Resilience of ITS; conflict</b>	Minor decline due to uncertainty	Minor decline due to senders	Uninterrupted	Relatively stable	N/A
<b>Resilience of ITS; financial crisis</b>	Minor decline, but living standards may be affected in host country	Minor decline	Uninterrupted but vulnerable	N/A	Limited decline
<b>Effectiveness of ITS</b>	-Relatively effective but always anxious -Equally unsafe with formal channels	Highly regarded but occasional problems especially with hawaladars	Safe but problems may occur	N/A	N/A
<b>Direction of ITS</b>	Lebanon and regional countries	Regional mostly	Muslim countries predominantly	N/A	N/A
<b>Use of remittances</b>	Consumption of basic goods, education, Reconstruction, Savings	Consumption of basic and luxurious goods, bribes, lifestyle, savings,	N/A	N/A	N/A
<b>Need for remittances</b>	Unfailing and mostly for survival purposes	Varies from survival needs to completely superfluous	N/A	N/A	N/A
<b>Remittances possible links with other key drivers</b>	-Illegal networks -corruption	-Illegal networks -corruption	Unspecified but vulnerable to abuse		
<b>Contribution of remittances in macroeconomic level</b>	Enhancing the market and the reconstruction efforts	Enhancing the market and the reconstruction efforts	N/A	N/A	Vast GDP contribution, responsible for the maintenance of whole sectors
<b>Contribution of remittances on the living standards</b>	Vast improvements, on lifestyle, education, housing	Vast improvements, on lifestyle, education, commodities	N/A	N/A	N/A
<b>Overall estimation of the remittances</b>	Beneficial for the institution of the family, the economy and reconstruction but may assist to overreliance and abuse	Beneficial for both the state and the recipient	N/A	N/A	Beneficial but may affect income distribution but may lead to abuse

### Key Driver Three: Corruption

A very important implication regarding the sample on corruption is the fact that the government officials are not detached from certain characteristics, which could also classify them as users of the informal economy. However, since they are practically state representatives, or at least heavily involved with the mechanisms of the state, they are shown in a different category. From another perspective someone may suggest that the government officials are also the most outspoken users regarding grand corruption while the public opinion represents more adequately the petty corruption practices in Lebanon.

As shown in Chapter 4 the bulk of the literature is concurrent with the notion that corruption acts as a negative factor in sustainable development and obstructs real economic growth. However, Lebanon shows a considerable growth rate given its unstable circumstances. Even though the overall responses provide a rather negative outlook regarding the particular key driver's input in the economy, isolated responses suggest that corruption may have the attributes to augment growth even if it is on an ostensible level. Probably the real cost for society and the state is detrimental, however it must be recognised that corruption sets the state apparatus in motion. Corruption is the mechanism that, as also shown in Chapter 4, boosts up the redundant state apparatus, which perhaps would not be in its current state if corruption did not exist in the first place.<sup>431</sup> The dichotomy of opinions and circumstances regarding corruption does not end here. The same people, who condemn corruption and the current state of affairs in Lebanon, are usually the same people who support the status quo. Those who are marginally benefited or not benefited at all condemn and resent the lack of governance and the behaviour of other people who abuse their authority, independently of how minimal it might be. Even the most outspoken complaints stem from the same people that later on will willingly or forcibly proceed to those corrupt practices, which they condemned earlier. This is a clear representation of the omnipresent nature of corruption in Lebanon and of its inescapability.

The contribution of corruption in the wider socio-economic context presents itself through facilitation. This is the *raison d'être* of corruption. For many, corruption is an aspect of the daily life in Lebanon, which given the situation in the country, it needs to be preserved. The lack of serious political decisions, which will tackle corruption, renders the preservation of this practice a necessity. The public sector due to its design, routine and tradition is

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<sup>431</sup> See relevant in Sekkat, Khalid Méon, Pierre-Guillaume "Does Corruption Grease or Sand the Wheels of Growth?" *Public Choice*, Vol. 122, No. 1/2 (Jan., 2005), pp. 69-97



steamed by corruption. On the one hand bribes may be extorted but on the other they speed up the unacceptably slow processes and the rigid regulations.

However, the limitless submission of Lebanon to corruption has been converted to a tool for abuse and personal gain. Corruption is a normative process, which provides indispensable services to the highest bidder, from the smallest daily transaction up to political decisions. Every aspect of the state apparatus is subjected to scrutiny which inspects how the people involved will extract the most out of it, for personal or sectarian gain. The most vulnerable social grouping is the financially underprivileged,<sup>432</sup> meaning the poor and those who cannot rely on any other exogenous factors of income such as remittances or indirect benefits from corrupt practices. The poor deal with the harshest adversities of corruption as they simply cannot even afford to pursue their legal rights within their own country.

Even the positive attributes of corruption, for example the undertaking of public works projects, are counterbalanced by the overall corruption within the state which drains the resources and delays development. For example, the same development projects which are actually in progress due to a behind-the-scenes corrupt dealing are perpetually in progress because of corruption as well. In other words, corruption may indeed generate developmental operations within the country, which at the same time it practically undermines, as exemplified earlier. The spiral nature of corruption within Lebanon starts from the very bottom of the social pyramid and goes all the way to the political and economic elites of the country, reinforces the destabilisation effects of corruption and assists the moral, social and economic disintegration of the country.

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<sup>432</sup> For the inegalitarian effects on corruption see details in Robinson, Mark “*Corruption and development*” Oxford, Frank Cass: 1998

Table 3: Cross tabulation of the responses on corruption

<b>Corruption</b>	<b>Users / Public Opinion</b>	<b>Academics</b>	<b>Government Officials</b>
<b>Frequency/Occurrence</b>	every day phenomenon	Integral part of the daily life	common
<b>Penetration depth</b>	Spiral, omnipresent, government more exposed	-every possible aspect -Elite corruption is more widespread but people to be blamed as well	All-inclusive but public sector more prone
<b>On corruption's predilection</b>	-Effective but unavoidable habitual and frequently imposed -lack of alternative path	-unavoidable -part of the psyche -socially inherent	-generally advantageous for all the parties involved,
<b>Effectiveness of corruption</b>	-Highly effective, renders almost everything achievable -service provider even if someone is entitled to it	Only assists the transaction which belongs in the vested rights of the citizens and state	-catalyst for all the affairs -highly effective
<b>Corruption effects on quality in general</b>	-reception of at least the standard -usually better, depending on the bribe	-severe deterioration -lack of funds due to embezzlements	-severe deterioration, especially in public works
<b>Need for corruption</b>	unconditional and total	N/A	-necessary as supplement since income does not correspond to workload
<b>Effects of corruption on distribution of income</b>	Severe and unfair	severe	Severe and conditional
<b>Contribution of corruption in living standards</b>	unless corrupt transaction has major beneficial impact on income they could deteriorate	deterioration in long term	Significantly enhanced
<b>Corruption as favouritism and clientelism</b>	-Extremely wide-spread -favours occasionally demanded as entitled	-regional characteristic -inextricable practice throughout the social web	N/A Despite self evident links
<b>Measures against corruption</b>	-futile -circumstantial and interest driven i.e. before elections	The objections will emerge from the policy makers first	N/A
<b>Accountability</b>	-No particular remorse -mostly ascribed to state deficiency and elites	Public opinion belittles seriousness of their actions, while other simply assess it as legitimate practice	- no accountability - the faults are bureaucratic
<b>Actual cost of corruption</b>	In contrast with the average Lebanese income is considerably high	N/A	According to the flexibility of the project and the propensity of the involved
<b>Links with other key drivers</b>	All three	All three	Illegal networks and informal employment and commerce sector
<b>Corruption as investment incentive</b>	N/A	-generally repels serious investment but may constitute encouragement as a tool for future problem solver (see avoidance of contractual obligations)	-catalyst as selection process for public works is disintegrated
<b>Corruption and rule of law</b>	-Intimidation -abuse of authority -law can be bypassed in favour of the enforcers or the public	N/A	N/A
<b>Position of corruption on macroeconomic level</b>	-loss of revenue and taxes	-enhances inflation -destabilizes prices -challenges the sustainability of market and economy -loss of revenue	-indirect effects as political decision may be affected or altered -social welfare may be affected
<b>Overall estimation of corruption</b>	-constitutes social problem but its facilitating attributes are indispensable	-the building block of informal economy, taken as a whole has negative input	-supplements income -maintains the smooth operation of the entire state apparatus

#### Key Driver Four: Illegal Networks

Undoubtedly the illegal networks were the most controversial key driver as they were intertwined between condemnation and approval by both the primary and secondary resources. The conflicting responses of the diverse sample are amalgamated in Table 4. The extremity on the divergence of opinions regarding the illegal networks is vast. Perhaps this situation stems from the complex association of the illegal networks with all the other key drivers and the consequent negative as well as positive impact on segments of the society and the wider economic framework.

