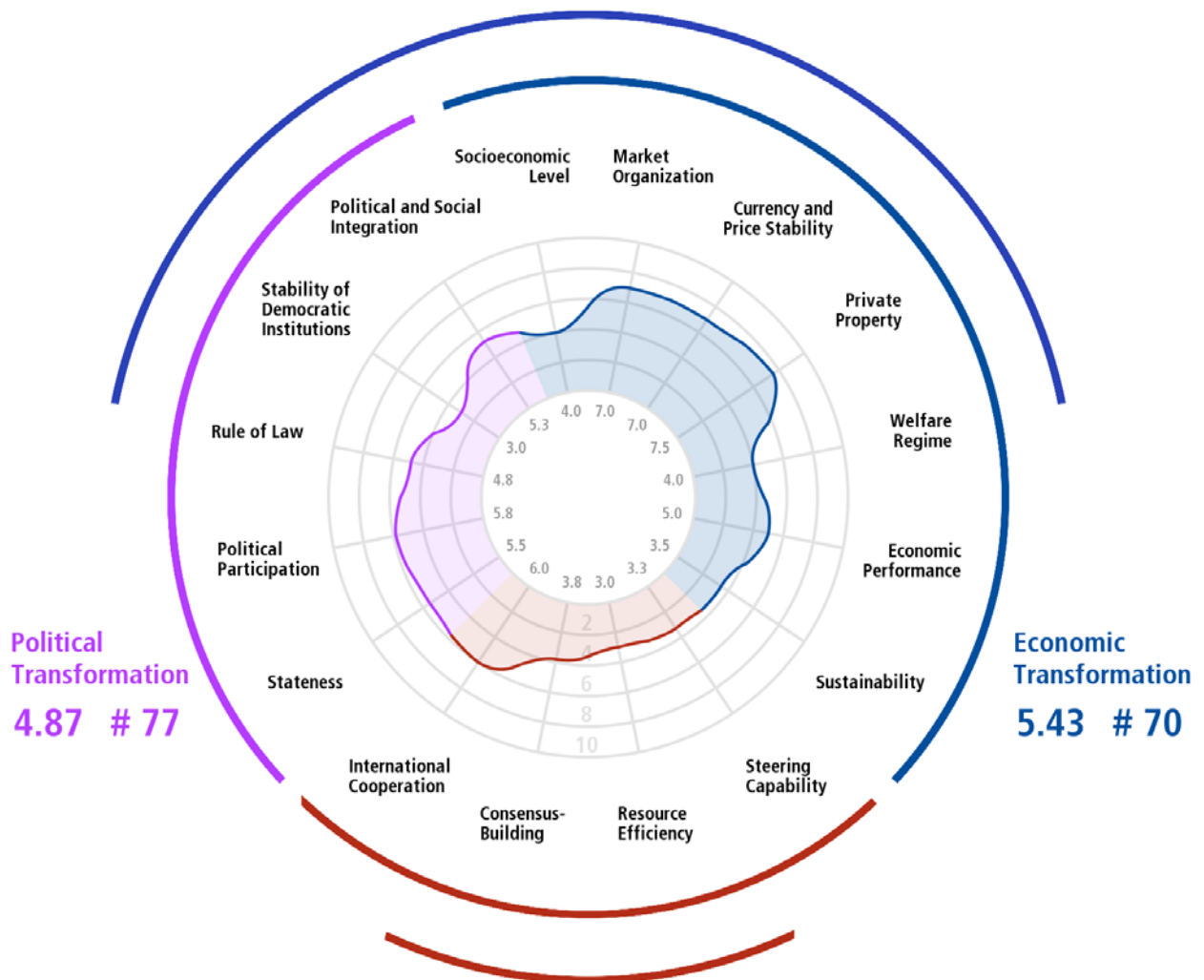


Lebanon

Status Index

5.15 # 74

on 1-10 scale out of 129



Political Transformation
4.87 # 77

Economic Transformation
5.43 # 70

Governance Index

3.60 # 101

on 1-10 scale out of 129

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2018. It covers the period from February 1, 2015 to January 31, 2017. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

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Key Indicators

Population	M	6.0	HDI	0.763	GDP p.c., PPP \$	13996
Pop. growth ¹	% p.a.	2.6	HDI rank of 188	76	Gini Index	31.8
Life expectancy	years	79.5	UN Education Index	0.682	Poverty ³	% 0.1
Urban population	%	87.9	Gender inequality ²	0.381	Aid per capita \$	166.7

Sources (as of October 2017): The World Bank, World Development Indicators 2017 | UNDP, Human Development Report 2016. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 a day at 2011 international prices.

Executive Summary

Regional conflicts, particularly the civil war in Syria, remain the main determinant of Lebanon's domestic and regional dynamics. In late 2016, the Syrian conflict underwent a new phase that seems to have tipped the balance of power in favor of the Syrian government, and its Russian, Iranian and Hezbollah allies. This shift was preceded by the election of the President of the Republic of Lebanon in October 2016, after more than two years of political stalemate. The new president, Michel Aoun, tasked Saad Hariri with forming a new government, which was approved by parliament in December 2016. Meanwhile, political parties continue to bicker over a new electoral law. Parliamentary elections, now long overdue, have not been held since 2009.

In early 2016, Gulf states expressed their dissatisfaction regarding Lebanon's stance toward the Syrian conflict. Saudi Arabia suspended a \$3 billion military aid program and most Gulf countries issued travel warnings to Lebanon, affecting its profitable tourist sector. In January 2017, President Michel Aoun visited Saudi Arabia, which subsequently declared its intention to resume the military aid program and nominated a new ambassador to Beirut.

Weak governmental institutions, the regional and local polarization between Sunni and Shi'a groups, the lack of political consensus regarding important economic and social policies, an inability to effectively tackle corruption, and the repercussions of hosting a very large refugee population have exacerbated internal tensions within Lebanon. The main policy shift in this respect was the government's decision in 2015 to close its borders to Syrian refugees and increase the requirements for Syrians renewing their residency status, forcing hundreds of thousands of Syrian migrants into an irregular status.

The Syrian civil war's repercussions have increased pressure on infrastructure, and the education and health care systems in Lebanon. And, although Lebanon has been the recipient of billions of dollars of humanitarian aid, economic growth has slowed down. One economic aspect concerns the tougher sanctions that the United States has imposed on Lebanese banking institutions

involved with Hezbollah members. This has heightened domestic political tensions and exposed a key sector of Lebanon's economy to the risk of international isolation.

A positive development has been the government's approval of international oil companies' bids to explore Lebanon's possible oil and gas resources, which may become significant economic assets. Yet, the regulating institutions' lack of transparency and accountability has been a concern for policy experts and civil society alike.

Lebanese society, notwithstanding the challenges that the regional situation imposes, has remained resilient. Civil society movements, a uniquely vibrant academic community and several NGOs have kept Lebanese morale high, while also providing a sense of social dynamism and cohesion. Thousands of Lebanese peacefully protested as part of the "You Stink" movement against the waste mismanagement. The May 2016 municipal elections witnessed the formation of new political groups, such as "Beirut Madinati" (Beirut, my city). Though low voter turnout with only 20% of electorate voting signals a high degree of political fatigue within the wider public. Though this political fatigue contrasts sharply with the political attitudes of Lebanon's lively, well educated, middle income society.

History and Characteristics of Transformation

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 around a power-sharing arrangement between sectarian communities. Struggles over the exact size of the shares allotted to individual communities (mainly Sunni, Shi'ite and Druze Muslims, Orthodox and Maronite Christians) have been a permanent source of tension, particularly in response to demographic change. In the run-up to the Lebanese civil war (1975-1990), Christian representatives feared that an alliance between Muslim and nationalist/anti-imperialist forces would bolster the Muslim communities at their expense. Internal political and sectarian divisions made Lebanon a strategic location on the fault line of major international conflicts. Consequently, Lebanon has constantly been an arena for proxy wars due to regional and international interference, and the complacency of Lebanon's elites. The 1989 Taif Agreement, which ended the civil war, adjusted the quotas for the power-sharing system to achieve parity between Christians and Muslims. Though Muslims formed a greater proportion of the population than Christians. This change shifted the balance of power in favor of the prime minister and the chair of the parliament. The agreement also specified a road map to eventually abolish the sectarian system and facilitate a transition to equal citizenship. Yet, the Lebanese confessional system, the "national pact," agreed in 1943 remains virtually unchanged.

Successive post-war governments promised administrative reforms, albeit without seriously challenging the clientelistic networks that pervade all levels of public administration. After 1990, the decline of the major Christian parties coincided with Syria's hegemony over Lebanon. However, when U.S. involvement in the region increased in the aftermath of the 2003 invasion of

Iraq, political forces critical of Syrian involvement felt empowered. Syrian control collapsed in 2005 in the face of a peaceful mass uprising triggered by the assassination of Lebanon's former prime minister, Rafiq al-Hariri. This popular and political mobilization against the Syrian presence was not supported by the political leadership of the Shi'a community, which comprises roughly one-third of Lebanon's population, who feared that the newly forged alliance of Sunni, Christian and Druze parties would seek alignment with pro-Western neighbors such as Egypt, Saudi Arabia and even Israel, while distancing the country from actors who resisted such a course (e.g. Syria, Iran, Hezbollah and Hamas).

Since 2005, Lebanese politics has become increasingly polarized between two blocs, referred to as "March 8" (i.e. 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" (i.e. the Sunni Future Movement, the Christian parties, Kata'ib and Lebanese Forces, and, until 2009 when it adopted a centrist position, the Druze-dominated Democratic Gathering). The two camps 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 and remain subordinated to foreign policy stances. While in terms of political strength "March 8" and "March 14" are roughly equal, "March 8" includes Hezbollah, which has a professionally trained paramilitary branch and is the main armed force operating in the country.

Between November 2006 and May 2008, parliament did not meet, and the "March 8" bloc disputed the legitimacy of the "March 14" government. The country also lacked a president from late 2007 until May 2008, when Michel Sulaiman was elected. In parallel, the persisting tensions exploded into three days of violent confrontation. Peace was restored with the formation of a national unity government after a meeting of all sides in Doha, Qatar in May 2008. Parliamentary elections were subsequently held in June 2009, which returned a narrow majority for the "March 14" coalition. After only five months, another unity government was formed, but collapsed in January 2011 when the major Druze party switched coalitions. It took another five months to form a government dominated by "March 8" (led by Najib Miqati), which in turn collapsed in March 2013 over domestic and regional divisions. The government that followed, led by Tammam Salam, was appointed in February 2014. In October 2016, parliament elected the veteran political leader, former general and militiaman Michel Aoun, who leads the biggest political party of the Christian community of Lebanon, the country's president. Subsequently, Saad Hariri, the leader of the "March 14" coalition, became the new prime minister.

The Syrian civil war changed significantly the regional context of Lebanon. Initially, the anti-Syrian groups in Lebanon hoped for the fall of the regime of Damascus, while Hezbollah decided to intervene directly in the conflict to support Bashar al-Assad. Notwithstanding instability and the political paralysis that the Syrian crisis has caused in Lebanon (parliamentary elections have twice been postponed), the country has remained relatively stable. More than a million Syrian refugees have fled to Lebanon, increasing its population by between 20% and 25%.

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

Transformation Status

I. Political Transformation

1 | Stateness

Despite internal divisions and foreign meddling, the Lebanese Armed Forces (LAF) and the other security agencies (General Security and Internal Security Forces) have gradually increased government control over Lebanese territory. The General Security and the Internal Security Forces are associated with the Sunni and Shi'a political groups, while the intelligence and army cadres (which are deployed domestically for security purposes) are more commonly associated with the Christian political factions. Consequently, the coordination of Lebanon's security agencies is complex, and suggests that law and order in the country is a direct extension of sectarian power quotas rather a unified, national security scheme.

