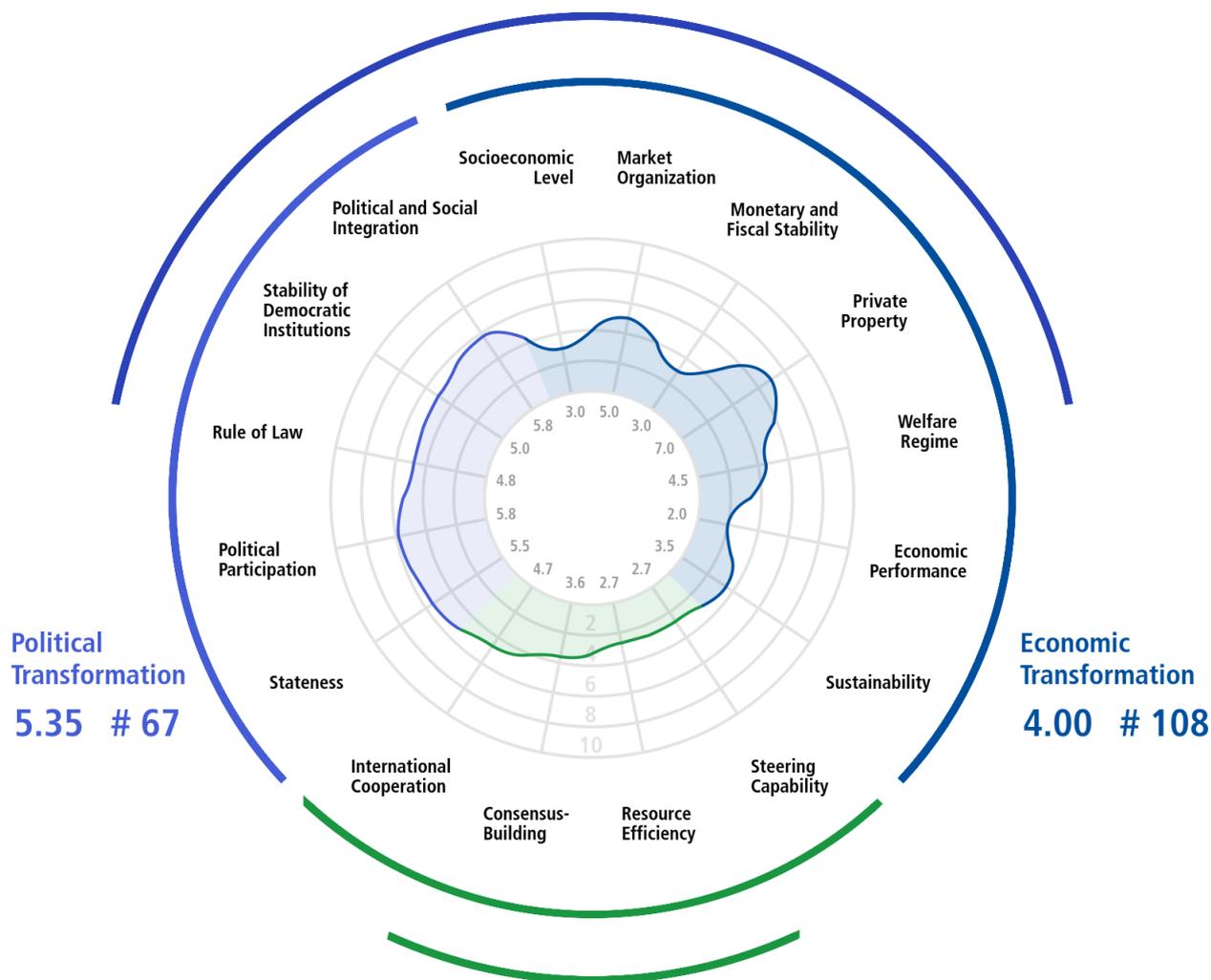


Lebanon

Status Index

4.68 # 88

on 1-10 scale out of 137



Political Transformation
5.35 # 67

Economic Transformation
4.00 # 108

Governance Index

3.05 # 118

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2022**. It covers the period from February 1, 2019 to January 31, 2021. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at <https://www.bti-project.org>.

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Key Indicators

Population	M	6.8	HDI	0.744	GDP p.c., PPP \$	12289
Pop. growth ¹	% p.a.	-0.4	HDI rank of 189	92	Gini Index	31.8
Life expectancy	years	78.9	UN Education Index	0.604	Poverty ³	0.1
Urban population	%	88.9	Gender inequality ²	0.411	Aid per capita \$	222.5

Sources (as of December 2021): The World Bank, World Development Indicators 2021 | UNDP, Human Development Report 2020. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 a day at 2011 international prices.

Executive Summary

The two major socioeconomic and political developments between February 2019 and January 2021 that shaped Lebanon's transformation were the breakdown of the economy spearheaded by the fall of the financial sector and the emergence of a social opposition movement to the sectarian regime. Both developments gained momentum in the second half of 2019 but deeply shaped affairs throughout 2020 and beyond. The Lebanese financial sector, whose performance rests on the complex interplay of the central state, the Lebanese central bank, Banque du Liban, and the private banks affiliated with the Association of the Banks in Lebanon, has been the backbone of Lebanon's dollarized economy for decades. As a result of massive capital flight of major depositors, which was inter alia triggered by decreased capital inflows to Lebanon, a bank rush occurred in the second half of 2019. The banking sector responded with an unregulated capital control on dollar cash flow. Parallel to the economic crisis, nationwide mass protests of unprecedented magnitude challenged the ruling regime and with it the legitimacy of Lebanon's sectarian system based on rent-seeking, crony capitalism, and a corruptive nexus between the closely tied political and economic upper echelons of the society. Some of the most pertinent slogans of the protest movement such as "All of them means all of them" and "Revolution" clearly indicated the conviction that the entire political class is incapable of launching structural reforms.

The depletion of foreign currency reserves and the de-dollarization of the economy had devastating effects on the socioeconomic system. The highly import-dependent economy showed supply shortages, and inflation increased strongly after October 2019. In May 2020, it reached 56.5%, thereby exceeding the commonly applied threshold for hyperinflation of 50%. In June the inflation rate exceeded 100% for the first time. Between August and October 2020, it fluctuated between 120 and 137%. Standards of living strongly declined, and segments of lower income strata faced harsh impoverishment. Many of those who had the necessary financial means and educational qualifications to find an occupation in the Global North started preparations to leave the country if they had not already migrated.

Helpless, Prime Minister Saad Hariri resigned in late October 2019 and was succeeded by Hassan Diab in January 2020. The government of Diab, who is not a member of the upper echelons of Lebanon's political class, showed low governance performance in the wake of Lebanon's biggest crisis after the end of the civil war in 1990. This is partly due to a lack of structural reform initiatives but also to obstruction policies from various segments of the political class and crucial state agencies. Diab resigned in the wake of the Beirut explosion of August 4, 2020, when large quantities of ammonium nitrate that had been inappropriately stored in Beirut's Port since 2014 exploded, causing more than 200 deaths, 7,500 injuries and property damages worth \$15 billion and, according to some sources, leaving up to 300,000 people homeless. In October 2020, the parliament designated Saad Hariri again as prime minister, but he did not succeed in forming a government.

Lebanon has been among the apparently few countries that managed the first wave of the COVID-19 pandemic between March and June 2020 relatively soberly, with a lockdown starting as early as March 15. However, due to the overall deteriorating living conditions, accelerated by the August 4 explosion, citizens started to neglect compliance with the required hygiene measures and the government did not set further preventive policies in place. In consequence, COVID-19 infections strongly increased during the second wave and continued to rise until the end of this report's assessment period.

Although the social opposition movement vehemently demanded structural economic and political reforms and progress in terms of good governance, Lebanon's transformation to a democratic polity and a sustainable market economy was heavily set back in 2019 and 2020. There were no indicators in early 2021 that the ruling political class would be willing and capable of altering course.

History and Characteristics of Transformation

The regime preceding the current one was shaped by the 1975 – 1990 civil war. The conflict resulted from the confrontation of militias that oriented themselves along sectarian lines in order to best gain political legitimacy and economic support in the Lebanese social system, which is characterized by segmentation along the lines of 18 officially recognized religious groups. Lebanese sectarianism traces back to the politicization of sectarian affiliations during the French colonial rule, which superseded the Ottoman rule in 1923. Sectarianism became deeply institutionalized through a Christian-Muslim power-sharing arrangement – the National Pact (1943) – which paved the way for Lebanese independence that same year.

The civil war further reinforced characteristics of Lebanese sectarianism with a lasting effect on several levels. On the sociopolitical stage, the state lost autonomy and became increasingly dependent on authoritarian leaders who were war opponents but also built and switched alliances with one another. Some of the major actors in the war were classic warlords, including Samir Geagea, who currently heads the Lebanese Forces. Others were state bureaucrats such as the

incumbent President Michel Aoun, who was an officer in the Lebanese army when the war started and was appointed general and commander of the Armed Forces in 1984. In addition, some civilian politicians became deeply involved in the civil war, including the lawyer Nabih Berri, who has been president of “Amal” since 1980. Amal was then a Shia militia that became a political party after the civil war. Some heads of political parties were sons of the founders, for instance incumbent president of the Progressive Socialist Party, Walid Jumblatt. After the war, the state remained in the hands of political leaders who in one way or another made their political careers in a brutal civil war. Hence their policy orientation is top-down, thereby inhibiting a democratic political culture. The transformation of war actors into civilian politicians has not altered the sectarian direction of Lebanese political parties in favor of programmatic political contestation, too. Also, after the end of the war political alliances tended to be built and switched according to strategic reasons rather than with regard to political content. Moreover, postwar Lebanese politics were still shaped by high rivalry between authoritarian-minded leaders, which profoundly complicated decision-making processes and frequently even paralyzed the entire political system. As all political leaders learned that they could not dominate politics on their own, the otherwise heterogeneous political class of Lebanon became unified in defending its privileges vis-à-vis political and social opponents. The general amnesty law of 1991 marked the first milestone of this unity.

The civil war also had a lasting effect on Lebanon’s political economy. Militia activities including civilian economic transactions through militia-controlled ports were nourished by financial networks that brought in petrodollars through their transnational linkages. One of these financial networks was run by Amal. However, the most powerful financial empire was built from scratch by Lebanese-born Rafiq Hariri, who became a multi-billionaire in Saudi Arabia. During the civil war he heavily invested in the Lebanese banking sector but also in a wide spectrum of politically motivated activities ranging from philanthropic to militia-related ventures in order to create clientelist networks. He used his transnational ties and close relationship with the Saudi royal family to funnel petrodollars on a large scale to Lebanon and to acquire acknowledgment as a politician trusted by Western powers. The financial networks created during the war remained the cornerstone for the reconstruction of Lebanon. The high influx of petrodollars from abroad already had turned Lebanon into a rentier economy during the war. The rationale of the postwar political economy was to expand the constant influx of petrodollars and political rents such as Official Development Aid and soft loans.

The civil war widened the foreign interference that Lebanon, after independence, had already experienced mainly through a U.S. military intervention in 1958. During the civil war, continuous U.S.-American interference (mostly indirect) expanded as two regional powers became major players on the Lebanese battlefield: Syria and Israel. Moreover, the Islamic Republic of Iran created and supported Hezbollah, whereas Saudi Arabia exerted influence through the deployment of petrodollars.