Whilst theorists struggle to identify the degree of legality of the other key drivers, the self explanatory nature of the illegal networks reveals to the reader a rather surprising fact, as the extensive social tolerance or acceptance of those networks is remarkable, given their unlawful character.

The contribution of the illegal networks in the wider socio-economic environment is multi-faceted and most of the benefits have a bidirectional line. Meaning that, the beneficial attributes of the illegal networks in most cases have a counterbalancing feature. The economic benefits that stem from the illegal networks are to a certain extent, responsible for the wide social acceptance they enjoy. In rural areas large segments of the local population base their livelihoods on the operations of those networks, as shown in previous chapters. The gap of the income distribution in Lebanon attracts many underprivileged people towards the networks, who view those networks as a means for social advancement or for career opportunity. The rigid and harsh socio-economic reality in Lebanon is a major factor of social frustration. Given the unsatisfactory and limited political adjustments due to the limited state capacity, large parts of the society project a disconcerting predilection in favour of the illegal networks. The statement of a young man who told me *“if you can't beat them, join them”* is not an isolated and individual standpoint among the Lebanese society. Therefore, the illegal networks constitute a tangible choice for employment and indeed provide the means of survival for many. Of course, the untaxed income the networks offer, potentially enhances the overall economic activity in Lebanon, however the losses for the state and consequently for the tax payer and the consumer are immeasurable and impossible to accurately estimate. Generally, the social web recognises -independently of the degree of approval- significant favourable characteristics in the illegal networks as they may provide what the state fails to offer such as employment, additional income and social recognition, and in the case of Hezbollah, social provisions and active participation in conflicts and protests. It must be

noted, that Hezbollah portrays a rather paradoxical role in Lebanon as many may render it as a controversial and biased entity when others, and most importantly large parts of the Lebanese society view it as complementary tool of social and political balance.

However, all the advantageous characteristics have an element of bias since the beneficial attributes are not horizontal and collective, and first and foremost serve the interests of the primary beneficiaries (drug lords, ring leaders etc). Additionally, the penetration of the state apparatus leaves the state resources prey to the raptorial tendencies of the illegal networks. What is more, the association of the illegal networks with the other three key drivers and their remarkable potency in socio-political life renders them extremely powerful and almost immune to the efforts of controlling or restraining them. Furthermore, these impervious features of the illegal networks establish and augment the innate tendencies of the public to defy the laws and the regulations of the state, independently of how rigid or flexible the laws may be.

Also their operation contaminates the uneventful function of the social and economic procedures and mechanisms. On the one hand, the illegal networks impinge on the economic framework as they seriously affect potential investments and they may well influence the prices in the market. On the other hand the illegal networks also impinge on social stability, as organised crime thrives and creates an environment of insecurity and intimidation, enhancing the feelings of resentment since the lack of rule of law accommodates the illegal networks. This situation generates an atmosphere of social volatility which if combined with the sensitive and fickle economic clauses of the Lebanese market may provide us with an insight into the slow-matched socio-economic breakdown. It is rather remarkable how Lebanon manages to maintain its economic status and resilience. Perhaps it is indeed the subcutaneous input of the illegal networks or simply the overall image of Lebanon's economic performance which is a façade.

Table 4: Cross tabulation of the responses on illegal networks

<b>Illegal Networks</b>	<b>Public Opinion</b>	<b>Academics</b>	<b>Activists</b>	<b>Government Officials</b>
<b>Degree of penetration</b>	-socio-economic and political influence -omnipresent	-governmental and social influence -army -deeply entrenched	-affect/redirect political decisions -deep socio-political involvement	-intensive involvement in public affairs -capacity to influence political decisions
<b>Resilience of illegal networks</b>	-historical references -untouchable	-lack of justice -governmental inadequacy or denial to deal with them	-thriving economic performance -continuous streamline	-the state consents to operation -potency of illegal networks -lack of punishment
<b>Tolerance and social acceptance</b>	-economic stabilization parameter for rural areas -social approval vast due to indoctrination or interests	-may viewed as example of emulation -innate social tendency to defy authority	-public tolerance reduced but -acceptance induced for income or intimidation	-interconnected with state apparatus via corruption -society may have specific interests in the prolongation of their existence
<b>Major advantages of illegal networks</b>	-social services and resistance (for Hezbollah) -provide employment/income -may rejuvenate infrastructure -circumvent outmoded legislation -amend wrong political decisions	-marginal income improvement to social segments -may indirectly add to growth	-dynamic economic component -alleged social eminence of participants	-many people seek and find employment in the networks -clientelism -may assist for personal accomplishments
<b>Major disadvantages of illegal networks</b>	-income inequalities -crime -sentiment of injustice -social disturbance -provoke conflicts -exploitation	-factor of inter/nal isolation -repel investment	-social scourge -deceitful, especially to younger members	-clientelism -support squander of state resources -affect the smooth function of profitable state mechanisms (i.e. Port)
<b>Links with other key drivers</b>	All three	All three	-corruption -informal empl. and com. Sector	-corruption -informal empl. and com. sector
<b>Sectarian involvement</b>	-monopolies -strong sectarian association	-strong sectarian associations	-indoctrination part of the recruiting process	-Sectarian interests could be the drive for complexities but may boost competition
<b>On Hezbollah</b>	-beneficial attributes -resistance -may be immune of wrongdoing	-violent with criminal elements but may substitute state efforts	-influential political element but prone to corruption	-complementary nature -indispensable overall contribution -vast accountability for unlawful exercises
<b>Accountability</b>	-erratic, according to the ideological background of the respondent -all-encompassing in general	- ascribed to public due to its wide approval -governmental weakness	-the social acceptance provides alibi also ascribed to state due to the facilitation it provides	- no accountability, claimed, always passed to other bureaus and individuals
<b>Macroeconomic impact</b>	-participate in economic development -assist agricultural production	-beneficial attributes overestimated -harmful to investments -ostensible consumption increase -prices affected	-must be disassociated with growth as offer ostensibly sizeable contribution but probably counterbalanced	-direct involvement in the wider macroeconomic environment for personal gains -harmful to investments
<b>Overall Estimation</b>	-climate of insecurity -important benefits but not horizontal	-may lead to social frustration -interrupt normal economic activity -unreliability -crime increase - loss of revenue	-undermine democracy -contaminate social consciousness -purely negative -loss of revenue	-immense power and influence may destabilize but may offer substantial output - loss of revenue

## **Overall estimation of the informal economy key driver's contribution on the broader societal level and state level**

This section funnels all the responses of each key driver, as shown in the previous section, in a single spectrum in order to provide an overall image of the informal economy's beneficial or detrimental values, and to ascertain whether the informal economy is an inseparable and indispensable aspect of the Lebanese social and economic life or a superfluous practice and a stumbling block towards development.

### **Perceptions on the informal economy - Users / Public opinion**

The informal practices are so deeply entrenched into the mindset of the Lebanese society that sometimes it is inconceivable to operate otherwise. The majority of the Lebanese society, even if it demonstrates considerable disapproval towards the undesirable products of informality, acknowledges that the patterns in the social organisation are rather unlikely to change if current political and economic trends continue. As a result, people are increasingly obliged to resort to informal economy. As mentioned earlier, the informality is actually sustained from the very same people that despise it and condemn it. The general frustration, in the lower income social strata, and the lack of positive views for the future is widespread. The pressure tends to be so immense, that given the right circumstances the people might even rise up against the state or those who represent the core of this problematic situation. This level of abuse and exaggeration may lead to economic and social collapse.