International supporters provide the poorly armed LAF with military equipment and upgrades worth millions of dollars. The United States has provided three helicopters and the United Kingdom has provided military aid for border control purposes worth \$29 million in mid-2016. Nonetheless, armed non-state actors and stretched border management remain significant challenges, while Israel continues to occupy the village of Ghajar and the disputed Shebaa farms.

12 Palestinian refugee camps enjoy extraterritorial status and are controlled by armed Palestinian factions, providing at times safe havens for violence-prone Sunni militants groups. In peripheral areas, such as the Bekaa valley and the north, state control has often been wielded through tacit arrangements with armed local groups (tribes and clans) or Hezbollah, which occasionally challenge state authority.

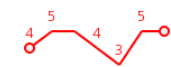
Over 15,000 LAF troops complement the U.N. Interim Force in Lebanon (UNIFIL), which has been deployed along Lebanon's southern border since 2006. A hostage crisis in 2014, in which 25 Lebanese were held captive by the al-Nusra front and the Islamic State (IS) group, was largely resolved in December 2015 following a controversial deal facilitated by Qatar. In exchange for the release of most of the Lebanese troops, Lebanon freed 25 prisoners mostly affiliated with radical Sunni

Question
Score

Monopoly on the
use of force

5

'06 '18 10



1

groups, including IS. In early 2015, the army deployed almost 1,000 troops to the Bekaa valley, bringing under its control areas that had for years been controlled by criminal gangs and drug traffickers. In August 2015, the radical Salafi leader Ahmed al-Assir was arrested and is currently being tried.

Despite operating without any mandate from the Lebanese authorities, the powerful Hezbollah militia remains active across large parts of southern Lebanon and Beirut's ad-Dahie suburb as well as in Syria. Hezbollah is widely considered to be the most formidable challenge to the government's monopoly of force in Lebanon.

Several LAF operations have been carried out in conjunction with or under the guidance of Hezbollah units. This pattern indicates that Hezbollah is being progressively integrated into Lebanon's regular armed forces. However, it also signals the problematic extent to which the LAF is dependent on Hezbollah's knowledge and experience. Some observers see this informal cooperation between state and non-state actors as a possible explanation for Lebanon's relative security, despite the unprecedented turmoil that is characteristic of the wider regional context.

However, Hezbollah's involvement in the Syrian civil war on the side of al-Assad's government increased tensions between "March 8" and "March 14". With the emergence of Sunni fanatical groups in the Syrian conflict, Hezbollah claimed that its Syrian activity was a way "to protect" Lebanon from the infiltration of these groups. Yet, Hezbollah has gained combat experience through its Syrian operations, which is a threat to the Lebanese government's monopoly of force and Hezbollah's traditional enemy, Israel.

Most citizens, with the exception of some marginal Islamist radical groups, do not question the legitimacy of the nation state. Overall, Lebanon as a national idea enjoys support and respect among its citizenry.

Yet, the dependence of political groups on foreign sponsors undermines the credibility of their commitment to a sovereign idea of nation. For example, Hezbollah depends on Iran, al-Mustaqbal enjoys privileged relations with Saudi Arabia and some of the Christian groups are considered close to Western powers, particularly Lebanon's former colonial power France.

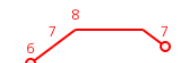
Lebanon has managed to strike a precarious balance among its minorities. The accommodation of 18 religiously defined groups (none of which comprises more than one-third of the population) has been at the core of the "national pact," the organizing principle of the state since Lebanon's formal independence in 1946. Consequently, access to state power and resources is organized through political power-sharing and group quotas.

It is possible that gaps between established quotas and demographic realities will widen. This will most likely affect Christian groups, whose share of the population continues to drop relative to Shi'a and Sunni populations. The influx of 1.2 million

State identity

7

'06 '18 10



1

registered Syrian refugees, representing one in four inhabitants in Lebanon, and an unknown number of unregistered Syrian refugees has added to the estimated 280,000 to 300,000 Palestinian refugees already resident in Lebanon. Lebanese Christians especially, although also Shi'ites, are concerned that refugees are overwhelmingly Sunni.

An estimated 40,000 to 80,000 stateless individuals (including Kurds and Bedouins, and Lebanese whose ancestors were not provided with national identification) are still awaiting naturalization.

Citizenship is passed on exclusively through paternal lineage, unless children are born outside of wedlock. Naturalization is only available to female foreign spouses, although long-term residency regulations for non-Lebanese male spouses have been loosened.

Lebanon has no state religion, and freedom of belief is enshrined in the constitution. However, the officially recognized 18 religious communities wield exclusive power over personal status law and partly control social services, including education. Their leaders have the right to challenge legislation that affect their vital interests through the “constitutional council,” an action otherwise restricted to the president of the republic, the prime minister, the speaker of parliament or groups of at least 10 MPs.

While this has not happened yet, religious leaders regularly speak out on political questions, often straddling the line between religious and political leadership. For example, the head of the Maronite Church repeatedly intervened in the debate about the election of a new president.

Politicians usually take their decisions either in coordination with the primary religious leaders or in a manner that often accommodates their interests. Notwithstanding the mobilization of many sectors of civil society in Lebanon, civil marriage is not possible, and only heterosexual couples of the same confessional group and under the authority of their religious leadership can legally marry. The interior ministry asked for further legislation defining the rights of newly married couples and their children before it could process new requests for civil marriage or the registration of newborns to couples married civilly in Lebanon. Yet, there have not been significant developments in this respect.

However, religious leaders tend toward protecting their group's institutional, political and economic interests, in a fashion akin to the behavior of ethnic groups in other contexts, rather than toward imposing a religious agenda on society.

The only cases in which political groups have endorsed specific religious issues concern radical Islamist groups, such as the Salafists. Yet, these groups remain a minority. In fact, the public disavowal of radical Islamist leaders, such as Ahmed al-Assir and his subsequent arrest, indicate a general attitude critical of theocratic political projects. Even the Islamist group Hezbollah, which frames its language and

No interference of religious dogmas

6

'06 '18 10

7 6

1

motivation religiously, has accepted pragmatically that the establishment of a religious state in Lebanon is a distant ideal, rather than an immediate objective, which cannot be implemented without the consent of the Lebanese people.

Lebanon has a differentiated administrative structure throughout the country, but suffers from petty corruption, bureaucratic delays and sectarian interests. Law enforcement, including taxation, is patchy at best. Municipalities are sometimes unable to exercise important regulatory prerogatives due to a lack of political influence and funding. Basic infrastructure, such as water, sanitation, and electricity, for peripheral areas is inadequate. Water shortages are common even in Beirut, particularly in late summer, while electricity blackouts are frequent, often lasting three hours per day in the inner districts of Beirut and up to 12 hours in marginalized rural areas. This situation is bound to worsen, as electricity supplied by Egypt and Syria has dropped dramatically. Private power generators and planned emergency measures, such as renting floating power stations moored off the coast, have been insufficient.

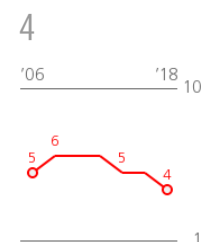
After the contract with the main waste management company, Sukleen, ended, successive governments have failed to address the inadequacy of Lebanon's waste management infrastructure, especially the availability of landfill sites. This has resulted in several months of waste accumulating in streets. In December 2015, a decision was taken to export waste. In 2016, a new landfill site was established close to Beirut's airport. However, the new site has attracted large numbers of seagulls, which have affected airport security. The water, electricity and waste management crises remain a key indicator of the inadequacies in Lebanon's administrative structures.

The presence of more than 1.2 million Syrian refugees has further exacerbated the already serious deficiencies. Hundreds of schools in the country have established double shifts, mornings and afternoons, to ensure that a basic education is available to every student. Nevertheless, about 300,000 children cannot access education. Health care, which is dominated by private institutions, is relatively efficient. Though it is under unprecedented pressure due to the population increase.

2 | Political Participation

Following the 2008 violence and the ensuing Doha agreement, Lebanon adopted a number of changes to the existing election system. This included the (transitional) adoption of pre-war electoral district lines, out-of-country voting, measures to increase secrecy in the voting process, official recognition of national and international election observation, the creation of a commission to oversee election campaign spending and advertisement, and holding elections on one day. Yet, these changes did not address other fundamental electoral problems, such as the adoption of a more representative system, the high voting age (21), the inability to vote in one's

Basic administration



Free and fair elections

5

district of residence, the need to adopt pre-printed ballots to reduce “carousel” voting (and related possible vote buying) and access to voting booths for handicapped citizens. Most importantly, the power-sharing-based dominance of political dynasties is what determines their relevance and bargaining power in negotiations for political posts to be apportioned after elections. This favors parties with clearly identifiable sectarian platforms over those supporting cross-sectarian initiatives.

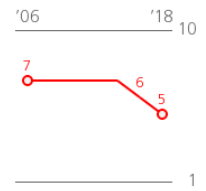
In the lead up to the June 2013 parliamentary elections, political parties could not reach agreement over a new electoral law and preferred to postpone elections for 17 months. In 2014, a majority of political parties in parliament agreed again to extend their term by another two years and seven months, securing, as such, a full-term extension, even after 514 persons had announced their candidacy. A legal challenge in front of the constitutional council, by 10 parliamentarians from an opposition party, was rejected. While the council recognized the unconstitutional nature of the extension and found its length unjustified, it explained its rejection on the grounds that the government was too weak, and if dissolved, could lead to a power vacuum in the absence of a president and a parliament whose term was to expire in a week’s time from the council’s decision.

As of January 2017, the president and parliamentary political leaders stated their determination to hold elections. However, various political groups have disagreed over the kind of electoral law that should be used. Though the problems previously mentioned, regarding the fairness and transparency of electoral procedures, have not been disputed.

In May 2016, municipal elections were held in more than 1,000 local administrations with more than 30,000 candidates standing for election. Yet, turnout was low, with only 20% of the electorate in Beirut participating. The low voter turnout signals the high degree of public disillusionment toward Lebanon’s democratic procedures.

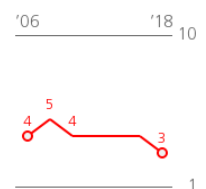
Lebanon’s quota system gives nearly all major players within the political elite de facto veto powers. The political system grinds to a halt every time conflicts arise, particularly when the interests of political leaders and their power base are at stake. The constitutional framework establishes that if a third of the government or one of the confessional groups resigns, the government cannot legitimately adopt new measures. In each recent Lebanese government, each political and confessional group has held a third of the total number of governmental offices. This is known as “the blocking third mechanism” and enables each confessional group to exercise a veto power.

Political parties often call foreign alliances to intervene in Lebanese politics to help break a deadlock or impose a solution on opposing groups. Since 2005, Iran and Syria, and Saudi Arabia and the United States have exacerbated the differences between the “March 8” and “March 14” camps in pursuit of their own national interests. In 2008, having blocked all political procedures since 2005, Hezbollah and



Effective power to govern

3



its allies acted outside of the constitutional framework and deployed direct force to compel the opposition camp to agree to a compromise on their terms.

The belated election of the president in late 2016 and the subsequent formation of Saad Hariri's government constitute a step forward in Lebanese politics. Yet, this process remains incomplete if new parliamentary elections are not held in 2017.

In contrast to its regional neighbors, the right to association and assembly in Lebanon, guaranteed by article 13 of the constitution, is quite liberal. This has facilitated a tradition of independent, not-for-profit civil society organizations, active in the fields of human rights, civic awareness, conflict resolution, political reform and capacity building. Associations suffer from limited politically independent funding capacities and from fluctuations in foreign donor interest. In particular, foreign funding from Gulf countries, Iran and the United States has surged in the aftermath of the 2006 war, while Lebanon has also received support from the United Nations as the Syrian refugee crisis has developed. Between such humanitarian crises periods, many organizations have had to dissolve or reduce and reorient their scope of activities.

