

BTI 2012 | Lebanon Country Report

Status Index	1-10	6.24	# 43 of 128	
Political Transformation	1-10	6.15	# 57 of 128	↗
Economic Transformation	1-10	6.32	# 45 of 128	↗
Management Index	1-10	4.19	# 90 of 128	

scale: 1 (lowest) to 10 (highest) score rank trend

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Key Indicators

Population	mn.	4.2	HDI	0.739	GDP p.c.	\$	14067
Pop. growth ¹	% p.a.	0.7	HDI rank of 187	71	Gini Index		-
Life expectancy	years	72	UN Education Index	0.695	Poverty ³	%	-
Urban population	%	87.2	Gender inequality ²	0.440	Aid per capita	\$	151.8

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

Executive Summary

After a perceived moment of national unity symbolized by a peaceful uprising against the pro-Syrian regime in 2005, Lebanon's political actors and the population are divided down the middle over issues that do not allow for practical compromises, are part of larger conflicts which local actors cannot influence, and blend into long-standing conflicts driven by politicized sectarian identity.

These conflicts seriously impair Lebanon's political institutions. An 18-month-long political stalemate ended when rival Lebanese factions reached the 2008 Doha Accord, which provided the basis for the 2009 elections. The elections established a series of "governments of national unity," the last of which collapsed in January 2011 over cooperation with the international "Special Tribunal for Lebanon," which is expected to indict prominent members of Hezbollah for involvement in the Hariri assassination.

These disruptions have impeded and delayed the implementation of the strategies of economic and administrative reform that successive Lebanese governments, including the pre-2005 regime, have pursued consistently. As identity politics have largely drowned out debate and deliberation over other issues, the reform agenda has not been subject of a meaningful public debate, but was instead imposed in a technocratic manner from above. The electoral support enjoyed by the parties advocating reforms does not equate to popular support for the reforms themselves – it results from unquestioning voter loyalty to different sectarian leaderships, whatever policy they advocate. Both support of and resistance against reform strategies are thus expressions of sectarian identification, and the reform agenda is liable to be sucked into the larger conflict and stall.

While economic and governance reform were at least attempted, no serious efforts were made to reform the political system, or even to carry out most of the reform measures mandated by the 1989 peace accord. No party has dared to even get close to the minefield of sectarian-based

power-sharing, and even moderate proposals for reform – such as the 2006 draft electoral law, which included elements of proportional representation – were stalled and emptied of content to prevent challenges to the ways political power is reproduced. Thus, the political system remains largely closed to those Lebanese who are dissatisfied with the existing modes of political representation.

History and Characteristics of Transformation

Ever since the central areas of what is today Lebanon achieved a degree of limited local autonomy in the mid-19th century, political representation has been organized into power sharing between sectarian communities. Struggles over the exact size of the shares allotted to individual communities (mainly Sunni, Shi'ite and Druze Muslims, and Orthodox and Maronite Christians) have been a permanent source of tension since independence in 1943, particularly in response to demographic change.

The Taif agreement, which ended the civil war in 1989, set basic rules and quotas for the power-sharing system which was adjusted to achieve parity between Christians and Muslims, who at that point in time had already achieved an undisputed demographic majority. The package also included a road map designed to initiate a departure from power sharing and a transition to a system based on equal citizenship, but this was never implemented.

Sectarian division is compounded by the strategic location of the country on the fault line of major international conflicts. Lebanon has been converted into an arena for proxy wars by regional and international actors on numerous occasions. Since the 1950s, the country's major political fault line has been its position vis-à-vis the Arab-Israeli conflict and its wider implications. In the run-up to the Lebanese civil war of 1975 – 1990, active solidarity with the Arab cause was advocated by an alliance of Muslim and nationalist/anti-imperialist forces. Christian parties and politicians feared that such a course, and the concomitant influence of neighboring countries as well as armed groups that were predominantly Muslim, would bolster the Muslim communities at their expense.

After 1990, the decline of the major Christian parties coincided with Syria's domination of Lebanon through regular troops, intelligence services and Lebanese proxies, and resulted in the nation largely favoring the Muslim/nationalist alliance. Political conflict was subdued over the following 15 years, as all relevant decisions were in fact taken by Syria. Syrian control finally collapsed in 2005 in the face of a peaceful uprising triggered by the assassination of former Prime Minister Rafiq al-Hariri. This popular and political mobilization against the Syrian presence was not supported by the Shi'a community (roughly one third of the population), who feared that the newly forged alliance of Sunni, Christian and Druze parties would seek alignment with pro-Western neighbors such as Egypt and Saudi Arabia, and sway Lebanon into a regional

alliance that sought accommodation with Israel and the isolation of players who resisted (e.g., Syria, Iran, Hezbollah and Hamas).

Since early 2006, intra-Christian rivalry has led one of the main Christian parties to quit the anti-Syrian coalition and join the Shi'ite parties in a formal alliance. Over the past five years, Lebanese politics have been dominated by a sharp polarization between two blocks of nearly equal strength, referred to, after two rival demonstrations in 2005, as "March 8" (the Shi'ite parties Amal and Hezbollah, the Christian Free Patriotic Movement and an array of smaller nationalist/pan-Arab oriented parties) and "March 14" (the Sunni Future Movement, the Christian parties Kata'ib and Lebanese Forces and, before 2009, the Druze-dominated Democratic Gathering). The two camps also differ on economic and social policies, with March 14 veering toward market liberalism and March 8 toward statism, yet both tendencies are little developed in the political platforms of the two blocs, and remain secondary to foreign policies by a long chalk.

The conflict came to the fore in the aftermath of the 2006 war between Hezbollah and Israel. Between November 2006 and May 2008, parliament did not meet and the legitimacy of the government was regularly contested. The country also lacked a president from late 2007 onwards, and in May 2008 the persisting tensions exploded into three days of violent confrontation. Concerns over potential disintegration along sectarian lines prevented any intervention by the army and the security forces, leaving Hezbollah to exploit the clear superiority of its professionally trained and equipped military apparatus over the proto-militias organized by their opponents.

When the latest "government of national unity" collapsed and the major Druze party switched sides, March 8 could command a narrow parliamentary majority. However, at the time of writing, the candidate supported by this new majority has not succeeded in forming a new cabinet despite more than two months of intensive negotiations, and it remains unclear whether a government supported by only one of the two blocs will be capable of governing.

To summarize, the political system has been in a state of paralysis and blockade at most times since the 2005 demise of the Syrian-sponsored government; legislation and reform measures have been to a large extent slowed down and impeded.

Lebanon has a long-standing tradition of a liberal economic framework, and state intervention was virtually unknown during the first 15 years of independence. Again, a violent rupture – the short civil war of 1958 – was necessary to underscore the dangerous consequences of growing inequality. All public institutions date back to the 1960s. The slow disintegration of the Lebanese state during 15 years of civil war and the capture of state institutions by militias and sectarian elites greatly reduced their credibility and efficiency. Successive post-war Lebanese governments have embarked on a course of administrative reform, albeit without seriously challenging the clientelist networks that pervade all levels of public administration, as these are ultimately under the control of important players in the power structure.

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

Transformation Status

I. Political Transformation

1 | Stateness

Nominally speaking, the Lebanese state and its security forces exert full control over all Lebanese territory, with the exception of the northern half of the border village of Ghajar (Israeli-occupied), the area of the disputed Shebaa farms and 12 Palestinian refugee camps, which are controlled by various armed Palestinian factions. In practice, the state monopoly on the use of force is challenged in a number of areas and in numerous ways. The borders, in particular the eastern border with Syria, are notoriously difficult to control. In peripheral areas, in particular in the Bekaa valley and in the north, control is often wielded through tacit arrangements between state organs and local armed groups (armed tribes and clans), with the latter occasionally ignoring or challenging state authority. More generally, the high prevalence of small arms and tightly woven local social networks renders intervention by security forces problematic in many places, including certain urban areas. Palestinian camps also provide refuge for violence-prone Sunni Islamist groups, while effective control over the southern suburbs of Beirut (which also control access to the airport) is wielded by the Shi'ite party Hezbollah.

In addition, Hezbollah and its close ally Amal maintain a standing military force of “resistance fighters,” over which the central government has no control whatsoever. Ostensibly, these forces and their armaments are meant to deter Israel from attacking Lebanon, yet their existence and the substantial upgrade they are reported to have made to their missile arsenals may itself provoke such an attack. Either way, these forces compromise and partly usurp government capacity to decide over defense strategy and matters of war and peace.

The threat of armed conflict also looms large over the international Special Tribunal for Lebanon (STL), whose indictments, issued in early 2011 but not yet publicized at the time of writing, are expected to implicate senior Hezbollah cadres. As in 2008, the government will be unable to enforce the STL’s rulings, or indeed any decisions perceived by Hezbollah as against its vital interest, not only because the

Question	Score
Monopoly on the use of force	4

military balance appears to be tilted in Hezbollah's favor, but also out of well-founded concern that sectarian polarization may entail the disintegration of the security forces.

Finally, the presence of the United Nations Interim Force in Lebanon (UNIFIL) in southern Lebanon has partly prevented a localized and renewed military build-up by Hezbollah and has helped to enhance state presence there. However, this has only led to the relocation of Hezbollah's military capabilities into adjacent areas and some modifications of its military strategy, with no discernible effect on the balance of power between the government and Hezbollah, or on the autonomy of the latter. While the agreement signed in the aftermath of the 2008 conflict stipulated that the conflicts around Hezbollah's military role should be resolved through all-party consultations in the framework of the extra-institutional "National Dialogue," no progress has been achieved on this track, either.

All Lebanese citizens enjoy civil and political rights and, with the exception of some marginal political groups, do not question the legitimacy of the nation-state. Almost all groups, however, question the loyalty of other groups to the state, and often look for outside support to enhance their position in domestic competition over state power and its spoils. Compared to other countries in the region, Lebanon has managed to integrate minorities socially and politically. In fact, integration and accommodation of a multitude of religiously defined groups – none of which comprises more than one third of the population – has been the basic organizing principle since the establishment of the state. Consequently, access to state power and resources is organized through political power sharing and group quota. While this may compromise equal and merit-based opportunity in individual cases, there is no systematic discrimination against any particular group of Lebanese citizens.

