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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

THE FIRST INTERIM REPORT OF

THE U. N. ECONOMIC SURVEY (CLAPP) MISSION FOR THE MIDDLE EAST

A SUMMARY AND COMMENTS

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Economic Department

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SUMMARY AND COMMENTS
ON THE FIRST INTERIM REPORT OF
THE U.N. ECONOMIC SURVEY (CLAPP) MISSION FOR
THE MIDDLE EAST^{1/}

I. Introductory Note

1. The recent visit of representatives of the British F.O. in Washington, the conference of U.S. diplomats in the Middle East and the creation and progress of the Clapp Mission, are but various manifestations of the increased interest in the development of the Middle East. The last named activity is of particular importance as it represents historically the first attempt of a coordinated economic development concerning several countries of this underdeveloped and often neglected area. The first interim report of the Mission, dated November 6th, which just became available, contains a program not only for continued relief for Arab Palestine refugees but also for a series of public works in several countries of the area, some of them member countries of the IBRD. As these proposals are bound to affect the economies of the countries concerned and partly involve projects which, at one time or another, have been or presumably will be considered for Bank financing, it seemed advisable to summarize the report of the Mission and to add a few brief comments on points of particular interest for the Bank.

^{1/} One copy of this U.N. report is available in Research Files

II. Summary of the Mission Report

The Problem of the Arab Refugees

2. As a result of the hostilities in Palestine a very large proportion of the population left their homes and took refuge either in other parts of Palestine or in neighbouring Arab countries. According to the estimates of the U.N. Economic Survey Mission the present geographical distribution of Arabs who fled from the sections of Palestine on the Israeli side of the present armistice lines is as follows:-

<u>Area</u>	<u>Number of Refugees</u> (in thousands)	<u>Percent of Total</u>
Arab Palestine	280	39
Egypt	7	1
Gaza	190	26
Iraq	4	1
Jordan	70	10
Lebanon	100	14
Syria	75	10
	<hr/>	<hr/>
	726	100
	<hr/>	<hr/>

This total is increased to 774,000 by 31,000 Arabs and 17,000 displaced Jews who are at present in Israel.

3. As no compensation for the abandoned property has been received by any refugees those who have not been able to gain a livelihood in their new surroundings are completely destitute. It is estimated that out of 774,000 refugees, some 147,000 are self supporting or otherwise provided for. The remainder depends on relief.

Action of the U.N.

4. The worsening plight of the refugees as an obstacle to peace in Palestine prompted the General Assembly of the U.N. in November 1948

a) to appeal for emergency relief, b) to adopt a resolution stating that refugees wishing to return should be permitted to do so and others should be compensated for the loss of property, c) to establish a Conciliation Commission for Palestine to negotiate a settlement between Israel and the Arab States.

5. As no settlement has been reached either in general or with regard to the repatriation of refugees and as the U.N. funds so far subscribed for the feeding of refugees are coming to an end, the U.N. Conciliation Commission for Palestine established on August 23, 1949 the Economic Survey Mission with the following terms of reference:

"... to examine the economic situation in the countries affected by the recent hostilities, and to make recommendations to the Commission for an integrated program;

- (a) to enable the governments concerned to further such measures and development programs as are required to overcome economic dislocations created by the hostilities;
- (b) to facilitate the repatriation, resettlement and economic and social rehabilitation of the refugees
- (c) to promote economic conditions conducive to the maintenance of peace and stability in the area".

6. The Economic Survey Mission assembled at Lausanne on 8 September 1949 and started its work in the Near East on 12 September 1949. The heads of the Mission^{1/} discussed the problems covered in its terms of reference

^{1/} Chairman of the Mission is Gordon R. Clapp (U.S.); Deputy Chairmen are: H. Comil Gokeen (Turkey), Eirik Labonne (France), Sir Desmond Morton (U.K.)

with the members of the governments in Alexandria, Egypt; Baghdad, Iraq; Tel-Aviv, Israel; Amman, Hashemite Kingdom of Jordan; Beirut, Lebanon and Damascus, Syria. The experts attached to the Mission studied in the field the problem of the refugees and the economy of the areas in which the refugees are now centred. The outcome of the Mission's work is contained in the First Interim Report dated 6 November 1949 and as yet unpublished.