While civic initiatives have succeeded in achieving results on some issues (such as getting parliament to pass a law banning smoking in public places), they are regularly drawn into larger societal conflicts and tend to fail once they touch upon issues of relevance to the larger confrontation pertaining to political reform and fighting corruption.

“You stink”, the movement created in response to the waste crisis, and organizations such as “Beirut Madinati” (Beirut, my city) are evidence of an active and potentially participative society willing to engage in reform. The website daleel-madani.com serves as portal for hundreds of civil society organizations, facilitating collaboration among them.

Freedom of opinion and the media are guaranteed by law in principle, but are sometimes subject to intervention, particularly regarding morality and religion, or relations between the sectarian communities.

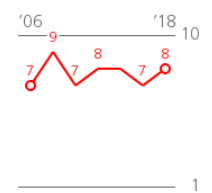
Public screenings of films and theater performances are subject to prior authorization by the authorities, and are sometimes banned or abridged. At times, journalists and artists have also been attacked by non-state actors, including some considered part of the social and political mainstream.

The increasing polarization of the political sphere has resulted in less independence and opinion pluralism within the media. Most media outlets are linked to political groups or families and follow an unambiguously partisan political line, but print press remains freer to criticize and overall more balanced than TV and radio.

While the overall quality of reporting and information suffers from rumor, slander and incitement, Lebanese journalistic reports remain well respected domestically and

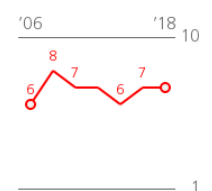
Association / assembly rights

8



Freedom of expression

7



regionally. In 2016, the leftist-popular and traditional “as-Safir” newspaper, once deemed a milestone in the history of Arab journalism, closed due to economic constraints.

In April 2016, Nilesat, an Egyptian satellite television broadcaster, discontinued the airing of “al-Manar,” the Hezbollah-operated TV channel, which is also banned in other countries.

Despite very high internet costs, the web-based public sphere, including social media, thrives.

3 | Rule of Law

The formal separation of power, realized by an intricate array of mandatory mutual ratification procedures and decision rules (quorums, supermajorities), is supplemented by a (mostly informal) power division between sects enshrined in the informal, but well-respected “National Pact” agreed in 1943. As a result, grand coalitions or “governments of national unity” have been a constant occurrence.

Power emanates from parliamentarians, who are directly elected representatives of the people. Parliamentarians elect the president (who should always be a Maronite according to the National Pact) and, in binding consultations with the president, select the prime minister (always a Sunni). The government is accountable to the parliament (whose president is always a Shi’ite), and both the president and parliamentarians can initiate legislation. Several institutions (constitutional council, civil service board) are supposed to provide for additional checks. In reality, these checks and balances are often offset by informal sectarian loyalties, implying the threat of institutional paralysis, public unrest or even violence.

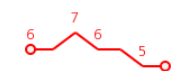
The “National Dialogue” initiative, overseen by the president, constitutes an informal, but influential decision-making center where political leaders from all main groups decide key political issues. Strategically important decisions are typically achieved through direct deals between political actors. These deals are agreed outside the nominally competent institutions and frequently even outside the country, as they often rely on external political sponsors. This has become more urgent since the civil war in Syria. For example, the 2016 election of the new president resulted from a deal that secured a support from the majority of parliamentarians for Michel Aoun’s presidency, including from Aoun’s opponents (most notably “March 14” leader Saad Hariri). In turn, the new president and the parliament, with the acquiescence of Hezbollah who oppose Hariri’s political leadership, entrusted Hariri with the formation of a new government.

The protracted delay in the election of a new president had created a constitutionally anomalous situation that concentrated power in the executive from May 2014 until

Separation of powers

5

'06 '18 10



1

December 2016. The judiciary has very little capacity to effectively oversee political activity and guarantee the enforcement of the law in political trials. In 2016, a former minister, Michel Samaha, was sentenced to 13 years imprisonment for his involvement in terrorist activities.

Despite improved training for lawyers, judicial functions still face serious challenges, and are impeded by the confessional quotas and corruption. Appointments of key prosecutors and investigating magistrates are sometimes political, and accounts of petty corruption involving judges undermine public confidence in the equality of the law. Negative expectations often dissuade people from taking legal action. Meanwhile, military tribunals are also used for the prosecution of civil cases.

Cooperation with the Special Tribunal for Lebanon in The Hague, established after Prime Minister Hariri's murder in 2005, formally continues. However, the relevance and credibility of the tribunal seems to have decreased due to the length of the procedures and significance of subsequent events.

The recent high-profile trial of the former minister Michel Samaha has caused political uproar among the anti-Syrian political camp. Samaha, who was charged with transporting explosives from Syria into Lebanon to carry out terrorist attacks, initially received only a five-year sentence, despite substantial evidence that was leaked to the public. In 2016, Samaha was released on bail, then rearrested and sentenced to serve a further ten years in prison.

In February 2016, Minister of Justice Ashraf Rifi resigned in opposition to Hezbollah and its control over political institutions. Furthermore, the 2012 assassination of Wissam Hassan, the head of internal security who was leading the Samaha investigation, did not have significant legal consequences and no perpetrator has been identified.

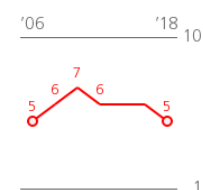
Clientelism and corruption are systemic, and despite some monitoring most senior officeholders remain beyond the law. Legislation governing and guaranteeing public access to governmental information does not exist, so prosecution of office abuse is rare and often politically motivated.

Engagement in petty corruption is ubiquitous, as is the use of "contacts" for gaining access to state resources. Hence, elected officials have little reason to fear allegations of corruption. Several parties are said to rule over an uncontrolled imperium of corruption and in some cases even money laundering.

Increasing international support for refugees has led to an increase in international aid provided to host communities and refugees. Yet, due to the lack of transparency and accountability involved in the distribution of these funds, the risk of corruption is high.

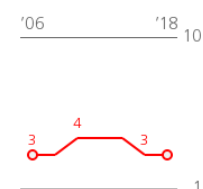
Independent
judiciary

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Prosecution of
office abuse

3



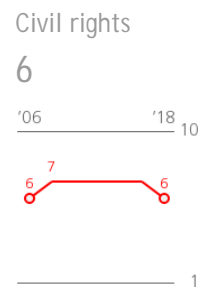
NGOs have consistently attempted to raise awareness about corruption. However, no significant movement has coalesced to tackle the culture of clientelism. Concerns have been raised with regard to the emergence of a potentially profitable hydrocarbon sector, which may become a new source of corruption. The establishment of sovereign wealth fund will not be, by itself, a sufficient mechanism to prevent the capture of the emerging hydrocarbon sector by a corrupt and clientelistic culture.

Civil liberties are less protected in religiously or socially sensitive issues. While honor crimes are rare, violence against women has been somewhat reduced through tougher though still inadequate legislation. For example, a domestic violence law was approved in 2014. Other women’s rights issues include the inability for women to pass on Lebanese nationality to their children. Women’s rights organization, such as Kafa, have achieved remarkable successes given the power of socially conservative lobbies, and the almost totally male membership of parliament and governments. The small number of female parliamentarians is more closely associated with the continuation of sectarian politics in the lawmaking process.

A recent court judgment declared that homosexuality was not a criminal activity. Though, as it remains forbidden by law, proper legislation is still required. Currently, anyone arrested for homosexuality can experience harsh police brutality, including an enforced “forensic” examination.

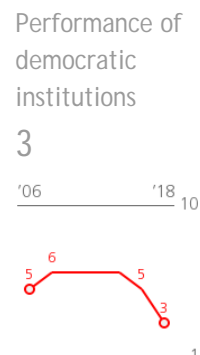
Lebanese prisons and detention facilities are overcrowded and offer dismal living conditions. This particularly affects refugees and foreign domestic workers who have forfeited their residency permits (often by running away from abusive employers). They are frequently held over extended periods until their extradition is arranged. The ambivalent legal status of refugees leaves them seriously vulnerable.

Serious concerns exist with regard to military courts processing cases that relate exclusively to civilians. Allegations of torture and unlawful detention are common. As a first response, parliament in 2016 approved a law establishing the National Human Rights Institute with a committee to investigate torture suspicions.



4 | Stability of Democratic Institutions

While the power-sharing system has kept Lebanon relatively stable, it has also had considerable impact on the performance of all political and judicial institutions. However, the mutual blockage imposed by the “March 8” and “March 14” coalitions in 2013 has, to a large extent, ground politics to a halt. The protracted delay in holding elections constitutes a dangerous precedent, which may legitimize further arbitrary suspensions of the democratic process.



Furthermore, the role of governmental decrees as means of legislating has been expanded, especially while the presidential office was also vacant. This has further weakened the importance of parliament as the legislating institution.

Extra-institutional national dialogues convened by the speaker of parliament and later on by the president of the republic failed to overcome this paralysis, despite a number of agreements on key issues (such as the Baabda Declaration on keeping a neutral stance in neighboring conflicts). The limited ability to put into practice any of these agreements has made this forum an additional stage where the established lines of political confrontation are publicly presented, limiting the willingness of leaders to compromise. These alternative fora facilitate consensus among political factions, but marginalize democratic debate and the democratic process for the sake of political stability and security.

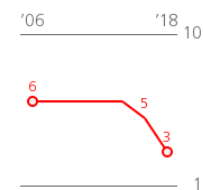
Most civil society organizations, political parties, media pundits and much of the wider political culture in Lebanon are committed to democratic principles. Even Hezbollah, originally formed as a group in opposition to Lebanon's state institutions, has participated in elections since the 1990s.

Yet, official political channels are often blocked by sectarian-based interests and most relevant actors pursue their interests through extensive layers of informal arrangements. By this, they manipulate decisions and proceedings of national institutions in their favor, often undermining their democratic foundations. Traditional patron-client dynamics, built around confessional and kinship relations, are the real substance of power in Lebanon and constitute the main obstacle to effective democracy. The current disagreement on the new electoral law epitomizes this challenge. Political groups are less concerned with the democratic nature of the law than the maintenance or enlargement of their confessional representative quotas.

The 2013 and 2014 extensions of parliamentary terms were a notable example of how the political class manipulated the political system, in contravention of the Lebanese constitution, for their interests. In addition, private initiatives, both in the form of civic groups and business actors have in recent years increasingly demanded state services, which bodes well for the stability of these institutions. The increased sense of insecurity has meant that stability and the maintenance of the status quo has greater priority than democratic procedures, as was evidenced by the suspension of electoral consultations.

Commitment to democratic institutions

3



5 | Political and Social Integration

Most parties show only limited institutionalization and refrain from developing elaborate political platforms for generating support. Instead, party allegiance is maintained through a pragmatic mix of clientelism and deference to an inherited leadership cast as representatives and defenders of sectarian interests, or a certain interpretation thereof.

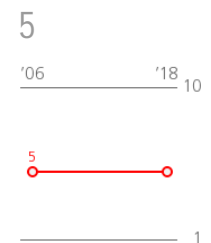
The support generated is deeply rooted and goes well beyond ideological orientations. Young Lebanese often inherit their political views from their elders, and sometimes drastic reversals of party orientation and alliances are accepted with little if any resistance from affiliates and voters. Yet, if voters wish to express discontent with their hitherto preferred political choice, they tend to do so by abstention in elections, as voting for alternative parties is not an option. In addition, a (still small) number of youth feel increasingly disenchanted with the political parties' performance and ability to address basic living issues. Civil society has somehow evolved and offers alternatives, yet attempts to create new, nonsectarian political formations have so far proved unsuccessful.

Increasing regional sectarian tensions between Sunni and Shi'a groups over the recent years has deepened sectarian allegiances to political groups in Lebanon. The presence in the country of more than 1.2 million Syrian refugees, the majority of whom are nominally Sunni, has been interpreted as a threat to Lebanon's Christian identity by political groups, such as the Free Patriotic Movement, that claim to represent Christian interests in the country.