The end of the civil war, which was negotiated in the Saudi Arabian town of Ta’if, further intensified external interference, thereby also giving international legitimacy to a corrupt sectarian system and the transformation of war actors into political parties with no attempts to

launch a reconciliation process between the perpetrators and victims of war crimes. All four regional powers also intervened heavily after the end of the civil war. Israel ended its military presence in South Lebanon only in 2000 but waged another full-fledged war on the country in 2006. Syria abused the role it was admitted in the Ta'if agreement by establishing an occupation that only ended in the wake of the so-called Cedar Revolution in 2005, which was triggered by the assassination of former Prime Minister Rafiq Hariri. Thereafter Lebanon increasingly became an object of contention between Saudi Arabia and Iran rivaling for regional hegemony in the Middle East.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

Transformation Status

I. Political Transformation

1 | Stateness

Lebanese state security forces mainly consist of three pillars: the Lebanese Armed Forces (LAF), the police headed by the Internal Security Forces Directorate (ISF), and the intelligence service directed by the General Security (GS). Other state intelligence agencies include the Lebanese State Security (LSS), which is attached to the president and the prime minister, and the intelligence unit of the ISF, the Information Branch. Lebanese security forces are deeply embedded in the sectarian system as the commander of the LAF traditionally is a Maronite Catholic Christian. The ISF and the GS are headed by a Sunni and a Shia, respectively, whereas the LSS is directed by a Melkite Greek Catholic. What adds to the already complex institutional structure of the Lebanese security forces is the existence of para-state actors, the by far most powerful of which are Hezbollah forces.

As Hezbollah has become a major actor of the ruling regime in the current century, its formal status as a non-governmental organization does not necessarily imply that it weakens the state's monopoly on the use of force. Rather, the organization is the dominant actor in the realm of security in the south of Lebanon including parts of Beirut. Like state actors such as police forces and the army, Hezbollah provides security but at times also threatens security of people.

Occasionally Western supported campaigns to disarm Hezbollah are launched. State security forces and Hezbollah sometimes cooperate in counter-terrorist operations, yet, due to Western distrustfulness toward Hezbollah and the interest of state security forces to camouflage their relative ineffectiveness vis-à-vis Hezbollah, mostly tacitly. Recent terrorist threats to Lebanon were mainly a result of spillovers from the Syrian civil war as the Islamic State (IS) group and the Nusra Front deployed fighters in Aarsal, a small town in the northeast of Lebanon close to the Lebanese-Syrian border. Only after six years Lebanon succeeded in gaining back full territorial sovereignty in 2017 through major strikes against the Nusra Front and the IS. The last major terrorist attack directed against civilians committed by the IS

Question
Score

Monopoly on the
use of force

5

'06 '22 10



1

happened in 2015 in Beirut's southern suburb Bourj el-Barajneh, a stronghold of Hezbollah. Yet, presumably IS members assassinated three municipal guards in the northern village Kaftoun in August 2020 and two soldiers at Arman-Miniyeh, an army post north of Beirut.

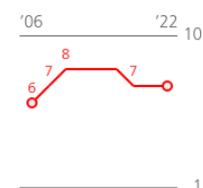
Palestinian armed groups rather than Lebanese forces are security providers in the 12 Palestinian refugee camps run by the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA). However, since the withdrawal of the PLO as a result of the 1982 Lebanon War, the use of force has in principle not been contested anymore. Since the Palestinians are not Lebanese citizens and very badly integrated into the socioeconomic system, the Lebanese state has no genuine interest in implementing the use of force in the camps as long as the Palestinian forces do not challenge the state monopoly beyond the camps. The latter condition is fulfilled since 1982 when the Palestinian forces ceased to be an actor in the civil war.

Since the end of the civil war, there are no influential political groups anymore that question the legitimacy of the Lebanese nation-state. That notwithstanding the sectarian system promoted attitudes of prioritizing loyalty to one's sectarian group over the nation-state. However, the 2019 – 2020 protests that on some days mobilized over one million people are an impressive proof that the Lebanese society has largely emancipated itself therefrom. As a result of effective self-regulation, protesters waved only the national flag whereas flags of sectarian political parties that are usually highly present in political rallies were banned. Contrary to former times, mass demonstrations were held all over the country and people showed their solidarity for the victims of state force in other areas of the country across all sectarian groups.

Statelessness is a severe problem in Lebanon because persons concerned are excluded from public services such as health care and education. Traditionally there are three major groups that are affected by statelessness: Palestinian refugees from the 1947 – 1949 Palestine war, persons who were prevented from registering in the 1932 census and their descendants (for instance many Bedouins), and, since citizenship transmits only through the father, the descendants of Lebanese women who are not married to a Lebanese man. Another group possibly currently in the making are children of Syrian refugees whose parents have no papers (and only have vague perspectives to return to their homeland). All the groups mentioned have low, if any chances of getting naturalized. This also applies to migrant workers who live in Lebanon under the kafala (sponsorship) system.

State identity

7



1

Although the sectarian system does not at all constitute a secular state, religious dogmas do not play a significant role in political and legal institutions. Political conflicts are rarely portrayed as based on religious cleavages. The relationship of the religious leaderships of the 18 officially recognized sects is shaped by Abrahamic thinking and mutual respect. It is good form that heads of religious groups congratulate their fellows on the occasion of major holidays. There are also many examples of interreligious relations on the grassroots level, for example Shia pilgrimage to sites attributed to the Virgin Mary. The state supports the co-existence of religions in Lebanon not only by symbolic policies such as a sophisticated system of public religious holidays but also by granting them power privileges, including far-reaching competences in personal status law such as marriage and divorce. Both men and women of most Christian denominations face difficulties to get granted a divorce, even for a victim of domestic violence. Women are also highly discriminated against in terms of custody rights: As custody reverts to the father – the age varies among different religious groups and the sex of the child from two to 15 years – Muslim women are highly discriminated at because it is easy to get a divorce for a man whereas for women it is not. On January 3, 2020, activists demonstrated in front of the Shi'i Jafari court in Tyre and a day later in front of the Supreme Islamic Shi'a Council in south Beirut and demanded to change custody regulations.

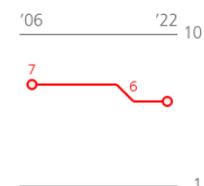
The KAS PolDiMed 2020 survey revealed that 77% trust their local mosques and churches, respectively, whereas the government and the parliament are only trusted by 26% and 19%, respectively. As members of the political class normally attempt to consult their respective religious authorities in order to get their blessing, they have a certain but rarely significant political influence. When they interfere in politics, it is mostly done in accordance with their political leadership. Thus, in December 2020, the Grand Mufti assisted Saad Hariri in his protest against judge Fadi Sawan's decision to summon caretaker Hassan Diab for investigating his role in the August 2020 explosion when Diab was prime minister.

Apart from personal status law, it is the Lebanese state that provides jurisdiction. However, both grand and petty corruption are reported to be widespread in the judiciary. As in the Mashreq in general, the tax system suffers from relatively high reliance on socially indiscriminatory Value Added Tax (VAT), whereas direct taxation is rather inefficient. As tax collection across the Lebanese territory is not sufficiently enforced, evading taxes while utilizing public goods is rather common.

The public sector provides basic infrastructure such as water and electricity, yet supplies are intermittent with high regional variations. For instance, Beirut and its suburbs are cut off from public electricity supplies only three hours per day, whereas many areas of Mount Lebanon, the Beqaa and in the North suffer from cuts up to eight hours a day. The negative impact that the civil war had on the public health sector has not been fully rehabilitated; rail transport, which seized to operate

No interference of religious dogmas

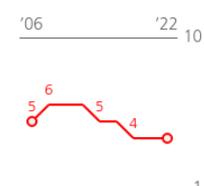
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1

Basic administration

4



1

during the civil war, was not resumed. For all sectors the private sector offers solutions, and private secondary and tertiary education as well as private health in Lebanon are among the best in the Middle East. However, the supplies of the private sector are only to a lower degree, if at all affordable to lower income groups. According to estimates, more than half of the population does not have access to regular health care.

Services in infrastructure have not been affected due to COVID-19. However, as a result of the socioeconomic crisis and a severe shortage of U.S. dollars as well as the emigration of professional health care personal, Lebanon became increasingly ill-prepared to deal with increasing numbers of infections at the end of 2020 and early 2021.

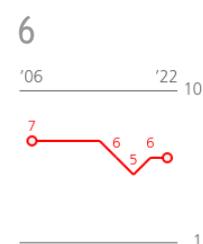
2 | Political Participation

Lebanon's electoral system is embedded in the sectarian system. In modification of the 1943 National Pact, which distributed seats in the parliament between Christians and all other religious groups with a ratio of 6-to-5, the Ta'if agreement secured the Christians 50%, who are thereby strongly overrepresented in the parliament. The election laws of 2008 and 2017 brought the electoral system closer in line to democratic standards. The 2017 electoral law introduced a proportional system, reduced the number of electoral districts and allowed emigrated Lebanese to vote from their country of residence. However, severe problems remain, in particular with regards to limitations of the proportionality principle introduced in 2017. As their political capital is perfectly tailored to the sectarian system, the established political parties triumphed also in the last elections that were held in 2018 and ended a period in which the Lebanese parliament lacked democratic legitimacy, as elections were due already in 2013. Improvements of the electoral law 2017 secured that elections as such were held mostly fair. In particular vote trafficking, widespread in 2009, was significantly reduced although not fully eradicated. However, election fairness with regard to campaigning is questionable, particularly in terms of transparent financing and equal access to media.

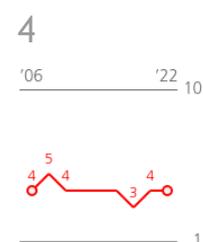
The political leaderships of the major sectarian parties enjoy de facto veto power. Formal institutions contribute to this outcome. In particular, the constitution prefers consensual decision-making in the cabinet. Basic issues such as the state budget and the appointment of state employees require a two-third majority. If one third of the cabinet members withdraw, it is considered resigned. However, in many cases this does not imply that the ministers are particularly powerful because they are subordinated to their party leaderships, who often do not hold public offices.

The political hegemony of sectarian leaderships beyond formal institutions became manifest during the reign of Prime Minister Diab. Diab succeeded Hariri, who stepped down in the wake of the Lebanese mass protests in October 2019, took

Free and fair elections



Effective power to govern



office in January 2020, and stepped down again in August after the Beirut explosion. The socioeconomic crisis further deepened during his reign, as he failed to launch structural reforms. His initiatives to lay the foundations for effective crisis management were mostly blocked by the parliament. For instance, the proposed capital control law that would have been a prerequisite for urgently needed IMF support did not pass the parliament in July 2020. However, this outcome has been interpreted as matching the intentions of the political establishment: Diab, who did not get substantial support by the establishment during his reign, served as a scapegoat to the sectarian leaderships for the escalating socioeconomic crisis. At the same time, Diab and his cabinet were functional in weakening and disuniting the opposition to the regime because state institutions were now run by a figure who claimed to be an effective reformist technocrat. Another indicator for this interpretation is that President Aoun, after consultations with the parliament, consigned Hariri to once again form a government, one year after his resignation as prime minister.

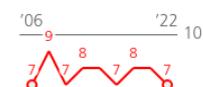
Article 13 of the constitution explicitly guarantees freedom of assembly and association. Lebanon's civil society is the most vibrant in the Arab world. It includes organizations that advocate LGBTQ+ rights, which is rare in the Middle East. Although the Lebanese penal code vaguely criminalizes non-heterosexual intercourse by sanctioning sexual activities "against the nature," LGBTQ+ activities are mostly tolerated. However, members of LGBTQ+ movements are often harassed. The LGBTQ+ movement participated in demonstrations in October 2019 and beyond.