Findings and Recommendations of the Mission

7. The Mission has come to the conclusion that the refugees themselves are the most serious manifestation of "economic dislocation" created by the Arab-Israeli hostilities. As the continuing political stalemate in the relations between the Arab countries and Israel precludes repatriation or large scale resettlement in the near future, relief will have to be continued for some time but should be limited to those who are really refugees (at present rations greatly in excess of the justifiable number are being issued) and, in place of relief work should be provided as soon as possible. There are many potential opportunities for useful and productive work in the Arab countries but the resources of the latter are inadequate to finance the cost of putting the refugees to work. The inability of the refugees to find for themselves gainful employment is but a symptom of the need for development of the unused resources of the Near East, where lack of available capital is responsible for much idle manpower. The employment of refugees must be therefore financed from outside sources.

8. In the light of these findings the Mission makes the following recommendations:

a) rations reduced from the present rate of 940,000 to 652,000 should be continued until 1 April 1950 - this would cost \$5.5 million for the first quarter 1950.

b) A program of public works, calculated to improve the productivity of the area and such continuing relief as will be needed should be organised as an integrated operation in cooperation with the governments of the countries where the refugees are located. The works program should begin on 1 April 1950 and be taken over by the countries concerned by mid-1951. Responsibility for the maintenance of the remaining refugees would be taken over by the countries by the end of 1950. The combined relief and works program from 1 April until the end of 1950 would cost \$27 million - the works program for the first six months of 1951 would require \$21.2 million. Out of the total of \$53.7 million (5.5 + 27 + 21.2) approximately 25% or \$13.3 million are estimated to represent the cost of the necessary work materials, tools and equipment. The Mission considers that one half of the latter sum might be supplied by the governments of the countries in which the refugees are now concentrated. This would reduce the amount required from outside sources for 18 months from 1 January 1950 for a program of relief and public works to approximately \$48 million or an average of \$2.7 per month, which corresponds with the present monthly rate of expenditure by the U.N. upon direct relief alone.

c) As none of the organisations^{1/} distributing relief supplies^{2/} at

^{1/} The League of Red Cross Societies, the International Red Cross Committee and the American Friends Service Committee, operating under contract with the United Nations Relief for Palestine Refugees (UNRPR)

^{2/} Supplies were financed from a fund of \$32 million made up, in response to the U.N. appeal, by voluntary contributions of thirty-three governments. This fund is becoming exhausted and will not last through the winter.

present are qualified to administer a works relief program or to negotiate thereon with Near Eastern governments, an agency should be established for this purpose. This agency, located in the Near East should take over the personnel and assets of the UNRPR on 1 April 1950; it should have full autonomy and authority to make decisions within the sphere of activities entrusted to it, to select staff and administer funds.

The Works Relief Program

a) Guiding Principles

9. The program should halt the demoralizing process of pauperization of the refugees and, at the same time, add to the productive economy of the countries concerned; by creating chances to earn a living it should reduce the need for relief and bring its cost within the ability of the Near Eastern countries. It is realized, however, that no government can indefinitely provide special benefits to a particular group, transient in its domain, while there is substantial unemployment among its nationals.

b) Projects^{1/}

10. The main general criterion of selection has been the provision of short term engineering or agricultural projects which would provide opportunities for refugee employment and contribute to the welfare of the different countries, without conflicting with any long term projects formed as the basis for a more complete economic development. Agriculture being considered the principal industry of the Near Eastern countries; conservation of the soil and the better utilization of existing water

^{1/} The part of the Report summarized under this heading is based on two extensive reports, one by Sir Herbert Stewart (U.K.) and associates; the other by William L. Voorduin (U.S.) and associates. (Consultants of the Mission on agricultural and engineering development).

resources were given preference as two directions in which refugee labor can be best employed.

11. The examination of individual projects has been limited to these countries in which substantial numbers of refugees find shelter at present. These territories are Jordan, Arab Palestine, the Gaza strip, Lebanon and Syria. Egypt, having domestic unemployment, offers no opportunity for refugee labor, save in the Egyptian occupied Gaza strip. Iraq and Israel are both engaged in finding work for the relatively small number of refugees within their territories and advised that they do not immediately need external assistance to this end.

12. Jordan and Arab Palestine. The following projects were recommended: highway developments, improvements of Amman airport, afforestation, terracing, irrigation of the Wadi Qilt and general development of the catchment basin of the Wadi Zerqa,^{1/} north of Amman, which includes road building, irrigation and afforestation. It is estimated that 75,000 persons could find work on these projects, mainly in Jordan^{2/}.