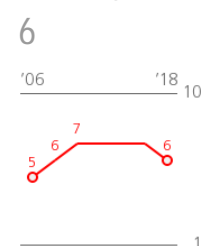
Religious figures and political strongmen who act as representatives of sectarian or communal interests are the main mediators between the state, communities, and the individual, based on clientelistic calculations. They are supplemented by tightly woven social networks at the grassroots level (e.g. neighborhood associations, family leagues, parishes, charities and schools), which provide the main interface between clientelistic structures and individuals. Groups, such as Hezbollah, constitute a key node for citizens accessing health care, education or social security services. These groups act as a surrogate state, and establish an even stronger bond between people and political organizations.

Nonsectarian interest groups such as unions and syndicates have limited success. While unions recently lobbied the cabinet to pass the (already fully negotiated) new public sector pay scale and allocate funding for its implementation, this policy may not materialize as union members representing the "March 8" and "March 14" coalitions allied with each other in early 2015 to win a majority of parliamentary seats. Leftist and independent candidates, who for two years had led strikes and public

Party system



Interest groups



protests on this issue, were overruled. Other types of professional interest groups, such as the association of industrialists, suffer from similar shortcomings.

NGOs are central to raising public awareness of specific policy issues. Notable NGOs include Kafa, the Gathering Wahdatouna Khalasouna (an alliance of over 31 non-governmental organizations) and the Lebanese Eco Movement (an alliance of over 60 environmental NGOs).

Back in 2011, the “Arab Opinion Index”, compiled by the Arab Center for Research and Policy Studies, showed that Lebanese had the strongest commitment to democracy among all Arab states. However, in mid-2014, a poll conducted by the Lebanese Association for Democratic Elections (LADE), showed that 68.3% of citizens had no trust in government and 53% did not trust the parliament. In addition, more than 60% rejected the parliament’s term extension, while only 11.5% supported it. In the same poll, 70% showed “complete” and 23% “moderate” support for the army as an institution.

Voter turnout for the 2016 municipal election was low (around 20%) and public protests against the repeated postponement of parliamentary elections have been rare. Democratic values may still have strong roots in Lebanon, but the wider population seems to have grown increasingly skeptical of the current democratic process in Lebanon.

Lebanon has a long and rich tradition of associational life. In particular, associations concerned with public welfare abound – with a large, but by no means exclusive presence of religious organizations – in addition to a large number of sports and cultural associations. This rich associational life should not be confused with social capital and trust. Survey data demonstrate that an overwhelming majority of Lebanese have low trust in the people they live and work with. The repositories of trust are the family and close friends.

Sect-based patronage bears strongly on the quality of social trust: Except for a small section of society – mostly educated urban dwellers – mixed marriage is frowned upon, increasingly even among the various Muslim denominations.

In the 2011 Arab Opinion Index, 31% cite being “from the same religious sect” as the most important criteria in choosing a spouse, by far the highest such ratio in the Arab world. Even for the more common cross-sectarian friendships, survey and interview data confirm qualitative differences compared to same-sect friendships.

Although no recent statistics are available, given the highly polarized situation and insecurity associated with the Syrian conflict, it is reasonable to presume that recent trends will continue or even expand. This is evidenced by the widespread sectarian discourse that polarizes the region and the fear that the sectarian balance of power in Lebanon may be altered by the presence of so many refugees in the country.

Approval of
democracy

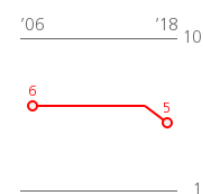
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Social capital

5



II. Economic Transformation

6 | Level of Socioeconomic Development

Poverty is the most pressing of Lebanon's many socioeconomic barriers. World Bank 2014 data listed 1.2 million (nearly 27% of the total population) as poor, living on less than \$4 a day. Among these, 300,000 (7% of population) are extremely poor, living on less than \$2.40 per day. Data on inequality is not available. However, differences between the large proportion of poor, and the small proportion of super rich and politically influential are extreme. Luxury urban areas, such as central Beirut, contrast sharply with the underdeveloped suburbs and countryside. The urbanization rate, which was 87.5% in 2013, is increasing by 1% per year.

The 2014 Human Development Index ranked Lebanon 65 out 187 countries globally and eighth among Arab countries. Life expectancy at birth is the highest among Arab countries (80 years). The ILO estimated a relatively low unemployment rate of 6.5% for 2014. However, youth unemployment (ages 15-24) reached 21.7% in 2014, up from 19.9% in 2012. The majority of employment is in the service sector (72.6%), only a minor part in industry (21%, 2009). About 44% of the total population over 15 years is in employment (2014), of which a share of roughly 40% is self-employed. While 70.9% of men aged over 15 participate in the labor market, only 23.3% of women over 15 participate. Though the proportion of women participating in the labor market is increasing.

The share of primary school enrollment rose to 93.2% in 2012. However, enrollment in secondary education (67.5%) and tertiary education (46.2%) has been in slight decline. Female students outnumber male students in secondary (100.8%) and tertiary (107.4%) education, but not primary education (91.4%).

The Syrian refugees (1.2 million registered with UNHCR) put pressure on these data. The World Bank estimated the related economic and social cost at over \$7.5 billion by the end of 2014. However, this report fails to disaggregate the general effect of the Syrian conflict regionally, which has had serious repercussions on Lebanon's exports and trade, from the actual impact of the Syrian refugee crisis within Lebanon. Poverty has been exacerbated through the increasing demands for services, infrastructure and employment. UNHCR indicates that most refugees tend to settle in Lebanon's poorest areas. However, it is merely speculative to claim that the refugees are responsible for a presumed increase in poverty, the problem of poverty predates the beginning of the crisis. Furthermore, the refugee crisis has attracted a significant amount of international aid directed to host communities. The 2015-2016 Lebanon

Question
Score

Socioeconomic
barriers

4

'06 '18 10



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Crisis Response Plan forecasted a total budget of \$2.6 billion, the funding requirement for 2016 only was \$1.9 billion and 55% of the budget has been disbursed.

The Palestinian population living in refugee camps in Lebanon is subject to harsh discrimination. Palestinian refugees do not enjoy the right to work in skilled sectors and their quality of life, including freedom of movement, and access to education and health care services, is often severely constrained.

Economic indicators		2013	2014	2015	2016
GDP	\$ M	44352.4	45730.9	47084.7	47536.8
GDP growth	%	0.9	1.8	1.3	1.8
Inflation (CPI)	%	5.5	0.7	-3.7	-0.8
Unemployment	%	6.2	6.2	6.5	6.8
Foreign direct investment	% of GDP	6.1	6.4	5.0	5.5
Export growth	%	-0.5	3.2	-2.3	6.7
Import growth	%	-1.2	-1.5	1.2	9.7
Current account balance	\$ M	-11471.2	-11667.1	-8145.5	-
Public debt	% of GDP	138.0	139.2	142.2	148.7
External debt	\$ M	30917.7	29942.6	30896.0	31960.7
Total debt service	\$ M	3505.3	3975.1	3913.6	4364.3
Net lending/borrowing	% of GDP	-10.6	-8.7	-7.4	-
Tax revenue	% of GDP	14.9	14.8	14.3	-
Government consumption	% of GDP	14.7	14.8	13.8	14.5
Public education spending	% of GDP	2.6	-	-	-
Public health spending	% of GDP	3.1	3.0	-	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	4.4	5.0	4.8	-

Sources (as of October 2017): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

7 | Organization of the Market and Competition

Market-based competition remains ambivalent. Key sectors (e.g. energy, water, the national airline and telecommunications) remain state monopolies, while other sectors (e.g. the steel and cement industry) are dominated by oligopolies with entrenched cartelistic structures. A general competition law, planned for more than ten years, is intended to address these oligopolistic structures and the potential for abuse.

The “March 14” coalition pushes for more deregulation and marketization, whereas the “March 8” coalition values the amenities of a large public sector and state-controlled enterprises. These different preferences partly explain Lebanon’s economic fragmentation: depending on the respective minister’s preferences, privatization and deregulation are either advanced or hindered. Thus, the structure of the economy reaches from laissez-faire liberalism to state monopoly.

In the World Economic Forum’s Global Competitive Report 2016/2017, Lebanon ranked on 101 out of 138 economies. This is a slight improvement on previous years, but still in the lower section. Among the sub-indicators, Lebanon has slightly improved its record in macroeconomic environment (rank 136), institutions (119), labor market efficiency (104), and infrastructure (117). Innovation (58 out of 138) represents one of the main areas of improvement, whereas in health care and primary education (rank 52) and higher education and training (66) the situation has declined.

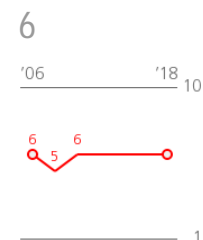
A high perception of corruption, inefficient and unstable governments and limited access to financing were identified by the report as the biggest challenges for doing business.

The Ministry of Economy and Trade (MOET) was a main actor in drafting and championing the proposed competition law as well as in overseeing and setting a ceiling on commodity selling prices or profit rates. However, in a few cases such as electricity, prices are still directly regulated by the MOET, despite privatization attempts which started in 2002. These consolidation strategies widely failed due to chronic procrastination. Staple foods, such as bread, are subsidized by the government.

The Lebanese pound is freely convertible, as Lebanon has (small but) liberal capital and money markets, with almost no restrictions on inflows or outflows. Residents’ accounts are fully convertible to foreign exchange. An underdeveloped stock market and lack of funding opportunities besides the cartelized banking system, however, make it more difficult for start-ups and SMEs to grow.

Freedom to launch and withdraw investments is largely realized, especially for non-residents. Legal discrimination based on ownership (state/private, foreign/local) and

Market-based competition



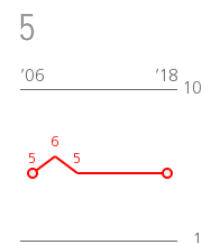
size is widely absent, and legal entry barriers in product and factor markets are rare as well. However, non-legal barriers do exist such as high factor costs and low economies of scale due to the small size of the Lebanese market.

The informal sector is considered an important economic component, despite also indicating inadequate economic governance. According to a 2013 World Bank Enterprise Survey, 57% of the firms surveyed declared that they were in competition with unregistered and informal businesses, indicating the scale of the economy operating outside of the regulatory framework. In the MENA region, the same indicator is 42%, suggesting that the informal economy in Lebanon is particularly high.

Anti-cartelistic policies enjoy only limited support due to the close interconnections among political and business elites: the protracted debate on the competition law is just one example of a general unwillingness to reform, even among business-oriented politicians. As an enforcement institution, a National Competition Authority was proposed as well as a Competition Council with, among others, the right to appeal to the Court of Appeals. Yet, privatization is still heavily associated with bribery and corruption, and the indicated framework institutions are also subject to political and sectarian quarrels. Energy (with the exception of micro-energy producers, which fill the gap in supply with private generators; prices are set by the energy ministry), telecommunications, water supply and airline companies are still widely state-owned. National flag carrier Middle East Airlines, for example, is still owned by the central bank (Banque du Liban, BDL), discussions about reducing the government's shares have not yet led to results. Few companies still have a dominant market position in many sectors. Against the background of the relatively small Lebanese market, firms tend to concentrate in order to realize scale effects and/or pursue an export or internationalization strategy. This induces barriers to local start-ups, further reducing competition. The "Impact Fund" by BDL established in 2013 aims at addressing this problem by providing venture capital to Lebanese start-ups who aim to produce for export, especially in the ICT-related fields. The almost total stagnation of the political process since 2011 has further slowed down the implementation of new legislation, which has meant that the situation has remained virtually unchanged. This will also effect the development of adequate regulations and physical infrastructure necessary to govern an emerging hydrocarbon sector should off-shore oil and gas discoveries be confirmed.