In the wake of the 2019 – 2020 protests, the regime frequently violated citizens' rights of assembly, particularly by using disproportionate force including beatings and using excessive tear gas. Armed regime thugs and state security forces also unlawfully attacked protesters.

Freedom of assembly was restricted under COVID-19 regulations but demonstrations with more or less applied measures of physical distancing took place, for example on October 17, 2020, the first anniversary of the anti-sectarian demonstrations. Thereby demonstrators make it a point not to ask for permission as this would give legitimacy to the ruling regime. On January 28, 2021, state security forces shot at protesters demonstrating in Tripoli against strict lockdown measures in the wake of a crumbling economy. One man died.

Association /
assembly rights

7



1

Lebanon's constitution guarantees freedom of expression within legal limits. In particular, defamation against public officials, insulting the president and offending religious rituals are criminalized.

Lebanon enjoys a highly pluralistic media landscape, which is, however, deeply embedded in the sectarian system. TV stations are closely associated with political parties and their leaders, for example Future TV with Hariri's Future Movement, al-Manar TV with Nasrallah's Hezbollah, NBN with Berri's Amal, and OTV with Aoun's Free Patriotic Movement. However, independent anti-sectarian digital platforms such as Megaphone boomed in the wake of the 2019 – 2020 crisis.

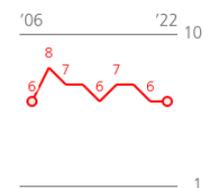
Lebanon's civil society makes intense use of the guaranteed freedom of expression and has generated independent organs. However, since the "You Stink" protests of 2015 and intensified since the 2019 – 2020 anti-sectarian social movement, Lebanese authorities have increasingly applied the legal limitations of freedom of expression to constrain speech. Moreover, it was reported that state and regime forces frequently harassed journalists, including verbal insults and beatings at demonstrations of the 2019 – 2020 protests. On July 13, 2020, the Coalition to Defend Freedom of Expression in Lebanon, which consists of 14 Lebanese and international organizations, was formed to oppose official attempts to constrain freedom of expression. The coalition accused Lebanese authorities of having used improper physical and psychological interrogation methods tactics against at least 60 persons. It was reported that at least 14 journalists were assaulted or shot at while covering protests triggered by the Beirut explosion in August 2020.

3 | Rule of Law

A complex interplay between informal and formal institutions ensures that none of the sectarian groups can be marginalized. Although the allocation of political posts according to the National Pact is not binding, its stipulations – that the president of the republic and the commander of the army be Maronite Christians, the prime minister be a Sunni Muslim, the speaker of the parliament be a Shi'a Muslim, the deputy prime minister and the deputy speaker of parliament be Greek orthodox Christians, and the chief of staff of the army be a Druze – are highly respected. There are also constitutional checks and balances. Since the Ta'if agreement, which ended the civil war, the power of the president has been curtailed. For instance, the president must consult the parliament before nominating the prime minister, and the prerogative of appointing state employees was passed to the cabinet. The latter feature also checks the power of the prime minister. In the light of the dominant pattern of national unity governments in postwar Lebanon, the powerful role that the constitution assigns to the cabinet implies that the major sectarian groups control consolidated means to maintain a role in Lebanese power politics. As the judiciary is deeply affected by the sectarian system, its contribution to the Lebanese system of checks and balances is limited. Individual judges and attorneys attempted

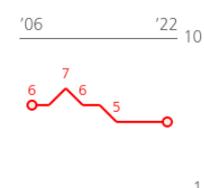
Freedom of expression

6



Separation of powers

5



to perform independent governance but this proved to be mostly ineffective. Overall, checks and balances exist but are effective mainly through their embedment in the sectarian system. Due to the high tensions between the political parties of the sectarian system, decision-making processes are highly ineffective.

COVID-19 related policies that concern developments from a democracy and human rights perspective were taken. Lockdown measures restricted civil liberties, social rights and equality, freedom of association and assembly among others but according to The Global State of Democracy Indices, in none of these fields is Lebanon a low performer. Rather it is a mid-range performer.

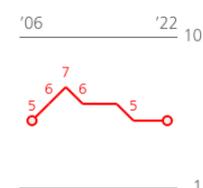
The independence of the judiciary is restricted in Lebanon. As is shown by the advocacy organization Legal Agenda, the executive branch and sectarian groups interfere in the judiciary mainly via the State Council regarding the administrative judiciary and through the Supreme Judicial Council concerning the judicial judiciary. The establishment of an independent judiciary was also a demand in the 2019 – 2020 protests. On June 10, 2020, protesters gathered in front of the Palace of Justice to specifically address this issue. Moreover, the state also used military courts to put protesters on trial. As many lawyers of these courts are appointed by the defense minister, they do not fulfill the criterion of independence of the judiciary. Military courts also do usually not provide the accused with a fair trial.

The principal limitations of the independence of the judiciary notwithstanding, there are cases of judges who act independently. A spectacular case was that then caretaker Prime Minister Diab who had stepped down in the wake of the Beirut explosion was charged on December 10, 2020, with criminal neglect over the blast by judge Fadi Sawan who was consigned to investigate the case. On the one hand, the harsh criticism that Sawan received from Hariri, the Grand Mufti, and Hezbollah proves that he acted independently. On the other, the case also reveals limits of the independence and effectiveness of Lebanon's judiciary. First, Sawan did not dare to summon other potentially politically responsible personal although the improper storage of the chemicals happened already in 2014. Second, Diab simply refused to be questioned.

Both grand and petty corruption are endemic in Lebanon. Political and social movements critical of the regime such as Beirut Madinati very often attribute corruption to the sectarian system as such. Also, the 2019 – 2020 Lebanese protest movement identified corruption as one of Lebanon's core issues. However, in not rare cases the term is used as a catch-all expression to signify harmful externalities of regime policies in general. For instance, the fact that the chemicals that triggered the Beirut explosion had been inadequately stored for six years was often diagnosed as an outcome of corruption instead of criminal neglect. Due to Lebanon's highly nontransparent system and the prevalence of deals beyond formal institutions, specific cases of corruption are difficult to prove. This implies, however, that prosecution of corruption rarely happens in Lebanon.

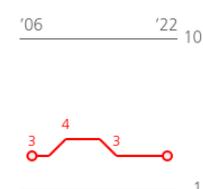
Independent judiciary

5



Prosecution of office abuse

3



On October 23, 2019, judge Ghada Aoun charged former prime minister and billionaire Najib Mikati over illicit gains. However, it is opaque and subject to speculation whether the judge's intervention was driven by pure judicial motives. In any case, Aoun's intervention led to nothing. In December 2020, Aoun summoned the head of Lebanon's central bank (LCB), Riad Salamé, to question him about the waste of subsidized U.S. dollars. At the end of January 2021, Aoun charged Salamé with dereliction of duty and misuse of millions of dollars meant to support basic needs of needy people.

Measured by standards of the Arab world, Lebanon performs very well in terms of guaranteed and protected civil rights for its citizens. Yet there are limits. On the basis of 32 reviewed torture complaints, Amnesty International reported in November 2020 that Lebanon largely failed to properly implement its 2017 anti-torture law. Violations of the principle of accountability included the pattern to leave investigation to the same state agencies that were accused of having committed practices of torture. In August 2020, Human Rights Watch reported on sexual discrimination in Lebanon. For instance, transgender women in Lebanon are exposed to violence and discrimination in accessing basic services such as education and health care.

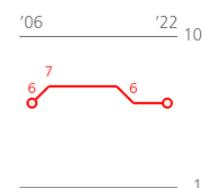
In November 2019, the parliament attempted to pass an amnesty law. Parliamentarians argued that this law would meet the demands of people in impoverished areas who faced charges over petty crimes. Yet the law also would have pardoned serious misconduct committed by public officials. As demonstrators succeeded in blocking the entrance to the parliament, the session was postponed. The parliament made another attempt to pass the law with some amendments that were supposed to specify groups to be included and excluded. However, no consensus could be reached.

Non-citizen groups, in particular Palestinian and Syrian refugees, are frequently exposed to arbitrariness and discrimination by the authorities. Migrant workers from Asia and Africa, many of whom are stripped of their rights by their employers, have hardly any chances to take action against them because the sponsorship system leaves them with few rights.

In September 2020, COVID-19 spread at a high pace in Lebanon's largest prison, Roumieh, which is – not the least due to sentences for petty crimes – overcrowded and thus leaves inmates with little leverage. Inmates rioted to protest the conditions to which they are exposed.

Civil rights

6



4 | Stability of Democratic Institutions

The democratic institutions of Lebanon are embedded in and deeply affected by a sectarian system that does not match democratic standards. The highly segmented political class of Lebanon is headed by leaders who are not an outcome of democratic procedures. Claims to adhere to democratic values notwithstanding, the authoritarian leaderships of political parties effectively block inner-party democracy. However, due to segmentation along sectarian lines, the top echelons of the political class use democratic institutions to settle their notoriously deep conflicts. At the same time, they are united in warding off attempts of genuine democratization.

Democratic institutions – including political parties, the religious establishment, and the military – are accepted by the regime as long as they are instrumental for their rule. Associations of civil society and the demonstrators in the Lebanese protests 2019 – 2020 also accept democratic institutions but strongly oppose their instrumentalization by the political class.

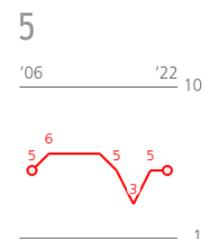
In the end, the reality of Lebanese politics is more complex and its commitment to democracy tenuous: Most actors consider the continuation of the status quo a necessary condition for the preservation of stability and security, which in doubt trump democratic accountability. The willingness of most political actors to refer to armed groups if necessary, speaks to this and further undermines Lebanon's democratic record.

5 | Political and Social Integration

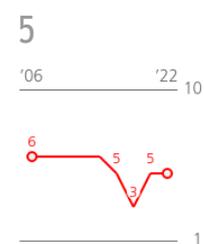
Regardless of their outlook toward religion in politics, the main political parties are de facto as stakeholders of specific sectarian groups. The main Christian parties are the Free Patriotic Movement headed by Gebran Bassil and the Lebanese Forces led by Samir Geagea. The major Sunni party is the Future Movement chaired by Hariri. Hezbollah, whose secretary-general is Hassan Nasrallah, and the Amal Movement, chaired by Nabih Berri, are Shi'a parties. Finally, the Progressive Socialist Party is a Druze party led by Walid Jumblatt. All these parties attempt to bind their constituency through clientelist practices rather than political programs. Until the recent past, they were capable of mobilizing their followers in rallies. However, the established political parties were de facto banned from the 2019 – 2020 Lebanese protests. The slogans of the demonstrators such as “All of them means all of them” or simply “Revolution” were explicitly directed against the regime and their representatives.

The party system is highly fragmented. Due to the consensus-oriented political system this leads on the one hand to notoriously long and inefficient decision-making process. On the other hand, the various segments of the political class stand together when their legitimacy is challenged as was the case in the 2019 – 2020 protests.

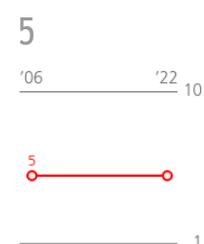
Performance of democratic institutions



Commitment to democratic institutions



Party system

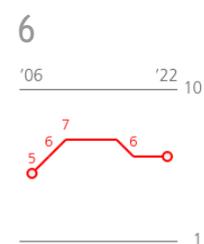


In contrast to a rich scenery of non-governmental organizations, many of which are independent of the regime, socioeconomically defined interest groups are less well developed. Labor unions do not play a strong role due to the weakness of the formal sector. Professional associations and chambers play a role, but the politically important ones are penetrated by regime parties. It was considered a major success of the Beirut 2019 – 2020 protest movement when in November 2019 an independent candidate – Melhem Khalaf – was elected council president of Beirut Bar Association. Also, in October 2020 elections to the student councils, which are traditionally dominated by parties of the political establishment, independent candidates celebrated unprecedented wins.