State identity
8

Lebanon is home to an estimated 250,000 to 300,000 Palestinian refugees, who have largely been denied access to the labor market, and around half of them continue to reside in camps which have developed into squalid, impoverished and underserved neighborhoods. While there is a general Lebanese consensus that Palestinian refugees will not be granted citizenship (and Palestinians themselves, as part of their political posture, do not seek it), there is apprehension over the fact that no credible perspective for their return to Palestine or resettlement outside Lebanon exists even if a peace agreement were to be reached. The intensity of these concerns is aptly reflected by the fact that a clause prohibiting their naturalization was included in the Lebanese constitution in the early 1990s. Because these refugees are overwhelmingly Sunni Muslim, Lebanese Christians are especially concerned with the matter, construing it as a major element in the threat scenarios of majorization and marginalization that drive identity politics in the Christian communities. Such demographic apprehensions to some degree also apply to Shi'ite Muslims, yet the fiercely anti-Israeli stance of the major Shi'ite parties lends credibility to their focus on the "right of return," which in turn allows them to freely choose between either

sidestepping the issue altogether, or improving the situation of Palestinians without prejudice to their final status.

In recent years, a sizable community of Iraqi refugees and an increasing number of domestic workers from Africa and Asia have settled in Lebanon. Like the refugees, these immigrants lack protection and are sometimes denied basic human rights by their employers. Finally, there are population groups of mostly Kurdish origin who are considered stateless aliens by the Lebanese authorities, and who do not enjoy civil and political rights. As in many Middle Eastern countries, citizenship is passed on exclusively through paternal lineage, and is denied to the children of Lebanese mothers with foreign husbands, with the notable exception of children born out of wedlock. By the same token, naturalization is easily available to female foreign spouses, but unavailable to males.

Lebanon has no state religion, and freedom of belief is enshrined in the constitution. However, religious groups are institutionalized, wield exclusive power over personal status law (issues of marriage, divorce, child custody, inheritance) and control a sizable part of the education system. The leaders of the officially recognized 18 religious communities also have the right to challenge laws that affect vital interests of the community through the constitutional council, a motion otherwise restricted to the president of the republic, the prime minister, the speaker of parliament or groups of at least ten members of parliament.

No interference of
religious dogmas
7

Religious leaders also regularly speak out on pertinent political questions, in many cases straddling the line between religious and political leadership, and large parts of their respective communities follow their advice. Hence, there is permanent interchange between the political and the religious sphere, and politicians make their decisions either in coordination with the respective religious leaders or in a manner that accommodates the latter's interests.

Lebanon has a differentiated administrative structure throughout the country, but its operation is to some extent deficient, particularly in peripheral and rural areas. Delivery of public services is impeded by a combination of bureaucratic inefficiencies, corruption, undue political influence and basic lack of funding. Significantly, in the aftermath of the 2006 war, foreign donors circumvented official structures in order to deliver support more efficiently, and the delivery of compensation payments funded by Arab governments was delayed considerably.

Basic
administration
6

Basic infrastructure, such as water, sanitation and electricity does not reach areas of the periphery in sufficient measure. Water shortages are common, in particular at the end of summer, as are technically unsound cesspits with detrimental effects on ground water quality. The state-owned electricity company remains unable to supply sufficient power, and blackouts (three hours daily in the inner districts of Beirut, up to 12 hours in marginalized rural areas) remain a permanent fact of daily

life that cripples many gainful activities. In 2010, the Lebanese spent twice as much on electricity generated by private generators as on electricity provided by the state monopolist.

2 | Political Participation

General and competitive elections are held regularly (every four years) in Lebanon, and there are no limitations on parties who wish to compete. Suffrage is technically general, but somewhat restricted by the high voting age (21) and the unavailability of absentee voting. Due to high rates of emigration, the latter is doubtlessly the main reason for a generally low turnout (54% in 2009).

Free and fair elections

7

Prior to 2005, Lebanese elections were subject to significant Syrian interference. Blatant gerrymandering and direct threats and pressure were brought to bear on voters and candidates alike in order to guarantee unchallenged pro-Syrian majorities, and to marginalize especially outspoken opponents of Syria's role in Lebanon. Such practices have ceased, and elections post-2005 can be called largely free and fair. In addition, some technical improvements (e.g., voting with Lebanese IDs instead of the frequently abused voter's card, enforcement of the use of voting booths, correction of voter registers) have doubtless reduced the margin for fraud. Still, some major issues prevail: In particular, there is no standard pre-printed ballot sheet, resulting in vote-tracking and the related practices of vote buying and voter intimidation. Even in the post-Syrian era, voters' choices are still curtailed and the equality of the vote is undermined by blatant gerrymandering (tellingly, the exact alignment of electoral districts for the 2009 elections was negotiated as part of the Doha compromise package).

As in all majority systems, the composition of parliament often does not reflect the popular vote (in the 2009 elections, the opposition March 8 block carried about 55% of the vote cast, yet the governing March 14 block was able to defend its parliamentary majority). Furthermore, power-sharing, the prevalence of grand coalitions and the dominance of political dynasties imply that elections do not really determine how political posts are filled. Rather, they determine the relative weight of political players and hence their bargaining power in the bazaar for political posts and government offices that follows the polls.

While there are no explicit restrictions on party platforms, sectarian earmarking of parliamentary seats and the majority system create a heavy bias in favor of parties with a clearly identifiable sectarian platform, while parties and citizens with cross-sectarian outlooks have only limited access to participation.

During the 2009 parliamentary elections, a newly established electoral commission monitored campaign financing and media behavior for the first time, yet this did not

result in significant changes to the campaign machines' familiar behavior of partisan media performance and thinly veiled vote buying.

There is no majority rule in Lebanon. Instead, governance is based on consensus politics worked out between the political elites of the major sectarian communities. As the constitution and political tradition provide for the inclusion of all communities in government and administration, and as most Lebanese communities have been homogenized behind a unified political leadership – with the notable exception of the Christians, who are suffering as a result – nearly all major players within this political elite wield de facto veto powers. The political system remains functional as long as these veto players succeed in accommodating their differences over the shares of state power and resources and the general political outlook of the country. It grinds to a hold every time conflicts arise where no compromise appears possible, in particular over foreign policy and alliances, and mostly in response to shifts in the regional balance of power and configurations of conflict. Foreign actors wield significant influence and often exploit local actors for their larger strategic interest, and may be said to be acting as veto players on occasion by dissuading their allies from seeking or accepting compromise solutions. Since 2005, these foreign actors – in particular the United States, Saudi Arabia, Iran, and Syria – have exacerbated the differences between the March 14 and March 8 camps in pursuit of their own interests, and thereby contributed to de facto breakdown of the capacity to govern.

Lebanon has comparatively liberal association law and a long tradition of independent, non-profit CSOs operating in the fields of public welfare, culture, education and development. While many of these organizations are in fact part of the patronage systems established by sectarian political leaders, independent and cross-sectarian organizations have existed since long before the civil war (e.g., Mouvement Social). The civil war forced many organizations to scale down or cease operations between 1975 and 1990, yet a wave of new organizations has been established during the past two decades and explored previously unknown spheres and modes of activity, such as defense of civil liberties, advocacy for issues such as the environment or gender equality, curbing corruption, and similar aspects.

While a number of associations had to operate in a legal gray zone during the period of Syrian occupation (1990 – 2005), associational work and assembly rights have not been subject to specific restrictions over the past years. Associations suffer, however, from the absence of local funding opportunities and from dependence on exterior sources of funding. Associational and civil society activity in Lebanon is often more attuned to the priorities of external donors than to the needs of Lebanese society.

Effective power to govern
4

Association / assembly rights
8

Freedom of opinion and the press are guaranteed in principle, but are subject to some intervention, in particular with regard to content deemed offensive to conservative notions of morality and to religious beliefs and sensitivities, or incendiary to relations between the sectarian communities. At times, journalists and artists brushing up against such taboos may also be at risk of attacks from non-state actors that may include those who are considered part of the social and political mainstream (e.g., clerics). Until 2005, the state's relationship with Syria and many aspects of foreign policy were practically taboo in public discussion, and journalists, who lived in constant and well-justified fear of reprisals, often exercised self-censorship. After 2005, such pressures receded, yet the increasing polarization of the political sphere has resulted in even less independence and pluralism of opinion within media organizations. Although the structure of the mass media system and the law on audiovisual media provide for a plurality of opinions, most television and radio stations and newspapers are in fact linked to certain political groups or families and follow an unambiguously partisan political line. Many Lebanese, even among those holding strong opinions in support of this or that political line or camp, compensate for the resulting lack of trustworthy and even-handed information by collating information from a range of sources spanning the political spectrum. Still, the overall quality of reporting and information remains low, and rumor, slander, and incitement abound in the media.

Freedom of expression

7

3 | Rule of Law

Formally speaking, the Lebanese political system is characterized by an intricate array of mandatory mutual ratification procedures and decision rules (quorums, super-majorities). As a result, the de jure/formal system shows a clear bias for broad coalitions and consensus-oriented government, while concentration of executive powers is circumscribed.

Separation of powers

6

Power emanates from members of parliament as directly elected representatives of the Lebanese people; they elect the president of the republic and, in binding consultations with the president, select the prime minister. While executive power mainly remains with the council of ministers, the government is accountable to parliament, and both the president and members of parliament can initiate legislation. A number of additional institutions (constitutional council, civil service board) are supposed to provide for additional checks. The current institutional arrangement is the result of an overhaul of the Lebanese constitution effected by the 1990 Taif peace accord, which provided for a rebalancing of power by reallocating competences away from the presidency, mainly to the council of ministers, which was supposed to act as a collegial body, and is in turn supposed to reflect the sectarian composition of Lebanese society.

In reality, however, these checks and balances are largely offset through informal arrangements allocating various positions and institutions to the major sectarian communities. Rather than constituting effective processes of control and accountability, relations between state institutions thus tend to reflect the relative power balance between these sectarian elites. Strategically important decisions are typically achieved through direct deals between these actors, outside the nominally competent institutions, and frequently even outside the country, as they are reliant on external political sponsors. In fact, the arbitration provided by foreign diplomats and the governments of neighboring states such as Syria or Saudi Arabia are an indispensable element of the domestic political process.

While the rule of law and constitutional norms are generally observed on the procedural level, institutional checks and balances are routinely subverted by sectarian elites, and the balance of power between these actors (accompanied by the credible threat of violence) constitutes the most effective check on the institutions.

The judiciary operates relatively independently, and law professionals receive thorough training at specialized institutions, which include a special college for judges. Its functions are, however, partially impeded by factors such as corruption, political interference and confessional quota. The judiciary has been subject to political pressure and intervention, most prominently in the highly politicized case of four high-ranking former security officials who have been detained for four years without charge in relation to the assassination of former Prime Minister Rafiq al-Hariri, and, it later emerged, in the absence of sufficient evidence.

