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Economic Reconstruction

Expanding demands for reconstruction to a full economic package

Draft for discussion

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Economic Reconstruction

Expanding demands for reconstruction to a full economic package

Lebanon has embarked in political and military negotiations with Israel. These are aimed to restore full sovereignty of the State on the South, secure the full withdrawal of occupying Israeli forces from Lebanon, return of all Lebanese detainees in Israel, and the financing of the recovery and reconstruction of war-affected areas of Lebanon.

The negotiations are mediated by the United States with support from the international community including Arab countries and especially Egypt and the GCC.

One of the issues that Lebanon will demand from the international community is reconstruction financing following the devastation from destruction caused by the war.

Lebanon should expand that demand to encompass with losses beyond physical damage to homes and infrastructure, to include economic losses and support of face its economic collapse since 2019.

A full expanded package that Lebanon should be developed and put on the negotiating table, taking into consideration the precedent of Egypt getting more than $20 billion in the wake of its peace agreement with Israel and Jordan also getting sizable aid after its deal with Israel.

The international aid, spearheaded by the US, EU, and GCC countries can come in several forms, such as grants, long-term loans at concessionary terms, in-kind humanitarian aid, and special trade and investment incentives.

In the past few years, all aid was suspended waiting for Lebanon to sign a program with the IMF, which it was unable to do, due to political gridlock on the one-hand, and incompatibility of some IMF conditions to the Lebanon case on the other. While (some) reforms demanded by IMF are important, their implementation will take years, and Lebanon's needs, especially after the wars of 2024 and the ongoing one have an immediate urgency.

Lebanon must frame its request as a comprehensive 'Recovery, Reconstruction and Stabilization' plan tied to regional de-escalation, border stabilization, and long-term economic normalization.

This 'Peace Dividend' will prevent Lebanon from collapse in one of the most sensitive geopolitical fault lines in the Eastern Mediterranean. This would fit within precedents established after the Egypt-Israel Peace Treaty and the Israel-Jordan Peace Treaty, both of which triggered substantial Western and Gulf support packages for strategic reasons extending far beyond direct war damage.

A Lebanese proposal could be structured around the following pillars:

1 Return, Recovery and Reconstruction (3Rs)	**2** Emergency Economic Stabilization Facility	**3** Depositor Recovery and Banking Sector Transition Mechanism
4 Trade and Market Access Package	**5** Regional Economic Integration Package	**6** Sovereign Development and Investment Platform
7 Refugee and Human Capital Compact	**8** Security and Border Stabilization Assistance	**9** Governance and Reform Framework

Political Framing: The 'Cost of Collapse' vs. 'Cost of Stabilization'

Lebanon's strongest diplomatic argument may ultimately be geopolitical rather than economic. The message: Stabilizing Lebanon is far cheaper than managing the consequences of its collapse.

Those consequences include:

- Permanent migration flows
- Regional instability
- Radicalization
- Border insecurity
- Maritime insecurity
- Humanitarian crises
- Wider Eastern Mediterranean destabilization

Lebanon could therefore argue that:

- Egypt received strategic stabilization support after peace
- Jordan received strategic stabilization support after peace
- Lebanon now requires a comparable peace-and-stability dividend adapted to its own circumstances.

1. Return, Recovery and Reconstruction (3Rs)

OBJECTIVE

Rehabilitation and reconstruction of devastated areas of Lebanon following the 2023–2026 Israeli war on Lebanon would prevent large-scale displacement, social collapse, and sensitive demographic shifts across Lebanon.

COMPONENTS

Debris Removal and Environmental Remediation

- Demolition waste and rubble removal, treatment and disposal
- Removal of unexploded ordnance
- Soil and water remediation
- Coastal cleanup
- Environmental restoration of damaged agricultural land.

Public Assets

- Rehabilitation and reconstruction of:
  - electricity networks
  - water systems
  - telecommunications
  - roads and bridges
  - schools
  - hospitals
  - ports and logistics facilities.
  - Etc.