However, since the status quo remains the same, the informal economy will maintain its current modus operandi and the public will never eschew the relative conveniences of informality. Indeed, the facilitating attributes of the informal economy cannot be underestimated. The informal economy has the capacity to provide employment under acceptable circumstances and satisfactory returns but in many cases the working conditions would be appalling and the workers would be significantly underpaid. But still, given the high degree of the population below the poverty line, even those unfortunate circumstances are welcome. Of course the improvement of income is not only conjoined with the poorer social strata and survival. The informal economy is a tool for the augmentation of an existing income, whether that income stems from bribing, tax evasion or illegal practices has no importance for the beneficiary. Besides, the public thinks that its accountability is non-existent. The majority of the public is convinced of the notion that it was coerced to participate in the informal economy. Some may attribute their involvement to the uneven tax system, or to the rigid public sector, or to the limited income but this is voluntary. However,

others are indeed forced to participate in the informal economy due to their deprived conditions. And this is the main problem of informal economy. The benefits are not horizontal as they affect only a selected network of people each time and the socio-economic inequalities are so vivid that they enhance the social and sectarian imbalances within the country. The other problematic for the majority of the public is the abuse of authority that characterises every private and public position even with the slightest degree of power. This is another derivative of the informal economy and the consequent lack of the rule of law that it generates. The general intimidation and exploitation coupled with the forestalling of chastisement on behalf of the malefactors, assists the public resentment, however the social concessions that the informal economy makes available to the public are enough to offset any non-constructive aspects.

Independently of the above mentioned public acknowledgements, the public also recognises that the informal economy may be a scourge for the smooth functioning of the state and the market, and that the severe tax evasion and the lack of social insurance contributions represent a significant burden to the finances of the state. However, no conscious accountability is still taken, as the public counts on the reserves of the state and on the input of the prosperous political and economic elites of the country, as this is their responsibility. The public has no perception of the unsustainable contribution of the informal economy in Lebanon, since part of the reconstruction and the social services must be attributed to the informal practices. Perhaps the benefit for the state is marginal and indirect but the public in any case overrides the well-being of the state.

### **Perceptions on the informal economy – Academics**

The informal economy for academia usually portrays a negative aspect for the welfare of the society and the state, with only few bright exceptions like Hernando De Soto, as shown in the literature review, who seeks for development through the cemented and traditionally established informal economies of the developing countries. The academics probably constitute the most objective part of the sample as they were the only group without specific and active interest in the practices of the informal economy in Lebanon. The academics recognise positive aspects in the informal economy, like the substitution of various governmental efforts for reconstruction and social services as the income could be informally enhanced, especially to the poverty stricken areas via the illegal networks, informal employment and informal remittances. The overall social contribution of the informal

economy is marginal but important; however the injurious aspects of the informal economy are by far more eminent and in retrospect affect the social web as well. Generally the informal economy contributes to the creation of a smokescreen. The high degree of informal economy in Lebanon renders almost every indicator or estimation inaccurate. The ostensibly functional economic environment potentially conceals the perplexed market conditions. The beneficial characteristics are by large overestimated, as even the few social gains are counterbalanced by the tax evasion, lack of legal compliance and the hindrance of the sustainable function of the market, which influences prices, inflation and consequently employment. The penetration of the informal economy in every aspect of the political and economic life taints the decision making process, thus it directly affects the already challenged democratic institutions in Lebanon. The potentially undermined democratic processes coupled with the inadequate enforcement of social obligations, drag down Lebanon's overall output and living standards for the poorer strata, whilst augmenting the wealth accumulation of the populous nouveau riche social segments and establishing the horizontal diffusion of informal economy deeper into state apparatus.

In a wider economic context the state, apart from the immeasurable loss of taxes and revenue, loses significant investments as the overall informal background coupled with the volatile political environment, constitutes Lebanon unattractive to serious investments and deals and negatively influences the healthy competition and formal productivity. The aforementioned are major ingredients for social aggravation and governmental unreliability. The academics transpose the accountability firstly on governmental weakness and potential willingness to ineffectively deal with the informal economy, and secondly on the public as it eternalises the informal practices. In a nutshell, the overall contribution of informal economy in Lebanon constitutes an underestimated mega-problem which is in absolute need of a macro-solution.

#### **Perceptions on the informal economy – Government officials**

The main problem regarding the government officials was that the Lebanese officials were more than likely actively involved in the informal economy practices as well as the public. Therefore, a significant portion of their responses was subjected to bias or personal interests. Additionally, the government officials in Lebanon had more at stake given the fragility of their position if they pose a negative view on the state or its policies. Besides, every government official as a citizen of Lebanon is automatically a prospective participant in the informal economy. This was the main reason, for also choosing non-Lebanese officials



actively involved with the state apparatus of Lebanon, as they would be excluded from the problem of expressing themselves in a biased manner. However, even this approach was not absolutely objective as the penetration of informal economy is far reaching. However, since none of the government officials denied the existence and importance of the informal economy their opinion still holds certain weight. Potentially, there might be an element of exaggeration regarding the alleged input of the informal economy as expectedly the officials would attempt to belittle the transgressions of the government or of themselves if such a hint was suggested. Despite those dangers, the government officials provided data which was far from being characterised as understated.

The officials recognised the association of the informal economy for the accomplishment of personal goals and the massive role it plays in the misuse of state funds and grants, and in the establishment of a clientelistic structure throughout the society. Also they acknowledge the unlawful features of most of the informal practices and the backing they offer in the weakening of the law enforcement or law obedience throughout the society. However, the latter for the government officials does not always constitute a purely negative parameter. On the one hand the informal economy theoretically affects the smooth and competitive operation of the state and the market but on the other hand it fuels the functioning operation of the entire state apparatus. This is probably a diluted version of the principle of efficiency.<sup>433</sup> Of course, there are too many assumptions that must be made to determine the actual social costs, however as shown earlier, the public is in concurrence with this notion too. To be more specific, the complementary nature of the informal economy, despite the overall setbacks that it may implement in the socio-economic framework, has an indispensable contribution to the social web, given the current adverse circumstances in Lebanon. If the contemporary situation was different, the climate for informal economy would be rather bleak, however at the moment it represents a catalyst – a polluting one- but still a catalyst. In other a words, it is an extensive disassociation of the socio-economic correctness of the Lebanese people with their socio-economic competence and effectiveness. More specifically, people for example, seek and find employment in the framework of the informal economy and preserve their incomes and without a doubt it represents a significant percentage of the Gross Domestic Product. Also the black market and the informal remittances in the recurrent periods of upheaval, respond to the flux needs of the population

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<sup>433</sup> See details regarding the Principle of Efficiency in a non-economic context in the Rawls, John “*A Theory of Justice*” Harvard University Press, Cambridge: 2005, pp.66-69 and for an economic theory definition look at [www.investopedia.com/terms/e/efficiencyprinciple.asp](http://www.investopedia.com/terms/e/efficiencyprinciple.asp)

when the government is unable to provide. However, the informal economy undeniably harms the potential investments, despite the marginal facilitation that it may provide and its penetration properties may be a factor for political and financial destabilisation as the state throws away millions of tax and revenue, still through this disintegration and disproportion, the informal economy may still sustain whole sectors of the economy and the society.