Independent judiciary
6

Political intervention also occurs in the appointments of key prosecutors and investigating magistrates, and accounts of petty corruption involving judges abound. While there are many examples of professional judges acting with integrity, the overwhelming and largely accurate perception in the population is that there is no real equality before the law, and that the legal system does not offer effective recourse against socially powerful adversaries. In combination with long backlogs, such negative expectations often dissuade people from taking legal action, and become partly self-fulfilling.

Pervasive clientelism is a central feature of the political system in Lebanon, and corruption is therefore systemic. Media coverage sometimes results in adverse publicity, and monitoring institutions do exist, yet as the overwhelming majority of senior officeholders are part of the power structures maintained by the political elites, they are mostly beyond the law, and prosecution of office abuse or corruption is rare.

Prosecution of
office abuse
4

While there is deep cynicism among the wider public about the lack of integrity and the conduct of officeholders, many if not most citizens are complicit in such

practices. Engagement in petty corruption to facilitate or manipulate administrative processes is ubiquitous, as is the use of “contacts” for gaining access to state resources, such as public sector employment, the commissioning of public works, or infrastructural investment. Hence, a general sense of impunity and moral indifference reigns, and elected officials have little reason to fear adverse consequences from allegations of corruption.

Furthermore, although corruption allegations are staples of political debate, most Lebanese reserve their criticism for politicians or officeholders who are part of a sectarian group or political power structure that they or their leaders oppose. They abet or ignore similar practices by their own leaders and their allies.

In theory, Lebanese law safeguards civil liberties and offers recourse against abuse at the hands of authorities and security forces. In practice, such protection is restricted to those parts of society endowed with sufficient social power to mobilize intervention, which are often beyond abuse in the first place.

Civil rights
7

While arbitrary detention largely ceased after the withdrawal of the Syrian military and intelligence forces and the dissolution of the associated Lebanese networks in 2005, the authorities often detain suspects who lack “contacts” for extended periods of time for even minor alleged infractions, in the same facilities where convicted criminals are held. The conduct of the security forces is reported to be generally professional and torture does not occur on a wide scale, yet cases of abusive interrogation practices are recorded.

Foreign domestic workers who have forfeited their residency permits (often in order to flee abusive employers) are also frequently held over extended periods of time until their extradition is arranged, and refugees, in particular Iraqis, are held without recourse until they agree to “voluntary” repatriation. As Lebanese prisons and detention centers are characterized by severe overcrowding and dismal living conditions, the detention for prolonged periods of time of individuals who have not been convicted of any crime should by itself be described as an abusive practice.

Lebanese police forces occasionally conduct raids against public venues and individuals identified with male homosexuality, and arrest “suspects” on these occasions, who are allegedly subject to abuse and blackmail. The Lebanese penal code allows for leniency towards perpetrators of “honor crimes” (murders of mostly female relatives accused of morally compromising conduct or male relatives accused of homosexual practices), and while technically speaking the legal conditions for clemency on these grounds are narrowly circumscribed, many crimes in this category are never reported or investigated. In general, civil liberties are compromised in areas dominated by conservative and religious sentiment and organizations, and the authorities appear reluctant to protect individuals or groups who fall foul of the latter.

4 | Stability of Democratic Institutions

Democratic institutions perform their functions in principle, but are often inefficient due to frictions between them. The Lebanese political system is based on power-sharing between sectarian communities in an elaborate system of mostly informal arrangements grafted onto a formally republican constitution, and depends on a modicum of compromise between the political elites of these communities, which means that the operation of the democratic institutions is seriously impaired when a serious rift occurs over which no compromise is possible.

Performance of
democratic
institutions
6

Rather than providing a framework for resolving disputes and developing solutions, democratic institutions become assets in a tug-of-war – the winning bloc gets to impose its vision, or at least thwart the other side's attempts to implement theirs, often resulting in the political process grinding to a hold.

Since 2006, an extra-institutional “National Dialogue” of all major political forces has been established to tackle such issues, albeit with no tangible results thus far. Since 2008, this ongoing quandary has resulted in the formation of two subsequent “governments of national unity” which incorporated all major political forces, thus transforming the conflict from a confrontation between government and opposition into a conflict within the ranks of government. To summarize, Lebanon’s democratic institutions appear functional only when divisive issues can be successfully bracketed and postponed, but progress breaks down once this is no longer possible.

Commitment to
democratic
institutions
6

All relevant political and social players accept democratic institutions as legitimate, and profess their commitment to the institutional arrangements safeguarding peaceful coexistence between the sectarian communities. In fact, the emphasis of one’s adherence to institutional processes – what might be called “performative institutionalism” – figures large in the public discourse of relevant political and social actors alike, typically matched with insinuations or open allegations expressing doubt over the degree to which competitors and adversaries show commitment. Even during the violence that occurred in May 2008, the actors who decided to defy the decisions of the acting government (Hezbollah and its allies) almost immediately pushed to restore the political process and institutional legitimacy, rather than snatching the power that was clearly within their reach.

These are extreme scenarios, and Hezbollah is a political actor with a unique position and capabilities, but in reality nearly all relevant actors pair their professed adherence to democratic institutions with the pursuit of their interests through extensive layers of informal arrangements and channels of influence that manipulate

the decisions and workings of these institutions in their favor, thus effectively undermining them.

5 | Political and Social Integration

Lebanon's political party system is replete with organizations that call themselves political parties but are in essence mechanisms to mobilize support for specific political leaders and/or families on a sectarian and local basis. Most parties show only a limited degree of institutionalization and refrain from developing elaborate political platforms as a way of generating support. Instead, party allegiance is brought about through a pragmatic mix of clientelism and deference to an inherited leadership cast as representatives and defenders of sectarian interest, or a certain interpretation thereof. This is true of all the major political parties, with the exception of certain transnational and ideological parties such as the Communist or the Syrian National Socialist Party (SNSP), who play only a marginal role. Civil society has evolved to a certain degree into an alternative public sphere for mainly young Lebanese alienated by this state of affairs, yet attempts to convert this momentum into the basis of a new, nonsectarian political force (e.g., the "Democratic Left") have been largely unsuccessful.

Party system
5

Most of the major parties can scarcely be considered modern political parties. They do not play a significant role in forming opinions and political will, but function as a tool to manage and mobilize popular support for a highly personalized leadership. Additionally, some parties can be subject to drastic political and ideological changes dictated by their leaders and electoral alliances. Because parties are mostly sectarian, there is little if any voter volatility. Where there are serious contenders within the same sect, this is often an expression of a still more bitter divide, making a change of allegiance difficult to imagine. Rather, if voters wish to express discontent with their hitherto preferred political choice, they do so by abstention in elections. The party system is strongly fragmented and polarized.

Interest groups
7

Through Lebanon's entrenched patron-client system is based on sectarian identity and political allegiance, religious figures and political strongmen who act as representatives of sectarian or communal interests have become mediators between the state and community. They function as the main conduit for a clientelist system that is constantly at risk of polarization. Conversely, tightly woven if largely informal social networks exist at grassroots level, such as neighborhood associations and family leagues. Structured by principles of seniority, these provide the main interface between clientelist structures and the individual.

Formal interest groups such as unions and professional associations bear the imprint of the polarized sectarian and political system and therefore have limited functionality. Since the mid-1990s, political actors have successfully subverted and

subsequently subordinated the General Federation of Trade Unions, and austerity measures and a generally declining standard of living for the majority of the working population have not been met with any significant resistance from these quarters. Significantly, in the run-up to the violent clashes of May 2008, the two Shi'ite Parties Hezbollah and Amal were able to hijack and instrumentalize protests that had been called by the trade union leadership, who were unable to mount any meaningful challenge. Some smaller associations (e.g., teachers), do still manage to perform their function as interest groups, and occasionally achieve incremental improvements for their members. Other types of interest groups do exist (e.g., the association of industrialists), but are mainly functioning as organs of publicity, while actual influence on policy decision is wielded through the clientelist structures.

Long-term surveys unfailingly affirm that a large majority of Lebanese approve of democracy as the best form of government and the preferred political system, and of its corollaries the multiparty system, the independent judiciary, and a free press. In general, Lebanese compare themselves favorably with regional authoritarian regimes such as Syria or Egypt (under Mubarak), and such disaffection as exists – notably, a modicum of sympathy for strong rulers, as embodied for example by the late Saddam Hussein – is to a considerable extent fueled by the dismal performance of Lebanon's system of power-sharing democracy, and not its general principles. Consequently, the population combines low levels of trust for the actual performance of democratic institutions with a generally positive attitude towards democracy and in its specific Lebanese manifestation, and even a culture of reverence to the institutions themselves. Even fervent followers of this or that political leader may have little trust in the political party or organization he (females only enter politics as surrogates for dead or otherwise impeded brothers, husbands or fathers) ostensibly presides over, and the institutions he controls. An exception in this bleak picture is the Lebanese army, which has successfully maintained its image as a professional, patriotic, and, most importantly, non-partisan force.

Lebanon enjoys one of the most active and least restrained civil societies in the Arab world, and has a long and rich tradition of associational life, in urban as well as in rural areas. In particular, associations concerned with public welfare abound – with a large, but by no means exclusive presence of religious organizations – in addition to sports and cultural associations. In the second half of the 1990s a number of advocacy and watchdog organizations which attempt to directly influence political processes and decisions by mobilizing in the public sphere emerged. Since 2005 and in particular in the wake of the 2006 war, foreign funding propelled the number and scope of such organizations, leading to certain distortions (e.g., donor-driven agendas, creation of an artificial labor market etc.).

This rich associational life should not be confused with the creation of social capital and trust. As a matter of fact, many organizations pride themselves on having a

Approval of
democracy
7

Social capital
6

multisectarian membership and leadership, and often a distinction is made – implying a claim to greater legitimacy – between organizations who represent a composite of the Lebanese population, and mono-sectarian associations, which are seen as representative of only part of society. The latter are generally (and mostly correctly) assumed to be promoting a certain political-sectarian agenda. However, multisectarian organizations frequently feel compelled to apply the same informal politics of accommodation, including quota and engineered elections, that structure the Lebanese political system. In times of sectarian and political confrontation, the same conflicts often arise in such organizations, and there is little evidence to support the idea that associational life may build trust or “bridging social capital” which would make individuals and groups resistant to ethnic and sectarian sentiment. Rather, in a situation of conflict, the majority of the members will revert to their primary identity as part of a sectarian community, and only a small minority who has severed their ties with its community – and is, consequently, marginalized – remains committed to cross-communal, secular positions.