Private Assets

- Housing reconstruction
- Compensation for small businesses and agricultural losses.

Estimated Scale
$xx billion over 5-7 years

2. Emergency Economic Stabilization Facility

Physical reconstruction of public and private assets alone is meaningless without macroeconomic stabilization. This facility would aim to stop:

- Institutional breakdown.
- Currency collapse
- Banking paralysis
- Mass emigration

COMPONENTS

Central Bank Stabilization Support

- Foreign exchange stabilization lines
- Temporary reserve support
- Currency swap arrangements through GCC partners

Budget Support to prevent total institutional collapse while reforms are gradually implemented

- Health
- Education
- Army and security forces
- Judiciary
- Municipalities

Social Protection Fund

- Temporary targeted income support
- Food security financing
- Public transportation subsidies
- Medical support.

Estimated Scale
$xx billion over 3–5 years

3. Depositor Recovery and Banking Sector Transition Mechanism

Lebanon can state, that no country can stabilize while its banking system remains frozen and households remain financially incapacitated.

While pursuing gradual and partial compensation to depositors, Lebanon can also promote an internationally backed financial transition facility. Such a mechanism would restore a degree of depositor confidence, re-establish the minimum flow of credit needed for productive sectors, and prevent the further erosion of what remains of the middle class. In doing so, Lebanon positions the request as a pragmatic bridge from systemic paralysis to a managed and credible financial transition.

Possible Instruments

- Long-term concessional financing
- Partial risk guarantees
- Recovery bonds
- Capital support tied to restructuring
- International guarantees for 'new money' deposits
- Etc.

This could be linked to:

- Governance reforms
- Bank restructuring
- Anti-corruption measures
- Gradual recapitalization.

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Estimated Scale

$xx billion in blended instruments and guarantees

4. Trade and Market Access Package

GCC Market Reopening

- Preferential customs treatment
- Fast-track border approvals
- Logistics facilitation

EU Trade Incentives

- Expanded quota-free access for Lebanese goods
- Textile and agro-industry preferences
- Green transition export incentives

US Trade Measures

- Qualified industrial zone model similar to arrangements used in Jordan and Egypt
- Technology partnership programs
- Free Trade Agreement

5. Regional Economic Integration Package

Lebanon stands at a crossroads. Despite its rich resources and strategic geographic location, fragmented policies and persistent infrastructure gaps continue to limit its growth and stability. A coordinated regional approach particularly in energy and digital interconnections, transport corridors, and trade facilitation can reduce costs, enhance competitiveness, and attract investment. Lebanon's regional integration with Syria, Iraq, Jordan and the GCC, focusing on the critical sectors of energy, transport, and trade is both timely and critical.

COMPONENTS

Gas, Oil and Electricity Arrangements

- Reactivation and financing of regional electricity interconnections
- Gas and oil import arrangements through regional networks
- LNG terminal financing

Renewable Energy Program: Large-scale donor-backed solar, wind, and battery storage projects.

Grid Modernization

TRANSPORT AND TRADE INTEGRATION

Lebanon seeks to restore its role as a regional hub for trade, logistics, and services. The objective is to transform post-war reconstruction into a long-term program of regional economic integration.

The package should include preferential trade arrangements with key partners, including harmonization of Customs procedures, mutual recognition of standards and certifications, and expedited border clearance for agricultural, industrial, and manufactured goods. International partners should also support the modernization of Lebanon's trade infrastructure, including its ports, airports, customs administration, logistics centers, and digital trade systems. Investment in multimodal transport corridors would enhance competitiveness as a gateway for regional commerce and reduce the cost of imports and exports.