### **Summary of the overall evaluation of the informal economy's contribution in the broader societal and state level**

The overall contribution of the informal economy is undeniably multifarious. The main assumption which is safe to derive from the aforementioned responses, is that the informal economy in Lebanon is a catalytic and complementary mechanism for most of the adversities that stem from the complex socio-political situation. The informal economy is the heaven and hell of the Lebanese subsistence. The theoretically injurious nature of the informal economy represents an indispensable tool for the effective juxtaposition of the social and economic insolvency of Lebanon. Indisputably it is the double edged weapon which on the one hand contributes in the endurance of the Lebanese society in the face of adversity and on the other hand undercuts every beneficial input, as the synchronized burden that imposes on the society and the economy is unbearable. It is hard to estimate which negative features of the informal economy counterbalance the positive ones and vice versa, however the vicious circle of the informal economy is undoubtedly on shaky grounds and the lack of horizontal contribution is probably the main negative aspect. In this respect, the beneficial attributes of the informal economy have an imbalanced and discriminating essence at the state level as well as at the societal level. The beneficial characteristics are vastly important and imperative as they support the survival of significantly large parts of the society; however the detrimental characteristics may undermine the entire state structure and render the whole nation unsheltered and desolate.

## **The structure of informal economy in Lebanon; Theorising Informal economy**

The evaluation of the two previous sections provided the adequate groundwork for the theoretical assessment regarding the factors which fuel and perpetuate the informal economy in Lebanon. This section will project the three main enablers of the informal economy.

The dynamics of the informal economy which are shaped by the input of the four key rivers were analysed in the previous chapters and by the unique socio-political peculiarities of Lebanon were highlighted by the sectarian issue and the historical context of the country, as also shown in chapter six. The long fermentations of Lebanon's past formulated and cemented the sustainability of the abetting ingredients of the potentially embedded informality in the country. The first factor pertains to the organised establishments of the state, foundations and institutions as well as the conditions of the bureaucratic environment as shaped by the governmental course of action, and to the deficit of civil attention attributed to the public institutions that serve the population. Those systemic factors affect the civic system itself, the market, the economy and the society as whole. The second factor or cognitive refers to the mental processes of perception, judgement and reasoning of the society, as contrasted with their emotional and their volitional behaviours. The third factor or the criminal/illicit factor pertains to the sphere of the actions that are disapproved or not permitted for moral or ethical reasons, which as a rule involve crime and illicit transactions.

### **Systemic factors**

The systemic factors are divided into two categories. The first category includes the problematic normative structure of the state apparatus and the second includes the exploitation of those normative deficits, mostly on behalf of the street level government officials as well as of the political elites. The high levels of the informality in the public sector necessitate or coerce the society to resort to the informal economy.

In the first category the rigidity of the public sector regulations, the unacceptable levels of bureaucracy, the tax burden and the cost of operating formally - which antagonises the cost of operating informally - prompt the society to function through the casual and informal channels of the economy even if in reality they are not necessarily cost-effective but just effective in opposition to the formal path. The structure of the public sector compels the society, due to its formal inflexibility and the unnecessary time consuming processes and

procedures, to seek alternatives in informal practices as sometimes people assume that it is impossible to complete a simple bureaucratic task via the formal options at their disposal.

The first category of the systemic factors which fuels the informal economy in Lebanon is tremendously supported by the second category which involves the human factor. The informal economy is by large intensified due to the involvement of the manifold parasitic elements which are part and parcel in the public as well as in the private sector. The interconnection of the street level officials with the various facilitators/fixers in the private sector enhances and sustains the normative vacuums in the state apparatus, while they assist in the overall degeneration of the public sector. Of course, their existence may entail some elements of relief for the general population which struggles with the bureaucracy in Lebanon, but other officials may be less compliant. Specifically, as shown in previous chapters, the civilians may be coerced and manipulated in order to bypass or avoid strict regulations, valid or false fines or penalties and generally take part in manifold informal dealings without their consent or approval. Extortion and embezzlement in light of the institutional insufficiencies portrays the individualised strain that the human factor attaches to the systemic factors regarding the expansion of the informal economy in Lebanon, given that these people represent a section of the state apparatus.

### Cognitive factors

In chapter six, I explored the historical roots of informal economy prevalence in Lebanon. Ayubi attributed the informal economic practices to the undeveloped class structure coupled with the remnant of the hybrid feudal system of Lebanon.<sup>434</sup> Gates on the other hand suggested that the informal economy was never harnessed in the country,<sup>435</sup> while Brownsberger suggested that the informal economy is actually well entrenched in the psyche and behaviour of the population.<sup>436</sup> In the interviews it was also suggested that the Lebanese people after the long historical processes in the country, have an innate social tendency to defy authority, the laws and the regulations of the state and that this was subliminally carved.

The existing social norms also contribute to the problem. There is little social pressure to comply with the laws and regulations and as Ayubi suggested the informal

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<sup>434</sup> Ayubi, Nazih “*Over-stating the Arab state*” I.B. Tauris, London, 1995, p.169

<sup>435</sup> Gates, Carolyn “*The historical role of political economy in the development of modern Lebanon*” Centre for Lebanese Studies, Oxford: 1989, p.19

<sup>436</sup> Brownsberger William “Development and Governmental Corruption - Materialism and Political Fragmentation in Nigeria” *The Journal of Modern African Studies*, Vol. 21, No. 2 (Jun., 1983), pp. 215-233

economy is perceived as a mainstream device.<sup>437</sup> Both sides of the same coin –the public and the state- have exalted the informal economy to a system. Indeed, a significant part of the public perceives the informal economy as legitimate means to counteract the economic adversities, the market competition and the state apparatus, as the state administration would use it as an instrument of economic and political objectives. The lack of accountability and the belittlement of the civil contribution to the informal economy clearly project the distorted perception of the Lebanese people on the issue. Therefore their interpretation and reasoning encourages their involvement, as the repercussions on the economy and the society would be, according to them, negligible. Even those who acknowledge the responsibility of the general population would still -voluntarily or involuntarily- participate in the informal economy if it was lucrative.

The social consent in the informal economy even transcends the systemic factors as the deliberate participation is the cornerstone of the establishment and expansion of the informal practices in Lebanon. However, this realisation also challenges the notion of the inescapability of the informal economy in Lebanon but since the social costs are not determined, such a suggestion is ineffectual. The cognitive factor cannot be altered overnight. The profound infiltration into the social web will require social and political sacrifices in order for it to be amended and seriously affect the possible peculiarities of the Lebanese society.

### **Criminal factors**

The most obvious factor is the criminal factor as the informal economy is the most tangible operating ground for all the illicit transactions. The third factor basically functions on top of the other two factors. The lack of effective appliance of the legislation coupled with disorganised governmental and judicial agencies results in the expansion of the criminal factor.

Seeing that frequently the illicit activities represent an alternative way of accumulating wealth, as shown in chapter five and eight, the perception that the criminal involvement is potentially the most lucrative method of living is rather worryingly widespread among the Lebanese society. As the lack of compliance has certain rewards for

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<sup>437</sup> Ayubi, Nazih “*Over-stating the Arab state*” I.B. Tauris, London, 1995, p.168

large fractions of the social web, the informal and illicit economic practices will be dramatically augmenting.

Many theorists, as also shown in previous chapters, suggested that the informal economy will be eventually absorbed by the formal, as the latter will be growing.<sup>438</sup> However, given the perplexed structure of Lebanon due to its sectarian issue, the constant conflicts and the oversized informal economy the possibility of the formal sector overpowering the informal requires an extremely lengthy and high risk political cost adjustment, which –for the time being- seems rather distant. The criminal activities represent not only a large percentage of the annual economic activity in Lebanon, but a social necessity. The interconnection of the criminal factor with social needs as well as with various ideological entities and other conflict-ridden entities like Hezbollah - which base their operation and function on illicit activities for the continuation of their objectives - endorses the criminal factor with impervious features. Besides, as shown in chapter eight the size of the informal economy and the crime rate has actually increased, despite Lebanon's relative resilience to the global fiscal pressures emanated by the financial crisis.<sup>439</sup> Since organised crime and illegal networks in Lebanon are practically impossible to be diminished, every illicit attachment will be stimulating for the criminal factor. Also it must be noted, as shown in Chapter 4 and 5, it is more than frequent to observe governmental involvement into the illegal networks. This involvement could be direct or indirect. Meaning, that the political elites could support and maintain the illegal networks as they could be immediately involved or simply act as a facilitator of their activities.

The criminal factor will remain a major ingredient of the informal economy's development as it is tangled, as shown in chapter eight, in a complex configuration of interdependence and profit.