Due to Lebanon's small market size, the government is tempted to protect the domestic economy through tariff and non-tariff measures. At the same time, exports are supported and subsidized, including through preferential trade agreements (mainly with Saudi Arabia) and the joining of regional free trade areas. Lebanon was a founding member of the Greater Arab Free Trade Area (GAFTA) in 1997, eliminating most trade tariffs among its 18 members. Nonetheless, considerable

Anti-monopoly
policy



Liberalization of
foreign trade

8

tariffs still exist on trade with other countries (e.g., on car and mobile phone imports). In October 2014, BDL called for a minimum 25% down payment on new cars.

Accession negotiations with the WTO have not progressed, the last meeting was held in 2007. Overall, the trade deficit worsened between 2015 and 2016, with imports reaching \$7.4 billion and exports reaching \$1.2 billion in 2016.

Trade liberalization has developed positively, with some politically motivated limitations. Trade with Israel is prohibited and the Syrian civil war has cut Lebanon off from its remaining land trade routes. Corruption at the customs authority is another factor that negatively impacts foreign trade.

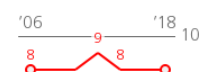
Net inflow of foreign direct investment (FDI) reached 4.57% of GDP in 2015, down from 15% in 2008, but similar to 2002 when it was 6.9%. Foreign investors are increasingly suspicious of moving their money into Lebanese projects, due to the multiple crises in the country and region.

Construction and tourism have been particularly affected by the decline in regional security and problematic relations with Gulf countries, which are major investors in these sectors. FDI net outflows were moderate in 2013 with 2.7% of GDP, up from 1.3% (2012) and 1.8% (2011). However, FDI outflows has been recorded at 1.3% of the GDP in 2015.

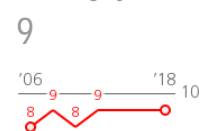
The banking system is well developed, due to solid regulation and supervision by BDL and international agreements such as those with the Bank for International Settlements (BIS). In December 2015, the assets of the banking and financial system reached \$185 billion and the loan to deposit ratio was 38% (the regional average is 70%). However, the ratio of Lebanese sovereign Eurobonds to deposits in foreign currency was 13.5% in 2014 and 14.2% in 2015.

Lebanese banks are required to hold a minimum share of capital proportional to deposits. This is designed to protect bank stakeholders from the risks associated with a bank's lending and investment practices. They also undergo a supervisory review process and must disclose information about their economic activities. In 2013, the BDL's reserve requirements were set at 25% for local currency sight deposits and 15% for all other deposits. Domestic deposits make up a large majority of banks' funding, leading to a minimal reliance on market funding. The ratio of bank capital to total assets (financial and non-financial) proved relatively stable with 7.6% in 2011 (last data available). Shares of bank nonperforming loans in relation to total gross loans have decreased from 17.7% in 2004 to 3.9% in 2013.

In 2016, the IMF carried out a Financial Stability Assessment and concluded that the Lebanese banking sector was resilient, despite widespread regional and domestic turbulence. Yet, fiscal adjustments have been suggested to reduce exposure and risk of financial instability. Some critical aspects include the increasing concentration in the banking sector due to a large number of mergers in the last decade as well as an



Banking system



excessive growth of large banks. Bank Audi, Bloom, and Byblos Bank cover over two-thirds of loans and deposits alone. Conversely, banks with deposits not exceeding \$200 million account for only 1.3%. Furthermore, in 2013, banks with customer deposits of more than \$2 billion grew by 10.1%, accounting for 88.6% of total banking assets. In 2016, the IMF confirmed that deposits concentration is also a source of vulnerability with 50% of deposits in Lebanese banks concentrated in only 1% of all accounts.

The banking system faces some strict regulations by international actors. Particularly the United States takes tough action to inhibit money laundering for Islamist terrorist groups and other internationally suspicious actors. In this context, international bank transactions must be cleared by BDL. International sanctions against the Syrian regime also affect Lebanese companies and banks. The U.S. Treasury is blacklisting companies that do business with or support the Syrian government. However, many Lebanese companies still operate in Syria and might face allegations of skirting sanctions against the regime. Being blacklisted by the U.S. Treasury results in a freezing of all assets under U.S. jurisdiction and blocks all transactions with American and U.S.-based persons. Lebanese banks might withdraw from the respective firms to avoid being blacklisted as well.

In 2015 and 2016, the situation became even more critical, as the U.S. Senate tightened sanctions imposed on financial actors involved with members or presumed members of Hezbollah. The governor of BDL has sought to implement the legislation to avoid sanctions from the United States. Yet, Hezbollah's secretary-general has declared that the party does not operate with Lebanese banks. The controversy has created tensions between the powerful Islamist movement and banking authorities.

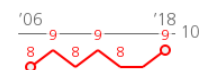
8 | Currency and Price Stability

From a peak of around 11% in late 2012, the inflation rate began to decline from the second half of 2013 and monthly figures for 2014 turned negative. However, in mid-2016, the situation reversed and weak inflation returned. Housing prices and rents to some extent allegedly due to increased demographic pressure caused by the Syrian refugee crisis and expansionary monetary policy.

Since 2002, the Lebanese pound is fixed to the U.S. dollar at a rate of \$1 to 1,507.50 LBP. Therefore, the independent central bank, which enjoys good reputation abroad and domestically, successfully achieved a stable real exchange rate. The Lebanese economy is dollarized to a considerable degree (some 65% of bank assets are dollarized), creating a further safeguard against currency devaluation.

Anti-inflation /
forex policy

9



Lebanon's notoriously lax budgetary discipline is a result of the weak parliament, which often fails to scrutinize and approve the government's budget. Indeed, the parliament has not released a budget since 2005. Though in July 2016 the government announced its intention to draft a comprehensive budget.

In January 2017, the Hariri government has once again stated its intention to draft a comprehensive budget, which may include tax increases. However, the government is still to decide whether it will be actually implemented.

Instead, governmental spending is decided by the cabinet, where short-term interests often prevail over consistent macroeconomic stability policies with medium-term prioritization (such as debt reduction and fiscal consolidation). Thus, Lebanon has the highest public debt rate in the MENA region and one of the highest in the world. In 2016, net public debt reached 155% of GDP. In 2000, the budget deficit was equivalent to 18.4% of government spending. The budget deficit declined to 6.4% of government spending in 2011, before increasing again (due in part to the Syrian crisis) to 9.3% in 2013. The fall in world oil prices had a positive impact on the deficit. However, in August 2016, the budget deficit rose to 26.88% of government spending according to the Ministry of Finance, an increase of about 3% over the same period in the previous year.

9 | Private Property

Legal institutionalization and the enforcement of property rights have a long history in Lebanon, dating back to 1924. In 1999, a copyrights law was issued and in 2000 a patent law. A new law on intellectual property is in the making.

In exceptional cases such as the planning of new roads, expropriation of land is possible if justified by public interest and compensation is paid. Registering property, on average, involves eight procedures and requires 25 days to complete, according to the World Bank, which is average in the MENA region. In recent years, no significant changes have taken place with regard to regulation and protection of private property.

The private sector mainly consists of small firms. Over 90% of private enterprises have less than 50 employees, most have less than five. Starting a business in Lebanon is relatively easy. Setting up a new firm, with less than 50 employees and capital ten times the economy's per capita gross national income (GNI), takes an average of nine days and involves five procedures, according to the World Bank.

Attempts to privatize the large and inefficient state-owned companies often amounts to lip service. The loss-making national energy supplier Electricité du Liban (EDL), for instance, struggles with income generation because of inadequate billing and obsolete infrastructure; contract workers striking for over five month prevented serious privatization processes in 2014. Due to a lack of competition, internet

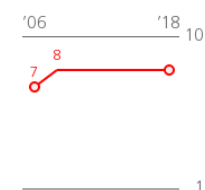
Macrostability

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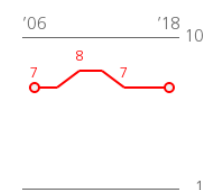
Property rights

8



Private enterprise

7



connectivity, which is managed by state-owned company Ogero, is slow, expensive and inadequate for modern economic requirements. Mobile telephone services are managed by two state-owned companies, Alfa Mobile and Touch, which offer expensive services.

10 | Welfare Regime

Social safety programs are small and not well-targeted. 6% of GDP is spent on social safety, with subsidies for electricity, bread and some agricultural products accounting for the largest share. Non-subsidy programs, however, make up only about 1% of GDP.

The “National Poverty Targeting Program” was introduced by the Ministry of Social Affairs (MOSA) in 2011 for an initial three years. However, the minister is considering making it a permanent scheme with greater resources.

Besides food subsidies, emphasis is put on health and education provision of children. In addition, MOSA distributes money through religious and civil society organizations, raising issues of public control and fiscal supervision, distribution efficiency and outreach effectiveness.

However, social safety programs are estimated to not have significantly contributed to poverty reduction. Unemployment protection is rudimentary, and the share of the population living on less than \$4 per day rose to about 31% by late 2014. Informal religious networks and organizations often constitute an important backup to state deficiencies.

Yet, life expectancy at birth was 80 years in 2015, much higher than for any other Arab country. This might be due to Lebanon’s relatively high public expenditure on health care (3% of GDP in 2014 according to the World Bank).

The influx of more than 1.2 million Syrians has increased pressure on public infrastructure, such as schools and hospitals, but has also attracted considerable international aid. Should Lebanese authorities be able to capitalize on this situation, it may constitute an opportunity to expand the provision of social welfare. The UNDP and UNHCR along with national partners have implemented humanitarian programs with long-term aims to promote the livelihoods of refugees and the local population, and develop social services.

There are more women enrolled in higher education than men. The percentage of female compared to male students in secondary education is 100.8% and in tertiary education is 107.4%. However, the female literacy rate is lower than the male literacy rate by 7.4 percentage points (93.4% men, 86.0% women, 89.6% overall, World Bank 2014). This can mainly be attributed to a lower rate of female attendance in primary

Social safety nets

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Equal opportunity

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education (91.4%), particularly in the rural areas. Most of the universities are private and expensive; thus, the poor are mainly excluded.

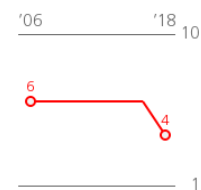
Women's participation in Lebanon's labor force is growing, but still does not exceed 24.5% (2014). The parliament has only four women among its 128 representatives (3.1%). In the Salam cabinet that came into office in February 2014, there was only one woman (out of 24 posts). In 2016, the Hariri government established a Ministry for Women's Affairs, although a man was appointed minister. At present, only the Minister of State for Administrative Development is a woman.

Homosexuality in Lebanon is illegal, and social stigma of same-sex relationships persists in conservative areas. Only in 2017 did a court rule that homosexuality was not illegal, although the effective repercussions of the decision have still to be tested.

Except for the army, the sectarian quota system for the public sector prevents qualified candidates from being hired if they do not belong to the specified sect. Discrimination is also strong in relation to non-citizens. The 400,000 Palestinians living in Lebanon are subject to systematic discrimination. Palestinians cannot work, except for in a few low-skilled sectors, while the freedom of movement and access to basic services for thousands of Palestinians is restricted to the squalid refugee camps in which they live. Palestinians are prevented from acquiring Lebanese citizenship, except for a few Christian Palestinians who have been given citizenship via presidential decree.

Equally problematic is the status of 40,000 to 80,000 stateless persons whose nationality is Lebanese, but who are not officially recognized as Lebanese due to long-standing historical reasons. Stateless individuals in Lebanon have trouble accessing services, such as education and health care, and their freedom of movement is restrained. Foreign workers, especially women in the domestic service, experience discriminatory employment conditions (including the withdrawal of the passport), which constitute modern slavery. Several reported criminal cases, involving harassment or suspicious death, remain unsolved. In 2008, a minor reform addressed Palestinians' right to work, but without significant effect.