II. Economic Transformation

6 | Level of Socioeconomic Development

Lebanon financed its post-civil-war reconstruction with heavy borrowing and focused on its capital Beirut, neglecting balanced regional development. Historical patterns of inequality were thus continued and have perhaps become even more accentuated. The results 20 years later are mixed: While the tourism sector is performing well, despite repeated unrest and conflict, and real estate is booming, the trickle-down effects appear insufficient to address poverty and unemployment. Both gastronomy and the retail sector are unable to absorb sufficient labor, while salaries remain low and – given the volatile political situation as well as the repercussions on the industry – precarious. The real estate boom has driven up the cost for housing in the capital far beyond the reach of the average wage earner, contributing to urban sprawl, which in turn and in the absence of an efficient public transport system, compounds the dismal traffic situation in the Beirut–Jounieh conurbation.

Heavy borrowing has left the country with a considerable debt approaching €50 billion, or 150% of GDP. The margin of movement for the government is thus extremely limited, and public sector salaries will continue to fall behind inflation.

According to a 2008 study by the International Poverty Center (IPC), roughly 30% of Lebanese live below the poverty line (set at \$4/day), and 8% live below the

Question	Score
Socioeconomic barriers	5

margin of extreme poverty, set at \$2.4/day. This implies that almost 300,000 individuals in Lebanon are unable to meet their most basic food and non-food needs. The bottom 20% of the population account for only 7% of all consumption in Lebanon, while the richest 20% account for 43%. Poverty levels diverge between less than 6% in Beirut and above 40% in the south, and beyond 50% in the north. Thus, a nationwide Gini coefficient of 0.37, which is comparable to other MENA countries (and is significantly lower than values in South America), obscures more profound inequalities between regions (i.e., Beirut as a mid-income “island” surrounded by a third-world society). It probably also fails to account for the significant income and property generated and held by wealthy Lebanese outside the country – in particular in the petrodollar economies of the Gulf – and who are funding consumption without ever officially entering the economy.

Education remains the single most important factor perpetuating inequality in Lebanon. In principle, all Lebanese citizens have access to free education through state-funded primary and secondary schools and the Lebanese university. In reality, all but the poorest segments of society shun the public system and shoulder the significant expenses of private education (from between \$4,000 and \$5,000 per year for second-rate to beyond \$10,000 for elite schools), presuming – mostly correctly – that graduates of public institutions will be at a serious disadvantage in the job market. Existing economic inequalities result in profoundly unequal opportunity for coming generations, and social mobility is severely constrained. In response, Lebanon features an emigration rate of around 40% in its tertiary educated population.

While there is no institutionalized or legal discrimination or exclusion based on gender, women are largely absent from senior positions in nearly all economic sectors except for the media, advertising, and some aspects of the tourism industry (e.g., travel agencies, hotel management). As in the political sphere, the women who do occupy senior positions typically reach them through family relations, in particular as surrogates or placeholders for unavailable or impeded male relatives. There is some presence of women on the median level of clerical and managerial professions (e.g., banking, insurances), yet few if any ever attain senior status. Research indicates that women working in these industries tend to be better educated than men at the same level, while still earning less. Overall, the rate of economic activity is estimated at below 20% for women, as opposed to above 50% for men.

This reality is even more striking considering the easy availability of affordable domestic labor (housemaids from Sri Lanka or Ethiopia have become ubiquitous even in lower-class households, at a cost of some \$300/month), making the combination of salaried labor and child rearing possible. Many lower middle class

households need the extra income generated by the difference between the cost of the domestic help and the income earned by family members freed to take salaried positions by the domestic help to maintain a decent standard of living.

Economic indicators		2007	2008	2009	2010
GDP	\$ mn.	25056.7	30079.6	34924.7	39006.2
GDP growth	%	7.5	9.3	8.5	7.0
Inflation (CPI)	%	-	-	1.2	4.0
Unemployment	%	9.0	-	-	-
Foreign direct investment	% of GDP	13.5	14.4	13.8	12.7
Export growth	%	13.8	13.7	1.7	0.4
Import growth	%	17.2	16.9	20.7	-7.8
Current account balance	\$ mn.	-1604.8	-4102.7	-6740.9	-9415.5
Public debt	% of GDP	167.7	156.3	146.4	136.7
External debt	\$ mn.	25635.5	24321.4	24500.1	24292.9
Total debt service	\$ mn.	4724.2	4507.4	4711.3	4255.7
Cash surplus or deficit	% of GDP	-11.1	-9.8	-8.3	-
Tax revenue	% of GDP	14.8	15.9	17.1	-
Government consumption	% of GDP	14.6	14.7	14.0	12.1
Public expnd. on edu.	% of GDP	2.6	2.0	1.8	-
Public expnd. on health	% of GDP	8.4	8.5	8.1	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	4.6	3.9	4.1	-

Sources: The World Bank, World Development Indicators 2011 | International Monetary Fund (IMF), World Economic Outlook 2011 | Stockholm International Pease Research Institute (SIPRI), Military Expenditure Database 2011.

7 | Organization of the Market and Competition

Since independence the Lebanese political elite has favored laissez-faire liberalism and a minimum of state intervention and regulation. Only few strategic sectors (telecommunications, tobacco, energy) are state-owned or state-controlled, and pricing is left to the market except for some basic staples (e.g., flour). The currency is fully convertible, no limitations on transfer of currency or profits exist, and more than 60% of bank deposits and 80% of loans are dollarized. Lebanese law treats national and international investors equally, except in land acquisition, where a decree from the council of ministers is required for purchases exceeding 3,000 sqm. Foreigners can fully engage in economic activities, whether establishing Lebanese companies and joint ventures or creating a local subsidiary of their existing business enterprise, although Lebanese involvement is required for certain venture types (joined stock or offshore companies).

Market-based competition
6

However, the establishment and registration of economic ventures is complicated by red tape and bureaucratic procedures. The World Bank's 2011 Doing Business ranking positions Lebanon at 113 out of 174 economies, slightly behind Jordan and significantly behind Egypt. More ominously, Lebanon ranks last among regional competitors in cumulative change between 2006 and 2011. In other words, and despite its free-trading image, the free-marketeering edge which Lebanon once enjoyed over its neighbors is rapidly evaporating.

Market competition is relatively free in the private sector, while contenders for public sector projects and tenders encounter engrained clientelist structures and a system of apportionment according to sectarian quota and political expediency.

A significant informal sector exists, but is mainly driven by the urge to avoid start-up costs (according to Doing Business these are ten times higher than in Egypt, and almost twice the amount encountered in Jordan and Syria when related to per capita income), taxes, fees and the mandatory contributions to the national social security fund. This informal sector is not so much an outcome of inappropriate frameworks and over-regulation, as testimony to the undercapitalization of many economic actors, but also of the weakness of the state and the urgent need to streamline bureaucratic procedures and modernize the collection of revenue.

Roughly 60% of Lebanon's economy is comprised of oligopolies which are rarely regulated. A 2006 study commissioned by the World Bank found that rents accruing from monopolistic positions represent more than 16% of GDP in Lebanon. An earlier study commissioned by the Lebanese Ministry of Economy and Trade in 2003 found that half of Lebanon's domestic markets are considered oligopolistic to monopolistic and a third of them have a dominant firm with market share above 40%. Even in the private sector strong monopolies or oligopolies wield extensive

Anti-monopoly policy
5

control over significant areas of industry, and are frequently able to manipulate regulatory institutions in their favor, and to the disadvantage of competitors. The government's 2006 reform plans, which were submitted at the Paris donor conference, include amongst other provisions a new package of anti-trust laws, which, if passed by parliament, will regulate and prevent unfair monopolies.

The government of Lebanon has signed agreements with the European Free Trade Association (EFTA) and the European Union committing itself to improving competition, and has moved forward by drafting a competition law, recently submitted to the parliament. Preparatory work has commenced for the establishment of an independent national competition council whose competences will apply to both private and public undertakings, and training has been provided by the Technical Assistance and Information Exchange instrument of the European Union. However, prolonged political stalemate and vested interests continue to slow the process.

The Lebanese government does not exert any controls over foreign trade. While there are no importation controls, some businesses own “exclusive licenses” for the importation of certain goods and brands, which are protected by the state and enforced by custom authorities. Lebanon has joined the Greater Arab Free Trade Area (GAFTA) and eliminated most tariffs with other Arab countries as of 2005.

Liberalization of
foreign trade
9

Lebanon formally applied for accession to the WTO in 1999, and seven meetings of the working party were held prior to the end of 2009. Further meetings will be held when outstanding WTO-related legislation has been adopted, after Lebanon submits the necessary inputs (replies to members' questions, a revised Legislative Action Plan), and after the secretariat revises the Draft Working Party Report.

Lebanon is a member in the Euro-Mediterranean Partnership, and in April 2006 an association agreement making the European Union the country's most important trading partner went into effect. An action plan was worked out in the framework of the European Neighborhood Policy detailing reforms in line with Lebanon's Paris III commitment (this commitment was the result of an International Conference for Support to Lebanon, held on 25 January 2007 in Paris).

Lebanon has made progress in the simplification of import procedures by reducing the number of steps, employing a standardized automated document and establishing a one-stop-shop procedure at the port of Beirut. The country removed restrictions on foreigners' import and export activities in April 2007. It has begun a process of progressive dismantling of tariffs on European industrial and agricultural products. Lebanon ratified the United Nations' New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards in 1997 and has been a member of the World Bank's International Center for the Settlement of Investment Disputes (ICSID) since 2003.

The banking regulatory system is transparent and consistent with international norms, and Lebanese banks operate in line with the Bank for International Settlement (BIS) standards. The capital adequacy ratio stood above 12% in 2008, compared to the 8% set by Basel II, and the ratio of nonperforming loans stood at around 10% in 2008, down from almost 18% in 2005. Following concerted efforts by the central bank and the Banking Control Commission, the Lebanese banking sector now complies with the first and second pillar of the Basel II guidelines (new capital adequacy ratio, supervisory review process), and compliance with the third pillar (transparency and market discipline) is proceeding apace (as of November 2008). In recent years, the central bank has sought to encourage consolidation of the sector, most directly by raising capital-adequacy ratios, and more than 25 bank mergers have taken place over the past decade.

Banking system
9

The central bank has consistently mandated conservative standards of credit and liquidity, and has prevented Lebanese banks from engaging in investment in highly leveraged financial products in the international markets. This strategy has successfully shielded the banking system from the direct impact of the global financial crisis. On the contrary, bank assets have actually grown from \$94.25 billion to \$126.5 billion between December 2008 and October 2010, due to a significant inflow of foreign capital, which presumably included that from investors looking for safe havens at a time when international and regional capital markets were in turmoil. While Lebanese banks have significant exposure to public debt (60% of the public debt is held by local banks), Lebanese treasury bonds continue to be well received in financial markets, in particular by investors from Arab countries. In this way, holding public debt appears to be a source of secure earning rather than a serious liability.