## Conclusion

The findings of this research were presented in three areas, namely the contribution of each individual key driver of the informal economy in the socio-economic level, the contribution of the informal economy in total, as assessed by the overall input of the four key drivers and the theoretical conceptualisation of the three factors which fuel the informal economy in

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<sup>438</sup> Farrell, Diana "The hidden dangers of the informal economy" *McKinsey Quarterly*, Issue 3: 2004, Also available at [http://premium.mckinseyquarterly.com/Economic\\_Studies/Productivity\\_Performance/The\\_hidden\\_dangers\\_of\\_the\\_informal\\_economy\\_1448](http://premium.mckinseyquarterly.com/Economic_Studies/Productivity_Performance/The_hidden_dangers_of_the_informal_economy_1448)

<sup>439</sup> From interview

Lebanon. Each key driver provides a diverse input into the social, economic and political level, as shown in the Tables 1, 2, 3 and 4. The overall input of the key drivers was then evaluated as presented by each group of the respondents, namely the actual users of the informal economy or the public opinion, the government officials and the academics. As was expected, there was a tendency for each group of the respondents to offer views and opinions that would directly promote them or relieve them from any unwanted associations, however the diversity of the data provide a holistic view on the beneficial or detrimental values of the informal economy. In a nutshell, as mentioned earlier the beneficial characteristics are vastly important and imperative as they support the survival of significantly large parts of the society; however the detrimental characteristics may undermine the entire state structure and render the whole nation unprotected and desolate.

Lastly, the presentation of the theoretical components of the informal economy provided the necessary framework for future recommendations, determined the origins of the informal economy with the exclusion of the practical reasons of involvement as shown throughout the paper, and provided a sound understanding regarding the omnipresence and perpetuation of the informal economy in Lebanon.

## CHAPTER 10 Conclusion

### Introduction

This chapter deals with the synopsis of the findings of the thesis and the major conclusions of the research. The chapter also includes several recommendations regarding the future of the informal economy in Lebanon and its importance. It also explores areas for further research on the topic and addresses the extent to which the objectives of the thesis have been achieved. Lastly the present chapter looks at the potential contribution of the thesis to the wider academic community and the prospective contribution to knowledge regarding the informal economy and its components as they are enacted in Lebanon.

### Summary of major conclusions

The findings of this research were presented in three areas; namely the contribution of each individual key driver of the informal economy in the socio-economic level, the contribution of the informal economy in total - as assessed by the overall input of the four key drivers - and the theoretical conceptualisation of the three factors which fuel the informal economy in Lebanon. The findings will be presented in epigrammatic manner. The synopsis of the findings regarding each individual key driver is as follows:

#### 1. Informal remittances

The responses regarding the first key driver of the informal economy in Lebanon projected a remarkable stability in the informal inflows of remittances since no particular decline occurred during the recent periods of conflict and unrest. The broad-spectrum preference on the informal transfers systems is primarily manifested through lower income senders and to a lesser degree by more affluent senders. The principal reasons for the preference of the informal transfers systems are positioned on the comparative advantages of those systems.<sup>440</sup>

The informal systems are preferred as the variable circumstances of the senders force them to resort to those systems as a result of denied access to formal banking institutions, lack of

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<sup>440</sup> “The Hawala alternative remittance system and its role to money laundering” Available at [www.interpol.int/public/financialcrime/moneylaundering/hawala/default.asp#9](http://www.interpol.int/public/financialcrime/moneylaundering/hawala/default.asp#9). See more on reasons to E.Qorchi, Mohammad “Finance and Development” 39/4 December 2002 Available at [www.imf.org/external/pubs/ft/fandd/2002/12/elqorchi.htm](http://www.imf.org/external/pubs/ft/fandd/2002/12/elqorchi.htm) and Hernandez-Coss, Raul “A Proposed framework to analyze informal fund transfer systems” pp.243-274 in Maimbo, Samuel-Munzele, Ratha, Dilip (eds) “*Remittances; Development Impact and Future Prospects*” Washington D.C., World Bank,; 2005, p.264



linguistic capacity in the host country, or due to the lack of legal status of the recipient. Additionally, the informal remittances and the I.T.S. are not totally immune against hazards of fraud, monetary loss, personal rivalries and other exogenous factors such as financial crisis and war.

The economic activity throughout Lebanon is significantly augmented, as the informal remittances are funnelled towards a wide spectrum of commodities and services. Also the remittances boost the balance of payments since they potentially represent up to one fifth of the economy. As a result, the remittances assist the reconstruction efforts in the country and compensates for the lack of infrastructure and lack of social welfare. The informal remittances in general also provide the necessary income for the defrayal of bribes and facilitating payments, and may provide the means to the needier segments of the society for better access to health care, education and the other sectors prone to facilitating payments and bribing as mentioned earlier.

However the less deprived segments may complement their income and enhance the investments, the consumption of luxurious goods but also resort to frivolous expenditures. Another drawback is the fact that the remittances may cause an over-reliance of the recipients and assist the inequalities within the economy, the market and the society. Lastly, the association of the informal transfer systems with the illegal networks funding constitutes a considerable problem for the economy and the societal segments which rely on them.

## 2. Corruption

The collective responses regarding the second key driver of the informal economy showed that the contribution of corruption in the wider socio-economic context presents itself through facilitation. The public sector due to its design, routine and tradition is driven by corruption and corruption is an aspect of the daily life in Lebanon, which given the perplexed situation in the country, needs to be preserved. Corruption has been converted to a tool for abuse and personal gain, becoming a normative process, which enjoys high levels of tolerance and acceptance.

The most vulnerable social grouping is the financially underprivileged. The poor deal with the harshest adversities of corruption as they simply cannot afford to pursue their legal rights within their own country. The positive attributes of corruption are counterbalanced by the overall corrupt practices within the state which drain the resources and may delay development. However, corruption may indeed generate developmental operations within the country, whilst at the same time undermining it. The spiral nature of corruption within

Lebanon starts from the bottom of the social pyramid and goes all the way to the political and economic elites of the country. Also it reinforces the destabilisation of state and economy and assists the moral, social and economic disintegration of the country.

### 3. Informal Employment and Commerce Sector

The responses on the third key driver of the informal economy in Lebanon showed that the interconnection of the informal employment and commerce sector with corruption renders the function in the informal zone evenly exposed to bribes and manipulation on behalf of state officials. Also the informal employment and commerce sector is concentrated on a tangible and viable option for thousands of underprivileged workers. The workforce surpluses are more than likely artificial as there are many skilled and unskilled positions unoccupied but they are subjected to the system of favouritism and clientelism that prevails in Lebanon. In this respect the informal sector is not the absorbent for the superfluous workers of Lebanon but for those who cannot join the formal sector due to various circumstances.

Additionally, the informal sector may provide wages matching the formal sector and due to the tax evasion and the general avoidance of fees, the income may be significantly enhanced or preserved on satisfactory levels. Also the informal sector, due to the lower costs, may improve productivity and provide employment and commodities at significantly affordable prices and provide the means of survival for large segments of the society. However, it definitely induces immense strain on the formal employment and commerce sector. The retail sector suffers substantial losses and the state loses vast amounts of VAT. The lower costs of production seriously affect the competition and the loss of the contributions for social welfare eventually burdens the tax payer. The habitual tax evasion contributes to the un-businesslike tendencies of many enterprises.

Also the informal workers have no social insurance or any other legal recognition, while they are usually obliged to endure dire working conditions and tolerate exploitative behaviours. The informal workforce faces uncertainty regarding the permanence of their occupation. The informal sector is a factor that represents a relative convenience for the underprivileged social groupings of Lebanon. Also it represents a mechanism for additional enrichment of the nouveau riche industrial elites of the country, while the state is at a constant loss, despite the economic activity that the informal sector may supplement.

### 4. Illegal Networks

The responses on the fourth key driver of the informal economy in Lebanon presented that the beneficial attributes of the illegal networks in most cases have a counterbalancing feature.

The economic benefits that stem from the illegal networks are to a certain extent responsible for the wide social acceptance they enjoy. In rural areas large segments of the local population base their livelihoods on the operations of those networks.