13. Gaza Strip. Of the former Gaza district of Palestine, an area of only about 50,000 acres now remains in Arab control in the form of a narrow coastal strip within which 200,000 refugees and 70,000 normal inhabitants are concentrated. Apart from sand fixation of the dunes by the planting of trees and of the asphaltting of roads and installation of drainage systems in Gaza there is no possibility of finding works projects in this small area. The maximum employment provided by these works would

^{1/} None of these projects is mentioned specifically in the British F.O. plan for the Middle East, but they seem to fit well into the general development scheme of this country.

^{2/} In Jordan some additional funds are available from an interest free £1 million loan recently granted for development projects by the U.K.

be 2,300.

14. Lebanon. As the Lebanese government did not wish to concentrate on employment of refugees on projects closely identified with the land^{1/} the Mission concentrated in that country on engineering works projects. The following projects were recommended: Irrigation and drainage in the South Beqaa, irrigation of the Akkar Plain, completion of the Tyr-Saida Irrigation Project^{2/} irrigation of coastlands south of Tripoli with underground water and development of water supply systems for several villages. Some 8000 people could be employed on these projects.

15. Syria. Projects of the following type were considered: terracing of an area of land up to 200,000 acres, 60% of which would be afforested and the remainder used for growing fruit trees; construction and improvement of roads linking the most important towns; reclamation of the Madkh swamp^{3/} improvement of the Mezze Airport; construction of the Latakia harbour^{4/} and works for the Aleppo water supply^{5/}. These

^{1/} The attitude of the Lebanese government can probably be explained by the fear that it may become difficult at a later date to remove refugees from land which they already had started to cultivate. While the Lebanon already suffers from overpopulation, there is also a reluctance to admit new settlers, who might upset the existing delicate balance between Christians and Moslems.

^{2/} These three projects have been originally considered by the Lebanese Government for financing by the IBRD and are also mentioned in the British F.O. plan for the Middle East under first priority projects.

^{3/} These projects are of a type recommended by the British F.O. plan for the Middle East.

^{4/} Included in the scheme submitted unofficially by Syria for consideration of IBRD financing and also mentioned in British F.O. plan for the Middle East under second priority projects.

^{5/} Mentioned in British F.O. plan for Middle East under first priority projects

projects would provide actual employment for some 15,000 people.

c) Financing

16. The following table shows the estimated cost of the total program and indicates the contributions expected from the U.N. and from the local governments.

Estimated Cost of Program
(in millions of dollars)

Estimated cost of:-	1950				1951		Total
	I	II	III	IV	I	II	
1. Direct relief	5.5	5.1	4.5	3.9	-	-	19.0
2. Work schemes:							
(a) Labour and administration -		0.9	2.8	4.6	6.2	6.9	21.4
(b) Materials, tools and equipment -		0.6	1.8	2.8	3.8	4.3	13.3
(c) Total cost to United Nations and local governments -		1.5	4.6	7.4	10.0	11.2	34.7
(d) Less 45 per cent of Item 2(b), assumed to be made available by local governments -		0.3	0.8	1.3	1.7	1.9	6.0
(e) Cost to United Nations -		1.2	3.8	6.1	8.3	9.3	28.7
3. Direct relief and work schemes:							
(a) Total cost to United Nations and local governments	5.5	6.6	9.1	11.3	10.0	11.2	53.7
(b) Less item 2(d), assumed cost to local governments -		0.3	0.8	1.3	1.7	1.9	6.0
(c) Cost to United Nations	5.5	6.3	8.3	10.0	8.3	9.3	47.7

III. Comments

The Program as an Instrument for Solving the Problem of Refugees

17. There can be little doubt that from a moral, social, political, economic and every other point of view the principle underlying the Mission's program of "less relief and more work" is sound and promises a certain improvement of conditions. Before any criticism of the program is made, it is only fair to consider that the action proposed is probably

the only one which can be taken within a short time and with the limited means available.

18. Israel is not willing, at present, to allow the Arab refugees to return and, with regard to the bulk of these refugees, this attitude will hardly be changed in the future. The Arab countries are not willing to resettle the refugees, some of them because of the already existing overpopulation, all of them in order not to concede a point to Israel by legalizing the existing fait accompli. The refugees themselves - as the Report stresses - "do not take kindly to moving again, unless it be a return to their homes", which attitude does not facilitate resettlement in suitable areas, even if such areas should be found. It follows, that for all practical purposes the refugee problem is completely deadlocked at present. While it cannot be held against the Mission that their program does not solve an insoluble problem, it appears somewhat unrealistic (though psychologically understandable) that the Report not only should not admit this explicitly, but by setting several, fairly near, deadlines after which the countries concerned will be expected to carry on without further assistance, should give the impression that the works relief program would basically change conditions in this area. To what extent such expectations are justified or not can only be said after a consideration of the economic effects of the proposed program.