Anti-inflation /
forex policy
9

8 | Currency and Price Stability

Lebanon's central bank is independent and has pursued a consistent inflation and currency stabilization policy since the mid-1990s, which is largely in line with the economic priorities of successive governments. Inflation has been low over the past decade (less than 2% until 2005), with a moderate spike to around 5% in 2006 and nearly 10% in 2008, as a result of the 2006 war and a sharp rise in world commodity prices, in particular food and fuels. It fell back to around 2% in 2009 due to a steep decline in energy costs, and lay around 5% in 2010. The weak US dollar also resulted in imported inflation, as the Lebanese pound is pegged to the US dollar, but the euro area is a more significant source of imports. The central bank often intervenes to stabilize the Lebanese pound by selling foreign currencies, and has successfully stabilized the exchange rate at around LBP 1,500 to the dollar since 1994. The exchange rate has constituted an effective anchor for Lebanon's financial stability in the face of persisting large vulnerabilities and repeated shocks.

Financially powerful regional actors, in particular oil-rich states such as Saudi Arabia and Kuwait, have also supported stability through depositing significant funds with the central bank at times of politically induced capital flight, such as during the 2006 war between Hezbollah and Israel.

Publicly, consecutive Lebanese governments have been committed to budgetary discipline, reducing the debt and managing public finances in a way that will continue to attract investment and spur economic growth. The results are, however, mixed, with expenditures still outstripping revenue and budget deficits hovering around 10% of GDP, one of the highest ratios worldwide. While publicly declaring a commitment to reform, consecutive Lebanese governments have been unable to tackle a number of crucial issues, in particular the intended privatization of the ailing electricity sector, which constitutes a permanent drain on public finances (up to one third of the budget deficit in some years). Similarly, the public employee payroll remains one of the biggest items in the budget, and largely impervious to reform. Hence, government final consumption expenditure remains high at 15% despite the official laissez-faire economic approach. This worrisome picture is partly mitigated by recent robust economic growth, which has also brought total debt – currently standing at some \$50 billion – down to below 150% of GDP, while the debt in absolute figures grows continuously, and will continue to do so as long as the budget deficit is not brought under control. However, important components of this growth – notably, capital inflows, also in the form of investment in real estate, and tourism – tend to be volatile and reactive to political events both at local and regional level, and there are no guarantees against a sudden reversal of fortunes. Lebanon has a chronic current account deficit, with exports rarely covering more than 25% of imports, yet capital inflows (in particular remittances from Lebanese living abroad, which some estimates put at 30% of the value of the Lebanese economy) more than compensate for this. Likewise, the central bank has amassed nearly \$30 billion in foreign currency reserves as a further pillar of financial stability, contributing to a stark contrast between a prudently and professionally run financial sector and a feckless political sphere characterized by paralysis and lack of responsibility on financial and fiscal matters.

Macrostability
6

9 | Private Property

Property rights and regulations with regard to acquisition, benefits, use and sale are well-defined and are limited only by basic liberal rights. Restrictions exist with regard to the purchase of real estate by foreigners, who need to obtain a decree from the council of ministers if they wish to purchase more than 3,000 sqm of real estate, and for Palestinian refugees who are barred from acquiring property, out of fear that this may contribute to their permanent residency in Lebanon. Occasionally, ownership of real estate becomes subject to political debate as a proxy for the

Property rights
8

demographic prospects and fear perceptions of sectarian communities, and state intervention is demanded. In early 2011, a Christian member of parliament and government minister proposed a draft law spelling out a temporary ban on land purchases between individuals hailing from different sectarian communities, apparently in response to allegations that concerted efforts are being mounted by Hezbollah to buy up property in areas with a formerly significant but now reduced Christian presence. The chances that such legislation would ever be passed appear to be next to nil. Expropriation of land is limited to narrowly defined cases of public interest (in particular, roads), and compensation, although necessarily subject to disputes, is substantial. In peripheral areas, some of which have only recently been surveyed, customary law and rights of land use continue to coexist, a situation that is sometimes exploited by well-connected investors to register state land in their name. Cost and effort of registration are comparable to many other countries in the region (e.g., Jordan), but far behind regional best-practice examples such as Turkey.

In general, private ownership and property are well respected in Lebanon, and protected by the law, although the inefficiencies of the legal system can make enforcement difficult and time-consuming. The exception to this general principle is intellectual property rights protection, where enforcement has been weak and the level of product piracy and counterfeit goods remains high. The government is aware that it needs to act more vigilantly in this area, not least to aid its WTO accession, and has launched a national awareness campaign and raids against product piracy – to limited effect so far.

Private companies represent the backbone of Lebanon's economy. Freedom of entrepreneurial activity implies that investors are not obliged to engage in any particular sector or project. Public authorities are not permitted to influence resource allocation by businesses through direct intervention. Competition is not impeded by any discriminatory tax breaks, incentives or levies. The 2000 privatization law not only established a Higher Privatization Council but also stipulated that the proceeds from privatization be applied toward debt repayment. Political in-fighting and the ensuing parliamentary stalemate have delayed the privatization of state institutions. The government's latest reform plan includes concrete and sequenced measures to proceed with privatization, for example, in the telecom sector (privatization of the two mobile phone companies and the fixed-line Liban Telecom), the energy sector (with privatization of the electricity sector and reform of the water sector), and the national airline. However, further delays in privatization efforts are likely, as strong interests linked to the clientelist system will prevent a smooth and quick process.

Private enterprise

8

Despite Lebanon's generally positive business climate and the open character of its economy, it is not significantly easier to establish a company in Lebanon than elsewhere in the region, even in countries with strong statist traditions such as Syria. The World Bank's 2011 Doing Business report ranks Lebanon 113 among

183 surveyed economies, singling out the comparatively high costs of start-ups (75% of GNI per capita, compared to 44.6% in Jordan, 38.1% in Syria, and only 6.3% in Egypt) and high capital requirements (39.8%, as opposed to 17.9% in Jordan, and 9.9% in Turkey) as obstacles faced by would-be entrepreneurs.

10 | Welfare Regime

To date, Lebanon has put only rudimentary measures in place to avert social risks, and there are wide socioeconomic disparities between regional territories and social strata. Almost half of the population has no health coverage, but receives aid from the ministry of health to support the treatment of chronic diseases that require expensive medicine. Furthermore, the National Social Security Fund (NSSF) is notoriously slow to settle bills, and there are recurrent reports about hospitals refusing to receive patients who are covered by the fund, and physicians demanding charges beyond the rates covered by it. Private insurance companies and professional associations' health plans also have annual ceilings, leaving patients exposed to the risk of prolonged or exceptionally costly medical treatment. Family support structures and religious charities partially compensate for insufficient or nonexistent coverage, but tend to blur into structures of dependency and clientelism which are then open to political exploitation.

Social safety nets
4

In recent years, the government has embarked on reforms to improve the efficiency of social spending and to reduce poverty. In January 2007, as part of its commitments to the Paris III donor conference, Lebanon initiated a social action plan that made recommendations for the implementation of social safety nets for the very poor and most vulnerable groups. Proposed reforms include restructuring the NSSF, which would have external auditors appointed, a new legal framework, and plans for financial sustainability. Lack of resources and perpetual political instability continue to hinder progress in designing and implementing this social action plan.

There is no insurance against unemployment, no welfare system to cover citizens with no or insufficient income, and no public pension system except for mandatory end-of-service indemnity payments. Private companies frequently shirk payments to the NSSF and indemnity payments, leaving employees with little recourse to obtain even the limited social protection provided for by the law.

While political power-sharing and sectarian quotas compromise meritocracy and result in unequal opportunity for individuals in specific situations of competition, in principle these distortions apply to all sectarian groups in equal measure, and supposedly cancel out on the balance sheet of sectarian allocation, and over the lifetime of an individual. Much more relevant to social mobility or the lack thereof are contacts to influential personalities. Conversely, long-term residents who do not

Equal opportunity
6

hold Lebanese citizenship, such as Palestinian and Iraqi refugees, foreign workers, in particular domestic labor, and their offspring, but also certain groups classified as stateless aliens (mostly Kurds) are subject to strictures that imply severe limits to access to education, economic activity, property rights, and sometimes even basic official procedures, such as documentation of marriage and childbirth.

Although women enjoy equal opportunity in principle, female participation in the labor force, particularly in the formal sector, is remarkably lower than male. Women are the first victims of poverty and negative developments in the labor market. Lebanon has no holistic approach to women's participation in social and economic life, which accordingly is very weak. A national commission aiming at increasing female participation in the economy has been established but has as of yet not yielded meaningful results.

No official discrimination exists in access to education, but the difference in quality between public and private schools is profound and private institutions remain prohibitively expensive for the poor.

11 | Economic Performance

Lebanon is a service economy, with industry and agriculture combined accounting for only 12% of GDP in 2009, while commercial services and trade make up for some 60%. Even the construction sector, contributing 13%, is largely driven by the tourism sector (construction of hotels and residential space marketed to foreigners or Lebanese residing abroad). After a war-induced slump in 2006, the Lebanese economy has seen several years of solid growth, with GDP growing at an annual rate of 7% – 9%. FDI was high at a rate of around 14% of GDP over the past five years, despite a crisis-induced reduction to 12% in 2010, putting Lebanon at rank five of the countries surveyed in the BTI 2012, and first by a large margin among Arab states. With only 4 million people – a mere 5% of the population of Egypt alone – Lebanon collected 16.4% of FDI to all MENA-countries, up from 15% in 2009.

Output strength
7

Notably, the tourist sector has remained strong, with the average room yield in Beirut reaching \$178 in 2010 (nearly double the yield of Amman), thus outperforming all other Arab destinations apart for the pilgrimage hub Mecca, while tourist arrivals soared by nearly 40% in 2009 and were still above 20% in 2010, for the first time surpassing the 2 million mark. Likewise, real estate prices have surged at rates of between 30% and 40% annually in recent years, with Beirut now being the most expensive Arab capital, and construction permits surging to above 15 million sqm in 2008, nearly double of the value in 2005.

While government revenue's share of GDP has been constant for years, revenue has been growing at a rate of around 10%. GDP growth has also dropped the ratio of debt to GDP below 150%, with projections of a further decline below 130%. There is no official data on unemployment, and estimates are inconsistent, ranging between around 10% and 20% for the first half of the 2000s. There is agreement that the 2006 war led to a spike in unemployment, while some recent reports claim falling unemployment figures (below 10%) for the period 2008 – 2010.

