

# The Value of a ‘Seat at the Table’: How Elites Interfere in Lebanon’s Public Infrastructure Procurement

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The explosion at Beirut’s port on 4 August 2020 left large parts of Lebanon’s [capital in ruins](#), while the country’s already dilapidated public infrastructure is in dire need of [large-scale investment](#). For Lebanon’s recovery from its present-day crises, efficient and reliable public procurement is a prerequisite. However, interference by elites in public procurement undermines international development assistance that is geared to fund these investments and improve institutional capacities.

On that end, Lebanon is no exception. Elites all over the world have ample incentives to interfere in public infrastructure institutions. On average, public procurement amounts to a sizeable [13.6% of GDP](#) in Lebanon’s peer group of upper-middle income countries. Even in mature democracies with strong institutions, [previous research](#) shows that interference by elites in public procurement is a significant challenge. Particularly when natural resources are absent, large infrastructure projects can provide a reliable source of rents for elites.

## Public infrastructure procurement in Lebanon

Lebanon’s Council for Development and Reconstruction (CDR) offers a suitable example of how elites influence procurement processes. Endowed with special prerogatives and largely exempted from accountability institutions to manage the reconstruction after the country’s civil war (1975-1990), the CDR was designed as an “island of efficiency” to implement infrastructure projects with foreign funding in an institutional environment that was anything but efficient. CDR oversaw the implementation of virtually all major infrastructure projects with foreign funding, from irrigation to solid waste to highway bridges. In the decade between 2008 to 2018, CDR handled projects to the tune of \$3.98 billion of which some \$1.76 billion came from foreign donors.

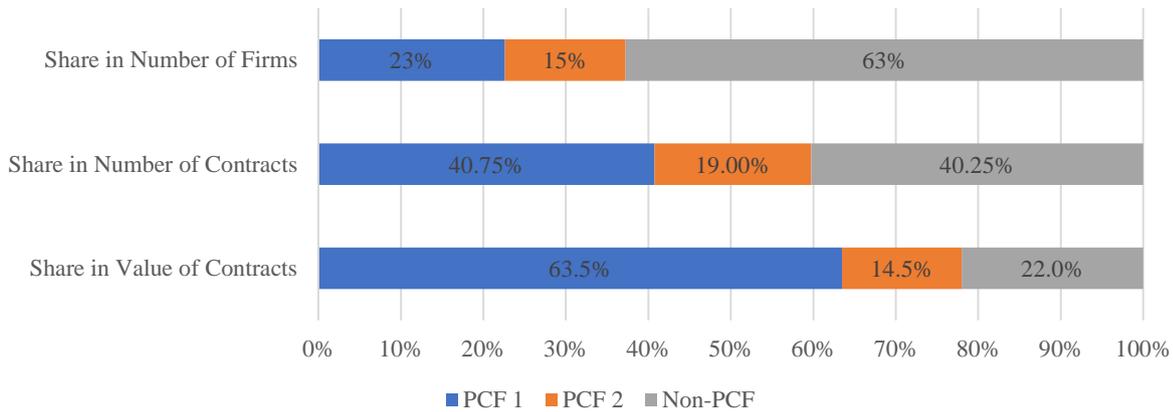
In effect, CDR not only became a profitable source of rents for a small economy with powerful and [well-connected elites](#). It came to reflect the very way in which Lebanon’s power-sharing arrangement functions.

## Evidence from a new dataset

[In a recent study](#), we analysed all 394 infrastructure procurement contracts awarded by CDR between 2008 and 2018. We identified whether winning firms were politically connected and whether these politically connected firms (PCF) were subsequently more likely to receive larger contracts. Knowing that political connections can take many forms, we also examined the “quality” of firms’ political connection. We differentiate whether a firm is either related to the small circle of political elites that act as the protégés of the board of CDR (called ‘PCF1’) or to the wider set of powerful political elites in the country, including members of parliament and ministers (called ‘PCF2’). Distinguishing between these qualities of political connections provides not only a more accurate mapping of political realities in Lebanon, but also allows for inferences into how elites share economic resources.

Our results show that politically connected firms capture the majority of CDR project funding (figure 1). A total of 135 firms applied for these contracts, 31 (or 23%) of which were politically connected to a board member of CDR or their protégés (PCF1); 20 (or 15%) were connected the wider set of elites or to a politician in office during that period (PCF2), while 84 (or 63%) were not connected. Although constituting less than a quarter of firms, PCF1 firms won more than 40% of contracts and captured about 63.5% of the total value. PCF2 firms, by contracts, do not receive a larger share in the value of contracts (14.5%) compared to their share of firms (15%).

Figure 1: Share of firms, contracts, and contract values per firm type



### Connections to elites with a ‘seat at the table’ gives larger contracts

Firms with connections to elites that were able to secure a “seat at the table” at the board of CDR received a larger share of total contract value. This result, however, could stem from a variety of reasons. It could be that connected firms are simply bigger or more specialized. It could also be that they have superior management skills and became connected once they grew and became important nationally.

We show that our results do not emanate from firm characteristics. Instead, contracts of PCF1 firms are significantly larger than the average for other firms. During election years, these PCF1 contracts grew even further which suggests a clientelist exchange between elites and politically connected firms. Based on CDR’s discretionary procedures for virtually selecting the firms allowed to bid for a contract, we show that it is elite-level influence, rather than the superior skills of firm owners and managers, that drives this result.

Other connected PCF2 firms, by contrast, received contracts as large as the ones received by non-connected firms. We argue that these results indicate that even powerful elites constrain their capacity to influence the allocation of projects and adhere to strong [norms of power-sharing behavior](#). Lebanon’s elites form and maintain complex cartel-like networks that support the exchange of information to ensure that the “right” firm wins.

### To fund public infrastructure, accountability must come first

The design of valuable public institutions, such as the one of CDR, is not left to chance. It came to life to solve a problem of resource allocation. Norms of power-sharing behavior ensure its longevity.

In such a context, capacity building via international donors or even technical interventions—such as improving regulations—might be both a necessary condition for improvement and desirable on normative grounds. Yet, they are [unlikely to yield results](#) that justify the extensive use of development assistance in the absence of reforms that enhance the accountability of powerful elites. [Alternative strategies](#) may prove more promising to achieve a change in social norms that directly or indirectly legitimise collusive and corrupt behavior.