Financing, directly, or through partnerships with the private sector, are sought for the rehabilitation and expansion of the Port of Beirut, the Port of Tripoli, Beirut-Rafic Hariri International Airport, and the René Mouawad Kleyat Airport, as well as for the country's principal road network. These investments should be accompanied by Customs modernization, digital single-window systems, risk-based inspection procedures, and trade facilitation that meet international standards.

The package should support developing corridors linking Lebanon with Arab countries. This includes road freight, rail connectivity, maritime shipping routes, and integrated logistics platforms that would facilitate the movement of goods across the region.

International financial institutions and export credit agencies could provide guarantees and financing to private investment in transport, warehousing, cold-chain facilities, and logistics services. It would strengthen Lebanon's role as a regional distribution center for high-value goods, pharmaceuticals, food processing, technology, and professional services.

Lebanon will seek preferential access to international shipping and trade finance facilities, including expanded export credit guarantees, insurance, and concessional financing for trade.

6. Sovereign Development and Investment Platform

Rather than relying only on aid, Lebanon could seek creation of a major international investment platform.

Structure:
A multi-donor vehicle backed by: GCC sovereign funds, European institutions, Development banks, and international financial institutions.

Potential participants:

- World Bank
- European Investment Bank
- European Bank for Reconstruction and Development
- Asian Infrastructure Investment Bank
- International Monetary Fund
- Arab development funds
- GCC sovereign wealth funds.
- Etc.

Focus Areas:

- Ports
- Airports
- Railways
- Logistics
- Tourism
- Technology
- Industry
- Agriculture
- Digital economy
- Etc.

7. Refugee and Human Capital Compact

International partners to recognize the cumulative economic costs associated with decades of refugee hosting. While no realistic calculation can fully capture these costs, a dedicated compensation and development mechanism could be established to support long-term national recovery efforts, reflecting Lebanon's contribution to regional stability and its role in preventing wider humanitarian crises. The objective is not only humanitarian relief but also the correction of a longstanding imbalance whereby a small country has carried a disproportionate share of the consequences of one of the region's most enduring conflicts. The resulting support package should therefore be viewed as an investment in regional stability, social cohesion, and sustainable development.

PACKAGE COMPONENTS

Syrian Refugee Burden-Sharing

- Major annual support package for host communities
- International financing for schools and hospitals
- Employment programs

Palestinian Refugee Burden-Sharing and Historical Compensation Framework
Provide increased and predictable funding for Palestinian refugees through international agencies and development institutions. Any future regional settlement of the Palestinian issue should explicitly acknowledge Lebanon's historical contribution and include measures that support both refugee welfare and the country's long-term economic development.

- Supporting both refugee communities and host communities
- Upgrading of infrastructure, schools, healthcare services, sanitation networks, and municipal services in areas with significant refugee populations.
- Support job creation, vocational training, and economic development initiatives designed to reduce poverty and social tensions.

Education and Brain Drain Programs

- Scholarships
- Vocational training
- Tech-sector incubation
- Diaspora return incentives

Healthcare Support: Long-term support to public hospitals and primary healthcare.

8. Security and Border Stabilization Assistance

COMPONENTS

- Major support program for the Lebanese Army
- Border monitoring technologies
- Southern reconstruction linked to stabilization mechanisms
- Maritime security support
- Customs modernization

9. Governance and Reform Framework

Lebanon accepts phased reform commitments but rejects the idea that all assistance must wait for a comprehensive IMF program. Instead Lebanon could propose a Sequenced Reform Model

Immediate aid released rapidly for:

- Humanitarian
- Reconstruction
- Stabilization purposes

Medium-Term conditional tranches linked to:

- Banking restructuring
- Customs reform
- Judicial modernization
- Implementation of public procurement modernization
- Anti-corruption systems
- Electricity reform

Independent Oversight

- International auditing
- Escrow mechanisms
- Project-specific governance systems
- International supervision boards

This would reassure donors without imposing a full "front-loaded shock therapy" approach.