12 | Sustainability

Environmentally compatible growth receives only sporadic consideration, despite the fact that Lebanon is a signatory to major treaties on environmental protection. A national environment action plan has been prepared but not yet adopted. Overall, according to the European Commission, framework and sectoral legislation is in place in many areas, but requires further development and implementation. For example, in the field of water, further steps towards a fully integrated water resource management system are necessary. Large parts of the countryside are without proper sanitation, and makeshift cesspits often affect underground aquifers. Only a tiny percentage of raw sewage is treated, while most is released untreated into the sea. In the cities, leakage from sewers, unauthorized well drilling and the subsequent seawater intrusion compromise the quality of underground aquifers.

Environmental policy
4

Lebanon also aims to increase the use of renewable energy sources to reduce its energy bill and has established, together with UNDP, a National Centre for Energy Efficiency in June 2007.

These positive intentions have yielded precious few practical results. Dependence on fossil energy (in particular fuel oil) remains nearly total, and no government initiatives to promote renewable energies have materialized, despite favorable conditions for the production of solar energy. Public transport is almost entirely left to private operators who often use highly polluting vehicles. Accordingly, traffic congestion and air pollution are heavy, in particular during the summer tourist season. Solid waste remains a serious problem, and many landfills operate under substandard conditions. Since Lebanon has little industry, related environmental hazards are comparatively small, yet environmental supervision for the mainly light industry that does exist (and also for the agricultural sector) is all but absent, and destructive practices (e.g., illegal quarrying) often happen under the protection of clientelist networks.

Regulations and pricing do not provide incentives for environmentally sound behavior (water and garbage are charged for at flat rates, road taxes and registration fees encourage the use of old cars). A couple of CSOs have been working to raise awareness in the wider population since the earlier 1990s, yet tangible results (such

as pressure on political leaders to enforce environmentally sound practices) have not materialized.

State and private institutions for education, training, and R&D exist, but improvements in the quality of education, access to quality education and investment into R&D activities are still needed. Public expenditure on education declined from an already low 2.6% of GDP in 2006 to 2.0% in 2008. The share of education in total government expenditure fell from above 12% in 2002 to some 8% in 2010 (pre-war levels reached above 16%). The total spending on both private and public education reached 13% of GDP in 2010. Private funds cover around 70% of costs for education, indicating a strong private role which seems likely to continue or even to grow in this sector.

Education policy /
R&D
5

Education is in principle accessible for all, and the combined rate of enrollment in primary, secondary and tertiary education stands at 84.6%, which is far above the Arab average and closer to OECD levels. As private education is perceived to be of generally higher quality than the public alternative, there exists a prolific sector of medium-range private institutions who capitalize on the superior image of costly private education without necessarily delivering significantly better teaching than some of the better-run public schools and universities.

As in the medical sector, the shortcomings of the state are partly compensated for by private institutions and foundations, with the same slippage between genuine benevolence and clientelist structures of dependency.

The ministry of education and higher education recently finalized a national strategy for education with a focus on facilitating access to quality education as well as a policy commitment to providing free secondary education. Research and innovation activities in Lebanon remain modest, and restricted to the private sector – in particular, private universities.

Transformation Management

I. Level of Difficulty

The chief structural constraint that limits the management performance of Lebanese governments is the country's geopolitical location on the fault line of several interconnected regional and international conflict configurations: The Arab–Israeli conflict; the intra-Arab conflict between countries or regimes represented as “pro-Western” and “moderate” versus those characterized as “radical” and confrontational in their position towards Israel and Western interests in the region; and finally the conflict over Iran’s regional ambitions and its nuclear program.

Structural
constraints
8

In the narrow sense, no Lebanese government had much room for maneuver when the country is wedged between what is still, legally speaking and in the perception of the overwhelming majority of the Lebanese, an enemy country (Israel), and Syria, a highly militarized “sister country” with a proven track record of pursuing its interests with little scruples. It is difficult for a Lebanese government to deliberate over Lebanon’s choices and best interest in these issues. In practical terms, Syria remains the sole available overland outlet and transit country for the Lebanese economy, in particular the agricultural sector, a position it has repeatedly used to blackmail Lebanese governments into compliance. Similarly, Syria provides a strategic depth and a conduit for weapons that enables various non-state actors – mainly but not exclusively Hezbollah – to defy the authority of the Lebanese government and usurp its ability to determine a state of war or peace.

Regional and international actors become directly involved in intra-Lebanese conflicts because the country’s inner divisions and ethnic and sectarian kinship combine with its strategic location to create an arena for proxy conflicts, and these are beyond the scope of Lebanese actors to resolve.

The geopolitical location and the internal divisions of the country conspire to directly expose Lebanon to the dynamics of more than one regional conflict configuration, regardless of government behavior and performance. The consequences range from involvement in military conflict or intermecine violence, with obvious and extremely negative consequences for general development and the crucial services sector, to political stalemate and paralysis which not only hampers

the pace of reform but in numerous cases renders all but impossible the practical implementation of progress achieved in the fields of legislation and norms of governance.

Lebanon has strong civil society traditions. These date back to the establishment of a modern public sphere that occurred during the state-led modernization of the declining Ottoman Empire in the 19th century. In the 1960s, another modernizing push to establish a developmental state was initiated by a coalition between the military and the upwardly mobile urban functionary strata, and accompanied by the proliferation of associations working for the alleviation of poverty, development and social integration. During the civil war, such organizations partly substituted for the failure or disappearance of state institutions by providing basic services and relief operations. However, when the public sphere shrank under arbitrary militia rule, these organizations made a partial retreat from their original mandate and were unable to recover it in the post-war period. New civil society actors – advocacy groups and defenders of civil liberties – emerged during the 1990s and succeeded, to some extent, in challenging the monopoly claimed by the sectarian political elites on political representation. In 2005, activists who had acquired political experience and leadership qualities in these movements were central in achieving successful mass mobilization against the Syrian occupation. However, the 2005 movement also saw the spontaneous involvement of individuals and groups with no prior record of engaging in public affairs, who contributed significant social capital to its successes, thus attesting to a substantial if mostly dormant potential for civil society involvement and mobilization in the affluent and better educated strata of Lebanese society.

Since 2005 and even more so after the 2006 war, a significant inflow of foreign aid has spurred a rapid growth in CSOs. Increased professionalization and institutionalization have occurred, but also a decline in the culture of voluntary involvement, with the civil society sector turning into a supplementary entry-level labor market. At the same time, political and sectarian polarization are affecting an ever-widening part of the public sphere, in turn narrowing the ground for non-partisan civil activism. While Lebanon today boasts a differentiated and active civil society which operates unimpeded and often in cooperation with state authorities, its impact may actually be lower than under the repressive conditions of the late 1990s, when the effective closure of the political sphere turned civil society into an alternative public sphere and an outlet for alienated citizens.

The nature of the political system in Lebanon keeps sectarian and religious sensitivities alive and alert, and reproduces sectarian identity as the main and overriding cleavage in society. Society and the political elite are polarized along sectarian and religious lines, and political elites routinely generate support by

Civil society
traditions

3

Conflict intensity
7

mobilizing and exploiting identity-based fear perceptions and grievances among their constituents, by evoking memories of recent and not so recent victimization and social marginalization, and by conjuring up scenarios of current or future threats to the position or even the survival of the community.

Political competition primarily revolves around those who succeed best in presenting themselves (and they are almost never women) as assertive defenders of the communal share of power and provision. Political forces promoting cross-communal and issue-oriented platforms rarely succeed in generating significant followings, and attempts at reform often run up against and founder on resistance that identifies particularist with communal interest (e.g., in the early 2000s, attempts to abolish exclusive importation licenses were scuttled when the impression was created that the majority of those holding these licenses were Christian, and that the subsequent opening of the market would benefit economic actors who were overwhelmingly Muslim). At the same time, rivalries and divergent political opinions do exist within sectarian communities, and competitors or dissidents can often be found on both sides of a given political fault line, at times mitigating the sectarian character of confrontations.

Despite this default structure operating on ritualized confrontation, the political elites tend to cooperate and maintain basic functionality of the political system on a modicum of consensus when left to themselves, at the price of stagnation and a low steering and reform capacity.

II. Management Performance

14 | Steering Capability

Since the end of the civil war in 1990, successive Lebanese governments have set consistent long-term priorities aimed at integration into regional and international markets, developing infrastructure, reforming the public sector, privatization and deregulation. Due to a significant overlap between the political and the economic elite, these priorities were rarely challenged by contenders from the political sphere, and even the objections raised by some organizations with grassroots orientation (e.g., Hezbollah, Free Patriotic Movement) remained vague and populist in character (e.g., calls for a more balanced development approach, objections against “globalization” or “corruption”).

In stark contrast to the clear priorities in the fields of governance and economics, the same governments, and indeed all political forces, have been extremely reluctant to advance political reform, despite the Taif peace accords of 1989. The

Question Score	Prioritization
5	

central stipulations of the accord (creation of a commission to end political sectarianism, administrative decentralization, creation of a bicameral system) were never even attempted. The haphazard, ad hoc preservation of the status quo has been the modus operandi of Lebanese governments for the past two decades, an approach embodied best by the fact that new electoral laws (i.e., modifications to existing patterns of gerrymandering in response to the dynamics of the current political landscape) were passed shortly before each and every parliamentary election, with the exception of 2005, when a narrow timetable prevented the necessary consensus-building effort. While these shortcomings might be partially blamed on the Syrian occupation between 1990 and 2005, no improvement has occurred since the pro-Syrian regime fell. A commission made up of widely respected, non-partisan experts was charged with developing a draft election law, which was never discussed in parliament, and almost entirely disregarded in the law finally passed in late 2008. Demands for political and constitutional reform continue to be wielded as a rhetorical weapon in ongoing conflicts, and no policy priorities have been formulated beyond ritualistic denunciations of sectarianism and its political manifestations.

The implementation of strategic priorities in governance and economy includes some of the obligations that Lebanon assumed as part of the process of international integration, and has been hampered and in some cases aborted (e.g., privatization of telecommunications and the energy sector) by conflicts of interest, resistance of stakeholders and the clientelist nature of political legitimacy. Consensus rules invest many political players with effective veto rights, which then create bargaining power used to exert concessions that may undermine the reform efforts. Since this applies to all political actors across the board (even those who have made denouncing this state of affairs a central part of their political platform), no clear division between drivers of reform and defenders of the status quo can be drawn. Notably, successive governments have paid lip service to the strategic objective of rooting out corruption, without ever attempting effective steps to this end.