The gap of the income distribution in Lebanon attracts many underprivileged people towards the networks, who view those networks as a means for social advancement or for career opportunity. The creation of defeatist views of the public operates as a recruiting mechanism for the illegal networks. In other words, the illegal networks constitute a tangible choice for employment and indeed provide the means of survival for many.

The untaxed income the networks offer, potentially enhances the overall economic activity in Lebanon, however the losses for the state and consequently for the tax payer and the consumer are immeasurable and impossible to be accurately estimated. The social web recognises -independently of the degree of approval- significant favourable characteristics in the illegal networks as they may provide what the state fails to offer. The advantageous characteristics have an element of bias since the beneficial attributes are not horizontal and collective. The deep penetration of the state apparatus leaves the state resources vulnerable to the raptorial tendencies of the illegal networks.

The association of the illegal networks with the other three key drivers and their remarkable potency in socio-political life renders them extremely powerful and almost immune to the efforts of controlling or restraining them. Certain features of the illegal networks establish and augment the innate tendencies of the public to defy the laws and the regulations of the state. The illegal networks impinge on the economic framework as they seriously affect potential investments and may well influence the prices in the market. Additionally, the illegal networks also impinge on the social stability as organised crime thrives and creates an environment of insecurity and intimidation, enhancing the feelings of resentment. Also they may generate an atmosphere of social volatility which if combined with the sensitive and fickle economic clauses of the Lebanese market, may provide us with an insight on the slow-matched socio-economic breakdown.

The synopsis of the findings regarding the perceptions of the respondents on the informal economy as a whole, based on the input of each key driver is presented on the following epigrammatic section:

1. Users/Public Opinion

The informal practices are so deeply entrenched into the mindset of the Lebanese society that sometimes it is inconceivable to operate otherwise. The majority of the Lebanese society - even if it demonstrates considerable disapproval towards the undesirable products of informality - acknowledges that the patterns in the social organisation are rather unlikely to change if current political and economic trends continue. The general frustration, in the lower income social strata, and the lack of positive views for the future is widespread. Also the public assumes the levels of abuse and exaggeration of the informal economy may lead to economic and social collapse. The informal economy seems to maintain its current modus operandi and it seems unlikely that the public will ever avoid the relative conveniences of informality.

The informal economy has the capacity to provide employment under acceptable circumstances and satisfactory returns but in many cases the working conditions would be appalling working conditions and the workers would be significantly underpaid. Also it is a tool for the augmentation of an existing income, whether that income stems from bribing, tax evasion or other illegal practices for the beneficiary. However, the public opinion sees no accountability in its actions. The majority of the public disagrees with the notion that it was coerced to participate in the informal economy.

The benefits are not horizontal as they only affect a selected network of people each time and the socio-economic inequalities are so vivid that they enhance the social and sectarian imbalances within the country. Also the informal economy reinforces the lack of the rule of law. The public recognises that the informal economy may be a scourge for the smooth functioning of the state and the market, but the social concessions that the informal economy makes available to the public are enough to offset any non-constructive aspects

## 2. Academics

The academics recognise certain positive aspects in the informal economy, like the substitution of various governmental efforts for reconstruction and social services. The overall social contribution of the informal economy is marginal but important. They also suggest that it contributes to the creation of a smokescreen regarding the economic indicators in Lebanon. The beneficial characteristics are by large overestimated as even the few social gains are counterbalanced by the tax evasion, lack of legal compliance and the hindrance of the sustainable function of the market.

The penetration of the informal economy into every aspect of the political and economic life affects the already challenged democratic institutions in Lebanon. The state

suffers from immeasurable loss of taxes and revenue, loses investments, and competition and formal productivity are negatively affected. The academics transpose the accountability on the governmental weaknesses and on the public as it eternalises the informal practices

### 3. Governmental Officials

The government officials frequently attempt to belittle the transgressions of the government or of themselves if they are actually involved in the informal economy. The officials also recognised the association of the informal economy for the accomplishment of personal goals, the misuse of state funds and grants and the establishment of a clientelistic structure throughout the society. They acknowledge the unlawful features of most of the informal practices and the backing they offer in the weakening of the law enforcement or law obedience throughout the society. The informal economy may affect the smooth and competitive operation of the state and the market but on the other hand it fuels the functioning operation of the entire state apparatus.

However, the complementary nature of the informal economy has an indispensable contribution to the social web. As a result of the current conditions in Lebanon the informal economy represents a catalyst. The informal economy is an extensive disassociation of the socio-economic correctness of the Lebanese people with their socio-economic competence and effectiveness. The black market and the informal remittances in the recurrent periods of upheaval, respond to the flux needs of the population when the government is unable to provide, however it may harm the potential investments, despite the marginal facilitation that it may provide.

### 4. Summary of the responses on the informal economy in Lebanon

The informal economy in Lebanon is a catalytic and complimentary mechanism for most of the adversities that stem from the complex socio-political situation. The theoretically injurious nature of the informal economy represents an indispensable tool for the effective juxtaposition of the social and economic insolvency of Lebanon. The informal economy contributes to the endurance of the Lebanese society in the face of adversity, however it undercuts every beneficial input, as the synchronised burden that imposes on the society and economy is unbearable.

The beneficial characteristics are vastly important and imperative as they support the survival of significantly large parts of the society. However the detrimental characteristics may undermine the entire state structure and render the whole nation unsheltered and desolate.

The synopsis of the theoretical framework formulated by the primary and secondary data regarding the factors which enable the informal economy in Lebanon is the following:

1. The systemic factors which pertain to the organised establishments of the state, foundations and institutions as well as the conditions of the bureaucratic environment as shaped by the governmental course of action, and to the deficit of civil attention attributed to the public institutions that serve the population. Those systemic factors affect the civic system itself, the market, the economy and the society as whole. The systemic factors are divided into two categories. The first category includes the problematic normative and rigid structure of the state apparatus and the second includes the exploitation of those normative deficits mostly on behalf of the street level government officials as well as of the political elites.
2. The cognitive factors which refer to the mental processes of perception, judgement and reasoning of the society, as contrasted with their emotional and their volitional behaviours. Those factors deal with the innate social tendency to defy the authority, the laws and the regulations of the state.
3. The criminal factors pertain to the sphere of the disapproved or not permitted -for moral or ethical reasons- actions, which as a rule involve crime and illicit transactions. The lack of effective appliance of the legislation coupled with disorganised governmental and judicial agencies, results in the expansion of the criminal factors within the informal economy.

### **Areas for further research**

Several areas for additional and further research have been identified during the primary and secondary data collection process. The following areas for further research are essential for a substantial approach to the various problematical issues regarding the role and input of the informal economy in the Lebanese state and society. Also there are additional concerns that need to be addressed in Lebanon, irrelevant to the overall operation and contribution of the informal economy in the country, but vital for a structured improvement of the social and economic predicaments associated with the components (key drivers) examined. The following areas are decisive for Lebanon:

1. There is need for a more accurate estimation regarding the population of Lebanon, since the possibility for the conduction of a formal census is bleak. Lebanon has a

robust middle-class, an expanding nouveau riche upper class and wide low working class. The social strata in addition to the sectarian divergences require a proper distinction of the social stratification in Lebanon and a more precise estimation for the income per capita as the inequalities are more potent than projected in the literature.

2. The potential that significant amounts of the financial indicators regarding Lebanon's economic performance and stability are inaccurate is broad. There is a need for a proper investigation regarding Lebanon's true economic potential, such as the possibility that Lebanon may benefit from participation in robust and fair Free Trade Agreements (possibly within the region rather than relying on western agreements).
3. There is need to investigate Lebanon's capacity to operate under a strict set of regulations and whether that is possible to be applied, as the political inadequacies are strongly linked with the informal economy. Also there is need to estimate if such an outcome would be workable for Lebanon's peculiarities.
4. There is need for quantitative research regarding the operation and size of Lebanon's informal economy. Also a numerical and statistical projection regarding the role of the street vendors and the informal production units in the economy and competition would be extremely useful. Apparently it is an arduous task, but given the lack of data regarding this affair, even an approximate estimation would be constructive and valuable.
5. Also there is need to investigate in depth the micro-economic impact of the informal economy in association with prices, inflation and the proper application of the rule of law and the underemployment.
6. Also it is essential that additional research is conducted regarding the cognitive characteristics, as described in Chapter 9, of the Lebanese society in association with their financial behaviour and their attitude towards authority.
7. It is also necessary to scrutinise the perceptions of the Lebanese society towards the illegal networks and examine the input of those networks with a more direct method. Apparently this is rather difficult, it so for me, but given the controversial rationalisation of the Lebanese society towards the operation of those networks, including Hezbollah, some additional research is necessary.