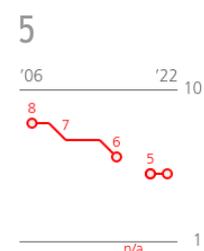
The by far strongest actor in opposition to the regime was the social movement that generated the 2019 – 2020 Lebanon protests. The resignations of Hariri's and Diab's governments in October 2019 and August 2020, respectively, were outcomes of its ability to mobilize against the regime. Since Hariri's demission, the ruling regime and the opposing social movement have been stalemated. The social movement has not succeeded in pushing for substantial reforms, let alone regime change. However, the movement and their organized backers in the civil society have for the time being prevented the regime from receiving substantial material support from the Western donor community, upon which the regime's survival depends.

According to a survey report published by the Pew Research Center (PRC) in 2012, 80% of Lebanese prefer a democratic rule to a system characterized by a strong leader. This approval rate of democracy is significantly higher than in other Arab countries. However, when asked whether a good democracy or a strong economy is more important, 46% of the Lebanese opted for the latter. Nevertheless, when in 2017 the PRC applied a more sophisticated methodology, it was revealed that only 18% of all Lebanese were committed democrats, whereas not less than 68% were ranked less committed to representative democracy because while they approved democratic governance, they also supported one or several undemocratic forms of government. Still, the Lebanese are not strong supporters of traditional forms of autocratic rule: Only minorities of 27% and 14% approved a rule by a strong leader and by the military, respectively. However, a clear majority of 70% of respondents approved a government in which experts rather than elected politicians make decisions. That Lebanese approved technocratic rule to a higher degree than all the other 37 countries investigated by PRC may be partially attributed to the deep dissatisfaction of Lebanese with democratic performance at home: 91% were dissatisfied with how democracy was working in Lebanon. Yet to a certain degree this result may also reflect elitist attitudes widespread among well-educated and socially privileged Lebanese.

Interest groups



Approval of democracy



The low trust in crucial institutions further deteriorated with the acute economic crisis ongoing since 2019. As surveys conducted by the Arab Barometer revealed, trust in public institutions such as government, parliament, and judiciary were below 20% in 2018. As Gallup determined, in the wake of the economic crisis trust in financial institutions sank from 45% in 2018 to mere 16% in 2019.

The KAS PolDiMed 2020 survey, conducted in late 2020, confirmed that as a result of the low performance of the political class, Lebanese have very low trust in democratic institutions. According to this survey, only 26% trust in the government and only 19% in the parliament, which is perceived by many Lebanese as the hotbed of destructive sectarianism. It is telling that trust in institutions beyond the political class is much higher. Nearly half of the Lebanese trust in municipal administration and close to 90% in the armed forces.

Lebanon enjoys a rich scenery of mostly independent civil society organizations that cover a wide array of social and cultural fields. A survey report published by the Ark Group on perceived social tensions in Lebanon revealed that in July 2019 only 17% of Lebanese perceived relations of different Lebanese groups in their areas as negative, compared to 41% who assessed them positively and 42% who found them neutral. When asked what issues contributed to tensions, in July 2019 38% cited political and sectarian tensions as the primary factor, which in comparison to May 2017 equaled to a huge decline of 22%. Albeit also in decline after 2017, differences in socioeconomic status and economic competition were perceived in 2019 as roughly equally relevant for the creation of social tensions.

The social protest movement of 2019 – 2020 revealed a remarkably high degree of solidarity across sectarian lines all over the country. Demonstrators remembered in various forms the victims of regime force. On October 27, 2019, tens of thousands of people built a human chain crossing the country from north to south to demonstrate solidarity and national unity.

Social capital



II. Economic Transformation

6 | Level of Socioeconomic Development

Lebanon's value in the 2020 Human Development Index (HDI), which is based on data of 2019, is 0.744, which puts the country in the high human development category, the second best out of four tiers. Lebanon ranks 92 out of 189 countries but due to the deep socioeconomic crisis ongoing in January 2021, Lebanon's position in the 2021 HDI is expected to be much lower.

In the 2020 Gender Inequality Index, mostly based on 2015 – 2019 data, Lebanon ranked 96 out of 189 countries, however, with a high variety between the different indicators. The country scored very well in terms of a low maternal mortality rate and a low adolescent birth rate. Although female participation in secondary education was below the global average, the gap between female and male participation in secondary education was much narrower than in the global average. However, with regards to political participation measured as percentage of parliamentarian seats, Lebanon scored much worse than the global average and even the Arab world in average. The latter finding is, however, somehow misleading as some other Arab countries contrary to Lebanon have a quota for women. Finally, on a global scale, Lebanon has one of the lowest female participation rates in the labor force. However, this does not cover female labor participation in Lebanon's large informal sector. According to HDI, Lebanon does not show large regional differences. However, there are huge disparities inside the regions, for example between very rich downtown Beirut and extremely poor Dahieh in southern Beirut.

There can be no doubt that as a result of the deep socioeconomic crisis in Lebanon since late 2019, poverty has risen in Lebanese society. The United Nations Economic and Social Commission for Western Asia (ESCWA) estimated that the headcount poverty rate rose from 28% in 2019 to 55% in May 2020. However, ESCWA applies the upper poverty line of \$14 per day, a poverty line that applies to persons whose basic needs (largely food) are supposed to be secured already. No recent data of the more commonly applied "\$1.90" or "\$3.20" threshold are available for Lebanon.

Three groups are largely excluded from society due to poverty and inequality: the Palestinian refugees from the Palestine War 1947 – 1949 who are denied access to the more lucrative segments of the Lebanese labor market; the Syrian refugees from the ongoing civil war whose access to the labor market is largely confined to the lowest-paid jobs in the informal sector; and the migrant workers from Africa and East Asia who are subject to social and racial discrimination.

Question
Score

Socioeconomic
barriers

3

'06 '22 10



1

Economic indicators		2017	2018	2019	2020
GDP	\$ M	53140.6	54961.3	51991.6	33383.2
GDP growth	%	0.9	-1.9	-6.7	-20.3
Inflation (CPI)	%	4.3	6.1	3.0	84.9
Unemployment	%	6.2	6.1	6.0	6.6
Foreign direct investment	% of GDP	4.7	4.8	4.3	-
Export growth	%	3.9	-4.7	-1.5	-53.5
Import growth	%	2.1	1.1	-9.0	-46.6
Current account balance	\$ M	-12133.9	-13364.4	-11539.8	-
Public debt	% of GDP	149.2	154.0	171.1	150.4
External debt	\$ M	74165.4	79650.1	73893.1	68865.4
Total debt service	\$ M	16488.9	16464.5	18525.3	12890.8
Net lending/borrowing	% of GDP	-7.5	-11.8	-11.0	-
Tax revenue	% of GDP	15.3	15.3	15.3	-
Government consumption	% of GDP	13.2	15.3	15.9	8.9
Public education spending	% of GDP	2.1	2.5	2.6	-
Public health spending	% of GDP	4.4	4.2	-	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	4.5	5.0	4.7	3.0

Sources (as of December 2021): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

7 | Organization of the Market and Competition

Although Lebanon's political class particularly prime ministers Rafiq and Saad Hariri, eagerly portrayed Lebanon as an open, liberal market economy, fair market-based competition is severely constrained. The ownership of assets put the state in crucial sectors of the economy in a de facto monopoly, in particularly in the realm of traffic, as the national airline carrier Middle East Airlines, the big ports in Beirut, Tripoli, Sidon, and Sur (Tyre), and the national Rafiq Hariri airport are state-owned. The telecommunication sector is also state controlled. The government left this market to just two companies by signing contracts with Touch and Alfa. This highly oligopolistic structure created one of the most expensive telecommunication markets in the Middle East. In order to retender the contracts, the Ministry of Telecommunication took control of both companies' operations in May 2020. The cement market, which is highly lucrative as construction became an important sector in the post-civil war economy, is in the hands of three private companies, all of which are closely tied to the political class: Cimenterie Nationale, Lafarge Holcim, and Ciment de Sibleine. Their quasi-oligopolistic position in the Lebanese market was secured politically by high tariffs to keep foreign competition out of the market. Some observers considered it one of the few successes of Diab's government that he got a deal with the Lebanese cement producers in August 2020 to accept a ceiling of cement prices in accordance with world market prices. Yet the achievement is limited, since part of the deal is that the tariffs remain, and the price ceiling needs to be renewed every month.

Another kind of distorted public-private cooperation takes place in the electricity sector. Due to misallocation of resources, the state-owned electricity company, Electricité du Liban (EDL), cannot provide electricity 24 hours a day. Therefore, it removes households in all areas from the net for a certain number of hours daily, yet with large regional and local variations that further discriminate against inhabitants of peripheral areas. This fueled the development of small private companies that provide high-priced electricity through diesel generators, thereby also contributing to expanding Lebanon's already large informal sector. An estimated 50% of the labor force already worked in the informal sector before the influx of Syrian refugees.

In comparison to other transformation countries, Lebanon scores well in the realm of starting business, as costs (42.3% of GNI), days needed (15) and procedures required (8) were below the average in 2019. However, Lebanon only ranks 143 out of 190 countries on the 2020 Ease of Doing Business ranking, mostly because it takes an extremely long time before bids are evaluated and contractors paid.

According to the UNCTAD World Investment Report 2020, Foreign Direct Investment (FDI) decreased by 20% to \$2.1 billion in 2019.

Market
organization

5

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1

Lebanon does not have effective anti-trust or competition laws. Therefore, anti-oligopolistic policies enjoy little support due to the links between political and business elites. The fact that a new competition law has not been approved after years of preparation is an example of the reluctance or incapacity to reform even among business-oriented politicians. A National Competition Authority was proposed as well as a Competition Council with the right to petition the Court of Appeals, but this proposal has not been realized.

Energy (with the exception of micro-energy producers, which fill the gap in supply with private generators; prices are set by the energy ministry), telecommunications, water supply, and airline companies are still widely state-owned, although there are ongoing projects for their partial privatization. National flag carrier Middle East Airlines, for example, is still owned by the central bank (Banque du Liban, BDL) and discussions about reducing the government's shares have not yet led to results.

Only a few companies have maintained a dominant market position in many sectors. New developments in the field of competition will depend on the implementation of the ambitious Capital Investment Program (CIP), which was launched by Hariri's government in 2018. The program has received initial support from potential international public and private funders.

In general, Lebanon has traditionally a fairly liberal trade regime. Customs duties as measured by the effectively applied tariff weighted average are – with 1.05% (2018) – among the lowest worldwide. Yet on certain products a local consumption duty is applied, for instance alcohol and cars. However, in May 2019, the government introduced a 10% tariff on 20 products in order to protect local production of, for instance, dairy goods, leather shoes, metal pipes, and carrosserie.

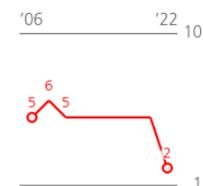
Lebanon signed free trade agreements with the EU, EFTA, and the GCC. Lebanon is member of the Greater Arab Free Trade Area (GAFTA). Lebanon negotiated accession to the WTO in 1999 and signed a Trade and Investment Framework Agreement with the U.S. which, however, was never enforced.