Implementation
3

Despite these constraints, incremental if slow progress has been achieved (e.g., implementation of VAT, facilitation of import procedures, moving ahead on the WTO track, joining GAFTA), and the priorities themselves are not subject to substantial changes or challenges. Yet, the fundamental disagreements over key issues such as foreign and security policy that have characterized the past tend to affect formally unrelated policy areas, rendering the prospects for further progress dim even in areas where there are no fundamental differences.

The Lebanese government's commitment to liberal economic ideals and a free market economy remains unshaken but has, over the last years, been supplemented by an understanding that the country needs a minimal social safety net. Consequently, the reform plans adopted give substantial attention not only to debt reduction and fiscal improvements, but also to social development policies,

Policy learning
6

education, health care, poverty eradication and similar issues. The plans also seek more balanced development across the country. The political leadership has responded to mistakes and failed policies with changes; learning processes occur, often through cooperation with international agencies such as UNDP, the World Bank or USAID. The emphasis placed on the social road map put forward by the donor community of the Paris III meeting presumably also helped to spur this development along. The translation of these learning processes into material reform, however, has been slow. A change of government, on the other hand, will most likely not lead to a severe reversal, as major political forces in the opposition camp have repeatedly stated policy objectives based on these learning processes. Furthermore, the institutional knowledge generated through capacity building projects is not likely to disappear by changing political appointees at top level.

The picture appears much bleaker at the political level. Both government and opposition continue to pursue confrontational strategies which have proved disastrous in the past, and attempt to bolster their position by mobilizing along the lines of sectarian division rather than through performance, and by seeking foreign support. Despite the experience of 2008, when foreign diplomatic support proved woefully insufficient to confront a determined local opponent, March 14 continues to pursue confrontational stances on the same basis. Conversely, March 8 continues to condone or actively support the continuous military build-up of Hezbollah, and willfully ignores the disastrous consequences – another war with Israel, and destruction far beyond what occurred in 2006 – that appear inevitable if such a course continues.

15 | Resource Efficiency

The government does not make efficient use of available human, financial and organizational resources. Frequently, sectarian quotas get in the way of meritocratic recruitment and promotion practices. Even more problematically, employment opportunities are often doled out through political leaders as part of clientelist arrangements, with political expediency (i.e., the political support achieved in return) taking precedence over merit. For the same reason, it is rarely possible to hold officeholders accountable for unsound practices, or have them dismissed.

Efficient use of assets

3

While wartime practices of politically motivated overstaffing and no-show jobs have receded, recruitment for posts that require higher qualifications has become difficult. This is due to higher salaries in the private sector, but also to difficulties in filling the quotas of demographic groups with a high propensity for migration, in particular Christians. Qualified candidates are turned away because their sectarian group's quota has been exhausted, and posts remain vacant because not enough

candidates from other groups apply. Political instability and insecure job prospects encourage a general brain drain (about 40% of tertiary-educated Lebanese emigrate).

High budget deficits and huge debts constrain the government's margin of maneuver and intervention. Some economists claim that the interest payments incurred by the Lebanese state in the past were disproportionately high, and that only a tiny fraction (around 10%) of the overall debt was actually spent on investment, while interest payment accounting for nearly 50%, and the rest being consumed by budget deficits.

In many cases, the need to balance budget spending across regions and sectarian communities, as well as catering to clientelist interest, leads to waste as facilities are constructed not according to need but according to considerations of sectarian quotas and electoral geography.

The bureaucracy remains slow, often inefficient, and highly centralized. Plans for administrative decentralization have not been carried out, and many municipalities in marginalized areas remain underfunded and dysfunctional. Municipalities raise their own taxes, leading to significant differences between mostly urbanized areas where dense economic activity provides sustained revenue, and marginalized areas dominated by subsistence agriculture, where municipal structures and services are virtually absent. There is a budget to compensate for these differentials, but it is notoriously underfunded and in arrears on its payments. There are significant differences between municipalities in different regions concerning basic functionality and efficient service provision.

Although Lebanon's consensus-based politics are characterized by resilience and compromise, the attempt to juggle different and sometimes incoherent policy priorities often results in deadlock. As the consensus system mandates broad coalitions in government, it is often difficult to commit ministers to cooperation or compromise on issues that involve more than one portfolio. Frequently, such ministers prefer to ignore each other, compete, or even work at cross-purposes. This situation was especially pronounced during the two cabinets of "national unity" established since 2008. While the government has managed to devise comprehensive reform plans and sectoral policies, in practice intra-governmental friction, redundancies, and lacunae abound.

Most integrity mechanisms and tools to curb corruption are nonexistent or ineffective in Lebanon. An active Transparency International chapter works in Lebanon and conducts awareness campaigns, but political and petty corruption are widespread. As all political actors generate legitimacy through clientelist practices, corruption is in fact systemic. Bodies designed to control the performance and financial conduct of executive bodies, such as the Civil Service Board, exerted real

Policy
coordination
4

Anti-corruption
policy
2

control in the pre-war period, but have since been largely domesticated in the process of state capture by the political elites during and after the civil war.

Lebanon lacks any legislation that provides access to information. The only way the public hears about corruption is when something is leaked to the press or is publicly declared by a state official. Theoretically, a controversial and ambiguous asset declaration law demands officeholder accountability, but the law is not enforced, and accountability is rarely established. Lebanon has no legislation that prevents officeholders from holding private jobs, or that clearly defines conflicts of interest. The country does not have legislation to protect whistleblowers, and the regulation of party financing is rarely, if ever, enforced. Political parties are financed by unknown sources and in undisclosed amounts. Hezbollah's formidably financed institutions are a case in point; no official report is published about the amounts and sources of its financing. The government conducts no audits of state institutions like the Council of the South or the Funds for the Displaced, even though these institutions take up a sizable share of the annual state budget, and have a notorious reputation. The election law passed in late 2008 enforces transparency in campaign spending, yet the period under scrutiny (the last two months before election day) is short, and informal and long-term practices of trading material benefits for electoral performance are difficult to monitor.

16 | Consensus-Building

All relevant political actors agree in principle on a market-based economy. Nuances exist with some actors (e.g., Hezbollah) giving some emphasis to a stronger developmental role of the state and voicing reservations about privatization, while others (e.g., the Future Movement) are opting for market liberalism. However, these differences are only rudimentarily developed in the public platforms of these political players, and their role is, as applies to all issue-based political differences, by far secondary to identity-based conflicts.

Consensus on goals

7

Likewise, all relevant political actors agree to democracy underpinned by constitutionalism as the sole legitimate political order and mode of operation. Furthermore, there is wide agreement that a transition from the current system of sectarian-based power-sharing democracy to a system based on equal citizenship would be desirable and indeed necessary, as mandated by the Taif peace agreement of 1989. There are, however, pronounced differences about when and how this objective could be achieved, and the sincerity of many actors can be doubted. Political representatives of communities who are experiencing a demographic decline (in particular Christians) are transparently concerned about abolishing the sectarian quota as long as the primary loyalty and solidarity of most Lebanese lies with their sectarian community before the nation. Conversely, communities whose demographic share is seen to be rising (in particular Shi'a Muslims, although such

claims are difficult to ascertain in the absence of official census data) are strongly in favor of such reforms that would implicitly translate their demographic ascendancy into political power. As no consensus between these objectives appears possible, all parties in fact settle for the continuation of the current power-sharing system. Opinion polls confirm that most Lebanese follow this rationality by supporting a nonsectarian “citizen-state” as a long-term, distant vision which they, however, do not expect to become a reality in their lifetime.

In a similar vein, all parties profess commitment to the constitutional order, yet whenever a conflict arises, elaborate and frequently arcane rationalizations are developed to bend rules in one's favor, and to obstruct the workings of the institutions where and when this is not possible. At least one party – Hezbollah – has a proven record for backing up such tactics by military force if necessary, however developments during the recent governmental crisis indicate that the other side (in particular the Future Movement and the Lebanese Forces) lack only sufficient means of violence, but not the will, to deploy those they can mobilize.

As noted above, a wide consensus exists on democracy underpin by constitutionalism as the sole legitimate political order and mode of operation, and progress towards democratic reform is hampered chiefly by the continuing predominance of communal over national identification and loyalty and the resulting mutual distrust concerning the sincerity and intentions of other parties. Thus, no clear separation between “democracy-minded reformers” and “anti-democratic defenders of the status quo” can be drawn.

Anti-democratic actors

3

Between 2005 and 2008, Hezbollah and its allies behaved as veto players obstructing and paralyzing a government that had majority support in the first freely elected Lebanese parliament since the civil war. Yet, the Lebanese tradition of consensus democracy militates against the imposition of the will of the majority on a sizable minority. From this perspective, the opposition did not behave in an anti-democratic manner but deployed the means provided for by the constitutional texts and tradition in order to check the exercise of majority rule and direct political actors to consensual rather than confrontational behavior. However, in 2008, Hezbollah and some of its allies went beyond the legal constitutional framework and deployed direct force in order to compel the other camp to agree to a compromise on their terms. This proven track record of using violence has been looming over the democratic process ever since and has established Hezbollah, in last consequence, as a non-democratic veto actor that employs democratic and constitutional means as long as possible, but once those are exhausted, resorts to violence to protect what it considers its vital interests.

Lebanon's political leadership is incapable of and unwilling to reduce existing divisions and prevent cleavage-based conflicts. On the contrary, on many occasions, political actors seek to generate support and legitimacy by emphasizing their quality as powerful defenders of communal interest against alleged competition or encroachment of other communities. Even positions which ostensibly advocate "national" interests or abolishing sectarianism transparently do so on terms that favor the interests of the sectarian constituency of their authors, and thus increase the defensive cohesion of other communities in turn. While these cleavages are exacerbated by regional events and foreign intervention, appealing to communal sentiment and resentment remains the favorite political pitch even in times when such negative influences are absent or low.

Cleavage /
conflict
management
2

Occasionally, Lebanon's political leadership assigns an important role to civil society actors in deliberating and preparing policies. In late 2005, the government formed a national commission composed of leading scholars and civil society activists to reform the electoral law. A member of this commission and prominent civil society activist was appointed minister of the interior in 2008, and government institutions cooperated closely with civil society in the organization of the 2009 elections. NGOs specializing on advocacy concerning specific issues or sectors have proliferated since 2005, and members of parliament are usually receptive to lobbying efforts. Watchdog and performance monitoring organizations have also become active, yet in general, obtaining visibility in the public sphere has been difficult in the presence of overwhelming sectarian political conflict.