Possible Aggregate Scale

A truly ambitious package could reach:

Component	Scale Example. Actual numbers will need to be figured out
Reconstruction	$10 billion
Economic stabilization	$10 billion
Banking/depositor transition	$20 billion
Energy and infrastructure	$ 5 billion
Investment platforms and guarantees	$10 billion
Trade incentives and non-cash benefits:	Significant indirect value

Total potential impact: Roughly $50+ billion over a decade though only part would be direct grants.

This would still remain within the scale of strategic aid historically mobilized by the West and Gulf states for pivotal regional transitions.

Case Study: Egypt

The 1979 Egypt-Israel treaty transformed Egypt into one of the largest recipients of American foreign aid in the world. From the late 1970s onward, the United States established what became an approximately annual package of:

- $1.3 billion in military aid
- Roughly $800 million in economic aid in the early decades

That meant Egypt was receiving roughly $2.1 billion per year from the US during the 1980s and 1990s or approximately $6 billion in today's dollars.

Over time, the economic portion declined, while the military component remained relatively constant at around $1.3 billion annually. By the 2000s, economic aid had fallen to a few hundred million dollars per year.

In cumulative terms: Estimates place total US aid to Egypt since the treaty era at roughly $75 billion to $90 billion in historical dollars.

Beyond direct US aid, Egypt also benefited indirectly from:

- Debt relief
- Increased Western and Gulf investment
- Restored access to international financial institutions
- Large inflows from Gulf Arab states at various moments

Another major example came after Egypt joined a US-led coalition in Iraq, when Western and Gulf creditors forgave or restructured $20 billions of dollars of Egyptian debt. That was not directly part of Camp David, but it flowed from Egypt's strategic realignment toward Washington after the peace treaty. It secured a long-term external financial lifeline and helped stabilize Egypt's balance of payments for decades.

At the time, Egypt was in severe economic trouble. By the late 1980s:

- External debt had climbed to around $50 billion
- Debt servicing was consuming a huge share of state revenues
- Growth was weak
- Inflation and unemployment were high
- The country was close to a financial crisis

› The United States forgave approximately $7 billion in Egyptian military debt
› Gulf states, especially Saudi Arabia, Kuwait, and the United Arab Emirates, canceled billions more owed to them by Egypt
› Paris Club creditors (major Western creditor nations) agreed to large-scale debt reduction and restructuring packages tied to IMF-backed reforms.

This was one of the largest geopolitical debt-reward arrangements post–Cold War.

Case Study: Jordan

Jordan also received major economic and strategic benefits after signing peace with Israel, though on a smaller scale than Egypt because Jordan is much smaller geopolitically and demographically.

The rewards came through several channels:

1) Massive increase in US aid

Before the treaty, Jordan already had ties with Washington, but aid expanded dramatically afterward. Over the decades following the treaty:

- Jordan became one of the largest per-capita recipients of US aid in the world
- Annual US assistance eventually rose to up to 1.7 billion per year in combined military and economic support in recent years
- Cumulative US aid to Jordan since the mid-1990s has exceeded $30 billion

2. Debt relief and financial rescue

Jordan faced serious economic difficulties in the late 1980s and early 1990s:

- Heavy debt
- IMF crisis
- Unemployment
- Loss of Gulf support

After the treaty, Jordan was gradually rehabilitated internationally:

- Debt rescheduling agreements improved its finances
- Western support increased
- Gulf relations slowly normalized
- International institutions became more supportive

The US also forgave portions of Jordanian debt over time.

3. Qualified Industrial Zones (QIZs)

One of the most important direct economic benefits came from the creation of the QIZ system in the late 1990s. This transformed Jordan's export sector for a period and created tens of thousands of manufacturing jobs. The QIZ arrangement was explicitly linked to the peace process and American efforts to create regional economic integration.

4. Free Trade Agreement with the US

Jordan later signed the first free trade agreement between the US and an Arab country. This further expanded Jordanian exports and foreign investment opportunities.