The private Lebanese banking sector was until recently the backbone of the Lebanese economy. In a 2016 financial assessment report jointly drafted by the IMF and World Bank, the Lebanese banking system is described as resilient to shocks, although some flaws are listed. Among the critical points mentioned in the report were a weak contribution of the capital market and a lack of a liquid secondary bonds market. However, already in 2018 non-performing loans as percent of all bank loans had more than doubled and increased in 2019 to 15%, which was the eighth worst value among 100 countries ranked.

Only in the second half of 2019 did it become manifest that the alleged solidity of the Lebanese banking system was a mirage. Due to an extremely large national public debt, the Lebanese economy was always in need of a high inflow of U.S.

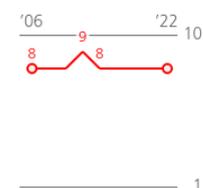
Competition policy

2



Liberalization of foreign trade

8



Banking system

5



dollars. However, starting already in the early 2010s, the private Lebanese banking system was only able to attract foreign capital (including remittances from Lebanese working abroad) to be deposited in U.S. dollar accounts by offering increasingly high interest rates. Thus, from an already relatively high level of close to 6% from 2010 to 2016, deposit interest rates rose further until they reached an extraordinary high level of close to 10% in 2019. As these high interest rates were credited in U.S. dollars, the Lebanese banking system accumulated huge amounts of so-called lollars, which is a Lebanese virtual currency that does not correspond to actually existing amounts of U.S. dollars. When in 2019 the well-informed 1% of top depositors lost trust in this unsustainable system, they withdrew an estimated \$28 billion. This resulted in a broad bank run in the second half of the year, which left the Lebanese economy largely with virtual U.S. dollars.

As Syria depended on Lebanese banks for transactions in U.S. dollars, the “lollarization” of Lebanese banking accounts also hit the Assad regime hard.

8 | Monetary and fiscal stability

Contrary to other public entities, the Lebanese central bank – Banque du Liban (BDL) – enjoys financial and administrative autonomy. Until the dramatic decay of the Lebanese Pound (LBP) started in October 2019, Riad Salamé, governor of BDL since 1993, appeared as the successful strongman of the Lebanese economy, which was built upon and centered around his financial engineering model. One key element was already introduced in 1997 when the LBP was pegged to the U.S. dollar at LBP 1,507.5 per \$1. As a result of the fixation of an artificially high exchange rate, Lebanon showed strong Dutch Disease symptoms: Productive sectors of the economy were weakened as exports became expensive and imports cheap. However, the Lebanese financial sector greatly benefited from the dollarization of the economy. By continuously raising the interest rate far above international average levels and by encouraging Lebanese banks to offer their customers even higher interest rates on their private accounts, BDL managed to attract high amounts of fresh U.S. dollars. The LBP further strengthened Lebanese private banks by taking loans from them to high interest rates. By purchasing Eurobonds and selling large amounts of bonds in U.S. dollars to BDL and private Lebanese banks, the Lebanese state became an integral part of the system. When Salamé had to admit in September 2020 that bank deposits of Lebanon had dramatically declined in 2019/2020, unsurprisingly allegations that Salamé’s financial engineering was based on a Ponzi scheme became prominent. Yet in a CNBC interview he refused to step down and defended his crisis management. As an immediate response to the demonstrations in October 2019, Lebanese banks closed. When reopening after weeks, private banks in close cooperation with the Association of Banks in Lebanon (ABL) and the BDL imposed with no legal basis measures of de facto devaluation haircuts and capital controls. As a result of

Monetary stability



measures that became increasingly sophisticated over time, local banks allowed withdrawals from their clients' U.S. dollar accounts only in LBP with an exchange rate far below the informal market price. At the same time, bank transfers to foreign accounts were heavily restricted, and abroad purchases on Lebanese U.S. dollars credit cards were only possible if fresh dollars were put on the accounts in advance.

The financial crisis as became manifest in the second half of 2019 hit the core of Lebanon's socioeconomic system and had an overall negative effect on all kinds of economic activities, which is why state revenues turned out to be much lower than expected. As a result, the budget deficit alarmingly increased from -8.6% to GDP in 2017 to -11% to GDP in 2018 and -10.5% in 2019. In 2020, it rose further to -16.5% to GDP. With no policy of fiscal stability in sight, some observers predict a further increase of the budget deficit in 2021.

Post-civil war reconstruction was largely based on external borrowing and attracting rents, thereby neglecting debt sustainability as a policy objective. Lebanon's public debt-to-GDP ratio skyrocketed and peaked in 2006 at 183%. Thereafter, it fell gradually to 131% in 2012, before it grew again and reached a level of 155% in 2018. In 2019 and 2020, the debt-to-GDP ratio escalated to 175% and 172%, respectively. Only two countries – Japan and Greece – suffer from higher debt-to-GDP ratios than Lebanon.

9 | Private Property

Private ownership is engraved in the preamble of the Lebanese constitution. However, in Lebanon's crony capitalist system, the lines between public and private property are often blurred and/or private assets are (partially) the outcome of corruption; that is, the regime ensures private property with nontransparent means. Hybrid business models in which the regime places private companies to manage state resources are not uncommon in Lebanon. The most famous one may be Solidere, a unique type of public-private partnership that is in charge of rebuilding downtown Beirut. The project was launched by then Prime Minister Rafiq Hariri in 1994, and the Hariri family holds to date shares of unknown size. The project was also controversial because old owners were expropriated and compensated with shares rather than cash. According to the management, Solidere's profits strongly increased in 2019 and 2020 mainly as a result of high revenues from land sales, which became lucrative when the market value of the Lebanese pound crashed in late 2019 and throughout 2020.

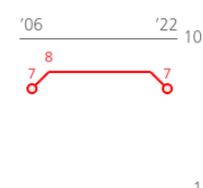
Fiscal stability

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Property rights

7



Private companies are in principle protected. Still, in the wake of the ongoing financial and socioeconomic crisis, with full backing of the BDL, Lebanese private banks massively violated private property rights of their clients. First, clients can use their dollar accounts only in Lebanese pounds. Second, higher amounts are subject to the official exchange rate, which in December 2020 was roughly 5.5 times above the exchange rate applied by private moneychangers. Since the spring of 2020, the private banks have allowed their customers to withdraw a certain amount of LBP – exceeding the equivalent of \$1,000 only in rare cases – at an exchange rate of \$1 to LBP 3,900 instead of the official rate of \$1 to LBP 1,507. However, this rate is still far from the market price, which on January 31, 2021, was \$1 to LBP 8,875.

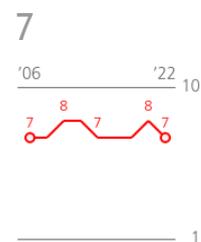
10 | Welfare Regime

In the formal sector, the National Social Security Fund (NSSF) supplies employees with insurance covering sickness, maternity care, family allowances, end-of-service pension, and work-related accidents and diseases. However, it is estimated that more than 50% of the Lebanese labor force works in the informal sector.

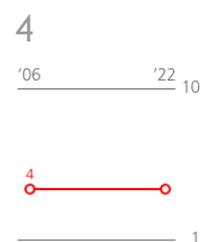
As Lebanon does not have a state administrative apparatus with practical authority throughout the entire country, the Ministry of Social Affairs and other state agencies have trouble targeting their programs specifically to those who are in dire need. The bulk of the expenses of the Ministry of Social Affairs goes to the education and health sectors. The latter is also targeted in a mostly ill-coordinated way by the Ministry of Public Health and other ministries that provide non-insured Lebanese access to the health care sector on a nontransparent case-by-case basis. However, the Lebanese government's expenses for subsidies of products of basic needs are much higher than those for social safety programs run by the Ministry of Social Affairs. These subsidies are highly problematic. The bulk of the subsidies goes to the electricity sector, which is run beyond parliamentary control by EDL. Subsidies on flour and other products of basic needs are ill-targeted because all consumers benefit. When in July 2020 the government expanded the list of subsidized products to 300 basic commodities, it added products such as meat, canned cream, and disposable alkaline batteries, whose primary consumers are not the neediest. Finally, as the subsidies are not paid directly but importers can apply the favorable exchange rate to the dollar of 3,900, traders can stockpile goods. Abuses such as selling smuggled subsidized products in Syria were reported. In November 2020, the BDL announced that due to critically low foreign currency reserves subsidies might be maintained for only two more months. If so, poverty would further increase.

Due to the weakness of the public safety net, non-governmental organizations and charities play an important role. However, very often they are politically driven and organized along the lines of religious communities, thereby re-enforcing the sectarian system.

Private enterprise



Social safety nets



With regards to education, equal opportunity between the genders is about to have been achieved, according to UNESCO figures. The overall adult female literacy rate of 93.31% is slightly lower than its male counterpart of 96.85%. However, 99.84% of females between 15 and 24 years as compared to 99.66% of males of the same age cohort are literate. The effective transition rate from primary to secondary education is 96.0% among boys and 96.8% among girls. According to official statistical information, in the academic year 2009/2010, 53% of all students enrolled in Lebanese universities were women. However, nearly two thirds of students at Lebanon's only public Lebanese University (LU) were female, whereas 55% of all students enrolled in Lebanon's private universities, some of which are much better ranked than LU, were men. Gender discrimination does not play a major role with regards to access to health care.

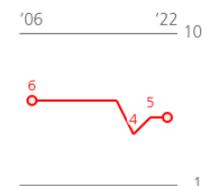
When it comes to equal access to education, cleavages along gender lines are much less problematic than constraints along class lines. High-quality primary, secondary, and tertiary education is largely confined to private educational institutions that take high tuition fees, making them unaffordable for students from the lower classes. Also, regular access to Lebanon's highly developed health care institutions requires financial means that are not available to lower income strata of the society. There is also a serious problem of age discrimination in the health care system: Only a small minority of persons over 65 years have regular access to the system.

As throughout the Arab Middle East, female participation rate in the labor force is low: In 2019, only 22.9% of women as compared to 71.4% of men participate in the labor force in the formal sector. No reliable figures for the informal sector, which absorbs more than 50% of the labor force, are available.

For mainly two reasons, Palestinian and Syrian refugees as well as migrant workers from East Asia and Africa are largely denied access to equal opportunity. Palestinian and Syrian refugees lack the financial means to get fair access to participation in society. Migrant workers have a regular though low income but are very often overexploited and through kafala (sponsorship) kept in dependence on their employers. Furthermore, all three groups have no access to Lebanon's formal sector.

Equal opportunity

5



11 | Economic Performance

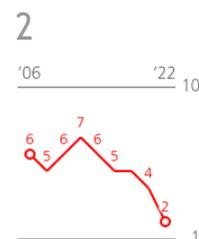
According to World Bank figures, Lebanon's GDP grew steadily after the end of the civil war in 1990, when it amounted to \$2.8 billion, until 2018, when it equaled \$55 billion. However, in 2019 it sharply dropped to \$52 billion. The World Bank expects real GDP to have declined by 19% in 2020. A view on the development of GDP per capita in constant 2017 international dollars makes the dramatic economic demise even clearer. Between 2006 and 2010, Lebanon had high growth figures when GDP per capita jumped from \$14,300 to an all-time peak of \$19,500. Thereafter it fell steadily every year until 2018 and sharply in 2019 when it amounted to just \$14,600 (constant 2017 international dollars), which amounted to a total loss of the growth that had been achieved after 2005.