Since 2015, acquiring or renewing residency permits for Syrians living in Lebanon has involved a lengthy and expensive bureaucratic process. More than 70% of the Syrian refugees cannot afford this process or do not have the necessary documents. This has left many Syrian refugees living in irregular, insecure and vulnerable conditions, without access to basic services. According to the UNHCR, more than 50% of the Syrian refugees of school age are not enrolled in a school.



11 | Economic Performance

Lebanon's economic performance has become even more sluggish due to the Syrian conflict, volatile domestic situation and political uncertainty. Foreign investors increasingly shy away from Lebanon. For example, investors from the Gulf region have redirected investments to other destinations. GDP growth was as high as 10% annually between 2007 and 2010, but has since declined. GDP growth was 2% in 2011 and 2012, 0.9% in 2013, 1.8% in 2014, 1.5% in 2015, and 1% in 2016. For 2017, GDP growth was forecasted to be 2%. The most severely affected sectors are construction and tourism, as well as export sectors, which have suffered from regionally instability and problematic relations with economic partners in the Gulf region. In the first half of 2014, exports of industrial goods decreased by about 12% and exports of industrial machines by about 15%, putting pressure on currency reserves. In 2013, the current account deficit was \$10,982.60 million.

GDP per capita was rising until 2013, but declined to \$13,938 in 2015. In 2015 and 2016, the inflation rate was negative due to the strong U.S. dollar, to which the Lebanese pound is pegged, and low oil prices. However, forecasts for 2017 indicate a possible increase in the inflation rate.

The overall unemployment rate was 6.3% in 2015. Though the ILO estimates that youth unemployment had increased to 20.7% in 2014.

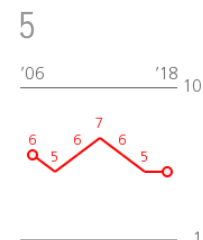
Tax revenues as a share of GDP declined from 17% in 2010 to 14.8% in 2014. Though the budget deficit was estimated to have declined from 9.3% of GDP in 2013 to less than 9% of GDP in 2014. Yet, public debt remains highly problematic and has increased from 132.9% of GDP in 2014, to 144.1% of GDP in 2015, to 155.1% of GDP in 2016. The current account deficit increased from \$8 billion in 2015 to \$10 billion in 2016.

The government formed in late 2016 and the new president have improved relations with the Gulf countries, who are important economic partners for Lebanon. Furthermore, a relative stabilization of the conflict in Syria may have positive repercussions for Lebanon's economy.

12 | Sustainability

Environmental concerns are not systematically taken into account by Lebanese policymakers. Flat tariffs for basic goods, such as water and electricity, do not incentivize people to reduce their consumption. In 2014, low oil prices further reduced consumption of fuels. There are no official goals to reduce CO2 emissions, which was estimated to be comparatively high at 4.7 tons per capita in 2010. Meanwhile, the use of alternative fuels and energy sources (e.g. solar, wind and

Output strength



Environmental policy

2

biomass) are not supported by government policies. Up to 95% of energy is still generated by burning oil. However, the government is in the process, albeit slowly, of developing a new hydrocarbons sector based on possible off-shore reserves. Environmental measures that have been introduced to date are insufficient and opaque.

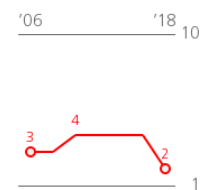
The large cement industry's major carbon dioxide production remains unaddressed by public policies. Recycling and waste reduction programs are only laxly implemented. In rural areas, a large share of wastewater is directly released into the sea. Illegal well drilling and technically unsound cesspits heavily impact groundwater quality. In addition, the failure from 2015 to address properly the issue of waste collection also represents an environmental threat indicative of a wider disregard of environmental policy.

Lebanon's overall high quality of education is not directly related to the government's policies. Modest public expenditure on education (2.6% of GDP in 2013) are supplemented by private spending, so that the overall share (public and private) of educational spending is quite high. The 2015 Times Higher Education ranking put the private Lebanese American University and the American University in Beirut second and fourth in the MENA region in terms of research impact. However, the largest state-funded institution, the Lebanese University, still attracts up to half of all students.

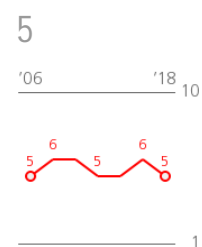
The National Council of Scientific Research (CNRS), funded by the government, serves as an independent science policymaking institution under the authority of the prime minister, combining advisory and executive functions. It initiates, encourages and coordinates research, for instance through research grants and scholarships, as well as supports international cooperation.

In 2015, the literacy rate for people aged 15 to 24 was 99%, while the overall literacy rate was 94.1%. The 2016 Gender Parity Index indicates that the ratio of women to men was 0.9 to 1 in primary education, 1 to 1 in secondary education and 1.2 to 1 in tertiary education. This indicates that, as there are more men in primary education and fewer in tertiary education, the dropout rate for male students is considerable.

In 2015, the education minister cancelled the ceiling of having a maximum of 50% non-Lebanese pupils in schools in Beirut and Mount Lebanon, against the background that only one out of five Syrian children in Lebanon is formally enrolled. However, education remains a serious challenge for Syrian refugees in Lebanon. According to the UNHCR, more than half of the approximately 250,000 Syrian refugees of school age were not enrolled in 2016.



Education policy / R&D



Governance

I. Level of Difficulty

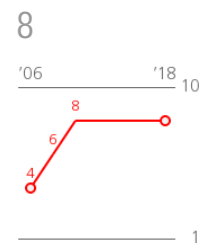
Lebanon's confessional system of power-sharing slows down policymaking and often constitutes an insurmountable impediment to effective decision-making. Governmental impasse, mutual vetoing and political instability are the result.

Since the Arab uprisings of 2011 and with the beginning of the Syrian conflict in 2012, Lebanon has experienced an almost complete institutional paralysis. This has included the postponement of parliamentary elections originally scheduled for 2013, four changes of government (each time characterized by a long transitional period) and the vacancy of the presidential office from May 2014 until October 2016. The uncertain regional situation explains the "wait-and-see" attitude of Lebanese politicians who have de facto suspended political activity to maintain security and stability. Trade has reduced due to the Syrian conflict and tensions with Israel, the only countries Lebanon borders, which has isolated Lebanon geographically. However, structural constraints explain only part of Lebanon's governance issues. The Lebanese political class often uses these external limitations as a justification for its own inertia.

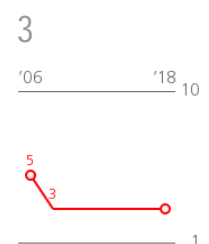
Lebanon historically has always been at the center of cultural, social and political activities in the Arab world and beyond. In Lebanon, freedom of association and freedom of expression are more extensive than across the rest of the Arab world. Consequently, Lebanon attracts many foreign organizations, which find it easier and safer to legally register in Lebanon. New advocacy groups and defenders of civil liberties emerged during the 1990s and to some extent succeeded in challenging the monopoly claimed by the sectarian political elites on political representation. In 2005, members of these movements were central actors against the Syrian occupation. More recent developments include the 2011 anti-sectarian movement, the anti-domestic violence campaign and the civil marriage campaign. Since 2014, movements such as the "You Stink" group have organized protests against government inaction with regard to waste management.

A significant inflow of foreign aid after the 2006 war, and especially following the outbreak of the Syrian refugee crisis in 2012, spurred a rapid growth in the number and size of civil society organizations. Increased professionalization and

Structural
constraints



Civil society
traditions



institutionalization occurred, but also a decline in the culture of voluntary involvement, with the civil society sector turning into a supplementary entry-level labor market for highly educated Lebanese unable to find employment elsewhere.

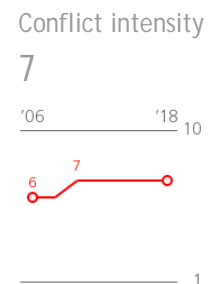
With the advance of online social media, non-formal networks of activists who form pressure groups on specific issues have also emerged. In 2017, the Civil Society Portal Daleel Madani (“Civil Society Guide”) had almost 800 national and international organizations registered as active in Lebanon.

But political and sectarian polarization affect an ever-widening part of the public sphere and narrow the opportunity for nonpartisan civil activism. The importance of government aid and the role of states in funding NGOs, including Gulf states with specific interests in Lebanon, risk politicizing civil society activity.

In addition, densely woven social networks are based on extended family relations that blur into structures of local solidarity, themselves hierarchically structured along lines of seniority and often tied to traditional authorities, contributing to the maintenance and (re)production of clientelistic patterns of political power. Political parties and sectarian groups also fill the vacuum left by inadequate public services such as education, health care, housing and job security. Hezbollah and also other political groups are effective sources of social services for large proportions of Lebanese society, creating patterns of dependency for people needing to access to vital services. Meanwhile, political forces promoting cross-communal or issue-oriented platforms rarely succeed in generating a significant following.

The high conflict intensity in many fields of Lebanese politics is largely the result of proxy conflicts between regional actors such as Syria (though its influence has been reduced since 2012), Iran and Saudi Arabia. However, this should not be understood as an internalization of external conflicts only. Instead, domestic sectarian actors seek the support of their regional patrons, such as Hezbollah in the case of Iran and Syria. With Hezbollah joining the side of the Syrian government in 2012, the Shi’ite community in Lebanon became a more attractive target for Sunni extremists in Syria and Lebanon. Particularly Tripoli and some radical Sunni strongholds in the north are more prone to slide further into conflict.

In joining the Syrian war, Hezbollah, which used guerilla tactics against Israel, had to adapt its tactics due to the much more intense fighting in Syria. The losses in the Syrian war have been much higher for Hezbollah than in previous conflicts. Hezbollah is estimated to have 4,000 to 5,000 fighters deployed in Syria, with more than 1,000 casualties by the end of 2014. On the other hand, Hezbollah faces two new enemies in the al-Nusra Front (linked to al-Qaeda) and IS organizations, particularly in rural and mountainous areas of northern and eastern Lebanon as well as in Syria. Despite rising casualties while fighting along several fronts, Hezbollah is still regarded as one of the best-trained and equipped non-state armies worldwide.



The Syrian conflict has diffused and spilled over in Lebanon. Violent incidents have taken place, often targeting Sunni or Shi'a populations, with several hundred victims. Yet, the situation has not escalated into a sustained civil conflict, as a degree of self-restraint has prevailed. The most notable area of confrontation is around Aarsal, where radical Sunni factions from Syria have clashed with Hezbollah and the Lebanese. Meanwhile, the Sunni Salafist cleric Sheikh Ahmed al-Assir tried to stir sectarian sentiments within Lebanese society with modest results. Al-Assir's group has been subsequently neutralized by a joint operation between the Lebanese army and Hezbollah. Al-Assir is currently under arrest and being tried. The fact that both Lebanese politicians and society have not pursued sectarian confrontation demonstrates a deeply rooted unwillingness to be dragged into the war that has devastated neighboring Syria and Iraq.

II. Governance Performance

14 | Steering Capability

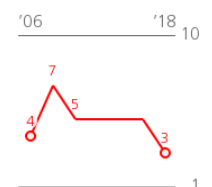
Lebanon's institutional system, and particularly its executive branch, is highly inefficient in designing, prioritizing and implementing strategic policies. Whereas institutions, such as the central bank or poorly equipped army, still administer some crucial state functions, the government is based on principles and methods that regularly undermine effective governance. The frequent cabinet reshuffles hamper long-term planning. The Hariri cabinet lasted 14 months from November 2009 to January 2011, the Mikati cabinet that followed was in office for 21 months from June 2011 to March 2013, the Salam cabinet was in office for 35 months from February 2014 to December 2016 and has been followed by the new Hariri government. The formation of each successive government requires lengthy negotiations between the different political groups, which can last several months and are influenced by external powers. Given the short duration of successive cabinets and the long transitional periods, it is no surprise that systemic strategic planning is rare.