Effects of the Proposed Program on the Economies of the Countries Involved

a) Foreign Exchange Position

19. At present some of the relief food for the refugees is imported, while the rest is purchased locally against foreign exchange, a large proportion of which are dollars. By reducing the total amount of rations

and by shifting 50 per cent of the capital costs of the works on the local governments, the Mission hopes to finance an increasing volume of public works with the same amount of external financial assistance as has been applied until now for straight relief. As foreign funds spent on food will decrease in proportion to the larger amounts spent on wages, the countries concerned will receive less aid in kind (imports of relief food) and more in foreign exchange which will be used for purchases of local currencies. Such a development may have a favorable influence on the countries' balance of payments without necessarily contributing to a scarcity or increased prices of food, but it must be expected that a substantial part of the additional foreign exchange receipts will be used for imports of food and other consumer goods required to cover local deficiencies.

b) Public Finance

20. Little is known about the financial position of Arab Palestine and of the Hashemite Kingdom of Jordan, which are not members of the IBRD. As far as Lebanon and Syria are concerned, their governments have spent considerable sums on relief for the refugees, before the U.N. action started, and continue to spend smaller amounts on shelter and health services^{1/}. According to the proposed program their expenditure is supposed to increase in three ways: by providing 50 per cent of the equipment needed for the works program beginning 1 April 1950; by taking over the responsibility for the remaining relief from 1 January 1951; by taking over the entire public works program from 1 July 1951. There is a certain danger that this increased expenditure may be financed by methods which will have an inflationary effect. Syria's budgetary position

^{1/} The burden of supporting refugees by various countries can be illustrated by the relation of the number of refugees to the normal population of the various countries. In Syria refugees represent an addition to the population of some 2.5%, in the Lebanon 9%, in Jordan some 20% while in the strip of Gaza they exceed the number of local inhabitants almost three times.

seems somewhat precarious already and while the Lebanese Government has more reserves, the number of refugees in the latter country is larger (in relation to the total population as well as in absolute figures) and the financial burden involved will, therefore, be heavier.

21. The immediate impact of the program will consist of increased public expenditure of the countries concerned. The Report says that: "the chance" (for the refugees) "to earn a living will reduce the need for relief and bring its cost within the ability of the Near Eastern countries to meet without United Nations assistance". But since financing of work on public investments costs more than maintaining unemployed refugees on a subsistence level, the local governments will in fact have to spend more than they are spending now. In addition it should be kept in mind that none of the selected projects is of a self liquidating character and none of them will provide any substantial revenue to the governments in the near future. While terracing, afforestation and swamp drainage are doubtless desirable and even necessary investments, no quick returns or revenues can be expected from them^{1/}.

22. The Mission must have been aware of this basic weakness of its program, although no such admission is contained in the interim report. It can only be hoped that the final report of the Mission (which is to be issued early in 1950) will propose further measures to follow the relief

^{1/} While many of the selected projects do not appear to be either among the most profitable or the most urgently needed, they are projects which can be initiated without delay; none of them would endanger the undertaking of the economically more justified but also more costly development schemes of which we have knowledge.

works program. Such measures presumably would include larger, long term investments, of the type discussed recently between the Bank and representatives of the British Foreign Office and capable of increasing permanently the productive resources and employment capacity of the area.

c) Prices

23. Insofar as the increased purchasing power of the working refugees may not be offset by increased supplies of food and consumer goods there is a certain danger of price increases in the countries concerned, but this appears of slight importance, except perhaps in Syria and Lebanon where the competitiveness of export goods is already seriously impaired by the existing high price and cost structure.

Conclusions

24. While the Mission's report is an admirable attempt to improve conditions of the refugees in the near future it can hardly be regarded as more than a temporary "patching up" of a problem which can only be solved either by repatriation of the refugees or by their resettlement, which would have to take place largely outside the areas in which they are centered at the present time. Until one of these alternatives materializes, relief or relief works, partly financed from outside, will have to continue, perhaps well beyond the dates set by the Report.

The effects of the relief works program on the economies of the countries concerned promise to be beneficial only in the more distant future and their realization requires both continued foreign assistance at the present rate and greater contributions by the countries concerned. According to the manner in which the program is implemented it may lead to higher taxation or to inflationary pressures.

It is worth noting, however, that the Mission's program in no way jeopardizes the more ambitious but also more promising investment projects of the area.