Lebanon's current account balance has fallen deep into the red, reaching -\$11.5 billion in 2019. According to Lebanon's Central Administration for Statistics, the inflation rate was 3.2% in February 2019, fluctuated in the next months in a spectrum between 1% and 4% and reached 3.2% again in October 2019. Thereafter it increased by leaps and bounds. In May 2020, it reached 56.5%, thereby exceeding the commonly applied threshold for hyperinflation of 50%. In June, for the first time the inflation rate exceeded 100%. Between August and November, it fluctuated between 120% and 137%. In the last month of 2020, it climbed to 146%.

From mid-2019 on and throughout 2020, there was a strong downward trend in tax revenues. According to figures of the Ministry of Finance, tax revenues retreated by a yearly 23% to \$2.75 billion by May 2020. Particularly hard hit were VAT revenues, which decreased by more than 50%. Public debt grew from \$80 billion in 2018 to \$85 billion in 2019. In the first half of 2020, it increased to more than \$93 billion and was expected to exceed \$95 billion by August 2020.

World Bank figures disclose only a moderate increase in the unemployment rate from 6.1% in 2018 to 6.2% in 2019 and 6.3% in 2020. However, these figures do not consider the informal sector. Estimates based on updates of Lebanon's economic meltdown in the course of 2020 disclose skyrocketing unemployment.

Output strength



12 | Sustainability

Nearly all energy is generated through hydrocarbons, mostly imported refined oil products. The Lebanese government has made no serious efforts to pave the way for an energy transition away from hydrocarbons to renewable energy resources. Determined efforts of energy diversification have been largely confined to natural gas. Resuming natural gas imports from Egypt, which had come to a halt because the pipeline goes through war-torn Syrian territory, via the Mediterranean has been considered in 2019 and 2020. More importantly, Lebanon explored for commercial natural gas reserves in the Levant Basin, but a first drilling mission concluded in April 2020 did not quarry profitable amounts of natural gas. Inter alia the failure to find commercial energy resources in its waters triggered the political class to agree to hold talks with Israel to settle maritime borders in fall 2020.

Traffic in Lebanon is primarily based on the individual use of motor vehicles. Urban buses and shared taxis are in use but mostly confined to poorer strata of the population. Resuming the Lebanese railway, which stopped operating during the civil war, was never seriously pursued. As EDL's electricity supplies do not cover the whole day, Lebanese rely on highly environmental-unfriendly diesel generators.

Already in 2015, Lebanon's extremely deficient waste management became politicized by the social movement "You Stink." However, to date Lebanon is far from having a sustainable solution. In June 2020, the Waste Management Coalition – a group of civil society organizations and environmental experts and activists – and Human Rights Watch called the government's inability to properly address the issue extremely expensive. Pecuniary costs are high as Lebanon spends many times what neighboring countries do on waste management. Environment degradation as a result of improper government waste management and illegal dumping and burning of waste has cost in the upper range of double-digit millions in U.S. dollars. Public health costs are significant, too, particularly among those who live close to the overstretched and ill-managed landfills, and those exposed to open dumping and waste burning.

The Lebanese political class attempted, amidst the deep socioeconomic crisis, costly and ecologically problematic large-scale projects. As a response to societal resistance, the World Bank in September 2020 canceled its contribution to the highly controversial Bisri dam project.

Environmental
policy

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According to HDI 2020, government expenditure on education as a percentage of GDP was 2.4, which is a rather low value. Years of expected schooling followed a strong downward trend from 15 years at the beginning of the century to currently only 11 years. In the U.N. Education Index, which is based on measuring average years of schooling, Lebanon scores 0.604 (2019), which is above the average value 0.456 of transformation countries. Lebanon's literacy rate of 95.1% (2019) is significantly higher than the average value of transformation countries, which is only 82% (2015).

No World Bank figures on Lebanon's investment in research and development are available but observers report them to be very low. At the same time, according to World Bank data, scholars working in Lebanon had 1,776 articles in scientific and technical journals in 2018. Measured per capita of the population, this value is relatively higher than in Egypt and in Jordan, where the governments spend 3.6% of GDP on education. This appears to reflect the strength of some of Lebanon's private universities, in particular the American University of Beirut, the Lebanese American University, and the Université Saint Joseph de Beyrouth.

A huge gap exists between the poorly equipped public schools and universities and highly developed facilities in primary, secondary, and tertiary education. Public schools were further burdened because they had to absorb a high number of Syrian refugee children. Teaching language in private schools is mostly English and French and curricula are based on international standards. Due to high tuition fees and support from alumni, private schools and universities are usually well equipped.

Education policy /
R&D

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Governance

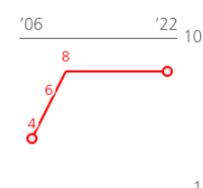
I. Level of Difficulty

There are few structural constraints to governance performance for which Lebanon's political class could not be held responsible. Contrary to many other Arab countries, Lebanon does not possess many natural resources. Its geographic location is rather advantageous, because its four biggest cities – Beirut, Tripoli, Sidon, and Sur – are Mediterranean harbor towns that host more than half of the entire population. Driving distance between Sur in the South and Tripoli in the North is less than 170 km. Thanks to its tininess, the “cedar state” faces few material obstacles in connecting formerly remote mountainous areas through means of modern infrastructure. Although per capita renewable water resources in 2011 were far below the world average of more than 7,000 cubic meters a year, in contrast to most Arab countries they exceeded the poverty line of 1,000 cubic meters. Lebanon's only major structural constraint beyond the responsibility of the political class is that both the two countries with which Lebanon shares land borders – Israel and Syria – constitute (potentially) threatening challenges. Threats by southern neighboring Israel became massively manifest most recently during the 2006 Lebanon War, which took place one year after Syria completed its withdrawal from Lebanon. Israel, Hezbollah, and the Assad regime are among the many forces that are engaged in the Syrian civil war. While the conflict over Syria between Hezbollah and forces of the Assad regime on the one hand and Israel on the other have not spilled over to Lebanese territory yet, the estimated 1.5 million Syrian refugees seeking shelter in Lebanon put considerable constraints on the Lebanese state. On a broader scale, Lebanon has increasingly become a pawn in the hands of Saudi Arabia and Iran rivaling for regional hegemony in the Middle East.

The inability of the public sector to provide society with adequate power and water supplies are a result of a deficient post-civil war development model. Private solutions provided by companies that run electric generators and water tank trucks are available but are hardly affordable for lower income segments of the society. In addition, the notoriously overstretched road network reflects problematic priority settings of the regime that paved the way for heavy investment in neoliberal prestige projects such as “Solidere” that transformed large areas of downtown Beirut into a luxurious quarter, whereas potentially sustainable development projects such as the resumption of Lebanon's railway system that had seized in the wake of the civil war were not pursued.

Structural
constraints

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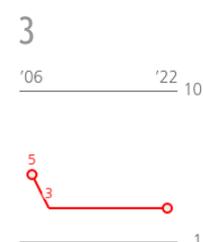
Due to taking countermeasures early on against the COVID-19 pandemic, Lebanon came through its initial phase rather well with less than 100 infections per day until June 2020. In the fall of 2020, infections dramatically increased to more than 1,000 per day (in a total population of 6.9 million). At the same time, as a result of the deep economic and financial crisis fueled by the August 4, 2020, explosion in Beirut's seaport, Lebanon's health care system increasingly lacked the capacities and the financial means to deal with COVID-19 patients. After easing restrictions in the wake of the holiday season at the turn of the years 2020 – 2021, numbers went up further. In January 2021, daily infections oscillated between 3,000 and more than 6,000 new cases per day.

There are fairly strong traditions of civil society in Lebanon that further unfolded after the end of the civil war. The firm lines of continuation between warlords and other active beneficiaries of the war with the postwar political class could not prevent the unfolding of a pluralist society, because contrary to other Arab states, Lebanon's political class is highly fragmented along sectarian lines. This fragmentation generated a rich variety of civil society organizations, many of which gained or had from the beginning a rather high degree of autonomy from regime forces. Again, in contrast to some other Arab countries, the fragmented Lebanese political class lacks the coercive means to eradicate civil society organizations.

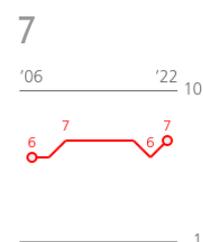
In the 2010s, the civil society developed several social movements that contrary to formal political institutions such as the parliament emerged as serious challengers of the established political class. Although Lebanese civil society was not a frontrunner in the Arab Spring, some oppositional forces started to develop. The "You Stink" movement, which peaked in August 2015, focused on the waste mismanagement of the Lebanese state in Beirut, thereby pointing to the garbage crisis as a manifestation of the corrupt sectarian system. However, the social movement that generated the Lebanese 2019 – 2020 protests was much broader in scope. This movement qualified as a class-crossing mass movement that mobilized hundreds of thousands of followers across the entire country. Although not having at its disposal a clear concept of how to govern Lebanon in the future, the movement was unified in strongly opposing the current sectarian system and the entire political class.

The existence of sectarian rivalries notwithstanding, since the end of the civil war violence between social groups has been rather low. However, in July 2019 political turmoil in Lebanon occurred over an incident related to the visit of Foreign Minister Gebran Bassil, the leader of the Free Patriotic Movement (FPM) allied with Hezbollah, in the Druze area of western Shahhar. Two bodyguards of Druze Minister Saleh al-Gharib affiliated with the Lebanese Democratic Party were killed in the mountain village Qabr Shamoun, located in an area controlled by Walid Jumblatt's Progressive Socialist Party, which competes with the Lebanese Democratic Party headed by Jumblatt's rival Talal Arslan.

Civil society traditions



Conflict intensity



In the wake of the 2019 – 2020 Lebanese protests that gained momentum with countrywide mass demonstrations in October 2019, in an attempt to break the social protest movement, state and regime forces frequently used violence against mostly peaceful protesters. In particular, Amnesty International and other human rights organizations documented different types of misconduct of the security forces, misconduct that became more severe over time. First, a pattern that occurred very early on was the failure of state security forces, in particular the LAF, to protect demonstrators against attacks of organized thugs. As these thugs were associated with regime forces related to Amal and, albeit according to some sources to a lesser degree, Hezbollah, these incidents appeared to be cases of tacit cooperation between state and regime forces. Second, security forces, mostly riot police, used excessive violence including brutal beating and excessive use of tear gas against demonstrators. A first surge in this practice occurred on December 15, 2019. Third, the security forces unlawfully attacked protesters, using live ammunition. This happened for the first time on a large scale on October 26, 2019, when the LAF opened fire to disperse a sit-in demonstration. The most excessive use of force up to now occurred on August 8, 2020, when state security forces and unidentified thugs in civilian clothing shot teargas, rubber bullets, and pump action pellets at demonstrators, thereby injuring more than 230 people who had gathered to protest against the regime in the wake of the August 4, 2020, explosion of huge amounts of ammonium nitrate in a warehouse in Beirut's port.

II. Governance Performance

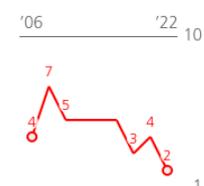
14 | Steering Capability

Although the preamble of the constitution stipulates abolishing political confessionalism as a national goal, sectarianism prevails. This is so because the political establishment as the main beneficiary of sectarianism is unified in blocking democratization initiatives from the regime opposition. But even less ambitious government aims of setting and maintaining strategic priorities are difficult to achieve in the Lebanese context because the political class has no interest in structural reforms that would deprive it of its privileges to govern Lebanon by means of systemic corruption. Moreover, even modest attempts at setting limited strategic priorities face difficulties due to the fact that decisions in the cabinet require de facto unanimity. The last national unity government formed by Saad Hariri after nine months of tenacious negotiations on January 31, 2019, made no exception to this structural deficit. As the Hariri government proved to be incapable of launching any meaningful attempt of management in the wake of the accelerating economic and financial crisis after mid-2019, mass protests from October 17, 2019 on forced Hariri to resign on October 29, 2019. However, also the government headed by self-declared technocrat Diab, which was formed in January 2019, proved incapable of setting and maintaining strategic priorities.