## Recommendations

There are several recommendations that can be made based on the findings and conclusions above. I will avoid referring to basic recommendations that are rather intangible and farfetched. Of course, it is a complicated process to apply adjustments to countries like Lebanon. As mentioned in a previous chapter Lebanon faces mega-problems which require macro-solutions. The willingness of the society and of the political elites to substantially deal with those problems is debatable. Nevertheless, there are people who desperately call for a considerable amendment of the current situation in Lebanon in association with the informal economic activities. The following recommendations are influenced by the principle of effectiveness and based on the assumption that the state will not resort to significant and potent alterations, as the interests of the political elites are embedded within the informal economy.

1. Stricter application of regulations and laws is ineffective in Lebanon. The government should offer luring and attractive incentives to the employment and commerce sector to tackle tax evasion and the massive loss of revenue. The incentives should apply to the consumers and to the entrepreneurs. The character of the incentives should be rewarding.
2. Lebanon should realise the magnitude of the informal economy in the country and utilise its beneficial attributes, and seek to promote legalising the function in a way that is agreeable to those that use it. Besides, the Lebanese government never felt constrained to apply anti-constitutional regulations in the country that serve particular interests. The incorporation of the informal tendencies in the formal framework could have positive effects. The legalisation of certain informal or illegal practices may facilitate growth and deflate exploitation.
3. There is need for the state apparatus to operate independently of the political leaders, as aspects of the state apparatus is subjected to partiality of the political elites. The society should recognise that sectarian and political differences are not constructive for their well being, even within the context of the informal economy.
4. The government should abolish all restrictions for foreign investments, in order to eradicate incidents of corruption and rigid bureaucracy. If there is no one to bribe, corruption will weaken at least at the lower levels of the state apparatus. The lessening of restrictions will result in less complicated procedures and easier and more



transparent transactions. However, that alone is not enough to tackle the problems of corruption and bureaucracy.

5. The confiscated contraband should be active tradable merchandise for the state. An agency dealing with the promotion of smuggled legalised goods should be created. It will protect competition and offer incentives to the appliance of the rule of law. The law enforcers also should be entitled to rewards. Besides, it is common to embezzle confiscated assets.
6. Positive economic output does not necessarily require robust regimes but collective yearning for improvement. The realisation of the cooperative and collective potential, even for a small country like Lebanon may be farfetched, but it could be assisted by the sectarian or communal interests, even if it entails deeper societal or sectarian divisions. Besides focalisation and centralisation of sectarian concerns is an already widespread aspect of the Lebanese society. Although, this suggestion represents a viable option, the adjunct implications are unknown and maybe controversial.
7. Lebanon needs to deal with factors that enable the informal economy. The required macro-solutions need serious investments on behalf of the state on education, and the methodical creation of a proper functional economic consciousness of the public. The public should also acknowledge its vested rights.

The following section identifies and explores the extent to which the objectives have been achieved and further down projects the significance and contribution of the present thesis in the wider academic community.

### **Critical assessment; extent of objectives achievement**

It is undeniable that all studies of this nature have their limitations. Some studies are limited due to their design; some others may be constrained by the tools available or by their methodology and others simply by the inherent nature of the problem. Certainly this thesis due to its controversial nature faced a plethora of problems, especially in the approach and the sample and the collection of the primary data. The size of the sample, although relatively small in comparison to other studies, given the circumstances and the nature of the research, it may be considered adequate. The main constraint for a smaller sample was the validity of the data. I had to verify most of the responses and filter the background of some respondents in order to maintain a balance sample as described in Chapter 7. In the eventuality of sacrificing some of the validity and substantiation of the responses, the size of the sample

would be undoubtedly larger, as the data collection process would have been much simpler. Besides, the analysis of the four key drivers of the informal economy comprised a very demanding literature review and an arduous primary data collection, as the sheer size of information needed was immense. However, it was impossible to narrow down the key drivers or the broadness of the data for a secure determination and accomplishment of the aims and objectives of the thesis.

The primary objective of this thesis was to establish the balance and participation of the informal economy into the Lebanese state and society through situational and empirical research. The aim was to primarily display the beneficial and detrimental aspects of the informal economy for the Lebanese state and population and establish the conceptual difficulties of the informal parameters. The literature review coupled with the interviews section clarified and projected the conceptual interpretations or misinterpretations of the key drivers. The thesis' purpose is to determine if the informal economy in Lebanon functions as an accelerator or a decelerator for growth, development, social stability and economic sustainability. The use of the situational and empirical data gathered over a period of two years through a diverse sample in terms of location, education, employment and income, directed the present thesis into the formulation of certain results. Potentially the result did not provide a one-sided outcome or an answer with a single perspective. Besides, the implicated parties cannot be represented via a monocular outcome. The informal economy is not a black or white notion, nor a simply good or bad element. The primary objective of this thesis has been fulfilled as it revolves around a comprehensive conception of the informal economy, responding to each parameter of the Lebanese state and society.

The secondary objectives have also been achieved to a satisfactory extent. One of the secondary objectives of the research attempted to explore the overall perceptions of the three groups of the respondents (users/public opinion, government officials and academics) regarding each key drive and the informal economy as a whole. Indeed, all the respondent groups provided a diverse and sometimes conflicting view regarding the key drivers and the entire informal economy, as shown in the cross tabulation of the responses in Chapter 9. Additionally, the theoretical and historical background of the informal economy in Lebanon has been adequately examined in the four-fold literature review as well as in Chapter 6 which offered the back-casting of the informal economy in the country. The historical context of Lebanon's informal economy acted as an analytical parameter for the drafting of the theoretical conclusions in Chapter 9.

Additionally, the thorough and detailed examination of the four key drivers of the informal economy provided a sound understanding of the operation of the informal economy and its components in a wide spectrum outlook. The division of the literature into theoretical and pragmatic approaches facilitated this objective.

Also the need to project the interconnection of the key drivers with the state and the society has been sufficiently achieved as shown throughout the literature review and the primary data. Besides, all the secondary objectives are a prerequisite for the accomplishment of the primary objective. Without the substantial input of the secondary objectives, the primary ones would not be able to emerge. Possibly, the assessment of the contribution of the informal economy in Lebanon on a macroeconomic level suffered the most significant omissions, as the majority of the sample lacked the adequate background knowledge on the issue. However, circuitously with the assistance of the overall evaluation of the government officials' responses and of the academics, the impact of the informal economy with emphasis on the macroeconomic level has been projected as is evident in the interviews of Chapter 8 and shown in Chapter 9. Lastly the determination of the theoretical framework on which the informal economy expands and fuels its operation was adequately analysed via the loose implementation of the grounded theory, and the association of analytical methods of the thesis, in Chapter 9. The theorisation of the pro-creators of the informal economy in Lebanon, offered an additional theoretical as well as tangible framework, which could enable further future recommendations and analysis on the issue.

### **Contribution of the study**

The notion of the informal economy in the vast majority of the bibliography has been dealt with as if it was just one of the four key drivers. Many view corruption or the informal employment and commerce sector as the sole agent of the informal economy in a given country. However, the informal economy throughout the world is a complex multifaceted structure. Informal trade or corruption cannot fully portray the size and the input of the informal economy simply because they are just one of the components of the wider system.