In addition, each government of national unity relies on the formula of the "blocking third," which means that when a third of government resigns or is suspended, the government loses the constitutional legitimacy to make major decisions. Thus, government formation is always designed so that each main confessional group holds a third of the cabinet offices and has a veto over government decision-making. Consequently, only cross-confessional consensus can facilitate significant decisions. However, in Lebanon's polarized context, such consensus is rare.

Question
Score

Prioritization

3



The government's inefficiency has created a vacuum, which has enabled a range of non-state actors to intervene as surrogate states. Among these non-state actors are sectarian communities and NGOs. The implementation capacity of the government often relies more on indirect forms, such as negotiations and setting incentives. For example, driven by EU pressure, in 2013 the government started implementing the second "EU Neighborhood Policy Action Plan," which required, for example, important advancements in justice reform.

The Syrian refugee crisis has been managed by the UNCHR and its auxiliary agencies, with some coordination with the Ministry of Interior and Municipalities, the Ministry of Social Affairs, and the General Security Office. The government rarely adopted a consensual stance on the matter until October 2014, when the government severely restricted the possibility for Syrians to cross the border for humanitarian reasons and made it harder for UNCHR-registered refugees to renew their Lebanese residency permits.

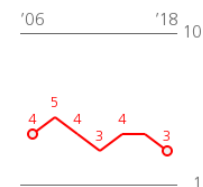
Other, more controversial, issues concern waste management, privatization of the telecommunication sector, reform of the electoral law, restructuring of the electricity sector, reform of the law on nationality, regularization of thousands of stateless Lebanese, securitization of the detention facilities, introduction of civil marriage, reform of public sector salaries and the effective implementation of the rule of law. No government has succeeded in achieving consensus on any of these cases. Political groups and their sectarian power matrixes, as well as the religious leaders of the various confessional groups, guarantee the maintenance of the status quo. These groups regularly veto any changes that are not in the immediate interests of their religious group or, more controversially, familial networks.

In the context of Lebanon's power-sharing political arrangements and many veto players, policy learning in Lebanon often involves "the art of the possible," as best practice solutions often cannot be realized. Thus, contrary to common sense, policy learning also encompasses tactics of bypassing resistance from political opponents. However, in the conventional sense of transforming basic beliefs and changing policies (and outcomes), policy learning has been much more hampered. Policy learning can be induced by the annual reports issued by the court of audit, which scrutinizes the management of public funds at the central government and municipal levels. As regular budgets are rarely passed, the function of supervising budgetary spending lies fallow. Despite being under the authority of the prime minister (in whose name the annual reports are issued), the auditing court enjoys a high degree of independence.

Further opportunities for policy learning are given through the high degree of international cooperation, through direct consultation with international organizations, such as the World Bank, the EBRD, UNHCR, UNOCHA and

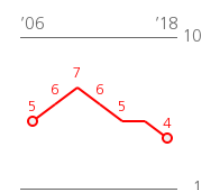
Implementation

3



Policy learning

4



ESCWA, and also indirectly through knowledge transfer in the collaborative execution of projects.

The high density of higher education institutions provide resources for academic expertise. Universities and think tanks enjoy high visibility. However, despite such promising resources, the flexibility of policymakers to initiate new policies is limited due to the veto player constellation in domestic politics.

15 | Resource Efficiency

Sectarian (and regional) quotas dominate over meritocratic principles in the recruitment and promotion of civil servants. This not only opens recruiting procedures to undue political influence, but also leads to overstaffing and limited competition within the public administration. Therefore, highly qualified candidates often approach the more attractive and better-paid private sector or emigrate. The Ministry of Finance published a “Commitment Document” in 2007, and implemented two Fiscal Management Reforms, with the second running from 2013 to 2016.

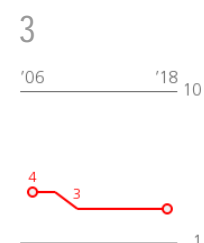
The high share of fixed costs leaves little space for flexible investments. In relation to GDP, primary current expenditure decreased from 18.5% in 2012 to 17.6% in 2013. The largest proportion of current expenditures are personnel costs with 9.5% of GDP in 2013.

Recent IMF studies indicate that debt dynamics are deteriorating. The central government expenditure reached 26.9% of the GDP in 2016 and may increase to 27.5% in 2017. In 2015, 8.8% was spent on interest and 2.2% only for Electricité du Liban, the loss-making energy company of Lebanon. These figures are all expected to increase, with the exception of capital spending, while the level of social spending is too low to meet Lebanon’s needs.

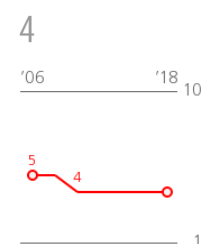
Gross public debt levels remain high and rose again to 140% of GDP in 2013, and are forecasted to grow to 147.9% of GDP in 2017 and 151.1% of GDP in 2018.

Policy coordination is often distorted and low by ritual clashes between ministers from different sects. The Ministry of Justice’s attempts to legalize civil marriage led to rejection and protraction by the interior ministry. In economic policies, “March 14” ministers often push for more deregulation, whereas “March 8” cabinet members value the amenities of a large public sector and state-controlled enterprises. As a key ministry, the Treasury has to release the payments to private contractors from the other ministries, giving the finance minister some control over the proper fulfillment of contracts, leading to disputes between this key ministry and the contracting ministries. This sometimes results in private contractors not working until they receive payment. The tendering of off-shore licenses for Lebanon’s potential gas reserves took almost two years.

Efficient use of assets



Policy coordination



Influential “strongmen” (traditionally known as Za’im) such as, the Christian leader and current president, Michel Aoun or Hezbollah’s Secretary-General Hassan Nasrallah undermine policy coordination by forming alliances and determining key policy issues.

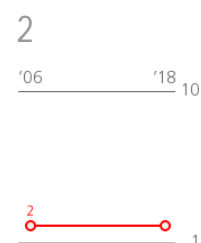
Regarding the refugee crises, there has been more consensus. The Ministry of the Interior and Municipalities, the Ministry of Social Affairs, the Ministry of Foreign Affairs and Emigrants, the Office of the Prime Minister, and the General Security Office have constituted a “crisis cell,” which has coordinated the government’s response to the crisis and developed policy, although with mixed results.

Corruption is not efficiently addressed in Lebanon. Due to the power-sharing government arrangements, the “self-cleansing power” of political competition does not work and complementary scrutinizing institutions are rare. Public entities such as the Civil Service Board that were designed to control the financial conduct of executive bodies do not systematically and effectively supervise abuse. An anti-corruption law is far from adoption, and there is no law that regulates access to information. Disclosure of information is left to the discretion of officials. A law to protect whistleblowers was drafted, but has never been discussed in parliament. Theoretically, a controversial and ambiguous asset declaration law demands officeholder accountability, but the law is not enforced and accountability is rarely achieved. Since 2009, a Parliamentary Election Law regulates political funding of candidates rather than parties. Even if enforcement is rather lax, this law brought some improved transparency to party financing and candidate spending.

Since Lebanon ratified the United Nations Convention against Corruption (UNCAC) in 2009, the government and UNDP organized various initiatives to promote a national anti-corruption strategy. However, Lebanon’s ranking in respected international indices is weak. The 2015 to 2016 Global Competitiveness Report ranked Lebanon 128 out of 140 countries for ethics and corruption. The waste management crisis since 2014 is illustrative of the prevalence of corruption. In December 2015, the Lebanese government awarded contracts to two foreign companies, Howa BV and Chinook Urban Mining, to export waste overseas for \$212 a ton. The company previously in charge of waste management, Sukleen, had applied a price that was \$60 per ton lower than what the new international companies now demanded.

The reconstruction of central Beirut and surrounding coastal areas have been widely criticized (not without reason) for the excessive concentration of resources in the hands of a few powerful economic actors with strong political interests, including the former prime minister, Rafiq al-Hariri, and the Solidere company. Overall, the perception of corruption and lack of competition in this case has cast a long shadow over the entire project.

Anti-corruption
policy



16 | Consensus-Building

The protracted political paralysis, which began in 2013 with the first postponement of elections, is an alarming indicator of the commitment of Lebanon's key political groups to democracy. Furthermore, the inability to agree a new electoral law and irregular electoral procedures (such as the pre-compiled prepared ballot) are further evidence of this lack of commitment. There is wide agreement within society that a transition from the current quasi-democratic system of sectarian-based power-sharing to a system based on equal citizenship is desirable and necessary, as mandated by the 1989 Taif Agreement. However, public opinion polls indicate that most Lebanese people support a nonsectarian "citizen-state" as a long-term vision, although they do not expect this ideal to become a reality in their lifetime. To date, all political parties have demonstrated an unwillingness to reconcile their contradictory communal and narrow interests with this vision. The political representatives of communities with shrinking populations, such as Christian communities, are transparently concerned that abolishing the sectarian quota will harm their political standing and access to resources.

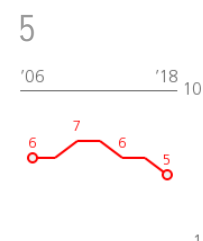
The preservation of parochial interests and values, such as security (allegedly threatened by electoral processes), have led to the extension of parliament's term on two occasions, the inability to pass a new electoral law and a long period in which the presidential office was vacant.

In principle, all relevant political actors agree on a market-based economy. Nuances exist with the "March 8" coalition (Hezbollah, Free Patriotic Movement and similar parties) giving some emphasis to a stronger state development role and voicing reservations about privatization, while the "March 14" coalition (Future Movement, Lebanese Forces, Kata'ib and similar groups) are oriented toward market liberalism. However, these ideological differences are only rudimentary and, as is true of all issue-based political differences, are secondary to identity-based conflicts. Members of "March 8" are also interested in limiting state interference in economic activity and public service provision, which provides leeway for confessional organizations and companies to intervene instead.

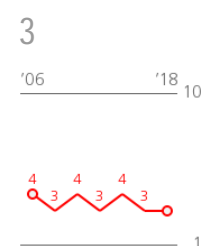
The widespread defense of communal interests has obvious detrimental repercussions on any democratic dialectics that may facilitate the rule of the majority over a minority, irrespective of the sectarian composition. After months of wrangling over a new electoral law in 2013, parliament's term has twice been extended. As of January 2017, no electoral law had been agreed and no new parliamentary elections had been held.

Hezbollah has increasingly become involved in the war in Syria, thus ignoring and undermining the official national policy of disassociation of which it is nominally part of. Anti-democratic political actors (e.g. fragmented Sunni groups such as the

Consensus on goals



Anti-democratic actors



followers of radical cleric Ahmed al-Assir, whom IS reportedly named “Emir of Lebanon” in late January 2015) have developed similar strategies, if to a much lesser extent due to their more limited capabilities. Notwithstanding a nominal commitment to democratic procedures, Hezbollah can hardly fit into a fully democratic system given its extensive arsenal and its proven willingness during the May 2008 civil unrest (along with other smaller armed groups) to use force to impose its will.

Lebanon’s political leadership is incapable (some may argue, unwilling) to reduce existing divisions and prevent cleavage-based conflicts. Here, the sectarian system serves as a double-edge sword. While the sectarian system may guarantee a peaceful coexistence between Lebanon’s 18 confessional groups, it also crystallizes confessional differences into irreconcilable political antagonisms, sometimes even enmities, and prevents any serious cooperation. The resulting institutional system constantly vetoes decisions in non-consensual cases.

Yet, in a regional context of unprecedented turmoil, the local political leadership has instead preferred reconciliation to a continuation of violence. Former prime ministers, Najib Miqati and Tammam Salam, have regularly mediated between parties. Similarly, several parties have met to defuse tensions, including Hezbollah, Mustaqbal and some Christian-based parties.

Key policy issues remain largely unresolved due to identity and parochial interests, including the enormous public debt, the lack of infrastructure and poverty. Identity and parochial interests are strengthened by the “blocking third system” (i.e. legislation becomes illegitimate when a third of the government resign, which stalls government activity).