Question
Score

Prioritization

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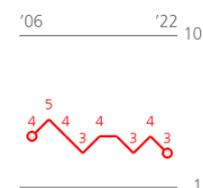


Diab's room for maneuver to implement policies was very limited vis-à-vis the sectarian regime forces that still dominated politics. Moreover, BDL as a crucial state agency in the wake of the financial crisis obstructed any effective regulation not to mention reform of Lebanon's financial sector. After months of pressure from civil society organizations such as "Kulluna Irada" to circumvent the drainage of the last foreign currency reserves, in March 2020, Diab's government and the financial establishment gave in to default on a Eurobond repayment. According to observers, at latest from that moment on only a deal with the IMF, which the Lebanese government had turned to in February, could pave the way for managing the crisis. However, negotiations were extremely troublesome, mainly due to stiff opposition from ABL and BDL. In June 2020, it was reported that the IMF informed the Lebanese government and BDL that it estimates the central bank's recently accumulated losses at an amount close to \$50 billion, which equals to over 90% of Lebanon's total economic output in 2019. While Prime Minister Diab's government accepted the numbers, BDL, which does not publish figures on profits and losses, claimed that the losses were much lower. In November, the consultancy firm tasked with conducting a forensic audit of BDL, which the IMF had demanded, pulled out because it did not receive information requested from BDL. Salamé argued that passing the information were not compatible with Lebanon's bank secrecy. On January 19, 2021, Switzerland said that it had asked the Lebanese authorities for support related to an investigation of BDL's possible involvement in money-laundering and embezzlement. On January 23, digital media platform Daraj revealed that Switzerland froze \$400 million of Salamé's bank account. It was also spread that similar cases were started in France, the UK and the U.S. Supporters of Salamé launched a media campaign against Daraj.

The Lebanese state failed to manage the deep financial and socioeconomic crisis that was smoldering for years and became acute in mid-2019. It is, however, contested whether this has been primarily the result of failed learning and inflexibility or rather the political class's unwillingness to alter a system that is to its benefit. In the case of Diab it should be taken into account that when appointed prime minister he was not part of the upper echelons of Lebanon's political class. Apart from his inexperience, his educational background in engineering did not predestine him to successfully address the deep financial crisis and launch structural reforms. At the same time, the established political class was not willing to give Diab's government, whose major portfolios were headed by Amal and the Free Patriotic Movement, much room for maneuver. From the onset, Diab was not supported by Hariri's Future Movement (FM). Still, Hezbollah, Amal, and the Free Patriotic Movement that rendered possible the formation of Diab's government, massively interfered. As a result, structural reforms were not launched. Even urgent issues such as a transparent and socially acceptable capital control law were not dealt with in an adequate way due to a mixture of limited competence and constrained political independence of the cabinet plus massive interference from the established political class.

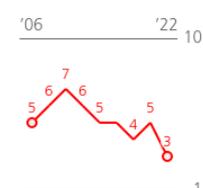
Implementation

3



Policy learning

3



The refusal of the political class to learn appears to be motivated by the will to maintain its power and privileges. It is also manifest in its continued inability to launch policies that secure appropriate supplies of electricity and water. Another example is the failure to fulfill the ecological and social requirements set by the World Bank to implement the Bisri dam project. Another major indicator for the refusal of the Lebanese political class to learn from and adapt to the ongoing crisis is the ability of the BDL leadership to protract the forensic audit although it was deemed by the IMF as essential.

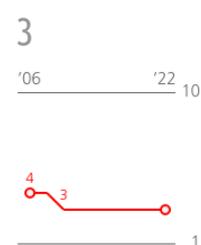
The political class's low performance in terms of learnability appears to be rooted more in a refusal to learn than any lack of ability because, when it comes to rent-seeking opportunities, the political class turns out to be virtuous. A recent example is that Lebanon acquired a significant refugee rent from the international community by systematically inflating the numbers of Syrian refugees and thereby exaggerating the burden of their presence to the Lebanese society. The Lebanese regime also covered up the fact that those most negatively affected by the influx of Syrian refugees – primarily “old” refugees such as the Palestinians – were the main victims of the influx of Syrian refugees. Moreover, Syrian refugees were exploited as tenants and day-laborers by the Lebanese middle and upper classes. Finally, Lebanese government representatives also exaggerated the strain placed on Lebanon's ailing infrastructure by the influx of refugees.

15 | Resource Efficiency

Rather than by meritocratic criteria, the recruitment of public servants is primarily shaped by political interference, de facto quota for sectarian groups, and networks characterized by nepotism (*wasta*). This renders the public sector often rather unattractive for well-qualified candidates who thus prefer to go to the private sector or emigrate. Due to the inefficiencies of many branches of the public sector, private institutions inter alia in the health sector and in education blossomed. Still, as the latter are costly, they provide only the upper and upper-middle classes with viable substitutes to public services. A Lebanese particularity is that even in the military sector, public institutions – in particular the LAF – are inferior to militia – in particular Hezbollah – in terms of discipline and efficiency not only with regard to military power vis-à-vis Israel but according to many observers also regarding terrorist combat.

The Lebanese executive branch is rather inefficient in making use of available resources. For instance, in the 2019 budget, the highly deficient public electricity sector was the third largest item after personnel and debt service. As part of harsh austerity measures, electricity subsidies were cut in the 2020 budget. However, with no reform policies launched, this only accelerated the drop in Lebanese power production, which has been in steady decline since the mid-2010s. The appointment

Efficient use of assets



of EDL's board of directors by the cabinet in July 2020 was highly nontransparent. Primary criterion for recruitment were sectarian affiliations rather than competences and merits. Moreover, the cabinet appointed a committee to discuss proposed amendments to the electricity sector regulation law that would strengthen the power of the minister for energy at the expense of an allegedly independent regulatory authority. Finally, the inefficient use of financial resources becomes manifest in an extraordinary high public debt of more than 170% of GDP.

Lebanon's budget deficit and public debt have long been unsustainable. During the ongoing crisis, the regime did not launch any promising reform measures to address the threat of uncoordinated state bankruptcy. The 2020 austerity budget, which passed parliament in January despite strong demonstrations against it, was based on overly optimistic assumptions on the revenue side, and it is expected to leave Lebanon with an even greater deficit. The years 2020 and 2021 passed with no strategy on how to restructure Lebanon's huge debt.

State efforts to contain corruption are minimal. Often state agencies even obstruct attempts to investigate cases of suspected corruption. Thus, in 2020 Salamé blocked forensic auditing of BDL by denying access to data to the consulting firm commissioned with the task. Although a civil society initiative orchestrated by Kulluna Irada urged the government in October 2020 to compel BDL to cooperate, BDL stuck to its refusal. Only a month after the consulting firm pulled out in November, the Lebanese parliament voted in favor of lifting Lebanese bank secrecy for one year.

Among other recent massive violations of transparency and denials to give the public access to information was the government's decision in September 2019 to reject a request for information submitted by Kulluna Irada and The Legal Agenda regarding power plants. Human Rights Watch concluded from this and other cases that Lebanon's authorities are not interested in increasing transparency through the 2016 Right to Access to Information Law as they failed to establish the oversight body meant to implement the law three years after its passage.

There are regulations on financing political parties in particular with regards to upper limits of campaign spending but they are deficient with regards to transparency and the prevention of corruptive practices. Foreign donations are prohibited but not so anonymous donations, donations from corporations that have contracts with government bodies, and donations from corporations with partial government ownership to both political parties and candidates.

The judiciary is another state institution in which corruption is widespread. Those officials who use their positions for private gains are rarely held accountable as they usually enjoy protection from sectarian networks. The minister of justice launches occasional anti-corruption campaigns that are, however, not suitable to eradicate the

Policy
coordination

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Anti-corruption
policy

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issue. On March 13, 2019, the minister announced its intention to investigate several cases of grand corruption. In May 2020, the government adopted an ostensibly ambitious National Anti-Corruption Strategy (2020 – 2025). Yet there are no further indicators that political will exists to seriously address the issue. The primary aim could very well be to pacify the U.S. and other international donors who highlighted corruption as a major issue in Lebanon.

16 | Consensus-Building

None of the members of the Lebanese political class openly and actively agitates against democratic values. Rather, particularly pro-Western political parties such as the Lebanese Forces and the Future Movement pay lip service to democratic values, particularly in their relations to Western actors. The Future Movement is a full member of the Liberal International, the Lebanese Forces and Kataeb are full members of the Centrist Democrat International, and the former also of the International Democrat Union, and the Progressive Socialist Party is a full member of the Socialist International. However, when measured on criteria such as the development of inner democratic organizational structures of political parties and the promotion of democratic reforms, the performance of the entire political class is low. All established political parties are managed top-down and show no inclination to pursue the aim of overcoming sectarianism although this aim is constitutionally engraved. The political leaderships of all parties were unified in their strict rejection of the demands of the Lebanese 2019 – 2020 protests – and the civil society organizations backing them – to democratize the political system by replacing the sectarian system by one based on good governance criteria including transparency and accountability, the rule of law, and combating corruption through building independent state institutions.

There are no influential political parties and social movements in Lebanon that would promote anti-market socioeconomics such as Soviet-style socialism or even state-capitalism in the sense of state-led socioeconomic development. However, Lebanon's self-image as an open and liberal capitalist society notwithstanding, a market economy neither matches Lebanese reality nor is it a strategic goal of the ruling regime. Rather, the Lebanese economy is shaped by crony capitalist and rent-seeking features. The cross-interlocking of public and private economic interests have led to a deeply corrupt system in whose maintenance the ruling political class is invested so as to preserve its economic and political privileges. Outwardly, Lebanon's economy depends highly on the influx of rents, in particular official development assistance (ODA) and soft loans and remittances from the Lebanese diaspora. Internally, the Lebanese system rewards rent-seeking activities both on a petty scale (e.g., acquiring jobs and social benefits through channels of sectarian affiliations) and a grand scale (e.g., protection of private companies from market

Consensus on goals



competition through nepotistic public-private networks).

The Lebanese 2019 – 2020 protests carried a broad anti-sectarian social movement. However, no consensus has been reached on what system should replace the existing one and how this should be done. Some groups believe that the ruling regime must break down, whereas others believe in the possibility of incremental change within existing structures. Particularly some Christians shy away from the introduction of a full-fledged representative parliamentary democracy as this would deprive them of their privileges, since they barely, if at all, exceed one third of the population. Still, the demands of the 2019 – 2020 protests point into the direction of democratizing Lebanon. This demand was unanimously rejected by the otherwise highly fragmented ruling political class.

The sectarian system has long been exposed to criticism from large parts of the society, as it is not in accordance with values of good governance. However, until recently the ruling regime proved capable of acquiring legitimacy by moderating cleavage-based conflicts. As membership in sectarian groups crisscrosses class affiliations, sectarian identities moderate social conflicts. Apart from the upper echelons of the society, also the middle class and to a certain degree even lower classes benefit from sectarian affiliations, for example in finding jobs through sectarian networks, receiving social benefits through sectarian charity organizations, and gaining access to infrastructure provided by deputies of their electoral district.