The informal economy required an intrinsic analysis based on theoretical, historical and situational grounds. Every chapter displays a logical sequence for the purpose of the study. The literature survey projects the secondary material on the four key drivers which constitute the informal economy in the international stage. The following chapter, which was also based on secondary material, focuses on Lebanon's chronological and historical

circumstances related to the informal economy in order to project and assist the understanding of the country's present informal status. It attempts to back-cast the informal economy of Lebanon's past.

The methodology chapter explains how the Force Field analysis functions to the purpose of the study and how the key drivers were chosen, while the following chapter of the interviews projects the views of the primary material in each individual key driver. The results chapter evaluates and analyses the components of the informal economy in Lebanon and the informal economy as a whole, based on the primary material and secondary material of the research as assembled by the analytical method. It is the first time to use an analytical method developed in sociology and then developed further by the British government, into a thesis related to political and social sciences. This advancement of the study allows the reader to obtain simultaneously a holistic and segmental outlook on the informal economy in Lebanon and understand the positive and negative aspects of it.

The role of the informal economy is not adequately understood in the context of Lebanon. Its scope, operation and beneficial or detrimental values are yet to be determined. The perceptions of the society, the government and of the academia are in a constant flux regarding the nature and input of the informal economy in Lebanon.

This thesis attempts to scrutinise the core and the cortex of the socio-economic structure and input of the informal economy in Lebanon. In that perspective the present thesis is unparalleled with any other similar research on the field. This research is not inimitable only in terms of the analytical tools but also in the classification of the components of the informal economy. The wide-scope analysis may also constitute the ground for recommendations regarding a broad range of interests in Lebanon, as it depicts all the favourable and unfavourable aspects of the informal economy. The research does not attempt to denounce or eulogise any informal practice in the country but to provide a balanced and impartial outlook on an area which is subjected to manifold preconceived notions, prejudice, biases and intimidation. The overall contribution of the thesis is to be found in uniformity and independence of the analysis regarding the informal economy in Lebanon.

## **Conclusion**

The informal economy in Lebanon represents a significant element of economic activity. It is a major source of income, employment and social appeasement, although it may be the basis for economic destabilisation. Unquestionably it is an amalgam of positive and negative

characteristics. The beneficial features, as shown earlier, are vastly important and imperative as they support the survival of significantly large parts of the society; however the detrimental characteristics may undermine the entire state structure and render the whole nation exposed and desolate. The amplitude and omnipresence of the informal economy enshroud the state and the society. Therefore the contribution of the informal economy on the public or state interest cannot be seen in one dimension only. Some of the negative aspects cannot be simply eradicated overnight. It will be complex and arduous process. If the state and the society realise Lebanon's true potential and supersede the present vicious circle of exploitation and abuse, the informal economy will be converted into a purely beneficial trait of the country. However, for the time being Lebanon will endure the current problematic symbiosis of the antithetical attributes of the informal economy.

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**List of Respondents**

<b>Name of Respondent</b>	<b>Occupation</b>	<b>Location</b>
Aisha Faraz	Unemployed	Beirut
Aisha Haidar	Mini Market Assistant	Beirut
Alekos Karahalios	Trucker	Athens
Ali Hadi	Lawyer	Athens/Beirut
Ali?	Stevedore/Docker	Beirut
Aliona Pehackova	Waitress/Entertainer	Beirut
Amber Snyder	-	- (facebook contact)
Ammar Jayyousi	Mini Market Assistant	London
Amy Zalman	Political Scientist	London
Aya Naji-Anderson	Activist/Researcher	?
Bahij Baroudi	Kiosk Assistant	Athens
Barry Commons	Trucker	Plymouth
Catherine Harrison	Strategic Analyst (MoD)	London
Charbel El Khouri	Musician	Beirut
Charbel Fadel	Mini Market Assistant	Athens
Dany Faraz	ALS Shipping Co. Superintended	Athens
Dimitris Alexakis	Mariner (Captain Retired)	Athens
Dimitris Magoulas	Trucker	Athens
Eliad Vanounou	Internet Cafe Assistant	London
Emile Gazal	Stevedore	Beirut
Fara Al Masri	Student	Beirut

Farrah Shallalah	Waitress	London
Frago Kourandi	Economist (Economic University of Athens)	Athens
George Mansour	Human Rights Watch Researcher	?
George Pavlopoulos	Economist (Economic University of Athens)	Athens
Haidar Ismail	Unemployed	Athens
Haifa Wahby	Clothes Shop Assistant	Beirut
Hannah Charkour	Greek Arab Chamber of Commerce Employee	Athens
Ian Nicholson	Strategic Analyst (Mod)	London
Ibrahim Khlel	Economist	Athens/Beirut
Jad Daoud	Retired Senior Manager	Athens
Jim Anastasopoulos	Criminologist	Athens/London
Katerina Anevlavi-Osman	Teacher	Athens
Lenora Faraz	Unemployed	Beirut
Mahmoud ?	Builder	Athens
Mahmoud Ramadan	Greengrocer (street vendor)	Beirut
Mariana Ibrahim	Student	Beirut
Maroun Mssallem	Souvenir Shop Owner	Beirut
Mohamad ?	Kebab Shop Assistant	London
Mohamad Alaiti	Trucker	Beirut
Mohamad Hamzeh	Docker	Beirut
Mohamad Khanji	Mini Market Assistant	Athens
Mohamad Sidawi	Docker	Beirut
Mohd Zulqarnain	Waiter	Beirut

Myrna -	Student	Beirut
Nasif Samhat	Telephone Center Employee	Athens
Nikos Sakkos	Greek Ministry of Foreign Affairs (Cultural Attaché in Lebanon)	Athens/Beirut
Rami Rouhana	Shop Owner	Beirut
Rawad Srour	Shop Owner/Public Servant	Beirut
Rayan Keirouz	Waiter	Beirut
Ribael Otaki	Clothes Shop Assistant	Beirut
Rita Kouri	Nanny	Athens
Sabine El Harouni	Anthopologist/Sociologist	London/Beirut
Samira -	Clothes/Shoes Shop Assistant	Beirut
Simon Melkonian	Restaurant Owner	Beirut
Stephanie Aoun	Public Servant	Beirut
Stephanos Dokos	Trucker	Athens
Tamra Pelleman	Teacher	Athens
Teresa Chakem	Nurse	Beirut
Toufik Chami	Student	Beirut
Unnamed Respondent A	Street Vendor	Beirut
Unnamed Respondent B	Street Vendor	Beirut
Unnamed Respondent C	Street Vendor	Beirut
Unnamed Respondent D	Bystander in Cherry Club	Beirut
Unnamed Respondent E	Bystander in Cherry Club	Beirut
Unnamed Respondent F	Student	Beirut
Unnamed Respondent F	Doctor	Athens
Unnamed Respondent G	Nurse	Beirut

Unnamed Respondent H	Doctor	Athens
Unnamed Respondent I	Facilitator/Ministry of Transportation	Beirut
Unnamed Respondent K	Waiter	London
Unnamed Respondent L	Public Servant	Beirut
Unnamed Respondent M	Public Servant	Beirut
Unnamed Respondent N	Bar Owner	Beirut
Unnamed Respondent O	Programmer	Athens
Unnamed Respondent P	Beirut Port Official	Beirut
Unnamed Respondent Q	-	Nablus/Athens
Unnamed Respondent R	Delivery Driver	Beirut
Unnamed Respondent S	Taxi Driver	Damascus
Unnamed Respondent T	Sales Representative	Beirut
Unnamed Respondent U	Public Servant	Beirut
Unnamed Respondent W	Businessman	Beirut
Unnamed Respondent X	Doctor	Beirut
Unnamed Respondent Y	Public Servant	Beirut
Wassim El-Maoed	Telephone Center Employee	Athens
Yasmine Sabba	Seamstress	Beirut
Yoni Zabari	Constructions Worker	Athens
Youssef Maard	Stevedore	Beirut
Youssef Osman	Chartered Accountant	Beirut
Zaki Avedikian	Waiter	Beirut
Ziad Mustafa	Builder	Athens

**Also there are 12 unidentified respondents who were unable to provide any information regarding their status due to the casual approach of the various interviews mostly in the streets of Beirut**