Civil society
participation
6

On occasion, initiatives from civil society have become draft laws that were fed into the political process by supportive politicians, and partnerships between certain politicians and civil society organization exist in the development of policy platforms. At the same time, and as the political process is controlled by a very small leadership circle conducting bargaining amongst each other, the scope of bottom-up influence remains very limited. For example, the mentioned draft electoral law was never debated in cabinet or parliament, and one of the crucial technical improvements it proposed was scrapped as a result of last-minute maneuvers by major players of the political elite. Likewise, many draft laws that were lobbied for by civil society actors and found support from the political sphere remain dormant in procedural loops.

Alongside the formal civil society in the shape of NGOs, Lebanese society is permeated by dense and partly formalized networks of relations which are based on kinship and locality and blur into clientelist structures. Politicians invest great and studious efforts into cultivating support from these networks, and in particular from so-called "key voters" who can supply electoral support from sometimes large groups of individuals. While these networks are hierarchically organized and, at

most times, lend unquestioning support to sectarian leaders, on occasion bottom-up initiatives that manage to obtain support from these quarters can have direct influence on politicians' behavior.

The political leadership does not address past acts of injustice and does not initiate reconciliation. In 1991, following the civil war, a blanket amnesty for crimes committed was passed. Only a single militia leader was subsequently prosecuted, for transparently political reasons, and in turn received an amnesty after the political change in 2005. A fund dedicated for reconstruction of the homes of internally displaced was established, but payments have been slow and accompanied by claims of corruption. No peace-building or reconciliation process, however, accompanied these measures, and the issue of 17,000 people who "disappeared" during the civil war has not been officially addressed. The fact that many prominent political actors in both camps have past records as militia leaders and warlords, who bear responsibility for atrocities, fuels distrust and mutual fear between communities. It also contributes to the cultivation of selective memories, emphasizing atrocities suffered by one's own community in order to exculpate one's own leaders. Shifting political alliances have sometimes been accompanied by transparently instrumental performances of "reconciliation" between political leaders that fail to initiate any sustained momentum for reconciliation between the respective communities.

Reconciliation
3

17 | International Cooperation

The political leadership works with bilateral and multilateral international donors and tries to make use of international assistance, but this does not always facilitate significant improvements to the policy-making process or policy learning. Government reform plans are partly based on a genuine reform agenda, not least in the pursuit of WTO membership, but also often donor-driven, as has been the case with the reform plans put forward at the Paris donor conferences.

Effective use of
support
6

The state's monetary and fiscal policies are closely coordinated with the IMF and the World Bank, both of which maintain permanent offices in the country. Within key ministries and institutions, teams of UN and World Bank-salaried Lebanese professionals are a common sight. The government has also succeeded in attracting a generation of well-trained Lebanese expatriates to return to Lebanon and take part in the postwar reconstruction process. The European Union supports administrative, trade and social reforms. This cooperation has intensified and became more systematic and coherent since the adoption of the action plan in early 2007. There is also significant donor support from affluent countries in the region such as Saudi Arabia, Kuwait, Qatar and Iran.

Despite an unambiguous orientation towards streamlined and efficient governance, multiple sources of donor support and lack of coordination between government institutions prevent the development of a concerted road map for reform. In the aftermath of the 2006 war, some foreign governments like Iran and Qatar explicitly circumvented the Lebanese government and administration, citing efficiency and concerns over corruption. Other donor support, such as from Iran, is often not officially accounted for, and meant to translate into political capital for specific groups rather than as support for a developmental agenda. Both the United States and the EU have provided significant support to improve security and governance, in particular after the 2006 war, yet many of the existing structural deficits (e.g., corruption and clientelism, a political elite that undermines and hollows out institutions and processes) cannot be sufficiently addressed on the level of technical assistance.

Since the Syrian withdrawal in 2005, Western and so-called moderate Arab states have lent vehement support to the pro-Western government majority holding power until 2008. On critical reform issues, the government's plans were perceived as credible and received unqualified support, even though much was left to be desired in terms of statistics and data collection, actual implementation of the reform agenda, and fighting corruption. Clearly, such positive attitudes were also influenced by the desire to prop up this government against opponents (notably, Hezbollah) seen as proxies for radical, anti-Western players such as Syria and Iran.

Support and cooperation continued even after these opponents joined the government in 2008, presumably under the assumption that support for a reform agenda would by default strengthen the hand of pro-Western parties. Conversely, the United States has repeatedly threatened to reconsider assistance should a government assume power that is controlled by Hezbollah and its allies, and has reportedly suspended military assistance (without assuming an official standpoint to this effect) in response to the nomination, in January 2011, of a prime minister designate seen as close to Hezbollah. Other countries may follow suit, and the international credibility of the Lebanese government will suffer severely if it were, as appears increasingly likely, to renounce cooperation with the Special Tribunal for Lebanon, which was established under chapter 7 of the UN charter.

Lebanon is a founding member of the United Nations and a member of a large number of international and regional organizations. The political leadership cooperates with many neighboring states and complies with the rules set by regional and international organizations. Lebanon maintains particularly close relations with France, the United States and some Arab states, such as Saudi

Credibility
8

Regional
cooperation
7

Arabia, Qatar and Kuwait. Recently, a marked improvement has occurred in the relations with Turkey, reflected in the mutual abolishing of visa requirements.

Due to the unresolved Middle East conflict, Lebanon remains technically in a state of war with and does not recognize the existence of the state of Israel. Lebanon complies with Security Council Resolution 1701, and the Lebanese army cooperates smoothly with the international peace keeping force UNIFIL, present with some 12,000 personal in the south of the country.

Relations with Syria have fluctuated considerably over the past five years and went from extremely hostile at the end of 2005 to reconciliation after 2008. Diplomatic relations were established and ambassadors exchanged for the first time in the history of the two countries, and in 2010, then Prime Minister Saad al-Hariri officially apologized for accusations against Syria concerning the assassination of his father in 2005.

In general, relations to regional countries are overshadowed and in some cases dominated by the personal relations of Lebanese politicians to the political elites in the individual countries, and can thus fluctuate considerably according to the configurations of power in Lebanon, and the relative position of such “clients” of regional actors within the local power structure.

Strategic Outlook

At the time of this writing (early 2011), Lebanon is experiencing a deep governmental crisis that may still evolve into a constitutional dilemma. Despite majority support in parliament, designated Prime Minister Najib Mikati, whose nomination succeeded with the support of the March 8 Alliance, has been unable to form a government so far. In the medium term, it may be impossible to govern with the support of just one of the two political blocs, and against the determined opposition of the other. Political polarization, on the other hand, will render any new “grande coalition” inherently unstable, in particular if tension between the external supporters of both camps (the United States and Saudi Arabia for March 14, Iran and Syria for March 8) heats up. Political and sectarian polarization also ensures that the overwhelming majority of Lebanese will continue to support, if sometimes grudgingly, the existing, largely sectarian-based political leadership. While a stable core constituency for cross-sectarian platforms exists, these groups will not gain political representation through an electoral system that is heavily weighted against them, and are extremely unlikely to achieve mass support as long as most of the population remains entrenched in communal sentiments. Thus, the current wave of popular mobilizations throughout the Arab world is not likely to be matched by any significant change in Lebanon.

In the short term, cooperation with the Special Tribunal for Lebanon (STL) will remain the most contentious issue on the political agenda. Official government assistance to apprehend the accused and extradite them to be tried at the location of the STL near The Hague will not be forthcoming, despite unequivocal commitments to this respect by prior governments. Lebanon will thus soon find itself under pressure from the international community for non-compliance with a U.N. Security Council resolution passed under chapter 7. It will be important for the international community to realize that international pressure, including sanctions, will only serve the case of those Lebanese actors who portray the whole process as a targeted campaign against the political line represented by Hezbollah, and that the resolve of its supporters will be reinforced rather than weakened as a result. By the same token, attempts at isolating a government formed by the former opposition would run counter to the fact that these parties accounted for more than 60% of the popular vote in the 2009 elections, and thus runs the risk of repeating a mistake that already brought about disastrous consequences in neighboring Palestine.

However, a government that excludes the Future Movement and hence the representatives of the overwhelming majority of Lebanon’s Sunni community is liable to create intense resentment in this group, and will increase friction between Sunnis and Shi’ites on the popular level. The Future Movement may no longer be able to integrate the more radical fringe of the Sunni community, providing new recruiting ground for groups with affinity for al-Qaeda and their violently anti-Shi’ite positions. Any arrangement that achieves a modicum of accommodation between the new government and the Hariri party – which appears to be the approach followed by Prime Minister elect Najib Miqati – will greatly contribute to short-term stability.

Despite its anti-imperialist rhetoric, Hezbollah is unlikely to push for a radical turnaround in the strategies of international integration and free market access pursued by previous governments. On the one hand, Hezbollah's priorities clearly lie in the field of foreign policy. On the other hand, some of its allies have close links to major economic actors, and are not likely to abet such moves. Lebanon's international partners should also weigh in on these parties to actively pursue the agendas of fighting corruption, increasing government efficiency and improving social services, which they advocated while in opposition.

International actors such as the UN and the EU have contributed to attempts at establishing forums ("National Dialogue," "Common Space") where representatives of both political blocs can cooperate and achieve pragmatic solutions in areas where no substantial differences exist. While such initiatives may succeed in circumventing paralyzed institutions and maintaining a basic level of governmental functionality, they do not provide a realistic perspective towards a resolution of the fundamental differences between the two camps. Moreover, in the long run, stability, growth and democratic progress will remain precariously linked to regional developments. Hezbollah will continue to pursue its confrontational approach vis-à-vis Israel, can be expected to further expand its already considerable arsenals, and may be rapidly approaching a red line beyond which Israel will feel compelled to act. Since Hezbollah is widely perceived as acting on behalf of Iran, further developments in the crisis over Iran's alleged regional and nuclear ambitions will be decisive for when exactly this crucial turning point may arrive. Since the Lebanese population is sharply divided on the issue, regional and domestic tension will on most occasions rise in synch.

Rather than applying pressure against Hezbollah and propping up its domestic opponents – a strategy that has failed before and is not likely to yield better results if applied again – the international community needs to keep existing channels of communication open and remain vigilantly involved in order to head off any possible slide into a military escalation, and impress the disastrous consequences of such a scenario onto both sides. In order to achieve that end, maintaining a substantial European presence in the UNIFIL peacekeeping force in South Lebanon will be crucial. In the medium term, the most practical and credible approach will be close engagement aimed at preserving the current precarious balance until a regional political settlement can be reached. Without such a long-term settlement, none of the progress reached in other areas can be sustainable.