The regime has always sought to enable private solutions to make up for failed public services. Thus, for the upper and middle classes, the lack of public supplies of electricity and water is an annoyance for which remedies such as electricity generators and water tank trucks are available. The lack of day care centers is bearable for the middle and upper classes as the kafala system allows the import of a cheap exploitable labor force. Until 2019, many middle-class families, especially those with family members working abroad, benefited from extremely high interest rates on their dollar accounts. Although the middle class is the primary beneficiary of subsidies for products such as fuel and wheat, these subsidies can be leveraged by the government to cultivate legitimacy among the lower classes. Unlike Palestinian and other Arab refugees, as well as migrant workers from East Africa and sub-Saharan Africa, Lebanon's lower classes also have access to some social assistance benefits through their sectarian affiliations.

Anti-democratic actors

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Cleavage / conflict management

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The magnitude of the 2019 – 2020 Lebanon protests indicates that the regime dramatically lost legitimacy in the eyes of broad swaths of the society. As material benefits dwindled due to the breakdown of the Lebanese dollar economy and hyperinflation of the Lebanese pound, tolerance for the negative externalities such as corruption and cronyism decreased.

Some prominent politicians such as Nasrallah, Aoun, and Bassil occasionally addressed protesters. However, the political class's basic response to the demonstrators was to entrench itself. No significant attempt to involve civil society in policymaking was launched.

Despite the dramatic loss of legitimacy, for the time being the regime could maintain its power position even though its performance in managing the crisis in 2019 and 2020 was very poor. Societal forces could not bring the regime to its knees because the Lebanese business model does not rest on production (which could be paralyzed by strikes) but on the influx of external rents and capital. However, the inflow of financial means from abroad has dropped to a very low level and foreign currency reserves are nearly depleted in early 2021. Whether the current stalemate between the civil society and the political class will be solved in favor of the regime appears to be to a high degree in the hands of external forces, in particular the Western donor community. The increasingly impoverished lower strata of the Lebanese society, many of the Palestinian refugees, and foreign migrant workers who lost their jobs or cannot send money back home as they are now often paid in Lebanese pound only, are the main social losers in this stalemate.

The authorities made few efforts to involve civil society actors in the COVID-19 response. This backfired in the last week of January 2021 when in Lebanon's second largest city Tripoli mass protests against a strict COVID-19 lockdown occurred. Tripoli's mostly Sunni population was hit particularly hard by the socioeconomic crisis as impoverishment of people working in the informal sector was (contrary to poor Shia areas that received some support by Hezbollah affiliated charity networks) not mitigated by state or private actors. The ISF used force against the demonstrators, including live ammunition. According to figures from the Red Cross, on January 28, 2021, alone, 74 people were injured, with 11 of them needing hospitalization. One man was killed.

Civil society participation

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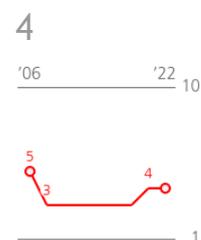


Contrary to Morocco and Tunisia, in which more or less tentative attempts at reconciliation of past injustices were launched, nothing comparable took place in Lebanon in the decades after the end of the civil war. Former warlords and other activists in the conflict, many of whom are personally responsible for war crimes, head political parties and hold high political offices. Martyr cults and glorification of war heroes are widespread, particularly among Christian political parties (Lebanese Forces and Kataeb) and Shia organizations (Amal and Hezbollah).

After the passage of the Law for the Missing and Forcibly Disappeared Persons in Lebanon in late 2018, the government finally set up the members of the National Commission for the Missing and Forcibly Disappeared in June 2020.

Contrary to the neglect of post-civil war reconciliation, the Lebanese state tried to come to terms with the assassination of former Prime Minister Rafiq Hariri in 2005, which has been investigated by the Special Tribunal for Lebanon (SCT) since 2009. However, critics accuse the SCT of starting out with an anti-Syrian bias and later adopting a bias against Hezbollah. Yet the SCT verdict delivered on August 18, 2020, was rather conciliatory, as the judges who convicted a member of Hezbollah for his part in the assassination of Hariri did not find evidence that the organization was involved.

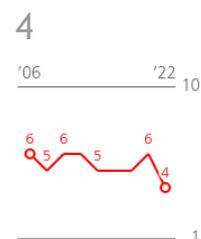
Reconciliation



17 | International Cooperation

From the onset, the post-civil war reconstruction of Lebanon has been based on rent-seeking. Official development assistance and soft loans from the West and the Gulf were used to create an unsustainable political economy that was portrayed as an open competitive capitalist system. However, the system that was actually built was shaped by the features of crony capitalism, a nepotistic socioeconomic system in which the political class used its privileged power position to circumvent principles of a market economy in favor of privileging its clients. With regards to the attraction of remittances from the Lebanese diaspora, the leadership of the BDL even set up a system that showed features of a Ponzi scheme. Before it came to light in late 2019, the regime managed to acquire significant legitimacy through it, as it gave many members of the middle class a chance to increase their dollar accounts to a much higher degree than it would have been possible with bank deposits in the global North.

Effective use of support



The doomsday-like explosion in Beirut's seaport on August 4, 2020, triggered major support initiatives from various international partners of the Lebanese government, both in immediate rescue response and long-term reconstruction plans. The government contracted, for example, a company from Germany to eventually remove the remaining ammonium nitrate from the affected dock area.

In October 2020, Lebanon agreed to enter negotiations with Israel on maritime borders under the auspices of the U.N. Also in this case, the incentive of the Lebanese government was based on rent seeking. Demarcation of maritime borders with Israel could put Lebanon into the position to exploit natural gas resources in the Mediterranean.

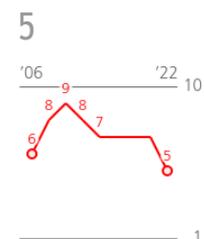
Cooperation with the West and regional powers is rather intense but highly fragmented and very often controversial; it is not the Lebanese state as a whole but different factions of the regime that cooperate with competing regional and global powers. Rafiq and Saad Hariri (as well as the other post-civil war prime ministers except Diab) were closely connected to Saudi Arabia and the West, in particular France and the United States. However, Hezbollah is on the terrorist list inter alia of the United States, and its military wing is on the EU's list. Hezbollah is closely affiliated with Iran, which, in turn, is at odds with the West, in particular the U.S., and in contestation with Saudi Arabia and Israel on regional hegemony in the Middle East.

Lebanese actors actively seek support from their respective patrons. In turn, these competing patrons, all of whom are more powerful than their clients, tend to (ab)use Lebanon to settle their proxy conflicts with competing global and regional powers. In the wake of the ongoing deep crisis in Lebanon, the West, in particular the U.S., attempted to apply donor conditionality with the aim of marginalizing Hezbollah and its allies. Already in early 2019, the tightened U.S. sanction regime on Iran forced Tehran to noticeably reduce rent payments toward Hezbollah. In November 2020, one of Hezbollah's major allies, incumbent president of the Free Patriotic Movement and former minister Gebran Bassil, became a target of U.S. sanctions. Although American reasoning that Bassil is responsible for corrupt practices is factually correct, singling out an ally of Hezbollah instead of condemning Lebanon's entire political class equals to applying double standards with no perspective of thereby promoting structural reforms.

In 2019 and 2020, by far the most important challenge of the Lebanese government with respect to international confidence-building was the issue of its credibility to launch structural reforms. However, negotiations with the IMF that began in May 2020 failed to reach an agreement on funding the economic rescue plan. Most observers attributed this failure to the poor quality of the government's plan.

French President Emmanuel Macron launched several initiatives to convince the Lebanese political class to build a reform-oriented government as a prerequisite for holding another donor conference in Paris. When one of them failed, Reuters quoted him on September 27, 2020, as having said during a press conference in Paris, "I am ashamed of Lebanon's political leaders. The leaders did not want, clearly and resolutely, to respect the commitments made to France and the international community. They decided to betray this commitment."

Credibility



Unsurprisingly, interventions of external actors are highly disputed between different Lebanese actors. Pro-Western Lebanese actors consider Iranian interventions and Hezbollah's interference in the Syrian civil war as illegitimate and even a potential threat to Lebanese security because they fear that at one point Israel might not be satisfied anymore with striking Hezbollah positions on Syrian territory but might attack Lebanon. When French President Emmanuel Macron visited Beirut twice shortly after the August 2020 explosion, thereby directly meeting people on the street and handpicking selected members of the political class, he was praised by some as a potential savior, whereas others accused him of post-colonial imperialism.

Lebanon's relations with its immediate neighbors are highly conflict-loaded. Israel waged several wars on Lebanon and the two countries do not have diplomatic relations. When entering negotiations on their maritime borders in late 2020, both sides emphasized that these negotiations are not a first step to peace negotiations. Hezbollah is an ally of the Assad regime in the Syrian civil war and was frequently targeted by the Syrian air force. In April 2020, the League of Arab States urged Lebanon in vain to launch economic reforms.

Regional
cooperation

5



Strategic Outlook

Lebanon's deepest political and socioeconomic crisis since the end of the civil war needs to be addressed by initiating a democratization process and launching structural economic reforms to be embedded in a transparent process of overhauling recent cases of grand corruption, organized withdrawal of capital to abroad accounts, and other forms of criminal abuse of power. In accordance with the constitution, the current sectarian system should be abolished. Whether this aim can be achieved by incremental change or only by a political revolution is highly contested in the political debate. The perspective of the latter camp is that the ruling political class will be drained of financial resources in the foreseeable future. The prospect of the former faction is that a transitional government of technocrats should launch structural reforms.

In view of the elections scheduled for May 2022, an independent commission should be entrusted to prepare a reform of the electoral law. Direction of impact should be the liberation of both active and passive franchise from prescriptions related to religious affiliations. The reform of electoral law should go hand in hand with a fundamental alteration of Lebanon's personal status laws. As the current law, which is based on religious affiliations, is a cornerstone of the sectarian system, it should be replaced by a civic law.

In the economic realm, one of the most urgent goals is to achieve a debt regulation agreement with the IMF that prevents a further depletion of Lebanon's foreign currency reserves. A thoroughgoing forensic audit of the Lebanese central bank, Banque du Liban, is indispensable. Also necessary is a socially acceptable haircut of U.S. dollar bank accounts. After the launching of structural economic reforms, a state-led economic stimulus and a poverty alleviation program should be pursued.

Due to massive support for its allies in the corrupt Lebanese political class, the Western-led international community bears some responsibility for the deficient development of Lebanon. The West should stop its policy of heavy discrimination between pro-Western segments of the political class – such as Saad Hariri's Future Movement and Samir Geagea's Lebanese Forces – and groups that are singled out as terrorist, in particular Hezbollah. This discrimination should not only be terminated for its ethical problems; the undemocratic and corrupt nature of the Lebanese system is a result of the undemocratic and corrupt nature of the entire political class. There are at least two strategic reasons why the discriminatory approach should be abolished: First, if the West continues to confuse the demand for structural domestic change with the containment of Hezbollah, Hezbollah and its allies have no incentive whatsoever to give up their blockade policy. Second, the pro-Western groups are thereby encouraged to continue their muddling-through policy approach with no perspective to structural change.

Apart from urgently needed humanitarian aid, the West should refrain from political aid donations unless a transparent process that is promising in terms of holding accountable those who are responsible for criminal power abuses is launched and structural reforms leading to a democratic and sustainable economic transition have been initiated.

It is very unlikely that the recent normalization of relationships between Israel and the Arab Gulf will have a spillover effect on Israeli-Lebanese relations because this would require that Israel and Hezbollah recognize each other as legitimate actors.