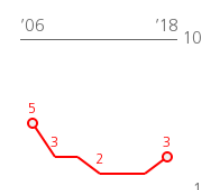
Despite Lebanon’s vibrant civil society, only on rare occasions does civil society involvement result in legal change. The ban on smoking in public locations (though weakly implemented), the new driving code and a law against domestic violence are positive examples. The reform of the electoral law, though initiated in 2005 through a commission that included CSO actors, has become stuck in communal power politics. CSOs have re-gained political significance with the formation of several new political groups that, to a limited extent, challenge the traditional political approach, including “Beirut Madinati” (Beirut, my city) electoral list and the movement “You Stink”.

Civil society and community-based organizations also partner with humanitarian organizations facilitating social cohesion between Syrian refugees and host communities, through dialogue and conflict prevention activities.

Alongside formal civil society in the form of NGOs, Lebanese society is permeated by dense and partly formalized clientelistic networks based on kinship. These networks are hierarchically organized and generally lend unquestioning support to sectarian leaders. Politicians invest great and careful efforts into cultivating support

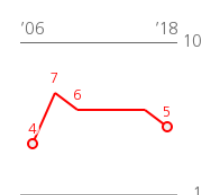
Cleavage /
conflict
management

3



Civil society
participation

5



from these networks and, in particular, from so-called key voters who command the votes of sometimes large groups of individuals.

After the end of the civil war in 1991, apart from some minor initiatives, no peacebuilding or reconciliation processes have been undertaken, and the issue of 17,000 people who disappeared during the civil war has not been meaningfully addressed.

The fact that many prominent political actors in both camps were militia leaders and warlords, fuels distrust and mutual fear between communities. Michel Aoun's election as the new president is an indicator of the strength of the old guard, which has accepted the disarmament, but which still claims control over areas of the country in a political struggle that is a continuation of the conflict.

The leaders have further resisted the strengthening of the judiciary, for fear of being prosecuted for crimes and infractions committed during the war. This also contributes to the cultivation of selective memories, emphasizing atrocities suffered by one's own community in order to exculpate one's own leaders.

Yet, at a societal level, there have been informal reconciliation initiatives. For example, the historical Maronite-Druze rapprochement in 2000, with the patriarch's visit to Walid Jumblatt residence epitomizing reconciliation between two opposed factions.

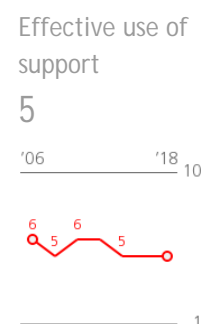
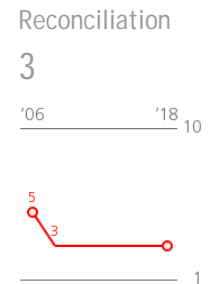
Furthermore, several Shi'a and Sunni clerics regularly argued for reconciliation over sectarian tensions in their public speeches and stances, for example, over polarized confrontations in Tripoli in 2013.

This seems to indicate how at a social level there could be much more potential for a durable reconciliation among Lebanon's groups, but political elites are unwilling to acknowledge this.

17 | International Cooperation

Lebanese officials have gained experience in attracting aid from the many international organizations present in the country. External funding is significant given Lebanon's highly indebted public sector. The country's weak governance furthermore facilitates the role of international organizations to act as surrogate public sector institutions. For Lebanon's government, learning opportunities from international experiences do exist, but are limited due to internal efficiency and coordination problems.

The UNHCR in conjunction with other U.N. agencies, such as the UNDP, and the Lebanese government have provided aid to support the response to the Syrian crisis. Successive Lebanese governments have developed ad hoc institutional arrangements



to deal with the Syrian refugee crisis. For example, the government’s “crisis cell” facilitates interministerial coordination, while the Lebanon Crisis Response Plan (LCRP) facilitates coordination with international organizations. Yet, political divisions over the politicization of aid have exacerbated political divisions on how to tackle the crisis overall, especially as the Christian-based parties (e.g. the Free Patriotic Movement) have become increasingly resistant to the presence of Syrian refugees in Lebanon.

Following the 2016 London Conference, there have been attempts to facilitate coordination between the government and humanitarian organizations, especially regarding the possibility to grant Syrian refugees the right to work in some labor-intensive economic sectors. The effectiveness of these measures however is still to be demonstrated.

While extra costs and pressure on a decrepit infrastructure exist, the refugee crisis also represents a developmental opportunity for Lebanon. For example, the government could attract and integrate international aid investment into its strategic planning.

The IMF and World Bank maintain permanent offices in the country, teams of U.N. and World Bank-salaried Lebanese professionals are a common sight in key ministries. The European Union supports administrative, trade and social reforms. Though most of these reforms are slowly implemented.

There is also significant donor support from affluent MENA countries such as Saudi Arabia, Kuwait, Qatar and Iran. Saudi Arabia has committed to support the Lebanese army with a grant of \$3 billion to be spent on French weapons, which has been suspended and then reactivated on the basis of political developments in 2017.

Offers from Iran to help bolster the Lebanese army have been rejected. The political leverage attached to these forms of support is so acute that renders dubious its beneficial effects.

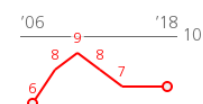
The new president and the Hariri government, in office since late 2016, are yet to develop substantive relationships with major powers. However, the complex confessional decision-making system slows the political process down.

International partners have developed a greater understanding of the generally limited capacity for governance and policy implementation in general and internal polarization in particular, and have adjusted their expectations accordingly.

Remarkably, and to the surprise of many observers, Lebanon has stuck to its funding commitments concerning the U.N. Special Tribunal for Lebanon (STL), although Hezbollah – which is part of the government – considers the tribunal to be part of an Israeli-inspired scheme against it. Conversely, Lebanese authorities have made formal moves to apprehend the persons indicted by the STL (all likely or confirmed

Credibility

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Hezbollah operatives), but have not taken effective measures toward this end, fearing security repercussions.

The government has earned international respect for its open borders policy toward Syrian refugees, despite massive economic and political difficulties, and for its efforts to remain neutral while mitigating the crisis. The Prime Minister's Office, Ministry of Interior, Ministry of Education, and the Ministry of Social Affairs have each developed networks with international actors and donors in response to the Syrian refugee crisis. In some cases, the staff of these ministries has received training or the ministries have expanded thanks to their collaboration with international organizations.

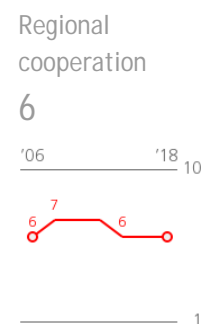
Notwithstanding Hezbollah's involvement in Syria, Lebanon is currently viewed as a comparatively reliable factor for stability in the otherwise highly volatile region.

Lebanon is a member of many international and regional organizations, such as the League of Arab States (LAS) and the Organization of the Islamic Conference (OIC). Cooperation with MENA countries is subject to sectarian politics and policy field. Relations are dominated by personal relationships between Lebanese politicians the ruling elites in other countries. The connections between the al-Hariri family and the Saudi royals has been a key determinant of Lebanese-Saudi relations, but in recent years the difficult economic situation of Hariri's business in Saudi Arabia has strained this relationship. Similarly, the former prime minister, Najib Miqati, enjoys close ties with the Syrian ruling class. This personalization of politics makes foreign relations dependent on the configuration of power in Lebanon and the relative position of such "clients" of regional actors within the domestic power structure.

In trade and tourism, the Gulf countries (particularly Saudi Arabia) are important partners. Saudi Arabia suspended aid to the Lebanese military worth \$3 billion in 2016, before subsequently declared its intention to resume. Furthermore, many Lebanese working in and with Gulf countries face increasing difficulties in gaining residency permits and business status. In 2015, Qatar acted as a mediator in the hostage crisis, when 25 Lebanese servicemen were taken captive by the al-Nusra front and IS in the northern Lebanese town of Aarsal.

Iran is Hezbollah's main patron, providing regular military and financial support. The mutual abolishment of visa requirements improved relations with Turkey in 2010. Yet, the kidnapping and subsequent release of two Turkish pilots in 2013 and Hezbollah's role in Syria has complicated this relationship.

Regarding relations between Lebanon and Syria, the Syrian regime has historically rejected Lebanon's claim to sovereignty and some political groups see this a deeply problematic unresolved situation. Other groups, such as Hezbollah and Amal, see the role of Syria as a protector of Lebanese regional and international interests. The recent restoration of al-Assad's regime may mark a new phase in its influence in



Lebanon. The presence of more than 1.2 million Syrian refugees in Lebanon may affect what could turn out to be a difficult situation ahead for Syrian-Lebanese relations.

Lebanon remains in a state of war with Israel and does not recognize its existence. The U.N. Security Council Resolution 1701 is broadly respected by Lebanon. Though there are doubts with regard to Hezbollah's abidance to it. The Lebanese army cooperates with the U.N. Interim Force in Lebanon (UNIFIL). The killings of six Hezbollah fighters and an Iranian general by Israel's army in January 2015 at the Golan Heights and the Hezbollah retaliation, in which a Spanish peacekeeper was killed, led to strengthening commitments by Lebanese politicians to the UNIFIL mission.

Strategic Outlook

The quasi-democratic situation in Lebanon has significantly regressed in recent years, as key political actors have increasingly prioritized security and stability over democratic principles. The suspension of parliamentary elections since 2013 can only be considered a short-term policy, which has already been protracted for too long. So far, parties have not been capable of agreeing on a new electoral law, which has been a key reason for the postponement of elections. Holding free and fair general elections is the only possible strategy for restoring democracy in the country.

The formation of a new government and the election of a president in 2016, after two years of political stalemate, may be the beginning of the end to the political paralysis that has affected Lebanon since 2011. Yet, no consensus has emerged regarding legislation regulating the next political consultation. Successive Lebanese governments have remained dependent on power-sharing arrangements and consensus, which has undermined any possibility of reform.

Nevertheless, electoral procedures and a new electoral law need to be introduced to improve parliamentary transparency and representation.

Despite adverse conditions, Lebanon has maintained a liberal market economy with some oligopolistic or state-controlled sectors, such as telecommunications and energy. The market structure is highly biased toward the interests of powerful families and business interests, which limits the redistributive effect of the market across diverse social groups. This exacerbates inequalities and the entrenchment of sectarian groups. Therefore, the confessional system should gradually be abolished to achieve democratic and economic reform.

Security issues and the Syrian conflict should not be used as justifications for delaying urgently needed reform of domestic infrastructure, the energy sector, fighting corruption and improving the efficiency of public administration. A new competition law is still under consideration, while the public deficit remains alarmingly high. Isolating Lebanon from the Syrian civil war and coping with the refugee crisis remains a challenging priority.

The question of Syrian refugees in Lebanon continues to be a humanitarian concern and the country needs further international aid, which could also benefit local communities. One promising approach, as highlighted by a recent IMF report, is to try to create a suitable investment environment, which could transform the presence of Syrian refugees into an economic opportunity for Lebanon or at least contain associated costs. Furthermore, the response to the presence of large numbers of refugees cannot only be humanitarian, but should incorporate long-term development projects that embrace a broader social and political horizon relevant to both host communities and refugees.

Hezbollah's role in Syria has increased its regional stature, greatly exceeding Lebanon's international role. This should not come at the cost of Lebanon's interests. There have been cases of progressive cooperation between the LAF and Hezbollah, which may be useful experiments in

progressively integrating the regular army and this non-state actor. Perhaps even more important is the relative stability achieved in the south, a significant improvement probably due more to the rise of other regional conflicts than the willingness of the actors involved. Yet, this development needs to be sustained with actors avoiding provocation and refraining from retaliation.

External support regularly comes with heavy political conditions, which often offset their benefits of these contracts, exacerbate internal political tensions and strengthen foreign influence in Lebanon. Not all international donors are the same and the Lebanese government should selectively choose aid that is effective and beneficial.